

Memphis Business Journal

SPACE

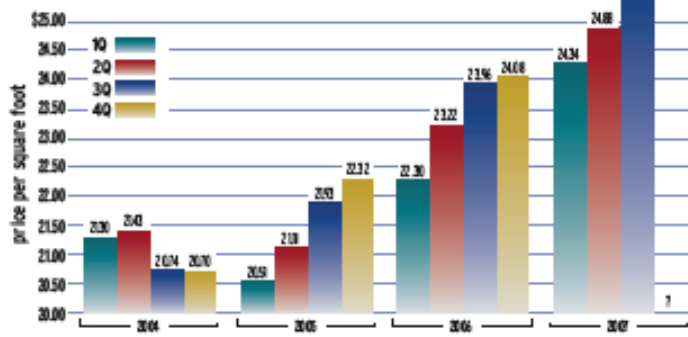
OFFICE REAL ESTATE

The \$30/square foot barrier



Kemp Conrad
at International Place, where
space costs inch up

THE \$30/SQ. FT. BARRIER East Memphis Class A office space



SOURCE: CB Richard Ellis Office MarketView
LEE SWETS | W&J

Some Memphis Class A office space could reach \$30/square foot by the end of 2008

BY ANDY ASHBY

While oil has been flirting with \$100 a barrel, the Memphis office market has been working toward a milestone of its own: the \$30 per square foot lease rate.

Class A office space in East Memphis is currently averaging \$26.73 per square foot, according to the third quarter 2007 CB Richard Ellis MarketView report — it's the best candidate to break the mark with its 2.9% vacancy rate.

The average asking lease rate for that submarket is expected to reach \$28.50 by the second quarter 2008, according to Co-Star Group, Inc., projections.

While the average lease rate may take more than a year to break the \$30 barrier, new Class A space in East Memphis, as well as some current leases, could reach the mark even sooner.

The \$30 lease rate is a significant milestone for the Memphis market, according to Ron Kastner, senior vice president at CB Richard Ellis Memphis.

"That starts to put Memphis in context with other peer markets," he says. "I think it starts to give Memphis the rent credibility that outside investors need to see in order to invest in this market."

A few years ago, the Poplar corridor could only command a \$22 per square foot rent, so a high sale price could be prohibitive to outside investors.

"Now that \$30 mark is very important because more money is being put into our market by outside investors who believe it can yield them returns they need to pay the prices for these buildings," Kastner says. "You start seeing more and more competition among owners to buy these buildings and you get new blood and new money in the market, which is a good, healthy thing."

It also puts Memphis on par with Class A space in comparable markets, such as Charlotte's downtown market, which was asking an average of \$24.96 per square foot in third quarter 2007.

"Five years ago, we were sorely lagging behind," Kastner says. "It wasn't an investor-friendly market because rate growth was so stagnant that they couldn't rely on aggressive underwriting to return their profits of what they

Before.

After.



We're the same attentive company after you sign the lease as we were before.

Moving into a new office space is usually about growth, an acquisition, or other big changes at your company. But often, your new offices have some changes in store for you. The friendly leasing agent turns you over to a less attentive manager at company. Or worse yet, the building gets leased up and sold to out-of-state owners. But Boyle is different because we are always the same. Founded in 1933, Boyle has owned, leased and managed efficient office

space in Memphis for more than 70 years. With custom developments for companies such as Morgan Keegan, Helena Chemical Company, Baptist Memorial Health Care Corporation, SunTrust and Marsh USA, Boyle is known for office properties that retain their value and appeal. To learn more, contact Mark Halperin and make sure your office space search includes Boyle. You'll certainly be able to tell the difference.



1933-2008

WWW.BOYLE.COM

BOYLE

901/767-0100

BROWN PROPERTIES

COMMERCIAL & INDUSTRIAL REAL ESTATE

Sales • Leasing • Consulting

187 Stateline Road, Suite 12
Southaven, MS 38671

JIM BROWN, CCIM, BROKER

662-393-2255

www.brownproperties.info
Licensed in MS, TN and AR

ARE YOU LAST ON THE ROUTING LIST?

for **RICHER RESULTS**

Memphis Business Journal
Call 901.528.1000 for a subscription, editorial or advertising information.



were having to pay to get these buildings."

One reason lease rates have risen steadily over the years is that more out-of-town buyers such as Highwoods Properties, Inc., Parkway Properties, Inc.,

Highwoods Properties, Inc.

