

FIGURES | ATLANTA INDUSTRIAL | Q1 2023

Rents Grow Record Amount Despite Slowdown in Leasing, Absorption



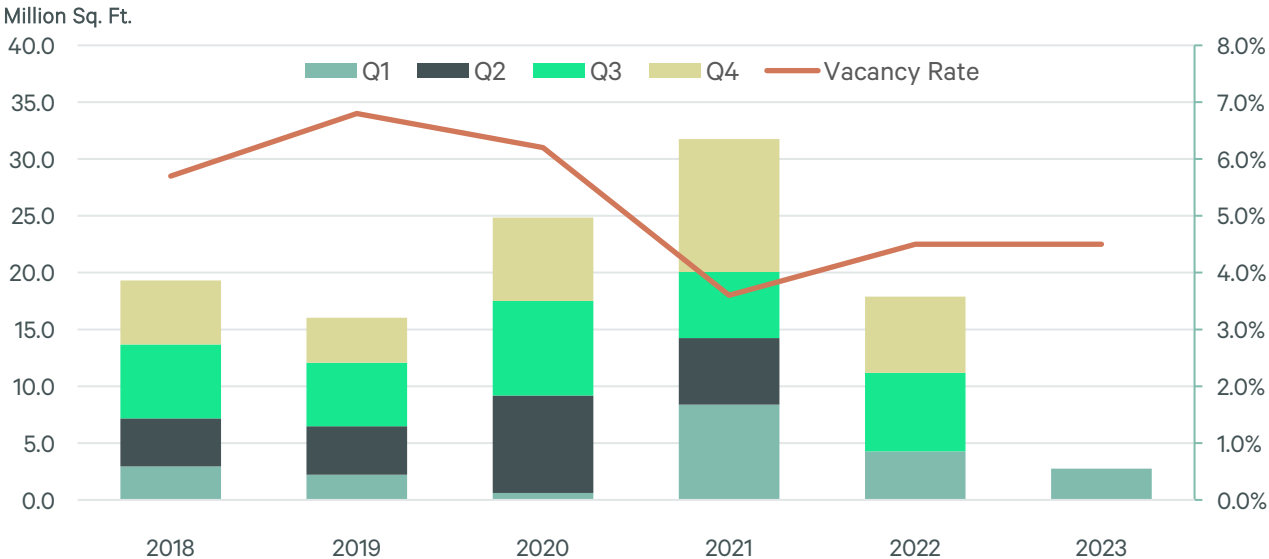
Note: Arrows indicate change from previous quarter.

Key Takeaways

- The average NNN lease rate has leapt a record 25.4% year-over-year to \$6.91 per sq. ft., but the 6.9% quarterly growth further signals rates stabilizing.
- With over 6.6-million sq. ft. of deliveries in Q1 2023, the behemoth construction pipeline has declined to roughly 37.7-million sq. ft. underway as starts are down dramatically from last year.
- Net absorption declined by roughly 1.5-million sq. ft. from Q1 2022, yet was enough to keep the total vacancy rate on par with last quarter at 4.5%.

Despite decreases in development, net absorption, and leasing activity, the Atlanta industrial market remains one of the strongest in the country. The still-robust construction pipeline shrunk slightly to 37.7-million sq. ft. in lieu of over 6.6-million sq. ft. of deliveries. Despite a large swath of new product coming online unoccupied, net absorption was strong enough to offset any increases to vacancy, which remains at 4.5%. Due to a lack of 500K sq. ft. and larger leases seen in the previous two-years, leasing activity declined to 7.5-million sq. ft., yet still considerably outpaced the 10-year average of 6.1-million sq. ft. As demand remains strong across the Atlanta metro, rents have increased to an average of \$6.91 per sq. ft. This is an astonishing 25.4% increase from last year, but only 6.9% quarterly, supporting the trend of rent growth stabilizing. While 2023 is off to a slower start than record-setting 2021 and 2022, the Atlanta industrial market continues to exhibit strong fundamentals in every category.

