

FIGURES | ATLANTA INDUSTRIAL | Q1 2024

# Tenant activity reactivates as construction activity declines



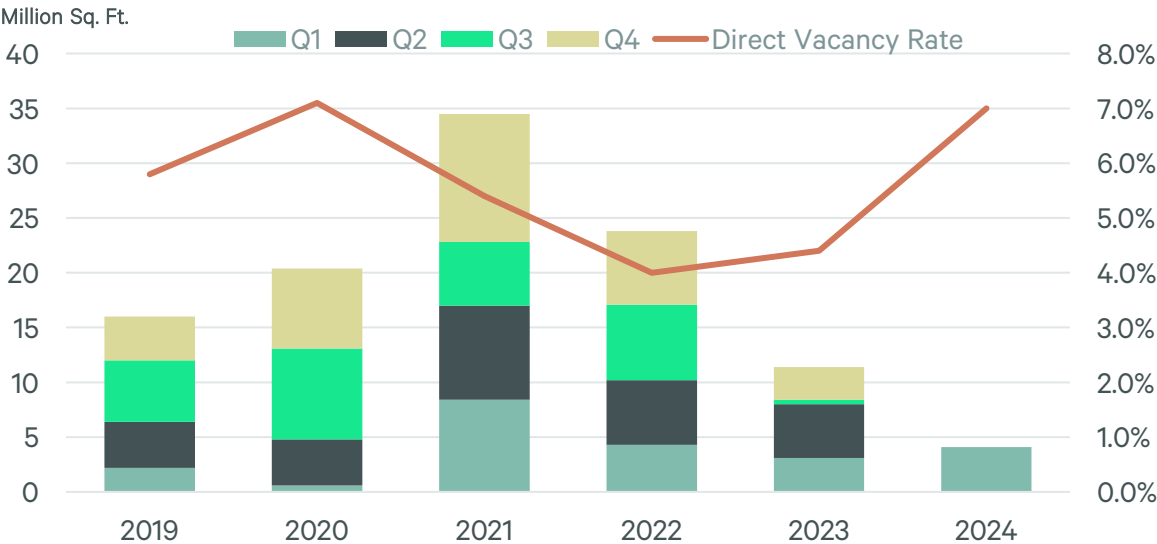
Note: Arrows indicate change from previous quarter.

## Key Takeaways

- The Atlanta industrial market’s net absorption increased 35.6% Q-o-Q to 4.1-million sq. ft.
- The development pipeline decreased by 60.5% year-over-year to just under 15.9-million sq. ft., the lowest since Q4 2017. Notably, only 11.8-million sq. ft. of speculative development is currently under construction.
- The Atlanta industrial market witnessed the delivery of only 4.9-million sq. ft. of new product in Q1 2024, marking the lowest level since Q2 2023.
- While the direct vacancy rate of 7.0% decreased slightly quarter-over-quarter, it experienced a significant year-over-year increase of 300 bps due to the influx of unoccupied construction completions from the previous year.
- With leasing activity increasing, the average NNN lease rate in the market continues to exceed its record high at \$7.42 per sq. ft. reflecting a year-over-year increase of 7.4%.

In Q1 2024, the Atlanta industrial market reactivated as the economy continues to work towards recovery. Tenant activity has improved, and this is highlighted in the year-over-year growth in both net absorption and leasing activity. Construction activity continues to decline however, and this is expected to impact the market in coming quarters.

