

Nashville Office MarketView

Q4 2013

CBRE Global Research and Consulting

 TOTAL VACANCY
10.2%

 AVG LEASE RATES
\$19.26

 NET ABSORPTION
418,341 SF

 DELIVERIES
0 SF

 CONSTRUCTION
925,471 SF

NASHVILLE OFFICE MARKET EXPERIENCES LARGE SPIKE IN ABSORPTION DURING Q4 2013

Citywide vacancy in Q4 2013 dropped for the third straight quarter and absorption was the highest since Q4 2011. Strong leasing activity, large investment sales, and ambitious construction projects are evidence of a market on the rise. Aramark moved into their 88,000 sq. ft. office at 5880 Nolensville Road. Asurion signed a 121,596 sq. ft. lease in the Airport South submarket, and several other significant leases were inked in the surrounding submarkets. Also, Nashville's office market enjoyed a strong quarter in office investment sales. Overall sales volume is up 45% year over year. During the fourth quarter there have been \$281 million in sales, up 5% from \$268 million in Q3 2013. Furthermore, new office construction was on the rise this quarter. OneC1ty broke ground on its first office building. Build-to-suits for Lifepoint and Tractor Supply are currently under construction and will add a combined 452,000 square feet to the market. In short, the Nashville office market witnessed increased absorption, decreased vacancy, and strong investment sales.

Nashville's absorption grew by 418,341 sq. ft. during the Q4 2013. Because of negative absorption during Q2 2013 and Q3 2013 the net absorption for the year was 246,026 sq. ft. The biggest contributor to this quarter's increased absorption was Aramark's 88,000 sq. ft. move into 5880 Nolensville Road. Additionally, Asurion expanded at One Century Place taking 31,346 sq. ft. The overall vacancy rate decreased to 10.2% down from 11.2% in Q3 2013. Overall Class A vacancy remains tight at 6.2%. At 3.9%, the Cool Springs/Brentwood submarket had the lowest vacancy rate. Due to a 44,000 square foot move out by the State of Tennessee this quarter, the MetroCenter submarket posted the highest vacancy rate at 21.8%. Since Q4 2012, MetroCenter's vacancy rate has been climbing since Q4 2012, from 5.4% to its current rate of 21.8%, due mainly to large move-outs by the State of Tennessee. Overall asking rents increased from the previous quarter to rest at \$19.26 PSF/YR with highs clocking in at \$30.00 PSF/YR.

Leasing activity remains strong in Nashville. Existing companies continue to expand, and global companies are relocating here. Asurion took approximately 121,596 sq. ft. at 5720 Crossings Boulevard in the Airport South submarket. In Cool Springs, MorphoTrust took 53,640 sq. ft. at 6840 Carothers Parkway. In the Airport North submarket, American President Lines signed a 40,653 sq. ft. lease at 26 Century Place. Additionally, Standard parking inked a lease for 33,257 sq. ft. at 501-523 Mainstream Drive. The largest move-out occurred in the MetroCenter submarket, where the State of Tennessee vacated 34,000 sq. ft. at 44 Vantage Way.

Several large investment sales strengthened the office market this quarter. The AT&T data center at 402 Franklin Road sold for \$110 million to Carter Validus Mission Critical REIT, Inc. Nashville City Center, at 511 Union Street, sold for \$103 million to Alliance Partners HSP. One Century Place in the Airport North submarket sold for \$70 million to Griffin Capital Essential Asset REIT. Eakin Partners purchased the 369,346 sq. ft. Grassmere Office Park for \$51.5 million. Lastly, Highland Ridge I and II sold to Goldman Sachs for \$35 million. While institutional investors make up approximately one-third of buyers, private equity continues to dominate the market in terms of capital flow.

