Class A properties lead positive absorption in the first quarter.

▼ 12.4%
Vacancy Rate

▼ 14K
SF Net Absorption

▶ 36K
SF Under Construction

▲ $23.35
Class A Lease Rate

▲ $19.45
Class B Lease Rate

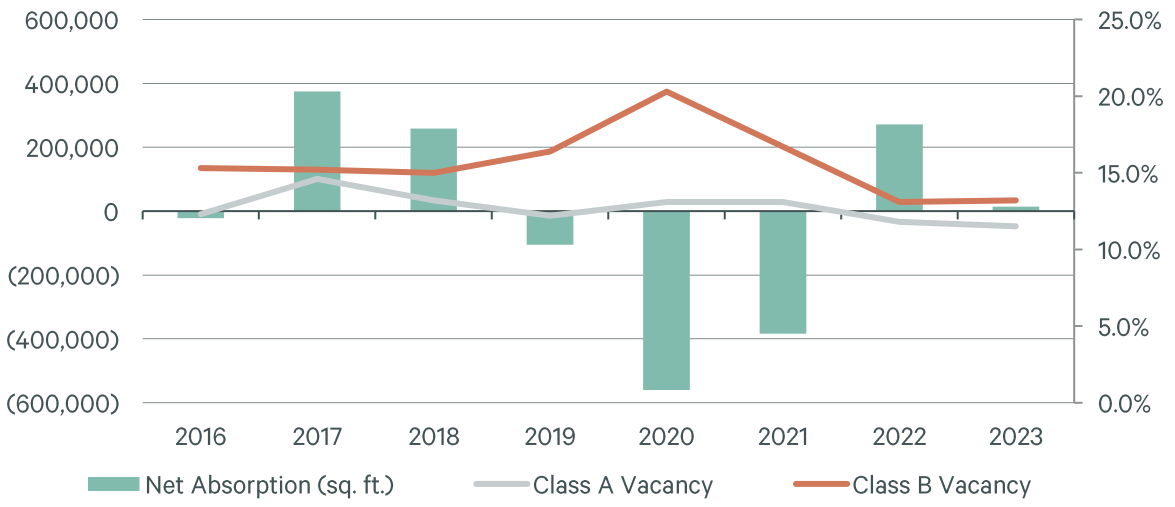
Note: Arrows indicate change from previous quarter.

Key Takeaways

- The Memphis office market recorded 13,744 square feet of positive absorption, marking five consecutive quarters of positive absorption.
- Rental rates trended upwards in Q1 2023 to $20.76 per square foot, a 290-basis point increase quarter-over-quarter.
- The Federal Reserve raised interest rates 25 basis points in March, but with inflation slowing down, it could allow the Fed to begin lowering interest rates, bringing greater clarity to commercial real estate markets.

The Memphis office market's average asking rental rate increased 290 basis points quarter-over-quarter to $20.76 per square foot. The overall vacancy rate continued trending downward to a five-year low, as a result of the fifth consecutive quarter of positive absorption at 13,744 square feet. Highly amenitized properties drove positive absorption in Q1, as Class A properties recorded 26,163 square feet of positive absorption, compressing the vacancy rate to 11.5%. Counter to Class A properties, suburban properties that offer less amenities experienced the largest increase in vacancy rate in the first quarter.

FIGURE 1: Historical Absorption and Vacancy



Source: CBRE Research, Q1 2023

The Memphis office market experienced a rebound of tenants in the market during 2022, and many of those deals transacted, resulting in a year of positive absorption. However, the start of 2023 has not experienced enough tenants entering the market to offset the deals transacted in 2022. Leasing activity fell to 263,250 square feet in Q1, while maintaining a healthy activity level slightly below the 12-quarter average of 296,569 square feet. This is largely due to tenants favoring changes to their current office rather than seeking out a new space to lease. As a result, renewal concessions have significantly increased compared to pre-pandemic figures, as landlords seek to improve building occupancy.

The East submarket continues to attract tenants, with the top two leasing transaction signing at the Crescent Center totaling 29,329 square feet in Q1. This will continue putting downward pressure on the submarket's already tight vacancy rate. The continued demand in the East submarket has pushed the vacancy rate to 12.4% as of Q1 2023, below the pre-pandemic level of 12.5% in Q4 2019.

ECONOMIC OUTLOOK

The Federal Reserve continued their monetary tightening policy amid banking turmoil, as they raised interest rates an additional 25 basis points in March. The operating challenges of lingering inflation and high cost of capital are causing firms to shelve expansion plans and business investment is stalling. Due to the trouble in the banking sector, banks have limited their lending to increase their own liquidity. As inflation continues to slowdown, it could allow the Fed to ease monetary policy, providing greater clarity to the real estate sector.

