

Q2 2017

Office Insight

Nashville's office market is still hot like its hockey – even though we lost a couple points

- The office vacancy increased slightly for its 3rd consecutive quarter – by 50 basis points.
- Even still, the office market is currently tied with San Francisco for the second most occupied market in the country.
- Rent declined marginally at 1.2%, landing at \$25.46 per square foot.
- 2.7 million square feet of new product is projected to deliver by Q4 2017; 73.0 percent of this product is already pre-leased.

Smashville's score shows that tenants want new Class A space in the urban core. As new buildings come online with high pre-leased percentages (around 67.5%) second generation space is not absorbing as quickly. As a result, Nashville vacancy has increased for the third consecutive quarter, witnessing a marginal 50-basis-point increase between Q1 and Q2. Midway through 2017, Nashville vacancy sits at 8.6 percent, which is 100 basis points below the city's near-term historical average. Nashville's vacancy has averaged around 9.7 percent over the past 10 years.

Demand for new construction will continue to make the score of this real estate cycle. Class B space in the urban core (Downtown and Midtown submarkets) holds the highest class vacancy in the market – at 12.0 percent – compared to a suburban Class B vacancy of 9.6 percent. Meanwhile, urban Class A vacancy continues to decline, sitting at 5.1 percent, and Class A suburban vacancy rose slightly to 7.8 percent. As a by-product of shrinking urban Class A vacancy and growing Class B vacancy, Q2 2017 witnessed a minor rental decline of 1.2 percent. Market rents now sit at \$25.46. Markets with small inventories and vacancies, such as Nashville, tend to have rents that react more sharply to fluctuations in vacancy. Over the course of the next couple quarters, rental trends will help forecast where the market is headed.

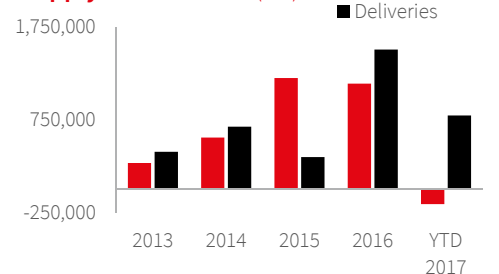
Outlook

Vacancy is the highest it has been in 2.5 years, which will usher the market into a more neutral stage. Leasing activity for the remainder of the year looks active; however, the sheer number of deals in the market is shrinking. A couple of large tenants are circling the market, so even with a reduced number of deals, the square footage may keep up with leasing over the past two years.

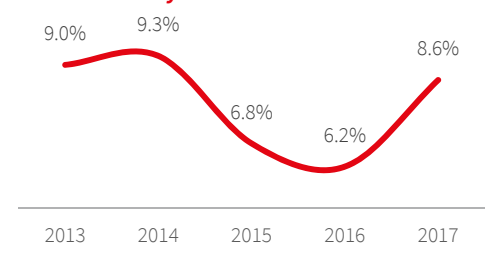
Fundamentals

	Forecast
YTD net absorption	-159,650 s.f. ▲
Under construction (new)	2,544,225 s.f. ▼
Total vacancy	8.6% ►
Average asking rent (gross)	\$25.46 p.s.f. ▲
Concessions	Rising ▲

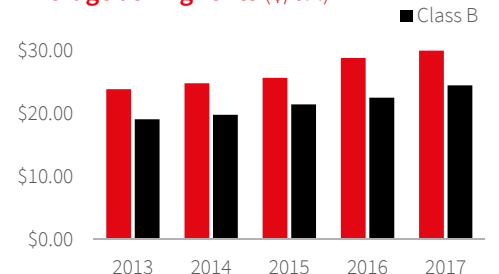
Supply and demand (s.f.)



Total vacancy



Average asking rents (\$/s.f.)



