

Atlanta



Quick Stats

6.0%

Total market vacancy up 30 bps
year-over-year

6.0%

Warehouse vacancy up 40 bps
year-over-year

20.0 MSF

SF under construction in the first
quarter with 20% preleased

\$4.77 PSF

Average asking rental rates up 5.5%
year-over-year

Market Overview

The Atlanta industrial market continued its momentum into the third quarter of 2019. Absorption and leasing activity remained strong, however new vacant space entering the inventory had a negative impact on the vacancy rate. Rental rates continue to rise, but at a slower pace than previously seen. The market should remain stable for the last three months of the year, but the positive trend may shift in 2020.

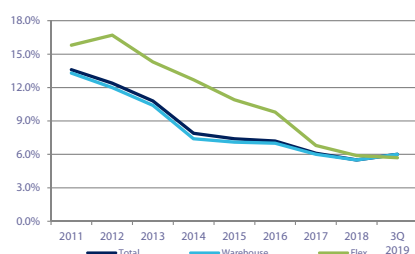
Vacancy and Absorption

The Atlanta industrial market recorded its 33rd consecutive quarter of positive absorption in the third quarter of 2019. The market saw 6.5 million square feet (msf) absorbed in the quarter, for a year-to-date total of 12.3 msf. While this is significant activity, 2019 is still behind the pace that was seen at this time in 2018. The largest move-in during the third quarter was PVH Corp absorbing 983,000 square feet (sf) at the recently completed Shugart Farms in the Airport/North Clayton submarket. This

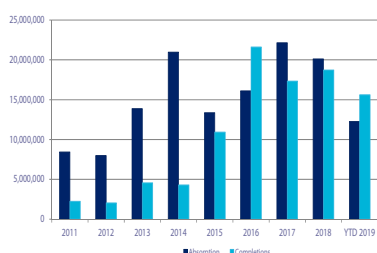
move-in brought the submarket to the top of the absorption list with 2.6 msf occupied. The I-20W/Douglasville market was close behind with 2.5 msf of positive absorption in the third quarter. Even with the strong absorption the Atlanta industrial market recorded its first year-over-year vacancy increase since 2011. The overall vacancy rate increased by 30 basis points (bps) year-over-year to finish the third quarter at 6.0%. This increase was due to 6.4 msf of new space entering the market, which 4.6 msf of that was vacant. The warehouse market ended the quarter with a 6.0% vacancy rate as well, which was a 40 bps increase from the same period in 2018. The flex market vacancy rate continued its downward trend, dropping 70 bps year-over-year to 5.7%. The flex market should continue to see a decrease in vacancy as speculative construction remains at a minimum. Should the trend of low preleasing activity in new warehouse construction projects continue, then the vacancy rate will continue to rise.

Leasing activity in new construction projects needs to increase so the Atlanta market does not see another year-over-year increase in vacancy

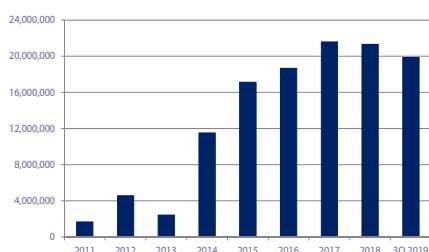
Vacancy Trends



Absorption vs. Completions



SF Under Construction



Leasing Activity

Overall leasing activity in the third quarter of 2019 remained strong. The market recorded 6.4 msf of new leases, bringing the year-to-date total to 20.2 msf. The Northeast submarket saw the most activity, recording 1.5 msf of signed leases. The largest lease signed in the third quarter was Amazon at a 700,000-sf new construction project in the Stone Mountain submarket. This will be their 13th industrial location in the metro Atlanta area. Kroger announced in the second quarter they were looking to open a large service center and signed a 375,000-sf lease this quarter at 2000 Anvil Block Road. Goodyear, Home Depot and Boeing have announced they are scouting the market as well for new distribution and fulfillment center space.

New Construction

The Atlanta industrial market currently has 20.0 msf under construction, which is the lowest amount seen since the first quarter of 2018. Out of the 20.0 msf, only 20% of the space is preleased. While this number is low, it is much higher than the 9.6% preleased amount the market recorded at the same time in 2018. The market saw 6.4 msf of new space come online in the third quarter of 2019 for a year-to-date total of 15.6 msf. This is 20% more space than was delivered by this time in 2018. The market expects an additional 8.7 msf to deliver during the last three months of 2019. The troubling news is that only 5.3% of that space is currently leased. The hope is that companies looking for large amounts of space choose these new construction projects so that the market does not become saturated with an abundance of new vacant space.

