

# Market Research

OFFICE | SECOND QUARTER | 2009



## MARKET INDICATORS

CHANGES FROM  
SAME QUARTER  
ONEYEAR AGO

CHANGES FROM  
LAST QUARTER

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

WALKER WILLSE  
SALES & LEASING

“Office property sales continue to be slow. However, the leasing market is seeing a relative increase in activity as more tenants get in the market to take advantage of aggressive terms. This trend is expected to continue through the next two quarters.”



TURLEY  
MARTIN  
TUCKER

Commercial Real Estate Services

www.ctmt.com

## The Nashville Office Market at a Glance

### Current Activity

- Nashville remains a prime relocation site but the economic downturn has dramatically slowed the inflow of new corporate tenants
- Large blocks of Class A space are scarce in some markets
- Demand is down for large blocks of space, slowing for smaller spaces
- Asking rates are beginning to fall with incentives up in some submarkets
- Class A development is limited to buildings started prior to the current economic downturn; some are experiencing financial difficulties

### Future Trends

- Additional corporate relocations from distressed markets to Nashville once the economy improves
- Construction will be slow to materialize until current inventory levels are absorbed and capital markets improve
- CBD will have additional Class A space to compete with suburban markets but will be hampered by parking constraints.
- Rental rates may drop in the short term with an increase in incentives

## An Overview

### National Perspective

Economic news at the National level is mixed. Bank bailouts were abundant with some of the lending institutions paying back their indebtedness. Bankruptcy was fast-tracked for General Motors with some debt holders being shortchanged causing some to question if this is a new trend in bankruptcy processes. The benefits of the economic stimulus package are being discussed since they have yet to materialize; talks of additional stimulus spending continue. Capital markets are constrained and talks abound that multiple commercial real estate defaults could be the next blip on the radar screen. As with all economic activity, the commercial real estate market plays a zero sum game; losses for commercial real estate developers and owners will end up as speculator or tenant gains. Residential housing is gaining traction with consumer confidence improving but spending in all sectors remains guarded.

### Local Perspective

Nashville's office lease activity, measured by net absorption, has experienced contraction as evidenced by 3 consecutive quarters of negative net absorption. Negative absorption for the last three quarters (4Q08, 1Q09 and 2Q09) was 3,600 square feet, 317,000 square feet, and 210,000 square feet, respectively. Marketwide, sublease vacant space stands at 921,000 square feet. The Nashville office market posted solid numbers the past few years and this drop off in activity was not unexpected. Considering all the financial turmoil and retrenchment within various business sectors, Nashville continues to do better than most markets.

**PARKLANE BUILDING  
BRENTWOOD, TN**  
SECOND QUARTER SALE



Square Feet:	110,347
Value:	\$10,700,000
Buyer:	Panattoni Development Company
Seller:	Principal Life Insurance Company
Date:	June 2009
Brokers:	Crews Johnston, SIOR Perry Gooch

**ROB GAGE, SIOR**  
SALES & LEASING



*“We are starting to see landlords make some concessions to get their big blocks of space leased, which present opportunities for tenants in this market.”*

For the current quarter, both Class A and B buildings posted negative net absorption; Class A with 153,000 square feet and Class B at 118,000 square feet. Class C came in with 61,000 square feet on the positive side. The second quarter had the Nashville market-wide vacancy rate at 14.3% compared to the one year ago rate of 10.1%. There are a few buildings under construction with some delayed due to litigation and frozen capital; 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, legal challenges, and lending constraints. Nashville’s unemployment continues its upward trend with the Nashville MSA at 9.3%; Tennessee and the U.S. rates are 10.3% and 9.1%, respectively.

**Office Market Activity**

National economic and financial sector conditions have been in disarray and continue to adversely affect commercial real estate activity – both sales and leases. Historically, the office market takes longer to feel the effects of an economic shift with its decline approximately 9 months later than the industrial market. Conversely, it starts its recovery about 6 months later than industrial properties. This said, industrial properties saw some positive movement this quarter so, hopefully, the office market should start to improve by year end.

