

1Q'14

First Quarter Market Report



First Quarter 2014 Industrial Report



While the industry vacancy rate rose from 7.9% to 8.6% this quarter and there was negative net absorption of 132,282 SF, these numbers bear closer examination. For example, a 320,000 SF building was delivered during this period, and a significant lease deal of over 32,000 SF closed in early April – just a few days too late to be included in this report. Since vacancies have fluctuated within a range of 8% - 9% for the past 18 months, the current increase is not indicative of a negative trend.

In terms of major transactions, NAI Knoxville brokered Fresenius Medical Care's acquisition of the 270,000 SF former Panasonic Building. Fresenius will be investing \$140 million for the manufacturing of dialysis equipment, creating 665 new jobs which will likely expand to 800.

In other deals, Priority Ambulance moved into 30,000 SF of space that Rural Metro formerly occupied on Callahan Drive. WS Packaging Group signed a lease on the 225,000 SF former PBL Building in WestBridge Business Park and plans to create 231 new jobs and invest \$43 million in equipment and building changes. Also in WestBridge, American Paper and Twine bought about 12 acres of land next to the WS Packaging building and is in the process of building a 30,000 SF office distribution facility. In Forks of the River Industrial Park, Green Mountain Coffee is underway on a \$4 million expansion of its plant there.

Despite all this activity, the trend line for recovery in the industrial market will still closely follow the rest of the economy – long and slow. We do not anticipate much speculative construction, but rather a project-driven industrial market.

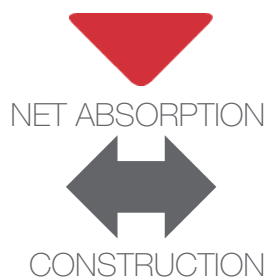
Vacancy Rates



Rental Rates



Trends for 2Q14



10101 Sherrill Blvd.
Knoxville, TN 37932
+1 865 777 3030
www.naiknoxville.com

First Quarter 2014

Industrial Report

Market Overview:

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Anderson County	224	7,882,608	1,331,910	1,331,910	16.9%	80,880	0	0	\$3.87
Bearden/Papermill/W Town	267	5,531,549	254,490	254,490	4.6%	(33,798)	0	0	\$4.89
Blount County	390	14,026,003	173,936	173,936	1.2%	22,050	0	0	\$4.50
Campbell Station/Farragut	7	78,507	7,500	7,500	9.6%	0	0	0	\$7.64
Cedar Bluff/Walker Spgs	29	401,418	51,537	51,537	12.8%	0	0	0	\$6.10
Downtown	73	2,963,289	397,760	397,760	13.4%	25,400	0	0	\$2.78
East	80	1,357,307	394,985	394,985	29.1%	(10,625)	0	0	\$3.30
Loudon County	129	4,385,868	882,958	882,958	20.1%	(275,900)	320,000	0	\$3.57
North/Broadway	812	17,775,445	2,005,631	2,050,047	11.5%	25,778	0	0	\$3.14
North/Emory Road	99	1,778,156	79,325	79,325	4.5%	(5,625)	0	0	\$5.63
Pellissippi/Lovell	369	7,803,750	129,683	129,683	1.7%	22,100	0	0	\$5.32
South	249	7,987,072	425,890	425,890	5.3%	11,458	0	0	\$3.29
Union County	31	445,056	22,300	22,300	5.0%	0	0	0	\$2.61
Totals	2,759	72,416,028	6,157,905	6,202,321	8.6%	(138,282)	320,000	0	\$3.72

Source: CoStar Property®

Significant Transactions:

Tenant	Address	Size	Submarket
WS Packaging	10215 Caneel Dr	220,000 SF	Pellissippi/Lovell
Carroll Tires	1550 Amherst Rd	57,000 SF	Bearden/Papermill/W Town
American Paper and Twine	Caneel Dr	10 AC	Pellissippi/Lovell
Priority Ambulance	Powell	30,000 SF	North/Emory Road



First Quarter 2014

Office Report



After a significant increase in vacancy rates in the fourth quarter of 2013, the office market saw its first positive move in a year in the first quarter of 2014, with vacancies declining from 9% to 8.9%. Net absorption was positive at 38,119 SF, following two quarters of negative net absorption.

