Atlanta industrial leasing activity surges while construction hits decade low

▲ 8.2% Direct Vacancy Rate

▲ 3.3M SF Net Absorption

▼ 11.8M SF Under Construction

▲ 5.8M SF Delivered

▲ 14.6M SF Leasing Activity

▶ $7.46 Avg NNN Lease Rate

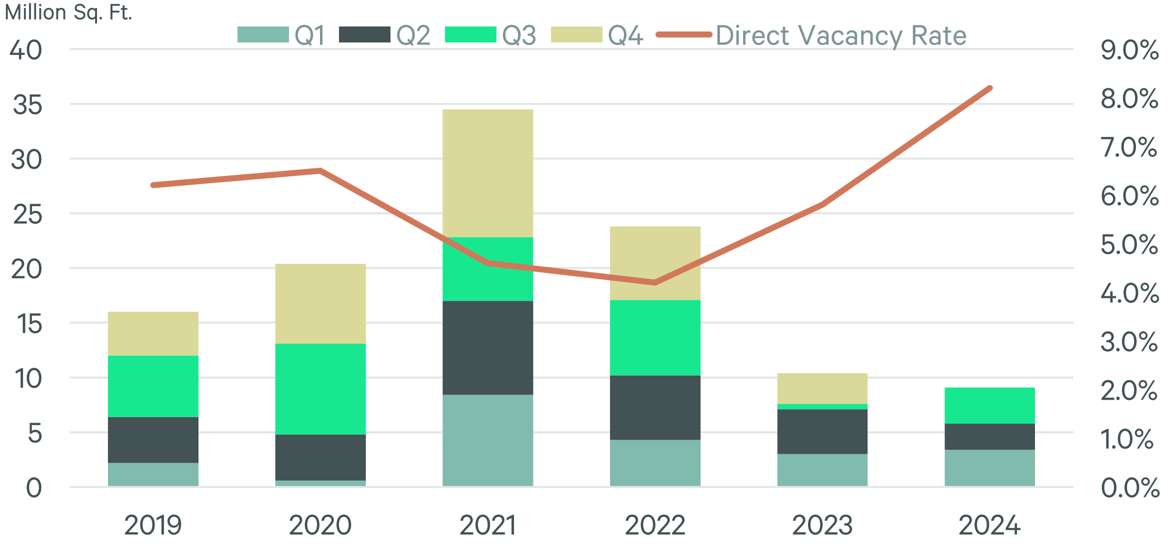
Note: Arrows indicate change from previous quarter.

Key Takeaways

- Year-to-date net absorption surpassed 9-million sq. ft. in Q3; a 19.6% increase YoY.
- Leasing activity rose to 14.6-million sq. ft., its highest point since 2022.
- The development pipeline fell to 11.8-million sq. ft., marking its lowest point in a decade.
- Just under 6-million sq. ft. delivered in the third quarter, countered by 1.6-million sq. ft. in construction starts.
- The asking rental rate in the third quarter held steady QoQ at $7.46/sf.

In Q3 2024, the Atlanta industrial market remained strong, evidenced by notable increases in tenant demand metrics. Leasing activity hit an 18-month high, including the first recorded deal over one million sq. ft. since 2022. Year-to-date net absorption is 19.6% higher than the same period in 2023, driven largely by strong activity in the Southeast/I-75 submarket. However, despite these positive trends, the average NNN lease rate remained flat from the previous quarter due to heightened competition. Additionally, the direct vacancy rate rose by 50 bps QoQ, largely a result of 4.2-million sq. ft. of unoccupied space delivering. Along with a few build-to-suits also coming online, this has led to Atlanta's development pipeline dropping to its lowest level in ten years. Looking ahead, increased demand for space and reduced new supply may lead to a moderate decrease in vacancy by this time next year.

