

Market Research

INDUSTRIAL | SECOND QUARTER | 2009



MARKET INDICATORS

CHANGES FROM
SAME QUARTER
ONE YEAR AGO

CHANGES FROM
LAST QUARTER

Vacancy %	↑	=
Net Absorption	↑	↑
Construction/ Deliveries	↓	↓
Asking Rates	↑	=

DAVE MCGAHREN, SIOR
Industrial Sales & Leasing

"The combination of the increased availability of bulk space (the result of the development boom of 2007-08) and the lack of current deal velocity has put increased pressure on industrial rental rates. We have definitely seen a shift from a landlord driven market to a tenant driven market over the past 6 months."

National Perspective

The National economy continues to send mixed signals. Bailouts are abundant and while results are mixed, benefits of the economic stimulus have yet to materialize. With constrained capital markets, commercial real estate could be the next blip on the distressed sector radar screen. As with all economic activity, the market plays a zero sum game and possible losses for commercial real estate developers and owners will end up as speculator or tenant gains. The housing sector seems to be gaining traction and consumer confidence has been improving, though spending in all sectors remains guarded. It appears that everything is normal on the National level as the economy progresses through the trough of a business cycle.

Local Activity

Nashville's industrial activity, measured by net absorption, pushed into positive territory for the first time in six months with 565,000+ square feet. This may be the start of the industrial market recovery that some economists had predicted for 2009 as Class A Bulk posted positive net absorption numbers this quarter with 1+ million square feet and Manufacturing and Warehouse were just into positive absorption territory. Other Bulk (-429,000 square feet), Manufacturing (-4,000 square feet), and Business Centers/Flex (-84,000 square feet) were all in negative territory. For the most part, speculative construction starts remain on hold, but there are a variety of facilities available to meet current requirements.

The Nashville Industrial Market at a Glance

- Big box activity showing a slight increase but remains sluggish
- Interest still exists for large blocks of space but economic uncertainty has decision makers at bay when it comes to major expansion or capital spending
- Speculative construction at minimal levels with the first LEED certified industrial distribution building in Middle Tennessee underway on Elm Hill Pike
- Downward pressure is being exerted on lease rates in spite of increased concessions
- Inventory of Class A Bulk buildings in multiple markets are sufficient to handle short-term needs
- Demand for properties for sale in the 20,000 to 40,000 square foot range are keeping prices at a premium
- Institutional investment activity remains minimal
- Flex activity appears to be on the downswing mirroring a drop in Class B Office activity

Future Trends

- High demand will continue for stand alone buildings in the 20,000 to 40,000 square foot range
- BTS development, when it occurs, will be in the North, East and the Southeast submarkets
- Property valuation remains elusive and investment activity will be focused on potential distressed property opportunities once valuation is determined
- The gap between seller and buyer expectations will need to narrow for overall investment activity to improve



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Market Snapshot

Nashville's industrial commercial real estate sector has been stagnant but it is in far better shape than many other markets. On a positive note, sublease activity has not increased dramatically and few, if any, major tenants have walked away from their leases. There is still "tire kicking," indications that interest exists for large blocks of space, but the economic upheaval has kept big box activity relatively flat. Economic indicators at the National level point to a recovery by yearend and some positive movement came to fruition this quarter in Nashville. Hopefully, positive movement this quarter is the start of an upswing in industrial activity for Nashville.

Nashville activity hinges on the bulk markets and with some indication that the economy is starting to recover, big box improvement could be on the horizon. A quick glance at the various industrial charts and tables in this report provides a snapshot of the continuing effects of the current economic downturn. For the second quarter 2009, Nashville had an 8.2% vacancy rate with 565,000 square feet of positive net absorption. In contrast, first quarter 2009 ended with the same 8.2% vacancy rate but had 946,000 square feet of negative net absorption. The driving force for any expansion of the Nashville industrial markets will be Class A Bulk buildings. Nashville fared extremely well in the past and current inventories can handle a ramp up in activity with sites ready for developers to provide additional buildings as needed.

