

Point of View

Q2 2024



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Letter from the President

Atlanta Market Rides the Brakes as Slowdown Continues

The biggest news from the first quarter of 2024 was that the Atlanta industrial market experienced negative net absorption for four quarters in a row totaling -11.3 MSF. Unfortunately, this trend continued and the Atlanta market recorded negative net absorption for the fifth consecutive quarter with over -1.9 MSF. For the previous two years the absorption numbers for four rolling quarters were positive with 17.2 MSF during 2023 and 42.7 MSF during 2022, so the 8.8 MSF of negative net absorption for the past four quarters is a huge cut back.

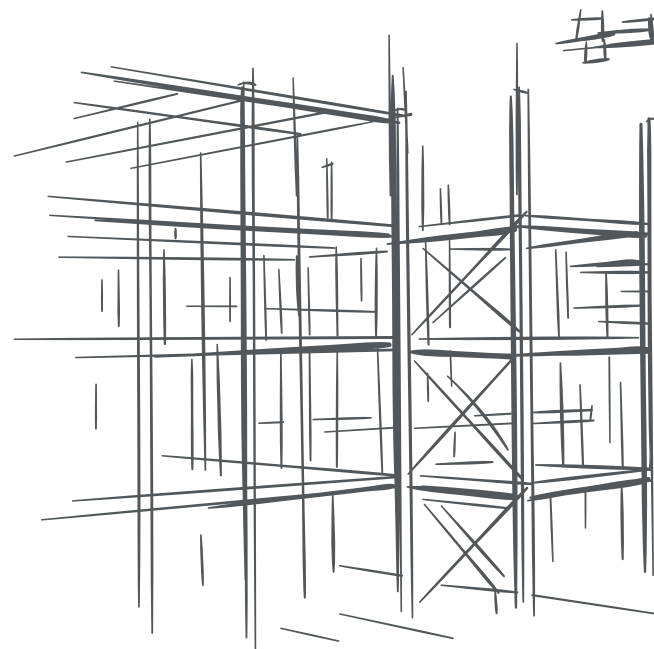
During this same two-year period, the activity numbers have also slowed down. During the past four quarters, the activity numbers were over 49.7 MSF. That seems like a big number until you consider that a year ago activity was over 66.1 MSF, and the year before that it was over 86.7 MSF. So, it goes without saying that we have experienced a sharp decline in activity. The latest trend here is that the quarterly numbers for activity have increased over the past five quarters. The activity numbers rose from 10.8 MSF to 10.9 MSF to 11.1 MSF to 13.2 MSF, and this past quarter they climbed to over 14.4 MSF of activity.

The amount of available space has experienced an upswing and the availability rate is currently at 13.1 percent (121.6 MSF). A year ago, the availability rate stood at 11 percent, and the year before that it was 9.3 percent. In addition, the available sublease space remains elevated at 13.2 percent (16.1 MSF) this quarter.

The new construction numbers for the past four quarters were only 16.3 MSF, which is well below the 36.3 MSF from a year ago and the 43.6 MSF from two years ago. This is not surprising when you look at the drop in both activity and absorption, and the increase in interest rates. With the Federal Reserve requiring banks to hold additional reserves due to the rise in interest rates and the economic slowdown, banks have been put into a position where they cannot lend money on speculative development. Typically, approximately 75 to 80 percent of all new spec construction in the Atlanta area have been financed by banks, so the drop-off in the new construction was predictable.

The other big story here is that the big industrial deals have dramatically slowed down. During the past year the Atlanta industrial market only consummated six transactions that were 500,000 SF or above for a total of 5.9 MSF...there were no deals made that were 1 MSF or larger. In contrast, the previous year there were 21 transactions completed that were 500,000 square feet or above for a total of 20.9 MSF and there were 11 deals that were 1 MSF or larger. That is a year over year decline of 15 MSF for the big box sector.

“...the Atlanta market recorded negative net absorption for the fifth consecutive quarter.”



