

# MARKETBEAT

## Atlanta

### Industrial Q2 2018



#### ATLANTA INDUSTRIAL

##### Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Atlanta Employment	2.7M	2.8M	▲
Atlanta Unemployment	4.6%	4.1%	▼
U.S. Unemployment	4.3%	3.8%	▼

Numbers above are quarterly averages

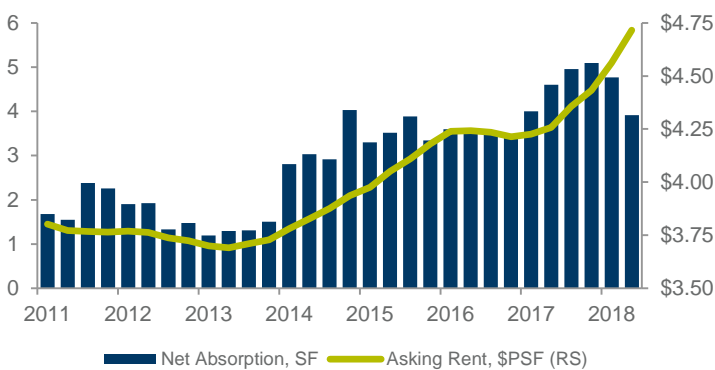
##### Market Indicators (Overall, All Classes)

	Q2 17	Q2 18	12-Month Forecast
Vacancy	8.4%	8.2%	▼
Net Absorption (sf)	6.3M	2.9M	▲
Under Construction (sf)	18.3M	17.5M	▼
Average Asking Rent*	\$4.35	\$4.96	▲

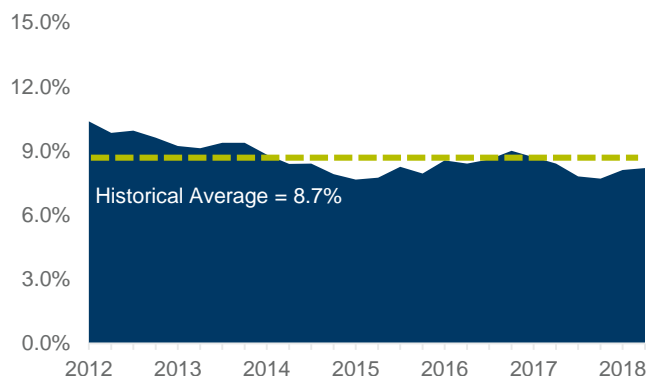
\*Rental rates reflect net asking \$psf/year

##### Overall Net Absorption/Overall Asking Rent

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

The Atlanta economy continued to expand through the second quarter of 2018 and gained 40,750 jobs year-over-year (YoY), up 1.5% compared to 1.6% YoY nationwide. Atlanta's unemployment rate fell from 4.6% in the second quarter of 2017 to 4.1% in the second quarter of 2018. The 50-basis-point (bp) improvement in Atlanta's unemployment rate over the past year equaled that of the nation, which reached a historic low of 3.8% as of preliminary second quarter data. Manufacturing and Transportation & Warehousing have been key drivers of Atlanta's economy in the current expansion. These industries combined are the largest employer in the metro, with more than 350,000 jobs and over \$55 billion of the region's 2017 GDP. From 2012 through 2017, these industries added almost 52,000 jobs, a 14.3% increase in employment. The success of these industries has driven a historic expansion of the Atlanta industrial real estate market, which continued unabated in the first half of 2018.

## Market Overview

Through the first half of 2018, almost 7.2 million square feet (msf) of new warehouse/distribution construction was delivered, with another 6.9 msf expected in the second half of 2018. In the second quarter, 1.9 msf of space was delivered and was 18.0% pre-leased, which is roughly average for construction deliveries in the prior four quarters. Speculative industrial space under construction grew 7.2% in the second quarter to 14.4 msf, while build-to suit construction exceeded 3.0 msf for the first time since the second quarter of 2015. Speculative construction has remained above the average for this cycle (12.4 msf/quarter) in five of the past six quarters.

Overall vacancy rose 10 bps to 8.2% in the second quarter but is down 20 bps YoY despite 15.1 msf of construction deliveries in the intervening four quarters. The second quarter of 2018 was Atlanta's 18th consecutive quarter of vacancy under 9.0%, despite 57.4 msf of new construction deliveries through the same 18-quarter period. The pace of leasing activity continues at record levels, with trailing four-quarter total leasing activity exceeding 20.0 msf for the eighth consecutive quarter. The 5.9 msf of leases signed in the second quarter resulted in a trailing four-quarter total of 28.2 msf. The 17.1 msf of leasing activity year-to-date (YTD) broke the prior record two-quarter total of 16.6 msf set in Q4 2005 through Q1 2006.



