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1Q24

# Atlanta Industrial Market Overview

**NEWMARK**

# Market Observations

## Economy

- The market's unemployment rate remained unchanged year over year at 3.0% but remained well below the five-year average of 4.0%.
- Job growth pace has slowed compared with recent highs to 0.9% year over year, but improved 10 basis points over the previous quarter.
- Seven of the 10 sectors reported employment growth, with leisure and hospitality sector leading job gains at 5.2% over the past 12 months.
- Industrial-using jobs in the market was mixed, with manufacturing and construction increasing 1.6% and 2.8% year over year respectively while trade/transportation/utilities declined by 1.7% year over year.

## Major Transactions

- While three of the largest leases signed were renewals, the two largest leases alone totaled 1.5 MSF, and indicate there is still an appetite for space in the market.
- Three of the five largest deals signed were in the Airport/South Atlanta submarket, the biggest submarket by total industrial inventory. The remaining two were in the Northeast/I-85 Corridor submarket, the second biggest submarket by total inventory.
- As of the end of the first quarter of 2024, 37.8% of under-construction assets were preleased.

## Leasing Market Fundamentals

- The market realized 3.7 MSF of net absorption in the first quarter of 2024, the highest recent quarterly level since the beginning of 2023.
- Overall rental rates were \$6.48/SF, decreasing by 2.1% year over year. The decrease also represents a 7.6% decrease from the all-time high of \$7.01/SF in the fourth quarter of 2022.
- The construction pipeline trended downward for the third consecutive quarter, reporting 23.3 MSF under construction, creating a possibility for potential supply constraints as economic conditions improve.
- Following the recent trend of supply outpacing demand, vacancy increased in the first quarter of 2024 by 240 basis points year over year to 6.6%.

## Outlook

- The Atlanta industrial market will likely see a continued decrease of deliveries in the near term, helping to bring demand more in balance with supply.
- Vacancy rates can be expected to flatten out in the near term as net absorption aligns more closely with deliveries.
- Asking rents will likely be flat in the near term, due to both still-elevated sublease availabilities and new product supply commanding higher pricing coming online.

1. Economy
2. Leasing Market Fundamentals



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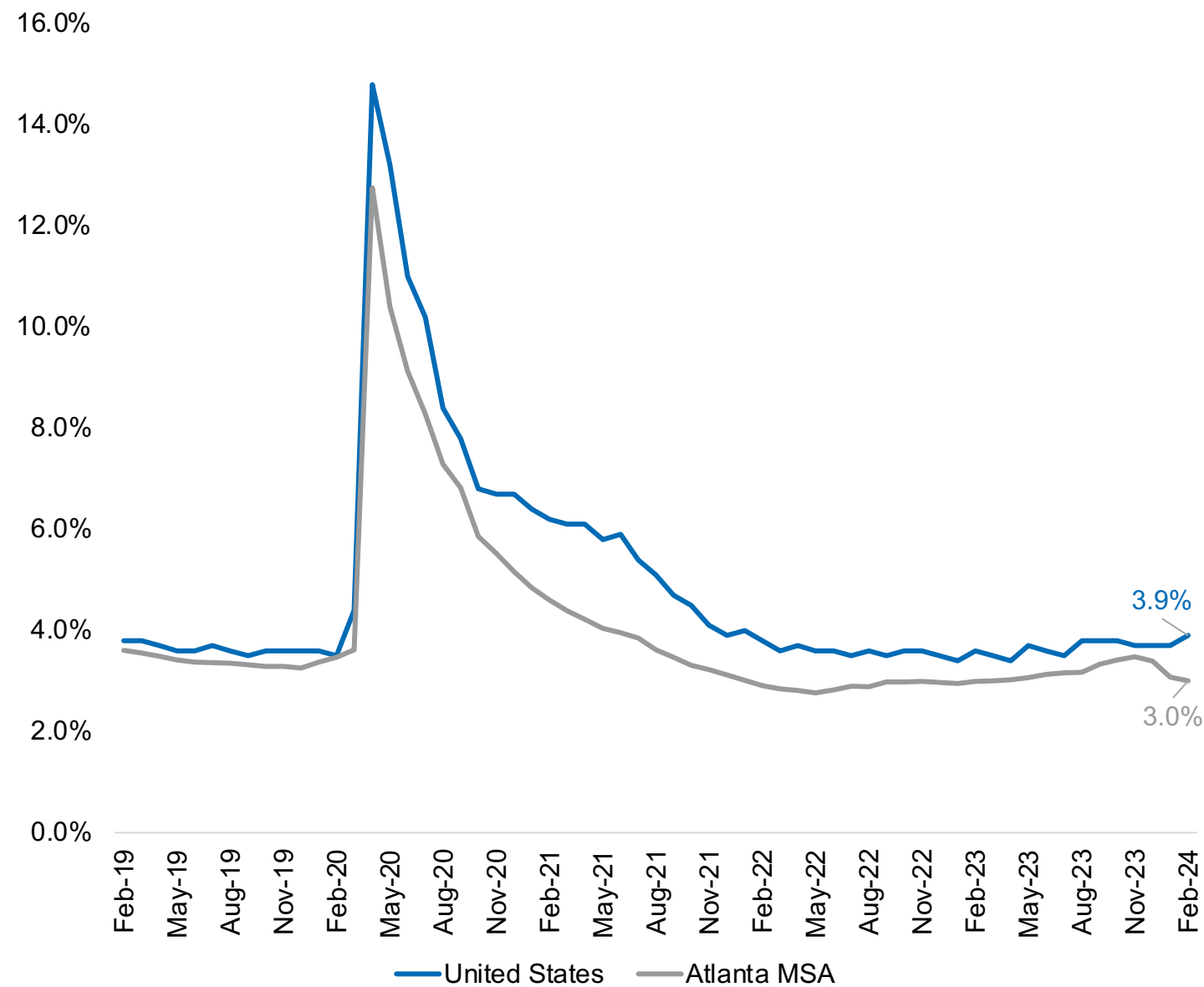
# Economy



