



Nashville industrial market insights

Q4 2021

**AVISON
YOUNG**



U.S. industrial drivers	3
Nashville industrial market fundamentals	9
Looking forward	24
Get in touch	26

© 2021 Avison Young-Tennessee, Inc. All rights reserved.
E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.



An aerial photograph of a city coastline, likely Nashville, Tennessee. The foreground is dominated by a large, dark blue body of water, possibly a river or lake, with numerous small, colorful buoys scattered across its surface. The city's urban grid is visible in the background, with a mix of residential and commercial buildings. A prominent highway interchange is visible on the right side of the image. The overall scene is a high-angle, top-down view of the city and its waterfront.

Let's look at U.S. industrial drivers

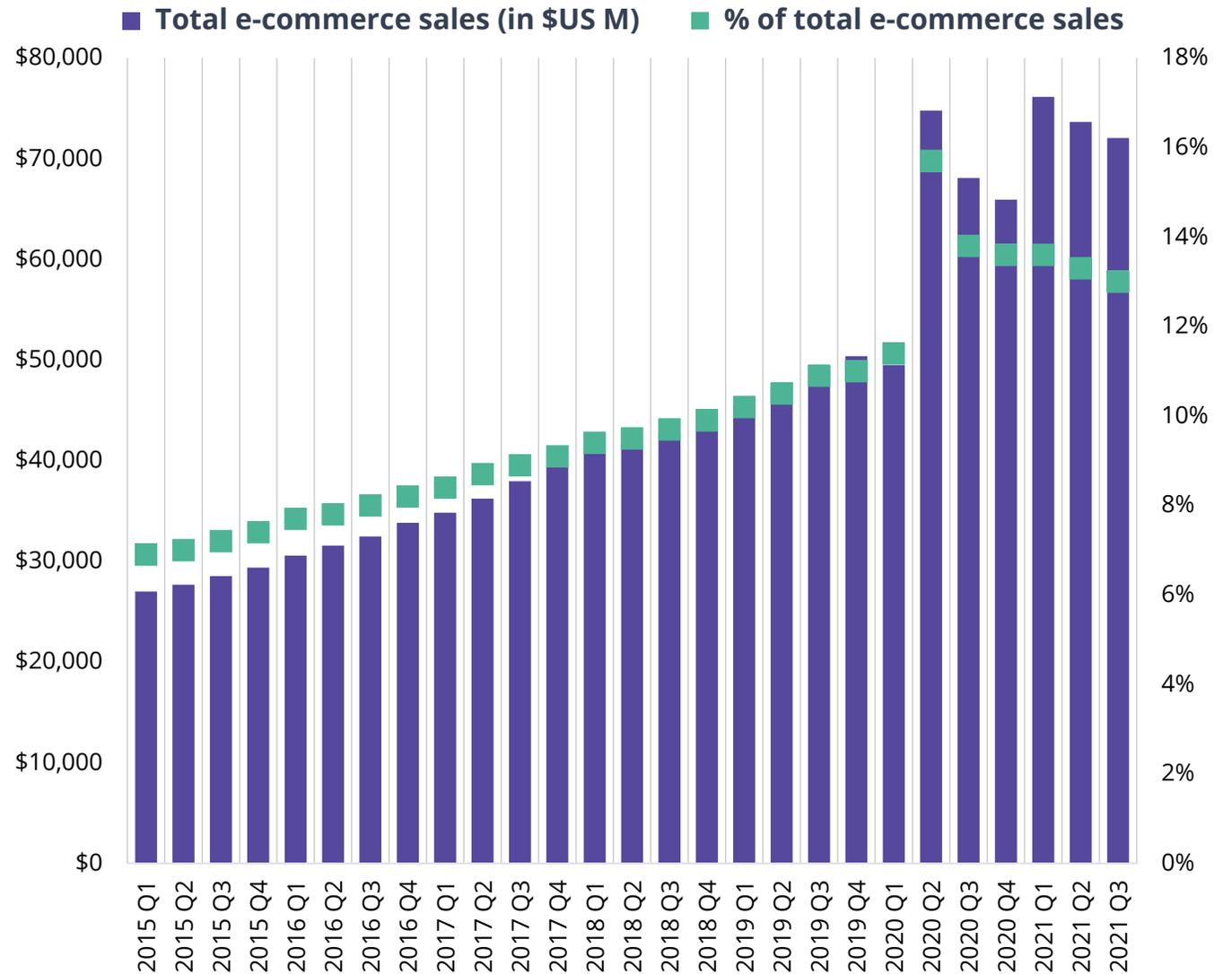
Supply chain disruptions have taken the spotlight at the end of 2021, but industrial real estate fundamentals remain strong.

U.S. total retail and e-commerce sales

13.0%

e-commerce share of overall retail sales in Q3 2021.

Online sales as a percentage of total retail activity have continued to normalize over the course of the year, but remain significantly elevated over 2019 levels. This underscores a resetting of consumer buying habits as e-commerce spending remains sustainable and supports continued demand for industrial space in most U.S. markets.



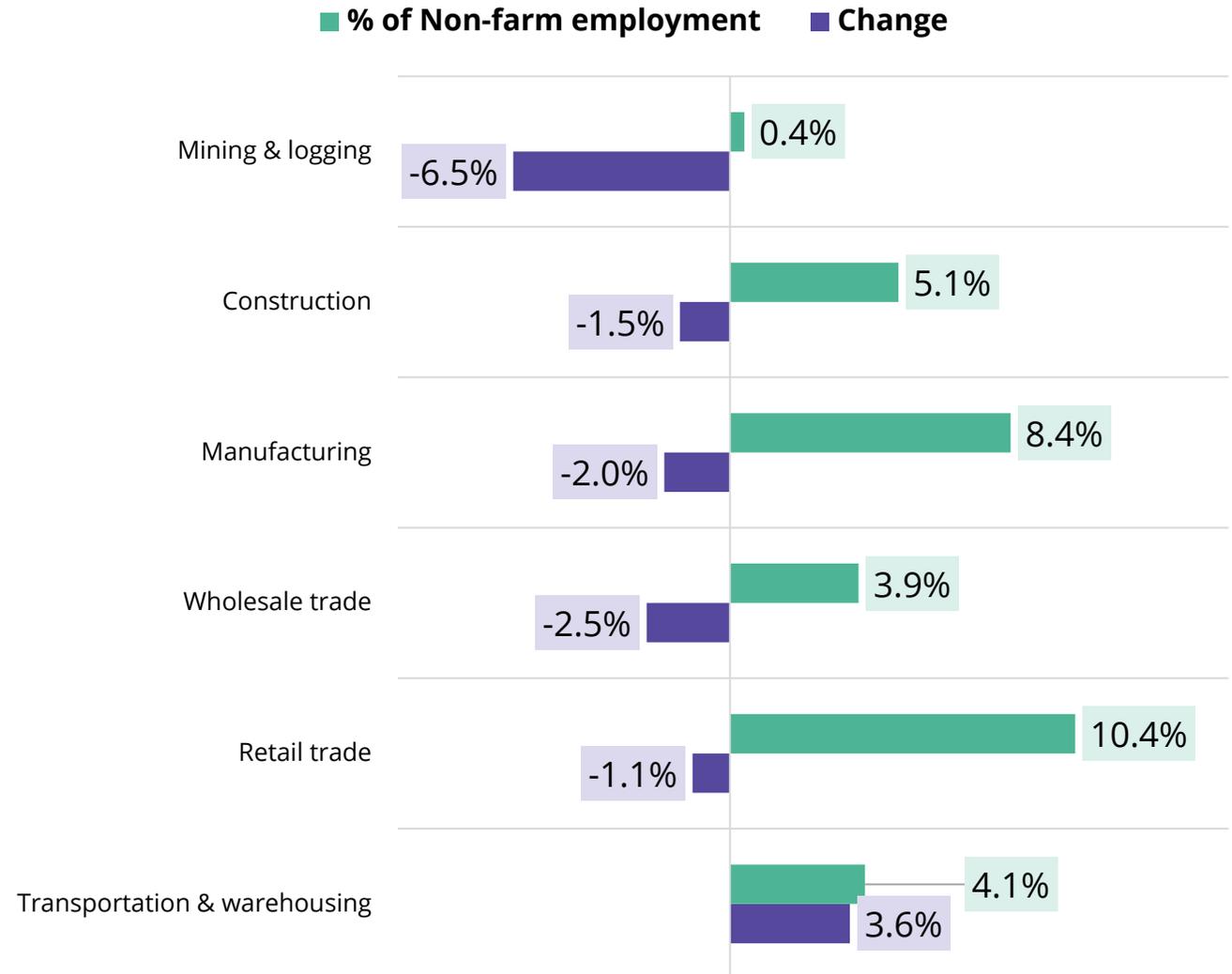
Source: Federal Reserve Bank of St. Louis as of December 15, 2021

Industrial sector job gains and losses

3.6%

change in transportation and
warehousing employment,
February 2020 to November 2021.

The transportation & warehousing employment sector has been resilient throughout the pandemic and performed ahead of other sectors in the latter part of this year. Manufacturing, construction and wholesale trade comprise similar proportions of total U.S. employment, but jobs have continued to contract since February 2020.



