

Leasing activity resurgence absorbs existing vacancies

▼ 3.0%

Vacancy Rate

▲ 1.7M

SF Net Absorption

▼ 5.7M

SF Under Construction

▲ 653K

SF Completions

▲ \$8.38

NNN / Asking Rent

Note: Arrows indicate change from previous quarter.

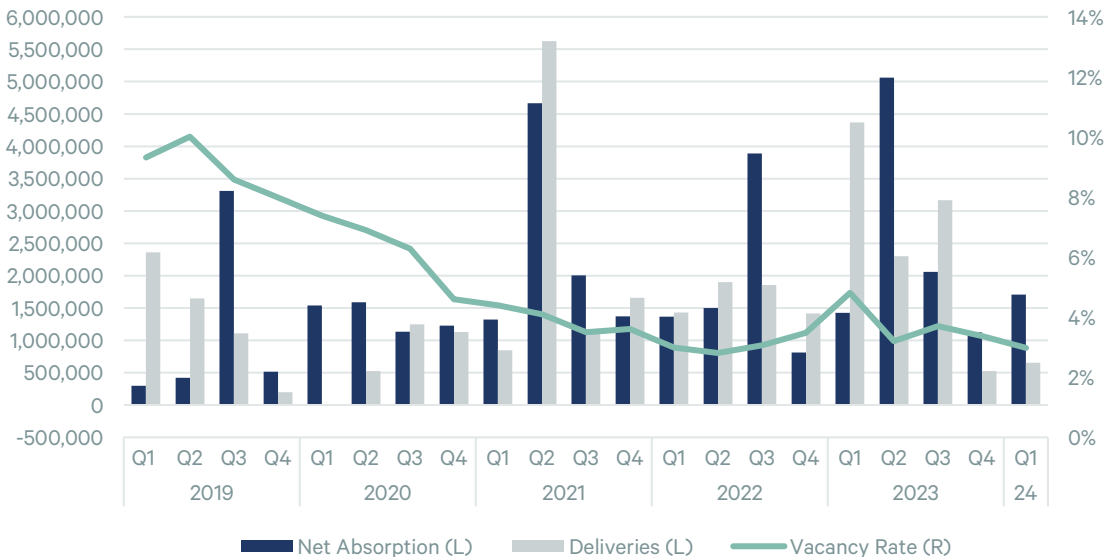
Key Takeaways

- Nashville occupiers absorbed over 1.7 million sq. ft. in Q1 2024, and leasing activity increased 29.7% quarter-over-quarter.
- Increased leasing activity and subsequent positive absorption lowered total vacancy by 40 basis points quarter-over-quarter to 3.0%.
- The average asking rent in Nashville grew to \$8.38 per sq. ft. triple net, a 6.9% quarterly and 9.4% annual increase.

Continued economic growth and the Fed signaling more accommodative policy suggests the U.S. economy is heading toward a ‘soft landing.’ GDP growth should be lower than the 2023 pace of 3%. Reasons for the slowdown include a more conservative consumer and weaker hiring. An outlook that The Fed will make three 25-basis-point cuts this year provides some optimism for real estate capital markets as interest rates stabilize. Better-than-expected growth in 2023 helped lower real estate vacancies, notably in the industrial sector.

The Nashville industrial market inventory continued to expand in Q1 2024, yet strong leasing activity and absorption maintained downward pressure on overall vacancy. A pause on new construction ground breaks should promote the absorption of existing vacancies. Asking rents continued an upward trajectory due to consistent tenant demand and limited new supply.

FIGURE 1: Vacancy Rate, Deliveries and Net Absorption



Source: CBRE Research, Q1 2024

Following three years of record industrial development, quarterly deliveries began to slow at year-end 2023. In Q1 2024, new construction completions added 653,000 sq. ft. of inventory to the market, more than half the 5-year historical quarterly average of 1.7 million sq. ft. Manufacturer NewBasis preleased 125,000 sq. ft. of Alligood Industrial Park Building 3, leaving 528,000 sq. ft. of vacant availability added to the market across the four buildings completed. The average new building size was 163,000 sq. ft. or 100,000 sq. ft. smaller than Q4 2023 deliveries, as the construction pipeline continued to reflect changing occupier size trends.

