

Memphis Retail MarketView

Q3 2012

CBRE Global Research and Consulting

 US CONSUMER CONFIDENCE

 Q3 SHELBY CO BUILDING PERMITS
1.9% q-o-q

 Q3 MEMPHIS HOUSE PRICES
4.6% q-o-q

 US UNEMPLOYMENT
0.4% q-o-q

MEMPHIS RETAIL MARKET OUTLOOK POSITIVE AFTER THIRD STRAIGHT QUARTER OF POSITIVE ABSORPTION

Note: The CB Richard Ellis Memphis Retail MarketView report provides statistics based on a revised set of inventory consisting of 1,099 retail properties in the following submarkets: Collierville, Cordova, Downtown/Midtown, East, Germantown, North, Northeast, Olive Branch, South, Southaven/Horn Lake and Southeast. All properties are greater than 10,000 SF and are not owner occupied. Historical data in all charts is reflective of the revised set of inventory rather than previously published reports and is subject to revision as additional information becomes available.

Quick Stats

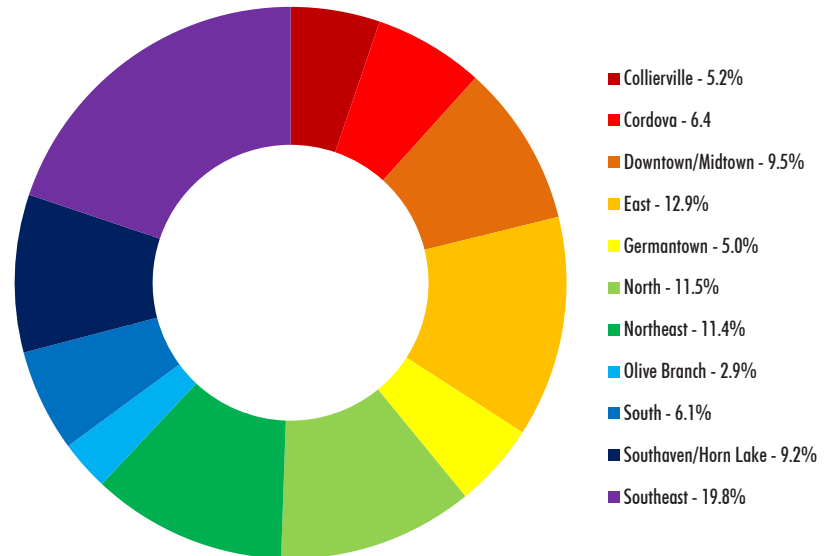
Q3 2012		QoQ
Total Vacancy	13.8%	→
Lease Rates	\$9.49	↓
Net Absorption*	22,330	↓
Construction Deliveries	112,848	↑
Direct Vacancy	13.5%	↑

* 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

- Kroger continues to dominate grocery sector
- Solid activity in East Memphis
- Continued growth among local and national restaurants
- Buzz surrounding new developments fueling interest among variety of tenants

Chart 1: Breakdown of Retail Properties by Submarket



Last year's purchase of a portion of the Schnucks portfolio by Kroger continues to affect the Memphis retail market. The empty Kroger location on Finley Road in Whitehaven, vacated when Kroger moved to a former nearby Schnucks location late last year, sold to Southwest Tennessee Community College in the third quarter. The sale contributed to a third quarter decrease in vacancy of more than 1% in the South submarket.

Kroger made headlines in the third quarter with an announcement of the company's purchase of the Belvedere Apartments on Union Avenue, directly adjacent to its existing store. Local media reports that Kroger plans to build a larger store with ample parking to better serve the midtown area, which is known for a lack of convenient grocery options.

Driven by the development of Kroger's new flagship concept, Poplar Plaza, historically one of the city's most prominent retail developments, took center stage with the renovation of a Memphis landmark for local Japanese restaurant Osaka. The space was formerly occupied by Bookstar after its original use as a movie theatre. Gould's Salon, an original tenant of the shopping center, also expanded its operations to include a full day spa.

The Memphis market will soon offer more high end grocery product, as health food giant Whole Foods confirmed plans to expand the company's existing congested operations in East Memphis. Construction on the new store is scheduled to begin in mid-2013 and finish in early 2014.