Note: Seasonally adjusted data
Source: Bureau of Labor Statistics

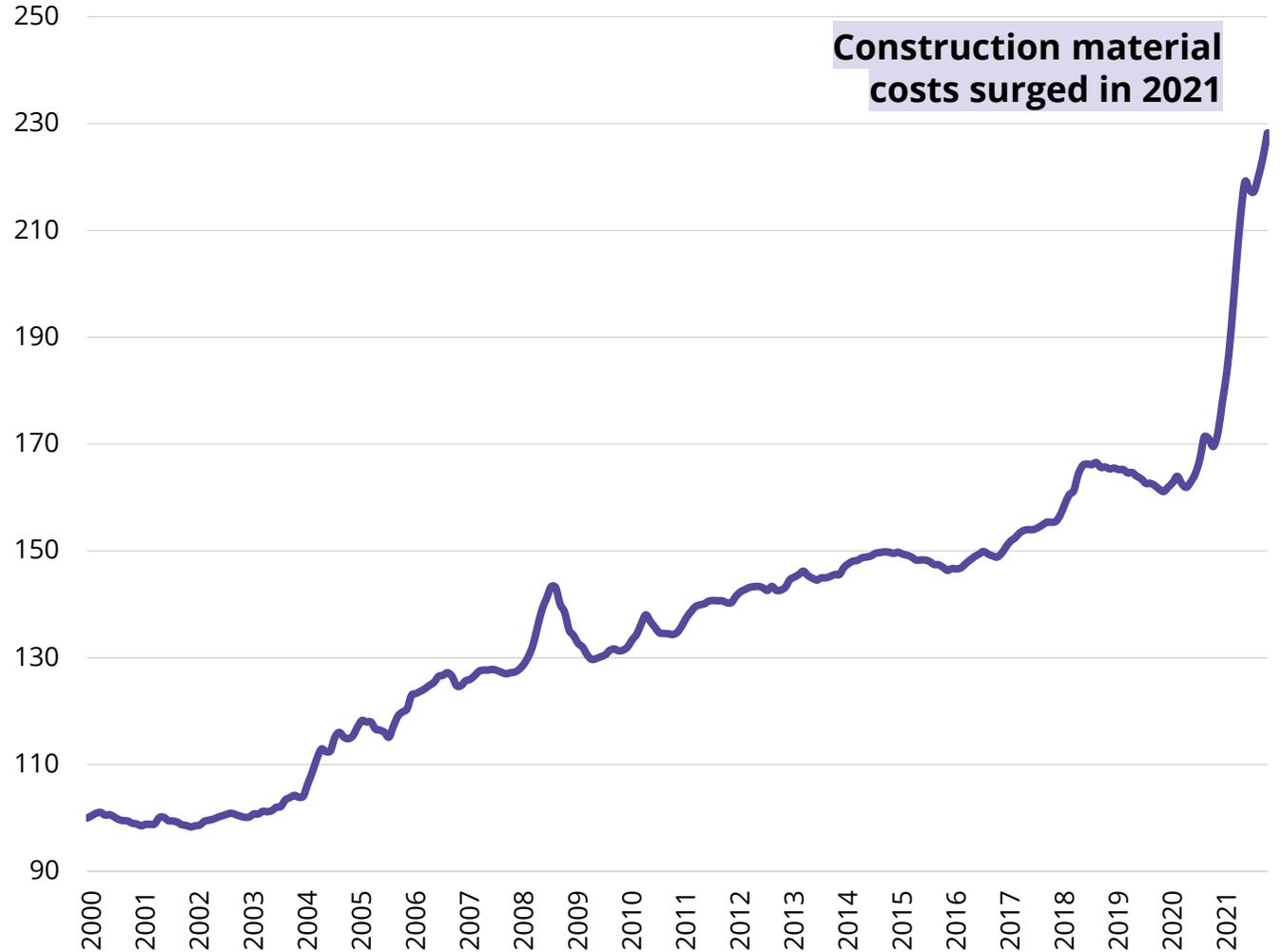
Cost of construction materials

+32.6%

increase in Construction Material Index cost from year-end 2020 to November 2021.

Construction material costs have continued to surge throughout 2021, pressuring industrial new construction pro forma rents. While the third quarter offered some reprieve in pricing, scarcity and supply chain disruptions have injected additional uncertainties.

Construction materials (index = 2000)



Note: Data not seasonally adjusted
Source: Bureau of Labor Statistics

Fuel costs and freight trucking driver wages

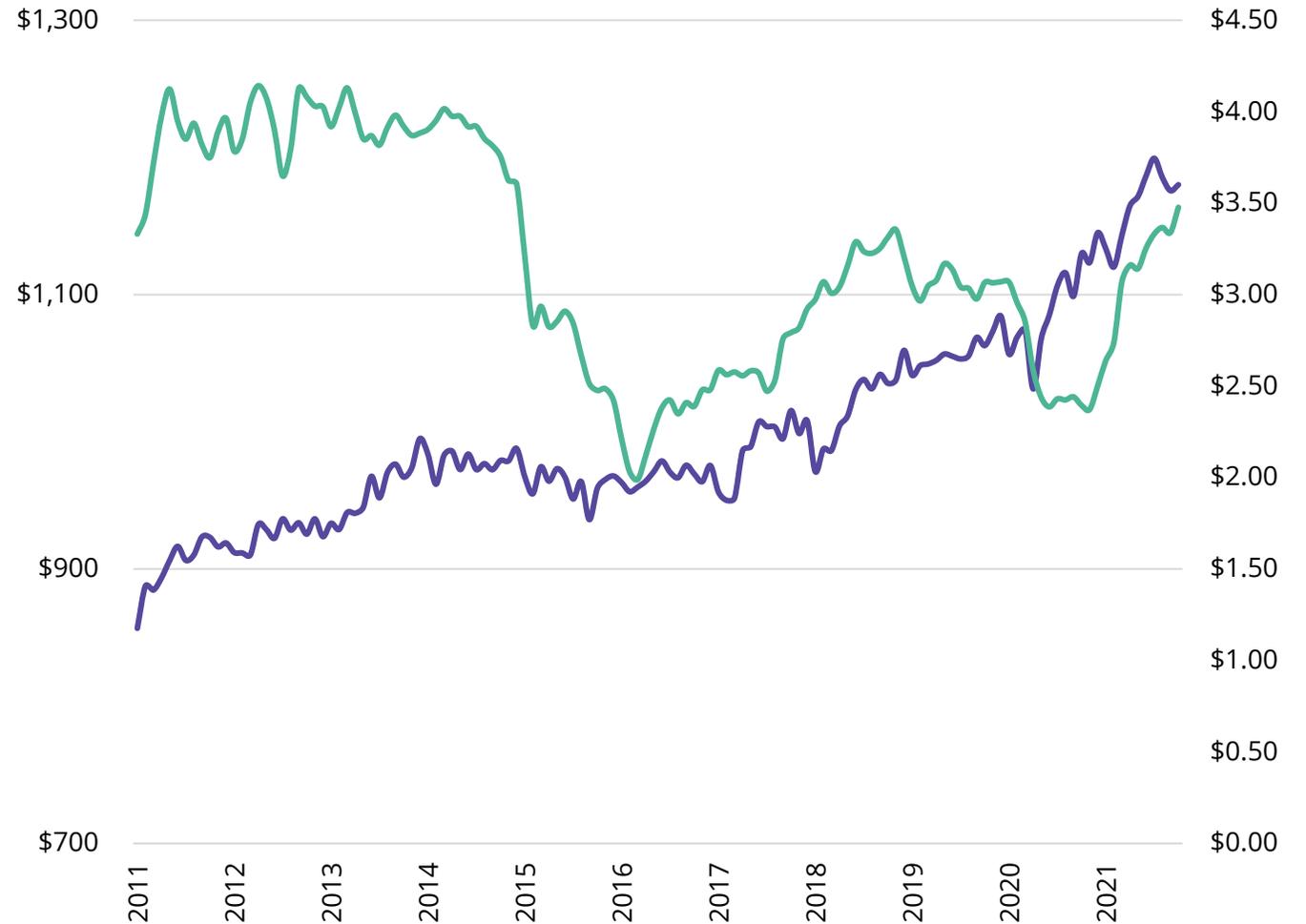
+45.2%

uptick in diesel fuel prices since October 2020.

Rising diesel fuel prices and wage rates, for both short- and long-haul trucking, are exacerbating pressures on shipping costs for companies that may have also faced international supply chain disruptions and continued constraints from driver shortages.

General freight trucking weekly wages

On-highway diesel prices (\$ per gallon)



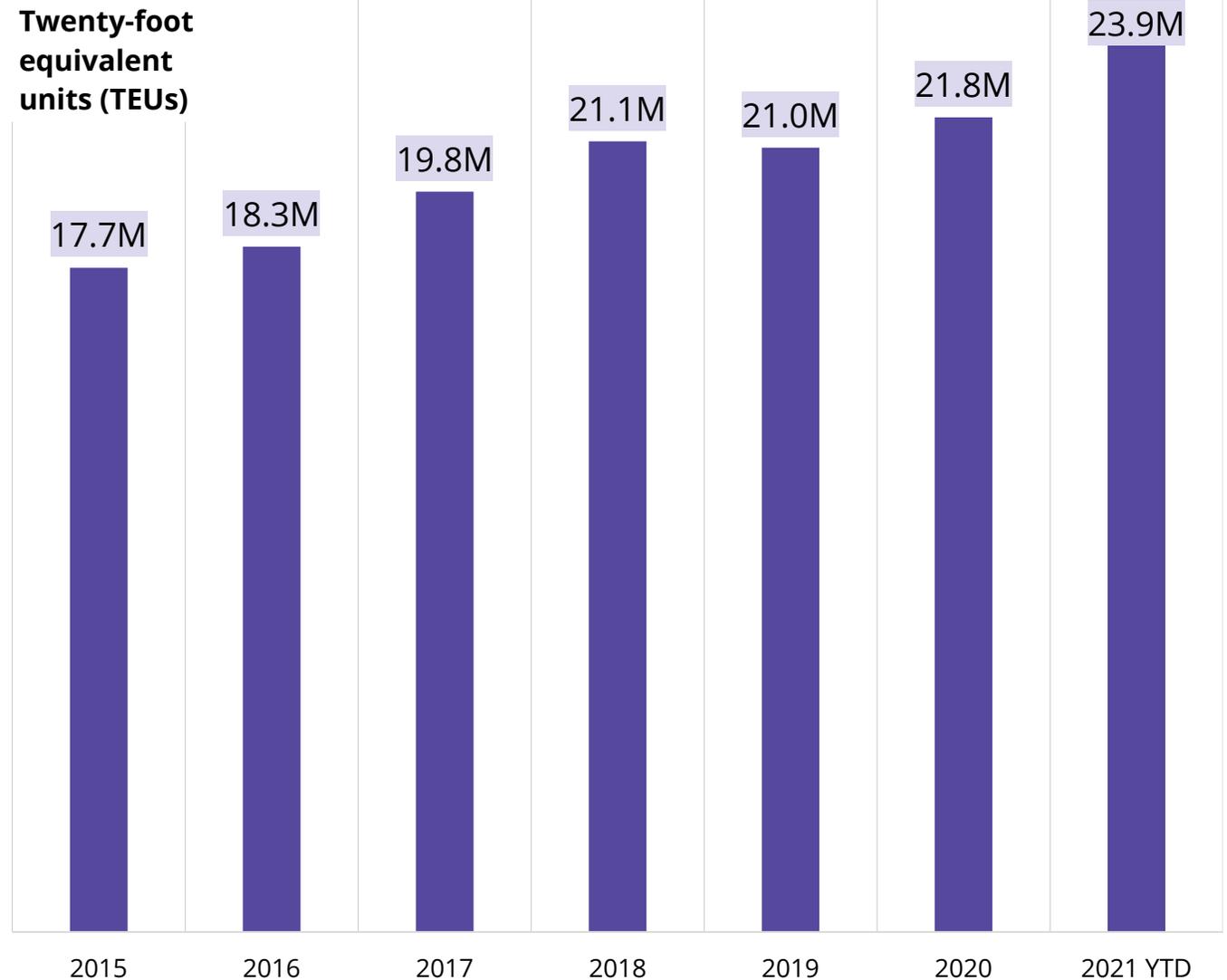
Source: Bureau of Labor Statistics, U.S. Energy Information Administration; AVANT by Avison Young

