

# ATLANTA OFFICE MARKET

Q1 2023

## TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.0	3.1	↓	4.0	↑
NET ABSORPTION (THOUSANDS SF)	(301.0)	(287.0)	↓	(8.9)	↓
OVERALL VACANCY RATE	21.9%	21.6%	↑	18.5%	↑
OVERALL VACANT SF (MSF)	37.6	36.5	↑	30.7	↑
UNDER CONSTRUCTION (MSF)	2.4	3.6	↓	4.0	↓
ASKING RENT, FULL SERVICE (PSF)	\$31.06	\$30.63	↑	\$29.03	↑
SALES VOLUME (MILLIONS)	\$121	\$928	↓	\$765.5	↑

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

### OFFICE MARKET TRENDS DOWNWARDS IN FIRST QUARTER

The Atlanta office market suffered some losses during the first quarter of 2023, with negative absorption of 301,029 SF. The submarkets hit hardest were Northeast and Downtown, with the latter suffering a large blow with Truist vacating over 234,000 SF across two buildings in the submarket. The direct vacancy rate increased 30 basis points to 21.9%. The Class A vacancy rate saw a similar rise, increasing 40 basis points to 25.0%. Asking rents have held relatively flat over the past 6 months with just a \$0.02 increase in Q1. The amount of space under construction has fallen gradually since a peak in Q4 of 2020, with just 2.4 MSF currently underway in Atlanta.

Atlanta has seen a rapid increase in the amount of space available for sublease over the past 3 years, and Q1 saw yet another rise in this figure. Currently 4.5% of all Atlanta office inventory is available for sublease, compared to a national average of 2.6%. This is a total of over 7.8 MSF, 5.7 MSF of which is from Class A properties. Sublease availabilities are most prevalent in suburban submarkets such as Central Perimeter and North Fulton which have 8.4% and 6.1% of their total inventories on the sublease market respectively. The trend of negative absorption and rising vacancy seen in Q1 is likely to continue in the coming quarters.



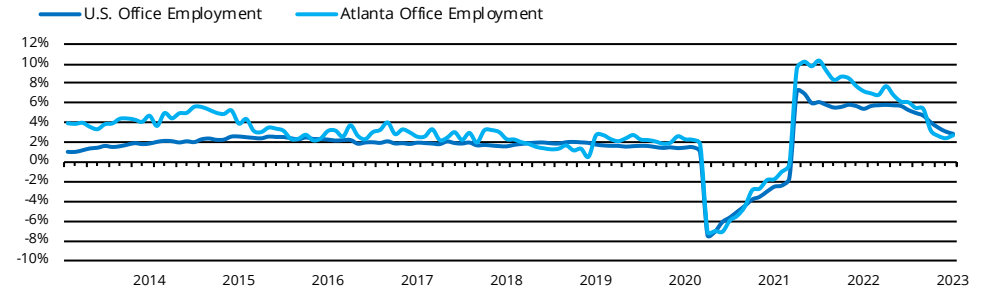
### ECONOMY

#### Atlanta Job Growth Remains Strong

- Atlanta has added 93,000 total nonfarm jobs and 11,300 office-using jobs during the 12 months ending February 2023. Both the Atlanta and national office-using year-over-year growth has been steadily decreasing for the past two years: Atlanta sits at just 1.3% year-over-year office-using job growth compared to February of 2022, which had 7.0% growth for the year prior. The national data is much the same, with 2.4% year-over-year growth as of February 2023, and 5.7% growth from the period prior.
- Atlanta’s unemployment rate was 3.2% in February, below the national rate of 3.5%.
- Atlanta continues to benefit from a diverse and well-educated workforce with no one industry dominating the economy.
- Jobs in Atlanta have increased by 6.0% since 2017, outpacing the national growth rate of 2.4% by 3.6%. Atlanta is expected to continue this growth in the coming years, led by production from top industries such as Transportation and Warehousing, Professional Services, and Health Care.
- The Atlanta metro area is expected to increase its population by 4.6% between now and 2027, adding around 285,000 people. Since 2017 the metro area has grown by 331,000 people, a 5.6% increase.

Source: Population and Job Projections from Lightcast

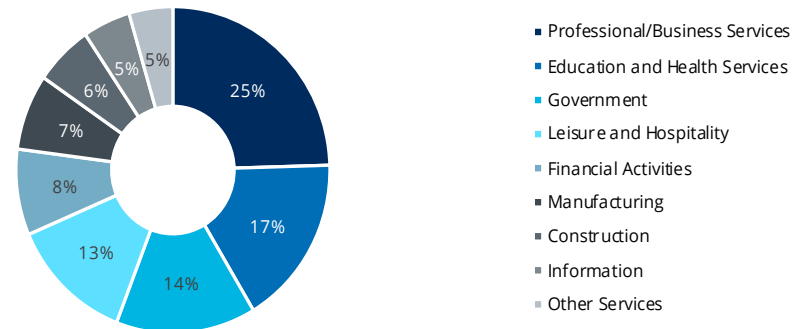
### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

