

# INVESTMENT FORECAST

INDUSTRIAL  
Memphis Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2019

## Shipping Advantages of Memphis Create Buyer Interest Amid E-Commerce Era

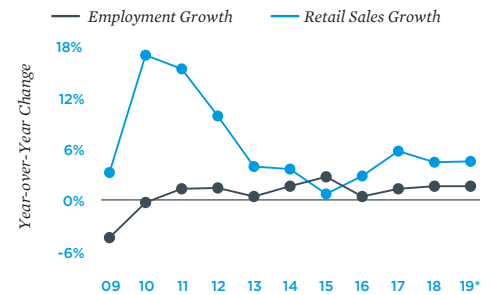
**Infrastructure improvements demonstrate distribution importance.** The city's unique distribution advantages drive the Memphis industrial sector. The "Four R's" — runway, rail, river, and road — contribute to the metro's intermodal distribution capabilities. The city is investing in solidifying its position as a national nucleus for cargo transportation, demonstrated recently by the railroad expansion at the Memphis International Port and the completion of the Memphis Beltway, Interstate 269. FedEx's largest distribution hub, located at the Memphis International Airport, is a catalyst for additional area demand. Warehouse and distribution space in the vicinity is desirable as e-commerce companies are realizing the impact close proximity to FedEx has on their supply chains. The positive market factors will bolster absorption again this year, as demand continues to outpace supply, helping vacancy tighten 50 basis points. The area's high absorption levels will keep rental rates on the rise in 2019.

**Investors are targeting properties near the metro's distribution hubs.** The positive economic trends and strategic advantages specific to the e-commerce and distribution industries are attractive to investors looking to deploy capital. Opportunistic buyers will seek older value-add properties near the International Port of Memphis. These assets may be more labor intensive from a management perspective, but they can provide high upside potential due to their location near the population core. Passive investors seeking lower risk assets may find net-leased properties with five to 10 years remaining on the current lease in south east Memphis and Olive Branch, Mississippi. These areas have registered most of the metro's recent transactions and buyers are finding yields as high as 8.5 percent on warehouse and distribution space.

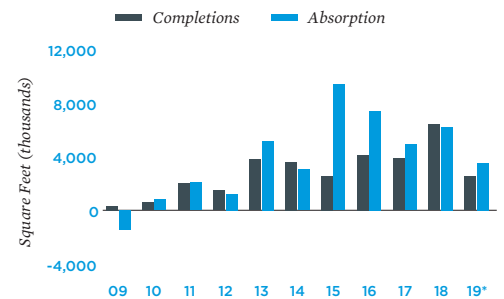
## 2019 Market Forecast

- Employment up 1.6%
Memphis employers will again hire 10,500 additional workers, matching last year's growth.
- Construction 2.5 million sq. ft.
Development is down this year, following the cyclical high construction levels posted in 2018. The final piece of Stateline Industrial Park is set to deliver later this year.
- Vacancy down 50 bps
Net absorption will outpace completions, contracting vacancy to 5.7 percent. In 2018, the vacancy rate held flat during a period of high construction.
- Rent up 4.7%
The average asking rent increases to \$3.14 per square foot, rebounding from last year's 1.3 percent slip.
- Investment
Limited deliveries are compressing vacancy rates along I-40 between Bartlett and Cordova. Investors can achieve rent \$3.00 per square foot higher than anywhere else in the metro.

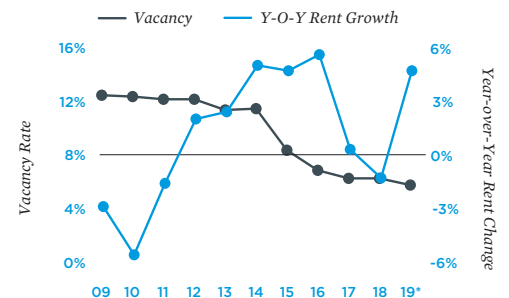
### Employment vs. Retail Sales Trends



### Industrial Completions



### Asking Rent and Vacancy Trends



\* Forecast;

Sources: CoStar Group, Inc.; Real Capital Analytics

### Alan Pontius

Senior Vice President | National Director  
National Office and Industrial Properties

(415) 963-3000

apontius@ipausa.com

Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2018. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.