

“If You Build It, They Will Come”

The big story in Atlanta’s industrial market . . . new construction and lots of it!

The Atlanta industrial market cemented a record for new construction with 21.6 million square feet announced or underway in the last four quarter period. Over 4.5 million square feet of that total surfacing in the third quarter of 2015. Speculative construction accounted for just over 13.2 million square feet, or 61 percent, of that 21.6 million. The remaining 39 percent was attributed to 26 build-to-suit projects totaling over 8.4 million square feet.

So how did we get to this boom in new construction? First, pent up demand for next generation, high-tech, state-of-the-art facilities has been ballooning for a while now. Second, the Atlanta industrial market lacks facilities of this quality as very little spec construction has been delivered over the past seven to eight years.

Additionally, banks have resumed lending non-recourse money (65 percent or higher) to developers to erect spec buildings. Developers can now obtain financing at low interest rates with favorable terms. Combine this with too much investor money chasing too few qualified investment deals and you have the blueprint for developers to build spec buildings as fast as they can, lease them as fast as they can and take advantage of the hot investment sales market – while it’s still hot.

Lastly, the investment market is cap rate compressed, which means new buildings leased to credit tenants are selling at all time high prices. For new construction leased to credit tenants, the cap rates are already at sub six numbers – down to the 5.5 to 5.8 percent range. If this continues, we could see a new project sold at a cap rate of 5.25 percent in the near future.

Some of the projects that have been announced and are currently under construction in the Atlanta industrial market include:

- Fairburn Logistics Center, Fairburn – BTS for Google/Menlo Logistics – 1,129,750 square feet
- Union Station Business Center, Union City – spec – 987,840 square feet
- King Mill Distribution, McDonough – spec – 846,496 square feet
- Gillem Logistics Center, Lake City – BTS for ES3 – 700,000 square feet
- Camp Creek Trade Center, East Point – spec – 614,880 square feet
- Highland 75, White – BTS for Surya – 574,000 square feet
- Buford Logistics Center, Buford – spec – 492,048 square feet
- Buford Logistics Center, Buford – BTS for Best Buy – 461,700 square feet

In closing, we have laid ground to 14 consecutive quarters of positive net absorption. During the past four quarters net absorption reached over 15.9 million square feet - almost 3 million square feet of that was cast during the third quarter of 2015. Top it off with 57 million square feet leased or sold in that same period – 13.7 million during the third quarter – and the foundation is complete. All this success paved the way to improvement in the availability rate - currently down to 13.9 percent – and a reason for more ground to be broken. As the saying goes . . . “If you build it, they will come!”

Sim F. Doughtie, CCIM, SIOR, MCR, SLCR
President

Total Market

	Total Inventory	Net Absorption	Total Available	% Available	Total Activity	# of Deals	Avg SF Per Deal
Distribution	640,511,860	2,857,056	89,091,700	13.9%	13,706,492	687	19,951
Service Center	25,042,852	-48,501	5,532,885	22.1%	453,995	131	3,466

Third Quarter 2015

	Total Inventory	Market Share	Total Available	% Available	Total Activity	# of Deals
--	-----------------	--------------	-----------------	-------------	----------------	------------

Market Maps

CITY OF ATLANTA

Distribution	50,805,843	7.9%	7,560,126	14.9%	1,313,970	64
Service Center	902,103	3.6%	168,899	18.7%	22,479	3

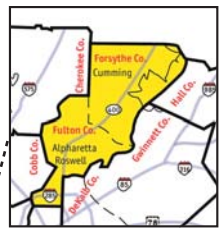
The distribution sector of the City of Atlanta region shifted to reverse in the third quarter of 2015. Activity actually increased slightly to 1,313,970 square feet, but enough existing tenants exited to push net absorption down to -177,732 square feet. Fortunately, the removal of repurposed inventory left the availability rate intact at 14.9 percent. On the flip side, the service center sector claimed a small victory. Activity went on the books at 22,479 square feet allowing a miniscule net absorption of 71 square feet. The availability rate improved a bit to 18.7 percent.



GA 400

Distribution	26,787,365	4.2%	2,824,008	10.5%	393,547	46
Service Center	3,510,391	14.0%	783,955	22.3%	41,947	13

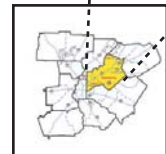
The GA 400 region returned from three quarters on the dark side. Activity posted at 393,547 square feet allowing net absorption to land above the line at 97,731 square feet. Despite the addition of a 102,720 square foot spec project, the availability rate dropped to 10.5 percent – the low among its peers. The same cannot be said for the service center sector. Activity took a nose dive to 41,947 square feet and tenant departures just added to the disappointment. The resulting net absorption of -75,264 square feet pushed the availability rate up to 22.3 percent.



