

ATLANTA OFFICE MARKET

Q2 2023

TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.1	2.7	↑	3.9	↑
NET ABSORPTION (THOUSANDS SF)	(1,652.2)	992.0	↓	(36.7)	↓
OVERALL VACANCY RATE	22.9%	21.2%	↑	18.9%	↑
OVERALL VACANT SF (MSF)	36.5	33.5	↑	29.8	↑
UNDER CONSTRUCTION (MSF)	2.4	4.0	↓	3.9	↓
ASKING RENT, FULL SERVICE (PSF)	\$31.48	\$30.67	↑	\$29.38	↓
SALES VOLUME (MILLIONS)	\$233	\$1,367	↓	\$731.1	↑

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

OFFICE MARKET TAKES STEP BACK IN SECOND QUARTER

The Atlanta office market suffered heavy losses in the second quarter of 2023, with negative absorption of 1,652,167 SF. The submarkets hit hardest were Buckhead and Central Perimeter, with the former losing nearly 800,000 SF thanks in part to AT&T vacating 588,000 SF in Lenox Park. The direct vacancy rate increased 60 basis points to 21.3%. The Class A vacancy rate saw an even larger rise, increasing 80 basis points to 24.3%. Asking rents saw a slight increase of \$0.34 in Q1, thanks mostly to a rise in rates among Class B properties. The amount of office space under construction was unchanged in Q2, with several large deliveries on the horizon for Q3 of 2023.

Atlanta has seen a rapid increase in the amount of space available for sublease over the past 3 years, and Q2 saw yet another big rise in this figure. Currently 5.0% of all Atlanta office inventory is available for sublease, almost double the national average. This is a total of over 8.7 MSF, 6.5 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 9.4% and 6.5% of their total inventories on the sublease market respectively.



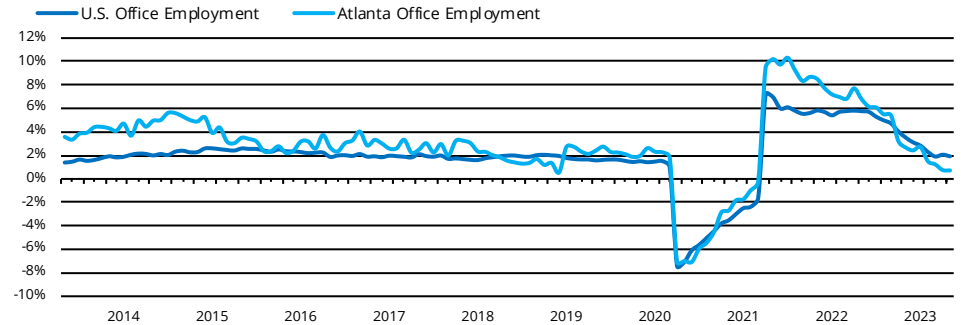
ECONOMY

Atlanta Adding Jobs Despite Unemployment Rate Rising

- Atlanta has added 87,900 total nonfarm jobs and 6,300 office-using jobs during the 12 months ending in May 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 0.7% year-over-year office-using job growth compared to May of 2022, which had 6.8% growth for the year prior. The national data is much the same, with 1.9% year-over-year growth as of May 2023, and 5.8% growth from the period prior.
- Atlanta’s unemployment rate was 3.3% in May, below the national rate of 3.6%. Atlanta’s rate rose 60 basis points (0.6%) in May after dipping to 2.7% in April of 2023. While a bit larger than years past, a May rise in the unemployment rate has been a consistent trend for the Atlanta metro area.
- Atlanta continues to benefit from a diverse and well-educated workforce with no one industry dominating the economy.
- Jobs in Atlanta have increased by 7.3% since 2017, outpacing the national growth rate of 3.4% by 3.9%. 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 284,000 people. Since 2017 the metro area has grown by 331,000 people, a 5.6% increase.

Population and Job Projections from Lightcast

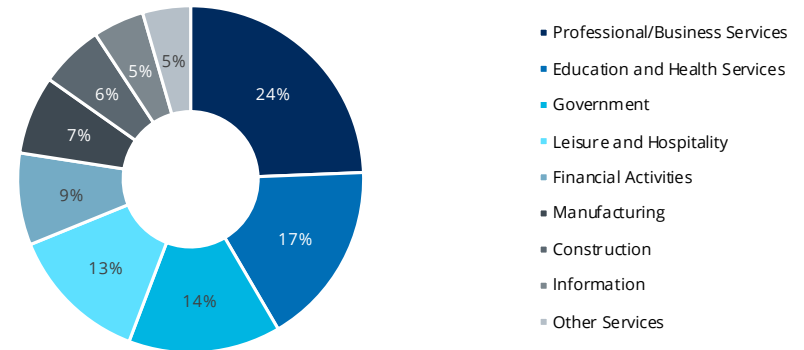
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

