Resiliency persists as absorption remains steady, with vacancy peaking

▲ 7.4% Direct Vacancy Rate

▼ 3.2M SF Net Absorption

▼ 14.1M SF Under Construction

▲ 5.2M SF Delivered

▲ 11.5M SF Leasing Activity

▲ $7.46 Avg NNN Lease Rate

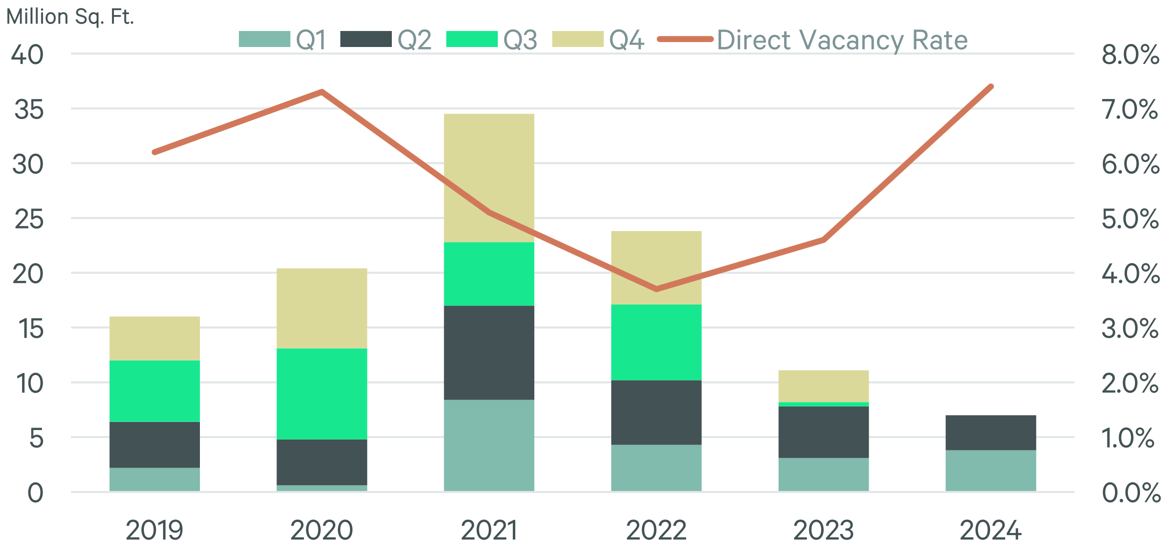
Note: Arrows indicate change from previous quarter.

Key Takeaways

- The Atlanta industrial market's net absorption remained stable at 3.2-million sq. ft.
- In spite of 5.2-million sq. ft. of deliveries in Q2 2024, the direct vacancy rate increased moderately.
- Leasing activity in the market was up 10.8% this quarter reaching 11.5-million sq. ft.
- Development activity reemerged with nine buildings breaking ground totaling 2.5-million sq. ft.
- In Q2 2024, the average NNN lease rate rose by 3.8% Y-o-Y to $7.46, demonstrating the continuous growth of the overall market despite uncertain economic conditions.

The Atlanta industrial market remains resilient in spite of ongoing challenges, with net absorption levels topping 3-million square feet for a third consecutive quarter and development activity stable. On the leasing side, there was a notable resurgence in bulk activity with new leases above 100,000 sq. ft. increasing by 32.1% Q-o-Q. Moreover, the moderate rise in vacant space suggests the market is reaching a plateau, with the overall vacancy rate approaching its peak. Additionally, the capital markets sector recovered as sales volume increased 50.3% Q-o-Q, indicating positive momentum for the second half of 2024. Altogether, the modest rent growth Q-o-Q suggests the market's average NNN rental rate reached its ceiling for the current real estate cycle. The rise in projects breaking ground could help fill a potential void in new space options later in 2025 and early 2026.

FIGURE 1: Quarterly Net Absorption and Direct Vacancy Rate



Source: CBRE Research, Q2 2024

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 2024, our methodology for collecting data has changed. In previous quarters, we considered space absorbed as soon as a company physically occupied space. Starting this quarter, a new lease will factor into net absorption as soon as the lease is signed and confirmed. To reflect these changes, we have also gone back the past year and changed those numbers proactively. Special circumstances may occur where methodology adjustments have been made which may impact current quarter data.

