

SOUTHEAST REAL ESTATE BUSINESS®

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SOUTHEAST'S INDUSTRIAL PROJECTS TO WATCH

Developers provide insights on some of their premier industrial parks around the region.

By John Nelson

Industrial real estate has been the darling of the commercial real estate industry since the Great Recession, buoyed by the rise of e-commerce, third-party logistics users, cold storage tenants and manufacturers that are looking to assemble and build their wares closer to the end customer.

The Southeastern United States has experienced outsized activity from both speculative and build-to-suit development in that time thanks to business-friendly governing bodies and explosive population growth across the region.

But what's being built today isn't the same product as the early to mid-2010s. Developers of modern industrial parks are putting a premium on flexibility as tenants are seeking more versatile spaces than in years past. Instead of building 1 million-square-foot "bombers" for large-scale ten-



One of the seven developments profiled is Phase II of Braselton 85, a two-building project that Rockefeller Group is nearing completion on in metro Atlanta.

ants, most developers today are putting out multiple buildings at a time to satiate demand from a variety of

business uses.

But that's not to say that 1 million-square-foot projects aren't also being

delivered, as some select tenants do still require larger footprints for their operations.

Southeast Real Estate Business caught up with multiple developers to discuss their industrial parks being delivered across the region, from Baltimore to Tennessee to South Florida. The following are edited vignettes discussing those seven parks and their impact on the surrounding markets:

Braselton 85, Phase II in Braselton, Georgia – Rockefeller Group

During the height of the COVID-19 pandemic, Rockefeller Group built and fully leased a 222,618-square-foot distribution center in Braselton, Georgia to Duckyang America Inc., a Korean automotive equipment

see **INDUSTRIAL**, page 33

ATLANTA RETAIL MARKET IS JUST PEACHY

Brokers, developers say the city's retail and restaurant scenes are overcoming macroeconomic woes.

By Hayden Spiess

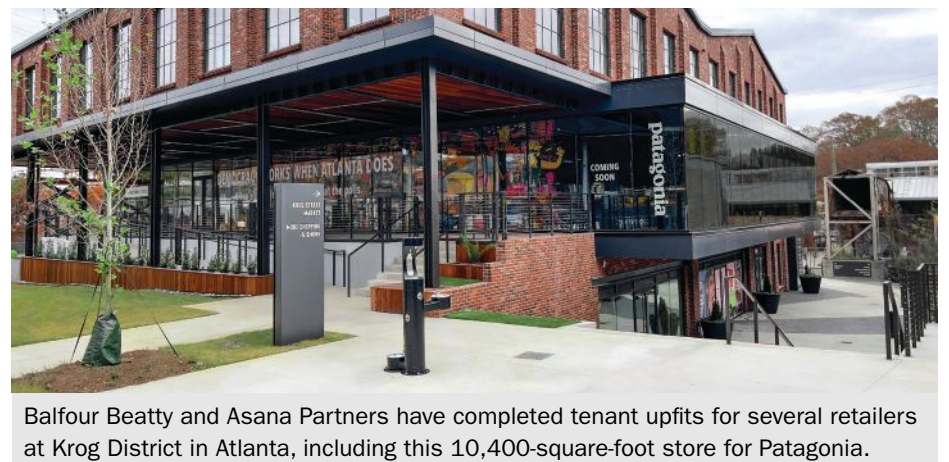
No market is immune to the consequences of current economic conditions. Certain sectors of commercial real estate, though, are better equipped to weather headwinds, primarily rising interest rates. Retail as an asset class has proven itself to be an exemplar of this. Brokers and developers say that this is especially true of Atlanta's retail market.

In the words of Dotan Zuckerman, executive vice president of retail with Portman Holdings, "retail is the

shining star" and one that is "always capable of evolving."

