King Industrial Realty, Inc.

Point of View

KEEP CALM AND CARRY ON

We bid farewell to 2018 with a toast to good times had. January 2019 rolled in bringing that same strong performance. Then February threw us for a loop and stalled out. So, what happened? Uncertainty happened! After the record 35-day government shutdown ending January 25, there was an atmosphere of caution regarding the possibility of a second government shutdown. Want proof? January job growth of 312,000 was down to only 33,000 jobs for the month of February. Now, let's throw in long-term interest rates below short-term rates (inverted yield curve) - usually a precursor to a recession 12-18 months down the road - so more uncertainty. Don't forget the four interest rate hikes in 2018 by the Federal Reserve. Not to mention slowing consumer spending, and weakness in both China and Europe – there's that caution again. Then there's the US - China trade dispute and tariffs – are you starting to get the picture?

Fortunately, these issues and the slowdown in February turned out to only be an aberration. In March, the job growth increased to 196,000. The 10-year Treasury yields have now decreased below the long-term mortgage rates which remain at historic lows. Capitalization rates during this same time period never rose. The Federal Reserve has indicated there will be no more rate hikes in 2019. Debt and equity are both available to real estate investors creating positive leverage and liquidity for investments in 2019. With an over-abundance of investors, the cap rates remain compressed which translates to higher sale prices. In 2018, investors sometimes struggled to find acceptable fully leased properties, so this led to many investors buying empty buildings and taking the lease up risk. We will see more of this in 2019 as well.

Despite all of this going on, the Atlanta industrial market closed the first quarter of 2019 moving forward with strong activity, positive net absorption, and robust new construction. Activity of 13.5 million square feet was an increase from the 11.5 million square feet recorded in the fourth quarter of 2018. This contributed to a total of over 53.3 million square feet of activity for the past four quarters. That is 21 consecutive quarters, 5+ years, where the four-quarter total activity has exceeded 53 million square feet.

Net absorption decreased to 1.5 million square feet from 4.2 million square feet seen in the fourth quarter of 2018. Although a decrease, the four-quarter total still exceeded 16 million square feet. We have now officially celebrated 28 quarters, or 7 years, of positive net absorption. If you will remember, prior to this phenomenal run, the Atlanta industrial market experienced 4 years of *negative* net absorption following the capital markets melt-down/recession.

New construction is keeping up the pace with an increase to 6.5 million square feet of new construction, up from 2.3 million square feet seen in the fourth quarter of 2018. The total for the past four quarters exceeded 19 million square feet with speculative construction accounting for 81 percent of that total.

Activity in the service center sector in the first quarter of 2019 saw an increase to 881,069 square feet, up from the 785,738 square-feet recorded in closing quarter of 2018. This enabled the total activity for the past four quarters to be 2,933,579 square feet. Net absorption was positive with 300,096 square feet for the first quarter of 2019 . . . a huge turnaround over the -222,617 square feet of net absorption this sector experienced in the fourth quarter of 2018. The four-quarter total of 98,827 square feet of positive net absorption allowed the availability rate to decrease. The quarter closed at 13.6 percent, which is the lowest it has been in 20+ years.

