CBRE | Memphis

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MARKETVIEW

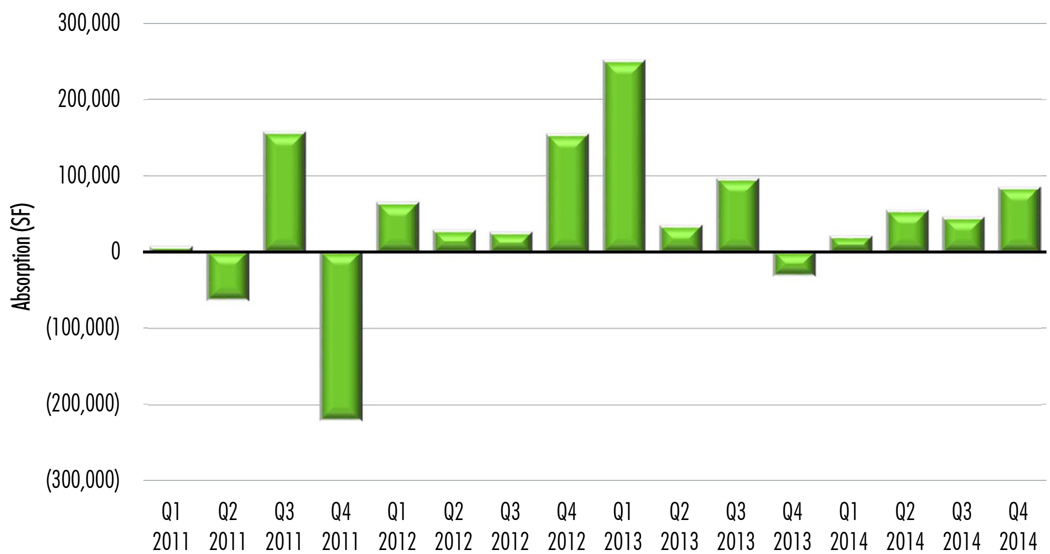
Memphis Retail, Q4 2014

Year ends with 2014's largest quarter of net absorption; retail looks strong for 2015

Vacancy Rate	Lease Rate	Net Absorption	Deliveries	Direct Vacancy
▼ 12.2%	▼ $8.70 PSF	▲ 83,880 SF	▲ 41,000 SF	▼ 12.4%

*Arrows indicate change from previous quarter.

Figure 1: MSA Absorption since 2001



Source: CBRE|Memphis Research, Q4 2014.

EXECUTIVE SUMMARY

- IKEA's announcement of a Memphis store will cause other retailers to consider the Mid-South in multi-market searches
- Grocery, fitness-related activity will settle in 2015
- Academy Sports + Outdoors will add third Mid-South store in 2015

The Memphis MSA retail market closed with the year's largest quarter of net absorption. During Q4 2014, the retail market had a net absorption of 83,880 sq. ft., resulting in more than 202,000 sq. ft. net absorption for the year. Memphis MSA total vacancy for Q4 2014 decreased only 0.1 percentage point to 12.6%. The average total vacancy rate for the previous year was 13.1%.

Figure 2: Q4 2014 Market Statistics

Submarket	RBA	Total Vacancy (%)	Avg Asking Lease Rate ($)	Construction Deliveries	Q4 2014 Net Absorption
Collierville	2,412,526	12.1	15.55	0	7,650
Cordova	2,731,600	5.6	13.36	0	(3,492)
Downtown/Midtown	4,221,259	14.2	9.60	0	(27,598)
East	5,004,832	6.2	10.91	0	(5,056)
Germantown	1,892,131	7.1	17.74	0	16,280
North	5,001,147	19.7	4.31	0	61,973
Northeast	4,896,718	11.7	10.39	41,000	7,425
Olive Branch	1,285,592	4.6	14.35	0	5,903
South	3,083,083	8.0	7.71	0	(8,000)
Southaven/Horn Lake	4,025,934	4.7	10.9	0	12,237
Southeast	8,191,995	21.5	6.75	0	16,558
Memphis MSA	42,746,817	12.2	8.70	41,000	83,880

Source: CBRE|Memphis Research, Q4 2014.

The average asking lease rate decreased $0.04 from Q3 2014 to $8.70 per sq. ft. in Q4 2014. The average asking lease rate at the end of 2013 was $8.97 per sq. ft.

The two largest transactions during the quarter were from Conn's HomePlus and Save-A-Lot. Conn's leased 50,000 sq. ft. at 3250 Austin Peay Hwy in the North submarket. Save-A-Lot leased 21,188 sq. ft. at 6760 Winchester Rd. in the Southeast submarket.

The most notable announcement during Q4 came from Sweden-based retailer IKEA. IKEA revealed plans for a Memphis-area store along Germantown Parkway and I-40. Construction of the store will begin during 2015 and IKEA will open in 2016. It is projected that during 2015 there will be continued activity from new to market companies as a ripple effect of IKEA's announcement. IKEA's Mid-South presence will cause other retailers o consider Memphis when perhaps they previously had not.

