

FIGURES | MEMPHIS INDUSTRIAL | Q2 2023

Rental rates continue to grow amid slower leasing velocities

▲ 6.3%

Vacancy Rate

▼ 872K

SF Net Absorption

▼ 3.5M

SF Under Construction

▼ 2.8M

SF Construction Deliveries

▲ \$4.77

NNN / Lease Rate

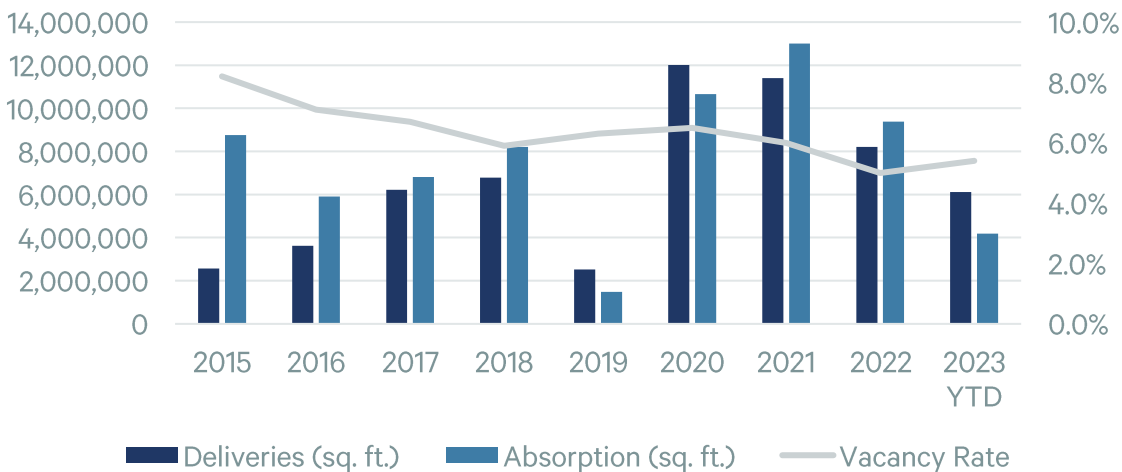
Note: Arrows indicate change from previous quarter.

KEY TAKEAWAYS

- The average asking rental rate grew to a record-breaking \$4.77/NNN per square foot in Q2, a 5.4% increase year-over-year.
- Due to slower leasing activity and increased cost of capital, the construction pipeline is continuing to shrink as no projects have broken ground in 2023.
- The Memphis industrial market surpassed 300M square feet in inventory following the delivery of 2.8M square feet in Q2 2023.

The Memphis industrial market has experienced a slowdown in leasing activity following record breaking years from 2020-2022. There have been 50 new leases signed totaling 3.5M square feet so far in 2023. Compared to the first half of 2022 when 79 new leases totaling 7.7M square feet were signed, this represents a 54.5% decrease for this year. The only Class A leases in the second quarter involved sublease spaces and short-term deals. This has moderated net absorption, which could continue to limit occupancy gains in future quarters due to impending tenant moveouts. Additionally, all major leases from the previous year have commenced, which will also limit positive absorption for the remainder of 2023. There is, however, a healthy level of tenants in the market that are searching for industrial space of all size ranges. More space becoming available could provide relief to tenants searching in a previously landlord dominated market.

