



# MEMPHIS METRO MARKET RESEARCH & FORECAST REPORT



## Class A Space Tightening

### EXECUTIVE SUMMARY/MARKET OVERVIEW

The total Memphis office market ended Q4 2013 at just over 33 million square feet, including 27 million square feet in suburban submarkets and 6 million in the Central Business District (CBD). Total office vacancy rates ended Q4 at 15.7%, down slightly from 15.8% at the end of Q3 2013. Average asking rental rates dropped to \$16.03 as of the end of Q4 after rising for three straight quarters as a result of tightening in Class A space in suburban submarkets.

Buoyed by positive absorption in six submarkets, the market saw overall positive net absorption in Q4 2013 of 34,189 square feet, helping to offset part of the earlier quarters' negative absorption. The market had total net absorption for the year of -24,473 square feet, driven largely by negative net absorption in the CBD and East Submarkets of -126,228 square feet and -119,515 square feet, respectively.

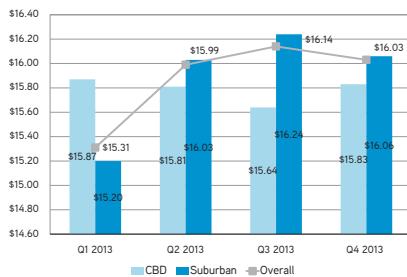
There were no deliveries in Q4 and there is currently a 241,000 square foot build-to-suit underway in the East Submarket for International Paper. Deliveries for the year totaled 179,292 square feet, all build-to-suit including 153,292 square feet in the 385 Corridor and 26,000 square feet in the CBD. *continued on page 2*

### MARKET INDICATORS

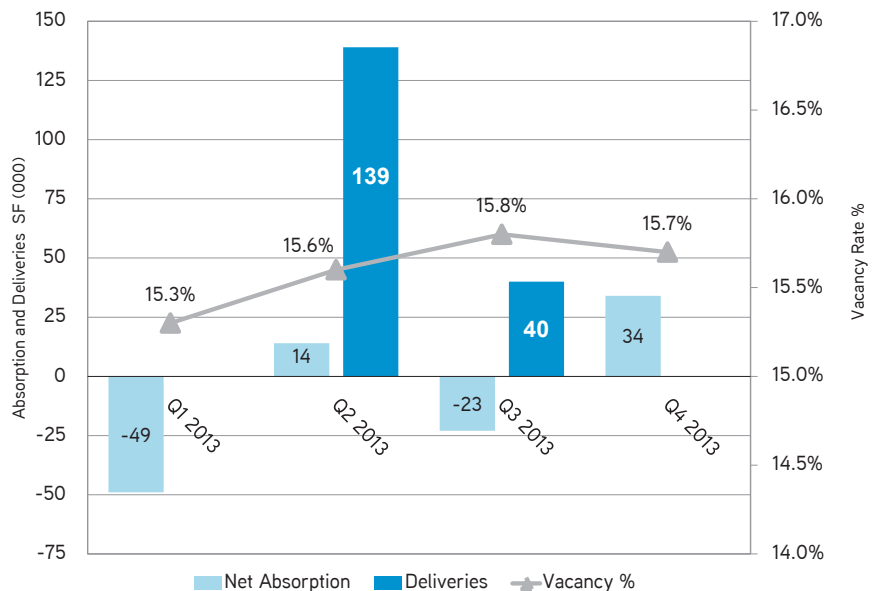
	Q4	Projected Next QTR
VACANCY	↓	↔
NET ABSORPTION	↓	↔
CONSTRUCTION	↔	↔
RENTAL RATE	↓	↔

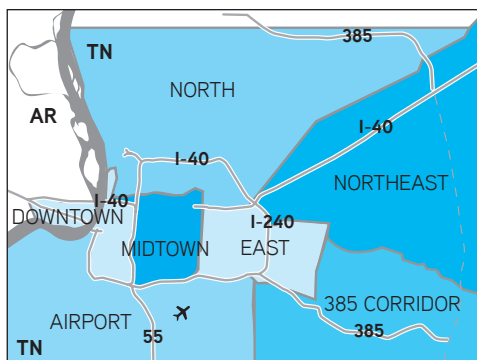
Arrows compare current quarter to the previous quarters' historically adjusted figures.

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



### ABSORPTION, DELIVERIES AND VACANCY RATES





## CLASS A SPACE TIGHTENING CONTINUED

Several national trends will continue to play a role in our market. Though office employment on a national basis has finally surpassed pre-recession levels, a fundamental change in how companies structure workspaces will have a sustained impact on office inventory nationwide. A combination of more collaborative workspaces, smaller and fewer individual office spaces, and more telecommuting is resulting in overall downsizing of the office footprint.

