

# INVESTMENT FORECAST

Industrial  
Memphis Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2024

## After Ranking Top Five for Rent Growth Last Year, Momentum in Memphis Will Taper in 2024

**Supply and demand both contract relative to recent norms.** The local industrial sector is experiencing a transition period as developers and tenants each respond to a post-pandemic normalization in consumer behavior. Spurred by an online shopping boom and international supply chain snarls during the health crisis, inventory additions from 2020-2023 totaled 38.6 million square feet, met with net absorption of roughly 35.7 million square feet. Now in 2024, supply additions and net absorption each decline to decade-plus lows. The reduction in demand will be slightly more extreme than the slowdown in construction, however, resulting in a second straight annual vacancy increase. Nevertheless, the rate holds nearly 300 basis points below the metro's long-term mean, allowing the average asking rate to remain on an upward trajectory after ranking fourth among major U.S. markets for rent growth last year. Marshall County and Northeast Memphis have been the most resistant to the ongoing slowdown, each registering vacancy drops last year. Marshall County's access to Interstate 22 and Northeast Memphis' proximity to Interstate 40 reinforce tenant demand.

**Relatively higher yields backstop lower deal flow, DeSoto County a focal point.** Memphis' average cap rate of 7.3 percent last year was the second highest of any major U.S. market not located in the Midwest. Higher yields help alleviate transaction hurdles during a span of elevated debt costs, allowing deal flow in Memphis to hold steady between the first and second halves of 2023. Relative to the prior year, transaction activity nevertheless decreased by more than 50 percent. DeSoto County, however, recorded more trades last year than it did in 2022. Class A and B warehouse and distribution facilities here are generating attention, particularly near the Olive Branch Airport.

## 2024 MARKET FORECAST

-0.5%



**EMPLOYMENT:** Job market headwinds continue this year with the loss of 3,000 positions after 2,500 roles were shed in 2023. Headcount reductions have been most notable in office-using sectors.

2.2 million  
sq. ft.



**CONSTRUCTION:** Annual completions fall below 3 million square feet for the first time since 2019. The resulting inventory growth of 0.7 percent also marks the smallest expansion in 12 years.

+50 bps



**VACANCY:** Net absorption will fall roughly 4 million square feet short of the historic average in 2024, sustaining upward vacancy pressure. Memphis' rate will rise to 6.8 percent by year-end.

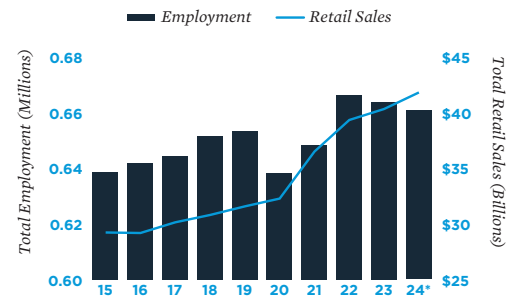
+3.5%



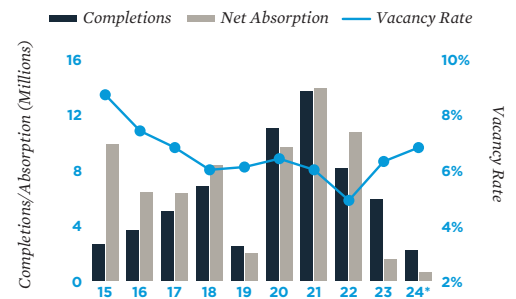
**RENT:** Following a combined 44 percent surge from 2021-2023, Memphis' average asking rate increases by a more sustainable pace this year. That growth brings the measure to \$4.96 per square foot.

**INVESTMENT:** Warehouses that changed hands last year were 25,000 square feet smaller on average than in 2022. Buyers may target smaller assets in Southeast Memphis for proximity to retailers and consumers.

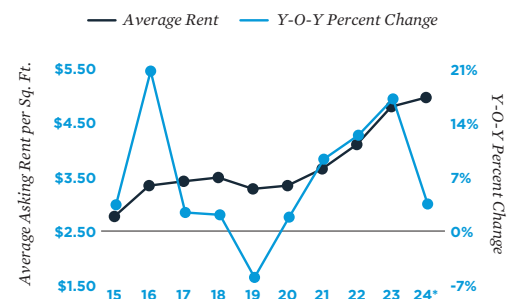
### Economic Trends



### Supply and Demand



### Rent Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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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 December 2023. Effective rent is equal to asking rent less concessions. 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. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth 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.