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Colliers

Research & Forecast Report

Nashville Office

Q2 2023

Accelerating success.

Key Takeaways

- Nashville's office absorption topped 384,000 square feet in Q2, surpassing the total absorption for 2022.
- Market vacancy increased 140 basis points over the previous quarter due to a wave of new office deliveries.
- Average rental rates remain elevated despite the uptick in market vacancy.



Vacancy Rate
16.7%



Net Absorption
384K SF



Under Construction
1.4M SF



Overall Class A Asking Lease Rates (FSG)
\$36.50 SF

Nashville's Office Market Improves at Mid-Year 2023

According to data from Oxford Economics, Nashville experienced healthy job growth of 1.4% from Q4 2022 to Q2 2023, exceeding the US growth of 1.1%. The metro's net job change from Q1 2020 (pre-pandemic peak) to Q2 2023 was 9.3%, well above the US net growth of 2.8%. At the close of Q2, Nashville's office market recorded 335,059 square feet in positive absorption and 1.17M square feet in new deliveries, the latter resulting in an uptick in market vacancy. Office developers currently have 1.43M square feet under construction, and future construction starts are unlikely, given the record high office availability. Office space delivered since 2020 is 50% pre-leased, demonstrating the continued demand for Class AA space.

Market Indicators



2.8%
Unemployment Rate



3.1%
GDP - Quarterly % change yr/yr



3.85%
U.S. 10 Year Treasury Note

Historic Comparison

	22Q4	23Q1	23Q2
Total Inventory (in Millions of SF)	61.3	61.3	62.4
New Supply (in Thousands of SF)	126.0	0	1,173.0
Net Absorption (in Thousands of SF)	233.6	-38.6	384.1
Overall Vacancy	15.1	15.3	16.7
Under Construction (in Thousands of SF)	2,692.0	2,720.3	1,437.3
Overall Asking Lease Rates (FSG)	\$31.80	\$31.85	\$31.97

Absorption, New Supply & Vacancy



Office deliveries totaling nearly 2 million square feet in the last four quarters, combined with continued increases in available office sublease space, have kept vacancy at record-high levels for the Nashville market.

Recent Transactions



Lease
552 Metroplex
Suburban | 50,600 SF



Lease
Two Meridian
Suburban | 46,063 SF



Lease
601 11th Ave N
Urban | 31,586 SF



Sale
2100 West End Ave.
Suburban | \$280/SF



Sale
1569 Mallory Lane
Suburban | \$308/SF



Sale
231 3rd Ave N
Urban | \$315/SF

Availability + Demand

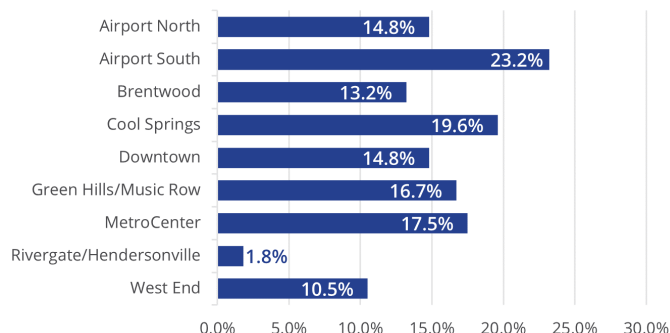
Market vacancy at mid-year 2023 increased to 16.7%, with Class A vacancy ending Q2 at 21.8%. This jump in vacancy is attributed to an injection of 976,000 square feet in new office deliveries. The largest increase occurred in the Downtown submarket, with Class A vacancy increasing to 24.6% in Q2, up from 15.9% at the end of the previous quarter. Of note, 60% of the new supply is leased by Amazon, which will move in next year. The 22.4% availability rate is a record high for Nashville, with sublease space tripling from pre-Covid levels, as companies continue to work through their office space needs. Despite the uptick in vacancy, net absorption totaled positive 384,182 square feet in Q2, exceeding the total market absorption of 2022. The Downtown and Green Hills/Music Row submarkets experienced the greatest amount of move-ins in Q2, accounting for 60% of the total absorption.

Rental Rates

Overall rental rates continue to hover in the \$32.00 range in Nashville. Due to nearly a doubling in vacancy in the last three years, rent growth has slowed, increasing on a quarterly basis by less than 1%. Leasing fundamentals continue to favor tenants at mid-year 2023, driven by widespread availabilities and attractive concession packages. Sublease space, being offered at nearly a 20% discount from direct rates, has also contributed to the stall in rent growth. The Downtown, Green Hills/Music Row, and West End submarkets continue to command the highest rents in the city with rates in the \$36-\$40 per square foot range.

