

Nashville Office MarketView

Q3 2014

CBRE Global Research and Consulting



AVAILABLE CLASS A OFFICE SPACE REMAINS LIMITED IN Q3

Nashville's gross domestic product measured by the value of goods and services produced officially crossed the \$100 billion mark in 2013. This figure makes Music City the 34th largest metro region in the country and is Nashville's new highest benchmark for local growth. This rank is reflected in Q3 2014's vacancy rate of 9.0% which dropped 80 basis points (bps) since Q2 2014.

Brookdale Senior Living occupied 31,909 sq. ft. in the Cool Springs/Brentwood submarket. The senior living provider expanded its operations to Harpeth on the Green V, which was one of the largest new occupancies of the quarter. In addition, the Cool Springs/Brentwood submarket saw an influx of leasing activity during Q3. One noteworthy new lease was AIG, which signed a 154,000 sq. ft. lease. Several other significant leases were inked in the Cool Springs/Brentwood submarket and surrounding areas. Nashville's office market enjoyed a strong quarter in office investment sales with the sale

of two downtown office towers. Furthermore, several new office developments including a 205,000 sq. ft. office building in downtown Nashville is currently under construction, as well as a build-to-suit for Amsurg's new headquarters in the Green Hills/Belle Meade submarket.

Several large investment sales strengthened the office market this quarter. Two downtown office towers have sold.

Nashville's net absorption grew by 177,315 sq. ft. during Q3. The largest contributor to this quarter's positive absorption was Brookdale Senior Living's 31,909 sq. ft. occupancy at Harpeth on the Green V in the Cool Springs/Brentwood submarket. The Cool Springs/Brentwood submarket recorded the lowest direct vacancy rate, clocking in at 3.41%. The West End/Belle Meade submarket posted a positive absorption of 58,410 sq. ft., bringing the vacancy rate down 77 basis points to rest at 3.73%. Two mid-sized tenants absorbed space in the West End/Belle Meade submarket as Acxiom occupied 19,000 sq. ft. and Haven Behavioral occupied 13,000 sq. ft. in Two American Center. The combined overall average Class A and B rents increased slightly from the previous quarter to rest at \$20.37 per sq. ft., with highs clocking in at \$31.00 per sq. ft.

Leasing activity remains strong in Nashville. Behavioral health treatment company, Acadia Healthcare, signed a lease for 54,000 sq. ft. at One Franklin Park which is currently under construction in the Cool Springs/Brentwood

submarket. Acadia Healthcare plans to occupy One Franklin Park, the first of five buildings in Spectrum's Cool Springs office development, in early 2015. In the same submarket, AIG signed a 154,000 sq. ft. lease at Seven Springs West. AIG was the largest new lease in Q3. Also in the Cool Springs/Brentwood submarket, CHS expanded and also executed a new lease for a total of 58,834 sq. ft. at the Carothers Building and Cool Springs I. Additionally, Cigna HealthSpring inked a 54,000 sq. ft. lease in MetroCenter.

Several large investment sales strengthened the office market this quarter. Two downtown office towers have sold. 401 Church Street LLC purchased the L&C Tower located downtown Nashville for \$19.5 million (\$70.17 per sq. ft.) in Q3. In addition, Elmington Capital Group purchased the Renaissance Tower located downtown Nashville for \$10 million (\$107.01 per sq. ft.). In MetroCenter, The United Methodist Publishing House purchased 2200 Rosa L. Parks Blvd. for \$9.2 million (\$76.11 per sq. ft.). Additionally, Bravo Development LLC purchased 30 Music Square West for \$4 million (\$195.10 per sq. ft.).

