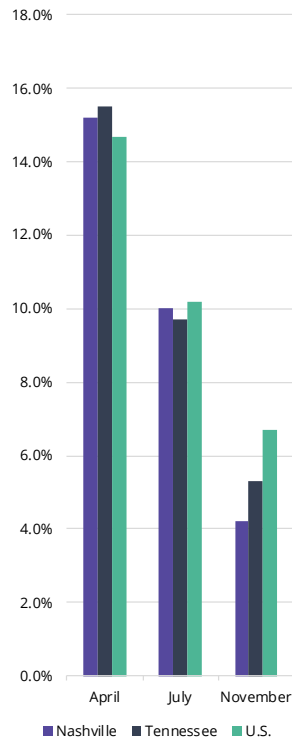


Nashville

2020 Unemployment Trends



Nashville's local unemployment figures show positive movement, falling to 4.2% in November, recovering from the largest spike in unemployment rates seen in the city's history back in April.



Vacancy rises as speculative deliveries outpace leasing activity; healthy tenant demand still seen across market

Nashville's tourism industry saw record highs in 2019. While the early months of 2020 showed many signs of topping these prior records, the COVID-19 pandemic hit many sectors directly tied to Nashville's tourism and hospitality industries hard. Despite the uncertainty surrounding the pandemic, the region remained successful in attracting new businesses and as well as growing existing businesses, with over 60 expansions and/or relocations to Nashville announced in the last 12 months.

Vacancy

Nashville's office market continued to see rising vacancy throughout the year, with year-end overall numbers marking the fifth consecutive quarter of increasing vacancies across the market. Much of this growth can be attributed to the uptick in speculative construction deliveries, significant office space contractions and stunted leasing activity due to COVID-19 pandemic concerns. Office vacancy ended the quarter at 13.5%, up 100 basis points (bps) from the previous quarter and 420 bps year-over-year. Class A vacancy was also 13.5% at the end of the quarter, up 370 bps year-over-year. Class B vacancy rose by 470 basis points in the same time period, ending the quarter at 14.0%.

Absorption & Demand

Several large move-outs during the year caused YTD absorption to trend negative, ending the year at -395,000 sf. Construction delays in tenant buildouts due to the COVID-19 pandemic pushed back multiple companies' expected move-in dates during the year, including AllianceBernstein whose planned move in to their 220,000 sf office space in the Fifth + Broadway office tower was delayed until the first half of next year. Class A space continues to be in high demand, particularly from

larger corporations and tenants looking to relocate or expand. While Class A space posted over 300,000 sf of absorption for the year, negative absorption recorded within Class B and C space negated any positive gains from Class A movement.

Rental Rates

Overall average asking rents continue to rise across most of the market, ending the year at \$30.87 per square foot (psf), an increase of 2.3% year-over-year. As new construction is commanding record high rates, Class A asking rents continue to see upward movement, reaching \$33.57 psf at year-end, a 2.6% increase from 4Q19. Class B asking rents saw little movement from the previous year, increasing only 0.1% to \$27.08 psf at the end of the quarter. It is safe to assume much of the softening in Class B office rents can be attributed to rising vacancy and increased sublease availability.

Construction

Nine buildings totaling 1.5 million square feet (msf) delivered during the year, with just over 30% preleasing in place upon completion. The CBD submarket accounted for over 65% of the completions as numerous new high-rise office buildings delivered, adding over 1 msf to the Downtown inventory. Of the 3.3 msf currently underway, including three single tenant build-to-suits and numerous speculative projects, 44% of the space is preleased. The largest pocket of construction is in the urban core, with 87% of development focused in the CBD and Midtown submarkets. Looking forward, a staggering 2.3 msf of office space is expected to deliver across the market in 2021.