Letter from the President

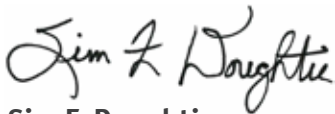
Atlanta Market Rides the Brakes as Slowdown Continues

The Manufacturing Sector continued its positive trend for 2024, with good news this past quarter as it registered a reading of 50 percent in April, 51.3 percent in May and 51.6 percent in June. Any reading of 50 percent or higher signals expansion and growth for the manufacturing sector, and we have now seen six months in a row of positive expansion growth numbers.

As we navigate through the rest of this year, we still have lingering inflation (overall inflation is up by 19.3 percent since Jan 2021), higher energy prices (the cost of energy is up by 35.6 percent since Jan 2021), and higher interest rates (the Federal Reserve Funds Rate is up from 0.09 percent to 5.25 - 5.50 percent since Jan 2021). We have an upcoming presidential election with many points to debate (a surge in illegal border crossings, rising crime in major cities, two wars being waged, and almost non-existent affordable housing due to elevated labor & constructions costs and higher mortgage rates). All of this ongoing instability leads to uncertainty, and this uncertainty has led to the deceleration that the Atlanta industrial market is currently experiencing.

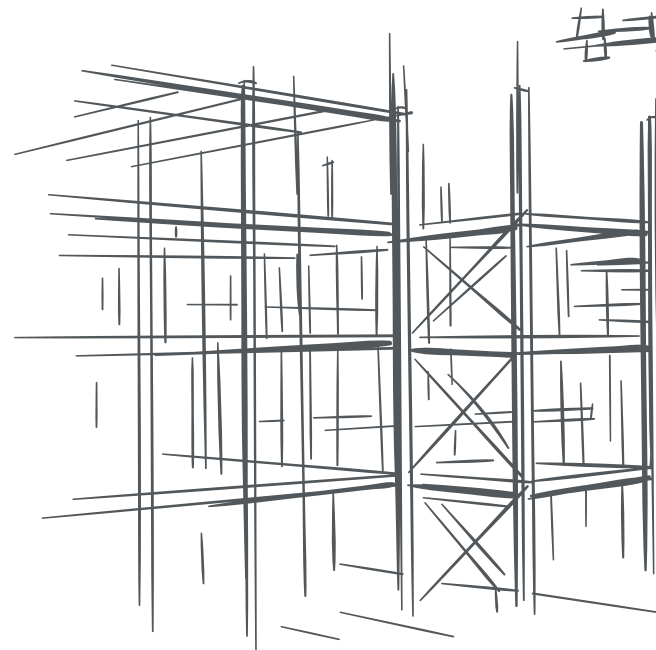
The slowdown began in 2023 and has persisted into 2024 as we continue to ride the brakes. However, I still believe that 2025 (with the election finally behind us) will be the rebound year. Economist, Peter Linneman, recently stated that he felt that the Federal Reserve would cut interest rates three times prior to the end of the year - I am not in that camp. I believe that the Fed will cut interest rates one time prior to the end of 2024, if that.

We will see who's right. Either way, the Atlanta market will persevere! I hope that everyone enjoys the rest of this long slow summer!



