



Office Deliveries and New Sublease Space Increase Office Vacancy in Q2

Nashville Market

Nashville's office market endured the first few months of the COVID-19 with relatively minimal effect on the overall numbers. Days before the start of Q2, local and state government ordered for non-essential businesses to close and for Tennesseans to stay at home. This forced the hand of technology, which has inadvertently pushed companies to adopt a work from home strategy.

The remote workplace is not a new phenomenon, but it has become more prevalent and commonplace throughout the duration of the pandemic forcing multiple companies to re-examine their office workspace.

Nashville's stay at home ban was lifted under Phase One of the city's reopening plan in early May. Multiple office users have reopened at half capacity allowing employees to return, some have chosen to extend the work-from-home order through the duration of the summer (and the remainder of 2020) and others have given a voluntary option to work from home or at the office. As such, the return to the office has been moderate.

At the onset of COVID-19, office space requirements were put on hold as companies decided to reassess their office needs and not move forward, given the uncertainty of the severity the pandemic will have on the market. However, building tours and market interest began to ramp up towards the close of Q2, resulting in only a slight decrease in market performance over the quarter.

Overall vacancy increased +140 basis points since the first quarter, due to 44,412 square feet of net negative absorption as well as new deliveries totaling 552,500 square feet. Nashville also experienced an increase of available sublease space totaling over 277,000 square feet during Q2.

Absorption & Leasing Activity

Nashville's office market posted 44,142 square feet of negative net absorption at the close of 2Q 2020, bringing the YTD total to negative 81,883 square feet.

- > Class A office posted a gain of 54,759 square feet during Q2, with the largest move-ins occurring in the Downtown submarket. The occupancies of Concord Music at Peabody Plaza, the Nashville Area Chamber of Commerce at Capitol View, and Lucent Health at Fifth Third Center made up the majority of the absorption for the quarter.
- > Nashville's office leasing volume dropped by 56% during Q2, as multiple tenants paused on potential office relocations due to uncertainty around the COVID-19 pandemic, and the mandatory "stay at home" orders for the Nashville area.

SUMMARY STATISTICS

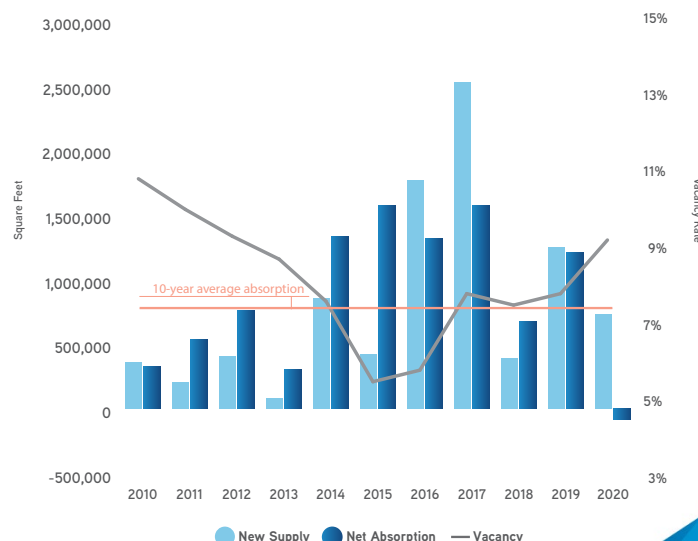
2Q 2020 Nashville Office Market	Entire Market	Downtown	Suburban
Vacancy Rate	9.8%	9.8%	9.7%
Change From 2Q 2020 (basis points)	+140	+260	-90
2Q Absorption	-44,412	38,741	-82,883
New Deliveries	552,500	349,000	203,500
Under Construction (Square Feet)	2.92M	2.12M	802,350

ASKING RENTS

Per Square Foot Per Year (FSG)

Market Average	\$29.55
Market Class A	\$32.49
Downtown Class A	\$35.96
Suburban Class A	\$30.82

