

MARKETBEAT ATLANTA

Office Q3 2020



	YoY Chg	12-Mo. Forecast
19.2% Vacancy Rate	▲	▲
-130.5K Net Abs. YTD, SF	▼	▼
\$28.15 Asking Rent, PSF	▲	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2020

	YoY Chg	12-Mo. Forecast
2.7M Atlanta Employment	▼	▲
7.1% Atlanta Unemployment Rate	▲	▲
8.8% U.S. Unemployment Rate	▲	▼

Source: BLS

ECONOMY

Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data likely reflecting that. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of economy [here](#).

After surging to a peak of 11.4% in May, Atlanta's unemployment rate dropped 540 basis points (bps) to 6.0% in August, remaining below the national average of 8.8%. Atlanta's highly diversified economy, comparatively low cost of living and cost of doing business, and deep talent pool place the Metro in a strong position to weather the economic turbulence of 2020, though a projected increase in the size of the labor force may cause the unemployment rate to jump in the short term. Metro Atlanta remains an attractive option for corporate relocations, with Papa John's recently announcing plans to move its global headquarters here next year along with approximately 200 jobs.

SUPPLY

Metro Atlanta's vacancy rate continued its year-long steady climb, reaching 19.2% during the third quarter of 2020, an increase of 230 bps year-over-year (YOY) and 50 bps quarter-over-quarter (QOQ). Though the modest QOQ increase was driven by a slowdown in demand and the addition of several smaller vacancies to the market, sharper vacancy increases are on the horizon due to speculative construction completions and multiple large move-outs planned for late 2020 and throughout 2021.

A wave of sublease supply has hit the market in recent quarters, with sublease vacancies currently at 3.1 million square feet (msf). This share represents 10.9% of all vacant space in the Metro, up 350 bps from second quarter 2020's recent historical high of 7.4%, reflecting a potential COVID-19 related impact as many companies have re-assessed space needs in light of the pandemic. Atlanta's sublease supply is disproportionately concentrated in the suburbs, with nearly 2.2 msf of vacant space located there, compared to 928,830 square feet (sf) in the urban core. The Central Perimeter has the highest share of sublease vacancies, comprising 30% of the Atlanta's vacant sublease space.

RENTAL RATES

The direct average asking rental rate surged to a new high of \$28.46 per square foot (psf) during the third quarter, an increase of \$1.22 psf YOY. Direct asking rents in the Central Business District (CBD) increased 1.2% to \$33.04 psf, while the suburbs recorded 2.7% growth, reaching \$26.20 psf. Asking rents for Class A assets hit a new high of \$31.00 psf, with Class A Midtown inventory remaining the priciest of all submarkets and commanding a 27.4% premium over the rest of the Metro. Asking rents are expected to soften over the coming quarters, though increased free rent and concessions have become more commonplace in the short-term.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & DIRECT ASKING RENT



DEMAND

COVID-19's influence dominated leasing activity as many firms continued to delay decision-making or re-evaluate physical space needs, resulting in a second consecutive quarter of dramatic slowdown in demand for new office space. Leasing activity decreased 35.7% QOQ, with 1.2 msf leased across Metro Atlanta during Q3. Demand was primarily concentrated outside the CBD, with 717,941 sf of leasing activity occurring in suburban submarkets compared to 494,783 sf in the CBD. Within the urban core, Class A space continued to attract tenants, as more than 96% of new leases signed there during Q3 occurred within premier space. Once again, market activity was bolstered by a large commitment within the technology industry. MailChimp announced plans to relocate its headquarters from a neighboring location to 300,000 sf within New City's proposed Fourth Ward Project. The BeltLine-adjacent building, which should break ground shortly and is slated to deliver in late 2022, has 150,000 sf of available space remaining.

A second consecutive quarter of pandemic-driven net absorption losses offset Metro Atlanta's strong first quarter performance, tipping year-to-date overall net absorption into the red for the first time since 2011. However, much of these losses were in the form of subleases as various mid-size tenants vacated full-floor spaces and listed them for sublease. Excluding sublease additions, Metro Atlanta recorded modest direct absorption gains. Central Perimeter and Northlake/Decatur posted the most substantial gains during the third quarter, the former of which was driven by Insight Global's much-anticipated move into its new headquarters at Twelve24.

CONSTRUCTION

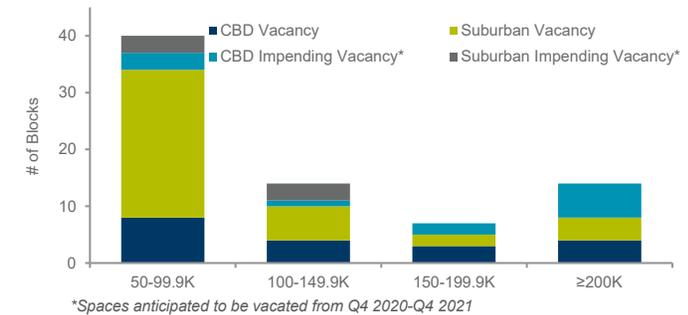
As the flight to high-quality modern space persists, the Atlanta construction pipeline remains healthy. Fourteen office developments delivered since the start of 2020, totaling 2.3 msf. In addition to build-to-suit facilities for State Farm and Anthem, robust leasing has occurred in newly-delivered speculative buildings, resulting in only 24% of space delivered in 2020 year-to-date (YTD) remaining vacant. During the third quarter, three smaller buildings delivered: the 39,000 sf loft office development at the Battery at Truist Park and the Stockade and Stable at Glencastle.

