

ATLANTA 3Q17 INDUSTRIAL MARKET

ATLANTA'S INDUSTRIAL MARKET REMAINS IN EXPANSION MODE

Optimism persists throughout Atlanta's industrial market, as fundamentals and demand remain strong. Vacancy is below 8.0%, new construction is being leased up and companies continue to expand in the market. The overall sentiment is "business as usual." The market still clearly favors landlords, as rents are rising and concession packages are shrinking. Leases are getting longer, as forecasts of continued rental growth in the region are motivating tenants to lock in current rates.

The third-quarter vacancy rate stood at 7.7%, up from 7.4% in the second quarter and from 7.5% one year ago. This was due in large part to the completion of 5.9 million square feet of new space. The availability rate was below 10.0% for a third consecutive quarter, ending the third quarter at 9.2%. This was significantly lower than the post-recession peak of 20.4% in 2010.

Net absorption totaled 3.7 million square feet in the third quarter, bringing the year-to-date total to 16.1 million square feet. This year is on pace to surpass 2015 with the highest annual absorption since NKF started tracking statistics. Some of the absorption came from Kubota, which moved into a new, 617,000-square-foot space and expanded by 200,000 square feet. Black Hall Studios moved into 386,000 square feet, another example of Georgia's growing film and television production industry. Elite Foam moved into 257,000 square feet at 60 Herring Drive, helping the 1.9 million-square-foot former Kmart distribution center reach 88.5% occupancy after sitting vacant for almost two years.

The average asking rental rate for Atlanta was \$4.77/SF at the end of the third quarter, essentially unchanged from \$4.76/SF last quarter but higher than \$4.60/SF one year ago. This was attributed to small declines in the warehouse/distribution and general industrial properties of 0.7% and 0.5%, respectively. However, R&D/flex saw its average rate grow 3.1% over the quarter, well above its average quarterly growth of 1.8% over the past five years.

Technology Growth Reaches into Industrial Space

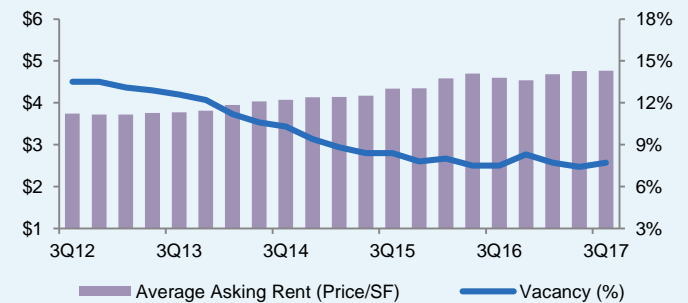
The significant growth of technology companies in the office market over the past few years is beginning to impact the region's industrial market. Google recently built a new data center in Lithia Springs, a data center hub, and financial technology firms are growing in the GA-400 Corridor. Two technology firms announced major investments in Atlanta over the summer. Flexport will open a \$100.0 million Southeast operations hub that will include a 100,000-square-foot warehouse near Hartsfield-

Current Conditions

- The market remains in landlords' favor, prompting tenants to lock in current rates for longer terms.
- Availability was significantly below the post-recession peak seen in 2010.
- The R&D/flex average rental rate grew 3.1% over the quarter.
- ASOS signed a 1.0 million-square-foot lease for its first North American operation.

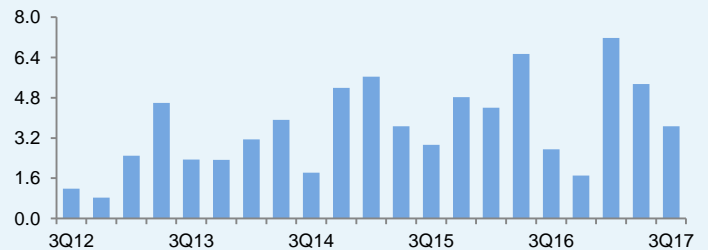
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Millions



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory (SF)	620.6 M	614.7 M	600.0 M	↑
Vacancy Rate	7.7%	7.4%	7.5%	↓
Quarterly Net Absorption (SF)	3.7 M	5.3 M	2.7 M	↑
Average Asking Rent (NNN)	\$4.77	\$4.76	\$4.60	↑
Under Construction (SF)	16.1 M	15.9 M	16.1 M	↓
Deliveries (SF)	5.9 M	4.7 M	2.8 M	↓

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Jackson International Airport. Switch Inc. is planning a \$2.5 million data center campus in Douglas County. Switch has plans to grow to several million square feet in two campuses.

