

MARKETBEAT ATLANTA

Office Q2 2023



CUSHMAN &
WAKEFIELD

23.2%

Vacancy Rate

YoY
Chg



12-Mo.
Forecast



-900.5K

Net Absorption YTD, SF



\$31.47

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2023

3.1M

Atlanta
Employment

YoY
Chg



12-Mo.
Forecast



3.0%

Atlanta
Unemployment Rate



3.6%

U.S.
Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW: Labor Market Held Strong

Atlanta's labor market remained resilient as non-farm payroll growth increased by 2.4% year-over-year (YOY) in May. Hiring was powered by a 7.5% uptick in Leisure and Hospitality employment and a 7.0% rise in Education and Health Services jobs. The Financial Activities sector expanded by 4.5% annually, an impressive increase for an industry sensitive to ongoing interest rate hikes. However, the Federal Reserve's push to mitigate inflation by raising interest rates impacted the trajectory of Atlanta's Information sector, which grew by a modest 0.4% in May, a downtrend from the 2.5% annual increase in April 2023. Still, continued job growth in other office-using sectors have helped keep unemployment at 3.0% in Q2, well below the U.S. average of 3.6%. Atlanta is expected to yield further steady job gains in 2023 even as inflationary pressures persist.

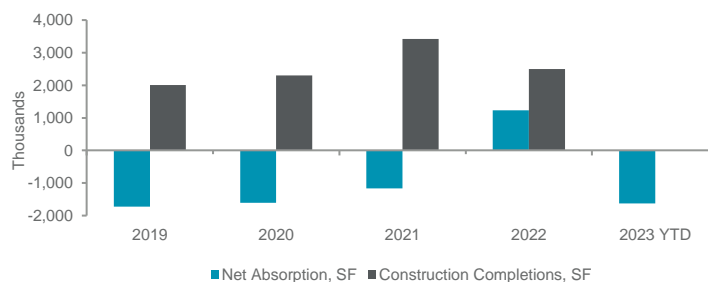
DEMAND: Leasing Activity Remained Stable

While hybrid/remote work models and economic uncertainties impacted office demand across Atlanta, its diverse tenant base continued to somewhat insulate the region from the challenging office landscape experienced nationally. Lease renewals accelerated by 32.9% quarter-over-quarter (QOQ) to 956,876 square feet (sf), while new space requirements declined modestly, finishing the quarter with nearly 1.2 million square feet (msf). Midtown led all submarkets with 315,452 sf of transactions, up 0.7% QOQ and 16.2% YOY. Despite Midtown's strong performance, new leasing in the CBD totaled 396,857 sf, or 34.0% of demand metro wide.

Suburban Atlanta accounted for 66.0%, or 769,734 sf, of new leasing activity in Q2. Northwest outperformed all suburban submarkets with 292,480 sf of transactions, up 34.1% QOQ. While the majority of suburban leasing volume took place in second-generation space, tenant demand remained active for newly renovated office buildings. Landlords such as Starwood Capital Group, Piedmont Office Realty, and SK Commercial have attracted key tenants thanks to major suburban building enhancements, indicating that there is an appetite for higher-quality properties in suburban locations.

Occupiers have been signing smaller leases as they re-evaluate their space needs. More than 56.0% of all leases signed during Q2 were for spaces below 5,000 sf, though they accounted for only 14.8% of the leasing square footage. While there were seven leases of more than 50,000 sf, they comprised 34.6% of total leasing volume. The average lease size in Q2 was 9,851 sf, down slightly from 10,119 sf during the prior quarter.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & DIRECT ASKING RENT





SUPPLY: Net Occupancy Weakened Despite Large Move Ins

The overall vacancy rate reached 23.2% in Q2, up 50 basis points QOQ. Vacancy remained heavily concentrated in the urban core, where 27.6% of space was empty—well above the suburban rate of 20.6%. Recent completions of top-tier properties in Midtown with notable amounts of available space and several large move-outs in Buckhead contributed to new vacancies in the CBD. While 1.8 msf of under construction product will create additional vacancy in Atlanta's core over the next 12 months, ongoing flight-to-quality trends in Midtown will likely reduce unused space in subsequent years. Vacancy in both high-quality and Class B assets in dynamic suburban pockets remained stable in Q2, particularly in the Northwest and Northeast. The amount of unoccupied space was higher in the Central Perimeter, where sublease availability continued to mount.

Net occupancy slowed in tandem with the increase in vacant space as the metro area recorded 900,477 sf of negative absorption in Q2. However, it is only the second quarter to record negative absorption since Q1 2021. Nearly 75.0%, or 673,824 sf, of occupancy losses were concentrated in the CBD, where AT&T vacated more than 450,000 sf in Buckhead. Suburban Atlanta fared moderately better, even as absorption totaled -226,653 sf for the quarter. Despite large occupancy losses, Atlanta documented significant move-ins across a wide spectrum of industries, notably Invesco occupying 298,804 sf at Midtown Union, Cleveland Electric moving into 51,042 sf at Northcreek - Bldg. 100 (Northwest), and Mativ taking up 35,000 sf at 100 Kimball Place (GA 400).