Construction remains underway on 5.4 msf of space in total, over 25% more than the active pipeline at the end of Q3 in 2019, with 21% of that space slated to be completed by the end of 2020. Pre-leasing activity remains healthy in new developments, as 58% of product under construction or renovation in Atlanta has already been pre-leased.

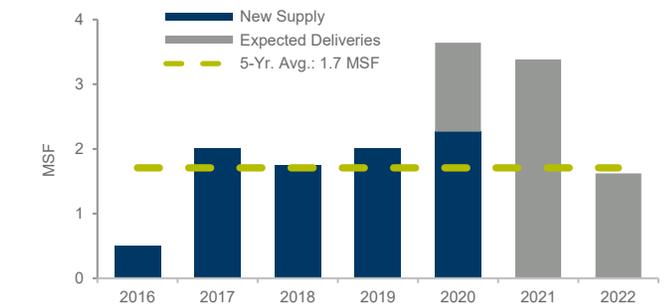
OUTLOOK

- Atlanta will continue to serve as a strong and viable option for corporate headquarters and hubs for firms evaluating their present locations. The Metro's deep talent pool, high-quality colleges and universities, low cost of living and doing business, and comparatively low density make the city attractive to national and global corporations.
- Market fundamentals are expected to begin softening. Multiple large-scale move outs on the horizon for late-2020 and 2021 could lead to a further spike in vacancy over the coming quarters. In response, concessions are anticipated to rise and asking rents will begin to decline.
- Atlanta's construction pipeline remains relatively unaffected by COVID-19, with 5.4 msf currently under construction across the market. Healthy pre-leasing activity in speculative product bodes well for the Metro's future.

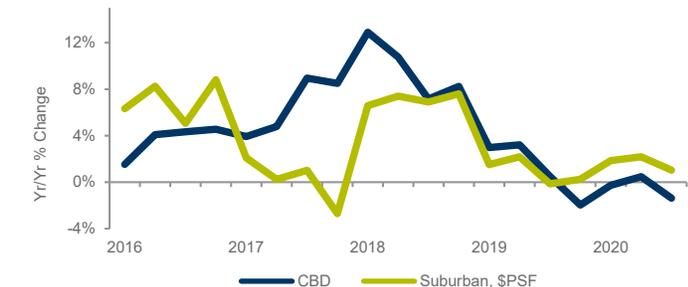
BLOCKS OF CONTIGUOUS SPACE



NEW SUPPLY



CLASS A ASKING RENT TREND



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Downtown	15,446,830	221,458	2,928,714	20.4%	-144,482	-380,956	235,419	108,400	\$27.86	\$28.87
Midtown	19,910,449	309,788	2,987,194	16.6%	-182,816	235,580	1,705,539	4,042,810	\$36.18	\$39.54
Buckhead	17,523,187	397,584	2,664,144	17.5%	-180,247	-313,202	320,726	354,427	\$35.59	\$36.25
Central Perimeter	24,048,992	928,212	4,247,697	21.5%	121,931	1,003,253	780,259	429,200	\$28.61	\$30.56
Georgia 400 Corridor	19,160,200	488,418	3,555,324	21.1%	-48,001	-465,781	643,358	128,031	\$25.58	\$27.22
Northwest Atlanta	24,108,800	377,967	4,245,379	19.2%	-186,640	-161,020	557,944	332,486	\$26.59	\$28.70
Airport/South Atlanta	3,567,985	107,181	343,505	12.6%	-71,624	-61,049	82,901	37,610	\$18.72	\$20.40
Northlake/Decatur	4,384,766	25,792	1,188,987	27.7%	38,338	201,160	208,199	0	\$22.73	\$26.88
Northeast	20,405,889	245,940	3,211,396	16.9%	-149,018	-188,479	627,166	0	\$22.46	\$22.16
ATLANTA TOTALS	148,557,098	3,102,340	25,372,340	19.2%	-802,559	-130,494	5,161,511	5,432,964	\$28.15	\$30.66

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
Fourth Ward Project	Midtown	MailChimp	300,000	New Lease
Glenridge Highlands Two	Central Perimeter	Deluxe Corporation	171,269	Sublease
100 Peachtree	Downtown	Boston Consulting Group	95,986	Expansion
1075 Peachtree - 12th & Midtown	Midtown	Seyfarth Shaw	83,694	Renewal*/Expansion
4004 Perimeter Summit	Central Perimeter	Rooms To Go	60,000	New Lease