The first new multi-tenant office building since the recession, Century Park VII, was completed and delivered this quarter. Great West Casualty has committed to 24,500 SF in the 40,000 SF building, vacating 27,871 SF at 230 Falling Water Road.

These positive trends were reflected in the recent ranking of Knoxville as the eighth fastest growing city in the U.S. by the trade magazine *Business Facilities*. A total of 19 deals were completed in the quarter, indicating that market improvement was due to the volume of deals rather than to specific sizable transactions. The largest single lease signed was 3,177 SF, by Knowledge Launch at 318 Nancy Lynn Lane; NAI Knoxville brokered a 2,858 SF deal with Cornerstone Wealth Management at the Stokely Building.

We continue to anticipate around 1% growth in the market for the remainder of the year, as small businesses requiring 2,500 SF or less are finally getting a bit more comfortable and optimistic about the economy. Overall, there is more surety in the market.

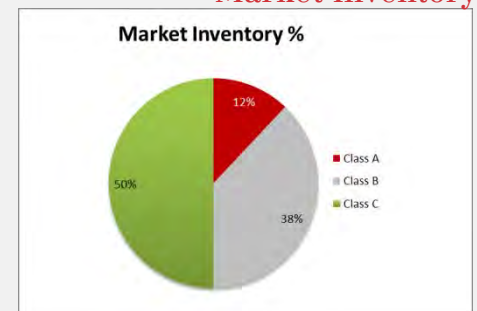
Vacancy Rates



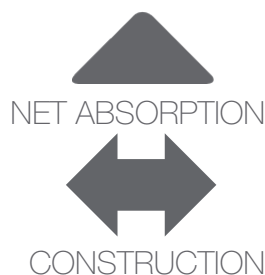
Rental Rates



Market Inventory



Trends for 2Q14



10101 Sherrill Blvd.
Knoxville, TN 37932
+1 865 777 3030
www.naiknoxville.com

First Quarter 2014 Office Report

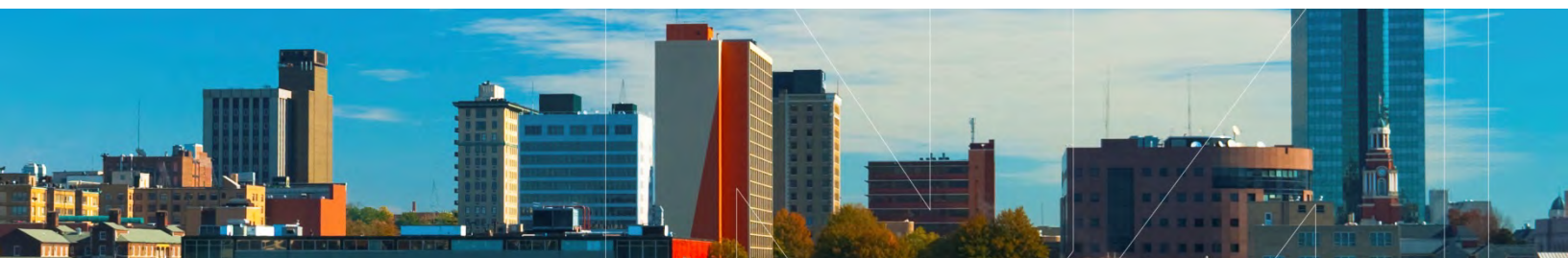
Market Overview:

