

# Point of View

## Q3 2023



**Metro Atlanta's #1 Industrial  
Real Estate Expert**

Serving Metro Atlanta businesses since 1980.

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INTERNATIONAL

Locally Owned.  
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# Letter from the President

## Spooky Halloween Antics in Atlanta

With Halloween on the way, the Atlanta Industrial Market continues to put on the brakes. Scary!!!!

As you know by now, I am the eternal optimist, but I must admit that I am not quite sure how to put a positive spin on the grim numbers from the third quarter. I always tell our clients the truth...So, here it is.

First, what gave me the most shivers were the spooky absorption numbers. During the third quarter of 2023, we experienced 3.5 million square feet (MSF) of negative net absorption. Even scarier, we saw a negative 7.8 MSF during the past two quarters. Over the past forty-six quarters Atlanta has posted only three quarters of negative net absorption, so looking at two of those quarters back-to-back is bone-chilling. The effect was devastating to the four rolling quarters absorption. A year ago, the four-quarter totals for net absorption was 41.4 MSF, but these past four quarters that number went all the way down to just over 3 MSF. The 38.4 million square foot drop is hair-raising!

The absorption numbers had a formidable effect on the amount of available industrial space that is currently for lease and/or for sale in the Atlanta market. The percentage available went from 9.3 percent a year ago up to 11.5 percent currently.

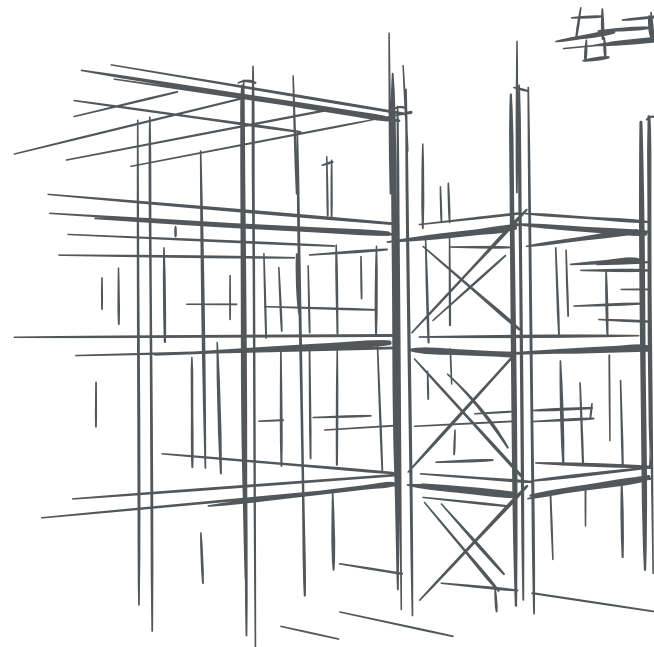
Second, the activity trend we are seeing is spine-tingling... during the past ten years there were only two quarters that witnessed less activity than the 10.9 MSF during the third quarter of 2023 and chillingly, one of those was just last quarter! When you look at the past four quarters, the total activity was 55.4 MSF. Not so alarming, until you consider that the activity for the previous year was 83.7 MSF. The descent in year over year activity was 28.3 MSF. This is a daunting plunge; however, the numbers went from extraordinary to good...not so scary!

This frightening downward trend in the activity and absorption numbers meant the new construction numbers would follow suit. The 2.6 MSF coming up out of the ground this quarter was the lowest since the fourth quarter of 2018. The four rolling quarters of new construction was 26.9 MSF... only shocking when compared to the 41.3 MSF for the previous year. Another fearsome sign that this trend will continue is that the banks have announced that they will no longer be taking the risk of making spec construction loans in the industrial market. Typically, 75 to 80 percent of all new construction in the Atlanta industrial market is spec... so this new ghoulish banking policy will slow down new construction starts. Last quarter, when we saw the banks cutting back, we predicted that spec construction would be somewhat curtailed and that build-to-suit activity would pick up... it's creepy how that came to life! One year ago, build-to-suit construction was 18.7 percent of all new construction, and today that percentage escalated to 32.4 percent.

