

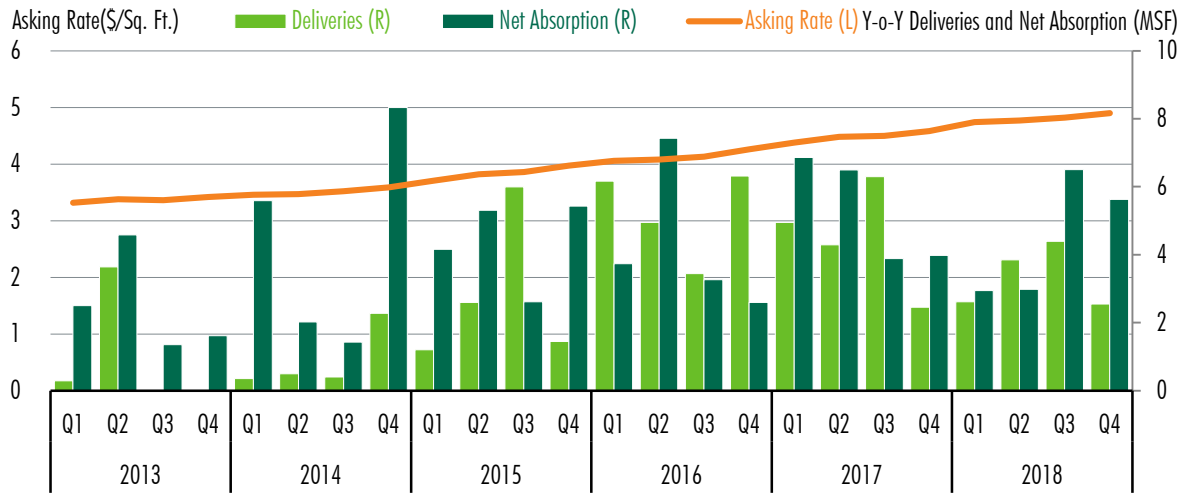
Atlanta Industrial & Logistics, Q4 2018

As vacancy falls to record low, labor raises concerns

▼ Vacancy Rate 5.7%
▲ Lease Rate \$4.90 PSF
▼ Y-o-Y Rent Growth 7.0%
▼ Net Absorption 5.6 MSF
▼ Construction 15.1 MSF
▼ Deliveries 2.6 MSF

Figure 1: Deliveries and Net Absorption vs. Asking Rate

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q4 2018.

During the fourth quarter, about 5.6 million sq. ft. of industrial space was absorbed, bringing 2018’s total absorption to almost 18.1 million sq. ft. This was a successful follow-up to last years record of 21.2 million sq. ft. The flurry of activity decreased the vacancy rate to 5.7%, the lowest ever recorded, even with the market delivering 13.4 million sq. ft. of new industrial space during the year. There still remains over 15.1 million sq. ft. of space under construction. While trends indicate the likelihood of rapid absorption of newly constructed space, there may be some challenges related to the availability of labor.

In addition to record low vacancy, rents are also at historic levels as the average asking rate increased another \$0.08 per sq. ft. over last quarter to finish the year at \$4.90 per sq. ft. on a triple net basis.

With almost 9 million sq. ft. of absorption, the Airport/South Atlanta submarket continued its reputation as the most active submarket. During the fourth quarter, Blue Buffalo, the pet food maker, moved into a 400,000 square foot warehouse facility in McDonough. Also in the Airport/South Atlanta submarket, Kuehne + Nagel Inc. occupied over 300,000 sq. ft. in Union City during the fourth quarter.

The Northeast/I-85 submarket also had a strong quarter partly due to Radial Inventory Control and Royston occupying 300,000 and 250,000 sq. ft. respectively. The submarket added almost 3.4 million sq. ft. of net absorption in 2018.

LABOR AVAILABILITY IS A CHALLENGE

Demand for transportation and warehousing labor is accelerating, making adequate labor supplies a top concern for logistics companies. According to a CBRE report, rapid growth of e-commerce is expected to create demand for an additional 452,000 warehouse and distribution workers nationally over the next couple years. That projected demand exceeds the industry’s job growth since 2013 of 180,300 new positions a year, an acceleration that reflects the growing volume of e-commerce sales.

In Atlanta, the transportation and warehousing industry has grown rapidly since mid-2014 when the sector year-over-year employment increased by 6,500. Since that time, average annual employment growth in the transportation and warehousing industry is nearly 6%, including robust growth throughout 2018. From the start of 2013 through 2017, sector employment grew by 28.1%, well the national average of 12.8%. However, the industry’s employment growth may be expected to accelerate further. Users not only need to contend with an increasingly tight labor market, but dwindling vacancy as well.

