CBRE

Strong leasing activity despite economic slowdown

▼ 3.2%
Vacancy Rate

▲ 5.1M
SF Net Absorption

▲ 10.5M
SF Under Construction

▼ 2.3M
SF Completions

▲ $7.73
NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

Key Takeaways

– Total leasing volume by sq. ft. grew by 56.2% in H1 2023 to 7.4 million sq. ft. compared to 4.7 million sq. ft. in H1 2022.

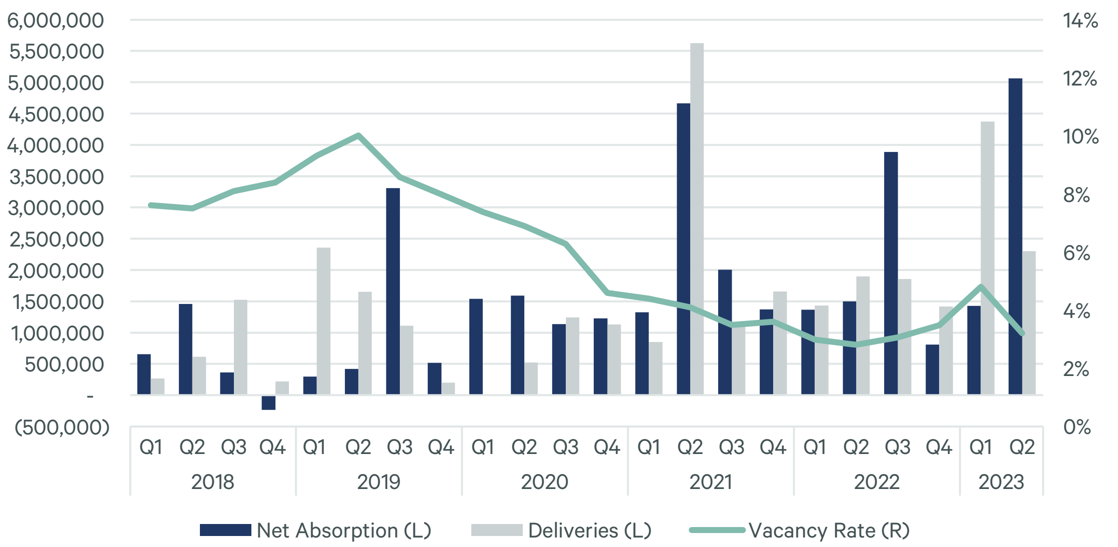
– Increased leasing activity in tandem with previously queued positive absorption lowered total vacancy by 90 basis points to 3.2% in Q2 2023.

– Average asking rents increased 4.9% year-over-year to $7.73 per sq. ft. triple net in Q2 2023.

Inflation rose at its slowest pace since March 2021 in June, signaling a potential future end to the longstanding rate-hiking cycle. However, inflation still well above the Federal Reserve's target level incentivized another 25-basis-point increase in July. A hold on rates through the remainder of the year may prompt a moderate recession over the next several quarters or until macroeconomic pressures subside.

The e-commerce share of total retail sales still grew amid economic slowdown and should contribute to overall demand for industrial space to support inventory management. Localization of production and outsourcing distribution to third-party logistics (3PL) companies continued to create efficiencies. Highly-integrated advancements made throughout the industrial sector should equip occupiers for probable economic turbulence. Strong leasing activity, increased construction starts, low vacancy, and asking rent growth bode well for the Nashville market heading into H2 2023.

FIGURE 1: Vacancy Rate, Deliveries and Net Absorption



Source: CBRE Research, Q2 2023

Developers began construction on 3.6 million sq. ft. of new inventory across fourteen buildings and three projects in Q2 2023, an increase from 2.7 million sq. ft. of ground breaks in Q1 2023. The total 10.1 million sq. ft. of speculative development currently under construction should provide occupiers with availability across multiple size segments and in historically constrained submarkets. Over a third of the buildings under construction are under 200,000 sq. ft., the current dominant tenant profile by share of leasing activity.

New construction deliveries throughout the Nashville market in Q2 2023 totaled 2.3 million sq. ft. and were 67% pre-leased to occupiers in various industries, including retailers, 3PLs, and automotive manufacturers or suppliers. The remaining 33% of new deliveries added a collective 411,000 sq. ft. of vacancy to the market, concentrated in the high-performing I-840 submarket, which should attract future leasing activity. Out of the 5.9 million sq. ft. of speculative new construction completions in I-840 since 2020, 82% has been leased as of this quarter.

