

3Q23

Atlanta Industrial Market Overview



NEWMARK

Market Observations

Economy

- The market's unemployment rate ticked up by 28 basis points year over year to 3.2%, the highest since November 2021 but below the five-year average of 4.1%.
- Despite a slowing economy, job growth continued, albeit at a slower pace, growing 1.8% in the third quarter of 2023.
- Most sectors, except information, financial activities, and leisure and hospitality, reported employment growth, with government leading job gains at 6.0% over the past 12 months.
- Industrial-using jobs in the market continued to reflect yearly growth, with manufacturing, trade/transportation/utilities and construction jobs growing by 0.3%, 5.6% and 2.9% year over year, respectively.

Major Transactions

- Walgreens was the largest lease of the quarter, renewing its existing space and also expanding to a 745,200-SF footprint at Jackson 85 Distribution Center.
- Atkore signed the third-largest deal, which was the biggest new and full-building lease of the quarter, for Building A at 1181 Cassville White Rd. NE in White.
- Three of the top five largest leases signed in the third quarter of 2023 were new leases, including Atkore, Dollar General and Southeast Toyota, indicating that there is still a healthy appetite for space in the market.

Leasing Market Fundamentals

- Supply outpaced demand, with 4.6 MSF delivering in the third quarter of 2023 and net absorption ending at negative 746,561 SF. Year-to-date deliveries totaled 12.7 MSF while net absorption ended at 2.6 MSF.
- Overall rental rates were \$6.64/SF, decreasing by 2.9% year over year. The recent historical high was \$7.00/SF at year-end 2022.
- The construction pipeline trended downward for the fourth consecutive quarter, reporting 29.1 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 third quarter of 2023 by 180 basis points year over year to 5.7%.

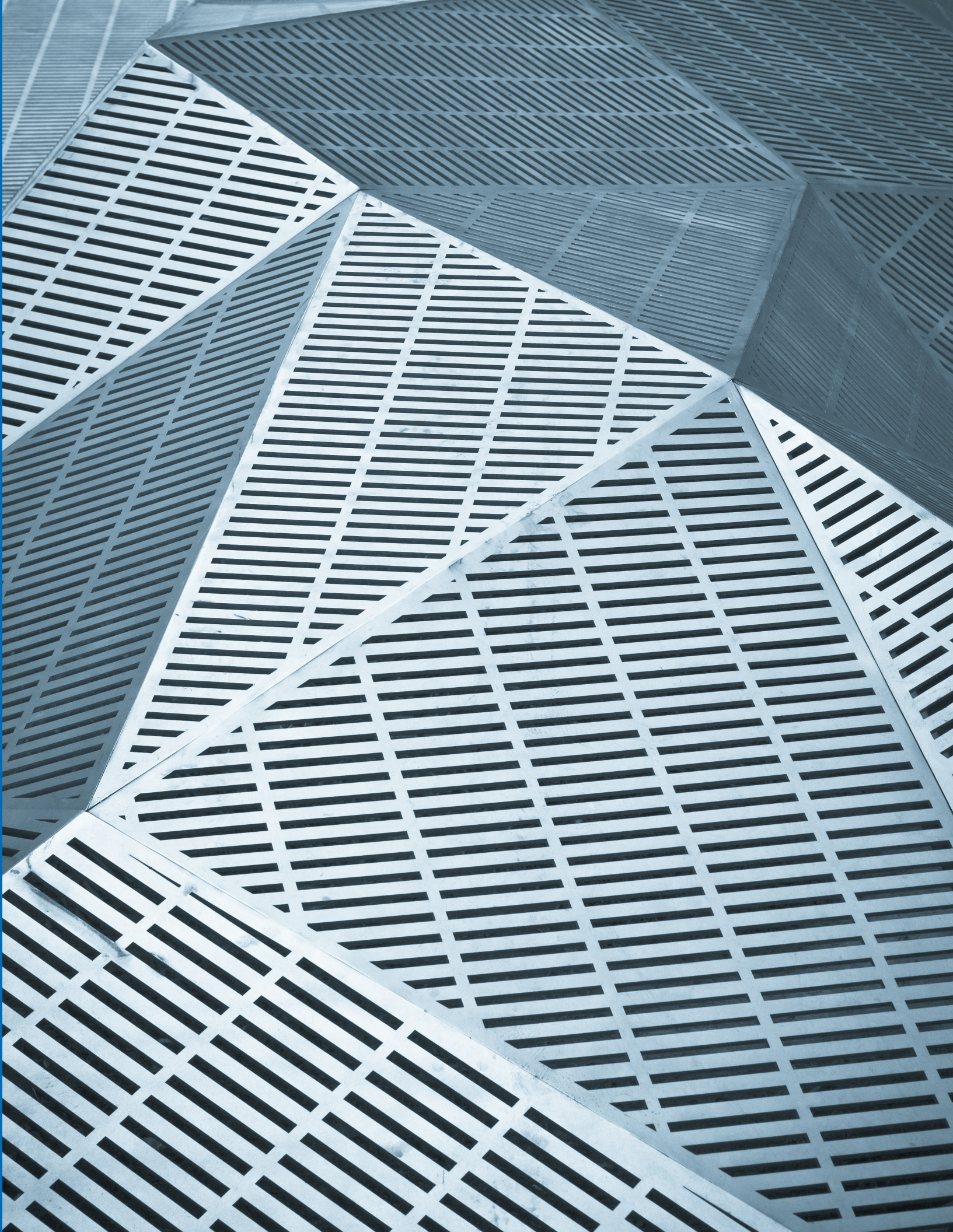
Outlook

- The Atlanta industrial market will likely see continued lowering of supply in the near term, helping to bring demand more in balance with supply.
- Vacancy rates can be expected to increase in the near term as supply will still outpace occupancies, before subsequently decreasing again as the level of demand aligns more closely with the available supply.
- Asking rents will likely continue to increase, albeit at a more muted pace, due to elevated inflation and a large pipeline of quality new product commanding higher pricing coming online.

