

# Point of View

## Q4 2023



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# Letter from the President

## Atlanta Slows Down – Taking the Curves

After two years of great industrial numbers, during 2023, the Atlanta industrial market hit the brakes and slowed down.

The Atlanta industrial market experienced negative net absorption for each of the past three quarters, totaling almost -10.8 million square feet (MSF). We had 7.9 MSF of positive net absorption during the first quarter of 2023, but that was not enough to choke the other three negative quarters. So, 2023 experienced 2.9 MSF of negative net absorption for the year. You would have to go back a dozen years to see results like this regarding negative net absorption.

To put these absorption numbers into perspective, at the end of 2022 we showed positive net absorption of almost 39.4 MSF. That's a year-over-year drop of 42.3 MSF of absorption from 2022 to 2023.

Despite the negative net absorption for the fourth quarter of 2023, the 11.2 MSF of activity in the Atlanta industrial market was a 244,000 SF increase over the third quarter's 10.9 MSF. To put these activity numbers into context, we recorded 81.5 MSF of activity during 2022. This past year, we documented 53.2 MSF...a year-over-year drop of 28.3 MSF in activity. The activity swerved from great numbers in the previous two years to good production for this past year.

The new construction numbers for the fourth quarter of 2023 accelerated by 1.6 MSF to almost 4.4 MSF. It is important to look in the rearview mirror of new construction numbers...2022 recorded almost 44.6 MSF of new construction; however, this past year construction eased up to almost 24.1 MSF...a year-over-year downshift of 20.5 MSF in new construction numbers.

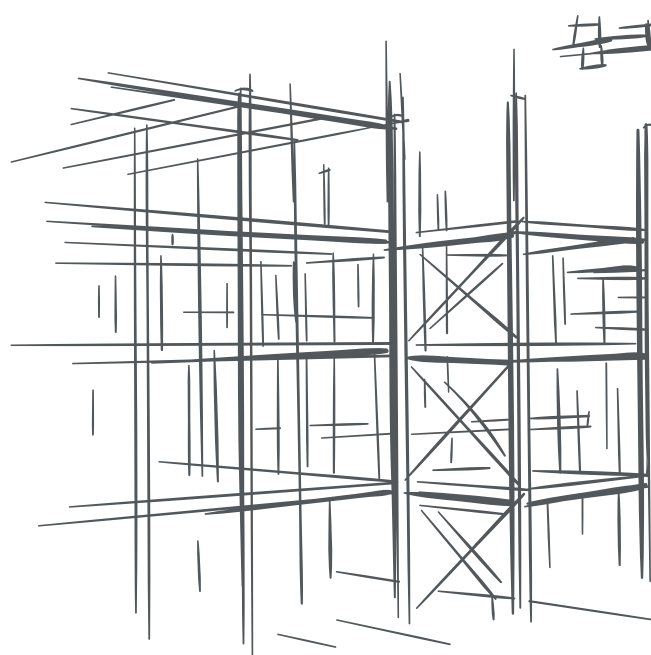
Typically, it is not surprising to see speculative construction roaring along at the 75%-80% range, but the banks at present are not willing to lend on speculative development. Unless equity funds gear up to fund the gap, we should start to see an increase in built-to-suit projects, as banks are eager to wave the green flag on those deals. Built-to-suit projects were 15.1% of total new construction in 2021, 19.7% in 2022, and 35.5% in 2023...quite an increase.

The Atlanta industrial distribution market now has a roaring total of almost 914 MSF of inventory with nearly 112 MSF of that space being available (12.2%). At the end of 2022, the availability rate was only 10%. In addition, the available sublease space in the Atlanta industrial market increased speed for year-over-year as well, with 8% available at the end of 2022 and 14% available at the end of 2023. Ergo, there is more available space on the market and sublease space has gained momentum.

