

#### ECONOMIC OVERVIEW

The Memphis economy, like most of the nation, moved along at a slow pace in 2011. However, there were several promising signs. Memphis unemployment hit a seven month low in November to 10% and is expected to drop even further. Overall, the local economy gained 10,259 net new jobs with a growth of 1.8% over 2010. Several large companies announced they were moving operations to Memphis including: Electrolux, Mitsubishi Electric, City Brewing Company and Great American Steamboat Company. The number of new jobs created by these companies is expected to be more than 2,500, while the total effect could be as many as 10,000 new jobs in the service sector. Their total economic investment is in excess of \$1BB. In July both Memphis area mayors announced a new group called E.D.G.E. (Economic Development Growth Engine) that collects several programs under one authority including: Office of Economic Development; Industrial Development Board; the Port Commission; Depot Redevelopment Authority; Frank C. Pidgeon Industrial Park; and more. The goal of the program is to streamline economic development by creating a one-stop shop for any company looking to relocate or expand operations in the Memphis area and should be a boon for users requiring industrial space in the Memphis market.

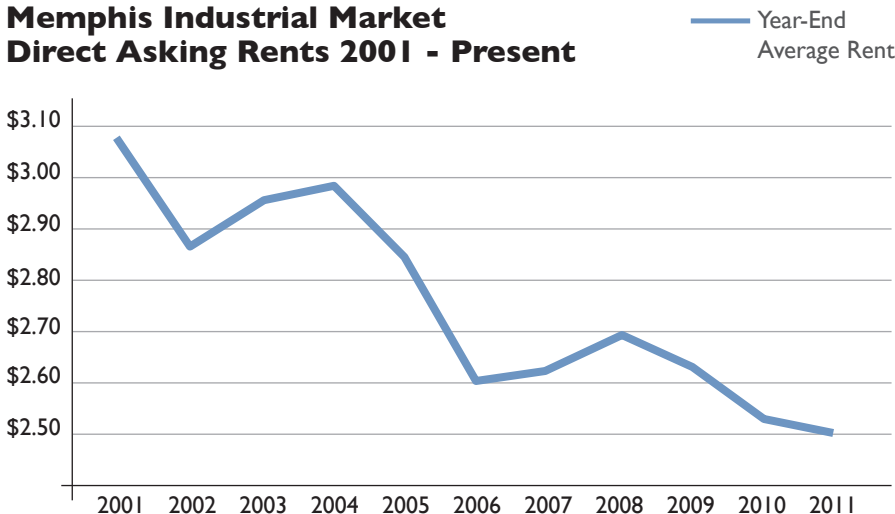
#### HOLDING STEADY WITH SOME IMPROVEMENTS

After a sluggish start, activity in the second half of the year rebounded, and the year ended up with a healthy performance overall. The Memphis Industrial market saw a .3 percentage point decrease in vacancy falling to 15.0% at year-end from 15.3% in 2010. Direct net absorption increased in 2011 with 1,166,094 sf absorbed for the year, compared to the 964,239 sf absorbed in 2010. Though leasing activity picked up by year-end, it was 1.5 msf below average at 10.4 msf.

#### RENTAL RATES BOTTOM OUT IN 2011

The average published rental rate for industrial space is \$2.50 per square foot (psf), one of the lowest in the country. In 2011, rents have remained flat and low. We do not anticipate an upward trend for rates until much of the existing inventory is absorbed, especially for vacancies under 400,000 sf. The exception would be requirements of 500,000 sf or greater where availabilities are tight, and rates are expected rise up to a range of \$2.60-\$2.80 psf.

**Memphis Industrial Market Direct Asking Rents 2001 - Present**



#### MARKET HIGHLIGHTS

- Absorption at year-end was just above 1 million square feet. The largest single move-out was 1,006,000 sf by Cleo, Inc. who shuttered operations and left the market. The largest move-in was 625,000 sf by Trane who opened its second area distribution operation in the Southeast submarket.
- The market saw several build-to-suit projects in 2011. Projects included 234,660 sf for Anda Pharmaceuticals, 202,100 sf for Schulz Xtruded Products, 513,734 for Asics, and 645,000 sf for McKesson.
- In 2011, rents remained flat and low, and in the near term these rates could see some improvement if vacancies continue to tighten.