Rental Rates

Industrial average asking rental rates in Metro Atlanta continue to see upward movement. The average asking rate ended the third quarter at \$4.77 NNN per square foot (psf), up 5.5% year-over-year. However, this is only a 0.6% increase since the second quarter of 2018. The average warehouse rate rose by 4.7% to \$4.46 NNN psf in the same period. Flex average asking rental rates recorded a significant increase, up 12.8% year-over-year, ending the quarter at \$10.13 NNN psf. This surge was driven by the Chattahoochee submarket which saw rates increase 26.5% year-over-year. The increase is primarily due to older generation industrial space being transformed into creative flex space.

Investment Sales

The Atlanta industrial market recorded \$397 million in investment sales during the third quarter of 2019 for a year-to-date total of \$1.6 billion. This activity is down slightly from earlier in the year. The largest sale of the quarter was Morgan Stanley Real Estate purchasing Kellogg's 903,000-sf property from LaSalle Investment for approximately \$60 million.

Outlook

Job growth continued its upward trend in Metro Atlanta during the third quarter. According to the Bureau of Labor Statistics, employment in the Atlanta Metro area grew by more than 52,000 jobs between August 2018 and August 2019. This is a growth rate of 1.9%, well ahead of the 1.4% growth the US is currently experiencing. If preleasing activity in new construction projects increases, the Atlanta industrial market should remain positive.



Underway

Currently the Atlanta industrial market has 20.0 million square feet of new space under construction.



Delivered

During the last 12 months the Atlanta industrial market has seen 21.4 million square feet enter the inventory.



Rank

Atlanta is fourth in the U.S. for industrial space under construction behind Dallas at 37.7 msf, Inland Empire at 27.9 msf and Chicago at 21.3 msf.

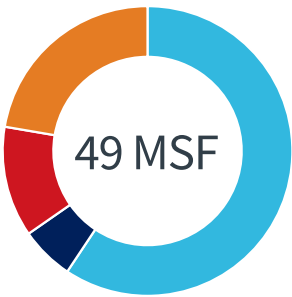
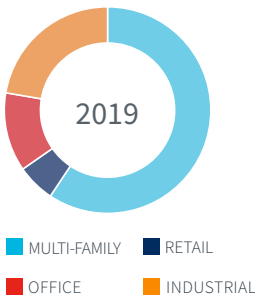


Spec Developments

Spec development continues to capture the majority of Atlanta's industrial construction activity. Atlanta currently has 15.9 million square feet of spec space underway and is 1.0% preleased. This trend is expected to continue as developers are taking advantage of an active market.

8.7 MILLION SQUARE FEET

to be delivered in last 3 months of 2019, with 5% of the space preleased

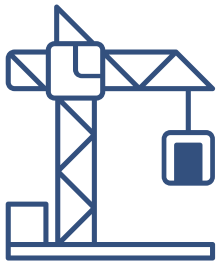


	3Q 2018	3Q 2019
Multi-Family	34.1%	50.0%
Office	1.2%	1.2%
Retail	6.5%	8.6%
Industrial	58.2%	40.3%



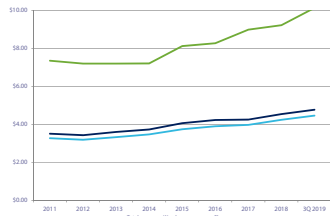
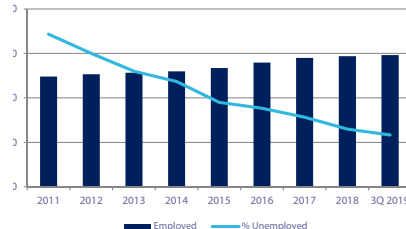
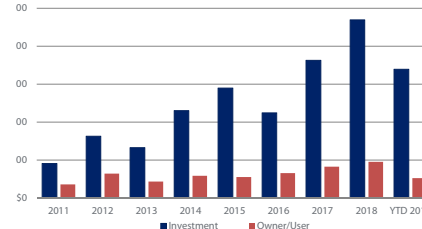
Build-to-Suit Developments

Build-to-suit developments have seen a slight decrease over recent years, but in 2019 have seen an increase in activity. Metro Atlanta currently has 3.9 million square feet of build-to-suit product underway.



Construction Update

Metro Atlanta industrial construction remains very active with near record amounts of space underway. Should this pace of activity continue, and leasing activity does not increase, it could lead to a rise in the vacancy rate.

