

Unwavering asking rate growth amid inflationary pressures

▲ 3.1%
Vacancy Rate

▲ 3.9M
SF Net Absorption

▲ 9.8M
SF Construction

▲ 1.9M
SF Completions

▲ \$7.56
NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

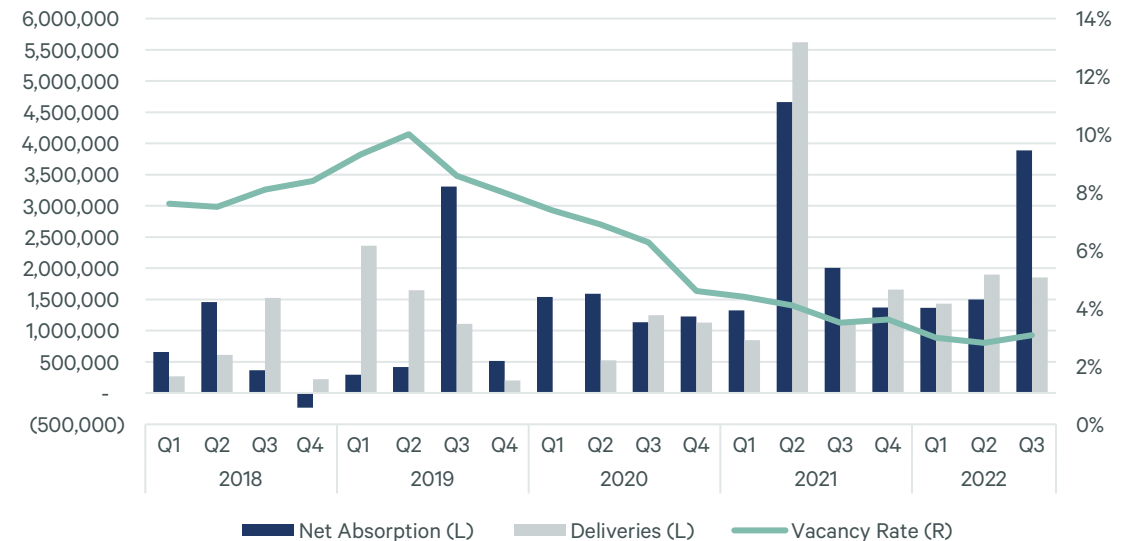
Key Takeaways

- Industrial occupancies in Q3 2022 totaled 3.9 million sq. ft. of net absorption, nearly double the previous quarter.
- Overall asking rates pushed 22.7% growth year-over-year to their current historic high of \$7.56 per sq. ft.
- Total market vacancy expanded by 30 basis points in Q3 2022 to 3.1%, relieving an extended period of compression.

Inflationary pressures continued throughout the Summer, which caused The Fed to issue its third consecutive 75-basis-point rate hike in September and lower its GDP growth forecast to 0.2%. Similar measures are anticipated until core inflation nears its 2.0% target rate. CBRE expects inflation to peak near 8.0% and fall to the 3.0% range by year-end 2023 after an economic recession during the first half of the new year. Once inflation normalizes, capital and real estate markets should become predictable again.

Despite the GDP slowdown, industrial occupancy should expand to maintain pace with supply chain improvements. A higher rate of shipping executions is possible given container pricing decreases and increased TEU volume if operators can navigate transportation labor and cost challenges. As consumers deplete warehouse inventory, occupiers may need to hold additional safety stock to prevent bottlenecks and sustain growth.

FIGURE 1: Vacancy Rate, Deliveries and Net Absorption



Source: CBRE Research, Q3 2022

Oxford Economics estimated that Nashville consumer spending should increase 38-basis-points in tandem with GDP growth of 25 basis points quarter-over-quarter from Q3 2022 to Q4 2022, which may provide a cushion locally from a potential national slowdown in excess spending. The local unemployment rate compressed to 2.8% in August, still significantly below the national waterline of 3.8%, according to the Bureau of Labor Statistics. A tight labor market and steady consumer participation should bode well while facing economic headwinds.

Over the past five years, the Nashville industrial market inventory expanded roughly 17.7% to accommodate growing demand from 175 million sq. ft. in Q1 2017 to 206 million sq. ft. as of Q3 2022. Industrial completions for 2022 thus far are well above the historical average, adding 5.2 million sq. ft. to the market. In Q3 2022, 1.9 million sq. ft. of projects delivered 77.0% preleased, including a build-to-suit site just under one million sq. ft. The remaining speculative projects delivered 55% preleased, adding roughly 420,000 sq. ft. of available, newly constructed space to the market.

