NASHVILLE SHIFTS IN LOCATION, SIZE TO SUPPORT ITS RED-HOT INDUSTRIAL MARKET

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"When you're hot, you're hot." These old lyrics from Jerry Reed ring loud and clear these days for industrial real estate in Nashville and Middle Tennessee. Over the past five years, Nashville has been on a tear with industrial activity. At the start of 2021, Nashville appears to be pushing the fast forward button, even with COVID-19.

There is a growing list of buyers, developers and users looking to enter the Nashville industrial market at unprecedented levels. With that said, can the supply of industrial product and land keep up with the demand? Where will the product be built? And what will it look like?

Historically, Nashville has never seen a large supply of speculative big boxes built in comparison to our neighbors such as Memphis and Atlanta. Unless a build-to-suit, larger buildings have had a longer lease-up time in comparison to our neighboring cities. Nashville is a meat and potato market with the vast majority of our deals in the 75,000- to 150,000-square-oot range. Sure, like any market today we have seen our large third-party logistics deals with the likes of Amazon, Geodis and FedEx leading the way. Typically, our market may see one or two of these larger deals a year.

Nashville has natural barriers of entry as its topography and rock formations have been the leading factors hindering industrial development historically. Typically, the site work costs more than the real estate. Today, we can add the lack of available zoned land to the list of entry barriers. These governors have made it challenging and expensive to build large floorplates, in many ways, limiting the big players in our market.

Heading east

Over the past 20 years, the Southeast corridor of Nashville (Interstate 24 East to Murfreesboro) has been the go-to market for industrial development. The financial capital feels comfortable there as it looks like the forefront for industrial real estate. At of the end of 2020, the Southeast Nashville industrial market was out of industrial land sites for the most part. Where does Nashville's industrial development now will head east, following Interstate 40 into Wilson County.

Duke Realty, First Industrial, Panattoni, IDI Logistics and The Opus Group had all gone to the Wilson County / East submarket during the boom period of 2005 to 2008 with larger developments (500,000 square feet and up). With the Great Recession, many speculative buildings that had been completed by 2008 remained vacant or underperforming for years.

Slowly but surely, the Wilson County / East submarket came back to life. In 2016, Panattoni hit a homerun with the acquisition of the 1,400-acre former Nashville Superspeedway in Wilson County. This transaction was one of the largest land plays in Nashville's history. Today, Speedway Industrial Park has over 2 million square feet on the ground and nothing is holding Panattoni back for more industrial development to come in the future.

In the past three to four years, Huntington Industrial Partners, Ridgeline Property Group, Al. Neyer and Strategic Capital Partners have all developed upwards of 400,000 square feet in Wilson County. As we begin 2021, the county has over 4 million square feet under construction, planned or under contract. These numbers signal the shift to the Wilson County / East corridor is well underway.

What's being built?

To date, many of the projects being proposed in Wilson County are under 300,000 square feet, but why? The Nashville market has witnessed a development shift highlighted by two major developers pivoting to smaller development.

First, Distribution Realty Group (DRG) in 2019 made a change to its Interchange Center Park in the Southeast submarket. With a 517,000-square-foot spec building leased to Amazon and a pad-ready site for a 1 million-square-foot, cross-docked facility, DRG made the decision to bust up the pad and redevelop the site into five rear-load facilities totaling over 830,000 square feet.

As DRG's managing partner, Michael Augustine, described it, the company wanted to compete where the velocity of Nashville's industrial leases occur, namely 50,000 to 150,000 square feet. So far the strategy has been successful for DRG as the facilities were 40 percent preleased before construction completed at the beginning of 2021.

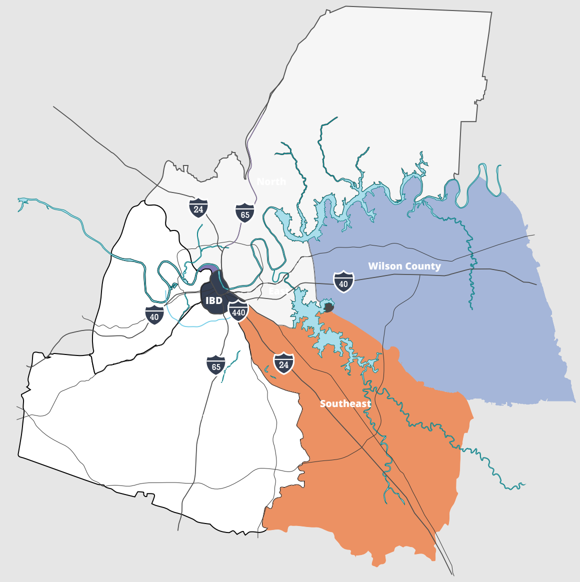
Next the market saw Prologis pivot in 2020. With the complete destruction of its 410,000-square-foot cross-docked facility in Wilson County by the March 2020 tornado, Prologis made the choice to rebuild two 270,000-square-foot, rear-load buildings instead of one large building. Again, this demonstrates a developer reading the tea leaves.

Similar success stories include Holladay Properties' Airport Logistics Park (ALP). This industrial park, adjacent to Nashville International Airport, comprises five built and leased facilities with two more under construction. All of these properties are under 150,000 square feet. Holladay's success at ALP spurred the new development of the neighboring Hamilton Creek Commerce Park. State Street Group just completed four buildings at the park totaling over 350,000 square feet.

In close proximity, Airpark East, which was developed by Strategic Capital Partners, has three buildings consisting of over 600,000 square feet that will be completed by the second quarter.

Watch for the Wilson County / East market to be in the spotlight of industrial development for the next 12 to 18 months, with an emphasis on mid-sized development.

Nashville Industrial Submarket Map



For the past 20 years, Nashville's Southeast industrial submarket (shown left in orange) was the go-to area for development. With limited land sites available, new industrial construction is migrating northeast to Wilson County (shown left in blue).

Map courtesy of Avison Young