

BUSINESS

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Industrial real estate heated by DeSoto

Intense competition vs. Memphis is expected to continue in 2006

Editor's note: This article is part of a series of stories highlighting the year's events in various sectors of the Memphis economy.

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From Downtown to East Memphis and North Mississippi,

the commercial real estate industry had a busy year in 2005.

Industrial real estate saw huge gains, turning the Memphis area into one of the hottest markets in the country.

Many of the gains came from south of the state line as the competition between Memphis and North Mississippi intensified.

"I think the story there is DeSoto County," said Larry Jensen, president and chief executive of Commercial Advisors LLC. "The shift is complete. From the

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national standpoint, it's still the Memphis market and people still want Memphis's global logistics infrastructure, but more and more people want to be in DeSoto County."

Lured by available land and the ease of doing business and put off by the controversy swirling around Memphis's payment-in-lieu-of-taxes program, more developers turned to DeSoto County than ever before.

Dallas-based Hillwood Investment Properties cut a deal with Helen of Troy for a 1.2 million-square-foot facility and then followed up with an 800,000-square-foot distribution center for Kuehne & Nagel.

Hillwood announced two new buildings that will add 853,000 square feet to DeSoto Trade Center, a 668-acre park that has the capacity for 16 buildings totaling more than 11 million square feet.

Industrial Development International bought the 475-acre Crossroads Distribution Center, while ProLogis bought 140 acres in the DeSoto Distribution Park. Panattoni Development Co. recently purchased 77 acres in Olive Branch.

"Last year, North Mississippi really began to emerge as a competing market to the Memphis market," said Dan Wilkinson, chairman of Colliers Wilkinson & Snowden and Hillwood's local representative. "Now, it is apparent that it's going to be a major competitor to the Memphis market."

But Memphis isn't dead yet.

Hewlett Packard signed a lease to occupy the 789,000-square-foot Summit Distribution Center II in Southeast Memphis.

Jabil Global Services announced it was consolidating all of its operations into 350,000 square feet of space at the former Troll Publishing building in Southeast Memphis.

And IDI recently closed on a contract to purchase 130 acres at the northeast corner of Tchulahoma and Holmes.

rum II and III total 177,250 square feet and are 97 percent occupied.

And FedEx's executive headquarters building, which was developed by the Weston Cos., sold for \$22.5 million.

"It means they're bullish on the market and rates are going to have to increase," said Ron Kastner, office team leader with CB Richard Ellis.

Class A rates at the end of the third quarter sat at \$19.48. The availability for Class A space in

East Memphis is 6.2 percent, and 10.4 percent in the 385 Corridor, according to CBRE.

With activity picking up at the end of the year, industry observers say 2006 could be a big year.

"The last quarter of the year we had more prospects than we've had in quite a while," said Mark Halperin, executive vice president at Boyle Investment Co. "I'm encouraged going into 2006."

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While 2005 saw plenty of land investments, it also saw a prominent Memphis family sell its industrial assets. In a landmark deal that was two years in the making, Farnsworth Investment Co. sold its entire industrial portfolio for almost \$91 million to Florida-based Net Magan LLC.

Total absorption for the Memphis market hit 6 million square feet while the industrial vacancy rate is 17.9 percent, according to CB Richard Ellis.

Meanwhile, the Memphis office market also began to show signs of life, with investors purchasing some of the city's premier office buildings.

IPC US REIT, a Canadian real estate investment trust, purchased the Crescent Center of office building in East Memphis for \$63 million.

Parkway Properties Inc. bought the Forum I building in East Memphis for \$21.17 million, giving it ownership of all three Forum buildings — Fo-