

2020 North America Industrial Big Box

Review & Outlook

CBRE RESEARCH



CBRE

Memphis



Memphis is coming off a record-breaking year in 2020. With the nation's busiest cargo airport, five Class I railroads and within a two-day truck drive to 70% of the U.S. population, investors and users alike understand why Memphis is considered 'America's Distribution Center.' With a continuing influx of new capital, organic expansion of existing tenants and the growth of e-commerce, the market shows no signs of slowing down."

– Patrick Walton, Senior Vice President





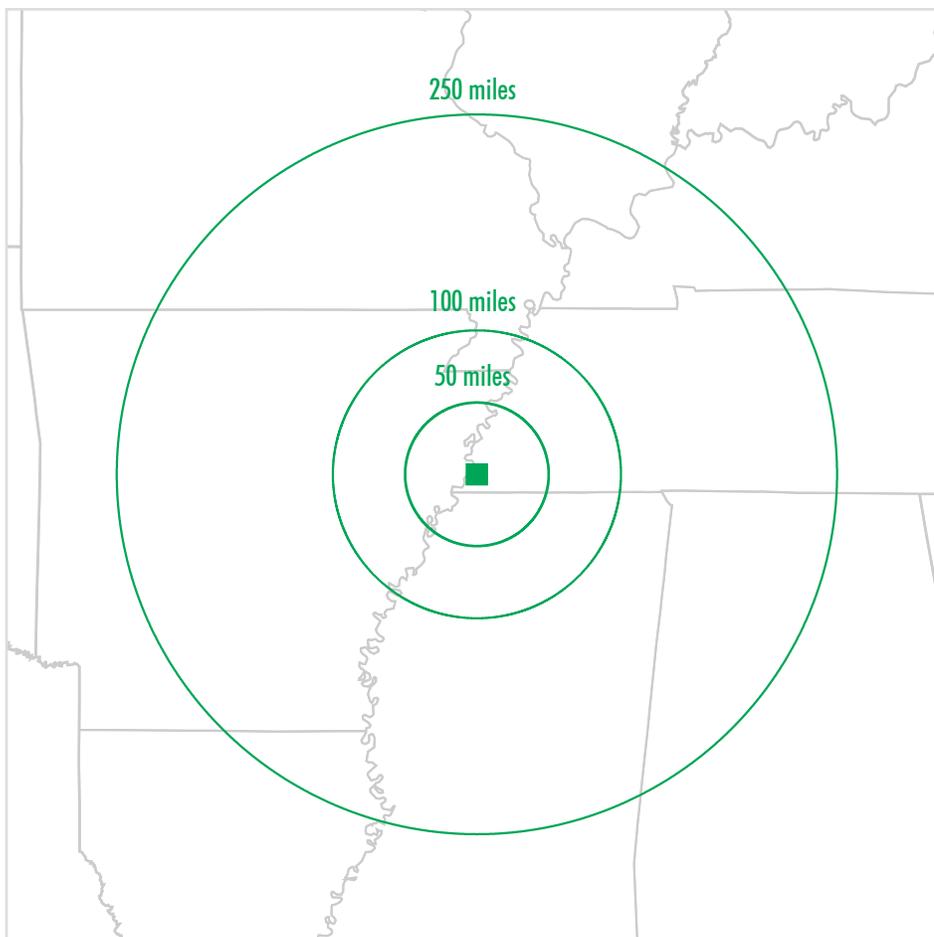
Memphis

Demographics

Memphis's strength as a distribution market comes from its plethora of logistics advantages rather than its large close-in population. Just under 1.5 million people live within 50 miles of the market core, with an expected growth rate of 1.9% over the next five years. Within 250 miles, occupiers can reach 17.5 million people or 6.9 million households.

According to [CBRE Labor Analytics](#), the local warehouse labor force of just over 57,000 is expected to grow by 14% over the next decade. The average wage for non-supervisory employees is \$13.38 per hour, 4.9% lower than the U.S. average.

Figure 1: Memphis Population Analysis



Distance from Downtown Memphis	2020 Total Population	5 Year Growth
50 miles	1,482,076	1.9%
100 miles	2,699,400	1.2%
250 miles	17,543,655	2.4%

Source: CBRE Location Intelligence.

Figure 2: Memphis Warehouse & Storage Labor Fundamentals



Source: CBRE Labor Analytics.

*Median Wage (1 year experience); Non-Supervisory Warehouse Workers (forklift, warehouse workers).

Location Incentives

Over the past five years, there have been 172 economic incentives deals totaling nearly \$403 million at an average of \$20,175 per new job in the Memphis metropolitan area, according to Wavteq.

According to [CBRE's Location Incentives Group](#), among the top incentive programs is the FastTrack discretionary grant program, which helps offset the costs companies incur in job training, infrastructure development and other project-related expenditures. To qualify, businesses must make a capital investment and create net new full-time jobs.