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**"Atlanta... experienced negative net absorption for each of the past three quarters, totaling almost -10.8 million square feet."**

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# Letter from the President

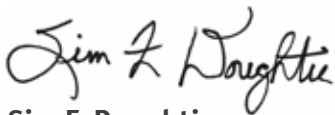
## Atlanta Slows Down – Taking the Curves

Another trend that we are seeing is that the number of leases of big bulk and e-commerce space at the 500,000 square foot (SF) level and above is slacking off. In 2022, the Atlanta industrial market saw 24 and in 2023 that cooled off to only 9 deals in that range. Quite a downturn in those large transactions year-over-year. More evidence of this decline comes from talking with listing brokers of these large box industrial spaces who have said that the activity and interest from users has slacked off.

One other trend prevalent for the last three quarters that is certainly worth mentioning involves the manufacturing sector in the United States. In the fourth quarter of 2023, the U.S. Manufacturing Index showed October production at 45.5%, November production at 49.4% and December production at 47.9%. Anything above 50% is expansion and growth, and anything below 50% is contraction. The manufacturing sector has not been in a growth mode and is staying the course.

As we have seen the Atlanta industrial market cool off, the same could be said for the nation in general. The Federal Reserve bank noted the slowdown as well, and they decided to hold interest rates where they were and did not increase interest rates again in the fourth quarter of 2023. Many have indicated that they feel that the Fed will start to lower interest rates in the first quarter of 2024, but I am not in that camp yet. I believe the Fed reducing the interest rates might come a little further down the road as they try to fight inflation and avoid a recession while meandering through an election year!

From what I am hearing and reading, it appears that the economy will cruise along for the first quarter or two in 2024 and that by mid-year the economy is expected to accelerate. By that time the Federal Reserve bank will have started to reduce interest rates, banks will be lending again, and hopefully, the investment market will make a turnabout. Atlanta's market may zigzag, and spin through hairpin turns but, in the end, it is very resilient and gets back on track. We have slowed down but, as usual, will shift gears very quickly beyond the curves.