As a result, absent fairly substantial growth in office employment, we aren't likely to see any major changes in vacancy and rental rates in the Memphis Metro office market in 2014. Instead, expect to see minor fluctuations within submarkets and space type. As Class A space tightens in suburban submarkets, landlords will push rates higher, presenting an opportunity for Class B landlords to improve their properties in an attempt to attract tenants unable to find suitable Class A space. As a result, Class B rates may begin to rise, reducing the gap between Class A and Class B rates.

A lack of available Class A space could spur some new construction activity, though for any sizable project, the space would have to be significantly pre-leased. As for downtown, we expect minimal activity which will keep vacancy rates in the upper teens.

In summary, office spaces are getting smaller. And while we may see a slight uptick in Class A and Class B suburban market rates, 2014 is likely to be a fairly flat year for the Memphis Metro office market.

### UPDATE Recent Transactions

#### SALES ACTIVITY - SELECT TRANSACTIONS

PROPERTY	SALES DATE	SALE PRICE	SIZE/SF	SALES PRICE/ SQ. FT.	TYPE	BUYER
942 S. Shady Grove Road, FedEx Executive HQ	2/27/2013	\$22,600,000	90,437	\$249.90	Class B	Realty Income Corporation
7900 Airways Blvd., Pinnacle Center, 3 Buildings	1/4/2013	\$6,300,000	75,438	\$83.51	Class A/B	Southland Investment Partners
100 N. Main Street	8/10/2013	\$5,000,000	525,000	\$9.52	Class C	One Hundred North Main LLC
2723 Summer Oaks Drive	11/27/2013	\$4,350,000	28,358	\$153.40	Class B	Omega Healthcare Investors, Inc.
1023 Cherry Road	1/23/2013	\$4,070,000	113,557	\$35.84	Class B	RBM Venture
5124 Poplar Avenue	12/9/2013	\$2,750,000	13,322	\$206.43	Class B	Fifty One Twenty Four Poplar, LLC
145 Court Avenue	8/16/2013	\$2,390,000	18,630	\$128.29	Class B	Bank Tennessee
460 Tennessee Street	12/12/2013	\$1,600,000	52,000	\$30.77	Class C	Blackstar Capital Partners

### UPDATE Recent Transactions

#### LEASING ACTIVITY - SELECT TRANSACTIONS\*

PROPERTY ADDRESS	SUBMARKET	SIZE (SF)	TENANT
1715 Aaron Brenner Drive, Renaissance Center	East	7,674	Legacy Wealth
57 Germantown Court - Kimbrough Building	East	19,429	Methodist
5350 Poplar Avenue	East	12,622	Trustmark
One Commerce Square	Downtown	119,004	State of Tennessee

\*Leasing activity for Q4-13 reflects executed and/or commenced transactions. Leases include new deals in the market and renewals.

