Economic Competition and the Payment In Lieu Of Tax Incentive Program

Presentation to the
Shelby County Commission
Economic Development & Tourism Committee
February 18, 2009

Restoring Memphis/Shelby County's Competitiveness in Today's Global Economy

Economic Competition

1. Competition is growing . . . close to home
2. PILOT is primary local incentive
3. Strengthening the PILOT program

Competition is Growing

"Almost 1.7 million square feet are under development, primarily in DeSoto County, Mississippi, where the business environment is friendly and tax incentives healthy."

COLLIERS WILKINSON SNOWDEN | MEMPHIS

Market Research

MARKET OVERVIEW | MID YEAR | 2008

MEMPHIS | OVERVIEW | MID-YEAR | 2007

WHY MEMPHIS?....

- *Memphis is "America's Distribution Center"*
- *Federal Express operates its worldwide headquarters and World-hub in Memphis. UPS has its 3rd largest facility in the U.S. in Memphis and DHL operates a regional facility*
- *Memphis International Airport has been cited as the world's busiest cargo airport since 1991, handling more than 3.8 million metric tons in 2007.*
- *Memphis has the fourth largest inland port in the nation and the second largest inland port on the lower Mississippi, handling more than 18 million tons of cargo each year.*
- *Seven U.S. Highways converge in Memphis: Highways 51, 61, 64, 70, 72, 78, 79*
- *Memphis is one of only three cities served by five or more Class I rail systems.*
- *Forty-five states can be reached within a two-day service*

Cont'd....the 2nd quarter of 2008 as a result of the ten-day price spike that forced actual delivery of cotton. Shane Stephens, V.P. of Warehousing for Staplcotn, the largest producer-owned cotton cooperative in the U.S. explains, "Memphis is one of only four markets in the country approved by the Cotton Exchange to take delivery on futures contracts."

The last half of 2008 is likely to more closely mirror the declining national trends. The recent announcement that Hewlett-Packard will be reducing warehouse space by at least 2.2 million square feet in the Southeast Memphis submarket will likely contribute to increasing vacancy rates as HP's consolidation takes place later this year.

In other market news, Nike, Inc. continues construction of its new 1.1 million square foot distribution center in North Memphis. This new development may prompt additional industrial tenants to move into the area and focus some attention back on this area of the market.

Beyond the numbers

Though Memphis is not immune to the economic issues plaguing the entire country, its higher-than average vacancy rate in the industrial market is due in part to continued development. Almost 1.7 million square feet are under development, predominately in DeSoto County, Mississippi, where the business environment is friendly and tax incentives healthy. According to Dan Wilkinson, chairman of Colliers Wilkinson Snowden, "you really have to get into cities the size of Dallas and Atlanta to get a larger conglomeration of really potent national developers who are all actively building product." The presence of national developers like Industrial Developments International, Panattoni, Hillwood and ProLogis that can easily put up 1 million-square-foot buildings, has a major impact on a smaller market like Memphis.

UPDATE

EXAMPLES OF MAJOR RECENT TRANSACTIONS IN THE MARKET

LEASING ACTIVITY *Excludes Lease Renewals

PROPERTY	SUBMARKET	TENANT	LANDLORD	SIZE/SQ. FT.	TYPE
ProLogis Park DeSoto	DeSoto County	New Breed Logistics	ProLogis	469,232	Bulk, Class A
Kuhn Road Distribution Center	Crittenden County	DSC Logistics	TCB	450,000	Bulk, Class A
Centerpoint Distribution Center	Southeast	Cooper Lighting	ProLogis	400,000	Bulk, Class A
Hurt Road Industrial	DeSoto County	Mallory Alexander Int'l	First Industrial	397,300	Bulk, Class B
Southaven Distribution Center	DeSoto County	Proalliance	Panattoni	390,000	Bulk, Class A
Chickasaw Distribution Center	Southeast	Creative Co-op	JP Morgan	380,000	Bulk, Class A
Southpoint	Southeast	New Breed	TIAA-CREF	353,950	Bulk, Class A
Airport Industrial Park	Southeast	Int'l Cotton Depot	Trammell Crow	336,000	Bulk, Class C
Airways Distribution Center	DeSoto County	ASI Computer Tech.	Hillwood	231,500	Bulk, Class A
EastPark Distribution Center	Southeast	Centrepot	Panattoni	216,000	Bulk, Class A
DeSoto Trade Center	DeSoto County	FedEx Smartpost	Hillwood	150,526	Bulk, Class A
EastPark Distribution Center	Southeast	Quebecor	Dividend Capital	149,200	Bulk, Class A