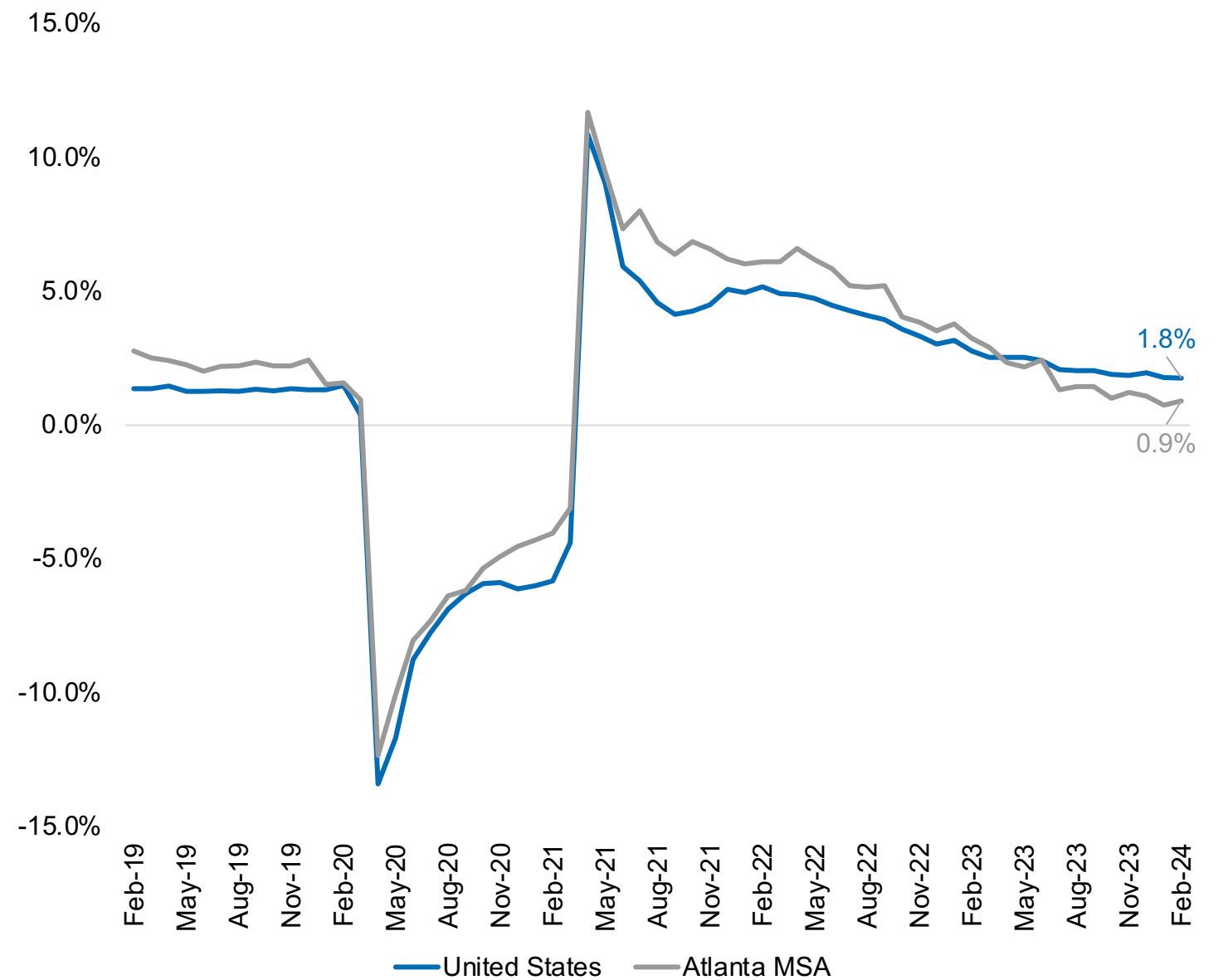
# Metro Employment Trends

The Atlanta market has generally reported lower unemployment rates compared with the national average. Despite recent national economic headwinds, the metro's unemployment rate closed the first quarter of 2024 at 3.0%, continuing to remain below the national rate by 90 basis points and was relative unchanged year over year. The employment year-over-year growth rate slowed by 234 basis points compared with the previous year, although it improved by 10 basis points over the previous quarter.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



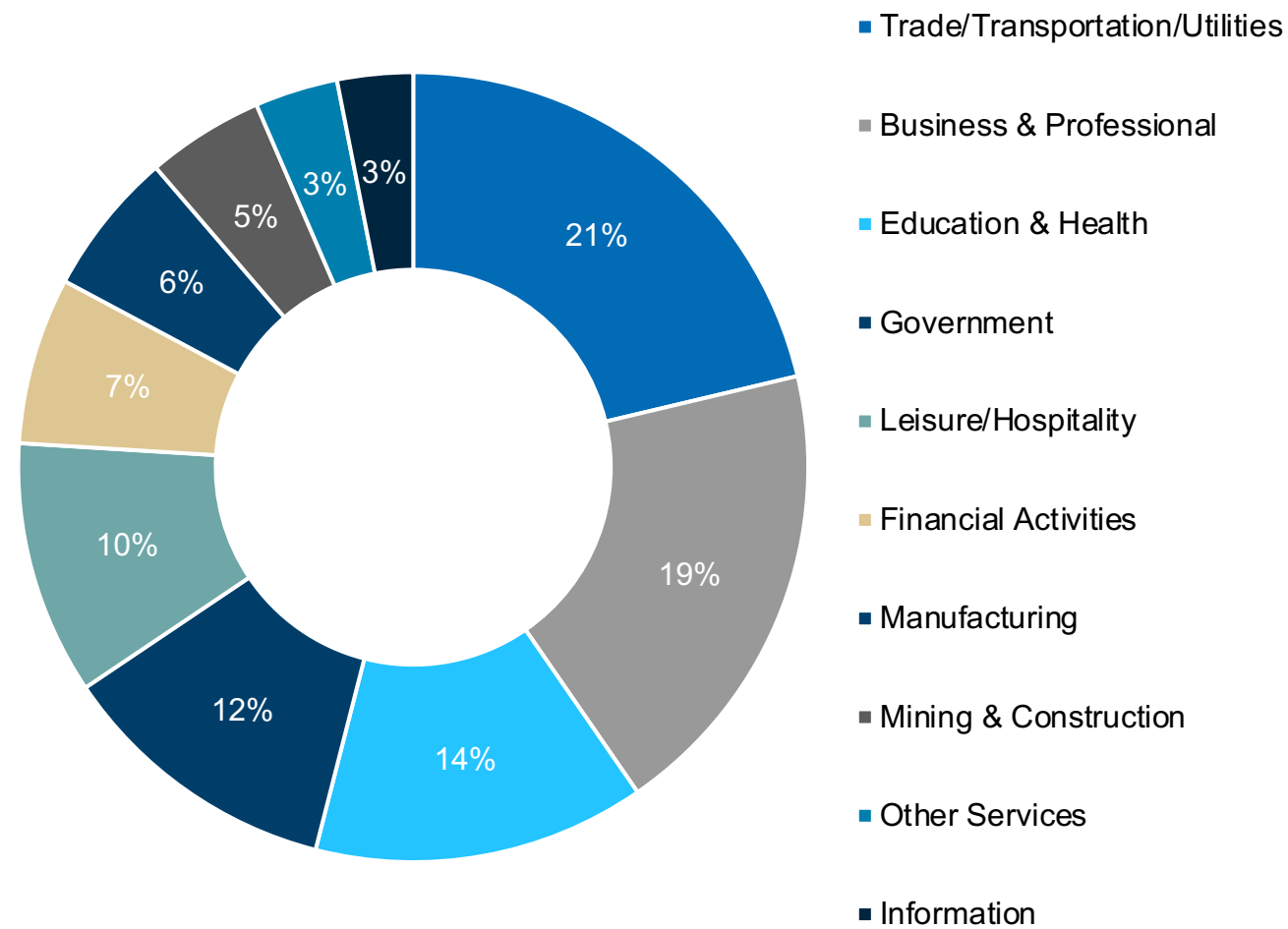
Source: U.S. Bureau of Labor Statistics, Atlanta MSA



