

Market Research

OFFICE | FIRST QUARTER | 2009



MARKET INDICATORS

CHANGES FROM SAME QUARTER ONE YEAR AGO | CHANGES FROM LAST QUARTER

	CHANGES FROM SAME QUARTER ONE YEAR AGO	CHANGES FROM LAST QUARTER
Vacancy %	↑	↑
Net Absorption	↓	↓
Construction/Deliveries	↓	↓
Asking Rates	↑	↑



ROBBY DAVIS, CCIM
OFFICE SALES AND LEASING

“The first quarter saw a slight increase in vacancy which continued to place more pressure on rents; however, the last month of the quarter saw a small increase in activity. Sublease spaces continue to become more available and are being leased at reduced rates.”

THE NASHVILLE OFFICE MARKET AT A GLANCE

Current Activity

- Economic upheavals continue to have a negative affect on the inflow of new corporate tenants
- Class A space remains at a premium in some markets
- Demand decreased significantly for large blocks of space but remains for smaller spaces
- CBD vacancy rate will increase further as new construction comes online
- Asking rates have stabilized but incentives are up in some submarkets
- Development of additional Class A product is limited to buildings that were underway prior to the current economic downturn

Future Activity

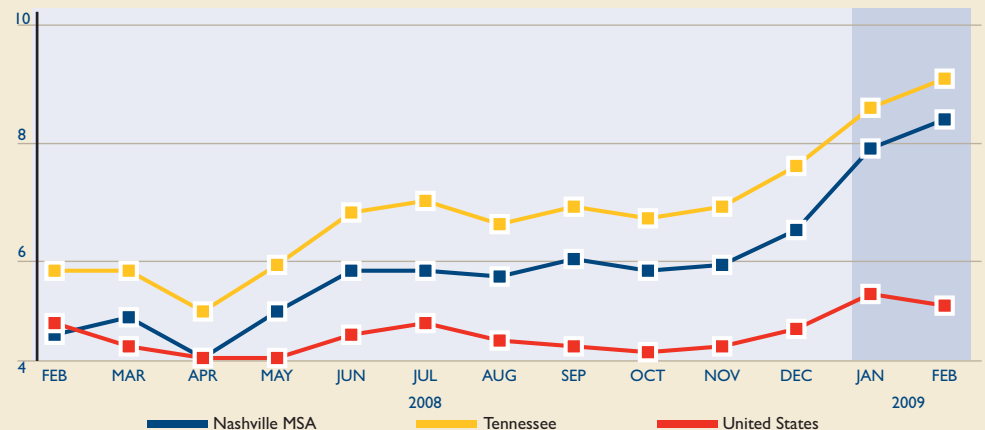
- Nashville maintains attractiveness and accolades as a desired relocation city - look for corporate relocations to Nashville as the economy improves
- Looking forward, there will be no new speculative development and limited investment activity due to lending contraction evidenced by increased equity requirements and recourse
- CBD will have increased vacancy rates when new buildings come online as the majority of pre-leasing activity comes from current CBD tenants
- Rental rates will stay at current levels in suburban markets but look for increases in incentives

AN OVERVIEW

National Perspective

A perspective of the U.S. economy depends on the person opining. Everyone appears to be an expert and recovery forecasts run from “crisis remains” to “imminent improvements.” The housing sector seems to be doing better, capital is still constrained, consumer confidence is attempting to find bottom, and partisan wrangling continues. It appears that it’s business as usual in Washington, DC, as the economy progresses through the trough of a business cycle.

NASHVILLE MARKET UNEMPLOYMENT GRAPH



TURLEY MARTIN TUCKER

Commercial Real Estate Services

www.ctmt.com



FRANK THOMASSON
OFFICE SALES AND LEASING

“As vacancy rates rise and positive absorption continues to soften, landlords are feeling the pressure to offer more concessions to tenants. Opportunities abound for companies still looking to expand or upgrade space as the soft market provides a good starting block to negotiate leases.”

FOCAL POINTE
1655 Murfreesboro Road
Nashville, TN
FIRST QUARTER LEASE



Square Feet:	16,204
Tenant:	Danka Office Imaging Company
Date:	March 2009
Brokers:	Chris Schmeisser Jimmy Love

Local Activity

Nashville's office activity, measured by net absorption, was off considerably from 2008 and more than a third of the gains posted marketwide for 2008 were erased this quarter. Absorption for 2008 was 890,000 square feet of positive net absorption, while an absorption loss of 343,000 square feet was recorded this quarter. This was not unexpected as the financial turmoil has neither improved nor worsened but the office market takes longer to demonstrate the affects of a slowdown. For the current quarter, Class A space has 200,000 square feet of negative net absorption, while Class B and Class C buildings post 52,000 and 90,000 square feet of negative net absorption, respectively. For the first quarter, Nashville posted a marketwide vacancy rate of 12.9% compared to 2008's yearend rate of 11.5%. There are a few buildings under construction but additional speculative construction starts remain on hold. Office condominiums were filling a need in a niche market but these purchases have slowed because of capital illiquidity. Nashville's unemployment continues its upward trend with the latest unemployment rate for the Nashville MSA at 8.4%; Tennessee and the U.S. rates are 9.1% and 8.1%, respectively. Nashville's available labor force is expanding as unemployment increases.