FIGURE 1: Quarterly Net Absorption and Direct Vacancy Rate



Source: CBRE Research, Q3 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 %	Q3 2024 Net Absorption (sq. ft.)	YTD 24 Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Q3 2024 Deliveries (sq. ft.)	Avg. NNN Lease Rate ($/sq. ft./Yr)
ATLANTA	**747,256,014**	**8.2**	**3,252,277**	**9,062,152**	**11,820,933**	**5,797,877**	**$7.46**
WAREHOUSE/ DISTRIBUTION	619,740,994	8.7	3,756,630	10,074,651	11,820,933	5,634,707	$6.85
SHALLOW BAY	88,748,983	5.2	(385,875)	(911,898)	-	163,170	$7.09
FLEX	38,766,037	5.6	(118,478)	(100,601)	-	-	$11.27
Central Atlanta	7,212,861	9.0	(6,877)	(89,717)	-	-	$10.42
Chattahoochee	15,321,291	5.3	(118,025)	(256,928)	-	-	$9.94
Northwest/I-75	82,513,935	14.3	588,689	3,726,536	1,019,668	-	$6.77
N Central/GA 400	25,532,491	4.8	(142,639)	(186,262)	90,869	-	$9.11
Northeast/I-85	212,654,168	9.6	1,049,865	1,835,977	1,528,574	2,720,944	$7.52
Stone Mountain	27,993,825	3.4	(30,127)	(316,718)	-	-	$6.49
Airport	85,062,233	6.1	(329,408)	(485,503)	733,526	265,775	$7.51
Southeast/I-75	75,719,591	6.1	2,402,340	4,667,732	4,363,659	1,642,307	$6.89
Southwest/I-85	63,283,849	7.3	(5,178)	(704,984)	1,534,824	316,072	$7.36
I-20 East	42,643,569	7.8	(245,488)	1,208,387	1,576,647	-	$6.46
I-20 West	109,318,201	6.7	89,125	(336,368)	973,166	852,779	$6.60

Source: CBRE Research, Q3 2024

Net Absorption and Leasing Highlights

The market experienced strong net absorption and leasing in Q3 2024. Leasing activity reached 14.6-million sq. ft., marking the highest level since Q4 2022. Notably, a confidential tenant signed a 1,006,500 sq. ft. lease in the Southeast/I-75 submarket at the tail-end of the quarter. This lease represents the first one-million sq. ft. transaction in the past 18 months, indicating a possible resurgence in larger deals. While the total deal count declined by 19.1% QoQ, the number of deals exceeding 100,000 sq. ft. surged by 87%. Year-to-date net absorption surpassed 9-million sq. ft., reflecting a YoY increase of 19.6%. While a most notable trend taking place for office space, flight-to-quality is also prevalent for industrial space. This trend is evident in the disparity between net absorption rates for buildings constructed before and after 2000. Buildings built after 2000 had a net absorption of 5.4-million sq. ft., while those built before 2000 experienced a negative absorption of 2.1-million sq. ft. As tenants consider leasing newer versus older buildings, landlords of older properties have yet to compete on rental rates. Because of this, the approach is negatively impacting the performance of these older properties leading to increased vacancy in vintage buildings.

Vacancy & Availability

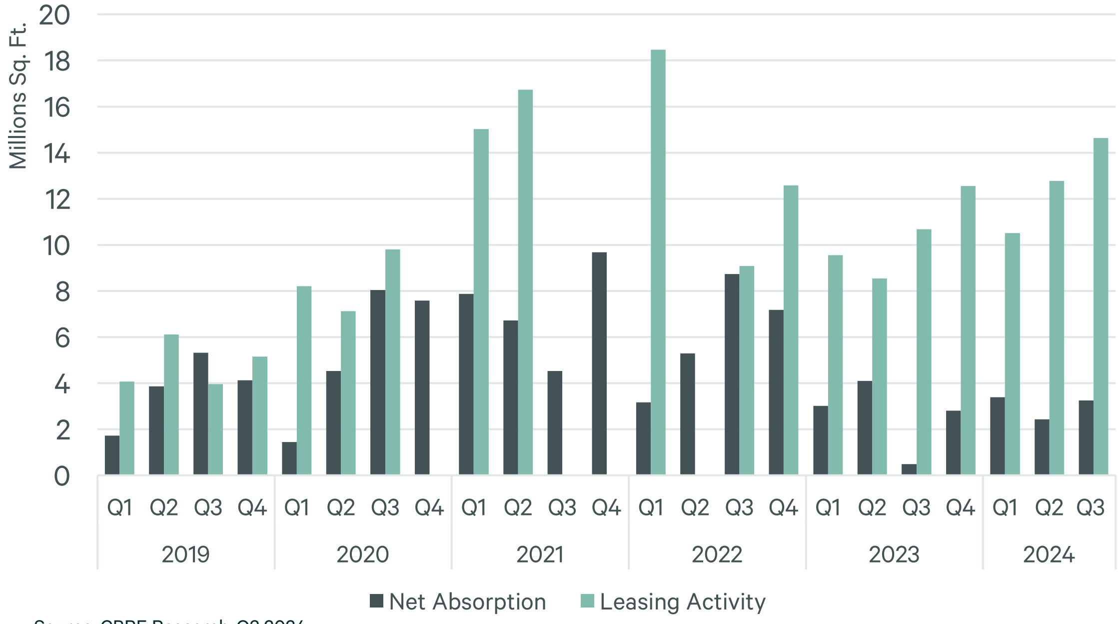
The market experienced a 50 bps increase QoQ to its direct vacancy rate, now at 8.2%. This is primarily due to 4.2-million sq. ft. added to inventory in Q3. Tenants in older properties are vacating to capitalize on attractive rental rates for newer developments. A limited development pipeline, however, may help reduce overall vacancy in the market, heightening competition for higher-quality space in the coming year.
A 0.5% QoQ decrease in total available space indicates stability, as leasing activity absorbs excess inventory. Additionally, the decline in sublease availability shows businesses are opting to renew or expand leases rather than sublet, increasing competition for landlords in prime locations.

