Steady Absorption in Q2 Sets Aside Market Concerns For the Moment

▶ 4.5%
Total Vacancy Rate

▼ 3.1M
SF Net Absorption

▼ 39.0M
SF Under Construction

▼ 4.6M
SF Delivered

▼ 6.5M
SF Leasing Activity

▲ $7.19
Avg NNN Lease Rate

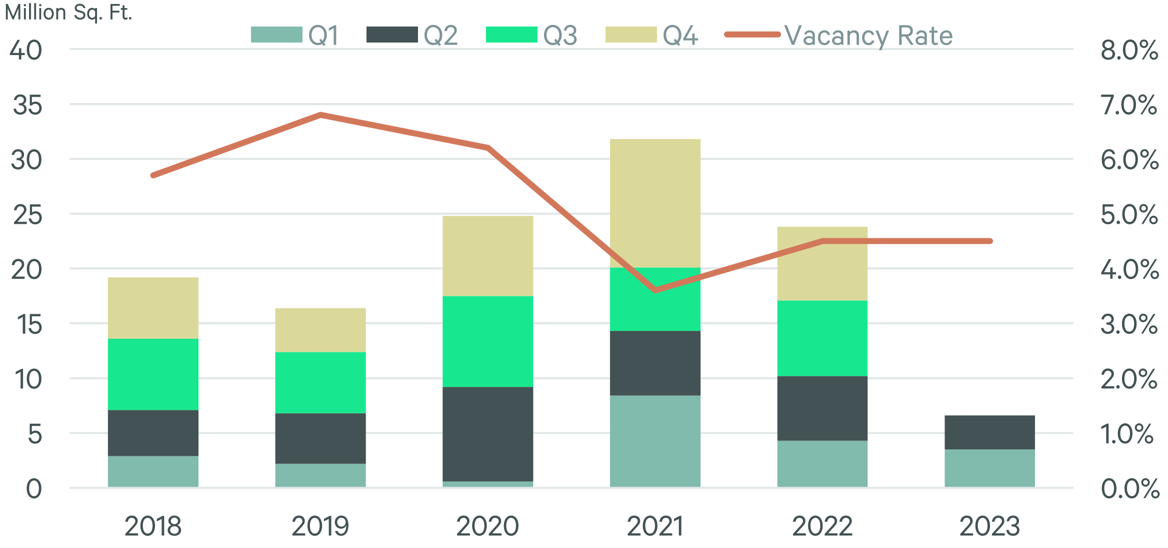
Note: Arrows indicate change from previous quarter.

Key Takeaways

- Atlanta's industrial market saw a slight decrease in absorption this quarter; however, levels were still solid. Tenants under 200,000 square feet were the most active.
- Deliveries came in below expectations this quarter at 4.6-million sq. ft. in 14 buildings. Many of the projects previously scheduled for Q2 completion have been pushed to later in the year.
- Even with leasing demand softening, average rental rates reached new record highs in Q2, increasing 4% from the previous period.
- Although overall industrial occupier trends remain positive, Atlanta's vacancy rate is headed higher in the back half of the year.

Atlanta's industrial market experienced steady net absorption yet again in the second quarter as occupancy fundamentals remained positive. Even so, vacancy remained unchanged at 4.5%. This stability is not expected to continue through the end of the year as a flood of new inventory is anticipated over the next couple of quarters. In addition, leasing demand has slowed over the past year and a half, and sublease availability increased by its largest margin ever in the second quarter. Rents appear to be unphased by these factors though as Atlanta's average rental rate increased to another record level. All in all, headwinds related to economic uncertainty have begun to affect certain industrial fundamentals in Atlanta. The market, however, is poised for a quick rebound when conditions improve.