Industrial developers continue to accomplish successful projects and provide needed availability in light of consistent construction cost increases and rezoning challenges. Submarkets I-840 and Interchange City remain the most active areas for development and will deliver a combined 7.9 million sq. ft. of space currently under construction over the next several quarters. Investment funds and developers increasingly deployed capital into the Northeast/I-65N Corridor recently, suggesting a new frontier of growth for the growing Nashville industrial market.

FIGURE 4: Key Leasing Transactions

| Tenant | Location | Leased SF | Submarket | Lease Type |
|-------------------------|------------------------|-----------|------------------|------------|
| WebstaurantStore | Speedway Bldg 12 | 650,944 | I-840 | New Lease |
| Carlex Glass Co. | Commerce Farms II | 456,000 | I-840 | Renewal |
| LaserShip | Speedway Bldg 10 | 400,064 | I-840 | New Lease |
| Geodis | Commerce Farms V | 372,181 | I-840 | Renewal |
| Superior Communications | CentrepoinTE IV Bldg C | 130,000 | Interchange City | Renewal |

FIGURE 2: Annual Deliveries

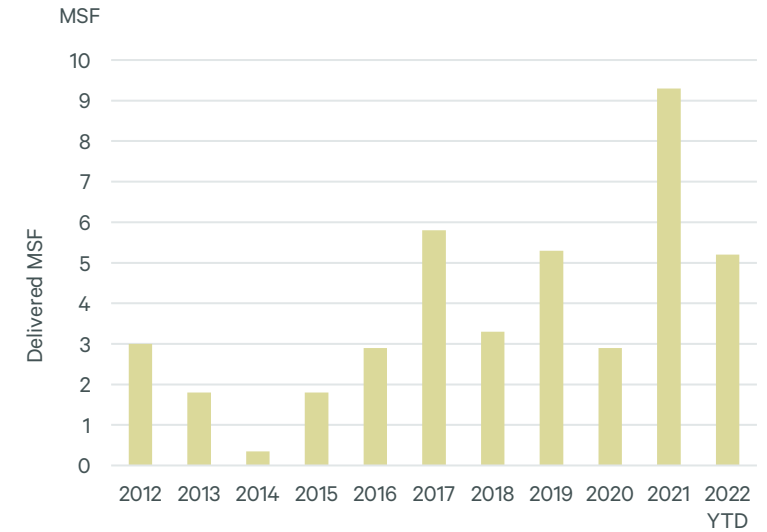
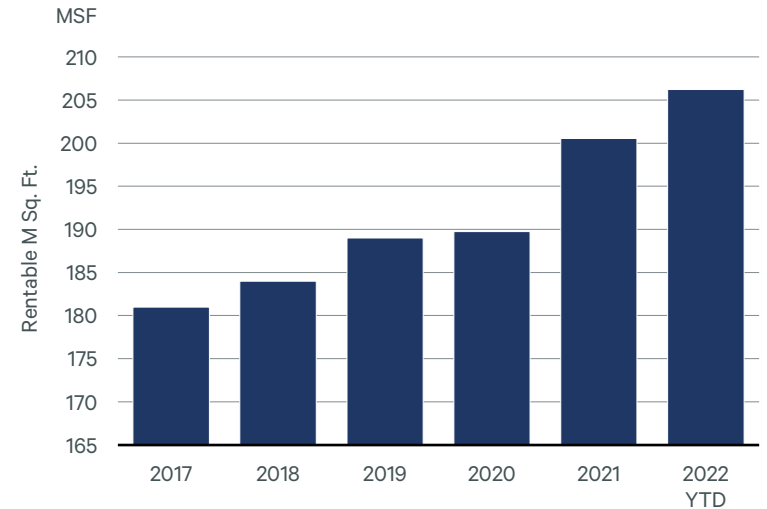


FIGURE 3: Rentable Sq. Ft.

