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2024 Atlanta Industrial FORECAST

PREPARED BY

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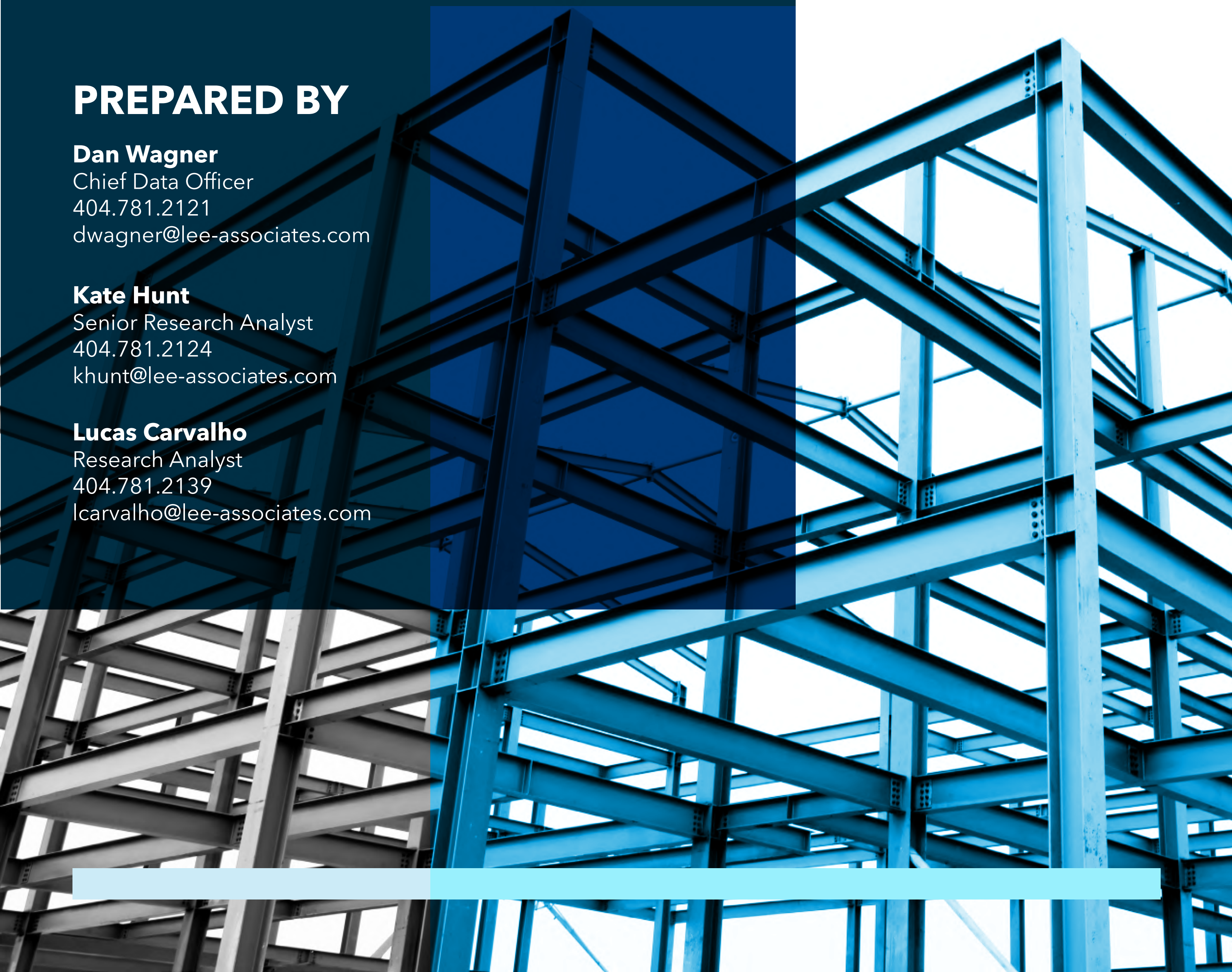


INTRODUCTION

"The art of the sailor is to leave nothing to chance."

Annie Van de Wiele, a Belgian sailor who was one of the first women to sail around the world, made this observation back in the early 1950s. Preparation is indeed key to surviving on any sizable body of water as conditions can become unpredictable at a moment's notice, as Annie surely experienced on her voyage. A seasoned captain 1) plans for the worst by being well equipped with life - and craft - saving resources, and 2) continually processes all of the various things that can go wrong on the water, and how to react to them.

The annual Lee & Associates Atlanta Industrial Real Estate Forecast is your resource in preparation for changing conditions ahead. While Atlanta industrial fundamentals remain among the strongest in the nation, overall activity is decelerating. As we enter 2024, market changes will bring both uncertainty - and opportunity. The following pages outline recent performance, the economic drivers impacting industrial buildings, and our outlook on activity in 2024. We hope this forecast prepares you for changing conditions ahead and inspires your decision making.

