



# MEMPHIS METRO MARKET RESEARCH & FORECAST REPORT



## Overall office market remains stagnant.

### EXECUTIVE SUMMARY/MARKET OVERVIEW

The total Memphis office market ended Q2 2013 at just over 33.5 million square feet, including 27.5 million square feet in suburban submarkets and just over 6 million in the central business district (CBD). Total office vacancy rates ended the second quarter at 15.3%, up from 15% at the end of Q1 2013. On the other hand, average asking rental rates have been on the increase, moving from \$15.03 at year-end 2012 to \$15.99 as of the end of Q2 2013. This is the result of higher demand for certain submarkets where rates well exceed the overall average, and not an indication of material improvement in the overall market.

Net absorption for Q2 2013 was 6,574 square feet. The 385 Corridor had positive absorption of just over 142,000 square feet, while the CBD and Airport submarkets had negative absorption of -121,924 and -50,173 square feet, respectively.

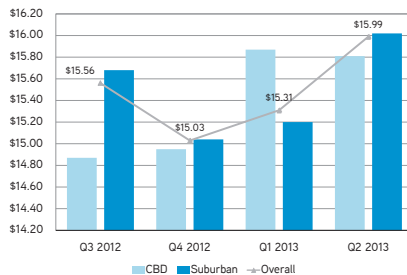
Two buildings were delivered in Q2 2013, including a 26,000 square foot build-to-suit in the CBD, 100% preleased to Memphis Specialized Laboratory. A 113,392 square foot build-to-suit, 100% preleased to Poplar Healthcare, was delivered in the 385 Corridor. A 40,000 square foot preleased building, currently under construction in the 385 Corridor, is scheduled to be delivered in Q3 2013.

### MARKET INDICATORS

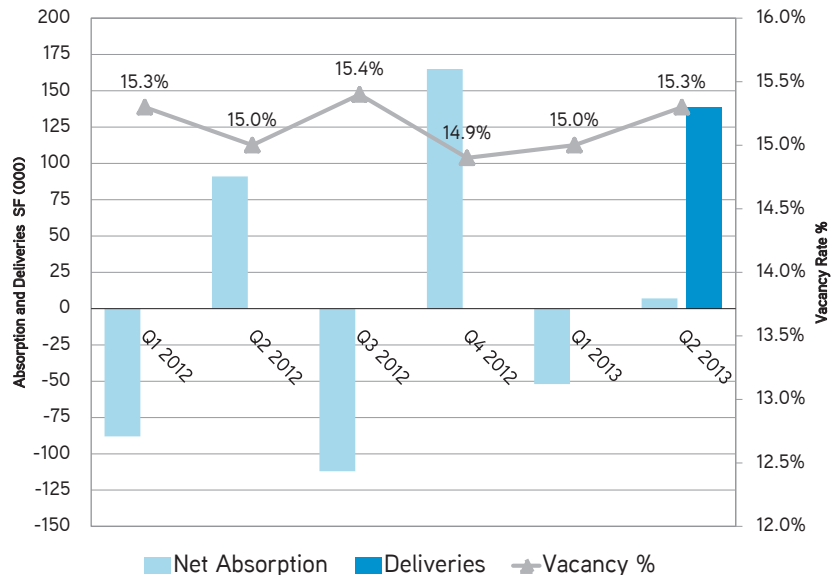
	Q2	Projected Next QTR
VACANCY	↑	↔
NET ABSORPTION	↑	↔
CONSTRUCTION	↔	↑
RENTAL RATE	↑	↔

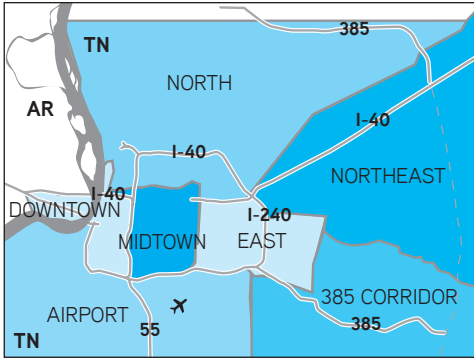
Arrows compare current quarter to the previous quarters' historically adjusted figures.

