



No deliveries make Nashville an anxious market

Construction cannot keep pace with increasing demand

The third quarter is another that weighs in favor of Nashville landlords. For the fourth-consecutive quarter, office market vacancy rates have continued to decline at a steady 10.3 percent per quarter. The market hit yet another historic low, landing at an overall 7.3 percent and at 2.8 percent for Class A, compared to last quarter's 8.5 percent and 3.3 percent. Vacancy rates are expected to continue falling until enough product comes online; however, as fast as new buildings come on the market, they are leased. MarketStreets' 205,000-square-foot, Class A office building, Gulch Crossing, has been the only delivery this year, and despite its historic, high-market price tag of \$37.50 per square foot, the building is already 86 percent leased. The Gulch Crossing story demonstrates the height of demand in the Nashville market.

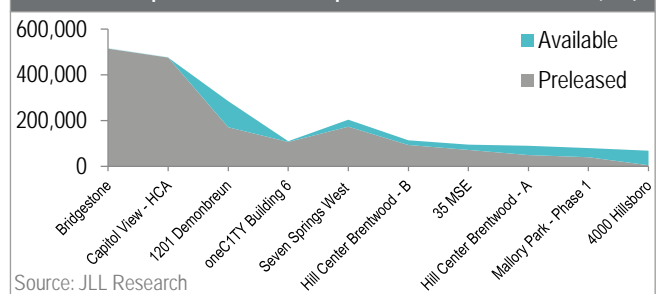
New product provides a silver lining

To the relief of the office market, there are ten buildings and a total of 2,035,446 square feet under construction. Nashville has not seen this sort of construction activity in its history. With an average \$34.65 per square foot for new office space, rental rates for these buildings will lead the way for Nashville's Class A rental rates to surpass those of larger markets. Product is already 81.9 percent preleased. Downtown will see the largest growth, gaining 1,274,000 square feet. The next closest submarket, Brentwood, will gain 487,902 square feet. Next quarter, Midtown will receive the first of these deliveries with the completion of oneC1TY Building 6, which will add 110,000 square feet of Class A office space to the market. It is already 97 percent preleased.

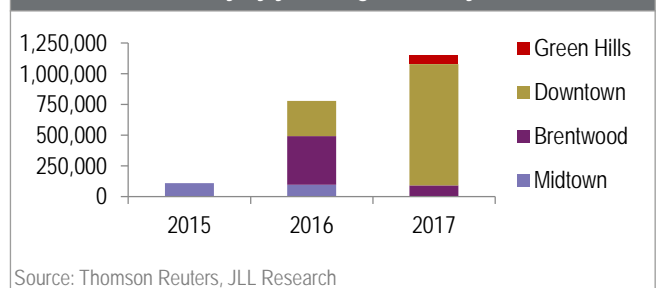
The elephant in the room: parking

With an average of 80 people moving to Nashville per day, parking is a central barrier to Nashville's growth. According to the *Nashville Business Journal*, there are 35,000 people working downtown – where there are only 20,000 available spaces. Annual tourism has reached roughly 12 million visitors per year. While this is a powerful sign for economic development, tourism adds to the downtown parking disparity. Developers are faced with the dilemma: parking structures vs. office buildings. The metro government and the Metropolitan Development and Housing Agency have committed to a combined \$45.5 million in parking improvements. By early 2017, the Nashville Public Library garage will create 350 more spaces, and the parking garage development at the intersection of 5th Avenue North and Church Street will add another 1,010 spaces. These improvements will provide a strong start to confronting the parking problem by increasing volume by roughly 6.8 percent. In the suburban market, parking is equally as challenging. Existing buildings are no longer capable of meeting tenant parking demands for higher density options. It is time to address the elephant in the room.

Available vs. preleased office space under construction (s.f.)

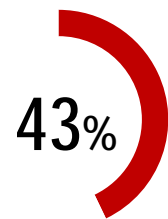


Construction delivery by year, segmented by submarket (s.f.)



Downtown parking needs create barriers

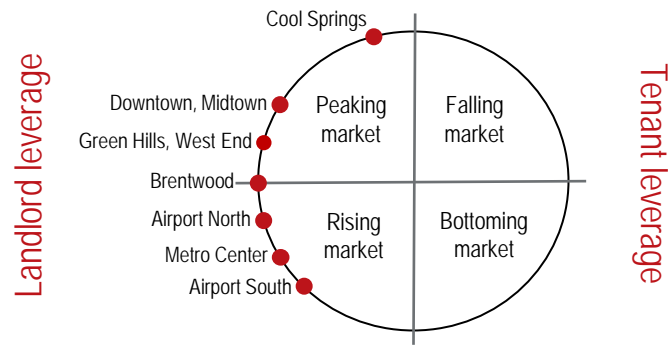
Not including tourist parking, almost half of downtown parking needs are not being met. Forty three percent of the Nashville downtown workforce is without parking.