SALES ACTIVITY *Contact CWS for a complete list of sales

PROPERTY ADDRESS	SALES DATE	SALE PRICE	SIZE SQ. FT.	SALES PRICE/SQ. FT.	TYPE
Stateline Business Park	01/04/08	$55,000,000	1,437,822	$38.25	Bulk, Class A
4250 E. Shelby Drive	01/30/08	$7,500,000	588,764	$12.74	Bulk, Class B
4100 Quest Way	02/15/08	$6,292,500	231,000	$27.24	Bulk, Class A
3755 Knight Arnold	05/23/08	$5,250,000	212,000	$24.76	Bulk, Class B
2665/2725 Riverport	04/28/08	$4,200,000	162,500	$25.85	Distribution, Class B
3363 MIAC Cove	04/08/08	$4,450,000	131,225	$33.91	Distribution, Class A
3347 Pearson	06/13/08	$2,500,000	98,925	$25.27	Distribution, Class B
4444 Delp Street	01/09/08	$2,102,625	94,500	$22.25	Distribution, Class B
3731 Distriplex Drive	05/08/08	$3,015,000	88,616	$34.02	Distribution, Class B

2 | COLLIERS WILKINSON SNOWDEN

Competition is Growing

"In 2008, net absorption reached 3,538,136 square feet. DeSoto County was responsible for over 60 percent of this yearly absorption.."

CB RICHARD ELLIS

MarketView
Memphis Industrial

www.cbre.com/research

Fourth Quarter 2008

MarketView Memphis Industrial

Vacancy

After a steep decline in the third quarter, vacancy dropped again in the fourth quarter and ended the year at 15.4 percent. These are very low vacancy figures compared to average market vacancies in the 17 to 18 percent range historically. The lack of new construction in 2008 has had a positive impact on vacancy, especially in the DeSoto submarket where vacancy has dropped by over four percentage points in the past year. This trend in DeSoto should continue as developers hesitate to build due to higher construction costs than in the past along with the amount of Class A product already available. Expect vacancy in Memphis to rise in the short term as HP completes its downsizing in Memphis.

Rental Rates

Average asking rates dipped slightly to $2.76 per square foot during the fourth quarter. This was the second straight quarterly decline after reaching a four year high of $2.88 per square foot in the second quarter of this year. After the February 2008 tornado damaged roughly 4 million square feet of space, there was a frantic need for short term space that inflated rents early in the year. Now that this has passed, expect rates to hold steady or slightly decline in the near future as leasing activity isn't likely to keep pace with the amount of space coming back on the market in the first quarter of 2009. Also, free rent offered by property owners is prevalent and expect that trend to continue in 2009.

Absorption

In 2008, net absorption reached 3,538,136 square feet. DeSoto County was responsible for over 60 percent of this yearly absorption. Despite negative absorption in Memphis' primary Southeast submarket in the fourth quarter, the MSA still registered positive absorption for the fourth quarter because of the activity in DeSoto County. The Southwest and Northeast submarkets also had strong years in 2008. Older industrial product in the Southwest provided options for low cost operators while the Northeast continued to establish itself as the primary destination for light distributors and flex space users who desire a more suburban image. As we move into 2009, expect a rough start for the Southeast submarket as HP vacates another 1.4 million square feet and Williams Sonoma downsizes by 500,000 square feet. Despite strong market activity currently, 2009 will likely bring Memphis' first quarter with negative net absorption since the third quarter of 2007.