FIGURE 3: Key Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
Confidential	The Cubes at River Park – Bldg. 4 Jackson, GA	1,006,500	Southeast/I-75	New Lease
Dick's Sporting Goods	3909 N Commerce Dr East Point, GA	913,700	Airport	Renewal
GE Energy Parts, Inc.	4955 Mason Rd Atlanta, GA	660,000	Airport	Renewal
Petco	930 Highway 124 Braselton, GA	506,200	Northeast/I-85	Renewal
Geodis	Airport Logistic Center Union City, GA	499,500	Airport	New Lease

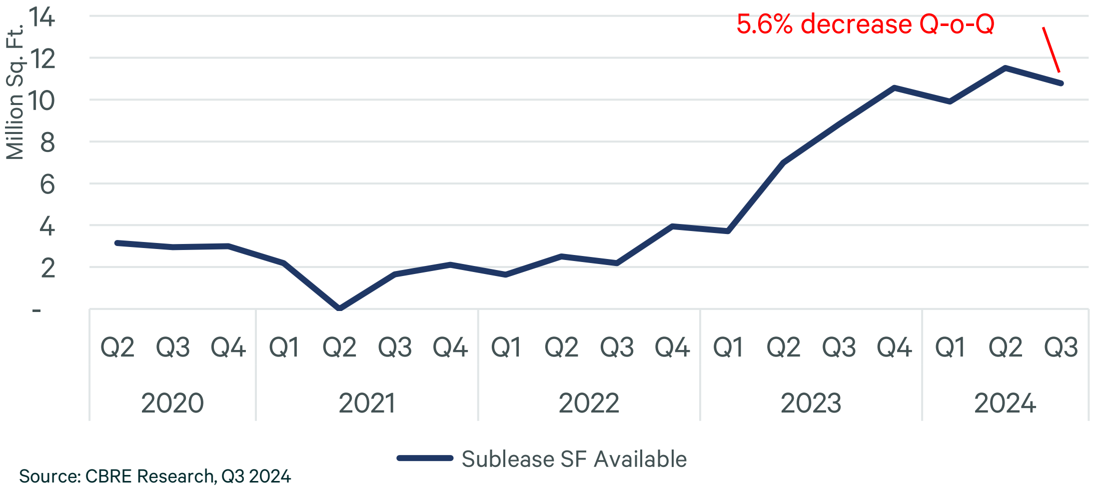
Source: CBRE Research, Q3 2024

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



Source: CBRE Research, Q3 2024

FIGURE 5: Warehouse/Distribution Sublease Availability

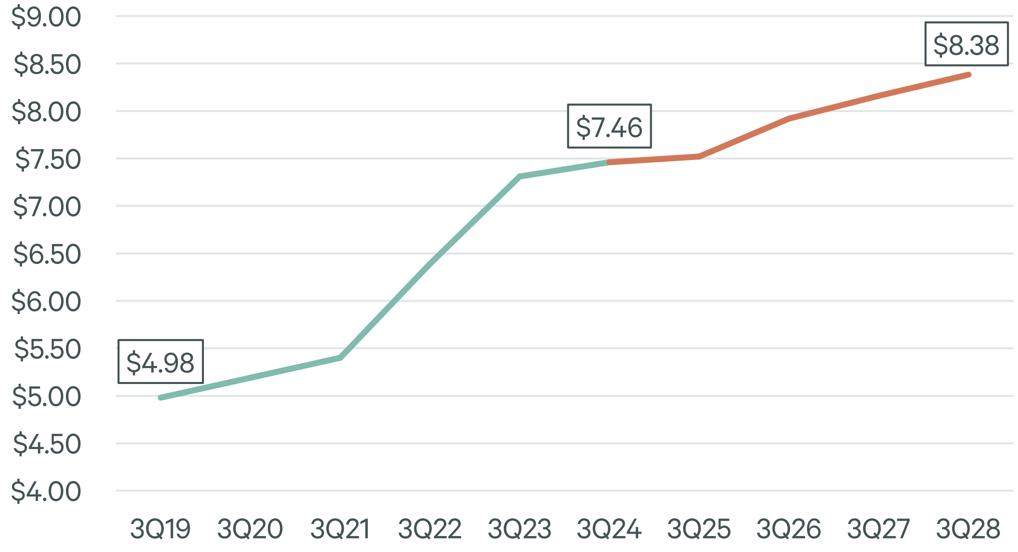


Source: CBRE Research, Q3 2024

Industrial Rental Rates

The asking rent has remained stable at $7.46 since Q2 2024, reflecting a YoY increase of 3.8%. This stability, despite fluctuations in other metrics, indicates a resilient rental market. However, the absence of any movement overall this quarter suggests landlords are cautious in adjusting rates, likely due to the rising vacancy rate and the delivery of new buildings to market inventory. The ongoing addition of unoccupied speculative product is diminishing landlords' pricing power, especially as the number of available options continues to grow. Rental rates, which had become inflated in recent years, have flattened as demand slows. Tenants are faced with multiple options, making the market more competitive. Looking further ahead, however, rental rates are anticipated to begin increasing, albeit at a more moderate pace. This is mostly due to the pipeline of new supply diminishing over the next year.

FIGURE 6: Historic & Projected Average NNN Rental Rates



