

Economic Overview

According to the Bureau of Labor Statistics, the unemployment rate increased 0.5 percentage points from 5.5% in January 2016 to 6.0% in January 2017. The unemployment rate for Memphis, at 6.0%, was higher than the state of Tennessee, which reported 5.4%, while the US reported 4.8%. The Memphis metropolitan statistical area job creation totaled 5,000 over the past year. Office using jobs (information, professional and business services and financial activities) lost 3,100 jobs during the past year.

Market Overview

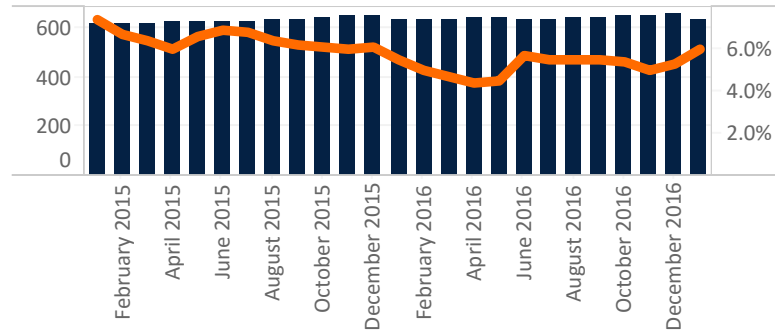
The Memphis office market recorded 17,584 square feet of negative absorption during 1Q 2017. Absorption was down from positive 57,796 sf recorded during 1Q 2016. The total vacancy rate has increased slightly from 20.1% in 1Q 2016 to 20.3% at the close of 1Q 2017. Direct vacancy rates increased 0.4 percentage points from 19.6% to 20.0% during the same time period. Weighted average rent growth ceased to improve during 1Q 2017. Weighted average asking rents in all classes decreased by 1.6% recording \$17.61 per square foot (psf) at the close of 1Q 2017 compared to 1Q 2016. Class A weighted average rents declined 0.2% year-over-year, recording \$20.66 psf at the close of 1Q 2017.

Market Highlights

Absorption during the first quarter of 2017 was off to a rough start. Several of the larger positive movements were compromised by negatives. Gestalt Community Schools leased 11,000 sf at Thousand Oaks, Camelot Care leased 7,836 sf at Nonconah, while Willis Towers Watson vacated 9,022 sf at Shadow Creek I. Primacy II had two vacancies totaling over 9,000 sf: Elite Solutions Group and The Seam, which relocated, taking 12,500 sf of sublease space at 3400 Players Club Pkwy. Absorption is expected to increase as construction on over 1 million sf of office product is underway. ServiceMaster is on target for a 1Q 2018 completion, as well as TraVure, which is 59% preleased. On the earlier end, 949 Shady Grove is on schedule for a 3Q 2017 completion, 20% preleased and Crosstown is about to cross the finish line close to 92%.

Memphis Employment

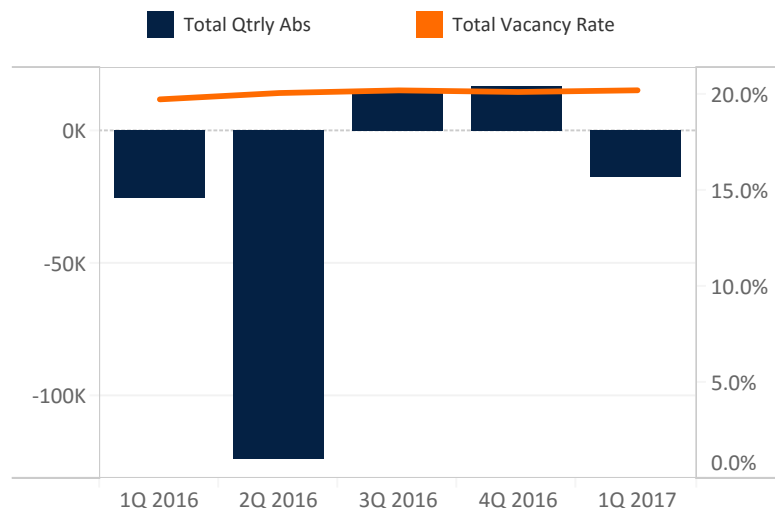
Source: BLS



Market Recap

Inventory (sf)	19,903,121
# of Bldgs	262
Qrtly Abs (sf)	-17,584
Total Avail Rate	25.1%
Total Vacancy Rate	20.3%
U/C Inventory (sf)	1,321,929
Delivered (sf)	0
Weighted Average Asking Rate (FSG)	\$17.61