FIGURE 1: Deliveries, Absorption & Vacancy Rate



Source: CBRE Research, Q2 2023

FIGURE 2: Market Statistics

Submarket	Building SF	Direct Vacancy (%)	Total Vacancy (%)	Avg Asking Lease Rate (\$)	Under Construction	Q2 2023 Net Absorption (SF)	YTD 2023 Net Absorption (SF)	Availability Rate (%)
Desoto County	71,746,810	7.2	8.5	\$ 4.77	1,081,477	142,844	1,214,591	11.2
Bulk Warehouse	63,281,305	8.2	9.3	\$ 4.74	1,081,477	178,889	1,250,636	11.5
Standard Distribution	7,999,367	5.0	5.0	\$ 6.32	0	(33,545)	(33,545)	5.0
Service Center	466,138	0.5	0.5	\$ 12.00	0	(2,500)	(2,500)	0.5
Fayette County	8,671,265	0.0	0.0	\$ -	0	0	2,000,000	0
Bulk Warehouse	7,107,618	0.0	0.0	\$ -	0	0	2,000,000	0
Standard Distribution	1,536,647	0.0	0.0	\$ -	0	0	0	0
Service Center	27,000	0.0	0.0	\$ -	0	0	0	0
Marshall County	21,678,222	10.2	11.4	\$ 4.73	1,095,028	957,400	957,400	16.9
Bulk Warehouse	20,714,784	11.0	12.2	\$ 4.73	1,095,028	957,400	957,400	17.1
Standard Distribution	900,432	0.0	0.0	\$ -	0	0	0	0.0
Service Center	63,006	0.0	0.0	\$ -	0	0	0	0.0
Northeast	15,405,391	2.3	3.8	\$ 8.36	0	(113,371)	(43,541)	5.3
Bulk Warehouse	3,876,616	1.4	1.8	\$ 7.34	0	(15,000)	(15,000)	2.3
Standard Distribution	8,444,494	3.6	5.7	\$ 7.42	0	(88,250)	52,450	7.7
Service Center	3,084,281	10.0	10.7	\$ 10.46	0	(10,121)	(80,991)	12.2
Southeast	107,439,043	4.1	4.7	\$ 4.57	1,294,000	(180,602)	(220,974)	8.9
Bulk Warehouse	69,069,554	3.9	4.7	\$ 4.51	1,294,000	77,389	102,724	8.6
Standard Distribution	35,211,792	3.9	4.4	\$ 4.62	0	(223,793)	(290,625)	8.7
Service Center	3,157,697	9.5	9.6	\$ 7.01	0	(34,198)	(33,073)	10.3
Northwest	29,421,786	3.8	3.8	\$ 2.63	0	(114,287)	(114,287)	4.8
Bulk Warehouse	18,208,419	3.9	3.9	\$ 2.00	0	(101,162)	(101,162)	3.9
Standard Distribution	10,644,371	4.2	4.2	\$ 3.11	0	(13,125)	(13,125)	6.2
Service Center	568,996	8.4	8.4	\$ 7.00	0	0	0	8.4
Southwest	45,993,995	2.4	2.7	\$ 3.49	0	180,572	388,360	3.6
Bulk Warehouse	16,258,206	2.3	2.3	\$ 3.00	0	0	108,500	2.6
Standard Distribution	27,945,312	1.9	2.5	\$ 4.80	0	180,572	281,317	2.8
Service Center	1,790,477	7.8	7.8	\$ 5.62	0	0	(1,457)	8.2
Memphis MSA	300,356,512	5.4	6.3	\$ 4.77	3,470,505	872,556	4,181,549	8.4
Bulk Warehouse	198,516,502	6.2	6.9	\$ 4.70	3,470,505	1,097,516	4,303,098	9.3
Standard Distribution	92,682,415	2.6	3.2	\$ 5.21	0	(178,141)	(3,528)	6.0
Service Center	9,157,595	10.7	11.2	\$ 8.86	0	(46,819)	(118,021)	12.1

Source: CBRE Research, Q2 2023

Q2 2023 Highlights

Following first quarter trends, the Memphis industrial market delivered 2,817,003 square feet of new inventory in Q2, bringing year-to-date deliveries to 6,115,810 square feet. There have not been any projects to break ground in 2023 to replenish the building deliveries, resulting in a shrinking construction pipeline. The remaining buildings under development, totaling 3.4M square feet, are set to deliver in the back half of 2023. As opposed to the first quarter which experienced 100% of buildings being pre-leased, the second quarter had only 11.3% of the square footage pre-leased. Additionally, 2023 has experienced an increase in sublease availabilities. At the end of 2022, there was roughly 1M square feet of sublease space on the market. This has since grown to 3.6M square feet as of June. With 2.5M vacant square feet being delivered into the market and new sublease vacancies, the average vacancy rate grew to 6.3% in Q2. The average asking rental rate grew 2.4% quarter-over-quarter to \$4.77/NNN due to additional first-generation spaces becoming available.

CBRE’s baseline view is that there is no need for further rate hikes because inflation is coming under control, but because of a resilient consumer and labor market, the Fed will make one more rate hike to ensure inflation is tamed. The current state of the market will likely combat the strong industrial market fundamentals to moderate net absorption and rental rates for the remainder 2023. The long-expected slowdown in the U.S. economy is still on track but will start in earnest at the end of Q3 and last through the end of Q1 2024 by which time, inflation will have slowed up, and rates will be falling.

