

MARKETBEAT MEMPHIS



Industrial Q4 2021

YoY Chg 12-Mo. Forecast

4.8%
Vacancy Rate

4.9M
Net Absorption, SF

\$3.77
Asking Rent, PSF

Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2021

YoY Chg 12-Mo. Forecast

660K
Memphis
Non-Farm Employment

4.5%
Memphis
Unemployment Rate

4.2%
U.S.
Unemployment Rate

Source: BLS

ECONOMY:

The US economy continues to do well, despite market turbulence in specific areas. Nonresidential construction remains 20% below the pre-pandemic level, while consumer purchases of durable goods soared to almost 30% above the pre-pandemic level before starting to decline in the second half of this year as noted in Deloitte's Q4 forecast. Initial claims for state unemployment benefits tumbled 71,000 to a seasonally adjusted 199,000 for the week ended Nov. 20, the lowest level since 1969.

The goods trade deficit narrowed sharply last month as exports surged. The U.S. Federal Reserve reports capacity utilization at factories increased to the highest since December 2018, suggesting that constraints may be easing and helping manufacturers ramp up production. Forecasts for the personal consumption expenditures price gauge, which the Federal Reserve uses for its inflation target, were boosted for each quarter through the end of next year leading Fed officials to signal that they're ready to raise interest rates at a faster pace in 2022.

DEMAND:

The Memphis industrial market shattered records in 2021, as annual absorption of just over 16.2 million square feet (msf) **doubled** the previous record of 8.1 msf set in 2020. The Southeast submarket was the shining star with 8.3 msf of positive absorption, accounting for half of the absorption across the market. Marshall-Fayette was second with 4.1 msf and DeSoto County with 2.1 msf. We expect in 2022 this will flip as DeSoto and Marshall-Fayette have 4.5 msf and 4.9 msf under construction respectively, compared to 1.5 msf in the Southeast, although we expect more starts in the Southeast in the first half of 2022.

Total new direct leasing activity for the year eclipsed 19.0 msf, including a historic 2.0 msf deal with Helen of Troy. All four quarters of 2021 were strong and while Q4 saw only two deals above 400,000 square feet (sf), there were 61 total new leases signed surpassing previous quarters this year for transaction volume.

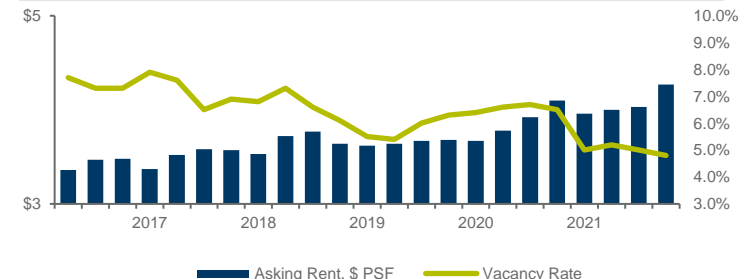
SUPPLY:

Abundant land, good soil, and a business-friendly climate across the region have kept the development pipeline healthy and consistent. Projects from a multitude of quality developers of various size ranges, spread across multiple submarkets, has provided a healthy inventory for occupiers to choose from.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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SUPPLY (continued)

While new construction starts did slow in Q4, this fourth quarter fade is not unusual as this season is typically wet and not the best time to begin dirt work. There is still 7.7 msf of new speculative product underway and developers control large swaths of dirt to keep ramping up construction. The main governor for new construction will be continued cost increases such as labor, steel, concrete, and roofing materials. In addition, lead times for many critical items continue to be elongated. As an example, certain dock door components are taking 6 months to be delivered and installed.

Despite high demand for space, vacancy has only fallen 0.2% from 5.0% in Q3 to 4.8% in Q4 as the market works to absorb 4.0 msf in new construction deliveries. A prime example is DeSoto County with 1.5 msf in vacant construction completions in Q4. Its absorption is negative 200,000 sf despite more than 2.0 msf in new leasing activity, as the majority commences in Q1 2022.

Overall, to emphasize how strong the year has been, 2021 absorption and construction deliveries were as much as 2016-2019 combined.

PRICING:

Rental rates continue their steady march higher, reflecting the increase demand, limited supply of second-generation functional buildings and rising construction costs.

This healthy and consistent rent growth has driven “forward sales” (developments where investors buy the building pre-lease up), which is a new product type to the Memphis market in Q4. While forwards sales have been occurring with alacrity in larger markets and in select smaller markets earlier in 2021, Q4 saw two in the Memphis MSA and we expect at least one more in Q1 2022.