*Renewals not included in leasing statistics

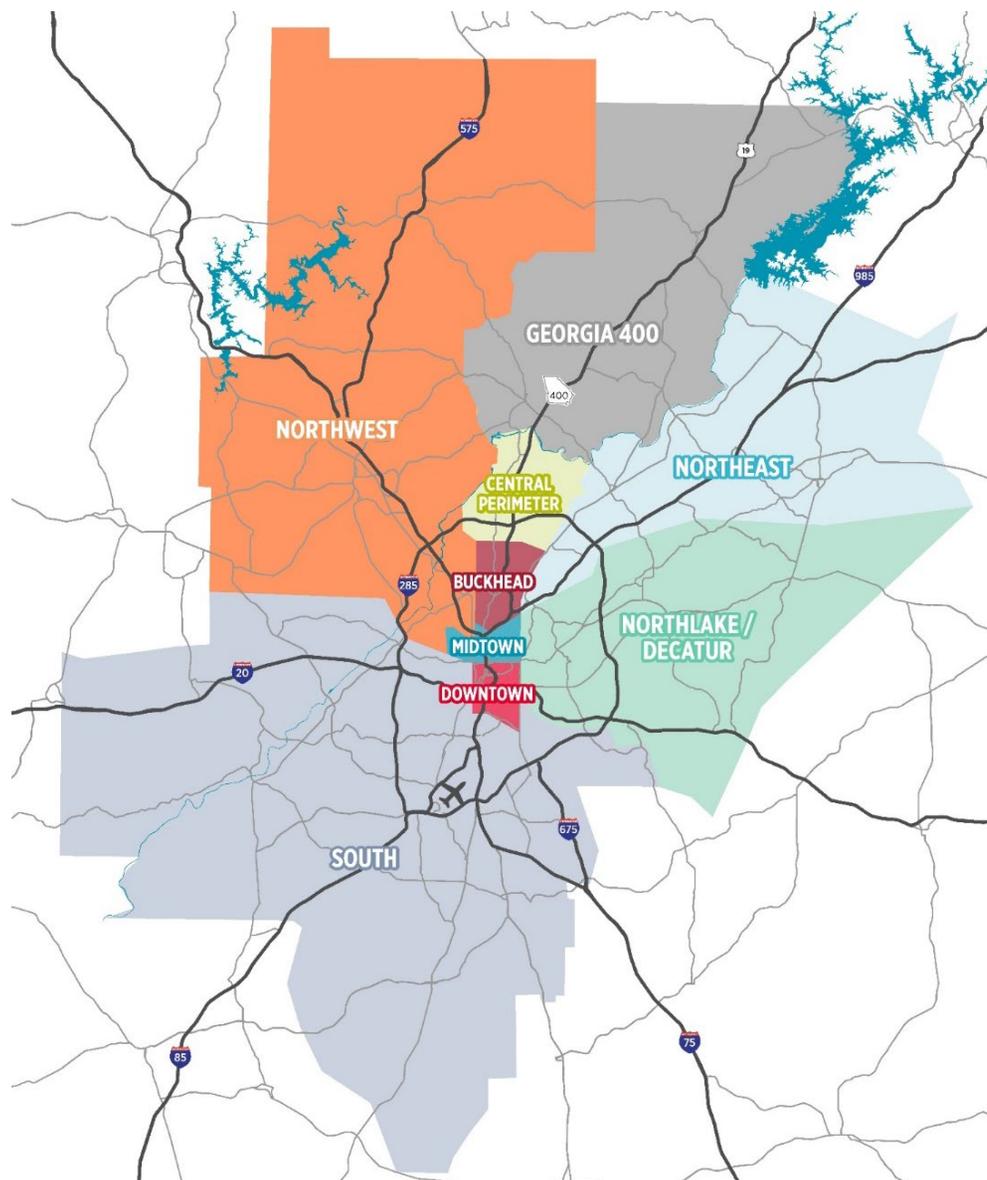
KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
Gwinnett Commons Portfolio – Flex Office Component	Northeast	Westmount Realty Capital / CIP Real Estate Property Services	144,521	\$19.0M/\$131
The Plains Portfolio: 3355, 3375, 3395 Northeast Expy.	Northeast	TPA Group / Billionaires Funding Group	124,421	\$7.0M/\$56
Technology Park Portfolio: 155 & 157 Technology Pkwy.	Northeast	Stockbridge Capital Group / SF Partners	116,530	\$10.3M/\$88

KEY CONSTRUCTION COMPLETIONS Q3 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
Four Ballpark Center, The Battery at Truist Park	Northwest Atlanta	SPEC	39,000	Braves Development Company
The Stockade at Glencastle, 750 Glenwood Ave.	Downtown	Ideas United	38,000	Urban Realty Partners
The Stables at Glencastle, 750 Glenwood Ave.	Downtown	SPEC	25,000	Urban Realty Partners

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