

MarketView Memphis Industrial

Second Quarter 2011

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Quick Stats

	Current	Change from last	
		Yr.	Qtr.
Vacancy	17.4%	↑	↓
Lease Rates	\$2.52	↓	↑
Net Absorption*	465,059	↓	↓
Construction	0	→	→

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

Net absorption was 465,059 square feet in the first half of 2011

- Average asking lease rates rose by \$0.03 per square foot, which is the largest quarterly increase in three years
- After rising to 18.1% in the first quarter, vacancy dropped to 17.4% during the second quarter, due to positive absorption
- Despite no construction deliveries in the 5 primary submarkets, a 515,000 square foot build-to-suit for Asics America was completed in Marshall County, MS during the second quarter

Midway through 2011, net absorption in the Memphis Industrial Market stands at negative 66,235 square feet. Leasing activity, however, remains strong, as 465,059 square feet were absorbed in the second quarter with another 1.05 million square feet of signed leases set to take effect in the third quarter. There are also three more requirements between 500,000 and 625,000 square feet that are being actively negotiated. This is the type of leasing activity that was anticipated based on 2010 activity, when over 2 million square feet were absorbed; although, after 531,294 square feet of negative absorption in the first quarter of 2011, it will be necessary for leasing activity to remain very strong in the second half of the year in order to match 2010 absorption figures.

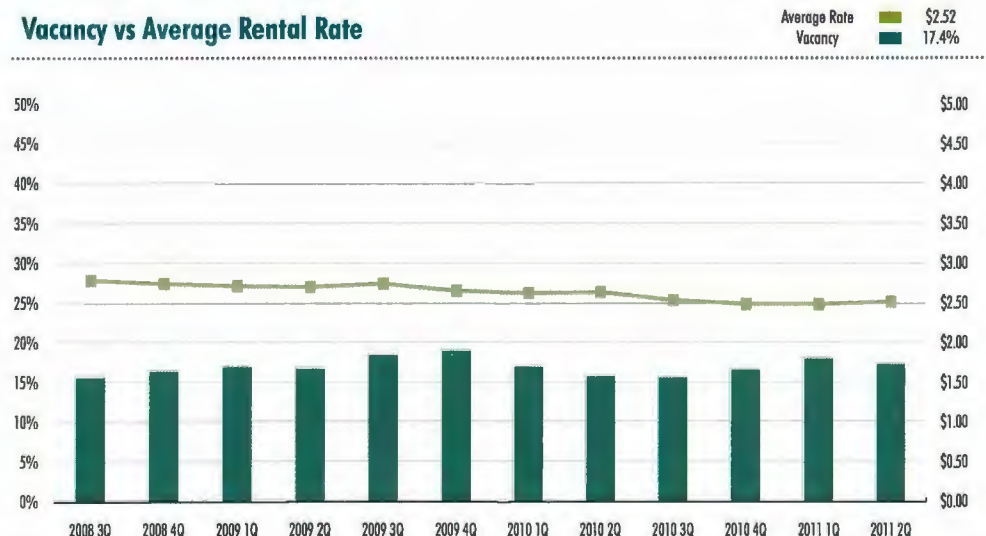
In the second quarter, leasing activity was most prevalent in the Southeast Memphis submarket. Newegg.com occupied 414,960 square feet after signing a lease in the first quarter. Two third party logistics companies, CEVA Logistics (338,000 square feet) and Technicolor (212,000 square feet), expanded to accommodate seasonal overflow. Additionally, Ford Motor Company renewed 769,436 square feet, and CEVA Logistics renewed 648,750 square feet in the Southeast submarket during the second quarter. The other bright spot in the market

during the second quarter was the 75,959 square feet of absorption in the Northeast submarket, which is the primary service center submarket.

Strong leasing activity during the second quarter also had a positive impact on vacancy and rental rates. In the second quarter, vacancy dropped to 17.4% from 18.1%, and average asking lease rates rose to \$2.52 per square foot. The three cent increase in average asking rates is the largest quarterly increase since the second quarter of 2008. If leasing activity remains strong throughout the remainder of 2011, it is possible that rental rates may begin a slow but steady upward trend, after constantly decreasing from the third quarter of 2008 through the end of 2010.

The Memphis Industrial Market is in good position to have another successful year in 2011. While there has been no new speculative construction within the five primary submarkets since the fourth quarter of 2008, Asics America moved into its state-of-the-art 515,000 square foot build-to-suit in Marshall County, MS during the second quarter. Marshall County, MS is directly east of Desoto County and is expected to emerge due to the construction of I-269 and its proximity to Norfolk Southern's new intermodal yard in Fayette County, TN, which is just north of Marshall County.