Office Market Activity

The Nashville office market had a very weak start for 2009, with a market vacancy rate of 12.9% and 343,000 square feet of negative net absorption with 110,000 square feet of new deliveries. Vacancy rates were up and negative net absorption was posted for Class A, B, and C building classes. For comparison purposes, 2008 posted 890,000 square feet of positive net absorption, 1.5 million square feet of new inventory and an 11.5% vacancy rate. For 2008, the vast majority of tenants for new construction involved relocation of existing tenants within submarkets and it appears this will be the case for new buildings in the CBD.

The CBD showed some improvement with new construction and tenant relocations from the suburban submarkets but Nissan's relocation to Cool Springs, albeit expected, is a setback for the CBD. The CBD vacancy rate for 2007/2008 stayed around 12% until Nissan departed and then rose to 15.8%; it now stands at 17.3%. Unfortunately, the CBD vacancy rate

will increase in the near term based mainly on new construction completions and, to a lesser extent, current economic conditions.

For the first quarter 2009, the suburban markets added 35,000 square feet of new inventory, had 293,000 square feet of negative net absorption and a vacancy rate of 11.5%. By comparison, in 2008, the suburban markets added 1.4 million square feet of new inventory, had 1.1 million square feet of positive net absorption and a yearend vacancy rate of 10.2%. U.S. economic and financial sector conditions were chaotic during 2008 and have not improved dramatically during the first quarter. Class A properties had been the lynchpin of market performance but they experienced 200,000 square feet of negative net absorption and a vacancy rate of 12.3% this quarter, up from the yearend 2008 vacancy rate of 10.9%.

This quarter, 75,000 square feet of Class A inventory was added in the CBD with no new Class A buildings added in the suburban markets. Development of additional Class A product is limited to buildings that were underway prior to the current economic downturn. Marketwide, there is almost 838,000 square feet under construction and scheduled for delivery in 2009/2010.

Central Business District (CBD)

The CBD has historically been a desirable location for banking, financial, and professional organizations, all sectors seriously impacted by the current economic upheaval. The CBD experienced a major spike in its vacancy rate when Nissan vacated the AT&T Tower for Cool Springs. It will see increased vacancy rates as new buildings come online and tenants relocate within the downtown submarket. For the current quarter, the CBD has 50,000 square feet of negative net absorption and a 17.3% vacancy rate; for yearend 2008, there was negative net absorption of 260,000 square feet and a 15.8% vacancy rate.

Airport North (APN)

Airport North has 42 office buildings totaling 4.2 million square feet clustered in the Briley Parkway/Elm Hill Pike area; 17 are Class A buildings totaling 2.6 million square feet. This quarter, these Class A buildings had minimal activity and ended the quarter with a vacancy rate of 16.7%, the same as yearend 2008.

