



MEMPHIS METRO MARKET RESEARCH & FORECAST REPORT



Vacancy Rates Drop Again in Q2

EXECUTIVE SUMMARY/MARKET OVERVIEW

The total Memphis office market ended Q2 2014 at just over 32.6 million square feet, including 27.2 million square feet in suburban submarkets and almost 5.4 million in the Central Business District (CBD). Total office vacancy rates ended Q2 2014 at 14.6%, a decrease from Q1 2014's 15.4% and the lowest the market has seen since Q3 of 2010. Average asking rental rate held steady at \$16.12.

The second quarter's overall positive net absorption of 204,235 square feet brings year-to-date positive net absorption to a total of 374,911 square feet. Seven of the nine submarkets had positive net absorption, led by the CBD with 151,809 square feet, predominately the result of the State of Tennessee's move into 121,000 square feet of the former Pinnacle Airlines space at One Commerce Square.

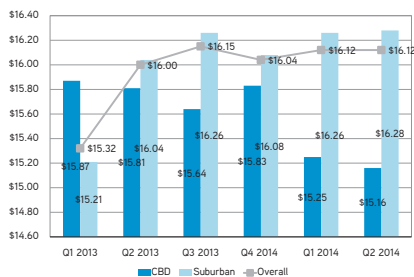
There were no deliveries in Q2 2014. A 241,000 square foot build-to-suit is underway on Poplar Avenue in the East Submarket, 100% preleased to International Paper.

MARKET INDICATORS

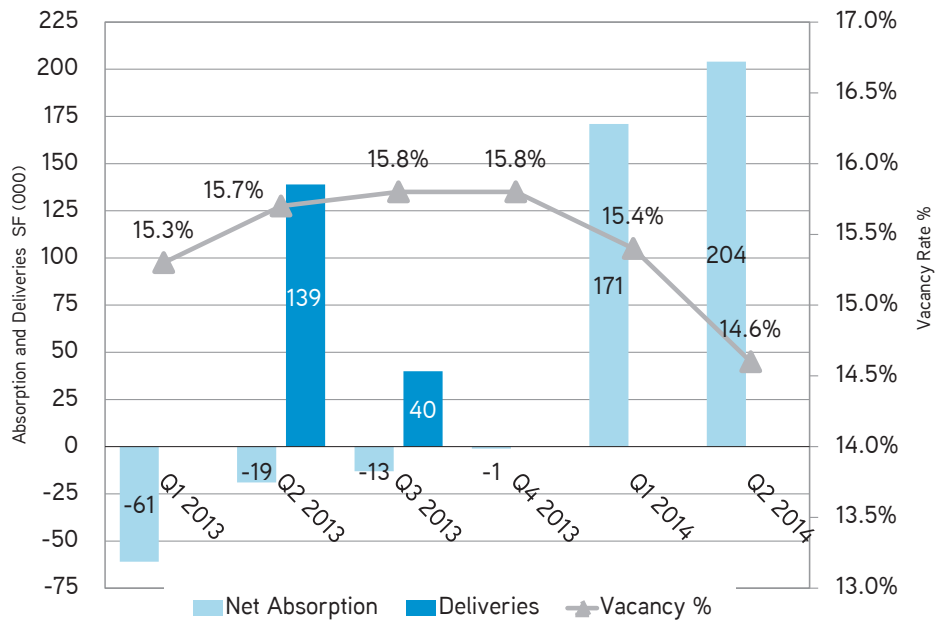
	Q2	Projected Next QTR
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↔

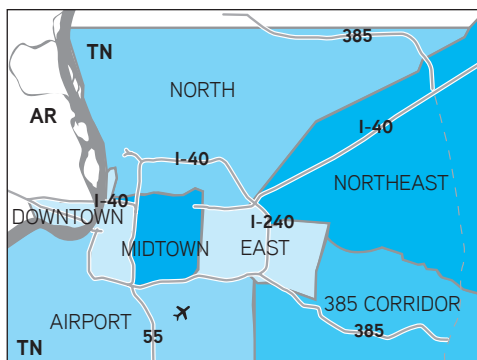
Arrows compare current quarter to the previous quarters' historically adjusted figures.

WEIGHTED AVERAGE QUOTED RENTAL RATES (GROSS RENT)



ABSORPTION, DELIVERIES AND VACANCY RATES





CLASS A SPACE CONTINUES TO TIGHTEN

We've been keeping an eye on Class A space for the past several quarters and just as predicted, in two of the most popular submarkets, the East and 385 Corridor, vacancy rates have continued to drop. The East Submarket ended 2013 with Class A vacancy rates of 10.6% and as of the end of Q2 2014, those rates had dipped to 8.9%. In the 385 Corridor, vacancy rates have fallen from 8.8% at year-end to 8.4% as of Q2 2014. The CBD has finally seen vacancy rates fall from a year-end 2013 27.3%, the highest since before 2009, to a much-improved 20.6%.

