



# COMMERCIAL REAL ESTATE E-Newsletter

Feb 2011

4<sup>th</sup> QTR. 2010 DATA

3 pages

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## Real Estate Data Sources

*Apartment Association of Greater Memphis*

*Bankrate.com*

*Bloomberg.com*

*CB Richard Ellis*

*Chandler Reports, LLC*

*CoStar Group, Inc.*

*Insight Economics*

*MarketGraphics Research Group*

*Memphis Area Association of Realtors*

*PWC/Korpacz*

*Real Estate Research Corp.*

*RealtyRates.com*

*TN Dept. of Labor*

*Xceligent, Inc.*

*C&I Appraisal – Database*

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## Commercial Markets Survive 2010

The following is drawn from the most recent **Xceligent, Inc.**, **CoStar Group, Inc.** and **CBRE MarketView** reports for the Memphis MSA. Some margin of error exists due to variances in data reported by the respective sources.

### RETAIL – Generally flat vs. YE 2009

- **500k+ sf of positive net absorption in 2010**
- **7 of 11 markets show positive net absorption in 2010**
- **Just over 100k sf in deliveries in 2010**
- **About 100k sf space under construction in the MSA**
- **MSA overall vacancy is around 14% at YE 2010**
- **Collierville, East & Germantown submarkets are the MSA leaders**
- **Avg lease rate in Strip Centers is \$12.55 psf in MSA**



### OFFICE – Most Indicators Show Little Movement

- **Class A & B net absorption is virtually at ZERO sf for 2010**
- **Class A at -125k sf and Class B at +65k sf for 2010**
- **East at -100k sf net absorption for 2010 & 385 submarkets at 0 sf**
- **One delivery over 50k sf in 2010**
- **Memphis MSA occupancy – Class A: 89% Class B: 84%**
- **Class A occupancy for East is 86% & 385 Corridor is 91%**
- **Class B occupancy for East is 86% & 385 Corridor is 89%**
- **Class A quoted rates at \$26.50 psf in East & \$19.50 in 385 Corridor**
- **Class B quoted rates at \$18.30 psf in East & \$19.00 in 385 Corridor**
- **Availability rates expected to trend with unemployment rate**



### INDUSTRIAL – Key Numbers Remain Flat

- **Reports vary with positive net absorption from 800k to 2.0m sf in 2010**
- **Just over 400k sf in deliveries for 2010**
- **Memphis MSA occupancy in ALL Whs categories is 87%**
- **Memphis MSA occupancy in Flex category is 83%**
- **Southeast Bulk Whs Occupancy – 87%**
- **DeSoto County Bulk Whs Occupancy – 90%**
- **Avg quoted rent/sf in Class A - Bulk Whs for Southeast - \$2.56**
- **Avg quoted rent/sf in Class A - Bulk Whs for DeSoto - \$3.00**
- **Memphis MSA average quoted rent/sf in Class A - Bulk Whs – \$2.70**



### Multi-Family – Apartments remain active

- **Memphis MSA occupancy at 91% excluding distressed properties**
- **Memphis MSA average rent/sf - \$0.75**
- **Memphis MSA Rent Increase of 2.0% from YE 2009**
- **Buyers active in all classes; Financing is available**
- **Highest rent/mo. – Gtown/Cville & Downtown \$950+ to \$1,000+**
- **Lowest Occupancy – West Winchester at 80% by our estimates**
- **80's construction & newer continue to see high occupancy**
- **2,200 +/- units foreclosed in 2010; Most in the Class C category**
- **Less than 600 units delivered in 2010**





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## Cap Rates Mixed

According to the **Real Estate Research Corporation** (RERC) "Real Estate Report", cap rates are mixed compared to the 3<sup>rd</sup> qtr. Credit availability seems to be improving which may lead to more buyers in the market. *These rates are shown for illustration purposes and are not indicative of the cap rates ordinarily used for the majority of properties in the Memphis MSA.*

The rates shown below are the NATIONAL AVERAGE for newer Class A properties. Other characteristics include occupancy by creditworthy tenants, good to excellent locations, contractual rent growth, established franchises and/or lease terms exceeding seven years.

| <b>RERC - 1st Tier Properties - National Averages</b> |                   |              |          |
|---|-------------------|--------------|----------|
| Property  | Average Cap Rates |              |          |
|   | Current Qtr       | Previous Qtr | % Change |
| Power/Anchored Center                                 | 7.60%             | 7.90%        | -0.30%   |
| Neighborhood Strip Center                             | 7.10%             | 7.80%        | -0.70%   |
| Suburban Office                                       | 7.60%             | 8.10%        | -0.50%   |
| Medical Office <sub>1</sub>                           | 8.50%             | 8.60%        | -0.10%   |
| Flex Industrial                                       | 8.80%             | 8.50%        | 0.30%    |
| Warehouse   | 7.30%             | 8.00%        | -0.70%   |
| Apartment   | 6.00%             | 6.60%        | -0.60%   |
| Mini-Storage <sub>1</sub>                             | 7.75%             | n/a          |          |
| Hotel   | 9.30%             | 9.00%        | 0.30%    |
| Net Leased <sub>1</sub>                               | 8.70%             | 8.90%        | -0.20%   |



