

ATLANTA MEDICAL 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)	60.3	53.8	↑	86.3	↑
OVERALL VACANCY RATE	9.4%	10.4%	↓	10.4%	↓
OVERALL VACANT SF (MSF)	2.5	2.8	↓	2.7	↓
UNDER CONSTRUCTION (MSF)	0.4	0.3	↑	0.3	↓
ASKING RENT, FULL SERVICE (PSF)	\$26.32	\$25.42	↑	\$24.29	↑
SALES VOLUME (MILLIONS)	\$47.7	\$18.8	↑	\$109.3	↑

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

SOLID FIRST QUARTER FOR ATLANTA MEDICAL OFFICE MARKET

The Atlanta medical office market had a nice start to 2023, with positive absorption of 60,260 SF across Class A and B medical properties. Year-over-year, the market has gained 348,572 SF of positive absorption, with Northeast, Northwest, and Northlake/Decatur checking in as the best-performing submarkets during that period. The market's vacancy rate increased 10 basis points to 9.4% but is down 100 basis points over the past year. Asking rents have seen strong gains over the past few years, with Q1 no different, posting a \$0.49 increase since Q4 2022. Two buildings totaling 85,729 SF delivered in Q1, with 396,195 SF still in the construction pipeline, with several large Q2 deliveries on the horizon.

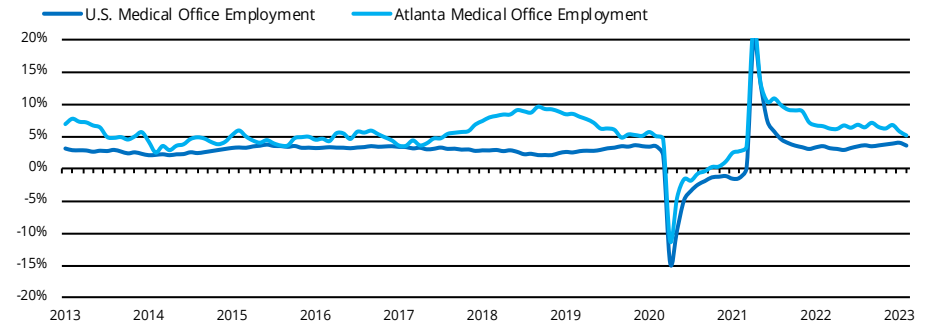
The long-term outlook for Atlanta is strong thanks to great population and medical job growth, and steady construction groundbreakings and leasing momentum over the past two years. Atlanta has seen a great trajectory of medical office job growth over the past 5-10 years, highlighted by adding 7,900 medical jobs over the past year. Combined with a growing population, this economic growth has kept deal volume steady and developers confident in being able to lease up new construction.

ECONOMY

Atlanta Job Growth And Healthcare Hiring Remain Strong

- Atlanta has added 93,000 total nonfarm jobs and 7,900 medical jobs during the 12 months ending February 2023. The Atlanta medical jobs year-over-year growth rate has been decreasing slightly for the past two years: Atlanta sits at 5.1% year-over-year medical job growth compared to February of 2022, which had 6.6% growth for the year prior. Nationally, growth has been steadier but smaller, with a consistent 3.5% growth rate year-over-year in both February of 2022 and 2023.
- Atlanta’s unemployment rate was 3.2% in March, below the national rate of 3.5%.
- Jobs in Atlanta have increased by 6.0% since 2017, outpacing the national growth rate of 2.4% by 3.6%, per data from Lightcast. 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.
- Over the past five years there has been a 31% growth in jobs within the ambulatory services healthcare sector in Atlanta, with forecasts from Lightcast projecting 19% growth from 2023 through 2027. Aggressive hiring is common in ambulatory services in Atlanta, with over 6,000 job postings per month in the industry, compared to a national average of 4,100 postings per month for an area as large as Atlanta.
- According to population forecasts from Lightcast, the Atlanta metro area is expected to increase 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.