1. Economy
2. Leasing Market Fundamentals

3Q23

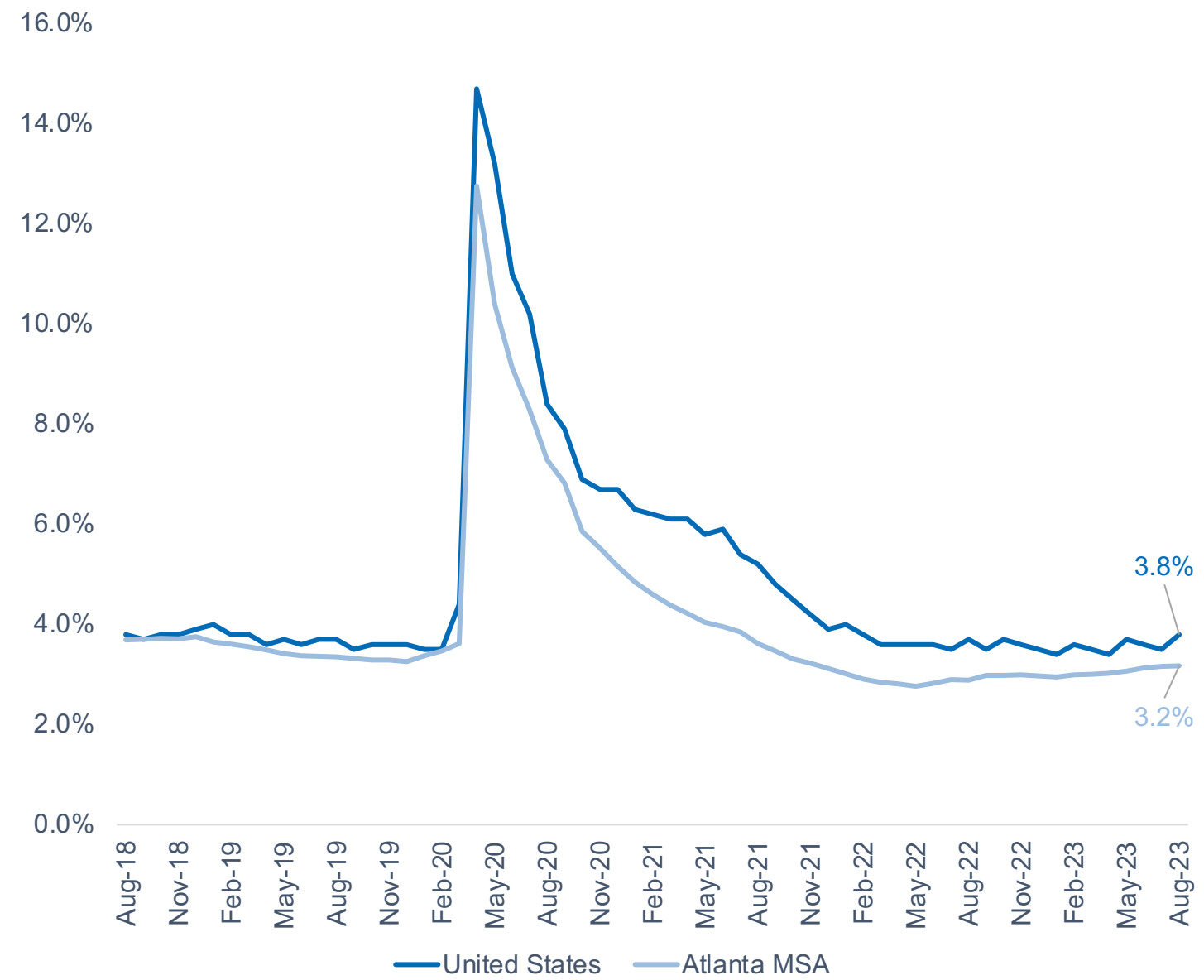
Economy



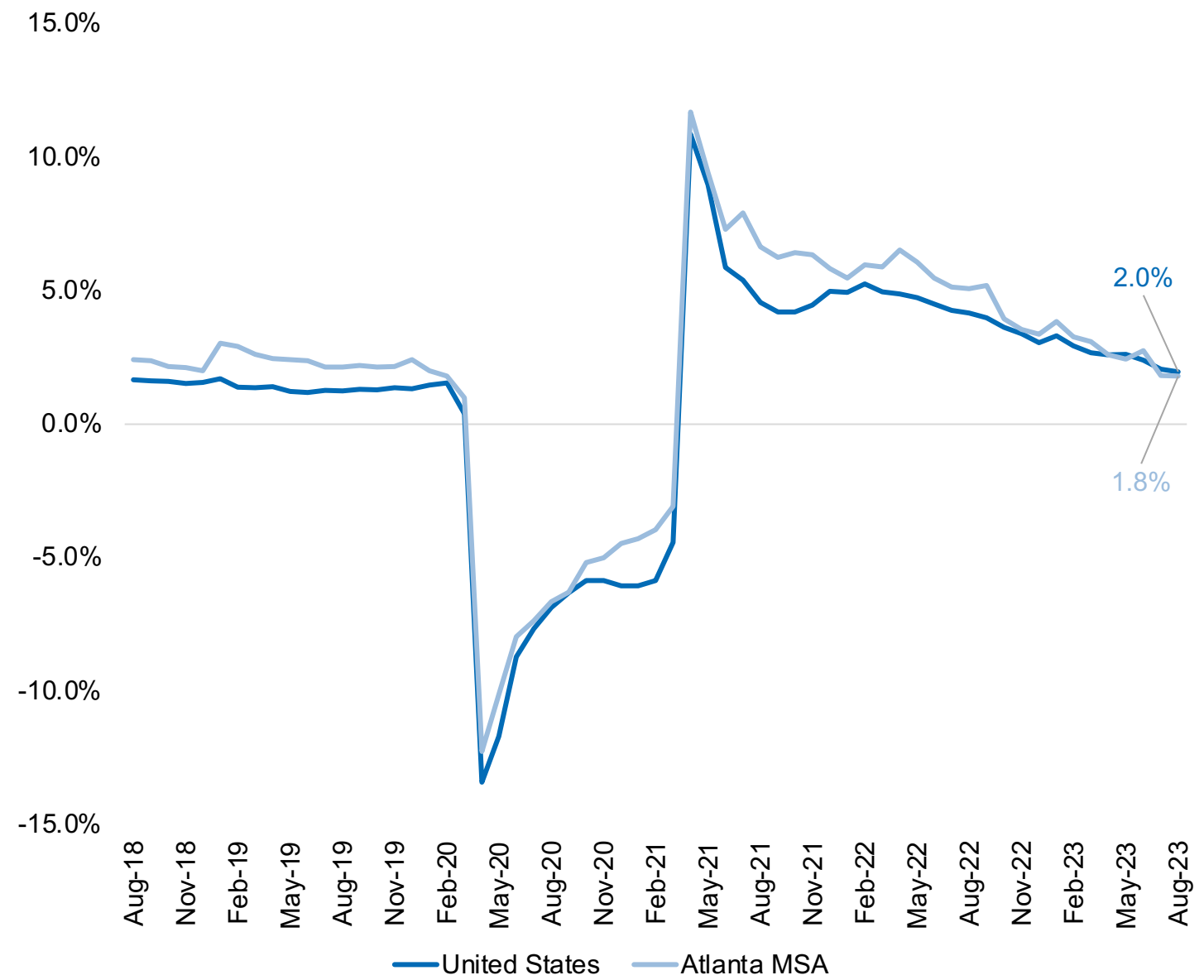
Metro Employment Continues to Slow

The Atlanta metro has generally reported lower unemployment rates compared with the national average, despite ending the third quarter of 2023 at 3.2%, a 28-basis-point increase in the rate year over year. Recent economic headwinds led employment growth to slow by 329 basis points year over year to 1.8% in the third quarter of 2023.