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**“The 38.4 million square foot drop (in year over year net absorption) is hair-raising!”**

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# Letter from the President

## Spooky Halloween Antics in Atlanta

Despite the ghastly antics seen in the latest numbers, the Atlanta industrial market has been on an historically exceptional run since we had the capital markets downturn/recession in 2008, and the market resurgence in 2013/2014. During the first quarter of 2022, we set a monster four-quarter record with 87 MSF of activity, and during the second quarter of 2022 we set a giant four-quarter record with 42.7 MSF of positive net absorption. Earlier this year, during the first quarter, we set a Brodingnagian four-quarter record for new construction of 45.8 MSF. Currently the four-quarter activity numbers are still good at 55.4 MSF and new construction numbers are still decent with 26.9 MSF. However, it was absolutely sinister having the four quarters of net absorption shrivel down to just 3 million square feet, along with the negative net absorption for the past two quarters of 7.8 MSF. Definitely blood-curdling! Just one last note here as it pertains to the overall numbers...over the last eight years the Atlanta industrial market was unflinching as it produced 217 MSF of new construction and during that same time the availability rate dropped from 13.9 percent down to the current 11.5 percent...so we have been absorbing what we have been building. A tricky treat.

So, where do we go from here? Activity is decreasing, available space is increasing, sublease space is increasing, we've had two (2) quarters in a row of negative net absorption, and bankers are not going to lend money for new spec construction - wreaking havoc on the industrial market. Additionally, interest rates continue to rise, but cap rates are not rising as fast, creating a daunting environment of negative leverage for anyone needing debt to purchase an investment. Oil prices per barrel are rising again, which feeds higher prices on everything Americans buy. The Fed said it will continue to raise interest rates to petrify inflation. I believe that the Federal Reserve will increase interest rates one more time before the end of the year. After that, I think that the Fed will continue to hold the interest rates high to advance the fight against inflation, and all of this will occur during an election year. Unsettling for sure!

It's scary out there now, but never fear because the Atlanta industrial market is very resilient, and it will bounce back very quickly from any kind of economic slowdown! Boo!

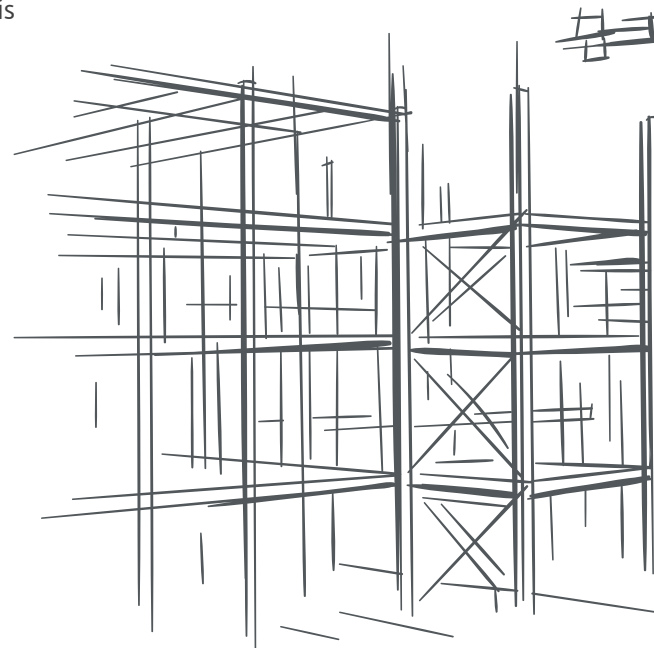


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*“Despite the ghastly antics seen in the latest numbers, the Atlanta industrial market has been on an historically exceptional run...”*