### WEIGHTED AVERAGE QUOTED RENTAL RATES (GROSS RENT)



### ABSORPTION, DELIVERIES AND VACANCY RATES





PRIMARY SUBMARKET ANALYSIS

PRIMARY SUBMARKET ANALYSIS

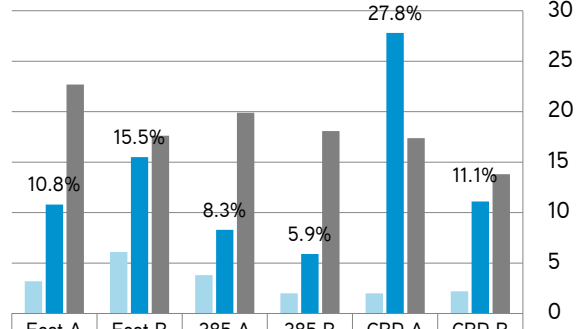
Two-thirds of the Memphis Metro market is distributed across three submarkets, the East, 385 Corridor, and CBD Submarkets. These submarkets have higher than market-average rental rates. As a result, positive net absorption in these markets will typically drive rental rates higher even when the overall market vacancy rates remain flat.

The East submarket accounts for one third of the entire market, with a total of 10.1 million square feet. Class A space comprises 3.2 million square feet, with Class B at 6.1 million square feet. Quoted rental rates for Class A space within this very popular market were averaging \$22.69 per square foot as of the end of Q2 2013, and Class A vacancy rates were averaging 10.8%. However, if we had

data specific to the most popular buildings along the Poplar corridor, it would likely show vacancy rates in the single digits, and average quoted rental rates in the \$26 - \$27 range.

The 385 Corridor, at 6.1 million square feet, makes up just over 18% of the market, with Class A space of just over 3.8 million square feet and Class B at just under 2 million. Quoted rental rates for Class A space within this submarket were averaging \$19.90 per square foot as of the end of Q2 2013, with Class A vacancy rates averaging 8.3%.

The CBD, at just over 6 million square feet, makes up 18% of the market and has 2 million square feet of Class A space and 2.2 million in Class B. Plagued over the last several quarters with the departure and/or downsizing of several major companies, this submarket saw Class A vacancy rates move from 20.3% as of the end of Q1 2013 to almost 28% at the end of Q2. Class A rates, however, are higher than their year-end 2012 average of \$16.70 and have held fairly steady for the last two quarters, with Q1 2013 rates of \$17.29 and Q2 at \$17.38.



	East A	East B	385 A	385 B	CBD A	CBD B
SF (millions)	3.2	6.1	3.8	2	2	2.2
Vacancy (%)	10.8	15.5	8.3	5.9	27.8	11.1
Avg. Quoted Rates	\$22.69	\$17.62	\$19.90	\$18.08	\$17.38	\$13.80

UPDATE Recent Transactions

SALES ACTIVITY - SELECT TRANSACTIONS

PROPERTY	SALES DATE	SALE PRICE	SIZE/SF	SALES PRICE/SQ. FT.	TYPE	BUYER
3634 Austin Peay Highway	6/24/2013	\$450,000	11,565	\$38.91	Class B	STR Memphis LLC
480 Beale Street	4/30/2013	\$570,000	25,546	\$22.31	Class C	CP Union LLC
2124 Democrat Road	3/22/2013	\$104,500	14,000	\$7.46	Class C	Richland South LLC
942 S. Shady Grove Road, FedEx Executive HQ	2/27/2013	\$22,600,000	90,437	\$249.90	Class B	Realty Income Corporation
1023 Cherry Road	1/23/2013	\$4,070,000	113,557	\$35.84	Class B	RBM Venture
7900 Airways Blvd., Pinnacle Center, 3 Buildings	1/4/2013	\$6,300,000	75,438	\$83.51	Class A/B	Southland Investment Partners