Unemployment Rate, Seasonally Adjusted



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



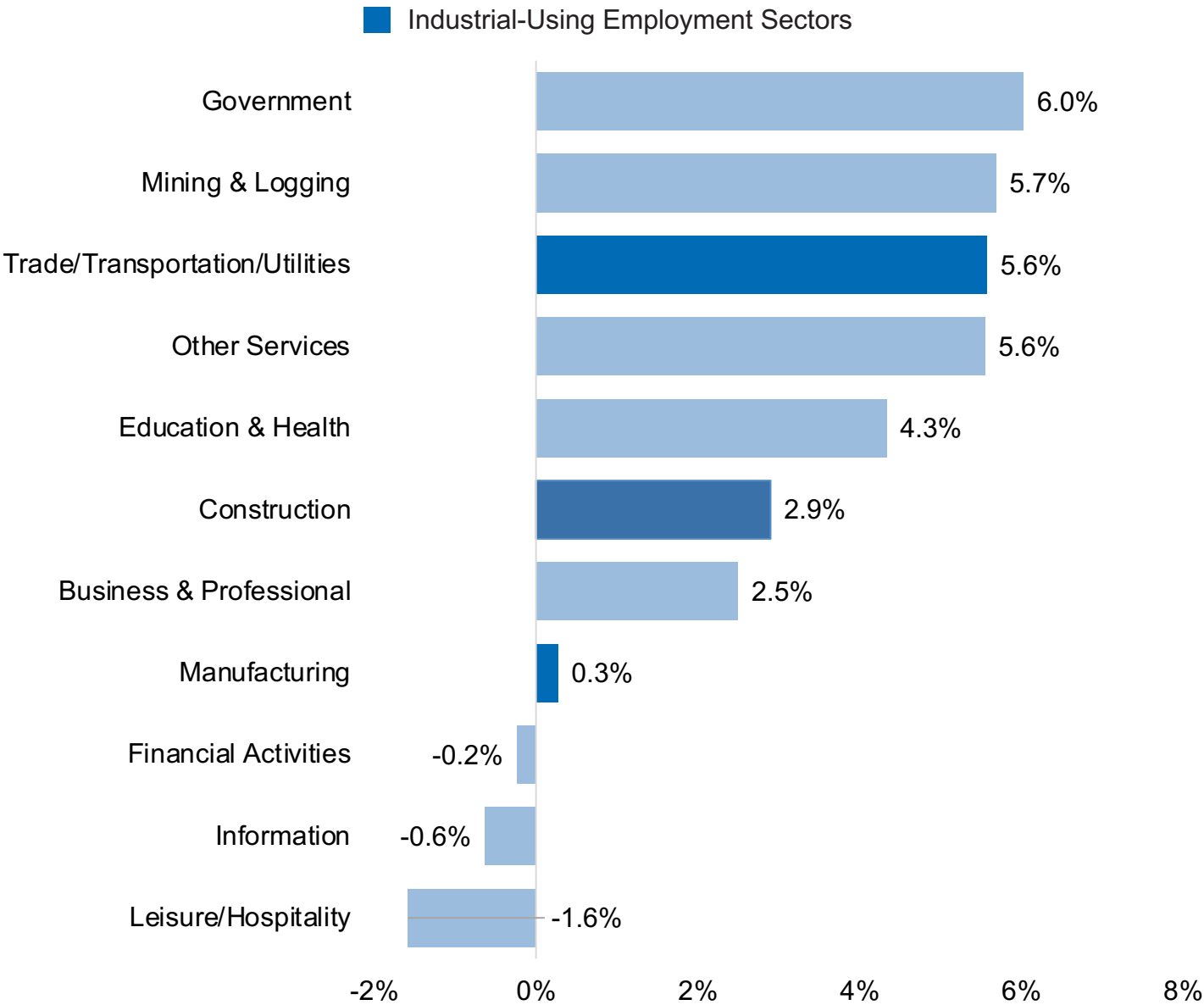
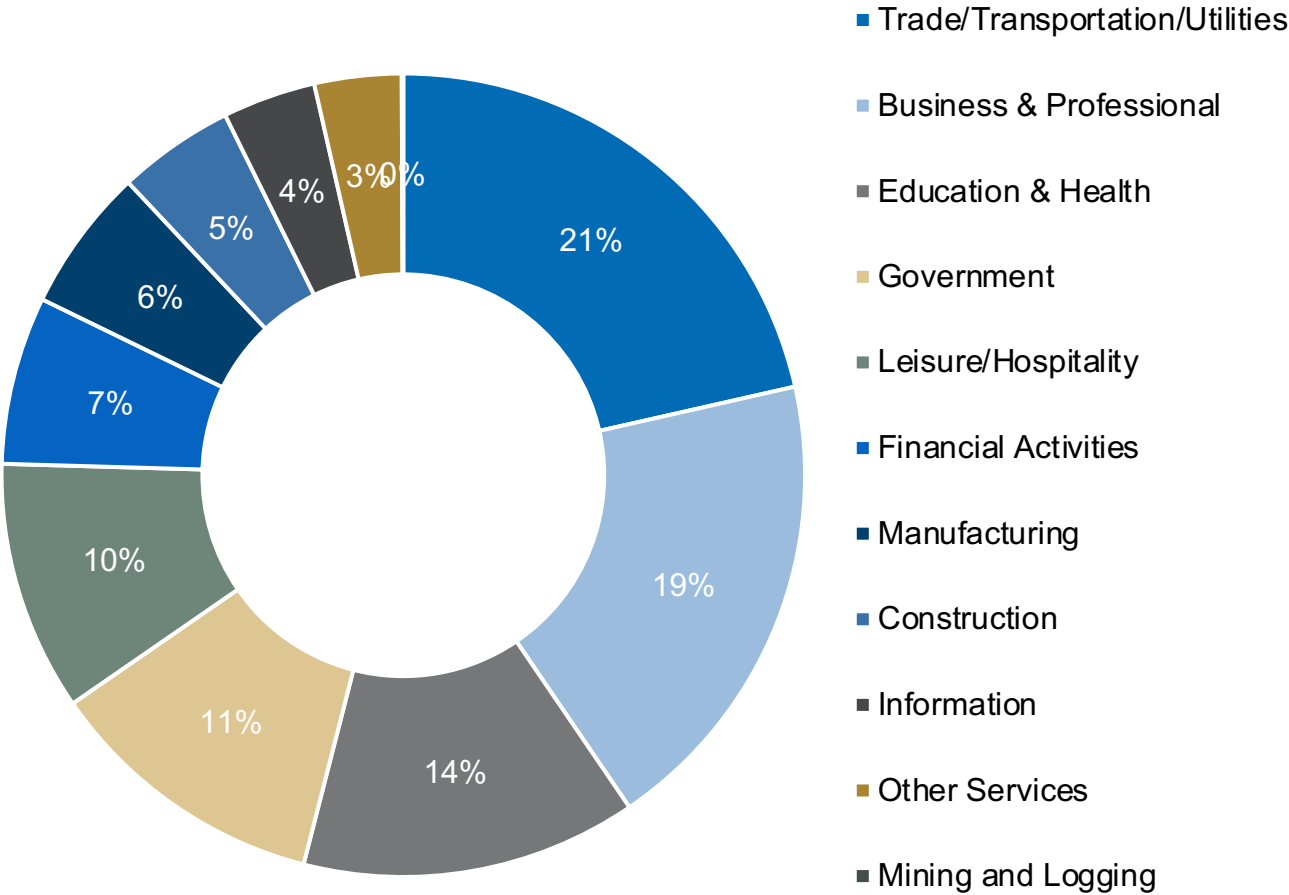
Source: U.S. Bureau of Labor Statistics, Atlanta MSA

Employment Growth Continues across All Industrial Sectors

Metro Atlanta’s biggest two sectors account for 40.4% of market share . The industrial-using trade/transportation/utilities sector is the largest industry sector at 21.4%. Most industries in the Metro reported growth, with all industrial-using sectors reporting year-over-year growth ranging from 0.3% to 5.6%.

