

Market Research

MARKET OVERVIEW | MID YEAR | 2008

Memphis Industrial Market Overview

The numbers

The total Memphis warehouse market reached almost 158 million SF at the end of Q2 2008, with the addition of just over 836,000 SF that included the 800,000+ SF Building F in the DeSoto County submarket's Crossroads Distribution Center.

The vacancy rate declined to 14.7%, its lowest rate since Q2 2007. Part of the 1.1 million SF absorbed in the first half of the year occurred as a result of temporary space needs driven by tornado damage and cotton contract deliveries. Cooper Industries, whose 450,000 SF building was heavily damaged in the storm, moved into 400,000 SF of space in the Southeast submarket. The majority of year-to-date leases have been in the DeSoto County and Southeast Memphis submarkets. One notable exception is DSC Logistics' 450,000 SF in Crittenden County. The lion's share of space has been leased to third party logistics firms including New Breed, DSC, and Mallory Alexander International Logistics, in response to an apparent trend toward outsourcing product storage and distribution.

Asking rental rates in the warehouse market continue to increase moderately, moving from \$2.64 at year-end 2007 to \$2.75 at mid-year 2008.

The total Memphis Flex market included approximately 7.8 million SF at mid-year 2008. With positive absorption of 161,584 SF, this market posted a 23.3% vacancy rate, dropping back from 25.6% at year-end 2007 and closer to previous levels of 21.5% and 23.2% from year-end 2005 and year-end 2006 respectively. Asking rental rates were \$7.52 as at the end of Q2 2008, falling from \$7.88 at year-end 2007.

Behind the numbers.

Two unusual occurrences in the first half of 2008 caused an increase in demand for short-term warehouse space in the Metro Memphis market, contributing to a decrease in the overall industrial vacancy rate to 15.1%, the lowest since Q2 '07.

In early February, devastating tornadoes that tore through DeSoto County, Mississippi and Southeast Memphis damaged or destroyed 17 industrial buildings, impacting an estimated 4 to 6 million square feet of space and sending companies scrambling for replacement space.

Colliers Management Services' properties under management sustained some of the largest hits with damage to nearly 2 million square feet. "We expect to have all of our client's damaged buildings repaired no later than the end of August," says Brad Kornegay. "It has been a long process with tight time frames but everyone pulled together and made it work. The resiliency of the tenants who were affected and their commitment to keeping the trucks rolling was amazing. I still get chills when I tell the story of how the first thing our maintenance technician, Tim Floyd, did after the storm when he noticed the tattered and torn American Flags at Willow Lake was to replace them immediately. To me, that simply says you can hit us, but you can't knock us out."

In March, huge price increases in the cotton futures market caused many in the industry to call for investigation of the commodity futures trading regulations and forced contract buyers to find qualified warehouse space for the delivery of cotton. Over 1.2 million square feet of industrial space were absorbed in
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WHY MEMPHIS?.....

- Memphis is "America's Distribution Center"
- Federal Express operates its worldwide headquarters and WorldHub in Memphis. UPS has its 3rd largest facility in the U.S. in Memphis and DHL operates a regional facility.
- Memphis International Airport has been cited as the world's busiest cargo airport since 1991, handling more than 3.8 million metric tons in 2007..
- Memphis has the fourth largest inland port in the nation and the second largest inland port on the lower Mississippi, handling more than 18 million tons of cargo each year.
- Seven U.S. Highways converge in Memphis: Highways 51, 61, 64, 70, 72, 78, 79
- Memphis is one of only three cities served by five or more Class I rail systems.
- Forty five states can be reached within a two-day service

Cont'd....the 2nd quarter of 2008 as a result of the ten-day price spike that forced actual delivery of cotton. Shane Stephens, V.P. of Warehousing for Staplcotn, the largest producer-owned cotton cooperative in the U.S. explains, "Memphis is one of only four markets in the country approved by the Cotton Exchange to take delivery on futures contracts."

The last half of 2008 is likely to more closely mirror the declining national trends. The recent announcement that Hewlett-Packard will be reducing warehouse space by at least 2.2 million square feet in the Southeast Memphis submarket will likely contribute to increasing vacancy rates as HP's consolidation takes place later this year.

In other market news, Nike, Inc. continues construction of its new 1.1 million square foot distribution center in North Memphis. This new development may prompt additional industrial tenants to move into the area and focus some attention back on this area of the market.