Construction in the Nashville office market is active, but no buildings have been delivered this quarter. A total of 925,471 sq. ft. of new product is under construction in the area. Holladay Properties began the redevelopment of industrial sheds on 2200 Charlotte Avenue. The 3 building project will add 43,000 sq. ft. of Class A office space to West End. OneC1ty broke ground on the first 110,000 sq. ft. building. OneC1ty's 18-acre site located near the 28th/31st Avenue Connector includes 1 million square feet of Class A research and office space. Currently under construction is Tractor Supply's 250,000 sq. ft. office building and Lifepoint's 203,000 sq. ft. office building at Seven Springs. Franklin Park's 272,720 sq. ft. building is also currently under construction in Cool Springs.

**Overall Class A
vacancy remains tight
at 6.2%**

NASHVILLE OFFICE MARKETVIEW

Chart 1: Market Statistics

Market	Rentable Area SF	Vacancy Rate	Q4 2013 Absorption SF	Under Construction SF	Average Asking Lease Rate \$/SF/YR
Airport North	3,990,860	6.3%	52,461		\$18.31
Airport South	2,805,556	18.6%	2,460		\$13.71
Cool Springs/Brentwood	10,254,774	3.9%	267,297	662,720	\$22.28
Downtown	7,849,162	18.4%	134,798		\$19.90
Green Hills/21st Ave/ Music Row	2,222,761	6.3%	-4,218	109,751	\$23.53
MetroCenter	1,696,053	21.8%	-42,953		\$16.31
North Nashville	816,840	7.3%	3,850		\$14.18
West End/Belle Meade	3,789,175	6%	4,646	153,000	\$24.71
Overall Nashville	33,425,181	10.2%	418,341	925,471	\$19.26

Please note: the reported numbers for the previous quarter and the previous year have changed due to updated data.

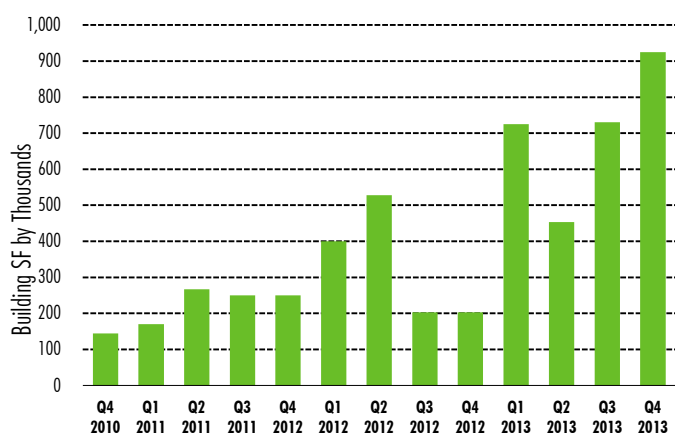
Sources: CBRE, Costar

Chart 2: Key Transactions

Tenant	SF	Submarket	Address
Asurion	121,596	Airport South	5720 Crossings Boulevard
MorphoTrust	53,640	Cool Springs/Brentwood	6840 Carothers Parkway
American President Lines	40,653	Airport North	26 Century Place
Standard Parking	33,257	MetroCenter	501-523 Mainstream Drive