UPDATE Recent Transactions

LEASING ACTIVITY - SELECT TRANSACTIONS\*

PROPERTY ADDRESS	SUBMARKET	SIZE (SF)	TENANT
6800 Poplar Avenue	East	11,366	Consolidated Medical Practices of Memphis
5335 Distriplex Farms Road	385 Corridor	8,568	McMurry Construction Co., Inc.
1690 Bonnie Lane	Northeast	8,000	The Ladies and Gentlemen Academy
8295 Tournament Drive, Southwind Bldg. D	385 Corridor	7,664	Lenny's Franchise Systems, LLC
Triad III at 6070 Poplar Avenue	East	7,274	Dobbs Management Service, LLC
Crescent Center at 6075 Poplar Avenue	East	6,223	CRC Insurance

All leasing activity reflects executed and/or commenced transactions.

MEMPHIS Q2 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
<b>CLASS A</b>															
CBD	9	2,009,825	541,998	27.0%	17,500	0.9%	559,498	27.8%	20.3%	-129,870	-143,557	26,000	26,000	40,000	\$17.29
Suburban	63	8,115,712	687,638	8.5%	4,964	0.1%	692,602	8.5%	8.5%	-2,502	-20,930	--	--	--	\$21.23
<b>Total</b>	<b>72</b>	<b>10,125,537</b>	<b>1,229,636</b>	<b>12.1%</b>	<b>22,464</b>	<b>0.2%</b>	<b>1,252,100</b>	<b>12.4%</b>	<b>10.8%</b>	<b>-132,372</b>	<b>-164,487</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>\$20.14</b>
<b>CLASS B</b>															
CBD	41	2,204,436	245,252	11.1%	0	0.0%	245,252	11.1%	11.4%	6,496	9,854	--	--	--	\$14.40
Suburban	311	15,667,000	2,625,583	16.8%	29,265	0.2%	2,654,848	16.9%	16.3%	126,607	110,014	113,392	113,392	--	\$15.99
<b>Total</b>	<b>352</b>	<b>17,871,436</b>	<b>2,870,835</b>	<b>16.1%</b>	<b>29,265</b>	<b>1.0%</b>	<b>2,900,100</b>	<b>16.2%</b>	<b>16.3%</b>	<b>133,103</b>	<b>119,868</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>\$15.39</b>
<b>CLASS C</b>															
CBD	36	1,803,432	369,403	20.5%	0	0.0%	369,403	20.5%	20.6%	1,450	-10,819	--	--	--	\$9.60
Suburban	168	3,729,982	642,167	17.2%	0	0.0%	642,167	17.2%	17.3%	4,393	9,422	--	--	--	\$9.99
<b>Total</b>	<b>204</b>	<b>5,533,414</b>	<b>1,011,570</b>	<b>18.3%</b>	<b>0</b>	<b>0.0%</b>	<b>1,011,570</b>	<b>18.3%</b>	<b>18.4%</b>	<b>5,843</b>	<b>-1,397</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>\$10.56</b>
<b>TOTAL</b>															
CBD (Downtown)	86	6,017,693	1,156,653	19.2%	17,500	0.3%	1,174,153	16.9%	16.5%	-121,924	-144,522	26,000	26,000	40,000	\$15.87
Suburban	542	27,512,694	3,955,388	14.4%	34,229	0.4%	3,989,617	14.5%	14.8%	128,498	98,506	113,392	113,392	--	\$15.04
<b>Total</b>	<b>628</b>	<b>33,530,387</b>	<b>5,112,041</b>	<b>15.2%</b>	<b>51,729</b>	<b>0.2%</b>	<b>5,163,770</b>	<b>15.3%</b>	<b>15.0%</b>	<b>6,574</b>	<b>-46,016</b>	<b>139,392</b>	<b>139,392</b>	<b>40,000</b>	<b>\$15.99</b>
<b>SUBMARKET</b>															
385 Corridor	97	6,109,647	509,486	8.3%	7,302	0.1%	516,788	8.5%	9.1%	142,180	117,556	113,392	113,392	40,000	\$18.44