Direct net asking rents in the second quarter averaged \$5.01 per square foot (psf), which was the first time direct rents surpassed \$5.00 psf since Q2 2001. Overall rents averaged \$4.96 psf, rising 2.7% quarter-over-quarter and growing 14.0% YoY. While warehouse-distribution rents rose 2.7% to \$4.19 psf, manufacturing rents fell 6.4% to \$3.53 psf and technology and flex rents were unchanged. The Atlanta industrial market posted overall positive absorption of 2.9 msf in the second quarter, down significantly from the first quarter's 5.1 msf and under 3.0 msf for the first time since Q3 2015. The trailing four-quarter average of 3.9 msf/quarter was 17.9% lower than in the first quarter, which was expected given the record-breaking absorption that occurred in the first half of 2017. Over 60% of the second quarter's absorption was located in the I-75 South/Henry County submarket, which is also the home of almost half (49.7%) of the market's YTD construction completions.

**INDUSTRIAL RENTS FOR THE ATLANTA MARKET JUMPED 2.7% IN THE SECOND QUARTER OF 2018 TO \$4.96 PSF, WHICH IS THE HIGHEST ASKING RENT SINCE 2001.**

**Outlook**

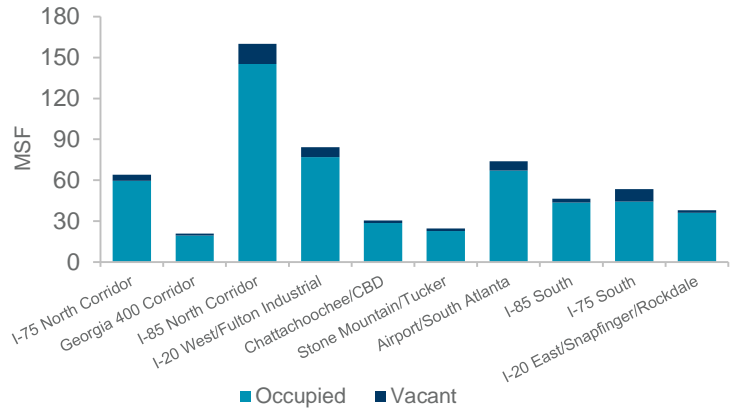
We expect leasing activity and absorption to maintain their consistent strength through the second half of 2018, as economic growth and job creation in Construction, Manufacturing, and Transportation industries show few signs of slowing. With unemployment at historic low levels, wages should continue to rise. These statistical and economic factors indicate Atlanta's industrial real estate market should see vacancy remain steady and rents rise despite no indication of a slowdown in new construction.

**Industrial Highlights**

- Overall vacancy is up 10 bps to 8.2% in the second quarter but is down 20 bps YoY despite 15.1 msf of construction deliveries in the intervening four quarters.
- While warehouse-distribution rents rose 2.7% to \$4.19 psf, manufacturing rents fell 6.6% to \$3.53 psf.
- The market's YTD net absorption of 7.9 msf, while considerably lower compared to 2017, remains more than 2.7 msf above historical average.

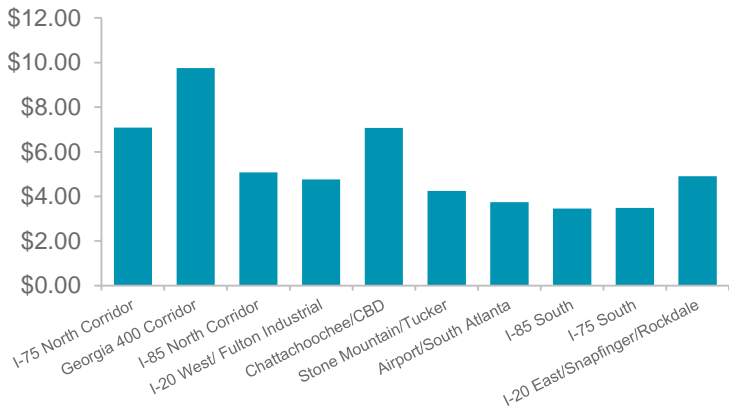
**Occupied vs. Vacant Space Comparison**