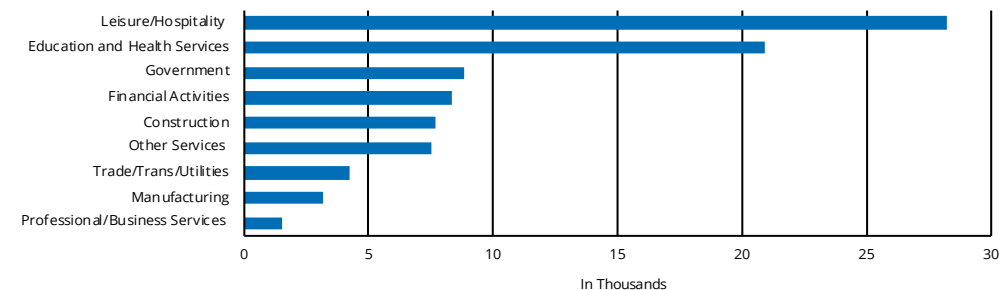
Atlanta | February 2023



Source: Bureau of Labor Statistics, Transwestern

### Y-O-Y CHANGE IN JOBS BY INDUSTRY

Atlanta | February 2023



Source: Bureau of Labor Statistics, Transwestern

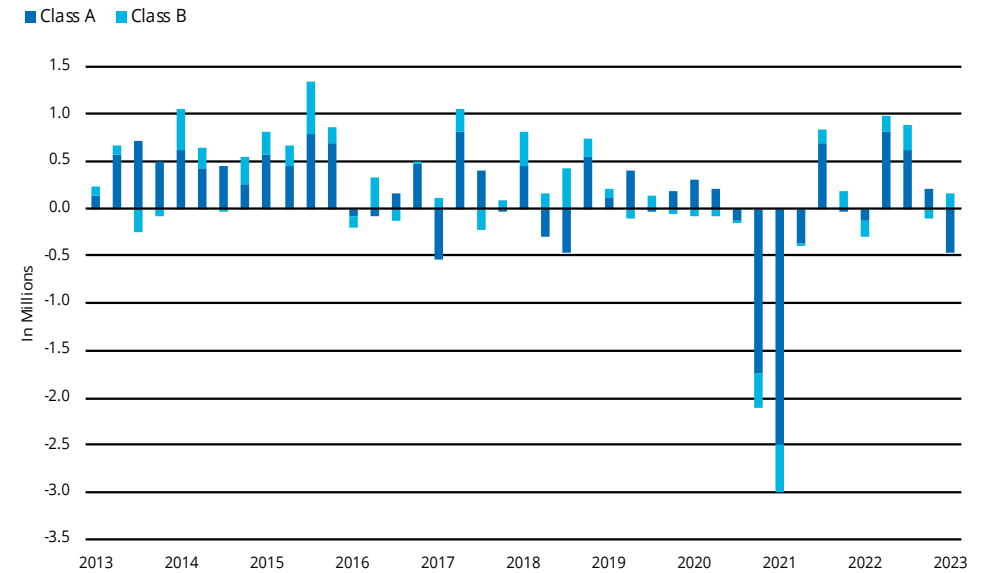


### NET ABSORPTION

#### Atlanta Starts 2023 In the Red

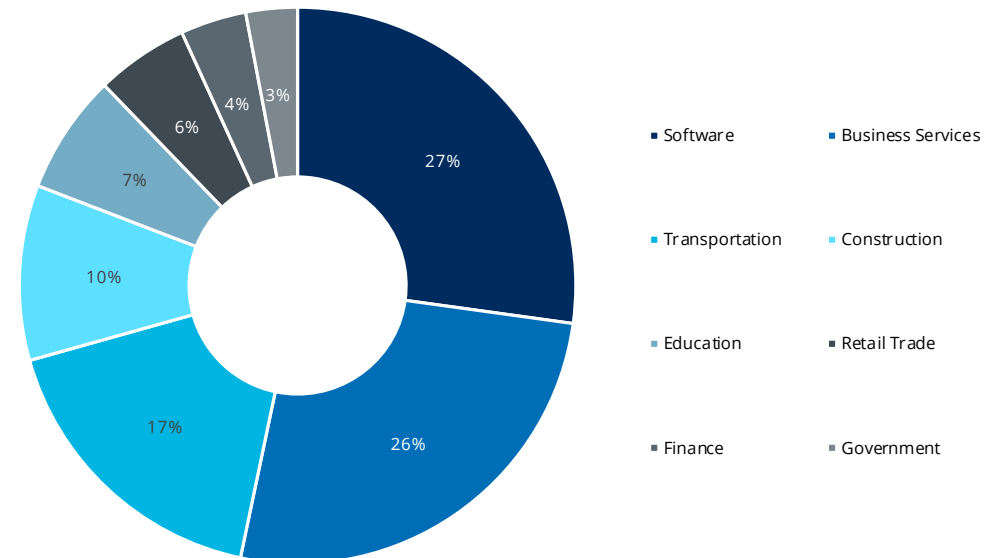
- Atlanta saw negative absorption in Q1 of 2023 for the first time since Q1 of 2022, and just the second time in the last seven quarters, totaling negative 301,029 SF. Class A properties suffered the most, with negative absorption of 465,134 SF, while Class B properties posted a positive number, gaining 164,105 SF in Q1. Q4 of 2022 was the opposite, with Class B posting negative absorption and Class A positive.
- Downtown (a loss of 294,942 SF) and Northeast (a loss of 232,955 SF) were the main contributors to the negative overall number, while Buckhead and West Atlanta saw solid gains with positive absorption of 144,325 SF and 93,456 SF respectively. In total, five submarkets suffered losses, while six saw small to moderate gains.
- The absorption losses in Downtown were thanks to two Truist move-outs, and Mailchimp delaying their move-in until later in the year. Truist vacated 130,767 SF at Truist Plaza and left 104,100 at 303 Peachtree Center Garden Offices. Troutman Pepper also left 25,006 SF at Bank of America Plaza. These move-outs were initially slated to be offset by Mailchimp occupying their 300,000 SF space at Fourth Ward, a new 513,797 SF building on the Eastside BeltLine which delivered in September of 2022, but the move-in was pushed back later into 2023.
- The Midtown submarket posted its eighth-consecutive quarter with positive absorption, adding a modest 21,998 SF, continuing to cement its spot as Atlanta's top office submarket. The major Q1 moves included Micron taking 93,072 SF of space at 712 West Peachtree, and Cadence Bank moving into 27,000 SF at 999 Peachtree St.

### NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

### SHARE OF LEASING ACTIVITY BY INDUSTRY



Source: CoStar, Transwestern

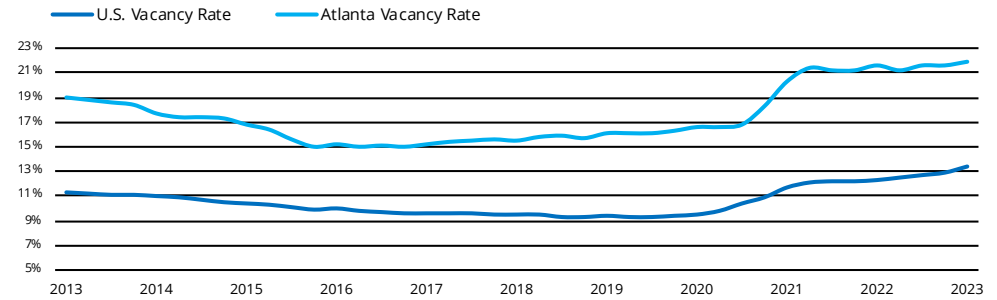


### VACANCY

#### Vacancy Continues to Rise

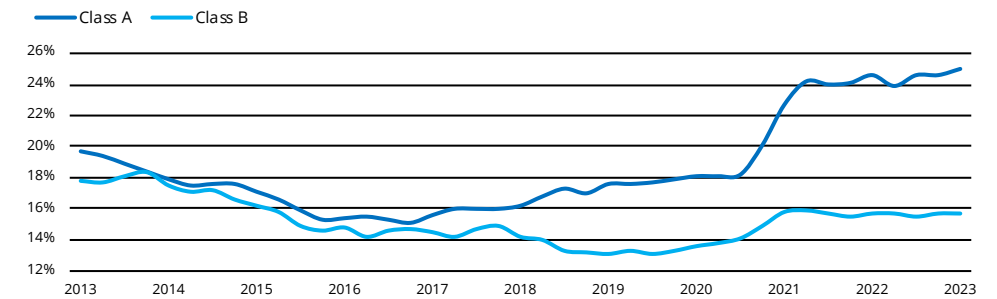
- Atlanta’s direct vacancy rate rose 30 basis points in Q1 to 21.9%. Class A vacancy rose 40 basis points from 24.6% to 25.0%, while the Class B vacancy rate remained unchanged at 15.7%.
- Vacancy in Midtown, which has been steadily falling since Q2 of 2021 and currently sits at 22.6%, is expected to rise in 2023 thanks to multiple buildings delivering later this year that are 0% pre-leased.
- The amount of available sublease space in Atlanta has commanded the headlines, with over 7.8 million SF of space on the sublease market. This figure increased by 635,000 SF in Q1 alone. The vacant sublease rate currently sits at 1.3% and has been over 1.0% since Q4 of 2020. Prior to that, Atlanta’s sublease vacancy rate had not been that high since 2011. Suburban submarkets such as Central Perimeter, North Fulton, and Cumberland/Galleria have seen the largest increases in sublease space and sublease vacancies.