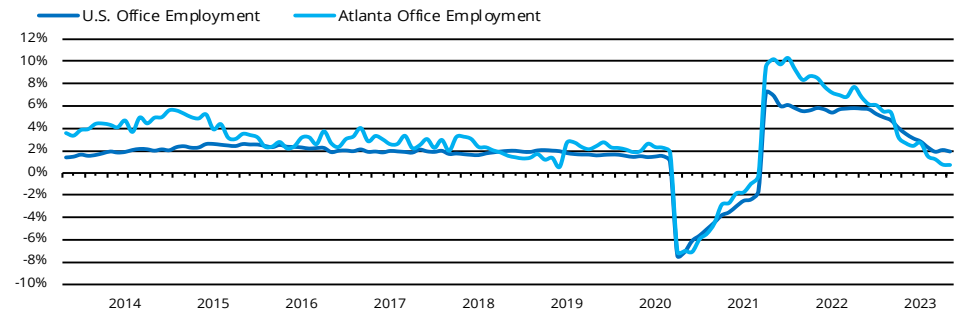
Atlanta | May 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Atlanta | May 2023



Source: Bureau of Labor Statistics, Transwestern

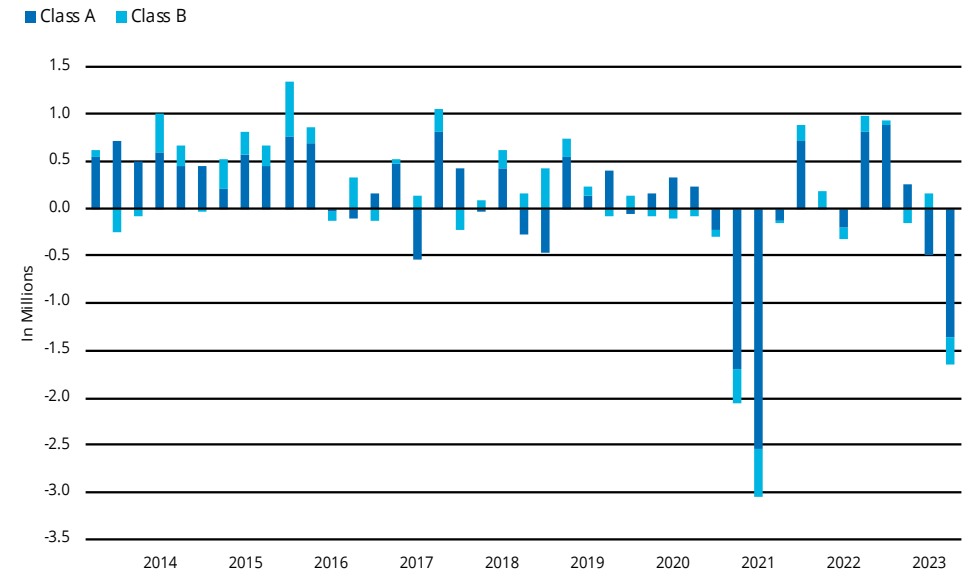


NET ABSORPTION

Heavy Losses for Atlanta in Q2

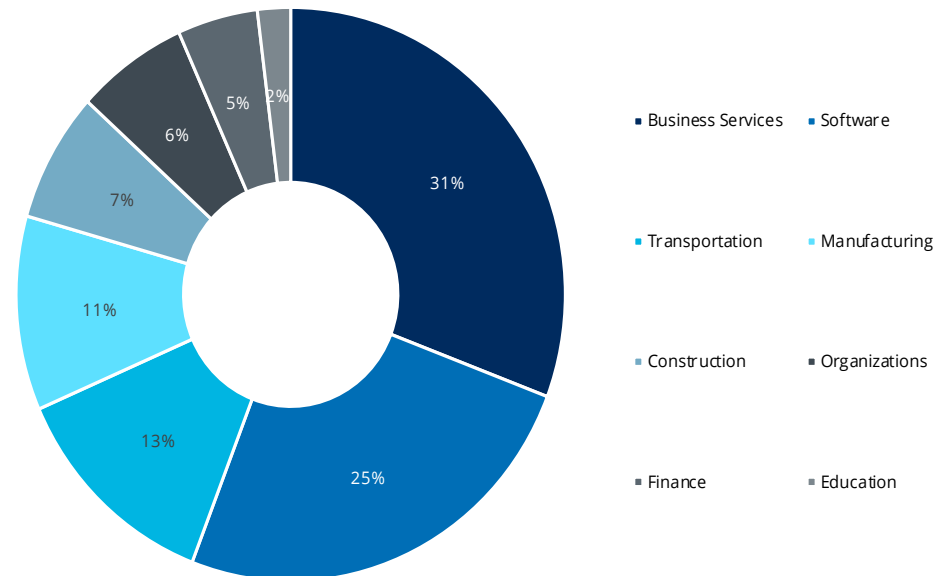
- The Atlanta office market suffered heavy losses in Q2 of 2023, with negative absorption of 1,652,167 SF. This is the second-consecutive negative absorption quarter for Atlanta, and the largest loss in an individual quarter since Q1 of 2021. Class A properties suffered the largest losses, with negative absorption of 1,353,334 SF, while Class B properties saw a more moderate loss of 289,833 SF in Q2.
- Buckhead (a loss of 788,062 SF) and Central Perimeter (a loss of 474,114 SF) were the biggest contributors to the negative overall number, while Midtown saw the only substantial positive absorption across the market, gaining 68,279 SF. In total, eight submarkets suffered losses, while three saw small to moderate gains.
- The absorption losses in Buckhead were thanks largely to three AT&T move-outs at Lenox Park that totaled 588,040 SF. AT&T vacated the entirety of 1057 Lenox Park Blvd, 1055 Lenox Park Blvd, and 2180 Lake Blvd, all of which are located in the six building Lenox Park office park. These moves had been scheduled years ago as a part of AT&T's corporate relocation to Dallas, which we have already seen affect the Buckhead submarket at Lindbergh as well as in the Downtown submarket in prior quarters.