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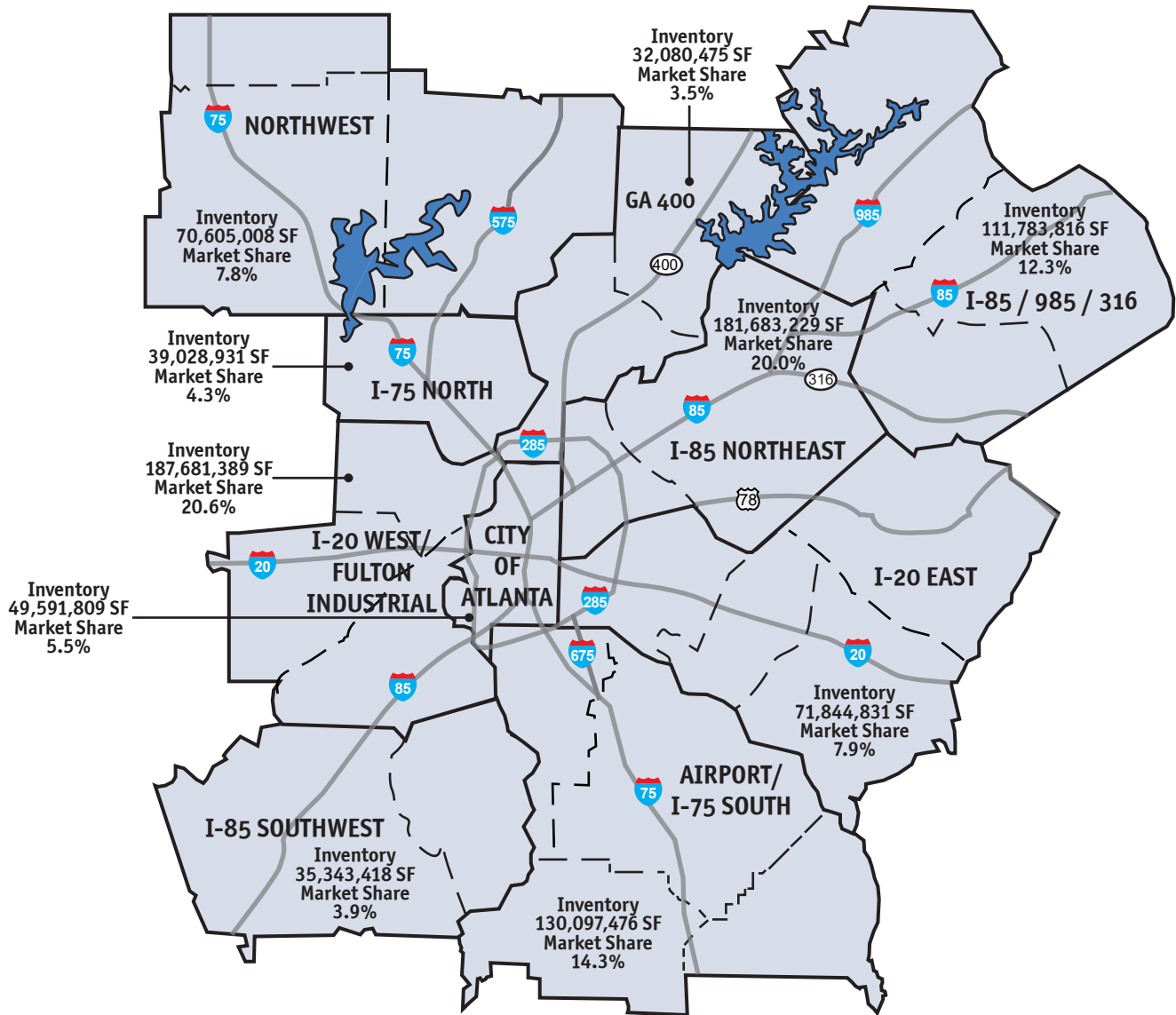




# Distribution Market Inventory

Total Inventory

909,740,382 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.

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# New Construction

New construction in the Atlanta distribution market recorded a dismal 2.6 million square feet (MSF) this quarter, which almost mirrored last quarter, but represents a terrifying drop from the 14.4 MSF seen during the first quarter this year. There were 18 new construction starts with the 7 largest buildings between 100-500K square feet. The average size of the remaining buildings was 34K square feet, including the 5 BTS projects coming out of the ground. The City of Atlanta scared up two of the larger spec projects, totaling 626,176 square feet – this is the most seen in this region since King began recording in 1983!