FIGURE 1: Quarterly Net Absorption and Total Vacancy Rate



Source: CBRE Research, Q1 2023

Market Overview

The Atlanta Industrial Market has always been attractive from both fiscal and geographic perspectives. The Southeast is one of the hottest industrial regions in the country, and a vigorous highway network allows for easy access to and from Atlanta. Furthermore, both CSX and Norfolk Southern maintain a stout rail presence in the market, further bolstering regional and national distribution capabilities. The Port of Savannah, the fastest growing and third busiest in the country, lies a mere 240 miles to the southeast. North of Atlanta, the Georgia Ports Authority also operates the Appalachian Regional Port, which can offset hundreds of truck miles via direct rail access to and from the Garden City Terminal in Savannah. The planned 104-acre Northeast Georgia Inland Port will decrease truck delivery times by roughly seven hours once it is completed. Construction is expected to break ground within the next year. In addition to a sophisticated rail and highway system, Atlanta also boasts the busiest airport in the world in Hartsfield-Jackson International Airport, making national and global trade easily accessible. Atlanta, like the rest of Georgia, is extremely business friendly. Surrounding counties offer businesses in the Atlanta metro numerous tax incentives. These incentives include a Job Tax Credit of \$1,750 per new job created, a Port Tax Credit for qualified increases in shipments through a Georgia Port, a Freeport Exemption which exempts qualified inventory stored in warehouses from state and local taxes of up to 100%, and tax exemptions for qualified manufacturers and distribution centers to name only a few. Moreover, the Atlanta market contains multiple Federal and State Opportunity Zones, which offer tax exemptions of up to \$3,500.

Survey Criteria

Includes all classes of competitive warehouse/distribution, shallow bay, and flex space 10,000 sq. ft. and greater in Barrow, Bartow, Carrol, Cherokee, Clayton, Cobb, Coweta, Dawson, DeKalb, Douglas, Fayette, Forsyth, Fulton, Gordon*, Gwinnett, Hall, Haralson, Heard, Henry, Jackson, Newton, Rockdale, and Walton counties. Buildings under construction are evidenced by site excavation or foundation work. Excludes self-storage, specialized manufacturing, data centers, and industrial outdoor storage.

*Note: As of Q1 2023, CBRE Research added Gordon County to Northwest/I-575 and realigned boundaries for Airport/South Atlanta to Airport, Southeast/I-75, and Southwest/I-85. Historical adjustments were made to data going back one year.

FIGURE 2: Market Statistics

Submarket	Market Rentable Area (sq. ft.)	Total Vacancy Rate %	Q1 2023 Net Absorption (sq. ft.)	Q4 2022 Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Deliveries (sq. ft.)	Avg. NNN Lease Rate (\$/sq. ft./Yr)
ATLANTA	699,664,555	4.5	2,753,019	6,700,571	37,676,277	6,607,041	\$6.91
WAREHOUSE/ DISTRIBUTION	537,440,396	4.5	3,170,034	6,637,210	37,521,532	6,607,041	\$6.27
SHALLOW BAY	124,828,546	3.4	(488,616)	(30,498)	154,745	-	\$6.71
FLEX	37,395,613	6.3	71,601	93,859	-	-	\$10.99
Central Atlanta	7,205,716	7.7	(55,352)	(28,401)	-	-	\$10.21
Chattahoochee	15,503,898	6.2	(100,244)	98,873	-	-	\$9.64
Northwest/I-575	69,824,178	6.6	134,508	274,212	10,399,222	1,730,187	\$6.71
N Central/GA 400	25,166,819	6.7	(65,930)	154,939	148,000	207,276	\$8.82
Northeast/I-85	197,397,920	4.4	1,329,951	2,190,931	12,269,618	369,128	\$6.94
Stone Mountain	27,983,948	1.4	8,429	(62,566)	-	-	\$6.13
Airport	82,253,205	3.0	658,455	472,801	1,385,033	1,438,339	\$7.23
Southeast/I-75	68,449,199	4.6	984,144	241,571	5,254,807	637,506	\$6.37
Southwest/I-85	59,481,276	2.1	(376,436)	2,902,466	2,965,366	-	\$6.68
I-20 East	39,076,653	3.7	72,970	235,457	3,151,596	315,645	\$6.23
I-20 West	107,321,743	5.3	162,524	220,288	2,102,635	1,908,960	\$6.26