The Nashville Office market started 2009 on a sour note but improved somewhat during the current quarter. The current market vacancy rate is 14.3% with a year-to-date net absorption rate of negative 527,000 square feet; 317,000 square feet in the first quarter and 210,000 square feet this quarter. 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 has posted negative absorption since Nissan’s relocation to Cool Springs in the third quarter of 2008. The CBD vacancy rate was at a low in 2006 at 10.9% but has climbed steadily to its current rate of 18.6%. The CBD vacancy rate will increase further when The Pinnacle at Symphony Place is completed this year as this building will be completed with about 300,000 of 520,000 square feet pre-leased and the majority of its tenants coming from other buildings within the CBD.

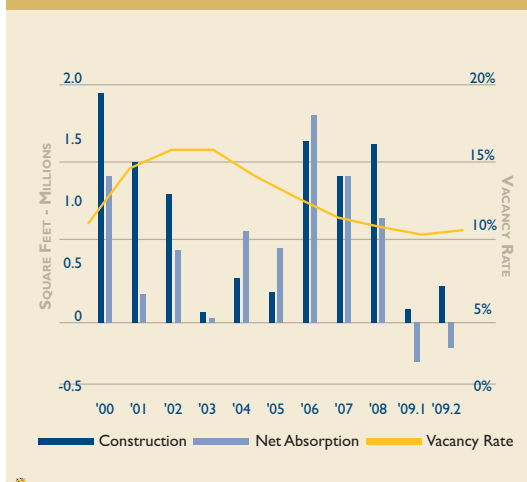
**Central Business District (CBD)**

This submarket has a history of adding new buildings and filling them with tenants from other buildings within the CBD. The Pinnacle at Symphony Place is scheduled for completion this year but it will add to the vacancy rate rather than reduce it since the majority of its tenants will come from the CBD. The CBD remains a viable submarket with quality buildings but once parking costs are factored into the total occupancy costs, rental rates have to be aggressive in order to compete with the suburban markets. No doubt, there are companies that require a downtown presence but current market conditions have stifled the inflow of new companies to Nashville. With an abundance of facilities available in the suburban markets, look for the CBD to continue to struggle to reduce vacancy rates.

**Brentwood (BWD)**

The Brentwood submarket, Maryland Farms in particular, is a very desirable business location. There are a number of quality buildings in an area that has experienced historically low vacancy rates but the down economy has increased vacancies. This quarter the vacancy rate is 11.3%, up significantly from the first