Within the next year, look for pent up demand to consume some of the new and existing supply. With current employment uncertainty, spending at both the business and household levels has been subdued. With an improvement in the employment picture, we should see improvement in overall spending. Once spending increases to match the increase in consumer confidence, the down cycle pendulum in the big box industrial leasing will swing upward. Despite the current economic malaise, Nashville continues to be one of those locations that people gravitate towards. Bottom line, Nashville remains a healthy market and recovery is on the horizon.

Inventory

There are 111 Class A Bulk facilities totaling 33.1 million square feet with 962,000 square feet added this quarter. Other Bulk buildings total 25 million square feet in 182 buildings. The Manufacturing sector is comprised of 357 buildings totaling 55.9 million square feet. The Warehouse sector has 1,640 buildings with 67 million square feet, while Business Centers account for 197 buildings with a total square footage of approximately 9.1 million square feet.

New Construction Underway

Speculative construction is down as evidenced by only 2 buildings totaling 111,000 square feet currently under construction for delivery in 2009/10. The East submarket has the Ameriplex at Elm Hill, a 90,000 square foot LEED certified Class A Bulk distribution building, while the West submarket has a 21,000 square foot warehouse building underway on County Hospital Road.

Vacancy and Absorption

The industrial market posted positive net absorption this quarter, reversing a negative trend from the last two quarters. Comparing year-to-date (first and second quarters 2009) to yearend 2008, Class A Bulk vacancies decreased to 17% from 17.6% with 1.7 million square feet of positive net absorption and 1.8 million square feet of additional inventory. Other Bulk

PETE GREENFIELD
Industrial Sales & Leasing

"2009 is proving an opportunistic year for pro-active buyers and tenants to value engineer their long term real estate objectives via expansion, consolidation or acquisition."

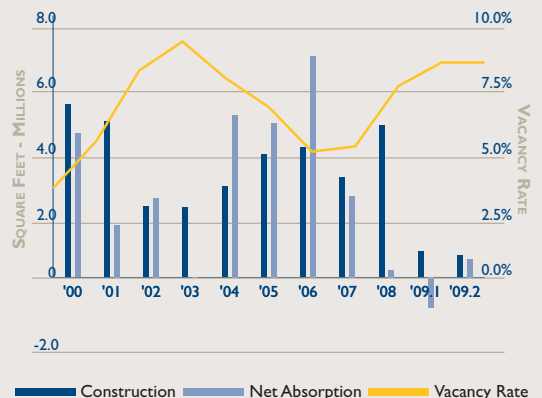


749 MASSMAN DRIVE
SECOND QUARTER SALE



Square Feet:	77,800
Value:	\$2,350,000
Buyer:	Pinnacle Business Products
Seller:	VF Imagewear, Inc.
Date:	June 2009
Brokers:	Ronnie Wenzler, SIOR Charley Hankla, SIOR

