



Nashville office market report

Q4 2023

**AVISON
YOUNG**

Nashville office market trends

\$63.60 psf

Concessions are increasing as landlords hold steady on asking rents

While trophy rents continue to see growth, overall rent growth across most of the market has begun to plateau as availability sits at a record high. In 2023, average TI reached \$63.60 psf, a growth of almost 60% in just five years; while free rent increased to an average of 6-months*. Landlords across all asset classes have begun to push increased concessions in order to entice and/or retain tenants.

*average concession data normalized aggregated leases to a 10-year term

6.4%

2023 leasing activity healthy but not sufficient to keep up with rising availability

Year-end leasing activity reached over 3.0 msf, falling just short of the pre-pandemic average. Making up 6.4% of inventory, this level of activity is on par with other past down cycles. With many companies taking the last few years to reevaluate their space needs and leaning into hybrid work models, average lease sizes have shifted to smaller footprints. Meaning leasing activity will need to pick up meaningfully if it is to keep up with the current availability on the market.

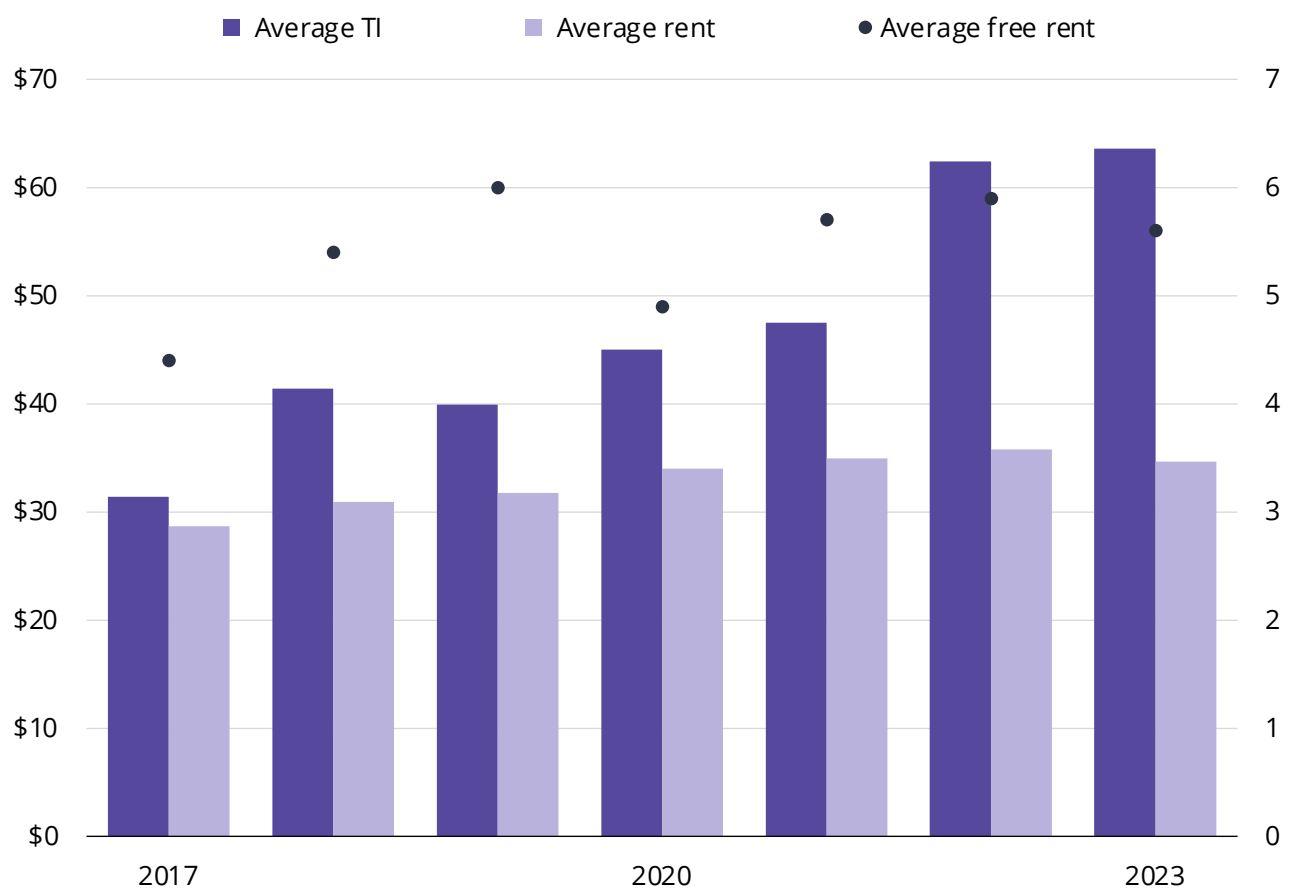
\$410 M

Countdown to consequences: near-term loan maturities

Nashville office loans maturing in the near-term will prove to be a real minefield for some landlords to navigate. In the current interest rate environment, refinancing those loans will come at a major cost to landlords, who in many cases, locked in during record-high property values and record low interest rates within the last economic cycle.

Looking forward to the next few years, an increase in investment market activity may well be coming as landlords could be forced to sell their assets to pay off the debt if refinancing doesn't fit.