## Major Construction Projects

Location	Submarket	Sq. Feet	Type
<b>Murphy Avenue</b> "Intown Station"	City of Atlanta	626,176 SF	2 Spec Bldgs
<b>Price Drive</b> "The Cubes at Locust Grove"	Airport / I-75 South	500,220 SF	Spec
<b>Belwood Road</b> "Calhoun 75 Commerce Center"	Northwest	404,505 SF	Spec
<b>Rockdale Industrial Blvd</b> "Rockdale Industrial Commerce Ctr"	I-20 East	402,396 SF	Spec
<b>McEver Road</b> "Buford Trade Center"	I-85 / 985 / 316	221,590 SF	Spec

## New Construction

3rd Quarter 2023

**2,572,838 SF**

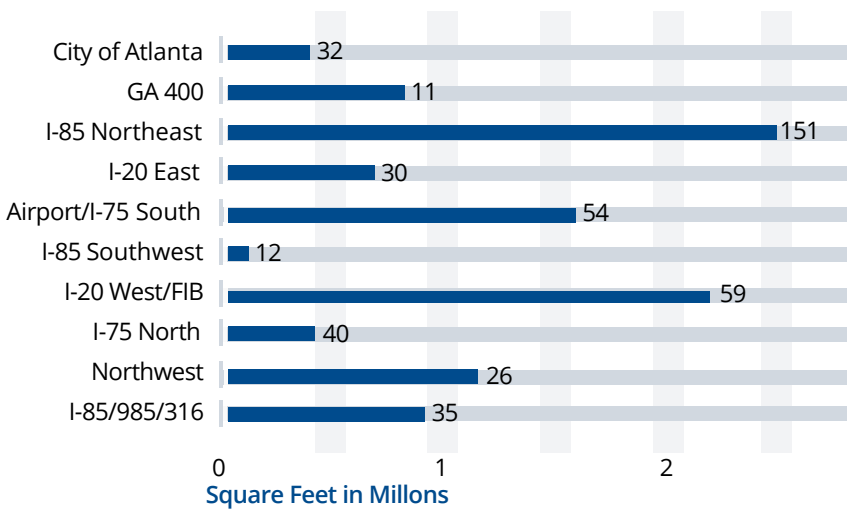


**204,055 SF**

From 2nd Quarter 2023

# Distribution Activity

## Number of Deals by Region



## Total Activity

3rd Quarter 2023

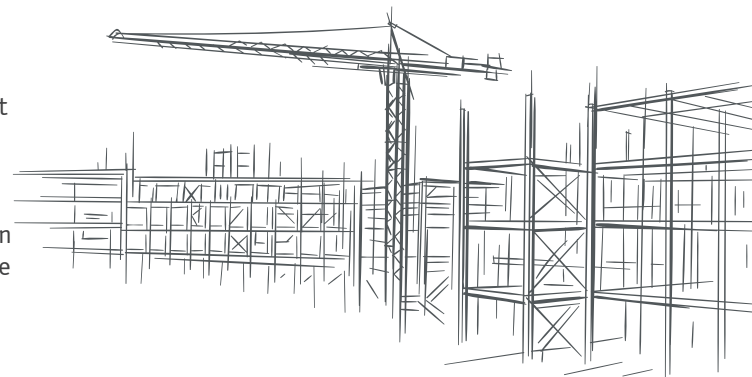
**10,939,521 SF**



**67,191 SF**

From 2nd Quarter 2023

The Atlanta Metro distribution market dredged up a bit more activity than last quarter with 10.9 MSF. While this number is still solid, it dulls in comparison to the monster numbers seen over the past 4 years. Unfortunately, the 554 deals could not keep up with the 757 zombie tenants that moved out during the quarter, wreaking havoc on the net absorption. The I-85 Northeast region came in first again with over 2.6 MSF of activity and 151 deals, followed by the I-20 West / Fulton Industrial and the Airport / I-75 South regions, which posted 2.1 MSF and 1.6 MSF respectively. The Northwest region regained its traction this quarter and came from last place to the middle of the pack with 1.1 MSF of activity. The I-85 Southwest region reported a dismal 82,278 SF, which was the lowest of all regions.

