



# MEMPHIS METRO MARKET RESEARCH & FORECAST REPORT



## Class A Industrial Market Tightening

### EXECUTIVE SUMMARY/MARKET OVERVIEW

After two quarters of net absorption totaling over 4 million square feet, the Memphis Metro industrial market experienced a moderately flat Q2 2013, with 326,619 square feet in positive absorption and a minor drop in overall vacancy rates from 12.6% in Q1 2013 to 12.5% as of the end of Q2. Weighted average rental rates were down from \$2.60 at the end of Q1 to \$2.53 as of the end of Q2 2013.

At the end of Q2 2013, the Memphis Metro included nearly 219 million square feet of industrial space, with almost 211 million square feet in warehouse space and nearly 8 million in flex space.

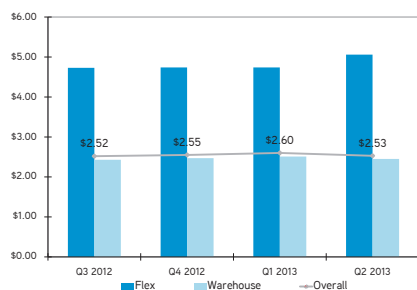
The DeSoto County Submarket continues to be the hotbed of activity. Their 328,110 square feet of positive absorption puts their year-to-date total at nearly 1.8 million square feet. Of the just over 2.4 million square feet of space under construction in the overall market, nearly 2 million is in DeSoto County, with 1.3 million in a build-to-suit for Helen of Troy and the remaining in two IDI spec buildings.

### MARKET INDICATORS

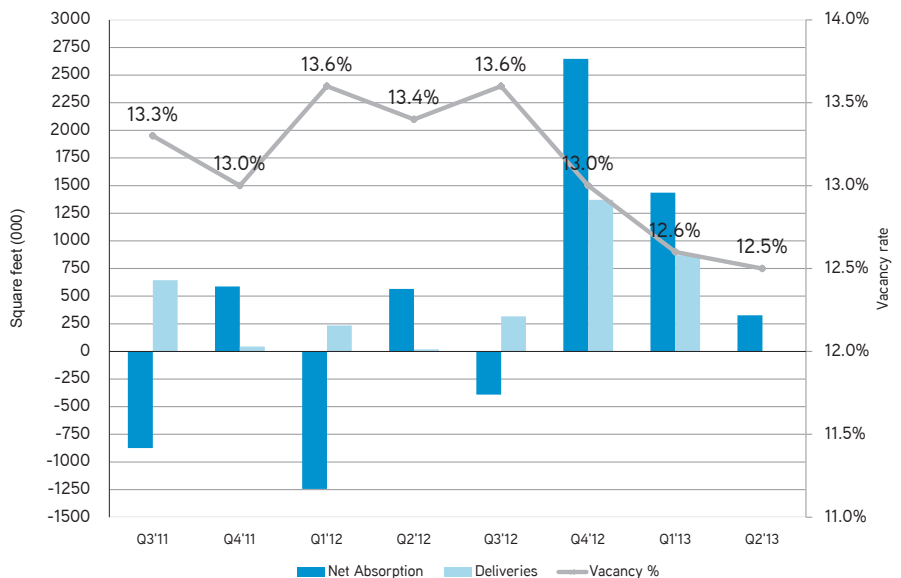
	Q2	Projected Next QTR
VACANCY	↓	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↑	↑
RENTAL RATE	↓	↑

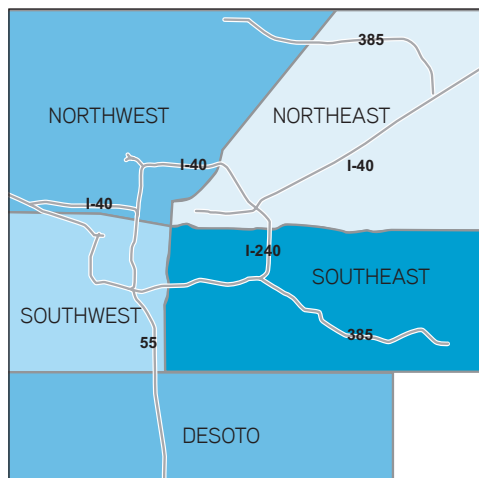
Arrows compare current quarter to the previous quarters' historically adjusted figures.