FIGURE 2: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
Benefit Recovery	6075 Poplar Ave	15,000	East	New Lease
Simmons Bank	6075 Poplar Ave	14,329	East	Expansion
Aerotek Affiliated Services, Inc.	7000 Goodlett Farms Pkwy	13,754	Northeast	Renewal/Expansion
Saint Francis Physicians Network	7845 Highway 64	13,270	Northeast	New Lease
MSK Group	6077 Primacy Pkwy	12,751	East	Renewal

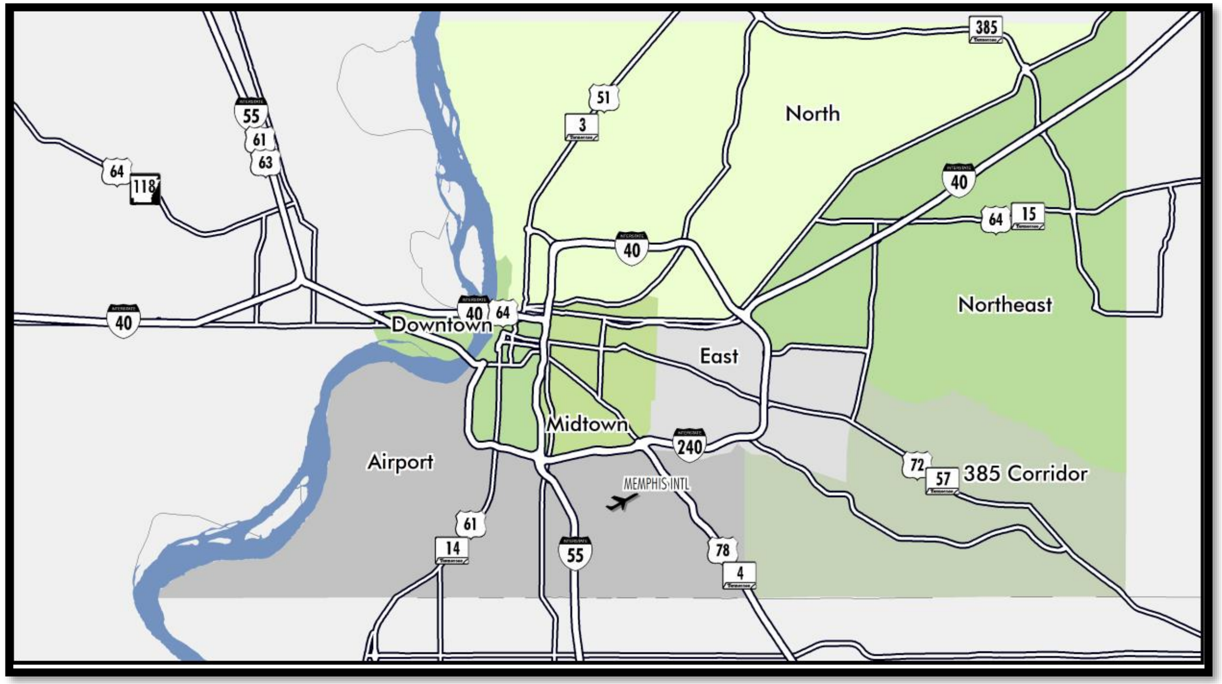
Source: CBRE Research, Q1 2023

FIGURE 3: Market Statistics

Submarket	Class	Building SF	Total Vacancy (%)	Avg Asking Lease Rate ($)	Construction Deliveries (SF)	Q1 2023 Net Absorption (SF)	YTD Net Absorption (SF)
Airport		2,001,488	9.3	17.12	0	-23,587	-23,587
	Class A	221,358	0.0	0.00	0	0	0
	Class B	1,780,130	9.6	17.12	0	-23,587	-23,587
Downtown		3,291,290	11.1	18.56	0	4,672	4,672
	Class A	1,615,473	18.5	19.97	0	25,028	25,028
	Class B	1,675,817	9.9	16.02	0	-20,356	-20,356
East		9,046,826	12.4	21.71	0	9,671	9,671
	Class A	3,239,409	7.6	31.31	0	-1,807	-1,807
	Class B	5,807,417	14.8	18.56	0	11,478	11,478
385 Corridor		3,594,092	5.4	19.71	0	8,454	8,454
	Class A	1,923,633	6.0	19.49	0	904	904
	Class B	1,670,459	5.4	18.26	0	7,550	7,550
Midtown		1,446,199	8.4	17.79	0	20,008	20,008
	Class A	620,000	1.7	18.00	0	0	0
	Class B	826,199	11.4	16.67	0	20,008	20,008
North		213,924	3.3	16.00	0	0	0
	Class A	0	0.0	0.00	0	0	0
	Class B	213,924	3.3	16.00	0	0	0
Northeast		2,288,464	21.2	19.10	0	-5,474	-5,474
	Class A	684,085	31.6	19.86	0	2,038	2,038
	Class B	1,604,379	16.9	17.84	0	-7,512	-7,512
Memphis Total		**21,668,359**	**12.4**	**20.76**	**0**	**13,744**	**13,744**
	Class A	**8,303,958**	**11.5**	**23.35**	**0**	**26,163**	**26,163**
	Class B	**13,364,401**	**13.2**	**19.45**	**0**	**-12,419**	**-12,419**

Source: CBRE Research, Q1 2023

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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