Loaded import container volumes

+9.9%

year-over-year increase in cargo volumes, despite supply chain disruptions and port congestion.

Through November, loaded imports at major U.S. seaports are up significantly over the same period last year. Despite heavy reporting in mainstream news and solutions still being conceptualized, throughput activity is being processed and moving into domestic supply chains.



Note: Includes Los Angeles, Long Beach, New York / New Jersey, Savannah, Virginia, Houston, Charleston, Oakland, Seattle / Tacoma, Miami, Baltimore, Jacksonville ports; Source: individual port authority websites

Let's look at the industrial market fundamentals in Nashville



Key industrial takeaways



Economic conditions

- The Nashville economy has rebounded sharply from the pandemic peak with October **unemployment down to 2.8%**, trending closer towards the pre-pandemic rate.
- The Nashville metro area has experienced **industrial job additions totaling 1.8%** since the beginning of the pandemic, especially in the critical areas of transportation and manufacturing.



Recovery rate

- With the largest population in the 13-county Nashville MSA, Davidson County vaccination rates continue to trend in line with U.S. averages, with **61.2% of the Davidson County population fully vaccinated**.
- Rapid **expansion by many logistics providers in the Nashville area has shielded the market from a decline** in visitor volume at last mile distribution facilities, with a 27.2% increase after Cyber Monday since 2019.



Industrial demand

- Unquenched tenant demand has bolstered leasing activity throughout the pandemic, with leasing activity currently sitting at **+88.3% of the long-term annual average** of the last 20 years of historical data.
- The Nashville industrial market is healthily absorbing new development as **demand continues to gravitate to high-quality new projects**. Record setting absorption activity caused the year-end total to reach over 8.0 msf.

Key industrial takeaways

Industrial supply

- As national, regional and local logistics and e-commerce businesses continue to expand throughout the market, developers are working to meet demand. Approximately **5.7 msf of industrial inventory is currently under construction**, with 39% preleasing in place. **Construction completions totaled over 9.2 msf** at the end of the year.
- As demand surges for industrial space, **vacancy has reached a new record low**, dropping to 3.7% at year-end.

Pricing trends

- Industrial **rents have increased by 9.7%** year-over-year and have continued a steady upward trajectory since 2019.
- Persistent **tenant demand, low vacancy, as well as soaring land and construction costs continue to place upward pressure on industrial rents** across the market.

Capital markets

- The Nashville market witnessed substantial investor interest during the year with industrial investment sales totaling **\$778 million, an increase of 35% from year-end 2020**.
- Pricing for Nashville industrial assets continues to increase, with **pricing for industrial assets seeing 45.3% year-over-year growth**. The large jump in psf pricing can be attributed to numerous urban industrial properties trading at a premium in recent quarters.

Employment and unemployment rate

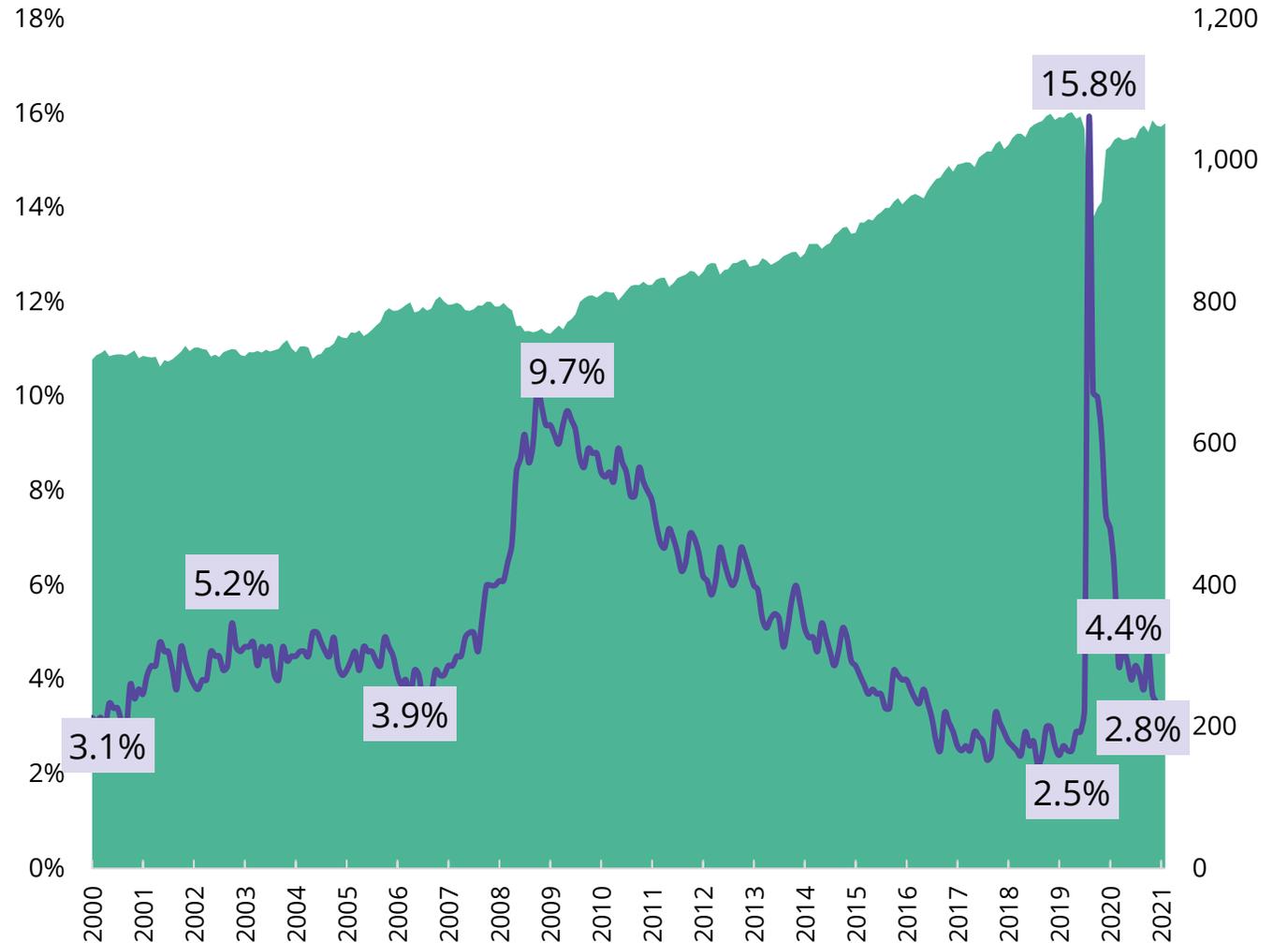
2.8%

Nashville unemployment rate as of October 2021

The Nashville economy has rebounded sharply from the pandemic peak with October unemployment reaching 2.8%, continuously trending towards pre-pandemic rates. Positive recovery, despite challenges posed by the Delta variant, throughout 2021 has enabled a 21.7% job growth since the height of the pandemic.