I-85 NORTHEAST

Distribution	163,432,904	25.5%	17,986,720	11.0%	3,565,004	250
Service Center	10,339,811	41.3%	2,478,871	24.0%	260,716	77

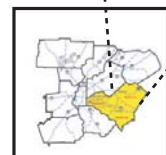
New construction is the headline for the distribution sector of the I-85 Northeast region. One build-to-suit project for 461,700 square feet was part of activity totaling 3,565,004 square feet. Most of this activity was eroded by tenant exodus, leaving only 539,487 square feet of net absorption. Additionally, six spec projects totaling 1,030,192 square feet were added to inventory and are responsible for the increase to 11.0 percent in the availability rate. The service center sector saw similar success with activity of 260,716 square feet – the high among service center sectors. The subsequent 27,416 square feet of net absorption dropped the percentage available to 24.0 percent.



I-20 EAST

Distribution	54,133,374	8.5%	5,657,510	10.5%	1,283,147	53
Service Center	930,995	3.7%	143,454	15.4%	16,500	3

The distribution sector of the I-20 East region recorded its eighth straight favorable quarter. Activity increased to 1,283,147 square feet leading the way to net absorption of 366,895 square feet. In spite of the addition of a 12,000 square feet spec project, the availability rate fell to 10.5 percent. The service center sector saw the flip side of the coin. Activity of 16,500 square feet could not withstand tenant turnover leaving net absorption at -5,400 square feet. The availability rate responded and rose to 15.4 percent.



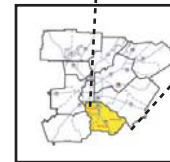
	Total Inventory	Market Share	Total Available	% Available	Total Activity	# of Deals
--	-----------------	--------------	-----------------	-------------	----------------	------------

Market Maps

AIRPORT/I-75 SOUTH

Distribution	78,942,501	12.3%	15,381,945	19.5%	1,060,559	45
Service Center	1,037,499	4.1%	321,539	31.0%	3,359	1

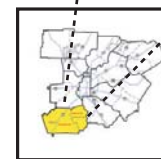
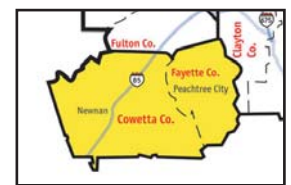
The Airport/I-75 South distribution sector has now strung four consecutive, positive quarters together, but with mediocre success this time around. Activity slid down to 1,060,559 square feet and net absorption fell to 153,386 square feet. That absorption was enough, however, to drop the availability rate to 19.5 percent – an improvement, but still the high among the distribution sectors. The service center did not fare as well. Activity was lackluster at 3,359 square feet making net absorption of -29,845 square feet no surprise. The availability rate did the inevitable and rose almost three percent to 31.0 percent – also the high among its peers.



I-85 SOUTHWEST

Distribution	21,665,285	3.4%	3,343,069	15.4%	269,029	27
Service Center	223,063	0.9%	25,850	11.6%	0	0

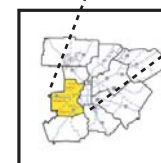
Bringing up the rear in the activity category, the distribution sector of the I-85 Southwest region went backward for a second consecutive quarter. Less than stellar activity of 269,029 square feet – which included a 22,000 square foot build-to-suit project - led the way to net absorption falling to -135,977 square feet. The availability rate took a hit and rose to 15.4 percent. With no activity reported and all tenants remaining in place, the service center sector remained status quo. Despite this immobility, this sector managed to retain the title of lowest availability rate at 11.6 percent.



I-20 WEST/FULTON INDUSTRIAL

Distribution	133,864,103	20.9%	21,355,230	16.0%	4,033,448	79
Service Center	1,793,922	7.2%	356,577	19.9%	18,961	4

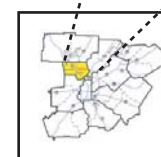
The I-20 West/Fulton Industrial distribution sector couldn't be beat this quarter. Thanks in part to a 1,037,400 square foot build-to-suit, activity reached 4,033,448 square feet and net absorption posted at 1,887,513 square feet – the distribution sector high for both activity and net absorption. Additionally, two spec projects totaling 1,152,908 square feet were added to inventory, yet the availability rate still managed to improve to 16.0 percent. The service center sector was not that lucky. Activity fell to 18,961 square feet and net absorption fell back to negative numbers at -2,089 square feet. Due to an adjustment in inventory, however, availability improved slightly to 19.9 percent.