Demand for space also continues to be at an all-time high. Based on strong projected holiday sales, national annual e-commerce sales rose by 16% to more than \$525.7 billion in 2018, according to research firm eMarketer.

The sharp rise in e-commerce sales is pressuring retailers to implement omnichannel strategies for online order fulfillment. Part of this implementation has shifted goods from retail shelves to warehouse racks, increasing industrial warehouse demand. For every \$1 billion increase in e-commerce sales, an estimated 1.25 million sq. ft. of warehouse space is needed to keep up with demand. Thus, e-commerce generated warehouse demand nationally could grow by an additional 191.2 million sq. ft. from 2018 to 2020. In Atlanta, net absorption has topped 95 million sq. ft. since 2013, and almost 70 million sq. ft. of new industrial space has delivered.

Although supply chain employment is growing, the labor supply has been tightening as the nation closes in on full employment. Continued recruitment of workers from other industries as well as retainment of the current employees will be crucial. However, the rising wages are increasing costs for operators and may force them to find savings by reshaping inventory levels or optimizing their transportation network. Increased automation to offset the rising labor costs might be a long-term solution, however the up-front costs will likely be expensive.

Figure 3: Key Year-to-Date Leasing Transactions

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
Saddle Creek Logistics	590 Coweta Industrial Pkwy.	1,208,301	Airport/South Atlanta	New Lease
Medical Depot Inc.	Palmetto Logistics Park	1,054,500	Airport/South Atlanta	New Lease
HD Supply	Gillem Logistics Center	1,017,627	Airport/South Atlanta	New Lease
Kellogg Sales Company	5390 Hunter Road	903,145	Airport/South Atlanta	Renewal
Havertys	1090 Broadway Avenue	807,990	Northeast/I-85	Renewal

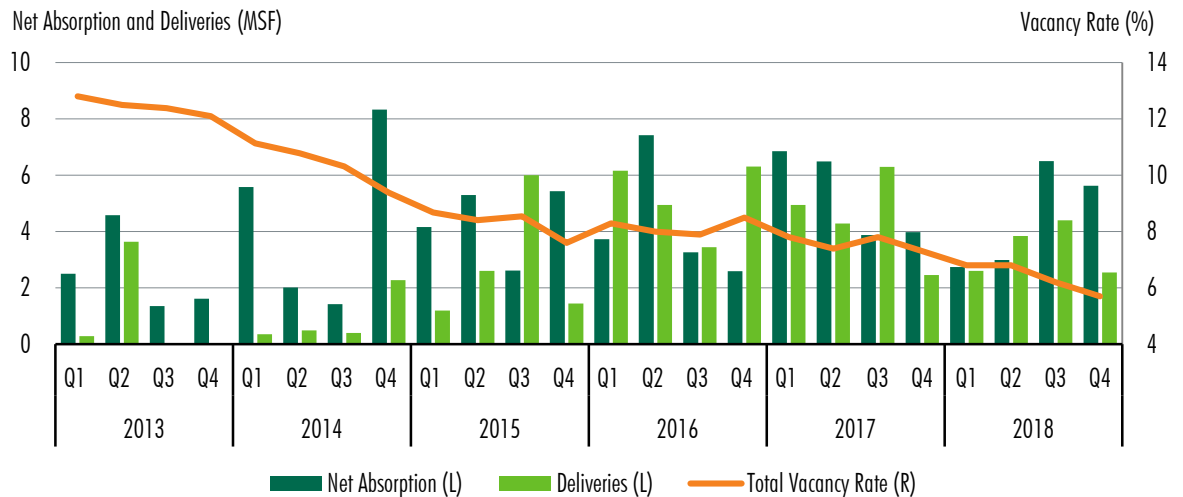
Source: CBRE Research, Q4 2018.

