



MEMPHIS METRO MARKET RESEARCH & FORECAST REPORT



Rental rates *and* vacancy rates up in Q3

EXECUTIVE SUMMARY/MARKET OVERVIEW

The total Memphis office market ended Q3 2013 at almost 33 million square feet, including almost 27 million square feet in suburban submarkets and just over 6 million in the Central Business District (CBD). Total office vacancy rates ended the third quarter at 15.9%, up slightly from 15.7% at the end of Q2 2013. Average asking rental rates, however, have been on the rise, moving from \$15.03 at year-end 2012 to \$16.14 as of the end of Q3 2013, driven mostly by smaller submarkets that have experienced relatively modest positive net absorption for the year.

Net absorption of -22,934 square feet in Q3 2013 put the y-t-d net absorption at -73,333 square feet. The 385 Corridor has had positive absorption through Q3 of 155,256 square feet while the Central Business District and East submarkets have each had y-t-d negative net absorption of nearly 140,000 square feet.

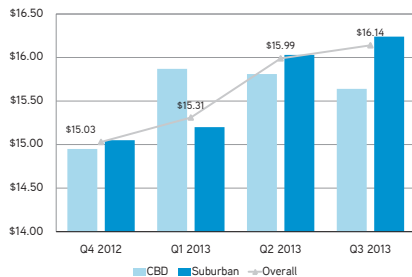
One 40,000 square-foot preleased building in the 385 Corridor was delivered in Q3 2013.

MARKET INDICATORS

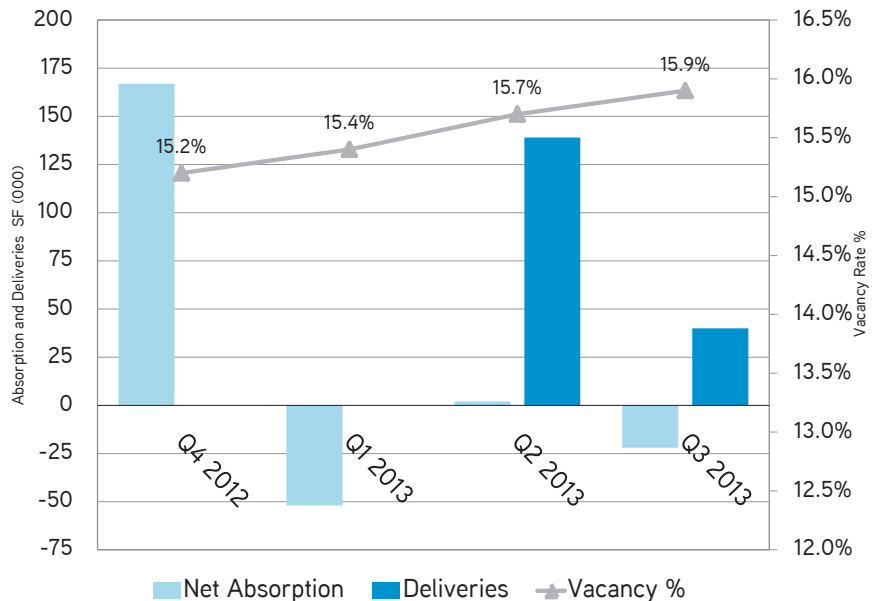
	Q3	Projected Next QTR
VACANCY	↑	↔
NET ABSORPTION	↓	↔
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↔

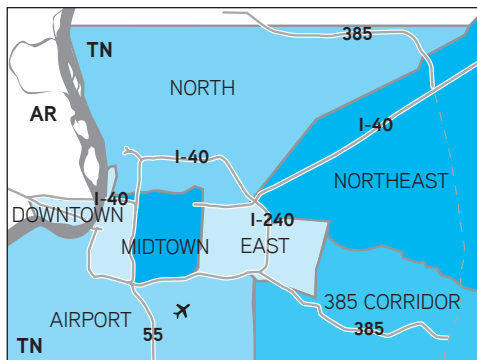
Arrows compare current quarter to the previous quarters' historically adjusted figures.

WEIGHTED AVERAGE QUOTED RENTAL RATES (GROSS RENT)



ABSORPTION, DELIVERIES AND VACANCY RATES





IS MARKET SENDING MIXED MESSAGES?

