

# Demand driving leasing activity, resulting in the third largest year of positive net absorption on record.

▼ 12.5%  
Vacancy Rate

▼ 34K  
SF Net Absorption

► 36K  
SF Under Construction

▼ \$23.13  
Class A Lease Rate

▼ \$18.52  
Class B Lease Rate

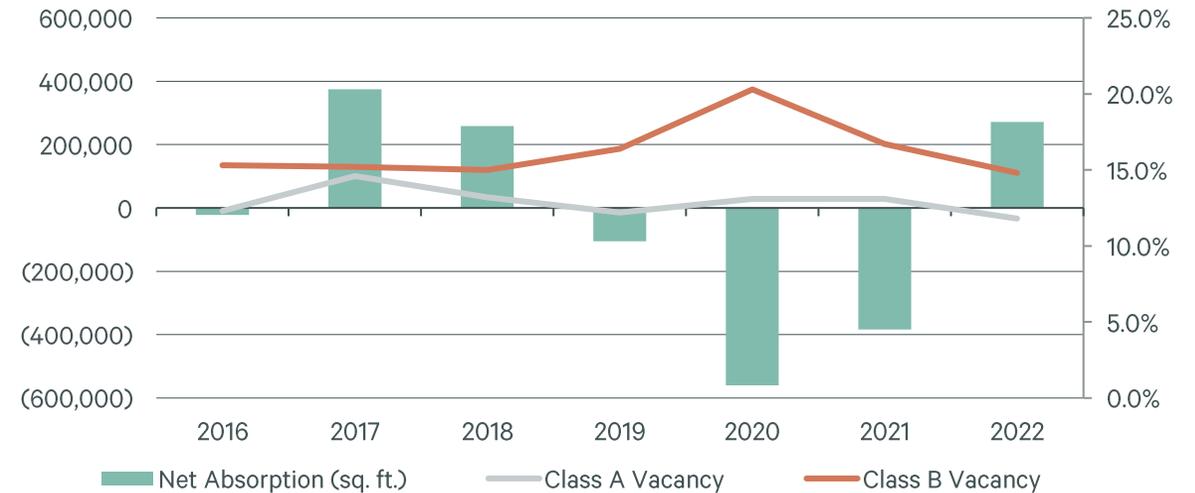
Note: Arrows indicate change from previous quarter.

## Key Takeaways

- The Memphis office market recorded 33,782 square feet of positive net absorption in Q4, bringing the 2022 total to 271,828 square feet, the third largest year of positive absorption on record.
- Class A office buildings outperformed second generation buildings, as tenants continue to seek highly amenitized office space options.
- Capital markets activity remains restrained as the Federal Reserve continues to raise interest rates to fight inflationary pressures.

The Memphis office market recorded a fourth consecutive quarter of positive absorption, bringing the total net absorption to 271,828 square feet for 2022, the first full year of positive absorption since 2018. Alongside a year of positive absorption, vacancy rates have decreased 840-basis points year-over-year to 12.5%. The East submarket’s Class A properties have reached pre-pandemic vacancy rates, as tenants favor the strategic advantage of being centrally located, with access to a wide amenity base. The average asking rate grew 470-basis points year-over-year for these properties. Class B’s overall vacancy rates have begun stabilizing after peaking at 20.3% in 2020. However, growing macroeconomic concerns have caused a scale back in leasing activity, resulting in a slight dip in rents quarter-over-quarter.

FIGURE 1: Historical Absorption and Vacancy



Source: CBRE Research, Q4 2022

While national demand for office spaces fell in 2022, the Memphis office market experienced strong leasing fundamentals, resulting in the third-strongest year of leasing activity on record. Buildings with ample amenities led leasing activity in 2022, with 218,851 square feet of positive absorption for Class A spaces versus 52,977 square feet for Class B properties. Recessionary concerns have further prompted companies to evaluate space utilization and cost savings as occupiers consider return-to-office strategies. According to CBRE’s Occupancy Benchmarking study, 69% of respondents reported prioritizing return to office in 2023, and 65% are searching for cost reductions.

