

MARKETBEAT MEMPHIS



Industrial Q1 2022

4.3%

Vacancy Rate

YoY
Chg



12-Mo.
Forecast



3.74M

Net Absorption, SF



\$3.98

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q1 2022

653K

Memphis
Non-Farm Employment

YoY
Chg



12-Mo.
Forecast



5.2%

Memphis
Unemployment Rate



3.8%

U.S.
Unemployment Rate



Source: BLS

ECONOMY:

According to Deloitte's Q1 2022 forecast, nonresidential structures investment is down more than 20% from the pre-pandemic level. Per USA Facts State of the Economy, the US GDP grew 5.7% in 2021 and consumer prices were 7.5% higher in January 2022 than January 2021, the largest 12 month change in 40 years.

Eight hundred and ninety-six thousand fewer Americans are working or looking for work than pre-pandemic and the average annual unemployment rate has continued to decrease. In contrast to this, the economy has only recovered approximately 7 million of the 9 million jobs lost during the covid-19 pandemic and saw a net loss of 12,000 businesses in 2020. A baseline forecast from the Federal Reserve shows inflation remaining at around 3.5% in 2022 before falling back to the 2% range.

DEMAND:

The Memphis regional industrial market kicked off 2022 with another fast-paced quarter with 3.74 million square feet (msf) of absorption, which is 175% of the average quarter during the past 5 years. If this pace continues, 2022 annual absorption will come close to the record year of 2021. Of course, 2021 saw absorption best the previous high-water mark by a factor of two.

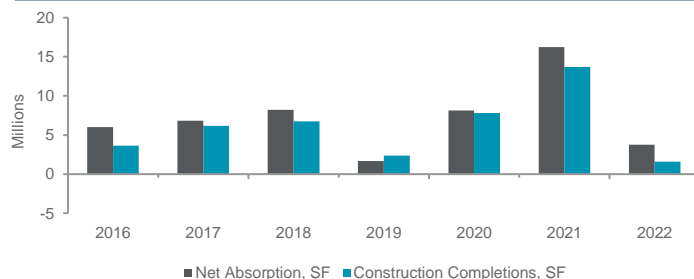
Leasing activity was balanced across all submarkets, however absorption skewed toward DeSoto with just under 2 msf of the 3.74 msf total. As the Southeast submarket did in 2021, DeSoto represented half of the market wide absorption for the quarter.

SUPPLY:

Overall, industrial inventory has increased by almost 14 msf since the start of 2021. Ten developers are currently building in the market with 11.5 msf under construction, and another 23 msf proposed that will potentially start construction in 2022. There were four new starts in Q1 2022 totaling 1.8 msf. These projects ranged from 240,000 sf to 800,000 sf and were split between the Marshall and DeSoto submarkets.

We anticipate future strong absorption the remainder of 2022 in DeSoto and Marshall-Fayette as these submarkets have 3.9 msf and 6.2 msf under construction, respectively. We also expect strong construction starts in the Southeast submarket as there are eight sites in various stages of due diligence that could house eleven buildings totaling 6.5 msf. Corresponding absorption in the Southeast will likely follow in 2023 due to the construction timeline.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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SUPPLY (continued):

Some 2021 new construction projects were delivered with no office or equipped doors, and those buildings are dead in the water for fast moving transactions. As such, more developers in 2022 and 2023 plan to provide speculative office and door equipment so tenants can take immediate occupancy.

Of the 23 msf in proposed construction, less than 1 msf is build to suit and approximately 70% is made up of buildings totaling over 1 msf. There are nine projects under 400,000 sf representing approximately 10% of the total proposed construction.

Developers are also still acquiring new land positions for future development, setting the region up for several more years of growth. The region's abundant land, good soil, and pro-business environment compares favorably against other metros where available land and the ability to rezone could make future growth problematic.

PRICING:

Rising rental rates continue to accelerate driven by unprecedented demand, increasing construction costs, and now, a rising interest rate environment. The trend of developers responding to smaller tenant demand 50,000-200,000 is also driving rates higher as these buildings are much more expensive to construct. As such, asking rental rates are up 5.57% quarter over quarter. This is the second highest rate jump in over five years and beaten only by Q4 2021. If this pace were to continue, annual rates would increase over 22% for the year.