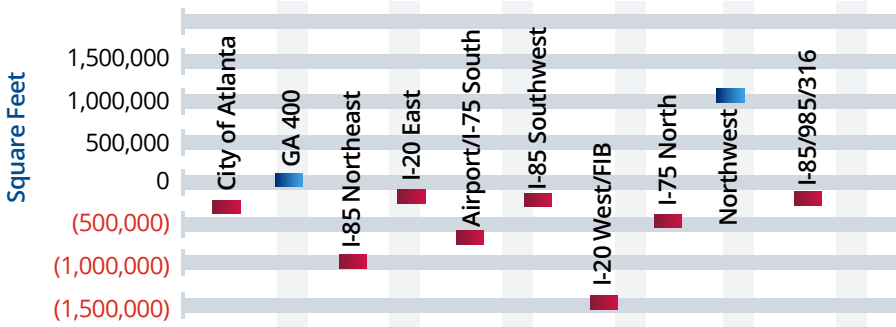


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# Distribution Net Absorption

While net absorption improved a bit from last quarter, it stayed in the grave with a negative 3.5 MSF. The hairy showing over the past two quarters (-7.8 MSF) produced the lowest negative net absorption for four rolling quarters since the first quarter of 2011. All Atlanta Metro Distribution regions had poor to gloomy showings. The Northwest region stayed in positive territory with 903,880 SF despite adding 407,705 SF of new construction. The Georgia 400 region crawled out of the pit last quarter and eeked by with a positive 22,913 SF. The remaining eight regions posted nerve-racking negative numbers. For the second quarter in a row the once-powerhouse I-20 West/Fulton Industrial region got frightened and couldn't crawl out of the deepest grave of 1.4 MSF of negative net absorption. The 59 deals were ghosted by 84 tenants that flew the coup.

Net Absorption by Region

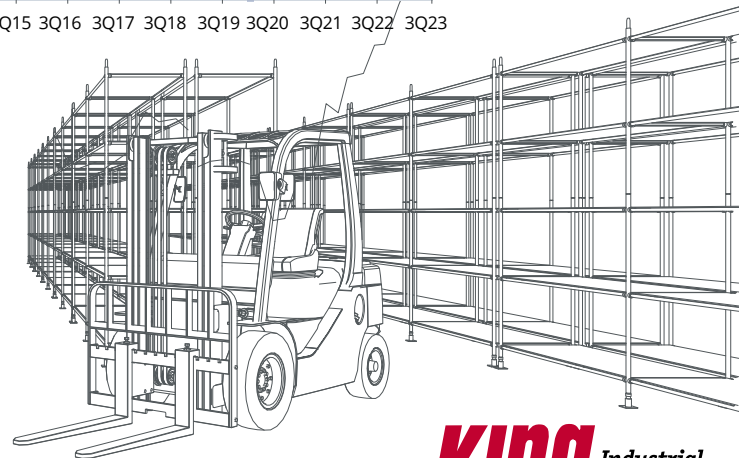
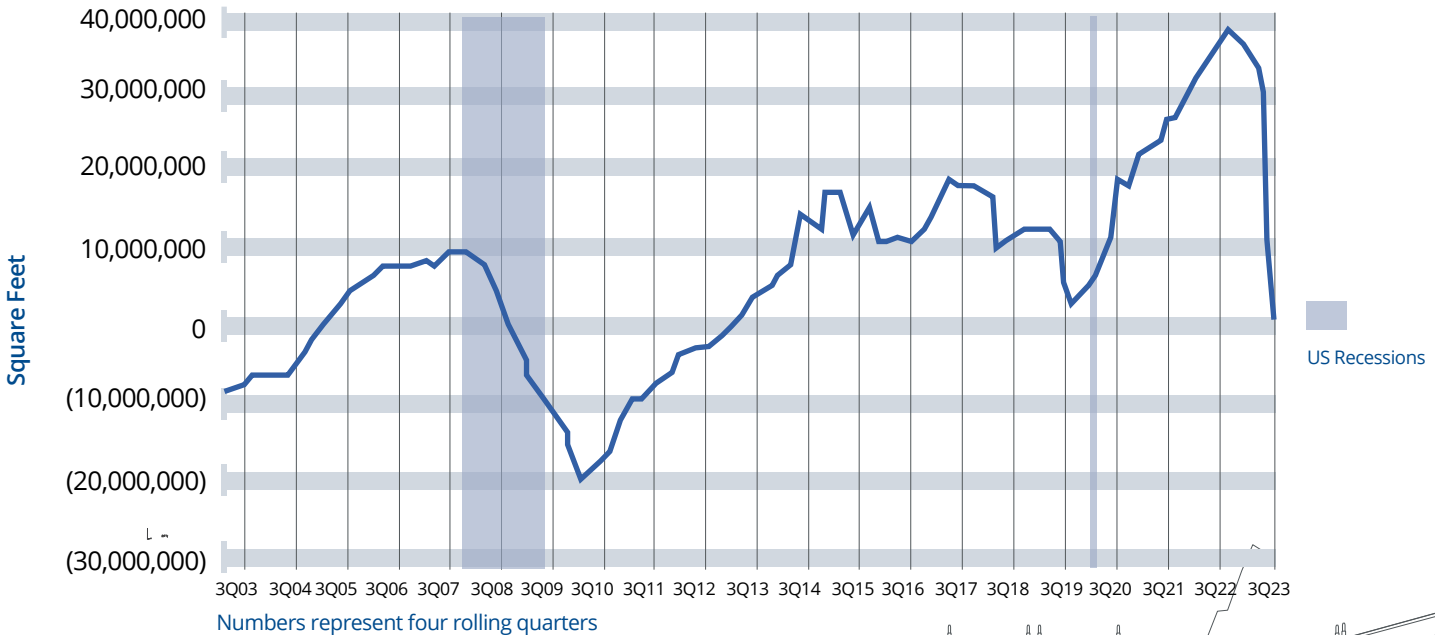


