

# The Weekly Take

## Land of Hope and Dreams: Nashville is booming. What's next for the Music City?

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### **Spencer Levy**

Complications in the capital markets have chilled the investment climate recently, causing some in the commercial real estate business to sing the blues, especially when it comes to office. Nashville, Tennessee has been bucking the trends, growing with a compelling offering of real estate value and high quality of life. On this episode, a powerful investor sings Nashville's praises and shares the strategic thinking behind the bets his firm has placed in and around the Music City.

### **Alex Chambers**

Their growth just continues and continues, and all the leading indicators indicate that they'll be happening over the next couple of years.

### **Spencer Levy**

That's Alex Chambers of Highwoods Properties, a Senior Vice President who runs the firm's Nashville business with holdings of more than 5,000,000 square feet, which he says includes 10% or more of the city's class eight properties. Highwood's is an investor and developer based in Raleigh, North Carolina, and his company wide portfolio includes more than 28,000,000 square feet, primarily in the southeast.

### **Elizabeth Goodwin**

The government has put in a lot. Our local mayors have invested in sports and entertainment as well as Music City Center. And so even when we had low times, historically, Nashville's been okay.

### **Spencer Levy**

And that's Elizabeth Goodwin, a Senior Managing Director and CBRE's market leader for Tennessee. She'll help us understand Highwoods strategies and investments across the Volunteer State and put it all in context of the wider story of office and the capital markets at large. Coming up, another Music City miracle. A study of Highwoods properties, its investment case for Nashville and the opportunities it foresees in other high growth, smaller markets like Nashville in the years to come. I'm Spencer Levy, and that's right now on The Weekly Take.

### **Spencer Levy**

Welcome to The Weekly Take, and I'm delighted to be here in Nashville. One of the fastest growing and dare I say, coolest cities in America with its wonderful music scene and increasingly, one of the most dynamic business scenes in America and beyond. And to join us to talk about Nashville, we have two terrific guests, starting with Alex Chambers. Alex, thanks for coming out.

**Alex Chambers**

Thanks for having me. This is exciting.

**Spencer Levy**

Well, great to have you. And we have our very own Elizabeth Goodwin. Thanks for coming out.

**Elizabeth Goodwin**

Thanks, Spencer. I am Nashville born and raised, so one of the few that have been here to witness all of it. And we appreciate Alex for being here. And we love working with you and we love working for you.

**Alex Chambers**

We just signed a deal a few minutes before the show.

**Elizabeth Goodwin**

Yes, yes, and the lease is done.

**Spencer Levy**

Tell you what, anybody who shows up on The Weekly Take, you'll have the same – we hope you have the same experience. Let's go with that. Alright. We're going to try for that. So speaking of the same experience, Nashville – before we get into current market conditions – you've been here your whole life. Tell us about the growth of the market in the last 10, 20 years.

**Elizabeth Goodwin**

Sure. Yeah. Specifically, in the last 10 to 15 years, the government has put in a lot. Our local mayors have invested in sports and entertainment as well as Music City Center. And so even when we had low times historically, Nashville has been okay because it's kept our industries busy. And then those types of projects bring hotels and then office and millennials, which everybody follows them. And so we've had a good growth market for the working class.

**Spencer Levy**

And speaking of growth, I'm looking out the window from our offices here right on the river. And there's – I can see cranes all over. They're building everything. And is that a multi job over there?

**Elizabeth Goodwin**

Yeah. So that's multifamily. That's also a CBRE project actually, Ray Hensler and Stiles is his partner. And so its multifamily is the taller structure and the shorter structure is office. And then there's retail, several floors of retail.

**Spencer Levy**

So, Alex. In a nutshell, why Nashville from an investors perspective? Anything that you would say, this is why Nashville versus a comparable city an Austin, a Tampa, Atlanta.

**Alex Chambers**

First off, the growth and the vibe of Nashville is incredible. People from outside of the city, particularly in the southeast, but really all over the country, want to move here. And that just drives more young people. From an investment point of view, I've spent most of my career in Atlanta and Austin, and both of those are markets. As a local, you sometimes

miss the upside potential of a market because you can't believe that that building could ever be sold for \$400 a foot, and that it sells for \$600 a foot five years later. So I think that there's some of that opportunity here where the folks that have been here for a long time that are not in other markets, might not see the upside potential. So there's, you know, I would say potential in just buying existing assets, but also developing opportunities because our growth just continues and continues. And all the leading indicators indicate that they'll still be happening over the next couple of years.