MEMPHIS RETAIL SUBMARKET BREAKDOWN

VACANCY, RENTAL RATES AND ABSORPTION

Chart 2: Market Statistics

Submarket	RBA	Total Vacancy %	Avg Asking Lease Rate	Construction Deliveries	3Q Net Absorption	YTD Absorption
Collierville	2,287,588	13.7%	\$16.86	0	(1,155)	12,864
Cordova	2,814,697	8.8%	\$13.01	18,200	3,180	59,695
Downtown/Midtown	4,136,655	15.3%	\$10.01	0	(4,214)	6,122
East	5,658,489	6.1%	\$11.92	0	15,126	41,338
Germantown	2,164,580	10.0%	\$18.46	48,560	7,570	(2,775)
North	5,008,993	21.6%	\$4.37	0	4,988	36,787
Northeast	4,994,802	12.6%	\$11.68	0	(24,009)	(7,271)
Olive Branch	1,279,283	9.2%	\$14.60	19,489	0	3,160
South	2,620,545	9.3%	\$8.13	10,567	19,484	25,174
Southaven - Horn Lake	4,036,361	8.0%	\$12.55	0	12,000	(18,620)
Southeast	8,658,327	21.8%	\$7.43	16,032	(10,640)	(42,876)
Memphis MSA	43,660,320	13.8%	\$9.57	112,848	22,330	113,598

COVER STORY CONTINUED

The Poplar/Mendenhall area in East Memphis surrounding Whole Foods has been a center of retail growth among local businesses this year. On the heels of the new construction of a car wash, auto service center and body shop combo on the South side of Poplar Avenue, Sakura, a local Japanese restaurant with a history in Germantown, opened a second location in ErinWay Shopping Center. Hog & Hominy, a casual concept by the owners of Andrew Michael Italian Kitchen, opened for business in Brookhaven Circle, and Broadway Pizza, a long time tenant on Broad Avenue in midtown, purchased property for a second location north of Poplar on Mendenhall. One & Only BBQ also announced plans for expansion in the fourth quarter, opening a second location in the former CK's Coffee Shop location on Perkins Extended by the Oak Court Mall.

The recent shuttering of several area CK's Coffee Shops has provided opportunity not only to One & Only BBQ, but to The Tushek Co, LLC, who signed leases at two former CK's locations on Union Avenue in the medical district and on Highland Avenue near the University of Memphis. The company plans to open the Union location as E's 24 Hour Cafe

and reopen the Highland location under the CK's name, with the possibility of converting it to an E's in six months.

In addition to Kroger's purchase of The Belvedere, activity in midtown remains strong, with new leases signed by Bar Louie, Frida's and Panera. In July, local developers Loeb Properties Inc. completed a much anticipated \$7 million purchase of the eight-acre Overton Square retail and entertainment district from a Colorado-based company.

Next year and the remainder of 2012 should prove to be an exciting time for the Memphis retail market. Beale Street Landing, a new retail and event center development in Tom Lee Park at the edge of the Mississippi River, opens for business in the fourth quarter, hosting several public events. Riverfront Development Corporation is currently finalizing contract details with Riverside Grille & Dockside Bar, which could open at Beale Street Landing as early as March 2013.

Crosstown Arts, the Mayor's Innovation Delivery Team and the Memphis Regional Design Center are working with the community to launch "MEMFIX Cleveland Street," a tactical urbanism event in mid-November designed to demonstrate the potential of the street if revived with new retail. A similar event brought more than 13,000 people to Broad Avenue in 2010, creating an energy that led to several new leases on the street



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COVER STORY CONTINUED

and a city plan to connect Overton Park to the Shelby Farms Greenline pedestrian and bike trail.

The MEMFIX event is largely driven by recent news of the redevelopment of the Sears building in Midtown’s Crosstown neighborhood. A former retail and catalog distribution facility, the 1.5 MSF property has been vacant for almost twenty years. Nine tenants have signed a collective letter of intent to occupy 600,000 SF of the building. With commitments from a combination of education, medical and non-profit tenants, developers hope the variety will attract interest in the retail and residential components of the project.