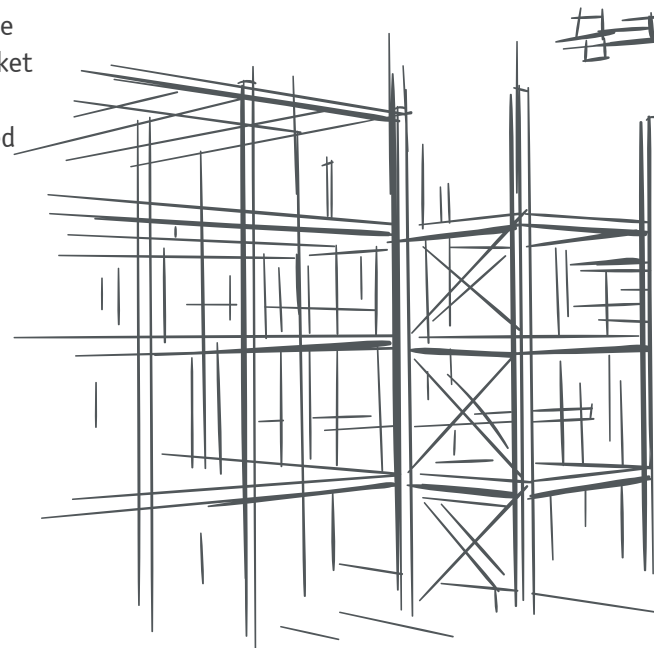


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**“...big bulk and  
e-commerce space at  
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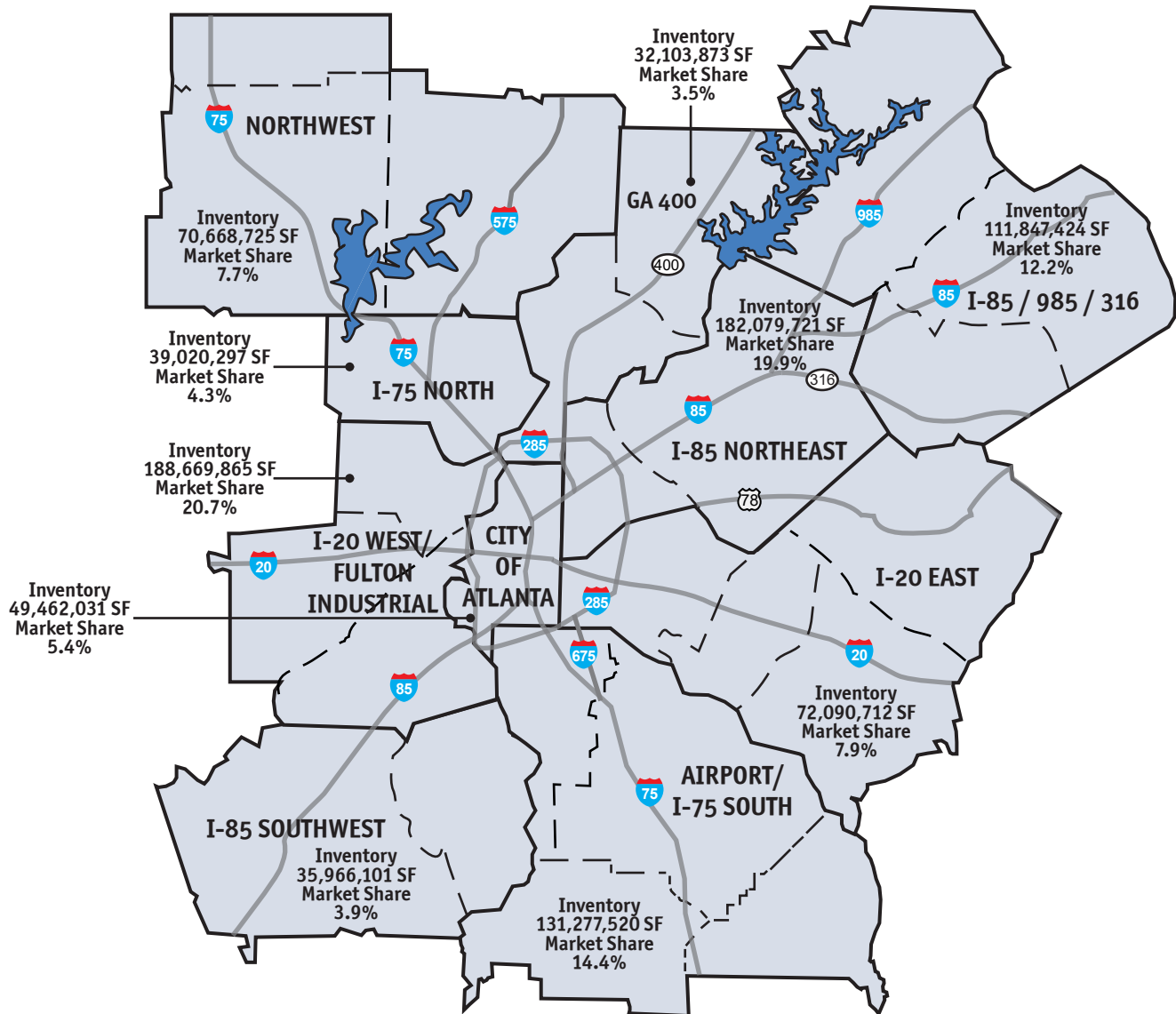




# Distribution Market Inventory

Total Inventory

913,186,269 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.

Information based on data supplied by PinPoint™.  
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# New Construction

New construction in the Atlanta distribution market shifted into second gear during the fourth quarter and came close to doubling last quarter's numbers with 4.4 million square feet (MSF). However, this is a significant decrease from the 14.4 MSF seen during the first quarter of 2023. Of the 25 new construction starts there were 15 between 150-825K square feet. The Airport / I-75 South region boasts the largest project (825,000 SF) and the most overall construction. There were 7 build-to-suit projects that started their engines, with the largest being the 260,000 square feet (SF) of expansion for Pepsi in the I-85 Northeast region (Stone Mountain).