Unemployment %

Employment (thousands)



Source: Bureau of Labor Statistics

Employment and unemployment rate

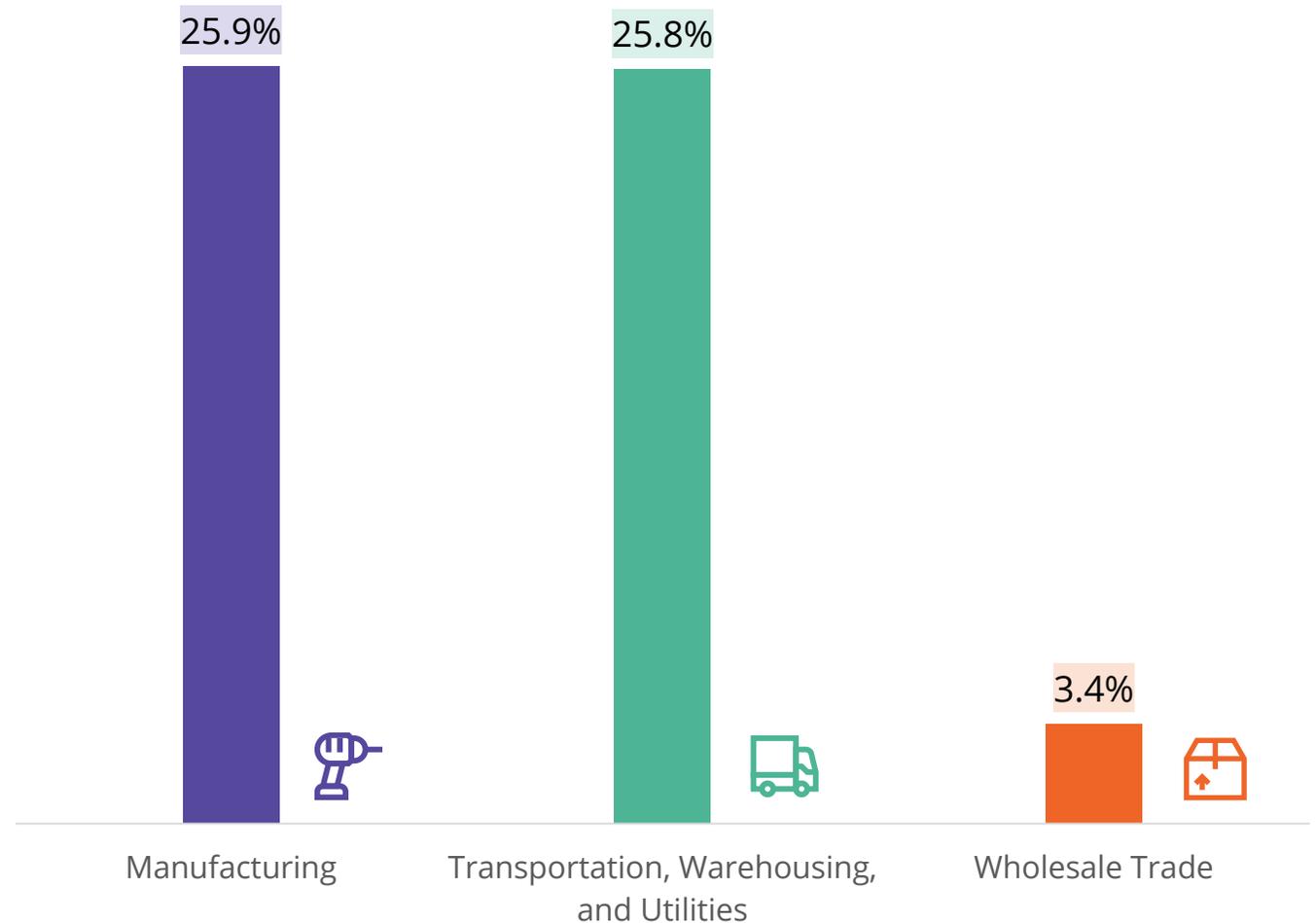
+ 1.8%

Change in Nashville industrial employment sectors from February 2020 to October 2021.

The Nashville metro area has experienced industrial job additions totaling 1.8% since the beginning of the pandemic, especially in the critical areas of transportation and manufacturing.

Total change in Nashville job gains and losses

February 2020 to October 2021



Source: Bureau of Labor Statistics

Last-mile distribution facility visitor volumes

+27.2%

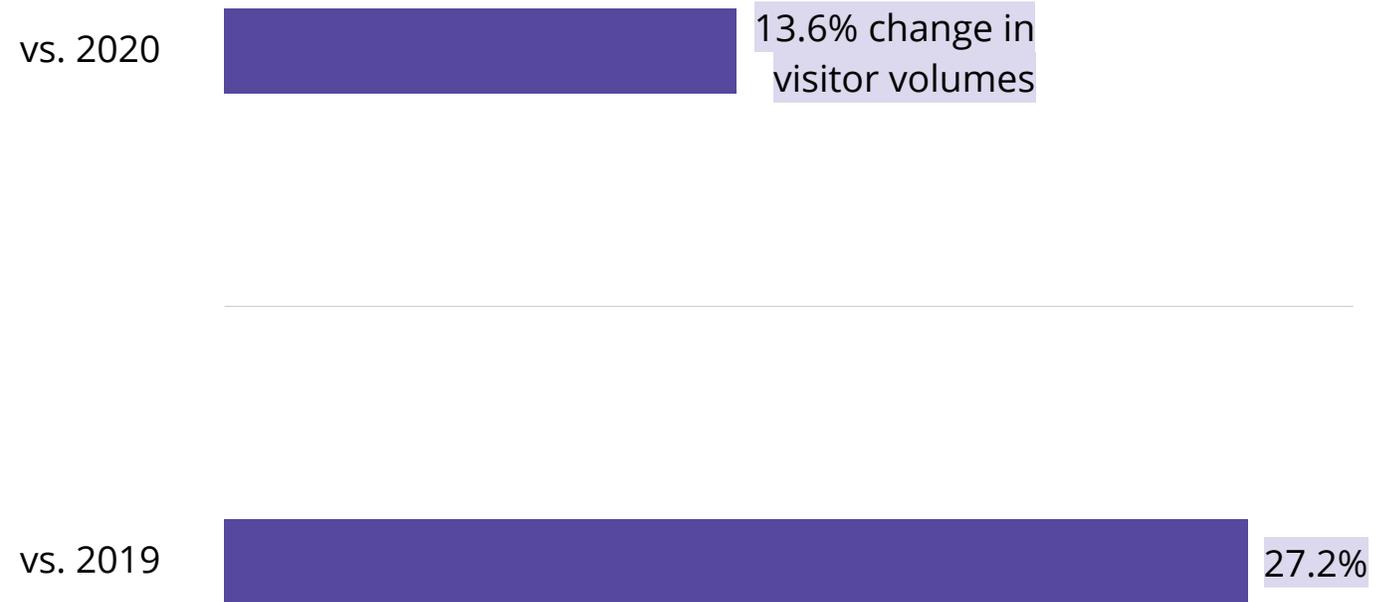
Change in visitor volumes since 2019.

Rapid expansion by many logistics providers in the Nashville area has shielded the market from a decline in visitor volume at last mile distribution facilities. Supply chain disruptions, including labor shortages and congestion at major ports, have caused major delays at e-commerce distribution facilities in many North American markets.

[View vitality index](#)

2021 Cyber Monday facility visitor volumes at Nashville

% change when compared to previous year



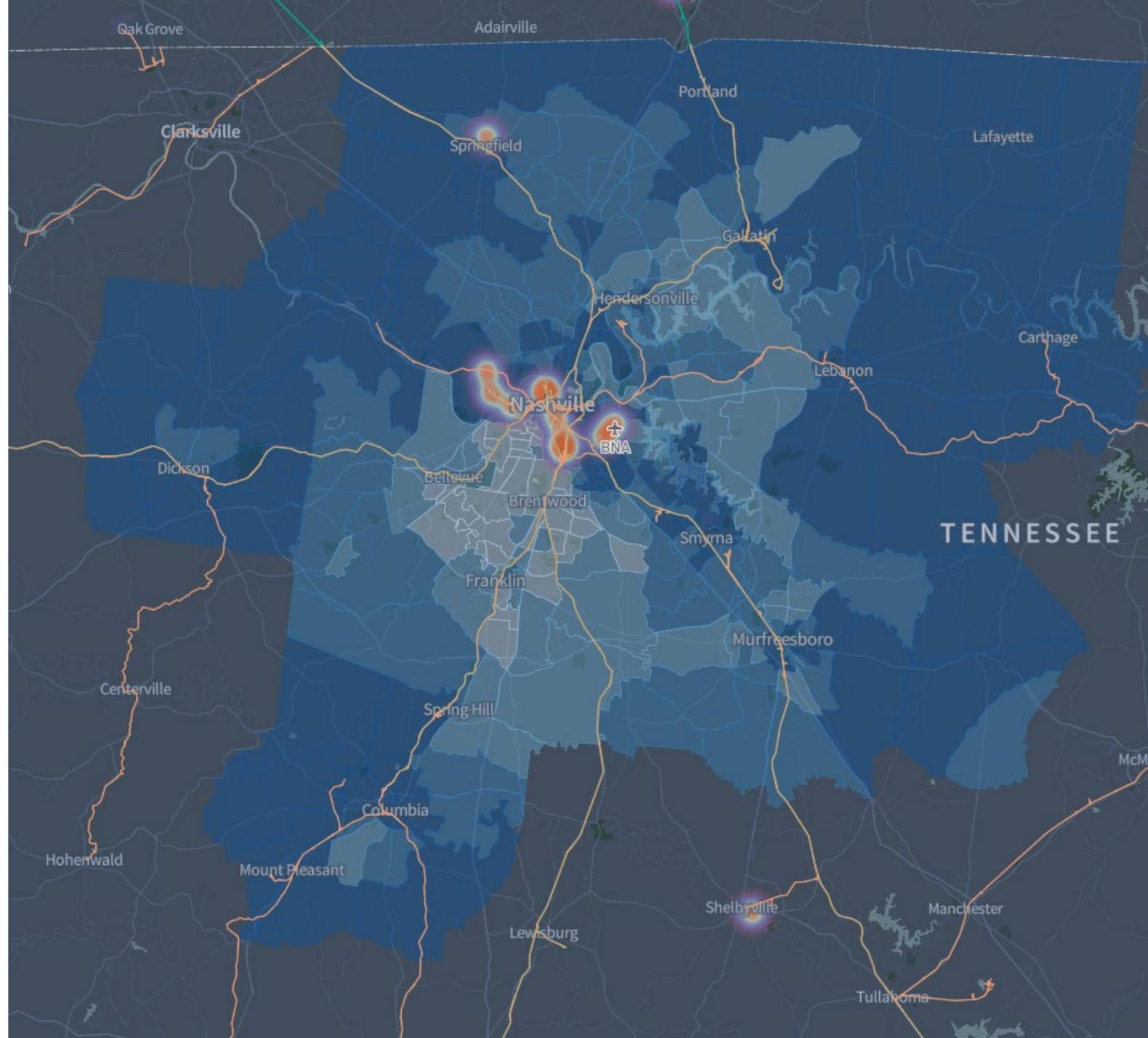
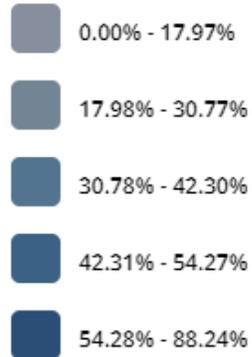
Note: Not seasonally adjusted Metropolitan Statistical Area data
Source: Bureau of Labor Statistics