Absorption and Vacancy Rate



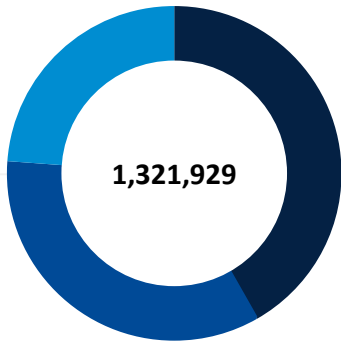
Overview by Class (Total)

Class	Inventory (sf)	Available (sf)	Vacant (sf)	Total	Qrtly Abs (sf)	YTD Net Abs (sf)
A	5,545,349	932,930	653,450	11.8%	17,144	17,144
B	12,183,757	3,775,214	3,112,171	25.5%	-27,596	-27,596
C	2,174,015	295,172	269,944	12.4%	-7,132	-7,132
Overall	19,903,121	5,003,316	4,035,565	20.3%	-17,584	-17,584

Overview by Market (Total)

Market Name	Class	Inventory (sf)	Available (sf)	Vacant (sf)	Total	Qrtly Abs (sf)	YTD Net Abs (sf)
385 Corridor	A	2,619,394	573,289	331,209	12.6%	5,745	5,745
	B	329,303	90,138	35,303	10.7%	0	0
	C	233,581	46,793	31,903	13.7%	0	0
Airport	B	2,012,209	1,313,957	1,248,920	62.1%	16,003	16,003
	C	382,700	19,942	19,942	5.2%	0	0
Downtown	A	730,663	245,666	239,911	32.8%	2,959	2,959
	B	1,846,964	443,180	377,253	20.4%	-551	-551
	C	245,628	60,984	60,984	24.8%	-860	-860
East	A	2,195,292	113,975	82,330	3.8%	8,440	8,440
	B	5,149,964	1,214,218	918,517	17.8%	-34,108	-34,108
	C	361,605	63,927	55,182	15.3%	-4,728	-4,728
Midtown	B	890,761	236,367	224,552	25.2%	2,054	2,054
	C	686,766	55,520	53,927	7.9%	-1,544	-1,544
North	B	243,947	85,409	64,387	26.4%	0	0
	C	225,831	26,106	26,106	11.6%	0	0
Northeast	B	1,710,609	391,945	243,239	14.2%	-10,994	-10,994
	C	37,904	21,900	21,900	57.8%	0	0
Overall		19,903,121	5,003,316	4,035,565	20.3%	-17,584	-17,584