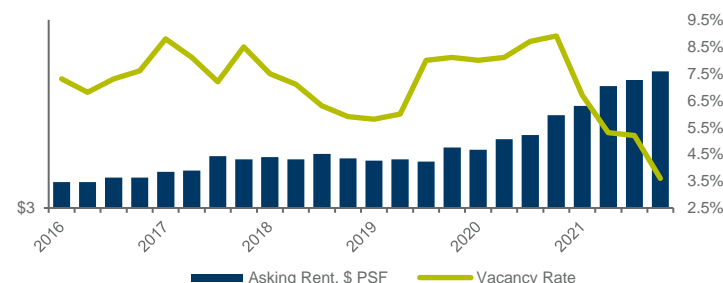
Outlook

- Current tenant deal flow remains vigorous, and the Class A market remains tight even as new product is delivered.
- Vacancy rates may fluctuate with new product delivery, but speculative buildings are expected to lease-up quickly.
- New development construction starts will stay strong well into 2022.
- We expect bulk new construction rates to begin fetching rents above \$4.00 per square foot (psf), a threshold well in the rearview mirror for smaller Class A buildings.

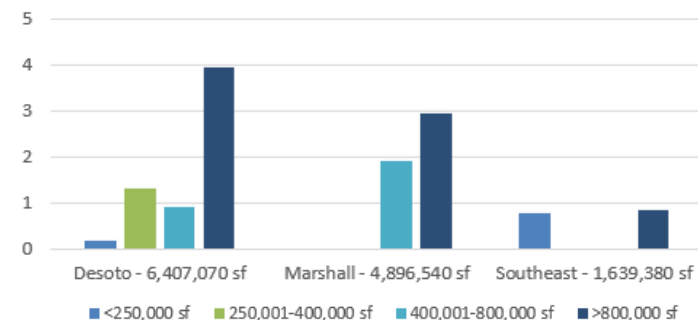
CLASS A OVERALL VACANCY & ASKING RENT



SOUTHEAST SUB-MKT OVERALL VACANCY & ASKING RENT



CONSTRUCTION SITES BY SUBMARKET



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	QTD CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (W/D)	OVERALL WEIGHTED AVG NET RENT (OS)
Northeast	14,906,734	282,361	1.9%	114,056	355,455	-	-	\$5.22	\$6.02	\$10.99
Southeast	104,311,453	3,756,736	3.6%	2,590,617	8,316,189	1,522,380	1,013,500	\$4.84	\$3.59	\$6.65
Northwest	28,479,879	1,940,133	6.8%	497,658	697,427	181,500	-	\$1.69	\$2.06	\$11.00
Southwest	42,905,193	1,389,478	3.2%	272,607	599,097	-	-	\$3.11	\$2.75	\$5.52
DeSoto County	66,707,392	5,546,819	8.3%	-238,780	2,109,708	4,347,050	1,442,090	\$4.55	\$4.32	\$6.95
Marshall & Fayette County	25,104,010	554,040	2.2%	1,702,593	4,137,238	4,896,540	1,595,386	\$4.38	\$3.45	\$8.65
MEMPHIS TOTALS	282,414,661	13,469,567	4.8%	4,938,751	16,215,114	10,947,470	4,050,976	\$3.71	\$3.62	\$8.26

KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Marina Commerce Center	DeSoto County	Walmart Fulfillment Services	1,086,308	New
Memphis Oaks	Southeast	Technicolor Videocassette of Michigan, Inc.	922,500	Renewal
3456 Meyers Road	Northwest	Viterra USA, LLC	569,688	New
Legacy Park, Bldg 8	DeSoto County	Southern Star Buske LLC	383,032	New
11244 S Distribution Cove	DeSoto County	Carrier Corporation	371,590	New

KEY SALES TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	BUYER / SELLER	SF	PRICE/\$ PSF
Viscount Ave (two property portfolio)	Southeast	Olymbec USA / International Sourcing	975,274	\$35M / \$35.88
Director's Row (13 properties)	Southeast	Saphire Investment / Real Equity Dev	225,288	\$3.5M / \$15.54

KEY CONSTRUCTION COMPLETIONS Q4 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Gateway Global Logistics Center, Bldg XI	Marshall County	Amazon	1,046,520	Panattoni
Memphis Airport Logistics Center, 5300 Airways Blvd	Southeast	Medtronic Logistics, LLC	1,013,500	TPA
Olive Branch Logistics Center, Bldg D, 7700 Nail Road	DeSoto County	Spec	863,176	IDI Logistics
DeSoto Logistics Center	DeSoto County	Spec	445,138	Core5 Industrial Partners
I-269 Industrial Park, Parcel 1	Marshall County	Milwaukee Tool - Phase 2	431,866	H&M Company, Inc.