## Major Construction Projects

Location	Submarket	Sq. Feet	Type
<b>Logistics Parkway</b> "River Park"	Airport / I-75 South	825,000 SF	Spec
<b>Hazelbrand Road</b>	I-20 East	498,600 SF	Spec
<b>Douglas Hills Road</b> "Douglas Hills Logistics Center"	I-20 West/Fulton Industrial	489,416 SF	Spec
<b>Weldon Road</b> "HQ Industrial"	I-85 Southwest	300,000 SF	Spec
<b>Highway 16 East</b> "Coweta Commerce Center"	I-85 Southwest	271,111 SF	Spec

## New Construction

4th Quarter 2023

**4,359,599 SF**

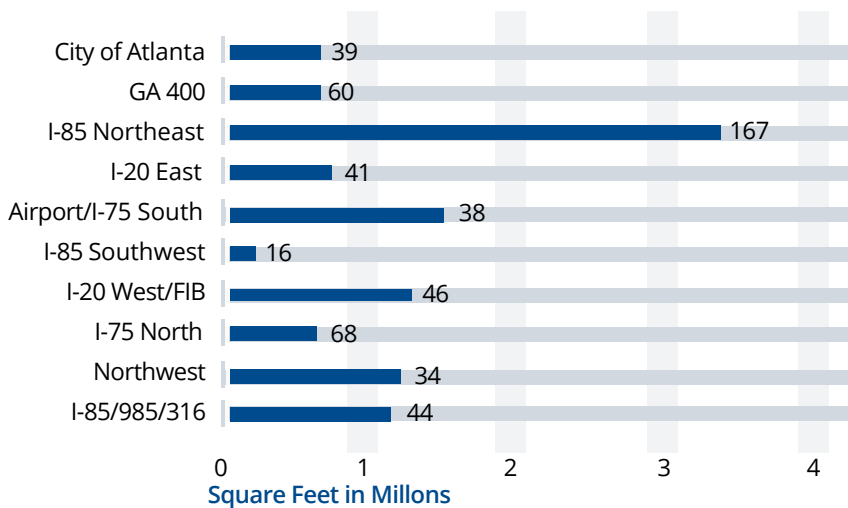


**1,786,761 SF**

From 3rd Quarter 2023

# Distribution Activity

## Number of Deals by Region



## Total Activity

4th Quarter 2023

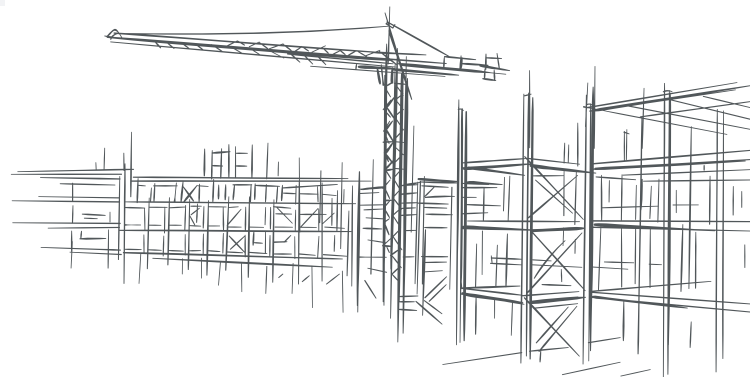
**11,183,544 SF**



**244,023 SF**

From 3rd Quarter 2023

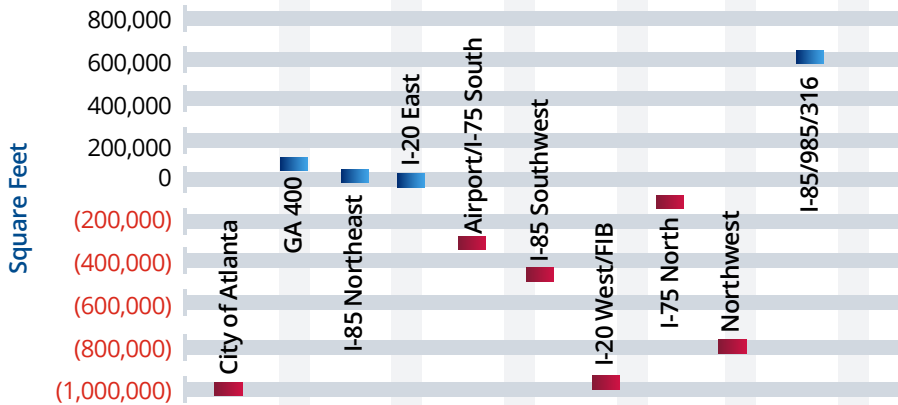
Activity in the Atlanta Metro distribution market increased 2% to 11.2 MSF over last quarter. There were 553 tenants that moved into new spaces and 30 percent of those were in the I-85 Northeast region. That region revved its engines and secured a solid first place position with 167 deals and 3.4 MSF, more than double that of all other regions. The Airport / I-75 South regions had the highest average deal of 38K SF and came in second for a total of 1.4 MSF of activity. The I-85 Southwest region hit more speed bumps and only managed 181,104 SF and 16 deals – by far the lowest of all regions.