FIGURE 1: Quarterly Net Absorption and Direct Vacancy Rate



Source: CBRE Research, Q1 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 % | Q1 2024 Net Absorption (sq. ft.) | YTD 24 Net Absorption (sq. ft.) | Under Construction (sq. ft.) | Q1 2024 Deliveries (sq. ft.) | Avg. NNN Lease Rate (\$/sq. ft./Yr) |
|-------------------------|--------------------------------|-----------------------|----------------------------------|---------------------------------|------------------------------|------------------------------|-------------------------------------|
| ATLANTA                 | 737,595,230                    | 7.0                   | 4,113,650                        | 4,113,650                       | 15,875,278                   | 4,885,741                    | \$7.42                              |
| WAREHOUSE/ DISTRIBUTION | 610,483,526                    | 7.6                   | 4,299,361                        | 4,299,361                       | 15,712,108                   | 4,885,741                    | \$6.82                              |
| SHALLOW BAY             | 88,489,400                     | 3.9                   | (195,142)                        | (195,142)                       | 163,170                      | -                            | \$7.00                              |
| FLEX                    | 38,612,304                     | 5.1                   | 9,431                            | 9,431                           | -                            | -                            | \$11.24                             |
| Central Atlanta         | 7,212,861                      | 7.8                   | (10,824)                         | (10,824)                        | 4,897                        | -                            | \$10.42                             |
| Chattahoochee           | 15,524,898                     | 3.5                   | (2,287)                          | (2,287)                         | -                            | -                            | \$9.80                              |
| Northwest/I-75          | 82,511,256                     | 15.9                  | 2,013,663                        | 2,013,663                       | 580,625                      | 704,010                      | \$6.80                              |
| N Central/GA 400        | 25,532,491                     | 4.2                   | (82,770)                         | (82,770)                        | 45,000                       | -                            | \$9.05                              |
| Northeast/I-85          | 208,003,976                    | 7.6                   | 264,572                          | 264,572                         | 4,144,533                    | 1,465,389                    | \$7.27                              |
| Stone Mountain          | 27,983,948                     | 1.6                   | (123,640)                        | (123,640)                       | -                            | -                            | \$6.59                              |
| Airport                 | 84,625,221                     | 4.8                   | 125,093                          | 125,093                         | 172,000                      | -                            | \$7.45                              |
| Southeast/I-75          | 73,581,624                     | 5.9                   | 1,804,532                        | 1,804,532                       | 5,365,980                    | 1,800,000                    | \$6.79                              |
| Southwest/I-85          | 62,396,666                     | 5.4                   | (41,412)                         | (41,412)                        | 1,862,311                    | -                            | \$7.15                              |
| I-20 East               | 41,219,609                     | 7.4                   | 66,145                           | 66,145                          | 1,941,705                    | 632,014                      | \$6.43                              |
| I-20 West               | 109,002,680                    | 5.2                   | 100,578                          | 100,578                         | 1,758,227                    | 284,328                      | \$6.51                              |

Source: CBRE Research, Q1 2024

Net Absorption and Leasing Highlights

In Q1 2024, there was a resurgence in net absorption and leasing activity in the Atlanta industrial market. The uncertainty of the previous year's economy had caused real estate decision makers to delay commitments and assess their real estate requirements. However, the beginning of 2024 witnessed an increase in leases and deals being finalized. When compared to Q1 2023, leasing activity rose by 2.6% to 9.8-million sq. ft, and absorption saw a significant increase of 33.9% to 4.9-million sq. ft. Additionally, deal volume showed a 112% increase compared to the previous year, although the average deal size decreased by 53.1% year-over-year to 37,231 sq. ft. Interestingly, two of the top five largest deals since 2022 were signed during the quarter. Notably, the quarter's largest deal involved Qcells leasing 834,971 sq. ft. at Busch Commerce Center, highlighting the willingness of companies to make substantial commitments to expand operations, even while others consider downsizing.

Vacancy & Availability

The market experienced a significant 300 bps increase in direct vacancy year-over-year, primarily due to the record number of construction completions in 2023. However, there was a slight decrease in the direct vacancy rate to 7.0% when comparing quarter-over-quarter data. The product under 100,000 sq. ft. has an extremely competitive direct vacancy rate of 3.7%, demonstrating the high demand for smaller spaces. Similarly, the direct vacancy rate for spaces between 500,000-700,000 sq. ft. is relatively low at 4.3%. On the other hand, the direct vacancy rate for spaces beyond 700,000 sq. ft. stands at 9.2%, the highest among different size ranges. Notably, the Northwest/I-75 submarket has a high vacancy rate of 50.3% for buildings above 700,000 sq. ft. For the market as a whole, availability rose slightly to 11.1%; however, the amount of sublease space available decreased for the first time since Q1 2023.

