

Multifamily Metro Outlook:

Memphis - Q4 2023

Overview:

- Memphis' economy is no longer bleeding jobs but still remains in a rut. Memphis experienced a noteworthy recovery in 2021 and through 2023, albeit at slightly below national average rates. The logistics and healthcare industries will buoy the market and should help Memphis regain its footing. With healthcare adding jobs on net and logistics finding its stride again, with three times as many jobs in Memphis as it does nationally. The metro area has recovered all the jobs it lost early in the pandemic, and it has now achieved a new record level of employment. But economic conditions are likely to ease in 2024, as the economy is no longer experiencing the rebound and is facing an uncertain national economic environment.
- New apartment supply continues to be added to the market, with an additional 835 units delivered in 2023 and an annual inventory growth of a modest 0.9%. At the end of 2023 there were 2,023 units under construction with 1,674 of those units scheduled to be completed in the next four quarters.

Market Strengths:

- 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 lag, national averages going forward, continuing the area's modest growth through 2028. Recently South Korea-based LG chem began construction on a \$3.2 billion electric vehicle battery cathode material factory that is expect to employ 860 people once completed.

Market Weaknesses:

- Memphis is poised for slight decrease in demand, albeit slight, for apartments according to CoStar in the next several years. The metro's age 20-34 cohort (the key demographic for renters) shrank -0.7% this year. However, the total population of young adults is in line with national averages at 20.6% of the population.
- 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, likely further curtailing extraordinary growth.

Development:

- Single family detached housing has been the primary type of recent development, with an additional of 3,085 single family permits in 2023. FHFA house pricing index has also experienced a large decrease in percent change in 2023 with only a 4.1% change compared to last year's 18.1%. However, Memphis's market is forecasted to have positive price increases in 2024.

Outlook:

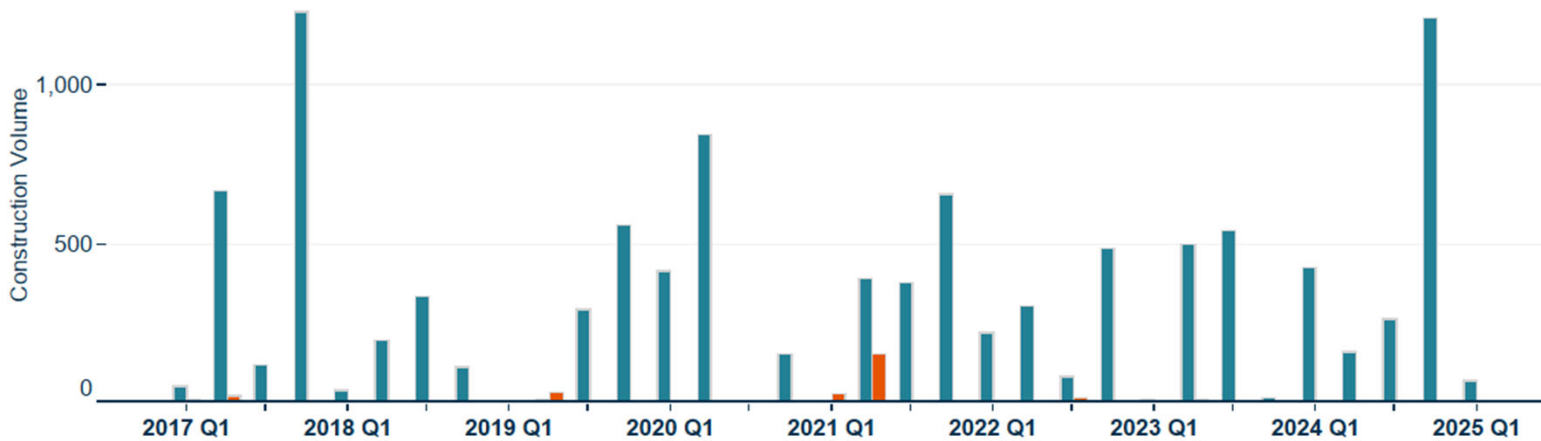
- Apartment market conditions stabilized in the second half of 2023 and there were noticeable signs of improvement that continued through mid-2023, though they began to ease later in the year. The lack of significant change, be it development, economic, or demographic, has allowed Memphis to maintain an okay rental equilibrium, though it would be better with stronger rent growth and improving vacancy. While the metro has growth prospects over the forecast horizon, the demand for new rental housing will be limited, and the area is facing a modest lull of external investment into the metro. In addition, the metro has structurally higher vacancy rates than the typical market. But measured new inventory, in line with growth and once the nation is in a sustained expansion, should be easily 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 uncertainty subsides. It's a reliable industry, but it is unlikely to provide outsized economic growth for the metro longer term.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

