

MEMPHIS METRO MARKET RESEARCH & FORECAST REPORT



Vacancy Rates Drop in Q1 2014

EXECUTIVE SUMMARY/MARKET OVERVIEW

The total Memphis office market ended Q1 2014 at just over 33 million square feet, including 27 million square feet in suburban submarkets and almost 6 million in the Central Business District (CBD). Total office vacancy rates ended Q1 2014 at 15.4%, a decrease from year-end 2013's 15.7%. Average asking rental rates increased to \$16.10 from \$16.03 as of year-end 2013.

The first quarter's overall positive absorption of 156,022 square feet was the highest the market has experienced since Q4 2012. The East Submarket had positive absorption of 111,573 square feet, and a corresponding vacancy rate decrease to 13.7%, dropping from 14.9% as of year-end 2013. The CBD and Midtown Submarkets contributed positive absorption of 32,512 and 27,285 square feet, respectively.

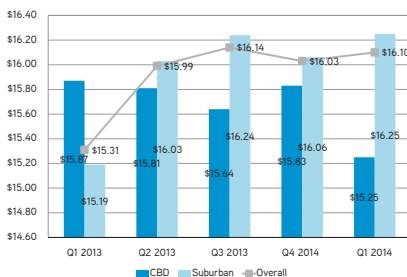
There were no deliveries in Q1 2014. A 241,000 square foot build-to-suit is underway on Poplar Avenue in the East Submarket, 100% preleased to International Paper.

MARKET INDICATORS

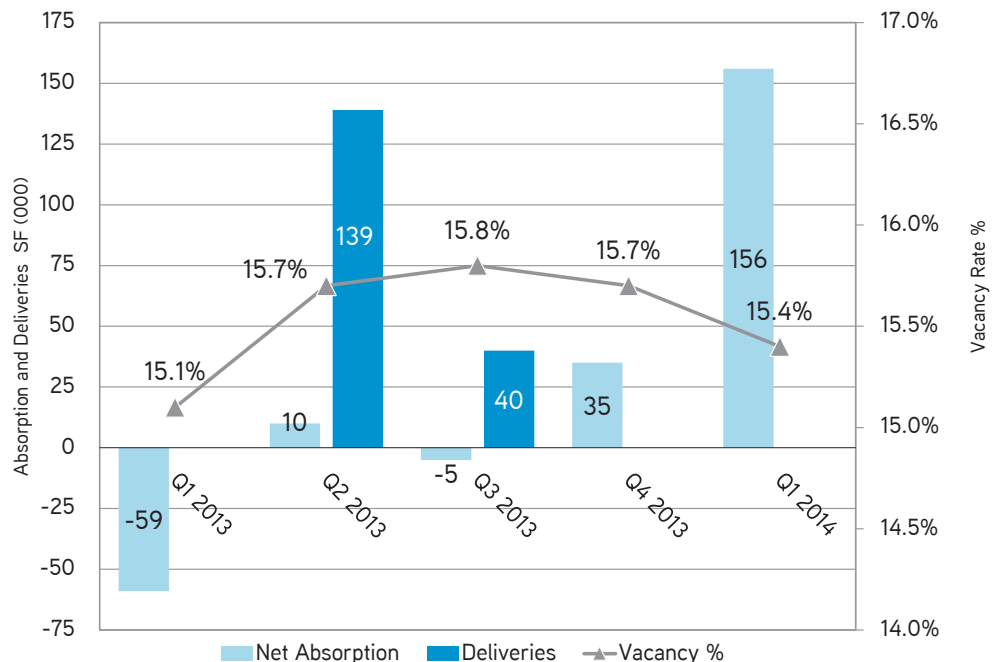
	Q1	Projected Next QTR
VACANCY	↓	↔
NET ABSORPTION	↑	↔
CONSTRUCTION	↑	↔
RENTAL RATE	↑	↔

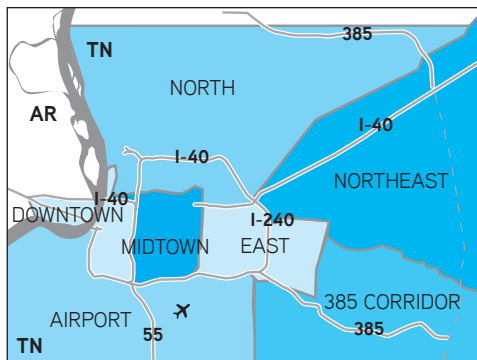
Arrows compare current quarter to the previous quarters' historically adjusted figures.

WEIGHTED AVERAGE QUOTED RENTAL RATES (GROSS RENT)



ABSORPTION, DELIVERIES AND VACANCY RATES





CAUTIOUS OPTIMISM FOR 2014

At the end of 2013, we predicted we wouldn't see major changes in 2014 in terms of overall absorption or vacancy rates but that we'd be more likely to see fluctuations between and within submarkets. While we hope to see vacancy rates continue to drop as they did in Q1 of this year, we still believe that 2014 as a whole will be fairly flat unless there is major growth in market employment. However, we're cautiously optimistic after a solid first quarter.

