



KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	↑↑	↑	↑
Vacant Space	→	↓	↑
Construction Levels	→	→	↑↑
Leasing Volume	↑	↑	↑
Investment Volume	↑↑↑	↑	↑

exceeded 200,000 sf, and rental rates experienced positive growth in 2019. Recent years have seen a renewed focus on the Downtown submarket following decades of migration to suburban submarkets, with FedEx, Varsity Spirit, Prospero Health, Cargill Cotton and TRUE Sports being the latest to join the growing roster of firms that have chosen to shirk the suburbs and relocate their office headquarters to Downtown Memphis. More Downtown relocations are expected as firms strive to create work environments that put them in a better position to attract young talent. On a negative note, the submarket is also set to lose Raymond James, a financial services firm occupying 185,000 sf, to the East submarket. Also of major significance in the East submarket is the upcoming disposition of the Highwoods Properties, Inc. portfolio totalling 1.6 msf. A consequence of this disposition will be a right-sizing of rental rates in the submarket, with rental rate growth of +/- 10% projected. Currently, rental rates for class A product in the East submarket reach as high as \$30.00 psf.

Employment and wage growth continued to support demand for the Memphis retail market in 2019. Although the vacancy rate remains close to 4%, there has been sustained demand for space over the year, especially in

the Germantown, Cordova, East Memphis and Whitehaven submarkets. Even in suburban submarkets, retail construction is trending away from the big-box projects of the past toward dense, mixed-use developments like Union Row, the Snuff District, the Lake District and Carrefour at the Gateway.

More speculative and build-to-suit developments are expected to break ground through the end of 2020 as major players in the e-commerce and logistics industries capitalize on the geographic advantage, world-class logistics infrastructure, strong logistics workforce and affordability of the Memphis market.

EXECUTIVE SUMMARY

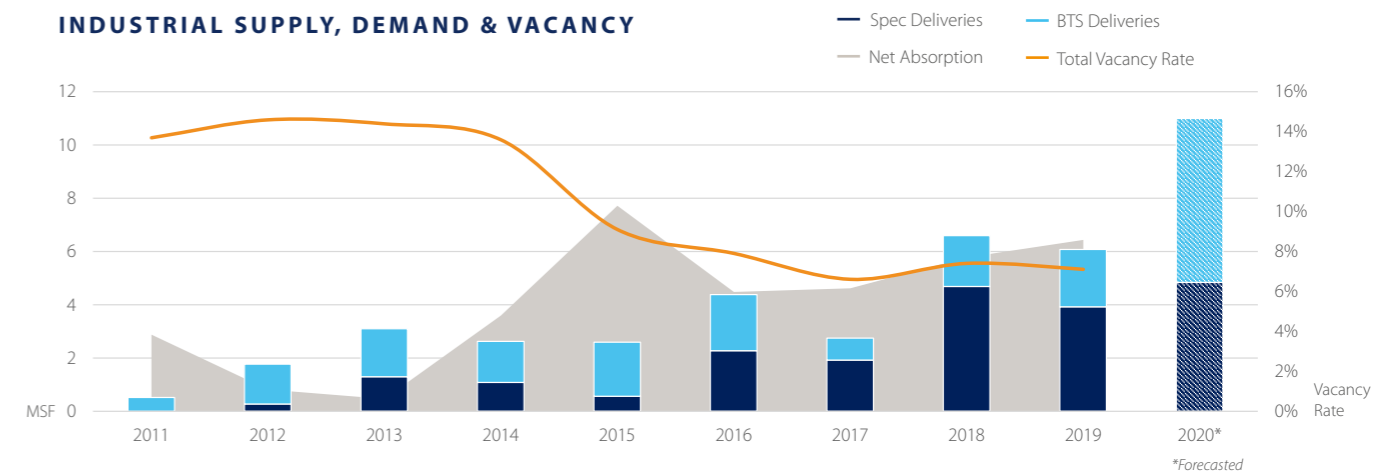
- The Memphis industrial market will continue to show its strength as tenant demand yields more speculative development announcements.
- Significant rental rate growth is expected in the East office submarket due to the disposition of the Highwoods Properties portfolio.
- The steady, stable growth that is characteristic of the Memphis market is projected to continue into 2020.

The Memphis economy continues to ride the tailwinds of the current national expansion. With an unemployment rate of 4.1% in September, a tight labor market persists across the metropolitan area, resulting in upward pressure on wages and prices. Additionally, the economic boom has translated into positive growth in property market fundamentals in the Memphis industrial, office and retail sectors.

The Memphis industrial market ended 2019 on a positive note with low vacancy, strong leasing activity and absorption, and rental rate growth. Although the direct vacancy rate dipped as low as 5.9% in 2019, the delivery of 5 million square feet (msf) of confirmed speculative product through the end of 2020 will prompt a temporary increase in vacancy; however, lease-up of new product has been strong given current economic conditions. More speculative and build-to-suit developments are expected to break ground through the end of 2020 as major players in the e-commerce and logistics industries capitalize on the geographic advantage, world-class logistics infrastructure, strong logistics workforce and affordability of the Memphis market. Amazon, for example, is rapidly expanding its presence in the Mid-South with plans to add an additional 5 msf to the 1.7 msf it already occupies in the region. New development in the market will primarily occur in North Mississippi and in Fayette County in Tennessee due to the availability of large tracts of land, but some infill development in Shelby County is possible, particularly as developers recognize the demand for smaller blocks of space ranging from 50,000-200,000 sf.

Historically, growth in market fundamentals for the Memphis office sector has been more subdued than in the industrial market, but the current economic expansion has certainly been a boon for the local office market. The vacancy rate fell below 17%, absorption

INDUSTRIAL SUPPLY, DEMAND & VACANCY



Source: Avison Young