

# Inventory expansion to meet various occupier needs



Note: Arrows indicate change from previous quarter.

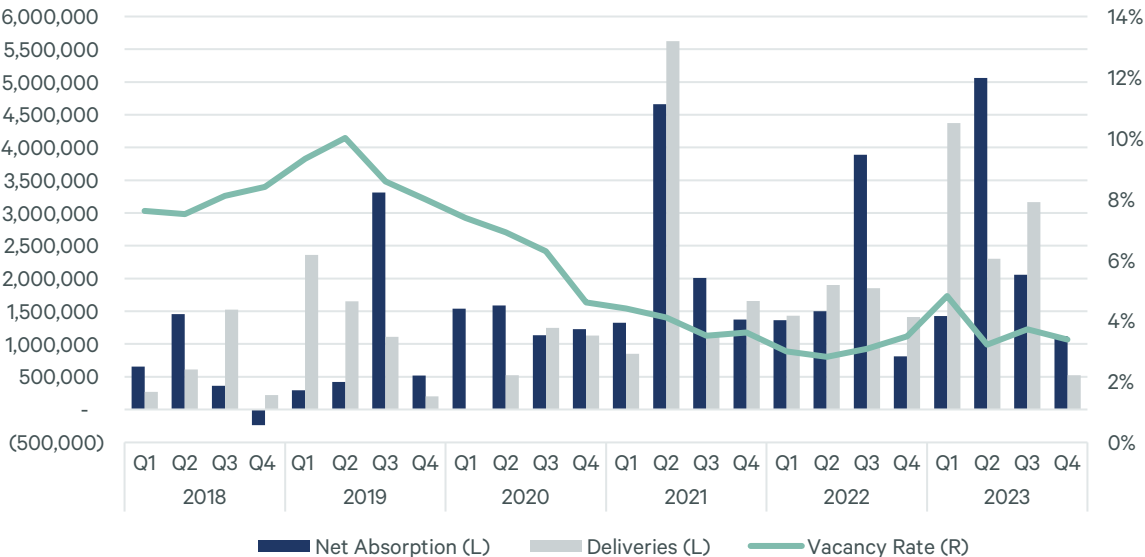
### Key Takeaways

- The Nashville industrial market inventory expanded 4.8% in 2023 to over 218 million sq. ft., a 5-year growth rate of 18.5%.
- Annual net absorption totaled a record 9.7 million sq. ft. in 2023.
- The average triple net asking rent increased 0.9% quarter-over-quarter and 5.8% year-over-year to \$7.84 per sq. ft.

The combination of continued economic momentum with a likelihood that the Fed’s dramatic tightening cycle is complete makes a ‘soft landing’ appear more likely for early 2024. This backdrop may translate into the Fed slowly lowering its target rate throughout the year. CBRE expects 75 – 100 basis points of potential rate cuts. Overall uncertainty may deter some spending, but stabilization will help illuminate a path forward for real estate performance.

Industrial occupiers remained active in the Nashville market through 2023, albeit with lengthened transaction timelines. Although lease executions slowed at the end of the year, total leasing volume grew by 14.0% annually to 12.7 million sq. ft. Sub-100,000 square foot requirements dominated leasing activity by a 78.5% share of the number of 2023 deals, consistent with 79.7% in 2022. Several R&D/Flex requirements emerged, with quality core locations increasingly sought after. Nashville continued to see strong asking rent growth of 5.8% year-over-year, fueled by limited availabilities and strong occupier demand.

FIGURE 1: Vacancy Rate, Deliveries and Net Absorption



Source: CBRE Research, Q4 2023

The Nashville industrial market inventory expanded 4.8% in 2023 to over 218 million sq. ft., a 5-year growth rate of 18.5%. In Q4, two speculative developments totaling 526,000 sq. ft. delivered vacant and available, contributing to a total 8.7 million sq. ft. of annual deliveries, which made for a banner year of development only second to 2021. Out of the new construction supply added to the market throughout the year, 61.1% of the space leased by year-end. Submarket I-840 led the market again in annual deliveries of 4.4 million sq. ft. which had the best-performing leasing velocity at 78.1% leased in Q4. For the third consecutive year, annual net absorption outpaced deliveries by roughly 1 million sq. ft. in Nashville as occupier demand continued to outweigh new supply.