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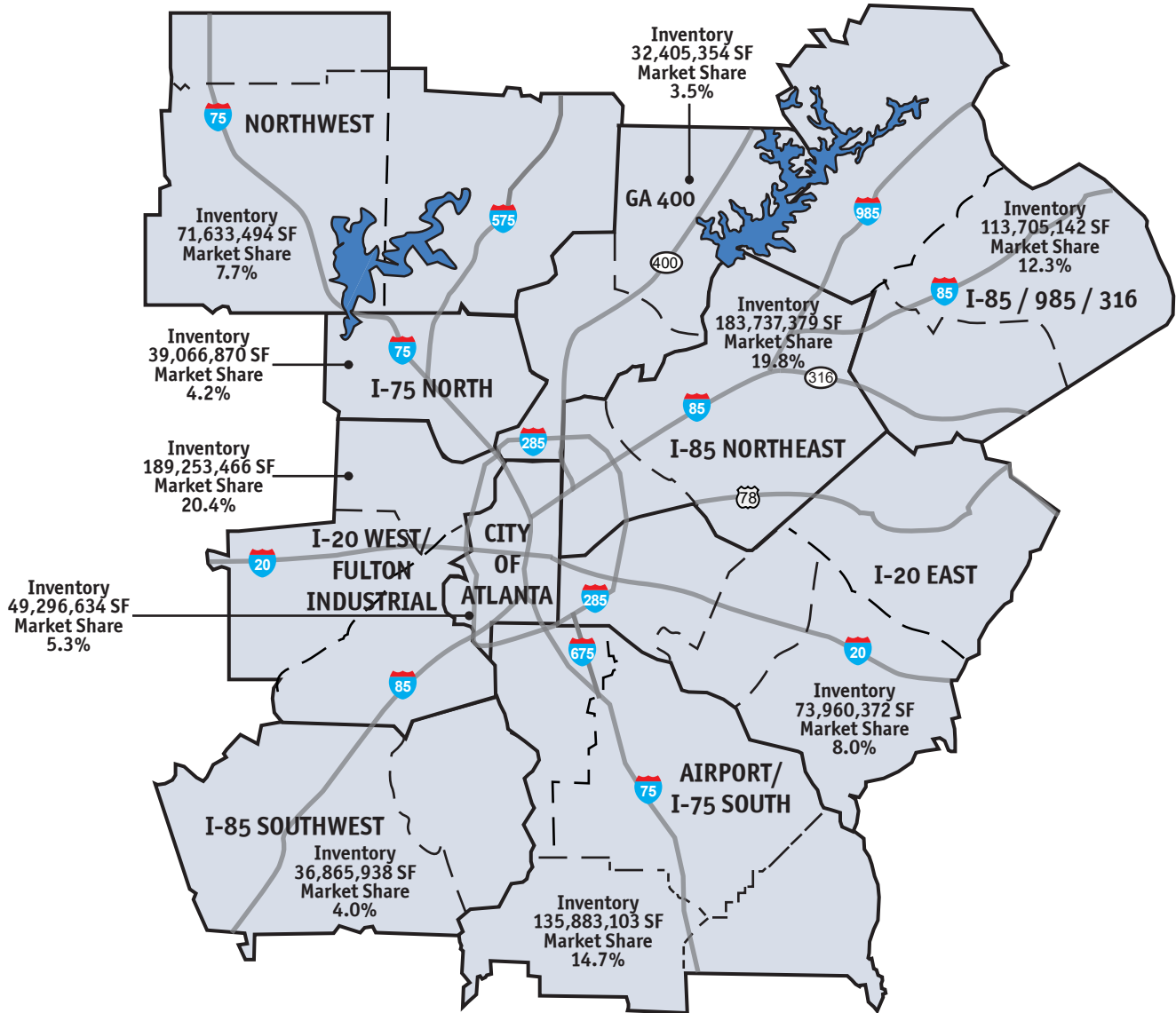
“...big industrial deals have dramatically slowed down. ...a year over year decline of 15 MSF.”



Distribution Market Inventory

Total Inventory

925,807,752 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 Industrial market tapped on the brakes and recorded half that seen last quarter with 3.1 million square feet (MSF). More than a third of that (37 percent) was found in the I-85 Northeast Region. This region also touted the largest new spec project - 624,280 square feet (SF) in Lawrenceville. The I-85 / I-985 / 316 Region had the largest of the 6 build-to-suit projects – 119,950 SF which was an expansion for Agile Cold Storage in Gainesville.

