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Point of View
Q2 2023

Metro Atlanta's #1 Industrial Real Estate Expert

Serving Metro Atlanta businesses since 1980.

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Letter from the President

Whoa... The Atlanta Market Puts on the Brakes

Last quarter, we touted that the new construction numbers for the Atlanta industrial market had just set another record with 14.3 million square feet (MSF), and another record with 45.7 MSF for the past four quarters. We also noted in our last publication that we could not imagine that the construction market could continue at the fast pace it was running, so we predicted that there would be a slowdown in new construction. Since the Federal Reserve Bank has raised interest rates at the fastest pace in history (to fight inflation), it caused a disruption to the banking industry. The banking industry then announced that they would not be making any risky speculative construction loans in today's volatile economic environment. In the past, typically 75%-80% of all new construction loans were for spec construction, so if lenders are hitting the brakes, then construction has to slow down. Equity players could fill the lending gap, but I do not think that there are enough of them willing to take the risk.

During the second quarter, the new construction numbers were only 2.7 MSF which was significantly down from the 14.3 MSF for the first quarter. The new construction numbers for the past 4 quarters was 36.3 MSF which was well below the prior year's total of 43.6 MSF which was down by 7.3 MSF.

The activity numbers for the Atlanta industrial market slowed down representing only 10.8 MSF for the second quarter, which was 9.3 MSF less than the first quarter's number of 20.1 MSF. You would have to go back to the third quarter of 2019 to find a lower quarterly number for activity. The activity numbers for the past four quarters slowed down as well to only 66.1 MSF, which was 20.6 MSF less than the previous number from a year ago of 86.7 MSF.

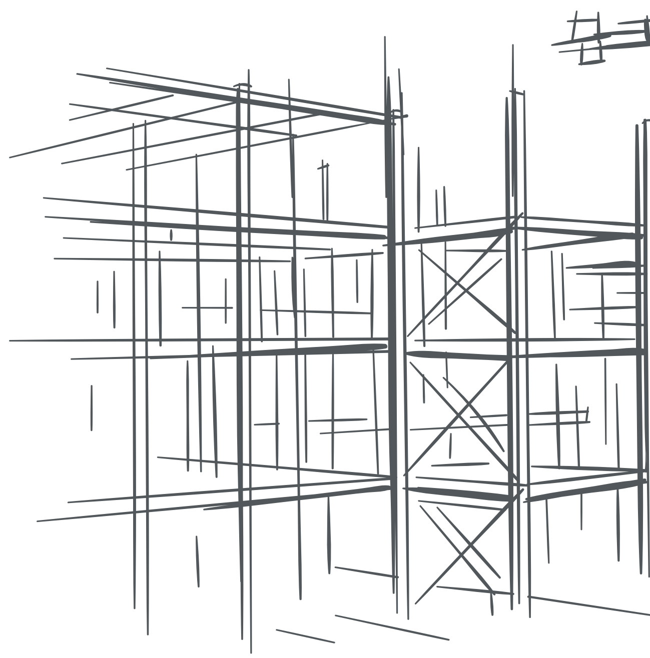
The slow-down continued as well for net absorption. We experienced negative net absorption for the second quarter of (4,371,313 square feet) after seeing 7,869,587of positive net absorption in the first quarter (a 12.2 MSF swing). This was only the second time in the past 45 quarters that we have seen negative net absorption. The net absorption numbers for the past four quarters slowed down as well but was positive with 17.2 MSF, which was 25.5 MSF less than the previous number from a year ago of 42.7 MSF.

"This was only the second time in the past 45 quarters that we have seen negative net absorption."

With the slowdown in activity, absorption and new construction, the question would then be...how did it affect the current availability rate in the Atlanta industrial market? The availability rate rose to 11% for the second quarter, above the 10.5% shown during the first quarter. A year ago, the availability rate was 9.8%. You would have to go back 2 years to find a higher availability rate. Currently in the Atlanta industrial distribution market there is just under 100 MSF of available space.

If you are looking for the silver lining here regarding the slow-down in activity, absorption and new construction, it might very well be that it gives the global supply chain a chance to catch up with the delays we have been seeing in the delivery of construction materials.

Going forward from here what do we see?