Another trend that has accelerated is the end of the "quoted rent" era. Quoted rents only set a ceiling on rates, and owners don't want to leave any money on the table. As such, most owners are giving guidance in a range and dependent on size, credit, term, and current demand at that point in time.

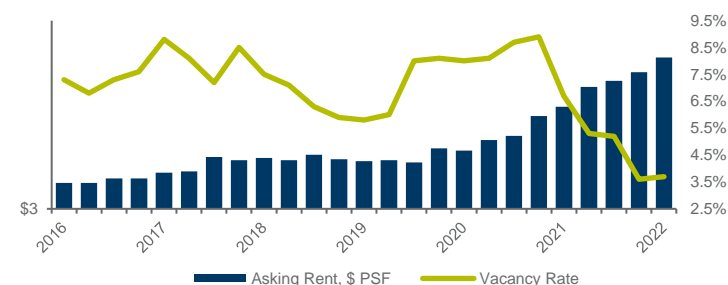
Outlook

- Current tenant deal flow remains vigorous, and the Class A market will remain 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 throughout 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.

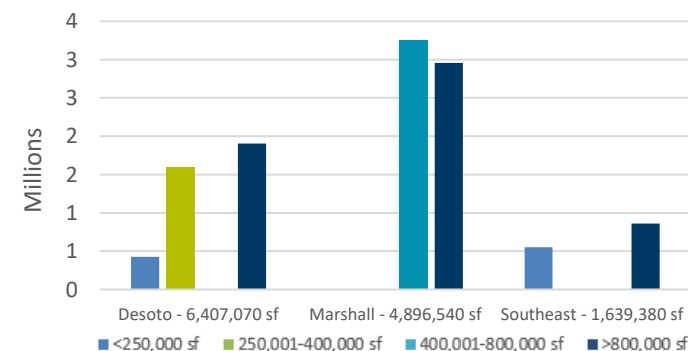
CLASS A OVERALL VACANCY & ASKING RENT



SOUTHEAST SUB-MKT OVERALL VACANCY & ASKING RENT



CONSTRUCTION SITES BY SUBMARKET



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Industrial Q1 2022



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	14,960,643	333,072	2.2%	92,246	92,246	-	-	5.34	5.46	10.03
Southeast	104,399,922	3,871,183	3.7%	-1,343	-1,343	1,414,840	107,540	5.48	3.72	6.50
Northwest	28,661,379	1,728,285	6.0%	992,036	992,036	-	181,500	5.52	2.20	12.00
Southwest	42,877,719	1,476,721	3.4%	444,717	444,717	-	-	3.68	3.13	5.52
DeSoto County	69,001,659	4,182,887	6.1%	1,895,647	1,895,647	3,930,130	1,304,970	5.40	4.36	7.04
Marshall & Fayette County	24,594,824	707,940	2.9%	317,059	317,059	6,205,260	-	5.52	3.69	9.22
MEMPHIS TOTALS	284,496,146	12,300,088	4.3%	3,740,362	3,740,362	11,550,230	1,594,010	\$4.68	\$3.74	\$7.94

*Rental rates reflect weighted net asking \$psf/year

MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
10425 Ridgewood Drive	DeSoto	Kenco Logistics Services	800,000	New
8150 Nail Road	DeSoto	Barrett Distribution	445,138	New
100 Nemec Way	Marshall	Hamilton Beach Brands	339,506	Extension
1725 S. Third Street	Southwest	Creative Co-Op, Inc.	289,000	New
4300 New Getwell Road	Southeast	Diversified Conveyors International	255,633	New

KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SUBMARKET	BUYER / SELLER	SF	PRICE/\$ PSF
Thirty-two property portfolio, WD & Flex	Southeast	Plymouth Ind/ Madison International Realty	2,377,079	Undisclosed
Five property portfolio class B WD & Flex	Southeast	Fort Capital/Hackmeyer Properties	129,570	\$7.5M / \$57.88

KEY CONSTRUCTION COMPLETIONS Q1 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Southaven Park 55, Building 2	DeSoto	Spec	473,000	Exeter Property Group
Legacy Park, Building 7	DeSoto	Spec	448,938	Hillwood
Legacy Park, Building 8	DeSoto	Buske	383,032	Hillwood
Memphis Airport Logistics Center, 5348 Airways Blvd	Southeast	Frito-Lay	107,540	TPA