MEMPHIS Q4 2013 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
<b>CLASS A</b>															
CBD	9	2,009,825	522,454	26.0%	17,500	0.9%	539,954	26.9%	26.7%	-3,100	-145,851		26,000		\$17.56
Suburban	63	8,130,051	657,311	8.1%	0	0.0%	657,311	8.1%	8.6%	40,567	26,509			241,000	\$21.19
<b>Total</b>	<b>72</b>	<b>10,139,876</b>	<b>1,179,765</b>	<b>11.6%</b>	<b>17,500</b>	<b>0.2%</b>	<b>1,197,265</b>	<b>11.8%</b>	<b>12.2%</b>	<b>37,467</b>	<b>-119,342</b>		<b>26,000</b>	<b>241,000</b>	<b>\$19.77</b>
<b>CLASS B</b>															
CBD	41	2,204,436	234,028	10.6%	7,297	0.3%	241,325	10.9%	11.2%	5,912	13,781				\$14.06
Suburban	312	15,343,729	2,698,119	17.6%	23,151	0.2%	2,721,270	17.7%	17.6%	-25,202	117,518		15,3292		\$15.98
<b>Total</b>	<b>353</b>	<b>17,548,165</b>	<b>2,932,147</b>	<b>16.7%</b>	<b>30,448</b>	<b>0.2%</b>	<b>2,962,595</b>	<b>16.9%</b>	<b>16.8%</b>	<b>-19,290</b>	<b>131,299</b>				<b>\$15.84</b>
<b>CLASS C</b>															
CBD	36	1,808,582	351,242	19.4%	0	0.0%	351,242	19.4%	19.5%	802	5,842				\$10.91
Suburban	167	3,569,004	687,399	19.3%	0	0.0%	687,399	19.3%	19.7%	15,210	-42,272				\$11.17
<b>Total</b>	<b>203</b>	<b>5,377,586</b>	<b>1,038,641</b>	<b>19.3%</b>	<b>0</b>	<b>0.0%</b>	<b>1,038,641</b>	<b>19.3%</b>	<b>19.6%</b>	<b>16,012</b>	<b>-36,430</b>				<b>\$11.14</b>
<b>TOTAL</b>															
CBD (Downtown)	86	6,022,843	1,107,724	18.4%	24,797	0.4%	1,132,521	18.8%	18.9%	3,614	-126,228		26,000		\$15.83
Suburban	543	27,097,784	4,042,829	14.9%	23,151	0.1%	31,140,613	15.0%	1510.0%	30,575	101,755		153,292	241,000	\$16.06
<b>Total</b>	<b>629</b>	<b>33,120,627</b>	<b>5,150,553</b>	<b>15.6%</b>	<b>47,948</b>	<b>0.1%</b>	<b>5,198,501</b>	<b>15.7%</b>	<b>15.8%</b>	<b>34,189</b>	<b>-24,473</b>		<b>179,292</b>	<b>241,000</b>	<b>\$16.03</b>
<b>SUBMARKET</b>															
385 Corridor	98	6,155,907	526,197	8.5%	3,340	0.1%	529,537	8.6%	8.9%	16,620	171,420		153,292		\$18.15
Airport	95	4,500,157	1,305,971	29.0%	0	0.0%	1,305,971	29.0%	28.6%	-18,565	-56,905				\$12.73
Crittenden County	8	198,722	5,672	2.9%	0	0.0%	5,672	2.9%	3.3%	975	-1,600				\$13.85
DeSoto County	27	444,401	61,176	13.8%	0	0.0%	61,176	13.8%	14.0%	1,020	14,311				\$13.18
Downtown	86	6,022,843	1,107,724	18.4%	24,797	0.4%	1,132,521	18.8%	18.9%	3,614	-126,228		26,000		\$15.83
East	158	9,959,790	1,454,241	14.6%	14,237	0.1%	1,468,478	14.7%	14.9%	19,373	-119,515			241,000	\$18.90
Midtown	57	1,814,100	246,021	13.6%	0	0.0%	246,021	13.6%	13.5%	-927	11,073				\$13.13
North	38	1,197,526	176,698	14.8%	0	0.0%	176,698	14.8%	14.7%	-697	6,958				\$12.75
Northeast	62	2,827,181	266,853	9.4%	5,574	0.2%	272,427	9.6%	10.1%	12,776	76,013				\$17.48
<b>TOTAL</b>	<b>629</b>	<b>33,120,627</b>	<b>5,150,553</b>	<b>15.6%</b>	<b>47,948</b>	<b>0.1%</b>	<b>5,198,501</b>	<b>15.7%</b>	<b>15.8%</b>	<b>34,189</b>	<b>-24,473</b>	<b>0</b>	<b>179,292</b>	<b>241,000</b>	<b>\$16.03</b>

	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
2013 4Q	629	33,120,627	5,150,553	15.6%	47,948	0.1%	5,198,501	15.7%	15.8%	34,189	-24,473	0	179,292	241,000	\$16.03
2013 3Q	629	33,120,627	5,184,002	15.7%	48,688	0.1%	5,232,690	15.8%	15.6%	-22,935	-58,662	40000	179,292	281,000	\$16.14
2013 2Q	628	33,080,627	5,121,988	15.5%	47,767	0.4%	5,169,755	15.6%	15.3%	13,733	-46,016	139,392	139,392	281,000	\$15.99
2013 1Q	626	32,941,235	4,924,518	14.9%	119,578	0.4%	5,044,096	15.3%	15.2%	-49,460	-49,460	0	0	179,392	\$15.31
2012 4Q	626	32,941,235	4,877,433	14.8%	117,203	0.4%	4,994,636	15.2%	15.7%	168,525	29,468	0	0	179,392	\$15.03
2012 3Q	626	32,941,235	4,972,862	15.1%	190,299	0.6%	5,163,161	15.7%	15.3%	-127,466	-139,057	0	0	139,392	\$15.56
2012 2Q	626	32,941,235	4,809,938	14.6%	225,757	0.7%	5,035,695	15.3%	15.5%	77,635	-11,591	0	0	139,392	\$15.58
2012 1Q	626	32,941,235	4,818,746	14.6%	294,584	0.9%	5,113,330	15.5%	15.3%	-89,226	-89,226	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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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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**Q4 2013 SUBMARKET RENTAL AND VACANCY RATES**