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Anderson County	258	2,754,935	259,266	265,366	9.6%	(40,191)	0	0	\$11.19
Bearden/Papermill/W Town	469	5,568,308	555,524	560,684	10.1%	20,079	0	0	\$15.98
Blount County	346	2,837,060	99,309	135,216	4.8%	6,603	0	0	\$12.27
Campbell Station/Farragut	79	793,966	111,221	155,997	19.6%	(4,090)	0	7,500	\$20.85
Cedar Bluff/Walker Spgs	167	3,060,290	267,977	278,327	9.1%	20,206	0	0	\$13.56
Downtown	179	5,567,276	602,279	631,814	11.3%	40,724	0	0	\$13.89
East	50	237,581	220	220	0.1%	0	0	0	\$8.30
Loudon County	138	718,777	76,583	80,583	11.2%	(6,784)	0	0	\$15.82
North/Broadway	609	5,605,046	255,879	256,089	4.6%	4,682	0	0	\$11.24
North/Emory Road	70	607,770	20,223	20,223	3.3%	(700)	0	0	\$12.49
Pellissippi/Lovell	315	4,887,425	599,822	605,027	12.4%	(2,084)	40,000	0	\$15.08
South	176	1,474,104	49,277	49,277	3.3%	(326)	0	0	\$11.12
Union County	38	173,485	0	0	0.0%	0	0	0	\$0.00
Totals	2,894	34,286,023	2,897,580	3,038,823	8.9%	38,119	40,000	7,500	\$14.23

Source: CoStar Property®

Significant Transactions:

Tenant	Address	Size	Submarket
Cornerstone Wealth Management	320 Cedar Bluff Rd	2,858 SF	Cedar Bluff/Walker Springs
West Properties II	605A Smithview Dr	2,200 SF	Blount County
Tennessee Shingles	10415 Hickory Path Way	745 SF	Pellissippi/Lovell



First Quarter 2014

Retail Report



The Knoxville retail market saw improvement across the board in the first quarter of 2014. For example, the vacancy rate, which had been 7.4% in the fourth quarter of 2013, dropped to 7.1% this quarter. Net absorption was positive, at 118,134 SF. Rental rates also rose, from \$10.64 PSF to \$11.27 PSF. The only “negative” is that no new retail space was completed this quarter, continuing a trend of slow growth that has seen only 23,757 SF built in the past year.

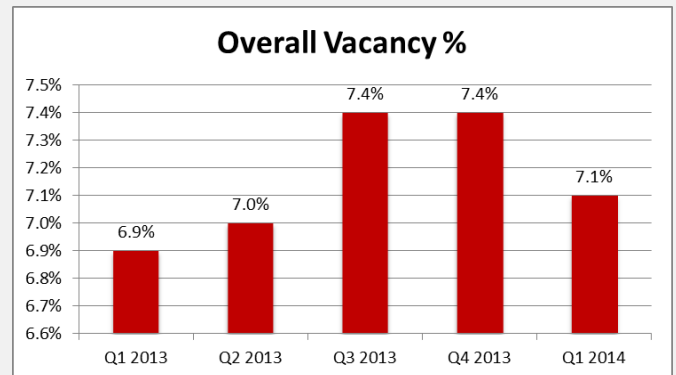
Several lease signings were reported in the first quarter, including a 5,000 SF lease by Hibbett Sports at 4403 Chapman Highway; a 4,627 SF deal inked by US Cellular at 11001 Parkside Drive; and 3,000 SF taken by Mango’s Decor and Company at 309 South Northshore Drive.

Following a harsh winter, U.S. retail sales saw the largest gain in 18 months in March 2014, which bodes well for prospects in Knoxville going forward. Investment sales are also looking good, with several strip center sales completed this quarter.

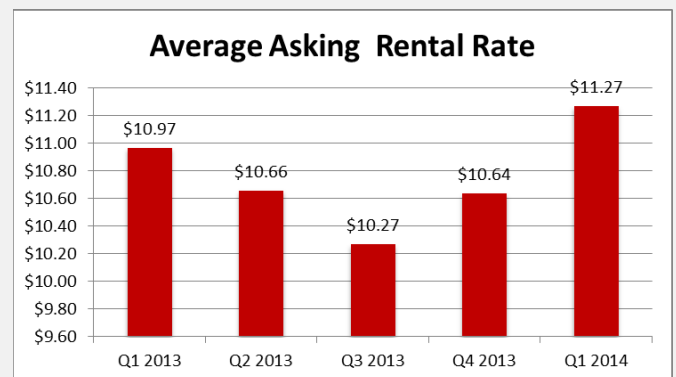
One of the growing trends in the retail market is that of “med-tail” activity - medical groups coming in and filling well-located former big boxes in the 20,000 – 50,000 SF range. These facilities have plenty of parking and are proving popular for medical tenants. This trend will continue to grow as retail shifts more towards service oriented tenants as opposed to apparel shops and similar stores.