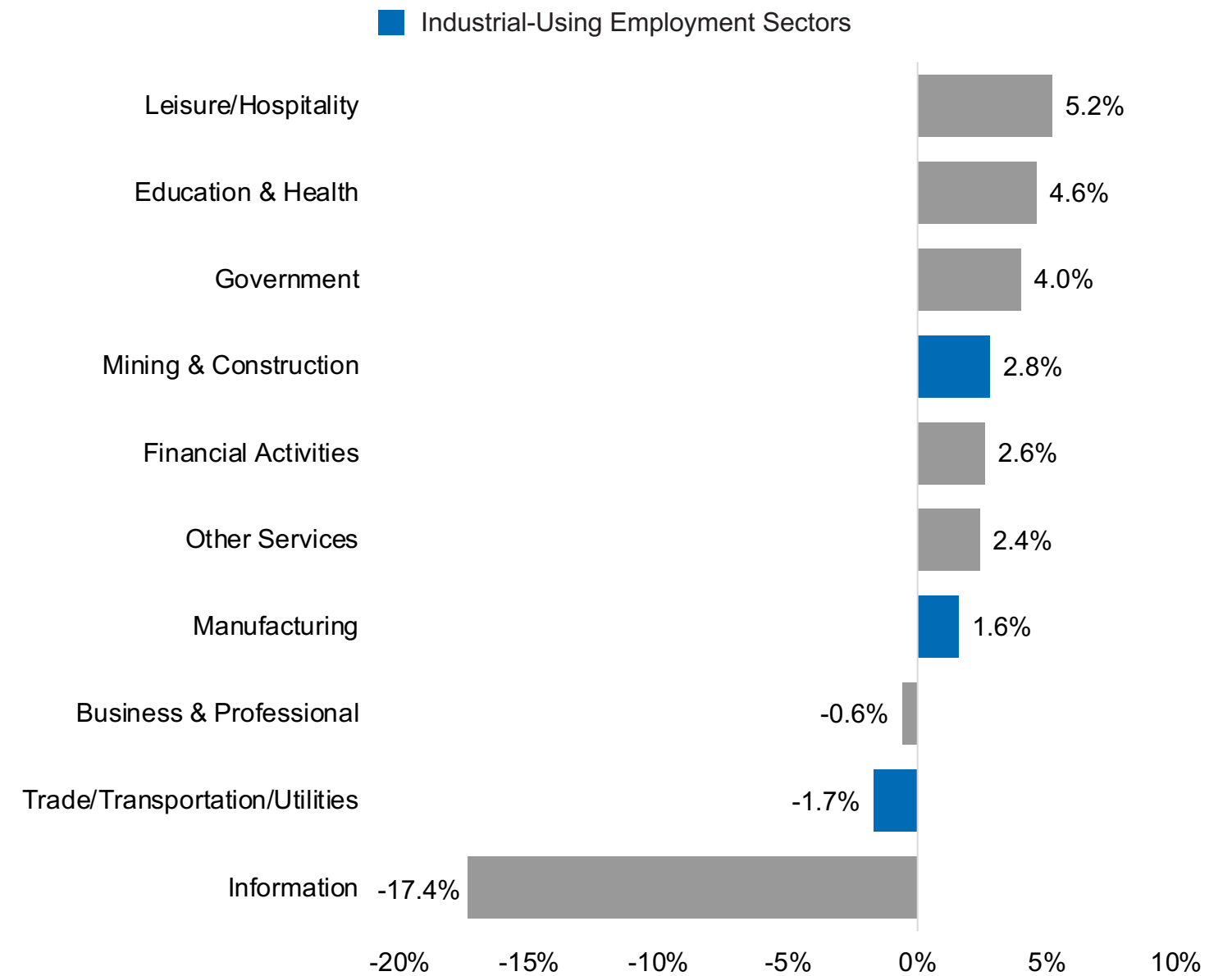
# Employment Growth Continues Across Most Industrial-Using Sectors

The Atlanta market has a high industry diversity with the top two industries, accounting for only 40.4% of the market's industry employment share. The industrial-using employment's trade, transportation and utilities sector is the largest industry sector in the metroplex at 21.3%. While most industries in the metro reported growth, three sectors reported contractions, including trade/transportation/utilities which declined 1.7% year over year. Meanwhile, the manufacturing and construction sectors grew by 1.6% and 2.8% respectively.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