Third quarter's under construction total decreased with the delivery of Tractor Supply's 260,000 sq. ft. headquarters in Cool Springs/Brentwood. Tractor Supply owns the Class A office building. Currently, 756,471 sq. ft. of office space is under construction, while at least 2.5 million sq. ft. of Class A office space is in the pipeline primarily in the downtown and Brentwood/Cool Springs submarkets. One Franklin Park, a 272,720 sq. ft. office development in Cool Springs is expected to be delivered by the end of the year. Late into the third quarter, one new development was announced for downtown Nashville named Sheet Music. This downtown high-rise office building could bring 500,000 sq. ft. of Class A office space to the southeast corner of Fourth Avenue South and Demonbreun Street. Ovation is another proposed development slated for its official groundbreaking during Q4 of 2014. Ovation is designed to bring 1.4 million sq. ft. of Class A office space, upscale retailers, two hotels and high-end residences to the Cool Springs/Brentwood submarket. Ovation will be located at the corner of Carothers Parkway and McEwen Drive in Cool Springs. Capital View, which will be the home to HCA and Parallon Business Solutions, is also expected to break ground during Q4. The 16-story office tower will include more than 500,000 sq. ft. of office space and bring about 2,000 jobs to Davidson County over the next few years, according to a HCA news release.

NASHVILLE OFFICE MARKETVIEW

Figure 1: Market Statistics

Market	Rentable Area sq. ft.	Direct Vacancy Rate (%)	Q3 2014 Absorption sq. ft.	Under Construction sq. ft.	Average Asking Lease Rate (\$/per sq.ft.)
Airport North	3,990,860	8.6	5,005	0	18.92
Airport South	2,928,356	15.3	42,973	0	14.21
Cool Springs/Brentwood	10,457,774	3.4	11,384	272,720	22.07
Downtown	7,787,530	16.0	29,617	205,000	21.27
Green Hills/21st Ave/ Music Row	2,222,761	6.4	0	216,961	24.41
MetroCenter	1,756,346	17.7	29,926	0	16.15
North Nashville	816,840	6.9	0	0	13.98
West End/Belle Meade	3,789,175	3.7	58,410	158,000	23.96
Overall Nashville	33,749,642	9.0	177,315	852,681	19.60

Sources: CBRE Research, Q3 2014

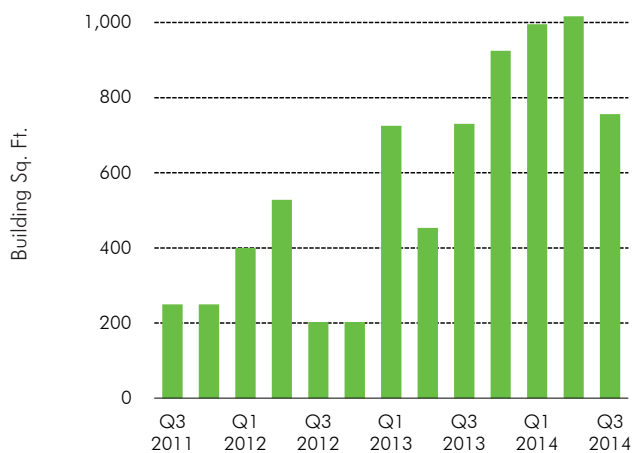
Figure 2: Key Transactions

Tenant	SF	Submarket	Address
AIG	154,000	Cool Springs/Brentwood	340 Seven Springs Way
Acadia Health Care	54,000	Cool Springs/Brentwood	6100 Tower Circle
Cigna - Healthspring	54,000	MetroCenter	601 Mainstream Drive
Healthstream	21,778	Airport North	Marriott Drive

