

MEMPHIS IS WELL-ESTABLISHED FOR INDUSTRIAL OWNERS AND USERS TO WIN



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Memphis is home to some of the biggest industrial users in the world. Firms such as Amazon, Walgreens, Yeti and Hamilton Beach are attracted to the market's infrastructure, including the FedEx Global Headquarters and a UPS hub.

Momentum in the local industrial market has been maintained because of Memphis' world-class infrastructure offering the "four Rs" of transportation: river, road, rail and runway. Thanks to Memphis' central location, truck freight can reach 65 percent of the nation's population in 24 hours. The Port of Memphis is the fifth-largest inland port in the United States and an east-west highway spans the width of the country.

As home to FedEx Global Headquarters and a UPS hub, Memphis International Airport surpassed Hong Kong International Airport this year as the busiest cargo airport in the world.

The direct vacancy rate of the metro industrial market went from 6.5 percent in 2020 to 4.8 percent by mid-2021. Currently, there is 13.7 million square feet of inventory under construction with over 75 percent of it being speculative.

The demand and recent growth continue to improve in 2021. Net absorption is above 5.3 million square feet with tenants like Yeti, Walgreens, Hamilton Beach and Amazon moving into new facilities mid-year.

Rents have also continued to rise faster than the national average in many years. The average rent growth over the past 12 months is 6.9 percent, or \$4 per square foot. Large preleased facilities are under construction, which speaks to the area's strength as an industrial hub. Max Tools just moved into its new build-to-suit purchase of a 324,000-square-foot property in Distriplex Farms in the Southeast market.

Walgreens chose Memphis to implement a state-of-the-art fulfillment center to lower costs and improve speed with delivery service to its stores and consumer homes. Just north of Memphis, in Millington, Facebook is building a solar farm to support its data operation system. Once its 817,000-square-foot plant is renovated, Mullen Technologies, an electric car manufacturer, will produce a mid-size crossover SUV in its renovated plant.

Most of the new development activity is happening in Desoto and Marshall counties in Mississippi. Of the 13.7 million square feet of new product, all but 2.7 million square feet is located in Desoto or Marshall counties. This will continue to be the case due to the large, available tracts of land and access to the recently completed Interstate 269 connecting Interstates 55, 40 and 22.

Not to be outdone, the Southeast www.REBusinessOnline.com

market, Memphis' largest individual market, has performed well. With over 3 million square feet of new leases signed this year, the Southeast market vacancy rate is at an all-time low of 4.1 percent. With very little available land to add new buildings and the close proximity to all of the modes of transportation, the Southeast market will

continue to see rising rates and low vacancies.

Looking ahead, the Memphis MSA will continue its strong demand for bulk distribution with more and more developers looking to take advantage of available land and the fairly low cost compared to other markets. Rents should continue to go up with possible

slow down depending on the amount of inventory coming on line.

While the COVID-19 pandemic is still causing disruption in the markets and lives of everyone, it seems to have changed the way we do business, and this change has had a major effect on Memphis real estate that will last for years to come.

OFFICE SECTOR IN MEMPHIS IMPROVES RENT, OCCUPANCY DIPS

The pandemic disrupted commercial real estate across the United States, and we can all agree there are many unknowns that remain. The need for multi-level office space continues to lag as businesses adjust to the work-from-home model, and retail segments are beginning to come back.

Office properties may not be at the meteoric industrial level for Memphis, yet there is a correlation. Businesses benefit from the logistics infrastructure in the market, which ultimately helps their daily operations. Just this quarter, FedEx Logistics moved its

headquarters in to the Gibson Guitar Factory, absorbing 198,000 square feet of space.

Rent rates are pushing 1.5 percent on average. But Memphis is still one of the more affordable markets in the Southeast. Net absorption was at a negative 262,000 square feet due mostly to companies evaluating future needs for office space coming out of the pandemic. Even with the negative absorption and vacancy rates trending up to around 16 percent for the total market, the average asking rents increased to \$19.25 per square foot. This upward trend is

a positive for the overall market with companies looking to make decisions regarding future growth.

Investment sales are down in 2020, but just slightly. Through the first half of 2021 there have been \$150 million in sales. Cap rates for these properties continue to be in the 8.5 to 9 percent range. Renasant Bank is completing a build-to-suit, 45,000-square-foot building along the Poplar Corridor, which is the only property being added to the prominent East Memphis market.

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