

# INVESTMENT FORECAST

Office  
Memphis Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2025

## Nationally Low CBD Vacancy Continues to Propel Memphis Office Sector Amid Class B Investment Focus

**Recent bumps in the road mitigated by negligible development pipeline.** Some of the occupancy gains made since 2021 were undone last year, yet the market still entered 2025 with a vacancy rate 40 basis points below its 2014-2019 average of 13.3 percent. Availability was particularly tight to start the year downtown, where the reading of 6.7 percent was the lowest among major U.S. metro central business districts. Despite this, traditional office development here is intermittent; a 300,000-square-foot proposal is the only notable project in the pipeline. This year's completions are instead condensed slightly north with the office component of the Uptown Snuff District project. The lack of major deliveries elsewhere may help operations stabilize, as vacancy climbed last year in the majority of Memphis submarkets. A higher prevalence of Class B and C office space here than found nationally, at three quarters of local inventory, reiterates the market's reliance on local and regional tenants who tend to lease smaller, economical floorplans, which are less common in recent construction trends.

**Mid-tier properties hold investor attention.** While underrepresented locally compared with other major markets, Memphis' high-end stock is not engaging as well with the local tenant base, as evidenced by a Class A vacancy rate nearly double the Class B/C reading exiting 2024. This dynamic is reflected in commercial property sales, with the bulk of office trades last year involving Class B properties. The largest share of these were built in the 1990s and changed hands for between \$100 and \$150 per square foot. Although most buyers are based in Tennessee, an average cap rate of 8.6 percent last year — higher than 80 percent of major markets — could draw investors from outside the area. Recent opportunities have arisen for stabilized assets, as well as for those ready for repositioning.

### 2025 MARKET FORECAST

+0.6%



**EMPLOYMENT:** After two years of decline, the metro's employment base will increase by a modest 4,000 positions in 2025. Fewer than 1,000 of those roles will be in typically office-using fields.

75,000  
sq. ft.



**CONSTRUCTION:** Arrivals will slow to a half-decade low in 2025, though several projects are under proposal. If some of these complete faster than anticipated, openings for this year could be higher.

+10 bps



**VACANCY:** The metrowide rate will inch up to 13.0 percent this year — the highest rate in the post-pandemic period. Availability continues to be a challenge, however, in Northeast Memphis.

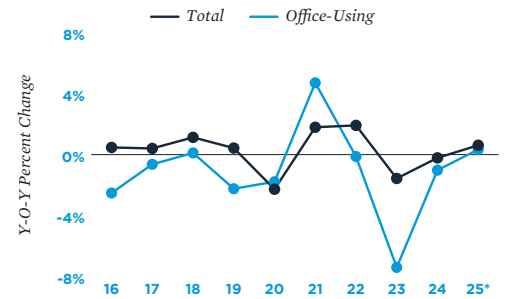
-0.3%



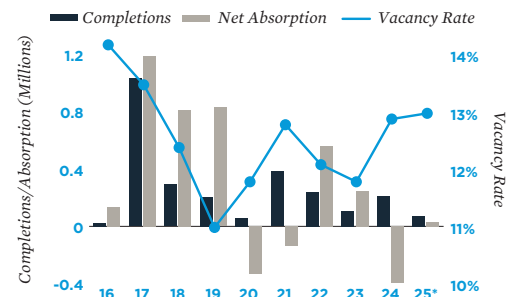
**RENT:** The average asking rent will tick down for the third straight year in 2025 to a mean of \$18.13 per square foot. This is 1.7 percent below the mid-2023 peak recording.

**INVESTMENT:** While the net relinquishment of 400,000 square feet in Northeast Memphis raised local vacancy to 30.8 percent, the area was a target for trades. Investors willing to re-tenant may continue to look here.

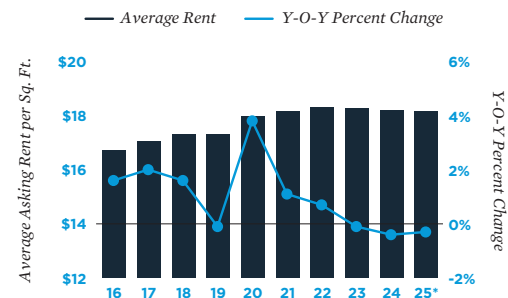
### Employment Trends



### Supply and Demand



### Rent Trends



\* 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 December 2024. 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.