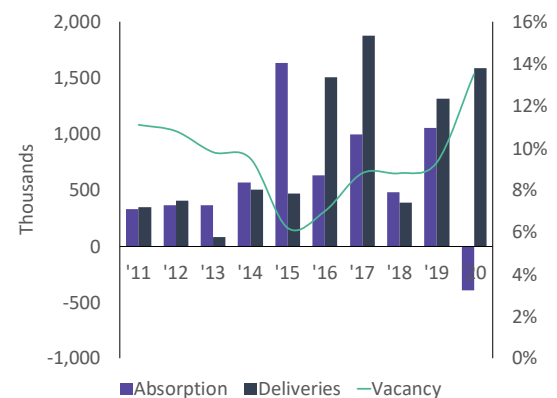


2020 Market Highlights

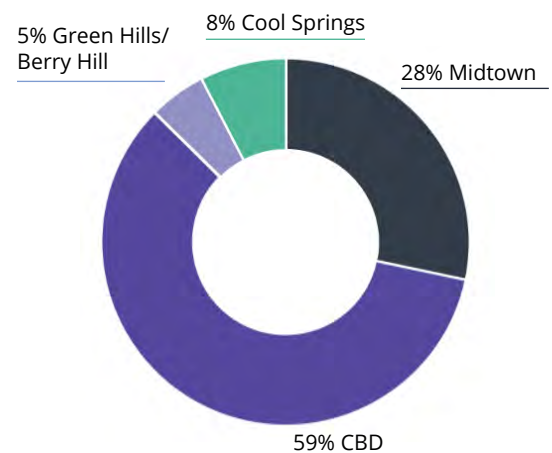
- The largest lease signed during the year was shoe retailer Genesco's 180,000-sf headquarter relocation at Highland Ridge Tower in the Airport North submarket. The company is expected to move into the space during the fall of next year.
- Nashville's global popularity remains strong with numerous companies relocating their headquarters to the market including on-demand car maintenance company Yoshi (Silicon Valley), fintech company Smart (U.K.), and conservative media company The Daily Wire (Los Angeles) to name a few.
- Nashville office sales totaled \$228 million in the fourth quarter, bringing year-to-date sales volume up to \$783 million, down 35% from year end 2019. Office sales were bolstered by two notable transactions that each broke the \$200M threshold in both the CBD and suburban Cool Springs submarkets.
- In the CBD, Starwood Capital Group purchased the 222 office high rise for \$264 million (\$729 psf), setting a new record for the submarket's largest sale. In Cool Springs, Northwood Investors paid \$205 million (\$351 avg. psf) for One and Two Franklin Park, a new benchmark for the largest suburban office sale in Nashville.

Nashville has shown its staying power, ranking for the second consecutive year as the third best place for real estate investment and development in 2021, according to ULI and PwC's most recent Emerging Trends in Real Estate survey.

Absorption, Deliveries & Vacancy



Construction



Market by the numbers

				Year-to-Date		Average Asking Rate	
	Inventory	Vacancy	Under Construction	Absorption	Deliveries	All Classes	Class A
Submarket							
Airport North	3,995,544	10.0%	0	(62,322)	0	\$25.60	\$27.17
Airport South	3,318,079	20.4%	0	(51,119)	0	\$21.86	-
Brentwood	6,448,558	12.7%	0	122,049	231,000	\$28.61	\$30.21
Cool Springs	7,630,795	18.8%	254,200	88,824	179,396	\$31.92	\$32.49
CBD	11,454,660	13.9%	1,981,000	39,556	1,050,133	\$33.25	\$34.97
Green Hills/Berry Hill	3,588,047	8.7%	167,988	80,483	0	\$33.44	\$35.78
MetroCenter	1,796,291	16.8%	0	(91,035)	126,090	\$27.25	\$30.35
Midtown	4,779,665	7.4%	949,036	(38,980)	0	\$37.50	\$39.43
North	1,181,474	6.8%	0	(14,151)	0	\$21.63	\$22.68
Market Totals							
Class A	22,336,686	13.5%	3,352,224	301,612	1,586,619	\$33.57	
Class B	18,397,368	14.0%	0	(509,210)	0	\$27.08	
Class C	3,459,059	10.5%	0	(187,368)	0	\$24.02	
Totals	44,193,113	13.5%	3,352,224	(394,966)	1,586,619	\$30.87	

Trends to watch

As businesses try to define the “new normal” heading into the new year, Avison Young is monitoring the following areas:



Sublease availability

Nashville's office sublease space reached an all-time high in 2020 as companies began to focus on reevaluating space allocations and financial recovery.



