

FIGURES | MEMPHIS INDUSTRIAL | Q4 2022

Memphis industrial market records third strongest year as 2022 closes.



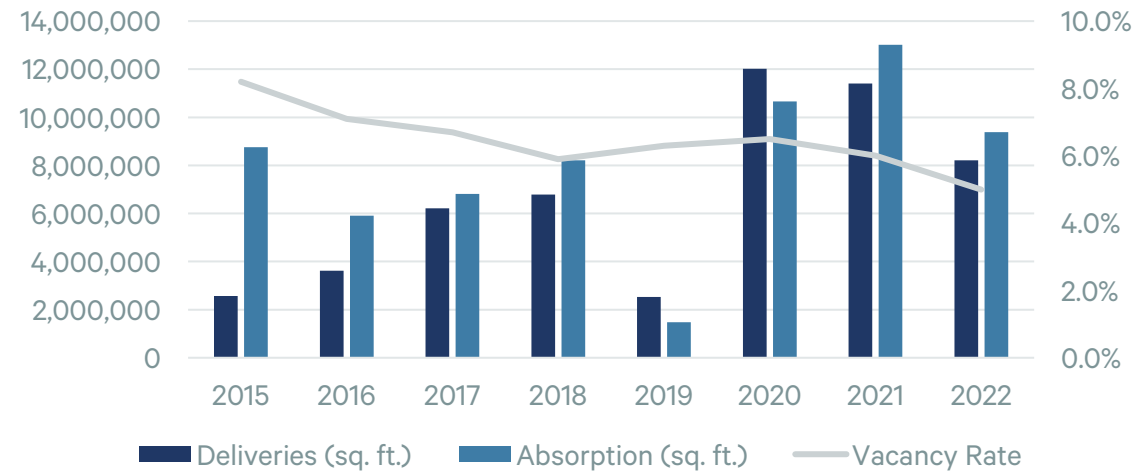
Note: Arrows indicate change from previous quarter.

KEY TAKEAWAYS

- In 2022, the average asking rate grew by 28.7% year-over-year to \$4.67 per square foot NNN.
- The vacancy rate compressed to 5.0%, down 70-basis points quarter-over-quarter, as the industrial market recorded 1,502,824 square feet of positive absorption.
- Due to the Federal Reserve tightening monetary policies, capital markets and new constructions have slowed.

The Memphis industrial market had another strong quarter of new construction completions with 2.7 million square feet of buildings delivered to the market. However, only two properties totaling 673,088 square feet broke ground this quarter to offset the deliveries. The number of new industrial developers expanding into the Memphis market continued to grow in 2022. As a result, new areas are being developed, speaking to the growing demand for industrial product along with investors looking to deploy capital into the Memphis market. Construction starts and capital markets have begun to decline due to the Federal Reserve increasing the cost of capital. In December, the Federal Reserve hiked interest rates 50-basis points, bringing the total rate increases to 425-basis points in 2022. As macro-economic challenges persist, construction ground breaks will likely move at a slower tick entering the new year.