Letter from the President

Whoa... The Atlanta Market Puts on the Brakes

Well, we have a slowing industrial market, consumer confidence is low, and the majority of the people that I talk to are expecting a recession (most believe that it will be short and mild). We have higher interest rates and tightening credit with credit card debt at an all-time high. Core inflation (volatile food and energy costs) have been between 4.6%-4.7% for the past five (5) months (much higher than the 2% inflation rate goal of the Federal Reserve), and the US Manufacturing Index ranged between 46.3%-48.9% the past three (3) months (anything under 50% is contraction).

Gas prices at the pump are down at the moment, but I believe that it is temporary. Saudi Arabia and Russia have announced that they will continue to cut oil production to ensure that oil prices remain high. So, we will have less supply, and demand will continue to increase due to the ongoing war in Ukraine, China opening back up, Americans taking family vacations, etc. This means transportation costs will increase, and those costs will be passed on to everything that we all buy. That's inflationary...

So, expected higher costs for energy, consumer goods, and interest rates, along with an expectation of an upcoming recession, will all result in more uncertainty for the consumer, and that leads to less spending, which typically drives 70% of our US economy.

All of these economic factors lead me to believe that we will have an "officially" announced recession by year end, and I believe that it will be mild and short. The different sectors of the US economy will probably bounce back at different rates. For instance, the office market should take a long time to recover, but the industrial market should have a quick and robust recovery. Of course, things could improve more rapidly if the war in Ukraine ends, or more oil is produced by Saudi Arabia and others (or the US becomes energy independent again...which it was just a few years ago).

Despite the economic turmoil and the Atlanta industrial market putting on the brakes this quarter, my view is a short and mild recession followed by a quick and robust recovery for the industrial sector!

