



MEMPHIS METRO MARKET RESEARCH & FORECAST REPORT



2013 Off to Slow Start.

EXECUTIVE SUMMARY/MARKET OVERVIEW

The total Memphis office market ended Q1 2013 at approximately 33.5 million square feet, including 27.4 million square feet in suburban submarkets and 6.1 million in the central business district (CBD). Total office vacancy rates ended the first quarter at 15.1%, up from 14.8% at the end of 2012. On the other hand, average asking rental rates, which ended 2012 at \$15.03, rose to \$15.32. We'd have to say this is simply an anomaly likely to reverse itself in Q2. Net absorption for Q1 2013 was -102,980 square feet, with the East Submarket alone having negative net absorption of nearly 90,000 square feet.

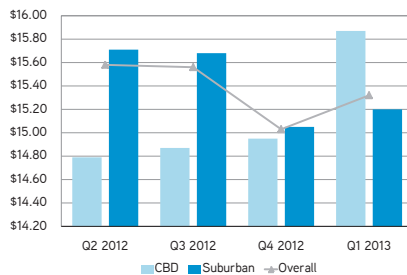
There were no deliveries in Q1 2013. However, three build-to-suits are scheduled for delivery in Q2 2013: a 26,000 square-foot specialized laboratory is under construction in downtown Memphis; a 113,392 square-foot for GI Pathology on Hacks Cross in the 385 Corridor submarket, and another 40,000 square-foot building in the 385 Corridor that is preleased.

MARKET INDICATORS

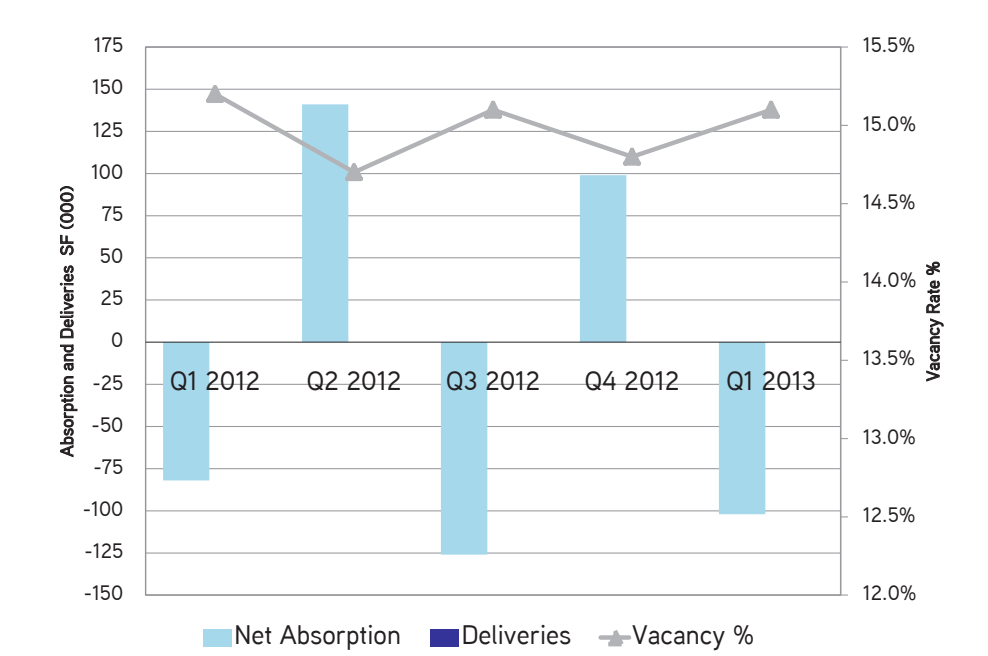
	Q1	Projected Next QTR
VACANCY	↑	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↔

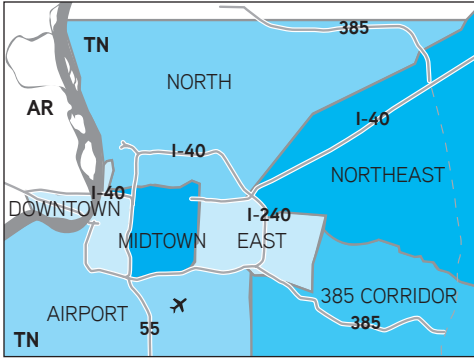
Arrows compare current quarter to the previous quarters' historically adjusted figures.