Major Construction Projects

Location	Submarket	Sq. Feet	Type
Sugarloaf Parkway "Sugarloaf Logistics Hub Bldg 400"	I-85 Northeast	624,280 SF	Spec
Pine Grove Road "Stonemont Park 75 South – Bldg B"	Airport / I75 South	538,919 SF	Spec
Sugarloaf Parkway "Sugarloaf Logistics Hub – Bldg 700"	I-85 Northeast	326,350 SF	Spec
Pine Grove Road "Stonemont Park 75 South – Bldg A"	Airport / I75 South	239,837 SF	Spec
Old Covington Highway SEI "Rockdale 20 East Business Center"	20 East	212,745 SF	Spec

New Construction

2nd Quarter 2024

3,108,273 SF

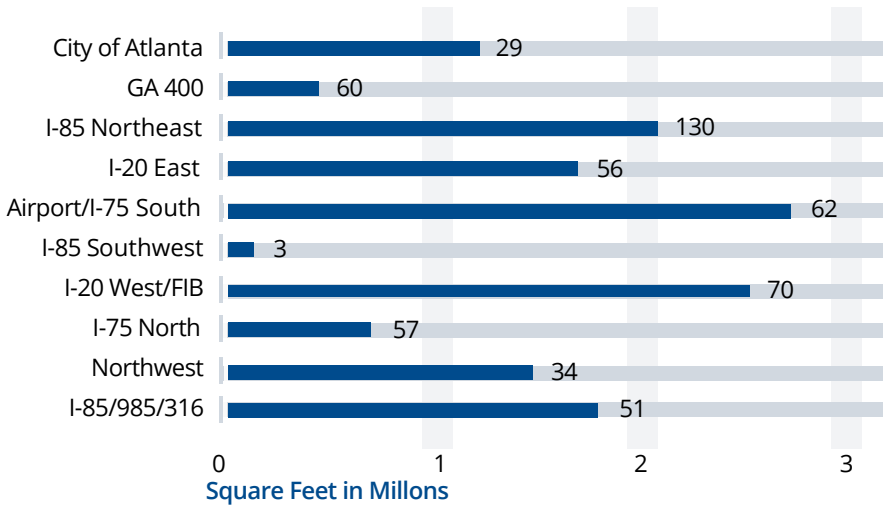


3,200,090 SF

From 1st Quarter 2024

Distribution Activity

Number of Deals by Region



Total Activity

2nd Quarter 2024

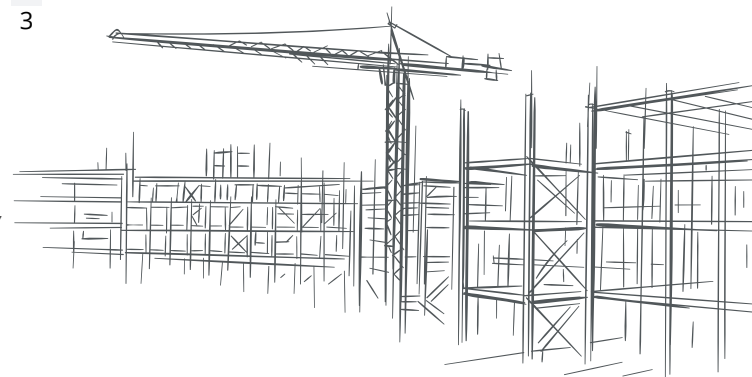
14,414,830 SF



1,183,319 SF

From 1st Quarter 2024

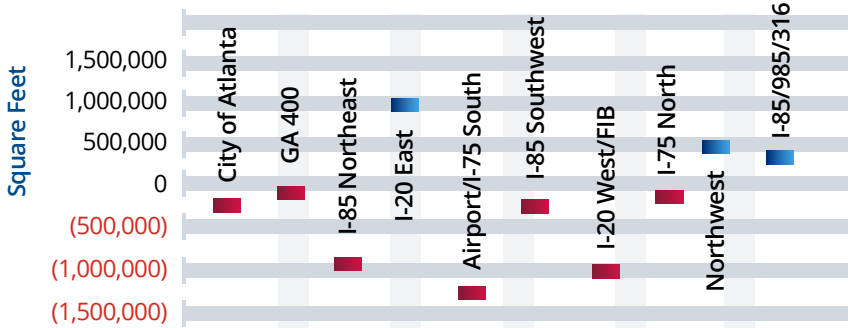
The Atlanta distribution market continued its gradual increase for the fifth quarter in a row to over 14.4 MSF, consisting of 552 deals. Three regions surpassed the two million mark, including the Airport / I-75 South (2.7 MSF), I-20 West / Fulton Industrial (2.6 MSF) and I-85 Northeast (2.0 MSF). Three other regions posted northwards of one million SF which boosted the overall activity. The I-85 Southwest region crawled its way to three deals totaling 58,088 SF.