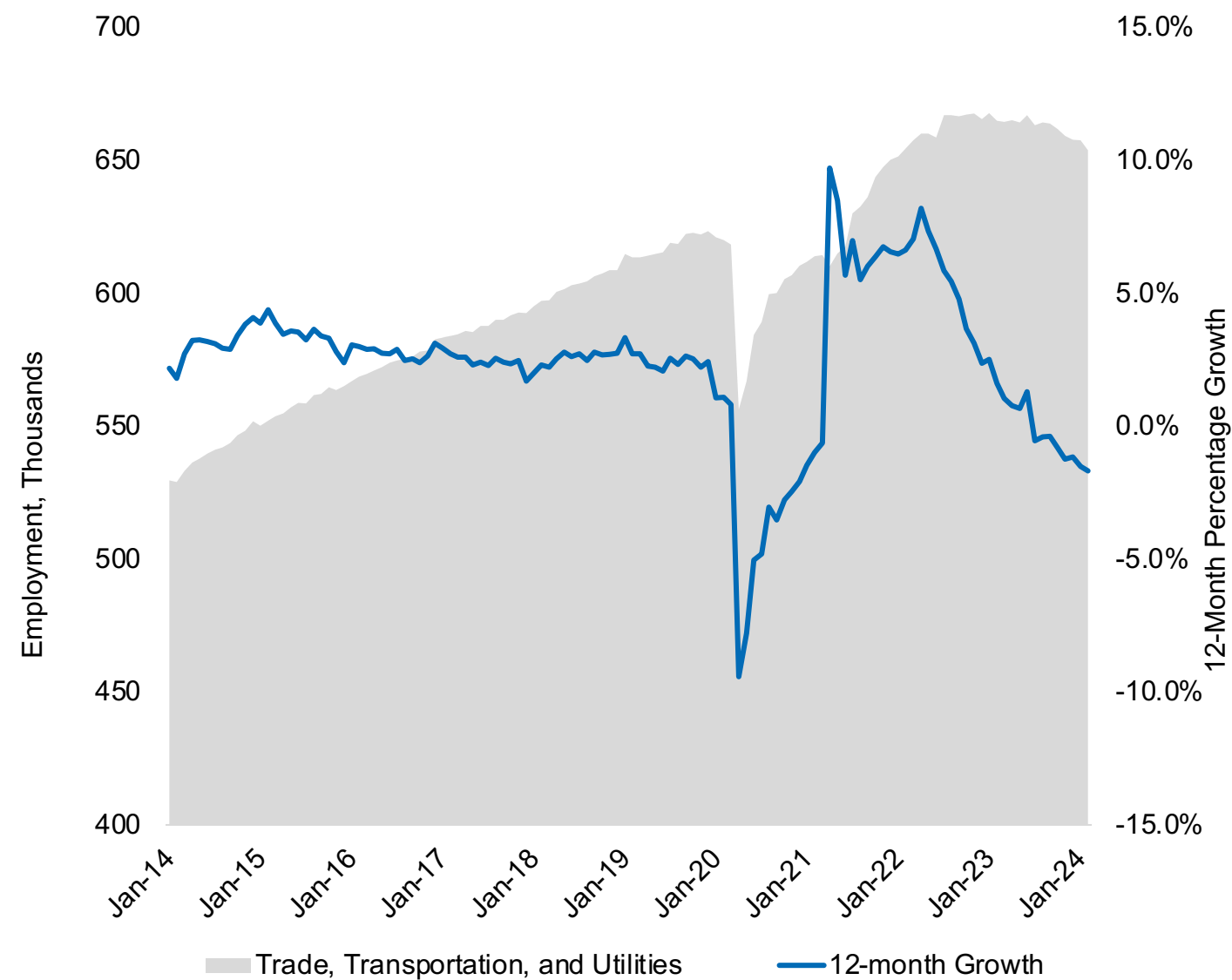


Source: U.S. Bureau of Labor Statistics, Atlanta MSA

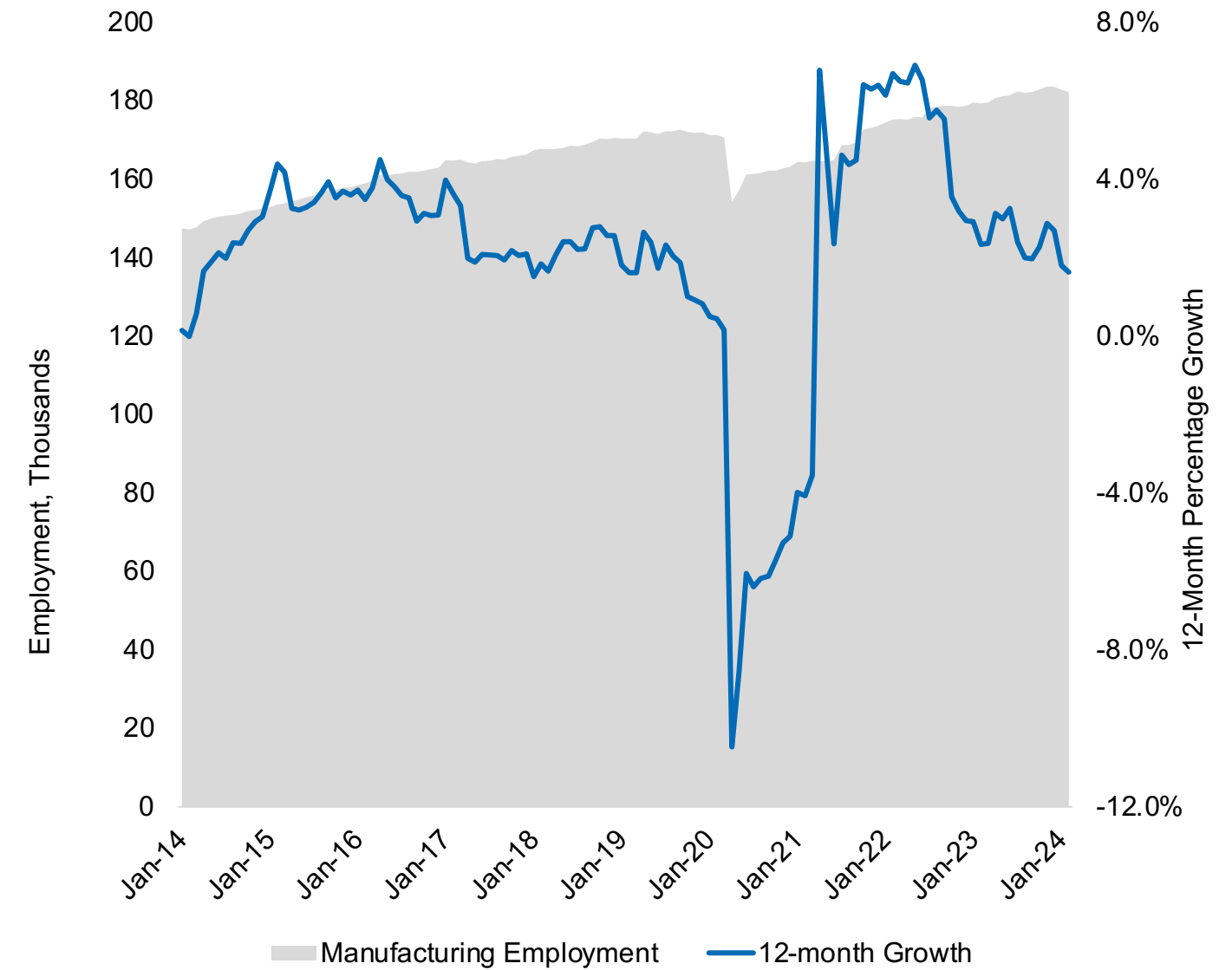
# Industrial Employment Reports Mixed Growth

Trade, transportation and utilities employment declined by 1.7% year over year, ending at 653,560 employees. Despite this decline, the total number remains near historically high levels, representing a 2.1% decline from the all-time high of 667,550 employees reported in January 2023. Manufacturing employment increased 1.6% year over year to 182,230, although it declined slightly by 0.3% compared to the previous month. Taken together, industrial-using employment is showing signs of a slowing economy but is still above five-year trendlines of total employment.

Total Employment and 12-Month Growth Rate, Trade/Transportation/Utilities



Total Employment and 12-Month Growth Rate, Manufacturing



Source: U.S. Bureau of Labor Statistics, Atlanta MSA



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# Leasing Market Fundamentals