With the tightening of Class A space, we're seeing considerable interest in some of the better Class B properties, particularly those that have both location and Class A-type amenities going for them. The iBank Tower in East Memphis is a good example. The building, currently 86% occupied, was renovated in 2006 and the building's owner has continued to make improvements with the expectation of further increasing occupancy and rental rates.

Does the reduction in Class A space mean that Class B rates will increase? That is not likely to happen across the board. Class B vacancy, though down about a percentage point from a year ago, is still above 16% overall, though it is barely over 7% in the 385 Corridor. Without some clear market-related reason to do so, Class B landlords aren't likely to be able to justify substantial increases in rent. However, we do expect to see occupancy and rents rising in what we'll call Class B+ buildings, like iBank Tower, where tenants are able to get a number of the most desirable Class A amenities. And if we continue to see tightening in both Class A and "B+" space, we might just see some Class A development on the horizon.

UPDATE Recent Transactions

SALES ACTIVITY - SELECT TRANSACTIONS

PROPERTY	SALES DATE	SALE PRICE	SIZE/SF	SALES PRICE/SQ. FT.	TYPE	BUYER
2926 Ridgeway Road	4/8/2014	\$363,000	14,465	\$25.10	Class B	Jemar Investments, LLC
1900 Exeter Road, EZON Building	6/17/2014	\$4,454,000	37,275	\$119.38	Class B	Faropoint Investments
8150 T & B Boulevard	6/17/2014	\$4,900,000	64,196	\$76.33	Class B	Valhalla Assets

UPDATE Recent Transactions

LEASING ACTIVITY - SELECT TRANSACTIONS

PROPERTY ADDRESS	SUBMARKET	SIZE (SF)	TENANT
1 Commerce Square, One Commerce Square Tower	Downtown	104,673	State of Tennessee
3400 Players Club Parkway, Highwoods Center	385 Corridor	14,347	Pinnacle Agriculture
5100 Wheelis, Clark Centre	East	9,044	Fleming Architects
6070 Poplar Avenue, Triad Centre III	East	5,616	Infinity Fitness
3350 Players Club Parkway, Shadow Creek I	385 Corridor	5,010	Palm Coast Imports
965 Ridge Lake Blvd.	East	4,616	Undisclosed
2693 Union Avenue Extended, The Columns	Midtown	4,133	Undisclosed
51 Germantown Court, Stuart Building	Northeast	3,820	Lasik Vision
5050 Poplar Avenue, I-Bank Tower	East	3,802	Wesley Kraker Enterprises
872 Willow Tree Circle	Northeast	3,720	Professional Computer Systems
8275 Tournament Drive, Southwind Office Center	385 Corridor	3,695	UC Synergetics
2565 Horizon Lake, Horizon Center, Bldg. 30	Northeast	3,685	Extended Health Care, Inc.
6000 Poplar Avenue, Triad Center I*	East	3,505	Vaco Resources
8275 Tournament Drive, Southwind Office Center	385 Corridor	3,428	Stewart Marbury
6410 Poplar Avenue, International Place	East	3,082	Newport Coast Securities
3400 Players Club Parkway, Highwoods Center	385 Corridor	2,937	Iron Data
6263 Poplar Avenue, Poplar Towers	East	2,371	Undisclosed

Leasing activity for Q2-14 reflects executed and/or commenced transactions. Leases include new deals in the market and renewals *Renewal

