

HADDOW'S REAL NEWS

QUARTERLY MARKET INSIGHTS

THIRD QUARTER 2023

ATLANTA'S COOLING REAL ESTATE MARKET

Time has finally caught up with Atlanta's commercial real estate sector. Low borrowing costs and compressed capitalization rates helped fuel a development boom in the office, industrial, and apartment markets, starting in 2012. Rising interest rates, changing work habits, and slowing corporate growth are occurring at a time when many developments have recently opened or are slated to deliver in the coming months. A quick snapshot of current market trends is provided below.

Office Market

- ❖ Rents continue to rise in spite of vacancy rates reaching record levels. According to brokers, landlords continue to push quoted rates but are offering stout tenant buildout allowances.
- ❖ At mid-year 2023, CBRE reported 9.1 million square feet of available sublease space, which is up from 3.2 million square feet at year-end 2019.
- ❖ Approximately 2.9 million square feet of office space was under construction as of mid-year. Four of the five projects slated to deliver by year-end have not reported any signed leases.

Office Market	2Q22	2Q23
Annual Gross Rent Per Sq. Ft.	\$31.91	\$33.34
Vacancy Rate	21.0%	22.4%
12-Month Net Absorption (Sq. Ft.)	1.1 M	-1.4 M
Under Construction (Sq. Ft.)	4.5 M	2.9 M
12-Month Deliveries (Sq Ft.)	2.4 M	2.1 M

Source: JLL

Industrial Market

- ❖ The average quoted net rent for industrial space in metro Atlanta was \$6.29 per square foot at mid-year 2023, up roughly 37% from two years ago, according to JLL.
- ❖ Demand for industrial space cooled considerably in the first half of the year. The total net absorption of 2.6 million square feet in the first half of 2023 is a dramatic decrease from the 25.7 million square feet of absorption in the first half of 2022.
- ❖ Nearly 43 million square feet of warehouse space has been delivered in metro Atlanta since the beginning of 2022. Another 33.2 million square feet of industrial space was under construction at mid-year 2023.

Industrial Market	2Q22	2Q23
Annual Net Rent Per Sq. Ft.	\$5.16	\$6.29
Availability Rate *	9.8%	11.0%
12-Month Net Absorption (Sq. Ft.)	43.5 M	16.5 M
Under Construction (Sq. Ft.)	48.7 M	33.2 M
12-Month Deliveries (Sq Ft.)	43.7 M	36.3 M

* Availability rate includes space under construction.