### **Spencer Levy**

I walked from my hotel about five blocks from here, here, and I passed half a dozen different entertainment venues, and that doesn't even count the main drag – doesn't even count Broadway, where we had all of those different places. But that's not where all the development – that may be where the most high profile development is up but that's just a segment of the market.

### **Alex Chambers**

It is. We're seeing growth in the suburbs, in the core CBD, right outside the CBD. We're also starting to see a lot of emerging markets like Westwood, Houston, a little south of town – yeah, a little south – and then East Bank, which will be across the river from here, which is a ten year buildout to just extend the CBD.

### **Spencer Levy**

So, it's not just the entertainment, it's broad based, deep. And when I say broad based, Elizabeth, I'm going to really make it broad here. It goes well beyond just Nashville. It's the broader Tennessee market.

### **Elizabeth Goodwin**

Correct. Yeah.

### **Spencer Levy**

And so when you see the broader Tennessee market, how much do you see connectivity from either a tenant or investor standpoint with Nashville, Memphis and some of the other markets within the state?

### **Elizabeth Goodwin**

A little bit of it is the hub and spoke model, where you've got headquarters in Nashville, and then they're going – just like us. I mean, we have an office in Nashville that we run the other offices out of. And so there is definitely synergy. And in terms of economic development, there's a lot of partnerships between all of those cities.

### **Alex Chambers**

And I'll add that one of the things that's interesting about Nashville in particular, somebody like AllianceBernstein moving to Nashville. They might be paying double of what anybody ever thought the market would be, but it's still a half or a third what they would be paying in New York and Chicago and some other places. So there's a great opportunity for new inbound companies to come here, save money. Their employees get the benefit of no state income tax and quality of life. And it's just a fun place to be.

### **Spencer Levy**

And what I find remarkable about that – and this goes right to you, Alex – this is my, I don't know, fifth City in the last five days, which included Los Angeles, Dallas, Tampa, and this is my – well I guess that's fourth city – four cities in a row where they're building new office.

Now, let's just cut right to the chase. There's some softness here in the Nashville office market, yet they're building new. How do you see that, Alex?

**Alex Chambers**

Quite frankly, Nashville grew so fast that it probably needed a little lull in the market to catch up. What we're looking at is, really started in the last two years. So it gives the market an opportunity to kind of absorb some of the growth and move on the infrastructure catch up and some other things. But having said that, the momentum is still here and it's picking up tremendously since December. We've been doing a lot of musical chairs in Nashville but we're starting to see inbound deals again and sizable inbound deals.

**Spencer Levy**

Inbound, meaning tenants coming in from outside the market?

**Alex Chambers**

Correct.

**Spencer Levy**

Okay. And you mentioned Alex, December is sort of this demarcation line when things picked up. I've seen that in other segments of the market, too. I've seen it in industrial, where – that's when our industrial teams said look, cap rates in industrial compressed by 50 basis points since December – and that was when Powell said, we're done. Now, while interest rates have stayed stubbornly high, I think that the market is adjusting to a higher interest rate environment, which is making deals now happening. What's your point of view on that?

**Alex Chambers**

Well, I absolutely agree. People just need a little bit of certainty. And if they feel like interest rates aren't going to continue to climb, they can make some decisions long term. Everybody's a little hopeful that they're going to come down. You know, how quickly we don't know, but at least gets people in position to get active again, that it's not going to get worse. So, a lot of people that have been waiting on the sidelines – we've worked with economic development at all levels and people have been kicking the tires for years – but that's usually with the economic development folks. Now they are working directly with us and brokers and trying to get actual deals done.

**Spencer Levy**

Let's talk about now, the industry mix here in Nashville and Nashville, like a lot of other markets like Austin, Texas has this world class entertainment undertone to the market in a very positive way, but that's just part of the market. But tell me about the diversity of industry here in Nashville.

**Elizabeth Goodwin**

Sure. So we have a great health care industry. A lot of U.S. private health care companies are run out of Nashville. HCA, LifePoint are all run out of Nashville – one of your tenants. We also have the entertainment industry, but that brings a lot of tech. There's some similarities there, and we have some large tech companies that are based out of Nashville. Our retail group is also doing really well, because Nashville has the boom of restaurant tours that come here that are also supporting some of the multifamily based buildings and mixed-use facilities.