Macroeconomic conditions and rising interest rates sustained a slowdown in investment volume. Disorder in the banking sector led to a tighter debt market and kept capital markets activity subdued as lending conditions shifted. Developable industrial land remained highly coveted and should continue to trade in high-growth corridors when barriers to deploying capital lessen.

FIGURE 4: Key Leasing Transactions

Tenant	Location	Leased SF	Submarket	Lease Type
Vi-Jon	Rockdale III	700,000	I-840	Renewal
Geodis	Rockdale I	550,000	I-840	Renewal
Store Opening Solutions	5501 Centre Pointe Dr Bldg 1	377,220	Interchange City	New Lease
Wilson Sporting Goods	Airpark Nashville D2	252,262	Interchange City	New Lease
Goggin Warehousing	801 Swan Dr	229,504	Interchange City	Renewal

FIGURE 2: Annual Deliveries

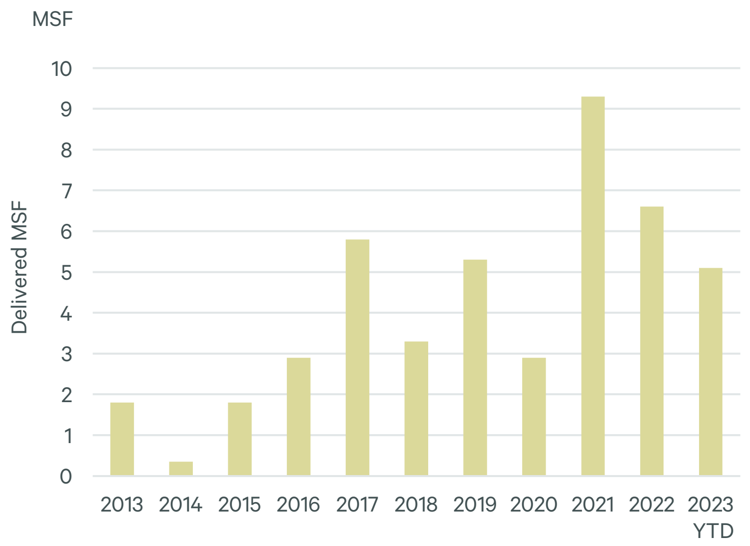
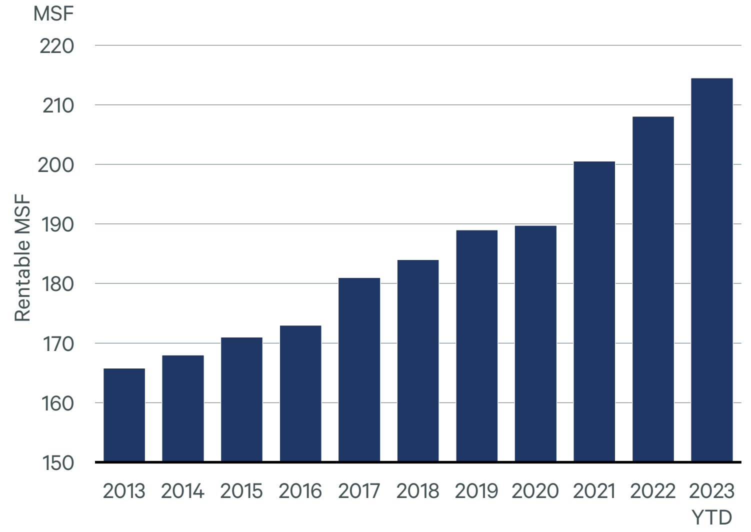


FIGURE 3: Rentable Sq. Ft.



Source: CBRE Research, Q2 2023

Industrial Absorption

After a methodology change from counting industrial absorption by physical occupancy to lease sign date, net absorption totaled 5.1 million sq. ft. in Q2 2023. Based on the new methodology, deals signed this quarter totaled 2.3 million sq. ft., and an additional 2.8 million sq. ft. of transactions from previous quarters were absorbed. Total leasing volume by sq. ft. grew by 56.2% in H1 2023 to 7.4 million sq. ft. compared to 4.7 million sq. ft. in H1 2022, which bolstered positive absorption and offset a brief decline in activity from the start of the year. The dominant tenant profile was in the sub-200,000 sq. ft. footprint and carried more leasing volume by sq. ft. in Q2 than any other size segment.