Source: CBRE Research, Q1 2023

Net Absorption and Leasing Highlights

Net absorption declined to just under 2.8-million sq. ft. in Q1 2023, down from roughly 4.3-million sq. ft. in the same period last year. In contrast to the previous eight quarters, there were only three occupancies greater than 500,000 sq. ft. in Q1 2023. While the 2.8-million sq. ft. absorbed in Q1 2023 is roughly half of the five-year average, it is important to note that 2021 and 2022 were banner years, and if compared to average first quarter net absorption since 2018, Q1 2023 only trails by roughly 800,000 sq. ft.

Leasing activity remained strong with over 7.5-million sq. ft. of deals signed in the first quarter. While this is down from the roughly 10-million sq. ft. signed in Q1 2022, activity was essentially static if excluding the three deals toppling 900,000 sq. ft. signed in Q1 last year. Furthermore, the average area leased was approximately 180,000 sq. ft. in Q1 2023, up from an average of 107,000 sq. ft. last year. New leases dominated activity this quarter, accounting for over 82% of all activity. Third Party Logistics firms and wholesalers continue to be the most active tenant type, with a slight but noticeable uptick in food users. Northeast/I-85 and the South Atlanta cluster once again accounted for the bulk of leasing, recording 2.8-million and 2.4-million sq. ft., respectively.

Vacancy

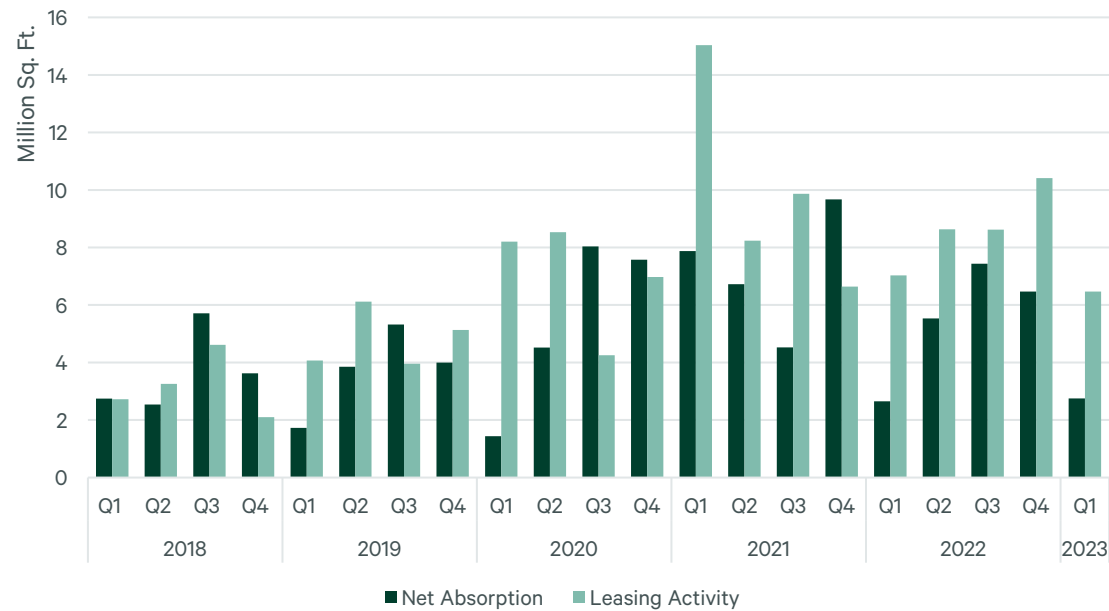
The total vacancy rate in Atlanta remained unchanged from last quarter, resting at 4.5%. Recent vacant deliveries have boosted this figure by 40 basis points (0.4%) from last year, but demand for the Atlanta industrial market remains strong, and the total vacancy rate is still less than 1% above the record low of 3.6% set in Q4 2021. Notably, even if all of the 37.7-million sq. ft. currently under construction were to deliver vacant, the vacancy rate in Atlanta would remain in single digits.