DAN WAGNER
Chief Data Officer

2024 PREDICTIONS

1 Georgia's GDP expands in 2024, fueling net positive industrial demand despite macroeconomic slowing

2 New construction deliveries, sublease space growth and slowing absorption inflate overall vacancy to 7.5% by mid-year 2024

3 Sublease volume surpasses 12 MSF in the first half (H1) of 2024, but decelerates in H2

4 Overall rental rates increase marginally in 2024, while buildings under 250,000 SF see the strongest rent growth

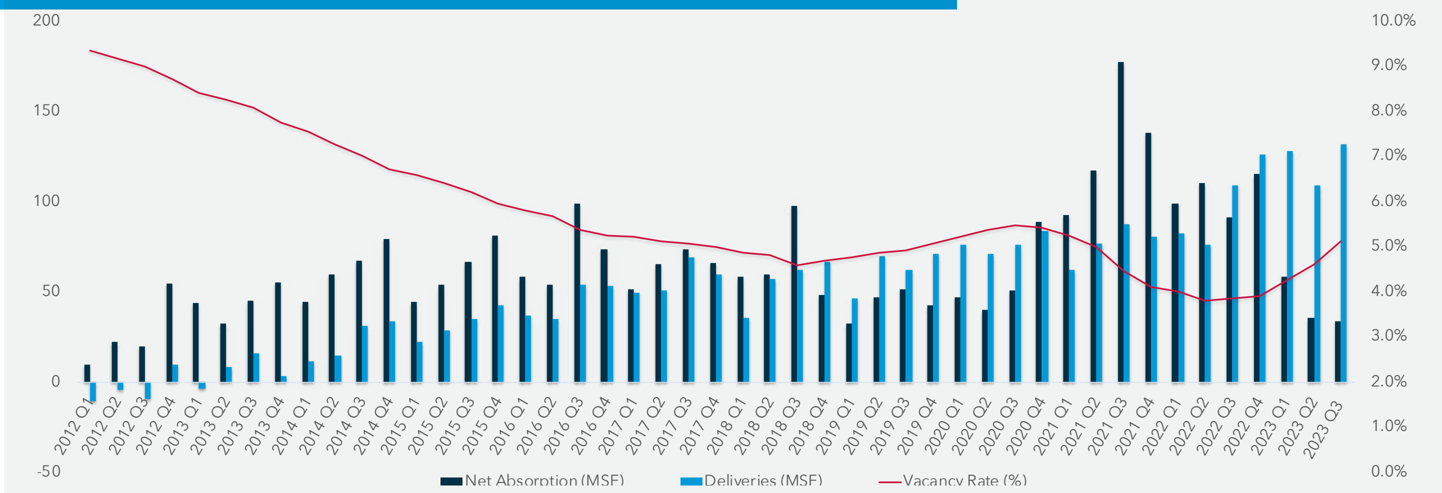
5 Non-manufacturing industrial construction levels continue falling, dipping below 10 MSF in H2 2024

NATIONAL
INDUSTRIAL PERFORMANCE

The Industrial market performed remarkably well in 2023 despite a shift from post-pandemic supply replenishment to a period of moderating demand.

- Industrial demand is moderating in line with consumer spending, returning to its long-run average
- Net absorption is lagging the rate of new deliveries, causing overall vacancy to rise
- Leasing activity in smaller spaces continues to power the market; big box activity is decelerating
- New construction starts are declining rapidly, commensurate with the slowing of leasing volume

NATIONAL VACANCY, DELIVERIES, ABSORPTION

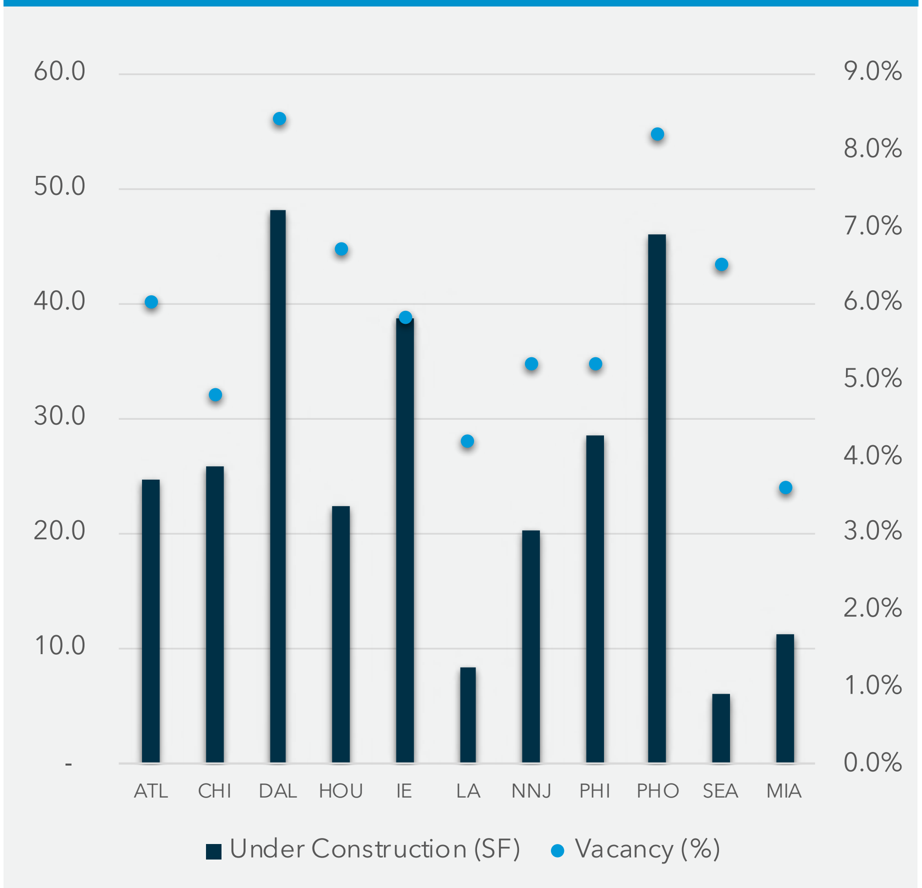


ATLANTA

RELATIVE PERFORMANCE

Atlanta performed favorably relative to peer markets across the country, highlighted by strong demand drivers, lower occupancy costs, favorable demographics and world-class transportation infrastructure.