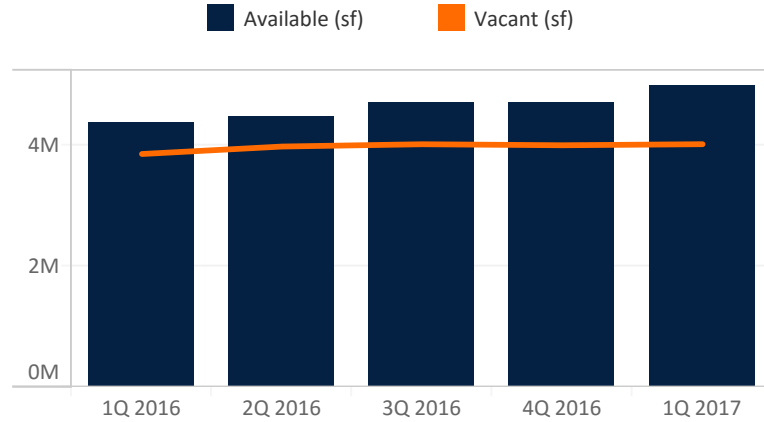
Construction by Market



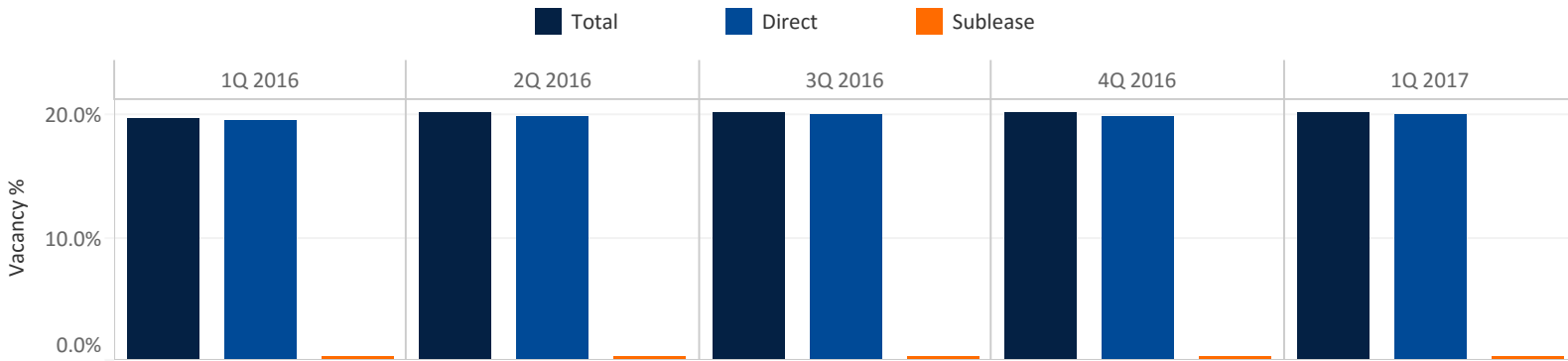
Rank

- Midtown
- East
- Downtown

Total Available and Vacant



Vacancy Rate



Overview by Class (Direct)

Class	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qtrly Abs (sf)	YTD Net Abs (sf)
A	5,545,349	913,954	653,450	11.8%	17,144	17,144
B	12,183,757	3,547,241	3,056,784	25.1%	-18,935	-18,935
C	2,174,015	288,857	268,878	12.4%	-6,272	-6,272
Overall	19,903,121	4,750,052	3,979,112	20.0%	-8,063	-8,063

Overview by Class (Sublease)

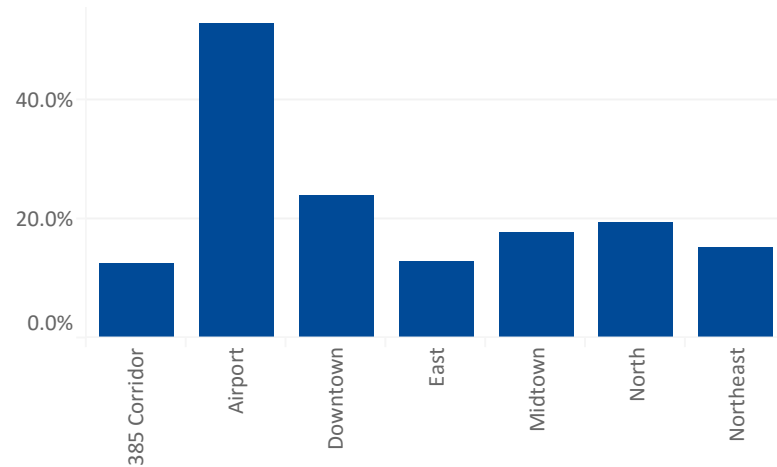
Class	Inventory (sf)	Avail (sf)	Vacant (sf)	Vacancy Rate	Qtrly Abs (sf)	YTD Net Abs (sf)
A	5,545,349	18,976	0	0.0%	0	0
B	12,183,757	227,973	55,387	0.5%	-8,661	-8,661
C	2,174,015	6,315	1,066	0.0%	-860	-860
Overall	19,903,121	253,264	56,453	0.3%	-9,521	-9,521