**Spencer Levy**

There's been innovation in this market going on for a long time. This isn't new, so I'm not sure the name of the mall, though you may know where Vanderbilt took over an old mall and a health care facility in an old mall.

**Elizabeth Goodwin**

Yes, 100 Oaks.

**Spencer Levy**

100 Oaks. So that's a great example of how Nashville is not just a health care base, not just a retail base, but they're taking older retail and putting health care and other uses in that. Alex, how are you seeing that as a driver of the office market here in Nashville?

**Alex Chambers**

It's a huge driver for all of us here in Nashville, because it's not just the hospitals, it's the entire health care ecosystem. The folks that do medical care in prisons and the software and the lawyers, the accountants. So it just goes on and on and on. It's amazing how much of our business is driven by health care, including tons of startups, that people have great experiences with ACA or others, and then they go out and do things on their own. And there's a lot of capital here for that, particularly within the health care industry. So it drives a lot of our great, both small and large.

**Spencer Levy**

I'm not familiar with the university's role in this, but maybe you can comment on that, Elizabeth, because typically when you're seeing health care, the universities are going hand in hand. Is that kind of the case here?

**Elizabeth Goodwin**

Yes, I actually got to tour. Belmont just opened a new MD program and it was sponsored by the Frist family who runs HCA. So it's going to be a feeder school, I would imagine, for doctors to come. But obviously Vanderbilt being a huge hospital feeder as well. And then we also have a great education system because we've got Lipscomb, we have MTSU, which is a very large campus in Murfreesboro. We got a lot of young people here that are getting educated.

**Spencer Levy**

We have written many papers and what we call Eds and Meds medicine.

**Elizabeth Goodwin**

Yes.

**Spencer Levy**

I guess it's just they're one in the same, but they are two huge drivers in a market like Nashville, which, well, candidly 30 years ago, were probably, in addition to the music business, the only drivers in Bismarck or certainly by far the most significant drivers. But Alex, what you're suggesting is you've expanded well beyond health care, well beyond music for these peripheral uses or the service uses of the accounting firms, the law firms. How big of a use is that here?

**Alex Chambers**

It's actually a huge use for us. And well, I'll also add we don't do anything directly with Vanderbilt University, but we do a ton with Vanderbilt Medical and they're separate institutions now, and we have them in multiple buildings. So Vanderbilt medical System is

a huge driver, both of employment and office space for us. It's exciting to see all these offshoots and the Frist family is a big investor. And, a lot of these startups and others that have made HCA dollars, it's very similar to – in Austin, a lot of the folks there that made a lot of money were called the “Dellionaires”. And you have that kind of group of folks here, too, that have done very well over a long period of time, and they invest in a lot of different interesting startups.

**Spencer Levy**

So given your diverse experience coming from Austin and some other markets, let's just compare Austin and Nashville for a moment. How would you characterize where each of those cities are in their evolution? Similar or different?

**Alex Chambers**

Similar. Nashville is probably 20, 30 years behind Austin in terms of just size and growth. And they had such an influx from California, because of the proximity that they grew. As I mentioned earlier, Nashville needed a lull, Austin needed a local and really didn't get one even during the GFC. They've grown so fast. I think they're having more issues with vacancy and housing and different issues there than we are here. But the growth pattern of doubling in size every 20 years has basically been the same in Atlanta, Austin and Nashville and see that continuing. People in Nashville are concerned about it, but they're also excited about it. It provides a lot of opportunities, but also you got to be very cautious and forward looking on the infrastructure and housing, etc..

**Spencer Levy**

Well, I'm glad you mentioned infrastructure because that's where I was about to go. I flew into your airport today, and I've been coming to the national airport for a long, long time, and I was pleasantly surprised.

**Elizabeth Goodwin**

It's nice. Right?

**Spencer Levy**

It is spectacular. How much money they put into that?.

**Elizabeth Goodwin**

So far? At least 2 billion. Yeah. I think there's about 2 billion more that they're going to invest. And we've got a Hilton too over there. Did you see that?