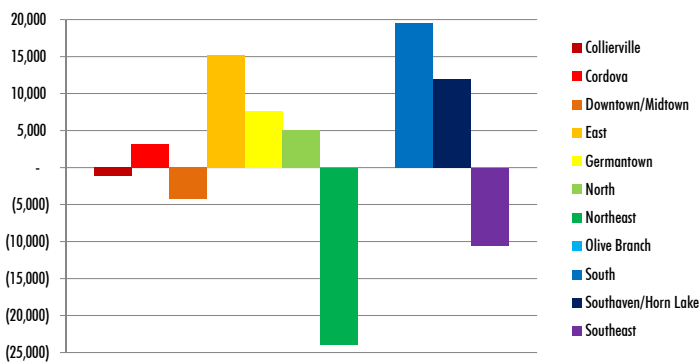
Area commercial real estate brokers report an increased interest in the use of retail space by medical companies, especially clinic and pharmacy users. In 2011, several new minor medical and primary care clinics opened in the Mid-South, including concepts by St. Francis Medical Partners and Christ Community Health Services. In a trend largely driven by national healthcare reform, many hospitals are acquiring private practices and favoring retail space over

traditional medical office space to offer location convenience to consumers.

If Memphis maintains a historical pattern of mirroring the trends of larger markets a year or two later, Memphis can expect to see retailers move toward creating interactive experiences in 2013. The trend could mean increased interest by retailers in mixed use properties and unconventional spaces. Some areas of Memphis with existing inventory that could easily accommodate this trend are the South Main arts area, Broad Avenue in Binghampton and the Crosstown neighborhood in midtown.

The coming year will also be telling for the Memphis International Airport area and the neighborhoods surrounding Graceland in South Memphis. Retail activity in the South submarket has potential to grow, due to a Community Challenge Grant given to Memphis by the Department of Housing and Urban Development, enabling projects such as improvements to the Lamar Avenue (U.S. 78) corridor. Development of the I-269 outer loop should also play a part in retail growth in the South submarket and in Southhaven.

