



////// THE RISE OF SPEC SUITES IN MUSIC CITY

NASHVILLE
MARKET TRENDS

JUNE 2023



CUSHMAN &
WAKEFIELD

Traditionally when landlords market and lease office space, they will provide floorplates in shell condition, without the interior built out. It's then the tenant's responsibility to complete the space with paint, plumbing, carpeting, electricity, and other finishes, usually with the assistance of a Tenant Improvement Allowance (TIA) from the landlord.

Speculative suites, often called spec suites, take a different approach. Spec suites are move-in ready office spaces that are built out and designed by the building owner prior to a tenant signing a lease.

////// KEY POINTS

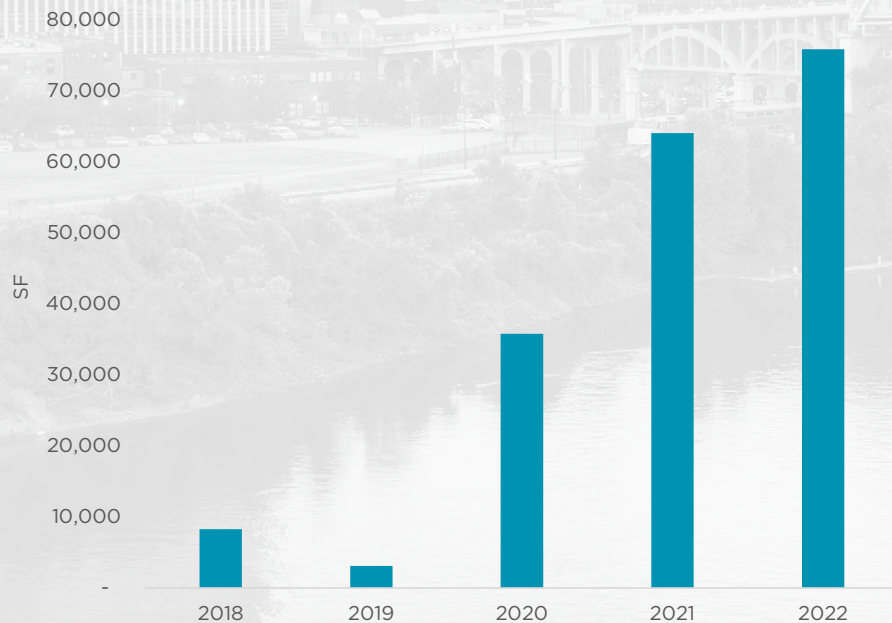
- » Spec suites have become increasingly popular throughout Nashville's urban core as it allows tenants to take occupancy and become operational within 30-90 days.
- » These spaces allow flexibility for tenants by providing shorter lease terms, an attractive option for startups, new-to-market, and company expansions.
- » Landlords may charge roughly 10% - 15% higher lease rates on spec suites than direct space.



////// THE RISE OF SPEC SUITES

Prior to the pandemic, spec suites were utilized by landlords to market smaller or less desirable space to tenants. However, as the office market in Nashville has become increasingly competitive, spec suites have gained in popularity. Construction costs, permit delays, and prolonged buildouts have become significant obstacles for tenants seeking office space. **Spec suites allow for these costs to transfer back to the landlord, removing these barriers to entry for many companies.**

SPEC SUITE DEAL VOLUME INCREASING



Shell Space



Spec Suite



AVAILABILITY OF SPEC SUITES IN MUSIC CITY

Properties spanning from second-generation towers to newly constructed assets are all utilizing spec suite programs within Nashville's Urban Core.