Figure 7: Market Statistics

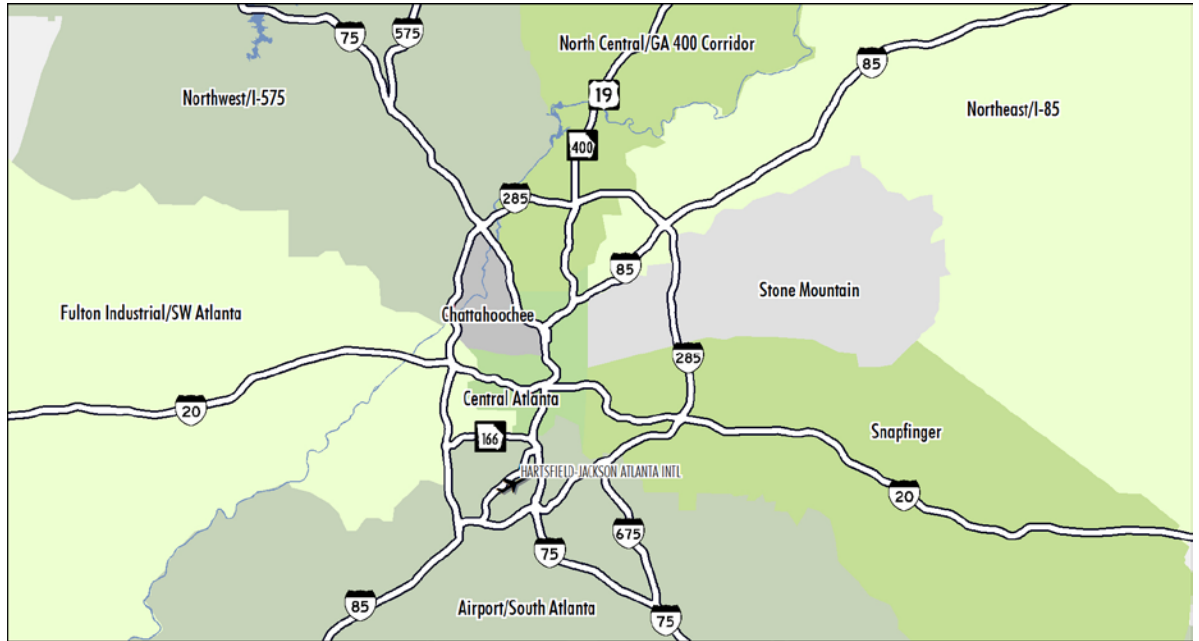
Submarket	Market Rentable Area (sq. ft.)	Vacancy Rate (%)	Avail. Rate (%)	Q4 2018 Net Absorption (sq. ft.)	YTD Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Q4 2018 Deliveries (sq. ft.)	Avg. NNN Asking Lease Rate (\$/sq. ft./yr)
Central Atlanta	9,480,363	8.0	14.2	(51,592)	(240,948)	0	0	9.05
Chattahoochee Ind	17,057,414	4.9	10.1	(198,156)	(659,156)	0	0	8.51
Northwest/I-575	59,678,654	3.6	5.5	658,040	1,050,325	975,250	0	6.01
N. Central/Ga 400	23,847,259	5.3	7.8	120,107	293,997	183,578	0	7.50
Northeast/I-85	175,688,624	5.3	6.7	1,438,202	3,372,119	4,000,611	861,210	5.10
Stone Mountain	24,175,381	4.2	6.1	73,152	387,332	189,690	0	5.10
Airport/S. Atlanta	167,316,897	8.2	10.1	1,782,136	8,872,614	8,501,206	1,525,567	4.36
Fulton Ind/Sw Atl.	92,113,708	4.7	6.1	1,909,050	5,367,719	975,250	163,512	4.42
Snapfinger	31,790,474	3.7	4.4	(100,981)	(382,554)	320,000	0	4.58
Warehouse	434,456,619	6.0	7.7	3,626,735	14,614,136	14,772,317	2,550,289	4.51
Shallow Bay	127,292,976	4.1	6.3	2,083,727	3,003,304	373,268	0	4.75
Flex	39,399,179	8.1	10.1	(80,504)	439,246	0	0	9.10
Totals	601,148,774	5.7	7.5	5,629,958	18,060,686	15,145,585	2,550,289	4.90

Source: CBRE Research, Q4 2018.

Figure 8: Quarterly Net Absorption and Deliveries vs. Vacancy Rate



Source: CBRE Research, Q4 2018.


CONTACTS

David P. Lanier
Senior Managing Director / Atlanta
 +1 404 504 7906
 david.lanier@cbre.com

McCall King
Senior Manager, Research and Business Development / Atlanta
 +1 404 812 5012
 mccall.king@cbre.com

Toby Jorgensen
Senior Research Analyst / Atlanta
 +1 404 504 7926
 toby.jorgensen@cbre.com

Alston Lanier
Researcher / Atlanta
 +1 404 923 1256
 alston.lanier@cbre.com

CBRE OFFICES

Atlanta Office
 3280 Peachtree Road NE, Suite 1400
 Atlanta, Georgia 30305

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