Sim F. Doughtie,
CCIM, SIOR, MCR, SLCR
President
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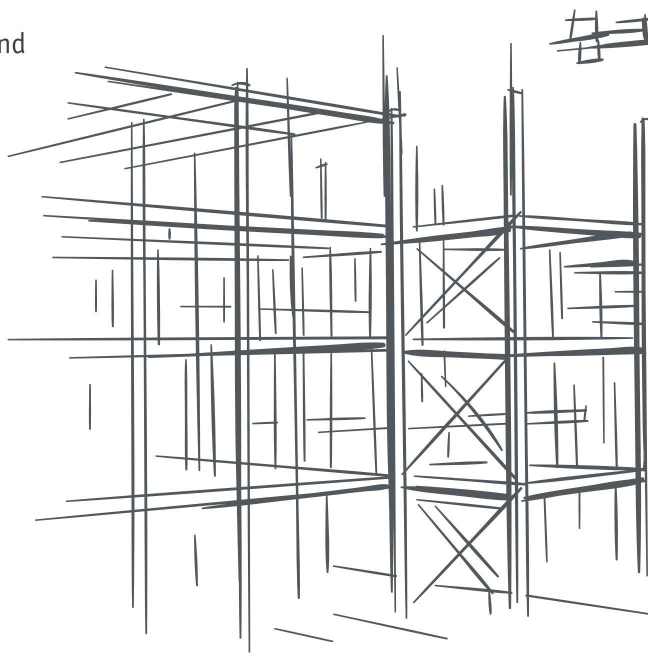
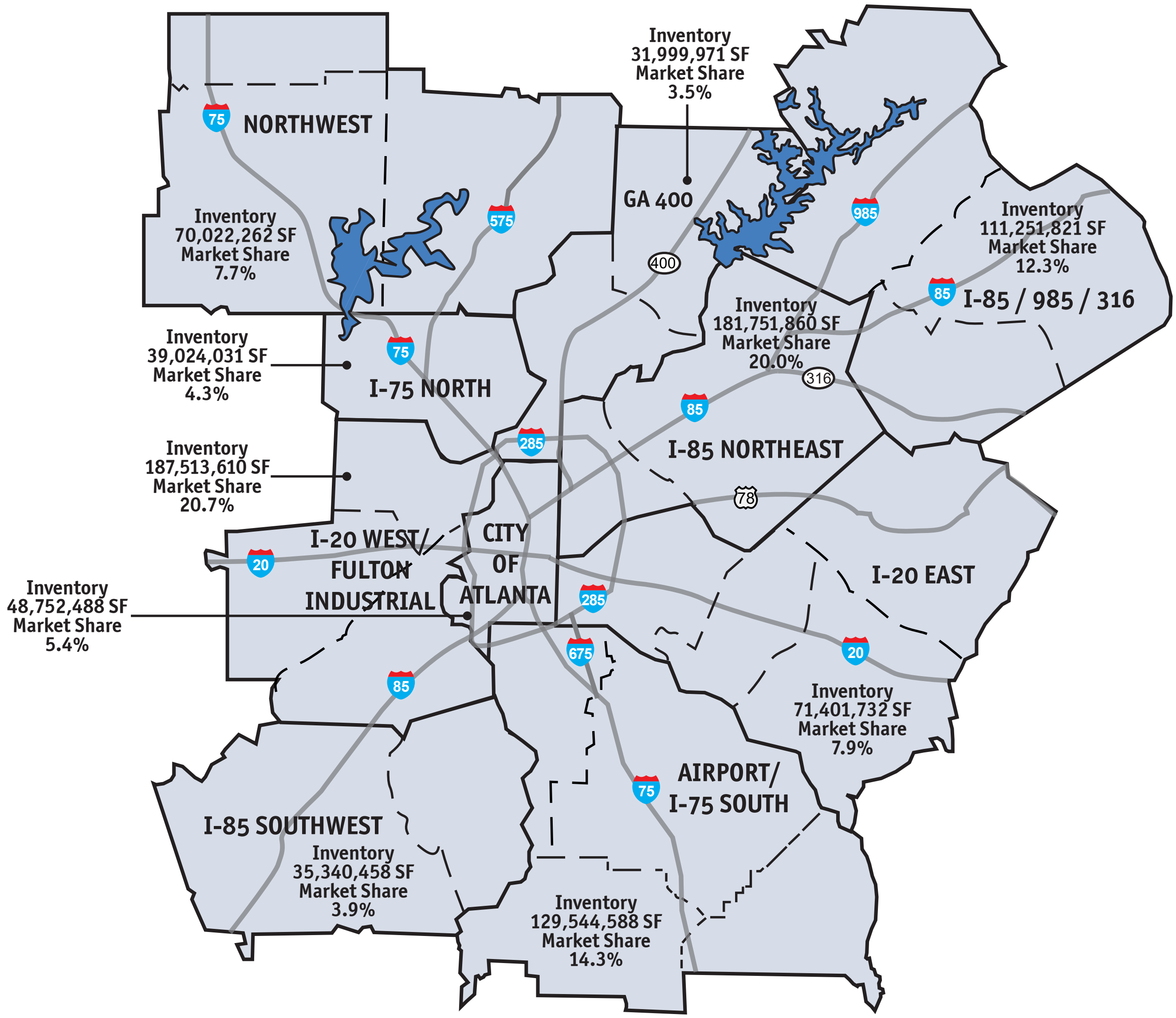
"... the silver lining here regarding the slow-down in activity, absorption and new construction, it might very well be that it gives the global supply chain a chance to catch up..."



Distribution Market Inventory

Total Inventory
906,602,821 Square Feet



Knowledge Through Experience

Since 1983, King Industrial Realty has tracked and reported on the Atlanta industrial market using our proprietary database, PinPoint™. We are well known for our complete and independent source of industrial data in the Atlanta metro area.

New Construction

The Atlanta distribution market's construction projects totaled 2.8 million square feet (MSF) this quarter, which is almost four times lower than the 14.4 MSF seen last quarter. Of the 14 new projects there were three small build-to-suits, the largest being 253,000 square feet (SF) for Resia Pods in the I-20 West / Fulton Industrial region. This same region had more construction than any other region with five projects totaling 864,936 SF. The largest construction project of 497,094 square feet broke ground in the I-85 / 985 / 316 Region.