Employment by Industry, August 2023

Employment Growth by Industry, 12-Month % Change, August 2023

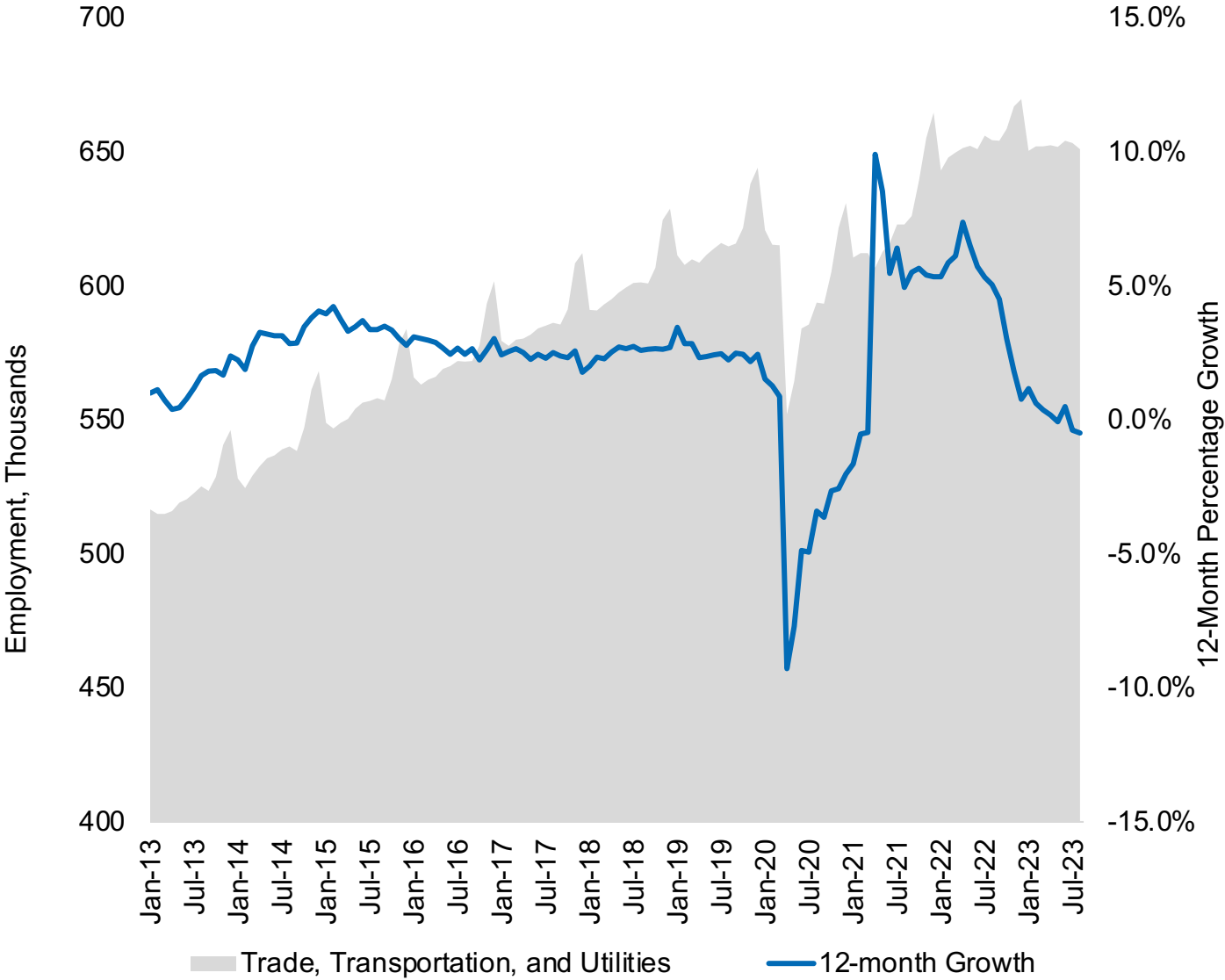


Source: U.S. Bureau of Labor Statistics, Atlanta-Sandy Springs-Roswell MSA

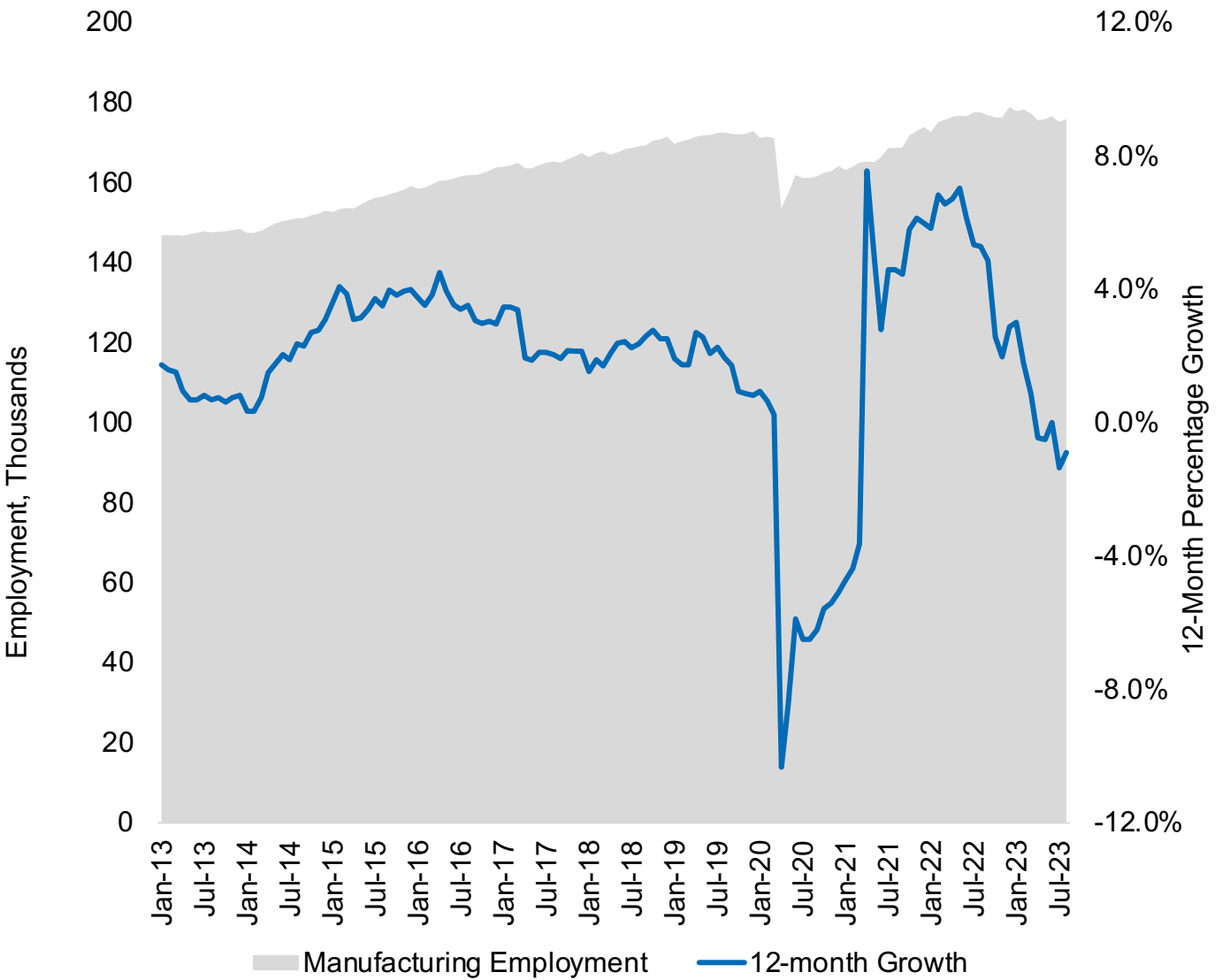
Industrial Employment Softens; Still Strong

Trade/transportation/utilities employment remains near all-time highs, reporting 650,900 employees as of the end of August 2023, close to the historical high of 669,500 reported year-end 2022. As of the end of August 2023, manufacturing employment reported 175,900 employees, also declining from the historic peak of 178,900 reported back in December 2022, reflecting a slowing economy.