FIGURE 3: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
Nexis Circular	201 King Mill Ct	570,586	Southeast/I-75	New Lease
Kubota	Jefferson Logistics Center	492,480	Northeast/I-85	New Lease
OxBox (Trane)	Greenwood Industrial Park – Bldg 900	302,496	Southeast/I-75	New Lease
ATL Freight	Southpark Logistics Center	297,188	Airport	New Lease
Resia Pods	Southpark 85 – Bldg A	252,726	Southwest/I-85	New Lease

Source: CBRE Research, Q1 2023

FIGURE 4: Warehouse/Distribution Net Absorption & Leasing Activity



Source: CBRE Research, Q1 2023

FIGURE 5: Class A Warehouse/Distribution Total Vacancy Rate



Source: CBRE Research, Q1 2023

Industrial Rental Rates

The average NNN lease rate has soared a record 25.4% year-over-year to \$6.91 per sq. ft. That said, rents continue to stabilize, evidenced by a 6.9% increase from Q4 2022. Furthermore, this slowdown in rent growth comes with no leases signed over 600,000 sq. ft. in Q1 2023, further highlighting slowing rent growth in smaller, more dated product. Leasing in expensive new product continues to swell the average NNN rate, though looming potential vacancy increases from new construction could continue to apply downward pressure on rents. While the average rate is forecasted to breach \$8.00 per sq. ft. by 2026, CBRE Econometric Advisors predicts a continued slowdown of rent growth in the next five years, although rates are already loftily above historic levels. Maintained demand for the Atlanta market, particularly in the Airport and Northeast/I-85 submarkets, has left landlords with pricing power, though the ability to push rents to the absolute maximum appears to be fleeting.

FIGURE 7: Notable Q1 2023 Industrial Sales

Location	Submarket	Buyer	Seller	Size (sq. ft.)	Sale Price	Price/Sq. Ft.
McDonough Commerce Center	Southeast/I-75	FHR Capital	American Realty Advisors	714,560	\$68.5M	\$95.86
880 Airport Rd*	Northeast/I-85	PNK Group	Metal Benders	385,073	\$9.5M	\$24.63
East Atlanta Logistics Center	I-20 East	Industrial Realty Group	80 Acres Farms	200,880	\$16.1M	\$80.00
190 Etowah Industrial Ct	Northwest/I-575	High Street Realty	PLAE	81,828	\$9.0M	\$109.99

