



MEMPHIS METRO MARKET RESEARCH & FORECAST REPORT



Vacancy Rates Decline in 2014

EXECUTIVE SUMMARY/MARKET OVERVIEW

The total Memphis office market ended Q4 2014 at just over 32.7 million square feet, including nearly 27.3 million square feet in suburban submarkets and over 5.4 million in the Central Business District (CBD). Total office vacancy rates ended 2014 at 14.5%, down fairly significantly from a year-end 2013 rate of 15.8%.

Positive net absorption of 129,662 square feet in Q4 of 2014 brought the year's total net absorption to 439,420 square feet. The East Submarket and the Central Business District were major contributors, with positive net absorption for the year of 292,346 square feet and 168,938 square feet, respectively.

Positive net absorption in the CBD was largely driven by the Q2 lease by the State of Tennessee at Once Commerce Square, backfilling the large vacancy caused by Pinnacle Airlines in Q2 2013. In other positive CBD news, one of downtown's largest tenants, Raymond James, renewed their lease, quelling rumors of a possible relocation out of Memphis.

Average rental rates bounced around during the year, hitting a high of \$16.28 as of the end of Q3, but settling back to \$16.10 as of year-end 2014. This is due in part to the steady decrease of

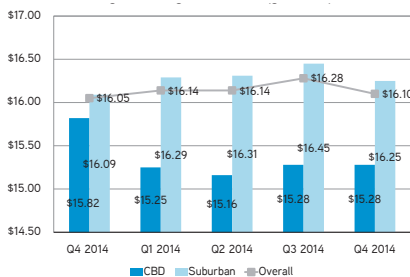
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MARKET INDICATORS

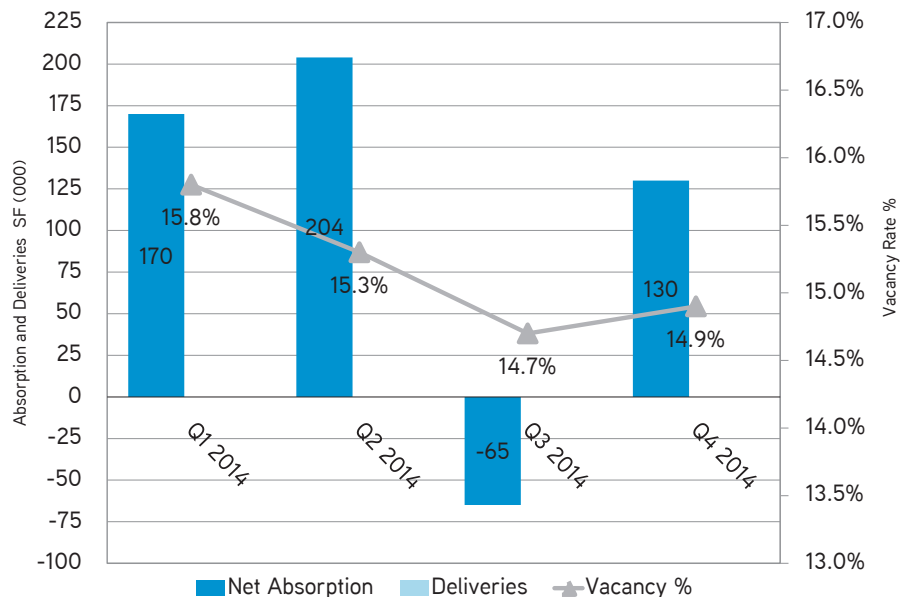
	Q4	Projected Next QTR
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↑	↔
RENTAL RATE	↓	↔

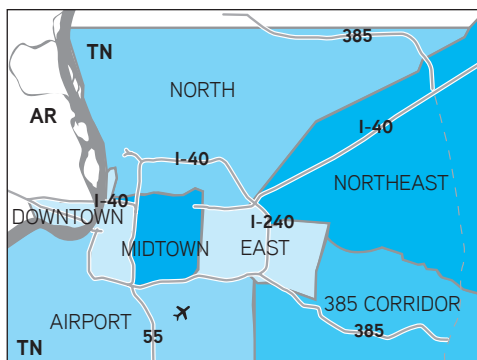
Arrows compare current quarter to the previous quarters' historically adjusted figures.

WEIGHTED AVERAGE QUOTED RENTAL RATES (GROSS RENT)



ABSORPTION, DELIVERIES AND VACANCY RATES





VACANCY RATES DECLINE IN 2014 (CONTINUED)

Class A vacancy, particularly in the largest, most popular, and most expensive submarket: the East. Class A vacancy rates have hit a low of 6.3% in this submarket. Speculative construction isn't likely to occur until rates increase significantly. As a result, Class B landlords, particularly those near the Poplar corridor, have an opportunity to capture some of the unfilled Class A demand by making capital improvements to their properties.