### AVERAGE RENTAL RATES FLEX & WAREHOUSE PSF (NNN)



### MEMPHIS INDUSTRIAL MARKET





## CLASS A INDUSTRIAL MARKET TIGHTENING CONTINUED

At just over 69 million square feet, Class A space makes up 32% of the total market's overall industrial inventory. The overall vacancy rate for Class A space as of the end of Q2 2013 was 10.7%, which is approximately 7.4 million square feet.

The majority of available Class A space is located in the Southeast submarket, where vacancy rates have fluctuated considerably over the last four years – from as high as 18.3% to a low of 11.3%. With no new construction in this submarket, there are fewer good options available for Class A space.

In popular DeSoto County, where development began in earnest less than 20 years ago, Class A space makes up 60% of the submarket's overall inventory. Less than 2 million square feet of Class A space is currently available in this submarket. IDI currently has a total 672,206 square feet in two spec buildings under construction in DeSoto County.

*"We're sensing tremendous momentum as we go into the fall and expect the market to continue to tighten, particularly in Class A space."*

Andy Cates, SIOR  
EVP of Brokerage Services | Memphis

Notable new leases for the second quarter include TJ Maxx for 414,000 square feet in the Southeast and Patterson Warehouses for 238,000 square feet in DeSoto County, both in Class A space.

CLASS A SPACE				
Submarket	SF	Available	Vacancy	Rate
SE	38,066,177	5,362,493	14.1%	\$2.75
DeSoto Co.	23,786,030	1,891,564	8.0%	\$3.05
NE	3,193,926	145,521	4.6%	\$5.58
NW	1,801,819	0	0.0%	N/A
Marshall Co.	1,188,734	0	0.0%	N/A
SW	700,000	0	0.0%	N/A
Crittenden Co.	600,000	0	0.0%	N/A
<b>Total</b>	<b>69,336,686</b>	<b>7,399,578</b>	<b>10.7%</b>	<b>\$2.88</b>

### UPDATE Recent Transactions

#### LEASING ACTIVITY – SELECT TRANSACTIONS

PROPERTY	SUBMARKET	TENANT	LANDLORD	SIZE/SQ. FT.	TYPE
6100 E. Holmes Road, Chickasaw Distribution Center	Southeast	TJ Maxx	IDI	414,504	Bulk, Class A
1560 Stateline Road, Stateline Business Park	DeSoto County	Trane	IDI	373,644	Bulk, Class A
295 Marathon Way, Goodman Road Business Park	DeSoto County	Patterson Warehouses	USAA	237,952	Bulk, Class A
5405 Hickory Hill Road, Eastpark II	Southeast	Bryce Corporation	DCT	223,000	Bulk, Class A
4500 Malone Road, Shelby Air Park	Southeast	Victory Packaging	TA Associates	158,333	Bulk, Class B
601 Expressway Drive, DeSoto Distribution Center	DeSoto County	Patterson Warehouses	Space Center, Inc.	154,000	Bulk, Class B
4406-4430 Malone Rd., Malone Distribution Center	Southeast	Sergeants	Cobalt Capital	150,000	Distribution, Class B
3695 Knight Road, Corporate Park	Southeast	American Paper & Twine Co.	St. Paul Fire & Marine	144,837	Distribution, Class B
259 Belz Blvd., Belz Industrial Park	Southeast	Americraft Carton	Belz Realty Co.	132,000	Distribution, Class C
8836 Polk Lane, Crossroads, Bldg. B	DeSoto County	LEGACY Supply Chain Services, Inc.	IDI	117,181	Bulk, Class A