### OVERALL VACANCY RATE



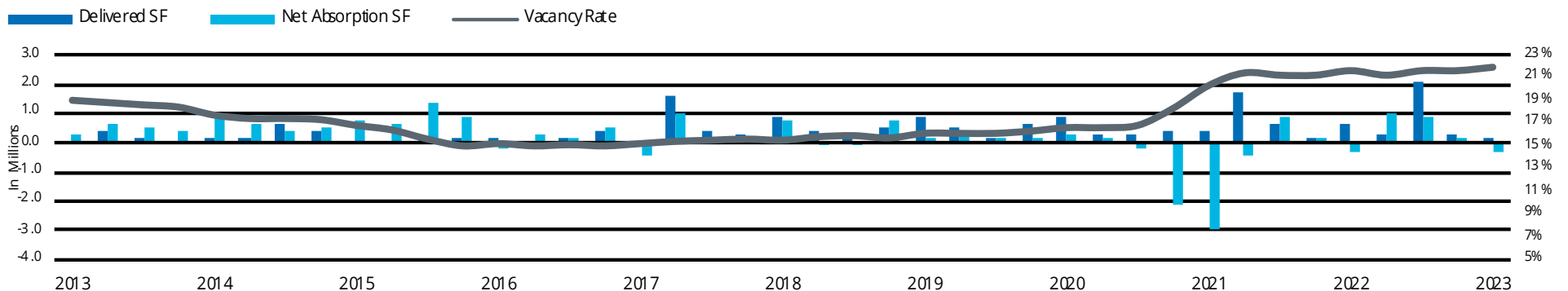
Source: CoStar, Transwestern

### OVERALL ATLANTA VACANCY RATE BY CLASS



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

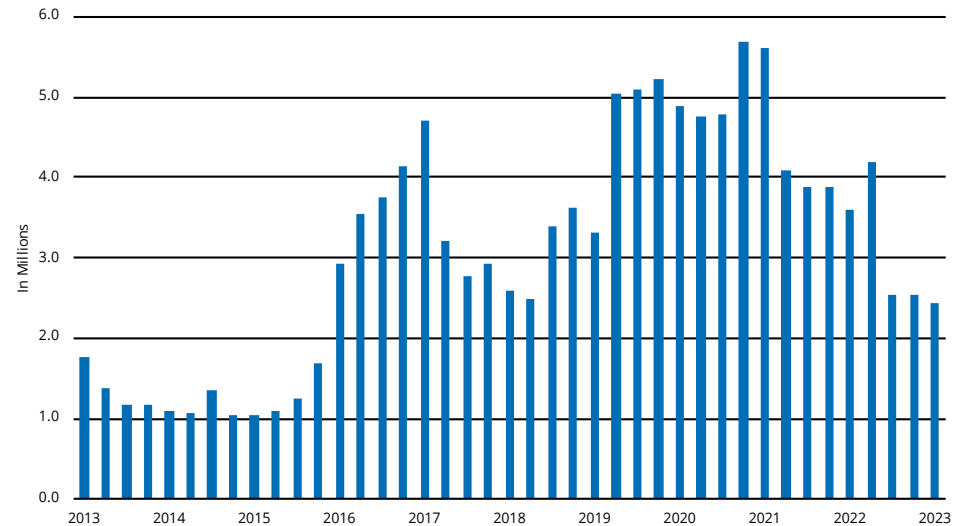


### CONSTRUCTION

#### Construction Pipeline Falls to 2.4 MSF

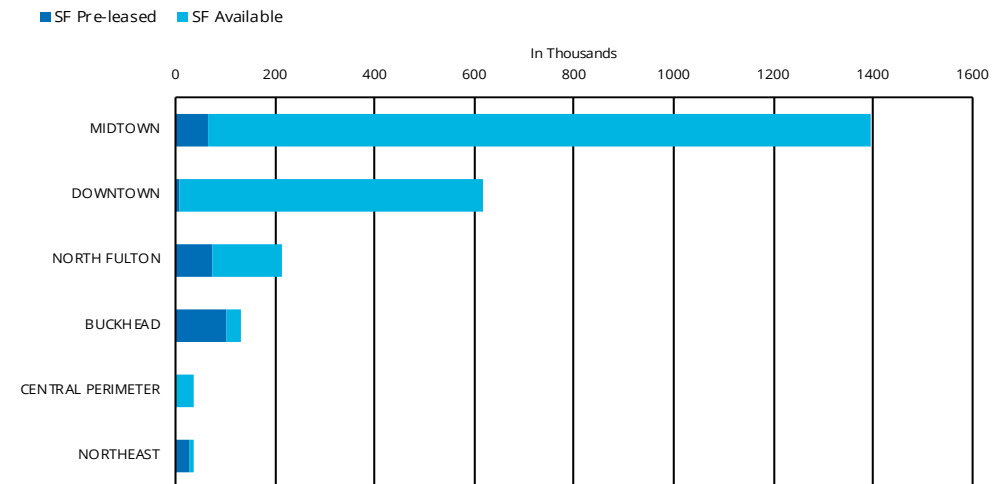
- There is currently 2.4 million SF under construction in the Atlanta office market, the lowest quarterly total since 2015.
- Over half of the space currently underway is located in the Midtown submarket, and 88% of all under construction space in Atlanta is in urban submarkets. Of the nearly 1.4 million SF underway in Midtown across six projects, four of them are in the “West Midtown” micro market. Three of these buildings are set to deliver in either Q2 or Q3 of 2023: 765 Echo (a 274,974 SF building from Lincoln Property Company), Interlock Phase II (a 209,174 SF new build from SJC Ventures), and Stockyards Atlanta (a 36,817 SF adaptive re-use property owned by Clarion Partners).
- Approximately 12% of current under construction space in Atlanta is pre-leased, with that number falling to just 5% when considering only the Midtown submarket.
- Two buildings broke ground in Q1 2023, both a part of the Southern Post project in Roswell (part of the North Fulton submarket). Office Building 1 and Office Building 2 total a combined 104,233 SF and are set to be completed by Q3 of this year.

