

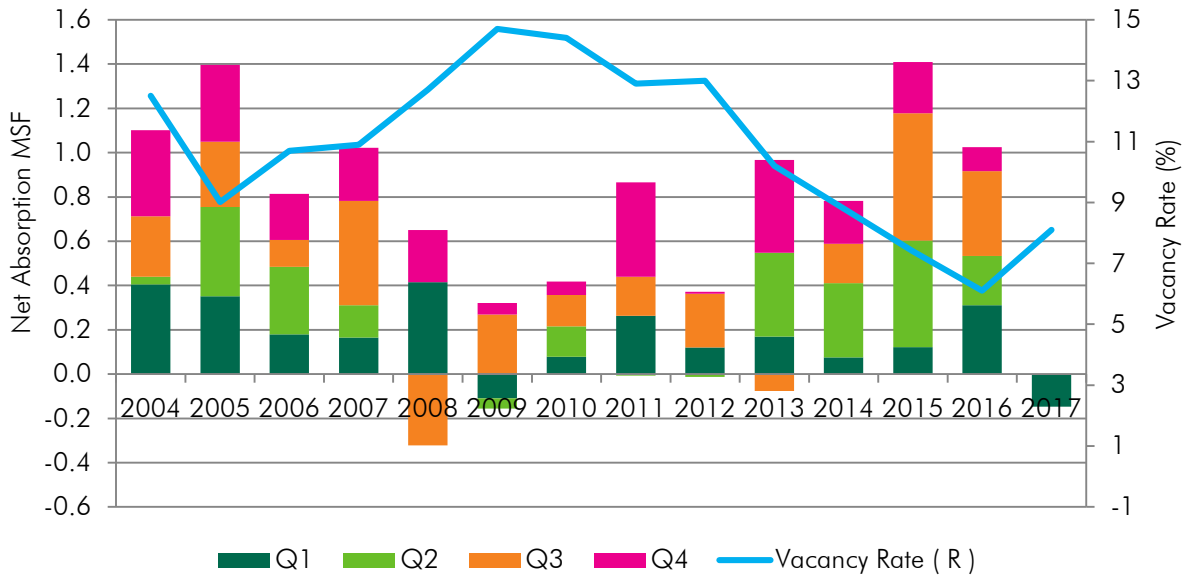
Nashville Office, Q1 2017

Speculative development drives vacancy higher, giving tenants options

▲ Vacancy Rate 8.1%
▲ Overall Rate \$24.93 PSF
▲ Class A Rate \$29.56 PSF
▼ Net Absorption (146,873) SF
▼ Construction 2,520,656 SF
▼ Completions 393,161 SF

*Arrows indicate change from previous quarter.

Figure 1: Historical Vacancy Rate and Absorption by Quarter



Source: CBRE Research, Q1 2017.

SECOND GENERATION SPACE RESURFACES

For the first time in four years, the Nashville office market saw an influx of vacated office space with over 140,000 sq. ft. of negative net absorption. This negative absorption was much anticipated and needed as Nashville's vacancy has been rapidly declining. Office vacancy in Nashville dropped to a record low of 5.5% in Q3 2016. With increased speculative construction and newly vacant second generation space, tenants now have more options to expand in highly sought after submarkets. The first quarter's negative absorption is primarily a result of second generation space reappearing on the market.

One of the nation's leading providers of healthcare services and Nashville's largest healthcare company, HCA and affiliates, vacated roughly 120,000 sq. ft. of office space in the West End and Cool Springs/Brentwood submarkets during Q1 2017. HCA and affiliates occupied its new headquarters during Q4 2016, giving back space in highly sought after submarkets known for the lowest vacancy rates in the entire market.

HCA's new headquarters in mixed-use development, Capitol View, is owner-occupied and consequently was not captured in Q4 2016's absorption. This move along with additional vacancies caused Nashville's overall vacancy to

11 OFFICES PROJECTED TO DELIVER IN 2017

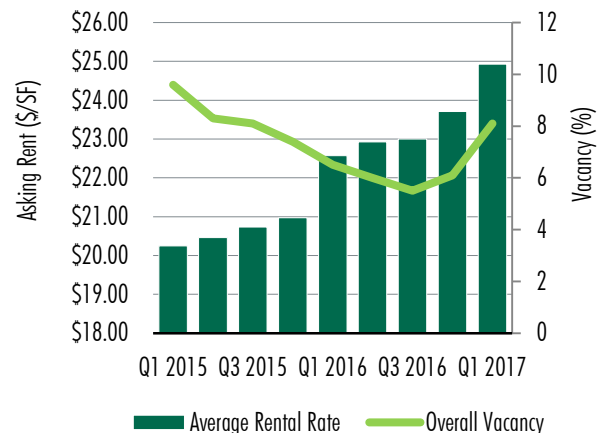
increase by 200 basis points (bps) to 8.1%, during Q1 2017. Class A office buildings, Brentwood Commons III and Two Franklin Park, delivered in Q1 2017. CKE Restaurant Holdings/Hardees is now open for business in Two Franklin Park, occupying 47,000 sq. ft. In addition, Bell and Associates and Universal Health Services occupied Brentwood Commons III, totaling 92,000 sq. ft.