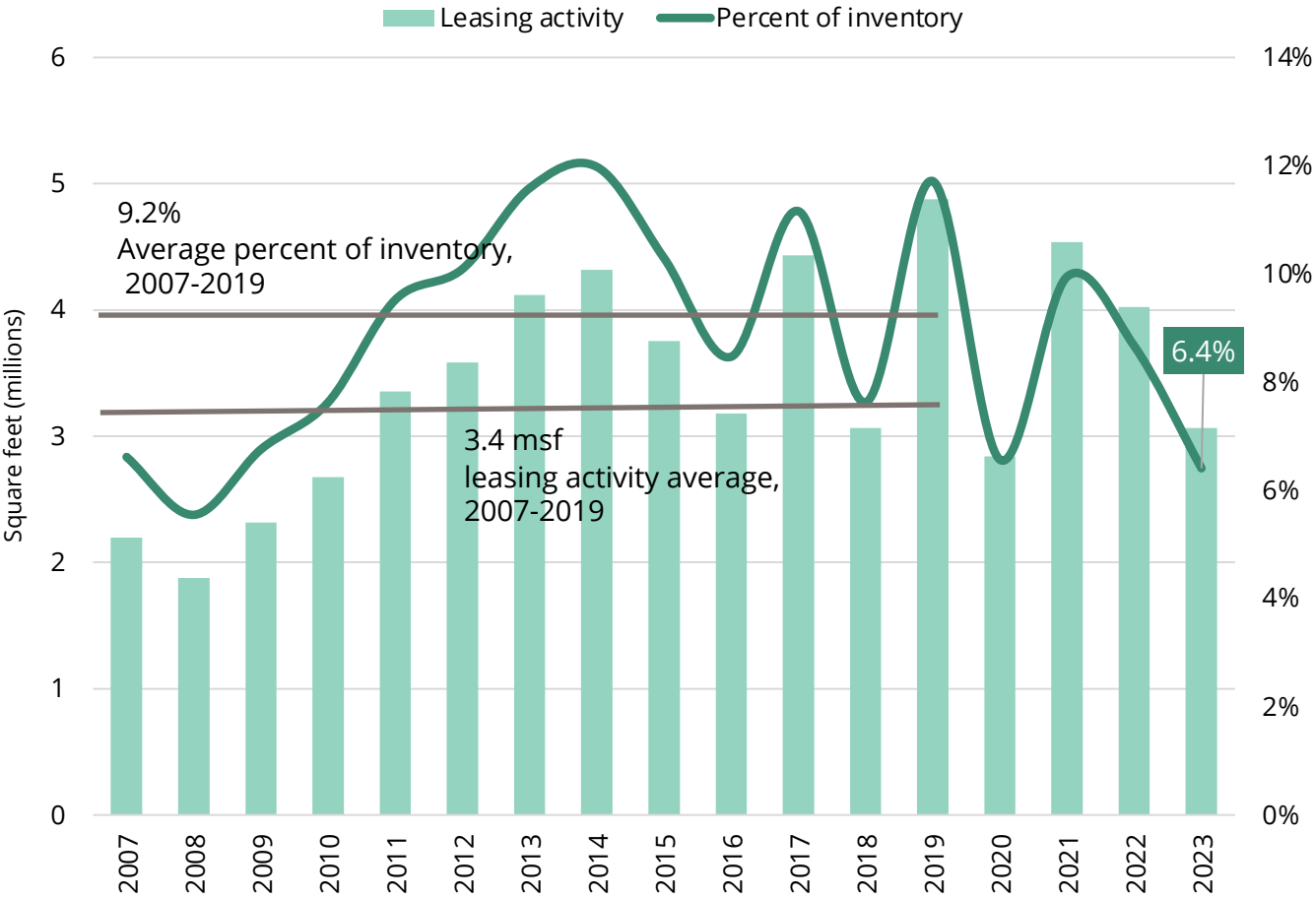
Concessions are increasing as landlords hold steady on asking rents