NORTHEAST ATLANTA HAS LARGEST INVENTORY OF VACANT SPACE



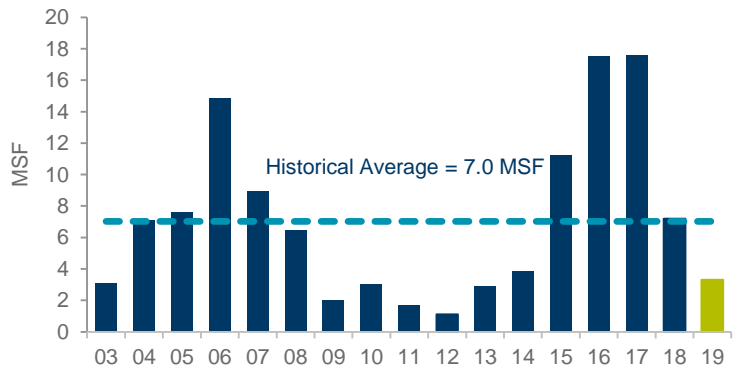
**Warehouse/Distribution Asking Rents by Submarket (NNN)**

GEORGIA 400 HAS HIGHEST RENT IN THE MARKET



**New Supply**

2017 NEW SUPPLY REACHED AN ALL-TIME HIGH WITH 17.6 MSF DELIVERED



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SUBMARKET	INVENTORY (SF)	YTD LEASING ACTIVITY (SF)*	YTD TOTAL SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT (HT)**	OVERALL WEIGHTED AVG. NET RENT (MF)**	OVERALL WEIGHTED AVG. NET RENT (OS)**	OVERALL WEIGHTED AVG. NET RENT (WH)**
I-75 North Corridor	63,916,347	1,416,199	571,933	5.6%	838,965	769,460	\$0.00	\$3.45	\$10.67	\$5.14
Georgia 400 Corridor	20,924,061	364,475	125,000	7.2%	258,525	0	\$10.58	\$0.00	\$12.07	\$6.44
I-85 North Corridor	159,996,942	3,466,366	985,601	8.9%	778,937	4,961,796	\$13.47	\$3.83	\$8.92	\$4.27
I-20 West/Fulton Industrial	84,253,638	2,134,319	366,578	8.2%	734,792	2,860,499	\$0.00	\$2.50	\$7.46	\$4.86
Chattahoochee/CBD	30,457,244	122,015	156,399	4.3%	-209,348	80,000	\$0.00	\$0.00	\$9.58	\$6.12
Stone Mountain/Tucker	24,459,787	486,632	0	6.7%	119,826	189,690	\$0.00	\$4.50	\$0.00	\$4.23
Airport/South Atlanta	73,789,552	3,824,980	1,331,412	8.6%	1,318,731	2,433,796	\$0.00	\$0.00	\$8.77	\$3.61
I-85 South/Peachtree Corners	46,425,253	1,521,624	152,000	5.7%	648,019	4,274,585	\$0.00	\$3.65	\$0.00	\$3.38
I-75 South/Henry County	53,384,943	2,968,709	481,788	16.3%	3,439,225	1,857,404	\$0.00	\$0.00	\$0.00	\$3.48
<b>SOUTH SUBTOTAL</b>	<b>173,599,748</b>	<b>2,968,709</b>	<b>1,965,200</b>	<b>10.2%</b>	<b>5,405,975</b>	<b>8,565,785</b>	<b>\$0.00</b>	<b>\$2.18</b>	<b>\$8.77</b>	<b>\$3.51</b>
I-20 East/Snapfinger/Rockdale	38,022,560	766,891	0	4.7%	-9,723	51,000	\$0.00	\$0.00	\$8.00	\$4.49
<b>ATLANTA TOTALS</b>	<b>595,630,327</b>	<b>17,072,210</b>	<b>4,170,711</b>	<b>8.2%</b>	<b>7,917,949</b>	<b>17,478,230</b>	<b>\$12.28</b>	<b>\$3.53</b>	<b>\$9.98</b>	<b>\$4.19</b>