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



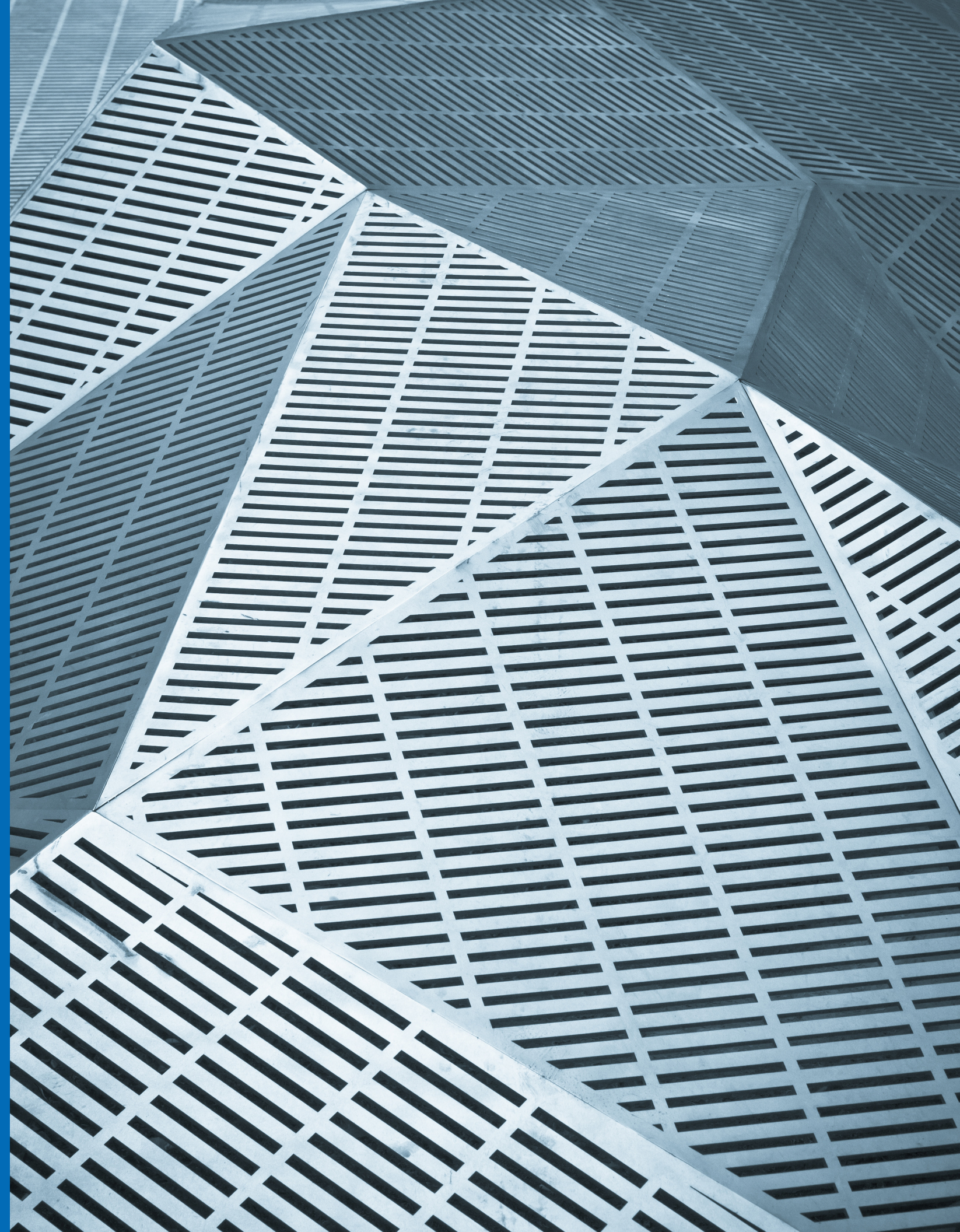
Total Employment and 12-Month Growth Rate, Manufacturing



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

3Q23

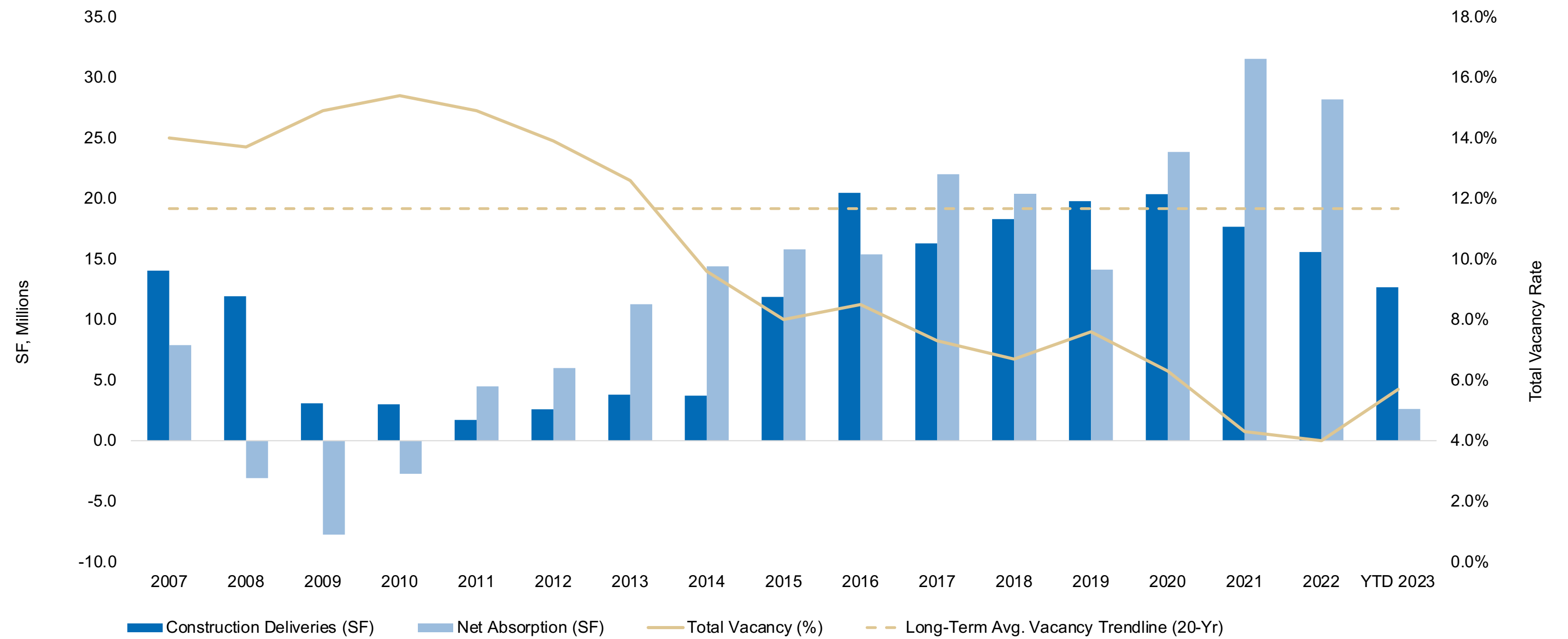
Leasing Market Fundamentals



Supply Outpaces Demand

The Atlanta industrial vacancy rate increased by 180 basis points year over year to 5.7% in the third quarter of 2023, with supply outstripping demand for the first time since the pandemic. Deliveries continue to remain strong in the market, with new supply added in the third quarter of 2023 at 4.6 MSF and year-to-date 2023 at 12.7 MSF. Despite national economic headwinds, demand continues to remain positive for industrial space in the market.