# Distribution Net Absorption

Once again and for the third quarter in a row, the Atlanta distribution market could not navigate out of the hole and recorded almost 3 MSF of negative net absorption. This was a slight improvement from last quarter but a 10.8 MSF downshift from the first quarter of 2023. Only four regions had enough speed to post positive numbers this quarter and I-85 / 985 / 316 rounded the corner with ease and posted almost a half million SF. The other three regions barely squeaked by with under 80,000 SF of positive net absorption. All other regions fell into negative territory, but the City of Atlanta and the I-20 / Fulton Industrial regions slammed on the brakes, and both brought up the rear with just over and under a MSF of negative net absorption respectively.

## Net Absorption by Region

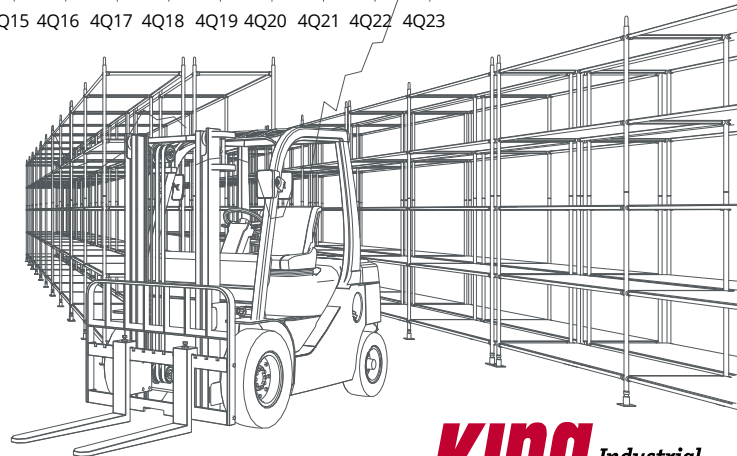
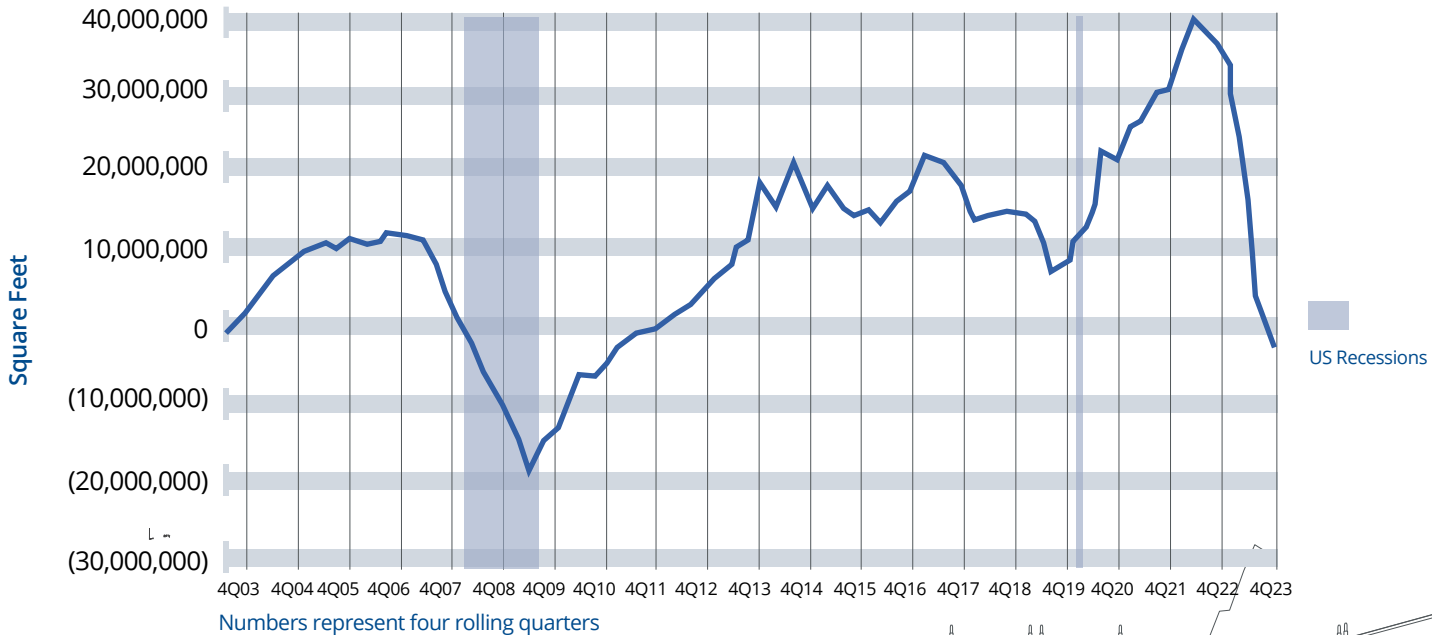