FIGURE 1: Deliveries, Absorption & Vacancy Rate



Source: CBRE Research, Q4 2022

FIGURE 2: Market Statistics

Submarket	Building SF	Direct Vacancy (%)	Total Vacancy (%)	Avg Asking Lease Rate (\$)	Under Construction	Q4 2022 Net Absorption (SF)	YTD 2022 Net Absorption (SF)	Availability Rate (%)
Desoto County	69,168,720	7.0	7.0	\$ 4.56	3,337,603	831,048	5,259,990	8.9
Bulk Warehouse	60,703,215	7.1	7.2	\$ 4.53	3,337,603	640,074	5,041,205	7.6
Standard Distribution	7,999,367	4.6	4.6	\$ 5.01	0	190,974	226,561	2.9
Service Center	466,138	0.9	0.9	\$ 9.50	0	0	(7,776)	0.9
Fayette County	6,671,265	0.0	0.0	\$ -	2,000,000	0	0	0
Bulk Warehouse	5,107,618	0.0	0.0	\$ -	2,000,000	0	0	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	20,880,222	8.2	8.2	\$ 4.50	1,893,028	0	0	7.8
Bulk Warehouse	19,916,784	8.2	8.2	\$ 4.50	1,893,028	0	0	8.2
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	2.6	3.4	\$ 8.42	0	18,591	105,099	5.1
Bulk Warehouse	3,876,616	0.4	0.7	\$ 6.19	0	0	(5,250)	1.1
Standard Distribution	8,444,494	3.1	4.1	\$ 7.64	0	(11,750)	26,844	4.7
Service Center	3,084,281	7.6	7.6	\$ 9.12	0	30,341	83,505	12.2
Northwest	29,421,786	3.5	3.5	\$ 2.63	0	(6,000)	(6,000)	3.8
Bulk Warehouse	18,208,419	3.4	3.4	\$ 1.75	0	0	0	3.4
Standard Distribution	10,644,371	4.1	4.1	\$ 3.11	0	0	0	6.3
Service Center	568,996	2.5	2.5	\$ 7.00	0	(6,000)	(6,000)	2.5

Submarket	Building SF	Direct Vacancy (%)	Total Vacancy (%)	Avg Asking Lease Rate (\$)	Under Construction	Q4 2022 Net Absorption (SF)	YTD 2022 Net Absorption (SF)	Availability Rate (%)
Southeast	106,934,403	3.5	4.0	\$ 4.58	2,433,000	309,219	3,502,311	5.3
Bulk Warehouse	68,714,914	3.5	4.2	\$ 4.54	2,433,000	130,000	3,369,987	5.3
Standard Distribution	35,061,792	3.1	3.1	\$ 4.75	0	159,289	80,485	5.1
Service Center	3,157,697	8.4	8.4	\$ 7.21	0	19,930	51,839	9.4
Southwest	45,993,995	2.1	2.1	\$ 3.55	0	349,966	518,170	2.4
Bulk Warehouse	16,258,206	2.0	2.0	\$ 3.00	0	311,564	394,564	2.4
Standard Distribution	27,945,312	0.6	0.6	\$ 3.75	0	30,902	126,395	3.4
Service Center	1,790,477	13.7	13.7	\$ 5.52	0	7,500	(2,789)	12.3
Memphis MSA	294,475,782	4.7	5.0	\$ 4.67	9,663,631	1,502,824	9,379,570	5.7
Bulk Warehouse	192,785,772	5.0	5.3	\$ 4.32	9,663,631	1,081,638	8,800,506	6.1
Standard Distribution	92,532,415	2.7	2.8	\$ 5.37	0	369,415	460,285	4.5
Service Center	9,157,595	9.7	9.7	\$ 8.46	0	51,771	118,779	10.0

Source: CBRE Research, Q4 2022

Q4 2022 Highlights

The lack of new constructions is producing supply constraints, as the vacancy rate continues to trend downward. Less leasing options could help push rents higher in 2023, as landlords maintain negotiating power. With fewer Class A spec options, second generation spaces have become a viable option for tenants looking to expand in the Memphis market. Older buildings in submarkets with historically less leasing activity are beginning to experience lower availabilities, less time on the market, and rental rates that are \$0.50 per square foot higher on average than a year prior. Due to the decrease of available properties and strong market fundamentals, average asking rates market wide have increased 28.7% year-over-year.

The Southeast Region of the United States has emerged as a favorite for occupiers planning to expand their operations in the next 24 months. According to CBRE’s 2022 *Industrial & Logistics Occupier Survey*, 64% of occupiers are planning to expand their logistic footprints, and the Memphis Industrial market continues to be a cost-effective option for tenants seeking a logistically prime market. The market’s central location within the United States and unparalleled infrastructure provide opportunity to cut transportation expense, and save on the cost of labor, which is 7.6% less than many southeastern markets. The average asking rate of \$4.67 per square foot is 51.4% lower than the average Southeast market, which saves tenants on occupancy cost. As economic uncertainty grows, the Memphis industrial market could provide opportunities for tenants looking to cut cost while remaining logistically competitive.