Direct Vacancy Rates

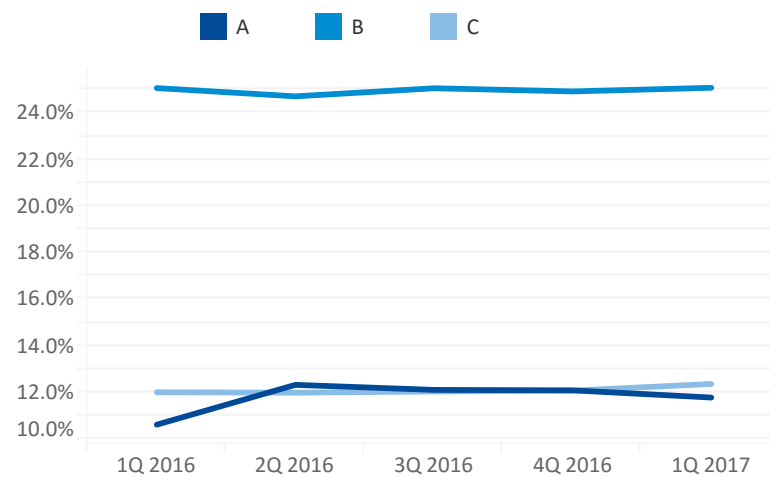
By Market and Class

Market Name	Class	Quarter Year				
		1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017
385 Corridor	A	13.4%	13.4%	13.0%	12.9%	12.6%
	B	12.5%	12.6%	12.0%	10.7%	10.7%
	C	13.7%	13.7%	13.7%	13.7%	13.7%
Airport	B	63.5%	61.8%	62.9%	62.9%	62.1%
	C	5.2%	5.2%	5.2%	5.2%	5.2%
Downtown	A	20.5%	33.2%	33.2%	33.2%	32.8%
	B	21.1%	20.8%	20.8%	20.4%	20.4%
	C	24.4%	24.4%	24.4%	24.4%	24.4%
East	A	4.1%	4.1%	4.0%	4.1%	3.8%
	B	14.5%	15.8%	16.3%	16.3%	16.8%
	C	13.9%	13.4%	13.7%	14.0%	15.3%
Midtown	B	25.9%	25.9%	25.6%	25.4%	25.2%
	C	7.5%	7.6%	7.6%	7.6%	7.9%
North	B	26.4%	26.4%	26.4%	26.4%	26.4%
	C	11.6%	11.6%	11.6%	11.6%	11.6%
Northeast	B	16.2%	13.7%	13.7%	13.6%	14.2%
	C	57.8%	57.8%	57.8%	57.8%	57.8%
Overall		19.6%	19.9%	20.0%	20.0%	20.0%

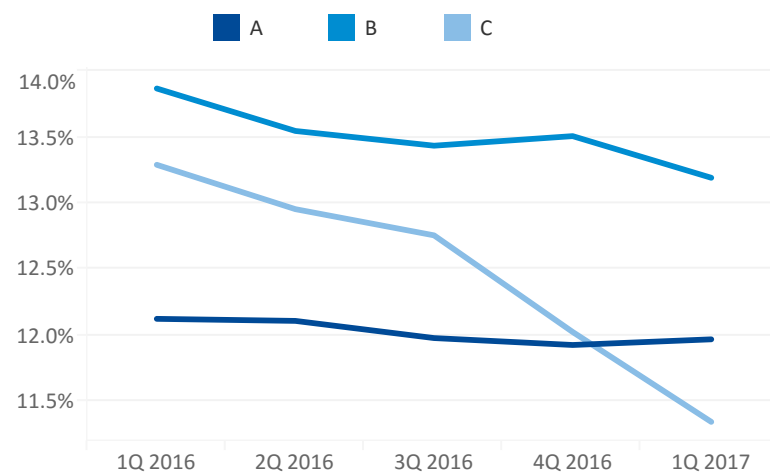
By Market



Memphis by Class



National by Class

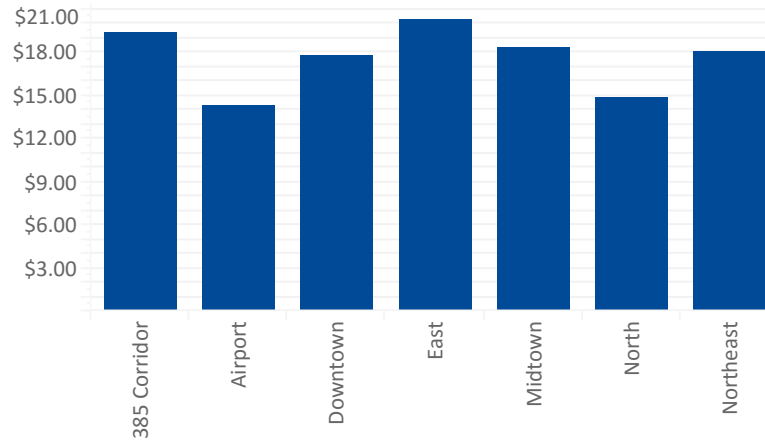


Direct Weighted Average Asking Rates (FSG)