Major Distribution Lease Headlines Quarter's Top Transactions

ASOS, a British fashion company, signed a pre-lease for 1.0 million square feet in the Airport/South Atlanta submarket as its first North American operation. This represents the second-largest lease signed thus far in 2017. Deals over 20,000 square feet in the third quarter were split almost 50/50 between new/relocations and renewals. Not surprisingly, 46.2% of these large deals were signed in Airport/South Atlanta, the region's largest submarket.

Warehouses Comprise Majority of New Developments

Over 5.9 million square feet was completed during the third quarter, bringing the year-to-date total to 14.8 million square feet. This is the third-highest quarterly total in the past three years. Nine of the 12 projects completed were warehouses, with e-commerce needs accounting for the bulk of their pre-leasing. The largest buildings, two 1.0 million-square-foot warehouses in the Airport/South Atlanta submarket, were built as distribution centers for Dollar General and Home Depot.

Development Pipeline Remains Active

New developments, especially large warehouse/distribution centers, remain in high demand. As a result, over 16.0 million square feet is

currently under construction in the Atlanta industrial market. Over 5.1 million square feet is set to deliver by year-end, which would bring total deliveries this year to 19.4 million square feet. Given the typically short construction timeframe for industrial buildings, the 10.9 million square feet in the pipeline for next year is expected to increase. Two-thirds of the space, or 10.7 million square feet, is in the Airport/South Atlanta submarket, but only 10.1% is pre-leased. The strength of both the submarket and the region as a whole will be tested by the properties' ability to lease-up quickly, as this will increase the submarket's inventory by 6.5%.

Market Outlook

Atlanta's industrial market remains one of the most active across the United States, and that is expected to continue for the near term. Several large tenants are touring the market, which will further strengthen fundamentals as they lease vacant space.

Lease/User Transactions

Tenant	Building	Submarket	Type	Square Feet
ASOS	4500 Derrick Industrial Parkway	Airport/South Atlanta	New	1,039,574
Keystone Automotive Industries	600 Hartman Street	Fulton Industrial/I-20W	Renewal/Expansion	525,627
Blackhall Studios	3475 International Park Drive	Airport/South Atlanta	New	409,214
Medline	1500 Medline Place	Airport/South Atlanta	New	295,800
Georgia-Pacific Consumer Products LP	5025 Fayetteville Road	Airport/South Atlanta	Renewal	279,776

Sale Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
Last Mile Logistics Portfolio	Various	\$171,900,000	\$51	3,362,656
Hillwood Portfolio	Various	\$147,400,000	\$59	2,485,388
4900 Westridge Parkway	Airport/South Atlanta	\$66,700,000	\$74	900,640
7980 Spence Road	Airport/South Atlanta	\$21,200,000	\$67	317,604
4370 Old Dixie Highway	Airport/South Atlanta	\$18,700,000	\$76	246,200

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Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	3Q Net Absorption (SF)	YTD Net Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Airport/South Atlanta	162,951,343	10,710,062	8.9 %	1,857,179	9,839,294	\$3.54	\$7.02	\$3.59
Carrollton/I-20W	4,063,017	-	3.3 %	60,000	75,000	\$1.97	-	\$1.55
Central Atlanta	12,963,923	-	7.4 %	84,445	-13,165	\$8.72	\$10.97	\$8.66
Chamblee/Doraville/Norcross	70,771,505	-	7.5 %	62,305	-653,304	\$5.11	\$8.51	\$6.45
Chattahoochee Industrial	20,971,693	-	4.1 %	129,642	418,663	\$6.41	\$15.30	\$8.69
Fulton Industrial/I-20W	88,369,371	1,914,860	7.5 %	-737,363	1,925,769	\$3.70	\$5.40	\$3.87
North Central/GA 400 Corridor	26,101,711	98,297	5.6 %	-48,517	32,819	\$6.51	\$9.76	\$8.10
Northeast/I-85 Corridor	113,324,492	2,486,496	10.2 %	1,519,604	3,186,268	\$4.05	\$9.58	\$4.71
Northwest/I-75 Corridor	62,187,708	386,500	6.0 %	261,407	1,613,914	\$4.53	\$9.08	\$5.32
Snapfinger/I-20E	31,864,371	480,000	4.2 %	284,173	-201,297	\$3.56	\$6.94	\$4.21
Stone Mountain	27,088,430	-	5.5 %	193,103	-39,036	\$4.22	\$6.21	\$4.64
Atlanta Industrial Market	620,657,564	16,076,215	7.7 %	3,665,978	16,184,925	\$4.13	\$8.69	\$4.77