FIGURE 3: Key Leasing Transactions

| Tenant                   | Location                                    | Size (sq. ft.) | Submarket      | Transaction Type |
|--------------------------|---|----------------|----------------|------------------|
| Qcells                   | Busch Commerce White, GA                    | 834,971        | Northwest/I-75 | New Lease        |
| Devgiri Home             | Clayton 75 Jonesboro, GA                    | 705,833        | Southeast/I-75 | Sublease         |
| Trane U.S.               | Southmeadow Distribution Center Atlanta, GA | 400,125        | Airport        | Renewal          |
| KGP Logistics            | Shawnee Ridge E-1 Suwanee, GA               | 395,092        | Northeast/I-85 | Renewal          |
| Atlanta Bonded Warehouse | Cherokee 75 Business Center Acworth, GA     | 312,500        | Northwest/I-75 | Renewal          |

Source: CBRE Research, Q1 2024

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



Source: CBRE Research, Q1 2024

FIGURE 5: Warehouse/Distribution Sublease Availability

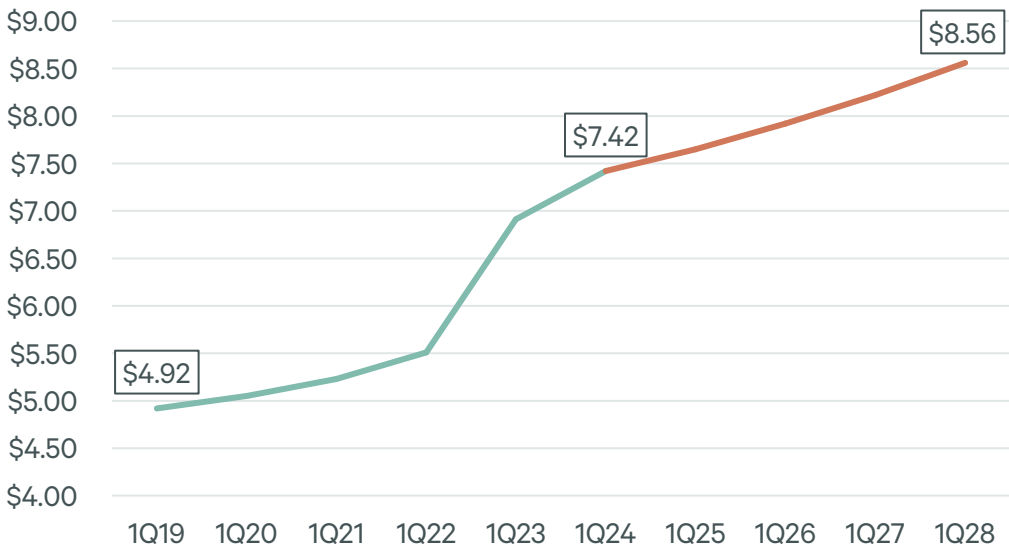


Source: CBRE Research, Q1 2024

Industrial Rental Rates

The average NNN lease rate in the Atlanta market increased by 7.4% year-over-year, reaching a new record high of \$7.42 per sq. ft. Despite facing more competition, landlords have been reluctant to lower rates due to several factors. One factor is the consistent upward pricing trends in land and construction/raw materials pricing, which puts pressure on landlords to raise rates to maintain profitability. Tenants are also willing to pay a premium for building features like ingress and egress, car parking, and front load functionality, which heavily influences their decision-making process when faced with multiple options. Additionally, strong leasing activity and overall market fundamentals provide justification for rental rate increases. Instead of reducing rates, landlords may choose to attract tenants by offering concessions such as free rent or tenant improvement allowances. Overall, the average NNN rate is expected to continue to increase at a steady pace in the foreseeable future.