FIGURE 2: Market Statistics

Submarket	Market Rentable Area (sq. ft)	Direct Vacancy Rate %	Q2 2024 Net Absorption (sq. ft.)	YTD 24 Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Q2 2024 Deliveries (sq. ft.)	Avg. NNN Lease Rate ($/sq. ft./Yr)
ATLANTA	**741,691,133**	**7.4**	**3,161,173**	**6,924,709**	**14,146,231**	**5,230,628**	**$7.46**
WAREHOUSE/ DISTRIBUTION	614,465,110	8.0	3,353,470	7,282,301	13,983,061	5,230,628	$6.85
SHALLOW BAY	88,531,379	4.2	(253,700)	(416,831)	163,170	-	$6.99
FLEX	38,694,644	5.2	61,403	59,239	-	-	$11.28
Central Atlanta	7,212,861	8.6	(61,016)	(82,840)	-	-	$10.42
Chattahoochee	15,524,898	4.0	(65,716)	(67,403)	-	-	$9.80
Northwest/I-75	82,513,935	15.4	1,127,912	3,196,527	1,019,668	704,010	$6.78
N Central/GA 400	25,532,491	3.9	81,322	(1,448)	-	-	$9.11
Northeast/I-85	209,458,544	8.0	924,657	1,171,365	3,299,672	2,049,059	$7.52
Stone Mountain	27,983,948	2.1	(119,064)	(233,119)	-	-	$6.50
Airport	84,793,524	4.8	74,307	222,599	265,775	-	$7.51
Southeast/I-75	74,079,784	6.1	356,465	2,160,997	6,005,966	498,160	$6.89
Southwest/I-85	62,967,777	7.0	(11,620)	(538,458)	1,291,200	271,111	$7.36
I-20 East	42,643,569	7.7	1,286,705	1,365,850	562,745	1,423,960	$6.47
I-20 West	108,979,802	5.8	(432,779)	(269,361)	1,701,205	284,328	$6.60

Source: CBRE Research, Q2 2024

Net Absorption and Leasing Highlights

In the second quarter of 2024, the Atlanta industrial market witnessed a 10.8% rise Q-o-Q in leasing activity, reaching a total of 11.5-million sq. ft. The market's activity shows positive momentum which is highlighted by new leases rising 6.0% Q-o-Q. Bulk user activity has revitalized as new leases over 100,000 sq. ft. grew by 35.7% Q-o-Q. The largest lease of the quarter was signed by GXO Logistics for 733,680 sq. ft. at 2201 Thornton Rd. Overall, the I-20 West submarket stood out with the highest leasing activity among all submarkets, totaling 3.5-million sq. ft., a 73.9% rise Q-o-Q. The market's net absorption remained stable at 3.2-million sq. ft., marking the third consecutive quarter with absorption exceeding 3-million sq. ft. As the market continues to adjust to the new supply, it is expected absorption figures will remain at similar levels.