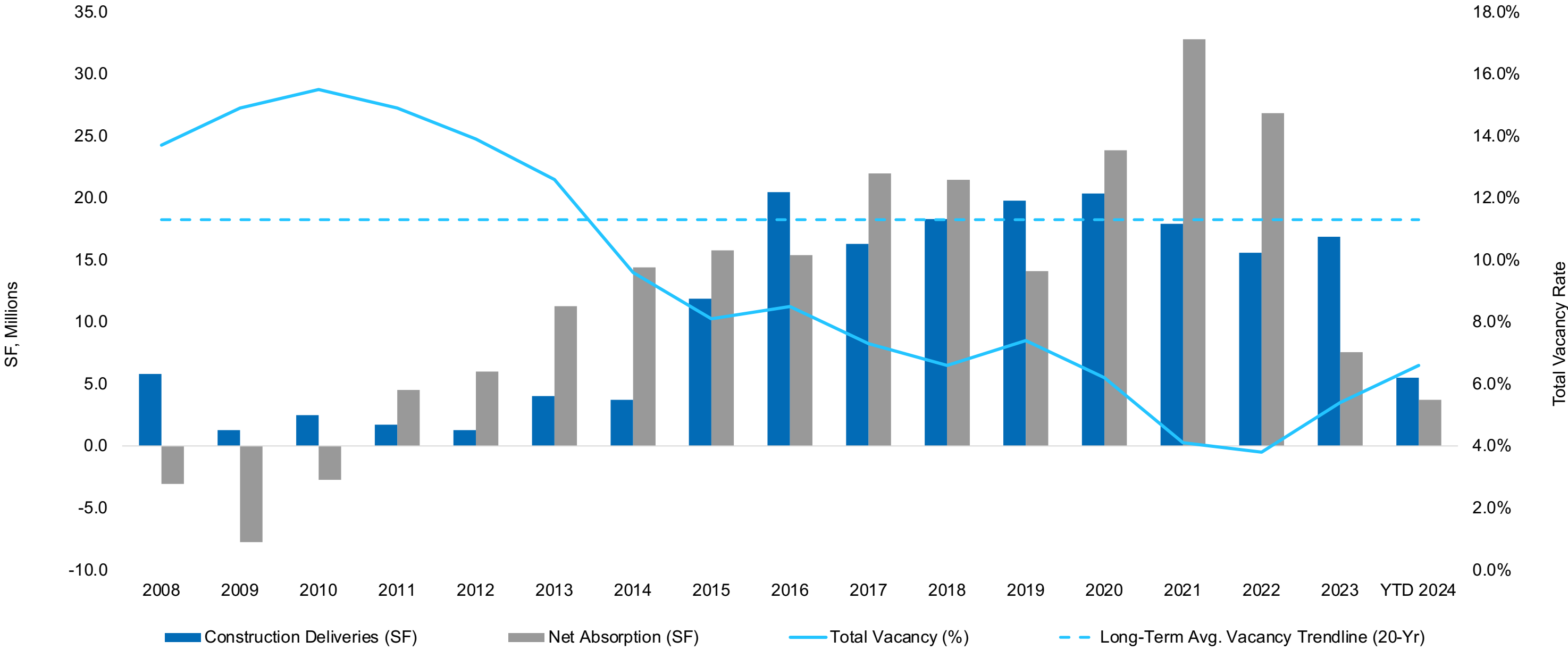




# Supply Continues Outpacing Demand

The Atlanta industrial vacancy rate increased by 240 basis points year over year to 6.6% in the first quarter of 2024, with supply continuing to outstrip demand, continuing the trend from 2023. Deliveries in the first quarter of 2024 were 42.1% higher year over year at 5.5 MSF. Net absorption was also higher over the same period, increasing by 42.2% year over year to end the quarter at 3.7 MSF, which has helped supply and demand close out more balanced compared to 2023.

Historical Construction Deliveries, Net Absorption, and Vacancy

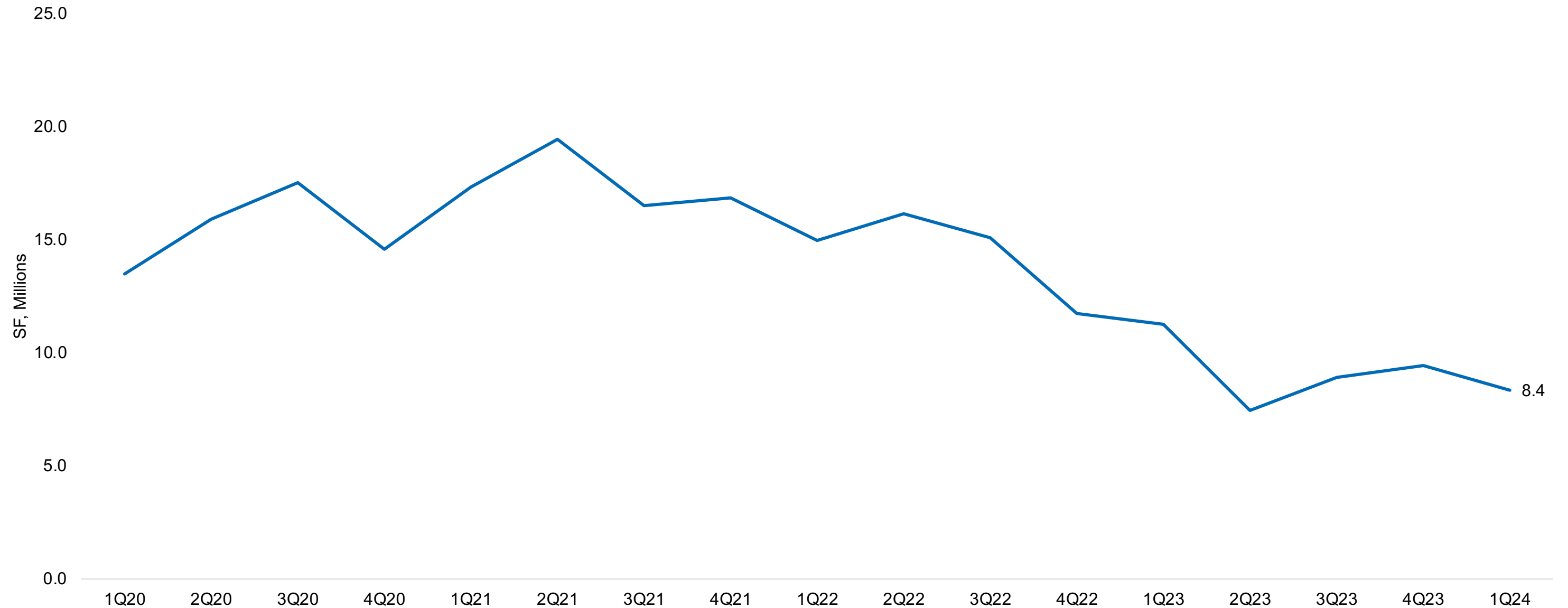


Source: Newmark Research, CoStar

# Industrial Leasing Activity Decelerates to Below Pre-Pandemic Levels

In the first quarter of 2024, leasing activity continued a decelerating trend from the historical highs reported post pandemic, ending the quarter at 8.4 MSF, an 11.6% quarter over-over-quarter decline. Despite slowing leasing activity, likely resulting from rising interest rates in the earlier part of 2023, demand continues to remain positive.