**Net Absorption**  
4th Quarter 2023  
**-2,952,898 SF**



**498,877 SF**  
From 3rd Quarter 2023

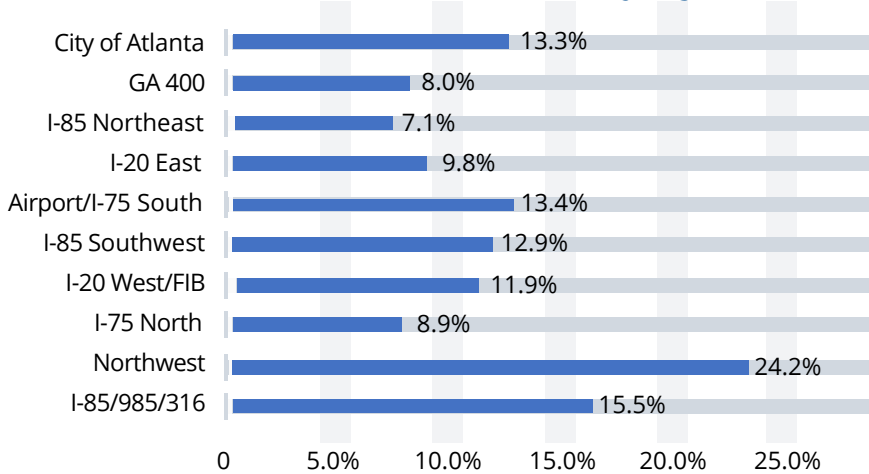
## Net Absorption (2002 - 2023)



# Distribution Availability

The available space in Atlanta's distribution center rose again this quarter to 12.2 percent - the highest availability rate since the third quarter of 2016. The slowdown in deals, especially the big box variety, on top of almost 1000 tenants vacating is the reason there is over 111.7 MSF available on the market. Four regions are well above the metro average but the Northwest region stayed in the lead with 24 percent available. Of the six regions below the average, the I-85 Northeast region continues to sport the lowest average of 7.1 percent. Sublease space picked up to speed and is now over 15 MSF. New space rounded the corner and picked up to nearly 59 MSF representing 56 percent of all available space.