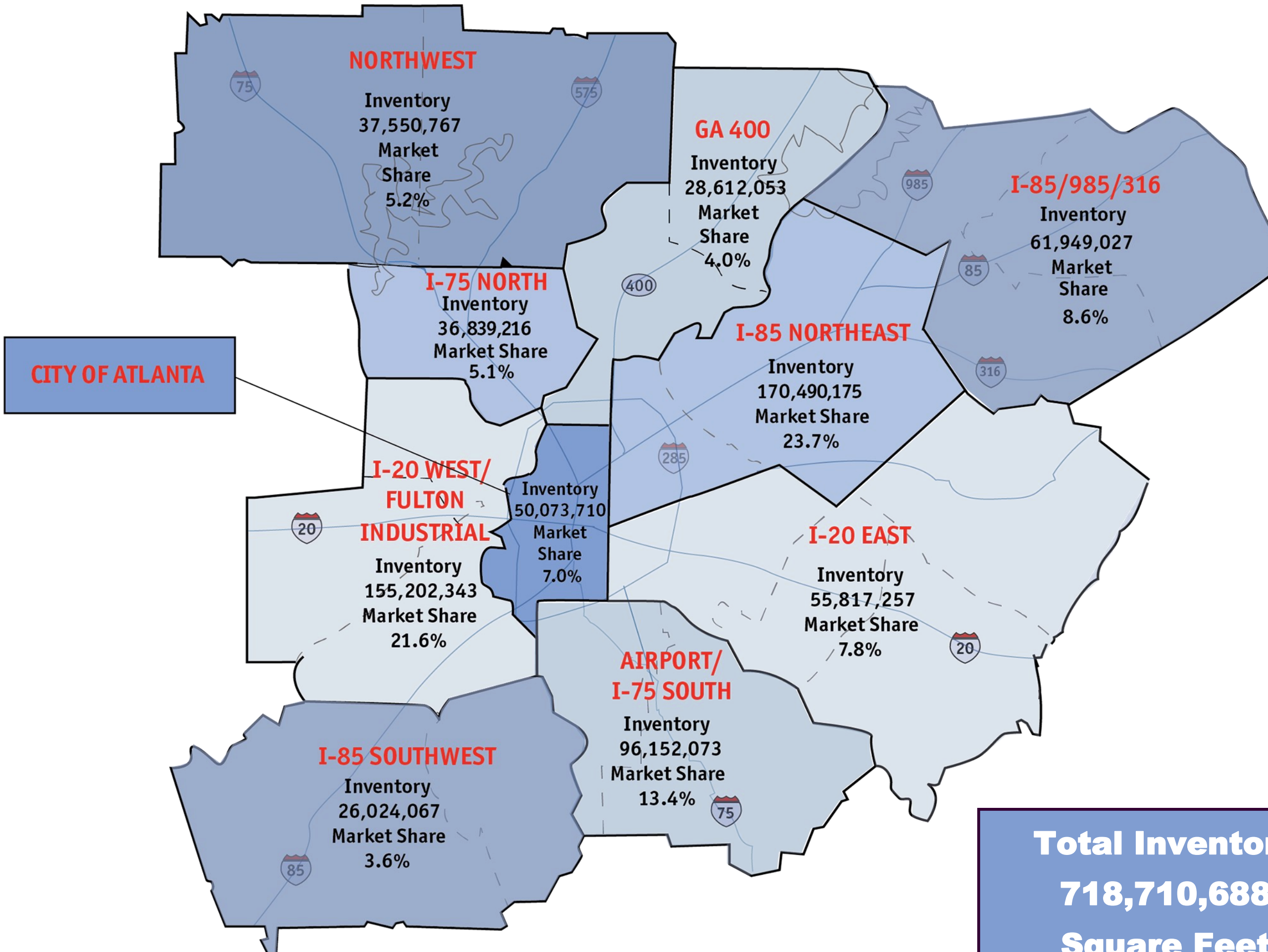
Our prediction is that the rest of the year will look like January and March with February proving to be just a blip. So *stay calm and carry on* - the good times we saw in 2018 will continue in 2019!