### UNDER CONSTRUCTION



Source: CoStar, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

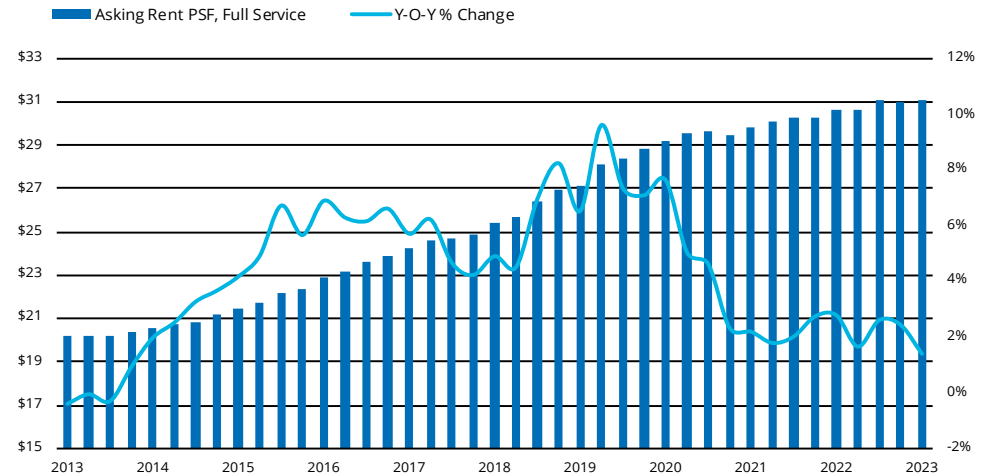


### RENTAL RATES

#### Asking Rents See Small Increase

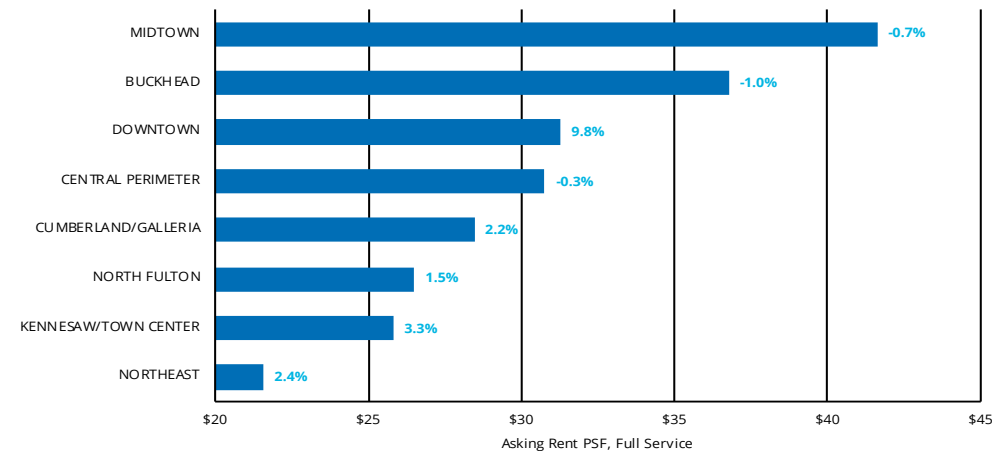
- Atlanta’s asking rent rose two cents during the first quarter of 2023, to an average of \$31.06 PSF, and is up 1.4% year-over-year. Rents fell in Buckhead, Midtown, and Central Perimeter on a year-over-year basis, while they rose in all other submarkets. Strong growth was seen particularly in the Downtown submarket, with asking rents increasing 9.8% year-over-year from an average of \$28.47 to \$31.27. This Downtown rent growth was primarily in Class A assets, thanks in part to new developments such as Science Square Labs and Junction at Kroger becoming available.
- Q1 2023 asking rents were highest in Midtown and Buckhead at \$41.61 and \$36.76, respectively. Midtown’s Class A asking rate was \$42.20 and Buckhead’s was at \$37.85.
- Atlanta asking rents saw a step back in 2020 but recovered in 2021, and have been rising gradually since. The pace of rent growth remains much slower than pre-pandemic, with just a \$0.01 rise since Q3 of 2022. Rents should flatten or see more slight increases in the coming quarters as vacancy rates continue to rise, and the amount of space available for sublease continues to increase, particularly in suburban Atlanta submarkets.