Note: average concession data normalized aggregated leases to a 10-year term

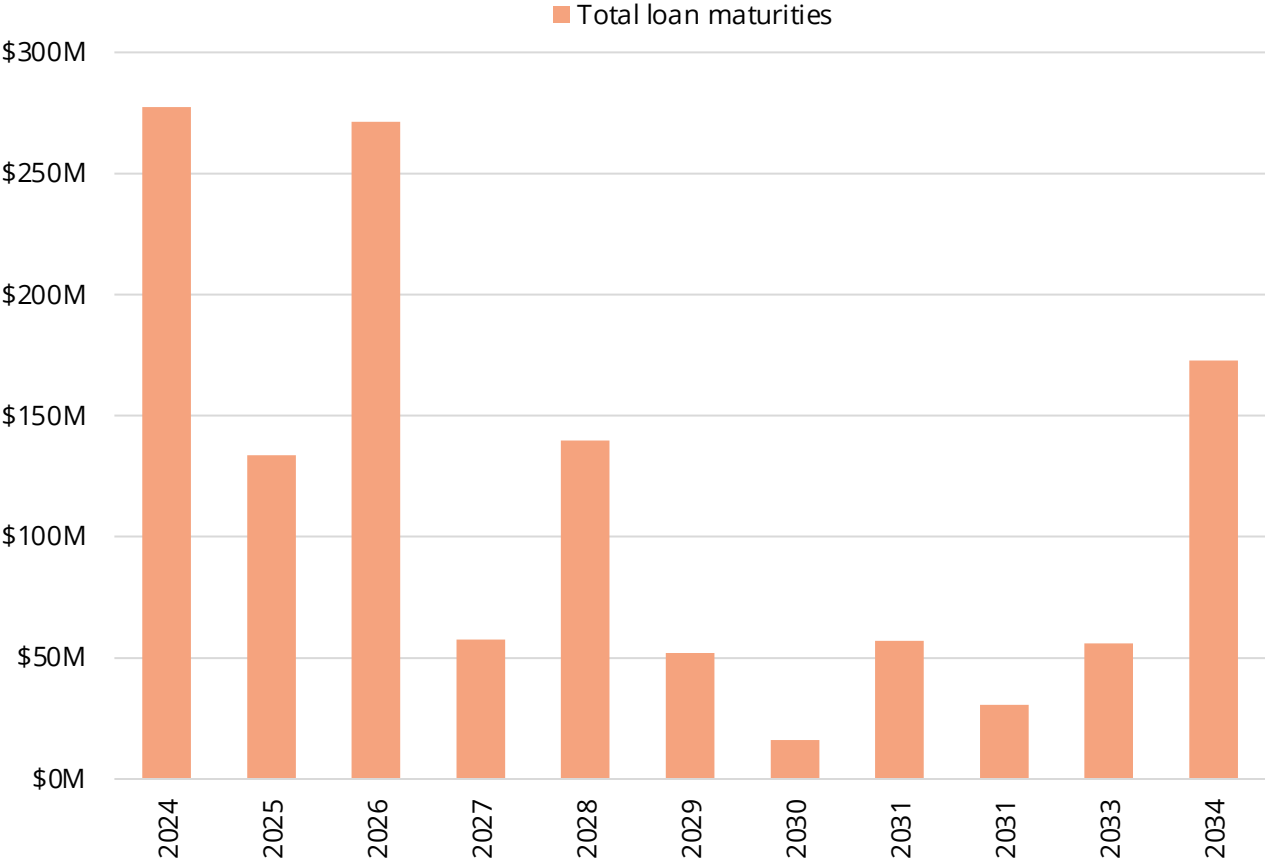
Landlords across all asset classes have begun to push increased concessions in order to entice and/or retain tenants.

2023 leasing activity healthy but not sufficient to keep up with rising availability



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Countdown to consequences: near-term loan maturities

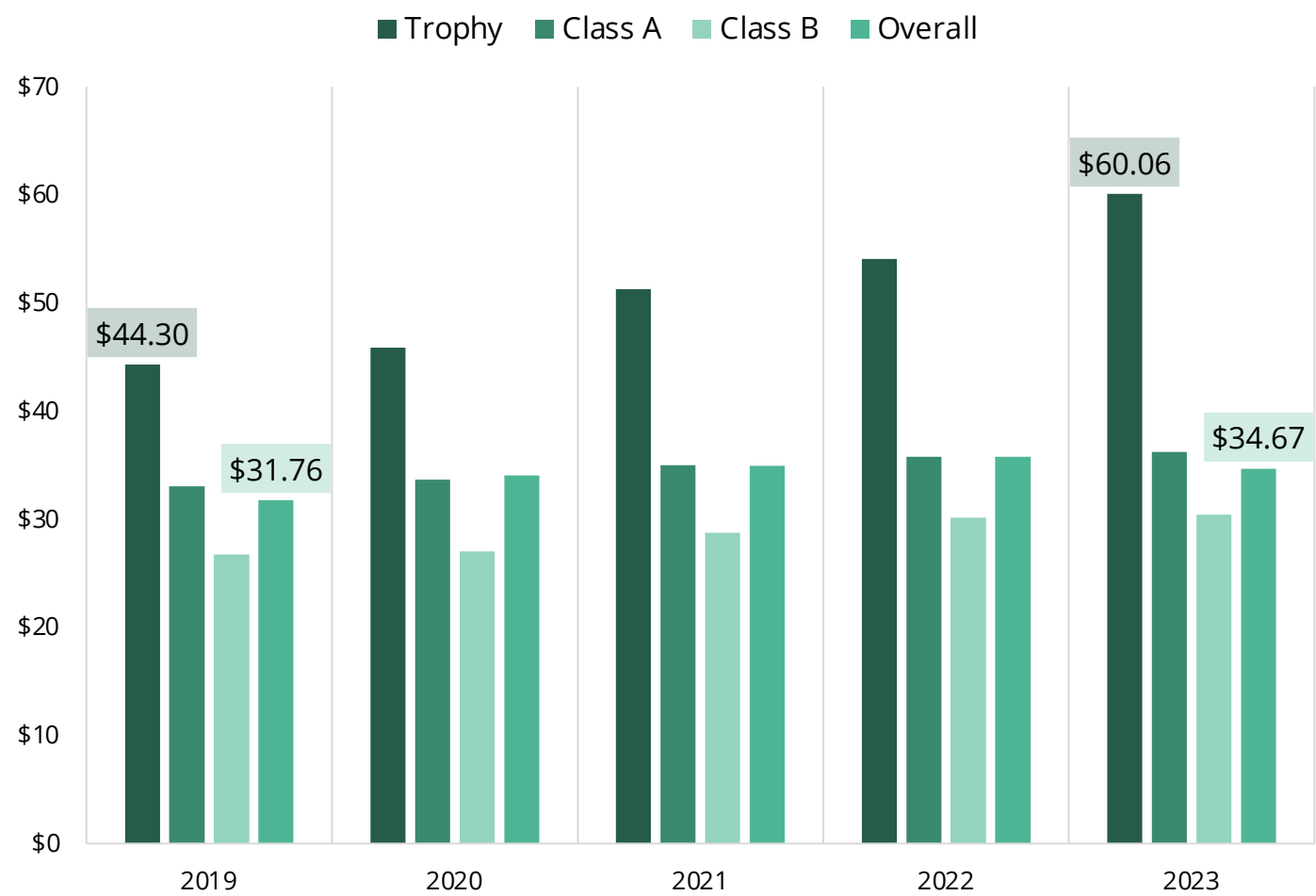


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Let's examine more prevailing office trends