### ECONOMIC OUTLOOK

The Federal Reserve finished 2022 with a 50-basis point interest rate hike in December, bringing the total yearly change to a 425-basis point increase. Due to the rapidly increasing cost of capital, global commercial real estate investment volumes have fallen 27% year-over-year. With inflation having peaked at 9.1% in June, interest rates are expected to peak around 5% in early 2023. However, the high cost of capital will likely reduce transaction volume in the year ahead, as investors will likely be more conservative with capital investment into the new year.

Nationally, companies have announced hiring slowdowns, as employers look to shed labor costs and rent expenses. Tennessee continues to see an increase in job openings, a byproduct of growth and corporate expansions within the state and region. While tech job postings fell nationally, Memphis went against the current, showing a rise in IT job postings. As the labor market slows in 2023, inflationary pressures could subside and help alleviate recessionary pressures.

FIGURE 2: Key Leasing Transactions

| Tenant                           | Location                 | Size (sq. ft.) | Submarket    | Transaction Type |
|----------------------------------|--------------------------|----------------|--------------|------------------|
| Hunter Fan Company               | 7130 Goodlett Farms Pkwy | 60,075         | Northeast    | Renewal          |
| Guaranty Bank                    | 4894 Poplar Ave          | 27,387         | East         | Sublease         |
| Armstrong Shared Services        | 8275 Tournament Dr       | 16,801         | 385 Corridor | New Lease        |
| Christ Community Health Services | 2670 Union Ave           | 16,375         | Midtown      | New Lease        |
| Undisclosed                      | 40 S Main St             | 14,363         | Downtown     | Expansion        |