Statistics by Subtype

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	3Q Net Absorption (SF)	YTD Net Absorption (SF)	Asking Rent (Price/SF)
General Industrial	79,954,520	4,808,537	8.3%	823,326	4,490,384	\$3.81
R&D/Flex	66,460,698	0	8.5%	211,043	402,352	\$8.69
Warehouse/Distribution	474,242,346	11,267,678	7.5%	2,631,609	11,292,189	\$4.13
Atlanta Industrial Market	620,657,564	16,076,215	7.7 %	3,665,978	16,184,925	\$4.77

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ECONOMIC CONDITIONS

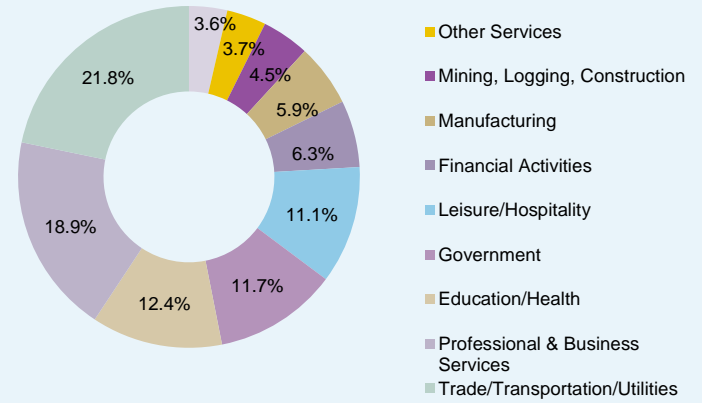
For the second consecutive quarter, Atlanta had no sectors with posted job losses over the 12 months ending in July 2017. The professional and business services sector experienced the largest change over the past 12 months, as it grew 6.7%. Manufacturing sector employment was unchanged year-over-year.

Payroll employment growth in Atlanta continued to far surpass the national rate. Companies across all industries added jobs in the region, either through expansions or relocations from other markets. In July, Atlanta's growth was 3.0% compared with 1.5% in the U.S.

The Atlanta metropolitan area's unemployment rate was 4.8% in July 2017, down from 5.4% one year ago but 50 basis points above the national unemployment rate of 4.3%.

Employment By Industry

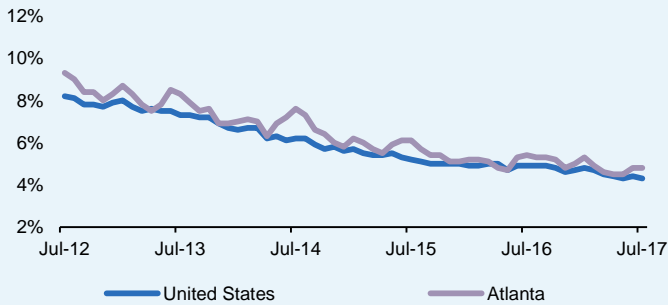
Atlanta, July 2017



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

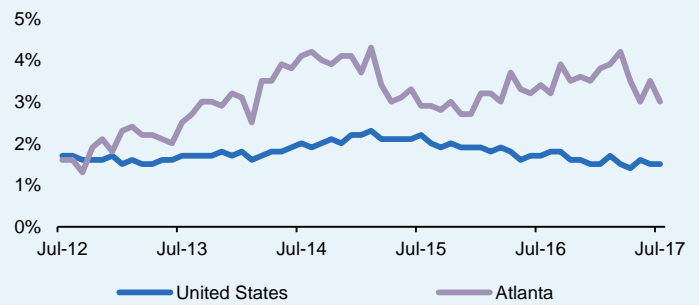
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics,