NASHVILLE INDUSTRIAL MARKET
TOTAL CONSTRUCTION, ABSORPTION & VACANCY



NASHVILLE INDUSTRIAL MARKET

STATISTICS

TYPE	Q1 2009 AVAILABLE	Q1 2009 VACANCY RATE	Q1 2009 ABSORPTION	Q2 2009 AVAILABLE	Q2 2009 VACANCY RATE	Q2 2009 ABSORPTION	Q2 2009 CURRENT INVENTORY
I-65 SOUTH SUBMARKET							
A Bulk	-	0.0%	0	-	0.0%	0	463,000
Other Bulk	350,000	5.2%	(148,000)	400,000	6.9%	(50,000)	2,842,000
Manufacturing	194,000	6.6%	0	194,000	6.6%	0	1,898,000
Warehouse	302,000	3.7%	2,000	612,000	2.9%	71,000	5,486,000
Business Center	116,000	6.3%	(19,000)	173,000	8.5%	7,000	1,780,000
Overall Submarket*	962,000	3.8%	0	637,000	5.0%	(159,000)	12,623,000
EAST SUBMARKET							
A Bulk	3,412,000	33.9%	0	3,412,477	32.6%	400,000	10,479,000
Other Bulk	173,000	6.6%	0	113,000	6.6%	0	1,709,000
Manufacturing	-	0.0%	0	116,000	0.0%	0	2,709,000
Warehouse	225,000	1.2%	0	78,000	1.2%	0	4,243,000
Business Center	93,000	12.7%	20,000	95,000	13.1%	(2,000)	630,000
Overall Submarket*	3,881,000	15.1%	1,542,000	4,141,000	19.4%	(139,000)	19,732,000
ICBD SUBMARKET							
A Bulk	5,000	1.2%	0	5,000	1.2%	0	432,000
Other Bulk	550,000	5.8%	(47,000)	759,000	5.5%	(272,000)	5,811,000
Manufacturing	447,000	2.1%	4,000	469,000	2.2%	(13,000)	12,752,000
Warehouse	1,751,000	5.0%	118,000	2,058,000	5.5%	(209,000)	26,206,000
Business Center	334,000	11.3%	(53,000)	354,000	12.0%	(18,000)	2,714,000
Overall Submarket*	3,087,000	4.9%	(335,000)	3,239,000	4.9%	170,000	48,596,000
NORTH SUBMARKET							
A Bulk	1,597,000	8.9%	545,000	1,158,000	4.6%	491,000	7,214,000
Other Bulk	1,000,000	12.7%	(510,000)	1,203,000	13.2%	(34,000)	6,366,000
Manufacturing	1,205,000	3.4%	75,000	1,202,000	3.1%	49,000	17,632,000
Warehouse	1,747,000	9.2%	(26,000)	1,897,000	7.1%	273,000	13,078,000
Business Center	95,000	4.7%	11,000	99,000	8.2%	(31,000)	884,000
Overall Submarket*	4,848,000	7.1%	(518,000)	5,690,000	6.9%	95,000	44,935,000
SOUTHEAST SUBMARKET							
A Bulk	2,602,000	11.8%	103,000	3,054,000	13.0%	140,000	14,413,000
Other Bulk	1,332,000	16.1%	(538,000)	1,576,000	17.3%	(63,000)	5,501,000
Manufacturing	974,000	6.3%	(39,000)	1,194,000	6.4%	(13,000)	14,298,000
Warehouse	1,660,000	10.1%	(139,000)	2,008,000	11.3%	(159,000)	13,636,000
Business Center	496,000	14.7%	(115,000)	588,000	16.7%	(39,000)	3,033,000
Overall Submarket*	6,098,000	7.7%	257,000	6,430,000	9.1%	(712,000)	50,996,000
WEST SUBMARKET							
A Bulk	0	0.0%	0	0	0.0%	0	50,000
Other Bulk	176,000	1.8%	0	186,000	2.2%	(11,000)	2,780,000
Manufacturing	487,000	0.9%	23,000	510,000	1.2%	(23,000)	6,602,000
Warehouse	391,000	5.9%	(203,000)	344,000	4.8%	43,000	4,332,000
Business Center	0	0.0%	0	0	0.0%	0	50,000
Overall Submarket*	980,000	1.3%	51,000	1,054,000	2.7%	(180,000)	13,834,000
INDUSTRIAL MARKET							
A Bulk	7,616,000	17.8%	648,000	7,629,477	17.0%	1,031,000	33,051,000
Other Bulk	3,581,000	9.3%	(1,243,000)	4,237,000	9.9%	(430,000)	25,009,000
Manufacturing	3,307,000	3.5%	63,000	3,685,000	3.5%	0	55,891,000
Warehouse	6,076,000	6.6%	(248,000)	6,997,000	6.5%	19,000	66,981,000
Business Center	1,134,000	10.9%	(156,000)	1,309,000	12.5%	(83,000)	9,091,000
Overall Market*	21,931,000	8.2%	(946,000)	24,015,000	8.2%	565,000	191,090,000