Airport	97	4,862,980	1,294,297	26.3%	0	0.0%	1,294,297	26.6%	25.3%	-50,173	-44,431	--	--	--	\$12.44
Crittenden Co.	8	198,722	4,465	2.2%	0	2.2%	4,465	2.2%	2.2%	0	-393	--	--	--	\$12.45
DeSoto County	26	450,901	63,026	14.0%	0	0.0%	63,026	14.0%	16.8%	12,658	10,861	--	--	--	\$12.99
Downtown	86	6,017,693	1,156,653	19.0%	17,500	0.3%	1,174,153	19.3%	17.0%	-121,924	-144,522	26,000	26,000	--	\$15.87
East	160	10,121,866	1,367,663	13.5%	21,353	0.2%	1,389,016	13.7%	13.6%	-7,878	-42,961	--	--	--	\$19.00
Midtown	57	1,781,829	251,146	14.1%	0	0.0%	251,146	14.1%	14.7%	11,168	5,948	--	--	--	\$13.81
North	34	1,130,751	162,803	14.4%	0	0.0%	162,803	14.4%	15.5%	12,656	11,562	--	--	--	\$10.41
Northeast	63	2,855,998	302,502	10.6%	5,574	0.2%	308,076	10.6%	11.1%	7,887	40,364	--	--	--	\$17.23
<b>TOTAL</b>	<b>628</b>	<b>33,530,387</b>	<b>5,112,041</b>	<b>15.2%</b>	<b>51,729</b>	<b>0.2%</b>	<b>5,163,770</b>	<b>15.3%</b>	<b>15.0%</b>	<b>6,574</b>	<b>-46,016</b>	<b>139,392</b>	<b>139,392</b>	<b>40,000</b>	<b>\$15.99</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**	Deliveries Current Quarter	Deliveries YTD SF	Under Constr. SF	Weighted Average Quoted Rental Rates
<b>QUARTERLY COMPARISON AND TOTALS</b>															
2013 2Q	628	33,530,387	5,112,041	15.2%	51,729	0.2%	5,163,770	15.3%	15.0%	6,574	-46,016	139,392	139,392	40,000	\$15.99
2013 1Q	628	33,504,075	4,907,412	14.6%	123,540	0.4%	5,030,952	15.0%	14.8%	-52,590	-52,590	0	0	179,392	\$15.31
2012 4Q	628	33,504,075	4,861,159	14.5%	117,203	0.3%	4,978,362	14.9%	15.1%	165,030	56,036	0	0	139,392	\$15.03
2012 3Q	628	33,504,075	4,953,093	14.8%	190,299	0.6%	5,143,392	15.4%	14.7%	-111,901	-108,994	0	0	139,392	\$15.56
2012 2Q	628	33,504,075	4,805,734	14.3%	225,757	0.7%	5,031,491	15.0%	15.2%	91,842	2,907	0	0	26,000	\$15.58
2012 1Q	628	33,504,075	4,828,749	14.4%	294,584	0.9%	5,123,333	15.3%	14.9%	-88,935	-88,935	0	0	26,000	\$15.72
2011 4Q	628	33,504,075	4,766,086	14.2%	268,312	0.8%	5,034,398	15.0%	15.1%	70,933	67,056	0	81,633	0	\$15.70
2011 3Q	628	33,504,075	4,825,338	14.5%	279,993	0.8%	5,105,331	15.2%	15.2%	19,289	-3,877	0	81,633	0	\$15.92

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.

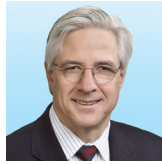
**Vacant SF:** Space that is not currently occupied either physically or economically.

**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.

**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

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.

**COLLIERS INTERNATIONAL | MEMPHIS**

6000 Poplar Avenue, Suite 201  
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](http://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.

**Q2 2013 SUBMARKET RENTAL AND VACANCY RATES**