* Denotes Part of Multi-Property Sale

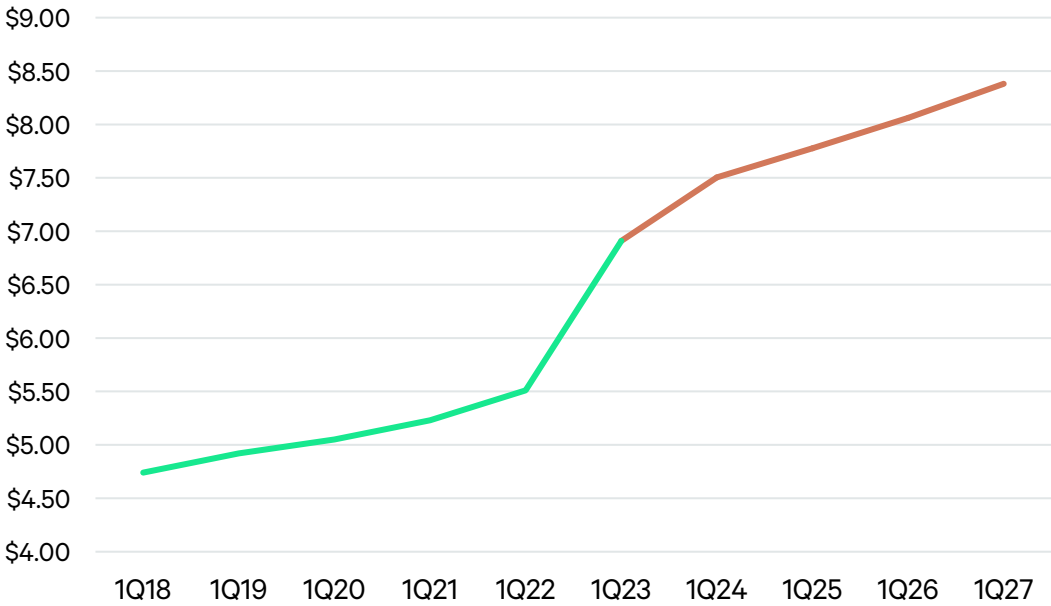
Source: CBRE Research, Q1 2023

Capital Markets

Despite capital markets remaining choppy nationwide, the Atlanta industrial market still witnessed over \$476-million in sales volume in Q1 2023. While this figure is down significantly year-over-year, note that headwinds such as rising interest rates, fears of a recession, and other current macroeconomic challenges were not as prevalent in Q1 2022. Another reason for the decline in sales in Q1 2023 is the lack of portfolio sales involving Atlanta properties which propped up sales volume last year, as only about 2.4-million sq. ft. was traded in portfolios in the first quarter. Given various uncertainties, many institutional buyers remain idle and more selective than the past two years, though Atlanta remains a top choice for investors. Furthermore, many traditional institutional buyers such as national banks and life insurance companies have similar allocations for real estate as they have in recent years, so expect sales to increase in the second half of the year as the market is reassessed. Furthermore, the Atlanta market has a large amount of loan maturities this year, which has already driven transaction volume.

While the age of buildings sold in Q1 2023 varied, the average year built was 1990. Similar to recent quarters, only 12 buildings representing roughly 212,000 sq. ft. sold vacant in the first quarter, with the average property being 88.5% leased at sale. Private capital dominated activity in Q1, accounting for over 52% of sales volume. National buyers continue to drive sales in the Atlanta industrial market, accounting for nearly 3.1-million sq. ft. or \$316.1-million in sales. Notably, as companies look for ways to quickly free up capital, user sales increased to nearly \$123-million in volume in Q1. As macroeconomic conditions improve and major players become more active in coming months, expect Atlanta industrial sales to increase later in 2023.