Distribution Net Absorption

Net absorption broke down into negative territory this quarter, posting almost 2 MSF in the hole. Only three regions managed to move forward into positive territory. The I-20 East region converted over two thirds of its activity to 955,393 SF of net absorption. The Northwest region and the I-85 / 985 / 316 regions both rolled across the line with 505,044 SF and 354,380 SF respectively. Despite having the highest activity, Airport / I-75 South region with disabled with over 1.2 MSF of negative net absorption.

Net Absorption by Region



Net Absorption

2nd Quarter 2024

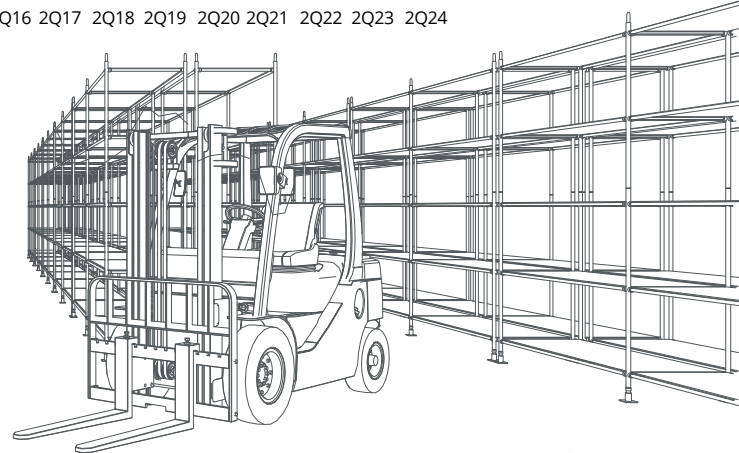
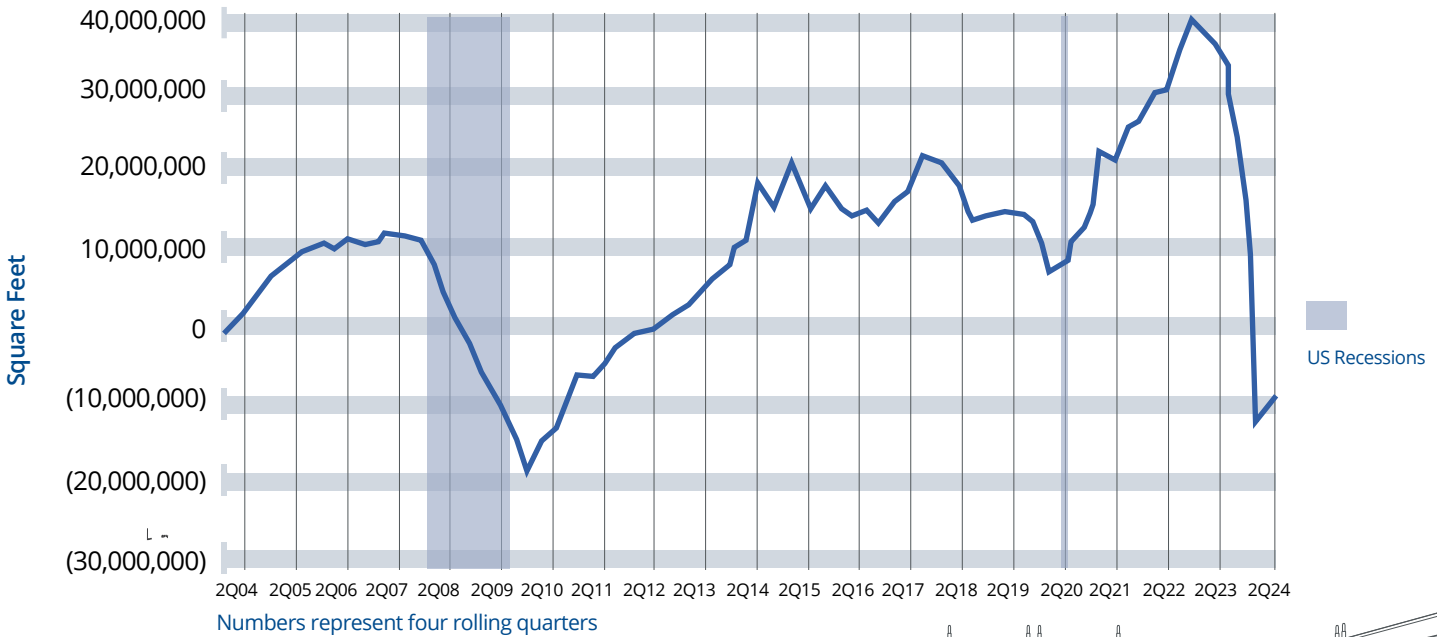
-1,961,403 SF