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Office Statistics

	Class	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Downtown	Totals	8,098,648	88,419	49,222	0.6%	8.5%	8.8%	\$25.88	0	1,609,650
Midtown	Totals	3,737,474	890	-115,700	-3.1%	6.6%	6.7%	\$30.59	0	0
Urban	Totals	11,836,122	89,309	-66,478	-0.6%	7.9%	8.1%	\$27.12	0	1,609,650
West	Totals	632,448	-550	3,162	0.5%	1.9%	1.9%	\$27.85	0	0
Cool Springs	Totals	5,534,310	-58,703	-4,382	-0.1%	7.3%	9.4%	\$30.92	446,517	571,031
Brentwood	Totals	6,220,406	115,412	101,581	1.6%	5.7%	7.0%	\$29.64	350,018	0
Airport North	Totals	3,531,719	-50,101	-84,297	-2.4%	6.0%	6.2%	\$21.87	0	0
MetroCenter	Totals	1,662,538	-66,274	-103,001	-6.2%	9.6%	10.2%	\$20.23	0	0
Airport South	Totals	4,123,640	3,511	-21,262	-0.5%	13.9%	15.8%	\$19.30	0	265,000
Green Hills	Totals	1,299,188	8,534	12,424	1.0%	3.2%	3.2%	\$26.86	0	98,544
North	Totals	511,941	1,203	2,603	0.5%	5.1%	5.1%	\$16.94	0	0
Suburban	Totals	23,516,190	-46,968	-93,172	-0.4%	7.6%	8.8%	\$24.59	796,535	934,575
Nashville	Totals	35,352,312	42,341	-159,650	-0.5%	7.7%	8.6%	\$25.46	796,535	2,544,225
Downtown	A	3,836,664	97,495	92,231	2.4%	3.0%	3.4%	\$32.18	0	1,609,650
Midtown	A	2,382,929	7,288	-141,901	-6.0%	7.8%	7.8%	\$31.90	0	0
Urban	A	6,219,593	104,783	-49,670	-0.8%	4.8%	5.1%	\$32.01	0	1,609,650
West	A	320,724	0	803	0.3%	0.5%	0.5%	\$31.00	0	0
Cool Springs	A	4,693,506	-47,095	13,692	0.3%	8.3%	10.6%	\$31.42	446,517	531,000
Brentwood	A	2,899,455	131,550	233,000	8.0%	5.6%	6.6%	\$32.08	350,018	0
Airport North	A	1,880,606	-45,125	-79,936	-4.3%	8.1%	8.1%	\$22.83	0	0
MetroCenter	A	369,257	-1,953	-28,679	-7.8%	10.6%	10.6%	\$20.00	0	0
Airport South	A	797,931	0	0	0.0%	0.0%	0.0%	-	0	265,000
Green Hills	A	709,730	9,578	14,302	2.0%	4.3%	4.3%	\$30.76	0	98,544
North	A	201,014	-1,414	-1,414	-0.7%	4.7%	4.7%	\$21.65	0	0
Suburban	A	11,872,223	45,541	151,768	1.3%	6.6%	7.8%	\$29.19	796,535	894,544
Nashville	A	18,091,816	150,324	102,098	0.6%	6.0%	6.8%	\$29.97	796,535	2,504,194
Downtown	B	3,774,402	-9,076	-38,273	-1.0%	13.5%	13.7%	\$25.39	0	0
Midtown	B	945,887	-5,631	22,228	2.3%	4.4%	4.9%	\$28.91	0	0
Urban	B	4,720,289	-14,707	-16,045	-0.3%	11.7%	12.0%	\$25.65	0	0
West	B	150,000	0	0	0.0%	5.1%	5.1%	\$29.53	0	0
Cool Springs	B	840,804	-11,608	-18,074	-2.1%	1.7%	2.9%	\$17.54	0	40,031
Brentwood	B	2,747,377	5,269	-111,804	-4.1%	6.6%	8.0%	\$27.64	0	0
Airport North	B	1,551,113	-3,716	-3,101	-0.2%	3.8%	4.2%	\$19.41	0	0
MetroCenter	B	857,231	-64,321	-69,548	-8.1%	12.8%	13.4%	\$20.13	0	0
Airport South	B	2,506,582	-704	-21,923	-0.9%	14.7%	18.0%	\$23.57	0	0
Green Hills	B	487,933	-2,520	-1,878	-0.4%	2.3%	2.3%	\$16.37	0	0
North	B	145,874	0	0	0.0%	0.0%	0.0%	-	0	0
Suburban	B	9,286,914	-77,600	-226,328	-2.4%	8.1%	9.6%	\$23.57	0	40,031
Nashville	B	14,007,203	-92,307	-242,373	-1.7%	9.3%	10.4%	\$24.45	0	40,031
Downtown	C	487,582	0	-4,736	-1.0%	13.0%	13.0%	\$18.38	0	0
Midtown	C	408,658	-767	3,973	1.0%	4.5%	4.5%	\$21.08	0	0
Urban	C	896,240	-767	-763	-0.1%	9.1%	9.1%	\$18.99	0	0
West	C	161,724	-550	2,359	1.5%	1.8%	1.8%	\$21.69	0	0
Brentwood	C	573,574	-21,407	-19,615	-3.4%	1.5%	4.7%	\$26.22	0	0
Airport North	C	100,000	-1,260	-1,260	-1.3%	1.3%	1.3%	\$21.00	0	0
MetroCenter	C	436,050	0	-4,774	-1.1%	2.6%	3.7%	\$22.00	0	0
Airport South	C	819,127	4,215	661	0.1%	24.8%	24.8%	\$11.52	0	0
Green Hills	C	101,525	1,476	0	0.0%	0.0%	0.0%	-	0	0
North	C	165,053	2,617	4,017	2.4%	10.1%	10.1%	\$14.26	0	0
Suburban	C	2,357,053	-14,909	-18,612	-0.8%	10.4%	11.3%	\$12.90	0	0
Nashville	C	3,253,293	-15,676	-19,375	-0.6%	10.0%	10.7%	\$14.42	0	0