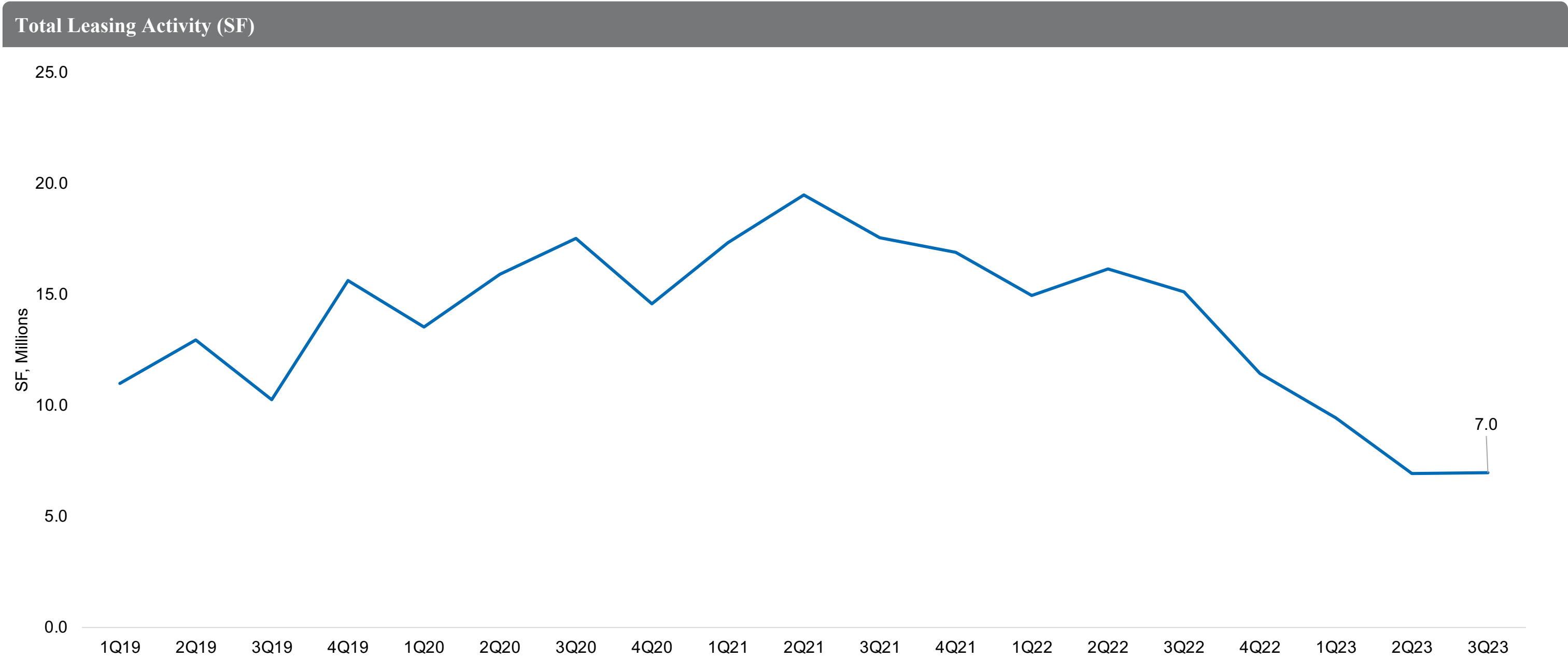
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Industrial Leasing Continues to Slow

In the third quarter of 2023, leasing activity decreased 0.5% quarter over quarter to end at 7.0MSF. Despite leasing activity slowing year over year, likely resulting from national economic headwinds, demand continues to remain positive in the market.

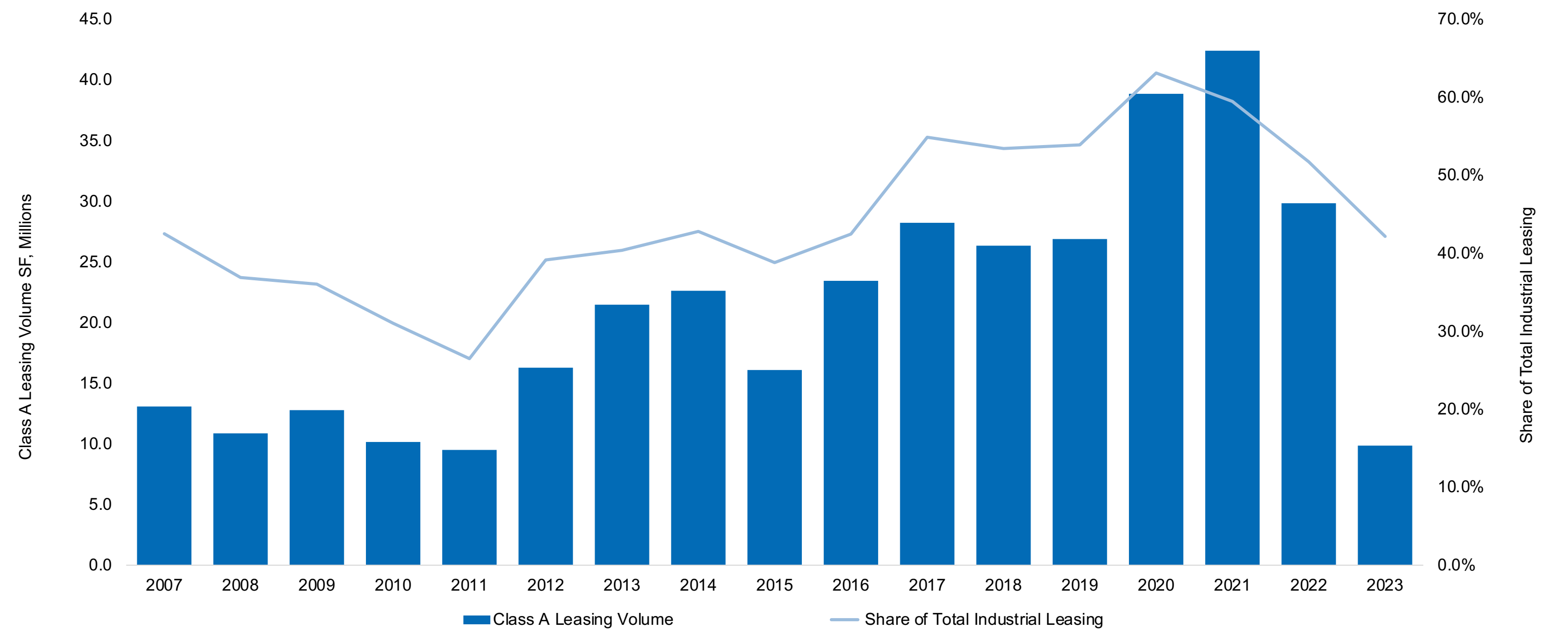


Source: Newmark Research, CoStar

Class A Warehouse Leasing Activity Decreases

Class A warehouse space leasing activity have decreased from historic highs in 2021. This is due to an influx of high-quality deliveries that have hit the market during this same time period, with Class A warehouse deliveries also reaching historical highs following the pandemic. Class A warehouse leasing represented 42.2% of overall activity so far in 2023, down from 51.7% from the previous year and remaining below the pre-pandemic average at 41.5% from 2007 to 2019.

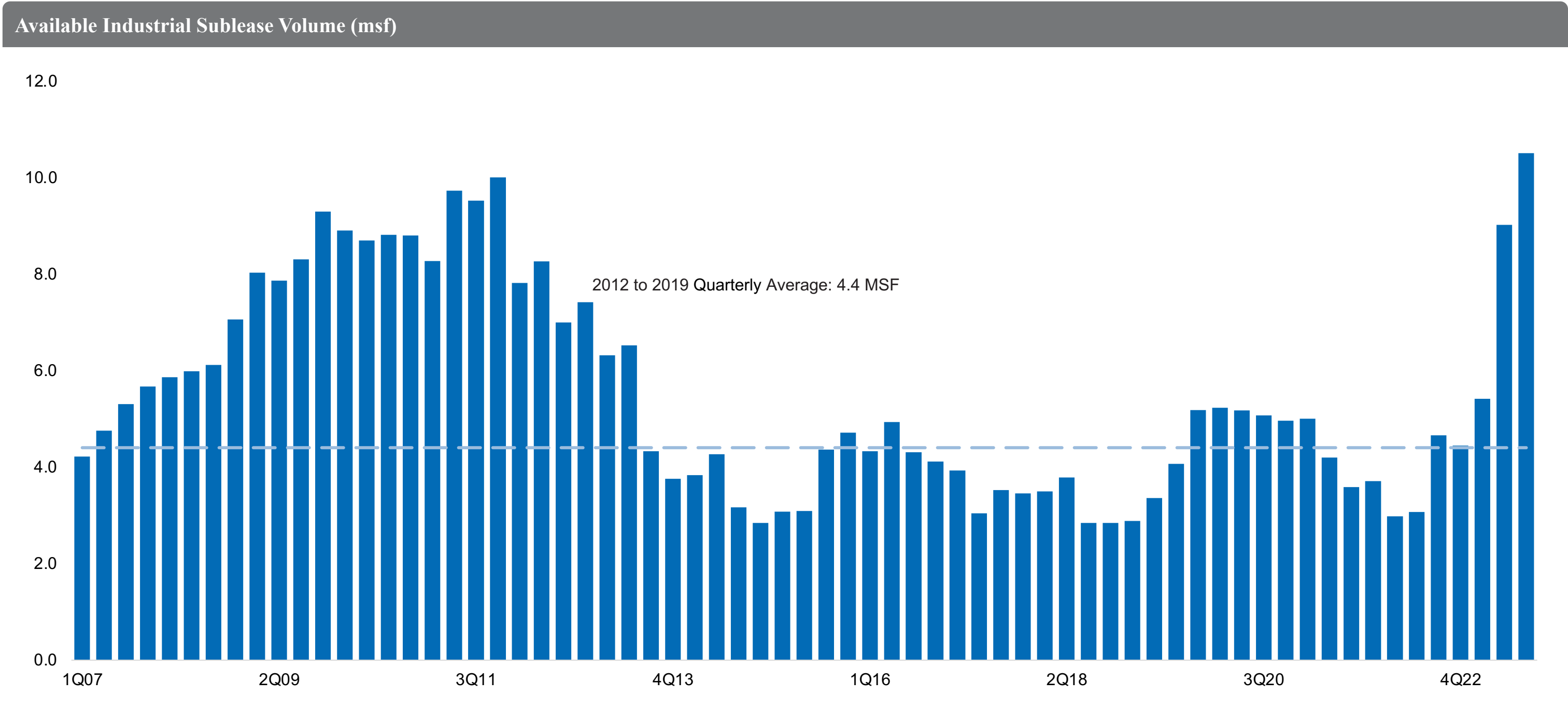
Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research, CoStar