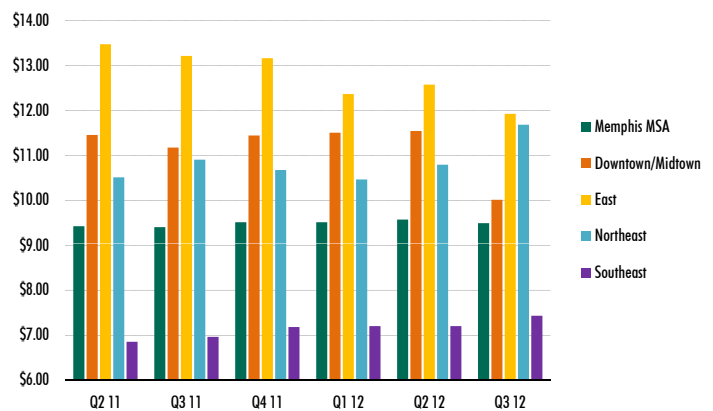
Chart 3: Absorption by submarket



ABSORPTION

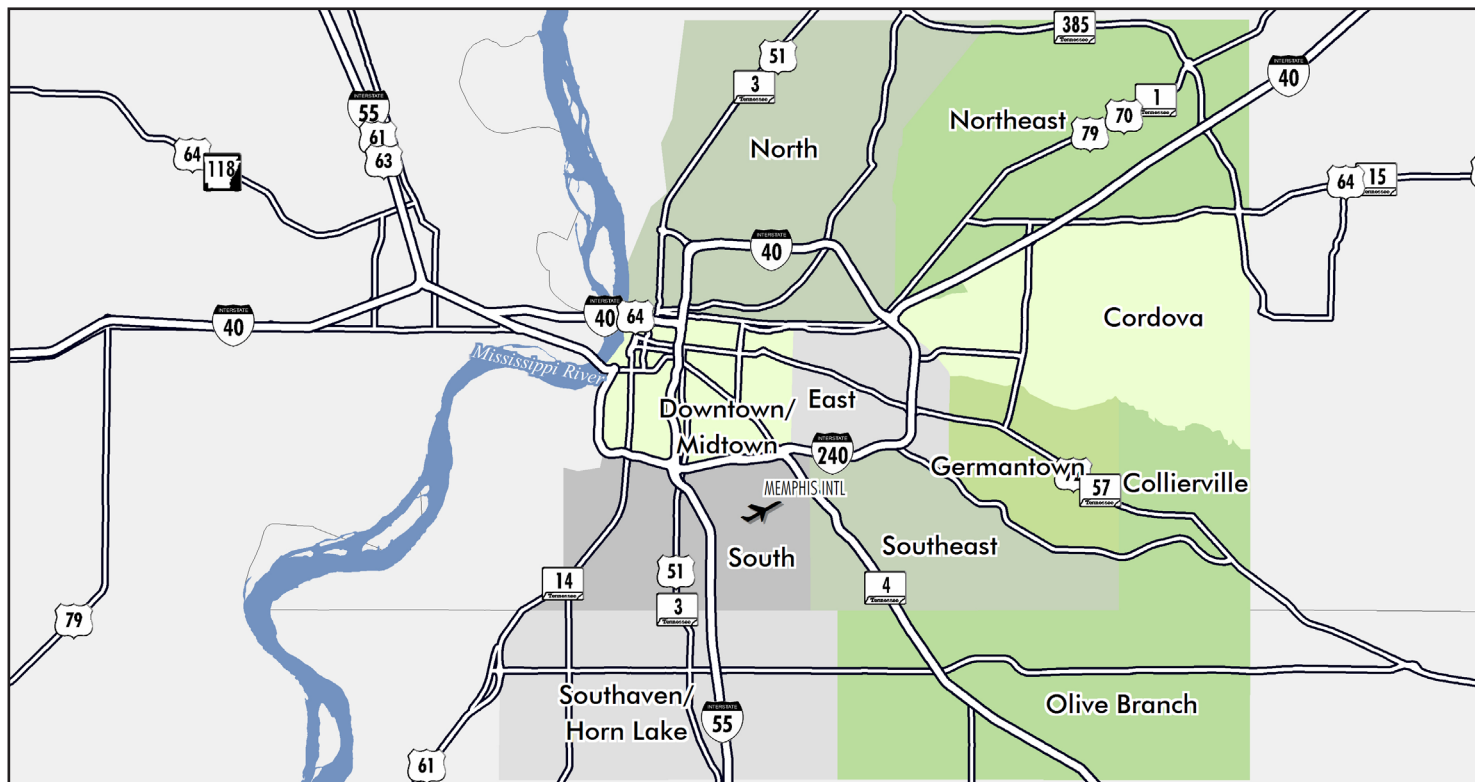
With almost 20,000 SF of leases in the third quarter, the South submarket led positive absorption in Memphis, due primarily to an 11,250 SF lease at the Southland Mall and a 9,274 SF lease by Family Dollar on Lamar Avenue. A temporary lease by Spirit of Halloween drove the majority of the leasing success in the Southaven/Horn Lake submarket, while several small deals, including new leases signed by Family Dollar, Goodwill and the Bar and Grill Event Center led to positive absorption in the Southeast.

Chart 4: Average Asking Lease Rates



RETAIL RENTAL RATES

After five straight quarters of increasing retail rental rates, average asking lease rates in the Memphis MSA fell by \$0.08 in the third quarter. The drop was fueled primarily by a more than \$0.60 decrease in lease rates in the Downtown/Midtown submarket, the most significant single quarter drop in more than six quarters. Rental rates also decreased in the East submarket, falling from \$12.57 in the second quarter to \$11.92 in the third quarter. Rate increases in the Southeast and in the suburban markets of Collierville, Cordova and Germantown offset significant decreases.



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Chart 5: Top Lease Transactions

Size (SF)	Tenant	Location
12,000	Spirit of Halloween	945-975 E Goodman Rd
11,250	Mad Rags	1215 E Shelby Drive
9,274	Family Dollar	3685 Lamar Ave

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