WEIGHTED AVERAGE QUOTED RENTAL RATES (GROSS RENT)



ABSORPTION, DELIVERIES AND VACANCY RATES





UNCERTAINTY, UNCERTAINTY, UNCERTAINTY.

Uncertainty, uncertainty, uncertainty may have replaced the age-old location, location, location mantra, at least as far as the Memphis Metro office market is concerned. We’ve been a broken record in talking about the ups and downs – mostly downs – of this sector over the last couple of years. Though we had a little bright spot in Q4 2012 with IP announcing expansion plans for their headquarters, Q1 2013 has ushered in more uncertainty:

Unemployment rates in the Memphis MSA, which had dropped to as low as 7.7% in November of 2012, have jumped back up, ending February 2013 at a projected 9.3%.

Pinnacle Airlines made it official in January that they were moving their headquarters - and a few hundred jobs – from Memphis to Minneapolis. This had been anticipated, but the official news confirms that One Commerce Square in the CBD will see its occupancy rates plummet from about 80% to half that by May of this year.

We anticipate that more jobs will be lost as a result of Raymond James’ 2012 purchase of Memphis-based Morgan Keegan. In a recent article in the Memphis Business Journal, Raymond James’ CEO Paul Reilly spoke about next steps following the integration of Morgan Keegan into the RJ operating platform saying:

“Our next priority is to adjust to the appropriate support levels for this segment, which will engender expense reduction primarily through a decline in head count over the next several months.”

Finally, the recent tax reappraisal is likely to negatively impact certain commercial real estate property owners. For the first time in history, the reappraisals are down overall, which means tax rates will increase, driving up operating costs for owners whose tax appraisals have actually gone up. Of course the flip side of this is that some property owners whose values have decreased significantly may see a decrease in property taxes, but if their properties have decreased significantly in value, they likely have other issues of concern.

With U.S. unemployment continuing to decline, the stock market hitting new highs, and housing starts projected by the ULI to exceed a million by 2015, we’d like to think that there is a rising tide that will carry the Memphis boat a little higher. Time will tell if the real fundamentals are in place to sustain a rising tide.

UPDATE Recent Transactions

SALES ACTIVITY - SELECT TRANSACTIONS

PROPERTY	SALES DATE	SALE PRICE	SIZE/SF	SALES PRICE/ SQ. FT.	TYPE	BUYER
942 S. Shady Grove Road, FedEx Executive HQ	2/27/2013	\$22,600,000	90,437	\$249.90	Class B	Realty Income Corporation
7900 Airways Blvd., Pinnacle Center, 3 Buildings	1/4/2013	\$6,300,000	75,438	\$83.51	Class A/B	Southland Investment Partners
1023 Cherry Road	1/23/2013	\$4,070,000	113,557	\$35.84	Class B	RBM Venture

UPDATE Recent Transactions

LEASING ACTIVITY - SELECT TRANSACTIONS*

PROPERTY ADDRESS	SUBMARKET	SIZE (SF)	TENANT
International Place II	East	21,614	Stone River
One Commerce Square Tower - Main	Downtown	19,542	Harris Shelton Hanover Walsh, PLLC
Horizon Center	Northeast	14,533	N/A
Primacy Bldg	East	13,044	N/A

All leasing activity reflects executed and/or commenced transactions.