FIGURE 6: Historic & Projected Average NNN Rental Rates



Source: CBRE Research, Q1 2024

FIGURE 7: Notable Q1 2024 Industrial Sales

| Location                           | Submarket      | Buyer                           | Seller            | Size (sq. ft.) | Sale Price | Price/Sq. Ft. |
|------------------------------------|----------------|---------------------------------|-------------------|----------------|------------|---------------|
| Southpark – Phase 1*               | Southwest/I-85 | Purina                          | Clarion Partner   | 599,614        | \$70.9M    | \$118         |
| Thurmon Tanner Logistics – Bldg. A | Northeast/I-85 | National Financial Services LLC | Hines             | 447,120        | 58.7M      | \$131         |
| Atlanta Cold Storage – Bldg. 2     | Airport        | BentallGreenOak                 | Saxum Real Estate | 188,449        | \$54M      | \$287         |
| Suwanee Logistics Center           | Northeast/I-75 | Longpoint Realty Partners       | TPA Group         | 327,825        | \$39M      | \$120         |

\* Denotes Part of Multi-Property Sale

Source: CBRE Research, Q1 2024

Capital Markets

During Q1 2024, the capital markets sector in Atlanta experienced a notable increase in sales volume, rising by 13% year-over-year to reach \$548 million. This growth can be attributed to investors becoming more willing to purchase properties at the beginning of the year, following financial uncertainty and the Federal Reserve's decision to raise interest rates as a measure to control inflation in 2023. The largest sale of the quarter was the acquisition of Southpark-Phase 1, a part of a two-building portfolio sale, by Purina from Clarion Partners, which sold for \$70.9 million. Looking ahead, it is anticipated the capital markets sector will continue to experience improvements throughout the year, particularly if the Federal Reserve decides to implement interest rate cuts. These potential rate cuts could further stimulate investment activity and contribute to the positive trajectory of the sector.

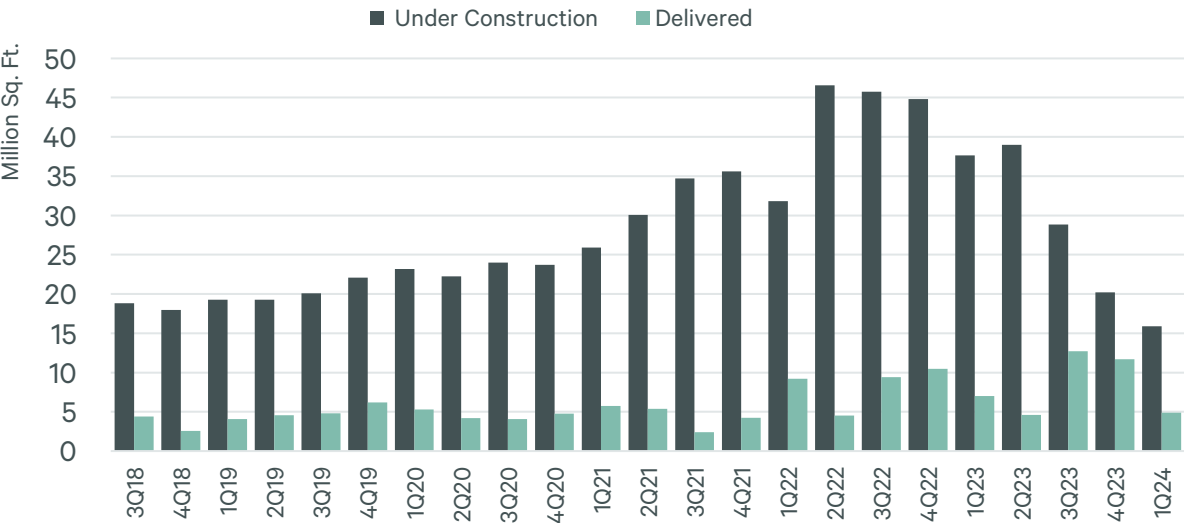
Under Construction

In Q1 2024, the under-construction pipeline in the Atlanta market reached its lowest point since Q4 2017, standing at just under 15.9-million sq. ft. This decline can be attributed to developers holding off on new construction projects, primarily due to the high level of unoccupied product from last year’s historical inventory expansion. This cautious approach can be seen in the relatively low amount of construction starts taking place this quarter. The largest project to break ground in Q1 2024 was the Rockdale 20 East Business Center, a 212,745 sq. ft. building expected to be delivered in Q4 2024. As the market works to absorb the vacant buildings in 2023, it is anticipated construction activity will remain subdued in the first half of 2024. However, towards the end of the year, construction is expected to pick up again as the need for future deliveries becomes more apparent.