EXISTING

L&C Tower



Suite 1000 - 6,000 SF
Suite 1100 - 6,000 SF
Suite 1700 - 2,795 SF
Suite 1710 - 2,995 SF
Suite 2200 - 6,000 SF

333 Commerce



16th full floor - 21,519 SF
8th floor - 21,519 SF
(gaining permits)

UBS Tower



Suite 1500 - 6,901 SF
Suite 1525 - 1,529 SF
Suite 1210 - 3,471 SF
Suite 1210 - 3,382 SF
11th floor - 17,452 SF

One Nashville



Suite 430 - 5,831 SF
Suite 1050 - 8,098 SF
Suite 1440 - 5,221 SF
Suite 1600 - 3,101 SF

Peabody Plaza



8th floor - 31,954 SF
Suite 950 - 15,590 SF

Nashville City Center



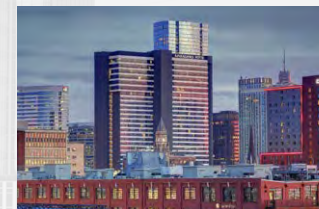
Suite 715 - 3,746 SF
Suite 920 - 4,503 SF
Suite 1500 - 12,362 SF
Suite 1860 - 4,495 SF
23rd floor - 19,353 SF

Fifth Third Center



Suite 200 - 6,757 SF
(coming in May)
Suite 900 - 2,973 SF
Suite 1350 - 3,042 SF
Suite 1760 - 3,101 SF

CitySpace



Suite 3101 - 3,810 SF
(coming in 2024)
Suite 2603 - 4,219 SF
(coming in 2024)

NEW CONSTRUCTION

Gulch Union



Suite 1205 - 7,057 SF
Suite 1405 - 5,790 SF
16th floor - 28,118 SF

501 Commerce



Suite 1620 - 5,337 SF
Suite 1630 - 5,769 SF

Moore Building



Suite 900 - 5,356 SF
(coming Q3 2023)
Suite 910 - 6,468 SF
(coming Q3 2023)
10th floor - 27,343 SF
(coming Q3 2023)

17th & Grand



Suite 635 - 1,445 SF

Broadwest



Suite 330 - 7,649 SF

1200 Broadway



Suite 700 - 8,075 SF

////// HIGH COMPETITION & DEMAND SLOWING

OFFICE INVENTORY

2015 34,545,849 sf

2023 48,430,901 sf

Nashville office inventory has increased since 2015.

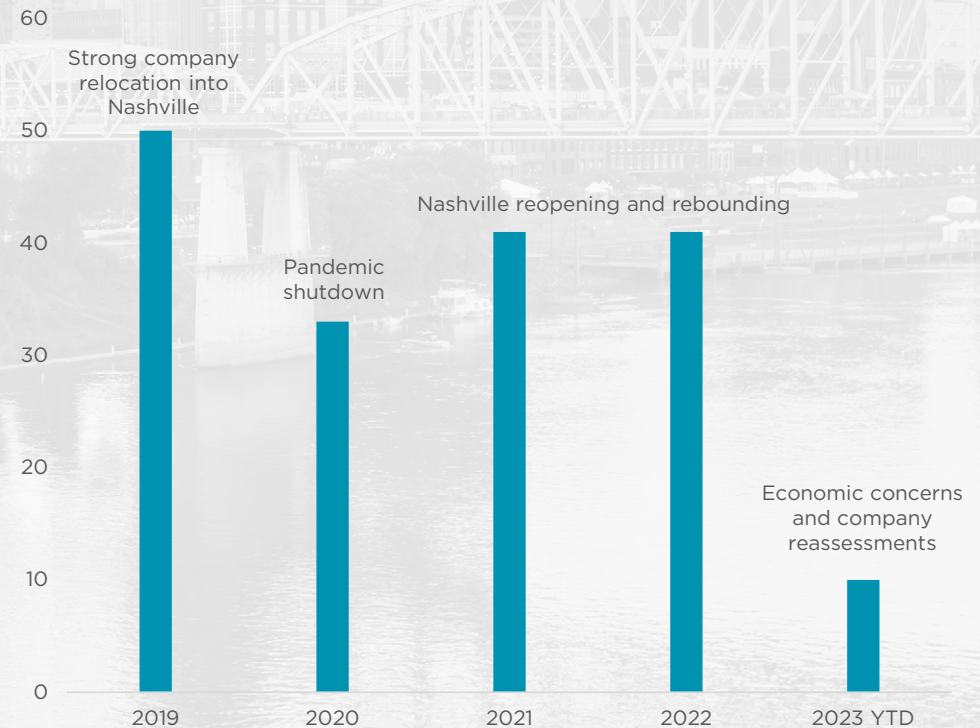
↑ 40%

In recent years, Nashville has attracted huge corporate relocations and expansions due to a lower cost-of-living, tax friendly initiatives, quality of life, and low real estate costs. This economic growth has spurred office market growth as significant names including AllianceBernstein, Oracle, Revance Therapeutics, Amazon, Capgemini, and others have moved to Nashville.