Major Construction Projects

Location	Submarket	Sq. Feet	Type
Dry Pond Road "Jefferson 85 Logistic Center"	I-85 / 985 / 316	497,094 SF	Spec
Highway 155 South "McDonough 75 Logistics Center"	Airport / I-75 South	427,200 SF	Spec
Bohannon Road "Oakmont 85 South"	I-20 West / Fulton Ind.	316,072 SF	Spec
Joe Frank Harris Parkway "Logisticenter at Monroe Crossing"	Northwest	308,880 SF	Spec
Lake Forest Court "Covington Commerce Center"	I-20 East	258,748 SF	Spec

2nd Quarter 2023

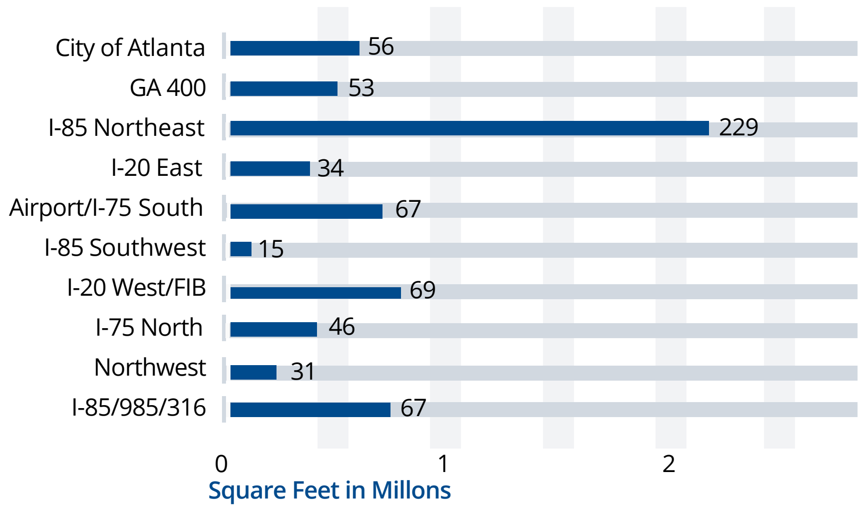
2,776,893 SF

11,596,532 SF

From 1st Quarter 2023

Distribution Activity

Number of Deals by Region



Total Activity

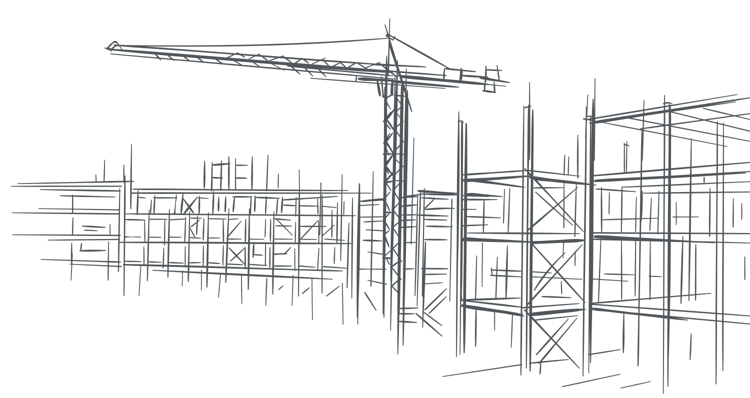
2nd Quarter 2023

10,872,300 SF

9,304,513 SF

From 1st Quarter 2023

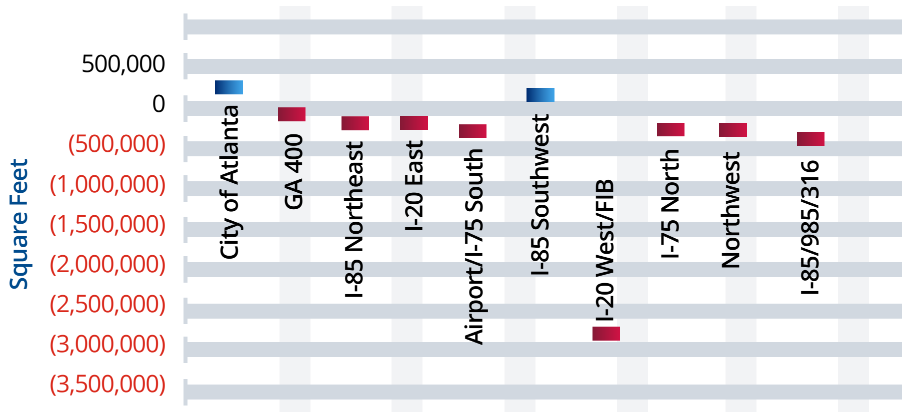
The 10.9 MSF of activity was almost half that seen last quarter and it was the lowest recorded since the third quarter of 2019 in the Atlanta Metro distribution market. While the activity produced 667 deals, it wasn't enough to keep net absorption from falling into negative territory. The I-85 Northeast region posted 229 deals totaling the most activity with 2.6 MSF. Not far behind, the I-20 West / Fulton Industrial and the Airport / I-75 South regions posted 2.2 MSF and 2.1 MSF respectively. The I-85 / 985 / 316 region went from first place last quarter to fourth place this quarter with 1.3 MSF. The Northwest region lost its traction this quarter and fell back into last position with only 174,440 SF of activity.



