INVESTMENT OUTLOOK

Industrial

Memphis Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

MIDYEAR 2025

Northeast, Southeast Memphis Stand Out as Metro Navigates Period of Normalization

Supply and demand continue to undercut recent norms. The local industrial sector is facing a transitional period as developers and tenants experience post-pandemic rebalancing. Completions from 2020 to 2023 totaled 41.3 million square feet and was met with net absorption of roughly 37.4 million square feet. Yet demand began softening in the second half 2023 — a trend which has carried into the first quarter this year. Deliveries in 2025 will hit a 15-year low, but net absorption is expected to remain negative, resulting in a third straight annual vacancy rise. Still, the metrowide rate will stay 170 basis points below the post-2000 average. As the only submarket with more than 10 million square feet in inventory to post vacancy drops in each of the last two years, Northeast Memphis has been the most resistant to the ongoing slowdown. Bolstered by its position near Interstates 40, 269 and 240, Northeast Memphis exited March with vacancy at 4.0 percent ahead of scheduled move-ins by xAI, LifeScience Logistics and GE Vernova totaling over 2.2 million square feet.

Higher yields sustain deal flow; Southeast Memphis a focal point. Memphis' mean cap rate of 8.3 percent over the 12 months ended in March was the third highest of any major metro. Meanwhile, the average price per square foot was the third lowest among major markets at $86. Higher yields helped transaction velocity hold steady year over year; however, the number of deals inked above $10 million tripled, as large organizations accounted for a higher proportion of activity. Private investors remained most active in Southeast Memphis, which accounted for roughly 60 percent of deal flow. Upcoming activity is likely to cluster heavily around Memphis International Airport and Olive Branch Airport, as well as within one to two miles of nearby thoroughfares.

2025 MARKET FORECAST

+0.3% — **EMPLOYMENT:** The addition of 2,200 new positions this year is poised to largely reverse the losses posted in 2024. The trade, transportation and utilities sectors have led hiring so far in 2025.

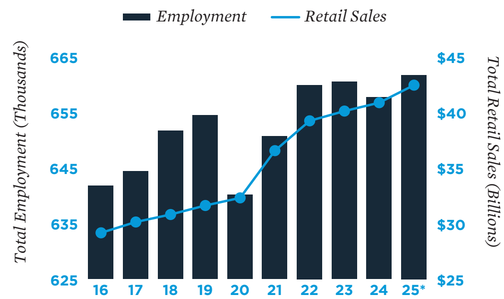
320,000 *sq. ft.* — **CONSTRUCTION:** Total completions slated for this year will fall to less than 4 percent of the trailing half-decade average, aligning with 2024's total to mark another historic low in annual deliveries.

+50 bps — **VACANCY:** The metro is expected to post a second year of net relinquishment as vacancy rises to 7.7 percent by year-end, just 10 basis points above the anticipated national rate for 2025.

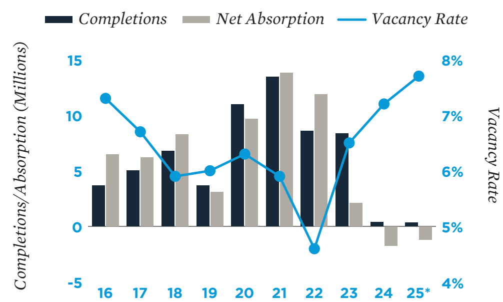
+0.7% — **RENT:** Despite a third consecutive year of rising vacancy, Memphis will sustain a moderate increase in marketed rents. The asking rate will rise to an average of $6.82 per square foot by December.

INVESTMENT: *Northeast Memphis' investment profile may benefit from Ford's BlueOval City campus in Stanton. Beginning production in 2027, the plant could bolster local demand from logistics and support companies.*

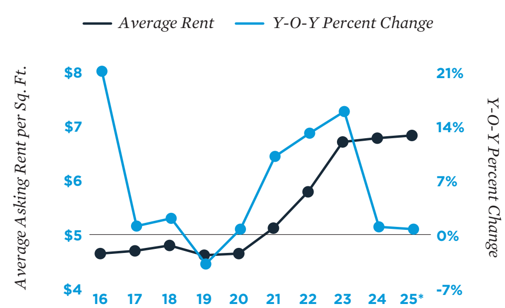
Economic Trends



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 guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.