NEW SUPPLY, ABSORPTION, & VACANCY



Vacancy & Availability

- Nashville's market-wide average vacancy rate increased for the second consecutive quarter, closing Q2 at 9.8%. Class A vacancy experienced a 2% uptick over the last quarter to 12.2%.
- Regionwide, available sublease space totals 1.3M square feet, or 2.3% of Nashville's total office inventory. Eighty-two percent of available sublease is located in the suburban submarkets.
- The additions of sublease space and newly delivered office space to the market contributed largely to the Class A vacancy rates in multiple submarkets. Over last quarter, Downtown experienced a 3% uptick in Class A vacancy with the deliveries of Peabody Plaza in Rolling Mill Hill and Three Thirty Three in the Gulch.
- Nashville is bracing for another wave of office deliveries exceeding 815,000 square feet by the end of 2020 that will result in 514,639 available square feet. The majority of this new space is located Downtown.

Rental Rates

- Nashville's overall rental rate is at its highest point to date, closing Q2 at \$29.55 per square foot, increasing by 0.5% over the previous quarter. Urban rates are expected to remain elevated, as the next wave of new supply has asking rates upwards of \$45 per square foot.
- The deliveries of modern office space and strong Class A demand continue to be the drivers of rising rents, particularly in the Downtown submarket. The average Class A rate now exceeds \$35 per square foot in that submarket.
- Nashville's average Class A suburban rate rose to \$30.82 per square foot, a 2.2% increase over Q1. The Green Hills/Music Row and West End submarkets have the highest suburban Class A asking rates at \$39.17 and \$34.90 per square foot, respectively.
- The average rental rate for Class A sublease space stands at \$26.88 per square foot, and overall market sublease rate is \$25.82 per square foot.

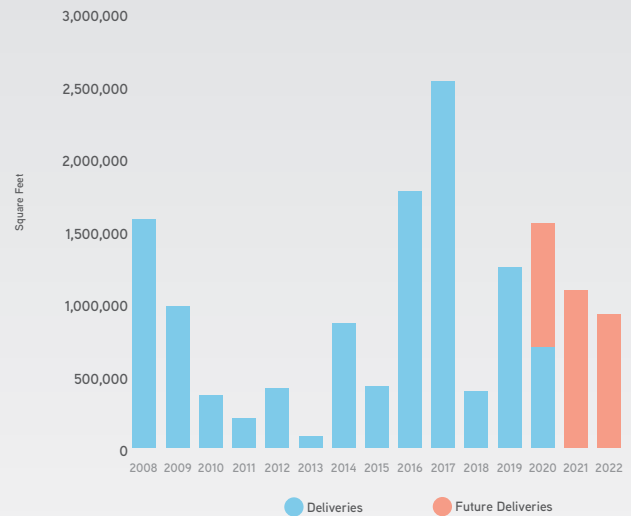
Office Development

- YTD, developers have added five buildings totaling 732,500 square feet, and 53% is leased. Notable deliveries during 2Q include **Peabody Plaza** (280,000 SF), **Brentwood Commons IV** (119,500 SF), and **Three Thirty Three** (84,000 SF).
- Nashville has 2.92 million square feet of office space under construction market wide, with 73% located in Downtown Nashville. These projects include **Nashville Yards** (500,000 SF), **Asurion** (552,000 SF), **ONE22ONE** (365,000 SF) and **501 Commerce** (375,000 SF).
- Nashville's largest multitenant building currently under construction is **Broadwest** (515,000 SF) in the West End submarket. The project also includes a 93,350 square foot creative office building located next to its high rise counterpart.