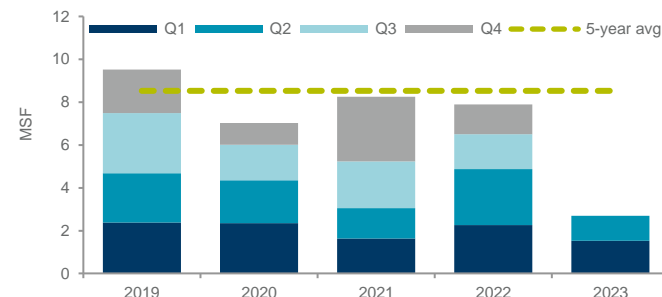
RENTAL RATES: Rental Rate Growth Continued

The direct average asking rent stood at \$31.73 per square foot (psf) in Q2, an increase of 0.8% QOQ and 4.9% YOY. Rental gains were most pronounced in the CBD, growing 6.0% YOY to \$37.18 psf—a byproduct of Midtown's new premiere speculative buildings that delivered with an abundance of available space. Suburban rates rose 1.0% YOY, continuing a trend of modest increases. Although rates continued to rise across the region, landlords are increasingly willing to negotiate with prospective tenants on lease terms, particularly those with strong credit seeking buildout allowances. Moreover, negotiating power is on the rise for existing tenants seeking to restructure their lease with increased TI and other concessions, a trend that has helped stimulate long-term renewal activity. While some stabilization in asking rents is expected as current market conditions tilt away from landlords, many companies are capitalizing on the opportunity to secure premier office accommodations as they find more efficient plans that eliminate unused office space.

OUTLOOK

- The trend of flexible, hybrid-centric office spaces in office design will likely continue in the coming years, fueling demand in submarkets like Midtown where such product is most available.
- Lease negotiations will continue to skew in favor of tenants seeking long-term leases as landlords vie to attract tenants, though, minimal rent stabilization is expected this year.
- Atlanta's economic resilience in face of rising interest rates will support a recovery in the office market in 2024.
- A slowdown in office construction is expected to occur once the next wave of UC product is delivered, putting downward pressure on vacancy.

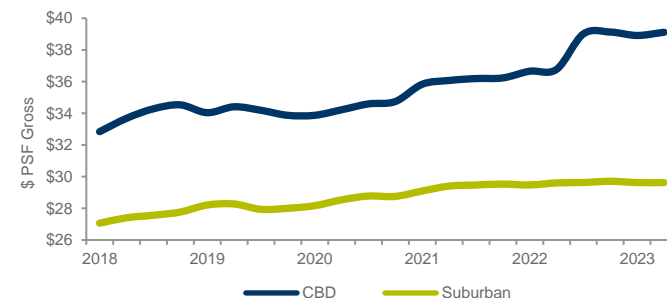
DEMAND: NEW LEASING ACTIVITY



SUPPLY: CONSTRUCTION DELIVERIES



ASKING RENTS: CLASS A AVERAGE RATES





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Downtown	16,112,914	4,052,432	101,036	25.8%	-19,275	-227,524	100,391	255,452	\$28.65	\$30.38
Midtown	24,361,816	6,240,190	516,727	27.7%	-100,051	-150,316	628,673	1,382,287	\$41.40	\$45.99
Buckhead	18,113,862	5,004,583	249,299	29.0%	-554,498	-638,988	307,998	165,000	\$38.42	\$39.05
Central Perimeter	24,790,906	5,335,251	626,585	24.0%	-83,723	-131,425	337,295	115,478	\$30.33	\$31.81
Georgia 400 Corridor	19,605,650	3,746,619	542,469	21.9%	21,207	-80,973	341,110	0	\$26.90	\$27.56
Northwest Atlanta	24,394,357	3,981,687	714,904	19.3%	2,043	-113,310	510,664	79,990	\$27.92	\$30.07
Airport/South Atlanta	4,207,942	561,160	9,428	13.6%	8,253	-4,167	62,438	0	\$21.63	\$21.69
Northlake/Decatur	4,654,277	1,334,888	0	28.7%	-39,232	3,821	79,435	0	\$23.72	\$26.80
Northeast	20,567,681	3,243,160	177,692	16.6%	-135,201	-284,398	327,317	0	\$21.72	\$23.39
ATLANTA TOTALS	156,809,405	33,499,970	2,938,140	23.2%	-900,477	-1,627,280	2,695,321	1,998,207	\$31.47	\$34.09

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	SF	LEASE TYPE*
Primerica Building	Northeast	Primerica Life Insurance Company	344,476	Renewal
Promenade II	Midtown	Deloitte	93,575	New Lease
Atlanta Galleria Building 300	Northwest	OneDigital	70,445	New Lease
Founders II	Georgia 400 Corridor	Nolan Transportation Group	62,156	Renewal
Ashford Green	Central Perimeter	Insight Global, LLC	60,322	Renewal
Northyards Buildings 100-600	Downtown	Coca-Cola Enterprises	50,508	Renewal
Atlanta Galleria Building 600	Northwest	Moore Colson and Company, P.C.	45,758	Renewal & Expansion