### ASKING RENT



Source: CoStar, Transwestern

### ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

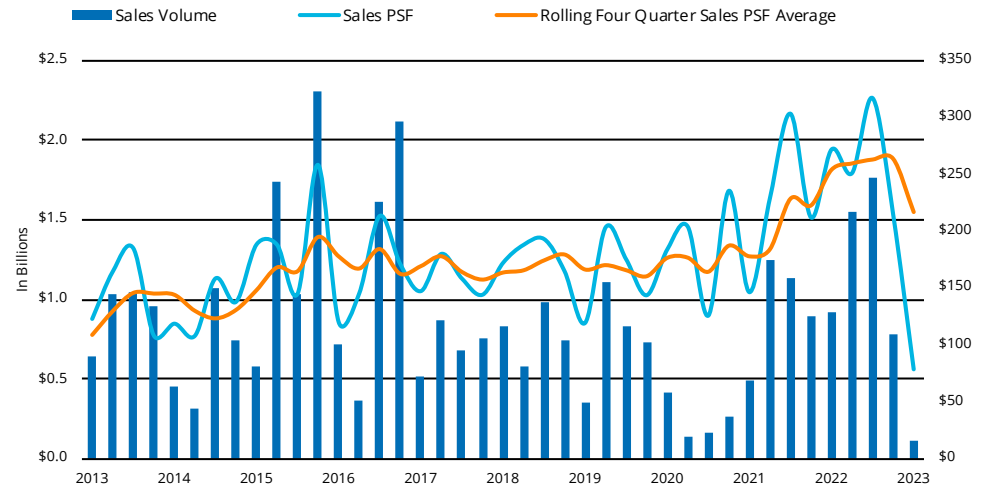


### SALES

#### Limited Investment Sales in Q1 2023

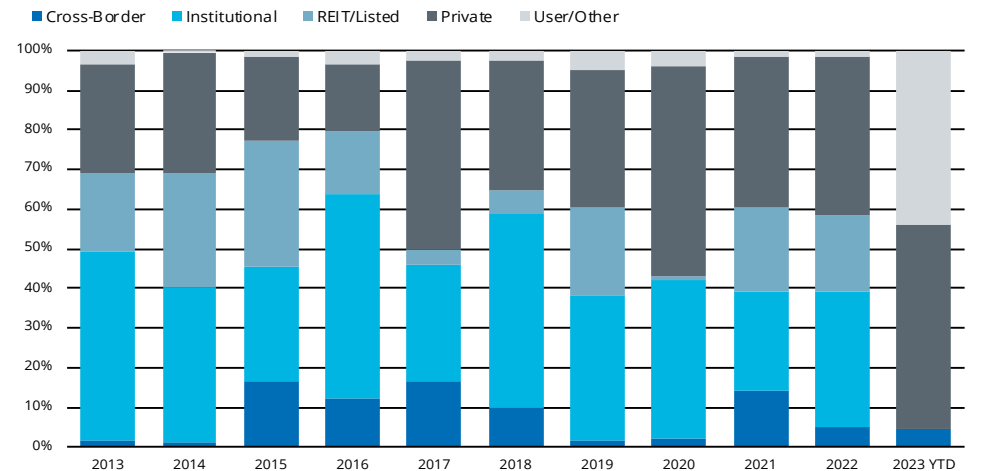
- After a strong mid-year in 2022 with over \$3 billion transacted over Q2 and Q3 combined, Q1 2023 saw just \$120 million in office transactions, the lowest quarterly figure in well over 10 years. The market's rolling four-quarter volume sits above \$4 billion, still historically high compared to the 5-year average of \$3 billion.
- The Atlanta investment sales market is seeing a reflection of deal volume slowing across the country. Continuous rate hikes from the Federal Reserve, owners that are unwilling to compromise on pricing, uncertainty in the debt markets, and overall hesitancy regarding potential economic headwinds are a few of the factors weighing on the market right now.
- Notable sales this quarter include Lakeside Centre, a 3-property portfolio in the Northlake submarket consisting of 1957, 1967, and 1975 Lakeside Parkway in Tucker. These buildings total 197,827 square feet and were acquired from Onward Investors by Greenleaf Capital for \$20,000,000, or \$101 PSF. Lakeside Centre was 82% leased at the time of sale with a 4.1-year WALT, showing that there is still some interest from investors in suburban product.
- Buyer capital for 2022 was mostly private and institutional, with 73% of sales falling in those two categories. REITs played a smaller role, with 19.5% of buyer capital in that category. Q1 2023 saw mostly private and user capital active in the market.

### SALES VOLUME



Source: Real Capital Analytics, Transwestern

### BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



## NOTABLE LEASES

TENANT	PROPERTY	SUBMARKET	TYPE	SF LEASED
ZAXBY'S	2002 Perimeter Summit	Central Perimeter	New Lease	51,493
TSA	1500 Centre Pky	South Atlanta	New Lease	44,000
PROCURE ADVISORS	One Overton Park	Cumberland/Galleria	Sublease	43,989
AMERICAN CANCER SOCIETY	270 Peachtree	Downtown	New Lease	41,772
DEKALB COUNTY DISTRICT ATTORNEY	One West Court Square	Northlake	Renewal	30,075
LUCID PRIVATE OFFICES	3379 Peachtree	Buckhead	New Lease	29,056

## NOTABLE SALES

PROPERTY	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
PERIMETER SUMMIT	Central Perimeter	\$247,500,000	1,357,290	\$202	Spear Street Capital	GE Retirees
ASHFORD GREEN	Central Perimeter	\$23,000,000	264,146	\$87	Mufasa LLC	John Hancock Real Estate
LAKESIDE CENTRE (1957, 1767, 1975)	Northlake	\$20,000,000	197,827	\$101	Greenleaf Capital	Onward Investors
6190 POWERS FERRY LANDING RD	Cumberland/Galleria	\$16,100,000	149,376	\$108	Triple Double Real Estate	KBS
PACES CUMBERLAND	Cumberland/Galleria	\$10,400,000	71,000	\$146	RG Real Estate	Atlanta Property Group
TOWN POINT SERVICE CENTER	Kennesaw/Town Center	\$8,100,000	70,140	\$115	SilverCap Partners	Angelo Gordon & Co.