INDUSTRIAL CONSTRUCTION VOLUME & MARKET VACANCY



- Large industrial markets are challenged with the prospect of late-cycle speculative deliveries and rising vacancy as leasing demand falls (note Dallas, Inland Empire, Phoenix)
- Manufacturing hubs like Chicago, Northern New Jersey and Philadelphia are in fundamentally healthy supply positions
- The consumer-demand driven distribution markets (Atlanta, Miami), are seeing reduced construction activity as big-box demand softens, with generally moderate vacancy inflation
- Delivery pipelines will result in upward pressure on vacancies in 2024, but growth markets such as Dallas, Atlanta and Miami will remain attractive to both owners and occupiers

The yoyo of JIT-JIC-JIT

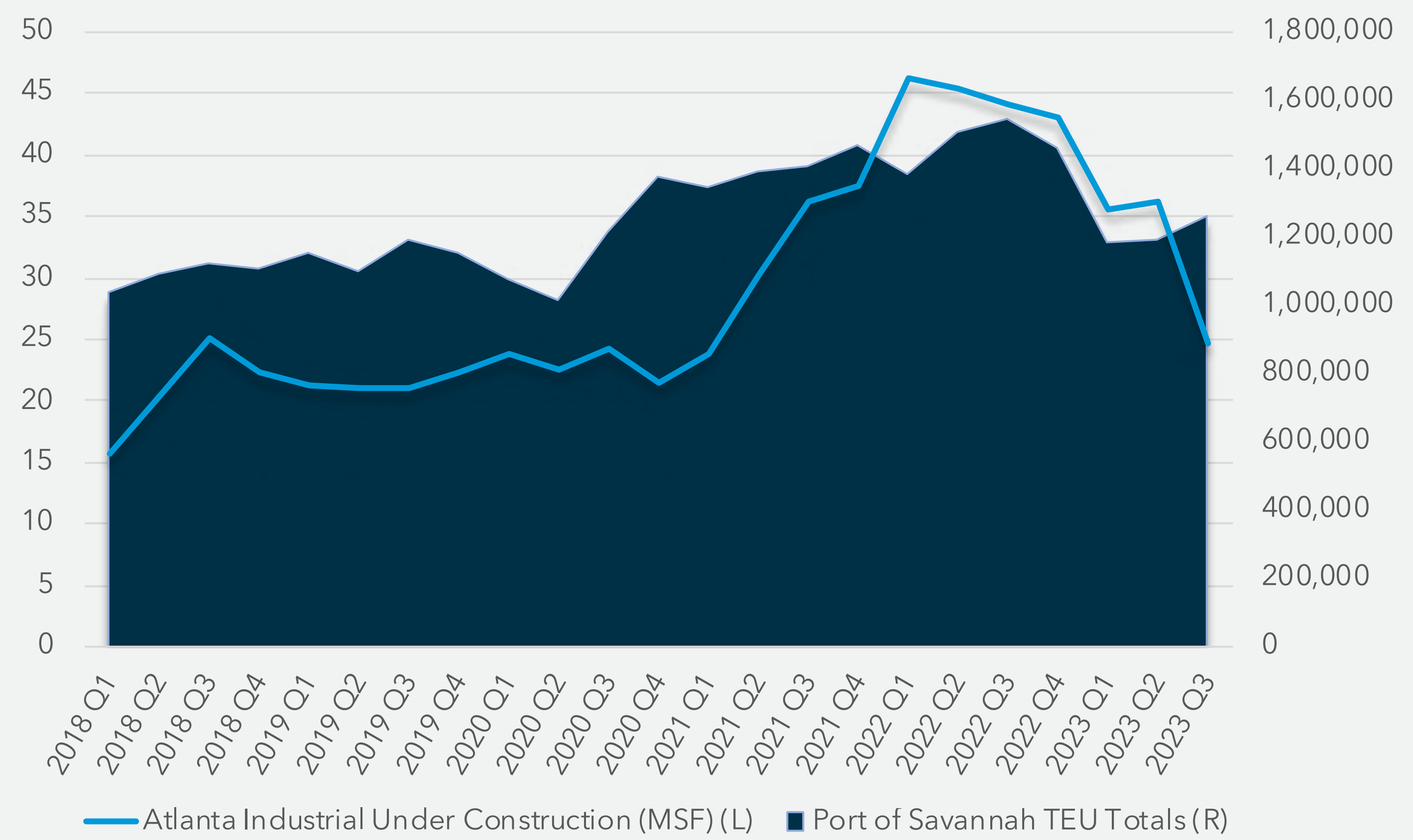
Pre-pandemic, inventory fulfillment relied on "just-in-time" (JIT) inventory practices, as businesses held as little inventory as possible to minimize expenses and maximize efficiency.

The pandemic brought with it the "just-in-case" model, with businesses importing and storing more goods, while expanding their industrial footprints to fulfill increased consumer demand.

This increased demand spurred developers to build more space to accommodate industrial growth, resulting in record development levels.

Consumer activity has normalized, with companies reverting back to "JIT" fulfillment models, resulting in decreased port volumes and a significant slowdown in new industrial development.