**Spencer Levy**

I did, I did. And what's remarkable about that, and this is not to denigrate Austin, but their airport is a very nice airport. It's nowhere as near as what Nashville's is now. Nashville's got to be three, four times the size of what Austin's airport – you know, theirs is real nice and they got the guy playing the guitar there in the middle of it. You know, all that's great, but the size of that airport will make Nashville an international city. What do you think, Alex?

**Alex Chambers**

Completely agree. Even the two years I've been here, it's had a complete facelift. Looks and feels like a completely different airport. And it's very exciting. We need it. It brings people. It just makes it easy to live here and do business here. And obviously a lot of the airport success is because of the tourism with the hospitality and music. It's interesting. I'll meet people and I'll tell them I'm living in Nashville and they go, oh, I love Nashville. And

then I'll find out they've never even been here. It's just got such a great vibe. The people, even internationally, like, I love Nashville. You know, you've been there? No. And Austin had a little bit of that as well, but I think there's a lot more, I think, tourism here than in Austin. Atlanta is so big, it's probably more tourism, but less impact. And having a great airport is really helpful when you're doing business.

### **Spencer Levy**

Let's talk now about how the city is evolving from a neighborhood perspective, because, what a lot of cities are experiencing today is what the traditional CBD is or was, is in some ways moving. How do you see the city changing, which neighborhoods are thriving, and what are you doing for some of those projects that are in the traditional CBD?

### **Alex Chambers**

Well, I would say that really all of our markets are – we call them best business districts – are thriving – CBD, West End, Cool Springs and Brentwood, there's growth in all of them. More construction, probably in CBD, just because there's more opportunities. It's very tough to get to Brentwood. And Franklin Springs has not had quite the momentum of office recently of new build, but the opportunity to be down here, particularly for young folks coming to town and be close to the jobs in the workforce and the entertainment – and Bridgestone Arena and the Ryman Auditorium and the Titans Stadium and the future East Bank – the gravitational pull of Nashville, it really is still the downtown area.

### **Elizabeth Goodwin**

Something interesting about Nashville is we didn't have multifamily in our CBD until the 90s because we weren't permitted to. So there was a huge increase in multifamily. So all of our multifamily assets are pretty nice, and we now are expanding. The other project that you mentioned earlier that you can see from here is public private partnership with the city and Fallon, who's a developer out of Boston, and it'll have a lot of multifamily. So, it is just outside of the city and I think that we'll continue to see that because our core is pretty heavily dense. And then we are having multifamily in Franklin. Donelson is another pretty popular area. Wedgewood Houston historically was industrial and is now shifting over to be much trendier. We have a Soho House there and some really awesome restaurants and a little bit of office actually there as well. So it's still everywhere.

### **Spencer Levy**

Elizabeth, you cover the broader Tennessee market. You mentioned Chattanooga. You mentioned Knoxville. Let's talk about just Tennessee, about what's driving Tennessee, which is also a growth story over time.

### **Elizabeth Goodwin**

Yes. Well our taxes, we don't have income tax. And then we're business friendly as well. And, I think that just that brings companies that are in other markets that aren't as friendly to businesses, we want them here. Our economic development team, as a state, on a local level, they all work together and we don't say, hey, come to Nashville, don't go to Knoxville. We say, hey, come to Tennessee and we'll figure out what's best for you. We also have a great interstate system, there are something like four or five interstates that run through Nashville. Memphis is a hub as well for industrial. And then we have people that can work in industrial buildings. So we're friendly to all businesses. Bring them all to Tennessee.

### **Spencer Levy**

Sure. Well, speaking on the industrial side, obviously Fedex is based in Memphis and that's a huge driver of the market. On a more of a manufacturing basis when I'm in the – and this is from the New York guys perspective – his part of a country which is really here all the way east through South Carolina, is seeing a manufacturing boom right now. You seeing that here in Tennessee? Yes.

**Elizabeth Goodwin**

Yes. Yeah. Specifically in Chattanooga, automotive, a lot of automotive. But Chattanooga is seeing a lot. Memphis – they're actually building a whole new city for Ford, outside of Memphis, closer to Jackson. So, absolutely, we have a lot of manufacturing.

**Spencer Levy**

We're sitting here by the river here. But how far away from the Mississippi River from here?

**Elizabeth Goodwin**

We're far. That's in Memphis.