CBRE | Memphis
CB RICHARD ELLIS

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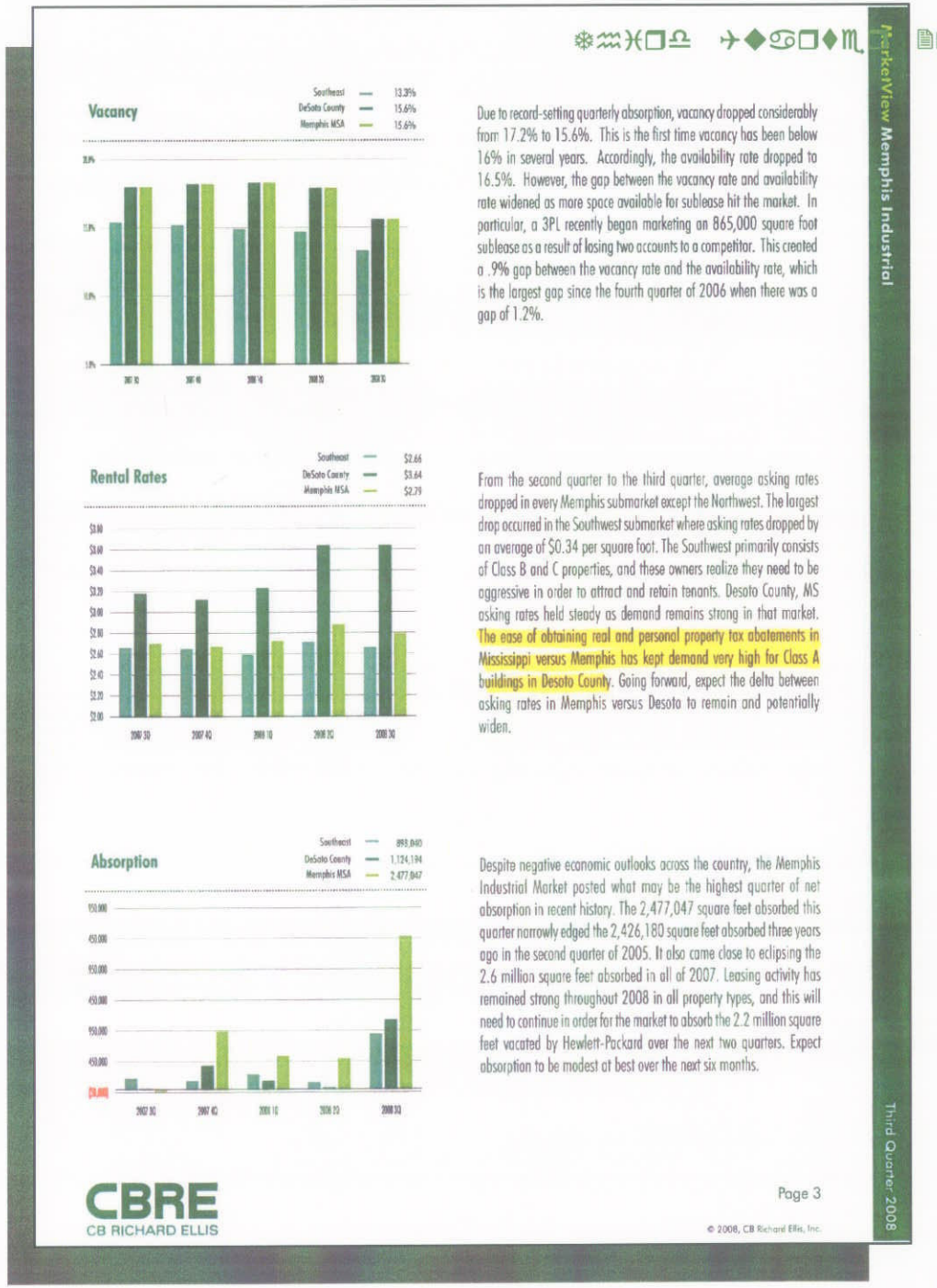
Fourth Quarter 2008

Competition is Growing

"The ease of obtaining real and personal property tax abatements in Mississippi versus Memphis has kept demand very high for Class A buildings in Desoto County."



