

Office Market Report / First Quarter 2021

Memphis, TN



Memphis MSA February 2021 (BLS) Preliminary

> l**9.2%** Direct Vacancy Rate

Direct Net Absorption Year-to-Date (Based on Occupancy)

18.83 pst Direct Asking Rental Rate (Weighted Average)

150k st Office Product Under Construction

The Memphis economy

The Memphis market starts the new year off with a cautiously optimistic outlook as local, state, and federal lawmakers allow businesses to reopen with the rollout of novel coronavirus (COVID-19) vaccinations ramping up and a new administration settling in with plans to rebuild the economy.

This time last year, COVID-19 spread quickly into the U.S., posing a serious health risk to much of the population and wreaking havoc on the economy as local governments mandated business closures, propogating a general day-today uncertainty seemingly without an end in sight. Fast forward nine months and Pfizer and Moderna vaccinations hit the market at the end of fourth quarter of 2020 with distribution and administration seeing even more significant strides

in the first quarter of 2021.

In March, 900,000 jobs were added to the economy nationally, with the hospitality sector accounting for the largest portion of those jobs according to the Federal Reserve Bank of Atlanta. In Memphis, the unemployment rate is down 0.4 percentage points (pp) from last guarter and up 2.4 pp from first quarter of 2020.

With encouraging news of coronavirus vaccine efficacy, optimism from both investors and consumers fuels the economy as we head into a new year. Despite the significant impacts of COVID-19 on the office sector, area brokers are optimistic that office demand will rebound and show an uptick in activity as vaccination rates increase and employees return to the workplace.

Memphis, TN Office market trends

First Quarter 2021

Leasing

During the first quarter of 2021 the market recorded 248,000 square feet of leasing activity, a notable increase from the 121,000 sf that was reported in the fourth quarter of 2020 and a positive sign that the office activity is beginning to pick up. The majority of activity occurred in the East and 385 Corridor submarkets, which accounted for approximately 70% of the quarter's leases. The largest lease, however, was a short-term renewal by IMC Companies for 35,205 sf at their current location at Lenox Park.

The direct vacancy rate, which came in at 19.2% this quarter, has steadily risen since the start of the pandemic. However, the majority of negative absorption has been the result of anticipated downsizing by corporate tenants such as FedEx Freight, Comcast, Lucite and Medtronic vacating more than 330,000 sf in 2020 as well as Cargill Cotton vacating 89,000 sf in first quarter of 2021.

Sales

Sales volume in the first quarter of 2021 (\$40.2 million) was down 60% from the quarter prior. 12-month average pricing also fell from \$189 psf in fourth quarter to \$169. Medical office sales dominated the roster this quarter; in the largest transaction by price, Tryon Capital purchased 3495 Hacks Cross Road, a fully occupied 114,000-sf medical office building, for \$24.4 million. Pergament Properties expanded its Memphis holdings with the acquisition of 7101 Goodlett Farms Boulevard, Cargill, Inc's former headquarters in the Northeast submarket, for \$3.4 million. Cargill recently relocated its Memphis operations to the Downtown submarket. Also Downtown, Townhouse Management Company disposed of 147 Jefferson Avenue for \$2.8 million to Houstonbased Trident Capital of America.

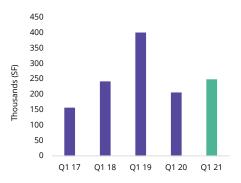
Construction

Supply chain disruption and the rising cost of construction materials has subsequently delayed delivery dates and caused a bottle neck effect in all sectors. Expected completion of Renasant Bank's headquarters in East Memphis, for example, has been pushed back to third quarter. Work continues on IMC Companies' new 75,000-sf headquarters in Collierville, which is scheduled to deliver by the end of the year.

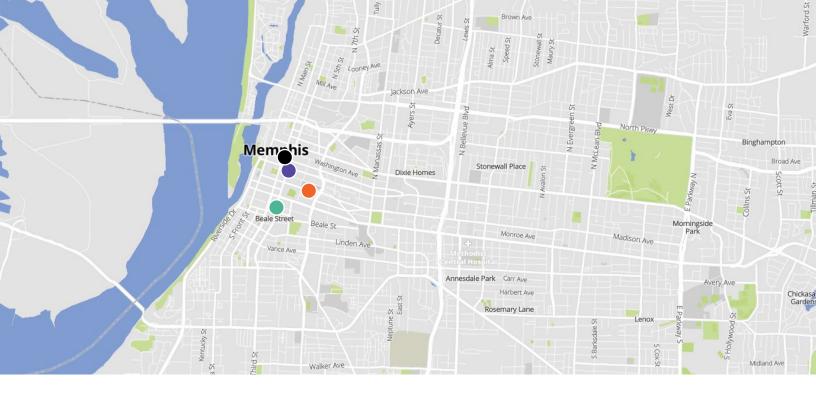
Absorption and Vacancy Rate



Leasing Activity by SF







In the headlines

150 Peabody Place



100 N Main St



147 Jefferson Ave



299 & 307 Madison Ave



Demand for office space could increase as large corporations and their employees return to the office. Leasing activity remains tepid as hybrid working situations remain. Companies will start conversations about retrofitting their space to post-pandemic needs.

ServiceMaster Brands announced their headquarters relocation to Atlanta, Georgia. As a result, Memphis is expected to lose 124 jobs. However, shortly after the annoucement, Epicenter, a local non-profit which provides support to entrepreneurs, subleased the first floor space. This comes after recent years of large suburban companies moving their headquarters downtown to revitalize the core and attract young professionals to live, work, and play.