Since 2019, Nashville has added roughly 8.0 msf of new office product as developers raced to match demand. However, Nashville has not been immune to recent economic shifts and headwinds. Leasing activity is down 13.0% YOY with trends projecting 2023 to be a slow year for both leasing volume and capital markets. Many of these newly constructed buildings have been slow to lease up, resulting in a vacancy rate of 18.9%. These factors have created an extremely competitive office market where landlords are being forced to come up with new ways to increase occupancy.

Along with increased concessions and tenant improvement allowances, spec suites have become a new way to drive tenant demand. These suites can appeal to companies that are growing rapidly and have outgrown their home offices or coworking spaces. They allow for tenants to sign flexible lease terms as many companies in today's economic climate are reassessing their office footprints due to cost cutting and work-from-home strategies.

NUMBER OF NEW DEALS SIGNED ABOVE 15,000 SF

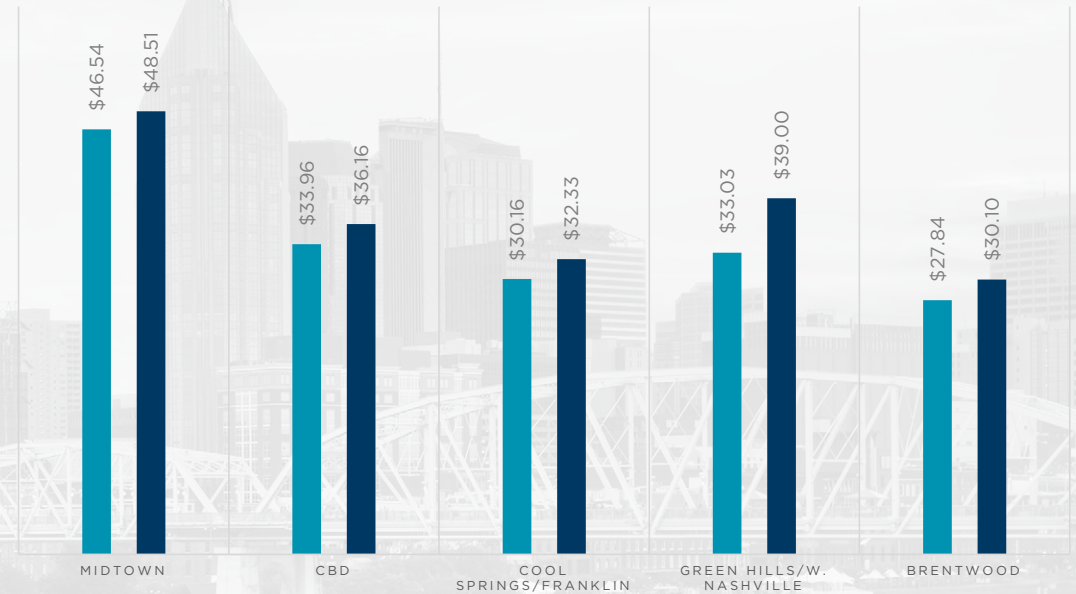


////// SPEC SUITE BUILDOUT COSTS OFFSET BY PREMIUM RENTAL RATES

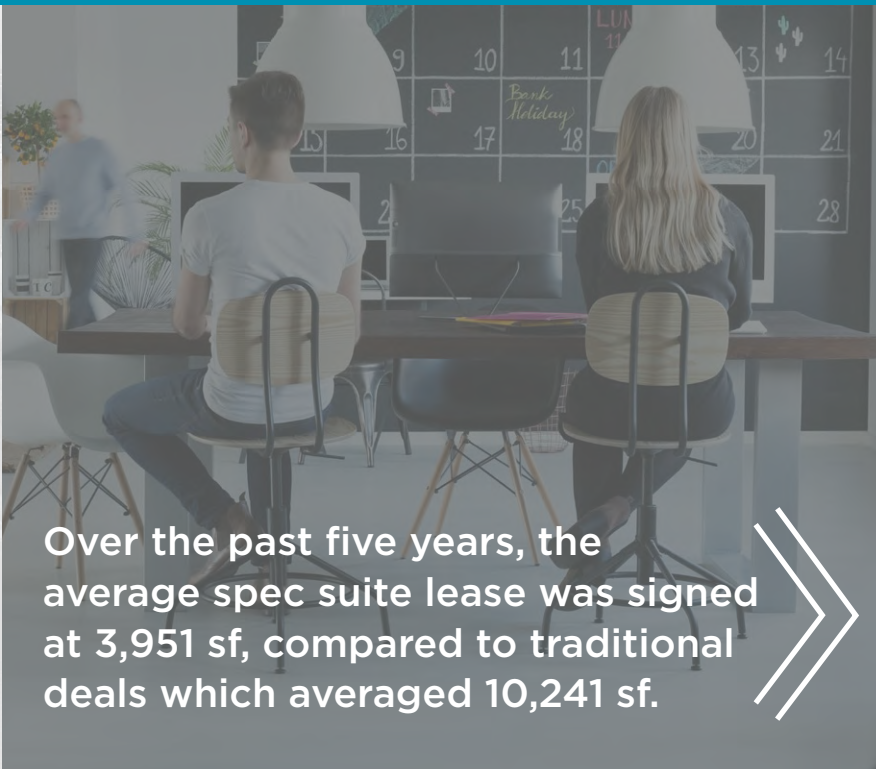
The cost for landlords to build out spec suites is significantly higher than providing unfinished shell space. On average in the CBD, spec suites can cost \$80 - \$110 per square foot (psf) to build out compared to roughly \$30 - \$50 psf for shell space. However, landlords can underwrite these costs due to the increased demand and rent premiums that spec suites command. For example, in Nashville's top performing submarkets (Midtown, CBD, CSF, Green Hills/W. Nashville, and Brentwood) landlords can capture an average of \$1.50 - \$3.00 psf more than their rates on direct space.

DIRECT VS SPEC SUITE

■ Direct Space ■ Spec Suite Space

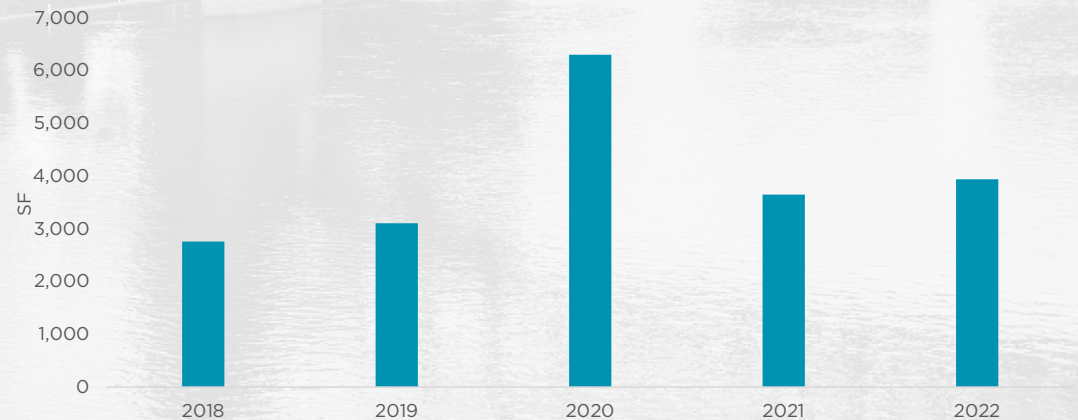


It's not all about chasing the whale for landlords



Over the past five years, the average spec suite lease was signed at 3,951 sf, compared to traditional deals which averaged 10,241 sf.