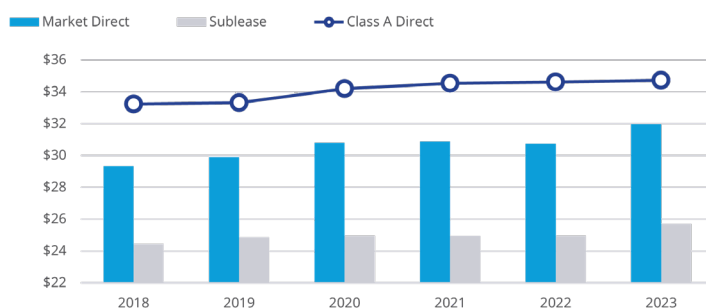
Vacancy Rates

By Submarket



Class A Rental Rates (FSG)

Class A vs. Market vs. Sublet

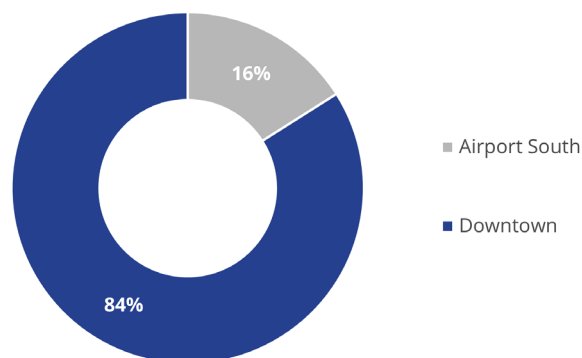


Office Development

Construction is underway on 1.4M square feet throughout the market. The urban core and surrounding fringe submarkets remain a hotbed for development, at 84% of the current inventory under construction. The largest project in the region, Nashville Yards, has 967,000 square feet of Class A+ office space between a high-rise tower and creative office tower, slated to deliver in late 2024. Year-to-date, office deliveries total 1,437,380 square feet. Notable project completions in Q2 include Neuhoff (388,000 SF) and Amazon Tower II at Nashville Yards (588,000 SF). Nearly 5M square feet of office space is in the pipeline, though these projects are unlikely to break ground without significant pre-leasing, given the record high vacancy rates and uncertainty in the market produced by the hybrid/remote work environment.

Under Construction

Submarket Breakdown



Leasing Activity

Office

Property	Tenant	Lease Type	SF	Submarket
552 Metroplex Dr	GSA - FEMA	New Lease	50,600	MetroCenter
Two Meridian	Summit Behavioral Healthcare	New Lease	46,063	Cool Springs
Creekside Crossing II	Compassus	New Lease	25,317	Brentwood
2501 McGavock Pike	State of Tennessee	New Lease	22,694	Airport North
Lakeview III	Paychex North America, Inc.	Renewal	17,133	Airport North