Total Leasing Activity (SF)



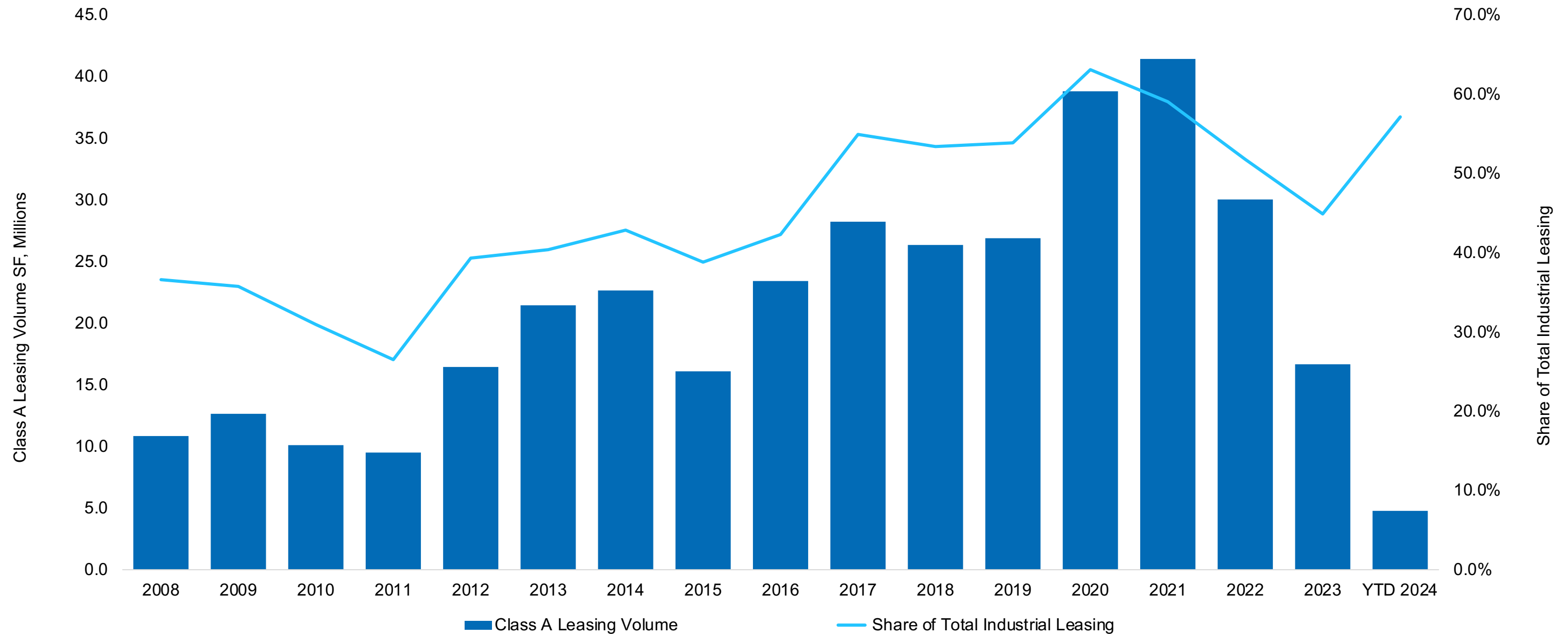
Source: Newmark Research, CoStar



# Class A Warehouse Leasing Picks Up Year Over Year In the First Quarter

Class A warehouse space leasing activity increased 2.0% year over year to end the first quarter of 2024 at 4.8 MSF reflecting an increase for the third consecutive quarter. This change reversed the previous trend of declining leasing activity from historic highs following the pandemic, hitting the trough in the second quarter of 2023. Class A warehouse leasing represented 57.2% of overall activity in the first quarter of 2024, up from 41.5% in the first quarter of 2023.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

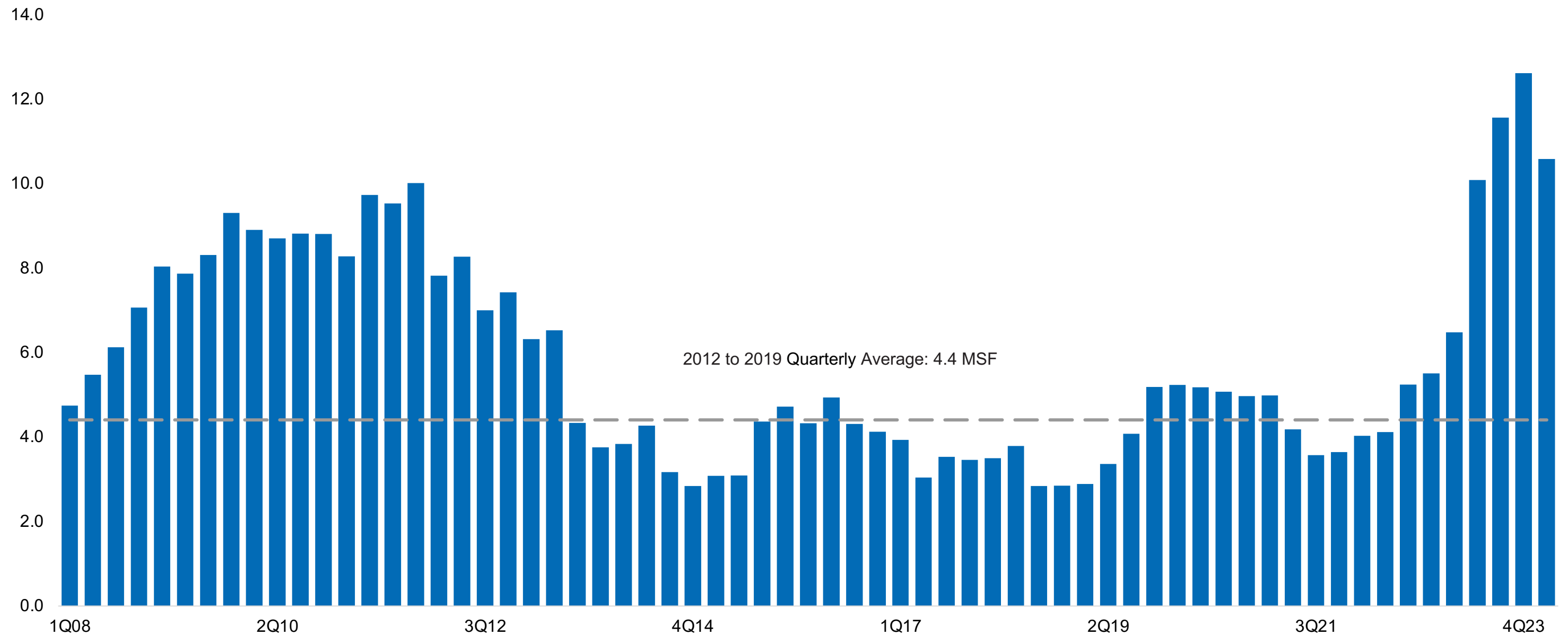


Source: Newmark Research, CoStar

# Industrial Sublease Declines from All-Time High

Sublease volume eased off a recent historical high, reversing a trend of increasing sublease availability in the market since the second quarter of 2022. Currently, as of the end of the first quarter of 2024, available sublease space was 10.6 MSF, a 16.1% decline from the all-time historical high last quarter at 12.6 MSF. Sublease availability levels remain elevated however, driven by higher interest rates and declining consumer demand, driving some firms to control costs via supply chain optimization and consolidation, which includes putting excess or underutilized space up for sublease.