Distribution Net Absorption

It was a dismal scene in all the regions where net absorption was concerned. All but two of the Atlanta Metro regions fell into negative territory, totaling a negative 4.4 MSF of net absorption for the quarter. It's been a long time since we have reported that the City of Atlanta had the highest net absorption, but otherwise the 192,824 SF is not much to brag about. The second smallest region, I-85 Southwest, was the only other region posting positive net absorption with 108,391 SF. For the second quarter in a row the once-powerhouse I-20 West/ Fulton Industrial activity was erased, and this quarter posted the highest negative net absorption of 2.9 MSF. This was due to a mass exodus of 76 tenants, with just four of those tenants totaling almost 2.7 MSF.

Net Absorption by Region

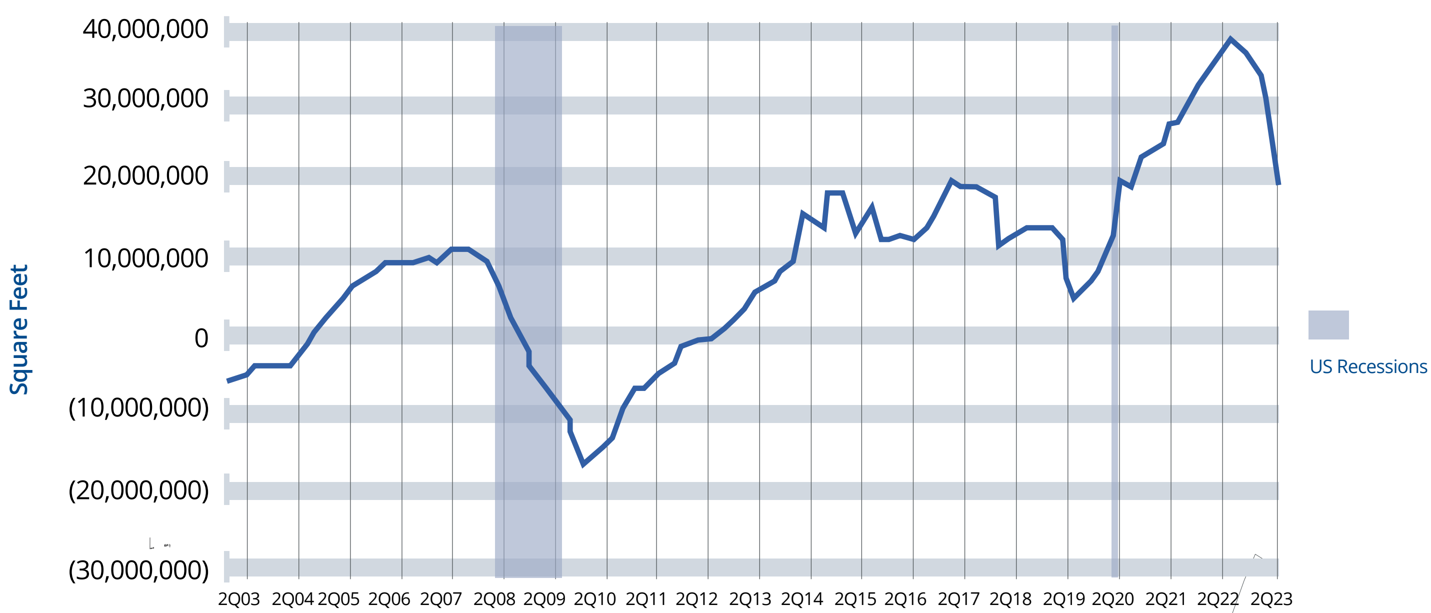


Net Absorption
2nd Quarter 2023

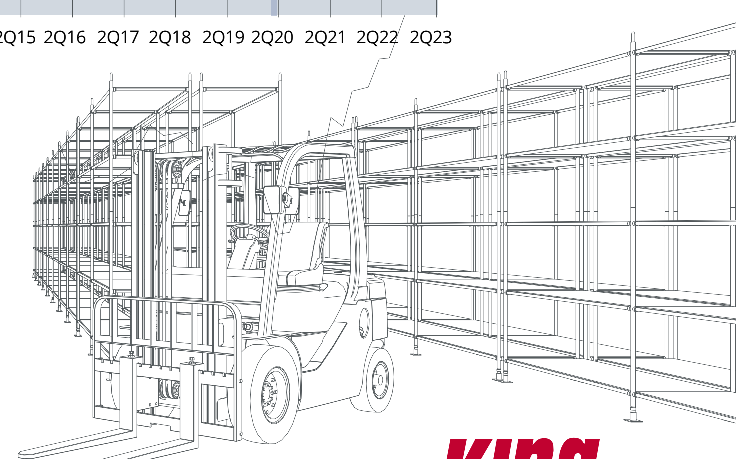