On the surface, it appears the market is sending us a mixed message. Instead of the typical inverse relationship of vacancy and rental rates, both vacancy rates and average asking rental rates have been rising for the last three quarters. Some of this can be explained by an overall decline in year-to-date vacancy in the 385 Submarket, where rental rates are among the highest in the market. But we're also seeing landlords holding the line on rates while offering generous tenant improvement dollars in order to secure deals to fill what seems to be an inordinate number of smaller, class A vacancies.

We're also seeing an interesting combination of downsizing/upgrading, particularly in the East Submarket. Our Colliers office is a good example of this. We recently downsized our Class B space and relocated to a Class A building on Poplar Avenue, lowering our overall lease expense. We've reconfigured to a more efficient layout that even offers potential to grow staff and we've gained a few amenities in the deal.

UPDATE Recent Transactions

SALES ACTIVITY - SELECT TRANSACTIONS

PROPERTY	SALES DATE	SALE PRICE	SIZE/SF	SALES PRICE/ SQ. FT.	TYPE	BUYER
2990 Airways Blvd.	9/17/2013	\$850,000	57,600	\$14.76	Class B	Topador LLC
145 Court Avenue	8/16/2013	\$2,390,000	18,630	\$128.29	Class B	Bank Tennessee
220 Claybrook Street	8/13/2013	\$475,000	56,855	\$10.14	Class B	JNL Parking
100 N. Main Street	8/10/2013	\$5,000,000	525,000	\$9.52	Class C	One Hundred North Main LLC
366 New Byhalia Road	7/22/2013	\$900,000	22,000	\$40.91	Class B	Kia Investments LLC
4066 Summer Avenue	7/16/2013	\$280,000	12,000	\$23.33	Class B	Riveredge Properties LLC
813 Ridge Lake Blvd.	7/15/2013	\$776,160	54,110	\$14.34	Class B	Troika Inc.

UPDATE Recent Transactions

LEASING ACTIVITY - SELECT TRANSACTIONS*

PROPERTY ADDRESS	SUBMARKET	SIZE (SF)	TENANT
80 Monroe Avenue, Brinkley Plaza	Downtown	19,534	GSA
6745 Lenox Center, Lenox Park	385 Corridor	15,960	C.H. Robinson
60 Germantown Court	Northeast	12,555	Pittman Internal Medicine
6075 Poplar Avenue, Crescent Center	East	13,500	Adams & Reese
6070 Poplar Avenue, Triad III	East	7,055	Dobbs Management Services
1331 Union Avenue, Union Centre	Midtown	7,000	Comprehensive Medical Associates
6075 Poplar Avenue, Crescent Center	East	6,257	CRC/Crump Insurance
22 North Front Street, Falls Building	Downtown	5,773	Red Rover Company

All leasing activity reflects executed and/or commenced transactions.