Payroll Employment

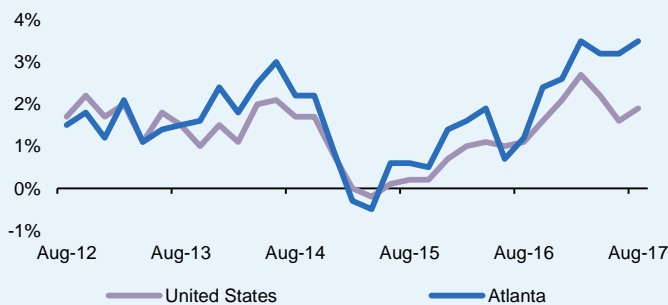
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

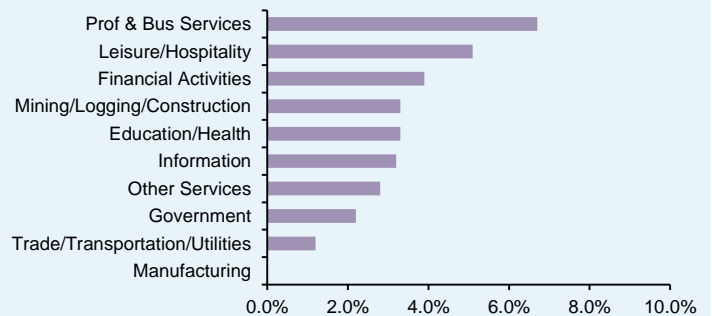
All Items, 12-Month % Change, Not Seasonally Adjusted, 1982-84=100



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

Atlanta, July 2017, 12-Month % Change, Seasonally Adjusted

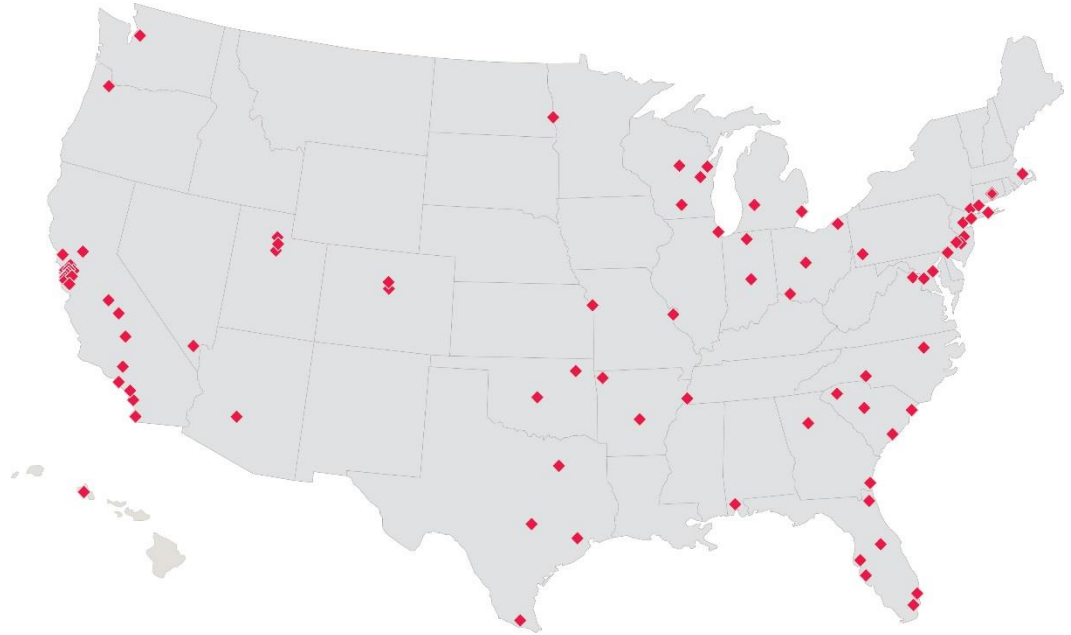


Source: U.S. Bureau of Labor Statistics

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