PORT OF SAVANNAH CONTAINER VOLUME & ATLANTA INDUSTRIAL CONSTRUCTION



2024

ECONOMIC GROWTH

- Economic indicators suggest a stable, albeit decelerating economy as 2024 approaches
- Despite recent layoffs in the tech sector, U.S. job growth remains solid, with more than 2.9 million positions added in through October 2023
- The ISM Manufacturing Index reflects a sector in mild contraction, with muted growth at years-end
- GDP predictions for next year generally forecast slower growth, followed by stronger expansion in 2024

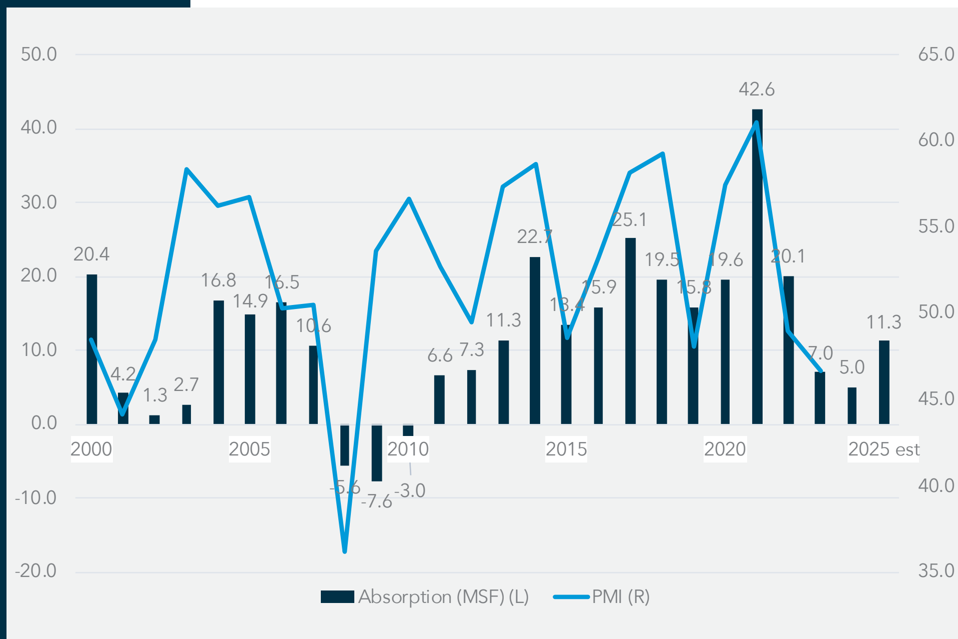
U.S. GDP GROWTH FORECAST

	2023	2024	2025
Bank of America	2.0	0.7	1.8
Deutsche Bank	2.3	0.6	1.9
Goldman Sachs	2.4	2.1	1.9
PNC FSG	2.4	0.7	0.3
PWC	2.1	1.1	1.8
The Conference Board	2.2	0.8	_
Wells Fargo	2.4	0.8	1.4

WATCH ISM, STATE GDP IN 2024

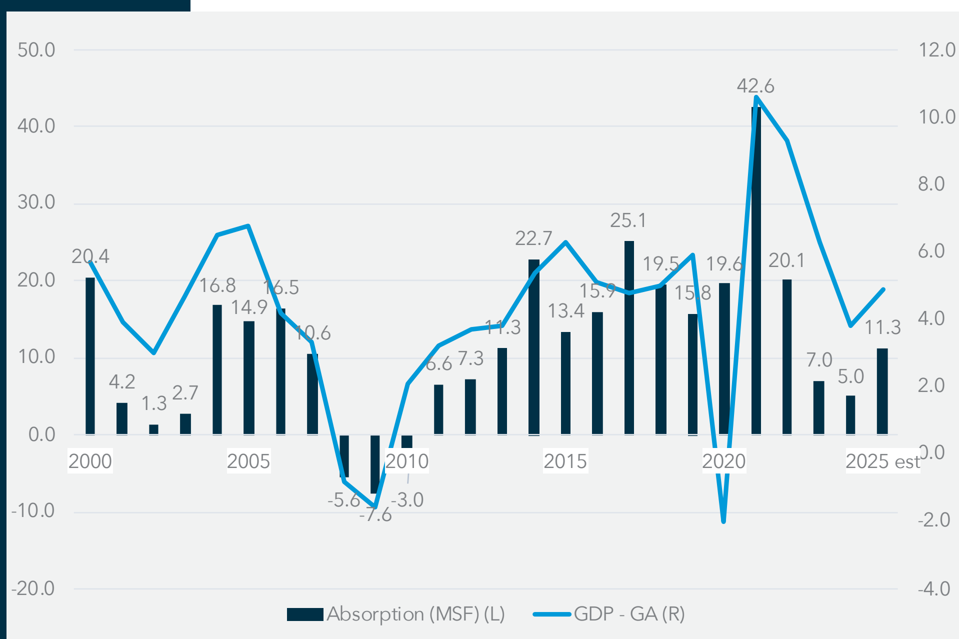
ATL INDUSTRIAL ABSORPTION & MANUFACTURING PMI INDEX

There is a correlation between industrial demand (absorption) and the Institute for Supply Management's Purchasing Manager's index. While not in lockstep with one another, fluctuations in the index tend to be reflected in the level of industrial demand.