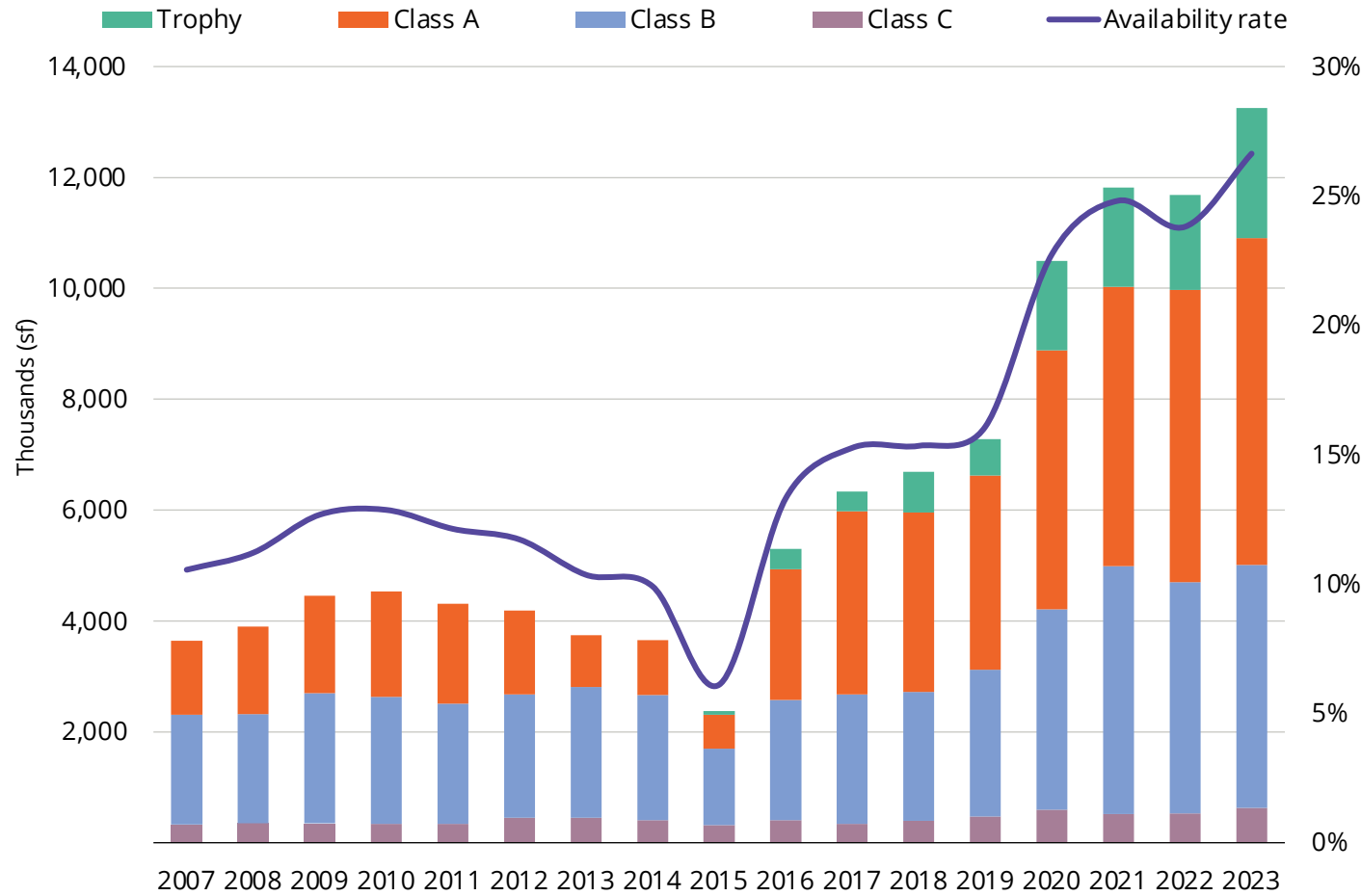


Trophy rents continue to reach new highs



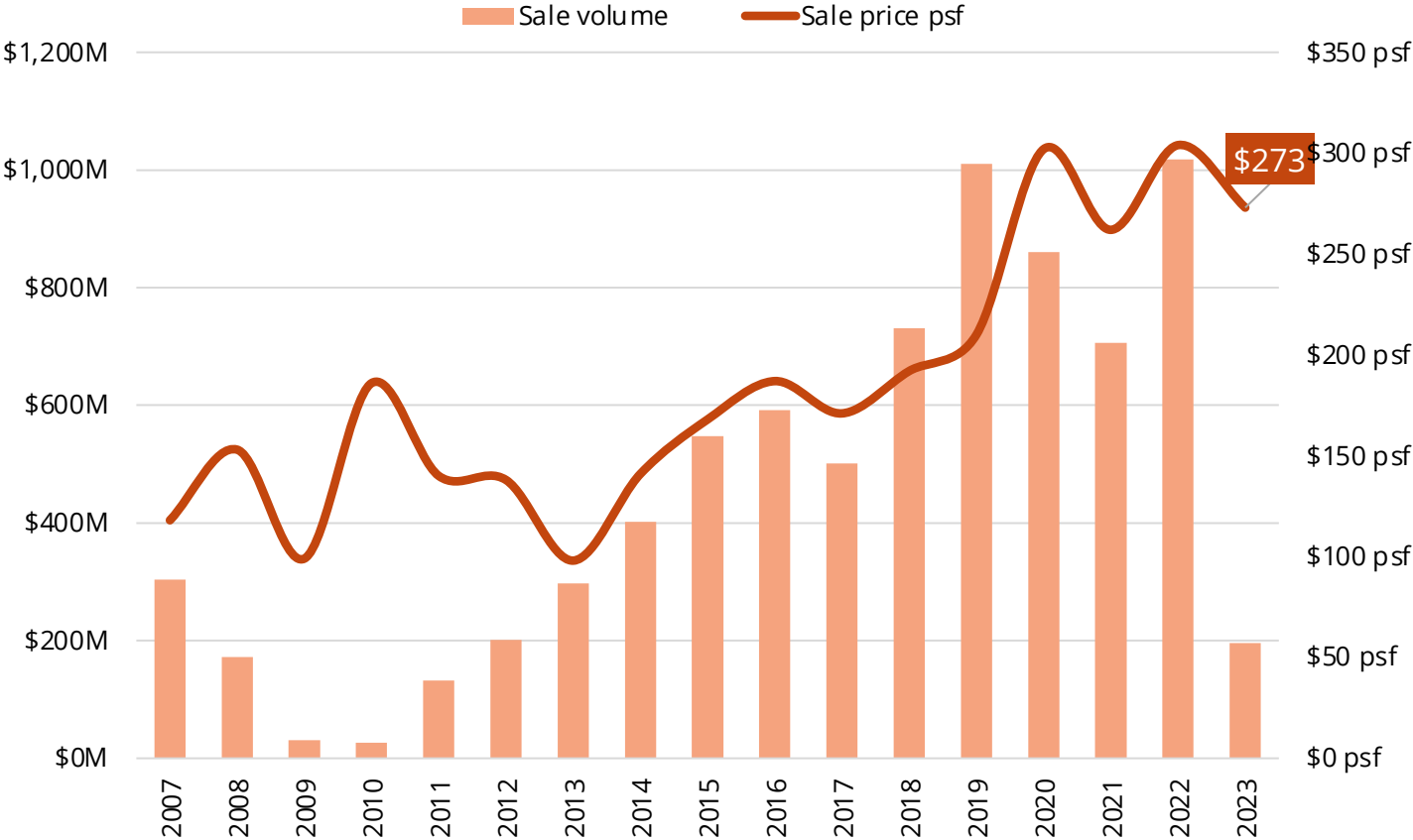
Even in the wake of increasing availability, rent growth in trophy assets comes as tenants are placing an emphasis on building amenities. Tenants across the board are paying more psf for their space, but many are doing so with shifted mindsets on space needs and occupancy costs.

Available space continues to climb driven by increases in sublet space and new construction



The current imbalance in supply and demand in the market has caused office availability to reach record levels, with trophy and class A available space at an all time high.

Psf pricing declines, hints towards a cooling down from an overheated market



Coupled with a volatile lending market, psf pricing for office assets declined year-over-year as the delta between buyers’ pricing and sellers’ expectations paralyzed numerous deals.