Our expectations that Class A space would continue to tighten and begin to impact Class B space seem to be playing out. Much of the first quarter's positive net absorption--110,023 square feet--occurred in Class B space. The popular East Submarket had positive net absorption of 110,023 square feet in Class B space.

The CBD continues to struggle, with asking rental rates dropping from \$15.83 at the end of 2013 to \$15.25 at the end of Q1 2014. On the other hand, several key suburban submarkets are performing well, resulting in an increase in asking rental rates from \$16.06 at the end of 2013 to \$16.25 as of the end of Q1 2014. In fact every suburban submarket experienced an increase in rates in Q1 except the Northeast.

UPDATE Recent Transactions

SALES ACTIVITY - SELECT TRANSACTIONS

PROPERTY	SALES DATE	SALE PRICE	SIZE/SF	SALES PRICE/SQ. FT.	TYPE	BUYER
5710-5730 Summer Trees Dr., 5 bldgs. plus land	1/10/2014	\$910,000	37,582	\$24.21	Class B	EnSafe, Inc.
3131-3141 Directors Row	1/31/2014	\$290,000	14,128	\$20.53	Class C	Masjid Al Muslimeen
2693 Union Avenue Ext., The Columns Building	2/27/2014	\$925,000	15,751	\$58.73	Class B	Alpha Group
6055 Primacy Parkway	2/28/2014	\$4,600,000	123,265	\$37.32	Class B	Southland Capital
6555 Quince Road, Quince Centre	3/7/2014	\$10,395,000	112,359	\$92.52	Class B	Richmond Honan Development & Acquisitions
3860 Forest Hill Irene, Forest Hill Technology Center	3/31/2014	\$5,407,500	78,343	\$69.02	Class B	Anchor Investments, LLC

UPDATE Recent Transactions

LEASING ACTIVITY - SELECT TRANSACTIONS

PROPERTY ADDRESS	SUBMARKET	SIZE (SF)	TENANT
530 Oak Court Dr., Oak Court Office Building	East	30,930	Momogram Foods
7000 Goodlett Farms Pkwy	Northeast	25,218	Conduit Global
22 N. Front Street, Falls Building	Downtown	13,473	Memphis Area Legal Services
6775 Lenox Center Ct., Lenox Park Bldg. E	385 Corridor	5,814	Verso Paper
1980 Nonconnah Blvd., Nonconnah Corporate Center	Airport	4,310	Nucor
88 Union Center, Union Center	Midtown	4,222	Startco
8245 Tournament Dr., Southwind Bldg. A	385 Corridor	3,784	Vining Sparks IBG, LP*
2693 Union Avenue Extended	Midtown	3,742	Clovernook Center for the Blind and Visually Impaired
5050 Poplar Ave., I Bank Tower	East	3,626	Rogers, Berry, Cheney & Cannon PLLC
22 N. Front Street, Falls Building	Downtown	3,525	Archibald and Halmon, PC*
81 Monroe Avenue, Businessmen's Club	Downtown	2,810	Undisclosed
511 Park Avenue, Eastgate Office Bldg.	East	2,660	Securitas Security Services USA, Inc.
6070 Poplar Avenue, Triad Centre III	East	2,542	SouthernSun Asset Mgmt
5050 Poplar Avenue, I-Bank Tower	East	2,353	Men's Clinic Management
6401 Poplar Avenue, PennMarc Centre	East	2,164	ExamOne

