

MARKETBEAT

RETAIL SNAPSHOT

KNOXVILLE, TN

A Cushman & Wakefield Research Publication

Q4 2013



ECONOMIC OVERVIEW

Tennessee was ranked No. 5 on Site Selection magazine's annual list of states with the best business climates, a three-spot gain from 2012. Although the state struggles to lower its unemployment rate, Knox County has the second lowest rate and continues to outperform the national average. Additional attention turned to Knoxville when Livability.com ranked the city the No. 61 most livable small- to mid-sized city in the country and No. 7 on a list of the best places to retire.

KNOXVILLE RETAIL MARKET

The Knoxville retail market ended 2013 with an overall vacancy rate of 7.4%, a 0.4 percentage point increase over midyear rates. Over the past four quarters, the market has seen an overall increase in the vacancy rate having started 2013 at 7.1% vacant. The largest lease signed in 2013 happened in Q4 when Conn's inked a 34,942 square foot (sf) deal at Town & Country Commons in the Cedar Bluff/Walker Springs submarket. Total leasing activity for 2013 was 466,000 sf.

Tight vacancy rates and limited construction in the pipeline continue to limit the opportunities for tenants to enter the market. Tenants occupying large blocks of space in 2013 include: Publix moving into 49,000 sf at 11656 Parkside Drive; ITT Educational Services, Inc. moving into 31,757 sf at Cedar Bluff Center and Cheesecake Factory moving into 9,558 sf at 7600 Kingston Pike.

New construction continues to be dominated by grocery-anchored shopping centers. In addition to announcing proposed plans for store development in Powell and Maryville, Kroger has commenced construction in Oak Ridge for their relocation into a larger Marketplace concept. Publix expects to open their third Knoxville location at University Commons near the University of Tennessee campus this year. Construction is underway in Bearden for Knoxville's first Whole Foods, while another organic grocer has plans to open in Cedar Bluff.

OUTLOOK

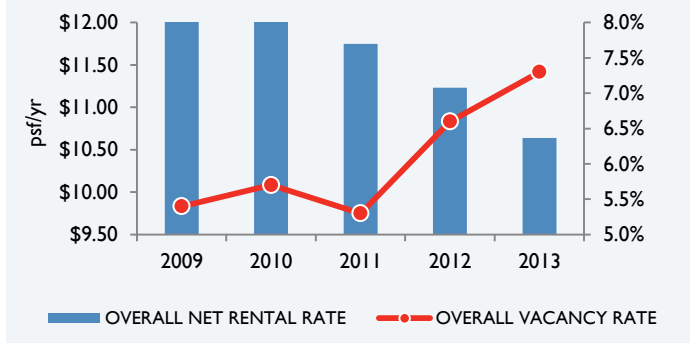
Although a handful of the grocery developments relate to existing store relocations, there is concern that the number of grocery stores is growing more quickly than the Knoxville population's demand for groceries. As a result, inferior operators will likely be forced out of the market due to oversaturation, which could result in large boxes of vacant space. Food City recently announced the closure of their Cedar Bluff store, which may be an early indication of this scenario.

ECONOMIC INDICATORS

NATIONAL	2012	2013F	2014F
GDP Growth	2.8%	1.9%	3.2%
CPI Growth	2.1%	1.5%	2.0%
Consumer Spending Growth	2.2%	2.1%	3.4%
Retail Sales Growth	5.3%	4.4%	5.8%
REGIONAL	2012	2013F	2014F
Household Income	\$45,193	\$45,348	\$46,350
Population Growth	0.8%	0.9%	0.9%
Unemployment	6.6%	6.9%	6.0%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



Source: CoStar

** KNOXVILLE SUBMARKET STATISTICS (TOP FIVE)

SUBMARKET	INVENTORY	QUARTERLY CHANGE IN INVENTORY	VACANCY RATE	DEMAND (OCCUPIED SQUARE FEET)	ASKING RENT	RENT GROWTH	ABSORPTION
North/Broadway	10,775,698	185,960	6.4%	10,087,428	\$9.85	6.5%	24,201
Bearden/Papermill	6,652,933	(1,686)	5.0%	6,317,966	\$13.93	2.1%	(40,437)
Blount County	6,397,636	61,648	4.9%	6,084,135	\$11.38	9.7%	41,183
Anderson County	5,188,196	118,809	13.6%	4,484,656	\$8.19	(7.2%)	9,240
Pellissippi/Lovell	4,009,596	50,526	6.1%	3,764,392	\$13.05	(3.5%)	84,336
TOTAL MARKET	50,685,503	606,256	7.4%	46,915,075	\$10.64	(0.2%)	38,677

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

**THIS TABLE INCLUDES KNOXVILLE'S TOP FIVE SUBMARKETS BY INVENTORY SIZE. THE TOTAL MARKET INCLUDES THE OVERALL KNOXVILLE MARKET.

KNOXVILLE MARKET BY TYPE

	VACANCY		RENTAL RATES		MEDIAN SALES PRICE / SQUARE FEET	
	Q4 2012	Q4 2013	Q4 2012	Q4 2013	Q4 2012	Q4 2013
General Retail	3.5%	3.2%	\$13.51	\$13.97	N/A	N/A
Mall	14.4%	15.3%	\$15.90	\$12.67	N/A	N/A
Power Center	7.1%	6.5%	\$9.09	\$9.30	N/A	N/A
Shopping Center	11.9%	12.1%	\$10.39	\$9.48	N/A	N/A
TOTAL MARKET	7.5%	7.4%	\$11.33	\$10.64	\$81.09	\$92.01

* RENTAL RATES REFLECT ASKING \$PSF/YEAR

MARKET HIGHLIGHTS

Significant 2013 Lease Transactions	SUBMARKET	TENANT	PROPERTY TYPE	SQUARE FEET
Town & Country Commons	Cedar Bluff/Walker Spgs	Conn's	General Retail	34,942
5713 Clinton Highway	North/Broadway	Unknown	General Retail	10,000
Significant 2013 Sale Transactions	SUBMARKET	BUYER	PURCHASE PRICE / \$PSF	SQUARE FEET
8079 Kingston Pike	Bearden/Papermill	Hatcher-Hill Properties	\$2,650,000 / \$36.54	72,518
101 Cheeyo Way	Loudon County	Cole Real Estate Investments	\$5,350,000 / \$130.49	41,000
Significant 2013 Construction Completions	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
N/A				
Significant Projects Under Construction	SUBMARKET	MAJOR TENANT	COMPLETION DATE	BUILDING SQUARE FEET
N/A				