I-75 NORTH

Distribution	35,745,874	5.6%	4,315,606	12.1%	867,388	59
Service Center	4,986,133	19.9%	941,063	18.9%	79,836	26

Lack of activity was not to blame for the distribution sector of the I-75 North region's demise this quarter. The 867,388 square feet of activity consummated was erased by tenant departures. This defeat pushed net absorption to the back of the pack at -282,094 square feet. Negative net absorption plus the addition of three spec projects totaling 32,500 square feet pushed the availability rate up to 12.1 percent. The service center sector ended with a better showing this quarter. Activity was down to 79,836 square feet, but net absorption took first place with 41,584 square feet. The availability rate dropped a full percent to 18.9 percent.



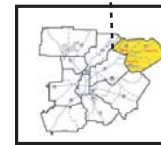
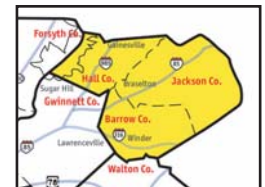
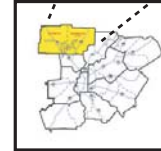
	Total Inventory	Market Share	Total Available	% Available	Total Activity	# of Deals
--	-----------------	--------------	-----------------	-------------	----------------	------------

NORTHWEST

Distribution	29,487,323	4.6%	3,689,437	12.5%	372,082	32
Service Center	559,031	2.2%	165,246	29.6%	4,416	2

After an exceptional second quarter, the Northwest region's distribution sector returned to more typical levels. Activity posted at 372,082 square feet with net absorption coming in at 214,524 square feet. Due to a 180,000 square foot spec project added to inventory, the availability rate only dropped a smidge to 12.5 percent. The service center sector squeaked by with 4,416 square feet in activity. The paltry 816 square feet in net absorption did, however, reduce the availability rate one-tenth of a percent to 29.6 percent.

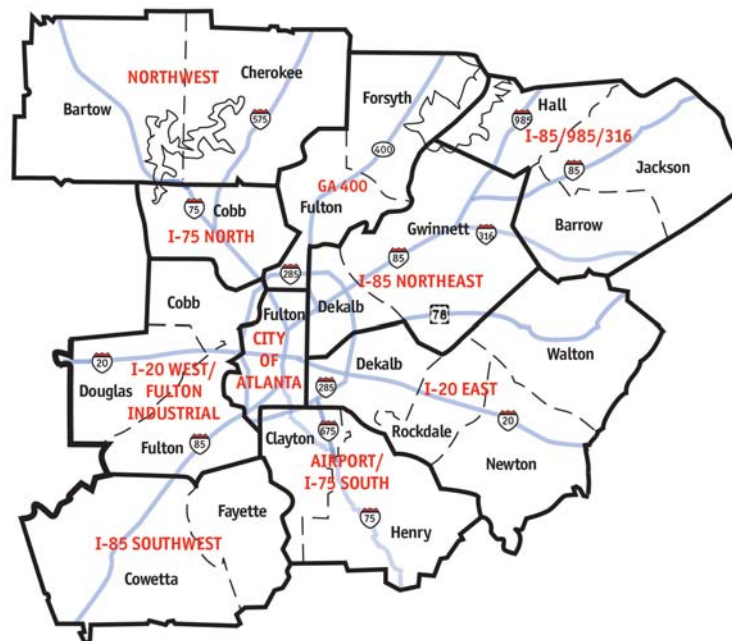
Market Maps



I-85/316/985

Distribution	45,647,288	7.1%	6,978,049	15.3%	548,318	32
Service Center	759,904	3.0%	147,431	19.4%	5,781	2

The distribution sector of the I-85/316/985 region stayed the course in the third quarter. Activity dipped to 548,318 square feet, but it was enough to post a second consecutive quarter of positive net absorption. Unfortunately, the 193,323 square feet of net absorption was countered by the addition of a 458,640 square foot spec project resulting in an increase in the availability rate to 15.3 percent. The service center sector, however, lost the battle. Activity of 5,781 square feet was destroyed by tenant retreat and net absorption fell to -5,790 square feet. The availability rate reacted and rose to 19.4 percent.



King Industrial Realty, Inc.

1920 Monroe Drive, NE
Atlanta, Georgia 30324
404.942.2000

www.kingindustrial.com



Note: The information is based in whole or in part on data supplied by King Industrial Consulting Services, Inc. All rights reserved. Information deemed reliable, but not guaranteed.