-4,371,313 SF

12,240,900 SF
From 1st Quarter 2023

Net Absorption (2002 - 2022)

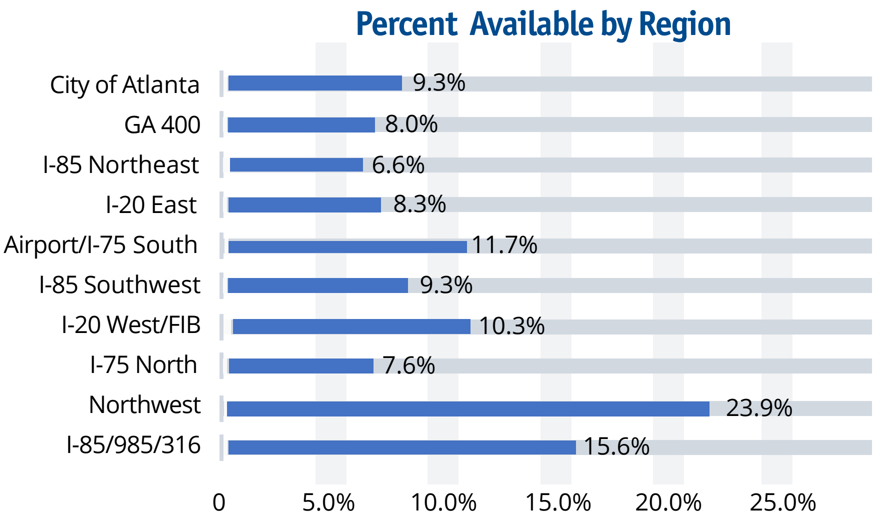


Numbers represent four rolling quarters



Distribution Availability

Considering the negative net absorption and the depressed new construction, it's a no brainer that the availability rate in the Atlanta distribution market rose again this quarter to 11.0 percent. A repeat of last quarter, the Northwest, I-85 / 985 / 316, and Airport / I-75 South regions all reported well above the metro average (a residual of new construction during previous quarters), with the Northwest coming in the highest with 23.9 percent. The other seven regions weighed in well below the metro average, with I-85 Northeast remaining the lowest at 6.6 percent. Of all available space, 58 percent (58.2 MSF) is first-generation space, continuing the trend of new space outpacing available used space.