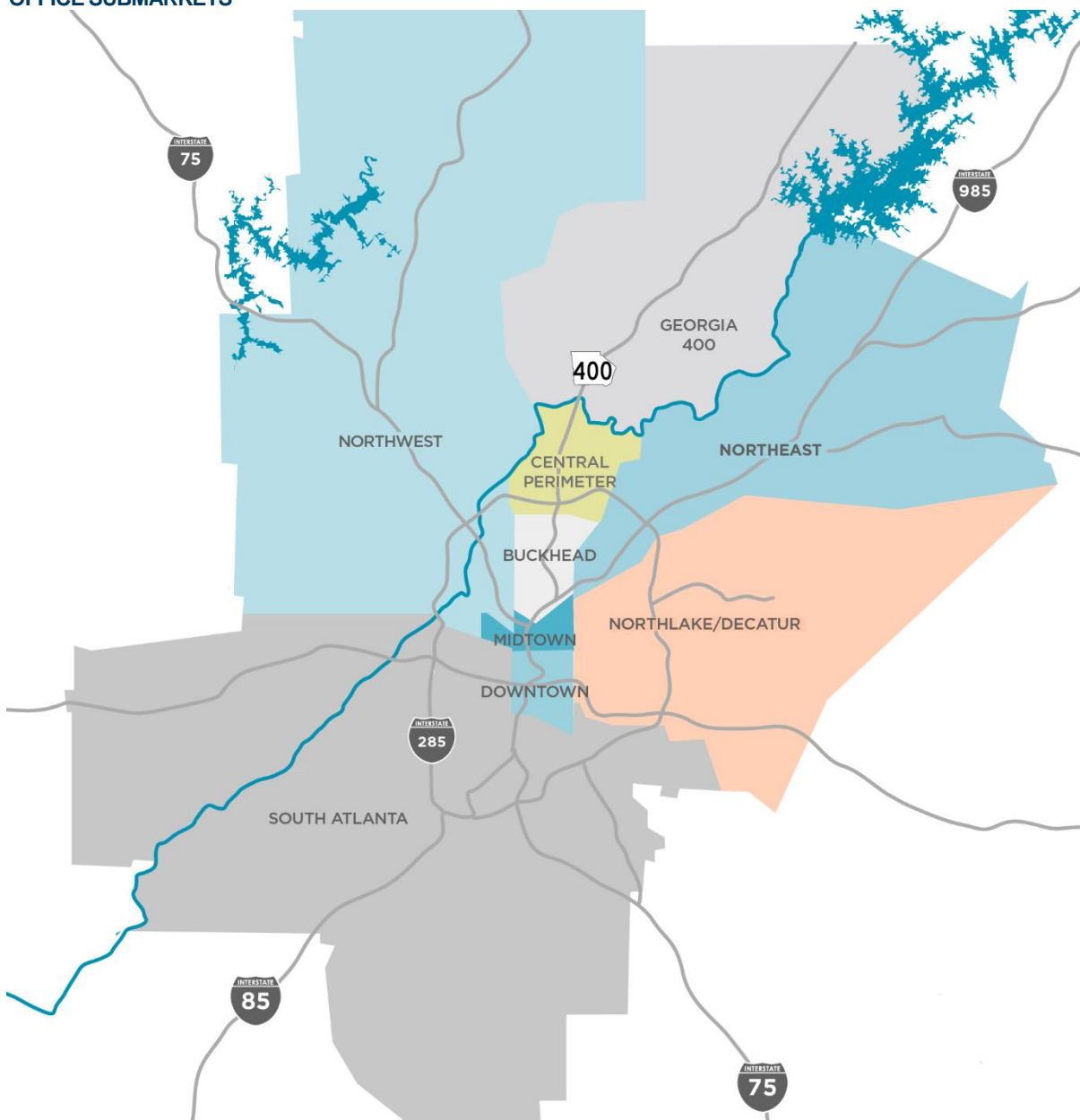
*Renewals not included in leasing activity total

KEY PROJECTS UNDER CONSTRUCTION

PROPERTY	SUBMARKET	SF	QUOTED ASKING RENT	OWNER DEVELOPER
Spring Quarter	Midtown	520,000	\$50.00 - \$51.00 Net	Portman Holdings
Echo Street West	Midtown	256,637	\$41.00 Net	Lincoln Property Company
1050 Brickworks	Midtown	210,491	\$59.00 - \$60.00 Gross	Asana Partners
Interlock Phase II	Midtown	165,000	\$35.00 - \$45.00 Net	SJC Ventures
Garden Hills Office Building	Buckhead	165,000	\$55.86 Gross	Brand Properties
Junction at Krog District	Downtown	135,000	\$63.00 Gross	Portman Holdings
40 Boulevard Northeast/Waldo's	Downtown	120,452	\$45.00 Net	Lucror Resources



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