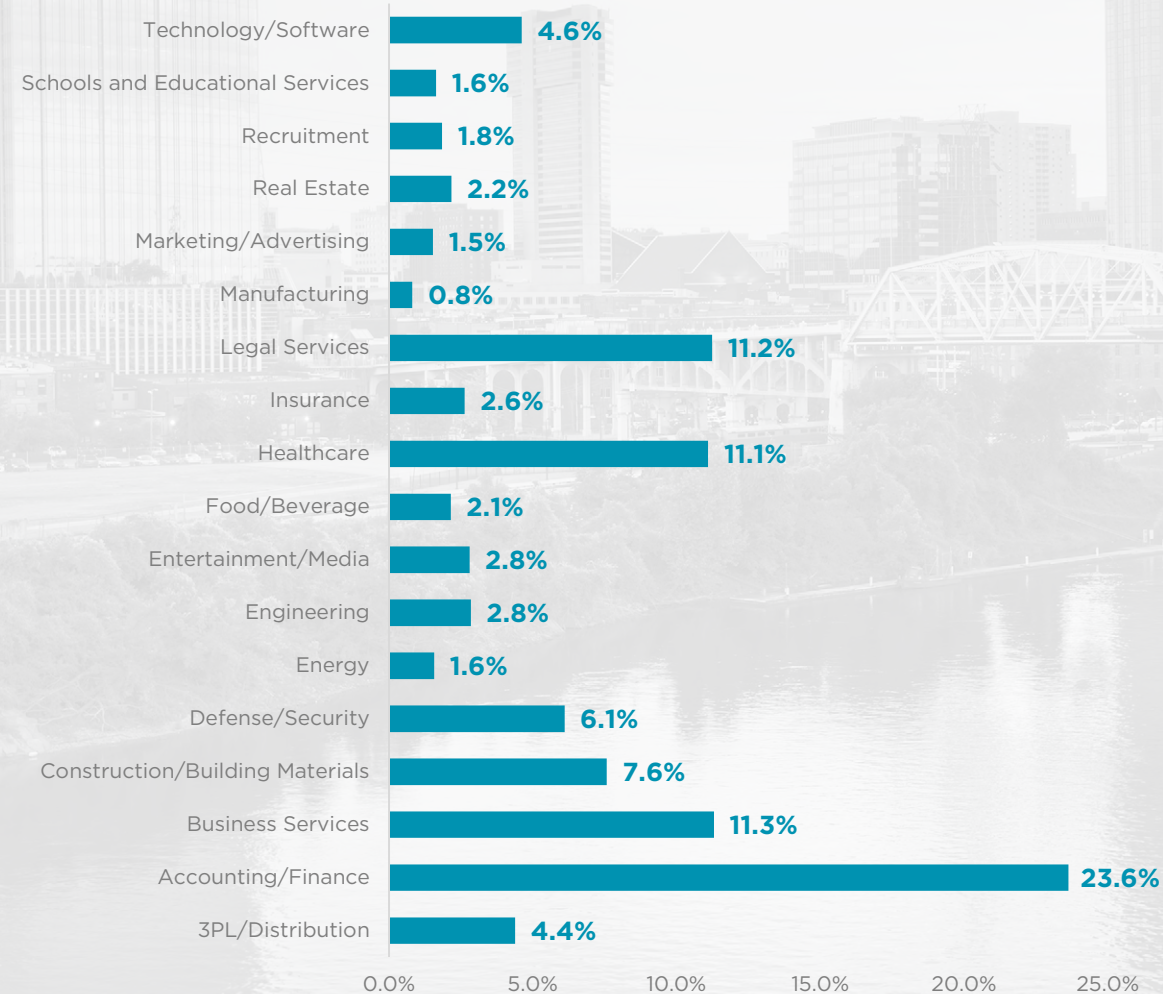
AVERAGE SIZE OF SPEC SUITE DEALS



////// SPEC SUITES: ALL INDUSTRIES TAKING SPACE

Since 2018, spec suite lease terms have averaged roughly five years with a wide variety of industries occupying space. The most active tenants were those in Accounting/Finance, Business Services, and Legal Services.

SPEC SUITE LEASES BY INDUSTRY



////// OUTLOOK

Nashville's utilization of spec suites will continue to rise as they gain popularity with both landlords and tenants. With the office market facing headwinds, spec suites provide landlords with a way to regain lost occupancy from smaller-sized tenants that may be new to the market. Even though ownership takes on the burden of spec suite buildout costs, tenants are willing to pay premium rates to help offset those costs.



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