Industrial Asking Rates

Average asking rents increased 4.9% year-over-year and continued an upward trajectory quarter-over-quarter by seven cents to $7.73 per sq. ft. triple net in Q2 2023. Leasing activity removed 30 basis points of total availability from inventory this quarter. Market-wide sublease availability surged year-over-year since Q2 2022 from 360,000 sq. ft. to 2.1 million sq. ft in Q2 2023. Growing occupier demand for sublease space resulted in an increase of sublease leasing activity from 40,000 sq. ft. to 170,000 sq. ft. quarter-over-quarter. Sublease availabilities with discounted asking rents may provide an attractive alternative for tenants outpriced by direct rental rate increases in a consistently landlord-favorable market.

Industrial Vacancy

Increased leasing activity in tandem with previously queued positive absorption lowered total vacancy by 90 basis points to 3.2% in Q2 2023. New construction deliveries in the I-840 submarket added 411,000 sq. ft. of vacant and available space, yet 2.3 million sq. ft. of net absorption maintained downward pressure on vacancy figures. Pending future pre-leasing activity, 10.1 million sq. ft. of oncoming speculative new construction deliveries may affect vacancy throughout the next several quarters.

FIGURE 5: Quarterly Net Absorption

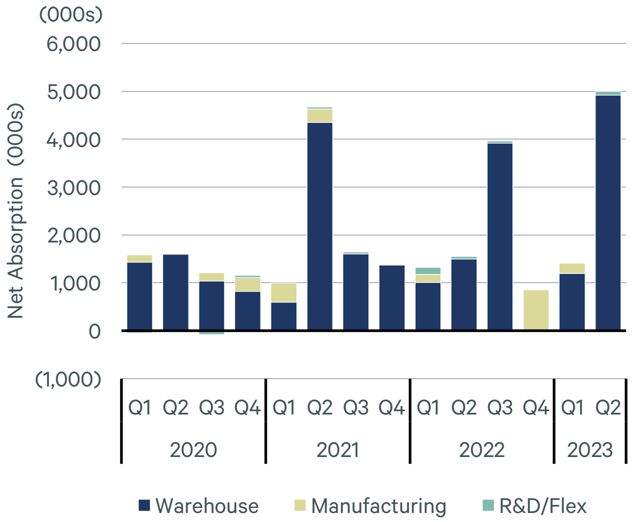


FIGURE 6: Asking Rates by Property Type

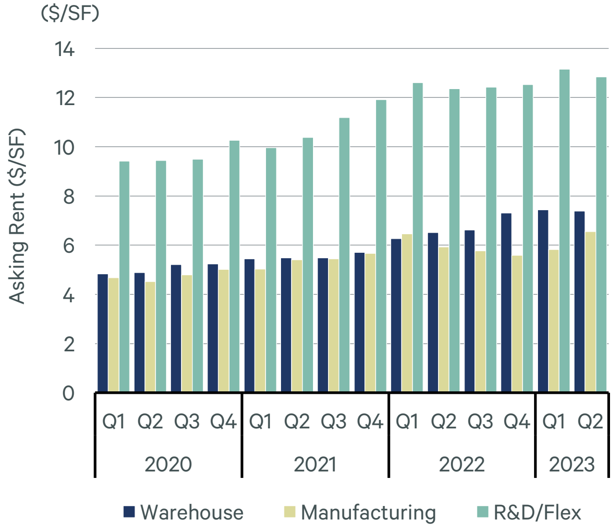
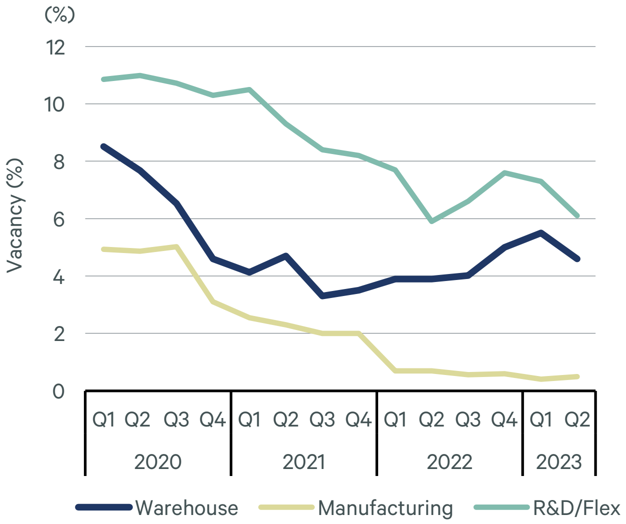


