Negative absorption and rising vacancy temper office market performance

▲ 16.7% Direct Vacancy Rate

▲ -16.1K SF Net Absorption

▶ 0 SF Construction Delivered

▲ $23.24 Class A Direct Asking Rate

▲ $20.06 Class B Direct Asking Rate

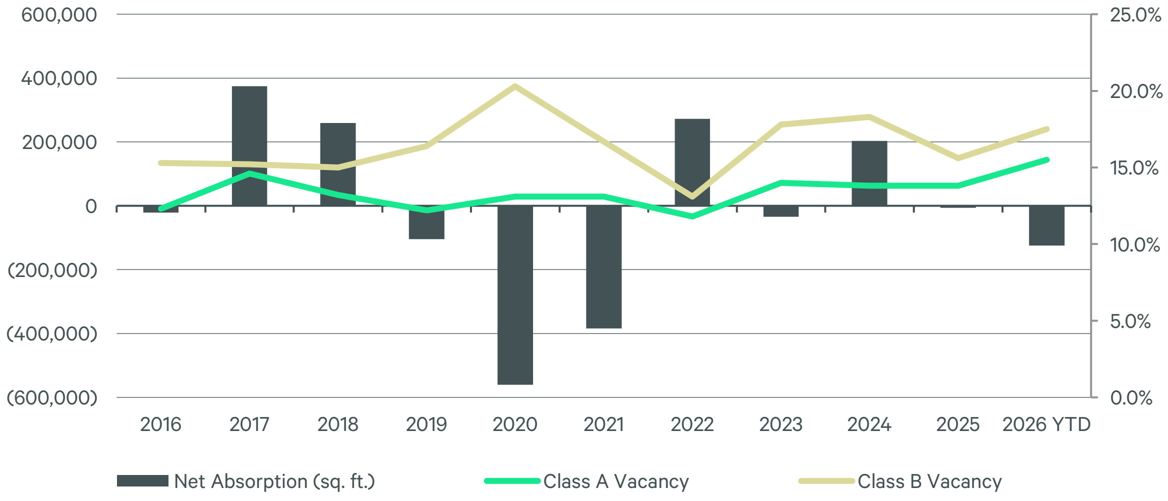
Note: Arrows indicate change from previous quarter.

Market Overview

Memphis' office market remained challenged in Q2 2026 as occupier demand was uneven across property classes. The total direct vacancy rate increased to 16.7% from 15.0% one year earlier, while Class A vacancy rose to 15.5% and Class B vacancy reached 17.5%. Quarterly net absorption totaled -16,100 sq. ft., reflecting continued space givebacks in portions of the market. Despite softer occupancy trends, direct asking rents increased to $21.26 psf, up from $19.89 psf a year ago, indicating continued landlord confidence in well-positioned assets.

The U.S. economy entered mid-2026 on relatively solid footing, with GDP growth projected to average 2.2%, generally consistent with 2025 levels. Continued investment associated with artificial intelligence and related technologies remains an important driver of business expansion and capital spending. At the same time, elevated inflation, recently reaching 4.2%, and Treasury yields above 4% have created a more challenging operating environment for commercial real estate. A prospective easing of geopolitical tensions and stabilization of energy markets could help moderate inflation later in the year and improve business confidence. For the Memphis office market, a steadier economic backdrop could support leasing decisions that have been deferred amid uncertainty. Combined with the existing tenant pipeline, improving confidence could help stabilize occupancy levels and support incremental leasing activity through the remainder of 2026.

Figure 1: Historical Net Absorption and Vacancy



Source: CBRE Research, Q2 2026

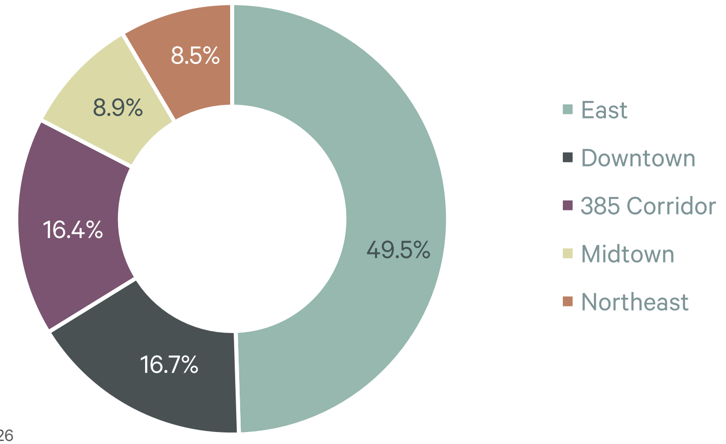
Vacancy and Net Absorption

Office market fundamentals continued to soften during Q2 2026, as vacancy expanded and overall occupancy contracted modestly from the prior year. The market recorded 16.7% direct vacancy, up 170 basis points year-over-year. Quarterly net absorption totaled -16,100 sq. ft., reflecting a market still working through tenant consolidations and move-outs. However, performance varied across asset quality, with Class A properties posting 13,300 sq. ft. of positive absorption while Class B assets recorded -29,400 sq. ft. The quarter's positive absorption was driven by several move-ins, including the GSA's occupancy of 7,000 sq. ft. at Tower at Peabody Place in the Downtown submarket and Progressive Casualty Insurance Company's 7,000 sq. ft. lease at Germantown Park in the Northeast submarket. These gains helped offset continued vacancy expansion elsewhere in the market.