*1 - PWC/Korpacz National Survey is source for this data*

Lending rates and availability of financing will continue to influence cap rates and sale volume in the coming quarters. **Sale prices may not benefit substantially with lower cap rates as the NOI for many properties is being pressured by rent reductions, concessions and vacancy.**

## Sale Volume Flat - Pricing Rises

This data applies to "non-bank" transactions and was published by **Chandler Reports, LLC**. More specific data pertaining to property type and by Zip Code is available on their website.

The data shows sales to be flat vs. 2009 but a higher average price when compared to the prior year.

| <b>Commercial Sale Activity - Shelby County</b> |           |        |
|---|-----------|--------|
| <b>2010 vs. 2009</b>                            |           |        |
| <b>Transactions</b>                             |           |        |
| 2010  | 2009      | % Chng |
| 655   | 604       | 8.4%   |
| <b>Average Sale Price/Sale</b>                  |           |        |
| 2010  | 2009      | % Chng |
| \$848,803                                       | \$635,744 | 33.5%  |





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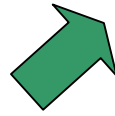
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## Unemployment/Lending Rates Better

The unemployment rate for the MSA shows a substantial improvement from 2009. Local employment is trending with national numbers. The MSA unemployment levels lag the national average but have improved at a greater pace. **Bankrate.com** has mortgage loan rates below the same time last year but with minor increases over mid year 2010 levels.

| CATEGORY                 | CURRENT | 1 MONTH PRIOR | 6 MONTH PRIOR | 1 YEAR PRIOR |
|--------------------------|---------|---------------|---------------|--------------|
| Unemployment Memphis MSA | 10.0    | 9.7           | 10.4          | 11.2         |
| Unemployment National    | 9.4     | 9.8           | 9.5           | 9.9          |
| Prime Rate               | 3.25    | 3.25          | 3.25          | 3.25         |
| 15-Year Mortgage         | 4.09    | 4.06          | 4.04          | 4.46         |
| 30-Year Mortgage         | 4.75    | 4.71          | 4.56          | 5.05         |
| 1-Year ARM               | 3.25    | 3.31          | 3.73          | 4.33         |



\*-Unemployment numbers subject to seasonal adjustment

## Home Sales/Prices Stable

According to the **Chandler Reports, LLC** existing home sales are down nearly 9% from 2009 but the avg. price is generally unchanged. New home volume fell by just over 8% along with the avg. price on new homes. The average price of all home sales is unchanged from 2009.

| Year End 2010 Home Sale Statistics<br>SHELBY COUNTY<br>Source: Chandler Reports, LLC |                 |                 |        |
|--|-----------------|-----------------|--------|
|  | 2010            | 2009            | % Chng |
| <i>Existing Home Sales</i>   |                 |                 |        |
| No. of Sales   | 12,359          | 13,510          | -8.5%  |
| Avg. Price   | \$116,335       | \$114,108       | 2.0%   |
| \$ Volume  | \$1,437,784,265 | \$1,541,599,080 | -6.7%  |
| <i>New Home Sales</i>  |                 |                 |        |
| No. of Sales   | 992             | 1,083           | -8.4%  |
| Avg. Price   | \$223,419       | \$243,392       | -8.2%  |
| \$ Volume  | \$221,631,648   | \$263,593,536   | -15.9% |
| <i>All Home Sales</i>  |                 |                 |        |
| No. of Sales   | 13,351          | 14,593          | -8.5%  |
| Avg. Price   | \$124,292       | \$123,703       | 0.5%   |
| \$ Volume  | \$1,659,415,913 | \$1,805,192,616 | -8.1%  |



Homes priced under \$100k comprised 55% of the sale volume in 2010 and that is nearly identical to the 2009 figures. Conversely, homes priced over \$500k make up just 2% of the sale volume. There were 36 home sales over \$1 million in 2010 vs. 29 in 2009. The top three zip codes in total sale volume are as follows:

| Top Three Zip Codes for Home Sales |               |       |           |
|------------------------------------|---------------|-------|-----------|
| Zip Code                           | Neighborhood  | Sales | Avg Price |
| 38016                              | Cordova North | 836   | \$137,180 |
| 38017                              | Collierville  | 788   | \$299,635 |
| 38128                              | Raleigh       | 766   | \$46,149  |