

RESEARCH ON NASHVILLE'S SUBMARKETS IN COMMERCIAL REAL ESTATE INDUSTRY

In commercial real estate, areas within a city, or primary market, are divided into smaller areas referred to as submarkets. These submarkets are defined by their geographic boundaries and are created based on identifying differing areas that compete with one another throughout a larger market. Generally, these submarkets all contain similar properties, such as offices, retail buildings, industrial buildings, and multi-family buildings, or apartments. However, certain submarkets can have a more similar composition to others making them competing submarkets (CoStar). Figure 1 shows an overview map of all the Nashville submarkets for office spaces. In the following report, I will go more into detail on the nine major submarkets shown below: Airport North, Airport South, Brentwood, Cool Springs, Downtown, Green Hills/Music Row, MetroCenter, Rivergate/Hendersonville, and West End (Midtown). However, there will be more extensive information on the submarkets where more commercial real estate activity is currently happening.

In total, for all of these submarkets, there are 623 office buildings. Of these 623 buildings, 150 are Class A, 349 are Class B, and 124 are Class C. Buildings are classified as either Class A, B, or C in order to set a standard of differentiation amongst buildings and compare them. Class A buildings are generally the newest in the market and are considered of the highest quality. Because of this, they have the highest rental rates as well. Class B buildings are slightly older than Class A and oftentimes are in a location that is not quite as desirable. However, they have lower rental rates so oftentimes this makes them more attractive to companies who are not looking to pay high rent. Class C buildings are considered the lowest quality that are often old, in less desirable locations, and in need of renovations. Furthermore, the technology and infrastructure within the building may be out of date.

Within the Nashville market, there has been high demand for Class A office space over the past few quarters. Oftentimes, when tenants

are looking for Class A space, they prefer spaces downtown or near the downtown submarket. Additionally, many companies have been expanding within Nashville and/or relocating to Nashville. Because of this, there are many developments recently finished, currently under construction, or in the planning process in order to meet this demand. The vacancy rate for Class A buildings decreased for the third quarter in a row due to tenants moving into new developments that have been delivered. In 2017, 2.56 million square feet of Class A office space was delivered and of this space, only 7% still remains available to lease. Looking forward, over the next two years there is 2.5 million square feet of office space planned to be delivered to the Nashville market (Colliers International Market Report). When compared to the fifty largest cities in the country, Nashville has the highest percentage of new office space proposed and under construction equaling 4.5% of its total market size (CoStar).

Nashville has extremely consistent job growth and advantageous business costs in recent years, which are both factors amongst many others that explain why leasing activity in the market has remained strong. Job creation has averaged at 3% year over year. Nashville's unemployment rate fell to a historic 2.2% in April of 2018 and has stayed below 3% throughout the third quarter of 2018, the lowest rate of any major city in the United States. Over the past twelve months, Nashville has added over 14,000 jobs, which has brought employment for the city up to 998,200 people (Colliers Market Report). Some particularly strong industries growing in Nashville that are helping to diversify the local economy are healthcare, technology, entertainment and leisure employment (Cushman & Wakefield Market Report). The tech industry is of particular notice, having grown 25% in Nashville over the past five years as compared to the 12% national average (Colliers International Market Report).

So far this year, there has been over 1.1 million square feet of leasing activity throughout

the Nashville market. The biggest deal of the third quarter of 2018 was Asurion pre-leasing 550,619 square feet of space at 1100 Broadway, a building not yet under construction but anticipated to be soon (Cushman & Wakefield Market Report).

In the Downtown submarket, tenants are continuing to both expand and relocate office spaces. Furthermore, in the Green Hills/ Music Row and Cool Springs suburban submarkets, around 400,000 square feet of Class A space is planned to deliver in the second half of 2018. Nashville’s rental rates reached an all-time high average of \$26.97 per square foot at the end of the second quarter of 2018 (Colliers Market Report). Class A office rents also increased 2.2%, reaching an average of \$29.89 per square foot in the third quarter of 2018. However, Class B office rents decreased 1.2%, averaging at \$24.10 per square foot. As new Class A office space continues to be constructed, Class A rents should continue to increase whereas Class B rents may continue to decrease in order to stay competitive in the market. Furthermore, the office vacancy rate increased to 9.8%, for the most part due to space that is under construction and currently vacant (Cushman & Wakefield Market Report).