Beyond the numbers

Though Memphis is not immune to the economic issues plaguing the entire country, its higher-than average vacancy rate in the industrial market is due in part to continued development. Almost 1.7 million square feet are under development, predominately in DeSoto County, Mississippi, where the business environment is friendly and tax incentives healthy. According to Dan Wilkinson, chairman of Colliers Wilkinson Snowden, "you really have to get into cities the size of Dallas and Atlanta to get a larger conglomeration of really potent national developers who are all actively building product." The presence of national developers like Industrial Developments International, Panattoni, Hillwood and ProLogis that can easily put up 1 million-square-foot buildings, has a major impact on a smaller market like Memphis.

UPDATE

EXAMPLES OF MAJOR RECENT TRANSACTIONS IN THE MARKET

LEASING ACTIVITY

*Excludes Lease Renewals

PROPERTY	SUBMARKET	TENANT	LANDLORD	SIZE/SQ. FT.	TYPE
ProLogis Park DeSoto	DeSoto County	New Breed Logistics	ProLogis	469,232	Bulk, Class A
Kuhn Road Distribution Center	Crittenden County	DSC Logistics	TCB	450,000	Bulk, Class A
Centerpoint Distribution Center	Southeast	Cooper Lighting	ProLogis	400,000	Bulk, Class A
Hurt Road Industrial	DeSoto County	Mallory Alexander Int'l	First Industrial	397,300	Bulk, Class B
Southaven Distribution Center	DeSoto County	Proalliance	Panattoni	390,000	Bulk, Class A
Chickasaw Distribution Center	Southeast	Creative Co-op	JP Morgan	380,000	Bulk, Class A
Southpoint	Southeast	New Breed	TIAA-CREF	353,950	Bulk, Class A
Airport Industrial Park	Southeast	Int'l Cotton Depot	Trammell Crow	336,000	Bulk, Class C
Airways Distribution Center	DeSoto County	ASI Computer Tech.	Hillwood	231,500	Bulk, Class A
EastPark Distribution Center	Southeast	Centrepot	Panattoni	216,000	Bulk, Class A
DeSoto Trade Center	DeSoto County	FedEx Smartpost	Hillwood	150,526	Bulk, Class A
EastPark Distribution Center	Southeast	Quebecor	Dividend Capital	149,200	Bulk, Class A

SALES ACTIVITY

*Contact CWS for a complete list of sales

PROPERTY ADDRESS	SALES DATE	SALE PRICE	SIZE SQ. FT.	SALES PRICE/SQ. FT.	TYPE
Stateline Business Park	01/04/08	\$55,000,000	1,437,822	\$38.25	Bulk, Class A
4250 E. Shelby Drive	01/30/08	\$7,500,000	588,764	\$12.74	Bulk, Class B
4100 Quest Way	02/15/08	\$6,292,500	231,000	\$27.24	Bulk, Class A
3755 Knight Arnold	05/23/08	\$5,250,000	212,000	\$24.76	Bulk, Class B
2665/2725 Riverport	04/28/08	\$4,200,000	162,500	\$25.85	Distribution, Class B
3363 MIAC Cove	04/08/08	\$4,450,000	131,225	\$33.91	Distribution, Class A
3347 Pearson	06/13/08	\$2,500,000	98,925	\$25.27	Distribution, Class B
4444 Delp Street	01/09/08	\$2,102,625	94,500	\$22.25	Distribution, Class B
3731 Distriplex Drive	05/08/08	\$3,015,000	88,616	\$34.02	Distribution, Class B