Office development pipeline

7 properties

under construction

2 msf

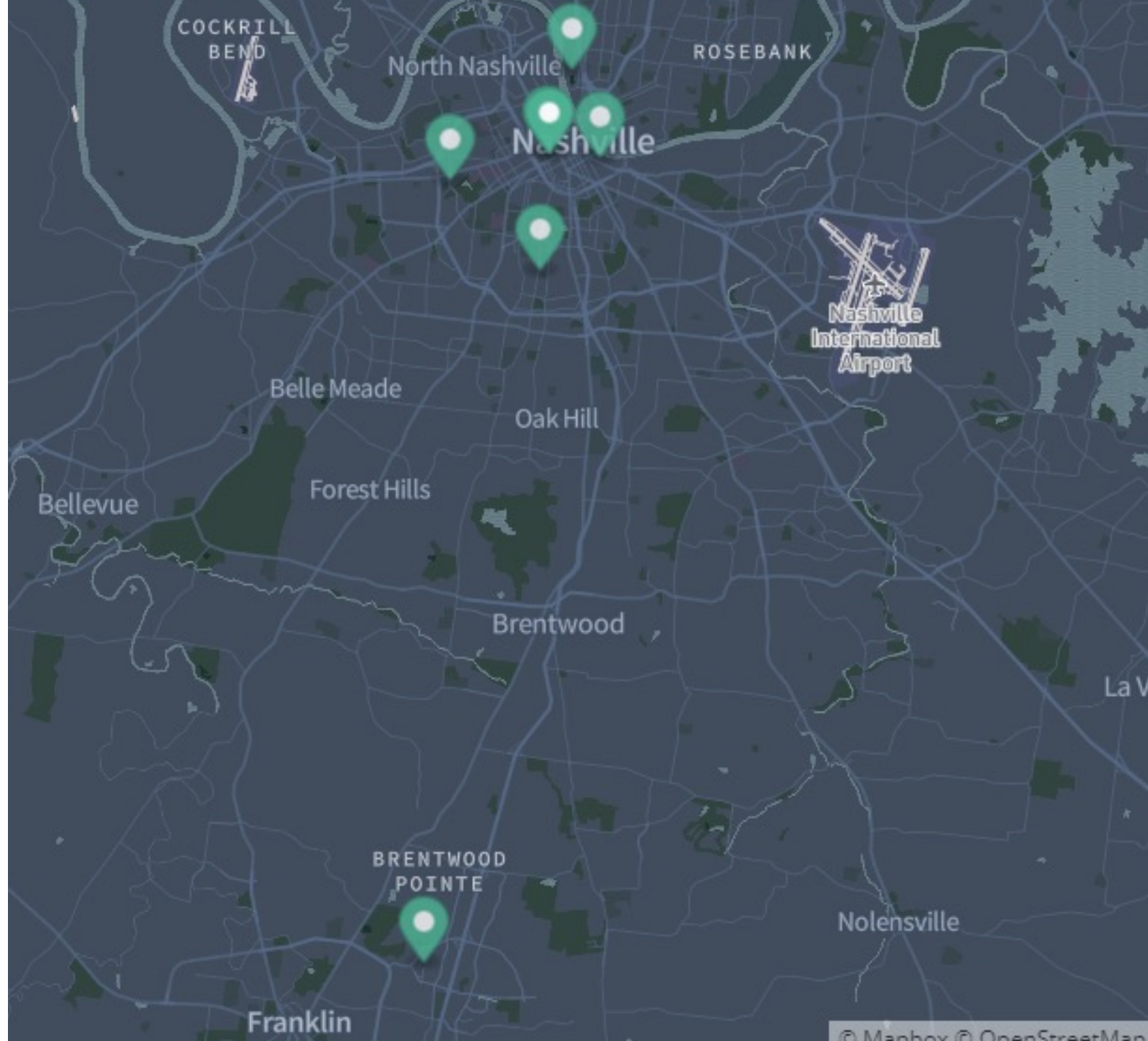
under construction

4.1%

share of office inventory

24.2%

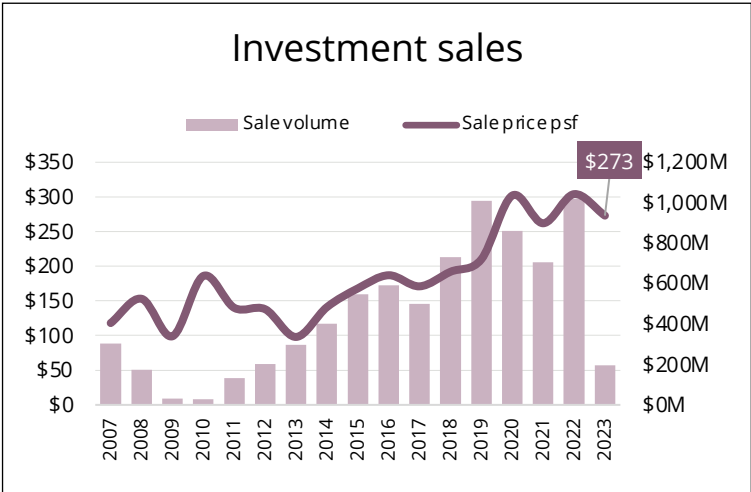
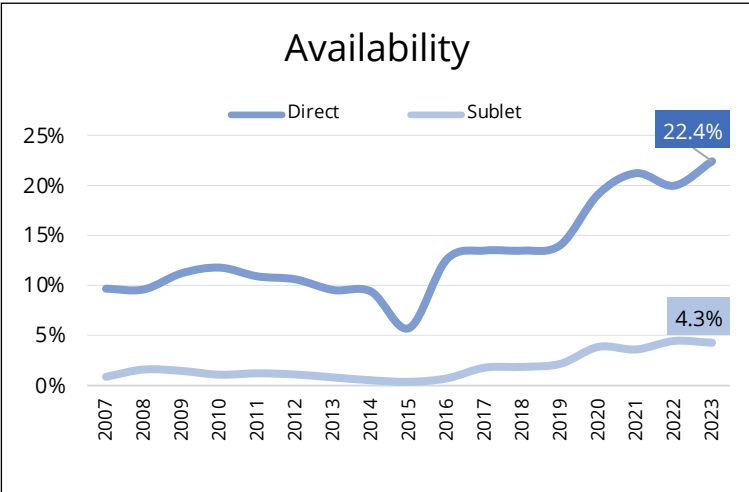
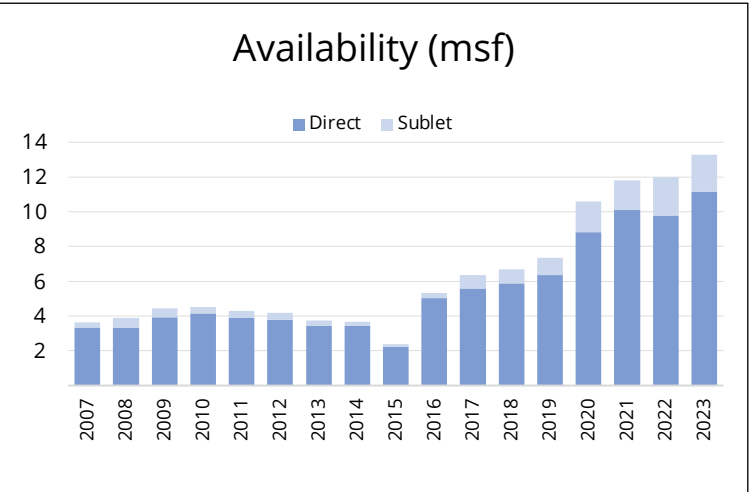
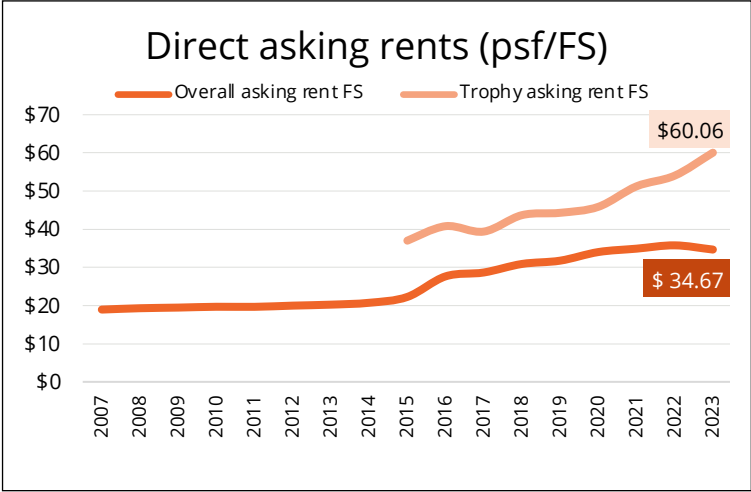
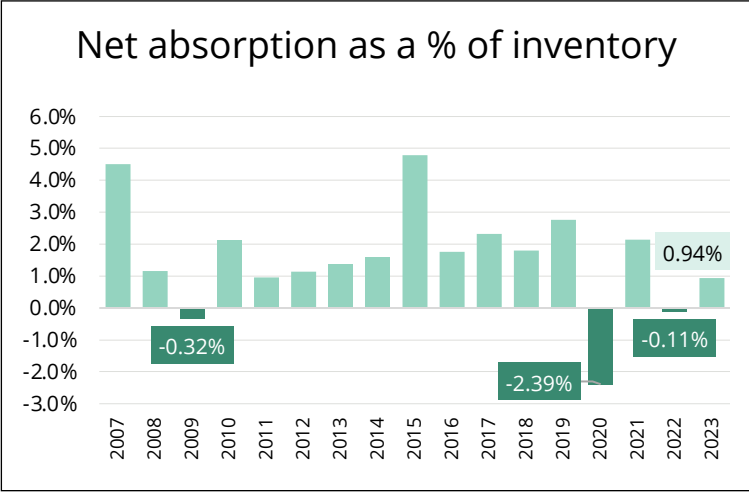
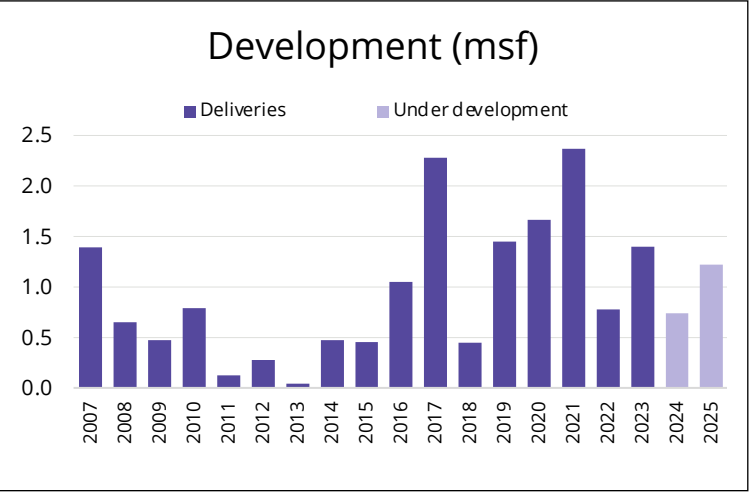
pre-leasing in place



Appendix



Nashville office market indicators



Nashville office market activity

Recent leasing activity

Tenant	Property name	Submarket	Sign date	Size (sf)	Transaction type	Lease type
DVA Renal Healthcare	Park Center I	Brentwood	November-23	95,254	Renewal	Direct
Creative Artist Agency	Nashville Yards Creative Office	CBD	October-23	74,179	New	Direct
Wesley Financial Group	The Carothers Building	Cool Springs	October-23	49,707	Renewal	Direct

Recent sales activity

Buyer	Property name/ address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Herschend Family Entertainment/ The Dollywood Company	211 Commerce*	November-23	233,314	\$75,000,000	\$321	Velocis/ Lincoln Property Company
The University Financing Foundation	Loews Vanderbilt office campus	May-23	130,931	\$37,000,000	\$283	Stoltz
Elmington Capital Group	Mallory Park phase II	May-23	63,236	\$19,800,000	\$313	Southeast Venture

Top projects under development

Property name	Submarket	Delivery date	Building size sf	% Preleased	Developer
Nashville Yards 3A- Pinnacle Tower	CBD	January-25	650,000	57%	Southwest Value Partners
5 City Blvd	Midtown	November-24	344,013	5%	Convexity Properties
Nashville Yards Creative Office	CBD	January-25	300,000**	26%	Southwest Value Partners
McEwen Northside- Block E	Cool Springs	December-25	268,021	0%	Boyle

*property is now a planned conversion to a hospitality development and is subsequently being moved out of office market reporting