FIGURE 1: Quarterly Net Absorption and Total Vacancy Rate



Source: CBRE Research, Q2 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-75 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 %	Q2 2023 Net Absorption (sq. ft.)	YTD 23 Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Q2 2023 Deliveries (sq. ft.)	Avg. NNN Lease Rate ($/sq. ft./Yr)
ATLANTA	**707,034,054**	**4.5**	**3,113,333**	**6,657,292**	**39,005,327**	**4,618,036**	**$7.19**
WAREHOUSE/ DISTRIBUTION	544,713,805	4.8	2,779,853	6,896,080	38,647,752	4,589,911	$6.57
SHALLOW BAY	124,926,318	2.8	24,198	(708,674)	154,120	28,125	$6.92
FLEX	37,393,931	5.1	309,282	469,886	203,455	-	$11.10
Central Atlanta	7,205,715	4.7	(18,428)	(73,780)	-	-	$10.30
Chattahoochee	15,503,898	3.6	(90,693)	(190,937)	-	-	$9.73
Northwest/I-75	71,619,240	7.5	75,194	314,326	10,123,109	821,844	$6.78
N Central/GA 400	25,166,819	4.1	220,243	154,293	223,000	-	$8.93
Northeast/I-85	198,963,606	3.5	2,273,319	3,331,774	12,513,347	1,407,528	$7.05
Stone Mountain	27,983,948	0.9	3,225	12,654	-	-	$6.45
Airport	83,246,374	3.0	295,650	946,652	1,385,033	-	$7.30
Southeast/I-75	70,838,731	6.9	341,075	2,153,744	5,456,193	1,271,294	$6.56
Southwest/I-85	59,509,401	2.4	221,259	(155,177)	4,138,465	28,125	$6.87
I-20 East	39,239,718	5.0	106,166	212,160	3,591,864	163,065	$6.30
I-20 West	107,756,604	6.0	(313,677)	(48,417)	1,574,316	926,180	$6.45

Source: CBRE Research, Q2 2023

Net Absorption and Leasing Highlights

Atlanta's net industrial absorption was slightly down from the previous quarter with 3.1-million sq. ft. of space absorbed in Q2. Kubota's move into 492,480 sq. ft. at Jefferson Logistics Center was the largest in the quarter, while smaller move-ins under 200K sq. ft. accounted for just over half of the net absorption total. All in all, just under 6.7-million sq. ft. of space has been absorbed in the Atlanta industrial market year-to-date. This amount is almost a quarter percent lower than this time last year, and the outlook for the back half of the year suggests levels will continue to be short of the total net absorption in 2022. This is due in part to slower leasing demand. Overall leasing activity has softened in the first half of 2023 and is down 42% year-over-year. Demand has been most affected by uncertainty in the economy. Industrial occupiers have decided to sit on the sidelines, waiting until economic conditions improve before committing to expand their industrial footprints in the market.

Vacancy & Availability

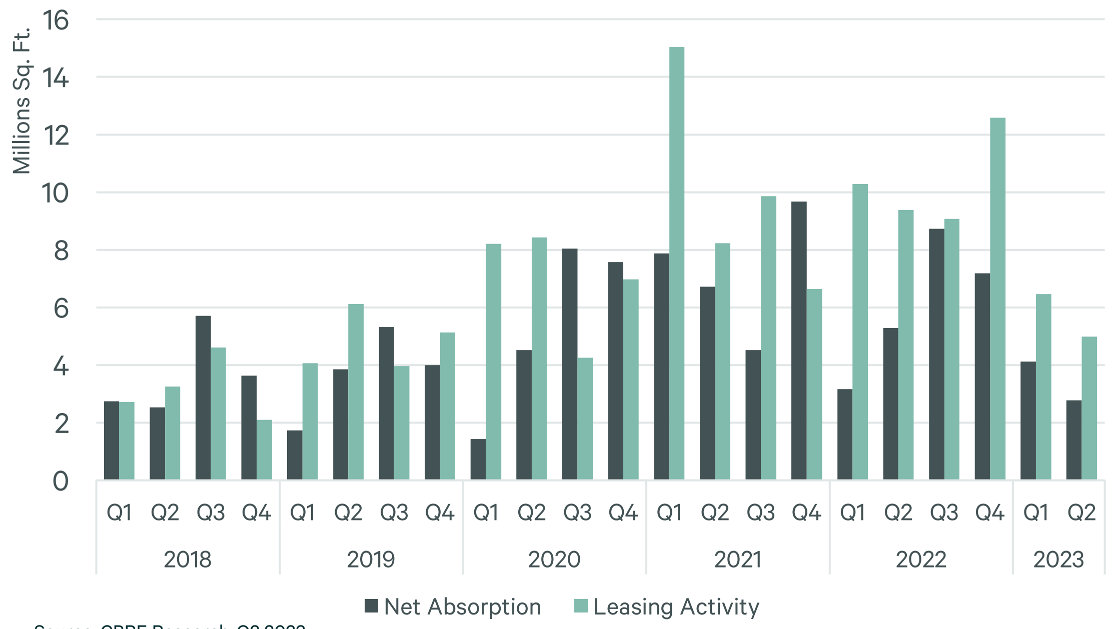
Overall vacancy was unchanged this quarter thanks to the steady absorption activity; and also less than expected space delivered. Atlanta's industrial market remains at the 4.5% mark as of the end of Q2. Even so, vacancy levels are not expected to hold. Industrial developments pushed to later in the year are anticipated to add a deluge of vacant space over the next couple of quarters. The majority of these projects are speculative; and at the moment, only 6% preleased. Given this, Atlanta's vacancy rate could possibly rise 300 basis points (3%) by the end of the year. In addition, sublease availability increased by its largest quarterly margin ever in Q2 at 66%. As companies vacate these spaces, this will add to the market's overall vacancy. Nevertheless, industrial sublease space is only a fraction of Atlanta's total inventory. If all sublease availability was vacated at once, it would result in less than a 1% increase to the market vacancy rate.