Vacancy & Availability

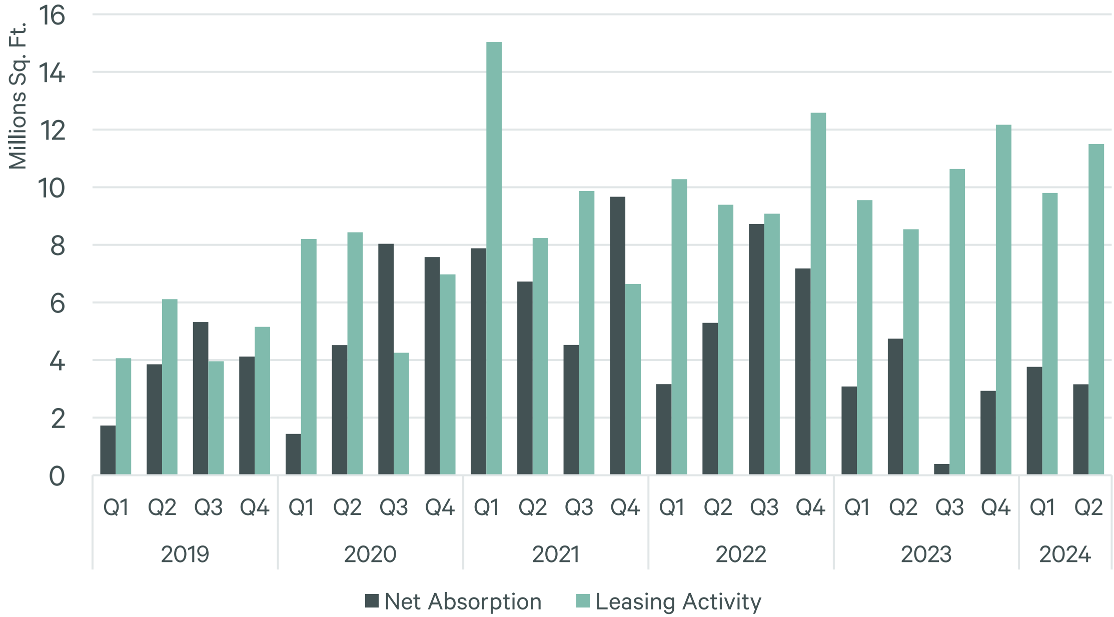
The market experienced a modest 40 bps increase in direct vacant space Q-o-Q, bringing it to 7.4%. The thin increase is a carryover of what has transpired over the past year with the record amount of space delivered adding a substantial amount of vacancy to the market. However, the moderate rise in vacant space Q-o-Q indicates the market is stabilizing as we near the completion of the historically high construction pipeline. This level of vacancy should represent the upper range as limited new construction and increased leasing in the upcoming quarters will likely push vacancy rates down. Availability has also risen by 40 bps Q-o-Q, reaching 11.3%. Furthermore, there has been a 16.3% increase in available sublease space. This rise can be largely attributed to 3PL users giving back space in the Airport submarket, where available sublease space has surged to 2.3 million sq. ft., marking a substantial 194.8% Q-o-Q increase. Notably, this accounted for 95.1% of the total added sublease space in the market this quarter. Otherwise, the remaining submarkets experienced modest additions or reduction in available sublease space.

FIGURE 3: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
GXO Logistics	2201 Thornton Rd Lithia Springs, GA	733,680	I-20 West	New Lease
Mars, Inc.	7875 White Rd Austell, GA	604,852	I-20 West	Renewal
Mizuno	Braselton Business Park Braselton, GA	520,570	Northeast/I-85	Renewal
Pactra	Adairsville 75 Distribution Center Adairsville, GA	447,753	Northwest/I-75	New Lease
Czarnowski Display Services	3755 Atlanta Industrial Pkwy NW Atlanta, GA	380,407	I-20 West	New Lease

Source: CBRE Research, Q2 2024

FIGURE 4: Warehouse/Distribution Net Absorption & Overall Market Leasing Activity



Source: CBRE Research, Q2 2024

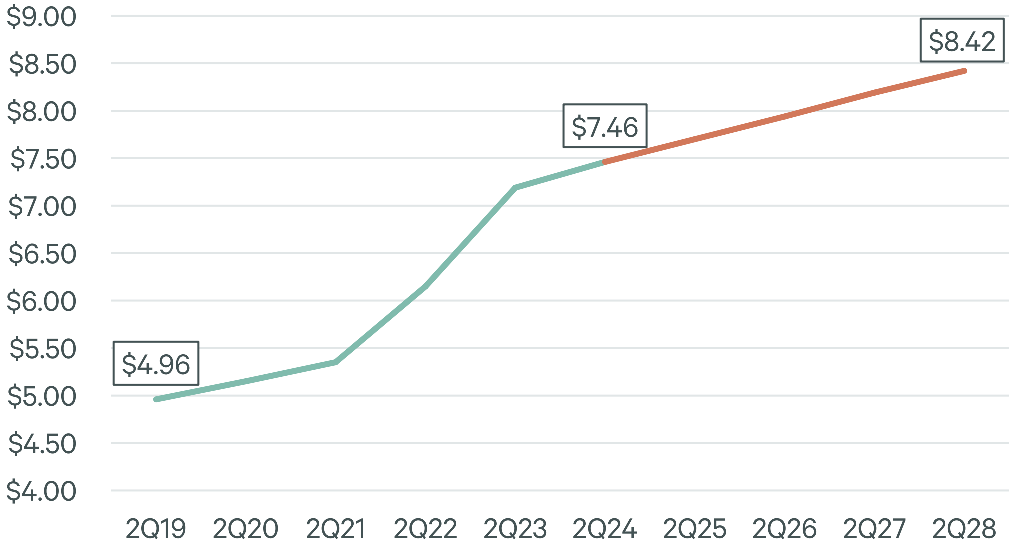
FIGURE 5: Warehouse/Distribution Sublease Availability