MarketView Memphis Industrial

Vacancy

Southeast	13.3%
DeSoto County	15.6%
Memphis MSA	15.6%

Due to record-setting quarterly absorption, vacancy dropped considerably from 17.2% to 15.6%. This is the first time vacancy has been below 16% in several years. Accordingly, the availability rate dropped to 16.5%. However, the gap between the vacancy rate and availability rate widened as more space available for sublease hit the market. In particular, a 3PL recently began marketing an 865,000 square foot sublease as a result of losing two accounts to a competitor. This created a .9% gap between the vacancy rate and the availability rate, which is the largest gap since the fourth quarter of 2006 when there was a gap of 1.2%.

Rental Rates

Southeast	$2.66
DeSoto County	$3.64
Memphis MSA	$2.79

From the second quarter to the third quarter, average asking rates dropped in every Memphis submarket except the Northwest. The largest drop occurred in the Southwest submarket where asking rates dropped by an average of $0.34 per square foot. The Southwest primarily consists of Class B and C properties, and these owners realize they need to be aggressive in order to attract and retain tenants. Desoto County, MS asking rates held steady as demand remains strong in that market. The ease of obtaining real and personal property tax abatements in Mississippi versus Memphis has kept demand very high for Class A buildings in Desoto County. Going forward, expect the delta between asking rates in Memphis versus Desoto to remain and potentially widen.

Absorption

Southeast	898,840
DeSoto County	1,124,194
Memphis MSA	2,477,847

Despite negative economic outlooks across the country, the Memphis Industrial Market posted what may be the highest quarter of net absorption in recent history. The 2,477,047 square feet absorbed this quarter narrowly edged the 2,426,180 square feet absorbed three years ago in the second quarter of 2005. It also came close to eclipsing the 2.6 million square feet absorbed in all of 2007. Leasing activity has remained strong throughout 2008 in all property types, and this will need to continue in order for the market to absorb the 2.2 million square feet vacated by Hewlett-Packard over the next two quarters. Expect absorption to be modest at best over the next six months.

CBRE
CB RICHARD ELLIS

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Third Quarter 2008

Competition is Growing

"Any community that has rigid residency requirements as part of receiving incentives is putting itself in a non-competitive situation. Companies make decisions to locate based upon multiple criteria -- one of the most significant is labor availability with the skill sets for the positions. This labor availability is measured by a labor shed which includes several counties and in some cases more than one state such as the case with Memphis, TN."

Del Boyette, Principal
Boyette Levy
Strategic Business Consultants
Atlanta, GA

Competition is Growing

Industrial Market Buildings Delivered (square feet)		
	Shelby County	DeSoto County
2005	1,978,700 s.f.	4,000,000 s.f.
2006	1,625,700 s.f.	2,600,000 s.f.
2007	658,900 s.f.	2,900,000 s.f.
2008	1,411,300 s.f.	1,400,000 s.f.
	5,674,600 s.f.	10,900,000 s.f.

Source: The COSTAR Industrial Report, 2005-2008

Competition is Growing

Many commercial real estate brokers say this lease is another situation where Memphis and Shelby County's current payment-in-lieu-of-taxes program dampened the attraction for a business north of the state line.

"Memphis never even had a chance," Brad Kornegay, president of Colliers Management Services LLC, says, "I'm angry, and unemployed distribution workers who never had a chance for a job should be angry."

Memphis Business Journal

Friday, February 13, 2009

Jacobson to handle Ralston distribution in 500,000 square feet

Memphis Business Journal - by Andy Ashby

Jacobson Warehouse Co., a third party logistics company, has signed a 500,000-square-foot lease at Industrial Development International's **Crossroad Distribution Center**, Building F, in Olive Branch, according to real estate industry sources.

Jacobson will use the space to warehouse product for **Ralston Foods, Inc.**, a division of **Ralcorp Holdings**, Inc. In August 2008, Ralcorp acquired the Post cereals business from **Kraft Foods, Inc.**, for $2.6 billion, which it now operates under Ralston.