Deliveries

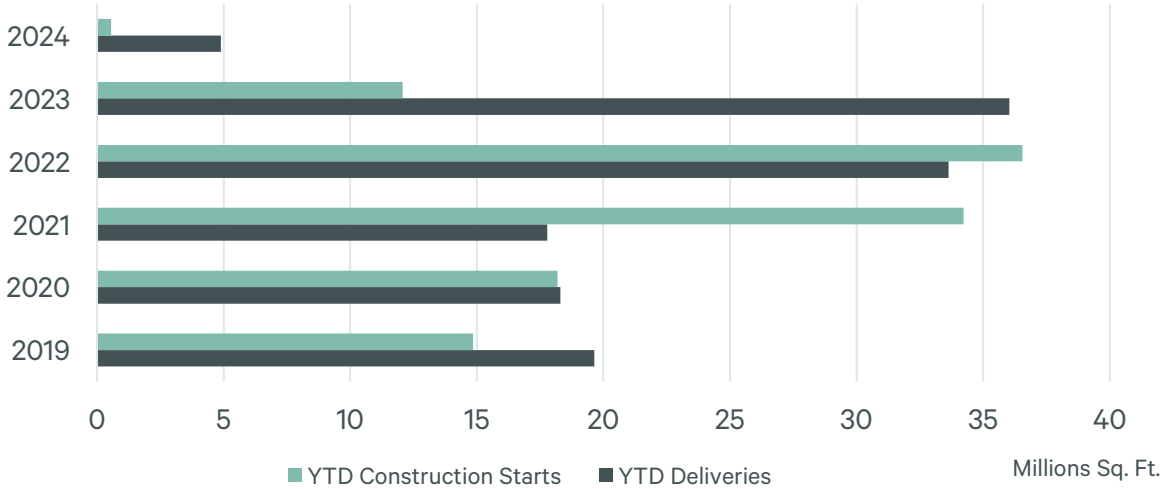
After a record-breaking year for construction completions in 2023, the market experienced a significant decline in inventory added this quarter with only 4.9-million sq. ft. delivered, marking the lowest level since Q2 2023. Out of the 11 submarkets in the Atlanta market, only five submarkets experienced new inventory delivered in Q1 2024, with Southeast/I-75 submarket having the most. The largest building delivered this quarter was Proctor & Gamble’s build-to-suit at River Park eCommerce Center, spanning 1,800,000 sq. ft. Market dynamics have shifted, with tenants no longer feeling pressured to quickly secure space and close deals due to a greater availability of options. This is evident in the fact that only 5% of the delivered 2.8-million sq. ft. of spec product was pre-leased. Furthermore, apart from River Park eCommerce Center, the average size of delivered buildings decreased by 19% quarter-over-quarter to approximately 206,000 sq. ft., indicating a preference among tenants for smaller product offerings in the current market.