*Note: Totals for Overall Submarket will be greater than the sum of product types due to rounding and non-reported categories

vacancies increased to 9.9% from 4.4% with 1.7 million square feet of negative net absorption. Manufacturing vacancies decreased slightly from 3.6% to 3.5% with 59,000 square feet of positive net absorption. Business Center vacancy rates were up from 9.4% to 12.5% with 239,000 square feet of negative net absorption. Warehouse vacancies increased to 6.5% from 6.2% with 231,000 square feet of negative net absorption.

NOTE: Absorption is defined as a change in occupancy. New construction that is pre-leased will add positive net absorption, while buildings completed and vacant will only affect vacancy rates.

Central Business District (ICBD)

The ICBD continues to struggle with a current vacancy rate of 5%, up slightly from yearend 2008 and first quarter 2009 at 4.8% and 4.7%, respectively. Absorption came in at 482,000 square feet of negative net absorption. Traditional Bulk and Warehouse were the major focus of negative net absorption with 272,000 square feet and 208,000 square feet respectively.

East Submarket

Activity in this submarket is bulk driven and a recent expansion of a Class A Bulk building added 400,000 square feet of positive net absorption. Rockdale Distribution Center 3 was expanded by 400,000 square feet to 700,000 square feet with the expansion occupied by Vi-Jon, the existing tenant. Bulk facilities have had minimal leasing activity of late and hopefully this expansion and a 717,000 square foot build-to-suite for Nissan will mark the start of resurgence in this market.

North Submarket

This submarket posted 749,000 square feet of positive net absorption this quarter, an increase from the 95,000 square feet of positive net absorption posted in the first quarter 2009. The vacancy rate of 6% is down from the 2008 yearend and first quarter 2009 rate of 7.5% and 7.2%, respectively. There was a 200,000 square foot addition added to an Class A Bulk building on Vaughn Parkway occupied by Sun/Huish Products.

Southeast Submarket

The Southeast submarket has posted outstanding market metrics since 2003 but the last nine months had the submarket in negative territory. The current submarket vacancy rate is 11.4%, up from last year's yearend rate of 9.1%. Absorption has been in negative territory with 740,000 square feet and 134,000 square feet of negative net absorption posted in first quarter 2009 and this quarter, respectively.

Outlook

The Nashville industrial market has been engulfed in the same economic woes experienced by other cities but Nashville fared better than most cities due to its diverse industries and the fact that the market is not overbuilt. Nashville has state of the art facilities ready for lease. These completed buildings are limited in number but developers can quickly add additional buildings when the economy expands. Market recovery will probably start in the East submarket as it has a number of Class A facilities ready for occupancy. As the economy improves, look for new construction in the Southeast and North submarkets. Clarksville will be the next "sleeper area" that will "awaken" when Hemlock Semiconductor becomes a reality in 2012. User buildings up to 100,000 square feet remain in demand. Overall, rates have stabilized but are down over the past two years; however, expect concessions and additional downward pressure on rates for big box product until leasing activity improves.

On the investment side, expectations hold for an increase in the availability of debt, thereby improving overall activity, but these changes have yet to materialize. The number of distressed properties could increase in the short term if credit markets continue to be restrained. Look for additional purchases at "fire sale" prices before credit markets return to normalcy. Investment activity will be focused on potential distressed property opportunities, while investors will be highly selective based on credit worthiness and market risk.

Nashville's economy has experienced some setbacks but it may have started an upward trend. Look for additional growth in the latter half of 2009 with pent up demand driving the market in 2010. Investment activity should improve but it is totally dependent on capital markets.

501 MASON ROAD LAVERGNE, TN SECOND QUARTER LEASE



Square Feet:	307,200
Tenant:	Computerland
Date:	June 2009
Broker:	David McGahren, SIOR Doug Howard, SIOR John Ward, SIOR

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 Minadeo, 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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