There were no deliveries in 2014. A 248,464 square foot build-to-suit is underway on Poplar Avenue in the East Submarket, 100% preleased to International Paper. Boyle has plans to begin a 52,000 square-foot office building in their Schilling Farms early this year, adding more Class A space in Collierville where little is currently available. Helena Chemical will occupy half of the two-story building.

UPDATE Recent Transactions

SALES ACTIVITY - SELECT TRANSACTIONS

PROPERTY	SALES DATE	SALE PRICE	SIZE/SF	SALES PRICE/SQ. FT.	TYPE	BUYER
2670 Union Avenue Ext.	12/17/2014	\$8,100,000	119,525	\$67.77	Class B	Mount Kellett Capital Management LP
6263 Poplar Avenue	12/17/2014	\$8,700,000	102,040	\$85.26	Class B	Mount Kellett Capital Management LP
400 Union Avenue	12/11/2014	\$440,000	16,525	\$26.63	Class B	Kumar Transportation
5575 Poplar Avenue, Executive Square	11/13/2014	\$3,850,000	28,322	\$135.94	Class C	Loeb Properties, Inc.
855 Ridge Lake Blvd.	11/3/2014	\$6,300,000	81,087	\$77.69	Class B	Faropoint Investments
1055 Houston Levee Road	10/31/2014	\$1,000,000	12,000	\$83.33	Class B	Jason Rudd
930 S. White Station	10/31/2014	\$1,378,000	19,313	\$71.35	Class B	Keller Williams Realty Inc.
6605 Stage Road	10/30/2014	\$1,055,000	11,300	\$93.36	Class B	Zhen C. Xue
3180 Players Lane, Hilton Hotels Data Center	10/22/2014	\$3,700,000	35,000	\$105.71	Class B	F9 Memphis LLC
2124 Democrat Road	10/16/2014	\$473,000	14,000	\$33.79	Class C	Case Management
483 S. Highland Street	10/9/2014	\$2,597,239	22,812	\$113.85	Class B	Cox Enterprises, Inc.
4090-4100 Willow Lake, Willow Lake Business Park	10/9/2014	\$1,001,449	80,013	\$12.52	Class B	Olymbec Corporate Group
3145 Hickory Hill Road, Hickory Place Office Park	10/8/2014	\$200,000	17,064	\$11.72	Class C	Performance Properties, LLC
3155 Hickory Hill Road, Hickory Place Office Park	10/8/2014	\$180,000	17,320	\$10.39	Class C	Performance Properties, LLC

LEASING ACTIVITY - SELECT TRANSACTIONS

PROPERTY ADDRESS	SUBMARKET	SIZE (SF)	TENANT
1715 Aaron Brenner, Renaissance Center	East	11,066	Waller Law Firm
1255 Lynnfield, Lynnfield Office Bldg. A	East	7,569	Maxim
5400 Poplar Avenue, Fountain Place	East	6,679	TN Homebuilders Association
7130 Goodlett Farms Parkway, Goodlett Farms Business Campus	Northeast	6,601	Amerigroup TN, Inc.
100 Peabody Place, The Tower at Peabody Place	Downtown	6,075	State of TN Judges
1000 Ridgeway Loop, Marsh Center	East	5,184	Undisclosed
5350 Poplar Avenue	East	5,101	MGC Law Firm
8700 W. Trail Drive, Tournament Trails	385 Corridor	4,816	HyperMed Imaging
855 Ridge Lake Boulevard	East	4,491	RE Transportation
6075 Poplar Avenue, Crescent Center	East	3,894	Wells Fargo
8001 Centerview Parkway, Parkway Building	Northeast	3,836	Midsouth Transplant
530 Oak Court, Oak Court Building	East	3,488	Community Health Alliance
8275 Tournament Drive, Southwind Office Center	385 Corridor	2,997	Franklin Baker, Inc.
5118-5130 Park Avenue, Eastgate	East	2,253	Randstad
119 S. Main Street, Pembroke Square	Downtown	2,064	Johnson Controls
6060 Poplar Avenue, Triad Center II	East	2,042	Waddell & Reed

Leasing activity for Q4-14 reflects executed and/or commenced transactions. Leases include new deals in the market and renewals *Renewal