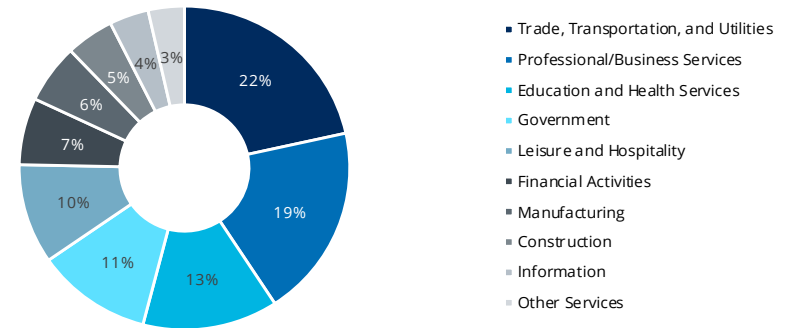
Y-O-Y CHANGE IN MEDICAL OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

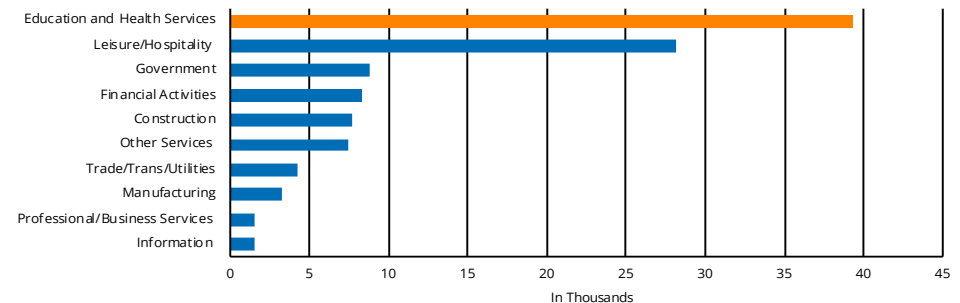
Atlanta | February 2023



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

Atlanta | February 2023



Source: Bureau of Labor Statistics, Transwestern

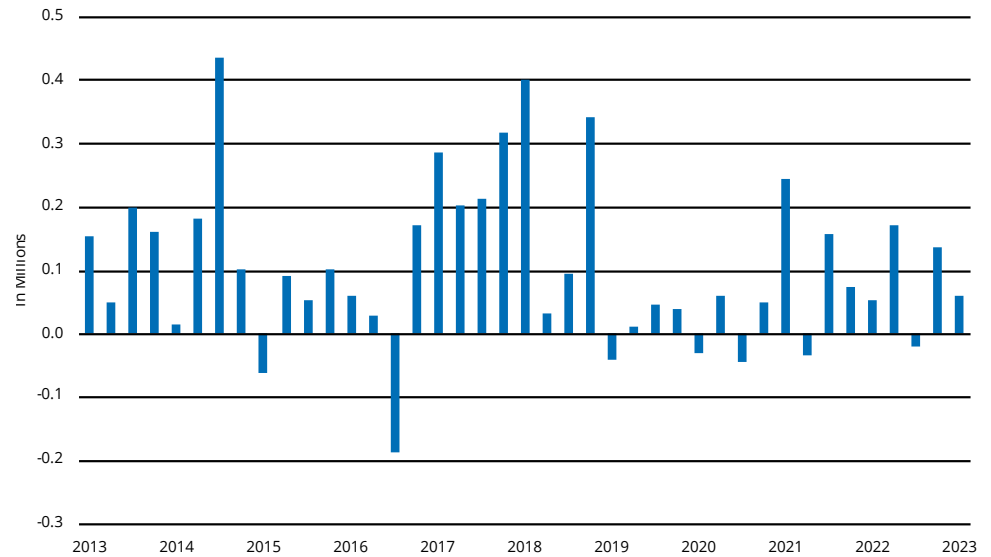


NET ABSORPTION

Solid Start to 2023 for Atlanta

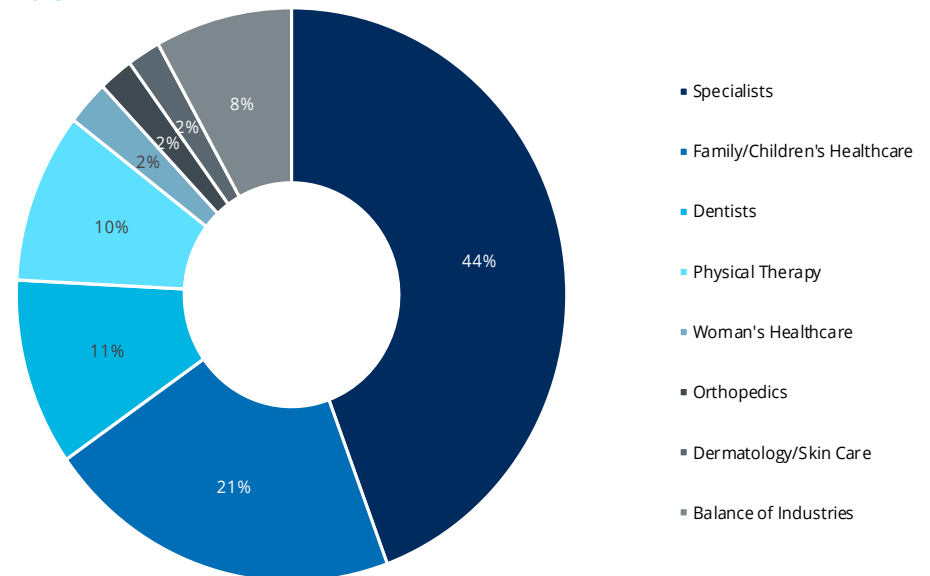
- The Atlanta medical office market saw positive absorption of 60,260 SF in Q1, the sixth positive absorption quarter for the market in the past seven. This brings the year-over-year absorption to positive 348,572 SF.
- The best-performing submarket in Q1 was South Atlanta, which saw positive absorption of 58,058 SF – righting the ship after two quarters that saw negative absorption of 67,000 SF to close 2022. The highlight move was the occupancy of Jodeco Med One at 3325 Jodeco Road, a move-in to the entire 48,000 SF building.
- Five submarkets saw gains while four saw retractions in Q1. Over the past year, seven of the market’s nine submarkets have had positive absorption, with Buckhead and Central Perimeter barely negative at 18,658 SF and 5,517 SF losses respectively. Northeast, Northwest, and Northlake/Decatur have been the best-performing areas year-over-year.
- Over half of the currently under construction space in the market is pre-leased, suggesting solid leasing momentum and eventual absorption gains once those projects deliver and tenants are able to move in.