1,473,602 SF

From 1st Quarter 2024

Net Absorption (2004 - 2024)

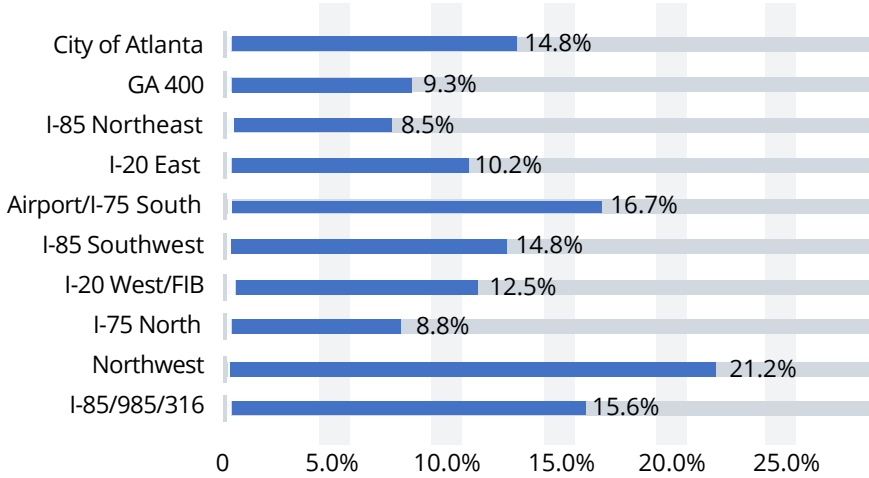


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Distribution Availability

For the past seven quarters, availability in the Atlanta distribution center has been on a gradual rise of about a half percent each quarter. The availability rate of 13.1 percent seen this quarter is the highest since the second quarter of 2016. There was 16 MSF brought to the market with 35 of those spaces being over 100,000 SF. Sublease space cruised along and remained at 13.2 percent. The Northwest region continues to be well above the metro average with 21.2 percent. In the past year, nearly 5 MSF of new construction and 3 MSF of negative absorption was recorded for the Airport / I-75 South region causing a 4.2 percent increase up to 16.7 percent. Ongoing new construction has resulted in a record-breaking 59.2 MSF of new space on the market.