Source: JLL Research

33,663,507 Total inventory (s.f.)	411,259 Q3 2015 net absorption (s.f.)	\$21.70 Direct average asking rent	2,035,446 Total under construction (s.f.)
7.3% Total vacancy	1,048,867 YTD net absorption (s.f.)	1.9% 12-month rent growth	81.9% Total preleased

Current conditions – submarket



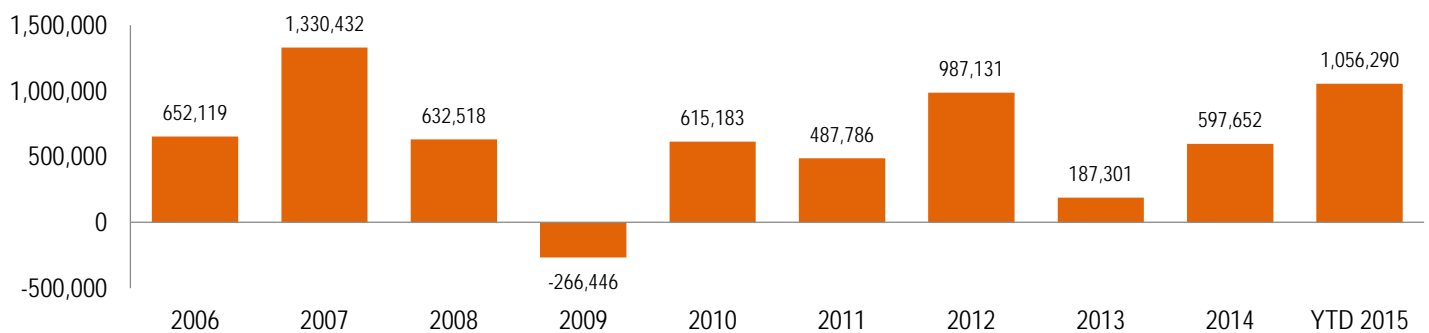
Source: JLL Research

Lease transactions > 20,000 s.f. (JLL transactions bolded)

Tenant	SF	Address	Submarket
Vanderbilt	231,295	2525 West End Avenue	Midtown
Dell	185,431	1 Dell Parkway	Southeast Ind
HCA	120,000	1 Dell Parkway	Southeast Ind
Vanderbilt	51,482	2100 West End Avenue	Midtown
TriWest Healthcare	40,000	301 Plus Park Boulevard	Airport South
Quorum	40,000	1573 Mallory Lane	Cool Springs
Computer Sciences Corp	39,513	100 Centerview Drive	Airport North
CMA	38,529	35 Music Square East	Midtown
Amedisys	25,097	209 10th Avenue South	Downtown
McNeely Piggot & Fox	21,532	611 Commerce Street	Downtown

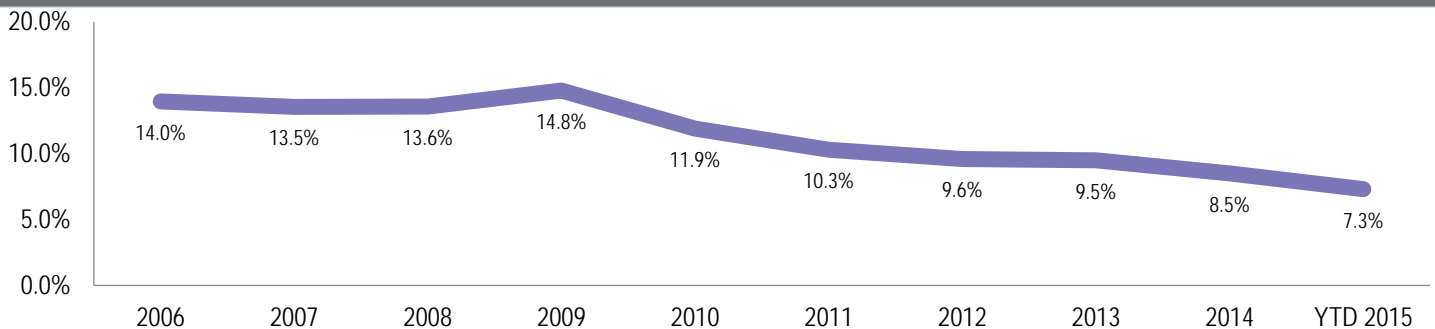
Source: JLL Research

Total net absorption (s.f.)



Source: JLL Research

Total vacancy rate (%)



Source: JLL Research

Direct average asking rent (\$ p.s.f.)



Source: JLL Research