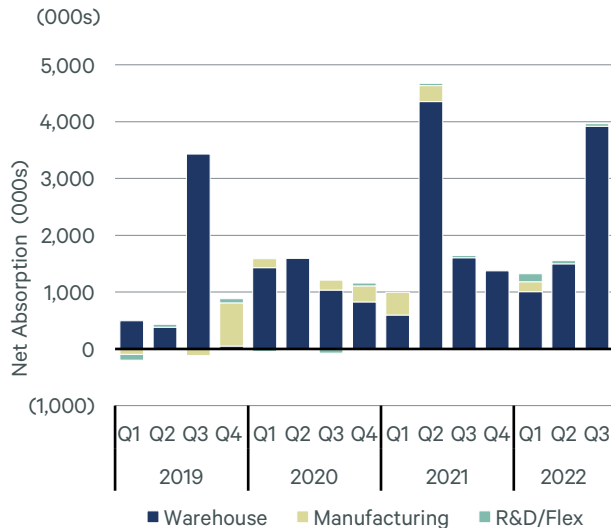


Source: CBRE Research, Q3 2022

Industrial Absorption

Industrial occupancies in Q3 2022 totaled 3.9 million sq. ft. of net absorption, nearly double the previous quarter and the second largest volume over the past three years. Big-box tenants drove positive absorption in spaces ranging from 200,000 to 900,000 sq. ft. and accounted for 79.6% of total net absorption. Corporate retailers were the primary industry type whose occupancies should promote increased warehousing and distribution capabilities to better serve consumers. The most active development submarkets I-840 and Interchange City also posted the highest net absorption at 2.9 million sq. ft. and 480,000 sq. ft., respectively, confirming strong tenant demand for new construction product.

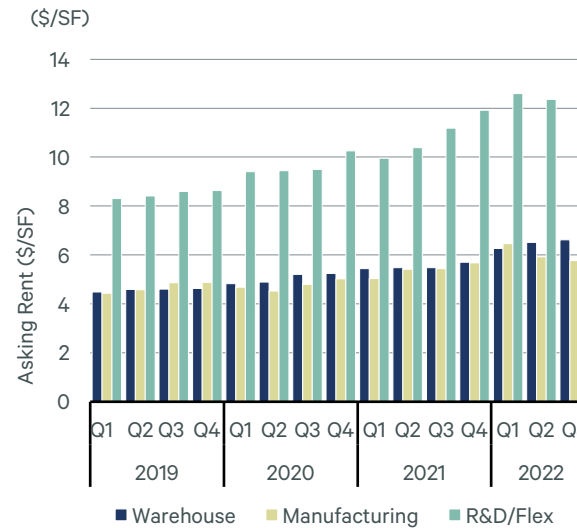
FIGURE 5: Quarterly Net Absorption



Industrial Asking Rates

Nashville's landlord-favorable conditions endured as asking rates climbed 19 basis points to \$7.56 per sq. ft in Q3 2022. Overall asking rates pushed 22.7% growth year-over-year to their current historic high. Interchange City's asking rates increased 42 basis points due to newly available and vacant sublease R&D/Flex space across several buildings. R&D/Flex availability grew 120 basis points market-wide yet maintained moderate asking rate growth of 6 basis points quarter-over-quarter to \$12.42 per sq. ft. Overall rate growth, despite a 20-basis-point increase in total availability, stands to benefit landlords while challenging occupier purchasing power.