Freight rail and intermodal facilities

Heatmap of U.S. Intermodal Freight Facilities



Blue Collar

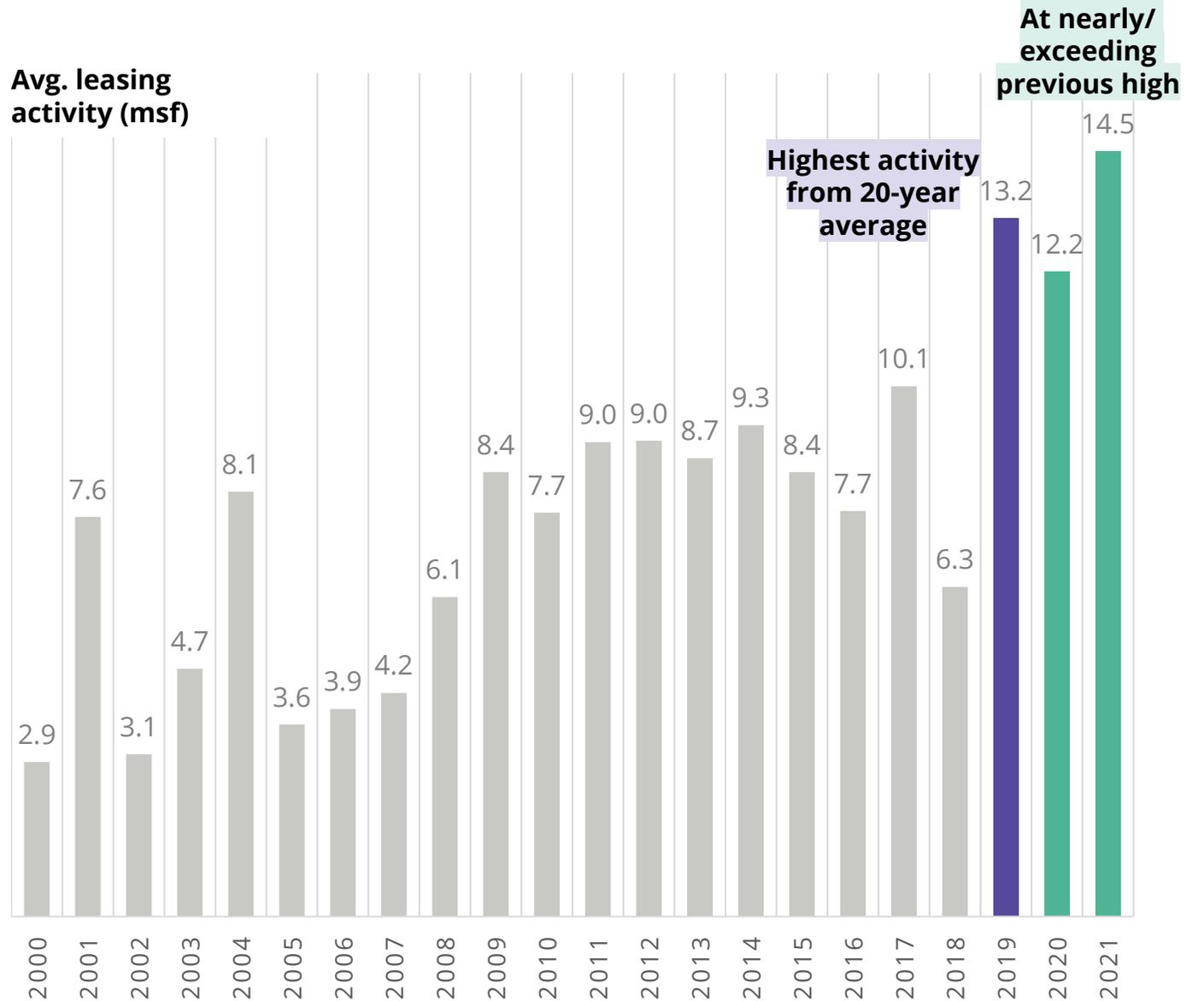


Industrial leasing activity

+88.3%

2020-pro-rated 2021 vs. prior 20-year annual average leasing activity.

Leasing has not let up during the pandemic, as unquenched tenant demand has brought over 14.5 msf of leasing activity at year-end, a new historic high for the market.



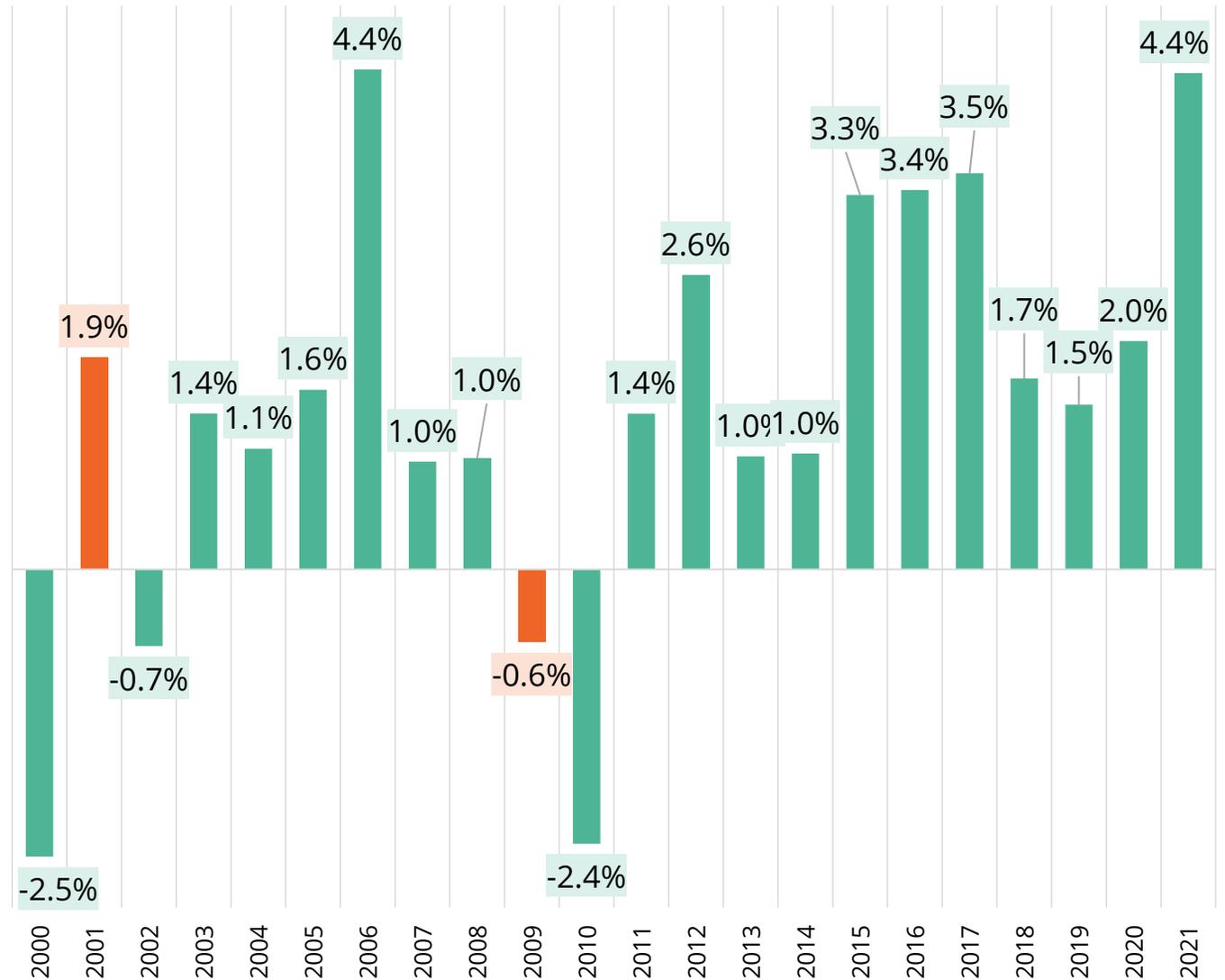
Source: CoStar; Industrial properties 20K sf+

Industrial net absorption

4.4%

Net absorption as a percentage of inventory.

The Nashville industrial market is healthily absorbing new development as demand continues to gravitate to high-quality new projects. Record setting absorption activity caused the year-end total to reach over 8.0 msf.