FIGURE 8: Under Construction & Deliveries



Source: CBRE Research, Q1 2024

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



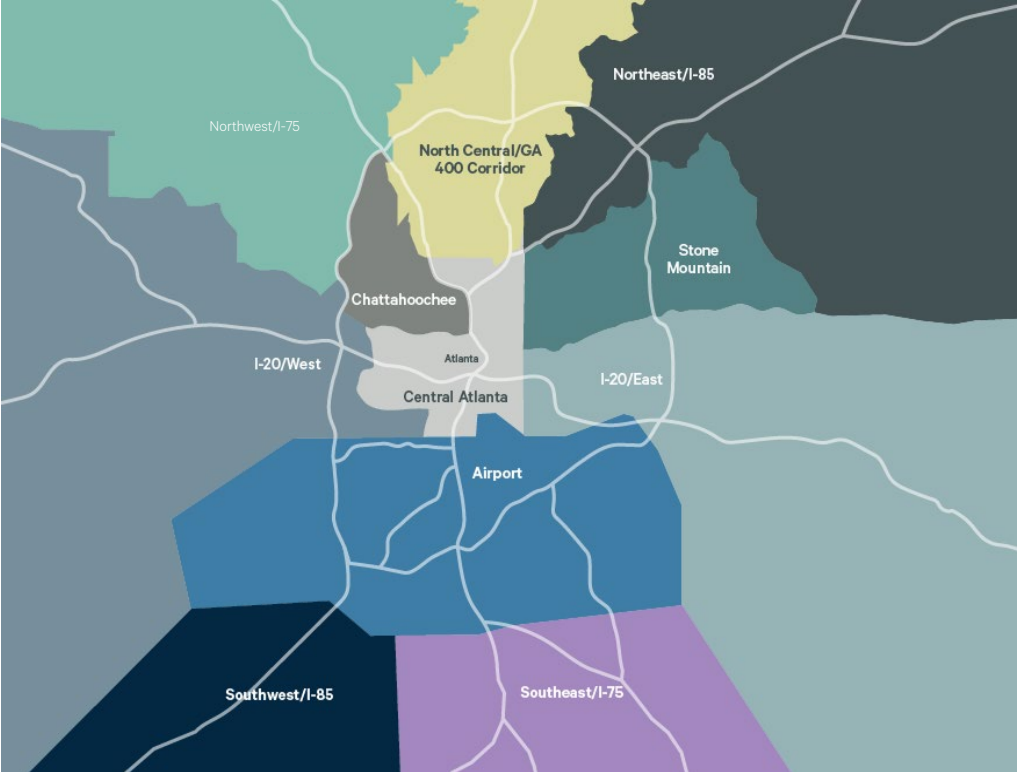
Source: CBRE Research, Q1 2024

FIGURE 10: Q1 2024 Deliveries

| Property Name                              | Submarket      | Building Size (sq. ft.) | Availability (sq ft.) | Construction Start | Construction Completion | Developer                  |
|--|----------------|-------------------------|-----------------------|--------------------|-------------------------|----------------------------|
| Riverside Park eCommerce Center            | Southeast/I-75 | 1,800,000               | -                     | May 2023           | March 2024              | Havenwood Holdings         |
| Adairsville Logistics Center               | Northwest/I-75 | 408,240                 | 100,000 – 408,240     | October 2022       | January 2024            | Stream Realty              |
| 20 East Logistics Center                   | I-20 East      | 373,266                 | 175,00 – 373,266      | August 2022        | February 2024           | Native Development         |
| Gainesville 85 BC – Bldg. 100              | Southeast/I-75 | 334,700                 | 150,000 – 334,700     | June 2023          | March 2024              | Logistics Property Co.     |
| Covington Commerce Center – Bldg. 200      | I-20 East      | 258,748                 | 50,000 – 258,748      | June 2023          | February 2024           | Logistics Property Co.     |
| Gainesville 85 Business Center – Bldg. 200 | Northeast/I-85 | 251,031                 | 80,000 – 251,031      | June 2023          | March 2024              | Logistics Property Co.     |
| Commerce Crossroads – Bldg. 200            | Northeast/I-85 | 225,000                 | -                     | January 2023       | January 2024            | Lien Base                  |
| Braselton 85 – West                        | Northeast/I-85 | 220,649                 | 30,000 – 220,649      | February 2023      | March 2024              | Rockefeller Group          |
| Braselton 85-- East                        | Northeast/I-85 | 207,009                 | 30,000 - 207,009      | January 2023       | March 2024              | Rockefeller Group          |
| Riverside Commerce Park – Bldg. 1          | I-20 West      | 158,687                 | 30,000 – 158,687      | June 2023          | March 2024              | EastGroup Properties       |
| Cass-White 75 Logistics Center – Bldg. 1   | Northwest/I-75 | 155,820                 | 50,000 – 139,950      | September 2022     | March 2024              | EastGroup Properties       |
| Cass-White 75 Logistics Center – Bldg. 2   | NorthwestI-75  | 139,950                 | 32,00 - 139,950       | September 2022     | March 2024              | EastGroup Properties       |
| Riverside Commerce Park – Bldg. 2          | I-20 West      | 125,641                 | 30,000 – 125,641      | June 2023          | March 2024              | EastGroup Properties       |
| Presco Industrial Park West                | Northeast/I-85 | 100,000                 | -                     | November 2022      | February 2024           | Ricky Presley Construction |
| Q1 2024 Total                              |                | 4,885,741               |                       |                    |                         |                            |

Source: CBRE Research, Q1 2024

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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