MEMPHIS Q3 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	9	2,009,825	541,192	27.0%	17,500	0.9%	558,692	27.8%	20.3%	806	-142,751		26,000		\$17.12
Suburban	63	8,115,712	690,615	8.5%	5,962	0.1%	696,577	8.6%	8.7%	8,173	-12,757				\$21.31
Total	72	10,125,537	1,231,807	12.2%	23,462	0.2%	1,255,269	12.4%	12.5%	8,979	-155,508				\$19.64
CLASS B															
CBD	41	2,204,436	247,237	11.1%	0	0.0%	247,237	11.2%	11.4%	-1,985	7,869				\$14.40
Suburban	310	15,290,844	2,658,362	17.4%	29,188	0.2%	2,687,550	17.6%	17.5%	24,826	136,758		113,392		\$16.14
Total	351	17,495,280	2,905,599	16.6%	29,188	0.2%	2,934,787	16.8%	16.7%	22,841	144,627				\$15.97
CLASS C															
CBD	36	1,807,392	363,544	20.5%	0	0.0%	363,544	20.1%	20.6%	5,859	-4,960				\$9.60
Suburban	167	3,570,160	702,418	19.7%	0	0.0%	702,418	19.7%	18.0%	-60,613	-57,482				\$10.92
Total	203	5,377,552	1,065,962	19.8%	0	0.0%	1,065,962	19.8%	18.8%	-54,754	-62,442				\$10.93
TOTAL															
CBD (Downtown)	86	6,021,653	1,151,973	18.9%	17,500	0.3%	1,169,473	19.2%	19.3%	4,680	-139,842		26,000		\$15.64
Suburban	540	26,976,716	4,051,395	15.0%	35,150	0.1%	4,086,545	15.1%	14.9%	-27,614	66,519	40,000	153,292		\$16.24
Total	626	32,998,369	5,203,368	15.7%	52,650	0.2%	5,256,018	15.9%	15.7%	-22,934	-73,323	40,000	179,292	0	\$16.14
SUBMARKET															
385 Corridor	98	6,150,345	538,399	8.8%	7,302	0.1%	545,701	8.9%	8.9%	37,700	155,256		153,292		\$18.22
Airport	94	4,445,157	1,287,406	28.6%	0	0.0%	1,287,406	29.0%	28.7%	3,191	-38,340				\$12.78
Crittenden Co.	8	198,722	6,647	3.3%	0	0.0%	6,647	3.3%	3.8%	818	-2,575				\$13.85
DeSoto County	26	431,401	60,596	14.0%	0	0.0%	60,596	14.0%	14.6%	2,430	13,291				\$13.12
Downtown	86	6,021,653	1,151,973	18.9%	17,500	0.3%	1,169,473	19.2%	19.3%	4,680	-139,842		26,000		\$15.64
East	159	10,001,677	1,461,414	14.6%	22,274	0.2%	1,483,688	14.8%	13.9%	-91,271	-138,505				\$18.95
Midtown	57	1,771,630	245,094	13.8%	0	0.0%	245,094	13.8%	14.2%	6,052	12,000				\$13.81
North	36	1,151,658	172,210	15.0%	0	0.0%	172,210	15.0%	14.1%	-9,407	2,155				\$10.88
Northeast	62	2,826,126	279,629	9.9%	5,574	0.2%	285,203	10.1%	10.9%	22,873	63,237				\$17.48
TOTAL	626	32,998,369	5,203,368	15.7%	52,650	0.2%	5,256,018	15.9%	15.7%	-22,934	-73,323	40,000	179,292	0	\$16.14

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 3Q	626	32,998,369	5,203,368	15.7%	52,650	0.2%	5,256,018	15.9%	15.7%	-22,934	-73,323	40,000	179,292	0	\$16.14
2013 2Q	626	32,958,369	5,141,355	15.5%	51,729	0.2%	5,193,084	15.7%	15.4%	1,833	-46,016	139,392	139,392	0	\$15.99
2013 1Q	625	32,818,977	4,931,985	15.0%	123,540	0.4%	5,055,525	15.4%	15.2%	-52,222	-52,222	0	0	179,392	\$15.31
2012 4Q	625	32,932,057	4,886,100	14.8%	117,203	0.4%	5,003,303	15.2%	15.7%	167,425	29,159	0	0	179,392	\$15.03
2012 3Q	625	32,932,057	4,980,429	15.1%	190,299	0.6%	5,170,728	15.7%	15.3%	-126,266	-138,266	0	0	139,392	\$15.56
2012 2Q	625	32,932,057	4,818,705	14.6%	225,757	0.7%	5,044,462	15.3%	15.6%	76,535	-12,000	0	0	139,392	\$15.58
2012 1Q	625	32,932,057	4,826,413	14.7%	294,584	0.9%	5,120,997	15.6%	15.3%	-88,535	-88,535	0	0	26,000	\$15.72
2011 4Q	625	32,932,057	4,764,150	14.5%	268,312	0.8%	5,032,462	15.3%	15.5%	70,833	58,708	0	81,633	0	\$15.70
2011 3Q	625	32,932,057	4,823,302	14.6%	279,993	0.9%	5,103,295	15.5%	15.5%	11,041	-12,125	0	81,633	0	\$15.92
2011 2Q	628	33,504,075	4,890,735	14.6%	233,985	0.7%	5,124,720	15.3%	15.0%	-61,158	-23,166	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%	37,992	37,992	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.

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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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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Q3 2013 SUBMARKET RENTAL AND VACANCY RATES