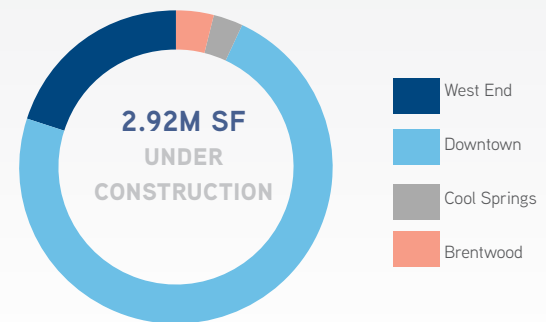
NASHVILLE HISTORICAL AVAILABLE SUBLEASE



NASHVILLE MARKET NEW DELIVERIES



CONSTRUCTION BY SUBMARKET



NASHVILLE OFFICE MARKET								
MARKET	BUILDINGS	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLEASE VACANT (SF)	TOTAL VACANCY RATE	2Q ABSORPTION	YTD NET ABSORPTION	AVG RENTAL RATE PSF (GROSS)
AIRPORT NORTH								
Class A	12	2,265,062	315,139	102,412	18.4%	33,058	19,150	\$26.75
Class B	38	2,564,390	120,645	10,758	5.1%	-18,565	-26,498	\$21.18
Class C	6	232,020	51,196	0	22.1%	-2,286	-3,036	\$16.91
TOTAL	56	5,061,472	486,980	113,170	11.9%	12,207	-10,384	\$24.89
AIRPORT SOUTH								
Class A	6	506,633	8,708	23,694	6.4%	-23,694	-23,694	\$34.10
Class B	69	4,804,800	466,762	1,001	9.7%	-20,440	-2,248	\$22.74
Class C	29	1,260,059	91,702	0	7.3%	0	30,399	\$20.01
TOTAL	104	6,571,492	567,172	24,695	9.0%	-44,134	4,457	\$22.95
BRENTWOOD								
Class A	30	3,295,723	402,298	61,331	14.1%	-37,164	-45,050	\$31.89
Class B	56	3,777,934	389,957	22,170	10.9%	-4,150	42,959	\$27.94
Class C	5	216,371	27,786	1,400	13.5%	0	0	\$23.61
TOTAL	91	7,290,028	820,041	84,901	12.4%	-41,314	-2,091	\$29.39
COOL SPRINGS								
Class A	48	6,980,261	836,708	117,785	13.7%	-19,728	-2,208	\$31.68
Class B	67	2,561,966	375,382	17,303	15.3%	-23,168	-35,103	\$27.98
Class C	3	80,265	0	0	0.0%	0	0	\$14.30
TOTAL	118	9,622,492	1,212,090	135,088	14.0%	-42,896	-37,311	\$30.81
DOWNTOWN								
Class A	23	6,849,937	918,546	36,215	13.9%	95,202	-66,766	\$35.96
Class B	47	5,037,627	264,174	119,356	7.6%	-38,418	-37,255	\$29.56
Class C	25	2,597,227	81,526	0	3.1%	-18,043	-15,564	\$29.07
TOTAL	95	14,484,791	1,264,246	155,571	9.8%	38,741	-119,585	\$33.99
GREEN HILLS/MUSIC ROW								
Class A	11	886,435	29,611	3,000	3.7%	1,925	18,495	\$39.81
Class B	42	1,970,439	104,198	9715	5.8%	3,354	20,230	\$33.84
Class C	16	601,185	56,744	1,662	9.7%	-5,749	-10,131	\$28.75
TOTAL	69	3,458,059	190,553	14,377	5.9%	-470	28,594	\$36.03
METROCENTER								
Class A	2	339,032	3,288	0	1.0%	0	0	\$26.00
Class B	16	1,159,240	15,866	19,047	3.0%	-1,806	-712	\$24.56
Class C	5	289,442	0	0	0.0%	0	0	\$15.75
TOTAL	23	1,787,714	19,154	19,047	2.1%	-1,806	-712	\$24.77
RIVERGATE/HENDERSONVILLE								
Class A	10	631,210	31,165	0	4.9%	3,953	7,845	\$24.38
Class B	24	1,365,699	26,557	0	1.9%	0	11,704	\$19.47
Class C	14	760,535	14,610	0	1.9%	773	2,105	\$18.96
TOTAL	48	2,757,444	72,332	6235	2.8%	4,726	21,654	\$20.49
WEST END								
Class A	19	2,920,718	106,832	7,052	3.9%	1,207	14,597	\$34.88
Class B	32	2,192,099	197,332	4327	9.2%	35,709	23,770	\$30.30
Class C	12	485,651	27,846	0	5.7%	-6,112	-4,872	\$29.80
TOTAL	63	5,598,468	332,010	11,379	6.1%	30,804	33,495	\$33.39
MARKET								
Class A	161	24,675,011	2,652,295	351,489	12.2%	54,759	-77,631	\$32.49
Class B	391	25,434,194	1,960,873	203,677	8.5%	-67,484	-3,153	\$26.31
Class C	115	6,522,755	351,410	3,062	5.4%	-31,417	-1,099	\$24.42
MARKET TOTAL	667	56,631,960	4,964,578	558,228	9.8%	-44,142	-81,883	\$29.55