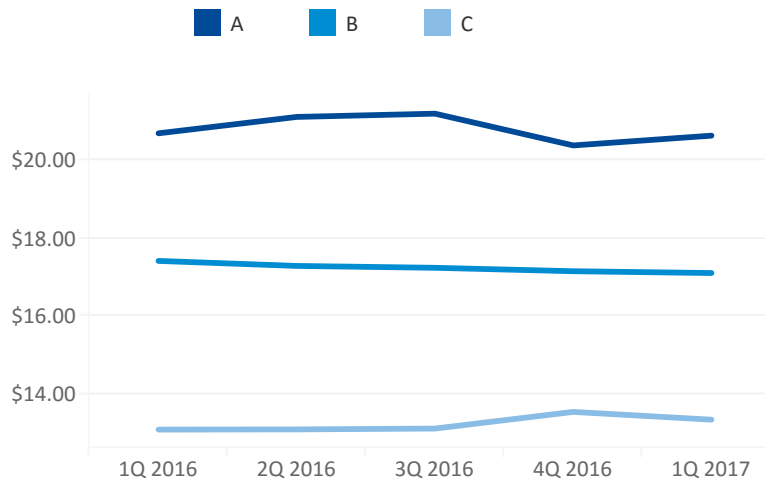
By Market and Class

Market Name	Class	Quarter Year				
		1Q 2016	2Q 2016	3Q 2016	4Q 2016	1Q 2017
385 Corridor	A	\$19.74	\$19.77	\$19.35	\$19.35	\$19.35
	B	\$19.89	\$19.90	\$20.05	\$20.00	\$20.00
	C	-	-	-	-	-
Airport	B	\$14.75	\$14.72	\$14.74	\$14.73	\$14.41
	C	\$12.34	\$12.34	\$12.34	\$12.34	\$12.34
Downtown	A	\$19.62	\$19.64	\$19.64	\$19.29	\$19.28
	B	\$16.80	\$16.82	\$17.04	\$17.02	\$17.36
	C	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
East	A	\$26.51	\$27.59	\$27.77	\$27.13	\$27.47
	B	\$19.20	\$19.61	\$19.31	\$19.02	\$19.09
	C	\$18.00	\$18.00	\$17.97	\$20.02	\$19.24
Midtown	B	\$19.63	\$19.59	\$19.60	\$19.66	\$19.33
	C	\$13.23	\$13.24	\$13.24	\$13.24	\$13.24
North	B	\$15.50	\$15.50	\$15.50	\$15.50	\$16.00
	C	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00
Northeast	B	\$18.04	\$17.96	\$17.94	\$18.07	\$18.24
	C	\$16.00	\$16.00	\$16.00	\$16.00	\$16.00
Overall		\$17.89	\$18.02	\$17.92	\$17.63	\$17.61