#### SALES ACTIVITY – SELECT TRANSACTIONS

PROPERTY	SALES DATE	SALE PRICE	SIZE/SF	BUYER	TYPE
3955 E. Holmes Road, Memphis Tradecenter	1/28/2013	\$27,100,000	1,039,000	Exeter Property Group	Bulk, Class A
9105 Hacks Cross Road, Hacks Cross Logistics Center	3/11/2013	\$24,650,000	605,427	Gramercy Capital Corp.	Bulk, Class A
Outland Business Center, 5 Building Portfolio	2/21/2013	\$11,800,000	407,339	Huntington Industrial Partners	Distribution, Class B
3884 Crowfarm Drive	2/21/2013	\$1,205,000	149,680	Huntington Industrial Partners	Distribution, Class B

MEMPHIS Q2 2013 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	Completions Current Quarter SF	Completions YTD SF	Under Const. SF	Weighted Average Asking Rental Rate: NNN
<b>CRITTENDEN COUNTY</b>															
Flex	1	15,000	15,000	100.0%	0	0.0%	15,000	100.0%	100.0%	0	0	--	--	--	\$0.00
Warehouse	43	3,283,718	33,711	1.0%	0	0.0%	33,711	1.0%	1.0%	500	9,800	--	--	--	\$2.25
<b>Total</b>	<b>44</b>	<b>3,298,718</b>	<b>48,711</b>	<b>1.5%</b>	<b>0</b>	<b>0.0%</b>	<b>48,711</b>	<b>1.5%</b>	<b>1.5%</b>	<b>500</b>	<b>9,800</b>	--	--	--	<b>\$2.25</b>
<b>DESOTO COUNTY</b>															
Flex	16	456,228	79,969	17.5%	0	0.0%	79,969	17.5%	19.9%	10,700	11,400	--	--	--	\$4.55
Warehouse	214	39,387,734	3,300,510	8.4%	0	0.0%	3,300,510	8.4%	9.2%	317,410	1,760,344	--	869,892	1,972,206	\$2.98
<b>Total</b>	<b>230</b>	<b>39,843,962</b>	<b>3,380,479</b>	<b>8.5%</b>	<b>0</b>	<b>0.0%</b>	<b>3,380,479</b>	<b>8.5%</b>	<b>9.3%</b>	<b>328,110</b>	<b>1,771,744</b>	--	<b>869,892</b>	<b>1,972,206</b>	<b>\$3.02</b>
<b>MARSHALL COUNTY</b>															
Flex	1	14,400	14,400	100.0%	0	0.0%	14,400	100.0%	100.0%	0	0	--	--	--	\$0.00
Warehouse	29	4,129,006	99,125	2.4%	0	0.0%	99,125	2.4%	2.2%	-7,500	-7,500	--	--	--	\$2.25
<b>Total</b>	<b>30</b>	<b>4,143,406</b>	<b>113,525</b>	<b>2.7%</b>	<b>0</b>	<b>0.0%</b>	<b>113,525</b>	<b>2.7%</b>	<b>2.6%</b>	<b>-7,500</b>	<b>-7,500</b>	--	--	--	<b>\$2.25</b>
<b>NORTHEAST MEMPHIS</b>															
Flex	100	2,623,578	476,466	18.2%	8,261	0.3%	484,727	18.5%	19.5%	27,667	41,578	--	--	--	\$6.69
Warehouse	205	9,236,329	684,839	7.4%	0	0.0%	684,839	7.4%	8.0%	56,434	4,099	--	--	--	\$4.64
<b>Total</b>	<b>305</b>	<b>11,859,907</b>	<b>1,161,305</b>	<b>8.7%</b>	<b>8,261</b>	<b>0.1%</b>	<b>1,169,566</b>	<b>9.9%</b>	<b>10.6%</b>	<b>84,101</b>	<b>45,677</b>	--	--	--	<b>\$5.00</b>
<b>NORTHWEST MEMPHIS</b>															
Flex	14	344,491	48,022	13.9%	0	0.0%	48,022	13.9%	15.7%	6,000	36,000	--	--	--	\$1.19
Warehouse	227	19,564,871	1,854,886	9.5%	0	0.0%	1,854,886	9.5%	9.7%	41,024	96,037	--	--	--	\$2.16
<b>Total</b>	<b>241</b>	<b>19,909,362</b>	<b>1,902,908</b>	<b>9.6%</b>	<b>0</b>	<b>0.0%</b>	<b>1,902,908</b>	<b>9.6%</b>	<b>9.8%</b>	<b>47,024</b>	<b>132,037</b>	--	--	--	<b>\$2.13</b>
<b>SOUTHEAST MEMPHIS</b>															
Flex	88	2,942,966	744,439	25.3%	0	0.0%	744,439	25.3%	26.3%	30,979	30,056	--	--	--	\$4.73
Warehouse	680	91,983,840	13,343,227	14.5%	71,720	0.1%	13,414,947	14.5%	14.1%	-394,633	-790,104	--	--	--	\$2.46
<b>Total</b>	<b>768</b>	<b>94,926,806</b>	<b>14,087,666</b>	<b>14.8%</b>	<b>71,720</b>	<b>0.1%</b>	<b>14,159,386</b>	<b>14.9%</b>	<b>14.5%</b>	<b>-363,654</b>	<b>-760,048</b>	--	--	--	<b>\$2.51</b>
<b>SOUTHWEST MEMPHIS</b>															
Flex	57	1,574,851	574,042	36.5%	0	0.0%	574,042	36.5%	37.0%	7,905	44,233	--	--	--	\$3.82
Warehouse	620	43,197,129	5,978,950	13.8%	0	0.0%	5,978,950	13.8%	14.4%	230,133	526,903	--	--	445,000	\$1.88
<b>Total</b>	<b>677</b>	<b>44,771,980</b>	<b>6,552,992</b>	<b>14.6%</b>	<b>0</b>	<b>0.0%</b>	<b>6,552,992</b>	<b>14.6%</b>	<b>15.2%</b>	<b>238,038</b>	<b>571,136</b>	--	--	<b>445,000</b>	<b>\$2.17</b>
<b>TOTAL MARKET</b>															
Flex	277	7,971,514	1,952,338	24.5%	8,261	0.1%	1,960,599	24.6%	25.6%	83,251	163,267	--	--	--	\$5.06
Warehouse	2,018	210,782,627	25,295,248	12.0%	71,720	0.0%	25,366,968	12.0%	12.2%	243,368	1,599,579	--	--	--	\$2.45
<b>MARKET TOTAL</b>	<b>2,295</b>	<b>218,754,141</b>	<b>27,247,586</b>	<b>12.5%</b>	<b>79,981</b>	<b>0.1%</b>	<b>27,327,567</b>	<b>12.5%</b>	<b>12.6%</b>	<b>326,619</b>	<b>1,762,846</b>	--	<b>869,892</b>	<b>2,417,206</b>	<b>\$2.53</b>