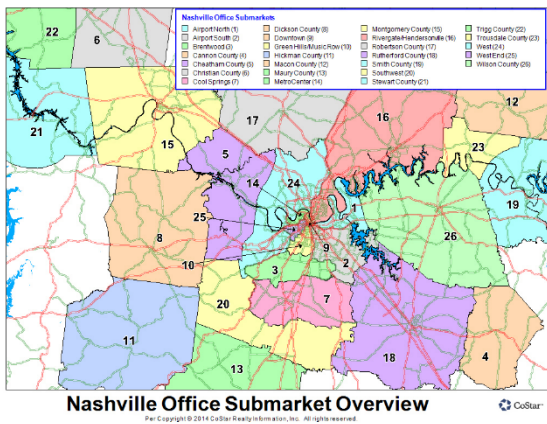


Figure 1: Found on CoStar, map of Office space submarkets within the greater Nashville market.

AIRPORT NORTH

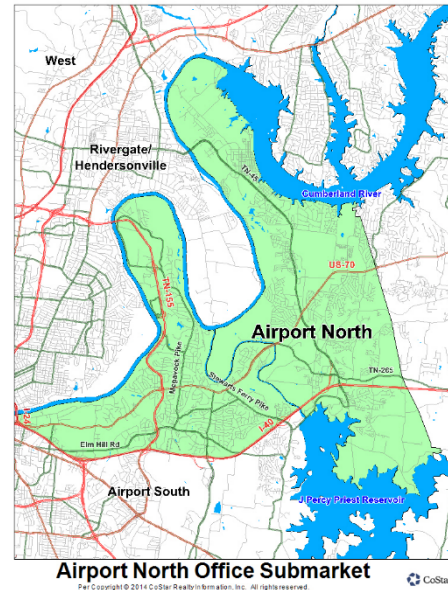


Figure 2: Found on CoStar, map of Office space submarket of Airport North.

In the Airport North submarket, there are a total of 54 office buildings. Of these 54 buildings, 12 are Class A, 37 are Class B, and 5 are Class C. A notable office transaction in Airport North in the second quarter of 2018 is the investment at 2953 Elm Hill Pike by RW Holdings NNN REIT of \$189 per square foot. In total, Airport North had a vacancy rate of 9.8% in the third quarter of 2018, higher than the 7.9% average in the total Nashville market. The submarket had an average rental rate of \$22.20 per square foot, lower than the \$26.83 average in the total Nashville market. Additionally, no new office buildings are currently under construction in this submarket (Colliers Market Report). Airport North continues to be one of the most affordable submarkets in Nashville in terms of rental rates. The largest renewal of the quarter was in this submarket at Point Place I in which Remington College renewed its space of 41,145 square feet (Cushman & Wakefield Market Report).

AIRPORT SOUTH

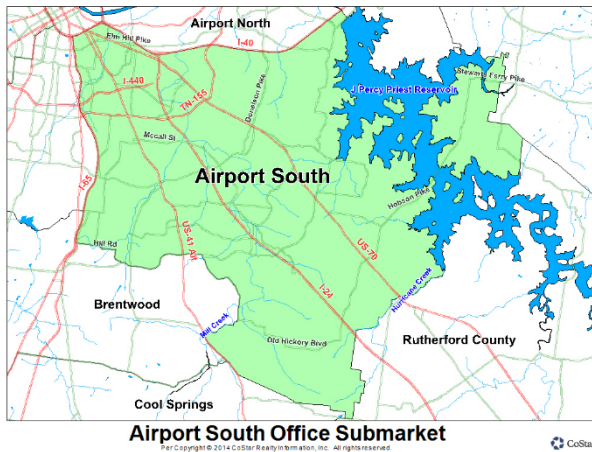


Figure 3: Found on CoStar, map of Office space submarket of Airport South.