There are currently 10.3 million sq. ft. under construction that was 3.7% preleased at the end of 2023. Given that the majority of 2023 new supply leased, occupiers should continue to take new construction availabilities offline closer to or post-completion. In Q4 2023, over 770,000 sq. ft. across five projects began construction in MetroCenter/Cockrill Bend and Interchange City. The average size of ground breaks closer reflected current occupier size trends at 154,000 sq. ft., smaller than the total construction pipeline average of 333,000 sq. ft. Continued focus on size segment trends will help maintain a balanced pipeline of availabilities adaptable to various needs.

FIGURE 4: Key Leasing Transactions

Tenant	Location	Leased SF	Submarket	Lease Type
InterMetro Industries	Elam Farms 2	275,000	Interchange City	Renewal
FSI	Speedway Industrial Park Bldg 8	259,670	I-840	Sublease
Confidential	SouthPark C/2	240,000	Interchange City	Renewal
Monster Beverage	Central Logistics Park East Bldg 2	201,072	I-840	New Lease
Rasa Floors	HighPointe24 Bldg 400	137,700	Interchange City	New Lease

FIGURE 2: Annual Deliveries

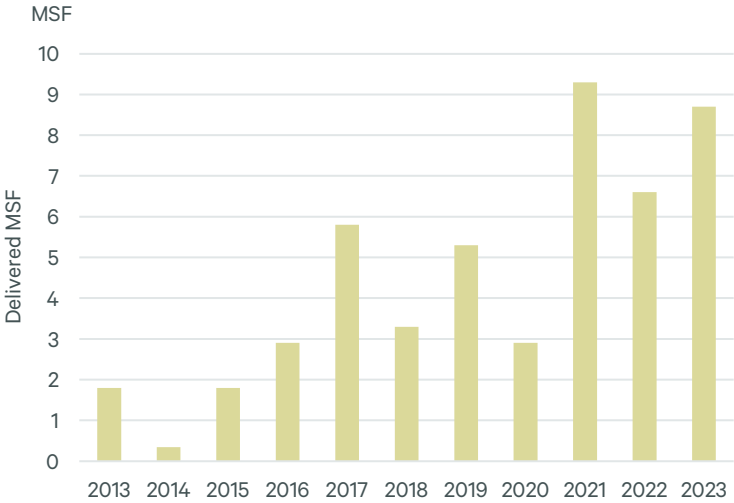
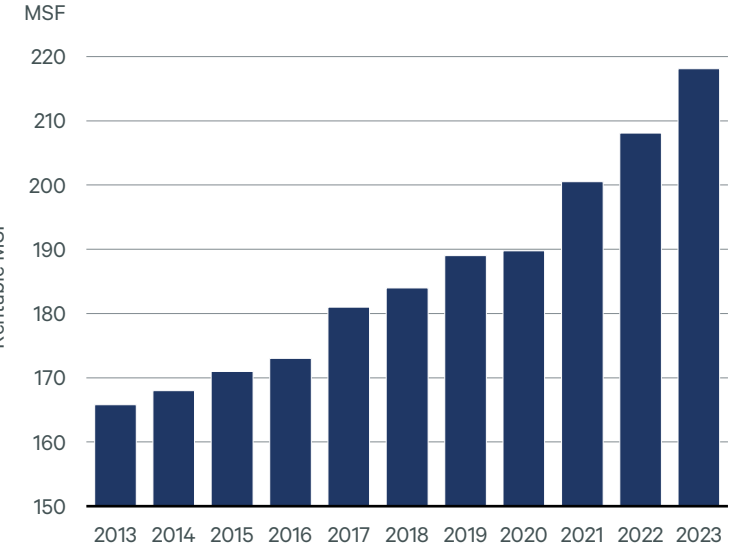


FIGURE 3: Rentable Sq. Ft.