MEMPHIS Q1 2013 OFFICE MARKET STATISTICS

Type	# Bldgs	Total RBA	Direct Vacant SF	Direct Vacant %	Sublease Vacant SF*	Sublease Vacancy Rate*	Total Vacant SF	Vacancy Rate Current Quarter	Vacancy Rate Prior Quarter	Net Absorption Current QTR SF**	Net Absorption YTD SF**	Deliveries Current Quarter	Deliveries YTD SF	Under Constr. SF	Weighted Average Quoted Rental Rates
CLASS A															
CBD	8	1,983,825	386,128	19.5%	17,500	0.9%	403,628	20.3%	19.7%	-13,687	-13,687			26,000	\$17.29
Suburban	63	8,113,880	654,829	8.1%	2,464	0.0%	657,293	8.1%	8.4%	25,608	32,706				\$21.44
Total	71	10,097,705	1,040,957	10.3%	19,964	0.2%	1,060,921	10.5%	10.5%	11,921	19,019			26,000	\$20.14
CLASS B															
CBD	40	2,188,736	248,868	11.4%	0	0.0%	248,868	11.4%	11.5%	3,358	3,358				\$14.40
Suburban	307	15,517,345	2,543,631	16.4%	102,322	0.7%	2,645,953	17.1%	17.3%	29,218	-75,254			153,392	\$14.81
Total	347	17,706,081	2,792,499	15.8%	102,322	1.0%	2,894,821	16.3%	16.6%	32,576	-71,896			153,392	\$15.39
CLASS C															
CBD	39	1,889,884	370,853	19.6%	0	0.0%	370,853	19.6%	19.0%	-12,269	-12,269				\$9.60
Suburban	170	3,824,784	664,322	17.4%	0	0.0%	664,322	17.4%	18.5%	45,891	58,248				\$9.99
Total	209	5,714,668	1,035,175	18.1%	0	0.0%	1,035,175	18.1%	15.8%	33,622	45,979				\$10.56
TOTAL															
CBD (Downtown)	87	6,062,445	1,005,849	16.6%	17,500	0.3%	1,023,349	16.9%	16.5%	-22,598	-22,598			26,000	\$15.87
Suburban	540	27,456,009	3,862,782	14.1%	104,786	0.4%	3,967,568	14.5%	14.8%	100,717	15,700			153,392	\$15.04
Total	627	33,518,454	4,868,631	14.1%	122,286	0.4%	4,990,917	15.1%	14.8%	78,119	-6,898			179,392	\$15.03
SUBMARKET															
385 Corridor	96	5,991,455	521,833	8.7%	7,302	0.1%	529,135	8.8%	8.5%	-21,808	-21,808			153,392	\$17.89
Airport	97	4,904,685	1,258,124	25.7%	0	0.0%	1,258,124	25.7%	25.8%	5,742	5,742				\$10.32
Crittenden Co.	8	198,722	4,465	2.2%	0	2.2%	4,465	2.2%	2.0%	-393	-393				\$13.60
DeSoto County	25	412,901	72,894	17.4%	0	0.0%	72,894	17.4%	17.7%	903	903				\$14.55
Downtown	87	6,062,445	1,005,849	16.6%	17,500	0.3%	1,023,349	16.9%	16.5%	-22,598	-22,598			26,000	\$15.87
East	159	10,108,866	1,235,987	12.2%	147,810	1.5%	1,383,797	13.7%	12.8%	-89,629	-89,629				\$18.78
Midtown	56	1,795,875	251,344	14.0%	0	0.0%	251,344	14.0%	13.8%	527	527				\$13.69
North	34	1,130,751	175,459	15.5%	0	0.0%	175,459	15.5%	15.4%	-1,094	-1,094				\$10.48
Northeast	64	2,867,516	362,318	12.6%	5,574	0.2%	367,892	12.8%	13.7%	25,370	25,370				\$16.59
TOTAL	626	33,473,216	4,888,273	14.1%	178,186	0.4%	5,066,459	14.5%	14.8%	-102,980	-102,980			179,392	\$15.32