Leasing Activity

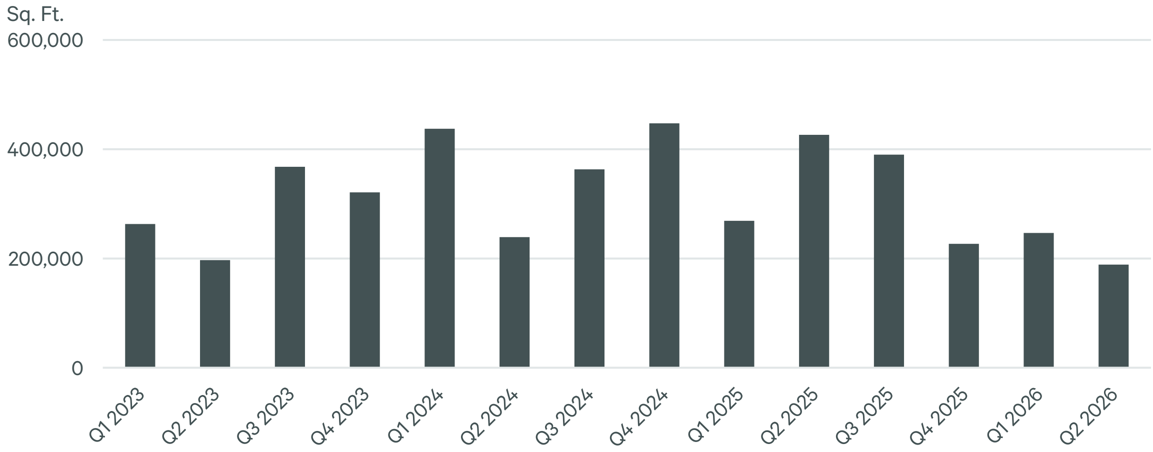
Leasing activity continues to be driven by a relatively concentrated tenant pipeline, with approximately 320,000 sq. ft. of active requirements currently in the market. Health Care and Social Assistance organizations account for 21.5% of active demand, followed by Transportation and Logistics at 18.8% and Legal users at 17.7%. This mix suggests that office demand is being supported primarily by sectors that maintain a recurring need for physical office space despite broader workplace strategy changes. While overall market conditions remain tenant-favorable due to elevated vacancy, the concentration of demand among professional and business-oriented occupiers provides opportunities for landlords with quality, move-in-ready space. Future leasing momentum will likely depend on converting these active requirements into executed transactions, particularly within higher-quality Class A product.

Figure 7: Leasing Activity by Submarket (% of Total Activity)



Source: CBRE Research, Q2 2026

Figure 2: Leasing Activity Trend



Source: CBRE Research, Q2 2026

Figure 3: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Independent Bank	41,300	Renewal	I-Bank Tower	East
GSA	16,800	New Lease	Tower at Peabody Place	Downtown
City of Memphis	11,600	Renewal	Coastal Corporate Center I	Midtown
Lab Four	8,300	New Lease	Tournament Trails	385 Corridor
Multi-South Management Services, LLC	6,600	New Lease	Clark Tower	East
Freed Life	6,300	Renewal	Shelby Oaks Plaza II	Northeast
Bankers Life and Casualty Company	6,000	Renewal	Germantown Park	Northeast
AT&T Services	5,600	New Lease	Lynnfield Office Park	East
Exel, Inc.	5,300	New Lease	Shadow Creek I	385 Corridor