ATL INDUSTRIAL ABSORPTION & GEORGIA GDP

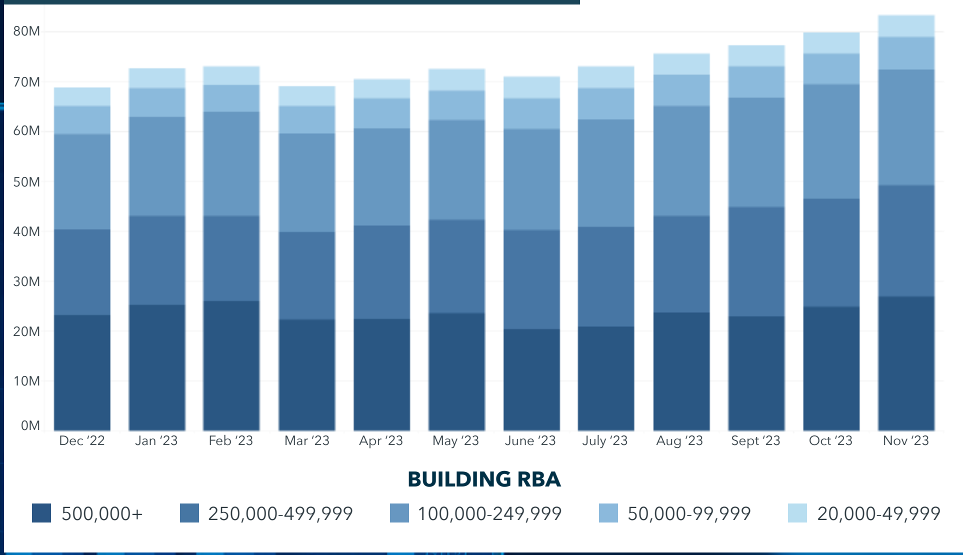
As might be expected, a strong tie exists between Georgia's GDP growth and industrial demand. State GDP forecasts suggest slowing demand in 2024, followed by a return to pre-2020 growth levels in 2025.



MONITORING MARKET *CHANGES*

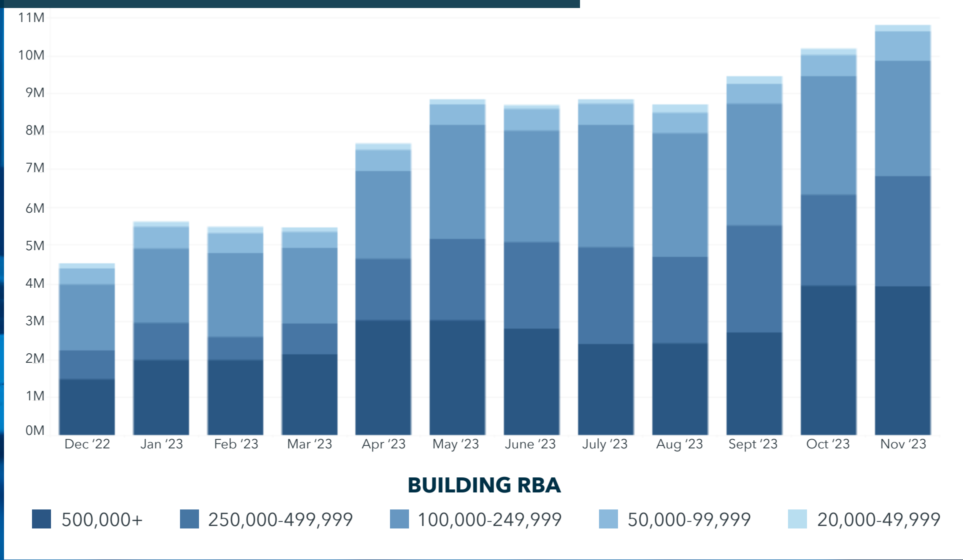
Lee & Associates-Atlanta monitors changes in availability each month to more quickly determine market impacts and drive the decision-making process.

TOTAL AVAILABLE SF



Overall space availability rose by more than 11 MSF in 2023, driven by decelerating leasing, new speculative construction and the growth of subleases. The market is returning to equilibrium after several years of demand-driven space scarcity - welcome good news for tenants that have struggled with dwindling space options and rapid rent growth.

SUBLEASE AVAILABLE SF



Sublease trends reveal whether companies are preparing for slower activity ahead. While sublease space rose seemingly overnight from March to April (escalating by 3 MSF), the rise since has been more measured. We anticipate moderate sublease growth through the first half of 2024 as companies reassess space needs in a slower period of economic growth.