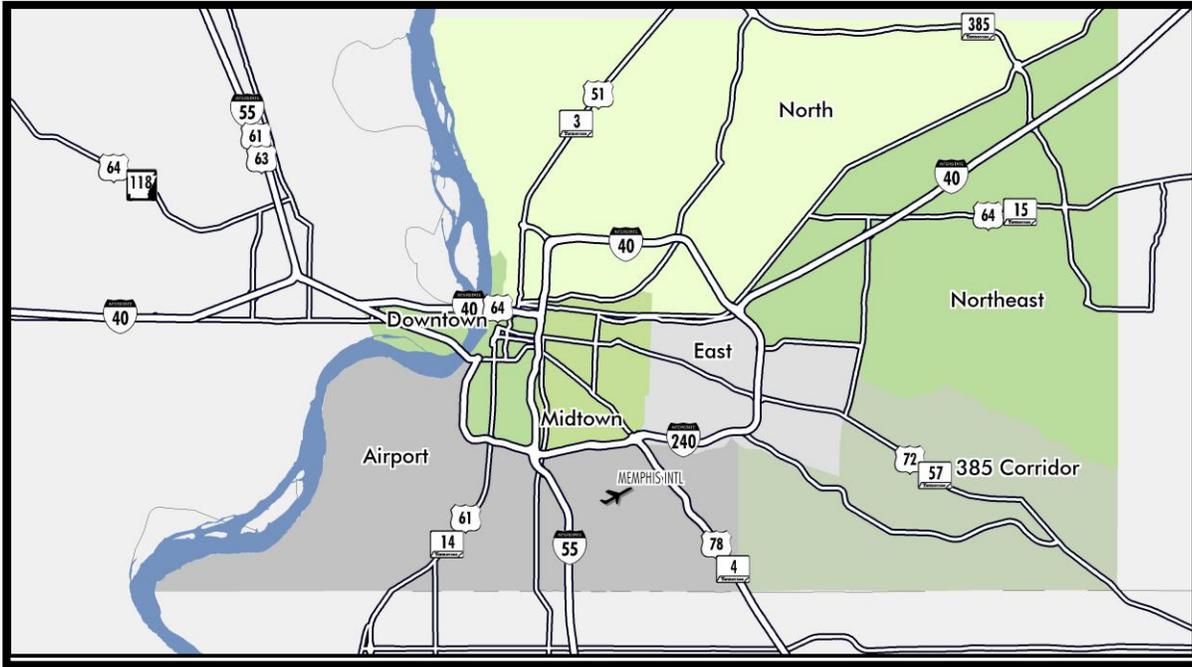
Source: CBRE Research, Q4 2022

FIGURE 3: Market Statistics

| Submarket            | Class          | Building SF       | Total Vacancy (%) | Avg Asking Lease Rate (\$) | Construction Deliveries (SF) | Q4 2022 Net Absorption (SF) | YTD Net Absorption (SF) |
|----------------------|----------------|-------------------|-------------------|----------------------------|------------------------------|-----------------------------|-------------------------|
| Airport              |                | 2,001,488         | 8.1               | 16.68                      | 0                            | 0                           | -30,709                 |
|                      | Class A        | 221,358           | 0.0               | N/A                        | 0                            | 0                           | 0                       |
|                      | Class B        | 1,780,130         | 8.3               | 16.68                      | 0                            | 0                           | -30,709                 |
| Downtown             |                | 3,291,290         | 15.6              | 17.45                      | 0                            | -37,220                     | -20,016                 |
|                      | Class A        | 1,615,473         | 20.0              | 19.69                      | 0                            | -14,098                     | 42,092                  |
|                      | Class B        | 1,675,817         | 11.7              | 15.64                      | 0                            | -23,122                     | -62,108                 |
| East                 |                | 9,046,826         | 12.5              | 21.85                      | 0                            | 4,073                       | 62,378                  |
|                      | Class A        | 3,239,409         | 7.5               | 30.72                      | 0                            | -451                        | 66,716                  |
|                      | Class B        | 5,807,417         | 15.0              | 19.55                      | 0                            | 4,524                       | -4,338                  |
| 385 Corridor         |                | 3,594,092         | 5.6               | 19.02                      | 0                            | 33,049                      | 141,251                 |
|                      | Class A        | 1,923,633         | 6.0               | 19.24                      | 0                            | 39,826                      | 149,402                 |
|                      | Class B        | 1,670,459         | 5.9               | 18.40                      | 0                            | -6,777                      | -8,151                  |
| Midtown              |                | 1,446,199         | 9.8               | 17.20                      | 0                            | 87                          | 4,050                   |
|                      | Class A        | 620,000           | 1.7               | 18.06                      | 0                            | 2026                        | 2026                    |
|                      | Class B        | 826,199           | 13.8              | 16.24                      | 0                            | -1,939                      | 2,024                   |
| North                |                | 213,924           | 3.3               | 15.27                      | 0                            | 0                           | 26,400                  |
|                      | Class A        | 0                 | 0.0               | N/A                        | 0                            | 0                           | 0                       |
|                      | Class B        | 213,924           | 3.3               | 15.27                      | 0                            | 0                           | 26,400                  |
| Northeast            |                | 2,288,464         | 21.0              | 19.18                      | 0                            | 33,793                      | 88,474                  |
|                      | Class A        | 684,085           | 31.9              | 19.86                      | 0                            | -56,805                     | -41,385                 |
|                      | Class B        | 1,604,379         | 16.4              | 18.90                      | 0                            | 90,598                      | 129,859                 |
| <b>Memphis Total</b> |                | <b>21,668,359</b> | <b>12.5</b>       | <b>20.17</b>               | <b>0</b>                     | <b>33,782</b>               | <b>271,828</b>          |
|                      | <b>Class A</b> | <b>8,303,958</b>  | <b>11.8</b>       | <b>23.13</b>               | <b>0</b>                     | <b>-29,502</b>              | <b>218,851</b>          |
|                      | <b>Class B</b> | <b>13,364,401</b> | <b>14.8</b>       | <b>18.52</b>               | <b>0</b>                     | <b>63,284</b>               | <b>52,977</b>           |

Source: CBRE Research, Q4 2022

**Market Area Overview**



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**Survey Criteria**

The CBRE, Inc. Office Figures report provides statistics based on a revised set of inventory consisting of office properties in the following submarkets: Airport, Downtown, East, 385 Corridor, Midtown, North and Northeast. All properties are Class A or B, are greater than 10,000 sq. ft. and are not owner occupied. Properties used primarily for medical and government purposes have been removed from the data set. Historical data is reflective of the current set of inventory rather than previously published report figures and is subject to revision as additional information becomes available.

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