Source: CBRE Research, Q2 2024

Industrial Rental Rates

The average NNN lease rate in the Atlanta market has achieved a new record of $7.46, demonstrating a Y-o-Y increase of 3.8%. However, the Q-o-Q growth of 0.5% indicates a slower pace compared to previous years. The introduction of new speculative inventory has provided tenants with more options, diminishing the bargaining power of many landlords. Consequently, some landlords are offering concessions such as free rent beyond the lease term, while others maintain firm pricing without contingencies. Certain submarkets, like Northeast/I-85, Atlanta's largest industrial submarket, have experienced higher rent growth, with a Q-o-Q increase of 3.4%. As the market stabilizes from the impact of the pandemic, rent growth has aligned with balanced conditions, and landlords have likely reached the ceiling for this cycle. Looking ahead, after the market works through the remaining vacant new inventory rent is expected to steadily grow.

FIGURE 6: Historic & Projected Average NNN Rental Rates



Source: CBRE Research, Q2 2024

FIGURE 7: Notable Q2 2024 Industrial Sales

Location	Submarket	Buyer	Seller	Size (sq. ft.)	Sale Price	Price/Sq. Ft.
Williams-Sonoma Distribution Center	Northeast/I-85	GLP Capital Partners	Blackstone	1,074,596	$88M	$82
King Mill Distribution Park	Southeast/I-75	GLP Capital Partners	American Realty Advisors	846,496	$77.9M	$92
International Commerce Center	Northwest/I-75	Welcome Group	PGIM	691,667	$66.3M	$96
Busch Logistics Park – Bldg. A*	Northwest/I-75	EQT Exeter	Hines	523,541	$47.1M	$90

* Denotes Part of Multi-Property Sale

Source: CBRE Research, Q2 2024

Capital Markets

The capital markets sector experienced a revival in Q2, as evidenced by a notable 50.3% Q-o-Q increase in sales volume. Several factors contributed to this resurgence, including improved investor sentiment and a healthier capital markets environment. Additionally, with large allocations needing to be placed, lenders have become more aggressive leading to debt spreads compressing. Investors continue to deploy capital with a Sunbelt focus due to fundamental tailwinds such as strong population growth and a business-friendly environment. Atlanta led the country in Q2 industrial sales with a total sales volume of approximately $1.1-billion. Value-add profiles have attracted the most robust pool of capital, while single-tenant, large-format buildings have seen less investor appetite. Instead, investors are targeting and acquiring mid-to-shallow bay buildings with multiple tenants. Overall, with the potential for a rate cut in the second half of 2024, it is expected transaction velocity will continue to increase.