FIGURE 6: Historic & Projected Average NNN Rental Rates



Source: CBRE Research, Q1 2023

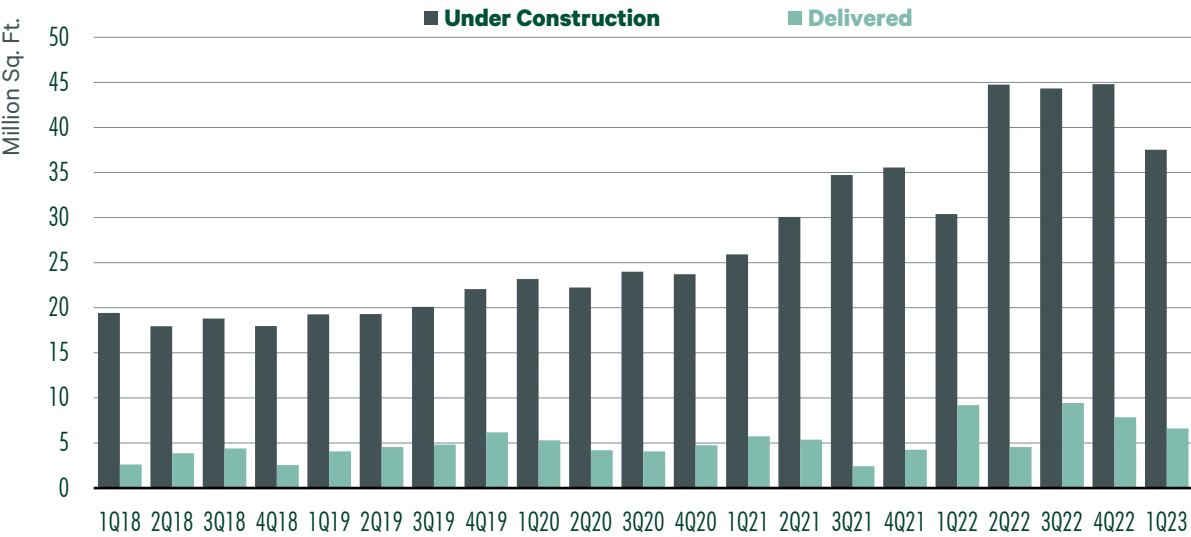
Under Construction

The Atlanta industrial construction pipeline has dipped slightly from record levels, yet still has over 37.7-million sq. ft. of projects underway, the fourth most ever. Speculative warehouse continues to dominate the pipeline, accounting for over 34.9-million sq. ft. or 92.7% of all development. That said, the largest building under construction is Proctor & Gamble’s 1.6-million sq. ft. build-to-suit at Riverpark e-Commerce Center in Jackson, one of three build-to-suit projects underway. There are currently seven projects under construction greater than one-million sq. ft., and the average project size has increased to roughly 342,000 sq. ft. Perhaps the most notable change in development in Q1 2023 is the steep drop off in construction starts. There were only approximately 1.7-million sq. ft. of groundbreakings in Q1 2023, an astonishing 96.9% decrease from last year. With continued difficulty obtaining financing and other macroeconomic volatility, do not expect starts to increase in the near-term as developers reassess the market.

Deliveries

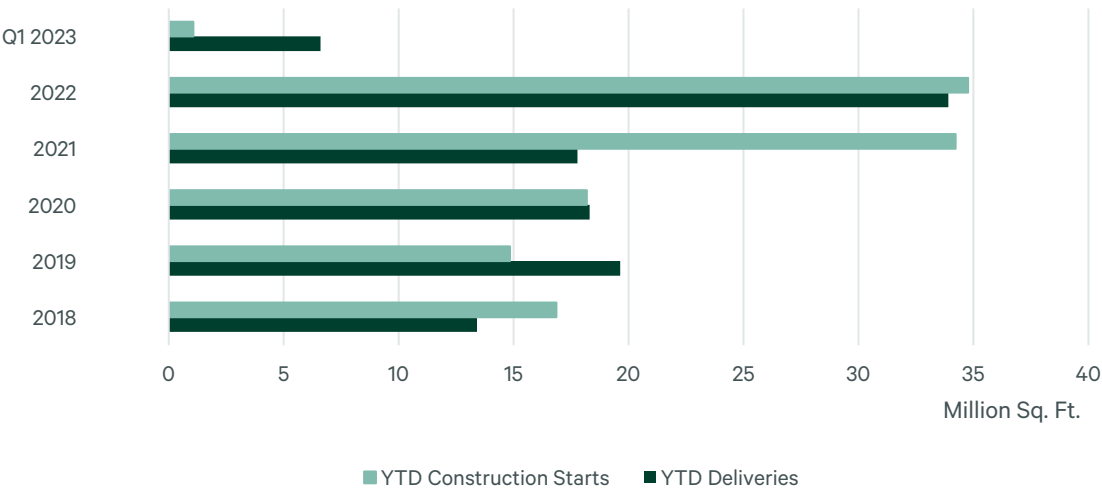
There were over 6.6-million sq. ft. of deliveries in Q1 2023, with three greater than one-million sq. ft. The largest delivery of the quarter was the 1.1-million sq. ft. RiverWest Distribution Center, pre-leased by Sam’s Club. Notably, the other one million sq. ft. completions, Gordon Logistics Center and Building 4 of The Cubes at River Park, both delivered vacant. On the contrary, nearly 25% of deliveries were occupied at delivery. Furthermore, the average size of completions has continued to rise, averaging over 440,000 sq. ft. I-20 West led the metro in completions with over 1.9-million sq. ft. of new product coming to market, followed by Northwest/I-575 and Airport with 1.7-million and 1.4-million sq. ft., respectively. Given the recent pause in demand for product greater than 500,000 sq. ft., coming deliveries in this size range could significantly impact vacancy rates in coming quarters, which in turn could apply downward pressure to rents. That said, even if the entire construction pipeline delivered unoccupied, vacancy would only increase to roughly 9.9%. On the contrary, Atlanta continues to attract large-scale, nationally focused tenants, so coming deliveries will likely play a role in bolstering leasing activity in the near-term.