Source: CBRE Research, Q3 2024

FIGURE 7: Notable Q3 2024 Industrial Sales

Location	Submarket	Buyer	Seller	Size (sq. ft.)	Sale Price	Price/Sq. Ft.
TPG Infill Industrial Portfolio	Various	Stolz Real Estate Company	TPG/Dogwood	1,229,569	$172M	$140
1090 Broadway Ave*	Northeast/I-85	Northwood Investors	UBS Realty Investors	805,954	$55.5M	$1\69
Cumberland Business Park*	Northwest/I-75	Investcorp	Stonelake	691,667	$54M	$96
Victory Landing Logistics Center*	Northeast/I-75	Cabot	OA Development	367,356	$49.8M	$135

* Denotes Part of Multi-Property Sale

Source: CBRE Research, Q3 2024

Capital Markets

The Atlanta industrial capital markets experienced a 19.1% decline in investment activity QoQ, with third-quarter sales volume totaling $908,220,652. Despite some selected failed transactions, overall conditions are improving, indicating the market is finding its footing. This positive shift is largely attributed to a recent 50 bps cut by the Federal Reserve, which has bolstered investor sentiment and heightened appetite for industrial properties. Investors are increasingly favoring transactions based on cap rates and price per square foot; however, a pricing gap has emerged due to the standard 30-day due diligence and 30-day closing periods. While there are more offerings now compared to the past 18 months, the market has struggled to meet sellers' expectations on significant deals. Core cap groups have re-entered the bidding landscape, but their influence is not anticipated until Q4 2024. Nonetheless, stability in the debt market and downward pressure on treasury rates are beginning to lower the cost of capital, fostering a more favorable investment environment moving forward.