Not surprisingly, Turkey Creek and the West Town corridor continue their reign as the strongest submarkets. Looking forward, a recent Bureau of Economic Analysis report that showed a rise in both personal income and spending (.3%) in February indicates that 2014 will be a better year for the retail market than 2013.

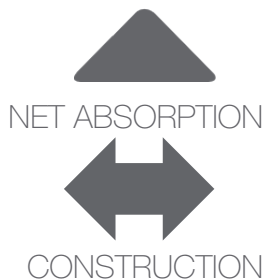
Vacancy Rates



Rental Rates



Trends for 2Q14



10101 Sherrill Blvd.
 Knoxville, TN 37932
 +1 865 777 3030
www.naiknoxville.com

First Quarter 2014

Retail Report

Market Overview:

Market	Existing Inventory		Vacancy			YTD Net	YTD	Under	Quoted
	# Blds	Total RBA	Direct SF	Total SF	Vac %	Absorption	Deliveries	Const SF	Rates
Anderson County	493	5,194,841	722,775	722,775	13.9%	(19,135)	0	0	\$11.29
Bearden/Papermill/W Town	458	6,778,681	200,640	226,752	3.3%	120,434	0	0	\$15.14
Blount County	599	6,381,511	312,127	312,127	4.9%	6,109	0	4,400	\$11.68
Campbell Station/Farragut	172	3,393,831	300,287	375,903	11.1%	(17,025)	0	0	\$15.20
Cedar Bluff/Walker Spgs	121	2,154,297	87,397	87,397	4.1%	49,582	0	6,160	\$11.12
Downtown	188	2,035,515	74,178	74,178	3.6%	(25,345)	0	0	\$17.06
East	130	2,576,285	163,386	201,364	7.8%	14,700	0	0	\$9.04
Loudon County	308	2,398,646	153,763	153,763	6.4%	5,587	0	0	\$12.63
North/Broadway	1,001	10,831,270	712,776	717,546	6.6%	(32,918)	0	0	\$9.98
North/Emory Road	126	1,016,690	114,940	114,940	11.3%	(3,692)	0	0	\$9.84
Pellissippi/Lovell	254	4,016,386	220,227	254,604	6.3%	(9,400)	0	4,400	\$12.75
South	364	3,626,047	385,956	387,756	10.7%	30,297	0	0	\$6.57
Union County	95	502,836	8,898	8,898	1.8%	(1,060)	0	0	\$7.38
Totals	4,309	50,906,836	3,457,350	3,638,003	7.1%	118,134	0	14,960	\$11.27

Source: CoStar Property®

Significant Transactions:

Tenant	Address	Size	Submarket
Hibbett Sports	4403 Chapman Hwy	5,000 SF	South
US Cellular	11001 Parkside Dr	4,627 SF	Campbell Station/Farragut
Hobby Town	11149 Turkey Dr	7,733 SF	Campbell Station/Farragut
Persian Galleries	4845 Kingston Pk	6,640 SF	Bearden/Papermill/W Town
Hardin Valley Crossing, LLC	10612 Hardin Valley Rd	11,314 SF	Pellissippi/Lovell



1Q'14

First Quarter Market Report

The world's largest commercial real estate network.

55 countries. 400 local offices. 5,000 local market leaders.

All actively managed to work wherever you do.

NAI Knoxville

10101 Sherrill Blvd.

Knoxville, TN 37932

tel +1 865 777 3030

www.naiknoxville.com