**Net Absorption**  
3rd Quarter 2023  
**-3,451,775 SF**



**919,538 SF**  
From 2nd Quarter 2023

Net Absorption (2002 - 2023)

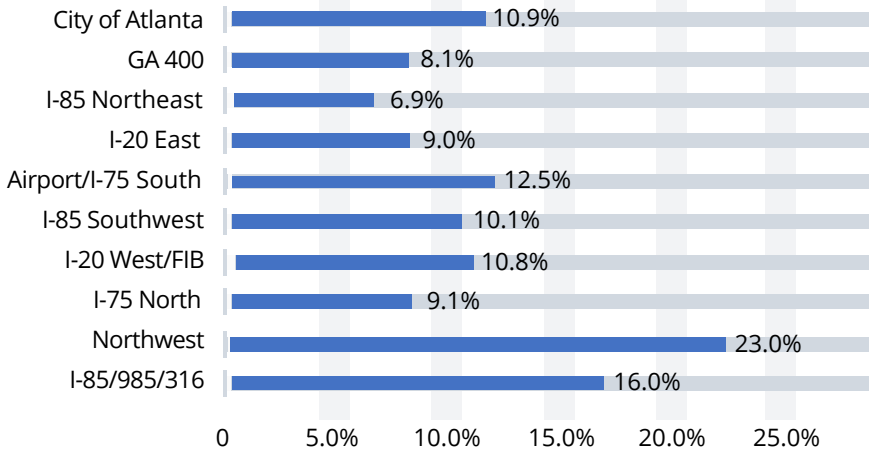


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# Distribution Availability

Atlanta’s distribution center saw the highest availability rate since the first quarter of 2020 – the metro average was 11.5 percent. A massive exodus by 757 ghostly tenants was the major cause of the negative net absorption and the rise in availability. The highest rates were seen once again in the Northwest (23 percent), I-85 / 985 / 316 (16 percent), and Airport / I-75 South (12.5 percent) regions. All other regions were dunking for apples and reported below the metro average, with the second largest region, I-85 Northeast, leading the pack with the lowest rate of 6.9 percent. Sublease space increased to 12.2 percent – over 12.7 MSF. New space remains beastly and represents 55 percent of all available space.