NET ABSORPTION



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY Q1 2023



Source: CoStar, Transwestern

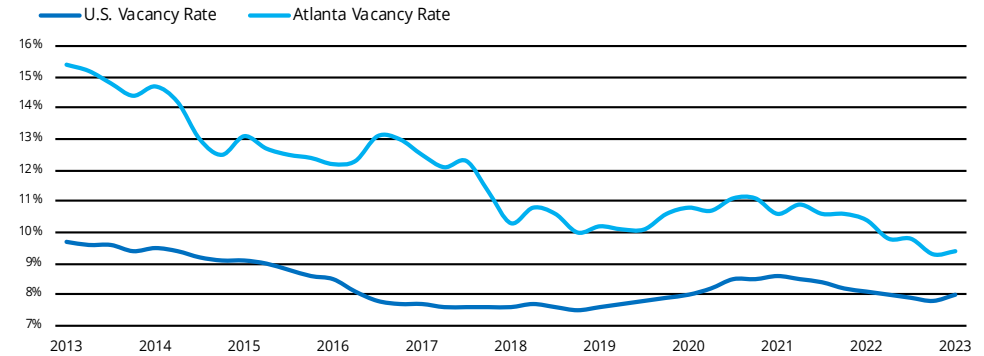


VACANCY

Vacancy Rate Down Year-Over-Year

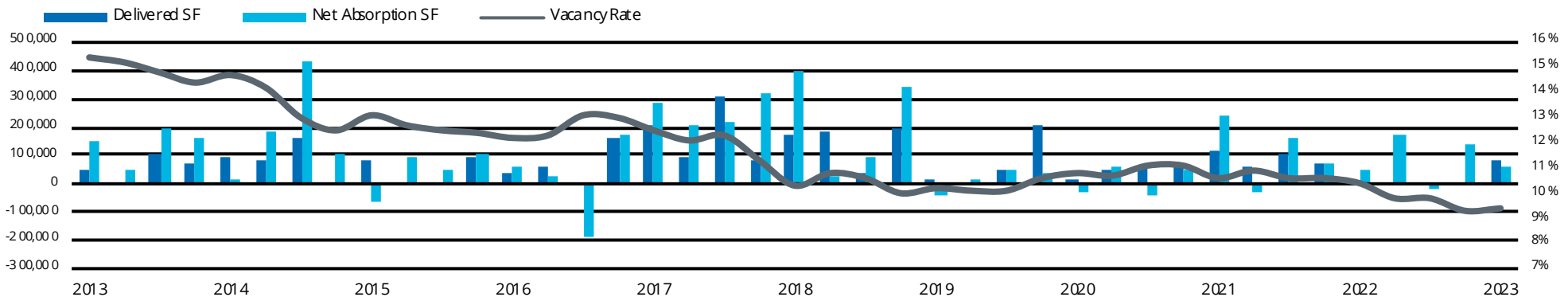
- The Atlanta medical office overall vacancy rate rose 10 basis points in Q1 to 9.4%, but is down 100 basis points year-over-year.
- Despite posting a positive absorption quarter, the market's overall vacancy rate edged slightly higher thanks to 85,729 SF in vacant deliveries in Q1. With continued leasing momentum across the market, vacancy should continue to fall in the coming quarters. The market reached a five-year vacancy height of 11.1% in Q3 of 2020 and has been steadily declining since.
- Most submarkets have a rate near to the market average, with Midtown/Downtown a notable outlier at just a 0.7% overall vacancy rate. Vacancy is higher in the suburbs, with North Fulton/Forsyth and Northeast boasting the highest rates in the market at 14.8% and 14.9% respectively.