MEMPHIS Q2 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	388,511	19.3%	26,275	1.3%	414,786	20.6%	26.8%	123,143	133,943				\$17.12
Suburban	64	8,310,062	661,302	8.0%	7,807	0.1%	669,109	8.1%	8.2%	14,284	36,278			241,000	\$20.97
Total	73	10,319,887	1,049,813	10.2%	34,082	0.3%	1,083,895	10.5%	12.5%	137,427	170,221				\$19.64
CLASS B															
CBD	39	2,025,640	171,852	8.5%	7,297	0.3%	179,149	8.8%	10.1%	25,316	40,028				\$14.45
Suburban	316	15,352,320	2,682,079	17.2%	15,050	0.1%	2,697,129	17.3%	17.8%	36,360	139,372				\$16.02
Total	355	17,377,960	2,853,931	16.4%	22,347	0.2%	2,876,278	16.6%	16.7%	61,676	179,400				\$15.97
CLASS C															
CBD	36	1,367,684	200,711	14.7%	0	0.0%	200,711	14.7%	14.9%	3,350	10,350				\$9.83
Suburban	165	3,564,802	654,651	18.4%	0	0.0%	654,651	18.4%	18.4%	1,782	14,940				\$11.45
Total	201	4,932,486	855,362	19.8%	0	0.0%	855,362	19.8%	18.8%	5,132	25,290				\$10.93
TOTAL															
CBD (Downtown)	84	5,403,149	761,074	14.1%	33,572	0.6%	794,646	14.7%	17.5%	151,809	184,321				\$15.12
Suburban	545	27,227,184	3,998,032	14.7%	22,857	0.1%	4,020,889	14.6%	14.9%	52,426	190,590			241,000	\$16.28
Total	629	32,630,333	4,759,106	14.4%	56,429	0.2%	4,815,535	14.6%	15.4%	204,235	374,911			241,000	\$16.12
SUBMARKET															
385 Corridor	97	6,148,871	540,165	8.8%	3,440	0.1%	543,605	8.8%	9.0%	8,338	-1,938				\$18.44
Airport	95	4,542,939	1,368,031	30.1%	0	0.0%	1,368,031	30.1%	29.8%	404	3,277				\$12.80
Crittenden County	8	198,722	2,672	1.3%	0	0.0%	2,672	1.3%	2.9%	3,000	3,000				\$13.85
DeSoto County	27	445,313	63,475	14.3%	7,807	1.8%	71,282	16.0%	14.1%	-8,288	1,894				\$17.37
Downtown	84	5,403,149	761,074	14.1%	33,572	0.6%	794,646	14.7%	17.5%	151,809	184,321				\$15.12
East	158	9,995,113	1,325,893	13.3%	6,136	0.1%	1,332,029	13.3%	13.7%	33,388	161,888			241,000	\$19.17
Midtown	59	1,842,748	241,193	13.1%	0	0.0%	241,193	13.1%	13.0%	-2,041	22,771				\$13.48
North	37	1,172,526	165,746	14.1%	0	0.0%	165,746	14.1%	14.5%	4,297	2,552				\$13.04
Northeast	64	2,880,952	290,857	10.1%	5,574	0.2%	296,431	10.3%	10.8%	13,328	-2,854				\$17.48
TOTAL	629	32,630,333	4,759,106	14.4%	56,529	0.2%	4,815,635	14.6%	15.4%	204,235	374,911	0	0	241,000	\$16.12

	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 2Q	630	54,370,134	7,607,344	14.4%	109,618	0.2%	7,716,962	14.6%	15.4%	396,728	745,483	0	0	241,000	\$16.12
2014 1Q	630	32,630,333	4,974,694	15.2%	45,076	0.1%	5,019,770	15.4%	15.8%	170,676	170,676	0	0	241,000	\$16.12
2013 4Q	628	32,606,863	5,129,266	15.7%	37,710	0.1%	5,166,976	15.8%	15.8%	-922	-93,135	0	0	0	\$16.04
2013 3Q	628	32,606,863	5,127,604	15.7%	38,450	0.1%	5,166,054	15.8%	15.7%	-12,672	-92,213	40000	179292	0	\$16.15
2013 2Q	627	32,606,863	5,075,930	15.6%	37,452	0.1%	5,113,382	15.7%	15.3%	-18,571	-46,016	139392	139392	0	\$16.00
2013 1Q	625	32,427,471	4,846,156	14.9%	109,263	0.3%	4,955,419	15.3%	15.1%	-60,970	-60,970	0	0	179,392	\$15.32
2012 4Q	625	32,427,471	4,777,246	14.7%	117,203	0.4%	4,894,449	15.1%	15.6%	166,425	-112	0	0	179,392	\$15.04
2012 3Q	625	32,427,471	4,870,575	15.0%	190,299	0.6%	5,060,874	15.6%	15.2%	-126,766	-166,537	0	0	139,392	\$15.57
2012 2Q	625	32,427,471	4,708,351	14.5%	225,757	0.7%	4,934,108	15.2%	15.4%	61,630	-39,771	0	0	139,392	\$15.59
2012 1Q	625	32,427,471	4,701,154	14.5%	294,584	0.9%	4,995,738	15.4%	15.1%	-101,401	-101,401	0	0	26,000	\$15.74

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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Q2 2014 SUBMARKET RENTAL AND VACANCY RATES