**Spencer Levy**

That's in Memphis. Right. But that's, that's where – while the manufacturing, a lot of it might be on that side of the state because they can get the goods back and forth that way.

**Elizabeth Goodwin**

Right. We do have the CSX railway. So that's another reason. And you've seen a few barges come through today, even. So, we do have access, but it's not the Mississippi.

**Spencer Levy**

And for our listeners, I guess information, not only a barge, but I see a steamboat literally outside. Must be –

**Elizabeth Goodwin**

Yes, that's the General Jackson. Our tourists love that. I haven't been on it since I was a kid, though.

**Spencer Levy**

Okay. It's right there, right outside the window.

**Elizabeth Goodwin**

I know we should do a CBRE event there.

**Spencer Levy**

Let's talk now. More specifically about the evolution of office pulling back from the Nashville, Tennessee lense. You've been in the office business a long time. Highwoods is one of the leaders in the business. But it's changing and it's had a lot of challenges this year. I'm sure you've seen them. The cost of TIs. People working from home. What's the big picture and how are you handling it?

**Alex Chambers**

Well, no doubt, you know, we have some secular issues facing the industry. But its generally feels like a lot of it's settling down or at least, once again, people get comfortable with what it is and they're able to do business around it. The work from home issue is a real thing. We know we're competing against the comforts of home. Now. When people



are working from home, it's easy. All the amenities you can get, food working out, all those things – outdoor space. So, our mantra is to make all of our buildings commute worthy. So, people, we want to help our customers in our buildings get their employees back in the office. There's much more of a mandate to do that from corporate America now. And so there's a trend towards companies telling people to be back in the office to just get back that productivity and the cultural issues. Our job is to make our buildings worthy, even some of our suburban buildings. We spent a lot of money last year and '23, '22 – what we call hybridizing our buildings, bringing them up to speed and making them better. Down in Brentwood, we've renovated five buildings, outdoor seating areas, wifi, areas for food trucks – renovated all the lobbies. So we're spending money on ourselves. Fortunately, we're in great financial shape, so we're able to invest in ourselves over and over again. We did it also in Cool Springs, where we added a park place, which is a beautiful new park that has pickleball, playground. Elizabeth sent me a picture with her son down there.

**Elizabeth Goodwin**

Yes, dressed as Spiderman.

**Alex Chambers**

Dressed as Spiderman. It's got a stage. It's got a jewel box. We built it. We're using it for meeting area now, but ultimately it'll probably be coffee and other things. Outdoor seating, music. Great little meeting areas outside. Hammocks. We're trying to make it fun to come back to the office so you have good things to do.

**Spencer Levy**

Well, if I was a young associate and I spent my day in a hammock, I'm not sure how my boss would have handled that.

**Elizabeth Goodwin**

Well, but they have wifi out there and they have access to plug in your computer. It's really nice.

**Spencer Levy**

So, the amenitization, the entertainment component, the experience component – and that's in the common areas. Let's talk within the spaces themselves. Have we seen any evolution of the physical space? More individual space? Less shared space? Any other innovations within the four walls of the demised space, beyond the amenitization, which I think we're seeing everywhere, post-Covid, of note.

**Elizabeth Goodwin**

You're talking about the buildout in particular. So, yes, we have, so smaller offices that are not dedicated and open space where it can be flexible. So additional soft seating, conferencing spaces that aren't a typical, don't feel like a typical conference room. And the breakout area, break rooms, breakout areas are all opening up to the main space. So there are demised areas, but they're smaller and they're not dedicated to a certain person.

**Spencer Levy**

They're not demised, though.

**Elizabeth Goodwin**

The smaller spaces are. So yes, like your office in particular, that you worked out of today from our office, that would actually be a large office is what we're seeing. So more of the smaller ones and less of the larger offices.

**Spencer Levy**

So, let's talk about the investment market. Notwithstanding the success that Highwood is having, because Highwoods typically has the best product and most of the best submarkets. That's not every asset in Nashville. It's not every asset and every one of these submarkets. And I see incredible investment opportunities right now. I call it an intergenerational investment opportunity to buy some of those – what I think we would all say are not second tier, but B-plus assets, B-plus submarkets that need some capital. How do you see it, Alex?