### Percent Available by Region



### Total Available

4th Quarter 2023

**111,732,301 SF**

**12.2%**

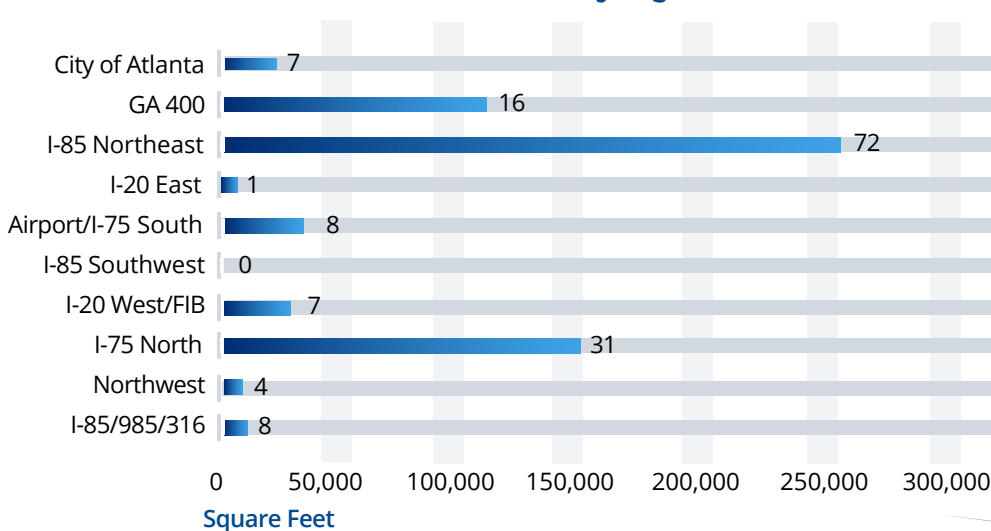


**0.7%**

From 3rd Quarter 2023

# Service Activity

### Number of Deals by Region



### Total Activity

4th Quarter 2023

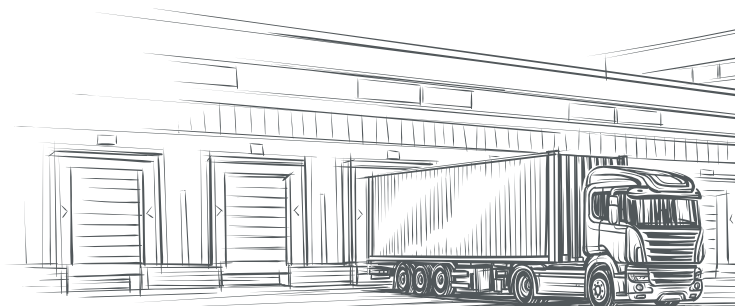
**629,446 SF**



**431,705 SF**

From 3rd Quarter 2023

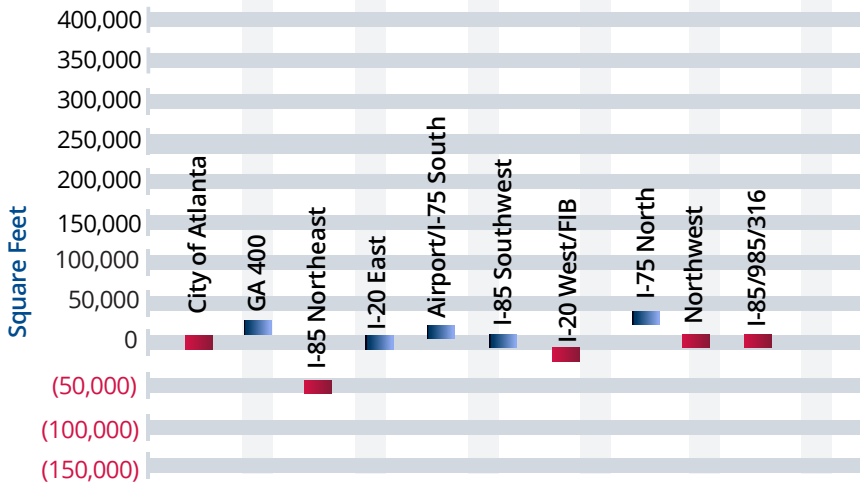
The Atlanta Metro service center sector's activity downshifted from last quarter's record, back to a steady pace of 629,446 square feet (SF) and 155 deals. The largest region, I-85 Northeast, naturally posted the most deals (72) and had the highest activity of 250,862 SF. The I-75 North region kept the pedal to the metal this quarter and came in second with 150,230 SF. It was a three-peat for the I-85 Southwest region as the engines idled with no deals to report.