Sources: King Industrial Realty and JLL

Intown Apartment Market

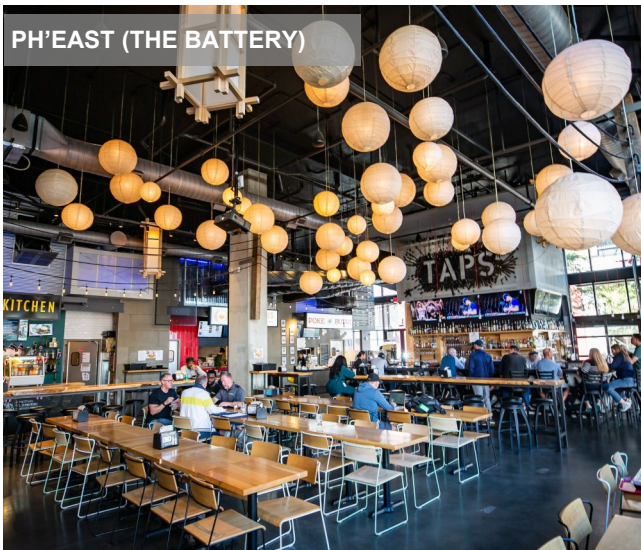
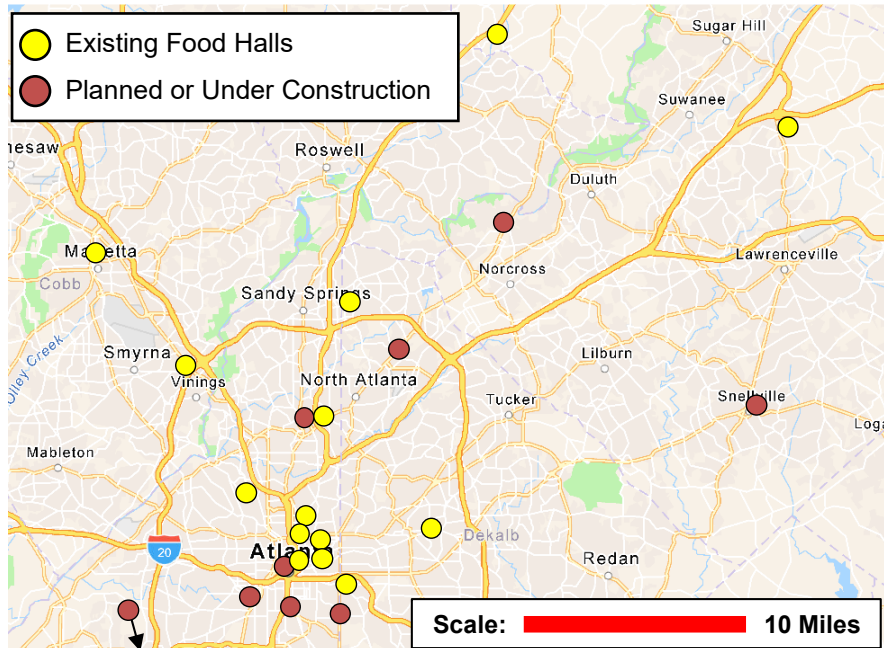
- ❖ Market conditions in the Class A segment (built since 2008) of intown Atlanta's apartment market have softened. Occupancy has dipped, rents have declined, and absorption is modest relative to the previous five-year annual average of 4,667 units.
- ❖ High-rise owners face the greatest test, as most of the new towers have underwritten monthly rents of \$3.00 to \$3.50 per square foot. The 56 existing high-rise communities in intown Atlanta have an average monthly rent of \$2.68 per square foot.
- ❖ Roughly 33,000 market-rate apartment units were under construction metro-wide at mid-year, one third of which are concentrated in the urban core, according to Cushman & Wakefield.

Intown Apartment Market	3Q22	3Q23
Monthly Rent Per Sq. Ft.	\$2.45	\$2.37
Vacancy Rate	2.9%	4.4%
12-Month Net Absorption (Units)	2,575	2,643
Under Construction (Units)	11,805	11,544
12-Month Deliveries (Units)	4,705	3,874

Source: Haddow & Company

FOOD HALL FRENZY

Food halls have become popular throughout metro Atlanta, both in the urban core and in surrounding suburban communities. Kroger Street Market and Ponce City Market, which delivered in 2014 and 2015, respectively, were the pioneers of the food hall frenzy, and introduced a new way to offer restaurants and retail shops to customers in centralized locations. At least 14 food halls exist in metro Atlanta, and there are nine more either planned or under construction as of mid-year 2023.



CLIENT'S CORNER: PROPERTY REPOSITIONING

In September 2020, our firm was hired by a family to conduct a highest and best use analysis of a 147,000-square-foot shopping center and 19 acres of adjacent, undeveloped land in Covington, Georgia. At that time, the shopping center was only 33% leased. While the small shop space was performing well, the bulk of the vacancy stemmed from Walmart's relocation in 2005. Our firm provided the following key conclusions and recommendations:

- ❖ Covington needed additional multifamily housing, and the undeveloped land was ideal for an apartment community. This would create a horizontal mixed-use development in concert with the shopping center, and the owner could then reinvest a portion of the land sales proceeds to upgrade the shopping center.
- ❖ The local retail market was healthy and there was nothing fundamentally wrong with the shopping center. However, most big-box tenants chose to concentrate stores in nearby Conyers, so ownership needed to take a different approach to leasing the vacant Walmart box by subdividing the space for multiple tenants.

Following completion of the highest and best use analysis, the owner retained our firm to market the 19 acres of land to apartment developers and to serve as an ongoing adviser in repositioning the vacant Walmart space. Three years later, a new apartment community has recently opened, the newly refreshed shopping center is 97% leased, and the annual rental revenue has nearly tripled.

To monitor key economic and housing indicators, please visit our website. As always, your thoughts and feedback are encouraged.

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