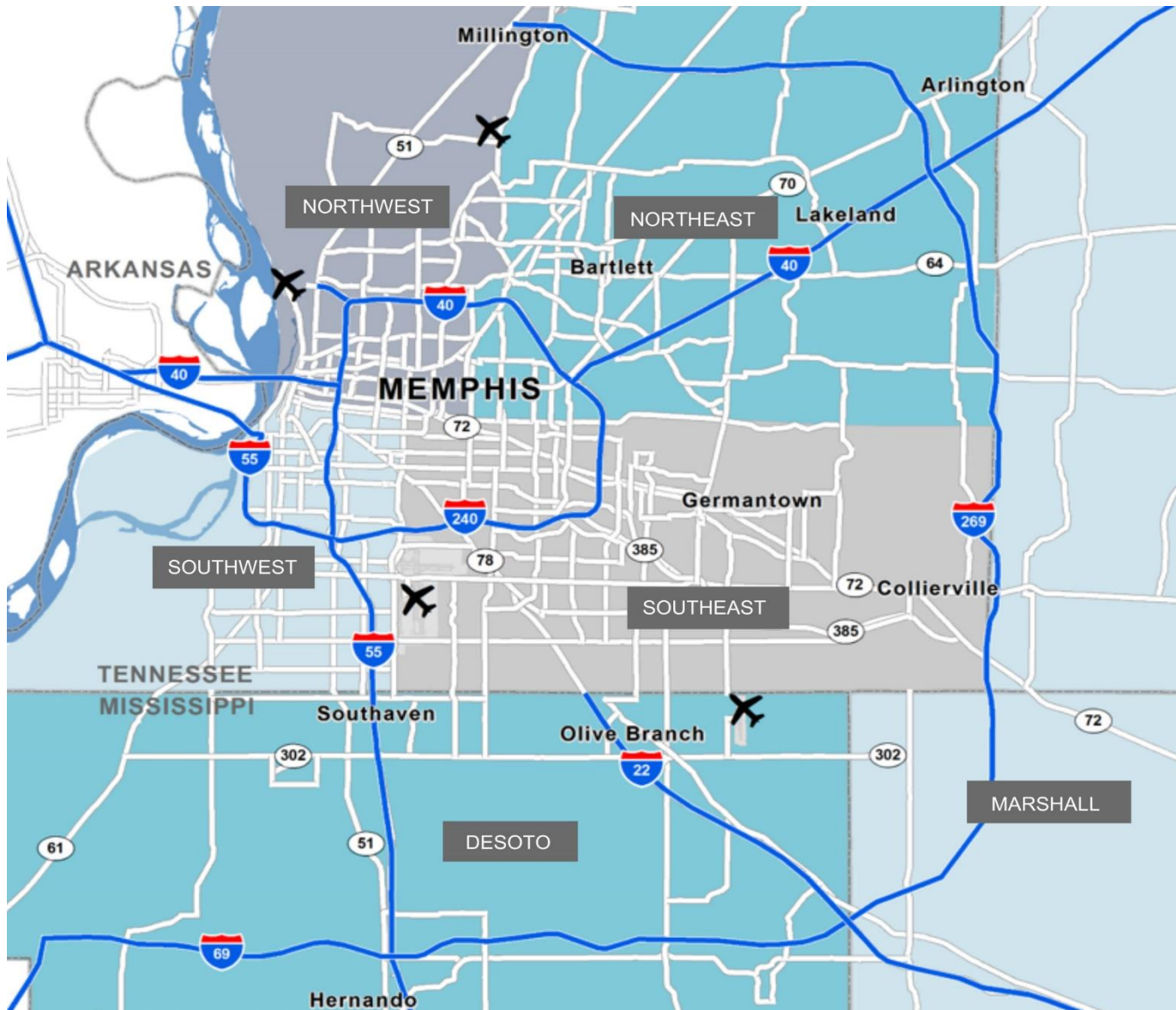
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INDUSTRIAL SUBMARKETS

Memphis, TN



TIM ROLLINS

Director of Strategic Initiatives

trollins@commadv.com

commadv.com

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