Sources: CBRE, Costar

Chart 3: Construction Activity

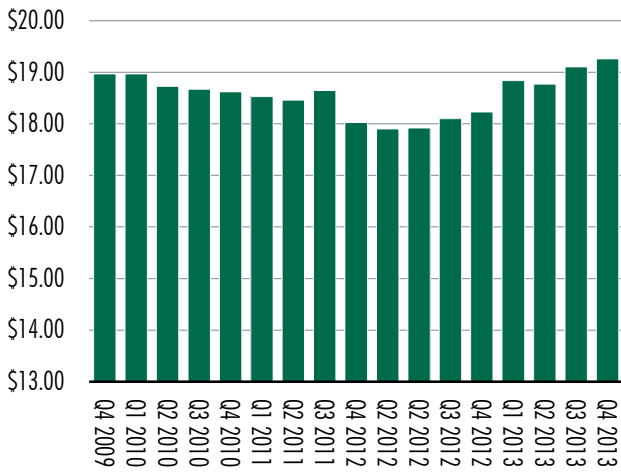


Sources: CBRE, Costar

CONSTRUCTION

Construction activity remains steady as vacancy rates continue to drop and the demand for office space increases. Holladay Properties began the redevelopment of industrial sheds on 2200 Charlotte Avenue. The 3 building project will add 43,000 sq.ft. of Class A office space to West End. OneC1ty broke ground on the first 110,000 sq. ft. building. OneC1ty's 18-acre site located near the 28th/31st Avenue Connector includes 1 million sq.ft. of Class A research and office space. Tractor Supply's 250,000 sq. ft. office building is currently undergoing construction, as well as Lifepoint's 203,000 sq. ft. office building at Seven Springs. Franklin Park's 272,720 sq. ft. building is also currently under construction in Cool Springs.

Chart 4: Rental Rates

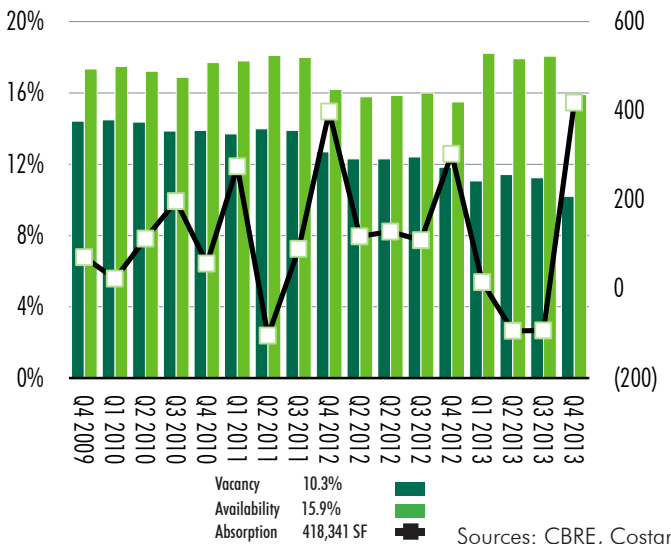


Sources: CBRE, Costar

OFFICE RENTAL RATES

Overall asking rates increased during the quarter, settling at \$19.26 per sq. ft., from \$19.11 per sq. ft. at the end of Q4 2013. Lease rates are up \$1.32 year-over-year, while average high rates remain at \$30.00 per sq. ft. Airport South continues to post the lowest average asking rents, resting at \$13.71 per sq. ft. In contrast, the Green Hills/21st Avenue/Music Row and West End/Belle Meade submarkets continue to post the highest at \$23.53 per sq. ft. and \$24.71 per sq. ft. respectively. Class A asking rents have decreased from the previous quarter to rest at \$22.69 per sq. ft. Overall Class B asking rents closed the quarter at \$18.55 per sq. ft., down from 3Q 2013's \$18.62 per sq. ft.