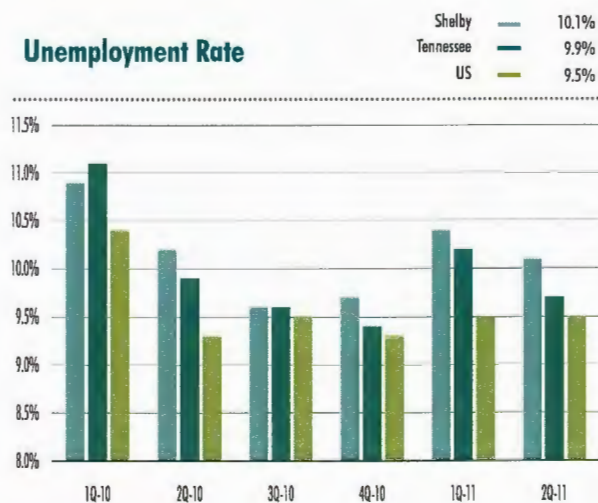
Vacancy vs Average Rental Rate



Market Statistics

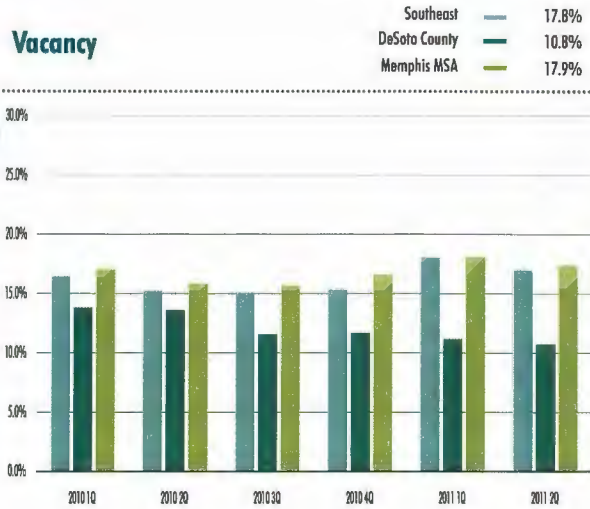
Market	Rentable Area	Vacancy Rate %	Quarter Absorption SF	Construction Deliveries	Average Asking Lease Rate - \$ SF/YR	Availability Rate %
DeSoto County	19,688,388	10.8%	-139,668	—	\$2.87	10.8%
Bulk Warehouse	18,663,672	10.9%	-114,668	—	\$2.87	10.9%
Standard Distribution	896,531	5.4%	-25,000	—	—	5.4%
Service Center	128,185	24.6%	0	—	—	24.6%
Northeast	4,240,971	15.6%	75,959	—	\$5.58	16.4%
Bulk Warehouse	262,700	0.0%	16,800	—	—	0.0%
Standard Distribution	2,158,232	16.3%	35,271	—	\$4.55	16.3%
Service Center	1,820,039	17.0%	23,888	—	\$7.13	18.9%
Northwest	4,819,336	34.0%	-173,145	—	\$1.74	34.0%
Bulk Warehouse	1,459,950	32.2%	-174,990	—	—	32.2%
Standard Distribution	3,235,706	34.9%	1,845	—	\$1.74	34.9%
Service Center	123,680	29.1%	0	—	—	29.1%
Southeast	63,343,895	17.0%	702,402	—	\$2.42	17.8%
Bulk Warehouse	44,000,551	15.8%	713,361	—	\$2.37	17.0%
Standard Distribution	17,598,202	19.1%	24,984	—	\$2.34	19.1%
Service Center	1,745,142	27.0%	-35,943	—	\$5.34	27.0%
Southwest	15,292,977	22.7%	-489	—	\$2.03	22.8%
Bulk Warehouse	5,549,337	18.4%	3,742	—	\$1.71	18.4%
Standard Distribution	8,550,597	24.6%	17,375	—	\$2.21	24.6%
Service Center	1,193,043	29.4%	-21,606	—	—	29.8%
Memphis MSA	107,385,567	17.4%	465,059	—	\$2.52	17.9%
Bulk Warehouse	69,936,210	15.0%	444,245	—	\$2.33	15.7%
Standard Distribution	32,439,268	21.6%	54,475	—	\$2.45	21.6%
Service Center	5,010,089	23.9%	-33,661	—	\$6.35	24.7%

Unemployment Rate



The Memphis MSA unemployment rate shifted downward in the second quarter and now sits at 10.1%. The rate for Tennessee decreased from 10.2% to 9.7% as the US rate held steady at 9.5%. The Memphis MSA unemployment rate is down 0.3% from last quarter, showing signs of some recovery from first quarter's significant increase of 0.7%. The Tennessee rate decreased by 0.5% from last quarter, while the US rate remained the same.