Percent Available by Region



Total Available

2nd Quarter 2024

121,662,600 SF

13.1%

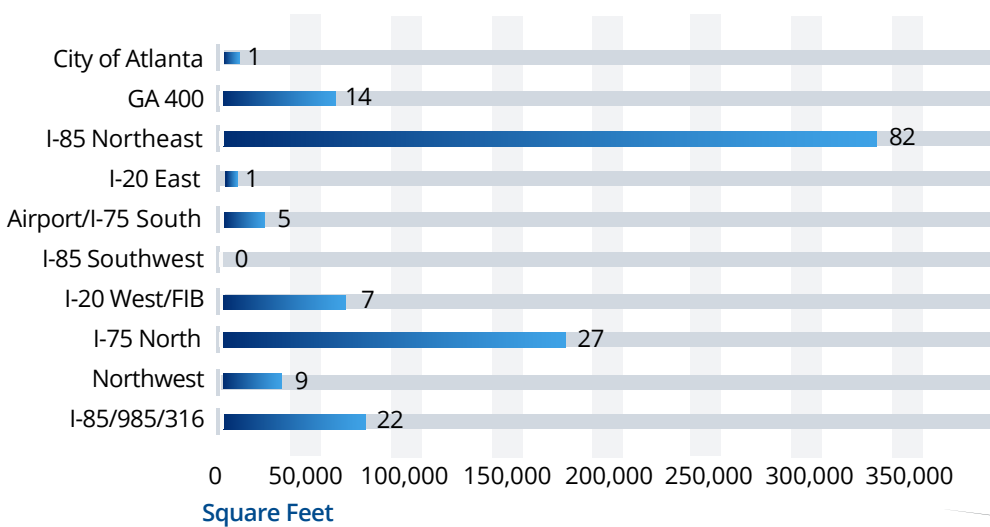


0.4%

From 1st Quarter 2024

Service Activity

Number of Deals by Region



Total Activity

2nd Quarter 2024

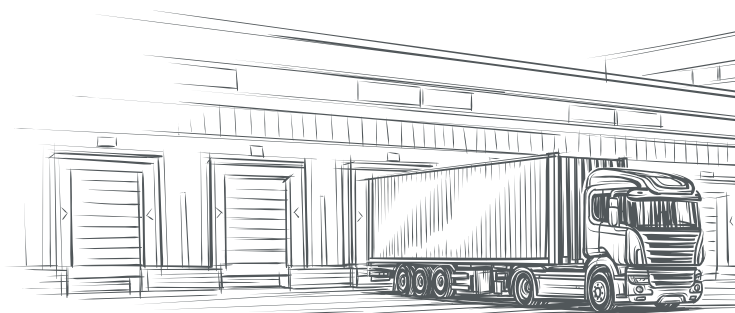
775,387 SF



202,806 SF

From 1st Quarter 2024

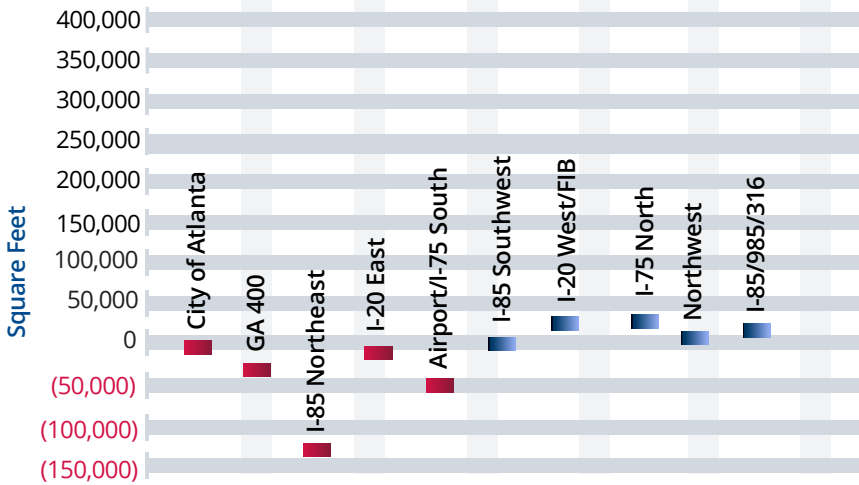
The Atlanta Metro Service Center sector picked up speed and recorded 775,387 SF this quarter, closing 168 deals. The largest deal of the quarter was the 40,000 SF for Midsouth Steel in the I-20 West / Fulton Industrial region, but that was the majority of activity for that region. The highest activity continued to be in I-85 Northeast region, with 340,412 SF and about half of all the deals. Once again, the I-75 North region came in second with 170,306 SF. Combined, these two regions revved up 66 percent of all activity. The I-85 Southwest region did not muster up a single deal, even worse, that was the case for 3 out of the last 4 quarters.