VACANCY PREDICTIONS

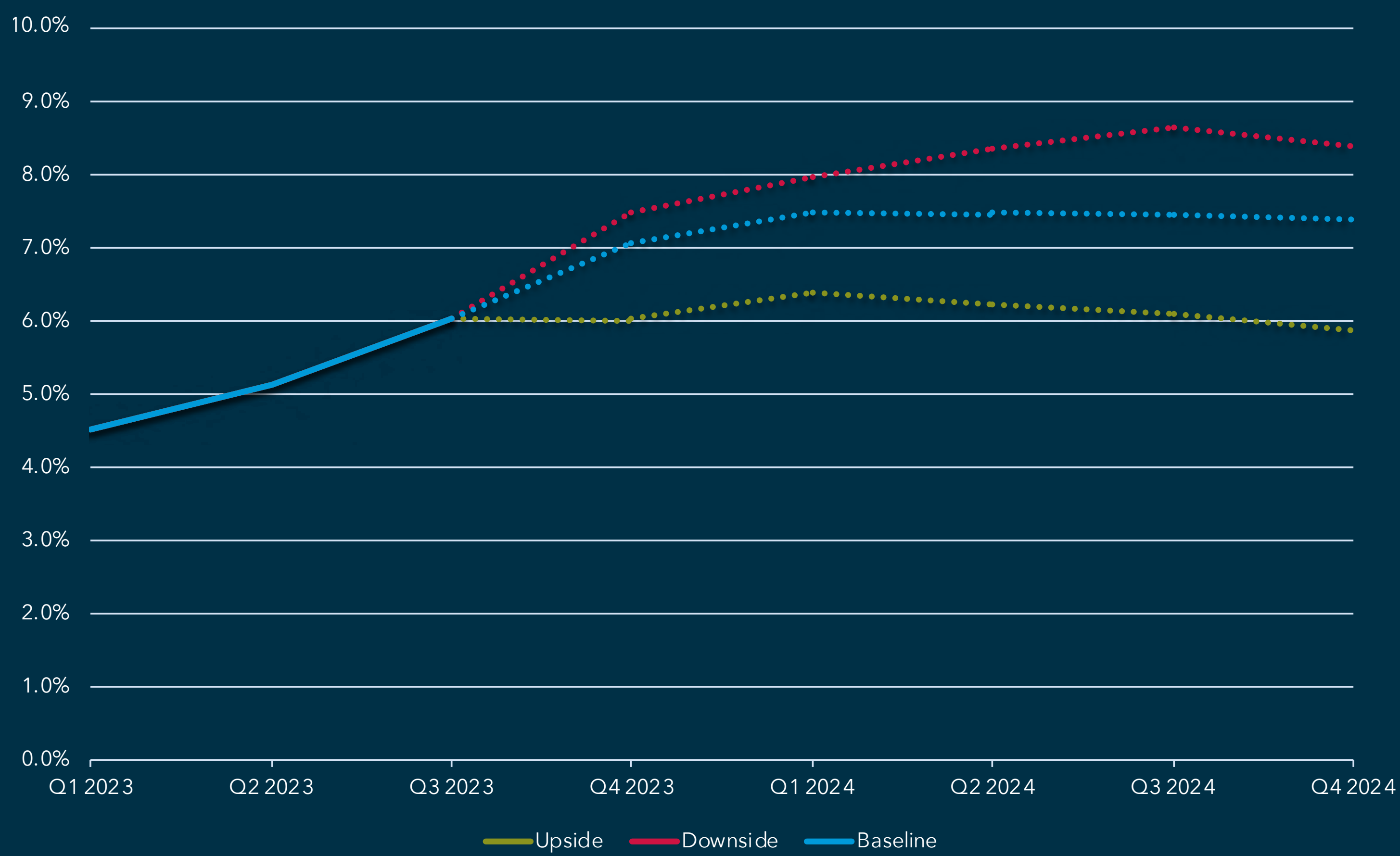
When accounting for future demand (space absorption), vacancy within existing stock, new building deliveries (and level of committed space), as well as sublease space growth, our baseline forecast predicts 7.5% vacancy in the first half of 2024, with a shallow decline in this rate through year-end.

The upside scenario assumes more aggressive leasing demand, whereby vacancy would remain in the 6% range.

The downside scenario predicts slower economic growth and a more challenging leasing environment, with overall vacancy surpassing 8.5%.

In all three scenarios, vacancy remains in a healthy range and well below its long-run 20-year average of 9.2%.

ATLANTA VACANCY FORECAST

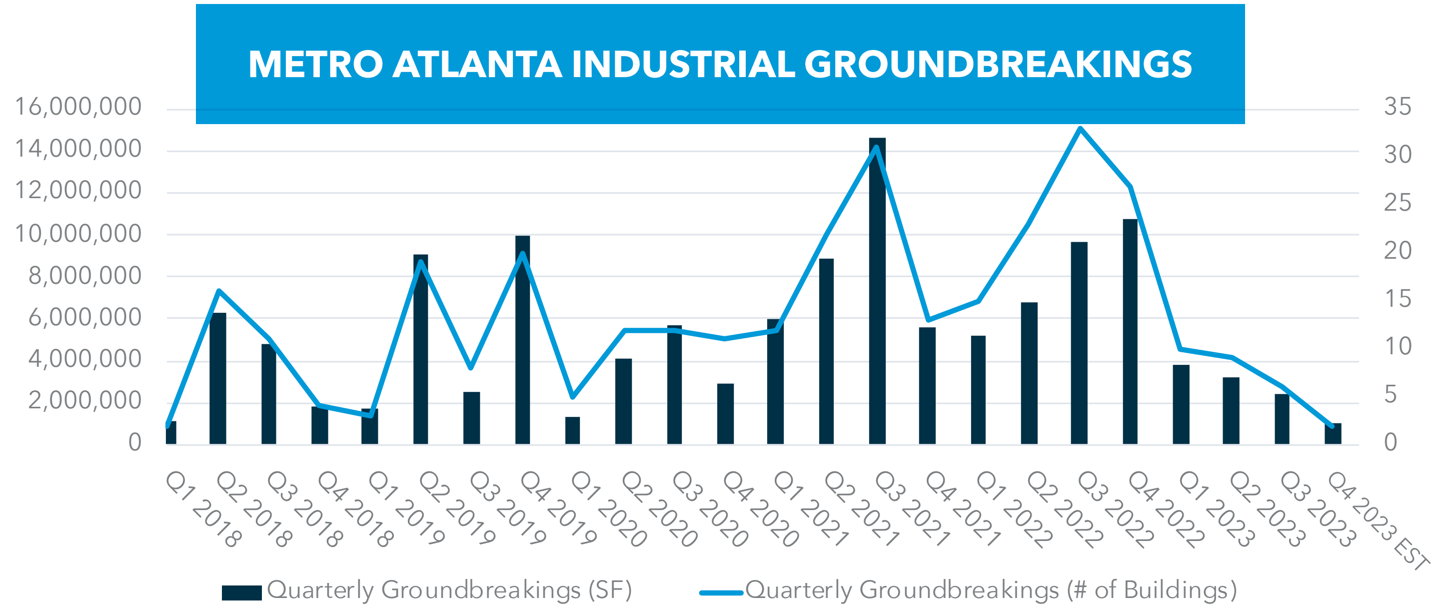


What happens to *rents*?