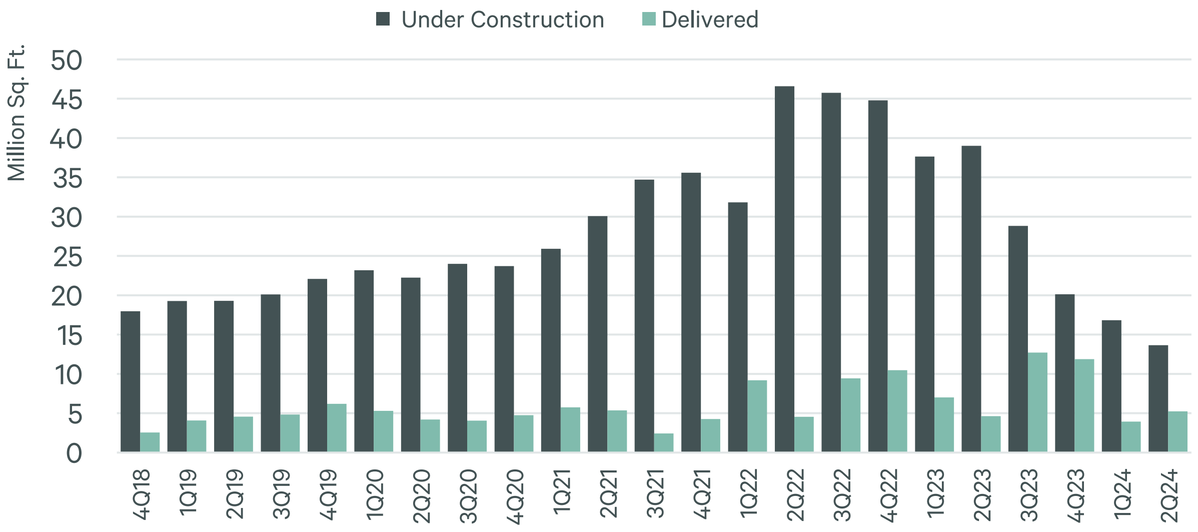
Under Construction

The development pipeline in Q2 2024 reached its lowest point since Q4 2016, with approximately 14.1-million sq. ft. currently under construction. However, there was a significant Q-o-Q increase in construction, with a total of nine buildings spanning 2.5-million sq. ft. Notably, out of these nine buildings, four were in the Southeast/I-75 submarket, specifically in Locust Grove, GA, which is experiencing an uptick in construction activity. One noteworthy project, Stonemont Park 75, began construction of a three-building industrial park encompassing a total of 903,701 sq. ft. Overall, developers are adjusting their expectations after a lucrative cycle dominated by bulk product. While there will still be speculative construction starts, they will primarily focus on well-located properties in the 150,000 sq. ft. to 250,000 sq. ft. range. This segment continues to experience robust leasing activity, upward rent trends, and attracts investors interested in multi-tenant portfolios with low weighted average lease terms (WALT). Bulk development is anticipated to regain momentum in 2025, albeit with a more cautious and conservative approach.

Deliveries

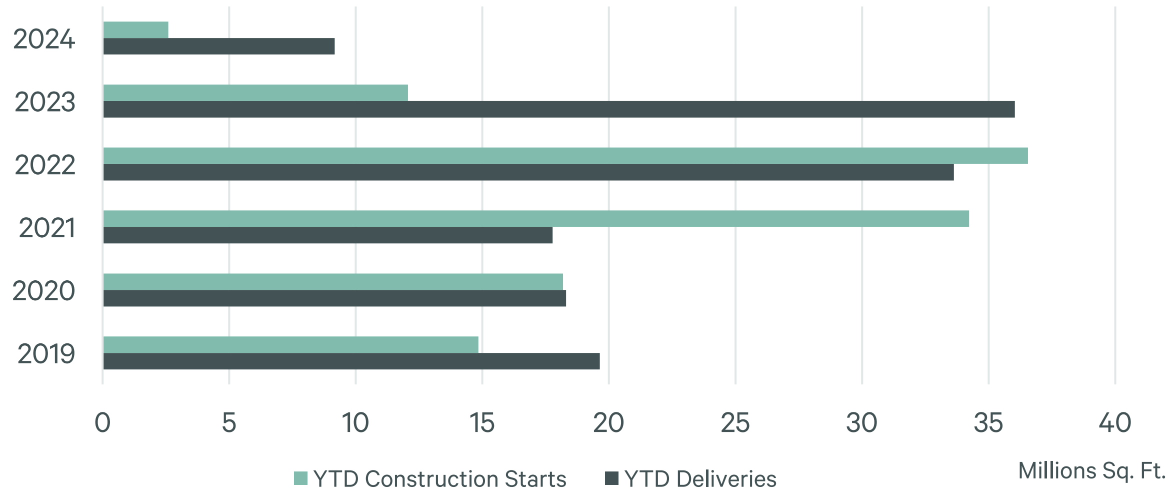
In Q2 2024, the Atlanta industrial market witnessed the addition of 16 buildings totaling 5.2-million sq. ft. Although not reaching the historic levels of H2 2023, this still represented a 32.8% increase Q-o-Q, making it the highest amount this year. The Northeast/I-85 submarket maintained its dominance, with the highest concentration of new space delivered, contributing 2-million sq. ft. of new inventory. However, the Lidl Distribution Center, a 925,000 SF facility in the I-20 East submarket emerged as the largest building delivered, underscoring the continued growth and promising future of this submarket. Looking ahead, most buildings currently under construction are expected to be completed by the end this year and early next year, leaving a void for anticipated deliveries beyond this period.