“Return to Work” strategies

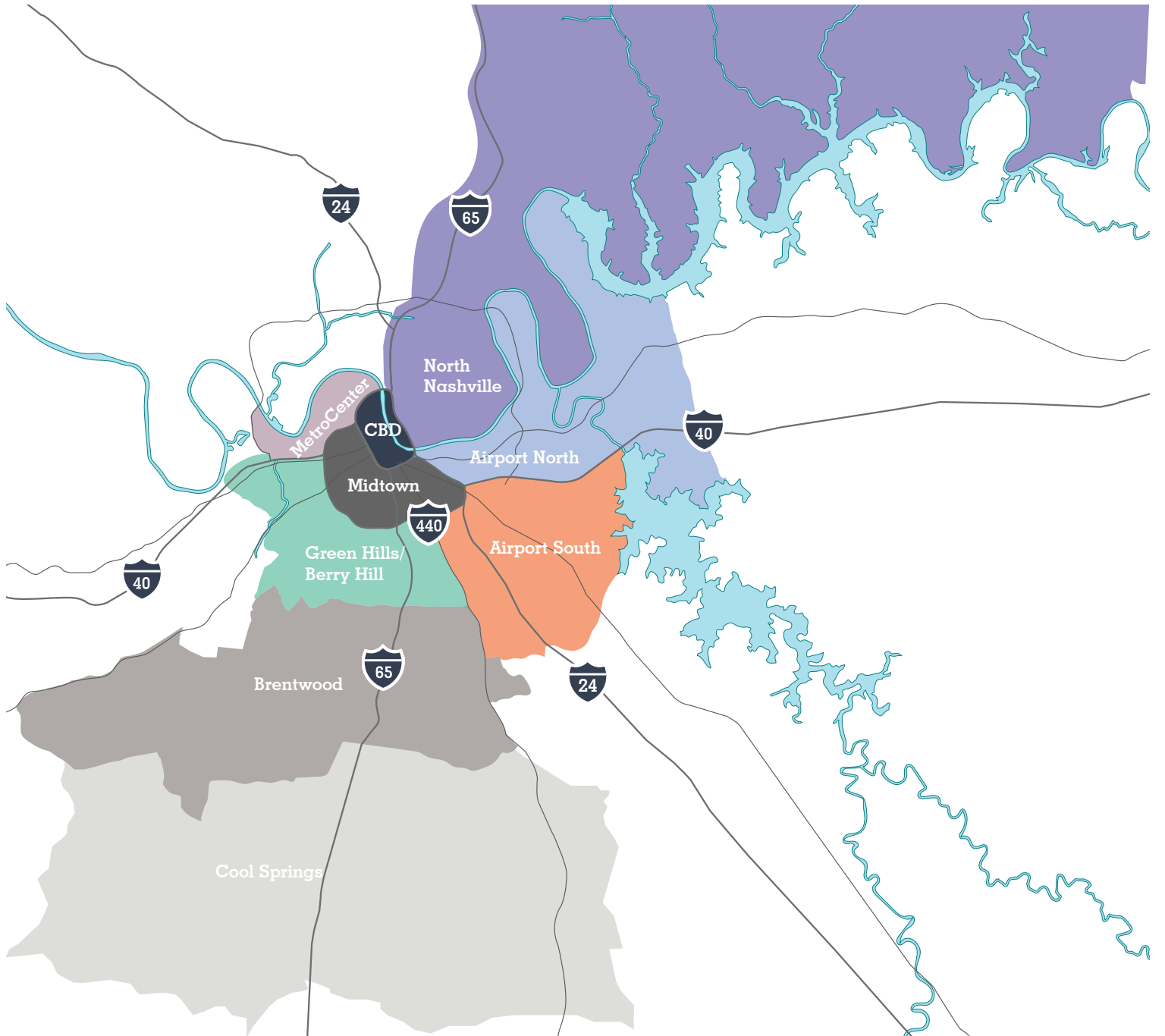
Numerous companies have begun to embrace remote working for the immediate future. Growing rental rates and increasing commute times could be major factors in companies' decisions to shift to flexible work options.



Construction

Developers remain bullish on market growth in coming years, moving forward on numerous speculative office projects that will break ground in the first half of 2021.

Submarkets



**Get more
market
information**

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