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Nashville Office Market Outlook

Scott Ortlip
Associate

Nashville's average daily population growth may have dipped under ninety people a day in 2018 for the first time in five years but this market is far from truly slowing down. Booming employment topped one million in 2018, and that's projected to double in the next three years as Nashville continues its meteoric growth trajectory.

Riding the Wave

Both the office and industrial sectors are leveraging this massive increase in employment with recent slumps in absorption triggering huge rental rate spikes in the past two years. Q3 2017 to Q2 2018 alone saw industrial rents surge from $4.00 to $5.00 as absorption tailed off in those four quarters. Recent deliveries have brought average rates back down to $4.50, but any future slump in deliveries can reasonably be expected to produce comparable spikes in the face of Nashville's radical population growth.

Office rents rose from $25 to $30/sf from Q1 2016 to Q1 2018, riding a sharp reduction in absorption but, unlike industrial rates, recent deliveries have not suppressed

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ortlip@tenantbase.com

rates back to pre-2017 levels. In fact, office rents appear to be accelerating again, as the past two quarters have seen the lowest net absorption rates since Q1 2017.

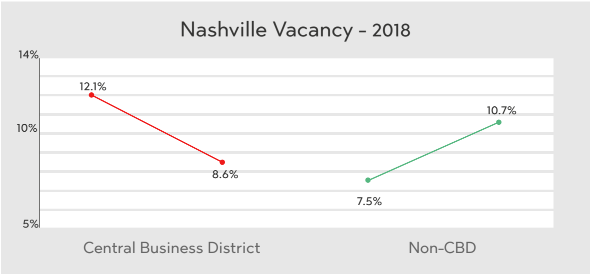
New Deliveries Counter Low Vacancy

According to Cushman and Wakefield, first quarter 2019 saw over one million square feet of industrial leasing activity, up 14.7% over a year prior. Vacancy, while 0.8% higher than last quarter, is still rock bottom at 4.2% metro-wide. The honor of tightest submarket goes to the west submarket, with a meager 0.6% of product lying empty. New deliveries have driven the east submarket's vacancy from 5.3% to 7.3% year-over-year. Because of these new deliveries, warehouse and distribution vacancy closed out the first quarter of 2019 at 5.2% - up 1.2% year-over-year. 2019 will see nearly 4.1 million square feet of new industrial product delivered in Nashville putting the city on track for the greatest volume of new construction deliveries in over a decade.

CBD Migration

Office leasing exceeded 470,000 sf equally divided both inside and outside the Central Business District. The CBD's vacancy rate fell from 12.1% to 8.6% over the past year while non-CBD areas have loosened somewhat from 7.5% to 10.7% year-over-year, primarily driven by non-CBD tenants moving intown to CBD locations. Expect the CBD's vacancy rate to continue to fall as tenants commence moving into the CBD spaces they've leased.

Interestingly, Class-A office space saw positive absorption of nearly 165,000 sf, while Class-B posted a negative absorption of nearly 120,000 sf. Class-B properties in non-CBD locations suffered particularly badly, and landlords should start investigating ways to counteract this inward migration, as non-CBD Class-B office vacancy rose from 9% to 12.3% year-over-year.



Conclusion

Nashville's rapid expansion and growth will likely continue to buoy rental rates in both the office and industrial sectors. As deliveries reach record levels, it seems an inflection point must be approaching. Population growth exceeded development and now it's a race for developers to stake their claim in the rental-rate gold rush before supply catches up with demand. Music City's hot streak continues to impress and for now speculative investors won't have to face the music.

Source: Cushman & Wakefield