MARKETBEAT

NASHVILLE OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

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4Q09

ECONOMY

State unemployment figures posted 10.3%, slightly higher than the national average of 10.0% this past November. The Nashville MSA unemployment remains under the national average posting 9.0%. Despite these high unemployment rates, Nashville has proposals for a new convention center as well as a medical trade center in the heart of downtown which could provide for growth in many industries in this area.

OVERVIEW

Nashville's office market continued with positive leasing activity, posting over 1.9 million square feet (msf) year-to-date. Two of the largest leases were signed this past quarter. Vanderbilt University inked a lease at Green Hills Office Building for 70,000 square feet (sf) vacated by Healthways last year. San Francisco-based ServiceSource signed a 38,264-sf lease in the former SunTrust Bank Building downtown. Harleysville Mutual Insurance Company also signed a 20,211-sf sublease in the Bank of America Plaza building which is located in the CBD as well. The Brentwood submarket had the strongest showing in leasing for the second year in a row with 446,506 sf of activity.

Direct vacancy rates for Nashville struggle to remain in single digits at 9.8%. However, the overall vacancy has reached 11.2%. Although sublease opportunities are relatively minimal, tenants are still downsizing and combining operations. The highest vacancy lies in the CBD at 17.6%. CBD class A vacancy posted an eye-popping overall vacancy rate of 26.2%. The rise in vacancy is due to the completion of The Pinnacle at Symphony Place with 50% of the building vacant. There are numerous rumors of tenants looking at large blocks of space, and The Pinnacle is one of the few buildings that could meet this requirement immediately.

Asking rental rates for class A suburban markets dropped slightly to $22.30 per square foot (psf) from the overall high of $22.37 psf third quarter. CBD class A rates climbed $1.28 psf in a single quarter to $22.15 psf, due to the fact that The Pinnacle's asking rates are so far above the rest of the CBD. Time will tell if the Nashville market will tolerate those asking rates with such a high vacancy in the submarket. The overall class A rate still hovers around $22.00 psf, with the highest rates consistently in the Green Hills and West End submarkets well north of $25.00 psf.

Investment sale activity continues at a snail's pace with only one notable transaction this quarter. The EMI/Sparrow building in Brentwood sold for $6.9 million in late December. Only 342,000 sf of office space traded this year compared to 1.8 msf in 2008 and 2.3 msf two years ago.

FORECAST

The only building to complete this quarter was The Pinnacle at Symphony Place, adding 522,079 sf to the CBD submarket. This completion rounds out the year with just under 1.0 msf of new product added to the office market. Currently, 418,693 sf is under construction, of which almost half is pre-leased. Speculative construction is not expected to begin until the latter half of 2010 which should give the Nashville office sector time to rebound well before the major markets.

BEAT ON THE STREET

"The office market is slowly stabilizing locally. However, tenants are hyper aware of their value in the down market, and until we see unemployment levels decrease, we can expect continued concessions and pressure on landlords to remain for the foreseeable future."

–Andrew Robinson, Jr., Principal

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%
Regional			
Unemployment	7.3%	9.0%	10.2%
Employment Growth	-1.0%	-5.2%	-1.2%

Source: TN Dept of Labor & Workforce, Moody's | Economy.com

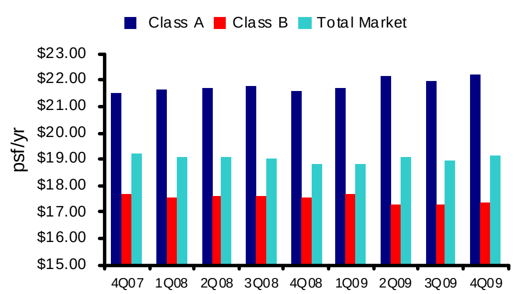
MARKET FORECAST

OVERALL ABSORPTION is negative and will remain negative until the need for new or expansion space shows signs of improvement.

ASKING RENTAL RATES climbed slightly and should remain stable through 2010.

CONSTRUCTION is minimal and will remain at bay until tenant demand increases.

RENTAL RATE TRENDS



NASHVILLE COMMERCIAL REAL ESTATE SERVICES

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MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Airport North	5,369,020	86	13.0%	9.9%	162,637	184,936	0	58,112	$18.72
Airport South	4,952,859	145	16.8%	16.2%	114,472	0	0	(87,125)	$20.53
Brentwood	6,375,876	116	9.0%	7.7%	446,506	0	0	29,861	$21.68
CBD	12,102,845	137	17.6%	14.6%	309,896	0	597,079	(56,766)	$22.15
Cool Springs	7,114,064	125	12.6%	11.0%	511,221	171,757	292,603	143,203	$23.36
Green Hills	4,038,142	114	11.4%	10.5%	67,579	0	55,196	(182,065)	$27.47
MetroCenter	2,438,139	36	4.6%	4.6%	8,753	0	0	(40,675)	$16.25
North Nashville	2,845,940	105	11.4%	11.4%	76,955	0	0	85,267	$20.31
Rutherford County	2,509,309	79	7.8%	7.4%	79,090	0	0	36,587	$19.82
West End	11,947,058	123	3.9%	3.8%	194,469	62,000	48,066	(12,070)	$25.77
CBD	12,102,845	137	17.6%	14.6%	309,896	0	597,079	(56,766)	$22.15
NON-CBD	47,590,407	929	9.6%	8.6%	1,661,682	418,693	395,865	31,095	$22.30
NASHVILLE TOTAL	59,693,252	1,066	11.2%	9.8%	1,971,578	418,693	992,944	(25,671)	$22.25

*Rental rates reflect $psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2009 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BUILDING CLASS
Commerce Center	CBD	Baker Donelson	93,667	A
Cool Springs IV	Cool Springs	Simplex	91,253	A
Green Hills Office Building	Green Hills	Vanderbilt University	70,000	A
Former SunTrust Bank Buiilding	CBD	ServiceSource	38,264	B

SIGNIFICANT 2009 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
The Parklane Building	Brentwood	Panattoni Development	110,347	$10,700,000
The Bone & Joint Clinic	Cool Springs	Vanderbilt University	30,625	$8,575,217
EMI / Sparrow Building	Brentwood	SmartSpace	59,656	$6,900,000
ShoLodge Office Building	North Nashville	SRS, Inc.	47,000	$5,000,000

SIGNIFICANT 2009 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Pinnacle at Symphony Place	CBD	Bass, Berry & Sims	500,431	11/09
The McEwen Building	Cool Springs	Southern Land	172,500	5/09
Terrazzo	CBD	BB&T Bank	75,000	3/09
Freeman Webb Building	Green Hills	Freeman Webb Company	55,196	3/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
One Greenway Center	Cool Springs	N/A	154,737	1/10
Piedmont Gas	Airport North	Piedmont Gas	150,660	5/10

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*Market terms & definitions based on BOMA and NAIOP standards.