Type	# Bldgs	Total RBA	Direct Vacant SF	Direct Vacant %	Sublease Vacant SF*	Sublease Vacancy Rate*	Total Vacant SF	Vacancy Rate Current Quarter	Vacancy Rate Prior Quarter	Net Absorption Current QTR SF**	Net Absorption YTD SF**	Deliveries Current Quarter	Deliveries YTD SF	Under Constr. SF	Weighted Average Quoted Rental Rates
QUARTERLY COMPARISON AND TOTALS															
2013 1Q	626	33,473,216	4,887,363	14.6%	178,186	0.5%	5,065,549	15.1%	14.8%	-102,980	-102,980	0	0	179,392	\$15.32
2012 4Q	626	33,473,216	4,845,366	14.5%	117,203	0.4%	4,962,569	14.8%	15.1%	99,513	32,062	0	0	179,392	\$15.03
2012 3Q	626	33,473,216	4,871,783	14.6%	190,299	0.6%	5,062,082	15.1%	14.7%	-126,555	-67,451	0	0	139,392	\$15.56
2012 2Q	626	33,473,216	4,709,770	14.1%	225,757	0.7%	4,935,527	14.7%	15.2%	141,102	59,104	0	0	139,392	\$15.58
2012 1Q	626	33,473,216	4,782,045	14.3%	294,584	0.9%	5,076,629	15.2%	14.9%	-81,998	-81,998	0	0	26,000	\$15.74
2011 4Q	626	33,473,216	4,726,319	14.1%	268,312	0.8%	4,994,631	14.9%	15.1%	70,933	97,409	0	81,633	0	\$15.71
2011 3Q	626	33,473,216	4,785,571	14.3%	279,993	0.8%	5,065,564	15.1%	15.2%	19,289	26,476	0	81,633	0	\$15.93
2011 2Q	626	33,473,216	4,850,868	14.5%	233,985	0.7%	5,084,853	15.2%	15.0%	-41,508	7,187	12,300	81,633	0	\$15.75
2011 1Q	625	33,461,106	4,804,190	14.4%	227,045	0.7%	5,031,235	15.0%	15.0%	48,695	48,695	69,333	69,333	12,300	\$15.76

Includes existing office buildings over 10,000 SF. Excludes medical and government owned and occupied buildings.

* Sublease space equals available space which is currently leased and occupied by the sub-tenant (lessee). Vacancy rate is only affected by sublet space when sub-tenant has vacated property.

**Net Absorption based on occupancy date.

Class A: Premier office space featuring excellent amenities, quality tenants and premium rents

Class B: Quality office space and building amenities.

Class C: Functional office space with below average rents.

Inventory: The total square feet of all single and multi-tenant office properties greater than 10,000 square feet. Inventory does not include medical, government, or owner-occupied buildings.

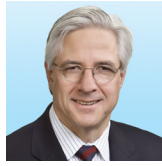
Vacant SF: Space that is not currently occupied either physically or economically.

Vacancy Rate: Percentage of space that isn't occupied: Vacant SF/ Inventory.

Net Absorption: Change in occupied space during a quarter, year, or specified time period.

Asking Rental Rate: The average cost of one square foot of space per year. Asking Rental Rate is weighted on building size.

Tenant Representation Services
1255 Lynnfield Road, Suite 295
Memphis, TN 38119



Henry Stratton, SIOR, CCIM
901.312.4913
henry.stratton@colliers.com



T. Frazier Baker V, SIOR
901.312.4920
frazier.baker@colliers.com



Will Barden, SIOR, CCIM
901.312.4910
will.barden@colliers.com

Asset Services
6363 Poplar Avenue, Suite 400
Memphis, TN 38119



Ron Riley
901.312.5787
ron.riley@colliers.com



Laura Taylor
901.312.5772
laura.taylor@colliers.com

522 offices in
62 countries on
6 continents

Revenues: \$1.8 Billion
Professionals & Staff: 12,300
Brokers: 4,800
Square Feet Managed: 1.25 Billion*
Lease/Sale Transactions: 76,000
Total Transaction Value: \$68 Billion

Based on 2011 results.

* The combination of Colliers International and FirstService results in 2.5 billion square feet under management (2nd largest in the world).

COLLIERS INTERNATIONAL | MEMPHIS

1255 Lynnfield Road, Suite 295
Memphis, TN 38119
TEL +1 901 375 4800
FAX +1 901 375 9600

MANAGING PARTNER

Gene Woods
Managing Partner | President
TEL +1 901 375 4800

RESEARCHER

Lindsey P. Browndyke
Research Analyst
TEL +1 901 375 4800

This report and other research materials may be found on our website at www.colliers/memphis. This market report is a research document of the Memphis office of Colliers International. Questions related to information herein should be directed to the research department at 901-375-4800. Information contained herein has been obtained from sources deemed reliable and no representation is made as to the accuracy thereof.



Accelerating success.

Q1 2013 SUBMARKET RENTAL AND VACANCY RATES