FIGURE 7: Vacancy by Property Type



Source: CBRE Research, Q2 2023

Market Area Overview

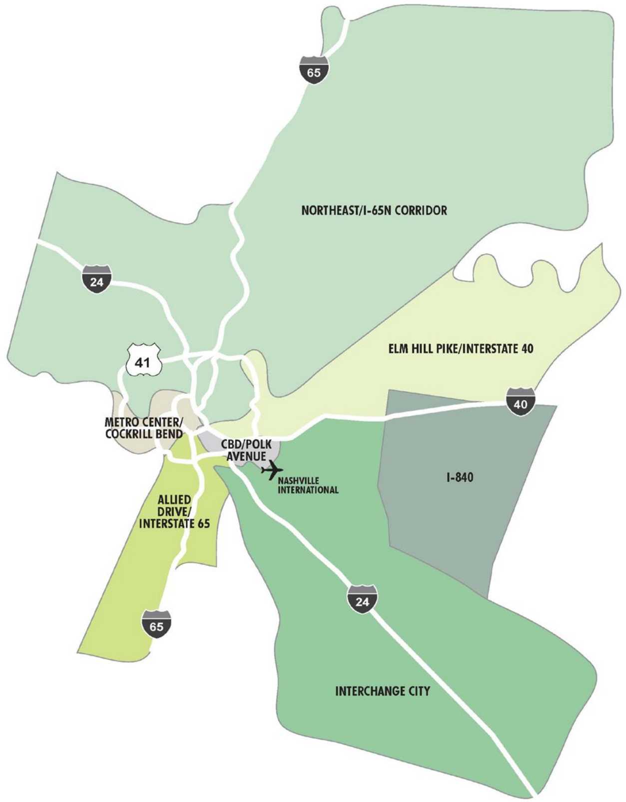


FIGURE 8: Market Statistics

Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q2 2023 Net Absorption (SF)	2023 Net Absorption YTD (SF)	Under Construction (SF)	Avg. NNN Asking Lease Rate ($/SF/Yr)
Allied Drive/I-65	18,752,639	1.2	1.4	2.7	113,629	122,888	0	11.33
CBD/Polk Avenue	12,953,850	2.1	2.2	4.1	0	0	0	9.15
Elm Hill Pike/I-40	33,069,321	4.1	4.1	4.8	1,065,117	1,067,300	205,845	8.80
I-840	22,121,246	3.5	4.2	6.5	2,339,651	3,056,549	2,578,409	6.42
Interchange City	73,426,685	2.9	3.3	4.1	1,490,599	2,085,292	2,197,625	8.85
MetroCenter/Cockrill Bend	13,260,888	0.4	1.3	2.5	159,636	165,972	1,798,740	10.98
Northeast/I-65N Corridor	40,893,657	1.5	3.6	5.7	-107,611	-10,510	3,762,652	5.61
Warehouse/ Distribution	132,876,576	4.1	4.6	5.5	4,922,396	6,122,520	10,543,271	7.38
Manufacturing	66,931,629	0.4	0.5	1.8	0	209,994	0	6.55
R&D/Flex	11,042,397	4.9	6.1	8.9	75,358	91,710	0	12.84
NASHVILLE	**214,478,286**	**2.5**	**3.2**	**4.6**	**5,061,021**	**6,487,491**	**10,543,271**	**7.73**

Source: CBRE Research, Q2 2023

Nashville Office

222 2nd Ave S, Suite 1800
Nashville, TN 37201

Contacts

Stephen Kulinski
Senior Managing Director
+615 248 1164
stephen.kulinski@cbre.com

Diana Johnson-O'Brien
Research Manager
+615 493 9256
diana.johnsonobrien@cbre.com

Joanna Paszek
Research Analyst
+615 248 1108
joanna.paszek@cbre.com

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.