

INVESTMENT FORECAST

Office
Memphis Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2024

Region's Most Affordable Major Retail Market Positioned to Withstand Softer Business Expansion

Lower costs and mild development reinforce sector. Following a 170-basis-point vacancy reduction spanning 2021-2023, Memphis' rate entered this year at nearly half its historic average. Progress is slowing as the broad impacts of inflation and the fight against it come to light, however, with higher interest rates impacting both consumers' propensity to spend, as well as businesses' willingness to expand. This has a compounding effect on tenant demand this year, with metro-wide net absorption sliding to its second-lowest measure this decade. Despite that trend, vacancy will rise by a modest 10 basis points, aided by a small and highly pre-leased construction pipeline. Supply additions in 2024 represent just 40 percent of what has typically delivered in a year, and less than 20,000 square feet is finalizing without a tenant signed on. The metro should also avoid significant retailer downsizing in a challenging climate, as it offers the lowest average rent of any major Southeast market. Exemplifying this, more affordable areas like South and Southeast Memphis had some of the greatest vacancy drops last year.

Trading in outlying metro contradicts broader trend. Transactions in Memphis fell by about 20 percent in 2023 relative to the prior year; yet, some areas are noting upticks in activity. Deal flow in the growing Southeast suburb of Collierville rose substantially last year, including noteworthy interest from out-of-state buyers. Performance here supports this level of investment, as an expanding resident base helped Collierville achieve the fastest rent growth among Memphis' 10 largest submarkets by inventory in 2023. West of the core across the Mississippi, Crittenden County is also generating buyer attention. The major roadways traversing the area play a key role as investors often target fast food and convenience stores near Interstates 40 and 55.

2024 MARKET FORECAST

+0.5%



EMPLOYMENT: After a net contraction of 1,500 positions in 2023, Memphis' labor market regains positive momentum with 3,000 new roles this year. That growth should benefit consumer spending.

235,000
sq. ft.



CONSTRUCTION: Supply additions in 2024 fall about 40,000 square feet shy of the trailing five-year average. All projects larger than 10,000 square feet are scheduled to deliver fully pre-leased.

+10 bps



VACANCY: Less aggressive business expansion after an extensive series of interest rate hikes contributes to vacancy rising to 3.8 percent. Still, the rate is 320 basis points below the long-term mean.

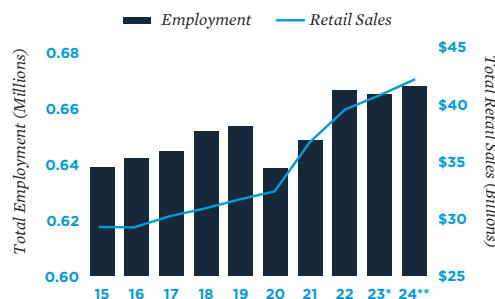
+2.2%



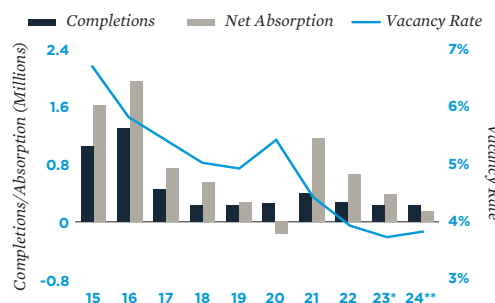
RENT: A fourth straight year of rent growth places Memphis' average asking rate at \$15.14 per square foot. This advancement extends the gain relative to the pre-pandemic figure to almost 20 percent.

INVESTMENT: Benefiting from the University of Memphis and other attractions, East Memphis is a focal point. The plethora of shopping centers along Poplar Avenue make it an active corridor for multi-tenant trades.

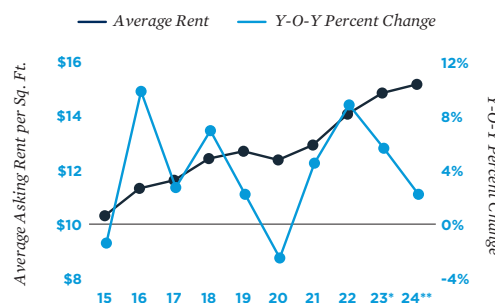
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of January 3/ 2024. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.