OVERALL VACANCY RATE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

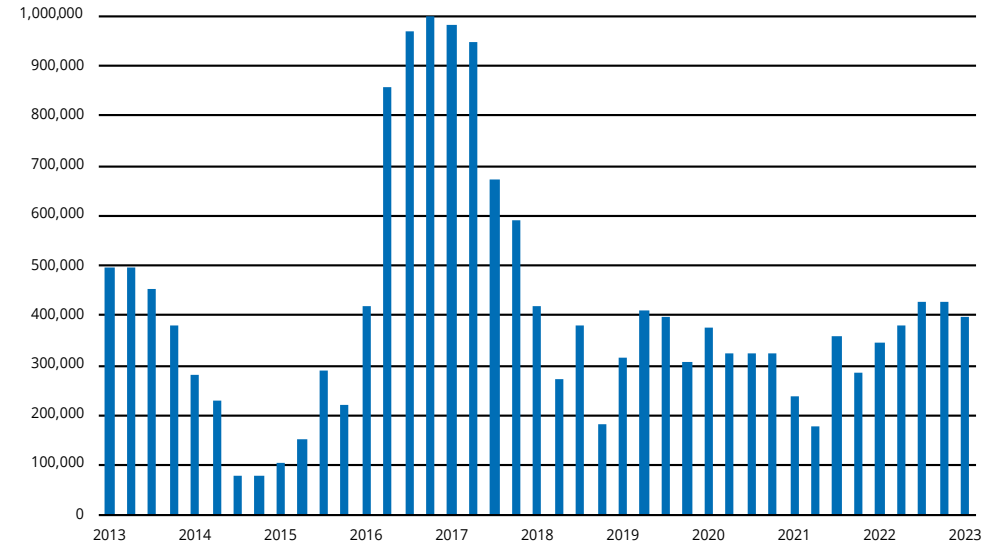


CONSTRUCTION

Construction Pipeline to See Major Q2 Deliveries

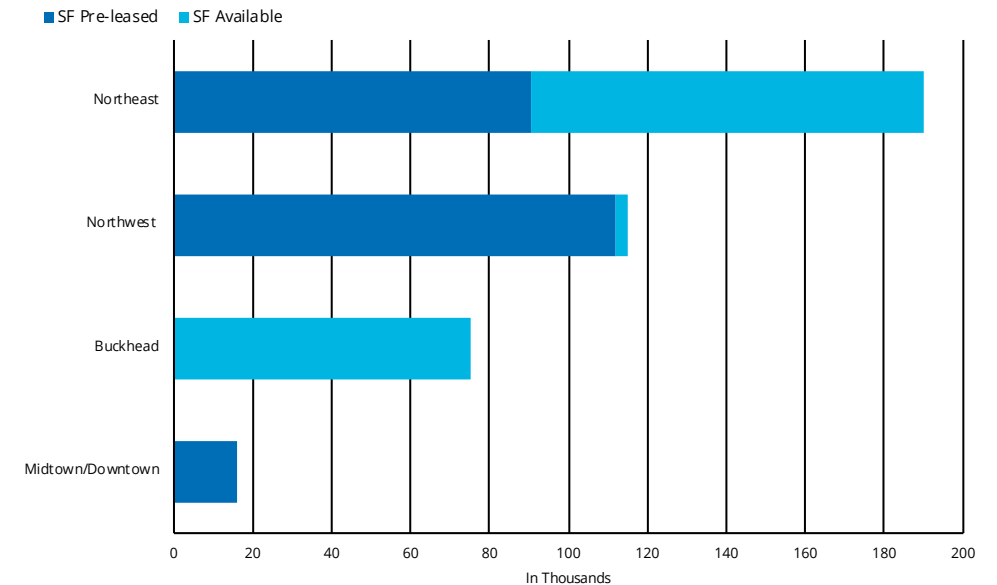
- There are currently six buildings totaling 396,195 SF under construction across the Atlanta medical office market. Q1 saw two buildings deliver, with several more expected in Q2. Under construction space is currently at least 55% pre-leased across the market.
- Jodeco Med One, a 48,000 SF Class B building in South Atlanta, and 101 Greenfield Dr, a 37,729 SF Class B building in North Fulton/ Forsyth were the two buildings that delivered in Q1. These two properties are 100% and 90% leased respectively.
- Several major Class A projects are set to deliver in Q2 of 2023. Darlington Medical Center, a 75,000 SF 5-story building in Buckhead, 4359 W Atlanta Rd SE, a 60,000 SF project in Smyrna, and Medical Center Blvd, a 145,000 SF build in Lawrenceville are all scheduled for completion in Q2. These three projects are a combined 53.1% pre-leased.
- Northeast, Northwest, and Buckhead are the submarkets leading the way in medical office construction in Atlanta.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