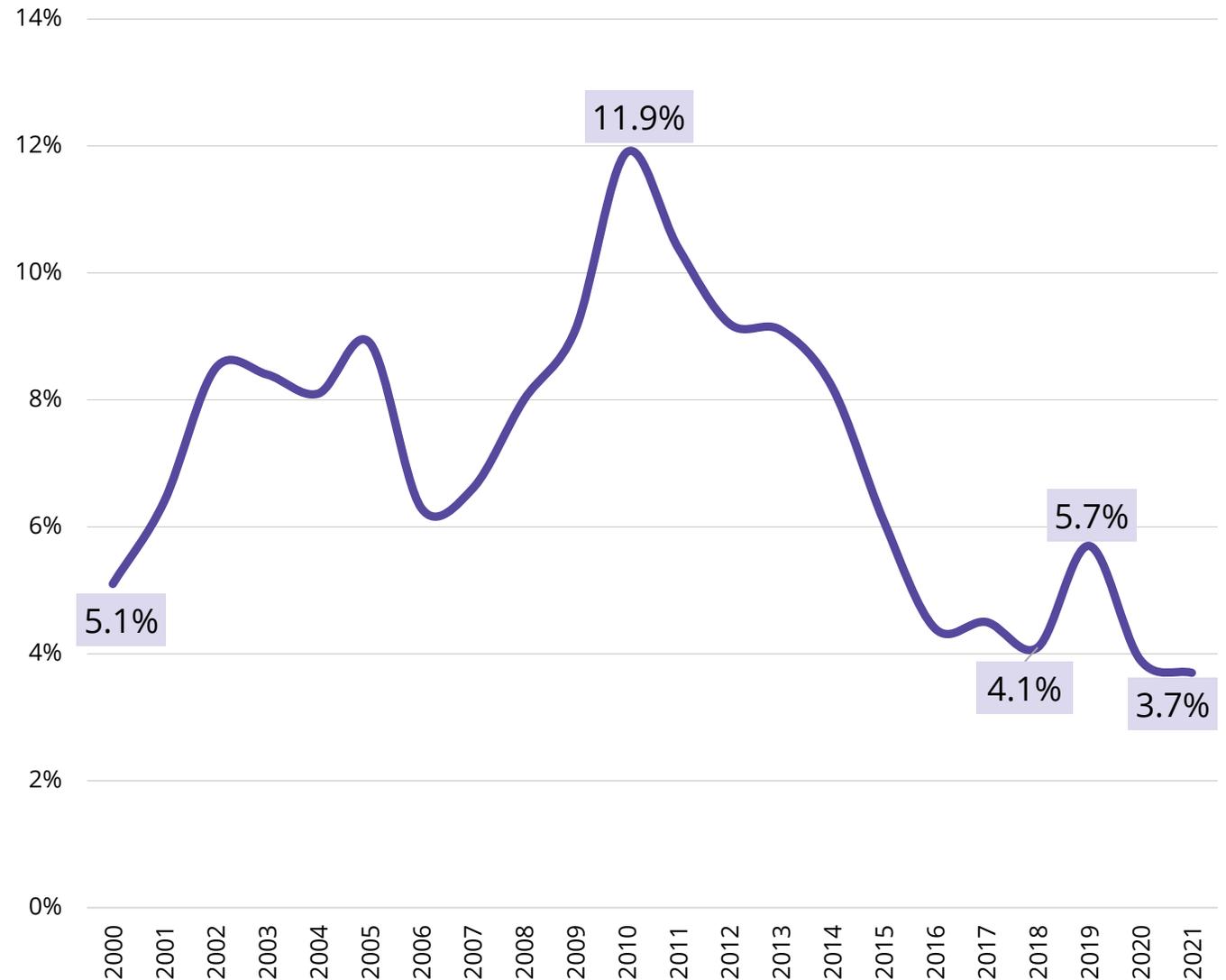


Industrial vacancy rate

3.7%

Nashville industrial vacancy rate as of year-end 2021.

As demand surges for industrial space in the market, vacancy has reached a new record low. Nashville's industrial vacancy dropped to 3.7% at year-end, down 20 basis points year-over-year.



Industrial development pipeline

16 properties

under construction

5.7 msf

under construction

3.4%

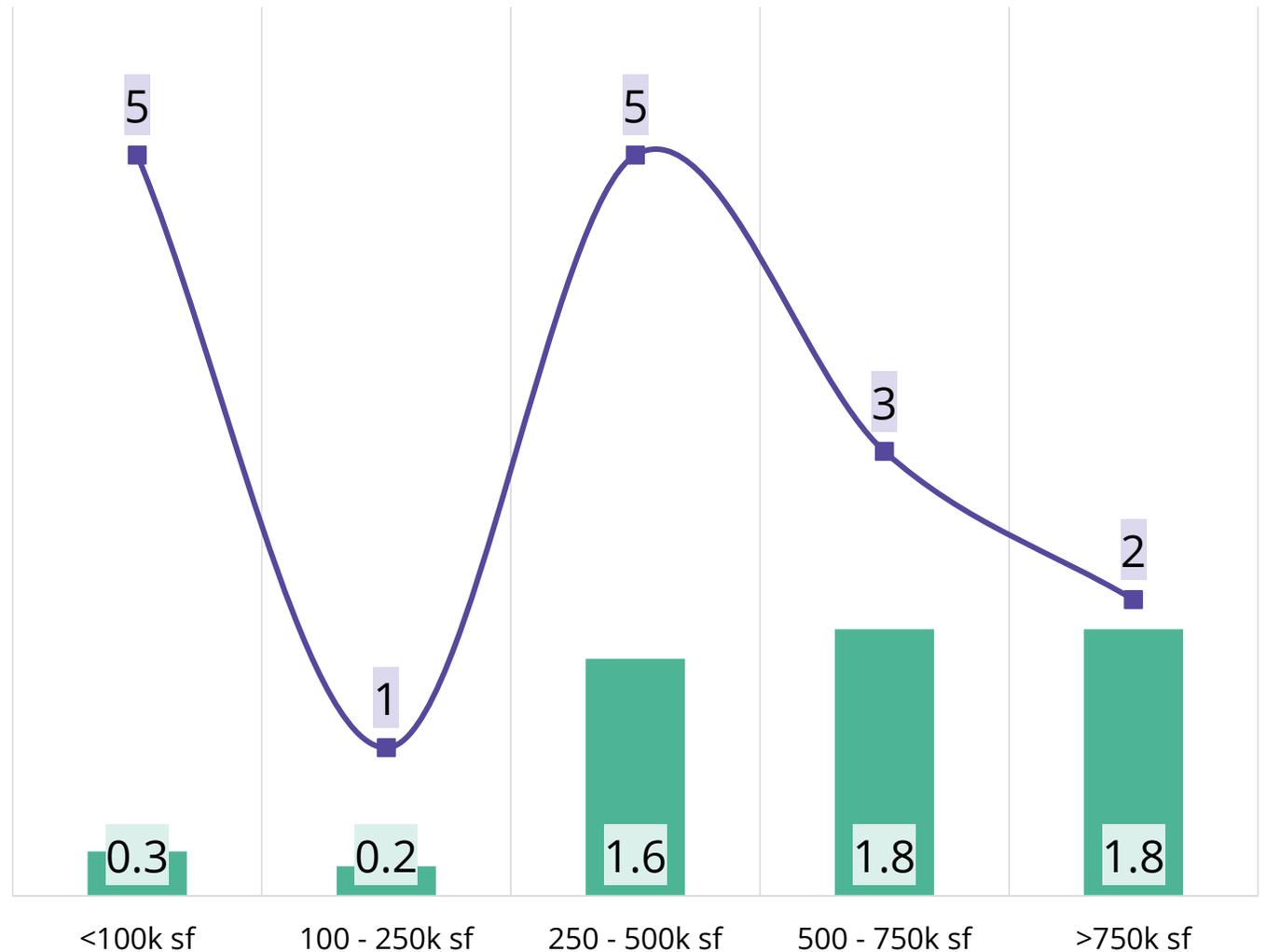
share of industrial inventory

Wilson County

has the most projects underway at over 3.9 msf

Number of projects

Total size (msf)



Source: AVANT by Avison Young

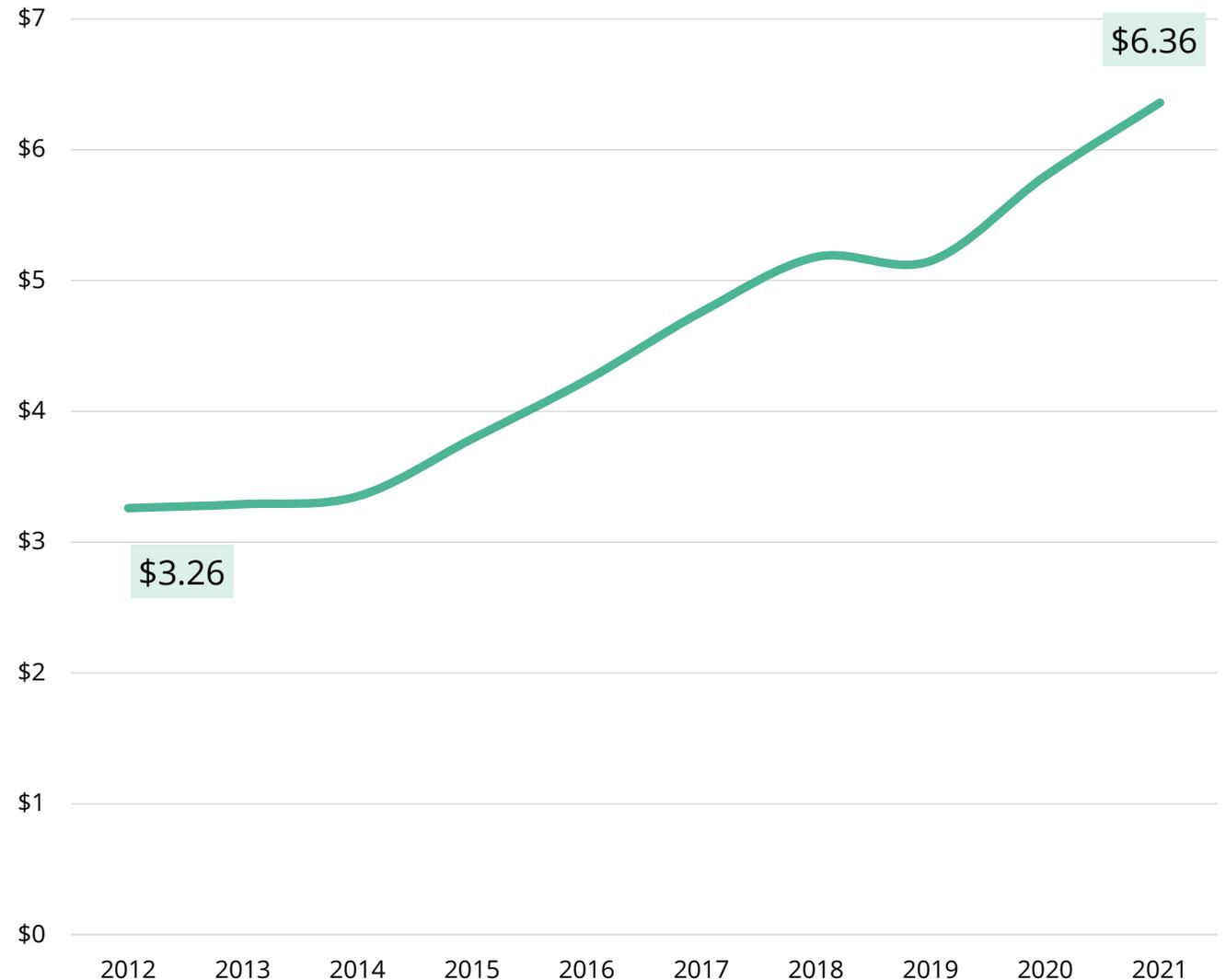
Industrial base rental rates

+9.7%

Year-over-year increase in base rents for industrial assets.