FIGURE 8: Under Construction & Deliveries



Source: CBRE Research, Q1 2023

FIGURE 9: Year-To-Date Construction Starts & Deliveries



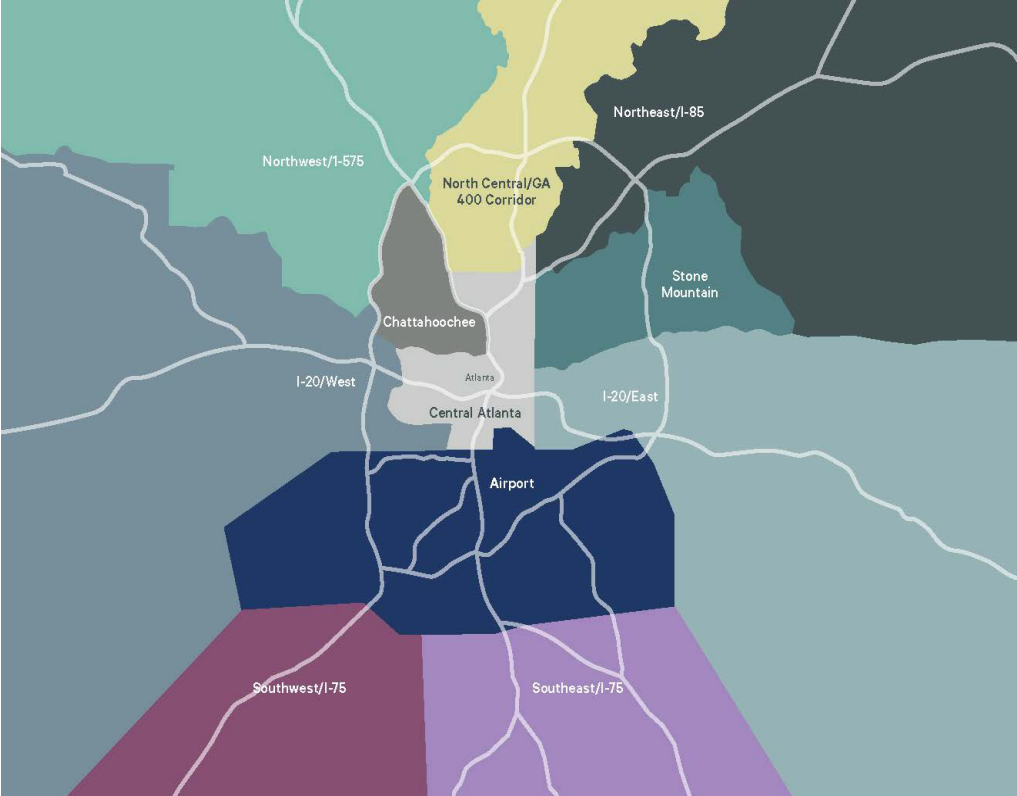
Source: CBRE Research, Q1 2023

FIGURE 10: Q1 2023 Deliveries

Property Name	Property City	Building Size (sq. ft.)	Availability (sq ft.)	Construction Start	Construction Completion	Developer
RiverWest Distribution Center – Phase III	Lithia Springs	1,110,960	-	March 2022	March 2023	Prologis
Gordon Logistics Center	Adairsville	1,038,520	500,000 - 1,038,520	January 2022	January 2023	Thor Equities
The Cubes at RiverPark – Bldg IV	Jackson	1,006,500	1,006,500	January 2022	January 2023	Panattoni
Riverview Logistics Park	Douglasville	798,000	798,000	January 2022	March 2023	Panattoni
International Commerce Center	Adairsville	691,667	200,000 – 691,667	December 2021	February 2023	Strategic
Declaration Logistics Center III	McDonough	331,471	331,471	March 2022	March 2023	Crow Holdings
601 Logistics Pkwy	Jackson	306,035	100,000 – 306,035	March 2022	March 2023	Independent Atlanta, LLC
Gwinnett 85 Logistics Center	Buford	280,720	-	September 2021	January 2023	Strategic
Covington Commerce Center	Covington	210,645	210,645	March 2022	February 2023	Logistics Property Co
Forsyth Commerce Center – Bldg 100	Forsyth	207,276	26,500 – 207,276	August 2021	March 2023	McDonald Development
Aero Logistics at 285	Atlanta	171,183	80,000 – 171,183	May 2022	February 2023	Grind Capital Group
Gillem Logistics Center – Bldg 700	Forest Park	169,520	104,520	April 2022	March 2023	Robinson Weeks
Rockdale Distribution Center	Conyers	105,000	105,000	January 2021	February 2023	North American Property
Camp Creek Business Center	East Point	91,136	-	April 2022	March 2023	Prologis
1760 Corporate Dr	Norcross	88,408	-	January 2022	February 2023	CIP Real Estate
Total		6,607,041				

Source: CBRE Research, Q1 2023

Market Area Overview



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Definitions

- Available Sq. Ft.:** Space in a building ready for occupancy within six months; can be occupied or vacant.