**NASHVILLE OFFICE MARKET**  
TOTAL CONSTRUCTION, ABSORPTION & VACANCY



**NASHVILLE OFFICE MARKET**  
 MARKET STATISTICS

SUBMARKET	Q1 2009 TOTAL AVAILABLE	Q1 2009 SUBLEASE	Q1 2009 VACANCY RATE	Q1 2009 ABSORPTION	Q2 2009 TOTAL AVAILABLE	Q2 2009 SUBLEASE	Q2 2009 VACANCY RATE	Q2 2009 ABSORPTION	Q2 2009 CURRENT INVENTORY
AIRPORT NORTH	655,000	192,000	15.6%	50,000	977,000	261,000	15.6%	(1,000)	4,208,000
CLASS A	382,000	115,000	15.8%	22,000	721,000	184,000	17.0%	(29,000)	2,570,000
CLASS B	255,000	77,000	15.5%	36,000	243,000	77,000	14.0%	23,000	1,496,000
CLASS C	18,000	-	12.5%	(8,000)	13,000	0	9.0%	5,000	142,000
AIRPORT SOUTH	675,000	99,000	22.9%	(120,000)	677,000	56,000	22.1%	38,000	2,584,000
CLASS A	104,000	0	16.4%	(73,000)	130,000	4,000	16.8%	(2,000)	630,000
CLASS B	368,000	22,000	23.2%	(22,000)	381,000	22,000	24.5%	(9,000)	1,287,000
CLASS C	203,000	77,000	28.7%	(25,000)	166,000	30,000	22.7%	49,000	667,000
BRENTWOOD	595,000	92,000	9.8%	(136,000)	789,000	99,000	11.3%	(80,000)	5,065,000
CLASS A	369,000	82,000	8.2%	(48,000)	507,000	83,000	10.4%	(79,000)	3,504,000
CLASS B	122,000	10,000	7.5%	(34,000)	148,000	16,000	7.6%	(1,000)	1,410,000
CLASS C	104,000	-	68.7%	(54,000)	134,000	-	68.7%	0	151,000
CENTRAL BUSINESS DISTRICT	1,355,000	395,000	17.4%	(49,000)	1,464,000	421,000	18.6%	(89,000)	7,551,000
CLASS A	711,000	374,000	18.0%	(31,000)	803,000	398,000	20.4%	(92,000)	3,943,000
CLASS B	485,000	21,000	19.4%	(7,000)	502,000	21,000	19.9%	(13,000)	2,331,000
CLASS C	159,000	-	11.9%	(11,000)	159,000	2,000	10.6%	16,000	1,277,000
COOL SPRINGS/FRANKLIN	610,000	71,000	11.4%	(20,000)	702,000	104,000	12.4%	89,000	5,363,000
CLASS A	536,000	44,000	11.9%	(7,000)	627,000	66,000	13.3%	70,000	4,675,000
CLASS B	67,000	27,000	7.9%	(10,000)	71,000	38,000	6.6%	16,000	633,000
CLASS C	7,000	-	12.5%	(3,000)	4,000	-	7.9%	3,000	55,000
GREEN HILLS/ MUSIC ROW	140,000	38,000	7.7%	(25,000)	288,000	45,000	14.9%	(84,000)	1,993,000
CLASS A	89,000	38,000	13.8%	(27,000)	137,000	45,000	18.8%	16,000	776,000
CLASS B	9,000	-	1.0%	(1,000)	106,000	-	12.0%	(97,000)	888,000
CLASS C	42,000	-	12.8%	3,000	45,000	-	13.6%	(3,000)	329,000
METRO CENTER	54,000	3,000	4.0%	(4,000)	62,000	0	4.5%	(7,000)	1,370,000
CLASS A	48,000	-	8.5%	(4,000)	48,000	-	8.5%	0	570,000
CLASS B	4,000	3,000	0.7%	0	12,000	-	1.8%	(7,000)	634,000
CLASS C	2,000	-	1.3%	0	2,000	-	1.3%	0	166,000
MURFREESBORO	35,000	0	10.5%	10,000	35,000	0	10.5%	0	332,000
CLASS A	21,000	-	16.9%	4,000	21,000	-	16.9%	0	125,000
CLASS B	13,000	-	8.2%	0	13,000	-	8.2%	0	153,000
CLASS C	1,000	-	2.0%	6,000	1,000	-	20.0%	0	54,000
RIVERGATE/NORTH NASHVILLE	133,000	1,000	28.4%	(24,000)	137,000	2,000	28.9%	(2,000)	473,000
CLASS A	92,000	-	32.9%	(5,000)	96,000	1,000	33.7%	(2,000)	284,000
CLASS B	20,000	1,000	32.6%	(19,000)	20,000	1,000	32.6%	0	61,000
CLASS C	21,000	-	16.5%	0	21,000	-	16.5%	0	128,000
WEST END/ BELLE MEADE	139,000	22,000	3.8%	2,000	287,000	30,000	7.1%	(75,000)	3,690,000
CLASS A	71,000	22,000	2.7%	(9,000)	180,000	30,000	5.8%	(36,000)	2,675,000
CLASS B	13,000	-	2.2%	9,000	43,000	-	7.1%	(30,000)	600,000
CLASS C	55,000	-	13.2%	2,000	64,000	-	15.4%	(9,000)	415,000
SUBURBAN	3,037,000	518,000	11.5%	(267,000)	3,952,000	598,000	13.0%	(121,000)	25,081,000
CLASS A	1,712,000	301,000	10.7%	(147,000)	2,466,000	414,000	12.6%	(61,000)	15,809,000
CLASS B	872,000	140,000	10.4%	(41,000)	1,036,000	154,000	12.1%	(105,000)	7,164,000
CLASS C	453,000	77,000	20.9%	(79,000)	450,000	30,000	19.2%	45,000	2,108,000
OVERALL	4,391,000	913,000	12.9%	(317,000)	5,416,000	1,018,000	14.3%	(210,000)	32,632,000
CLASS A	2,423,000	675,000	12.2%	(178,000)	3,269,000	812,000	14.1%	(153,000)	19,752,000
CLASS B	1,357,000	161,000	12.6%	(49,000)	1,538,000	174,000	14.0%	(118,000)	9,495,000
CLASS C	611,000	77,000	17.5%	(90,000)	609,000	32,000	16.0%	61,000	3,385,000