UPDATE -MID-YEAR 2008 MARKET STATS

MARKET COMPARISONS

INDUSTRIAL MARKET	NUMBER BUILDINGS	TOTAL SF	SF AVAILABLE	V-RATE CURRENT %	SUBLET VAC. %	V-RATE PRIOR	NET ABSORP YTD SF	UNDER CONSTR.	NEW SUPPLY YTD	AVG RENT PSF (NNN)
NORTHEAST										
FLEX	119	2,774,225	496,919	17.9%	1.7%	-	96,603	-	12,000	\$8.69
WAREHOUSE	127	6,706,026	501,792	07.5%	-	-	117,273	-	-	\$4.87
TOTAL	246	9,480,251	998,711	10.5%	0.5%	11.3%	213,876	-	12,000	\$6.58
NORTHWEST										
FLEX	18	357,239	88,974	24.9%	-	-	43,000	-	-	\$4.50
WAREHOUSE	167	12,468,741	3,652,606	29.3%	-	-	(65,377)	-	-	\$1.66
TOTAL	185	12,825,980	3,741,580	29.2%	-	29.2%	(22,377)	-	-	\$1.68
SOUTHEAST										
FLEX	92	2,783,878	717,260	25.8%	8.2%	-	(8,664)	100,000	-	\$6.29
WAREHOUSE	527	81,588,274	10,061,512	12.3%	2.7%	-	566,191	210,000	-	\$2.75
TOTAL	619	84,372,152	10,778,772	12.8%	2.9%	12.7%	557,527	310,000	-	\$2.81
SOUTHWEST										
FLEX	66	1,563,265	401,292	25.7%	0.4%	-	33,545	-	-	\$6.68
WAREHOUSE	469	28,825,053	3,310,307	11.5%	-	-	(205,330)	400,000	36,000	\$2.19
TOTAL	535	30,388,318	3,711,599	12.2%	0.02%	12.0%	(171,785)	400,000	36,000	\$2.51
DESOTO COUNTY										
FLEX	20	322,154	111,800	34.7%	-	-	(2,900)	-	2,300	\$7.55
WAREHOUSE	150	26,448,347	5,509,769	20.8%	-	-	262,139	1,052,743	800,308	\$3.05
TOTAL	170	26,770,501	5,621,569	21.0%	-	23.1%	259,239	1,052,743	802,608	\$3.18
CRITTENDEN COUNTY										
FLEX	-	-	-	-	-	-	-	-	-	-
WAREHOUSE	22	1,709,310	199,933	11.7%	-	-	472,689	-	-	\$3.41
TOTAL	22	1,709,310	199,933	11.7%	-	39.4%	472,689	-	-	\$3.41

OFFICE MARKET	NUMBER BUILDINGS	TOTAL SF	SF AVAILABLE	V-RATE CURRENT %	SUBLET VAC. %	V-RATE PRIOR	NET ABSORP YTD SF	UNDER CONSTR.	NEW SUPPLY YTD	FULL SVC. RENT RATE
NORTH										
CLASS A	1	74,586	-	-	-	-	-	-	-	-
CLASS B	70	761,007	79,696	10.5%	-	-	30,102	-	3,600	\$16.51
CLASS C	48	583,737	65,074	11.1%	0.2%	-	57,766	-	-	\$11.85
TOTAL	119	1,419,330	144,770	10.2%	0.08%	9.8%	87,868	-	3,600	\$14.43
NORTHEAST										
CLASS A	5	575,298	19,439	3.4%	-	-	(724)	-	-	\$20.50
CLASS B	99	2,316,238	549,547	23.7%	0.9%	-	(231,466)	-	-	\$18.66
CLASS C	57	423,023	21,179	5.0%	-	-	(1,510)	-	-	\$14.89
TOTAL	161	3,314,559	590,165	17.8%	0.7%	11.7%	(233,700)	-	-	\$18.49
EAST										
CLASS A	34	3,816,825	315,051	8.3%	4.3%	-	57,088	353,802	65,000	\$21.88
CLASS B	143	6,086,900	858,733	14.1%	0.9%	-	(47,890)	-	-	\$18.53
CLASS C	86	1,170,772	216,162	18.5%	-	-	(18,560)	-	-	\$16.86
TOTAL	263	11,074,497	1,389,946	12.6%	2.0%	13.0%	(9,362)	353,802	65,000	\$18.98
385 CORRIDOR										
CLASS A	28	3,459,382	242,656	7.0%	0.2%	-	182,050	66,166	172,000	\$21.94
CLASS B	129	2,328,735	220,213	9.5%	0.5%	-	(20,890)	14,000	21,400	\$20.81
CLASS C	47	494,606	52,111	10.5%	-	-	(14,046)	-	-	\$12.76
TOTAL	204	6,282,723	514,980	8.2%	0.3%	8.1%	147,114	80,166	193,400	\$20.52
AIRPORT										
CLASS A	-	-	-	-	-	-	-	-	-	-
CLASS B	50	3,293,456	1,042,172	31.6%	-	-	(248,241)	-	-	\$15.04
CLASS C	74	1,231,854	335,072	27.2%	0.2%	-	(91,300)	-	-	\$11.88
TOTAL	124	4,525,310	1,377,244	30.4%	0.06%	22.3%	(339,541)	-	-	\$14.41
MIDTOWN										
CLASS A	2	222,048	12,554	5.7%	-	-	588	-	-	\$20.00
CLASS B	47	1,296,534	272,951	21.1%	-	-	47,676	-	-	\$14.27
CLASS C	141	1,213,564	77,643	6.4%	-	-	(3,348)	-	-	\$14.19
TOTAL	190	2,732,146	363,148	13.3%	-	14.4%	44,916	-	-	\$14.48
DOWNTOWN										
CLASS A	8	1,965,957	420,359	21.4%	3.5%	-	39,215	-	-	\$16.87
CLASS B	83	3,269,838	176,482	5.4%	-	-	(36,538)	-	-	\$15.36
CLASS C	142	4,714,953	530,708	11.3%	-	-	146,952	-	-	\$12.68
TOTAL	233	9,950,748	1,127,549	11.3%	1.4%	16.8%	149,629	-	-	\$15.29