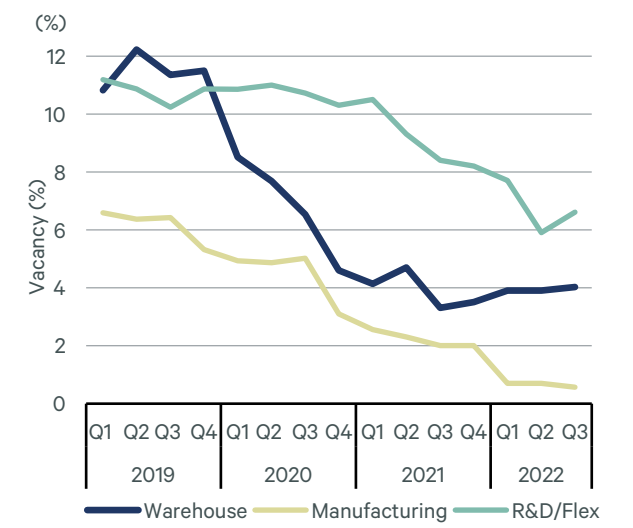
FIGURE 6: Asking Rates by Property Type



Industrial Vacancy

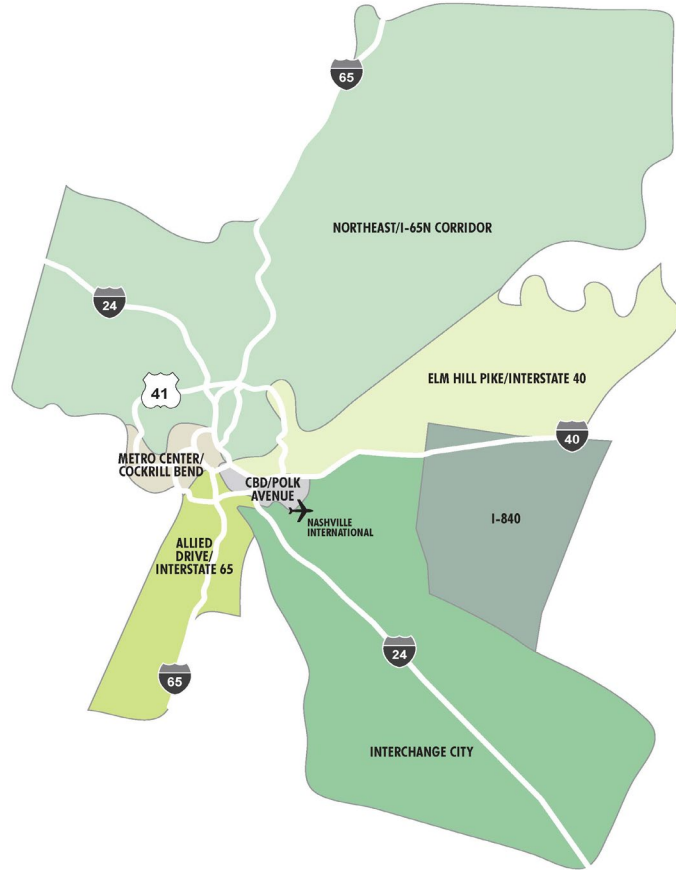
Total market vacancy expanded by 30 basis points in Q3 2022 to 3.1%, relieving an extended period of compression. Large-block vacancies did not result from physical move-outs but rather new construction that delivered vacant in submarkets I-840 and Interchange City, the two areas in highest demand. Physical vacancies in Q3 were in R&D/Flex sublease spaces that have not yet secured sublessors to occupy. Tenants with immediate timing may benefit from the onset of vacancies that were scarce options prior to this quarter.

FIGURE 7: Vacancy by Property Type



Source: CBRE Research, Q3 2022

Market Area Overview



Nashville Office

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

FIGURE 8: Market Statistics

| Submarket | Market Rentable Area (SF) | Direct Vacancy Rate (%) | Total Vacancy Rate (%) | Avail. Rate (%) | Q3 2022 Net Absorption (SF) | YTD Net Absorption (SF) | Under Construction (SF) | Avg. NNN Asking Lease Rate (\$/SF/Yr) |
|---------------------------|---------------------------|-------------------------|------------------------|-----------------|-----------------------------|-------------------------|-------------------------|---------------------------------------|
| Allied Drive/I-65 | 18,649,296 | 1.9 | 2.1 | 3.3 | 21,610 | (89,540) | 0 | \$10.46 |
| CBD/Polk Avenue | 12,965,250 | 2.0 | 2.1 | 4.0 | (17,529) | (946) | 0 | \$8.78 |
| Elm Hill Pike/I-40 | 30,880,941 | 4.4 | 4.4 | 4.4 | 61,957 | 189,273 | 1,571,980 | \$7.77 |
| I-840 | 18,943,143 | 5.9 | 5.9 | 8.0 | 2,940,949 | 4,327,391 | 4,357,174 | \$6.65 |
| Interchange City | 70,644,427 | 2.9 | 3.3 | 3.5 | 414,503 | 1,439,871 | 3,502,446 | \$8.49 |
| MetroCenter/Cockrill Bend | 13,260,888 | 3.3 | 3.3 | 3.5 | 192,750 | 258,860 | 0 | \$9.38 |
| Northeast/I-65N Corridor | 40,867,281 | 1.1 | 1.1 | 3.4 | 274,715 | 629,874 | 402,825 | \$5.21 |
| Warehouse/Distribution | 124,638,559 | 4.0 | 4.0 | 4.6 | 3,913,391 | 6,367,779 | 9,834,425 | \$6.62 |
| Manufacturing | 66,600,661 | 0.5 | 0.6 | 1.6 | 0 | 169,855 | 0 | \$5.77 |
| R&D/Flex | 11,302,032 | 4.7 | 6.6 | 7.9 | 43,058 | 242,254 | 0 | \$12.42 |
| NASHVILLE | 206,211,226 | 2.9 | 3.1 | 4.0 | 3,956,449 | 6,813,277 | 9,834,425 | \$7.56 |

Source: CBRE Research, Q3 2022

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