Total Available SF

2nd Quarter 2023

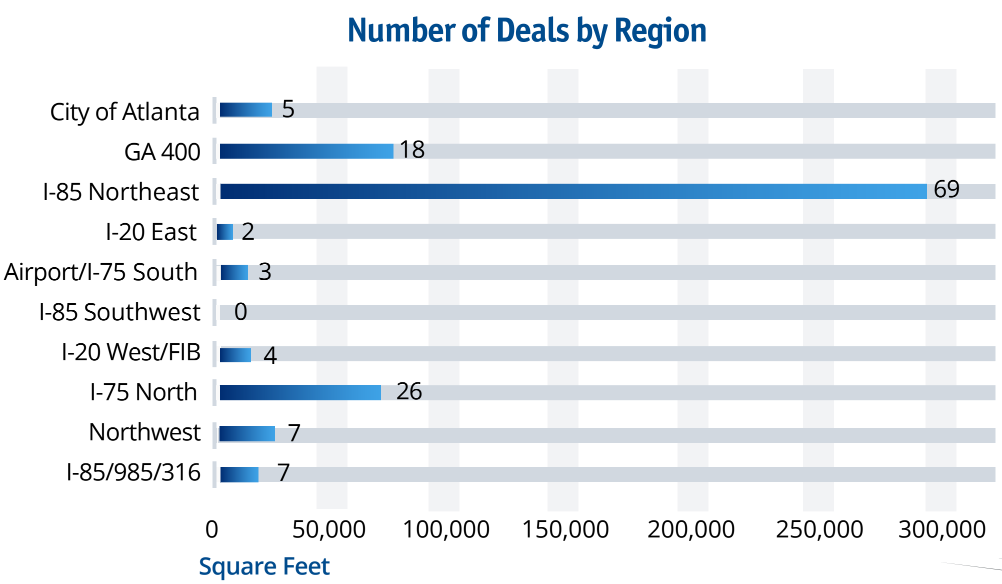
99,821,903 SF

11.0%

0.5%

From 1st Quarter 2023

Service Activity



Total Activity

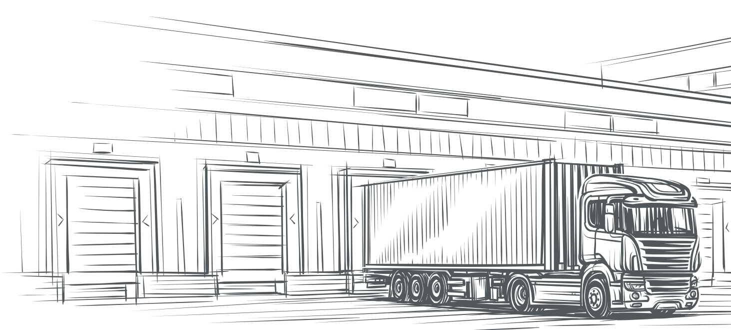
2nd Quarter 2023

553,304 SF

19,087 SF

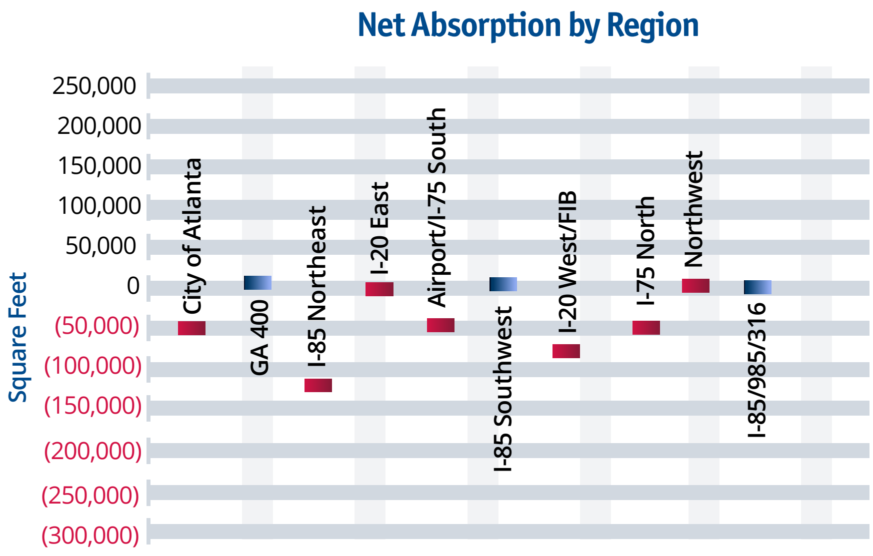
From 1st Quarter 2023

Atlanta's service center sector's activity reduced slightly this quarter reporting 553,304 SF closing 146 deals. Once again, I-85 Northeast led all other regions with 56 percent of all activity and recorded 69 deals for 308,531 SF. This region also boasted the largest deal of the quarter, which was 58,548 SF for Wabtec Corp./Digital Solutions. The I-85 Southwest region did not muster even a single deal, recording zero activity for the quarter.



