

# New construction deliveries support continued record inventory expansion



Note: Arrows indicate change from previous quarter.

Key Takeaways

- New construction completions added roughly 2.8 million sq. ft. of industrial inventory across the Nashville market in Q1 2023, almost double the 5-year historical quarterly average.
- Warehouse/Distribution users accounted for 84% or 1.2 million sq. ft. of the net space absorbed.
- Asking rental rate growth persisted despite a 20-basis point increase in market-wide availability.

Even as inflation begins to subdue, the Federal Government’s aggressive tightening program indicates slower growth ahead. The Federal Reserve expects weaker GDP growth, lower unemployment, and higher inflation through 2023. Trouble in the banking sector will likely weigh on consumer confidence, and banks may scale back further on lending to increase their own liquidity. Inflation and cost of capital caused some companies to shelve expansion plans while investors continue to exercise caution.

Efforts to create efficiencies in the industrial sector after longstanding supply chain roadblocks helped streamline outputs as economic conditions worsened. Shipping reliability improved due to manufacturing onshoring and expansions by logistics users in strategic locations. Continued location optimization by occupiers should support future demand, while decreased consumer spending and inflationary pressure affect activity in the near term.

FIGURE 1: Vacancy Rate, Deliveries and Net Absorption



Source: CBRE Research, Q1 2023

New construction completions added roughly 2.8 million sq. ft. of industrial inventory across the Nashville market in Q1 2023, almost double the 5-year historical quarterly average of 1.5 million sq. ft. Tenants preleased 33% of the newly completed space market-wide. Of the 1.3 million sq. ft. of new construction delivered to I-840 in Q1, 75% was leased upon completion, as the submarket remains one of the most active industrial development hotspots in Nashville. Users who executed new leases varied by industry, from retailers to third-party logistics companies and remain the dominant customer verticals seeking to establish their presence or expand in Nashville.

Completions in the 100,000-300,000 sq. ft. building size range alleviated previously limited supply for the size segment. In the same size range, 1.2 million sq. ft. of the 1.5 million sq. ft. delivered available as move-in ready space for prospective tenants. Big box industrial completions of buildings larger than 200,000 sq. ft. were 80% preleased, which may provide an indication of future leasing velocity for the 6.3 million sq. ft. currently under construction and available.

Even as leasing and capital markets activity slow, the Southeast and Nashville remain the preferred investment regions. Growing reliance on East Coast seaports enhances Nashville’s logistically prime advantage and bodes well for occupiers looking to strategize their geographic positioning.

FIGURE 4: Key Leasing Transactions

Tenant	Location	Leased SF	Submarket	Lease Type
Geodis	Midway840 II	633,410	I-840	New Lease
Averitt Express	Central Logistics Park East Building 1	290,860	I-840	New Lease
Walmart	CentrePointe 5	231,416	Interchange City	Renewal
Cooper General Global Services	CentrePointe 1	224,300	Interchange City	Renewal
4Wall	Airpark East Building 2	202,500	Interchange City	New Lease

FIGURE 2: Annual Deliveries

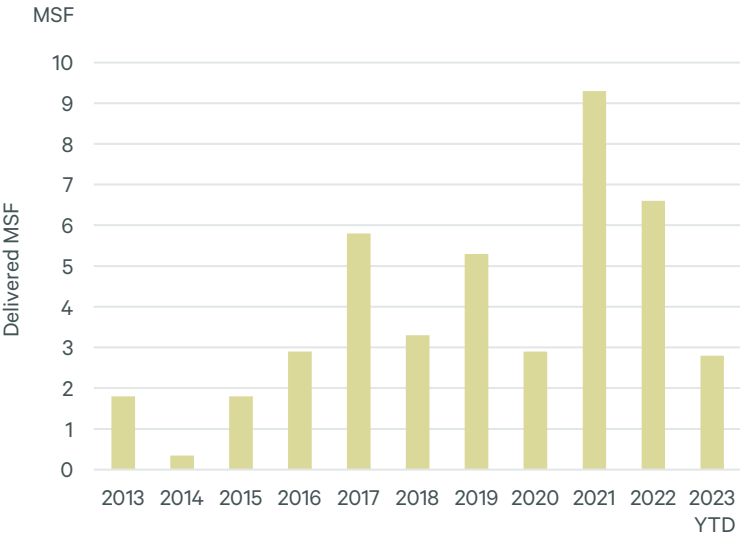
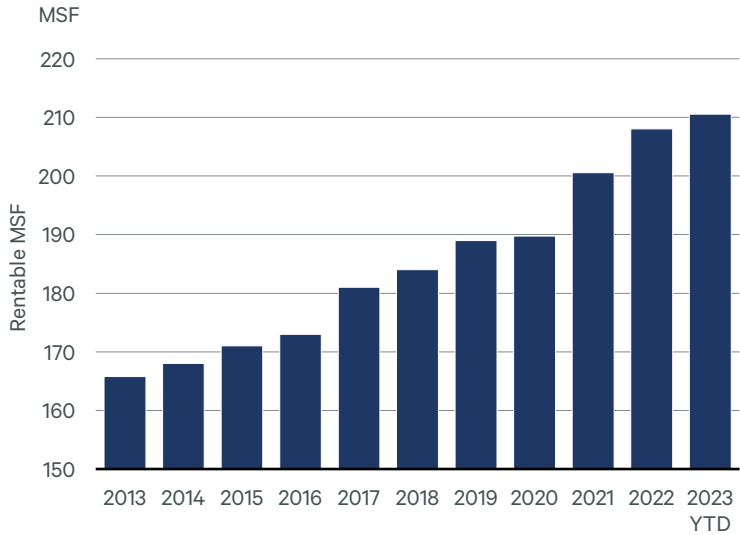