- Availability Rate:** Total available sq. ft. divided by the total building area.
- Big-Box:** An industrial property totaling 200,000 sq. ft. or greater.
- Capitalization Rates:** Also known as “cap rates”; a measure used to estimate rates of return on commercial real-estate properties.
- Clear Height:** The usable height in a building to which an occupier can store its goods on racking. Clear height is measured below any ceiling obstructions such as lights or sprinklers.
- Deliveries:** Completion of required construction for a building.
- Distribution/Logistics:** An industrial property subtype of warehouse/storage designed to accommodate the efficient movement of goods. Distribution space is at least 100,000 sq. ft., office area less than 10%, and clear heights 30 ft. and higher.
- Flex Space:** An industrial property subtype built to allow flexibility of alternative uses. Flex space contains at least 25% office area, high curb appeal, and high parking ratios.
- Leasing Activity:** Square footage committed to and signed under a lease obligation for a space in a given period.
- Net Absorption:** The change in physically occupied square feet from one period to the next period.
- Net Net Net (NNN) Lease Rate:** Rent excludes “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate.
- Occupied Sq. Ft.:** Building area not considered vacant.
- Shallow Bay:** An industrial property subtype with bay depth of 120 to 200 feet with typical clear heights between 18 and 24 feet.
- Total Rentable Area:** The total rentable floor area square feet of the building.
- Vacant Sq. Ft.:** Existing space not occupied by a tenant. Vacant space can be available or not available.
- Vacancy Rate:** Total vacant sq. ft. divided by the total building area.
- Warehouse/Storage:** An industrial property subtype designed for the warehousing and storage of materials, goods and merchandise. Office area is less than 15% of the space, clear heights of at least 18 ft.

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