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

First Quarter 2019

404.942.2000

Distribution Market Inventory



Total Inventory
718,710,688
Square Feet

New Construction

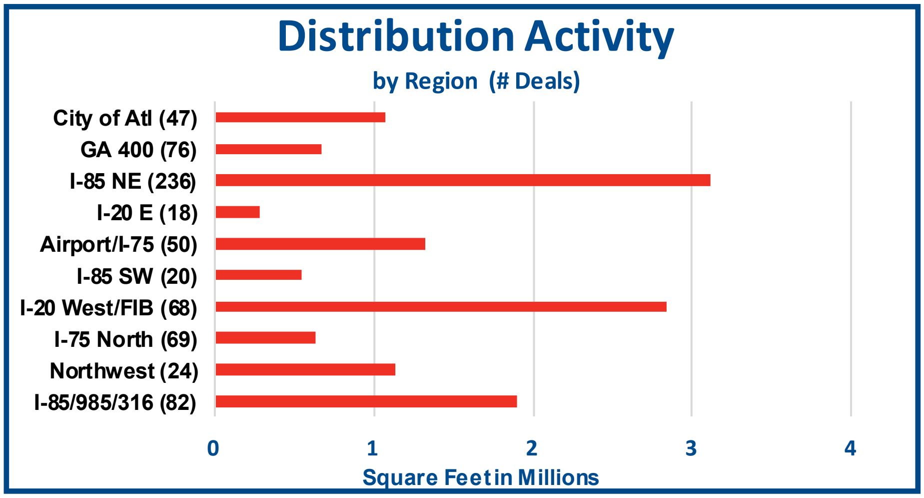
Total new construction for the first quarter of 2019 was recorded at 6,567,609 square feet. Only 21.8 percent of that was cataloged as build-to-suit. Speculative construction has been the dominant factor for the past five (5) years. Available new space now sits at 35,74,149 square feet, or 43.7 percent of available space.

Location	Submarket	Square Feet	Type
Campbellton Road	I-20 West / Fulton Industrial	1,128,400	Spec
Steve Reynolds Industrial	I-85 / 985 / 316	1,099,880	BTS
Horace Head Road	I-85 / 985 / 316	1,015,740	Spec
International Parkway	Northwest	766,000	Spec
Highway 42 South	Airport / I-75 South	728,000	Spec

1st Quarter 2019
6,567,609sf

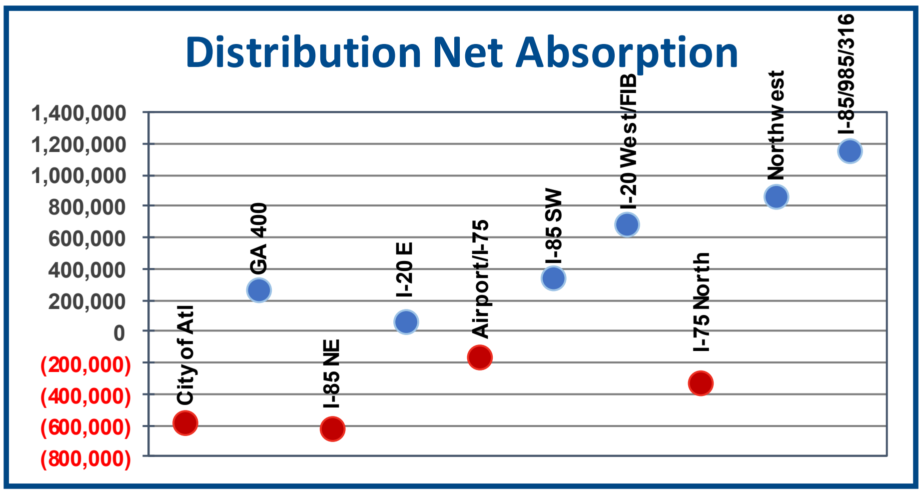
4,258,958
Square Feet
From
4th Quarter 2018

KNOWLEDGE THROUGH EXPERIENCE – Since 1983, King Industrial Realty has tracked and reported on the Atlanta industrial market using our proprietary database, PinPoint™. We pride ourselves in remaining the only complete and independent source of industrial data in the Atlanta metro area.