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	Completions Current Quarter SF	Completions YTD SF	Under Const. SF	Weighted Average Asking Rental Rate: NNN
<b>QUARTERLY COMPARISON AND TOTALS</b>															
2013 2Q	2,295	218,754,141	27,247,586	12.5%	79,981	0.0%	27,327,567	12.5%	12.6%	326,619	1,762,846	0	869,892	2,417,206	\$2.53
2013 1Q	2,296	218,754,141	27,584,045	12.6%	80,141	0.0%	27,664,186	12.6%	13.0%	1,436,227	1,436,227	869,892	869,892	1,745,000	\$2.60
2012 4Q	2,295	217,894,249	28,135,580	12.9%	84,941	0.0%	28,220,521	13.0%	13.6%	2,647,477	1,578,614	1,372,305	1,942,952	1,219,892	\$2.55
2012 3Q	2,292	216,521,944	29,410,752	13.6%	84,941	0.0%	29,495,693	13.6%	13.4%	-390,116	-1,068,863	317,843	570,647	2,592,197	\$2.52
2012 2Q	2,294	216,320,112	28,806,455	13.3%	97,291	0.0%	28,903,746	13.4%	13.6%	565,621	-678,747	18,144	252,804	2,910,040	\$2.55
2012 1Q	2,294	216,320,113	29,372,076	13.6%	97,291	0.0%	29,469,367	13.6%	13.0%	-1,244,368	-1,244,368	234,660	234,660	1,269,892	\$2.54
2011 4Q	2,293	216,089,309	27,803,644	12.9%	190,551	0.1%	27,994,195	13.0%	13.3%	586,780	1,285,996	44,000	1,274,734	284,669	\$2.49
2011 3Q	2,292	216,255,302	28,574,767	13.2%	172,201	0.1%	28,746,968	13.3%	12.8%	-874,004	699,216	645,000	1,230,734	267,444	\$2.53

Primary data source for charts and graphs: CoStar Group, Inc.

