

MARKETBEAT MEMPHIS



Industrial Q3 2022

	YoY Chg	12-Mo. Forecast
4.7% Vacancy Rate	▲	▼
3.8M Net Absorption, SF	▼	▲
\$4.16 Asking Rent, PSF	▲	▲
Overall, Net Asking Rent		

ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
667K Memphis Non-Farm Employment	▲	▲
4.7% Memphis Unemployment Rate	▼	▼
3.7% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMY:

Per the Bureau of Labor Statistics, real gross domestic product (GDP) decreased at an annual rate of 0.6% in the second quarter of 2022, following a 1.6% decrease in the first quarter of 2022. The Tennessee GDP performed below the national economy with a decrease of 1.2%. Per the Deloitte Q3 forecast employment growth has remained strong, and many measures of economic activity are growing—even if more slowly than last year. The Deloitte Q3 forecast contends that Fed hikes alone are unlikely to create a recession, however they may reveal underlying faults in the financial sector. While the Memphis unemployment rate is still slightly above pre-covid levels, the number of workers employed has equaled the city's previous high-water mark and will likely exceed it next quarter.

DEMAND:

Usually quarterly demand is variable; however, in 2022 it has been consistent with 2.8 million square feet (msf) in Q1, 3.0 msf in Q2, and Q3 clocking in at 3.8 msf – the strongest quarterly absorption to date. Year to date (YTD) absorption is 9.5 msf, the second best on record. We estimated Q4 will deliver similar absorption to the first three quarters, depending on lease and new construction deliveries. Even though we expect 2022 to be the second-best year ever recorded (2021 being the best), warning lights are flashing yellow for the market including fewer new occupiers, especially in the super bulk size range.

The Southeast and DeSoto County submarkets flipped positions this month with DeSoto accounting for 46% of market absorption (at 4.5 msf), and the Southeast at 20% of market absorption (at 1.88 msf). In Q2, the market's largest submarket – the Southeast – led the way with 43% of quarterly absorption, followed closely by DeSoto County with 34% of quarterly absorption. Unusually, the Southwest submarket came in third by a whisper at 1.86 msf.

SUPPLY:

Eleven developers are currently building in the market with 11.7 msf under construction, compared to 12.8 msf at the end of Q2. There are no expected new construction starts in Q4, likely due to the interest rate environment, competition, and reduced occupier activity. There were six new starts in Q1 2022 totaling 4.6 msf and only one start in Q3 totaling 1.0 msf.

Of the 17 projects in active construction, 3.3 msf are build-to-suit and an additional 1.6 msf of speculative space is pre-leased leaving a little under 6.7 msf of potentially vacant space to be added to the inventory over the next 12 months.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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SUPPLY (continued):

Development as a percentage of current inventory is 20% in Marshall county vs only 2% in the Southeast. The stark difference is partially driven by the significantly smaller size of Marshall county inventory, 25 msf vs 105 msf, but also by developers targeting the less developed county for its easier path through site acquisition and construction. Marshall county's 3.7% vacancy rate is a single bulk spec building that came on the market earlier this year.

The Memphis Center for Economic Competitiveness reports that construction labor is the highest growing sector at 7.6% with strong demand for additional hires as the Blue Oval project and accompanying vendors continue to advance construction and pull contractors out of the metro area. This may maintain pressure on construction costs even if material costs fall in future quarters.

PRICING:

Rates continued to inch upwards, in at \$4.16 per square foot (psf), on par with Q2. With Q2 being the first-time average rental rents surpassed \$4.00 psf. Despite the economic headwinds and current slower occupier demand, this trend will likely continue, as development slows due to rising land prices constricting supply. Elevated construction costs and a higher interest rate environment will continue to keep pressure on new construction, and thus rates.

Annual rent increases are also being pushed by owners, even at the expense of starting rental rates with bumps between 3-4% now commonplace.

Outlook

- Tenant deal flow in the 50,000 – 400,000 sf range remains vigorous, and well designed and located Class A buildings should continue to lease quickly. Poorly designed & located buildings will suffer as demand slows, especially in the super-bulk range.
- Capital markets transactions will slow until interest rates stabilize.
- New development construction starts have slowed and will greatly diminish until interest rates find a footing and macro economic conditions improve, continuing to put pressure on rates as supply tightens.

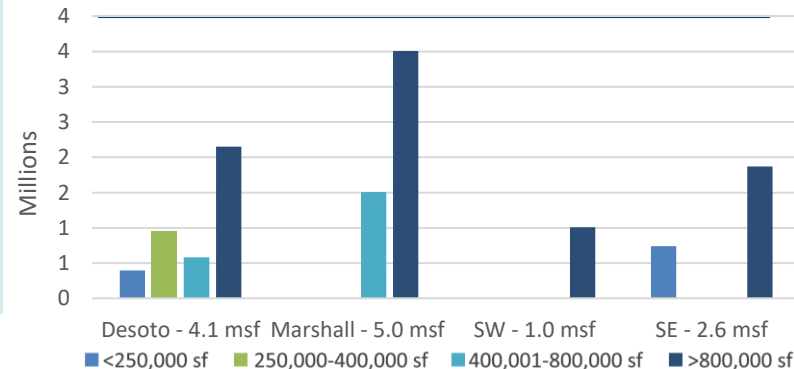
CLASS A OVERALL VACANCY & ASKING RENT



SOUTHEAST SUBMKT 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 (Q3)
Northeast	15,051,516	472,405	3.1%	37,824	130,692	-	-	\$5.45	\$5.52	\$9.06
Southeast	105,189,885	4,197,269	4.0%	764,626	1,862,476	2,608,840	-	\$4.76	\$4.01	\$6.95
Northwest	28,754,716	1,121,808	3.9%	91,175	1,093,211	-	-	\$2.82	\$2.73	\$12.00
Southwest	42,971,352	1,628,523	3.8%	189,500	39,273	-	-	\$2.75	\$3.29	\$6.38
DeSoto County	70,688,061	5,215,470	7.4%	1,776,743	4,506,397	4,083,463	1,642,080	\$4.58	\$4.62	\$8.56
Marshall & Fayette County	25,558,184	957,400	3.7%	893,546	1,881,765	5,014,275	957,400	\$4.64	\$4.45	\$9.81
MEMPHIS TOTALS	288,213,714	13,592,875	4.7%	3,753,414	9,513,814	11,706,578	2,599,480	\$3.91	\$4.07	\$8.03