Average Asking Rental Rate
(psf/year/NNN)Metro Atlanta Employment
(August of each year)Industrial Sales
(in millions)

Select 3Q 2019 Lease Transactions

Tenant	Property	Type	Submarket	SF
Amazon	2100 W Park Place Blvd	Prelease	Stone Mountain	700,000
Fr8Auctions	1265 Terminus Dr	New Lease	I-20W/Douglasville	527,000
FedEx Ground	3120 Anvil Block Rd	New Lease	I-75 South	447,520
Kroger	2000 Anvil Block Rd	New Lease	Airport/North Clayton	375,000
Undisclosed	5395 Oakley Industrial Blvd	Sublease	Airport/North Clayton	271,438
Czarnowski	2601 Skyview Dr	New Lease	I-20W/Douglasville	225,000
Compass Health	155 Braselton Pky	New Lease	Northeast	201,420
SP Richards Company	190 Selig Dr	Renewal	Fulton Ind	150,739

Select 3Q 2019 Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
5390 Hunter Rd	Airport/North Clayton	Morgan Stanley Real Estate Advisors	903,145	\$59,750,000	\$66
Roswell Distribution Portfolio	North Central	Kohlberg Kravis Roberts & Co	259,641	\$26,640,000	\$103
Braselton Point Logistics Center	Northeast	Barings	462,000	\$25,000,000	\$54
Lee & White Portfolio	Central Atlanta	MDH Partners	331,030	\$23,213,285	\$70

Select Construction Projects

Property	Submarket	Projected Completion	Total SF	% Preleased	Major Tenant
Chattahoochee Logistics Center	Fulton Ind	Third Quarter 2020	1,128,400	0%	N/A
2160 Anvil Block - Building 900	Airport/North Clayton	Fourth Quarter 2019	1,043,418	0%	N/A
700 Palmetto Logistics Pky	Airport/North Clayton	First Quarter 2020	1,041,600	0%	N/A
Jefferson Logistics Center	Northeast	First Quarter 2020	1,015,074	0%	N/A
3150 Highway 42	I-75 South	Fourth Quarter 2019	1,011,907	0%	N/A
5705 Campbellton Fairburn Rd	Airport/North Clayton	Second Quarter 2020	1,007,412	0%	N/A
503 Shire Pky*	I-20E/Snapfinger	First Quarter 2020	970,000	100%	Facebook

*Single-tenant leased property

Trends to Watch

Look for these three key trends to continue throughout 2019 in the Atlanta industrial market.



Vacancy

Possible increase as new construction enters the inventory vacant.



Rental Rates

Will continue to rise as new construction costs push rates up.



Construction

Could break record for amount of new space delivered in the market.

Market By The Numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION		SF Under	AVERAGE ASKING RENT		
		Total	W/D	Flex	3Q19	YTD	Construction	Total	W/D	Flex
Airport/North Clayton	99,378,958	6.3%	6.3%	5.9%	2,602,882	2,975,835	6,370,711	\$3.84	\$3.80	\$8.46
I-85 South	24,900,949	10.3%	10.7%	3.6%	(53,975)	95,948	42,000	\$4.76	\$4.34	\$9.04
I-75 South	63,795,301	11.4%	11.6%	1.0%	1,275,179	2,469,043	1,739,907	\$3.45	\$3.45	\$4.75
South Atlanta Total	188,075,208	8.5%	8.7%	3.7%	3,824,086	5,540,826	8,152,618	\$3.70	\$3.66	\$8.63
Central Atlanta	7,683,278	8.6%	10.1%	2.5%	(12,039)	11,239	-	\$12.38	\$12.27	\$14.04
Chattahoochee	16,585,538	5.2%	5.5%	4.1%	(65,419)	(87,017)	266,000	\$9.78	\$7.78	\$17.21
Fulton Industrial	51,143,395	2.7%	2.7%	2.4%	(207,293)	(416,346)	1,128,400	\$5.28	\$5.17	\$8.82
I-20 W/Douglasville	52,499,165	4.9%	5.0%	2.1%	2,485,399	2,872,962	887,886	\$4.10	\$4.07	\$7.87
North Central	30,123,947	3.1%	2.7%	4.2%	88,944	203,219	36,570	\$7.49	\$6.45	\$11.01
Northeast	198,336,970	7.0%	6.9%	8.3%	78,464	3,279,983	6,208,438	\$4.66	\$4.33	\$9.39
Northwest	75,347,971	3.5%	3.3%	5.3%	240,661	544,065	1,311,563	\$5.99	\$5.45	\$11.56
Snapfinger/I-20 East	39,693,464	2.6%	2.5%	5.0%	15,897	68,109	1,706,465	\$4.79	\$4.15	\$6.94
Stone Mountain	26,913,972	3.8%	3.5%	6.1%	56,303	234,684	164,000	\$6.71	\$6.45	\$7.92
Total Market	686,402,908	6.0%	6.0%	5.7%	6,505,003	12,251,724	19,861,940	\$4.77	\$4.46	\$10.13

BY PRODUCT TYPE	Inventory	Vacancy	3Q Absorption	YTD Absorption	SF Under Construction	Sublease SF
Warehouse/Distribution	633,587,363	6.0%	6,608,419	12,001,006	18,418,470	1,224,431
Flex	52,815,545	5.7%	(103,416)	250,718	1,443,470	98,672
Total Market	686,402,908	6.0%	6,505,003	12,251,724	19,861,940	1,323,103

Avison Young Atlanta currently tracks industrial buildings that are 10,000 square feet or greater, and built since 1960.



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