

East Memphis office activity on the rise; Downtown submarket continues to soften

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by [John Scruggs](#)

Activity in the Memphis office market is picking up after a slow first quarter and Class B space continues to see absorption in the tightening East submarket.

At Koger Center, which has seen strong leasing activity so far this year, **Mid-South Transplant** took 13,000 square feet at the beginning of 2007 and leases for **ALSAC** and **Rockwell Automation** account for another 9,400 square feet of absorption.

Koger is currently 90% leased.

Another notable first quarter deal was **Unum Group's** move from Crescent Center to 10,000 square feet in Highwoods Properties' Shadow Creek I building at Southwind.

The deal leased the last large block of Class A space in Highwoods' portfolio.

In the Poplar Corridor, Clark Tower has filled about 50,000 square feet year-to-date through new leases and expansions and the building is currently 87% occupied.

At the tail end of 2006, Clark Tower owner In-Rel Management purchased the 2400 Poplar Building, adding a second building to its Midtown portfolio which includes the Lipscomb & Pitts Building.

The Downtown office submarket continues to soften, with **Grubb & Ellis'** first quarter report showing a total vacancy of 19.9% in all classes of Downtown office.

Downtown, which saw negative 102,692 square feet of office absorption during the first quarter, was dealt another blow with the confirmation that SunTrust Banks, Inc., will not renew its 170,000-square-foot lease at One Commerce Square in 2009.

SunTrust will be moving into 50,000 square feet at one of **Boyle Investment Co.'**s two new 155,000-square-foot buildings in Ridgeway Center.

Though both Boyle and Highwoods have new Class A office properties in the pipeline for East Memphis, no new Class A office space will be delivered in Memphis this year.

Tracy Speake, managing partner with **Paradigm Realty Advisors**, says operational expenses are driving some of the rent rate increases in the East Memphis market and some tenants will likely downsize to more efficient space in new buildings or move to other submarkets.

With rate increases, people are starting to focus on the efficiency of their space and a lot of businesses are scaling down space," Speake says. "With increases in operating expenses and increased construction costs, there are higher tenant improvement costs."

Carpet and paint used to cost \$4-\$6 per square foot and they're now running \$8-\$10 per square foot, he says.

"Some of the rate increases are pure cost driven and the others are from lack of supply, especially for larger spaces," Speake says.

CoStar's first quarter office report shows the East Memphis Class A submarket losing some ground, with negative absorption of 13,353 square feet and a vacancy rate of 8.5%

Investment interest in Memphis office continues to be strong in 2007.

DRA Advisors and **Investec Realty Services** partnered to purchase Mid-Memphis Tower for \$14 million.

Hertz Investment Group, based in California, was under contract to purchase One Commerce Square before the deal fell apart. **Crye-Leike** recently sold its Quail Hollow headquarters building to California investors for \$17.5 million (see related story, Page 6).

Industrial leasing is picking up following a slow first quarter for Memphis and DeSoto County.

Announced deals that will hit in the second quarter include **ScanSource**'s 600,000-square-foot lease in Industrial Developments International's Stateline Business Park and Stylecraft Home Collection taking 250,000 square feet in Hillwood's DeSoto Trade Center.

Another positive is Goodyear's lease renewal for its 600,000-square-foot Memphis distribution center.

Brad Kornegay, president of **Colliers Management Services**, renewed Goodyear's lease at Airport Industrial Park.

Dan Wilkinson, chairman of **Colliers Wilkinson & Snowden**, says Goodyear was debating shutting down its Memphis operations prior to renewing the lease.

"There have been a number of good deals for the market this year," Wilkinson says, noting ScanSource and Stylecraft's leases. "And there are a lot of 3PL deals floating around in the 100,000- to 400,000-square-foot range."

Wilkinson says year-to-date activity has been pretty typical for what the Memphis market normally experiences during the first four months of the year.

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