MEMPHIS Q1 2014 OFFICE MARKET STATISTICS

	TOTAL RBA		DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			NET ABSORPTION		DELIVERIES		CONSTRUCTION	RATES
	# Bldgs	SF	SF	%	SF	%	Total SF	% Current QTR	% Prior QTR	Current QTR	YTD	Current QTR	YTD	Current	Gross
CLASS A															
CBD	9	2,009,825	511,654	25.5%	26,275	1.3%	537,929	26.8%	27.3%	10,800	10,800				\$17.10
Suburban	63	8,135,106	651,452	8.0%	0	0.0%	651,452	8.0%	8.2%	15,041	15,041			241,000	\$21.02
Total	72	10,144,931	1,163,106	11.5%	26,275	0.3%	1,189,381	11.7%	12.5%	25,841	25,841				\$19.64
CLASS B															
CBD	40	2,131,680	223,764	10.5%	7,297	0.3%	231,061	10.8%	11.5%	14,712	14,712				\$14.07
Suburban	315	15,404,778	2,655,021	17.2%	11,504	0.1%	2,666,525	17.3%	17.8%	95,311	95,311				\$15.95
Total	355	17,536,458	2,878,785	16.4%	18,801	0.2%	2,897,586	16.5%	16.7%	110,023	110,023				\$15.97
CLASS C															
CBD	36	1,813,484	344,242	19.0%	0	0.0%	344,242	19.0%	19.4%	7,000	7,000				\$10.89
Suburban	164	3,530,983	655,841	18.6%	0	0.0%	655,841	18.6%	18.9%	13,158	13,158				\$11.20
Total	200	5,344,467	1,000,083	19.8%	0	0.0%	1,000,083	19.8%	18.8%	20,158	20,158				\$10.93
TOTAL															
CBD (Downtown)	85	5,954,989	1,079,660	18.1%	33,572	0.6%	1,113,232	18.7%	19.2%	32,512	32,512				\$15.25
Suburban	542	27,070,867	3,962,314	14.6%	11,504	0.1%	3,973,818	14.6%	15.0%	123,510	123,510			241,000	\$16.24
Total	627	33,025,856	5,041,974	15.2%	45,076	0.1%	5,087,050	15.4%	15.8%	156,022	156,022			241,000	\$16.10
SUBMARKET															
385 Corridor	98	6,159,971	536,664	8.7%	3,340	0.1%	540,004	8.8%	8.6%	-10,276	-10,276				\$18.44
Airport	94	4,447,101	1,303,298	28.9%	0	0.0%	1,303,298	28.9%	29.0%	2,673	2,673				\$12.77
Crittenden County	8	198,722	5,672	2.9%	0	0.0%	5,672	2.9%	2.9%	0	0				\$13.85
DeSoto County	28	456,401	62,994	13.8%	0	0.0%	62,994	13.8%	13.8%	10,182	10,182				\$16.77
Downtown	85	5,954,989	1,079,660	18.1%	33,572	0.6%	1,113,232	18.7%	19.2%	32,512	32,512				\$15.25
East	156	9,948,125	1,364,602	13.7%	2,590	0.0%	1,367,192	13.7%	14.9%	111,573	111,573			241,000	\$19.07
Midtown	58	1,825,570	230,206	12.6%	0	0.0%	230,206	12.6%	13.6%	27,285	27,285				\$13.15
North	37	1,172,526	170,043	14.5%	0	0.0%	170,043	14.5%	14.4%	-1,745	-1,745				\$13.04
Northeast	63	2,862,451	288,835	10.1%	5,574	0.2%	294,409	10.3%	9.7%	-16,182	-16,182				\$17.44
TOTAL	627	33,025,856	5,041,974	15.2%	45,076	0.2%	5,087,050	15.4%	15.8%	156,022	156,022	0	0	241,000	\$16.10

	TOTAL RBA		DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			NET ABSORPTION		DELIVERIES		CONSTRUCTION	RATES
	# Bldgs	SF	SF	%	SF	%	Total SF	% Current QTR	% Prior QTR	Current QTR	YTD	Current QTR	YTD	Current	Gross
2014 1Q	627	33,025,523	5,041,974	15.2%	45,076	0.1%	5,087,050	15.4%	15.7%	156,022	156,022			241,000	\$16.10
2013 4Q	628	33,002,386	5,181,892	15.7%	37,710	0.1%	5,219,602	15.7%	15.8%	35,262	-17,963				\$16.03
2013 3Q	628	33,002,386	5,216,414	15.8%	38,450	0.1%	5,254,864	15.8%	15.7%	-4,626	-53,225	40000	179292	0	\$16.14
2013 2Q	627	32,962,386	5,172,786	15.7%	37,452	0.1%	5,210,238	15.7%	15.1%	10,267	-46,016	139392	139392	0	\$15.99
2013 1Q	625	32,822,994	4,971,850	15.1%	109,263	0.3%	5,081,113	15.1%	14.9%	-58,866	-58,866	0	0	179,392	\$15.31
2012 4Q	625	32,822,994	4,905,044	14.9%	117,203	0.4%	5,022,247	14.9%	15.2%	166,925	2,788	0	0	179,392	\$15.03
2012 3Q	625	32,822,994	4,998,873	15.2%	190,299	0.6%	5,189,172	15.2%	14.7%	-127,366	-164,137	0	0	139,392	\$15.56
2012 2Q	625	32,822,994	4,836,049	14.7%	225,757	0.7%	5,061,806	14.7%	14.7%	61,730	-36,771	0	0	139,392	\$15.58
2012 1Q	625	32,822,994	4,828,952	14.7%	294,584	0.9%	5,123,536	14.7%	14.5%	-98,501	-98,501	0	0	26,000	\$15.73

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.

Source: CoStar Group

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.

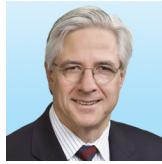
Vacant SF: Space that is not currently occupied either physically or economically.

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.

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485 offices in
63 countries on
6 continents

Professionals & Staff: 15,800
Brokers: 5,800
Square Feet Managed: 1.46 Billion*
Lease/Sale Transactions: 80,000
Total Transaction Value: \$75 Billion

Based on 2013 results.

* Square footage includes office, industrial, and retail property under management. Residential property is excluded from this total.

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Q1 2014 SUBMARKET RENTAL AND VACANCY RATES