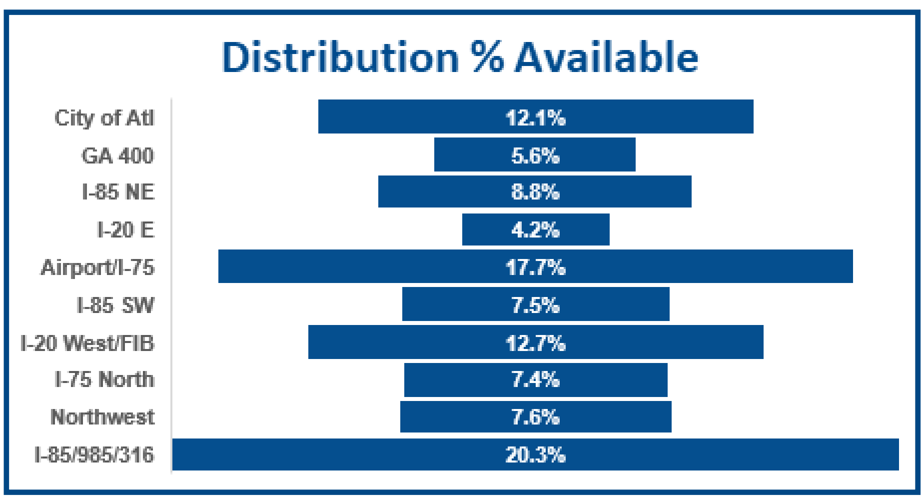
Total Activity
1st Quarter 2019
13,501,709 SF
up
2,021,459 SF
from 4Q18

The powerhouse I-85 Northeast region led the pack pulling in 3,117,177 square feet of activity, which is no surprise. The surprise comes with the I-85/985/316 region and the Northwest region both quadrupling activity to 1,899,255 square feet and 1,132,109 square feet respectively.



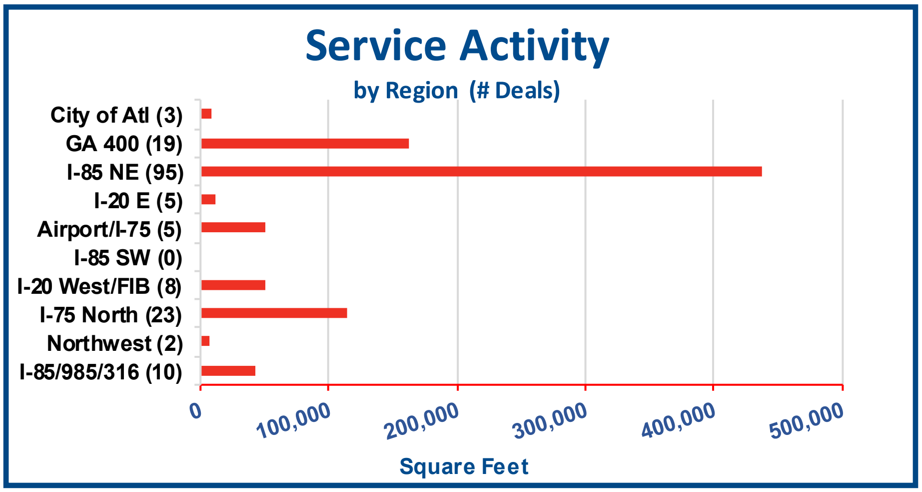
Net Absorption
1st Quarter 2019
1,536,697 SF
down
2,668,204 SF
from 4Q18

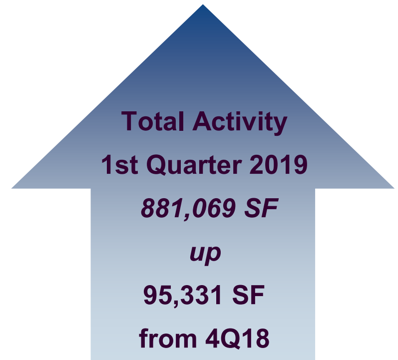
Although we saw the 28th quarter of overall positive net absorption, we ended the quarter with four regions in the red. That same powerhouse, I-85 Northeast region, fell the lowest landing at -630,170 square feet.