In the Airport South submarket, there are a total of 88 office buildings. Of these 88 buildings, 3 are Class A, 57 are Class B, and 28 are Class C. A notable office transaction in Airport South in the second quarter of 2018 is the leasing of 47,200 square feet in 601 Bakertown to ASI- Progressive Insurance. The Airport South submarket had an average vacancy rate of 10.0% in the third quarter of 2018, higher than the average Nashville market vacancy rate of 7.9%. Additionally, the average rental rate of this submarket is \$22.17, well below the Nashville market average of \$26.83. As of the third quarter of 2018, there is 24,286 square feet of Class A office space under construction in this submarket. The most noteworthy leasing activity that happened in the third quarter of 2018 in this submarket was the new lease signed by State of TN- Probation at 220 Blanton for 17,600 square feet. Additionally, a notable investment activity that happened in this submarket over this past quarter was the sale of Oaks Tower & Gardens, 116,119 square feet, to buyer Olymbec for \$5,617,500, or \$34 per square foot (Colliers International Market Report). Airports South continues to be one of the most affordable submarkets throughout Nashville in terms of rental rates.

BRENTWOOD

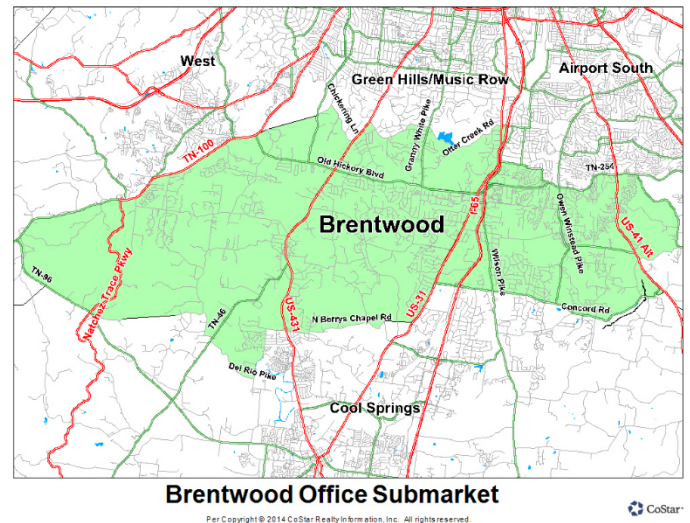
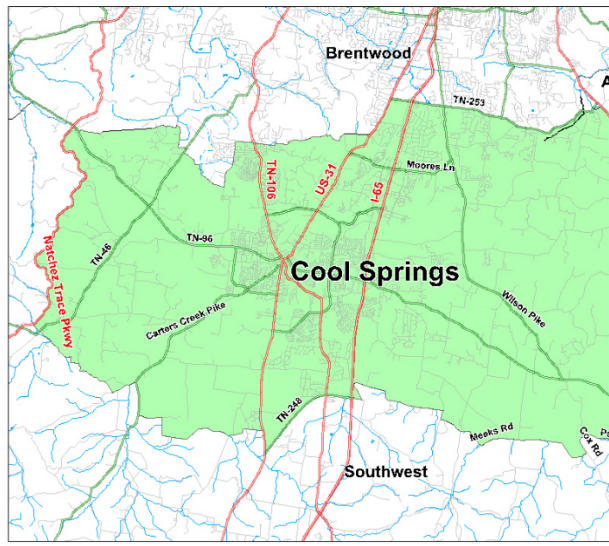


Figure 4: Found on CoStar, map of Office space submarket of Brentwood.

In the Brentwood submarket, there are a total of 89 office buildings. Of these 89 buildings, 31 are Class A, 52 are Class B, and 6 are Class C. The Brentwood submarket has an average vacancy rate of 12.1%, the highest of all the submarkets and well above the Nashville market average of 7.9%. Brentwood had an average rental rate of \$28.40 in the third quarter of 2018, above the Nashville market average of \$26.83. This high average rental rate is attributed to the high average rent of the Class A office spaces Brentwood has to offer. As of the third quarter of 2018, there is 309,000 square feet of Class A office space under construction in Brentwood. Ground was broken on Brentwood Commons IV, a development featuring 119,000 square feet Class A office space this quarter. Another notable project in this submarket is Virginia Springs, which is 106,000 square feet, that has recently started construction (Colliers International Market Report).

COOL SPRINGS



Cool Springs Office Submarket

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Figure 5: Found on CoStar, map of Office space submarket of Cool Springs.