Percent Available by Region



## Total Available

3rd Quarter 2023

104,708,759 SF

11.5%

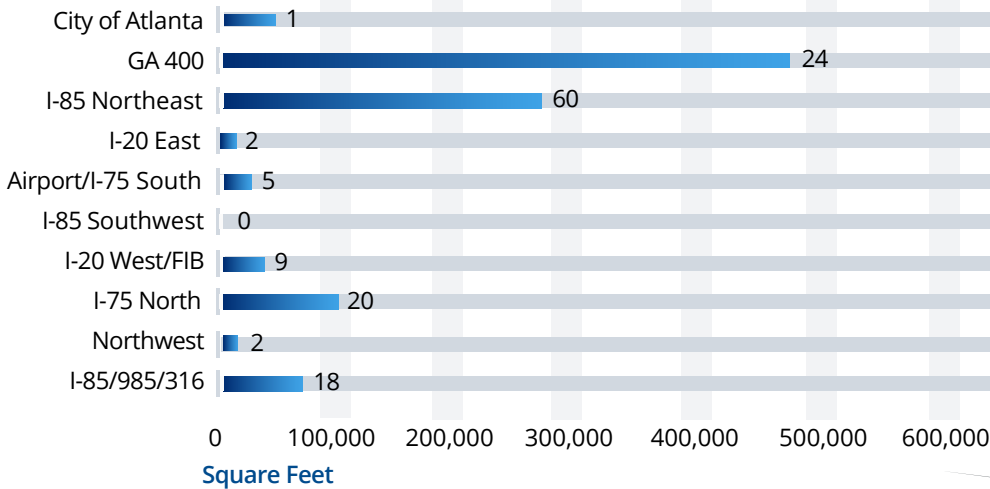


0.5%

From 2nd Quarter 2023

# Service Activity

Number of Deals by Region



## Total Activity

3rd Quarter 2023

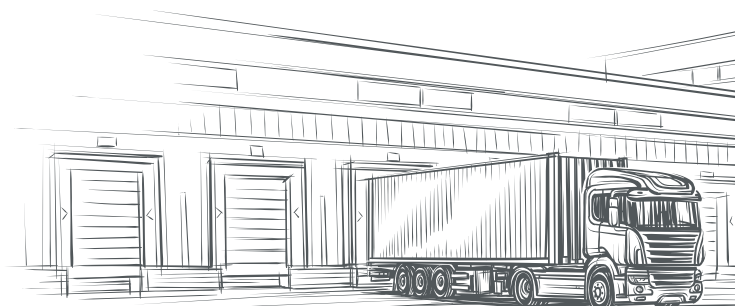
1,061,151 SF



507,847 SF

From 2nd Quarter 2023

The Atlanta Metro service center sector didn’t see any ghosts this quarter! Activity more than doubled to over 1 MSF, due to a few epic deals. More importantly this is the highest activity ever posted since King began recording! The Georgia 400 region posted a mythical proportion of 469,557 SF, the highest ever recorded due to two large deals. The largest deal was a build-to-suit project for 207,000 SF leased to Boston Scientific in Johns Creek. Activity was also boosted by the robust 60 deals done in the I-85 Northeast region that averaged close to 5000 SF. The I-85 Southwest region laid low and for the second quarter in a row didn’t manage to bring a single deal to life.