With climbing rental rates and limited available Class A office space, Nashville’s Q1 2017 office construction is still climbing with 16 buildings totaling 2.5 million sq. ft. under construction. Of these projects under construction, 11 are projected to deliver in 2017 and are 68% preleased. This will add 1.9 million sq. ft. to Nashville’s office inventory by year-end. Both build-to-suit and spec office space contribute to this figure. The Chet, a 130,000 sq. ft. Class A office building and 178,638 sq. ft., Mallory Green, both broke ground during Q1 2017 in the Cool Springs/Brentwood submarket. The majority of this new construction is located in Cool Springs/Brentwood with 786,000 sq. ft. under construction and 61% preleased. These Cool Springs/Brentwood projects include three buildings within office development, Berry Farms, Seven Springs II, and Hill Center Brentwood’s First Tennessee Bank building.

NASHVILLE JOB GROWTH REFLECTED IN LEASING ACTIVITY

New population estimates from the U.S. Census Bureau show the Nashville metropolitan area added 36,337 people (100 people per day) over a one year period ending in July 2016. Nashville is booming and there are no signs of it slowing down as professionals are attracted to Nashville’s vast career opportunities. Nashville added 7,800 jobs in the Nashville metropolitan area in January and February of 2017. Leasing activity was exceptionally active throughout Q1 2017. Mars Petcare signed a 223,700 sq. ft. lease to move to Highwoods’ mixed-use development, Ovation, which is set to break ground Q2 2017. In addition, architecture and interior design website, Houzz, signed a 37,421 sq. ft. lease in Q1 2017. Houzz will soon occupy downtown’s iconic AT&T Tower. Other noteworthy Q1 2017 leases include Serendipity at L&C Tower, Universal Music Group at the McEwen Building and Vanderbilt University at 3322 West End.

Figure 2: Overall Nashville Rental Rate and Vacancy



Source: CBRE Research, Q1 2017.

Figure 3: Key Leasing Transactions

Tenant	Location	Size (Sq. Ft.)	Submarket	Transaction Type
Mars Petcare	Ovation	223,700	Cool Springs/Brentwood	New
Vanderbilt University	3322 West End	41,426	West End/Belle Meade	New
Houzz	315 Deaderick Street	37,421	Downtown	New
Serendipity	401 Church Street	16,000	Downtown	New
Paradigm Entertainment	222 2 nd Avenue South	13,235	Downtown	New

Source: CBRE Research, Q1 2017.

OFFICE ABSORPTION

Nashville’s office market experienced a shift in occupancy growth during Q1 2017 with over 140,000 sq. ft. of negative absorption. Tenants vacated space for new construction throughout 2017 leaving vacancy in Class A and Class B second generation space. HCA and affiliates largely contributed to Q1’s negative absorption as they vacated multi-tenant buildings to HCA’s new owner-occupied building Downtown. Additionally, with the delivery of two buildings bringing more than 390,000 sq. ft., the Nashville office market received new space in highly sought after submarkets, Cool Springs/Brentwood and West End. Tenants started taking occupancy in new Class A office buildings, Two Franklin Park and Brentwood Commons III during Q1 2017.