FIGURE 8: Under Construction & Deliveries



Source: CBRE Research, Q2 2024

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



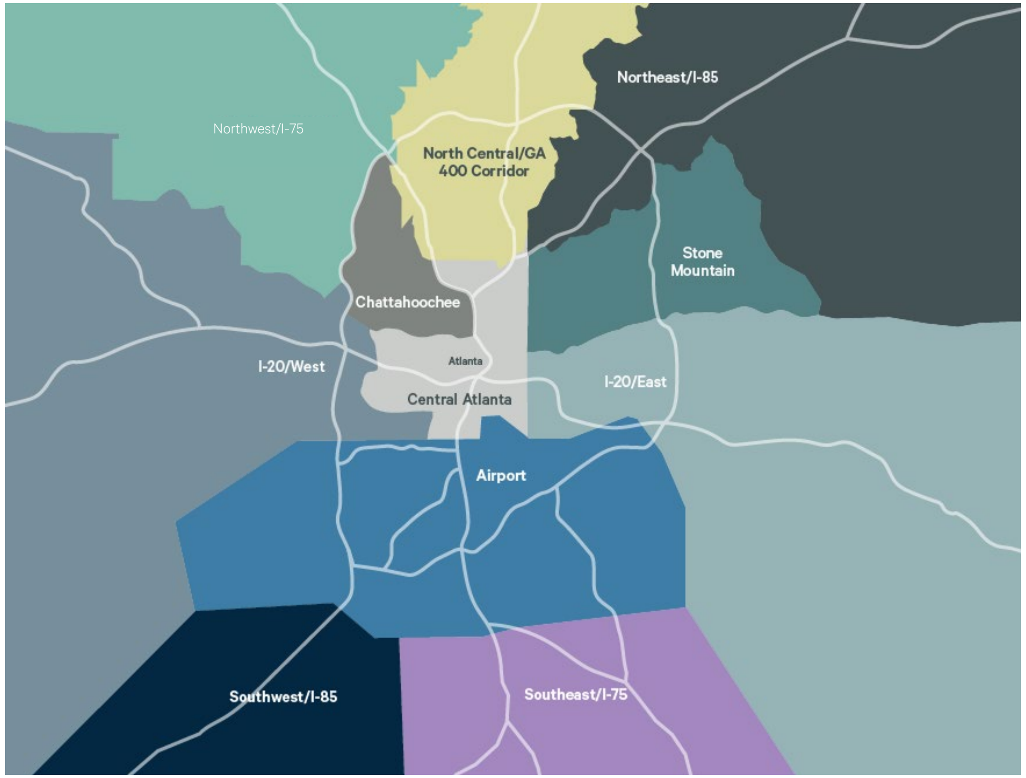
Source: CBRE Research, Q2 2024

FIGURE 10: Q2 2024 Deliveries

Property Name	Submarket	Building Size (sq. ft.)	Availability (sq ft.)	Construction Start	Construction Completion	Developer
Lidl Distribution Center	I-20 East	925,000	-	April 2022	April 2024	-
East Atlanta Logistics Center II	I-20 East	498,960	300,000 – 498,960	December 2022	April 2024	Strategic Real Estate Partners
Stockbridge Logistics Center	Southeast/I-75	498,160	498,160	October 2022	April 2024	InLight Real Estate Partners
Jefferson 85 Logistics Center	Northeast/I-85	497,094	200,000 – 497,094	June 2023	April 2024	Alliance Industrial Co.
6455 Best Friend Rd	Northeast/I-85	453,600	-	June 2022	May 2024	TPA Group, LLC
Adairsville Logistics Center	Northwest/I-75	408,240	100,000 – 408.240	October 2022	April 2024	Stream Realty
Gainesville 85 Business Center – Bldg. 100	Northeast/I-85	334,700	150,000 – 334,700	June 2023	April 2024	Logistics Property Co.
Coweta Commerce Center	Southwest/I-85	271,111	50,000 – 271,111	September 2023	June 2024	Centris Industrial
Gainesville 85 Business Center – Bldg. 200	Northeast/I-85	250,990	80,000 – 250,990	June 2023	April 2024	Logistics Property Co.
Buford Trade Center – Bldg. 100	Northeast/I-85	221,590	100,000 – 221,590	October 2023	June 2024	CA Ventures
Buford Trade Center – Bldg. 200	Northeast/I-85	176,305	-	October 2023	June 2024	CA Ventures
Cass-White 75 Logistics Center - Bldg. 1	Northwest/I-75	155,820	50,000 – 155,820	September 2022	May 2024	EastGroup Properties
Cass-White 75 Logistics Center - Bldg. 2	Northwest/I-75	139,950	32,000 – 139,950	September 2023	May 2024	EastGroup Properties
Riverside Commerce Park – Bldg. 2	I-20 West	125,641	30,000 – 125,641	June 2023	April 2024	EastGroup Properties
Braselton Technology Center	Northeast/I-85	114,780	20,000 – 114,780	July 2023	June 2024	EastGroup Properties
Q2 2024 Total		**5,230,628**				

Source: CBRE Research, Q2 2024

Market Area Overview



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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