** sf reported is the office sf solely, total building sf is 421,000 sf.

Nashville office market stats

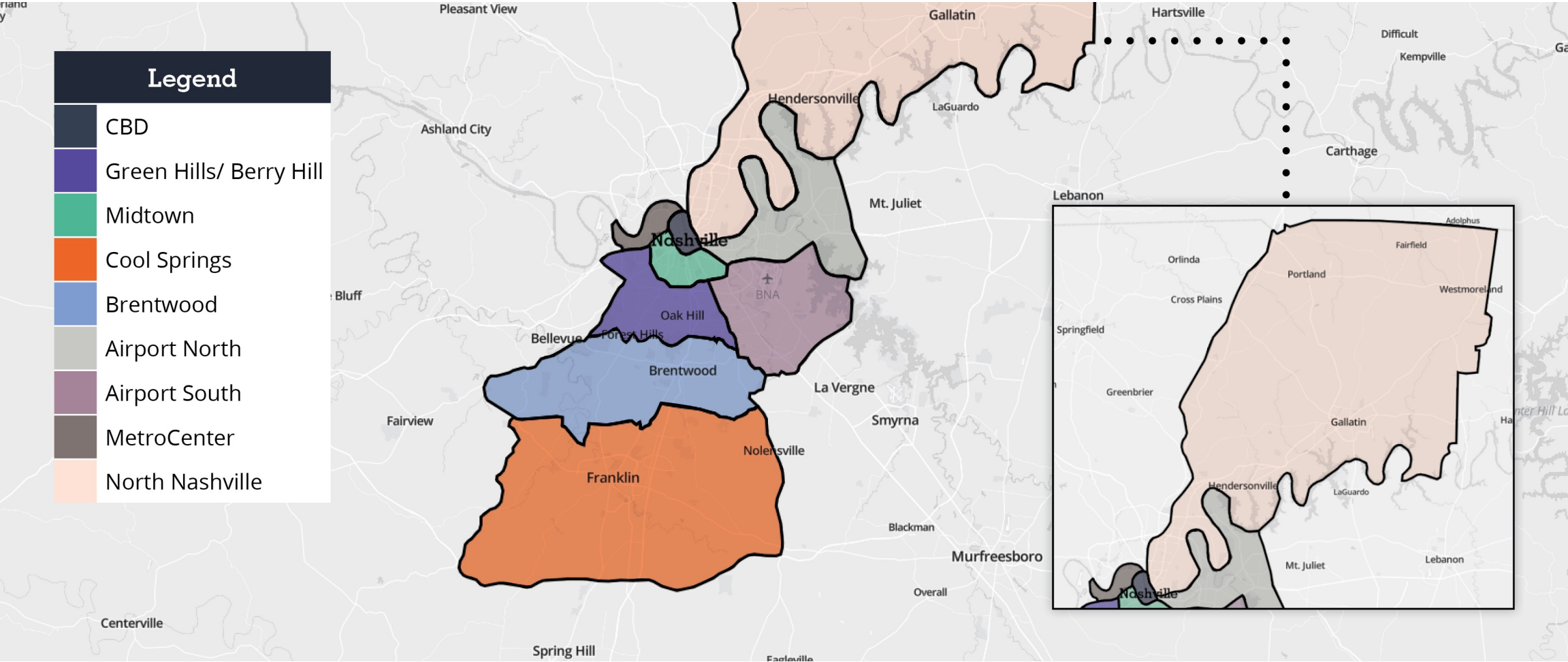
	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Airport North	4,113,487	0	0	23.3%	5.8%	28.6%	(87,746)	(2.1%)	\$25.51
Airport South	3,079,077	0	0	31.4%	4.3%	35.7%	9,706	0.3%	\$25.86
Brentwood	6,419,595	0	0	14.6%	2.7%	17.2%	(98,520)	(1.5%)	\$30.70
CBD	13,801,634	976,000	1,275,793	23.8%	3.9%	27.8%	539,083	3.9%	\$42.57
Cool Springs	8,060,257	0	268,021	22.7%	8.4%	31.1%	21,073	0.3%	\$32.18
Green Hills/ Berry Hill	3,742,811	0	0	19.6%	2.8%	22.5%	(114,007)	(3.1%)	\$34.90
MetroCenter	1,707,972	0	0	28.5%	2.3%	30.8%	31,192	1.8%	\$32.18
Midtown	5,683,759	438,443	416,013	24.4%	2.4%	26.8%	172,548	3.0%	\$49.76
North Nashville	1,206,620	0	0	7.3%	0.0%	7.3%	(22,409)	(1.9%)	\$28.34
Market total	47,815,209	1,414,443	1,959,827	22.4%	4.2%	26.6%	450,920	0.9%	\$34.67

Nashville office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Trophy	5,604,217	1,114,643	1,542,072	31.9%	1.0%	32.9%	828,646	14.8%	\$60.06
Class A	20,951,655	299,800	417,755	21.2%	6.4%	27.6%	(17,657)	(0.1%)	\$36.20
Class B	17,387,875	0	0	21.5%	3.7%	25.2%	(348,546)	(2.0%)	\$30.43
Class C	3,871,462	0	0	15.9%	0.3%	16.2%	(11,523)	(0.3%)	\$23.47
Market total	47,815,209	1,414,443	1,959,827	22.4%	4.2%	26.6%	450,920	0.9%	\$34.67



Nashville submarket map



Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
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Brennan Forster

Senior Insight Analyst

brennan.forster@avisonyoung.com

Warren Smith

Managing Director

warren.smith@avisonyoung.com