Service Net Absorption

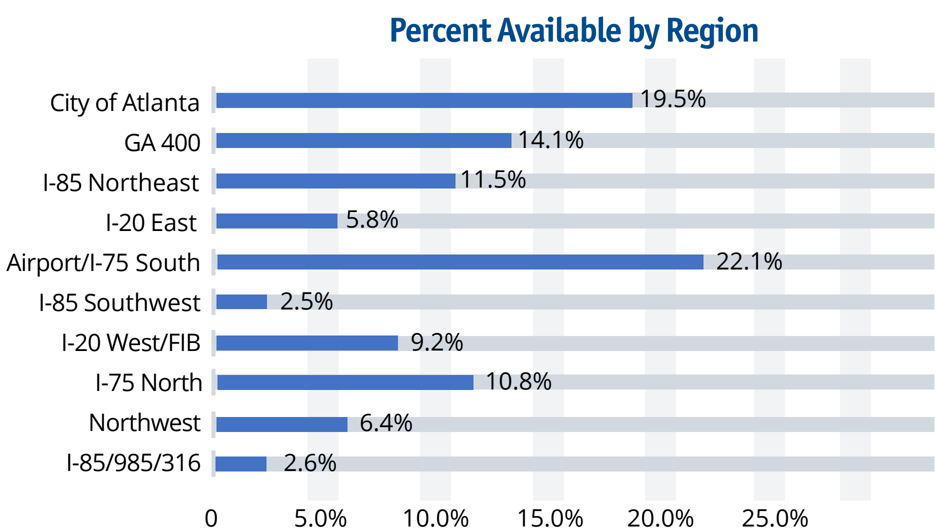
Trying to climb out of last quarter's deepest decent into negative territory ever recorded, Atlanta's Service Center sector made some headway but still recorded 346,409 SF of negative net absorption. Only two regions, GA 400 and I-85 / 985 / 316, managed to report positive numbers with 10,119 and 998 SF respectively. The worst offender was the I-85 Northeast region with 116,983 SF of negative net absorption. Not far behind was the I-20 West / Fulton Industrial region with a negative 78,058 SF. The poor showing over the past two quarters produced the lowest negative net absorption (-780,846 SF) for four rolling quarters since the first quarter of 2011.



Net Absorption
2nd Quarter 2023
-346,409 SF

-78,894 SF
From 1st Quarter 2023

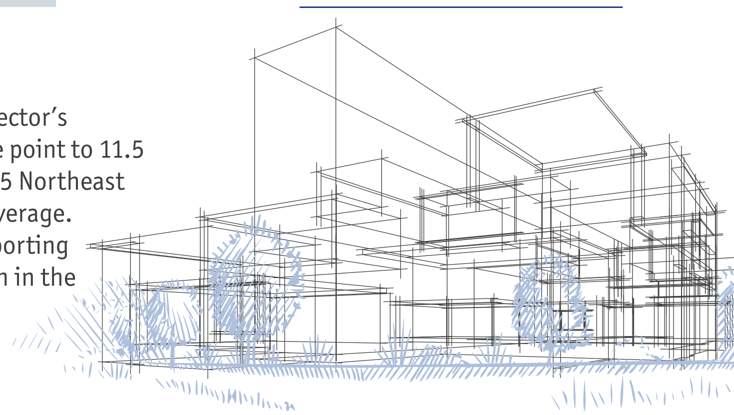
Service Availability Rate



Total Available Sf
2nd Quarter 2023
3,168,884
11%

1.0 %
From 2nd Quarter 2023

The effect of the negative net absorption was seen in Atlanta's service center sector's availability, as the rate rose once again this quarter by almost a full percentage point to 11.5 percent. By far the largest region, with 38 percent of the market share, the I-85 Northeast region has 1.2 MSF of available space and sits right under the current market average. Six other regions are also below the market average with the I-85 Southwest sporting the lowest rate of 2.5 percent. The highest availability rate is 22.1 percent seen in the Airport / I-75 South region. New construction was nonexistent once again. There are only two spaces totaling 22,900 SF of first-generation space in the service sector, which represents a mere 0.7 percent of all available space.



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Next Quarter coming soon...

Q3 2023

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