FIGURE 3: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
Broadrange Logistics	International Commerce Center Adairsvlle, GA	691,667	Northwest/I-75	New Lease
Yongsan	Cubes at River Park – Bldg. 7 Jackson, GA	306,035	Southeast/I-75	New Lease
Sanofi-Aventis	Southpoint – Bldg. B Forest Park, GA	297,000	Airport	Extension
A&R Logistics	4800 Coates Dr. Fairburn, GA	289,106	Southwest/I-85	Renewal
Titanium Plus Autoparts	Azalea Pointe Distribution Center Buford, GA	251,629	Northeast/I-85	New Lease

Source: CBRE Research, Q2 2023

FIGURE 4: Warehouse/Distribution Net Absorption & Leasing Activity



Source: CBRE Research, Q2 2023

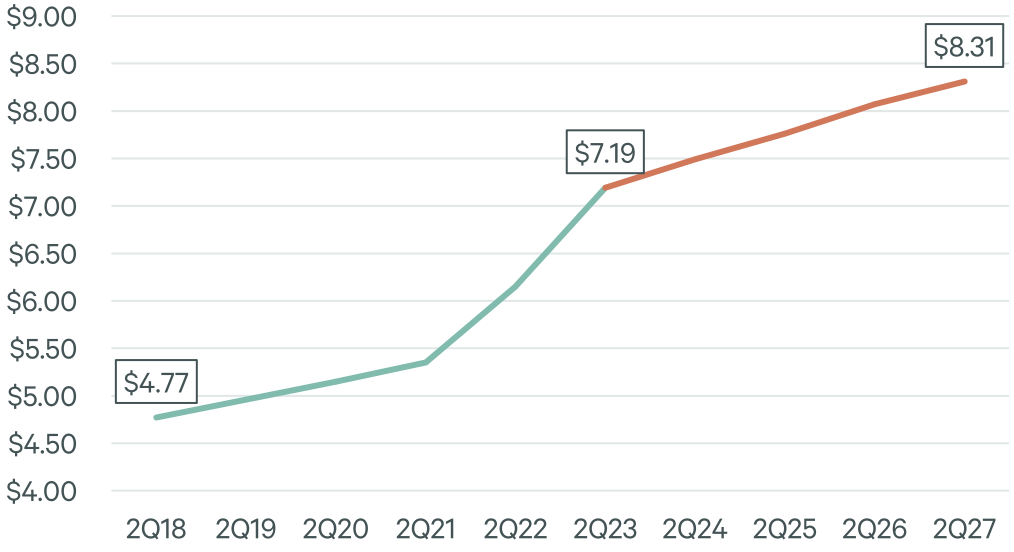
FIGURE 5: Warehouse/Distribution Sublease Availability

Source: CBRE Research, Q2 2023

Industrial Rental Rates

In spite of a drop in demand for space, rental rates reached yet another record high in the second quarter, increasing for a 40th consecutive time. The average now stands at $7.19 per sq. ft., for the market. Year-over-year this amounts to a 16.9% increase. While all of Atlanta's major industrial submarkets experienced an increase in rents, there were noticeably smaller increases in the Northwest/I-75 and Northeast/I-85 submarkets, each seeing their averages go up modestly. It should be noted both of these submarkets have the highest amount of industrial space currently in development. Additionally, Northwest/I-75's overall vacancy rate is the highest in the market, meaning this area is oversaturated with space availability. Heading into the back half of the year, much of the product anticipated to deliver in Q2 has now been pushed to later in the year. Atlanta could see upwards of 30-million sq. ft. deliver over the next two quarters, the overwhelming majority of which is vacant. This scenario will undoubtedly factor into smaller, if any rental rate increases over the next year given the abundance of options available for industrial occupiers. As it relates to size, the spread between larger buildings and smaller buildings will likely swell as larger buildings (700,000 sq. ft. and up) begin to see growth slowing, while smaller buildings (300,000 sq. ft. and below) will see rate growth remain strong.