MEMPHIS Q4 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	2,026,788	417,238	20.6%	26,275	1.3%	443,513	21.9%	22.5%	11,754	105,216				\$17.32
Suburban	64	8,309,170	625,286	7.5%	13,934	0.2%	639,220	7.7%	8.1%	35,546	59,385			248,464	\$20.55
Total	73	10,335,958	1,042,524	10.1%	40,209	0.4%	1,082,733	10.5%	10.9%	47,300	164,601				\$19.39
CLASS B															
CBD	41	2,067,611	222,787	10.8%	0	0.0%	222,787	10.8%	10.0%	-15,701	24,790				\$14.52
Suburban	317	15,409,188	2,563,760	16.6%	66,407	0.4%	2,630,167	17.1%	17.5%	59,642	181,423				\$13.00
Total	358	17,476,799	2,786,547	15.9%	66,407	0.4%	2,852,954	16.3%	16.6%	43,941	206,213				\$16.10
CLASS C															
CBD	36	1,367,684	172,129	12.6%	0	0.0%	172,129	12.6%	13.0%	5,449	38,932				\$8.69
Suburban	167	3,559,644	636,910	17.9%	0	0.0%	636,910	17.9%	18.8%	32,972	29,974				\$11.42
Total	203	4,927,328	809,039	16.4%	0	0.0%	809,039	16.4%	17.2%	38,421	68,906				\$11.03
TOTAL															
CBD (Downtown)	86	5,462,083	812,154	14.9%	26,275	0.5%	838,429	15.3%	15.4%	1,502	168,938				\$15.28
Suburban	548	27,278,002	3,825,956	14.0%	80,341	3.0%	3,906,297	14.3%	14.8%	128,160	270,782			248,464	\$16.25
Total	634	32,740,085	4,638,110	14.2%	106,616	0.3%	4,744,726	14.5%	14.9%	129,662	439,720			248,464	\$16.10
SUBMARKET															
385 Corridor	97	6,147,979	610,230	9.9%	3,340	0.1%	613,570	10.0%	9.9%	-6,767	-72,003				\$18.34
Airport	96	4,558,226	1,320,564	29.0%	0	0.0%	1,320,564	29.0%	29.1%	7,900	10,136				\$12.75
Crittenden County	8	198,722	2,672	1.3%	0	0.0%	2,672	1.3%	1.3%	0	3,000				\$14.00
DeSoto County	27	445,313	64,135	14.4%	10,858	2.4%	74,993	16.8%	17.3%	2,000	-1,817				\$14.54
Downtown	86	5,462,083	812,154	14.9%	26,275	0.5%	838,429	15.3%	15.4%	1,502	168,938				\$15.28
East	158	9,999,107	1,166,624	11.7%	50,892	5.0%	1,217,516	12.2%	13.2%	103,704	292,346			248,464	\$19.03
Midtown	60	1,865,560	238,410	12.8%	0	0.0%	238,410	12.8%	12.8%	-133	25,554				\$13.63
North	37	1,142,526	166,446	14.6%	0	0.0%	166,446	14.6%	15.7%	13,173	-5,676				\$13.73
Northeast	65	2,920,569	256,875	8.8%	15,251	0.5%	272,126	9.3%	9.6%	8,283	19,242				\$17.04
TOTAL	634	32,740,085	4,638,110	14.2%	106,616	0.3%	4,744,726	14.5%	14.9%	129,662	439,720		0	248,464	\$16.10

	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 4Q	634	32,740,085	4,638,110	14.2%	106,616	0.3%	4,744,726	14.5%	14.9%	129,662	439,420			248,464	\$16.10
2014 3Q	634	32,740,085	4,785,714	14.6%	88,674	0.3%	4,874,388	14.9%	14.7%	-64,834	309,758			248,464	\$16.28
2014 2Q	634	32,740,085	4,741,517	14.5%	68,037	0.2%	4,809,554	14.7%	15.3%	204,235	374,592			248,464	\$16.14
2014 1Q	634	32,740,085	4,957,405	15.1%	56,684	0.2%	5,014,089	15.3%	15.8%	170,357	170,357			248,464	\$16.14
2013 4Q	632	32,716,615	5,111,658	15.6%	49,318	0.2%	5,160,976	15.8%	15.7%	-10,890	-59,807			0	\$16.05
2013 3Q	632	32,716,615	5,100,028	15.6%	50,058	0.2%	5,150,086	15.7%	15.6%	-10,547	-48,917	40000	179292	0	\$16.16
2013 2Q	631	32,676,615	5,050,479	15.5%	49,060	0.2%	5,099,539	15.6%	15.3%	22,700	-46,016	139392	139392	0	\$16.01
2013 1Q	629	32,537,223	4,861,976	14.9%	120,871	0.4%	4,982,847	15.3%	15.1%	-61,070	-61,070	0	0	179,392	\$15.33

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.

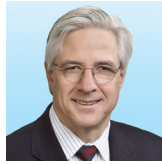
Vacant SF: Space that is not currently occupied either physically or economically.

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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Q4 2014 SUBMARKET RENTAL AND VACANCY RATES