Overall property conditions are expected to moderate in 2024, but location and size range will determine outcomes for many owners next year. Properties under 250,000 SF located closer to metro Atlanta's population centers will remain sought-after and drive continued rental rate growth. Big box Industrial is by no means dead, but the "build it today and lease it tomorrow" approach is less likely to occur in 2024. As market rent growth moderates, owners that bought and/or developed early in this up-cycle or at advantageous terms will have the flexibility to capitalize on leasing opportunities others cannot. This could also present slightly more favorable terms for occupiers, particularly if the rise in competitive subleases continues.

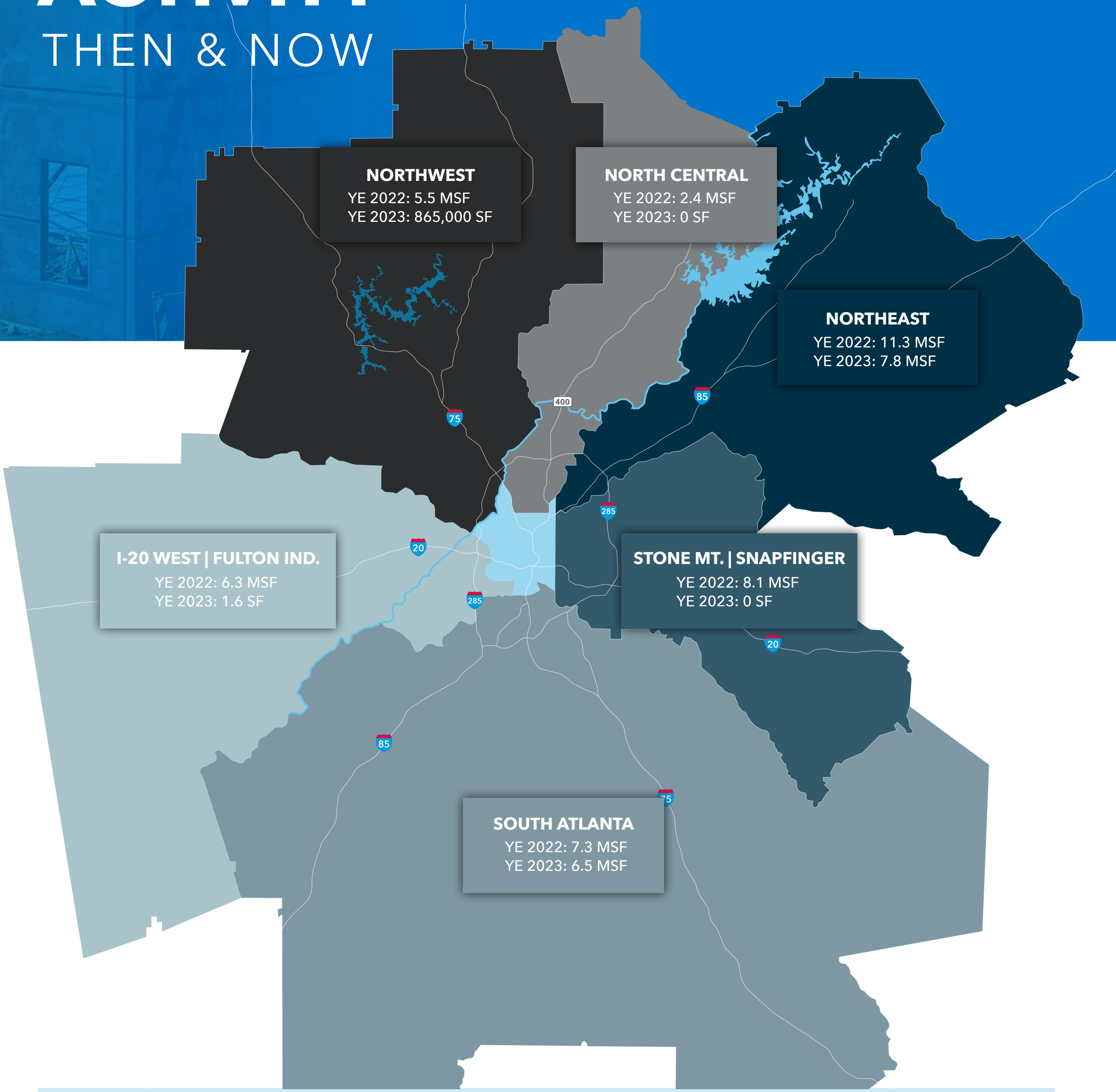
Construction starts fall further...

- Construction starts began falling in Q4 22 in response to post-pandemic slowing of big-box demand
- As 2023 comes to close, we are monitoring construction starts and could see 1.5-3.5M SF of new industrial groundbreakings in Atlanta in Q4
- The drop in new development activity is a positive sign that developers are holding back as market demand slows, which will allow fundamentals time to recover from more than 120 MSF of product deliveries in the last 5 years
- Construction levels in second half of 2024 are likely to dip below 10 MSF for the first time since 2014



CONSTRUCTION ACTIVITY

THEN & NOW

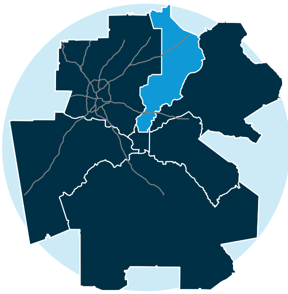


CLICK TO REACH OUT TO OUR EXPERTS

2024

What Our Experts are Saying

There is plentiful space availability in the Northwest and it could take up to 18 months to fill these vacancies. Landlords of new spec product are proposing more aggressive rent structures and concessions in efforts to secure tenants. Very little is breaking ground over the next 6 months.