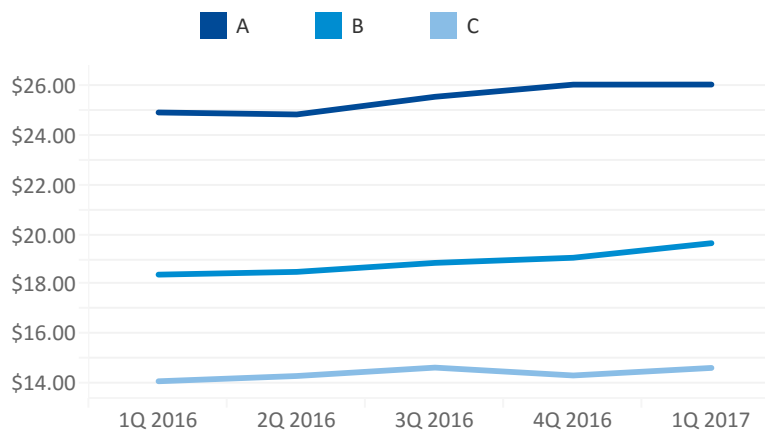
By Market



Memphis by Class

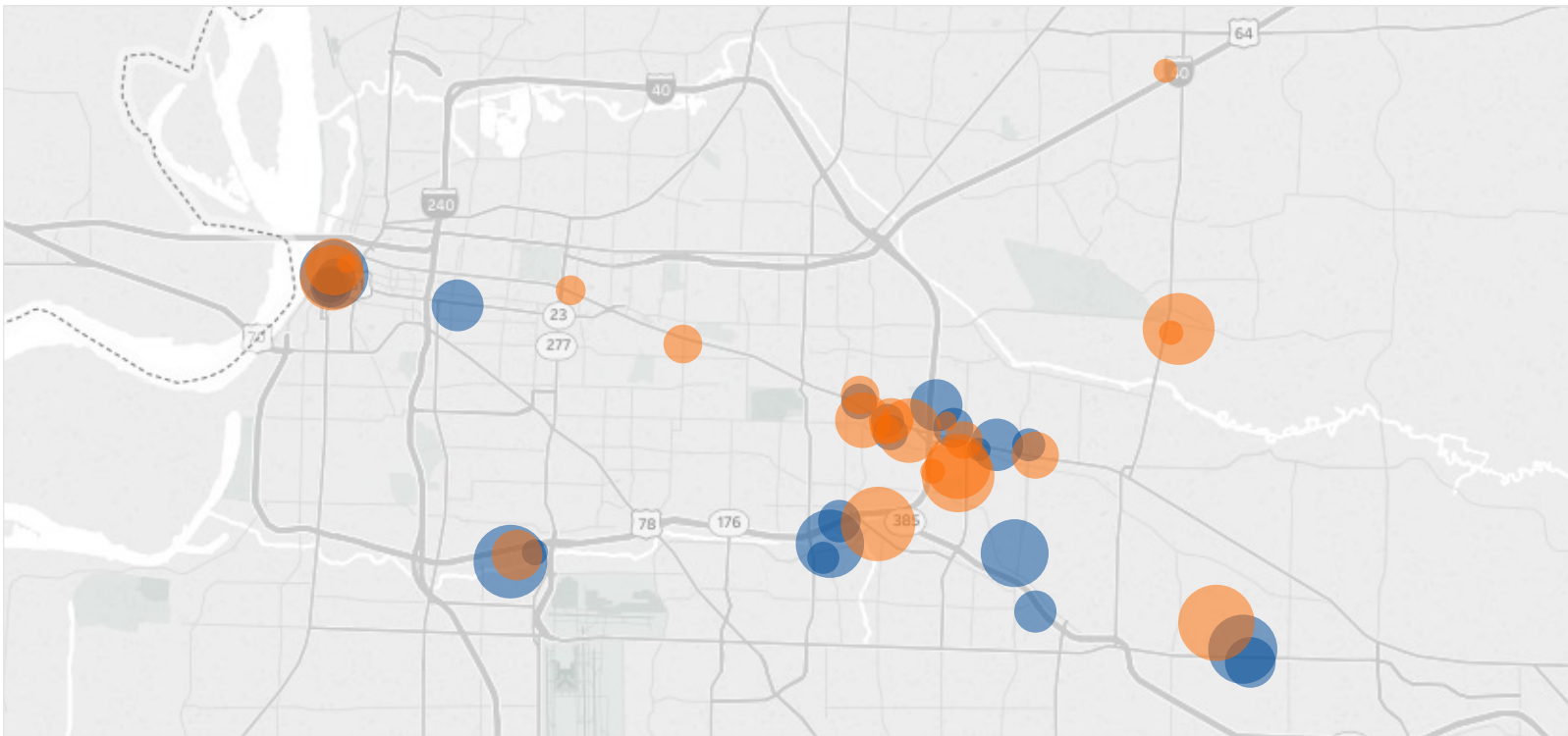


National by Class



Absorption Map

■ Negative
 ■ Positive



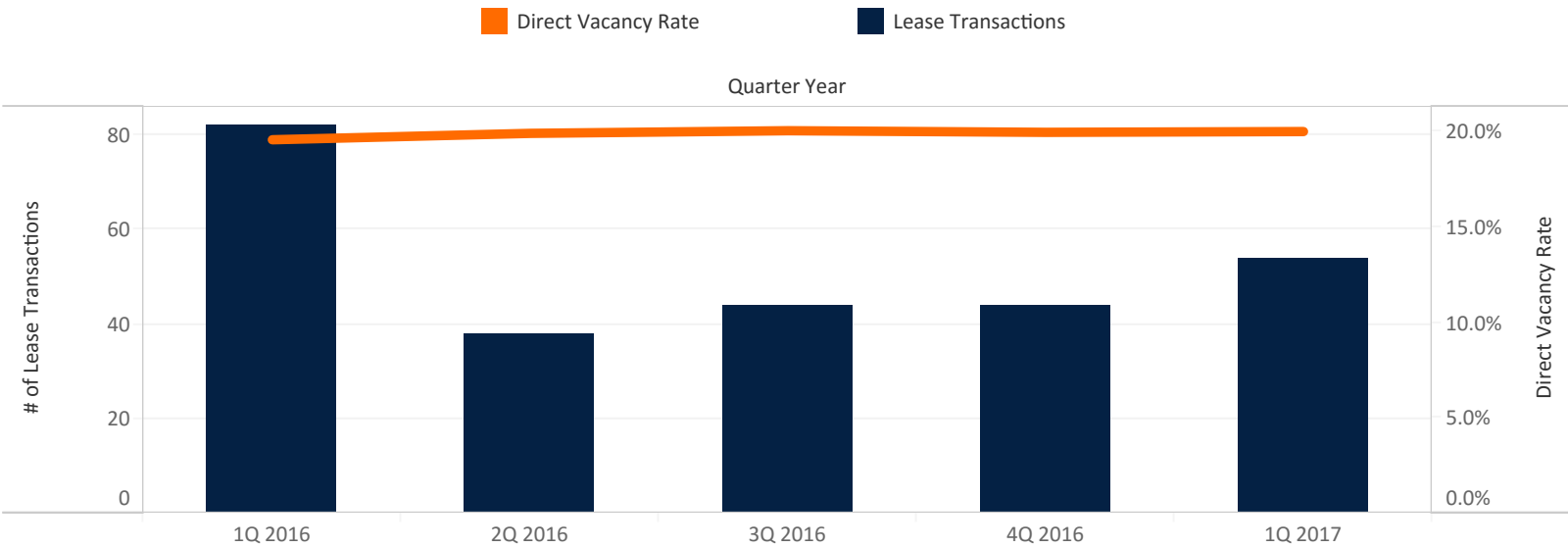
Largest Positives (Direct)

Property Name	Significant Transactions	Market Name	Class	
Nonconnah Corporate Center	Camelot Care leased 7,836 sf	Airport	B	8,666
Tournament Trails Bldg 1	Kemmons Wilson Companies leased 8,276 sf	385 Corridor	A	8,276
Brinkley Plaza Office Building	Y&R Memphis leased 8,227 sf	Downtown	B	8,227