**Available Space:** The total amount of space that is currently being marketed as available for lease in a given time period. It includes any space that is available, regardless of whether the space is vacant, occupied, available for sublease, or available at a future date.

**Cap Rate:** Short for capitalization rate. The Cap Rate is a calculation that reflects the relationship between one year's net operating income and the current market value of a particular property. The Cap Rate is calculated by dividing the annual net operating income by the sales price (or asking sales price).

**Flex Building:** A type of building designed to be versatile, which may be used in combination with office (corporate headquarters), research and development, quasi-retail sales, and including but not limited to industrial, warehouse, and distribution uses. A typical flex building will be one or two stories with at least half of the rentable area being used as office space, have ceiling heights of 16 feet or less, and

have some type of drive-in door, even though the door may be glassed in or sealed off.

**Net Absorption:** The net change in occupied space over a given period of time. Unless otherwise noted Net Absorption includes direct and sublease space.

**Submarkets:** Specific geographic boundaries that serve to delineate a core group of buildings that are competitive with each other and constitute a generally accepted primary competitive set, or peer group. Submarkets are building type specific (office, industrial, retail, etc.), with distinct boundaries dependent on different factors relevant to each building type. Submarkets are non-overlapping, contiguous geographic designations having a cumulative sum that matches the boundaries of the Market they are located within.

**Vacancy Rate:** A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. Under construction space generally is not included in vacancy calculations.

## 482 offices in 62 countries on 6 continents

Professionals & Staff: 13,500  
 Brokers: 5,100  
 Square Feet Managed: 1.12 Billion\*  
 Lease/Sale Transactions: 78,000  
 Total Transaction Value: \$71 Billion

Based on 2012 results.

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

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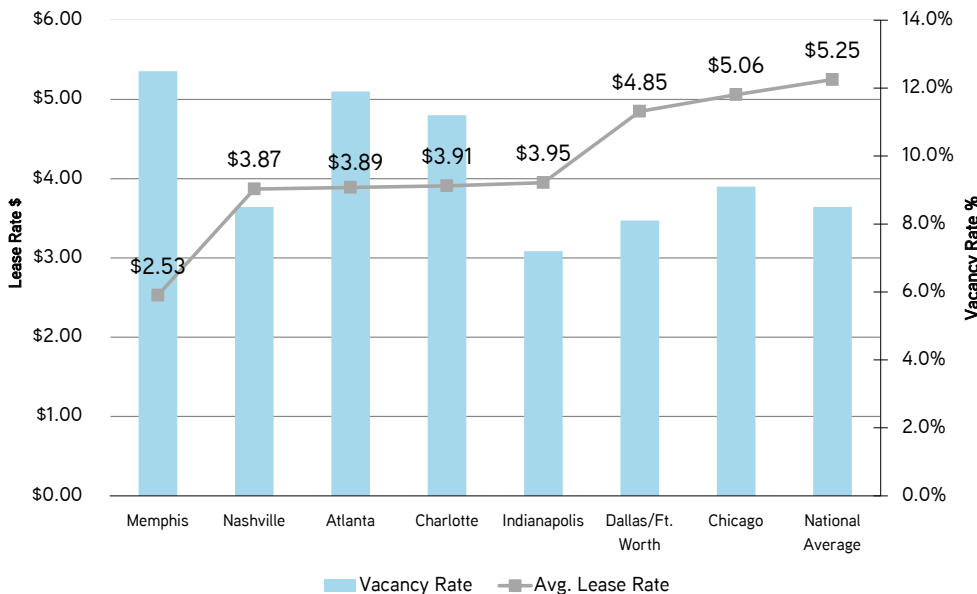
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### INDUSTRIAL MARKET COMPARISON



Accelerating success.