In the Cool Springs submarket, there are a total of 101 office buildings. Of these 101 buildings, 44 are Class A, 53 are Class B, and 4 are Class C. Cool Springs had the third highest overall average rental rate of all the Nashville submarkets at \$30.05 per square foot. Additionally, as of the third quarter of 2019 there is 554,000 square feet of Class A office space under construction in the submarket. Some notable developments include McEwen Northside, which is 180,000 square feet of Class A office space, as well as the construction of Mars Petcare, which is 224,000 square feet (Colliers International Market Report). The newly constructed space, 3401 Mallory Lane, recently added 178,638 square feet of Class A office space to this market. Additionally, the Cool Springs submarket accounted for 252,023 square feet of new leasing activity year to date of the 1.1 million across the whole market (Cushman & Wakefield Market Report). Some notable leasing activity that took place in this submarket over the third quarter of 2018 includes tenant Compupay renewing their lease of 34,880 square feet in Aspen Grove Corporate 300. In addition, Regus also renewed their lease at Cool Springs III for 27,100 square feet. Two new leases that were signed were tenant Spaces

into 25,533 square feet at Mallory Green and tenant EnableComp into 25,480 square feet at Wallace Place (Colliers International Market Report).

DOWNTOWN



Downtown Office Submarket

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Figure 6: Found on CoStar, map of Office space submarket of Downtown.

In the Downtown submarket, there are a total of 95 office buildings. Of these 95 buildings, 20 are Class A, 47 are Class B, and 28 are Class C. The Downtown submarket had a vacancy rate of 6.6% in the third quarter of 2018, below the 7.9% market average. Additionally, the average rental rate was \$29.49 as compared to the market average of \$26.83. This high average rental rate can be attributed to the Downtown submarket having the second highest rental rate for Class A office space, behind Green Hills/Music Row, at \$33.75 per square foot compared to the \$30.48 per square foot market wide average. The asking rates for new developments in the Downtown submarket now exceed \$40 per square foot, among the highest of the submarkets.

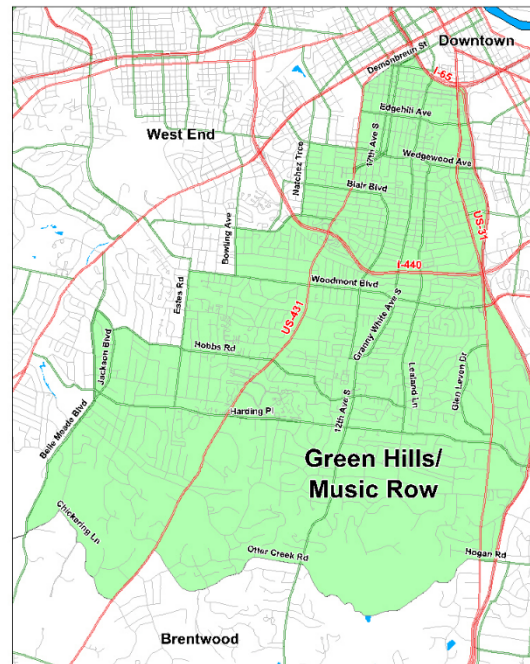
Downtown accounts for over half of the square footage under construction as of the third quarter of 2018, with 1,553,856 square feet

under construction in the submarket. Two high rise buildings were recently imploded and in their places construction for the Nashville Yards, a multi-phase development with 225,000 square feet of planned Class A office space, has begun. Another new construction that started in the downtown submarket is Gulch Union, which is planned at 328,856 square feet of office space. Furthermore, Peabody Place and Capitol View Block E continue construction in the Downtown submarket, planned at 250,000 square feet of Class A space and 300,000 square feet respectively. Capitol View Block E, which is located in the North Gulch, is planned to be completed in the first quarter of 2019 and will be the largest multi-tenant office building to be added to the submarket in the past few years. However, the largest project planned within this submarket is located at 501 Commerce, a part of the mixed-use development Fifth & Broad, and this building will account for 385,000 square feet of office space when completed.

In this submarket, there was significant investment activity in office buildings in the third quarter of 2018. First, Unico Properties: The Agnew Company purchased One Nashville place, 410,581 square feet, for \$139,500,000, or \$340 per square foot. Additionally, Previdi ReDev Equities purchased 810 Broadway, 70,000 square feet, for \$11,360,000, or \$162 per square foot. Finally, Speedwagon Properties purchased 814 Church Street, 48,714 square feet, for \$9,672,315, or \$199 per square foot (Colliers International Market Report).