FIGURE 6: Historic & Projected Average NNN Rental Rates



Source: CBRE Research/CBRE Econometric Advisors, Q2 2023

FIGURE 7: Notable Q2 2023 Industrial Sales

Location	Submarket	Buyer	Seller	Size (sq. ft.)	Sale Price	Price/Sq. Ft.
Palmetto Distribution Center	Southwest/I-85	KKR	Becknell Industrial	686,038	$85M	$124
Great Valley Commerce Center*	Northwest/I-75	MDH Partners	Core5 Industrial	973,218	$68.4M	$70
Sweetwater Creek Logistics Center	I-20 West	Aligned Data Centers	The Carlyle Group/ Crow Holdings	280,140	$64M	$228
McEver 985 Distribution Center	Northeast/I-85	Cabot Properties	NewStar Asset Management	214,479	$23.6M	$110

* Denotes Part of Multi-Property Sale

Source: CBRE Research, Q2 2023

Capital Markets

Even as industrial remains one of the top real estate sectors for investment, Atlanta industrial buyers were mostly restrained in the second quarter. Transaction volume was slightly up in Q2 compared to the previous period; however, first half investment of industrial properties in Atlanta is down 58% from the first two quarters of 2022. Capital markets continue to be challenged by macroeconomic conditions, including stubbornly high interest rates. Private buyers have been the most active in Atlanta, accounting for 80% of acquisition volume year-to-date. This quarter's largest transaction was KKR's purchase of Becknell's Palmetto Distribution Center. The global investment manager paid $85 million for the 686,000 square foot distribution building which is 100% leased to Syncreon Technology. It is the highest investment transaction in Atlanta so far this year.

Although Atlanta continues to be a market of choice for investors, it remains unseen if transaction volume will pick up in the second half of the year. The likelihood of an economic recession continues to weigh on sentiment in the market. Additionally, the Fed is forecasted to raise interest rates possibly two more times in 2023 which does not bode well for traditional institutional buyers expanding their investment in real estate. Even so, new inventory, either recently delivered or coming onto the market over the next couple of quarters, provide attractive options for buyers in the market; notably those assets 100% leased to credit tenants.