The City of Memphis announced its intentions to purchase 100 North Main Street, the city's tallest building and featured skyline figure. Vacant and untended for years, the derelict building was most recently part of Townhouse Management Company's now-defunct plans to redevelop it into a mixed-use property featuring a hospitality, retail, office and multi-family uses.

Houston-based Trident Capital of America LLC bought 147 Jefferson Ave, in downtown Memphis for \$2.8 million from New York-based Townhouse Management. The 102,000-sf building has been vacant for more than ten years. The buyer's plans for the building have not yet been announced.

ServiceMaster by Stratos purchased two buildings totaling 25,000 sf at 299 and 307 Madison Ave in Downtown Memphis. The company will move from its current location in late summer and will use the new location for offices and training.

Memphis

Top leases

| Tenant | Property | SF | Submarket | Туре |
|-----------------------------|------------------------------------|--------|--------------|----------|
| IMC Companies | Lenox Park Building C | 35,205 | 385 Corridor | Renewal |
| Epicenter | 150 Peabody Pl | 20,000 | Downtown | Sublease |
| Kuehne + Nagel Inc | Lenox Park Building B | 20,000 | 385 Corridor | New |
| Strategic Behavioral Health | Southwind Office Center Building D | 10,858 | 385 Corridor | Renewal |
| Software Earnings | 3400 Players Club Pkwy | 7,697 | 385 Corridor | Renewal |

Top sales

| Property | Buyer | Seller | SF | Price | \$ PSF | Туре | Submarket |
|--------------------------|-----------------------------------|----------------------------|---------|--------------|--------|------------|--------------|
| 3495 Hacks Cross Rd | Tryon Capital | SunTrust Bank | 113,990 | \$24,441,600 | \$214 | Investment | 385 Corridor |
| 8110 N Brother Blvd | A3M2 Property Investment, LLC | B Squared Partners, LLC | 15,581 | \$6,600,000 | \$420 | Investment | Northeast |
| 7101 Goodlett Farms Pkwy | Pergament Properties | Cargill | 89,715 | \$3,364,313 | \$38 | Investment | Northeast |
| 147 Jefferson Ave | Trident Capital of America LLC | Townhouse Management Co | 102,600 | \$2,800,000 | \$27 | Investment | Downtown |
| 2225 Cox St | Memphis Medica, LLC | Wmem LLC | 14,924 | \$2,600,000 | \$174 | Investment | Midtown |

Under construction

| Property | Developer | SF | Туре | Estimated Completion | Submarket |
|----------------------------|--|--------|-------------|-------------------------|--------------|
| Renasant Bank Memphis HQ | Yorkshire Properties / Loeb Properties | 45,000 | BTS | 2Q21 | East |
| 18 S Main St Redevelopment | 18 Main | 30,000 | Speculative | 1Q21 | Downtown |
| IMC Collierville HQ | IMC Cos | 75,000 | BTS | 4Q21 | 385 Corridor |



Statistics by submarket

| | | | | | Direct Net Absorption | | | | Average Asking Rental Rates* | |
|--------------|-------|------------|---------------------------|----------------------------|-----------------------|----------|-----------------------|--------------------|---------------------------------|---------|
| Submarket | Bldgs | Inventory | Direct Vacancy Rate | Overall Vacancy Rate | Current Quarter | YTD | Under Construction | YTD Completions | All Classes | Class A |
| East | 106 | 8,283,808 | 14.3% | 14.3% | -23,051 | -23,051 | 45,000 | 0 | \$21.91 | \$29.81 |
| Midtown | 16 | 1,723,525 | 17.4% | 17.4% | -12,632 | -12,632 | 0 | 0 | \$16.40 | N/A |
| Northeast | 31 | 2,088,398 | 24.0% | 24.0% | -89,105 | -89,105 | 0 | 0 | \$18.71 | N/A |
| Airport | 37 | 2,216,674 | 44.0% | 44.0% | -10,913 | -10,913 | 0 | 0 | \$14.62 | N/A |
| 385 Corridor | 35 | 2,390,542 | 23.2% | 23.2% | -50,905 | -50,905 | 75,000 | 0 | \$19.48 | \$18.91 |
| Downtown | 24 | 3,414,082 | 11.5% | 12.0% | -9,165 | -9,165 | 30,000 | 0 | \$17.22 | \$18.47 |
| North | 13 | 282,238 | 8.5% | 8.5% | -300 | -300 | 0 | 0 | \$14.00 | N/A |
| Total | 262 | 20,399,267 | 19.2% | 19.4% | -196,071 | -196,071 | 150,000 | 0 | \$18.80 | \$22.72 |

* Direct weighted average \$/psf

Statistics by property class

| | | | | | Direct Net / | Absorption | | | |
|-----------|-------|------------|---------------------------|----------------------------|--------------------|------------|-----------------------|--------------------|---------------------------------|
| Submarket | Bldgs | Inventory | Direct Vacancy Rate | Overall Vacancy Rate | Current Quarter | YTD | Under Construction | YTD Completions | Average Asking Rental Rates* |
| Class A | 45 | 6,709,114 | 13.4% | 13.7% | -27,816 | -27,816 | 120,000 | 0 | \$22.72 |
| Class B | 160 | 11,769,906 | 23.6% | 23.6% | -159,324 | -159,324 | 30,000 | 0 | \$17.71 |
| Class C | 57 | 1,920,247 | 13.0% | 13.0% | -8,931 | -8,931 | 0 | 0 | \$14.95 |
| Total | 262 | 20,399,267 | 19.2% | 19.4% | -196,071 | -196,071 | 150,000 | 0 | \$18.80 |

* Direct weighted average \$/psf

Get more market information

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