Overview:

- Prior to the COVID outbreak, Memphis’ economy was slowing. Job growth in 2019 was just 1.1%, which was below the national average of +1.5%. And while the outbreak has not been especially harsh in the area, the metro contracted in early 2020 as its most prominent industry, the transportation and distribution sector anchored by FedEx, slowed dramatically with the nation-wide contraction in economic activity. As the country has been recovering from the outbreak, Memphis has seen a noteworthy recovery, and as of early 2021 the metro area had recovered nearly all of the jobs it lost early in the pandemic.

- Memphis’ apartment market remained steady in 2019, as modest development was met by a slightly improving job market, and these conditions persisted into early 2020, and even improved slightly as the local economy improved. Future development (including condos) is less than 2% of inventory, and even though 7,400 rental units have been added to inventory since 2014, there’s been adequate absorption.

Market Strengths:

- Memphis is poised for increased demand, albeit slight, for apartments according to CoStar once the outbreak subsides. The metro’s age 20-34 cohort (the key demographic for renters) is in line with national averages at 20.5% of the population, but the larger proportion of young people (younger than 20) at 29.7% is much larger than the 26.8% national average.

- Memphis has a low cost of living (9% below the average) and doing business (5% below the average), making it an attractive place to relocate or expand, given its central geographic location. Its core industry, the transportation and distribution sector, is a stabilizing force in the economy producing new jobs as it expands to meet the needs of other businesses seeking higher efficiencies, though recently these industries in Memphis have not escaped the steadiness of the national economy.

- Job growth is expected to be close to, though slightly lead, national averages going forward, continuing the area’s modest growth through 2025.

Market Weaknesses:

- Memphis has a higher than average vacancy rate than is characteristic of the market. As of Q2 2021, vacancy was estimated around 7.0%. Long term, expectations are for the vacancy level to remain in the 8-10% range.

- Memphis also lacks scale: its economic base is quite diverse, so the overall area economy is not likely to be significantly stimulated were one sector of industry to experience beneficial growth. The job types in the metro are also lower paying than average, further curtailing extraordinary growth.

Development:

- Single family detached housing has been the primary type of recent development, and the remarkably low level of condo development in Memphis has been focused on niche markets. Fewer than 900 units have been delivered since the beginning of 2006, and just 100 units are currently underway.

Outlook:

- Apartment market conditions stabilized in the second half of 2020, and in 2021 there have been noticeable signs of improvement. The lack of significant change, be it development, economic, or demographic, has allowed Memphis to maintain an okay rental equilibrium, though it would be better with stronger rent growth and improving vacancy. While the metro has positive growth prospects over the forecast horizon, the demand for new rental housing will likely be limited. In addition, the metro has structurally higher vacancy rates than the typical market. But measured new inventory, in line with growth and once the outbreak subsides, should be absorbed without significantly altering market conditions in this slowly but modestly growing market.

- Memphis’ economic structure indicates that it will likely be in a modest growth period for the foreseeable future, once the national economy stabilizes. Its foundation industry, trade and transportation, is likely to continue modestly expanding after the current outbreak recovery is over. It’s a reliable industry, but it is unlikely to provide outsized economic growth for the metro longer term.

### Five Year Metro Area Growth Forecast

<table>
<thead>
<tr>
<th></th>
<th>Q4 2020</th>
<th>Q4 2025</th>
<th>Memphis (5-Year Annual Average Change)</th>
<th>National (5-Year Annual Average Change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (000s)</td>
<td>1,365</td>
<td>1,401</td>
<td>0.53%</td>
<td>0.52%</td>
</tr>
<tr>
<td>Households (000s)</td>
<td>510</td>
<td>553</td>
<td>1.63%</td>
<td>1.41%</td>
</tr>
<tr>
<td>Renting Cohort (Ages 20-34) (000s)</td>
<td>286</td>
<td>292</td>
<td>0.44%</td>
<td>-0.26%</td>
</tr>
<tr>
<td>Total Employment (000s)</td>
<td>635</td>
<td>688</td>
<td>1.61%</td>
<td>1.71%</td>
</tr>
<tr>
<td>Median Household Income</td>
<td>$57,137</td>
<td>$63,670</td>
<td>2.19%</td>
<td>2.83%</td>
</tr>
<tr>
<td>Median SF Home Price</td>
<td>$235,084</td>
<td>$271,022</td>
<td>2.89%</td>
<td>4.30%</td>
</tr>
<tr>
<td>Net Migration</td>
<td>763</td>
<td>2,397</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Moody’s
SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Vacancy & Rent Composite Estimates

Vacancy Rates

Asking Rent Growth

Source: Multifamily Economics and Research
### Construction: Bidding & Underway

<table>
<thead>
<tr>
<th>Sub-Market</th>
<th>Projects</th>
<th>Units</th>
<th>Sq. Ft. (M)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cordova/Bartlett</td>
<td>4</td>
<td>536</td>
<td>0.57M</td>
</tr>
<tr>
<td>Downtown Memphis</td>
<td>10</td>
<td>746</td>
<td>0.89M</td>
</tr>
<tr>
<td>Germantown/Collierville</td>
<td>18</td>
<td>392</td>
<td>0.30M</td>
</tr>
<tr>
<td>Midtown/East Memphis</td>
<td>7</td>
<td>1,211</td>
<td>1.45M</td>
</tr>
<tr>
<td>North Memphis</td>
<td>1</td>
<td>80</td>
<td>0.11M</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>40</strong></td>
<td><strong>2,965</strong></td>
<td><strong>3.31M</strong></td>
</tr>
</tbody>
</table>
Multifamily: ESR Team

We welcome your feedback! Please give us a call or send an email with any comments, suggestions, or insight you may have or information you’d like covered in future editions.

Multifamily Metro Outlook: Memphis Q2 2021

Multifamily Economics and Market Research Team

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Sources Used

- Moody’s Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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