**Alex Chambers**

Absolutely. I mean, there's going to be a lot of opportunities in Nashville and across the country, probably to some degree less in Nashville, just because people are still occupied, people are paying rent and most of the buildings are pretty full. But we've cleared the deck. We've essentially got \$750 million available on our line of credit, which is all of it. Could either be development or investment opportunities and we're extremely well poised on the development side and all three major markets here. We're carefully watching the market and watching others and looking for the right opportunities. You start to see those things percolate when other building owners can't pay for TIs, they can't pay for commissions. So there's a whole world of grading your landlord before you make any decisions, but it's also the opportunities. It's likely some of the loan maturities coming up in the next two years will not be – a lot of the owners will be able to refinance. And it's probably some of the bigger opportunities for someone like Highwoods.

**Spencer Levy**

So, Elizabeth, in terms of what Alec just said about underwriting your landlord, one of the things I always tell our occupiers, I said that your best counterparty is the strongest possible landlord. And it sounds counterintuitive. I said you don't want a weak landlord who can't pay for somebody else. And REITs, like Highwoods, are different than large institutional investors. How do you advise your clients?

**Elizabeth Goodwin**

Right. Yes. We actually just did a panel and talked about Highwoods and some of our other local developers and landlords, and it is – the broker feels good about the landlord, they're going to share that with the potential tenant. And it matters. It matters to the tenant, it matters to the broker, and it matters to the overall. How long they stay, and if they're happy in the space, and how the property management operates as well.

**Spencer Levy**

One of the things I often say about the office sector is that it is the most local of the businesses, and I mean it in the following sense. Even though you say, well, retail is really local, right? Well, you might have the same retail tenant in every one of your buildings, but the office tenants could be a little bit more idiosyncratic. But given that you have such a large footprint in many, what I would call similar markets, do you have a crossover among tenants that you might have a high wage tenant in Raleigh? You might have a high wage tenant here in Nashville or otherwise.

**Alex Chambers**

Historically, I think the answer to that is no. I mean, we've had some GSA and, you know, some of the bigger financial institutions. But we're seeing more and more of that, just for the reasons we talked earlier, that people are comfortable with Highwood. So if they're coming to a new market, you know, a lot of times they start with us and, in understanding

how we work and do that. So we're actually seeing more and more of that. Now, we haven't been extremely proactive about it as a company. But we probably will go forward.

**Spencer Levy**

Now, you mentioned earlier you have a lot of dry powder because your line of credit is basically unused at the moment, \$750 million. You also said that you might look at development. And historically speaking, REIT's shied away from new development. It wasn't their core business. Is that changing now? Highwoods would look at new development.

**Alex Chambers**

That's always part of our base business, is development, and it's a substantial part of our growth here in Nashville has been development. So we're entering the Dallas market through development, in a partnership with Granite. And we do partnerships where we bring the capital, maybe the expertise. So we do build-a-suits, and these are balance sheet. So, definitely development. I mean, it's the heart and soul of how this company got started. So, it's always part of the company. We don't just buy and own and sell, we generate value through development. And here in Nashville, we're very fortunate with my predecessor that we've got probably the best development site – and CBD on Broadway, in Brentwood, 17 acre site, in Franklin, project, pending project called Ovation – that could be a huge, mixed use, one point 4,000,000 square feet of office, 300,000 square feet of retail, 900 multifamily units, hotels. So, we are poised for development. My gut feel is that we'll buy before we develop, but if the buys aren't there, we can start development as soon as the market dictates.

**Spencer Levy**

Let's talk numbers for just a moment, because as I mentioned a moment ago, I just got back from Century City in Los Angeles, and they're building a new office building right next to ours at 2000 Avenue of the Stars and they're getting – they do things monthly there, so it's 11 bucks a foot monthly. So it's like 130 bucks a foot there. What kind of rents are you achieving here for best, best in market?

**Elizabeth Goodwin**

For office, 40 to 45 is what we're seeing for best in market.

**Alex Chambers**

Well for the new, some of the new developments triple that.

**Elizabeth Goodwin**

Yeah, yeah.

**Alex Chambers**

It's typically been a full service market, but there really have been a \$10 to \$15 jump in the last five years for the brand new Class-A.

**Spencer Levy**

So, that, a triple net deal would be the equivalent of, say, \$60 gross, more or less? And so construction costs here versus, say, if you're building a new best in class office building in New York City, I think the conversation starts over \$1,000 a foot. What are you looking at here in Nashville?