Available Industrial Sublease Volume (msf)



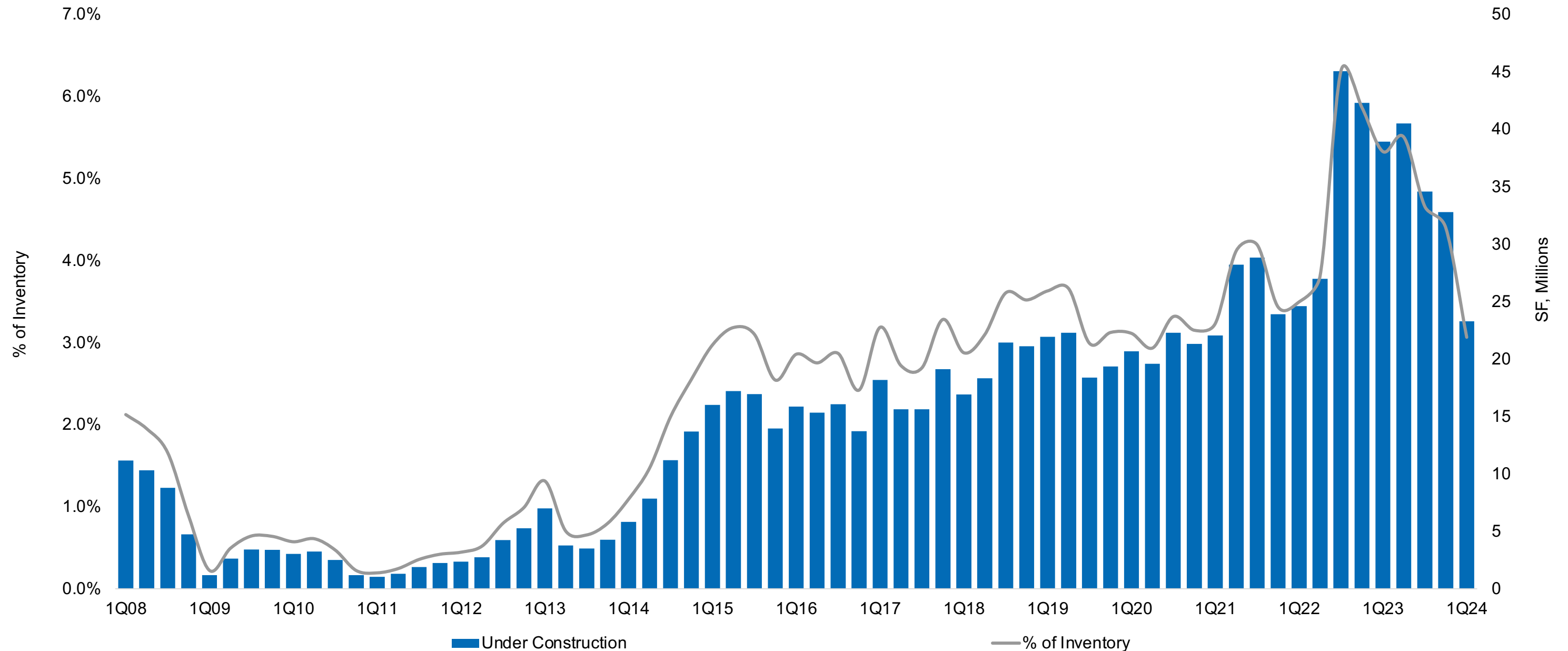
Source: Newmark Research, CoStar



# Industrial Supply Pipeline Continues Declining from Historic Highs

The construction pipeline recently trended downward for the third consecutive quarter to 23.3 MSF, after reaching a historic high of 45.1 MSF in the third quarter of 2022. Many developers are pausing new development amid slowing leasing activity and a challenging financing environment for new construction. The general decrease in recent quarters create a possibility for potential supply constraints as economic conditions improve later in 2024 and 2025.