NASHVILLE OFFICE MARKET

MARKET STATISTICS

SUBMARKET	2008 INVENTORY	2008 TOTAL AVAILABLE	2008 SUBLEASE	2008 VACANCY RATE	2008 ABSORPTION	Q1 2009 TOTAL AVAILABLE	Q1 2009 SUBLEASE	Q1 2009 VACANCY RATE	Q1 2009 ABSORPTION	Q1 2009 CURRENT INVENTORY
Airport North	4,173,000	710,000	251,000	16.1%	36,000	676,000	192,000	16.1%	27,000	4,208,000
Class A	2,570,000	446,000	174,000	16.7%	(60,000)	403,000	115,000	16.7%	0	2,570,000
Class B	1,461,000	255,000	77,000	15.9%	100,000	255,000	77,000	15.5%	36,000	1,496,000
Class C	142,000	9,000	0	6.5%	(4,000)	18,000	0	12.5%	(9,000)	142,000
Airport South	2,562,000	540,000	22,000	18.3%	(21,000)	675,000	99,000	22.9%	(120,000)	2,562,000
Class A	630,000	30,000	0	4.8%	(15,000)	104,000	0	16.4%	(73,000)	630,000
Class B	1,277,000	347,000	22,000	21.5%	55,000	368,000	22,000	23.2%	(22,000)	1,277,000
Class C	655,000	163,000	0	24.9%	(61,000)	203,000	77,000	28.7%	(25,000)	655,000
Brentwood	5,065,000	434,000	76,000	7.1%	84,000	595,000	92,000	9.8%	(136,000)	5,065,000
Class A	3,504,000	310,000	72,000	6.7%	47,000	369,000	82,000	8.2%	(48,000)	3,504,000
Class B	1,410,000	74,000	4,000	5.1%	(13,000)	122,000	10,000	7.5%	(34,000)	1,410,000
Class C	151,000	50,000	0	33.1%	50,000	104,000	0	68.7%	(54,000)	151,000
Central Business District (City)	7,449,000	1,239,000	70,000	15.8%	(261,000)	1,357,000	395,000	17.3%	(49,000)	7,524,000
Class A	3,868,000	650,000	61,000	15.6%	(104,000)	711,000	374,000	18.0%	(31,000)	3,943,000
Class B	2,338,000	457,000	8,000	19.1%	(145,000)	487,000	21,000	19.4%	(7,000)	2,338,000
Class C	1,243,000	132,000	1,000	10.1%	(12,000)	159,000	0	11.0%	(11,000)	1,243,000
Cool Springs/Franklin	5,226,000	570,000	51,000	10.9%	978,000	594,000	54,000	11.3%	(25,000)	5,226,000
Class A	4,520,000	530,000	42,000	11.7%	972,000	536,000	44,000	11.9%	(7,000)	4,520,000
Class B	640,000	36,000	9,000	5.6%	5,000	51,000	10,000	7.8%	(14,000)	640,000
Class C	66,000	4,000	0	5.8%	1,000	7,000	0	10.5%	(4,000)	66,000
Green Hills/ Music Row	1,932,000	143,000	43,000	6.4%	1,000	140,000	38,000	7.7%	(24,000)	1,932,000
Class A	712,000	90,000	43,000	10.0%	(2,000)	89,000	38,000	13.8%	(23,000)	712,000
Class B	888,000	8,000	0	0.9%	9,000	9,000	0	1.0%	(1,000)	888,000
Class C	332,000	45,000	0	13.6%	(6,000)	42,000	0	12.6%	0	332,000
Metro Center	1,370,000	50,000	3,000	3.7%	137,000	54,000	3,000	4.0%	(4,000)	1,370,000
Class A	570,000	44,000	0	7.7%	35,000	48,000	0	8.5%	(4,000)	570,000
Class B	634,000	4,000	3,000	0.6%	104,000	4,000	3,000	0.0%	0	634,000
Class C	166,000	2,000	0	1.3%	(2,000)	2,000	0	1.3%	0	166,000
Murfreesboro	332,000	45,000	0	13.4%	(35,000)	35,000	0	10.5%	10,000	332,000
Class A	125,000	25,000	0	20.4%	(15,000)	21,000	0	16.9%	4,000	125,000
Class B	153,000	3,000	0	8.2%	(13,000)	13,000	0	8.2%	0	153,000
Class C	54,000	7,000	0	12.4%	(7,000)	1,000	0	2.0%	6,000	54,000
Rivergate/North Nashville	487,000	109,000	2,000	22.4%	24,000	131,000	1,000	27.3%	(24,000)	487,000
Class A	298,000	87,000	1,000	29.3%	38,000	90,000	0	30.9%	(5,000)	298,000
Class B	61,000	1,000	1,000	1.2%	(1,000)	20,000	1,000	32.6%	(19,000)	61,000
Class C	128,000	21,000	0	16.5%	(13,000)	21,000	0	16.5%	0	128,000
West End/ Belle Meade	3,642,000	141,000	21,000	3.9%	(55,000)	139,000	22,000	3.8%	1,000	3,642,000
Class A	2,627,000	62,000	21,000	2.3%	(8,000)	71,000	22,000	2.7%	(10,000)	2,627,000
Class B	600,000	22,000	0	3.7%	(5,000)	13,000	0	2.2%	9,000	600,000
Class C	415,000	57,000	0	13.7%	(42,000)	55,000	0	13.2%	2,000	415,000
Suburban	24,790,000	2,895,000	470,000	10.2%	1,151,000	3,042,000	501,000	11.5%	(293,000)	24,825,000
Class A	15,555,000	1,779,000	354,000	9.7%	993,000	1,734,000	301,000	10.8%	(169,000)	15,555,000
Class B	7,125,000	758,000	116,000	9.3%	242,000	855,000	123,000	10.4%	(45,000)	7,160,000
Class C	2,110,000	358,000	0	17.0%	(84,000)	453,000	77,000	20.7%	(79,000)	2,110,000
Overall	32,238,000	3,981,000	540,000	11.5%	890,000	4,398,000	896,000	12.9%	(342,000)	32,348,000
Class A	19,423,000	2,275,000	415,000	10.9%	889,000	2,445,000	675,000	12.3%	(200,000)	19,498,000
Class B	9,463,000	1,216,000	124,000	11.7%	97,000	1,342,000	144,000	12.6%	(52,000)	9,498,000
Class C	3,352,000	490,000	1,000	14.4%	(96,000)	611,000	77,000	17.1%	(90,000)	3,352,000