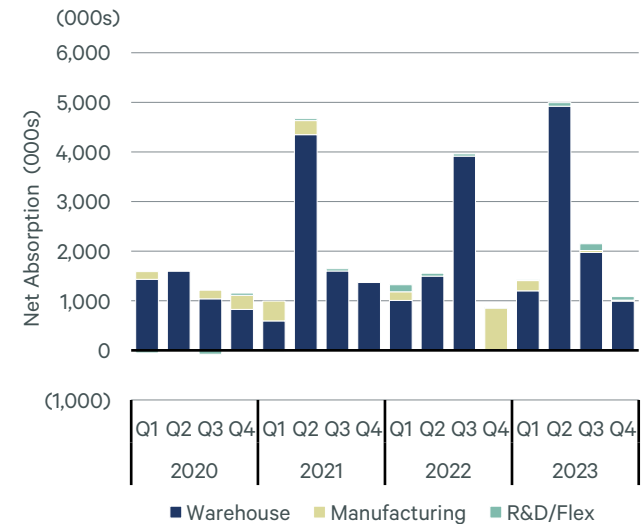


Source: CBRE Research, Q4 2023

## Industrial Absorption

A methodology change implemented in Q2 2023 to count positive absorption by sign date and preleased new construction activity closed the gap between lease execution and physical occupancy. Based on this adjustment, annual net absorption totaled a record 9.7 million sq. ft. in 2023. Despite slowed leasing activity in Q4, positive net absorption for the quarter contributed 1.1 million sq. ft. to the annual total. For the past two years, leasing activity by square feet maintained a majority of new leases or expansions compared to renewals and helped sustain positive net absorption throughout Nashville.

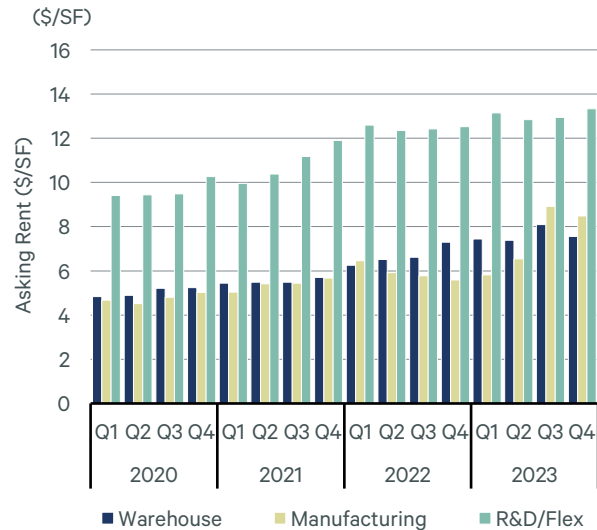
FIGURE 5: Quarterly Net Absorption



## Industrial Asking Rates

The average triple net asking rent increased 0.9% quarter-over-quarter and 5.8% year-over-year to \$7.84 per sq. ft. A rapid five-year asking rent growth rate of 66.5% reflects unprecedented demand and an influx of high-quality new construction availabilities. In Q4, a slight decrease in leasing activity and 526,000 sq. ft. of vacant available new construction deliveries contributed to a 13-basis point increase in availability. As increased R&D/Flex requirements emerged, the subtype asking rents grew faster than other subtypes of 3.0% quarter-over-quarter. Strong demand drivers like population growth, access to labor, and geographic reach should continue to attract occupiers to Nashville through 2024 and drive moderate rent growth.