"My job is to recruit industry to Memphis and Shelby County and we compete, but I would much rather see a project land in DeSoto County, Crittenden County or Fayette County as opposed to going to another region," Mark Herbison, senior vice president of economic development for the **Greater Memphis Chamber**, says. "I want to see it here (Shelby County) first, but if not, the closer the better."

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"Memphis never even had a chance," Brad Kornegay, president of **Colliers Management Services** LLC, says. "I'm angry, and unemployed distribution workers who never had a chance for a job should be angry."

The tax-abatement program, which is administered by the Memphis and Shelby County Industrial Development Board, is an economic development tool designed to lure companies to the area.

In recent years, several controversial additions, such requiring an incoming company to have 75% of its future work force live in Shelby County, have slowed industrial leasing and development in the county.

DeSoto County, on other hand, has a more streamlined and less restrictive tax incentive program.

As result, all of the speculative industrial warehouses developed over the past two years have been in DeSoto County.

In 2007, **IDI** completed the 800,308-square-foot Building F, which has a Silver Leadership in Energy and Environmental Design (LEED) certification.

It is located at 12384 Kirk Road, near Polk Lane.

Before this lease, Jacobson had 110 employees and 300,000 square feet of warehouse space in the Memphis market, according to **Memphis Business Journal**'s 2008 Book of Lists.

John Duffy, director of operations with Jacobson, did not return phone messages.

Tim Moore, vice president of IDI, represents the building but declined to comment. Jim Mercer, executive vice president at CB Richard Ellis Memphis, represented Jacobson locally but would not comment.

Kornegay says he has heard from companies how daunting Memphis and Shelby County's economic development packages are.

"Now we have Memphis being redlined by investors, national developers closing offices and decreasing building values, which ultimately lowers the tax base," he says.

Kornegay doesn't solely attribute the slowing of activity in Southeast Memphis, traditionally the area's dominant industrial submarket, to the current economic crisis.

"People want to talk about the few companies that did not meet their job/investment goals — not about the hundreds of companies that did and remain good corporate citizens providing thousands of jobs and capital investment for our community," he says.

66,885 employees, or 11.6% of Memphis' work force, is involved in the logistics sector, according to data published by **Living Cities Interactive Databooks**.

"We need to ask ourselves, 'Are distribution jobs important to our community?'" Kornegay says. "If so, let's do something about it. Pursuing biotech or other high-paying jobs is great, but let's make sure we also provide job opportunities with 'on the job training' and health benefits for all educational levels of the work force."

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Competition is Growing

"Part of the reason for DeSoto County's success has been tax abatements, which are easier to obtain than in Shelby County."

Memphis Business Journal - March 24, 2008
http://memphis.bizjournals.com/memphis/stories/2008/03/24/story1.html

Memphis Business Journal

Friday, March 21, 2008

ASI Computer to distribute from Southaven

California firm leases space in Airways Center

Memphis Business Journal - by Andy Ashby Staff writer

ASI Computer Technologies, Inc., has signed a 231,500-square-foot lease in Southaven.

The computer component distributor will take space in the 619,000-square-foot **Airways Distribution Center**, Building 1. There is 387,500 square feet of space available in that building.

Gene Woods, president of **Colliers Wilkinson & Snowden**, represented ASI in the transaction.

Brad Kornegay, president of Colliers Management Services LLC, represented the building's landlord, Dallas-based **Hillwood Investment Properties**, which acquired the building from Helen of Troy (NASDAQ: HELE) in 2006.

"The city of Southaven was very accommodating and assisted us by working quickly through the permitting phase of ASI's interior build-out," says Toby Rogers, vice president of Hillwood Investment Properties.

The lease was negotiated about the time tornadoes ripped through DeSoto County and Southeast Memphis in early February.

"We were very fortunate that there was only minor damage to this facility, especially when you look at the buildings immediately to the north and west that had severe damage," Rogers says.

ASI, which distributes computer components such as motherboards, video cards and processors, plans to open the facility in late April.

"It allows us to have additional capacity to support our growth," says Kent Tibbils, senior director of marketing for ASI. "As the company continues to grow, we need to be able to have warehousing to support the inventory to build our business."

The Southaven operation will be the private company's 12th warehouse in North America. It has 21 locations worldwide.