But it is difficult to participate in the economy on a basic level, let alone be active in the commercial real estate industry, without being forced to contend with the somewhat harsh conditions currently shaping the landscape. Some economists still herald a looming recession, and Don McMinn and Zach Taylor, who co-lead Marcus & Millichap's Taylor McMinn Retail Group, point out

see **ATLANTA**, page 37



Balfour Beatty and Asana Partners have completed tenant upfits for several retailers at Krog District in Atlanta, including this 10,400-square-foot store for Patagonia.

INSIDE THIS ISSUE



Tampa Bay Rays to Open \$1.3 Billion Ballpark,
Mixed-Use Village in St. Petersburg

page 12

New Orleans
Market Highlights
pages 25-28

Atlanta Market
Highlights
pages 29-30

Hyundai, Port of Savannah
Drive Local Industrial Market
page 31

EMERGING DEMAND AND USER TRENDS PROPEL ATLANTA AS AN INDUSTRIAL HOTSPOT



Lisa Pittman
Managing Director,
Cushman & Wakefield

Atlanta's industrial sector and its historically strong performance have fortified the city as a strategic Southeast location and gateway market nationwide. Activity, which has decreased since peak demand during the COVID-19 pandemic, is now returning to normalized levels. The net new requirement pipeline remains robust primarily due to the influx of manufacturing, advanced manufacturing, life sciences, automotive, alternative energy and data center projects.

How owners and tenants invest in industrial properties has also shifted. Owners are seeking properties with short weighted average lease terms and investments below replacement cost. Meanwhile, occupiers are making moves to crisis-proof their networks with onshoring and nearshoring of production that was previously

conducted overseas, and they're adjusting their overall supply chain and logistics strategies to diversify and avoid dependence on one region or vendor.

Players in the market remain cautiously optimistic, which has subdued demand, but that is expected to be short-lived once macro-economic conditions stabilize. High inflation and rising interest rates over the past 12 to 18 months have significantly contributed to decreased demand in Atlanta. However, with continued population growth and Atlanta's central location in the Southeast, the metro area's compressed demand will be short-lived.

With that said, Atlanta's industrial market remains strong with an overall vacancy rate of 4.7 percent and higher asking rents of \$7.17 per square foot at the conclusion of the second quarter of this year. New leasing activity is expected to stabilize and strong rent growth will continue in some submarkets but likely flatten in others for the remainder of the year.

A return to industrial real estate fundamentals has already been realized with greater emphasis on location and well-designed, functional buildings. OA Development's latest

Atlanta's industrial market remains strong with an overall vacancy rate of 4.7 percent.

Victory Landing Logistics Center in Atlanta is an ideal example.

The 700,000-square-foot industrial park is well-positioned adjacent to Hartsfield-Jackson Atlanta International Airport. Buildings 100 and 500 are complete at this uber-infill location with immediate access to I-285. When fully developed, the five-building, last mile industrial park will offer buildings ranging from 68,000 to 220,000 square feet that are tailored to meet tenants' demands.


Another unique demand trend emerging is a shift in the size of users taking space in the market. Smaller tenant profiles are much more active than larger, bulk users that occupy 500,000 square feet or more. This is underscored by rent increases for occupiers of 250,000 square feet or less. Over the past 12 months, deals below 250,000 square feet accounted for 94.4 percent of all new lease transactions and represented 53 percent of the total

square footage leased.

While market fundamentals continue to support industrial properties that have come to market or are in Atlanta's pipeline, the cost of capital and the borrowing environment have halted new construction starts and are expected to continue to suppress construction through the first half of 2024.

High construction costs are also forcing tenants to request larger tenant improvement (TI) allowances to upfit their spaces. Even basic build-out costs are burdensome for new construction on smaller footprints, which are the majority of recent deals. In exchange for additional TI dollars, landlords prefer a long-term lease and good credit profile.






Overall, Atlanta's industrial market is expected to see net new demand for the remainder of 2023 into 2024. The market is also expected to stabilize and benefit from its diversified economy.




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