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Olive Branch Logistics Center Bldg. D	DeSoto County	Saks.com LLC	863,176	New Lease
Midway Distribution Center A	Southeast	Eversana Life Science Services, LLC	358,000	New Lease
Memphis International Distribution	Southeast	USPS	337,655	New Lease
Crossroads Distribution Center Bldg. J	DeSoto County	Milwaukee Electric Tool Corporation	319,200	Expansion

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	BUYER / SELLER	SF	PRICE/\$ PSF
Memphis Airport Logistics I	Southeast	JW Mitchell / TPA Group	1,013,500	\$98.6M/\$97
Scannell 55 Logistics Center	DeSoto	Elm Tree / Scannell	1,021,400	\$95.4M/\$93
Apexus Ind Portfolio	Northeast	Aminim / Blackstone	805,478	\$78.9M/\$98

KEY CONSTRUCTION COMPLETIONS Q3 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
I-269 Logistics Center, Bldg D	Marshall County	Vacant Spec	957,400	Core5
Southaven Park 55, Bldg 1	DeSoto County	Vacant Spec	902,720	Exeter Property Group

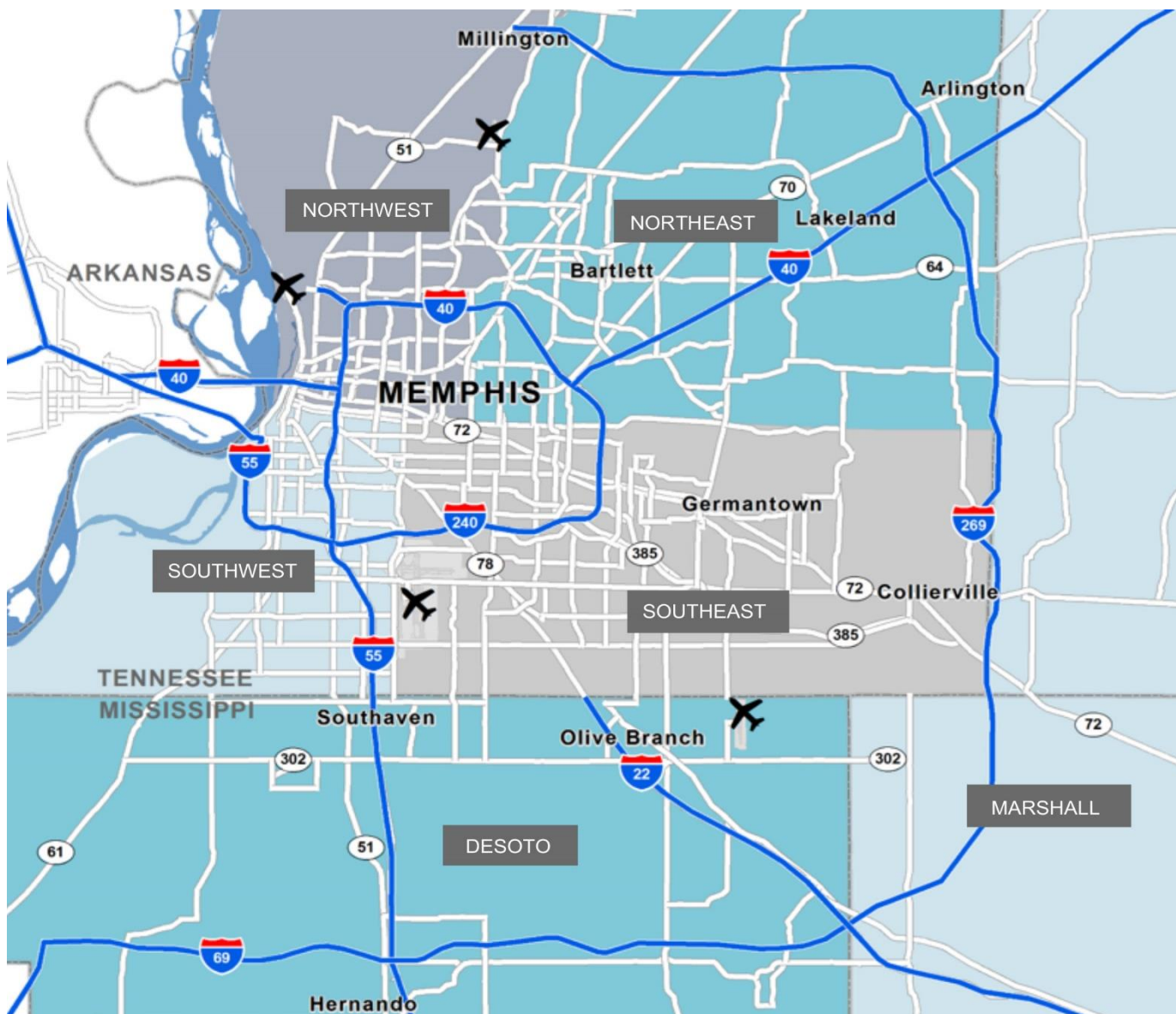
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INDUSTRIAL SUBMARKETS

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