Vacancy



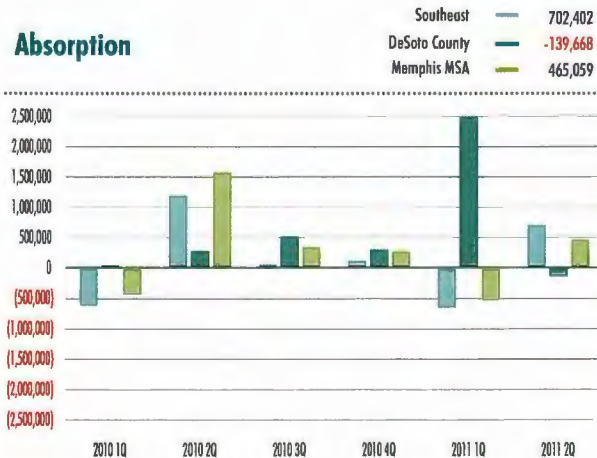
Vacancy dropped to 17.4% in the second quarter, due to positive absorption in the market. As expected after the first quarter, strong market activity led to several completed leases, especially in the Southeast submarket, where vacancy dropped from 18.1% in the first quarter to 17.0% currently. Despite negative absorption in Desoto County, vacancy actually dropped slightly to 10.8%, due to user purchases that eliminated vacant buildings from the competitive set. This is the lowest recorded vacancy figure for Desoto County, and it is nearly 40% lower than the market vacancy rate. As such, any new construction in the market on a speculative basis will occur first in Desoto County where vacancy is lowest and rental rates are highest.

Rental Rates



Average asking lease rates have been on a steady decline since the third quarter of 2008. However, rental rates held firm in the first quarter of 2011 and then rose by \$0.03 per square foot in the second quarter. Based on the current leasing activity in the market, rental rates should increase slowly in the second half of 2011 primarily due to decreasing availability in the Class A bulk warehouse sector. Both the Southeast the Desoto submarkets should benefit from this since they contain the majority of the Class A warehouses in the market. It will take more time coupled with strong absorption for rates to rise in Class B and C properties, but the outlook is promising as long as current leasing activity in the market is sustained.

Absorption



After 465,059 square feet of net absorption in the second quarter, the outlook for 2011 is promising, based on current leasing activity. Over 1 million square feet of leasing has been completed and should take effect during the third quarter. Renewal activity has also been high, preventing large blocks of space from coming back on the market. Further, Asics America's 515,000 square foot lease in Marshall County, MS did not factor into absorption numbers, because it was outside the five primary submarkets. Lastly, it is encouraging that the market posted almost half a million square feet of net absorption in the second quarter despite negative absorption in Desoto County, where quarterly absorption hasn't been negative since the fourth quarter of 2009.

MarketView Memphis Industrial

At a Glance: Debt & Equity Finance

Life Insurance Companies were the most active industrial lenders in 2010. Most CMBS lenders are limited to financing large portfolios with multiple tenants and long term leases, however some larger CMBS deals have closed in the last three months. Life Companies will continue to have a significant appetite (albeit conservative) for industrial properties into 2011. Below is a recent Life Company loan closing, typical of the industrial market at this time:

Loan:	\$11,250,000	Rate:	5.50%
LTV:	65%	Amortization:	25 Years
Term:	10 Years	DSC Ratio:	Minimum 1.30

Top Lease Transactions

Leases referenced will impact market statistics for the quarter in which occupancy commences.

Size (Sq. Ft.)	Tenant	Address
769,436	Ford Motor Company*	Tuggle Distribution Ctr.
648,750	CEVA Logistics*	Southpoint XIX
338,000	CEVA Logistics	Eastpark II
212,000	Technicolor	5000 E. Raines Rd.

*Renewal

Submarket Map



Average Asking Lease Rate

Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

Net Leases

Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

Market Coverage

Includes all competitive office buildings 10,000 square feet and greater in size.

Net Absorption

The change in occupied square feet from one period to the next.

Net Rentable Area

The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies, and stairwell areas.

Occupied Area (Square Feet)

Building area not considered vacant.

Under Construction

Buildings which have begun construction as evidenced by site excavation or foundation work.

Available Area (Square Feet)

Available Building Area which is either physically vacant or occupied.

Availability Rate

Available Square Feet divided by the Net Rentable Area.

Vacant Area (Square Feet)

Existing Building Area which is physically vacant or immediately available.

Vacancy Rate

Vacant Building Feet divided by the Net Rentable Area.

Normalization

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

For more information regarding the MarketView, please contact:

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