Additionally, the largest new lease signing, Asurion at 550,619 square feet in a new building was in the Downtown submarket This new building is scheduled to begin construction in the first quarter of 2019. Another notable new lease in this submarket was tenant Industrious moving into 32,124 square feet of space at Cummins Station. IQ Talent Partners, LLC also both renewed and expanded their lease at Fourth & Church for 22,980 square feet (Colliers International Market Report). The Downtown submarket accounted for just under 30% of the 1.1 million square feet of new lease activity year to date (Cushman & Wakefield Market Report).

GREEN HILLS/ MUSIC ROW



Green Hills/Music Row Office Submarket CoStar
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Figure 7: Found on CoStar, map of Office space submarket of Green Hills/ Music Row.

In the Green Hills/ Music Row submarket, there are a total of 66 office buildings. Of these 66 buildings, 10 are Class A, 40 are Class B, and 16 are Class C. Green Hills had the highest average rental rate of the submarkets, and was one of the three submarkets in Nashville that had a higher average rental rate than \$30.00 in the third quarter of 2018, falling at \$33.47 per square foot. Furthermore, the Class A office space in Green Hills/ Music Row commanded the highest rental rate of all the submarkets at \$34.33 per square foot. Additionally, Green Hills/Music Row had a vacancy rate of 4.3% in the third quarter of 2018, well below the average of 7.9%. Nashville’s average Class A suburban rental rate in the second quarter of 2018, at \$29.53 per square foot, was the second highest of all the cities in the nation, just behind Austin.

As of Q3 of 2018, there is 258,840 square feet of Class A office building construction in the submarket. Included in this number is the 107,840 square foot Class A office building currently under construction on Music Row, under the name of 1 Music Circle South.

Notable investment activity in this submarket in the third quarter of 2018 was the purchase of 55 Music Square East, 15,793 square feet, by Music Row Properties LP for \$4,250,000, or \$269 per square foot (Colliers International Market Report).

METROCENTER

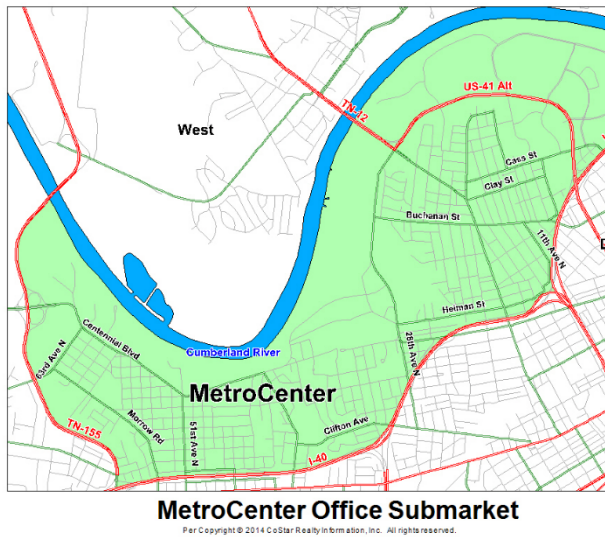


Figure 8: Found on CoStar, map of Office space submarket of MetroCenter.

In the MetroCenter submarket, there are a total of 23 office buildings. Of these 23 buildings, 2 are Class A, 16 are Class B, and 5 are Class C. The MetroCenter had an average rental of \$22.80 per square foot in the third quarter of 2018, below the market average of \$26.83. Additionally, the submarket had a vacancy rate of 4.0%, below the market average 7.9%. There are no new office spaces under construction in this submarket (Colliers International Market Report).