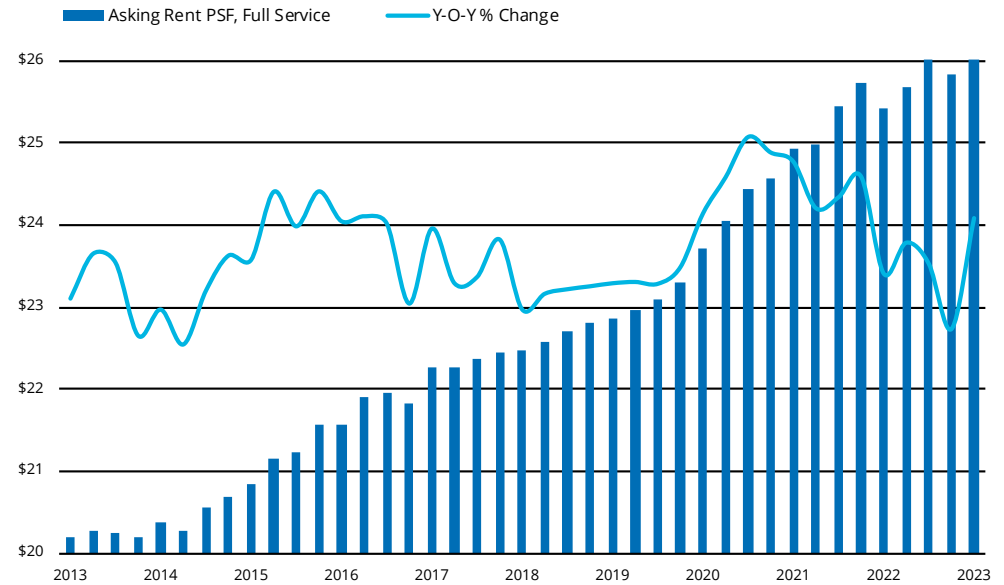


RENTAL RATES

Asking Rents Continue to Rise

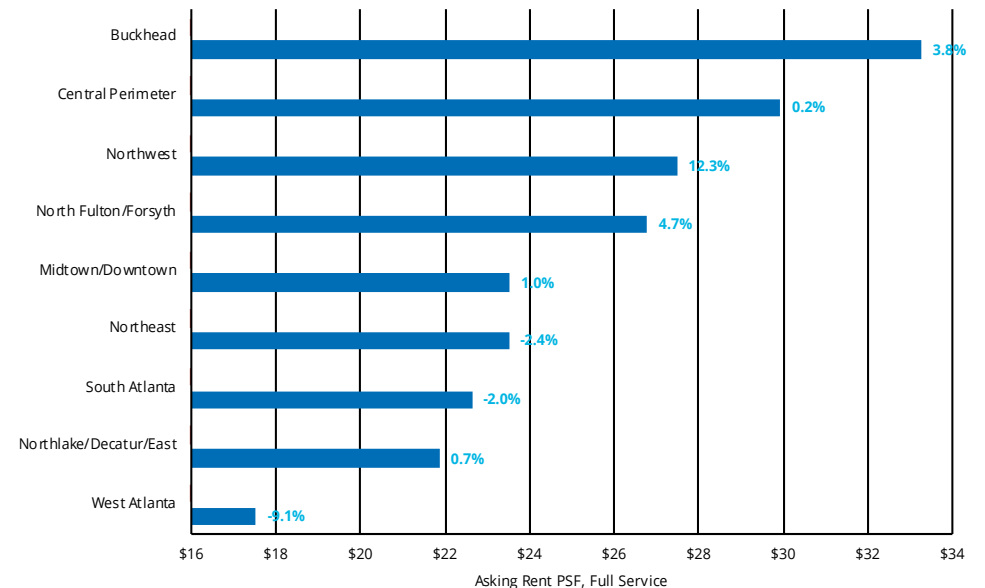
- The average medical office asking rent in Atlanta saw a 190 basis point rise of \$0.49, finishing at \$26.32 across Class A and Class B properties in Q1. Rents have risen 3.5% year-over-year, consistent with the overall rent growth the market has seen over the past four years.
- Rents are highest in Buckhead and Central Perimeter at \$33.27/SF and \$29.94/SF respectively. Buckhead has seen rate growth outpace the rest of the market, with 4.0% growth year-over-year.
- Atlanta’s average asking rent is \$4.36 higher than the national average asking rental rate for medical office buildings. National rate growth however is 3.8% year-over-year, very similar to the Atlanta market.
- Rents are expected to continue to increase as space continues to lease up, as lowering vacancy rates will encourage landlords to raise rates.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