* Renewal

Sources: CBRE Research, Q3 2014

Figure 3: Construction Activity

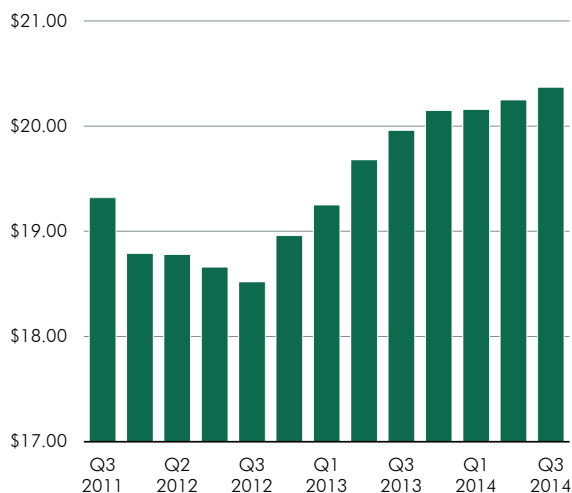


Sources: CBRE Research, Q3 2014

CONSTRUCTION

Construction activity remains steady as vacancy rates continue to drop and the demand for office space increases. Buildings currently under construction and expected to deliver this year are: Franklin Park's first 272,720 sq. ft. office building. Also, 96,210 sq. ft. of construction has begun at 35 Music Square East in the Green Hills/Music Row submarket. Additionally, Holladay Properties' Sheds on Charlotte is under construction and expected to bring 48,000 sq. ft. to the market. OneCity's first 110,000 sq. ft. building anchored by TOA at the 28th/31st Avenue connector off of Charlotte is underway. Gulch Crossing, a 205,000 sq. ft. building at 1033 Demonbreun has also broken ground. In Green Hills, AmSurg's new 109,751 sq. ft. headquarters is under construction on the last available site in the Burton Hills office park. In Green Hills, Boyle has started on an 11,00 sq.ft. building at 3835 Cleghorn.

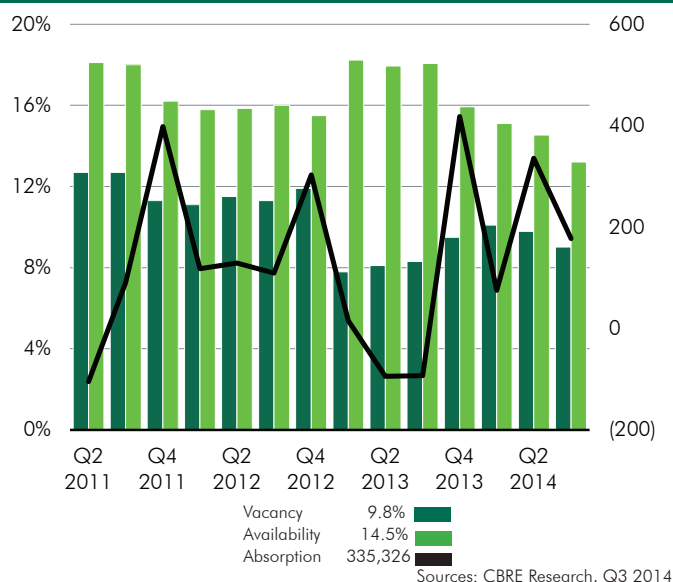
Figure 4: Rental Rates



OFFICE RENTAL RATES

Class A and B asking rates increased during Q3 2014, settling at \$20.37 per sq. ft., up from \$20.25 per sq. ft. at the end of Q2 2014. North Nashville posted the lowest average asking rents, resting at \$13.74 per sq. ft. In contrast, the Green Hills/21st Avenue/Music Row and West End/Belle Meade submarkets continue to post the highest average rents at \$24.06 per sq. ft. and \$24.59 per sq. ft., respectively. Class A asking rents have increased from the previous quarter to rest at \$22.86 per sq. ft. Overall Class B asking rents closed Q3 2014 at \$18.74 per sq. ft., up from Q2 2014's \$18.54 per sq. ft.