# Service Net Absorption

Net absorption for Atlanta's Service Center sector went into reverse and lost ground from last quarter's record high (391,003 SF) down to a negative 29,648 SF. The I-75 North region took the corner on two wheels and reported an 79,000 SF swing from last quarter landing on top of its peers with 37,547 SF. While I-85 Northeast region had the highest activity, too many tenants left the area leaving the region with the worst negative net absorption of 42,567 SF. Four other regions also made the wrong turn in negative absorption.

## Net Absorption by Region



## Net Absorption

4th Quarter 2023

**-29,648 SF**

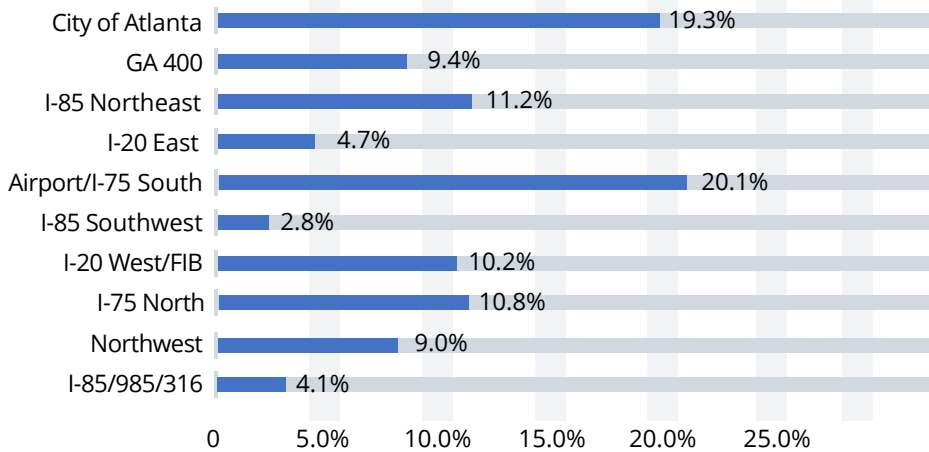


**420,651 SF**

From 3rd Quarter 2023

# Service Availability Rate

## Percent Available by Region



## Total Available

4th Quarter 2023

**2,985,668 SF**

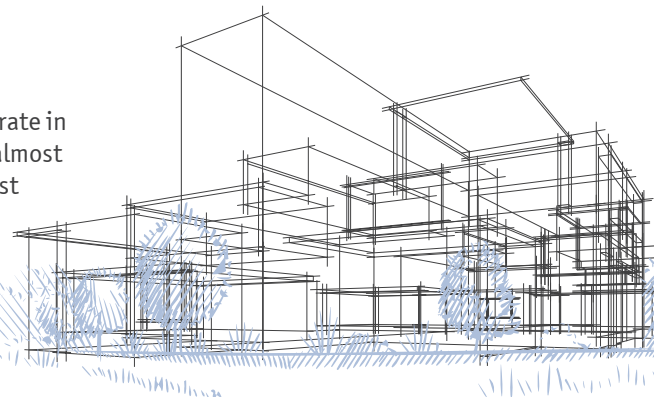
**10.8%**



**0.1 %**

From 3rd Quarter 2023

There wasn't enough negative net absorption to have much impact on the availability rate in the service center sector and the average accelerated slightly to 10.8 percent. Of the almost three million SF of available space, the vast majority can be found in the I-85 Northeast region. The City of Atlanta and the Airport / I-75 regions have the highest rates with 19.3 and 20.1 percent respectively. The I-85 Southwest is the smallest region and touts the lowest availability rate of 2.8 percent. There was no new construction, and the same 22,900 SF of new space remains unspoken for.





# Next Quarter coming soon...

**Q1 2024**



Call Us: **404.942.2000**

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