FIGURE 3: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
Vantiva SCS Memphis	5215 Lamar Ave	789,291	Southeast	Renewal
Nike	5155 Lamar Ave	708,532	Southeast	Renewal
Flextronics International	6380 Holmes Rd	437,940	Southeast	Renewal
Cummins	4650 Quality Dr	371,233	Southeast	Renewal
IMC Companies	8474 Marketplace Dr	240,500	DeSoto	Sublease

Source: CBRE Research, Q2 2023

FIGURE 4: Average Asking Rates (\$/sq. ft.)

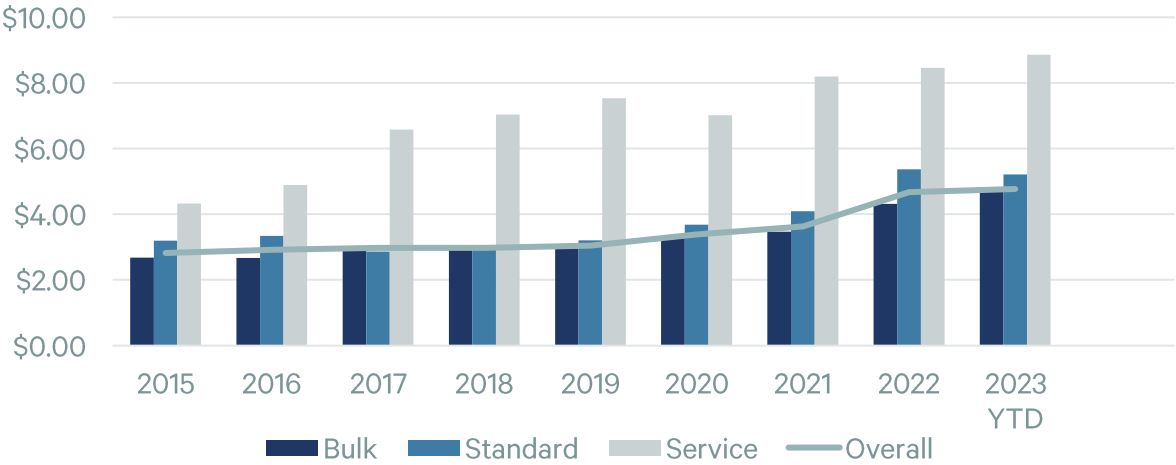
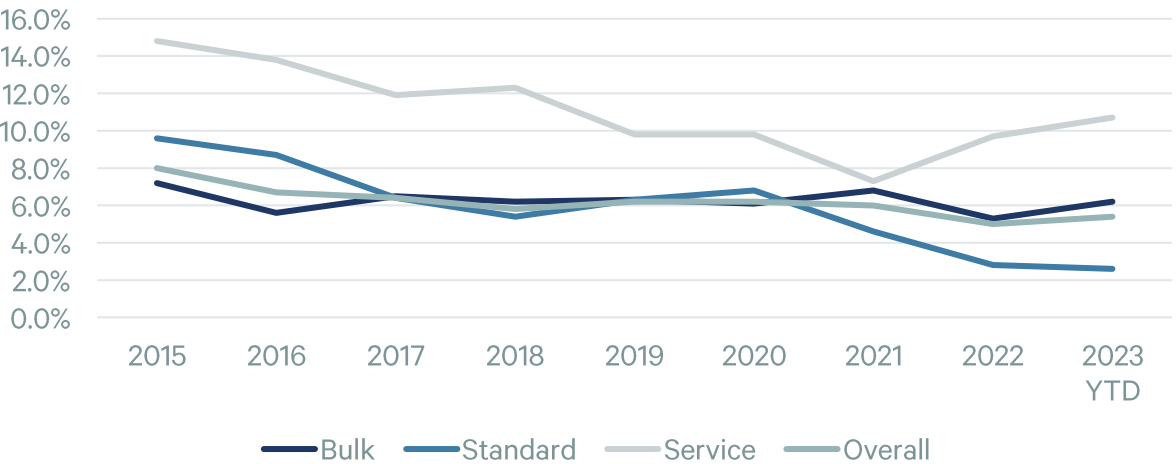


FIGURE 4: Direct Vacancy Rate



Market Area Overview



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