Service Net Absorption

While the net absorption in the Atlanta Metro Service Center was a little better than last quarter, that's not saying much as 5 regions reported negative net absorption resulting in an overall total of -142,942 SF. This was bound to happen when 202 tenants moved out and overshadowed the 167 that moved in. Despite the highest activity, the I-85 Northeast region caused the most damage with a negative 123,776 SF. Of the five regions that managed to stay positive, the I-75 North region once again reported the best net absorption with 34,782 SF.

Net Absorption by Region



Net Absorption

2nd Quarter 2024

-142,942 SF

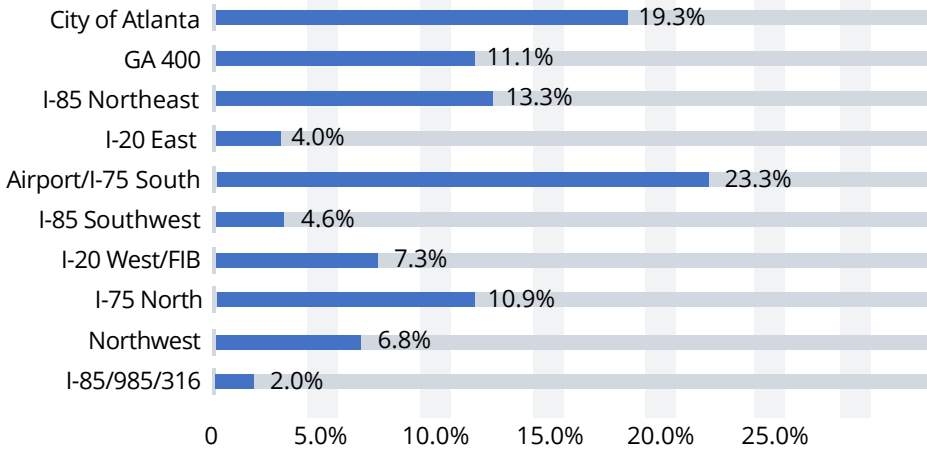


21,202 SF

From 1st Quarter 2024

Service Availability Rate

Percent Available by Region



Total Available SF

2nd Quarter 2024

3,255,077 SF

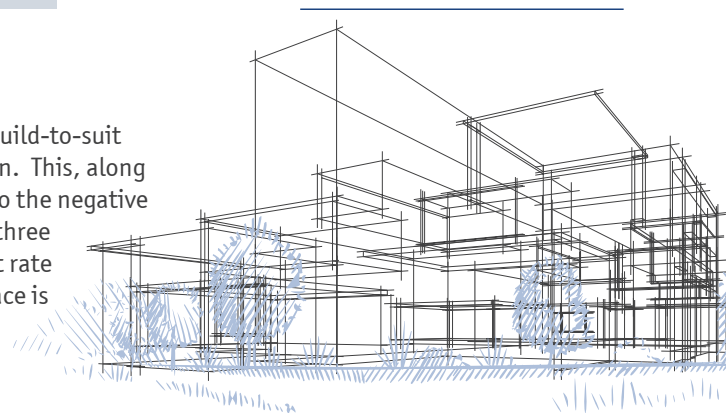
11.6%



0.5%

From 1st Quarter 2024

For the second time in the past year, the Service Center sector added another build-to-suit construction project – a 40,000 SF expansion for Midsouth Steel in South Fulton. This, along with 3 existing buildings added, pushed the inventory up to over 28 MSF. Due to the negative absorption, the availability also went up 0.5 percent to 11.6% - the highest in three years. The Airport / I-75 South region's rate shot up 4.4 percent to the highest rate of 23.3 percent. Seven regions reported well below the metro average. New space is practically non-existent with 1,000 SF available in the I-85 Northeast region.



Next Quarter coming soon...

Q3 2024



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