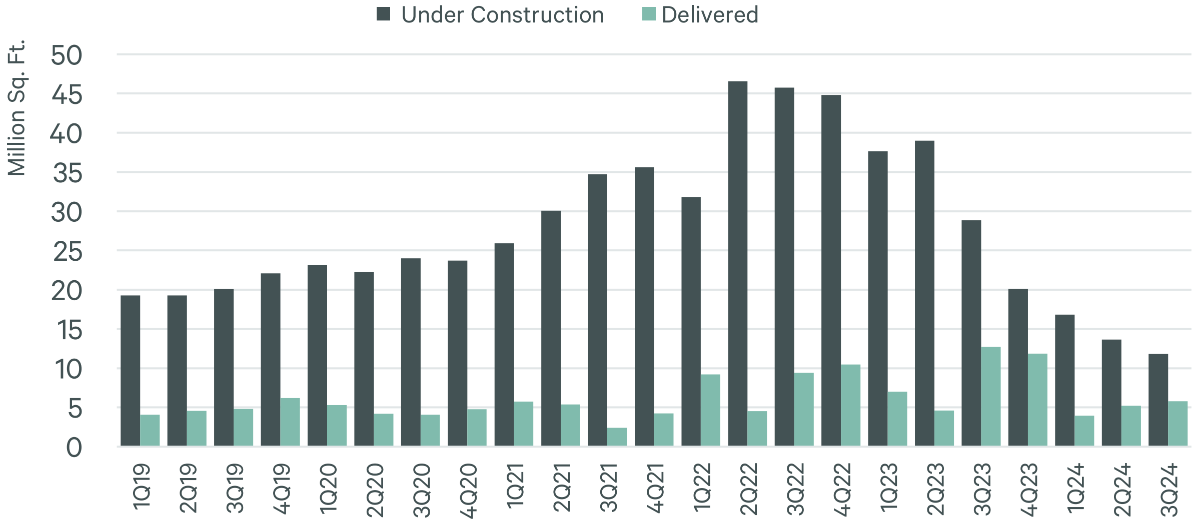
Under Construction

The total square footage under construction dropped to approximately 11.8-million sq. ft., the lowest since Q4 2014. The development pipeline is constrained due to several factors: rising construction costs have made new projects more expensive, while ongoing supply chain disruptions have caused delays in obtaining necessary materials. Additionally, many developers are adopting a cautious approach in response to shifting economic conditions and potential market volatility, leading to a slowdown in new project approvals. Despite these challenges, Atlanta did see a host of construction starts in Q3. All but one of the buildings are being built on a speculative basis. In total, six buildings began development this quarter, with Gillem Logistics Center - 600 being the largest to start at 571,517 sq. ft.

Deliveries

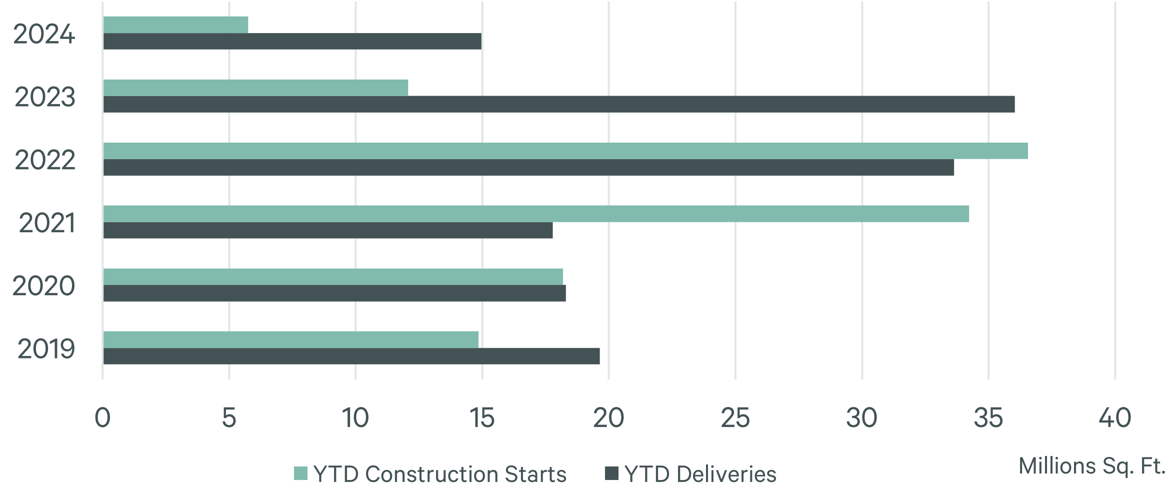
In Q3 2024, delivered square footage reached 5.8-million sq. ft. a 10.8% increase from the previous quarter. Year-to-date, however, deliveries are significantly down from this time last year, by almost 10-million sq. ft. This decline is primarily due to a slowdown in construction starts and a cautious approach from developers amid shifting market conditions. The Northeast/I-85 submarket led in construction completions for the second consecutive quarter, with four buildings totaling 2.8-million sq. ft. of speculative space delivering. Looking ahead, the number of deliveries in the coming quarters is expected to decrease due to a historically low construction pipeline.