Industrial Sublease Availability Spikes to a Post-Pandemic High

Sublease volume spiked to a recent high following the pandemic, reaching 10.5 million SF of available sublease space as of the end of the third quarter of 2023. Sublease availability has increased for three consecutive quarters. Rising interest rates, an inflationary environment and declining consumer demand are driving some firms to control costs via supply chain optimization and consolidation, which includes putting excess or underutilized space up for sublease.

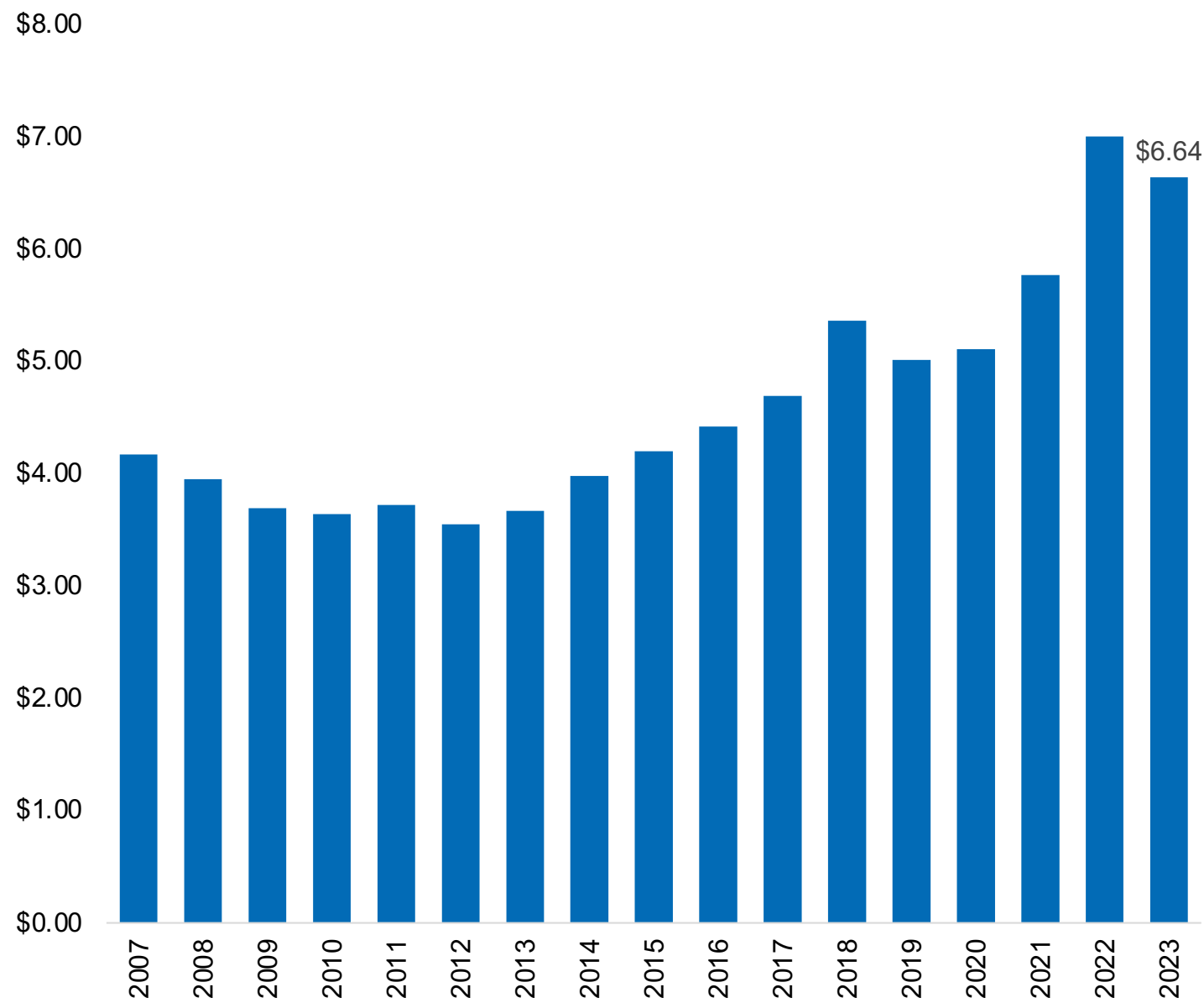


Source: Newmark Research, CoStar

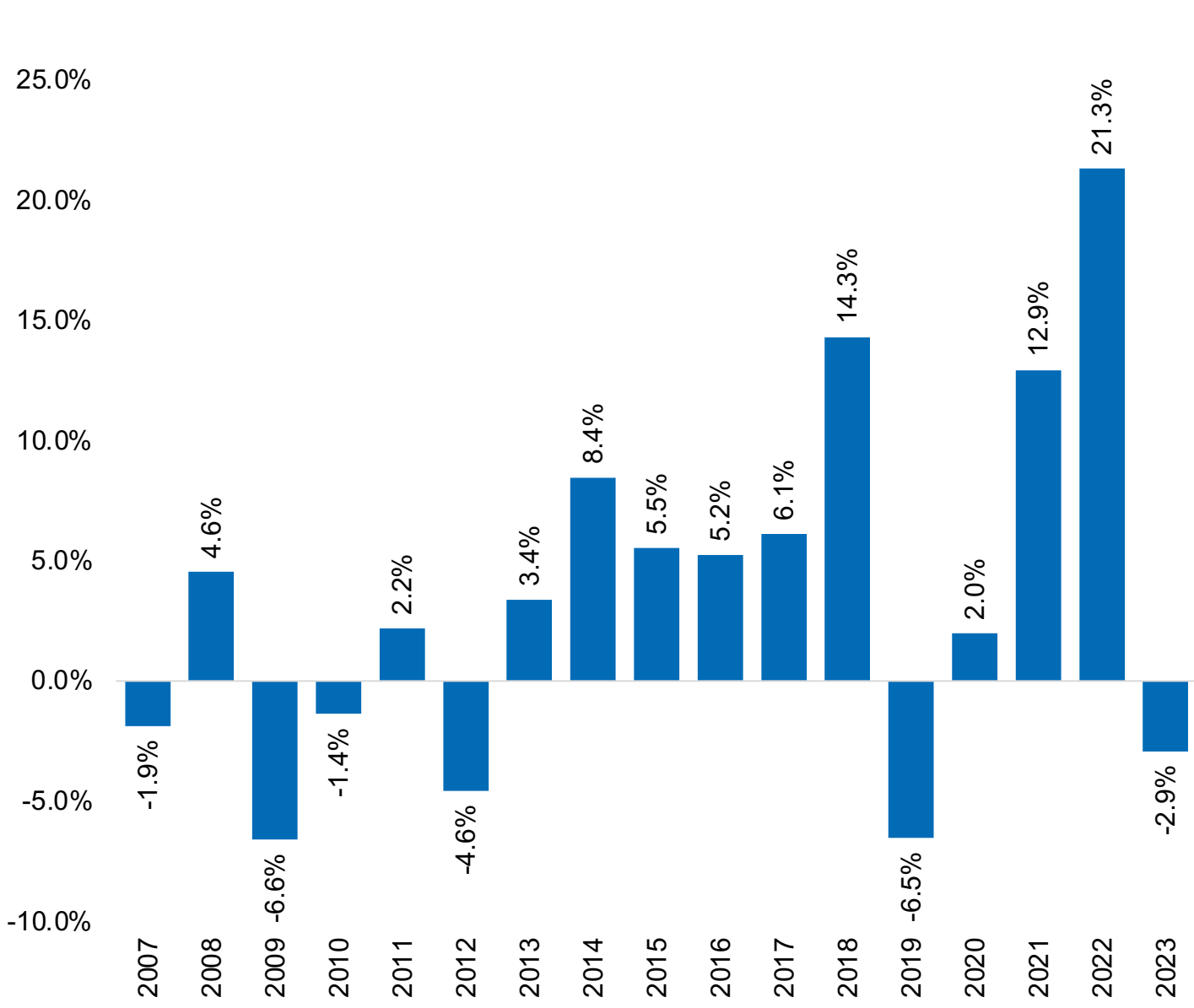
Asking Rents Ease from Historical High

Industrial average asking rents eased from an all-time high reached at the end of 2022 at \$7.00/SF, closing out the third quarter of 2023 at \$6.64/SF. Asking rents decreased by 2.9% 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



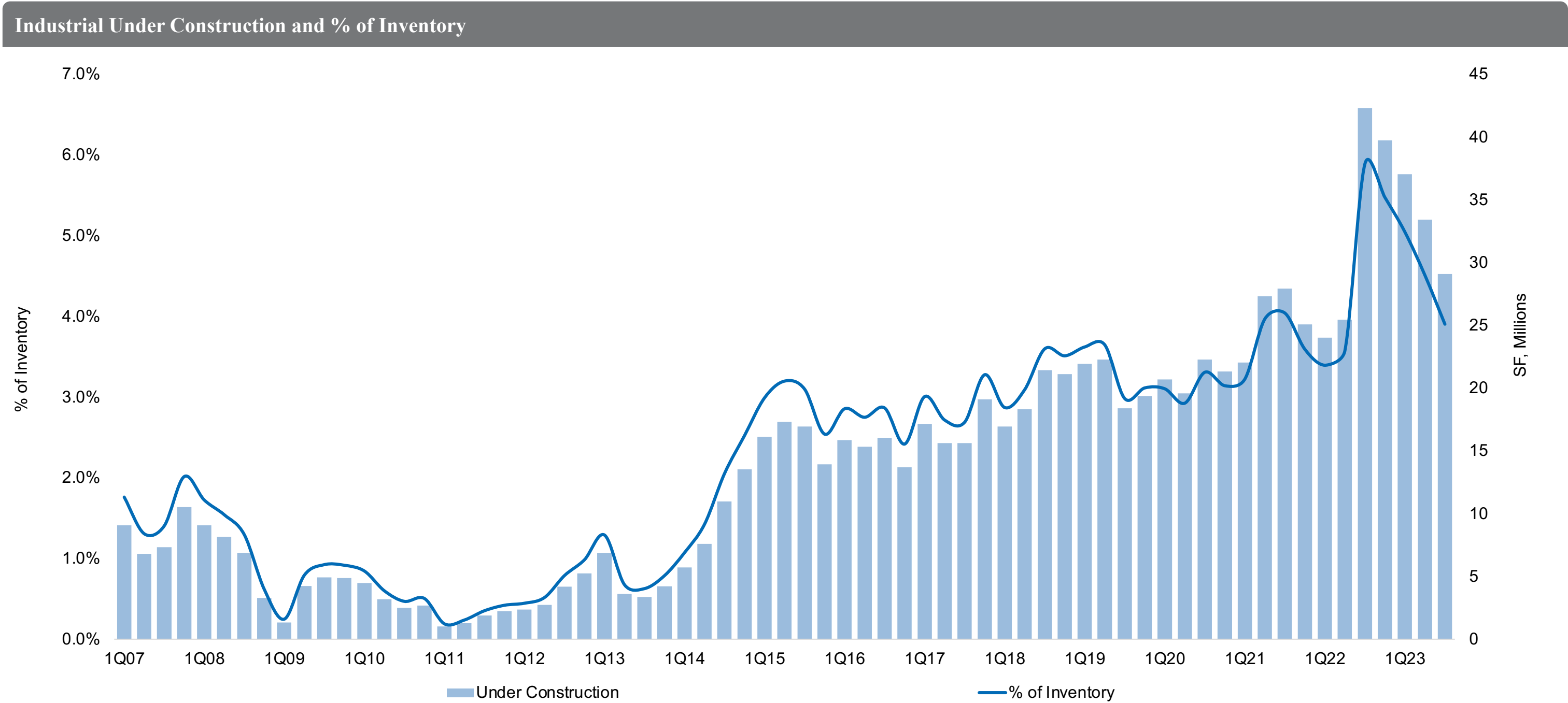
Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research, CoStar

Industrial Pipeline Continues Trending Downward

The construction pipeline trended downward for the fourth consecutive quarter after reaching a historic high of 42.3 million SF 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 construction pipeline will continue to decelerate throughout 2023, creating a possibility for potential supply constraints as economic conditions improve in 2024 and 2025.



Source: Newmark Research, CoStar

Notable 3Q23 Lease Transactions

Leasing activity was 7.0 MSF in the third quarter of 2023, a decline of 0.5% quarter over quarter, but three of the top five deals were new leases, indicating that there is still a healthy appetite for space in the market.