One reason ASI chose the Memphis area is for its central location.

Competition is Growing

"While headlines bellow economic stress, IDI plans to build more than 7 million square feet at site, more space than at any other distribution park on paper to date."

commercialappeal.com Memphis, Online

Read more at commercialappeal.com

Big spaces to fill at Olive Branch warehouse

Complex could become largest in DeSoto Co.

By Tom Leposka

Tuesday, March 25, 2008

A cavernous warehouse constructed on the eastern edge of Olive Branch's city limits is the first building of what reportedly will become the largest distribution center in DeSoto County.

The speculative warehouse, designated "Building F" on architectural drawings, faces Kirk Road on the northeast corner of Polk Lane. It is nearly finished, almost ready for occupants.

Construction is being completed at a rapid pace. Only a year ago, Atlanta-based Industrial Developments International received city approval for 475-acre Crossroads Distribution Center.

While headlines bellow word of economic stress, IDI plans to build more than 7 million square feet at the site, more space than at any other distribution park on paper to date.

The work will be conducted over a period of several years. This first building is 800,308 square feet. The capital investment has already been $30-35 million. Another 13 buildings are planned, the largest to be 926,640 square feet.

"This is purely speculation," said Tim Moore, an IDI employee responsible for trying to find tenants for the building. "Activity has been steady. We don't have any leases pending. We hope activity increases."

Prospective tenants have included a logistics company, food distributor and tire and wheel distributor.

Moore touts the labor pool and the proximity of the site to highways and other transportation as a sales tool with tenants.

He also says the building is "green," with energy- and cost-saving construction like skylights and photosensitive light fixtures.

Such facts, Moore feels, put Crossroads in a good position to attract businesses over a period of several years, despite the current grim economic climate.

Competition is Growing

"It was financially more viable than the Memphis side, "White said. "there are better incentives to move to that side of the line."

commercialappeal.com Memphis, Online

Printer-friendly story

Read more at commercialappeal.com

MotoSport signs for Southaven

Ore.-based motorcycle/ATV company will open distribution, small retail center

By Amos Maki

Friday, January 4, 2008

A company specializing in motorcycles and ATVs is opening a new distribution and retail center in Southaven, the second major new distribution center to land there in less than a month.

Portland, Ore.-based MotoSport Inc., an online retailer of motorcycle and ATV parts, apparel and accessories, has signed a lease for 291,672 square feet at Building B at Industrial Development International's Stateline Business Park on Stateline Road near Swinnea.

MotoSport will close an existing distribution center in Portland and open the Southaven distribution center in the third quarter. The Southaven location will include a small retail store for returned or overstocked items.

The national distribution center will employ at least 200 people when it opens, but that number is expected to grow over time, company officials said.

"The company is growing quite quickly," said Jon White, president and CEO of MotoSport. "We're a direct-to-consumer merchant, no brick and mortar, and we are known for having it in stock and getting it out quickly, and that is why we are coming to the Memphis area."

MotoSport had looked at Memphis but decided to do business in Mississippi.

"It was financially more viable than the Memphis side," White said. "There are better incentives to move to that side of the line."

Patrick Burke of CB Richard Ellis Memphis and Bayne Porter of CBRE Atlanta represented MotoSport.

Burke said the fast pace of the project and the ease of obtaining tax savings -- a constant refrain from industrial customers, brokers , developers and consultants -- drove the project to Southaven.

Competition is Growing

"In October, the Memphis and Shelby County Industrial Development Board approved tax freezes for the two Memphis sites. But Trane was swayed by the mix of incentives from DeSoto County and Southaven, as well as the county's business friendly climate."

commercialappeal.com

Read more at commercialappeal.com

DeSoto lands Trane facility

County's incentives persuade; Parts center could employ 140

By Amos Maki

Thursday, December 20, 2007

Trane, one of the world's largest producers of heating and air-conditioning systems, has tapped Southaven for its new national parts distribution center, a project that will create as many as 140 jobs.

Besides the new jobs, Trane is transferring about 60 people to the new facility from a center in Memphis that it is closing. The company will also close a distribution facility in LaCrosse, Wis.