Figure 3: Memphis Top Incentive Programs

Program (Tennessee)	Description
Job Tax Credit	Tax credit equal to \$4,500 to \$9,000 per new job
Sales Tax Exemptions	Discretionary sales tax exemption for HQ facilities, manufacturing, and data centers
Deal Closing Fund / Job Training Grant	Discretionary cash grant / discretionary job training grant
Property tax abatements	Discretionary abatement of real estate and personal property taxes

Program (Mississippi)	Description
Advantage Jobs Incentive Program	Rebate up to 4% of applicable wages; Cannot receive more than 90% of actual income tax withheld
Sales Tax Exemptions	Discretionary sales tax exemption for manufacturing and data centers
National or Regional Headquarters Credit	Tax credit between \$500 and \$2,000 per worker, per year, for a 5-year period
Mississippi Workforce Education Program	Job training grant
Property Tax Abatements	Discretionary abatement of real estate and personal property taxes

Source: CBRE Location Incentives Group.

Note: The extent, if any, of state and local offerings depends on location and scope of the operation.

Memphis

Logistics Driver

Memphis is one of the most logistics friendly markets in North America. The region has an integrated transportation system of highways, rail mainlines, river ports and the second busiest cargo airport in the world. More than 27,000 companies have operations in Memphis, including more than 400 trucking companies.

Memphis is one of only four U.S. cities served by five Class I railroads. Single-system shipment is available to all 48 contiguous states, Alaska, Canada and Mexico. Trucks leaving Memphis can reach 35% of the U.S. population overnight and 68% in two days.

I-40 runs coast-to-coast, I-55 intersects Memphis and allows direct access from Chicago to Louisiana, and I-69 connects Canada to Mexico.

The [Port of Memphis I](#) is 400 river miles from St. Louis and 600 from New Orleans, where cargo can be transferred to ocean liners. The No. 1 logistics advantage in the region is [Memphis International Airport](#). Home to the largest FedEx hub in the world, Memphis International is the second most active air hub in the world and by far the top in North America, handling 4.3 million tons of cargo in 2019.

Capital Markets



Robust fundamentals led to record-low cap rates in the upper 4% to very low 5% range last year. Sales volume increased by 15% year-over-year. Second-generation buildings with below-market rents but significant upside potential are very attractive to investors.”

– Frank Fallon, Vice Chairman

Figure 4: Cap Rate Comparison

	Class A	Class B
2020	5.25% - 5.75%	6.00% - 6.50%
2019	5.50% - 6.00%	7.00% - 7.75%

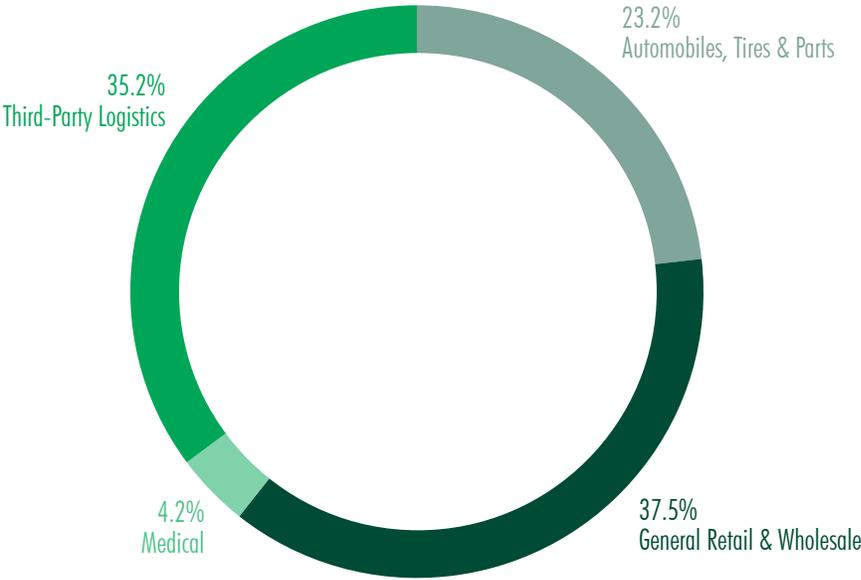
Source: CBRE Research.

Supply & Demand

Transaction volume totaled 14.9 million sq. ft. last year, the eighth highest in North America but slightly below 2019's total. Annual absorption tripled to 10.2 million sq. ft. Despite robust demand and a vacancy rate of 6.0%, Memphis remains one of the most affordable markets in North America with an average taking rent of \$3.44 per sq. ft.

Memphis's central location and air cargo capabilities make it a magnet for general retailers, wholesalers and 3PLs. Combined, they accounted for two-thirds of total transactions in 2020. Construction completions totaled 10.9 million sq. ft. last year. Another 12.2 million sq. ft. is currently under construction, 29.5% of it preleased.