**Alex Chambers**

It, again, it depends. You know, suburban you have smaller buildings, you know, maybe 450-ish downtown, you're probably \$600, \$700 a foot.

**Spencer Levy**

And what about TI packages?

**Elizabeth Goodwin**

Well, and it also depends on parking too.

**Alex Chambers**

Parking. Parking is super expensive and then TI.

**Elizabeth Goodwin**

Because we have limestone underground. So, if you're trying to go underground, it's really expensive. And then TI, it ranges. Some, I mean, we could do some spec suites for 90 a square foot, but I would advise most people to budget around 200 a square foot.

**Spencer Levy**

What's the Highwoods vision for Nashville over the next ten years?

**Alex Chambers**

Well, I hope we get these three development projects going and those could be a total of close to 2.5 million 3000 square feet without getting any additional development opportunities. So off a base of 5,000,000 square feet, that's a tremendous growth opportunity.

**Spencer Levy**

And it does more broadly for Highwoods, with the exception of Pittsburgh, which is in the northeast, most of your product is in the southeastern United States. Is that going to be your focus going forward do you think?

**Alex Chambers**

It will be. I mentioned earlier that we're expanding into Dallas, but it really buys into our Sunbelt concept. We've announced we're ultimately going to be exiting Pittsburgh. Just we want to do it in a smart way and get out when we're not in a down market. We're not in trouble there. It's time to move on and keep our focus in the Sunbelt.

**Spencer Levy**

Alex, your growth here in Nashville is about double the national average, right, so it's the same thing in Dallas too. And it's a good place to be to have that GDP headline. But you also mentioned all of the younger professionals here that are not just being cultivated from the great universities, but coming here, inbound. How much is that driving the story for Nashville?

**Alex Chambers**

Tremendously. I mean, at the end of the day, companies care about real estate costs, but they care about talent. But, what does it cost them? And can they get it and can they keep them? And so at the end of the day, that's much more important than a dollar per square foot or \$10 a square foot of real estate. The math works a lot better if you can hire somebody great and keep them with your company for a long period of time.

**Elizabeth Goodwin**

Absolutely. Definitely.

**Alex Chambers**

Let me add one thing on that. You asked about Tennessee and the state government in the metro government, very, very aggressive, both of them about if somebody new comes to town and they need a specific skill, they will retool some of the universities, and create programs specifically for those companies. And it just helps people make the commitment to come to Nashville in Tennessee, because I know they're going to get that kind of support.

**Spencer Levy**

Speaking of support, is Will Levis going to get some support this year? He's quite a talent. But, you know, little ups and downs, maybe a better offensive line.

**Alex Chambers**

Well, it's hard to say, but he will have a nice new stadium in two years. You can see right outside the window. It's going to be an incredible new stadium.

**Spencer Levy**

Yeah, and on behalf of the Baltimore Ravens, we really appreciate Derrick Henry coming to our squad, I love that guy. We wanted him last year.

**Alex Chambers**

This podcast is over. Yeah.

**Spencer Levy**

So the only thing I want to get into a little bit deeper is the investment case for the market. And Highwood obviously he's got a huge investment here. But they're REIT. Most of our clients aren't REIT. Most of them are private investors. Most of them are – they may be institutional investors. Where are you showing them to say this is the best opportunity in the market today to buy?

**Elizabeth Goodwin**

The Class B, the Class B. There is opportunity for them to – most of them are coming actually, because they need to get out of a different market. They're selling something and they say, hey, we've got \$80 million to invest. Where should we invest it? It's also looking at, well, what do you typically invest in? What do you know? And looking at that and then we match them with what we have available in the market or what we can get. A lot of it's off market deals.

**Spencer Levy**

Have you seen a lot of trades?

**Elizabeth Goodwin**

No. Joking aside. There have been a few and they've been unique. We can't talk about many of them, but there have been a few but they're definitely off market and they're not your traditional, like we've got a we've got something on the market ready to sell and we've got a match.

**Spencer Levy**

Yeah, so, I think that's really the question mark here because I remember during the global financial crisis, a lot of our investors were sitting here with catcher's mitts looking at the sky and like –

**Elizabeth Goodwin**

Right.