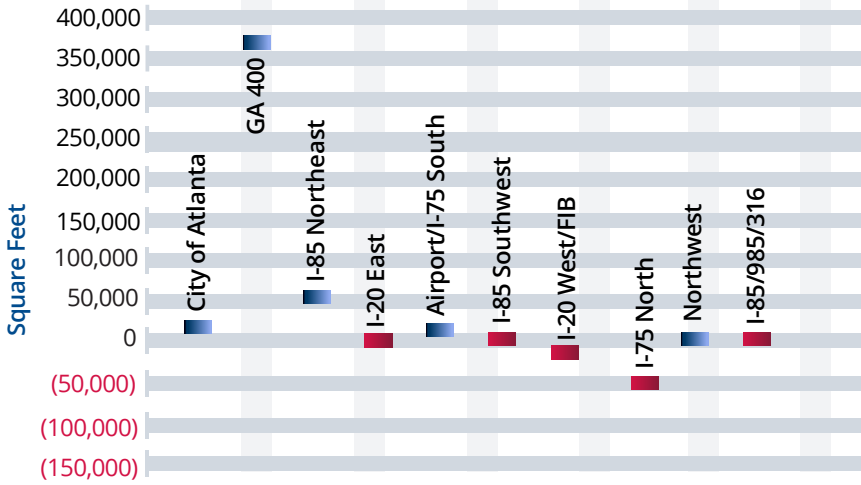


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# Service Net Absorption

After three gloomy quarters of negative net absorption, Atlanta’s Service Center sector doubled down and came up with 391,003 SF of positive net absorption, the highest in two years and the second best of all time! The Georgia 400 region dominated the scene with 94 percent of all net absorption at 366,492 SF. This stellar performance kept net absorption positive while five other regions got frightened, slipped and fell into the graveyard of negative territory. The I-75 North region dug the deepest grave with -41,546 square feet.

Net Absorption by Region



## Net Absorption

3rd Quarter 2023

**391,003 SF**

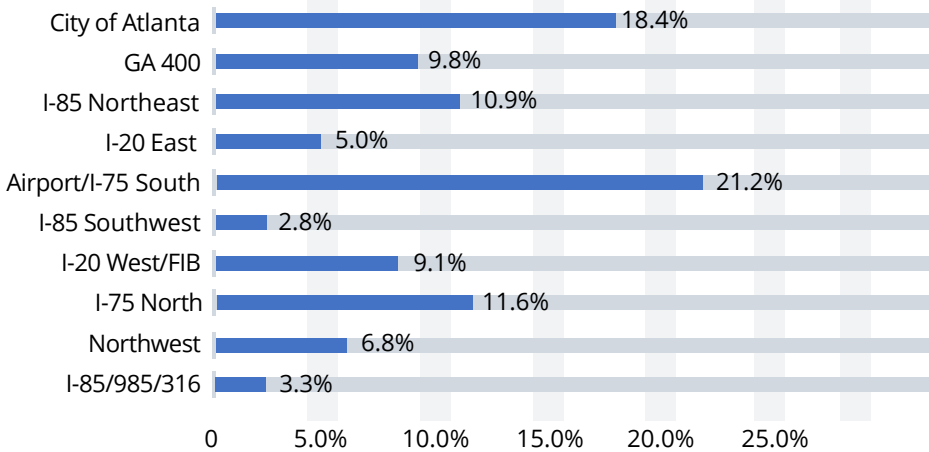


**737,412 SF**

From 2nd Quarter 2023

# Service Availability Rate

Percent Available by Region



## Total Available

3rd Quarter 2023

**2,968,307 SF**

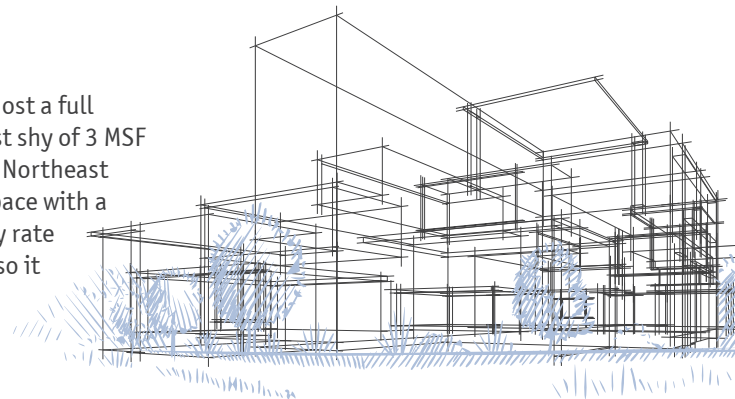
**10.7%**



**0.8 %**

From 2nd Quarter 2023

The exceptional activity and net absorption lowered the availability rate by almost a full percentage point to 10.7 percent for Atlanta’s service center sector, leaving just shy of 3 MSF on the market. A whopping third of all available space can be found in the I-85 Northeast region with 10.9 percent. The I-85 Southwest has just a whisper of available space with a mere 2.5 percent. The Airport / I-75 South region touts the highest availability rate of 2.8 percent. The only construction project in the sector was a build-to suit, so it did not alter availability. At only 22,900 square feet, new space is virtually non-existent... like a ghost!





# Next Quarter coming soon...

Q4 2023



Call Us: **404.942.2000**

[www.KingIndustrial.com](http://www.KingIndustrial.com)

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