

# MARKET REPORT

Office  
Memphis Metro Area

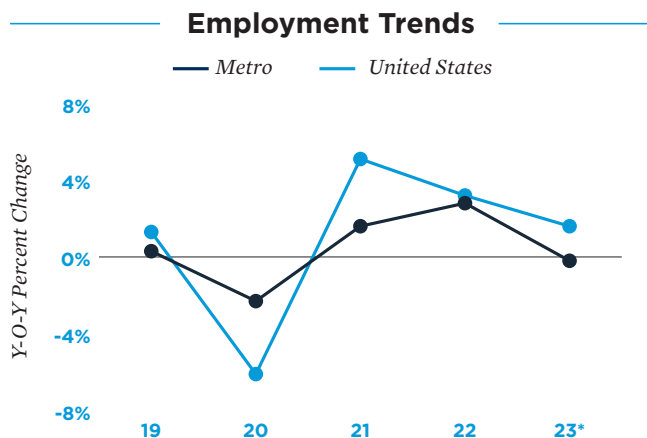
IPA  
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PROPERTY  
ADVISORS

4Q/23

## Local Office Conditions Among Nation's Tightest; East Memphis and CBD Highlight Performance

**Steady fundamentals continue in year's second half.** Amid mounting uncertainty as to the future of office utilization, Memphis shines as one of the nation's more stable markets. The metro noted its sixth consecutive quarter of positive net absorption during the three-month span ended in June, bringing the vacancy metric down to 11.3 percent, 230 basis points below the post-2006 average. In line with broader trends, firms have been avidly pursuing Class A leases thus far in 2023 to incentivize office attendance among employees. Nearly 300,000 square feet of top-tier space was absorbed on net during the second quarter alone, marking one of the most active such spans for amenity-rich leases over the past decade.

**Absorption picks up in outlying urban zones.** East Memphis, the largest submarket by inventory, noted a 50-basis-point reduction to its local vacancy rate during the 12-month period ended in June, bringing the metric to 14.0 percent. Leasing here was concentrated along Poplar Avenue. Highlights in this locale include a 13,000-square-foot move-in by Duncan Williams at the Trustmark Building, and an 8,000-square-foot lease at Clark Tower signed by Delta Health Alliance. These locations are proximate to the Interstate 240 Corridor, and offer a shorter commute to the city's eastern suburbs. Conditions in the CBD are also remarkably tight. At just 6.4 percent entering July, Memphis' urban core notes the second-lowest vacancy rate among major metros nationwide.



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Office 2023 Outlook



**1,500  
JOBS**  
*will be lost*

### EMPLOYMENT:

Memphis is on track to report a minor headcount contraction this year, with jobs lost in 2023 representing roughly 0.2 percent of the metro's total employment base. Still, staffing counts remain above the pre-pandemic level.



**280,000  
SQ. FT.**  
*will be completed*

### CONSTRUCTION:

Supply additions in 2023 will slightly trail the post-2006 average of 315,000 square feet added to the market per annum. Roughly half of the completions are slated to come online in the city's central business district.



**40  
BASIS POINT**  
*decrease in vacancy*

### VACANCY:

Vacancy is falling for a second consecutive year, following 2022's 90-basis-point decrease. This metric will hold steady at 11.3 percent in the second half of 2023 as supply additions align with demand for office space.

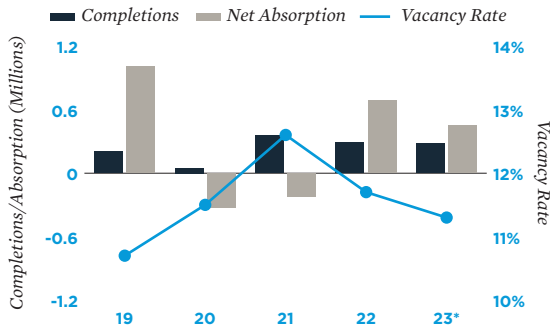


**0.9%  
INCREASE**  
*in asking rent*

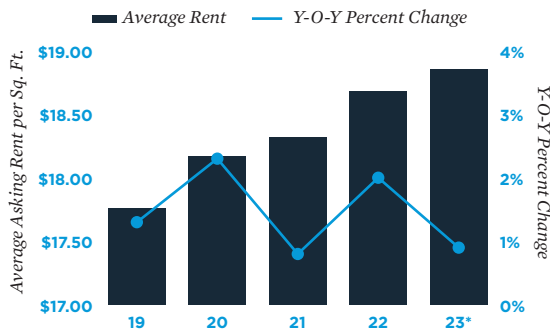
### RENT:

Rent growth will continue at a stable pace in 2023. This year's advance marks a deceleration from the 2 percent gain in 2022, but the year-end mean asking rate of \$18.55 per square foot is the highest on record.

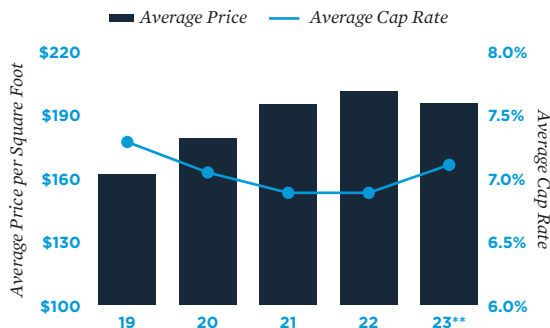
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q 2023 - 12-Month Period

### CONSTRUCTION

**281,000 sq. ft. completed**

- Development during the trailing yearlong period ended in June came in under the post-2013 average of 320,000 square feet added per annum.
- DeSoto County received nearly 179,000 square feet of space this period, prompting a 20.6 percent local inventory transformation. The majority of the remaining space is in Northeast and Downtown Memphis.

### VACANCY

**110 basis point decrease in vacancy Y-O-Y**

- A net of more than 784,000 square feet was taken off the market during the 12-month period ending in June, more than double the post-2007 net absorption average of 307,000 square feet per annum.
- Class A vacancy entered July at 14.2 percent, a 470-basis-point decline from the year prior. The Class B/C rate was just 11.2 percent at this time.

### RENT

**2.0% increase in the average asking rent Y-O-Y**

- Steady demand for office space during the yearlong span ended in the second quarter pushed the mean marketed rate to \$18.66 per square foot.
- Class A rents advanced 1.5 percent over this period, reflecting tenant interest of amenitized space as the tier's vacancy rate fell 470 basis points. The average asking rent in this segment closed June at \$23.22 per square foot.

## Investment Highlights

- Preliminary data indicates that office transactions during the first three quarters of 2023 were most active in Downtown and Midtown Memphis. Investors pursued early- to mid-20th century builds, with many of these properties having undergone renovations after 2017. Low vacancy in the core could prompt buyers to execute similar value-add strategies here.
- With an average price of just \$195 per square foot during the trailing year ended in June, Memphis features the lowest entry costs among major Tennessee office markets. Together with the metro's robust fundamentals, these factors could bolster out-of-state investment. In recent months, the share of foreign investors targeting local assets has also grown.
- After a comparatively quiet first half of the year, when trades in this segment were minimal, medical office investment showed signs of improvement in the third quarter based on preliminary data. Buyers in this category are targeting post-2000 builds near the suburban areas of Lakeland and Cordova, along the Interstate 40 and Highway 64 corridors, seen changing hands. The city is in the top half of metros by growth in the 65-plus demographic, boding well for medical space demand here moving forward.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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