**Spencer Levy**

Where are the deals? And right now we're in the same place. Now, obviously it's different. There's a secular shift in the use of office, but deal flows down 50% from where it was at peak, certainly last year, even though we've seen some pickup post December. When are the deals coming, Alex?

**Alex Chambers**

If they're coming, probably 6 or 12 months from now. And, and that's just not natural, you know, now we have an election and that just creates uncertainty going forward. But as we start to get into some of these loan maturities over the next couple of years, and we track that very carefully, that's probably the biggest opportunity for folks that can't get out from under a specific loan and can't afford to go to today's rates. So, we think that'll be the opportunity. If it's not, as I said, we'll pivot to development or maybe we'll do a little bit of both.

**Spencer Levy**

What about getting into other parts of the capital stack, providing some preferred equity to a good developer that just got a little overextended?

**Alex Chambers**

We have that opportunity. We certainly we're open to that. We've done that in the past. Not necessarily because they were overextended, just because, you know, for a variety of reasons. Maybe they didn't have too much invested in a specific market, or they're just looking for a capital partner long term, with a similar mindset. Sometimes, it's – they need a capital partner. We may or may not just say, we'd rather just take you out than, you know, bring you along. We're very open, very creative on how we do deals.

**Spencer Levy**

Are we seeing foreign investors now in Nashville?

**Elizabeth Goodwin**

We are.

**Spencer Levy**

From where?

**Elizabeth Goodwin**

From Israel. Tokyo was a pretty cool experience, actually. Really, several places in Asia. England, we had somebody from England. So, there have been and they come, for the first time, they come to Nashville. This is their first experience and it's to buy real estate.

**Spencer Levy**

I remember when the premier of Tokyo came to the United States, George W Bush took them to Memphis to go to Elvis Presley's, to Graceland. Like, literally, that was like the first place the guy wanted to see. And so I think it's pretty cool when – I know it's Memphis, not

Nashville, but Tennessee is the first stop from the premier of Japan, and that means something.

**Elizabeth Goodwin**

And Jack Daniels, everybody in Europe wants to see Elvis and Jack Daniels.

**Spencer Levy**

El, well, those are two pretty good things, right?

**Alex Chambers**

Absolutely.

**Elizabeth Goodwin**

I know, I know.

**Spencer Levy**

So, final thoughts, Alex, on Nashville and where Highwoods is going in the market?

**Alex Chambers**

We're just very, very excited about the prospects here in Nashville. I mean, we like I said, our portfolio is very well leased. Rates are steady or going up. We're investing in ourselves and we really do have some of the best development sites here. Plenty of cash available for if we want to do something big. So, we're just looking for the right opportunities.

**Spencer Levy**

Great. And, Elizabeth, final thoughts?

**Elizabeth Goodwin**

Well, thank you guys both for having me here. This has been really fun. Alex, as always, thanks for doing this. I called him to ask him if he would do it and he said, absolutely. So I really appreciate that.

**Spencer Levy**

So, on behalf of The Weekly Take, I want to thank Alex Chambers, Senior Vice President, Nashville market leader for Highwoods, coming out. Great job.

**Alex Chambers**

Thank you both for having me.

**Spencer Levy**

And Elizabeth Goodwin, Senior Managing Director, CBRE over Nashville, Knoxville, Chattanooga – give me another market.

**Elizabeth Goodwin**

Memphis.

**Spencer Levy**

Thank you very much.

**Alex Chambers**

Home of Graceland.

**Spencer Levy**

Home of Elvis. And we are in the home of Jack Daniel's Old No. 7.

**Alex Chambers**

Elvis is from Tupelo. My wife is from Tupelo, so—

**Spencer Levy**

See that? We're even getting Elvis trivia on The Weekly Take. Thank you very much.

**Spencer Levy**

For more on Nashville, Tennessee, and related market insights, check out our website [cbre.com/TheWeeklyTake](https://cbre.com/TheWeeklyTake). After spending a couple of episodes studying some secondary markets like this, we'll take our case to the biggest market in the nation, visiting a law firm with a history of skyline making deals and its pulse on the industry today. Stay tuned for that and more coming soon. In the meantime, we hope you'll share the show as well as subscribe, rate and review us wherever you listen. Thanks for joining us, I'm Spencer Levy. Be smart. Be safe. Be well.