Industrial Under Construction and % of Inventory

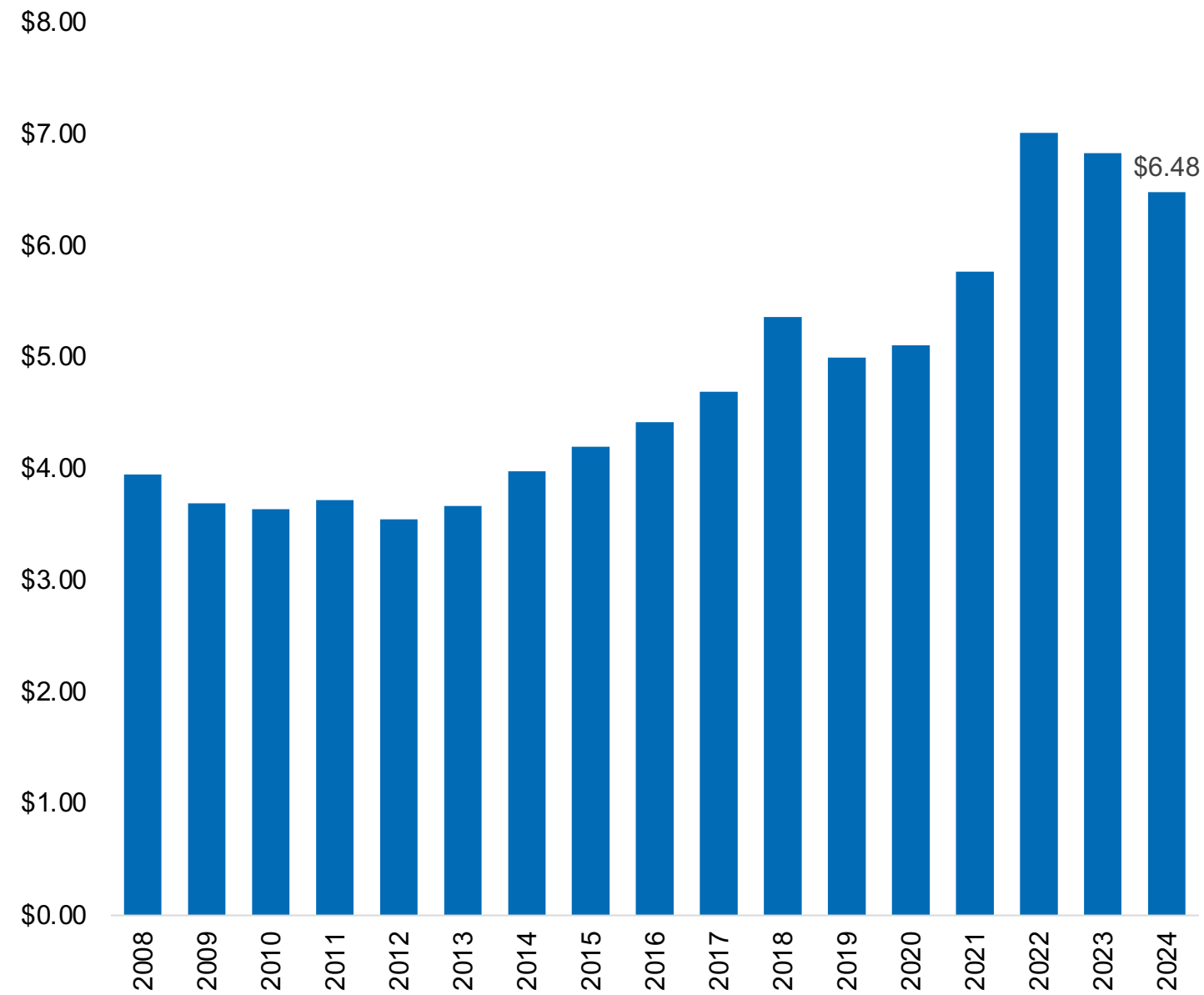


Source: Newmark Research, CoStar

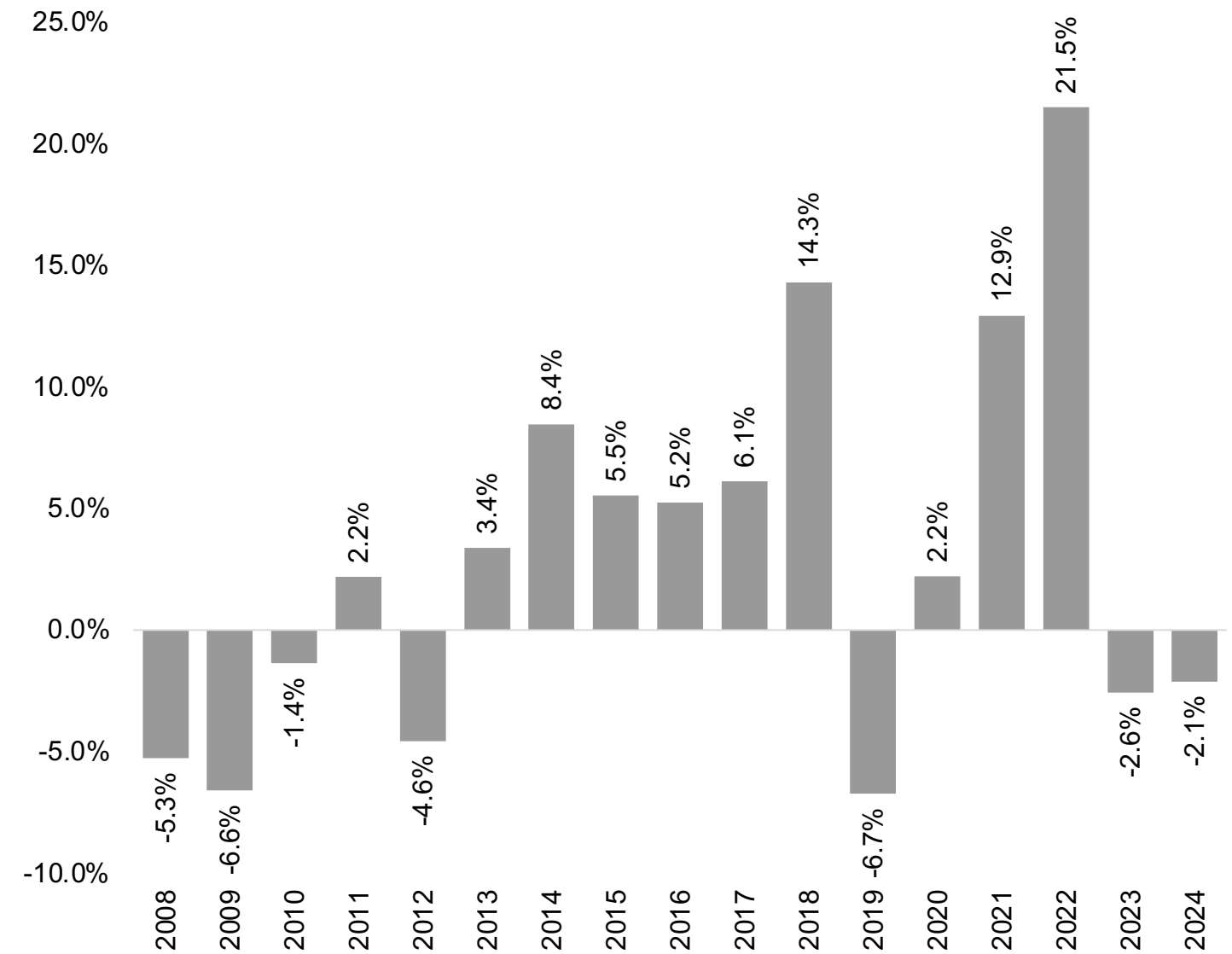
# Asking Rents Decline

Industrial average asking rents eased from the all-time high of \$7.01/SF reached in the fourth quarter of 2022, ending the first quarter of 2024 at \$6.48/SF. This represents a 2.1% decline year over year, with rent growth expected to continue slowing in the near-term as the market absorbs new deliveries.

Industrial Average Asking Rent, \$/SF, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar



# Notable 1Q24 Lease Transactions

Leasing activity slowed in the first quarter of 2024 to 8.4 MSF, an 11.6% decline over the previous quarter. While three of the top five largest leases signed were renewals, the two largest leases totaled 1.5 MSF, and indicate there is still an appetite for space in the market. Currently, projects under construction are 37.8% preleased.

## Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Hanwha Qcells <i>Hanwha Qcells signed a lease to occupy 68.5% of the recently delivered Busch Commerce Center. The South Korean-based company is a manufacturer of photovoltaic cells. The deal represents an expansion of space in the Atlanta metro.</i>	Busch Commerce Center – Cass White Rd	Northeast/I-85 Corridor	Direct New	834,971
Devgiri <i>Devgiri, a company that manufactures rugs and other home textiles, subleased the entire building and will be a first-generation tenant within the newly delivered Clayton 75.</i>	Clayton 75 - 2464 Mt. Zion	Airport/South Atlanta	Sublease	705,833
Trane Technologies <i>Trane renewed their full-building lease. The company produces heating, ventilation and air-conditioning systems and was originally the building's first-generation tenant.</i>	Southmeadow Distribution – 4286 E Southmeadow Pky	Airport/South Atlanta	Renewal	400,125
KGP Logistics <i>KGP renewed their full-building lease, where they have been a tenant since 2023. The company provides supply chain and network transformation solutions for the communications industry.</i>	Shawnee Ridge – E - 1 – 300 Shawnee Ridge	Northeast/I-85 Corridor	Renewal	395,092
Interface <i>Interface, a company that produces flooring solutions, renewed their full-building lease. The company has been a tenant in the building since it first delivered in 2016.</i>	7225 Goodson Rd	Airport/South Atlanta	Renewal	370,000

Source: Newmark Research





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