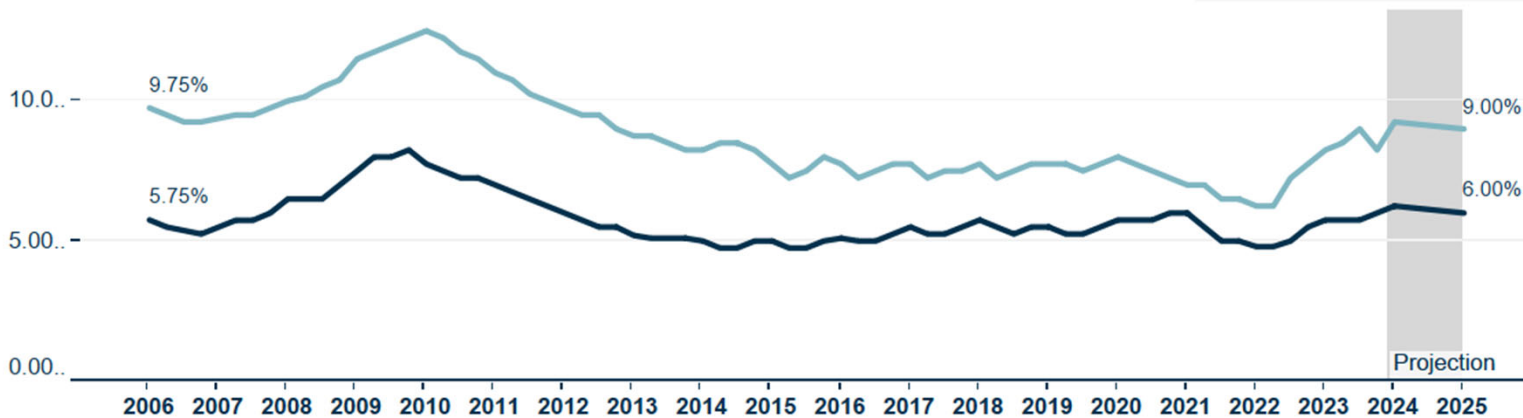
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Memphis | National

Q4 2023 Vacancy Rate:

8.25%



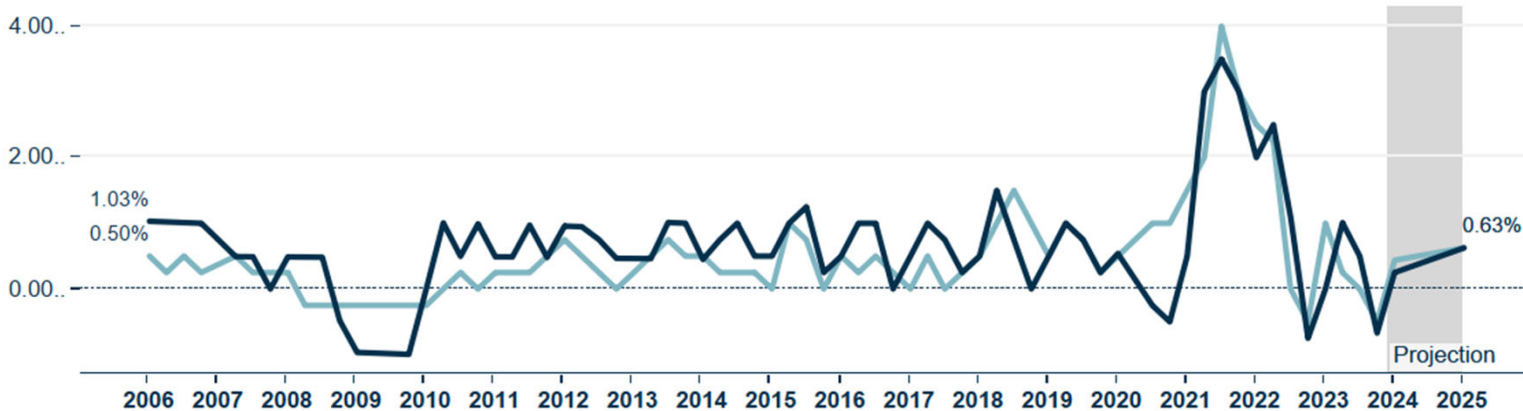
Projection

Asking Rent Growth

Memphis | National

Q4 2023 Asking Rent:

\$1,050

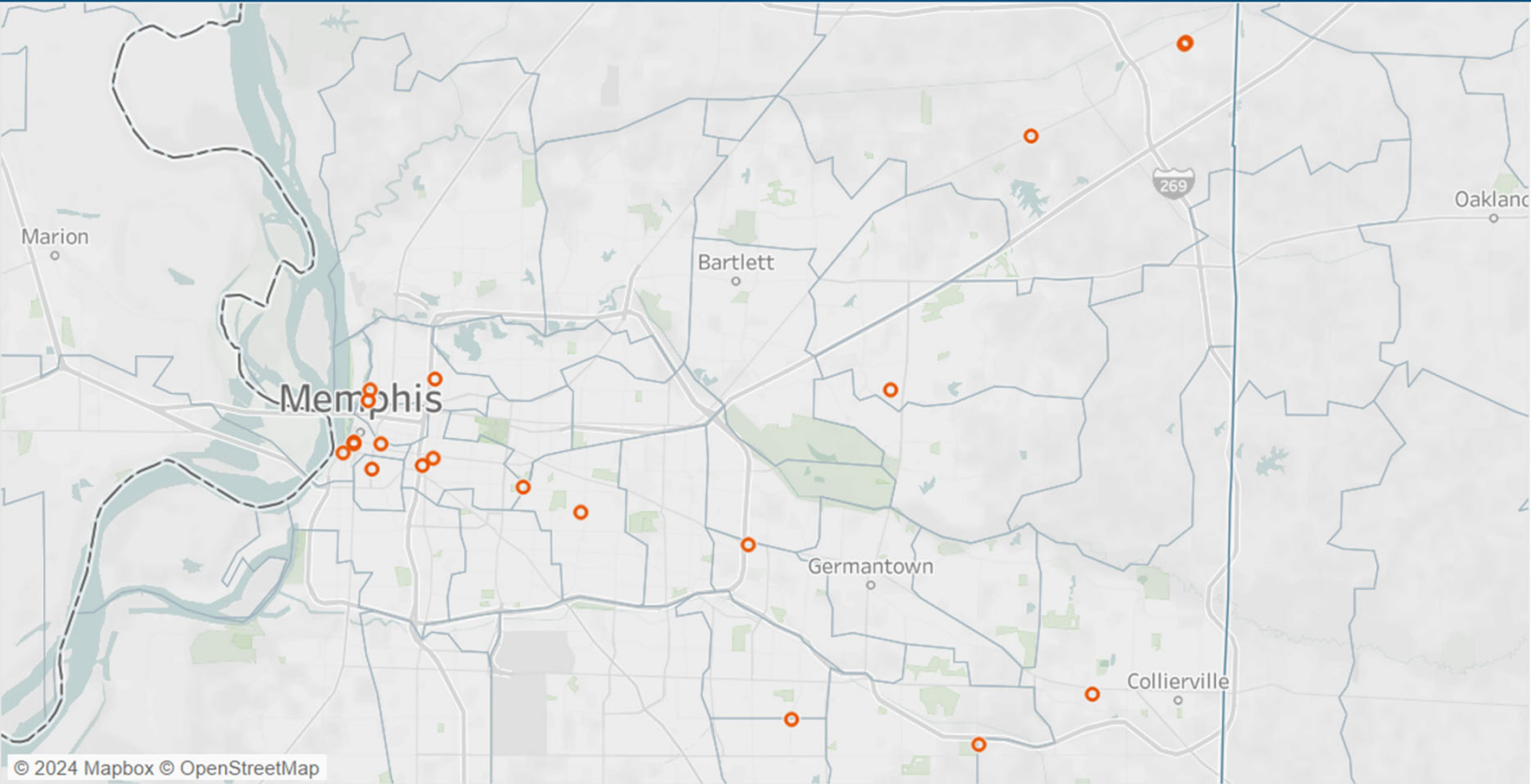


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Cordova/Bartlett	4	175
Downtown Memphis	7	877
Germantown/Collierville	2	528
Midtown/East Memphis	5	391
North Memphis	1	40
South Memphis	1	116
Grand Total	20	2,127

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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