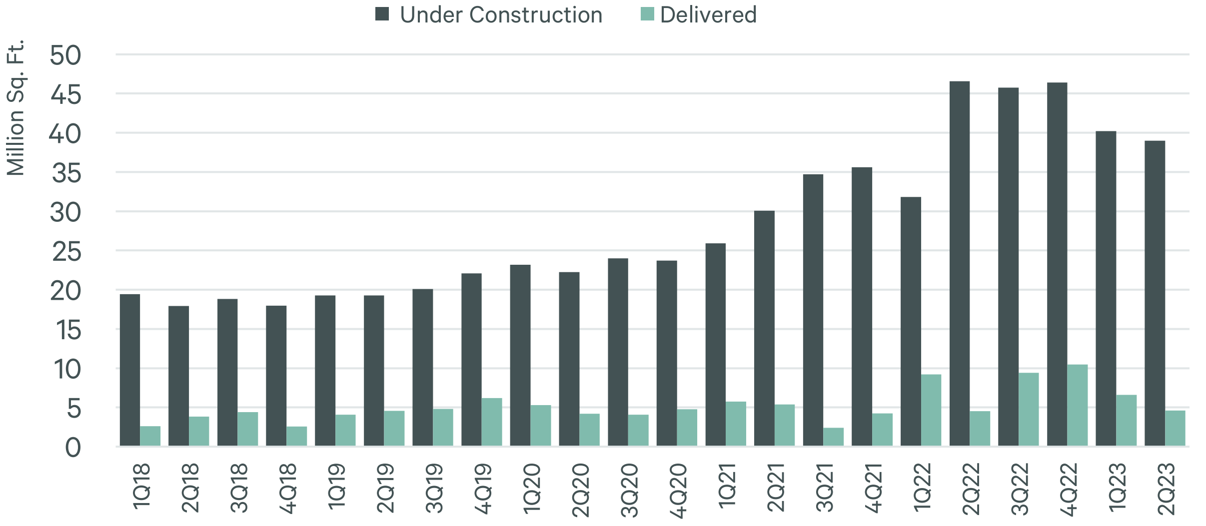
Under Construction

Atlanta has definitively moved beyond the peak industrial construction level achieved in the second quarter of 2022 as activity year-over-year is down 16% from the record 46.6-million sq. ft. posted at that time. Softening demand, tougher financing, and increased space availability have factored into why developers have slowed new development. Compared to mid-year 2022, the amount of space started in 2023 has declined 32%; and even though Q2 saw a slight uptick, groundbreakings are anticipated to further decline through the second half of the year. In total, just over 39-million sq. ft. of industrial projects are underway. Northeast/I-85 and Northwest/I-75 remain the most active submarkets with development activity, accounting for over half of the space under construction in the market. While buildings in the 150-350K size category dominate the development pipeline; notably an oversaturated segment of the market, there are 8 buildings of 1-million sq. ft. and up currently in the works. Building D at The Cubes at Bridgeport in the Southwest/I-85 submarket is the latest to break ground at 1.2-million sq. ft. Given current estimated delivery dates, around 30-million sq. ft. of space is anticipated to deliver by year's end.

Deliveries

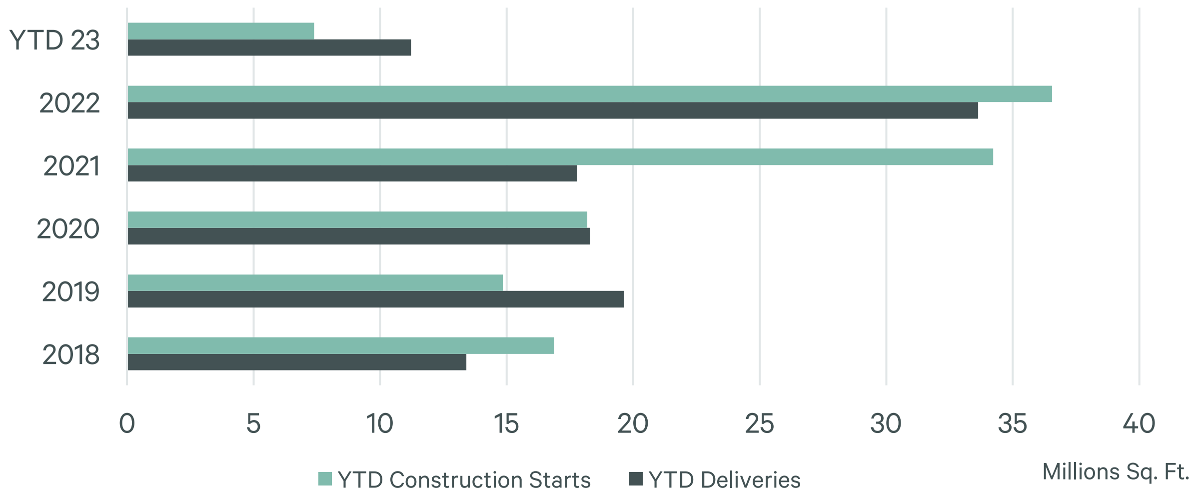
Just over 4.6-million sq. ft. of new inventory in 14 buildings delivered to the market this quarter. Northeast Atlanta saw the most space come online at 1.4-million sq. ft., while the Southeast/I-75 submarket was close behind with almost 1.3-million sq. ft. delivered. Heading into Q2, there were 68 buildings totaling over 21-million sq. ft. anticipated to deliver. The majority of these have now been pushed off to later in the year due to construction delays related to either weather or the arrival of building materials needed to complete the projects. What this means is, although deliveries at mid-year 2023 total 11.2-million sq. ft., the Atlanta industrial market will most likely see almost three times this amount added to inventory in the back half of the year. With the majority of these projects being spec development, and the preleasing of these buildings below 5%, the market will be overloaded on the supply side finishing the year. The added inventory is sure to raise Atlanta's overall vacancy rate as a result. At the same time, the new buildings will provide numerous space options for those industrial occupiers seeking immediate locations to occupy in the Atlanta market.