## MARKET INDICATORS

All Space | First Quarter 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
BUCKHEAD	21,204,415	4,526,082	21.3%	156,153	22.1%	129,751	144,325	75,523	\$36.76
MIDTOWN	25,096,752	5,329,180	21.2%	339,442	22.6%	1,393,428	21,998	863,192	\$41.61
DOWNTOWN	19,111,990	4,508,530	23.6%	64,667	23.9%	618,871	(294,942)	(147,145)	\$31.27
CENTRAL PERIMETER	24,328,088	5,158,394	21.2%	443,011	23.0%	35,656	(26,488)	463,599	\$30.77
NORTH FULTON	21,493,772	4,630,238	21.5%	465,173	23.7%	213,733	(32,406)	3,969	\$26.50
CUMBERLAND/GALLERIA	20,883,648	3,809,803	18.2%	261,010	19.5%	0	9,026	337,525	\$28.45
KENNESAW/TOWN CENTER	4,391,456	742,145	16.9%	242,952	22.4%	0	(22,422)	(144,648)	\$25.81
NORTHLAKE	12,115,149	2,721,366	22.5%	19,388	22.6%	0	9,012	184,281	\$24.22
NORTHEAST	15,052,699	2,481,335	16.5%	186,624	17.7%	35,580	(232,955)	(14,744)	\$21.57
SOUTH ATLANTA	6,280,568	576,912	9.2%	9,428	9.3%	0	30,367	(34,629)	\$22.34
WEST ATLANTA	1,838,671	919,681	50.0%	20,000	51.1%	0	93,456	89,242	\$34.26
<b>TOTAL</b>	<b>171,797,208</b>	<b>35,403,666</b>	<b>20.6%</b>	<b>2,207,848</b>	<b>21.9%</b>	<b>2,427,019</b>	<b>(301,029)</b>	<b>1,676,165</b>	<b>\$31.06</b>