#### SIGNIFICANT LEASE TRANSACTIONS

<b>Trane</b> Chickasaw E	625,000 sf
<b>Kimberly Clark</b> Airways Dist Ctr D	556,600 sf
<b>Impact Innovations</b> Southridge Corp Park	275,000 sf

#### Industrial Market

##### AT A GLANCE

	Qtr	Yr
Direct Vacancy Rates	15.0%	▼
Available Space	21.7 msf	▲
Asking Rents	\$2.50	▼
Net Absorption YTD	1,166,094 sf	▲

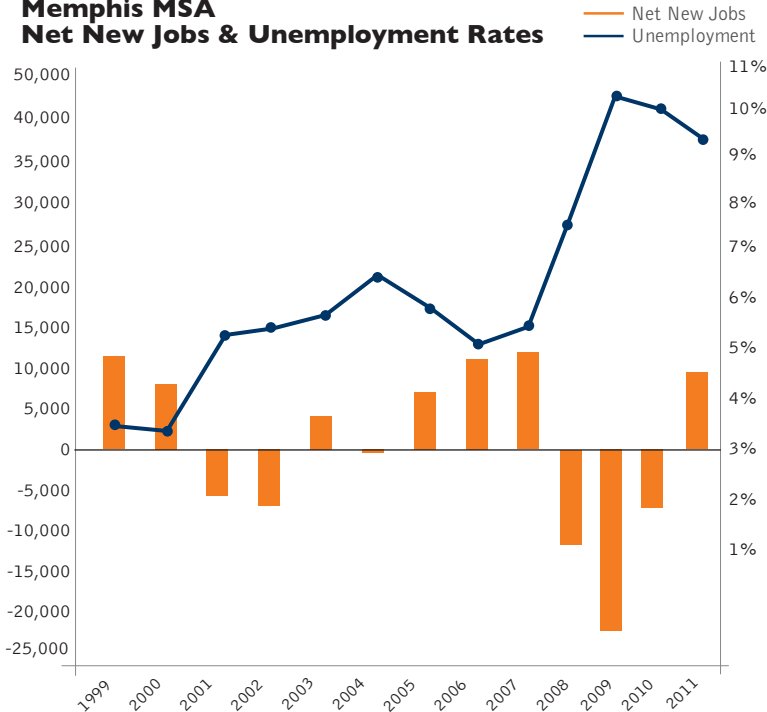
#### BUILD TO SUIT TREND

The market saw several build-to-suit projects in 2011. Projects included: 234,660 sf for Anda Pharmaceuticals; 202,100 sf for Schulz Xtruded Products; 513,734 sf for Asics; and 645,000 sf for McKesson. This trend is expected to continue into 2012 especially for users who require more than 500,000 sf. No speculative development is underway and none is anticipated until existing Class A inventory is absorbed and rental rates increase 20-30% above current levels. The one exception is that IDI has announced their intention to start two new Bulk buildings at Crossroads in Olive Branch.

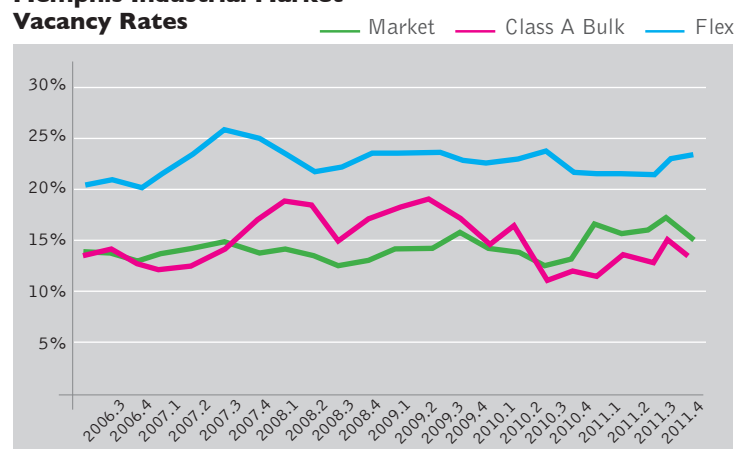
#### OUTLOOK

The start of 2012 provides anticipation for a strong year with good activity underway and numerous inquiries from users with large requirements. There are approximately 18 users looking for space in the market with requirements ranging from 100,000 sf to 1,000,000 sf. These users represent a total of 7.0 - 8.0 msf of space. Consumer confidence is at its highest since July, and with rising retail sales, the need for distribution space should increase as well. With an improved US economy, Memphis will continue to attract new tenants to the market because of its competitive rents, location and abundant air, road, river and rail transportation capabilities.