Airport South (APS)

Airport South is predominately a Class B and C submarket with a total of 55 buildings (8 Class A, 26 Class B and 21 Class C). Airport South had an off year in 2008 posting 21,000 square feet of negative net absorption with a vacancy rate of 18.3%. This downward trend continued this quarter with 120,000 square feet of negative net absorption and an increased vacancy rate of 22.9%.

Brentwood (BWD)

Brentwood has 79 buildings totaling 5.1 million square feet with a vacancy rate of 9.8% and 136,000 square feet of negative net absorption. There are 43 Class A buildings (3.5 million square feet) in the Brentwood submarket with a vacancy rate of 8.2% and 48,000 square feet of negative net absorption. There are 92,000 square feet of sublease space currently available. There were no new deliveries this quarter and there are currently no buildings under construction.

Cool Springs/Franklin (CSF)

Cool Springs/Franklin has 67 buildings totaling 5.23 million square feet. This quarter, there have been 24,000 square feet of negative net absorption with a vacancy rate of 11.3%, compared to yearend 2008 with 978,000 square feet of positive net absorption and a vacancy rate of 11%. Class A buildings in Cool Springs/Franklin, 4.5 million square feet, accounted for 6,000 square feet of negative net absorption and a vacancy rate of 11.9%.

Green Hills/Music Row (GHM)

Vacancies and availabilities in this area are often affected by the flux within the recording industry but the attractiveness of the area and its proximity to the CBD make this a very desirable location for smaller or niche tenants. Music Row is an area constantly under revision/transition as entrepreneurs build, convert, and modernize office facilities including multi-tenant, recording, and eclectic single tenant renovations of former residences. The current submarket vacancy rate is 7.7% with 25,000 square feet of negative net absorption this quarter. Class A properties have a 13.8% vacancy rate with 27,000 square feet of negative net absorption this quarter.

Rivergate/North Nashville (RNN)

Rivergate/North Nashville is the second smallest office submarket comprised of 16 buildings totaling 488,000 square feet. There are seven Class A buildings with a combined vacancy rate of 30.9%. Gallatin and Hendersonville continue to experience growth and as the population in these areas increase, so will leasing opportunities.

West End/Belle Meade (WEB)

West End/Belle Meade has 38 buildings totaling 3.64 million square feet. The WEB submarket had experienced minimal vacancy rates, especially with Class A properties, but the marketwide vacancy rate climbed to 3.8% this quarter. The current Class A vacancy rate is 2.7% based on 16 buildings totaling 2.63 million square feet. There are 22,000 square feet of sublease space currently listed in this submarket.

Outlook

The outlook for the Nashville office market remains basically unchanged from previous quarters. Lease activity for new arrivals has slowed, but interest in Nashville remains high. Within the Nashville MSA, companies have been expanding and relocating, while overall losses have not been dramatic. Look for renewed corporate relocations to Nashville when the economy improves. The U.S. economy continues to send mixed signals as the government goes through various gyrations in an attempt to rejuvenate the financial sectors.

The CBD will have increased vacancy rates when new office buildings come online as most of the pre-leasing activity comes from current CBD tenants. The suburban submarkets, especially Brentwood and Cool Springs/Franklin, continue to be the growth engine, even though the engine is currently sputtering.

The cost of construction and raw materials has stabilized but there will be no new speculative development and limited investment activity due to lending contraction evidenced by increased equity requirements and recourse. For 2009, look for rental rates to stay at current levels in suburban markets, but with increased incentives. Hopefully, performance in the office market should improve towards the third quarter beginning in the suburban submarkets.

METRO AIRPORT CENTER II

828 Royal Parkway

Nashville, TN

FIRST QUARTER LEASE



Square Feet:	6,204
Tenant:	Conservation Services Group
Date:	March 2009
Brokers:	Whit McCrary, CCIM Rob Lowe, CCIM

Why do quarterly market statistics vary from company-to-company? Two of the major reasons are: Commercial real estate companies report data using a different set of properties. Methodologies used to compute absorption, vacancies, and the treatment of sublet space are also unique to the reporting company. Any questions concerning our research processes should be directed to Nick Minado, 615.301.2839.

The information contained in this report was provided by sources deemed to be reliable; however, no guarantee is made as to the accuracy or reliability. As new, corrected or updated information is obtained, it is incorporated into both current and historical data, which may invalidate comparison to previously issued reports.



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