RIVERGATE/ HENDERSONVILLE

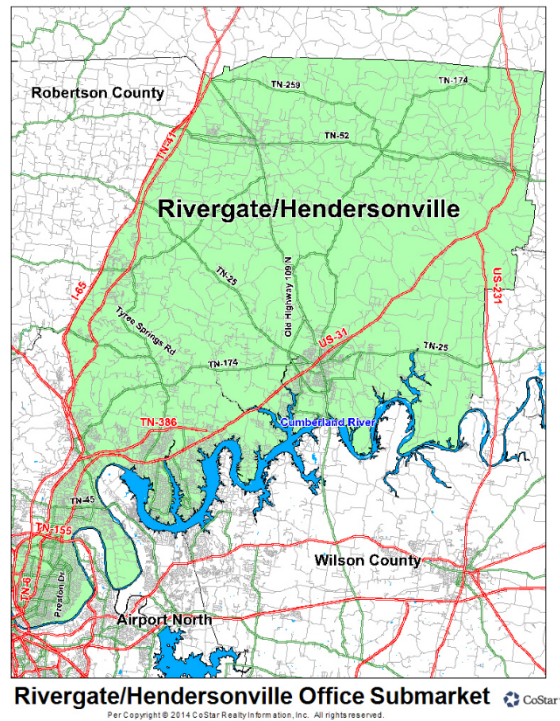


Figure 9: Found on CoStar, map of Office space submarket of Rivergate/ Hendersonville.

In the Rivergate/ Hendersonville submarket, there are a total of 49 office buildings. Of these 49 buildings, 10 are Class A, 20 are Class B, and 19 are Class C. The average vacancy rate in this submarket in the third quarter of 2018 was 4.4% and the average rental rate was \$20.99, both below the markets averages. Additionally, Rivergate/Hendersonville had the lowest average rental rate of all of the Nashville submarkets during this quarter. There are currently no new office spaces under construction in this submarket (Colliers International Market Report).

WEST END (MIDTOWN)

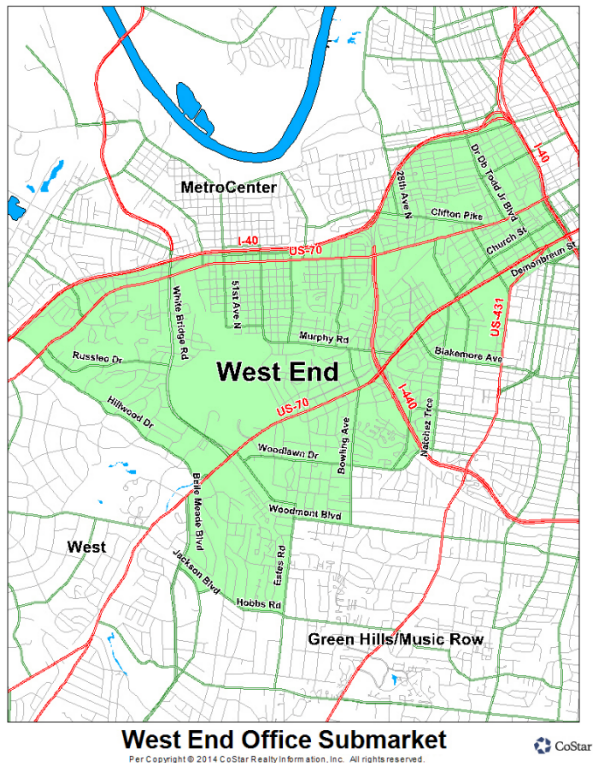


Figure 10: Found on CoStar, map of Office space submarket of West End.

In the West End submarket, there are a total of 58 office buildings. Of these 58 buildings, 18 are Class A, 27 are Class B, and 13 are Class C. The West End, or otherwise known as Midtown, submarket had an overall rental rate of \$30.84 per square foot, well above the market average of \$26.83. The submarket had a vacancy rate of 5.0% in the third quarter of 2018. A notable new lease in this submarket during the third quarter of 2018 was the tenant Gannett moving into 39,851 square feet at 1801 West End (Colliers International Market Report). Looking forward, the highly anticipated Gulch Union development, which began construction in August, will add 323,000 square feet of space to the West End market by May of 2020. The increase of this additional Class A office space will most likely increase rental rates within the submarket in addition to temporarily increasing vacancy as space becomes empty in anticipation of new tenants entering the market (Cushman & Wakefield Market Report). Additionally, construction has begun on two high-rise

buildings, totaling 396,240 square feet, in the Gulch by Endeavor Real Estate. Construction on OneKVB, which is set to be 450,000 square feet, is pending.

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