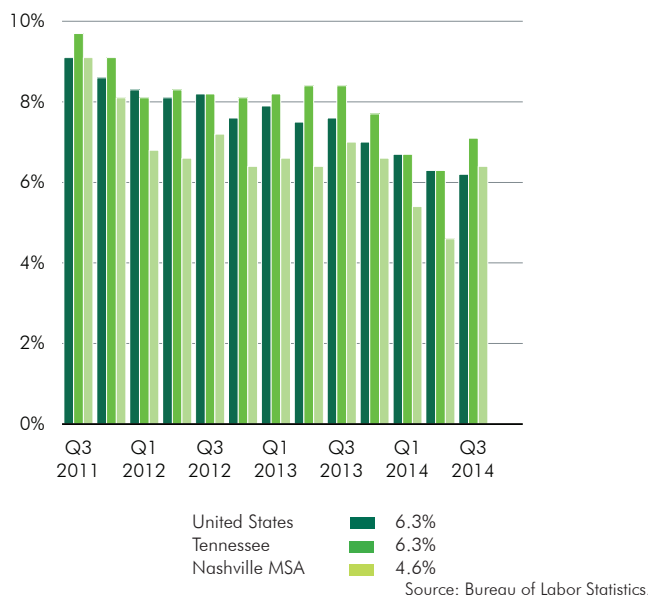
Figure 5: Vacancy Rates, Absorption & Availability



OFFICE VACANCY RATES, ABSORPTION, AVAILABILITY

The Nashville office market closed out the quarter in black ink, registering 177,315 sq. ft. of positive absorption. Consequently, overall direct vacancy has decreased, closing Q3 2014 at a rate of 9%. At 3.4%, the Cool Springs/Brentwood submarket posts the lowest vacancy rate. MetroCenter posts the highest vacancy rate at 17.72%. Direct Class A vacancy now stands at 6.2%, up from 5.5% at the close of Q2 2014. Class B vacancy slightly increased to 13.9% up from 13.5%.

Figure 6: Unemployment



UNEMPLOYMENT

According to the Bureau of Labor Statistics, the state's unemployment rate increased to 7.1% in July, up from the reported rate of 6.6% in June.

The unemployment rate for the Nashville MSA in June 2014 was 6.0%, down from the reported 7.1% in June 2013. Preliminary numbers from the BLS show the April unemployment rate at 6.4%.

The national unemployment rate as of July is 6.2%, remaining similar to the 6.1% in June 2014. The economic outlook remains positive in both the state of Tennessee and Nashville, as the unemployment rate has declined since the same time last year. The Nashville MSA continues to post unemployment rates lower than other major cities in the region, including: Memphis, Atlanta, Charlotte, Louisville, Indianapolis, and Birmingham.

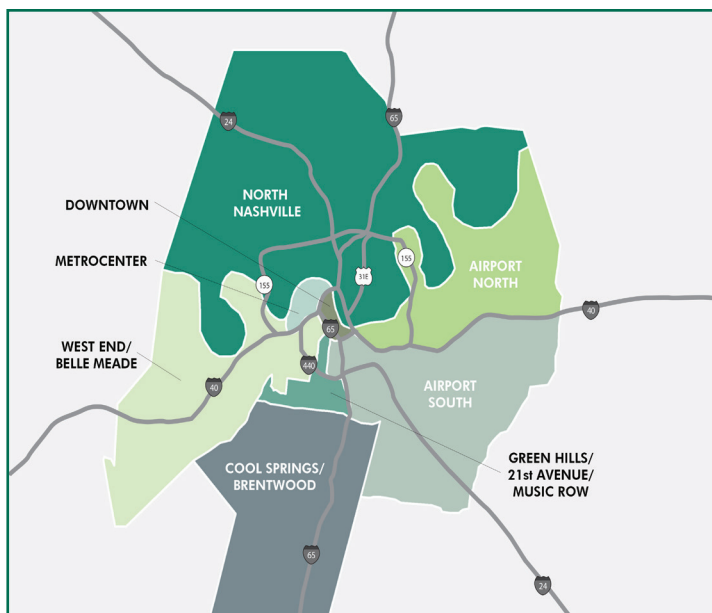


Figure 7: Top Sale Transactions

Size (SF)	Address	Price in mil.
322,348	2000 American General Way Brentwood, TN	\$65
277,915	401 Church Street Nashville, TN	\$19.5
77,000	1400 18th Avenue South Nashville, TN	\$12.1
94,848	611 Commerce Street Nashville, TN	\$10.5

Sources: CBRE Research, Q3 2014

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