Q2 2020 NOTABLE LEASING ACTIVITY

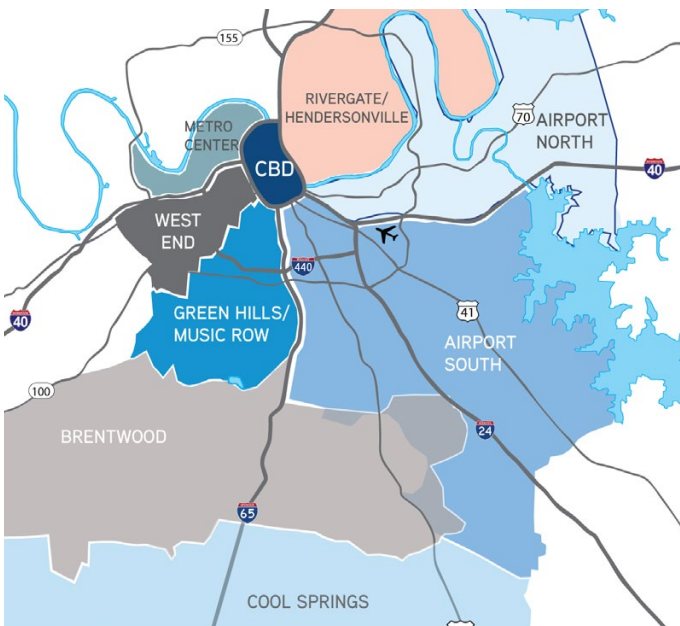
PROPERTY	TENANT	LEASE TYPE	SF	SUBMARKET
ONE2ZONE	FirstBank	New	52,000	Downtown
455 Duke Drive	Loews Hotels	New	32,461	Cool Springs
Gulch Union	Insight Global	New	16,908	Downtown
Seven Springs West	Fortitude	New	16,000	Brentwood
615 3rd Avenue	Barge Design Solutions	Expansion	13,996	Downtown
Highland Ridge I	State Auto Insurance	New	12,367	Airport North

Q2 2020 NOTABLE INVESTMENT ACTIVITY

PROPERTY	BUYER	SF	PRICE	PRICE/SF	SUBMARKET
2011 Murphy Avenue	Saint Thomas Health	151,000	\$33,000,000	\$219	West End
Virginia Way Plaza	Shorenstein	76,457	\$19,200,000	\$251	Brentwood
275 Cumberland Bend	Wheelock Street Capital	101,124	\$10,850,000	\$107	MetroCenter
394 Harding Place	CapRidge Partners	25,400	\$9,200,000	\$362	Airport South
216 Noah Drive	Innovatus	15,108	\$4,000,000	\$265	Airport North

Source: RCA Analytics

In the midst of the COVID-19 outbreak, information and data is emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



DEFINITIONS

Colliers Inventory - Statistical set consists of all office properties of more than 20,000 SF, including owner-occupied. The data set excludes properties that are for educational, medical and government use. While Colliers attempts to provide the most accurate data at the end of every quarter, revisions are made throughout the year accounting for discrepancies in past reporting.

Class A Building - Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

Class B Building - Buildings competing for a wide range of users with average rents. Building finishes are fair to good for the area, and systems are adequate; but the building does not compete with Class A at the same price.

Class C Building - Buildings competing for tenants requiring functional space at rents below the average for the area.

Net Absorption - The net change in occupied space between the current quarter and the previous quarter, calculated by summing all the positive changes in occupancy and subtracting all the negative changes in occupancy.

SF - Square Feet

Vacancy Rate - Percentage rate of the total amount of physically vacant space divided by the total amount of existing inventory.

FOR MORE INFORMATION

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