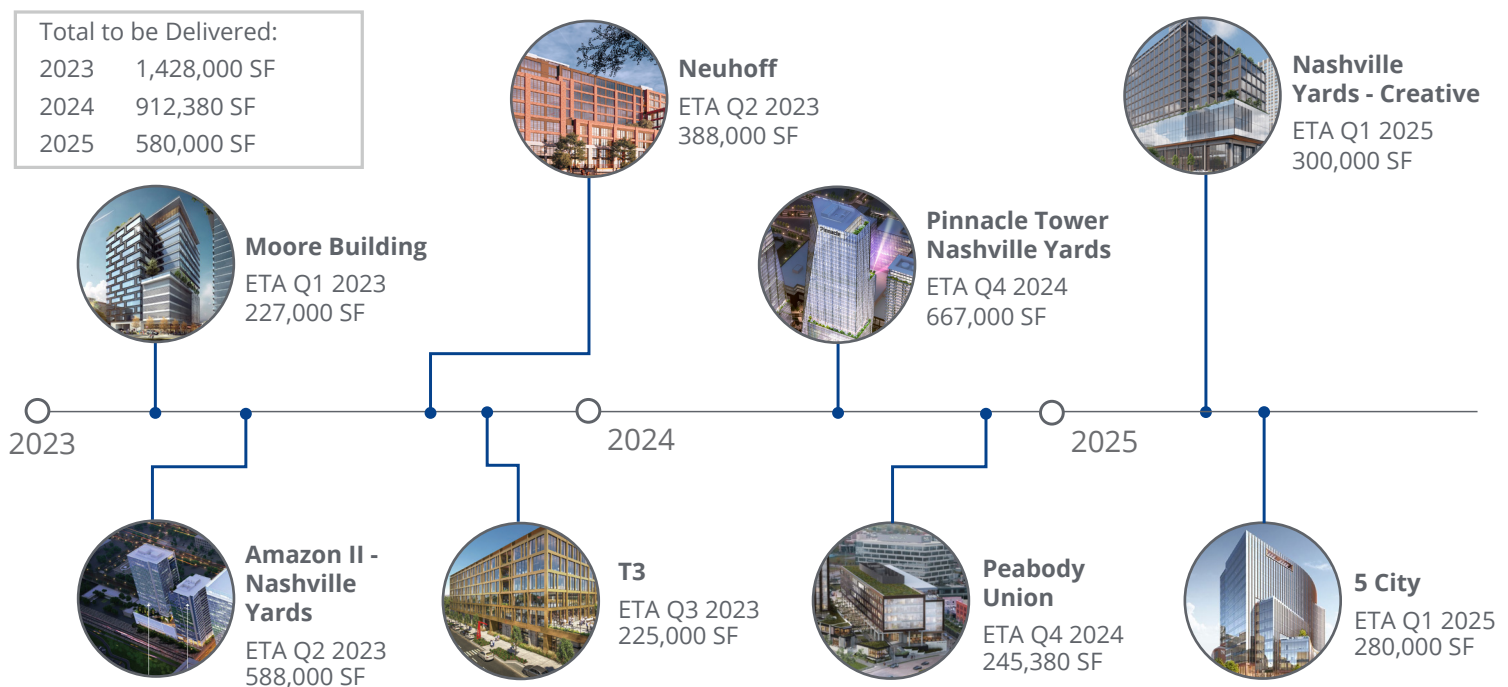
Investment Activity

Office

Property	SF	Price	Price/SF	Submarket
Loews Vanderbilt Plaza - Office	131,931	\$37,000,000	\$280	West End
1569 Mallory Lane	64,327	\$19,800,000	\$308	Cool Springs
205 Miller Springs Court	52,000	\$15,319,226	\$295	Cool Springs
231 3rd Avenue North	16,616	\$5,233,741	\$315	Downtown

Office Development

Office Construction (+100k SF)





Submarket/ Class	Total Inventory SF	Direct Availability Rate	Sublease Availability Rate	Availability Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption 2023	Under Construction	Deliveries YTD	Avg Direct Asking Rate (FSG)
Downtown											
A	10,227,865	23.8%	3.1%	26.9%	24.6%	15.9%	165,465	180,749	1,212,380	946,000	\$37.85
B	5,082,054	19.6%	4.7%	24.3%	18.6%	19.7%	29,203	22,592	0	0	\$33.75
C	3,198,397	3.3%	0.0%	3.3%	1.8%	3.1%	-3,296	2,185	0	0	\$26.90
TOTAL	18,508,316	19.1%	3.0%	22.1%	19.0%	15.2%	191,372	205,526	1,212,380	946,000	\$36.10
Suburban											
A	18,903,662	16.4%	4.4%	20.8%	20.3%	20.5%	118,265	169,179	225,000	227,000	\$33.20
B	20,389,614	13.2%	1.2%	14.4%	13.1%	13.4%	60,276	22,567	0	0	\$27.41
C	4,050,245	7.8%	0.4%	8.2%	7.8%	8.0%	14,269	-62,213	0	0	\$24.49
TOTAL	43,343,521	15.0%	4.0%	19.0%	15.7%	15.9%	192,810	129,533	225,000	227,000	\$29.71
Total											
A	29,338,822	19.0%	3.4%	22.4%	21.8%	18.8%	283,730	349,928	1,437,380	0	\$36.50
B	25,678,963	14.4%	3.3%	17.7%	14.2%	14.6%	89,479	45,159	0	0	\$28.25
C	7,455,937	5.8%	0.2%	6.0%	4.7%	5.1%	10,973	-60,028	0	0	\$24.69
TOTAL	62,473,722	15.6%	2.2%	17.8%	16.7%	15.3%	384,182	335,059	1,437,380	1,173,000	\$31.97