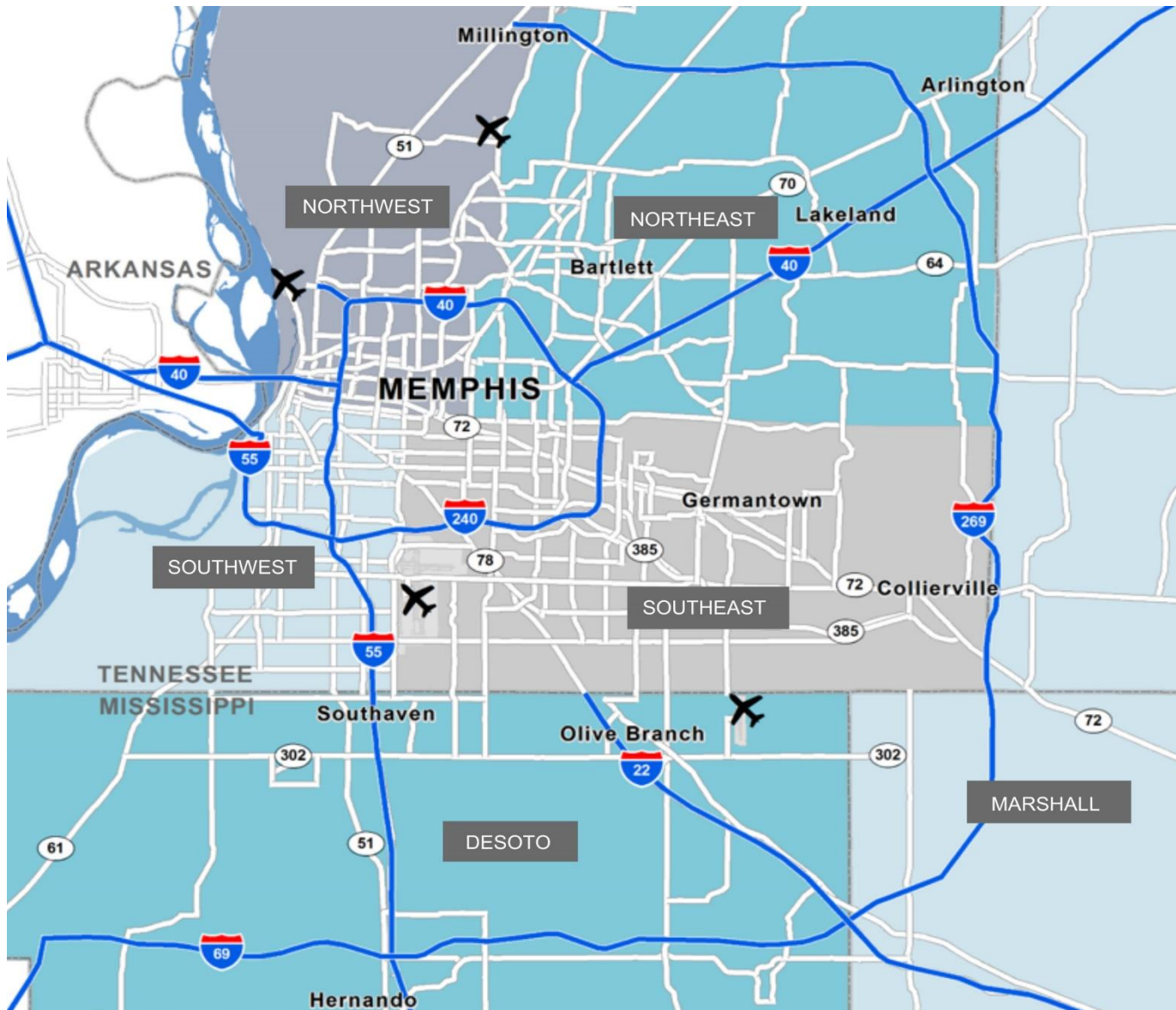
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INDUSTRIAL SUBMARKETS

Memphis, TN



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