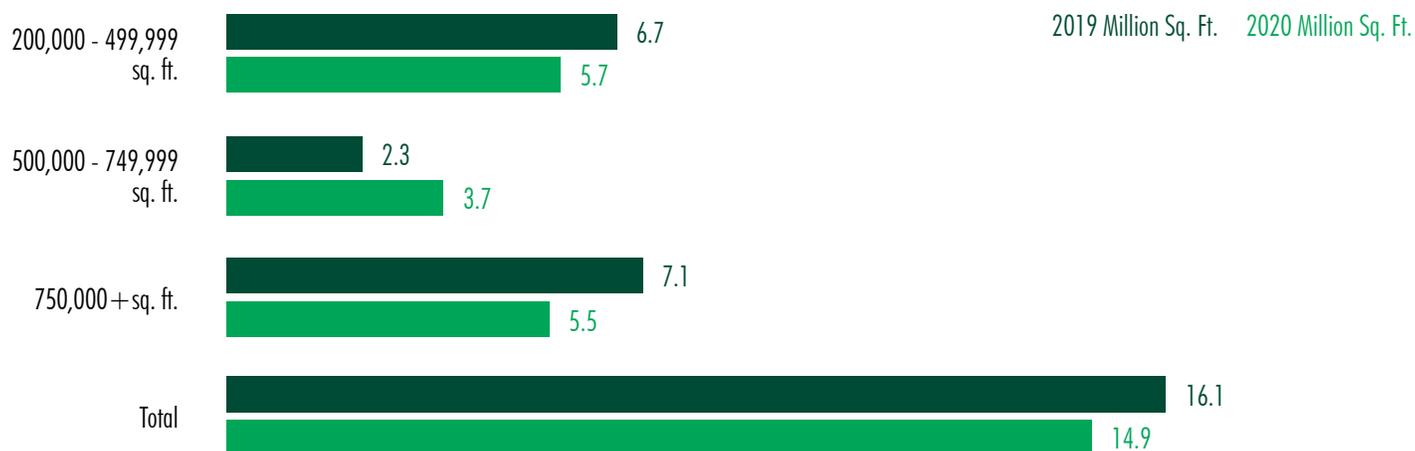
Figure 5: 2020 Occupier Transaction Market Share



Source: CBRE Research.

Memphis

Figure 6: Transaction Volume



Note: Includes new leases, renewals, and user sales transactions 200,000 sq. ft. and above.
Source: CBRE Research.

Figure 7: Big Box Year-Over-Year Data Comparison

2020						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	219	64,420,009	6.3%	1,860,236	1,982,252	\$3.46
500,000-749,999 SF	64	38,746,468	3.4%	2,428,663	2,592,790	\$3.24
750,000+ SF	63	65,702,589	7.2%	5,937,898	6,339,955	\$3.45
Total	346	168,869,066	6.0%	10,226,797	10,914,997	\$3.44
2019						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	212	62,437,757	6.6%	1,560,562	421,470	\$3.43
500,000-749,999 SF	60	36,153,678	3.2%	1,268,658	1,167,707	\$3.18
750,000+ SF	59	59,362,634	8.1%	634,734	769,500	\$3.12
Total	331	157,954,069	6.4%	3,463,954	2,358,677	\$3.36