North Central availability remains tight and will stay that way into 2024. Smaller spaces will likely see rent growth next year, while larger spaces will see rates remain flat to slightly down. Expect minimal to no development activity.

Spaces south of Buford will absorb quickly into 2024, while spaces to the north face more competition and longer lease-up time. Owners of 1MSF+ available buildings are now more willing to split them up, which may place upward pressure on rents due to the increased costs of space reconfiguration.

Stone Mountain remains very tight as year-end approaches, with an abundance of smaller tenants and few space options. The Snapfinger submarket has approximately 2 MSF set to deliver at the end of 2023, so look for slightly better space options in that market and the potential for negotiating room in 2024.

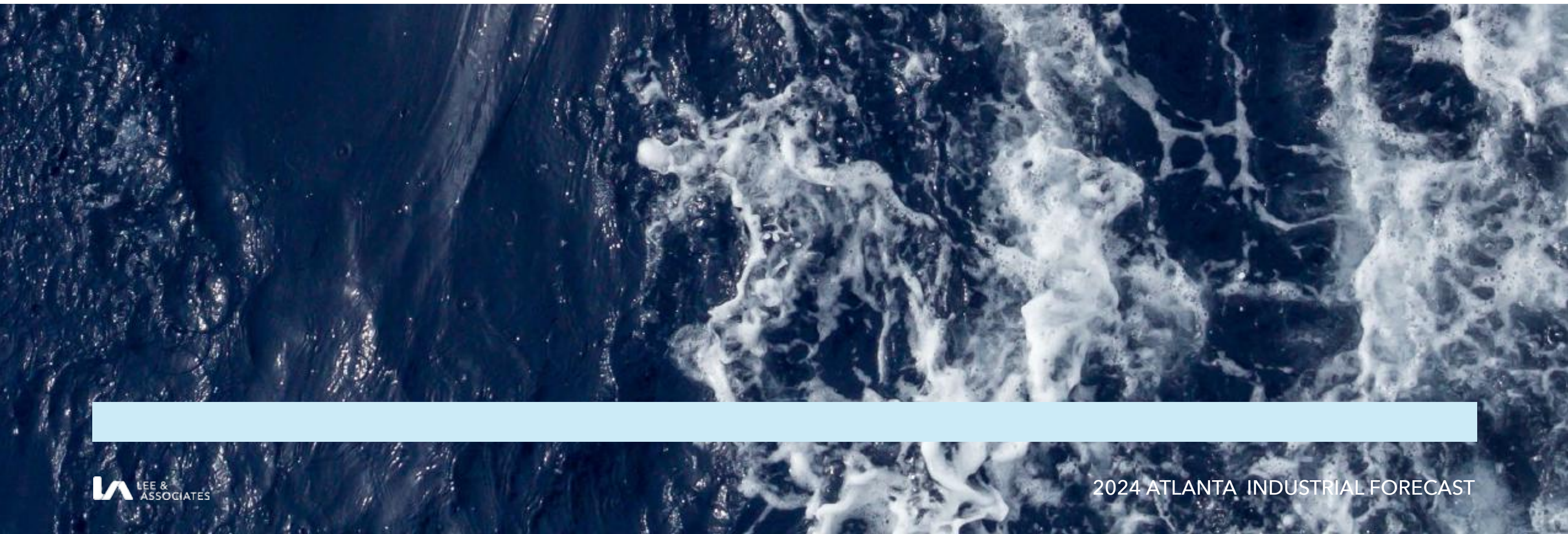
Asking rents are stabilizing in South Atlanta after years of robust rent growth. Space options are sparse for tenants seeking 300,000 SF or more in South Atlanta due to strong leasing activity in this size range. Owners with large space availability appear to be in a promising position.

I-20 W | Fulton Industrial recent leasing activity suggests owners which reduced asking rents are seeing increased absorption. New construction will likely remain muted in 2024, which should buoy asking rents. Expect limited sales activity in the first half of 2024 until the gap between buyer & seller expectations is bridged by lower capital costs and greater market certainty.

Prepare for 2024

There remains uncertainty in the U.S. economy as 2024 approaches. Our takeaway from the indicators concludes a mild slowdown for industrial sector growth in 2024 nationally. On a local level, our baseline forecast for 2024 is one of positive but moderating growth, primarily due to headwinds from a less robust macro-economy. The lion's share of demand, however, will emerge in the form of small to mid-sized spaces with in-town proximity and/or favorable access to Atlanta's population centers. Atlanta's undeniable growth characteristics (in-migration, job growth, corporate relocations, development activity, industry diversity, etc.) provide a significant barrier to macro-economic slowing and more rapid recovery after slow-growth periods.

A prepared sailor plans for the worst and processes his/her reactions to potential crises at sea. Our information suggests there's reason for optimism next year, but for safety's sake, consider the possibility of choppier waters ahead. We hope this deck become part of your preparation toolkit for 2024 and allows you to take full advantage of the opportunities that lie ahead.



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SOURCES

Costar Group | Institute for Supply Mngt. | Georgia Ports Authority | Bank of America
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