Decreased preleasing activity and deal executions closer to or post-completion signaled the need for readily occupiable speculative availabilities. However, while construction costs and interest rates remained high, some projects focused on site work to become pad-ready and lure build-to-suit opportunities rather than progressing with speculative construction. Due to this shift in development strategy, as of Q1 2024, development project ground breaks will only be considered under construction once vertical work begins, excluding pad-ready sites. Roughly 5.0 million sq. ft. of projects were shifted to proposed status and will remain until they’ve broken ground based on the adjusted methodology.

The updated construction pipeline reflected 5.7 million sq. ft. of projects actively under construction, 4.7 million sq. ft. of which were speculative and 2.9% preleased. No ground breaks occurred in Q1 2024, yet several projects moved forward with site work while in proposed status. A quarterly pause on ground breaks and slowed completions may promote the need for additional development to meet occupier demand for high-quality availabilities.

FIGURE 4: Key Leasing Transactions

| Tenant | Location | Leased SF | Submarket | Lease Type |
|---------------------|-----------------------------|-----------|--------------------------|------------|
| Shoals Technologies | Shoals Way Industrial | 638,330 | Northeast/I-65N Corridor | New Lease |
| Schneider Electric | First Rockdale IV | 500,240 | I-840 | New Lease |
| UPS | 7013 CentrePointe Dr Bldg 2 | 412,480 | Interchange City | Renewal |
| JPW Industries | Midsouth Logistec IV | 301,110 | Interchange City | Renewal |
| Paddywax | PortNorth | 200,457 | Northeast/I-65N Corridor | New Lease |

FIGURE 2: Annual Deliveries

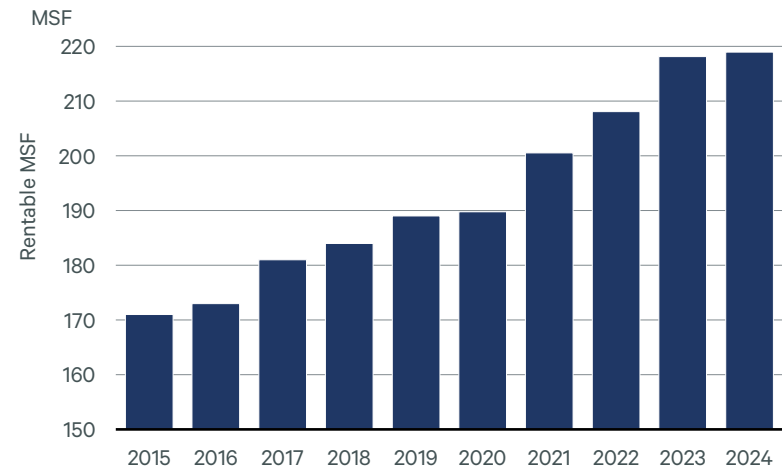
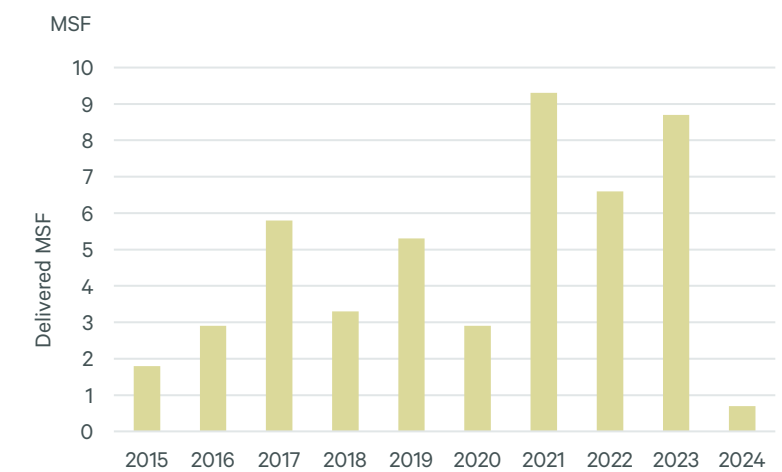


FIGURE 3: Rentable Sq. Ft.