FIGURE 3: Rentable Sq. Ft.

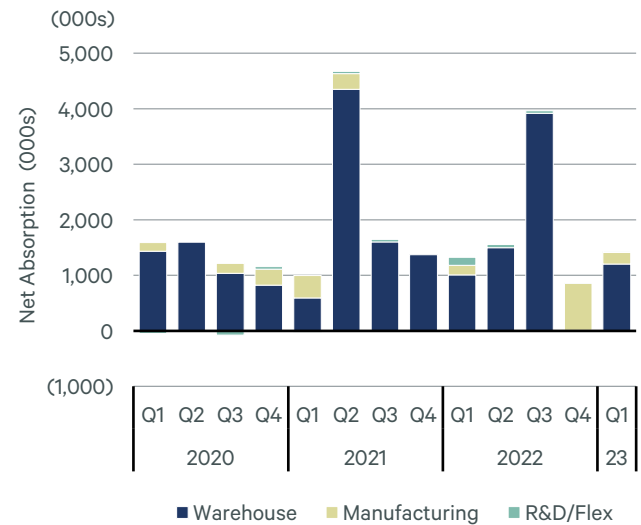


Source: CBRE Research, Q1 2023

## Industrial Absorption

Net absorption totaled 1.4 million sq. ft. in Q1 2023. Warehouse/Distribution users accounted for 84% or 1.2 million sq. ft. of the net space absorbed, as third-party logistics companies continued to expand their market footprints. Most Warehouse/Distribution move-ins occurred in new construction projects, some of which recently delivered and relieved tightened availability. Overall industrial leasing activity declined 49% year-over-year and 36% quarter-over-quarter. Imminent occupancies by tenants who executed leases prior to economic instability, should bolster net absorption until barriers to leasing lessen.

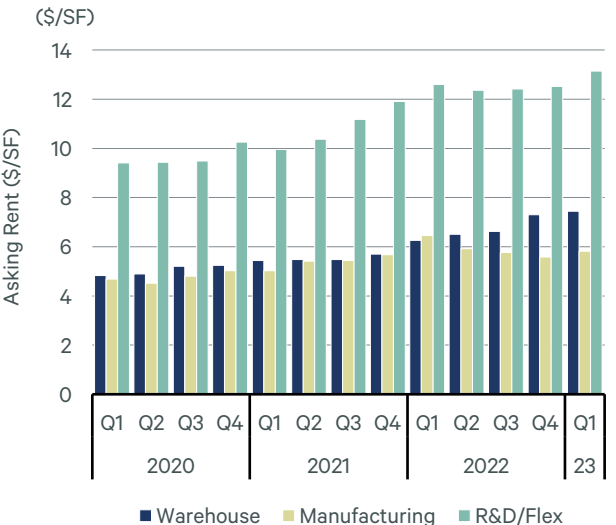
FIGURE 5: Quarterly Net Absorption



## Industrial Asking Rates

Despite reduced leasing activity, the average asking rental rate increased by 25 cents quarter-over-quarter and 9% or 61 cents year-over-year to \$7.66 per sq. ft. triple net. Asking rental rate growth persisted across all submarkets and property types despite a 20-basis point increase in market-wide availability. To this point, the submarkets with added availability still averaged 20-cent increases in average asking rental rates.