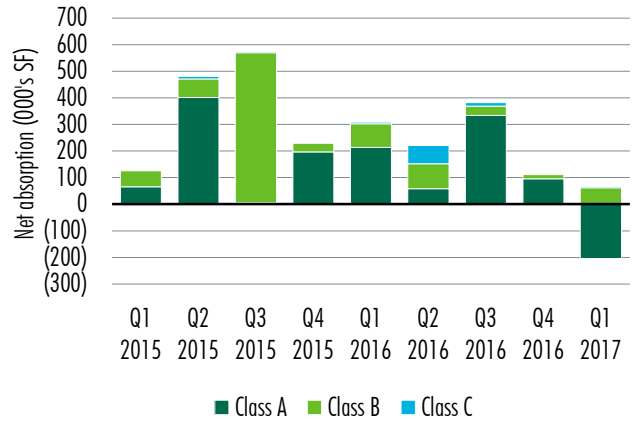
OFFICE RENTAL RATES

The combination of new construction hitting the market and strong tenant demand led to rental rate growth during Q1 2017. The average overall asking rate increased by \$1.22 per sq. ft., to an all-time high of \$24.93 per sq. ft. Average Class A space increased \$0.93 from \$28.63 to \$29.58 per sq. ft. Class B properties increased from \$20.77 per sq. ft. to \$21.74 per sq. ft. Class C properties slightly increased from \$15.23 per sq. ft. to \$15.27 per sq. ft. The Nashville market is likely to see increasing rate trends throughout 2017 as Class A vacancy continues to tighten and new construction delivers.

OFFICE VACANCY RATES

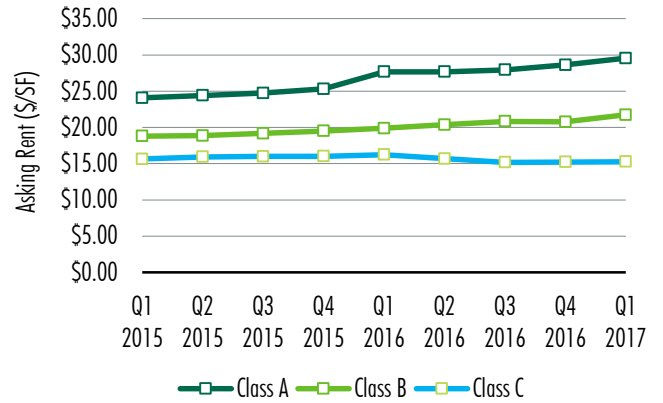
The overall vacancy rate increased by 200 basis points (bps) from 6.1% in Q4 2016 to 8.1% in Q1 2017. Class A was responsible for the majority of the overall increase, with its vacancy increasing by 310 bps to end Q1 2017 at 7.7%. Class B saw vacancy increase 100 bps to 7.9%, and Class C slightly increased to 11.6%. The delivery of new office space throughout 2017 may result in temporary vacancy increases while leasing activity occurs.

Figure 4: Quarterly Net Absorption



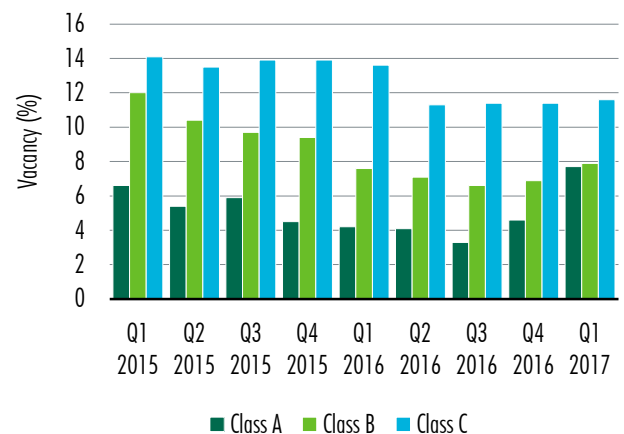
Source: CBRE Research, Q1 2017.

Figure 5: Rental Rates by Property Type



Source: CBRE Research, Q1 2017.

Figure 6: Vacancy by Property Type



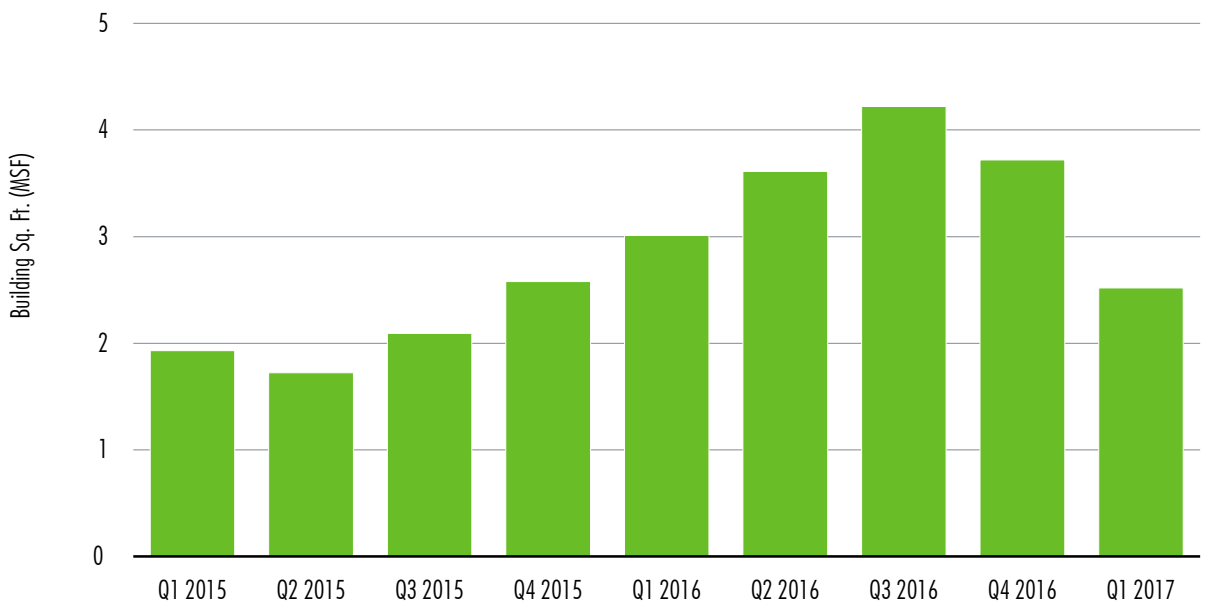
Source: CBRE Research, Q1 2017.