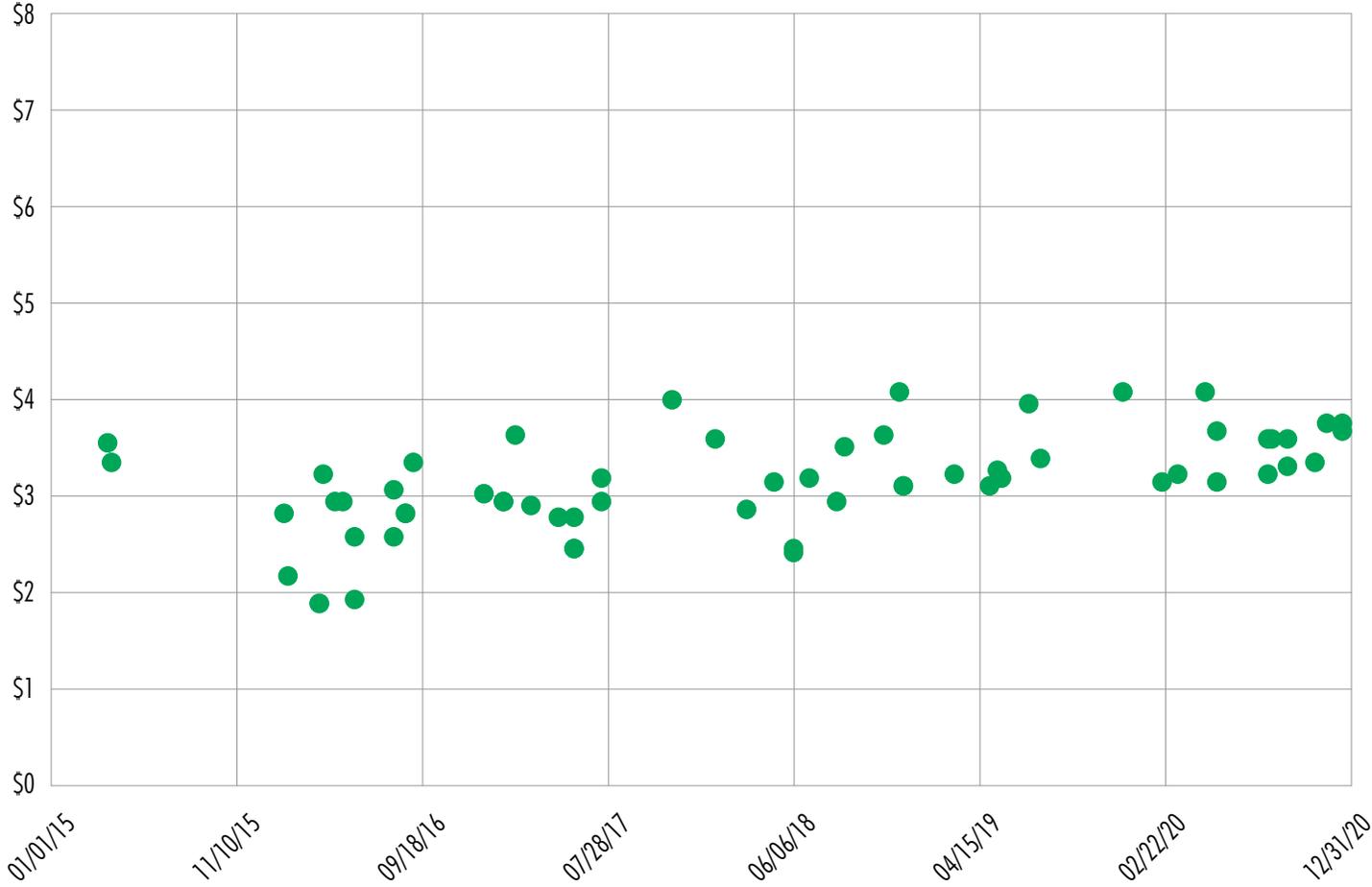
Source: CBRE Research.

Figure 8: Under Construction & Percentage Released

	2020 Under Construction Sq. Ft.	% Released
200,000-499,999 sq. ft.	3,347,634	15.8%
500,000-749,999 sq. ft.	-	0.0%
750,000+ sq. ft.	8,863,934	34.7%
Total	12,211,568	29.5%

Source: CBRE Research.

Figure 9: First Year Taking Rents (psf/yr)



Note: Includes first year taking rents for leases 200,000 sq. ft. and above.
Source: CBRE Research.

Contacts

James Breeze

*Senior Director Research
Head of Industrial & Logistics
Research, Global*
+1 602 735 1939
james.breeze@cbre.com

Matthew Walaszek

*Director of Research
Industrial & Logistics Research,
Global*
+1 312 297 7686
matthew.walaszek@cbre.com

John Morris

*Executive Managing Director,
Americas Industrial & Logistics and
Retail Leader*
+1 630 573 7000
john.morris1@cbre.com

Richard Barkham, Ph.D.

*Global Chief Economist &
Head of Americas Research*
+1 617 912 5215
richard.barkham@cbre.com
@RichardJBarkham

Spencer Levy

*Chairman Americas Research &
Senior Economic Advisor*
+1 617 912 5236
spencer.levy@cbre.com
@SpencerGLevy

Contributors

Susan Kitzmiller

Divisional Research Director
+1 513 369 1355
susan.kitzmiller@cbre.com

Kristin Sexton

*Senior Managing Director,
Consulting Practice*
+1 602 735 5247
kristin.sexton@cbre.com

Tyler Heard

GIS Specialist 2
+1 602 627 7539
tyler.heard@cbre.com

John Lenio

*Executive Vice President,
Economist*
+1 602 735 5514
john.lenio@cbre.com

Marc Meehan

Director, Canada Research
+1 647 943 4205
marc.meehan@cbre.com

Disclaimer: The Location Incentive text and charts are intended for general informational purposes only and should not be interpreted as legal advice. This information is not intended to create, and receipt of it does not constitute, an attorney-client relationship. You should accept legal advice only from a licensed legal professional with whom you have an attorney-client relationship. We make no representations or warranties regarding the accuracy or completeness of this material.