FIGURE 8: Under Construction & Deliveries



Source: CBRE Research, Q2 2023

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



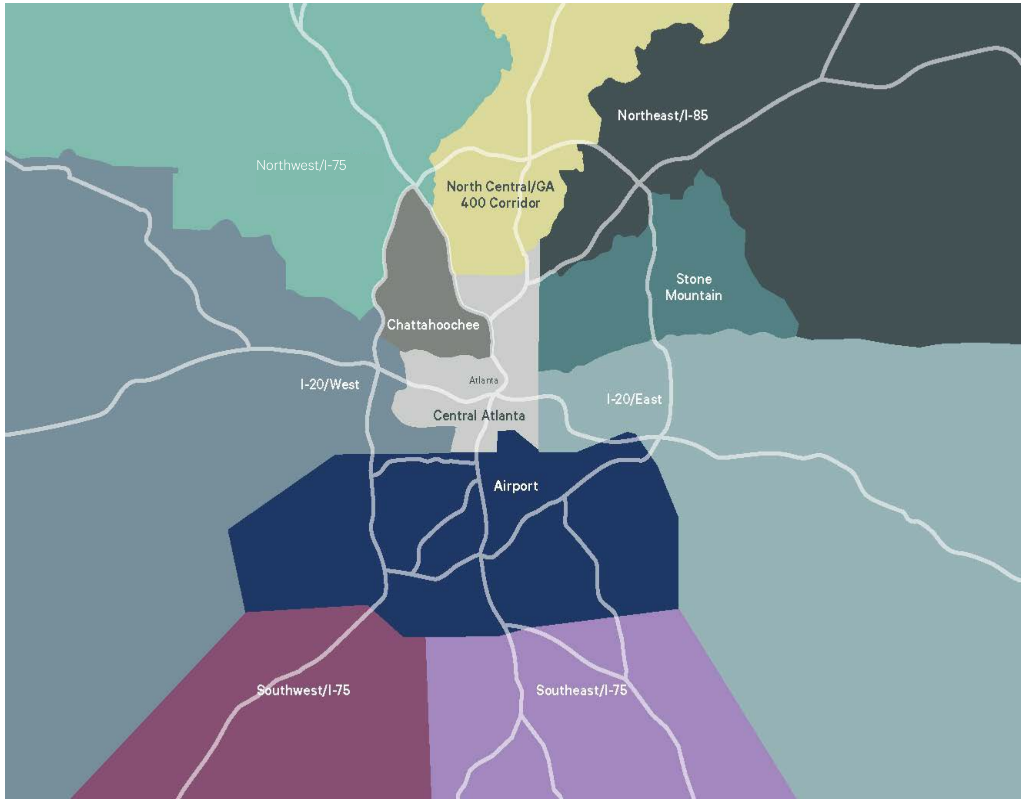
Source: CBRE Research, Q2 2023

FIGURE 10: Q2 2023 Deliveries

Property Name	Submarket	Building Size (sq. ft.)	Availability (sq ft.)	Construction Start	Construction Completion	Developer
Gardner Logistics Park – Phase III	Southeast/I-75	1,000,000	-	January 2022	June 2023	Scannell
Great Valley Commerce Ctr. – Bldg. 2	Northwest/I-75	821,844	300,000 – 821,844	November 2021	April 2023	Core5 Industrial Partners
Valentine 85 Business Park	Northeast/I-85	800,590	400,00 – 800,590	September 2021	April 2023	Seefried
White Oak Logistics Center – Bldg. 200	I-20 West	318,600	100,000 – 318,600	December 2021	May 2023	Link Logistics
Azalea Pointe Distribution Center	Northeast/I-85	251,629	-	August 2022	May 2023	Link Logistics
White Oak Logistics Center – Bldg. 100	I-20 West	251,100	100,000 – 251,100	December 2021	May 23	Link Logistics
McEver 985 Distribution Center	Northeast/I-85	214,479	214,479	July 2022	June 2023	NewStar Development
Interstate West Logistics Center	I-20 West	185,620	185,620	July 2022	May 2023	Cabot
Westmoreland Plaza Logistics Center	I-20 West	170,860	50,000 – 170,860	July 2022	April 2023	Euphoric Development
Rockdale Technology Center – Bldg. 500	I-20 East	163,065	122,285	September 2022	June 2023	Ackerman
Vista 85 Business Center	Northeast/I-85	140,830	-	October 2021	April 2023	Johnson Development Associates
Rex Distribution Center – Bldg. B	Southeast/I-75	139,888	139,888	July 2022	June 2023	InLight
Rex Distribution Center – Bldg. A	Southeast/I-75	131,406	131,406	July 2022	June 2023	InLight
Newnan Business Center – Phase I	Southwest/I-85	28,125	28,125	July 2022	May 2023	OCD Management
Total		**4,618,036**				

Source: CBRE Research, Q2 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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