After considering sites in Memphis, Trane is leasing a building at Industrial Developments International's Stateline Business Park. It is scheduled to open early next year.

Company spokesman Art Scheskie said the company is following its suppliers and customers south.

"We were centering on the Memphis area because it is more centrally located to our customers and suppliers, which makes us more competitive and allows us to improve our service to our customers," he said. "We wanted to have one large distribution center that was central to our customers, and that is why we picked the Memphis area."

Memphis was competing for the Trane project and had offered the company tax incentives.

Trane, which occupies 100,000 square feet at 4250 Concord in Memphis, was considering space at two Memphis properties: 350,000 square feet at Pro Logis Memphis Distribution Center, and 350,000 square feet at Summit Distribution Center, 5050 Holmes.

In October, the Memphis and Shelby County Industrial Development Board approved tax freezes for the two Memphis sites. But Trane was swayed by the mix of incentives from DeSoto County and Southaven, as well as the county's business-friendly climate.

Competition is Growing

	Desoto Co.	Shelby Co.
Annual Property Tax	$214,545	$291,600
* 10,000,000 Industrial Building		

PILOT Incentive

Since 1990 . . .

- 317 PILOTs approved
- for 248 companies
- 53 no longer operating
- 7 moved

PILOTS Granted	
2002 . . .	15
2003 . . .	14
2004 . . .	16
2005 . . .	15
2006 . . .	10
2007 . . .	11
2008 . . .	6

PILOT Incentive

From 2004 – 2008

58 PILOTs approved, with:

- 7,721 projected new jobs
  - Medium wage of $45,935
- $1.66 billion of projected new investment
- $276,071,521 projected economic benefit
- $171,435,497 projected taxes forgiven
- $104,636,024 projected net gain

Source: Memphis/Shelby County Division of Planning & Development, Department of Economic Development

PILOT Incentive

ALL active PILOTs as of 12/31/07 *

21,038	jobs committed
22,359	jobs created
1,321	above commitment

** Source: Performance Reports, data through 12/31/07. All 2008 data from Performance Reports due March, 2009.*

Strengthening the PILOT

ADMINISTRATIVE PROCEDURES

1. Enhance compliance monitoring of individual PILOTs.
2. Expand reporting to the Shelby County Commission.
3. Encourage large employers and/or those with highly-compensated jobs.
   - Remove incentive caps
4. Better understand the competitive environment and factors effecting each project.
   - Substitute for the "But-For" test
5. Retain options to attract new projects
   - Caps years for specific projects, not real estate
6. Facilitate complex, multiple-site, projects

Strengthening the PILOT

SUBSTANTIVE PROCEDURES

1. Recapture Payments – companies find these to be onerous, expensive and not necessary in competing communities. They create financial uncertainty and complicate project financing.

   - Propose:

     A. Bankruptcy/Closure

        - Unanticipated loss to all concerned
        - Cancel PILOT if not required to attract successor

     B. Relocation Prior to End of Term

        - Rarely happens (1 of 248 companies, 6 moved after PILOT expired)
        - 3 year test
        - Immediately cancel PILOT, no recapture

Strengthening the PILOT

C. Default
   - Current policy/procedures
   - "Clawback"

2. Incentive to Attract major tourism projects

- Currently most are ineligible – part-time jobs (don't count for PILOT) and no health care benefits.

- Propose:
  A. For projects qualifying for TDZ status
  B. Allow FTEs for PILOT calculation
  C. Allow flexibility on wages and benefits

Strengthening the PILOT

3. Residency Requirement
   - Companies wary of projecting and enforcing where their employees will live over an extended number of years.
   - Propose:
     A. IDB to encourage and assist employers in hiring Shelby County residents
     B. Remove regulatory cost (and legal concerns) of hiring talent
4. Evaluation Committee
   - Lengthens the administrative process; review, vetting and PILOT determination done twice.
   - Proposal:
     A. Streamline process incorporate evaluation process into full IDB

MEMPHISED

MEMPHIS AREA ECONOMIC DEVELOPMENT PLAN

Questions