Leasing activity increased during Q4 2014, although several of the deals will not close until the beginning of 2015. During 2014, the most active retailers were from the restaurant, grocery, medical and fitness sectors. Restaurant activity is traditionally a high-velocity segment, which proved true for 2014. Maui Brick Oven, a new concept to the Memphis market, leased space at the Germantown Collection; Shontell's Southern Cuisine opened at Holiday Crossing in

Olive Branch; and Mary's German Restaurant relocated to a larger space at the Shops of Woodland Hills on North Houston Levee in the Cordova submarket. Overton Square in Midtown, a bright spot for retail in 2013, also added the new "table to farm" causal hamburger concept, Belly Acres, this year. At year-end, Overton Square was 97.2% leased.

Although grocery activity was at an elevated level during 2014, announcements of new grocers or activity from current companies in the market has started to settle. Kroger, Fresh Market, Whole Foods and Sprouts all announced leases or construction during 2014.

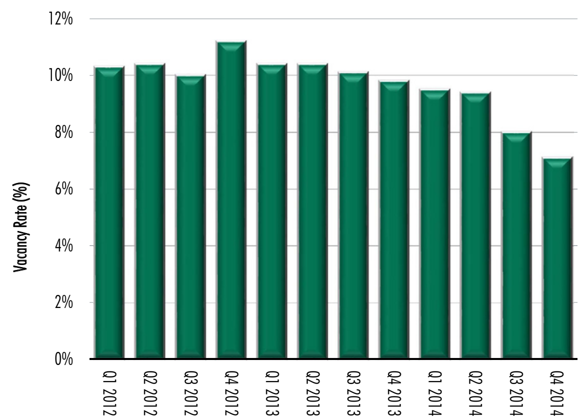
Kroger began construction of the Germantown Road and Farmington Road location, which will expand the store from 60,000 to 100,000 sq. ft. Construction delivery will occur in 2015. Fresh Market opened a store on Union Avenue in Midtown in August 2014. The 23,400-sq.-ft. grocery store was retrofitted from an Ike's Drugstore.

Sprouts Farmers Market announced in 2014 that the company would retrofit a former Schnucks on Forest Hill-Irene Road and a former Kroger on Highway 64. Both locations are more than 28,000 sq. ft. each. Sprouts Farmers Market, which has more than 180 locations in 10 states, is one of the fastest growing retailers in the U.S.

Construction of the Whole Foods on Pete Mitchell Road in Germantown is also underway. The 41,000-sq.-ft. store will open in 2015. Whole Foods also completed the redesign and expansion of the East Memphis store during 2014.

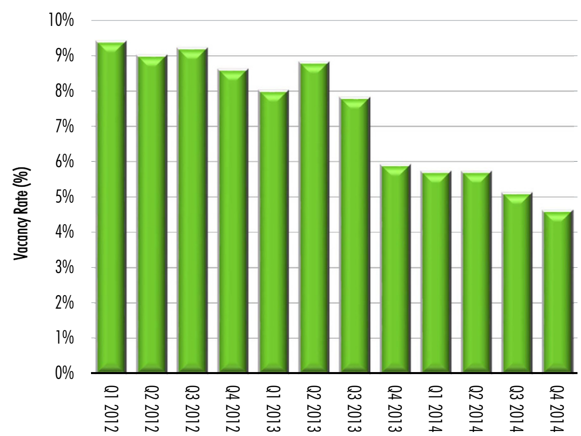
Medical companies remain active and will continue to do so in the coming year. There are about 9,000 urgent care clinics nationwide,

Figure 3: Germantown Submarket Vacancy Rates



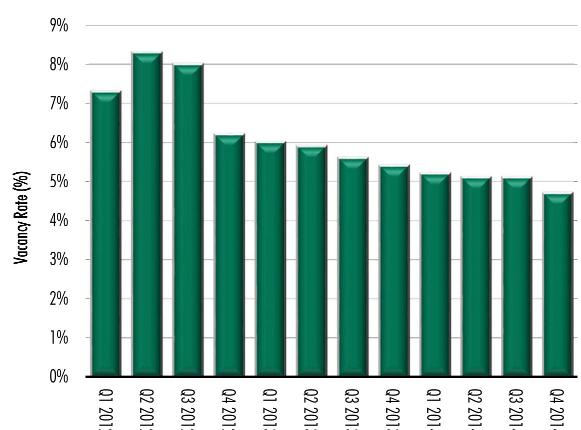
Source: CBRE|Memphis Research, Q4 2014.

Figure 4: Olive Branch Submarket Vacancy Rates



Source: CBRE|Memphis Research, Q4 2014.

Figure 5: Southaven/Horn Lake Submarket Vacancy Rates



Source: CBRE|Memphis Research, Q4 2014.