quarter 2008 rate of 6.6%. There are 573,000 square feet of direct availability. There is also 100,000 square feet of sublease availability with 76,000 square feet of this sublease space vacant. There were no new deliveries this quarter and there are currently no buildings under construction.

### Cool Springs/Franklin (CSF)

Cool Springs/Franklin remains one of the most desirable locations for tenants seeking Class A office space. This desirability has anchored this submarket as the primary driver for the Nashville office market even though some of the properties in this submarket have become recent casualties of the economy. This quarter, there has been 89,000 square feet of positive net absorption (+68,000 square feet YTD) with a vacancy rate of 12.4%, compared to yearend 2008 with 974,000 square feet of positive net absorption and a vacancy rate of 11%. Four Class A buildings have a combined direct vacancy of over 500,000 square feet: the McEwen Building, 155,000 square feet; Cool Springs IV, 52,184 square feet; Corporate Centre Nine, 144,818 square feet; and One Greenway Centre, 154,737 square feet. This quarter, there is 104,000 square feet of sublease space on the market of which 70,000 square feet is vacant.

### Green Hills/Music Row (GHM)

This submarket had a jump in vacancy when the Green Hills Office Building became available and added 82,000 square feet of availability after Healthways relocated to its Cool Springs Headquarters. The owners are currently marketing the building. Historically, the Green Hills/Music Row submarket had maintained vacancy rates in the 6% range and the current rate of 14.9% is an anomaly. As the Green Hills area ramps up to accommodate new retail tenants, the viability of this area is unquestionable and this vacancy rate will reduce rather quickly. 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. Class A properties in this submarket have an 18.8% vacancy rate with 16,000 square feet of positive net absorption this quarter.

### West End/Belle Meade (WEB)

West End/Belle Meade has a current Class A vacancy rate of 5.8% based on 17 buildings totaling 2.7 million square feet. The WEB submarket had experienced vacancy rates around 2.5% but the marketwide vacancy rate climbed to 7.1% this quarter. There is 14,000 square feet of sublease space vacant of the 30,000 square feet of sublease availability currently in this submarket.

### Outlook

Conditions are improving, not by leaps and bounds, but they are improving. With current financial constraints, banks, capital funds, and investors are hesitant to assume risk and this is limiting the pace of recovery. The outlook for the Nashville office market is modest improvement until capital markets are corrected, but improvement none the less. Lease activity for new arrivals/relocations will pickup – probably after the first of the year because interest in Nashville remains high. Predicting or assuming long-term activity is fraught with uncertainty because the national economy continues to send mixed signals. As the government pursues various scenarios to correct the financial instability, one of the processes may prove viable and eventually rejuvenate the financial sectors.

The CBD will not see improvement in the near term but rather expect increased vacancy rates and additional negative absorption. The CBD will benefit from the influx of a new corporate headquarters but this type of entity will not likely be relocating until the economy improves. As the economy picks up speed, the suburban submarkets, especially Brentwood and Cool Springs/Franklin, will be the first to rebound.

The drop in the cost of construction and raw materials could make new construction attractive but the “build it and they will come” philosophy will be on hold for the near term. For the remainder of 2009, look for rental rates in some markets to drop while incentives increase. Expectations are for continued but modest improvement through 2009 with stronger activity in 2010.

### HIGHLAND RIDGE III NASHVILLE, TN SECOND QUARTER LEASE RENEWAL



Square Feet:	110,646
Tenant:	VF Imagewear Inc.
Date:	June 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 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.



TURLEY  
MARTIN  
TUCKER

Commercial Real Estate Services

5250 Virginia Way  
Suite 100  
Brentwood, TN 37027  
Tel: 615-301-2800  
Fax: 615-301-2958  
www.ctmt.com