FIGURE 3: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
GXO	8640 Nail Road	469,232	DeSoto Cty	Renewal
Supply Chain Solutions	Memphis Depot	329,982	Southwest	Renewal
Chadwell Supply	12386 Crossroad Drive	248,000	DeSoto Cty	New Lease
Confidential Client	6401 Shelby Drive	234,360	Southeast	New Lease
Confidential Client	5050 E. Holmes Road	220,635	Southeast	Renewal

Source: CBRE Research, Q4 2022

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

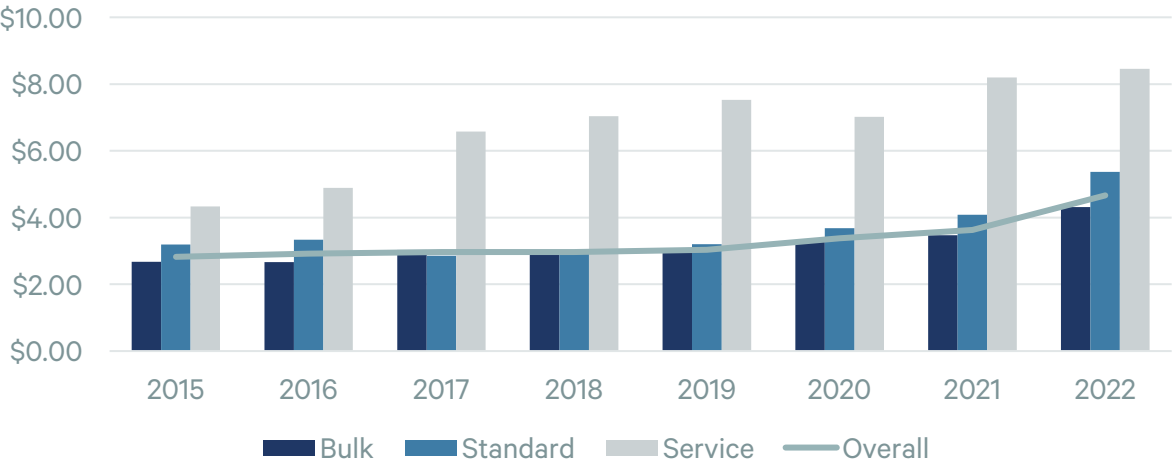
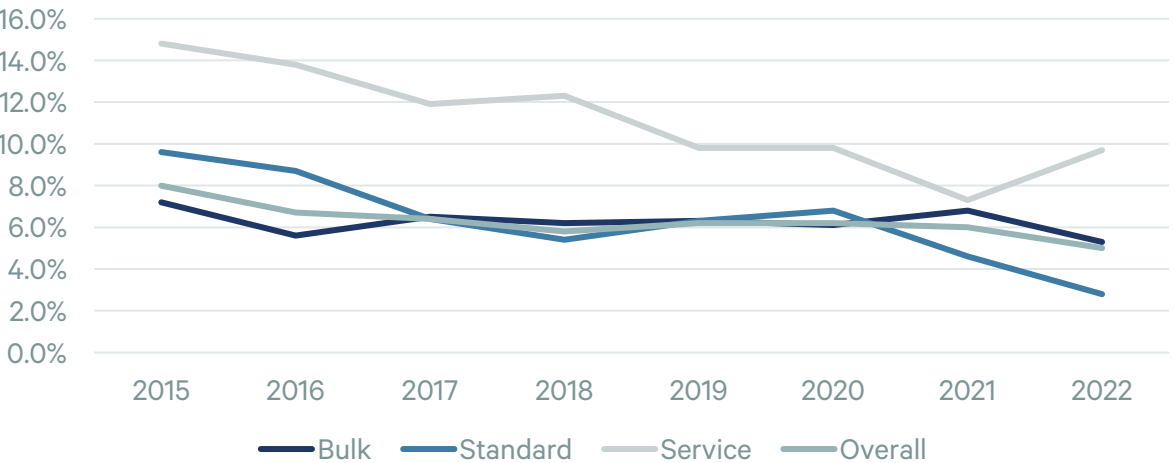
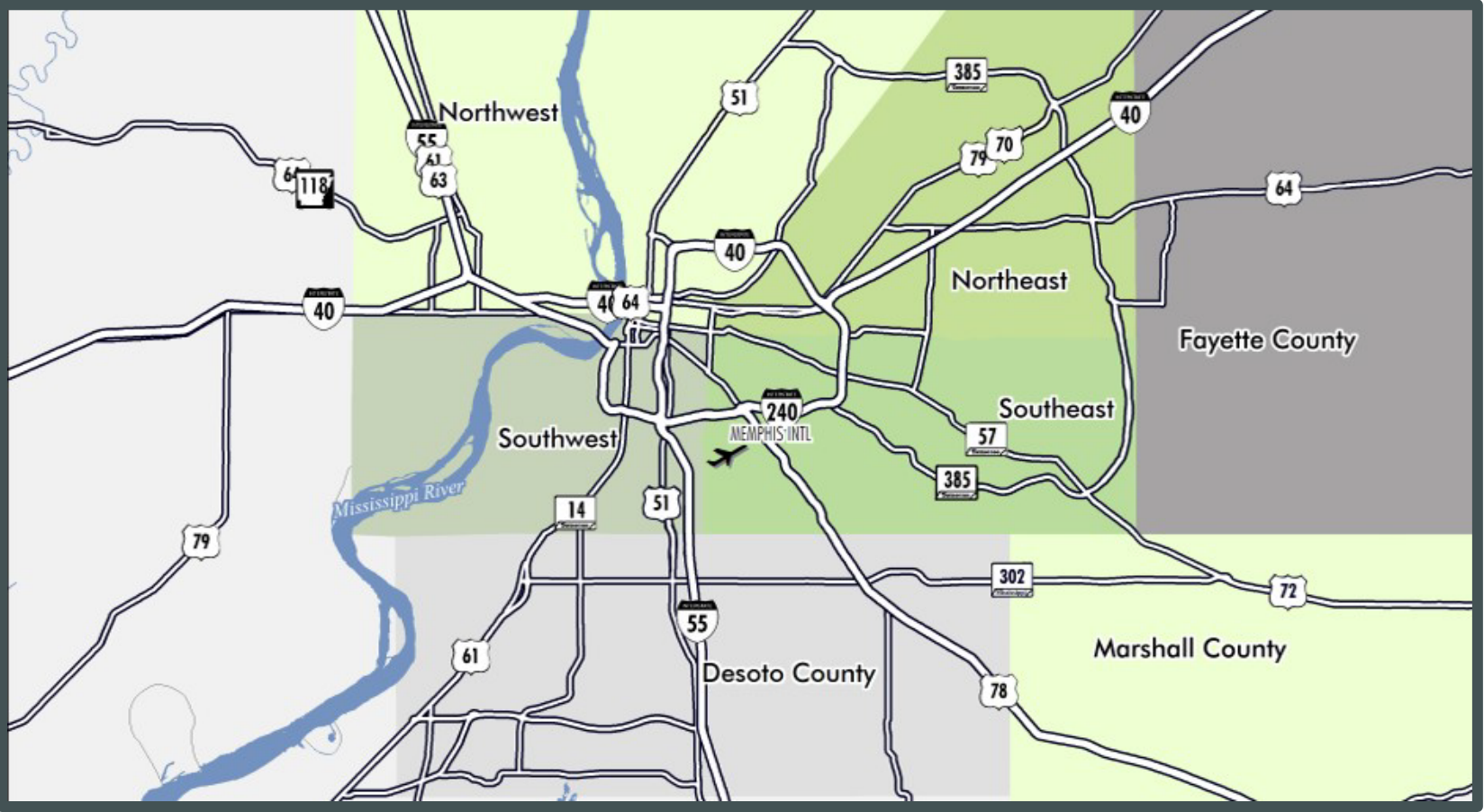


FIGURE 4: Direct Vacancy Rate



Market Area Overview



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