Table 1: Top Lease Transactions

Square Footage	Tenant	Address	Submarket
50,000	Conn's HomePlus	3250 Austin Peay Highway	North
21,188	Save-A-Lot	6760 Winchester Road	Southeast
9,000	Doc's Wine & Liquors	6641-6685 Poplar	Germantown
7,500	Big B Mart	5353-5400 Winchester Road	Southeast

Source: CBRE|Memphis Research, Q4 2014.

according to the *New York Times* and the Urgent Care Association of America. About two-thirds of the centers have opened within the last five years.

Lastly, fitness-related companies have tapered off activity in the Memphis MSA. During 2014, LA Fitness constructed and opened 2 centers, one at Winchester and TN-385, and the along U.S. 64. The LA Fitness deals added about 77,500 sq. ft. to the market. In the coming year, the fitness sector will slow to avoid over-saturation.

Construction continued in the Memphis MSA during 2014. In addition to LA Fitness, the redevelopment of Saddle Creek West progressed. The multi-million dollar redevelopment included the demolition of the existing 20,000 sq. ft., which will be replaced by 40,000 sq. ft. In addition to the new construction, the other Saddle Creek buildings will receive updates to facades, plazas, lighting, signage and landscaping.

During Q4 2014, Brixmor announced plans to demolish the former World Market store, which closed in 2009, and develop approximately 10,000 sq. ft. of retail fronting Germantown Parkway.

Interest in smaller strip centers, which hold 2-3

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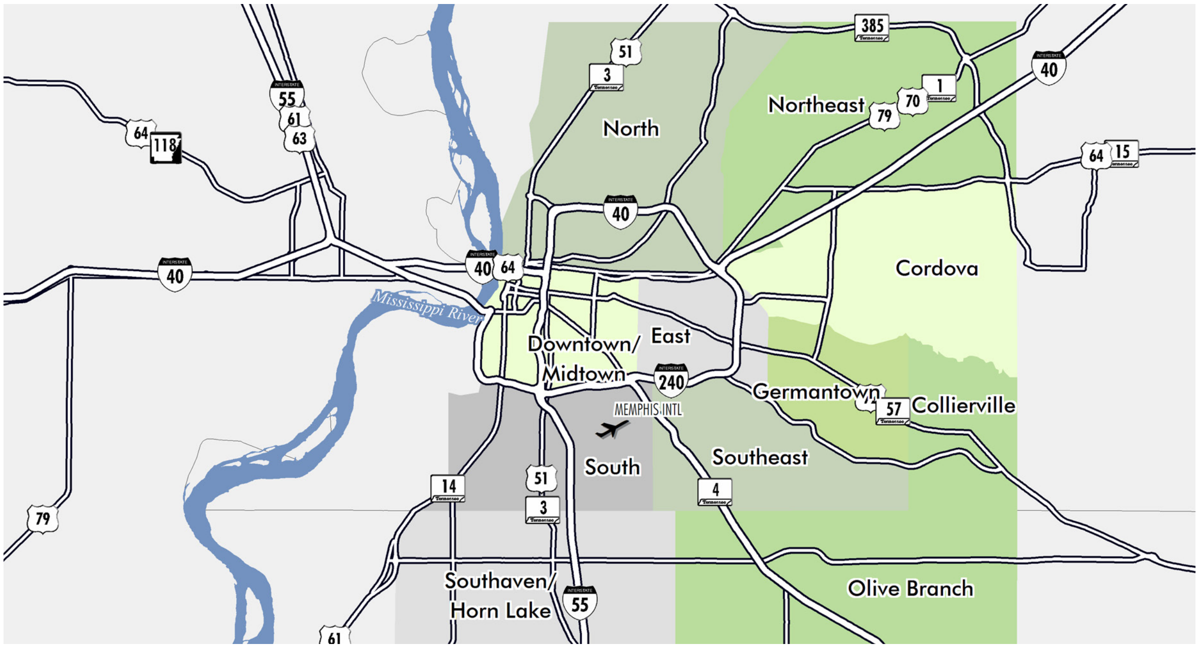
tenants, increased during 2014 and will continue to do so during 2015. Developers have found small strip centers to be mutually beneficial for tenants and developers.

Academy Sports + Outdoors will add a location Goodman Road and Pleasant Hill in Olive Branch. This will be the third location in the Memphis MSA. During 2013, Academy entered the Memphis MSA with a 73,000 sq. ft. store in Collierville.

Malco Theaters also released information during Q4 2014 about a new theater and strip center off Highway 64. The 12-screen theater with a gourmet menu, leather chairs and more will open to the public at the end of 2015.



Contacts

The CB Richard Ellis Memphis Retail MarketView report provides statistics based on a set of inventory consisting of 1,177 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 sq. ft. and are not owner occupied. Historical data in all figures is reflective of the current set of inventory rather than previously published report figures and is subject to revision as additional information becomes available.

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