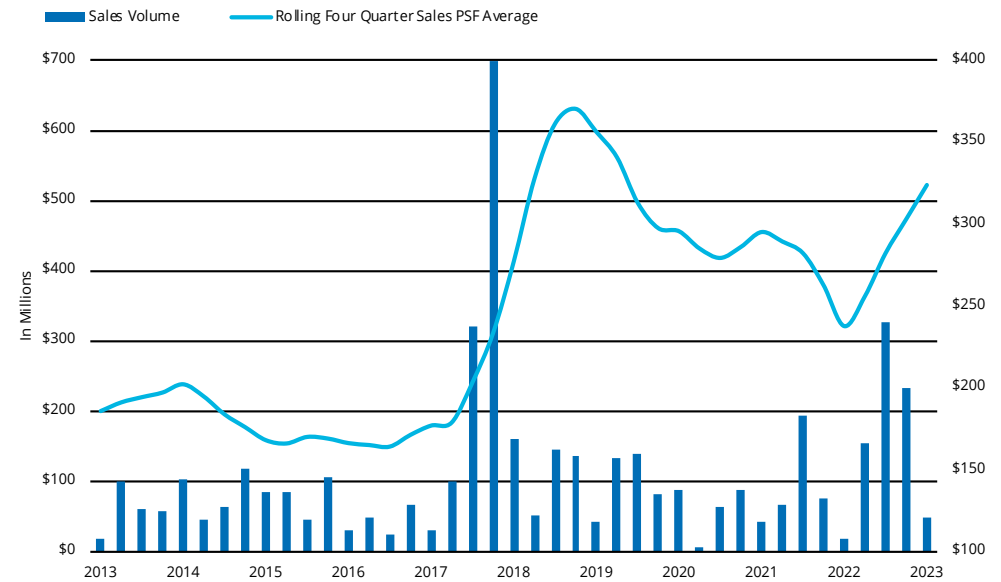


SALES

Limited Investment Sales in Q1 2023

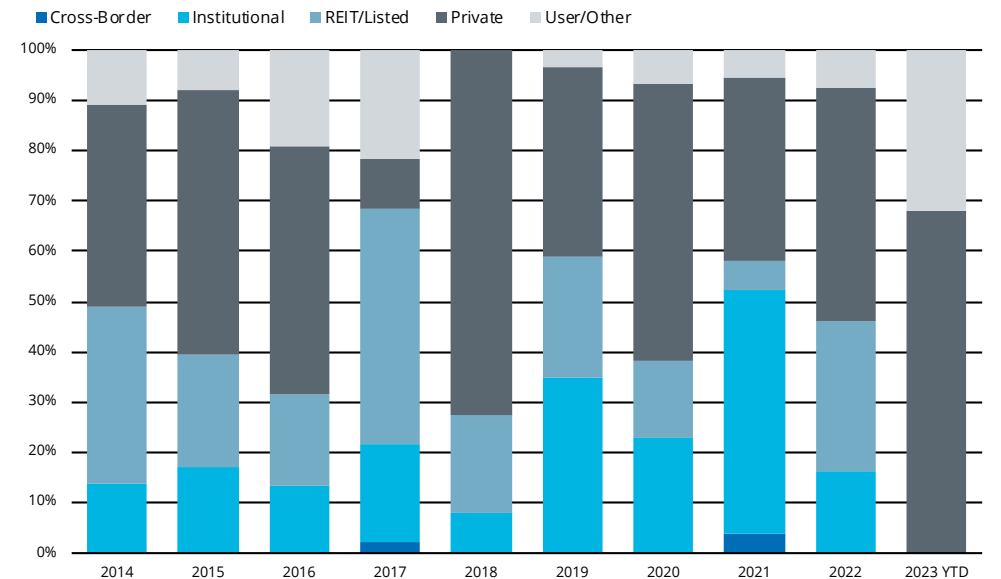
- Medical office investment sales activity was slow in Atlanta during Q1, with just \$47 million transacting, the lowest quarterly total in over a year. The average quarterly volume for Atlanta over the past year is over \$190 million in sales.
- Union Park in Central Perimeter was the headline sale in Q1. The four-property portfolio consisting of 5581 through 5587 Glenridge Drive sold for \$23,075,000. RX Health & Science Trust acquired the 173,361 portfolio from Highgate Partners for \$133/SF on February 17, 2023. The buildings were built in 1982, and were a combined 65% leased at the time of sale.
- The Atlanta medical office 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.
- Buyer capital for 2022 saw an uptick in investment activity from REITs, with 29.7% of capital coming from that source. The market is still oriented towards private investment though, with 46.5% in 2022 and 67.9% thus far in 2023.

SALES VOLUME



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Transwestern



NOTABLE LEASES

TENANT	PROPERTY	SUBMARKET	TYPE	SF LEASED
HYOX TREATMENT CENTERS	Pavilion at Windy Hill	Northwest	Renewal	7,113
RESTORE FIRST HEALTH	Riverdale Medical Office Building	South Atlanta	New Lease	7,110
CLEARCHOICE DENTAL	10 Mercantile Dr	South Atlanta	New Lease	6,690
PRENUVO IMAGING	Darlington Medical Center	Buckhead	New Lease	5,280
ATLANTA ORAL AND FACIAL SURGERY	Yorktown Medical Center	South Atlanta	New Lease	5,143

NOTABLE SALES

PROPERTY	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
UNION PARK	Central Perimeter	\$23,075,000	173,361	\$133	RX Heath & Science Trust	Highgate Partners
1521 HICKORY FLAT HWY	Northwest	\$15,321,128	36,000	\$425	Northside Hospital	Atlanta Women's Health Group
5000 & 5050 RESEARCH CT	Northeast	\$12,150,000	78,746	\$154	Woodside Health	Crossgate Partners
4025 JOHNS CREEK CT	North Fulton	\$4,000,000	50,376	\$79	SK Commercial Realty	Jacqueline Chiusano
7824 HICKORY FLAT HWY	Northwest	\$3,430,000	15,000	\$228	Randall Fields	RL Glosson
2121 FOUNTAIN DR	Northeast	\$3,250,000	28,750	\$113	AEW Property	Corner Properties