Persistent tenant demand, low vacancy, as well as soaring land and construction costs continue to place upward pressure on industrial rents across the market. Year-over-year rent growth reached 9.7% as rents ended the year at \$6.36 psf.

Base rent FS psf



Industrial market leasing summary

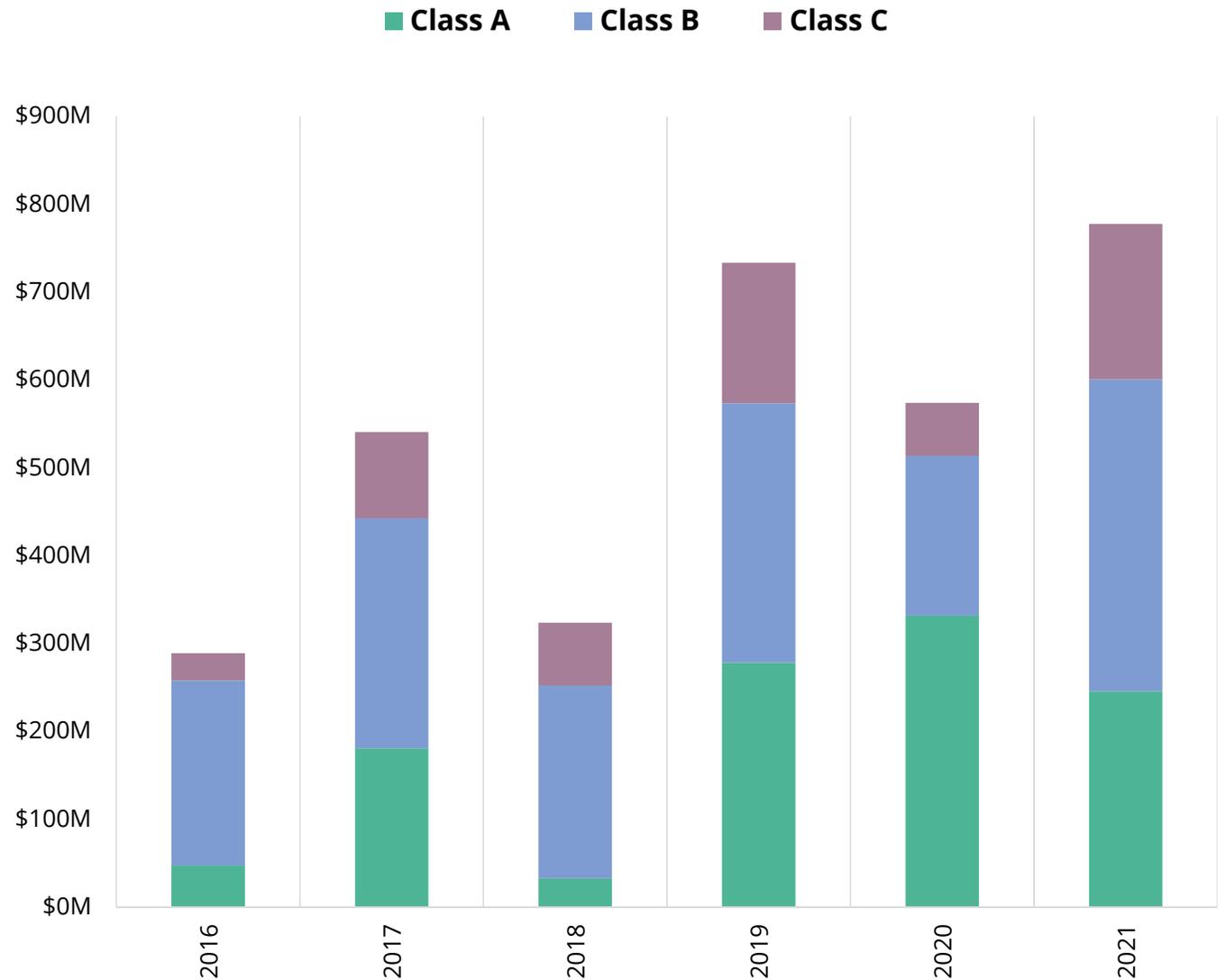
	Existing inventory (sf)	Vacancy % this quarter	Net absorption YTD (sf)	Completions YTD (sf)	Under construction	Avg. asking lease rates
East	11,707,877	3.2%	314,727	0	0	\$8.06
IBD	12,788,713	2.8%	(697,546)	0	0	\$9.62
North	41,185,058	1.2%	648,052	130,000	982,000	\$5.33
Southeast	69,122,351	5.7%	519,564	1,276,650	1,427,980	\$6.32
Southwest	13,789,663	2.8%	337,219	0	0	\$9.82
West	7,109,171	2.4%	60,080	0	297,500	\$7.36
Wilson County	39,610,740	3.7%	7,210,488	7,833,108	3,937,985	\$7.97
Flex	12,674,254	2.9%	357,585	0	982,000	\$12.45
Warehouse	182,639,319	3.7%	8,034,999	9,239,758	5,663,465	\$6.36
Total industrial market	195,313,573	3.7%	8,392,584	9,239,758	6,645,465	\$6.77

Industrial investment dollar volume

\$778M

Nashville industrial dollar volume in 2021.

The industrial market witnessed substantial investor interest during the year with investment sales totaling \$778 million, an increase of 35% from year-end 2020. A significant sale during the year, Oracle's 10-property portfolio purchase, which included land and industrial buildings, sold for over \$220 million*. Oracle will redevelop this 50+ acres on the East Bank into a massive 1.2 msf corporate campus and operations hub.



Source: AVANT by Avison Young, RCA

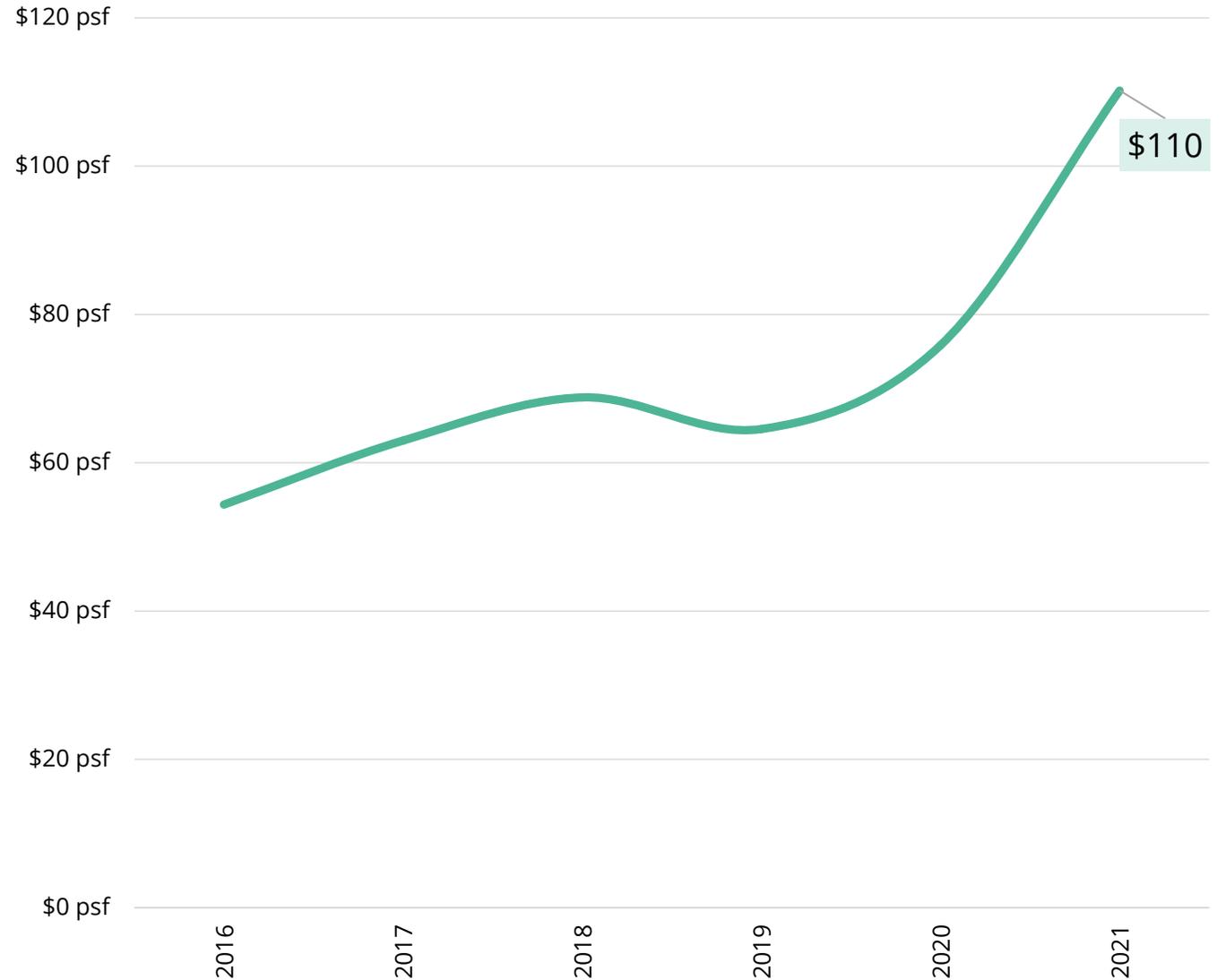
*AVANT tracked properties within this portfolio total \$128M.