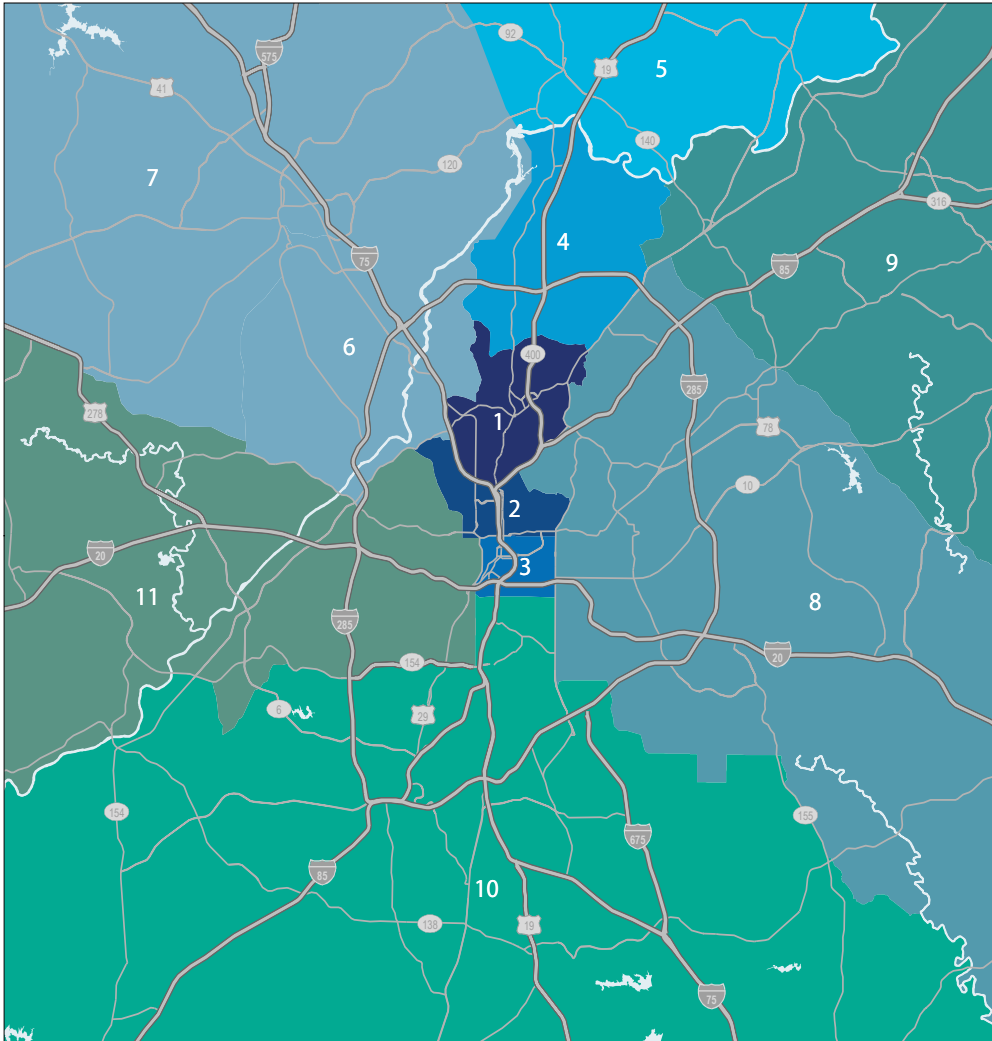
**MARKET INDICATORS**

**Class A | First Quarter 2023**

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
BUCKHEAD	17,755,885	4,049,404	22.8%	139,729	23.6%	129,751	44,916	110,417	\$37.85
MIDTOWN	22,308,589	5,073,728	22.7%	330,593	24.2%	1,393,428	(60,793)	763,249	\$42.20
DOWNTOWN	14,068,899	4,073,021	29.0%	58,786	29.4%	618,871	(295,606)	(213,142)	\$31.40
CENTRAL PERIMETER	19,640,460	4,576,608	23.3%	393,914	25.3%	35,656	(17,552)	406,511	\$31.54
NORTH FULTON	13,297,839	3,314,816	24.9%	314,127	27.3%	104,233	(40,267)	(171,545)	\$28.20
CUMBERLAND/GALLERIA	13,604,298	2,602,155	19.1%	228,414	20.8%	0	8,916	185,711	\$30.44
KENNESAW/TOWN CENTER	1,303,138	209,346	16.1%	53,133	20.1%	0	3,367	(31,549)	\$29.07
NORTHLAKE	4,654,647	1,257,867	27.0%	1,669	27.1%	0	10,605	137,901	\$26.27
NORTHEAST	6,620,108	1,469,215	22.2%	74,066	23.3%	35,580	(115,936)	521	\$23.02
SOUTH ATLANTA	830,302	124,911	15.0%	9,428	16.2%	0	(2,784)	(6,559)	\$24.30
WEST ATLANTA	361,285	273,385	75.7%	0	75.7%	0	0	9,000	\$39.36
<b>TOTAL</b>	<b>114,445,450</b>	<b>27,024,456</b>	<b>23.6%</b>	<b>1,603,859</b>	<b>25.0%</b>	<b>2,317,519</b>	<b>(465,134)</b>	<b>1,190,515</b>	<b>\$33.22</b>

**Class B | First Quarter 2023**

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
BUCKHEAD	3,448,530	476,678	13.8%	16,424	14.3%	0	99,409	(34,894)	\$29.39
MIDTOWN	2,788,163	255,452	9.2%	8,849	9.5%	0	82,791	99,943	\$28.39
DOWNTOWN	5,043,091	435,509	8.6%	5,881	8.8%	0	664	65,997	\$27.67
CENTRAL PERIMETER	4,687,628	581,786	12.4%	49,097	13.5%	0	(8,936)	57,088	\$24.06
NORTH FULTON	8,195,933	1,315,422	16.0%	151,046	17.9%	109,500	7,861	175,514	\$22.45
CUMBERLAND/GALLERIA	7,279,350	1,207,648	16.6%	32,596	17.0%	0	110	151,814	\$23.22
KENNESAW/TOWN CENTER	3,088,318	532,799	17.3%	189,819	23.4%	0	(25,789)	(113,099)	\$24.46
NORTHLAKE	7,460,502	1,463,499	19.6%	17,719	19.9%	0	(1,593)	46,380	\$22.85
NORTHEAST	8,432,591	1,012,120	12.0%	112,558	13.3%	0	(117,019)	(15,265)	\$19.72
SOUTH ATLANTA	5,450,266	452,001	8.3%	0	8.3%	0	33,151	(28,070)	\$21.66
WEST ATLANTA	1,477,386	646,296	43.7%	20,000	45.1%	0	93,456	80,242	\$27.80
<b>TOTAL</b>	<b>57,351,758</b>	<b>8,379,210</b>	<b>14.6%</b>	<b>603,989</b>	<b>15.7%</b>	<b>109,500</b>	<b>164,105</b>	<b>485,650</b>	<b>\$23.28</b>



### Atlanta Office Submarkets

- 1 Buckhead
- 2 Midtown
- 3 Downtown
- 4 Central Perimeter
- 5 North Fulton
- 6 Cumberland/Galleria
- 7 Kennesaw/Town Center
- 8 Northlake/Decatur
- 9 Northeast
- 10 South Atlanta
- 11 West Atlanta

### RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on key for lease office properties located in the Atlanta metropolitan area. We compile our quarterly statistics based on a defined inventory of Class A and B office buildings of 20,000 SF or more in size and excluding all medical, government, owner-occupied and office condo buildings.

### FOR MORE INFORMATION

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