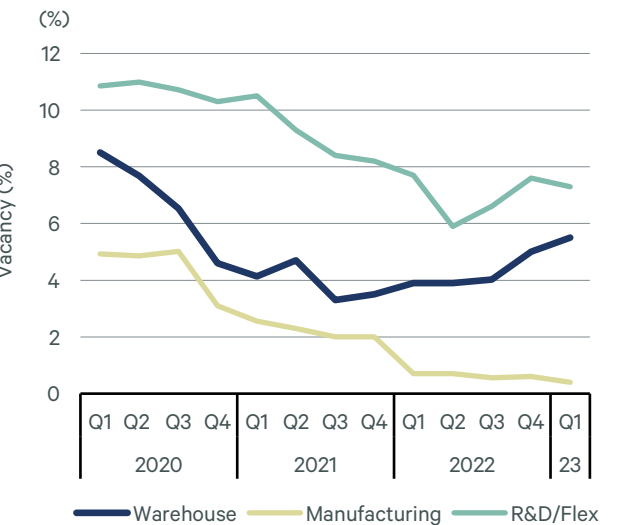
FIGURE 6: Asking Rates by Property Type



## Industrial Vacancy

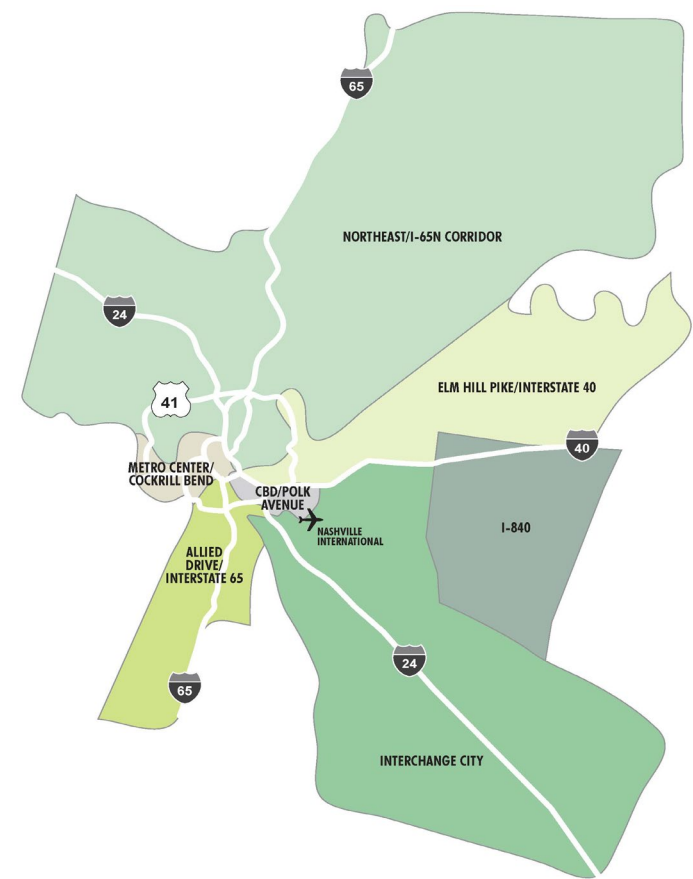
Total vacancy increased 60 basis points from Q4 2022 to Q1 2023 due to 1.5 million sq. ft. of vacant new construction deliveries throughout the market. As a result of the growing inventory of I-840 relative to other submarkets, the 491,932 sq. ft. of vacant new construction deliveries in two buildings caused a slight uptick in vacancy. In Elm Hill Pike/I-40, four new buildings contributed 589,250 sq. ft. of vacant availability. Additional options for tenants after strained availability of move-in ready space fares well for new construction demand.

FIGURE 7: Vacancy by Property Type



Source: CBRE Research, Q1 2023

Market Area Overview



**Nashville Office**

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Nashville, TN 37201

FIGURE 8: Market Statistics

Submarket	Market Rentable Area (SF)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q1 2023 Net Absorption (SF)	2023 Net Absorption YTD (SF)	Under Construction (SF)	Avg. NNN Asking Lease Rate (\$/SF/Yr)
Allied Drive/I-65	18,752,296	1.9	2.2	2.9	9,259	9,259	0	\$10.57
CBD/Polk Avenue	12,965,250	2.1	2.2	4.0	0	0	0	\$8.96
Elm Hill Pike/I-40	31,470,191	5.0	5.1	4.8	2,183	2,183	274,480	\$8.13
I-840	20,505,665	6.9	7.6	10.1	716,898	716,898	3,309,579	\$6.89
Interchange City	72,702,165	4.0	4.3	4.3	594,693	594,693	3,027,855	\$8.87
MetroCenter/Cockrill Bend	13,260,888	1.6	2.5	3.5	6,336	6,336	0	\$9.48
Northeast/I-65N Corridor	40,878,629	1.1	3.3	5.2	97,101	97,101	3,762,652	\$5.30
Warehouse/Distribution	129,163,079	5.0	5.5	6.1	1,200,124	1,200,124	9,486,936	\$7.44
Manufacturing	66,937,134	0.4	0.4	1.6	209,994	209,994	0	\$5.82
R&D/Flex	11,042,397	5.9	7.3	8.0	16,352	16,352	0	\$13.15
<b>NASHVILLE</b>	<b>210,535,084</b>	<b>3.4</b>	<b>4.1</b>	<b>4.9</b>	<b>1,426,470</b>	<b>1,426,470</b>	<b>9,486,936</b>	<b>\$7.66</b>

Source: CBRE Research, Q1 2023

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