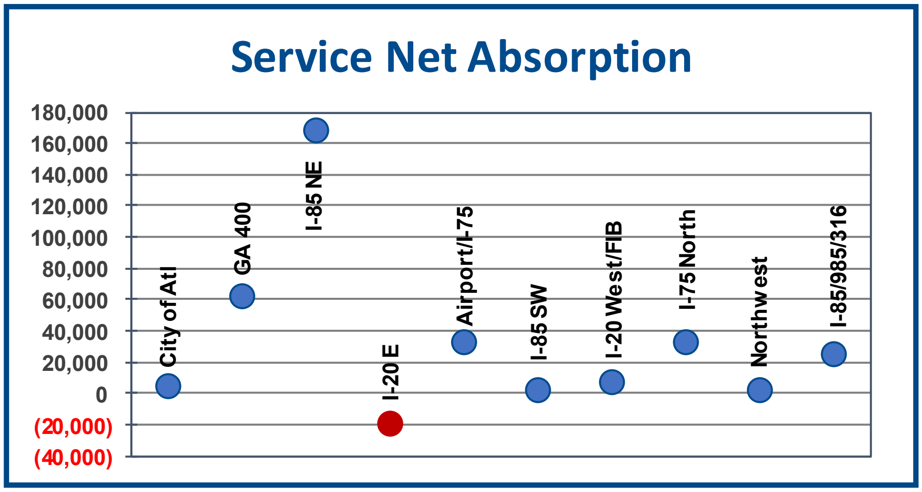
Available SF
81,790,910
11.4%
Available
up
0.5%
from 4Q18

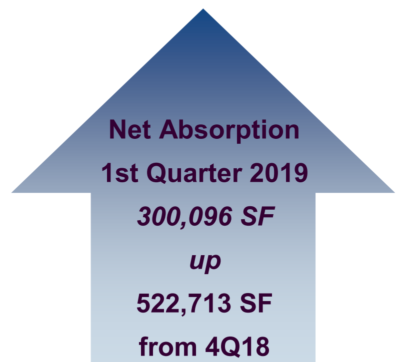
The metro availability rate rose 0.5 percent. That increase is the result of lower net absorption combined with 5,133,729 square feet of spec construction added to inventory during the quarter. Despite the 5+ million square feet of spec construction, available new space increased by only 3.1 million square feet.



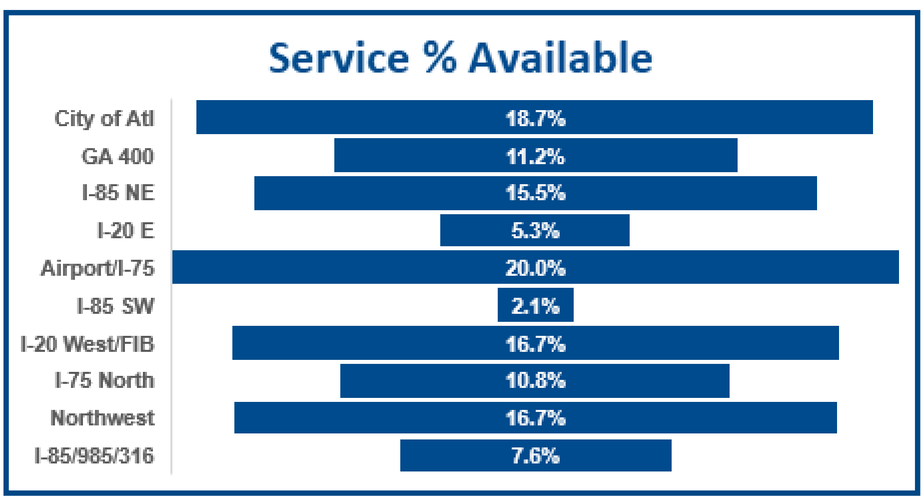


The I-85 Northeast region was responsible for almost half of the activity recorded in the service center sector this quarter. The tiny I-85 Southwest region falls on the opposite end of the spectrum. Not one single deal was inked in this region during the quarter.





After recording negative net absorption in the fourth quarter of 2018, net absorption came in on the positive side to start the new year. Again, the I-85 Northeast region was responsible for over half of the final result. The I-20 East region posted below the line.



With 12 of the last 13 quarters recording positive net absorption, the availability rate in the service center sector has whittled its way to a new low. Available new space sits at a mere 23,287 square feet, or 0.7 percent.