Real estate investment trust

HQ: Raleigh, N.C.

President and CEO: Edward J. Fritsch

Local address:

6410 Poplar,

Suite 140

Phone: (901)

683-2444

Web site:

www.

highwoods

.com

and Behringer Harvard are looking to the Bluff City for investment.

"They're buying buildings based on an economic that they have to hit in order to make their board members or shareholders or client happy," Kastner says. "It makes for more aggressive underwriting and more aggressive market rates."

With CoStar showing \$29.50 asking rates at Crescent Center and International Place, those buildings could go over \$30 per square foot with increased expenses alone.

Some office renewals will break the \$30 per square foot barrier in the third or fourth quarter, as the market norm is for rents to grow 2%-3% per year, according to Kastner.

Boyle Investment Co. should have the only new Class A office building with any availability in 2008, meaning supply will stay in check.

Highwoods is working on a new East Memphis office building, which could start construction this quarter and would take 18 months to build. Construction costs and market health are the two main factors in the decision to build new product.

"If new construction meant you needed to get \$29.50 a foot and you could only get \$20, you wouldn't build the building," says Steve Guinn, Highwoods vice

president. "What's happened is the market has moved to where you have viable market rent vis-a-vis what you need to get from a construction standpoint."

Highwoods has an aggressive capital improvement plan in order to maintain the lease rates of its properties.

For example, it will renovate all the restrooms in its buildings by 2009.

"We have a rigorous plan to continue to put capital in our buildings," Guinn says. "If your properties start looking worn, tenants are always going to recognize that and it's not going to be as fruitful of a renewal or new lease as it would be otherwise."

Kemp Conrad, senior vice president at Commercial Advisors LLC and president and CEO of Commercial Alliance Management, did more than 250,000 square feet of office space deals in Memphis in 2007, much of it in East Memphis.

'Office real estate is a cycle.

*You've got oversupply,
then you've got lease up,
then you have over demand
and then people add product.'*

Kemp Conrad
President and CEO

Commercial Alliance Management

For the past few years, it has been a tenant market, Conrad says, with potential office users having multiple options in East Memphis.

"The tables have somewhat turned and now when we're working with tenants, our job is finding space that's not even readily available on the market," Con-

rad says. "We're using our proprietary knowledge about buildings to ferret out spaces that aren't even available."

However, with office product on the way from Boyle, Highwoods and Peck Development Co., rates could flatten out.

"Office real estate is a cycle," Conrad says. "You've got oversupply, then you've got lease up, then you have over demand and then people add product."

While a \$30 average for the East Memphis Class A market could be years away, there are three prime candidates to break the barrier in 2008.

Conrad labels these three: Crescent Center, Renaissance Center and International Place, as Class AA.

"I think you'll see deals in those buildings popping through that barrier because you have several tenants vying for rare vacancies," he says.

aashby@bjournals.com | 259-1732



In-Rel Management, Inc.
Intelligent Real Estate

would like to thank our new
tenants for making 2007
our best year ever!

Hilton Hotels Corporation
Colliers Wilkinson Snowden
USI

Good Advertising
Caywood & Causey
The Brady Corporation
Avanade

CBRE Melody
Fozzi
Forever Fit
CareFocus
WCS Funding
Asham

Corporate Protective Security
General Information Services

Jimmie Hughes
Neurorecovery
Paper Trace

Sherril Samrau
Tennessee Career Professionals

Tri-State Title
Parr Financial
GP Advisory Group
Fortress Financial
Summit Title & Escrow
Atlas Marketing Group

For leasing information visit
www.in-rel.com
or contact

Frazier Baker Dana Whitmore
901.682.9200 901.682.9200
fbaker@in-rel.com dwhitmore@in-rel.com

t

We close a lease every 3 minutes
in markets around the world
and we still make sure every t is crossed.

CB Richard Ellis has the most feet on the ground in markets around the globe. We're better able to see where the market is and where it's going. We're better able to uncover opportunities before others can. And every detail of every assignment is expertly handled in support of the client's business strategy. So real estate solutions become business solutions. At CB Richard Ellis, scope meets vision.

The right business partner for all your real estate needs.
#1 in commercial real estate worldwide www.cbre.com/memphis 901.528.1000

CBRE
CB RICHARD ELLIS