FIGURE 8: Under Construction & Deliveries



Source: CBRE Research, Q3 2024

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



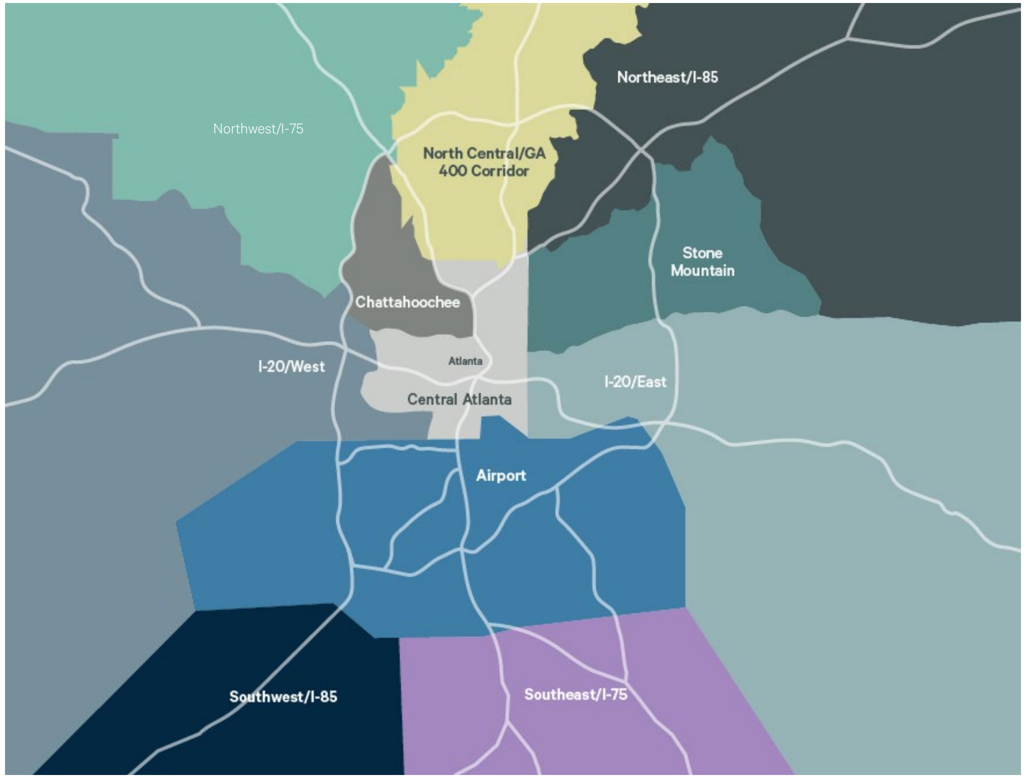
Source: CBRE Research, Q3 2024

FIGURE 10: Q3 2024 Deliveries

Property Name	Submarket	Building Size (sq. ft.)	Availability (sq ft.)	Construction Start	Construction Completion	Developer
Project Archer BTS	Southeast/I-75	1,392,166	-	February 2022	August 2024	Calstrs/Panattoni
Jackson 85 North Business Park – Bldg. 2	Northeast/I-85	1,017,900	500,000 – 1,017,900	October 2022	August 2024	Trammell Crow Co.
Gravel Springs Logistics Center	Northeast/I-85	1,001,424	1,001,424	January 2023	September 2024	IDI Logistics
Jackson 85 North Business Park – Bldg. 1	Northeast/I-85	538,450	200,000 – 538,450	October 2022	July 2024	Trammell Crow Co.
Douglass Hill Logistics Center – Bldg. 100	I-20 West	489,416	489,416	August 2023	August 2024	Strategic Real Estate Partners
Oakmont 85 South	Southwest/I-85	316,072	100,000 – 316,072	December 2023	July 2024	Oakmont Industrial Group
Clayton Technology Center	Airport	265,775	-	December 2023	August 2024	Transwestern
River Park E-Commerce Center – Bldg. 2	Southeast/I-75	250,141	-	October 2023	July 2024	Native Development/Pacific Group
1500 Progress Industrial Blvd	Northeast/I-85	163,170	80,000 – 163,170	August 2023	September 2024	Taylor & Mathis
Douglass Hill Logistics Center – Bldg. 200	I-20 West	147,727	147,727	August 2023	August 2024	Strategic Real Estate Partners
Douglass Hill Logistics Center – Bldg. 400	I-20 West	110,788	110,788	August 2023	August 2024	Strategic Real Estate Partners
Douglass Hill Logistics Center – Bldg. 300	I-20 West	104,848	104,848	August 2023	August 2024	Strategic Real Estate Partners
Q3 2024 Total		**5,797,877**				

Source: CBRE Research, Q3 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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