Chart 5: Vacancy Rates, Absorption & Availability

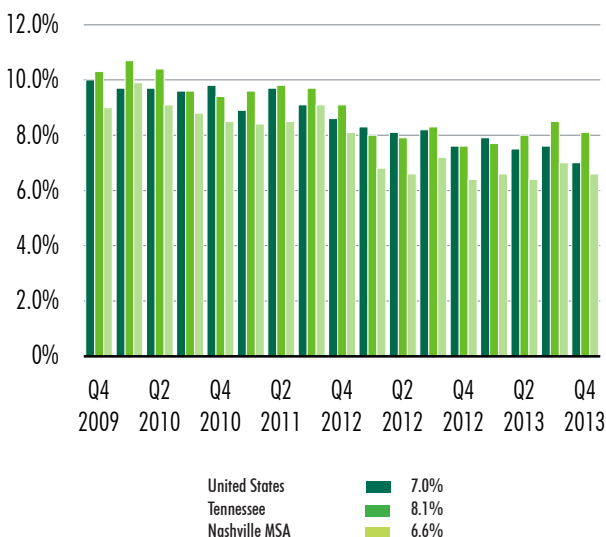


Sources: CBRE, Costar

OFFICE VACANCY RATES, ABSORPTION, AVAILABILITY

The Nashville office market closed out the quarter in black ink, registering 418,341 sq. ft. of positive absorption. Consequently, overall vacancy has decreased, closing the quarter at a rate of 10.2% which is the lowest vacancy rate since Q3 2007. At 3.9%, the Cool Springs/Brentwood submarket posts the lowest vacancy rate. While MetroCenter posts the highest at 21.8%. Overall Class A vacancy now stands at 6.2%, a decrease of 110 basis points since the end of the Q3 2013. Class B vacancy also decreased to 13.6% vacant, down from 13.82%.

Chart 6: Unemployment



Source: Bureau of Labor Statistics

UNEMPLOYMENT

According to the Tennessee Department of Labor & Workforce Development, the state's unemployment rate decreased to 8.1% from the previous quarters reported 8.5%.

The unemployment rate for the Nashville MSA decreased 40 basis points from third quarter of 2013 to clock in at 6.6%. Total nonfarm employment increased 9,400 jobs from October to November. The largest increases occurred in leisure/hospitality, durable goods manufacturing, and professional/business services.

The national unemployment rate as of November 2013 clocked in at 7.0%, a decrease from the previous quarter's 7.6%. The Nashville MSA continues to post unemployment rates lower than Memphis and Atlanta.

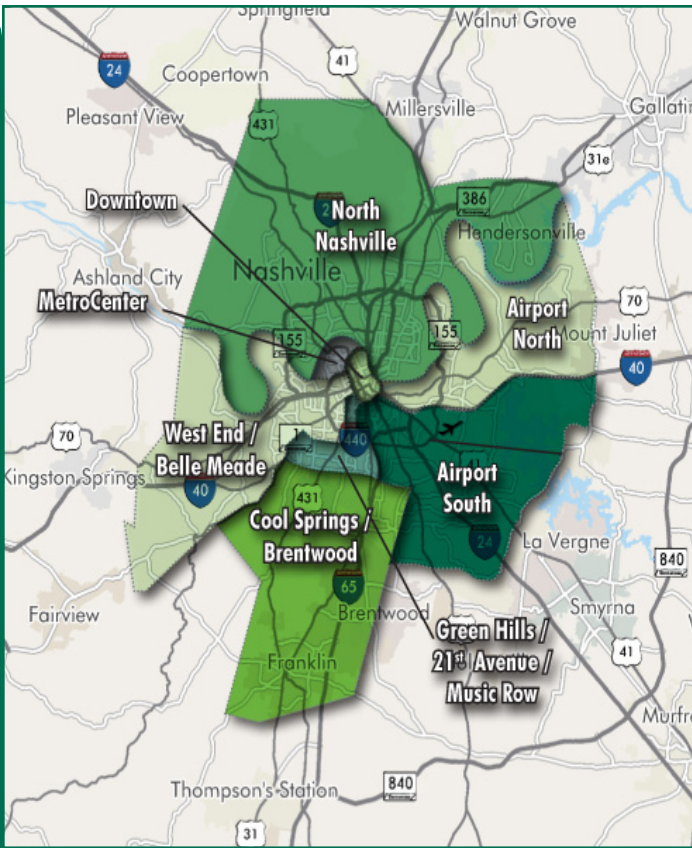


Chart 7: Top Sale Transactions

Size (SF)	Address	Price in mil.
347,515	402 Franklin Road Brentwood, TN	\$110
482,407	511 Union Street Nashville, TN	\$103
535,000	26 Century Boulevard Nashville, TN	\$70
369,346	Grassmere Office Park Nashville, TN	\$51.5

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