Submarkets by Class

Airport North											
A	2,185,953	25.2%	7.8%	33.0%	14.1%	15.7%	5,376	21,759	0	0	\$26.17
B	2,748,372	17.1%	3.1%	20.2%	16.6%	20.9%	4,405	3,206	0	0	\$23.72
C	357,944	4.7%	0.0%	4.7%	5.0%	6.3%	2,415	-1,585	0	0	\$21.30
TOTAL	5,292,269	19.6%	4.8%	24.4%	14.8%	17.6%	12,196	23,380	0	0	\$24.62
Airport South											
A	564,611	30.7%	0.0%	30.7%	30.7%	30.7%	0	0	225,000	0	\$36.75
B	4,364,564	23.6%	4.1%	27.7%	24.6%	23.6%	-35,036	-70,539	0	0	\$25.24
C	1,265,789	10.9%	0.0%	10.9%	8.1%	8.4%	-2,434	-6,025	0	0	\$18.88
TOTAL	6,194,964	21.7%	2.9%	24.6%	23.2%	22.7%	-37,470	-76,564	225,000	0	\$26.34
Brentwood											
A	3,491,342	14.1%	3.7%	17.8%	17.5%	17.2%	9,589	-59,432	0	0	\$32.55
B	3,685,762	9.6%	1.9%	11.5%	9.3%	11.5%	30,812	-3,946	0	0	\$28.98
C	216,371	7.3%	3.8%	11.1%	11.1%	13.4%	4,922	-6,061	0	0	\$29.05
TOTAL	7,393,475	11.6%	2.8%	14.4%	13.2%	14.2%	45,323	-69,439	0	0	\$31.12
Cool Springs											
A	6,836,709	16.6%	9.1%	25.7%	22.8%	24.0%	49,853	109,736	0	0	\$33.15
B	2,851,591	15.0%	4.9%	19.9%	12.3%	12.5%	6,961	22,961	0	0	\$30.92
C	79,500	39.5%	0.0%	39.5%	7.5%	9.2%	1,324	-5,956	0	0	\$27.10
TOTAL	9,767,800	16.3%	7.8%	24.1%	19.6%	20.3%	58,138	126,741	0	0	\$32.59
Green Hills/ Music Row											
A	1,605,343	31.6%	3.3%	34.9%	35.3%	24.4%	62,487	84,300	0	227,000	\$42.83
B	1,963,470	5.0%	0.0%	5.0%	4.0%	3.7%	-5,569	-5,610	0	0	\$36.47
C	665,950	7.9%	0.0%	7.9%	9.1%	9.9%	5,566	5,626	0	0	\$29.42
TOTAL	4,234,763	15.6%	1.7%	17.3%	16.7%	11.8%	62,484	84,316	0	227,000	\$38.88
MetroCenter											
A	457,235	26.0%	0.0%	26.0%	26.1%	23.0%	-16,211	-12,431	0	0	\$28.50
B	1,465,580	12.9%	2.7%	15.6%	13.9%	16.1%	47,211	45,248	0	0	\$27.50
C	177,695	32.8%	0.0%	32.8%	32.8%	32.8%	0	-51,574	0	0	\$26.80
TOTAL	2,100,510	26.3%	1.6%	27.9%	17.5%	19.0%	31,000	-18,757	0	0	\$26.36
Rivergate / Hendersonville											
A	509,387	8.4%	0.0%	8.4%	6.2%	5.7%	-2,665	3,005	0	0	\$29.57
B	1,197,734	4.8%	0.0%	4.8%	1.1%	1.8%	11,513	18,150	0	0	\$23.64
C	767,262	0.1%	0.0%	0.1%	0.1%	0.1%	-623	-623	0	0	\$14.75
TOTAL	2,474,383	13.4%	0.0%	13.4%	1.8%	1.9%	8,225	20,532	0	0	\$25.10
West End											
A	3,253,082	16.2%	4.7%	20.9%	14.0%	14.3%	9,836	22,242	0	0	\$38.44
B	2,112,541	8.0%	7.6%	15.6%	7.9%	6.9%	-21	13,097	0	0	\$32.75
C	519,734	0.3%	1.2%	1.5%	1.9%	2.5%	3,099	3,985	0	0	\$30.00
TOTAL	5,885,357	11.8%	3.0%	14.8%	10.5%	10.9%	12,914	39,324	0	0	\$36.10
Nashville Quarterly Comparisons and Totals											
23Q2	62,473,722	15.6%	2.2%	17.8%	16.7%	15.3%	384,182	335,059	1,437,380	1,173,000	\$31.97
23Q1	61,300,722	15.6%	3.4%	19.0%	14.9%	15.1%	-38,534	-38,534	2,720,380	0	\$31.85
22Q4	61,300,722	15.0%	3.9%	18.9%	15.1%	15.1%	233,653	287,885	2,692,000	768,395	\$31.80
22Q3	60,562,215	14.9%	3.9%	18.8%	14.8%	15.6%	157,770	7,000	2,818,000	643,395	\$31.75
22Q2	60,111,842	15.7%	3.4%	19.1%	15.2%	15.0%	-341,051	-130,790	3,348,629	112,766	\$31.71

501 offices in 65 countries around the world



\$4.3B
in revenue



2B
square feet under management



17,000 +
professionals and staff

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