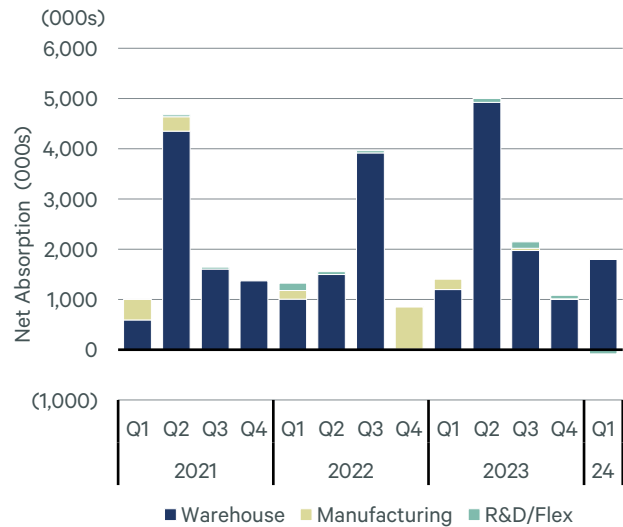


Source: CBRE Research, Q1 2024

Absorption

Nashville occupiers absorbed over 1.7 million sq. ft. in Q1 2024, and leasing activity increased 29.7% quarter-over-quarter as companies made leasing commitments despite market volatility. Most deals signed were new leases or expansions and contributed 2.0 million sq. ft. of positive absorption to the net total. Two of the top five new leases since 2022, Shoals Technologies (638,000 sq. ft.) and Schneider Electric (500,000 sq. ft.) signed during Q1 2024. Each of the top five new leases signed in new construction projects further solidified occupier preference for high-quality options and future absorption of speculative developments.

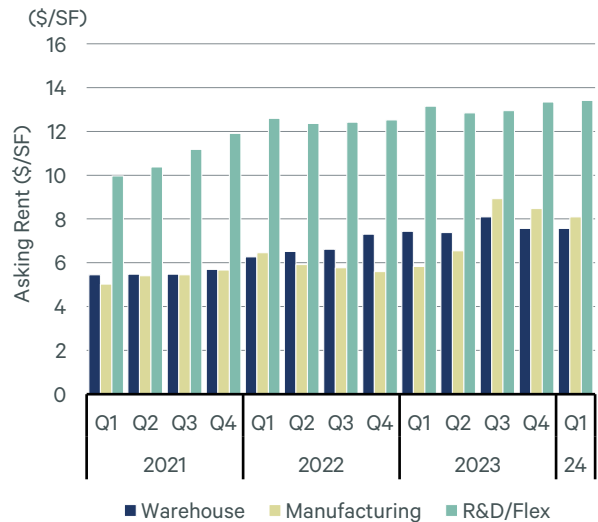
FIGURE 5: Quarterly Net Absorption



Asking Rents

The average asking rent in Nashville grew to \$8.38 per sq. ft. triple net, a 6.9% quarterly and 9.4% annual increase. Undeterred by added availability from construction completions, subleases, and large-block spaces, landlord-favorable market conditions persisted and allowed asking rent growth to continue. High-dollar new construction availabilities buoyed average asking rents due to their premiums resulting from higher construction costs and tenant improvement allowances. Moderate rent growth should continue as availability tightens.