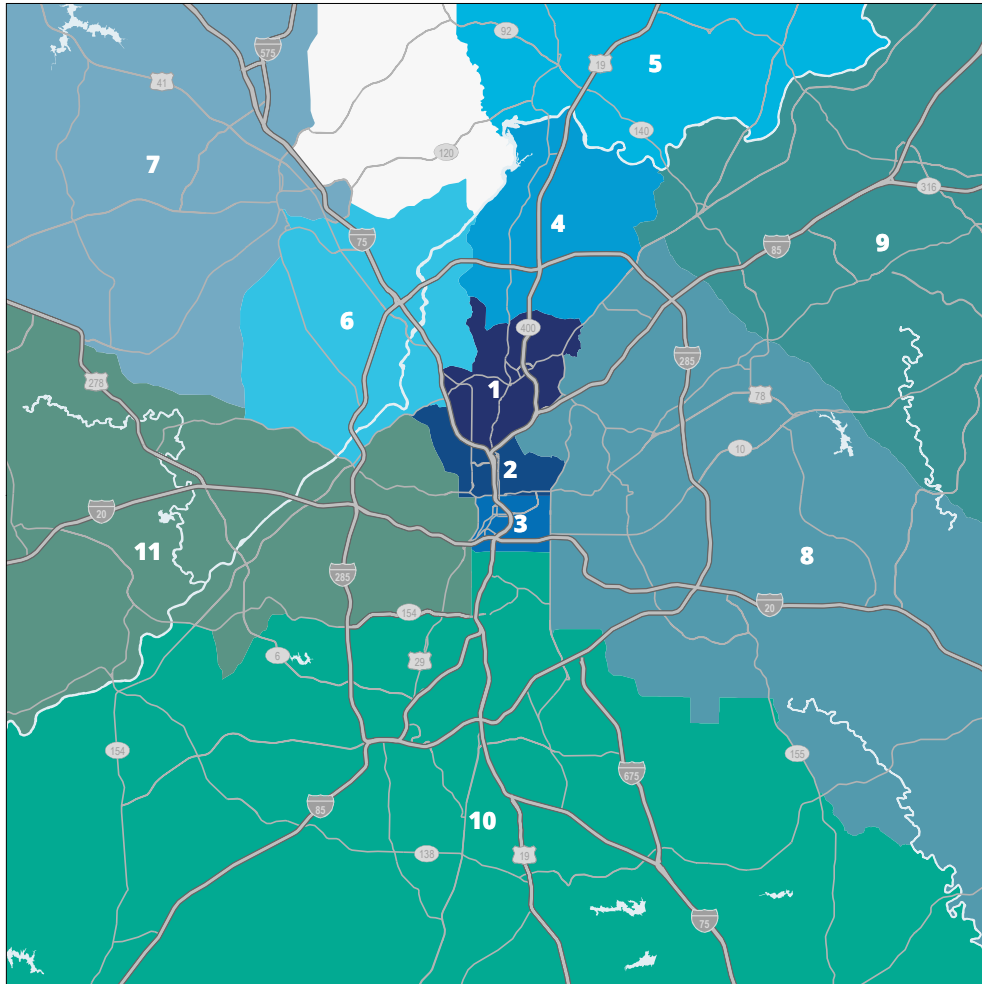
= Transwestern deal



MARKET INDICATORS

All Classes of Space | Q1 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	1,703,287	137,417	8.1%	8,610	8.6%	75,000	(13,242)	(18,658)	\$33.27
MIDTOWN/DOWNTOWN	1,494,322	7,499	0.5%	2,391	0.7%	16,195	2,551	5,748	\$23.53
CENTRAL PERIMETER	3,405,097	309,584	9.1%	22,236	9.7%	0	(13,109)	(5,517)	\$29.94
NORTH FULTON/FORSYTH	4,015,577	526,213	13.1%	69,872	14.8%	0	(12,106)	25,141	\$26.79
NORTHEAST	2,949,317	434,302	14.7%	6,477	14.9%	190,000	17,348	138,103	\$23.51
NORTHLAKE/DECATUR/EAST	3,740,496	233,762	6.2%	5,299	6.4%	0	(2,211)	65,006	\$22.08
NORTHWEST	5,172,816	287,701	5.6%	26,905	6.1%	115,000	7,053	88,899	\$27.49
SOUTH ATLANTA	3,530,642	428,108	12.3%	7,492	12.5%	0	58,058	8,097	\$22.62
WEST ATLANTA	981,734	20,701	2.1%	0	2.1%	0	15,918	41,753	\$17.53
TOTAL	26,993,288	2,385,287	8.8%	149,282	9.4%	396,195	60,260	348,572	\$26.32



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 medical office properties located in the Atlanta metropolitan area. We compile our quarterly statistics based on a defined inventory of medical office buildings of 15,000 SF or more in size.

FOR MORE INFORMATION

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