Source: CBRE Research, Q2 2026

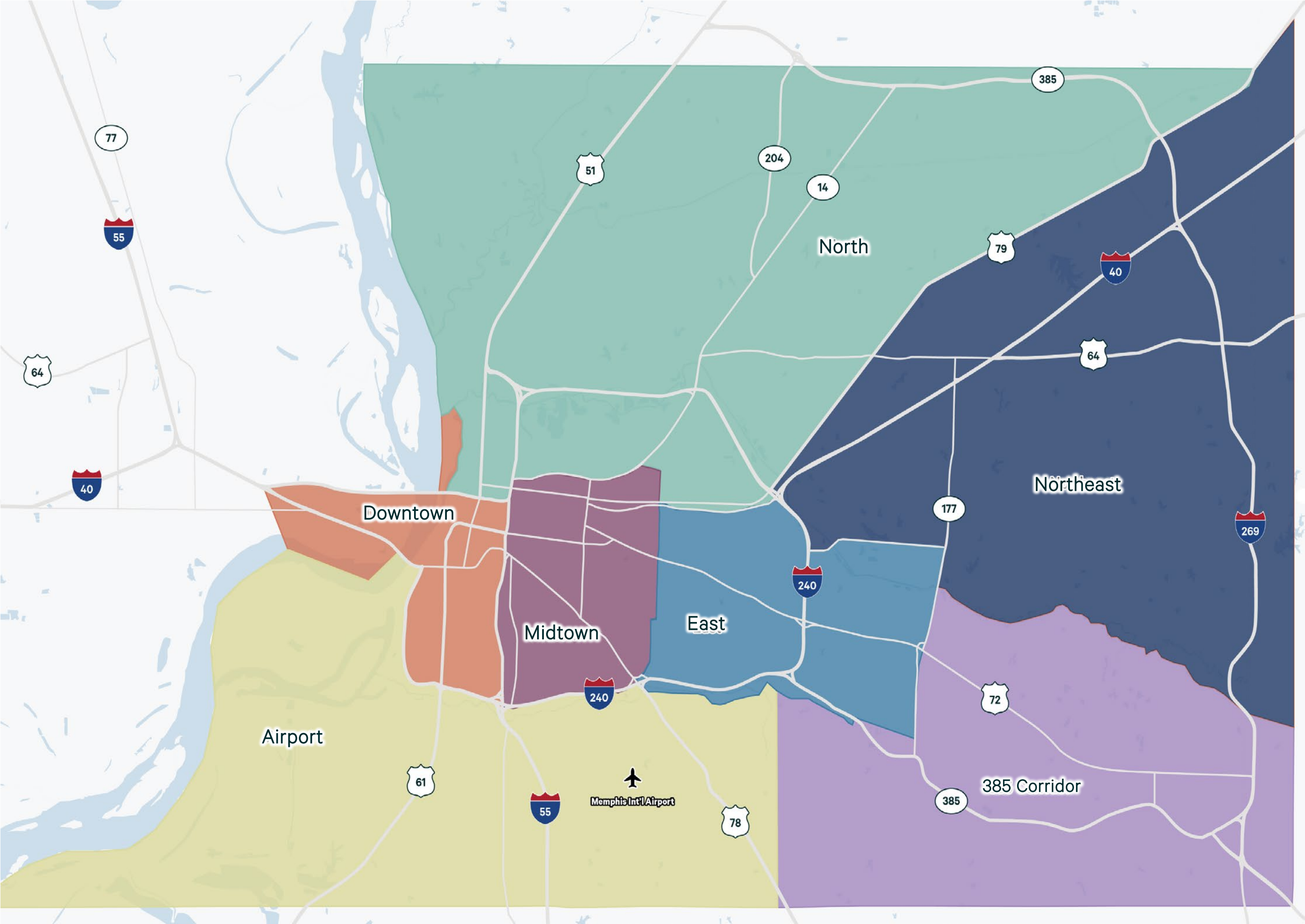
Market Statistics by Submarket

Figure 6

Submarket	Class	Building SF	Direct Vacancy (%)	Avg Asking Lease Rate ($)	Construction Deliveries (SF)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)
East (CBD)		8.57M	15.7	25.19	0	-20,400	-4,700
	Class A	3.22M	10.9	33.48	0	-7,900	8,150
	Class B	5.35M	18.6	22.66	0	-12,500	-12,900
Downtown		2.82M	12.0	21.21	0	10,900	11,900
	Class A	1.65M	13.0	21.72	0	9,600	13,100
	Class B	1.17M	10.7	20.18	0	1,300	-1,100
385 Corridor		4.35M	18.8	19.61	0	10,250	-56,900
	Class A	3.20M	22.1	19.64	0	10,250	11,700
	Class B	1.15M	9.6	19.11	0	0	-68,600
Midtown		1.24M	11.3	18.89	0	0	-3,200
	Class A	620,000	0.3	25.00	0	0	0
	Class B	624,000	22.2	16.79	0	0	-3,200
Northeast		2.10M	18.6	19.09	0	-12,900	-36,300
	Class A	670,000	26.2	19.77	0	1,400	1,400
	Class B	1.43M	15.1	18.48	0	-14,300	-37,700
Airport		3.29M	24.8	17.55	0	-3,600	-2,400
	Class A	0	0.0	0.00	0	0	0
	Class B	3.29M	24.8	17.55	0	-3,600	-2,400
North		730,000	0.6	15.95	0	-375	1,300
	Class A	0	0.0	0.00	0	0	0
	Class B	730,000	0.6	15.95	0	-375	1,300
Memphis Total		**23.10M**	**16.7**	**21.26**	**0**	**-16,100**	**-90,300**
	Class A	**9.36M**	**15.5**	**23.24**	**0**	**13,300**	**34,400**
	Class B	**13.74M**	**17.5**	**20.06**	**0**	**-29,400**	**-124,700**

Source: CBRE Research, Q2 2026

Market Area Overview



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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