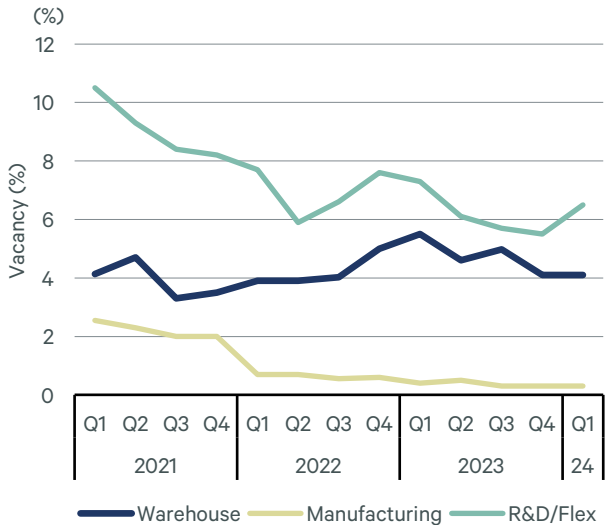
FIGURE 6: Asking Rates by Property Type



Vacancy

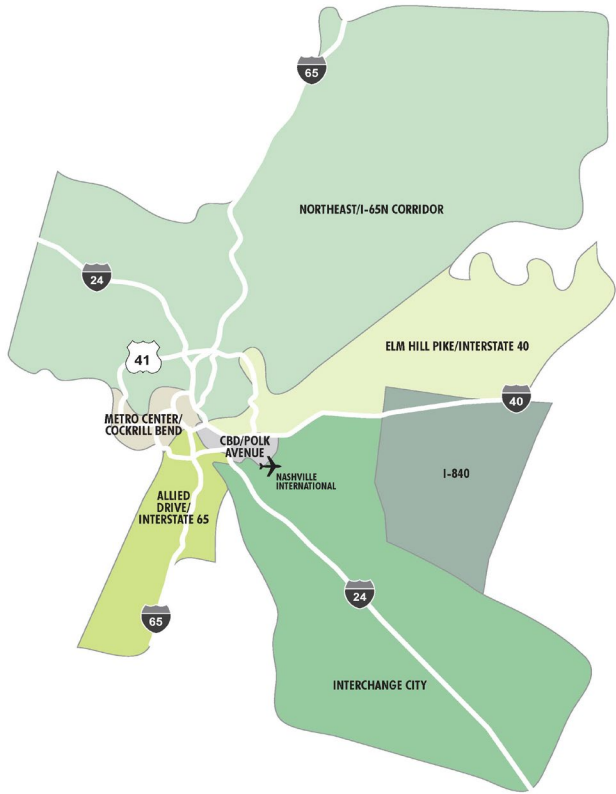
Increased leasing activity and subsequent positive absorption lowered total vacancy by 40 basis points quarter-over-quarter to 3.0%. The highest annual vacancy compression occurred at properties in the 50,000-99,999 sq. ft. and 200,000-499,000 sq. ft. size ranges, consistent with leasing activity trends. Sub-100,000 sq. ft. transactions continued to drive activity, with a 78.9% share of deals signed in Q1 2024. The willingness of landlords to demise bulk space for multiple users was evident in Q1 2024 and promoted vacancy compression throughout the market.

FIGURE 7: Vacancy by Property Type



Source: CBRE Research, Q1 2024

Market Area Overview



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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 Q1 2024, ground breaks are counted towards the Under Construction figure when vertical building construction begins, excluding pad-ready sites.

FIGURE 8: Market Statistics

| Submarket | Market Rentable Area (SF) | Direct Vacancy Rate (%) | Total Vacancy Rate (%) | Avail. Rate (%) | Q1 2024 Net Absorption (SF) | 2024 YTD Net Absorption (SF) | Under Construction (SF) | Avg. NNN Asking Rent (\$/SF/Yr) |
|---------------------------|---------------------------|-------------------------|------------------------|-----------------|-----------------------------|------------------------------|-------------------------|---------------------------------|
| Allied Drive/I-65 | 18,752,639 | 1.2 | 1.4 | 4.4 | 25,920 | 25,920 | 0 | 11.50 |
| CBD/Polk Avenue | 12,953,850 | 2.2 | 2.3 | 4.2 | 9,339 | 9,339 | 0 | 9.22 |
| Elm Hill Pike/I-40 | 33,565,688 | 2.4 | 2.5 | 7.0 | 264,498 | 264,498 | 29,250 | 10.78 |
| I-840 | 23,067,043 | 2.5 | 3.1 | 4.2 | 535,210 | 535,210 | 3,048,843 | 7.26 |
| Interchange City | 75,087,248 | 3.2 | 3.5 | 6.4 | 160,071 | 160,071 | 744,692 | 8.37 |
| MetroCenter/Cockrill Bend | 13,260,888 | 0.5 | 2.0 | 4.2 | -79,163 | -79,163 | 566,160 | 10.78 |
| Northeast/I-65N Corridor | 42,285,082 | 2.1 | 3.9 | 8.6 | 791,492 | 791,492 | 1,291,960 | 6.96 |
| Warehouse/Distribution | 137,209,528 | 3.3 | 4.1 | 7.3 | 1,778,968 | 1,778,968 | 5,680,905 | 7.56 |
| Manufacturing | 66,851,504 | 0.2 | 0.3 | 3.3 | 8,900 | 8,900 | 0 | 8.10 |
| R&D/Flex | 11,057,877 | 5.3 | 6.5 | 10.5 | -80,441 | -80,441 | 0 | 13.42 |
| NASHVILLE | 218,952,438 | 2.4 | 3.0 | 6.3 | 1,707,427 | 1,707,427 | 5,680,905 | 8.38 |

Source: CBRE Research, Q1 2024

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