Thousand Oaks Bus Cntr Phase I	Gestalt Community Schools leased 11,043 sf and suite 2370 became vacant	Airport	B	8,107
Kirby Gate Business Campus	Unity Physician Partners leased 7,979 sf	East	B	7,979
International Place Tower 2	JLL leased 3,824 sf and Theraplex leased 953 sf	East	A	4,777
The Sparks Building	Continuum Recovery leased 2,837 sf and suite 130 leased	East	A	4,713
1407 Union Ave	Tri-State Bank leased 6,054 sf and Wood & Carlton PC vacated 2,079 sf	Midtown	B	4,667

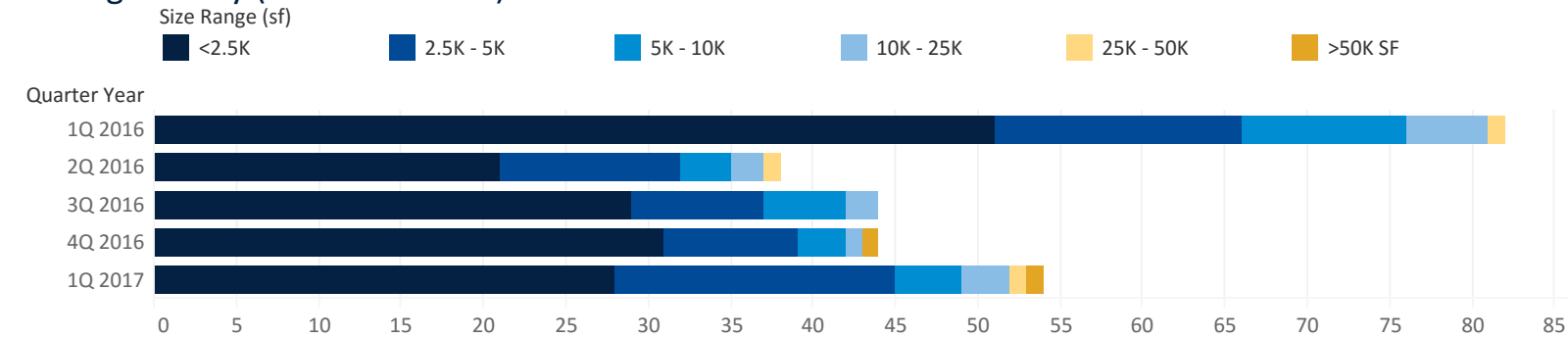
Largest Negatives (Direct)