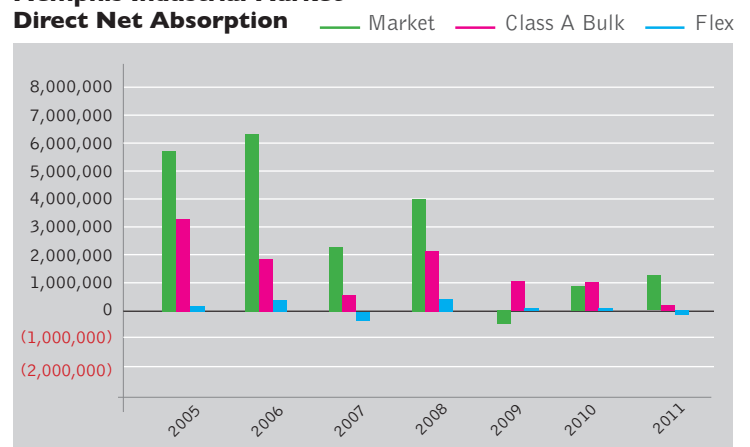
#### Memphis MSA Net New Jobs & Unemployment Rates



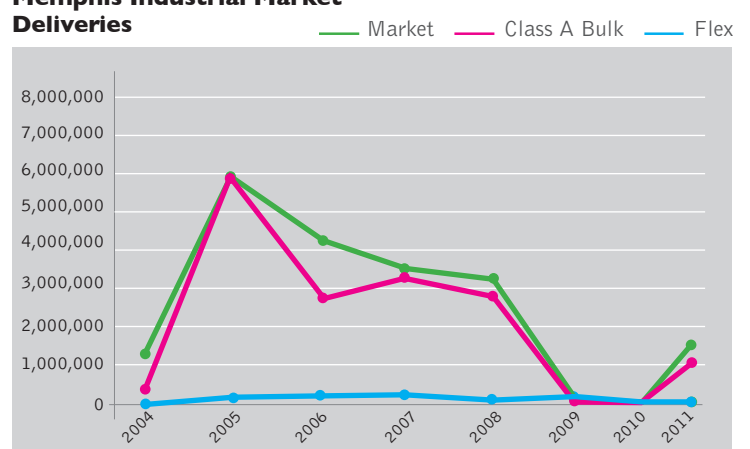
#### Memphis Industrial Market Vacancy Rates



#### Memphis Industrial Market Direct Net Absorption



#### Memphis Industrial Market Deliveries



Market/ Submarket	Inventory Total SF	#of Buildings	Direct Vacancy	4Q11 Absorption	2011 YTD Absorption	Average Rental Rate
<b>Memphis All</b>	<b>144,838,529</b>	<b>1,126</b>	<b>15.0%</b>	<b>1,672,612</b>	<b>1,166,094</b>	<b>\$2.50</b>
DeSoto	25,107,149	96	11.3%	1,015,876	868,737	\$2.81
Northeast	8,007,380	145	11.5%	13,147	(10,546)	\$4.57
Northwest	9,581,098	100	15.8%	3,795	(14,683)	\$1.81
Southeast	77,947,254	453	14.6%	549,699	787,281	\$2.43
Southwest	24,195,648	332	20.6%	90,095	(464,695)	\$2.10
<b>Class A</b>	<b>61,774,712</b>	<b>179</b>	<b>11.5%</b>	<b>2,309,794</b>	<b>1,180,948</b>	<b>\$2.70</b>
DeSoto	19,311,013	40	11.3%	958,876	486,421	\$2.90
Northeast	3,081,076	16	4.6%	20,000	54,000	\$4.25
Southeast	37,544,804	120	12.7%	1,303,918	640,527	\$2.60
Northwest	1,100,000	1	0%	0	0	-
<b>Class B</b>	<b>56,969,873</b>	<b>562</b>	<b>18.1%</b>	<b>(188,191)</b>	<b>(733,715)</b>	<b>\$2.47</b>
DeSoto	4,225,764	34	11.5%	30,000	(176,200)	\$3.00
Northeast	4,215,244	98	15.4%	(5,585)	(52,117)	\$4.59
Northwest	1,430,233	21	25.6%	0	(204,990)	-
Southeast	37,785,356	279	17.0%	(435,019)	(72,258)	\$2.28
Southwest	9,317,438	130	25.3%	130,252	(228,150)	\$2.13
<b>Class C</b>	<b>25,917,071</b>	<b>379</b>	<b>18.2%</b>	<b>153,170</b>	<b>718,862</b>	<b>\$2.14</b>
DeSoto	1,570,372	22	10.1%	0	558,516	\$2.20
Northeast	679,135	29	19.7%	(1,268)	(12,429)	\$6.25
Northwest	6,349,046	77	18.1%	3,795	190,307	\$1.81
Southeast	2,592,094	53	9.1%	190,800	219,012	\$2.25
Southwest	14,726,424	198	20.6%	(40,157)	(236,544)	\$2.09
<b>Class A Bulk</b>	<b>48,601,740</b>	<b>87</b>	<b>13.2%</b>	<b>1,779,794</b>	<b>1,023,866</b>	<b>\$2.66</b>
DeSoto	17,279,211	27	12.3%	985,876	371,089	\$2.90
Southeast	30,620,710	59	14.0%	793,918	652,777	\$2.59