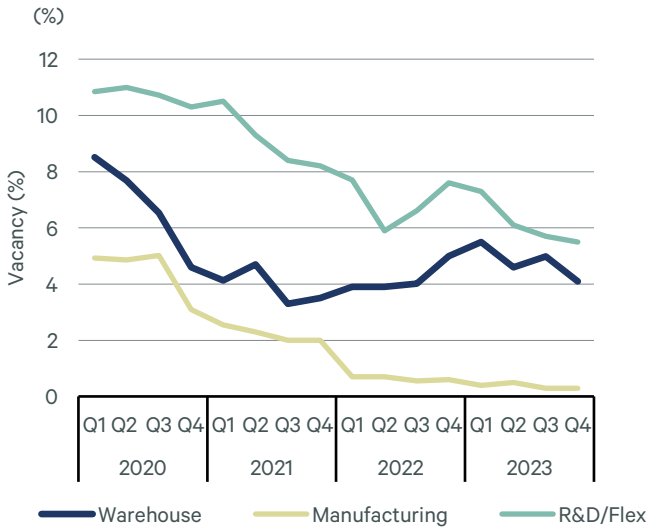
FIGURE 6: Asking Rates by Property Type



## Industrial Vacancy

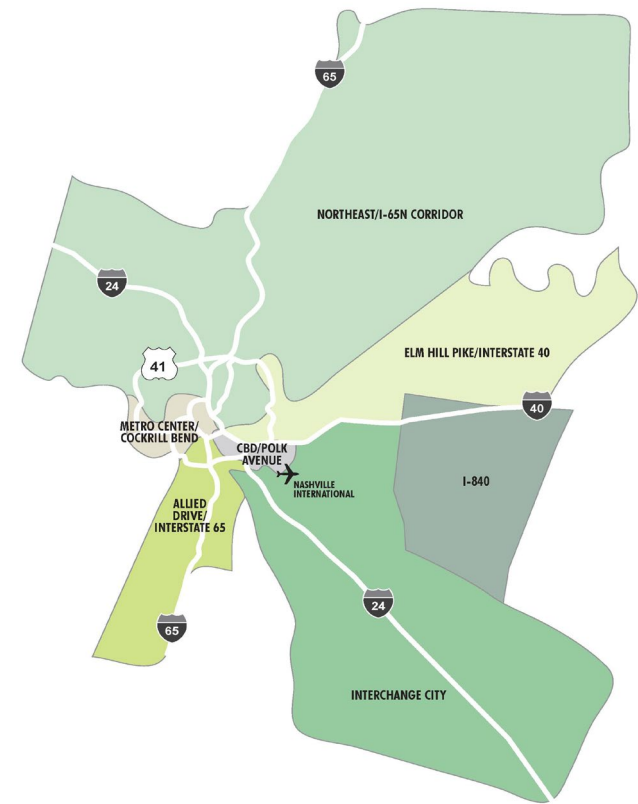
Annual net absorption of 9.7 million sq. ft. continued to balance inventory additions of 8.7 million sq. ft. in 2023 and put downward pressure on market vacancy. Total vacancy ended the year at 3.4%, a 31-basis point improvement since Q3 2023 and 10 basis points lower than year-end 2022. Although occupiers favored the sub-100,000 sq. ft. size segment, the number of big-box deals over 200,000 sq. ft. grew annually from 15 deals in 2022 to 19 deals in 2023 and primarily relieved new construction vacancy. Continued preleasing activity across size segments should continue to offset upcoming vacant available construction completions in 2024.

FIGURE 7: Vacancy by Property Type



Source: CBRE Research, Q4 2023

Market Area Overview



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FIGURE 8: Market Statistics

Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q4 2023 Net Absorption (SF)	2023 Net Absorption (SF)	Under Construction (SF)	Avg. NNN Asking Lease Rate (\$/SF/Yr)
Allied Drive/I-65	18,752,639	1.2	1.4	3.3	28,283	167,375	0	12.03
CBD/Polk Avenue	12,953,850	2.2	2.3	4.1	0	1,000	0	9.32
Elm Hill Pike/I-40	33,132,921	2.8	2.8	4.9	40,943	1,427,196	884,947	10.24
I-840	23,067,043	2.5	3.1	5.7	460,742	4,176,291	3,667,755	6.64
Interchange City	75,087,248	3.3	3.5	4.6	446,352	3,584,458	744,692	8.62
MetroCenter/Cockrill Bend	13,260,888	0.5	1.4	3.3	7,600	173,572	1,770,170	11.76
Northeast/I-65N Corridor	41,934,882	3.9	5.7	8.9	138,020	137,510	3,256,587	6.19
Warehouse/Distribution	136,652,406	4.0	4.8	6.9	996,538	9,095,645	10,324,151	7.56
Manufacturing	66,851,504	0.2	0.3	1.7	15,000	264,876	0	8.48
R&D/Flex	11,057,877	4.3	5.5	8.8	72,860	206,072	0	13.34
NASHVILLE	218,189,471	2.8	3.4	5.4	1,121,940	9,667,402	10,324,151	7.84

Source: CBRE Research, Q4 2023

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Survey Criteria

Includes all classes of competitive Warehouse/Distribution, Manufacturing, and R&D/Flex properties larger than 10,000 sq. ft. within the geographic submarket boundaries defined in the “Market Area Overview.” \*Note: As of Q2 2023, positive absorption is counted during the quarter when a lease is fully executed in an existing building or upon building completion where there is new construction pre-leasing. Negative absorption occurs when an occupier fully vacates or terminates their lease obligations. Historical net absorption was not adjusted to this new methodology.