Industrial asset pricing

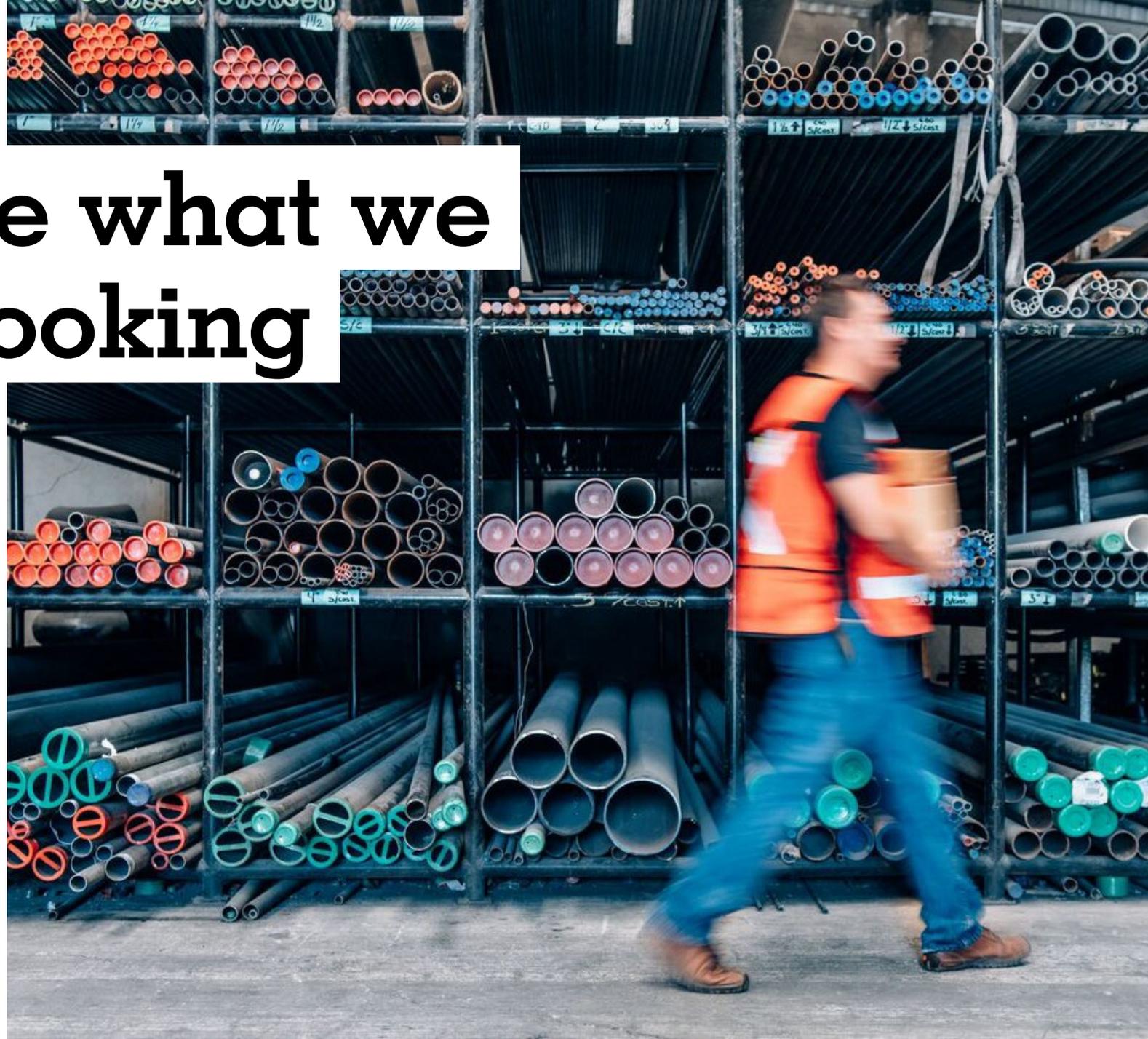
+45.3%

Nashville industrial pricing year-over-year.

Pricing for Nashville industrial assets continues to increase, with the market recently seeing a large jump in psf pricing as numerous urban industrial properties traded at a premium in recent quarters.



Now, let's see what we can expect looking forward



Here's what we can expect looking forward

- **Innovations in automation and 'net zero' facilities are coming.** Currently underway, Walmart's 925,000-sf distribution center in Lebanon will feature automation technology that will vastly shorten delivery times. Lebanon will also be the home to a cutting-edge distribution center for REI. The environmentally friendly facility is expected to generate it's own power and reduce water usage. This project is expected to break ground mid-year 2022.
- **Second generation assets see new demand.** Due to the steep increase in costs for both product and labor with new construction, second generation buildings are reaping the benefits and increasing their rental rates.
- **Last mile properties are being squeezed out** as Nashville continues to lose in-town warehouse space to higher and better uses.



**You have questions.
We have answers.**



Get in touch



Brennan Forster

Senior Data Analyst
+1 615 727 7430



Warren Smith

Managing Director, Principal
+1 615 727 7409

Industrial insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Industrial inventory:** existing industrial properties that are 20,000+ square feet, including owner-occupied properties and excluding data centers, telecom facilities and government owner-occupied properties
- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Industrial rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple-net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple-net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial space
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as triple-net (NNN)
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs

Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

Vitality Index

- **Visitor volumes:** based on extrapolated, anonymized cell phone pings provided by Orbital Insight at custom, geofenced locations, the Vitality Index tracks visitor volumes at representative areas of interest across cities; for the Retail Vitality Index, 3-10 representative areas of interest were isolated for each retail experience (10-minute dwell times) and last-mile distribution centers (one-minute dwell times) were geofenced to demonstrate online shopping habits

Explore the latest data and insights

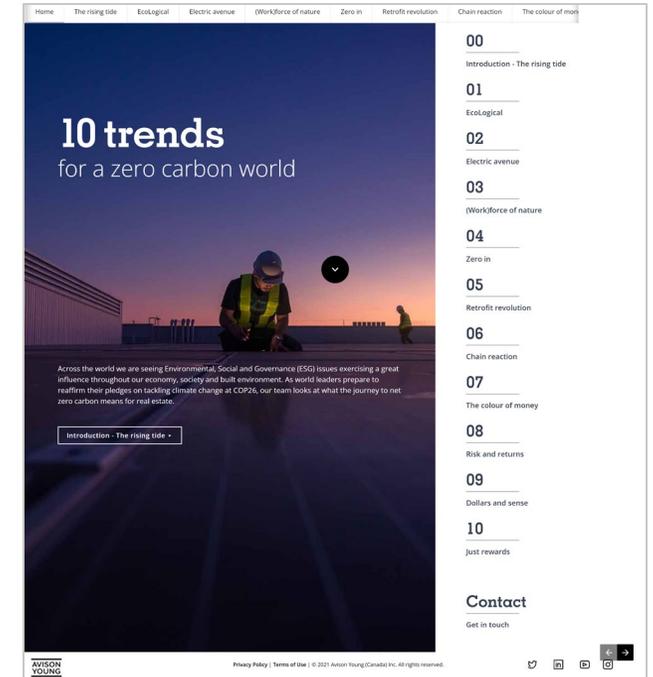
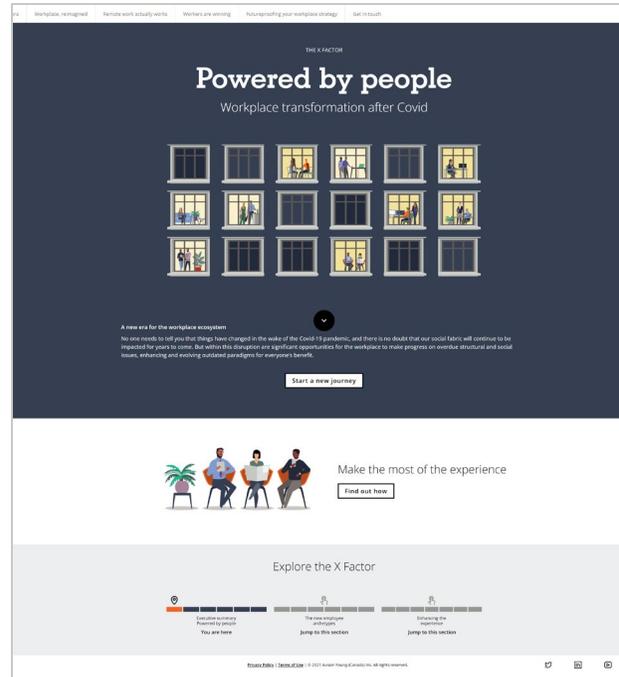
The retail vitality index

Measuring retail activity and how people shop
Our team analyzes how in-person and online shopping habits have evolved across North America using cell phone mobility data.

U.S. employment overview

Tracking trends in real-time
Our team takes a look at real-time movement of people in major cities across North America, and how the volume of foot traffic compares to pre-pandemic levels.

Deep-dive into the thought capital shaping real estate



For even more market
insights and information
visit **avisonyoung.com**