\*Leasing Activity does not include renewals

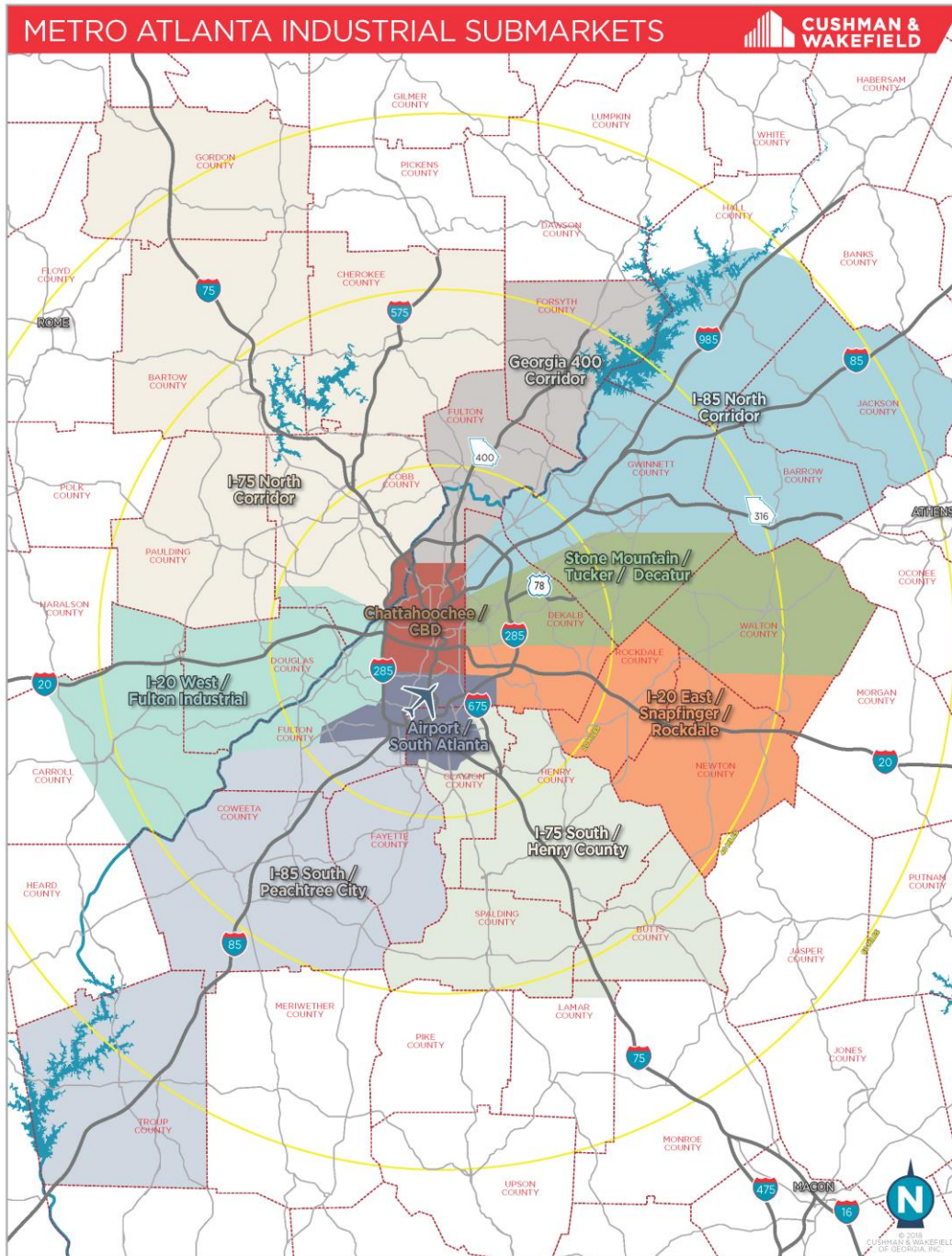
\*\*Rental rates reflect asking \$psf/year HT = High Tech MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

## Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
5390 Hunter Road	903,145	Kellogg	Renewal	Airport/South Atlanta
493 Westridge Parkway	676,000	Carlisle Tire and Wheel Company	Renewal	I-75 South/Henry County
237 Greenwood Industrial	455,000	XPO Logistics	New Lease	I-75 South/Henry County
3495 Highway 92	312,500	Atlanta Bonded Warehouse	New Lease	I-75 North Corridor

## Key Sales Transactions Q2 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
Clayton Commerce Center	797,580	Hillwood & Reliant / ARA	\$40,675,000 / \$151	Airport/South Atlanta
1255 & 1265 Terminus Drive	729,400	Starwood / Exeter	\$30,450,000 / \$42	I-20 West/Fulton Industrial
Cherokee 75 Business Center	312,500	Core 5 / Cabot	\$20,160,000 / \$65	I-75 North Corridor
Oakbrook Business Center	257,017	Rooker / High Street	\$17,300,000 / \$67	I-85 North Corridor



Cushman & Wakefield  
1180 Peachtree St. NE  
Suite 3100  
Atlanta, GA 30309

For more information, contact:  
Clay M. Westbrook  
Market Director - Research  
Tel: +1 470 639 4907  
clay.westbrook@cushwake.com

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