Source: CoStar Property

Memphis Office Market Overview

The numbers.

Fueled by negative absorption of over 500,000 square feet of Class B product, vacancy rates in the overall Memphis office market rose to 14.1%.

Class A space, conversely, recorded its lowest vacancy rate - 10.1% - since before 2000. Positive absorption of over 280,000 SF was buoyed by the delivery of a 172,000 square foot FedEx building located on the FedEx Express World Headquarters campus at Hacks Cross in the 385 Corridor submarket. Class A vacancy rates in the high-demand 385 Corridor and East submarkets remain well below 10%. Deliveries of new space and development are almost exclusively limited to these two submarkets.

Driven by an increase in Class A rates, the average quoted asking rental rate for available office space, all classes, was \$16.92, continuing the steady but moderate increase that has been occurring since the middle of 2007.

Beyond the numbers.

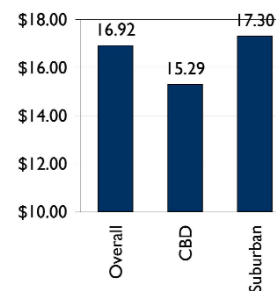
According to Laura Taylor, "Supply and demand in the Memphis market are fairly well balanced, so occupancy rates have been in the mid-to-high 80% overall, with the largest submarket - East Memphis - hovering near 90%."

Though total employment growth rates in the Memphis market lag the U.S. average, Memphis' recent growth rate in office employment jobs has been slightly above average. With 5-year office employment growth significantly outpacing office inventory growth rates, relatively low development activity, and low vacancy rates in Class A space, rents are expected to continue to increase.

"Memphis is a slow-growth market," says Laura. "We don't suffer as much as other competitive cities for overdevelopment and excess demand. Memphis is and always has been a stable economy for commercial real estate. Developers are attuned to the city's growth patterns, the existing supply of product and demand for new space. Memphis provides stable investment opportunities, with sound returns."

There is new development underway and on the horizon, predominately in the East submarket. Boyle Investment has a pair of 150,000 SF buildings under construction on the last available site in Ridgeway Center. And in Germantown, Poag & McEwan announced plans in late 2007 for a 1.2 million SF mixed-use development. The 37-acre project, awaiting approval, includes as much as 200,000 square feet of LEED-certified office space, plus retail, residential and hotel components.

Average Rents



Source: Laura Taylor
Office Specialist

Office Space

Mid-Year Statistics by Submarket

Submarket	Inventory (SF)	Net Absorption YTD (SF)	Vacancy Rate (%)	YTD Deliveries
Downtown	9,950,748	149,629	11.30	0
Midtown	2,732,146	44,916	13.30	0
North	1,419,330	87,868	10.20	3,600
Northeast	3,314,559	(233,700)	17.80	0
East	11,074,497	(9,362)	12.60	65,000
385 Corridor	6,282,723	147,114	08.20	193,400
Airport	4,525,310	(339,541)	30.40	0
DeSoto County	1,447,084	(14,825)	17.60	1,400
Total	40,746,397	(167,901)	14.1	263,400

293 OFFICES IN 61 COUNTRIES
ON 6 CONTINENTS

USA 99
Canada 19
Latin America 18
Asia Pacific 62
EMEA 95

\$2.0 billion in revenue
868 million square feet under
management
11,000 Professionals

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