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Walgreens	Jackson 85 Distribution Center – Building E	Northeast/I-85 Corridor	Renewal/Expansion	745,200
Walgreens renewed their original space at 350 Raco Parkway in Pendergrass, while also expanding their footprint, occupying 74% building.				
Hubbel	Jefferson Distribution Center – Building B	Northeast/I-85 Corridor	Renewal	623,328
A Hubbel subsidiary, Progress Lighting renewed their lease at 350 Logistics Center Parkway in Jefferson, where they occupy 73% of the building. The company was originally reported as having moved in in the fourth quarter of 2016.				
Atkore	Busch Logistics Park – Building A	Northwest/I-75	Direct New	523,541
Representing the biggest new lease of the third quarter, Atkore signed a full-building lease at 1181 Cassville White Rd NE in White. The building delivered in 2022.				
Dollar General	Greenwood Industrial Pkwy – Building 500	Northwest/I-75	Direct New	485,091
Dollar General signed the biggest sublease deal of the quarter for the full building at 165 Greenwood Industrial Pky. The original lease rolls at the end of September 2026.				
Southeast Toyota	6455 Best Friend Rd.	Northeast/I-85 Corridor	Direct New	453,600
Southeast Toyota signed a full-building lease in Norcross for a redeveloped building expected to deliver in Q4 2023. The site formerly was the distribution center for Atlanta Journal Constitution.				

Atlanta Industrial Submarket Overview (Page 1 of 2)



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Atlanta Industrial Submarket Overview (Page 2 of 2)



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Atlanta Industrial Submarket Map



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