Property Name	Significant Transactions	Market Name	Class	
Shadow Creek I	Willis Towers Watson vacated 9,022 sf and Palm Coast Imports vacated 1,034 sf	385 Corridor	A	-10,056
Perimeter Park	Several 500-1,000 sf suites became vacant	East	B	-9,605
Primacy II	The Seam vacated 5,063 sf and Elite Solutions Group vacated 4,116 sf	East	B	-9,179
Germantown Park - Stuart Bldg	Vacancy Adjustment	Northeast	B	-8,968
Lakecrest	Undisclosed Tenant	East	B	-7,363
88 Union Center	Vacancy Adjustment	Downtown	B	-7,297
Executive Square	Accudata Research vacated 4,418 sf and smalls tenants vacated remainder	East	B	-7,186
Falls Building	Teach Plus vacated 1,359 sf and Kustoff Law Firm vacated 2,994 sf	Downtown	B	-5,653

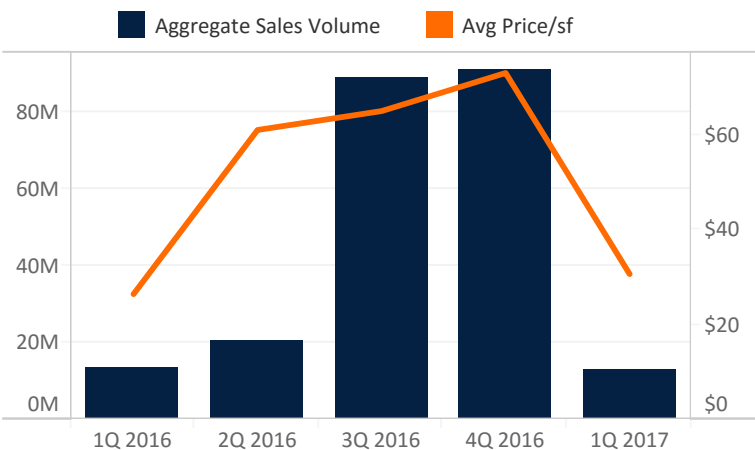
Leasing Activity Trends



Leasing Activity (# of New Deals)



Sales Volume vs. Price/SF



Top Sales

Property	Sale Date	Buyer	Sale Price
5400 Poplar Ave	01/26/2017	Priam Capital	\$5,680,000
Commerce Center	01/18/2017	Fry Road Plaza LLC	\$1,883,058
766 South White Station Office Condominiums	01/12/2017	Bank 3 Holdings Inc	\$1,090,000
Saddle Creek Place	02/28/2017	The Silk & Stewart Development Group	\$747,500
253 S Center St	01/04/2017	Eric M & Molly C Farrell	\$567,000

Terminology

Term	Definition
Class A	Most prestigious buildings competing for premier office users with rents above the market average. Buildings have high quality standard finishes, state of the art systems, exceptional accessibility and a definite market presence.
Class B	Buildings competing for a wide range of office users with average market rents. Building finishes are fair to good for the area and systems are adequate, but the property does not compete with Class A product.
Class C	Buildings competing for office users requiring functional office space at rents below the market average for the area.
Direct Net Absorption	The net change in fiscally occupied space from quarter to quarter, expressed in sf.
Direct Vacant (sf)	The total of the vacant square footage in a building that is being marketed by an agent representing the landlord.
Inventory	The total square feet (sf) of all existing single and multi tenant office buildings greater than 10,000 sf, excluding government buildings, owner occupied buildings, medical buildings, and office condo buildings. Only includes 100% office properties.
Sublease (sf)	Space that is offered for lease by a current tenant, or his agent, within a property. Whether the tenant is paying rent or not.
Total Available (sf)	All of the available leasable space within a building, whether it is occupied or vacant, for direct lease or sublease space.
Total Net Absorption	The net change in physically occupied space from quarter to quarter, expressed in sf.
Total Vacant (sf)	The total of all of the vacant square footage within a building, including both direct and sublease space.
Weighted Average Rents	The weighted average of all direct asking lease rents expressed as a full service/gross rental rate and weighted on total direct available sf.

This information has been obtained from sources believed reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy.

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