Figure 7: Market Statistics

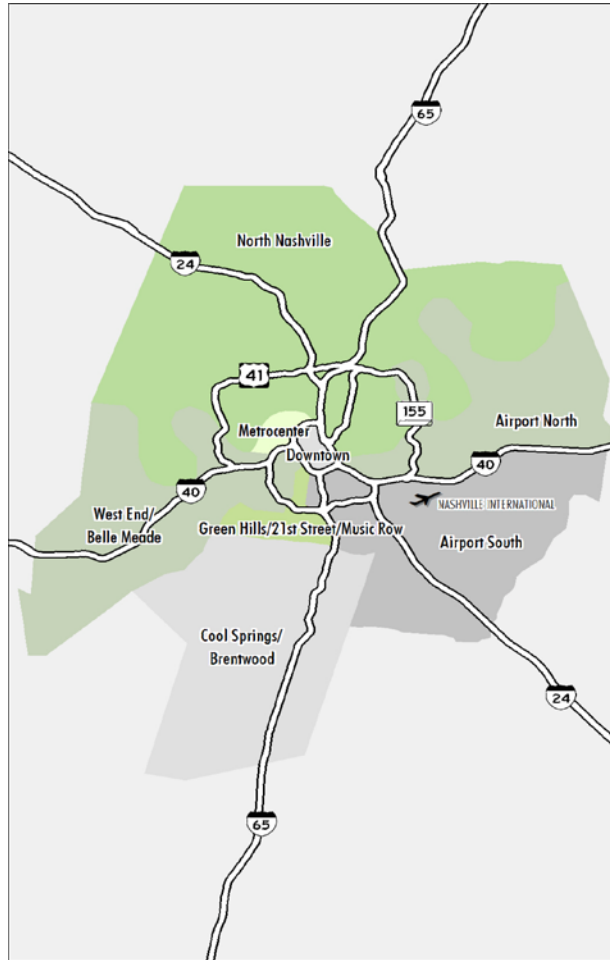
Submarket	Market Rentable Area (sq. ft.)	Direct Vacancy Rate (%)	Total Vacancy Rate (%)	Avail. Rate (%)	Q1 2017 Net Absorption (sq. ft.)	YTD Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Avg. Gross Asking Lease Rate (\$/sq. ft./Yr)
Airport North	3,929,610	3.8	3.9	16.4	(16,803)	(16,803)	0	23.74
Airport South	3,407,819	8.9	9.6	15.2	(4,945)	(4,945)	240,000	15.20
Cool Springs/Brentwood	11,575,372	7.8	8.3	12.3	(20,641)	(20,641)	786,656	28.69
Downtown	8,331,257	11.0	11.5	15.3	29,957	29,957	1,274,000	25.74
Green Hills/21 st Ave/Music Row	2,428,665	5.1	5.3	8.0	8,694	8,694	220,000	25.79
MetroCenter	1,756,346	6.4	7.0	8.5	(3,427)	(3,427)	0	17.73
North Nashville	816,840	7.2	7.2	9.7	0	0	0	15.93
West End/Belle Meade	3,841,878	5.6	5.6	8.1	(139,708)	(139,708)	0	30.05
NASHVILLE	36,087,787	7.7	8.1	12.7	(146,873)	(146,873)	2,520,656	24.93

Source: CBRE Research, Q1 2017.

Figure 8: Quarterly Under Construction Sq. Ft.



Source: CBRE Research, Q1 2017.


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