- The Midtown submarket continues to lead the way in the Atlanta market, posting its ninth-consecutive quarter with positive absorption, gaining 68,279 SF of space. The major Q1 moves included Invesco moving into 301,573 SF at Midtown Union (while vacating 253,414 SF at 1555 Peachtree St), McKinsey taking 57,638 SF at Midtown Union, and Kimley-Horn occupying 30,652 SF at Promenade Central.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY



Source: CoStar, Transwestern

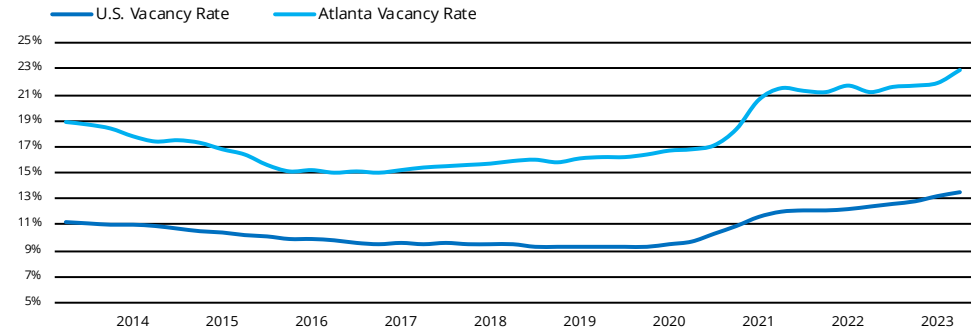


VACANCY

Vacancy Continues to Rise

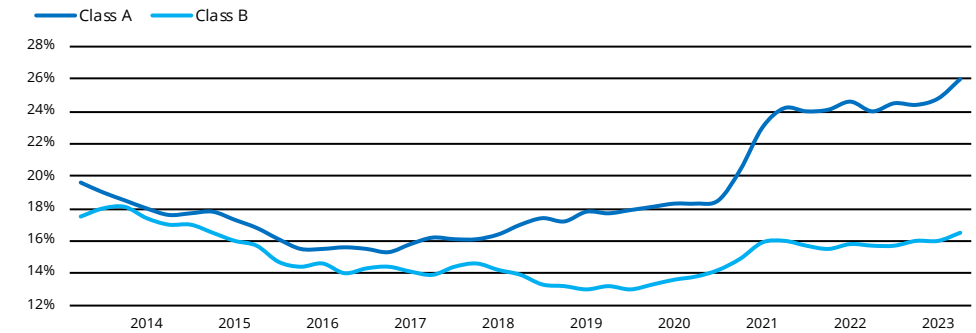
- Atlanta’s direct vacancy rate rose 60 basis points in Q2 to 21.3%. Class A direct vacancy rose 80 basis points from 23.5% to 24.3%, while the Class B direct vacancy rate rose 30 basis points from 14.9% to 15.2%.
- The 80 basis point rise in Q2 of 2023 represents the largest quarterly increase in direct vacancy rate for the Atlanta office market since Q2 of 2021.
- Vacancy in Midtown, which has been steadily falling since Q2 of 2021 and currently sits at 22.2%, is expected to rise in the latter half of 2023 thanks to multiple buildings delivering in Q3 and Q4 that are 0% pre-leased.
- The amount of available sublease space in Atlanta has been the headline story for months, with over 8.7 million SF of space on the sublease market. This figure increased by 914,000 SF in Q2 alone. The vacant sublease rate currently sits at 1.6% 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



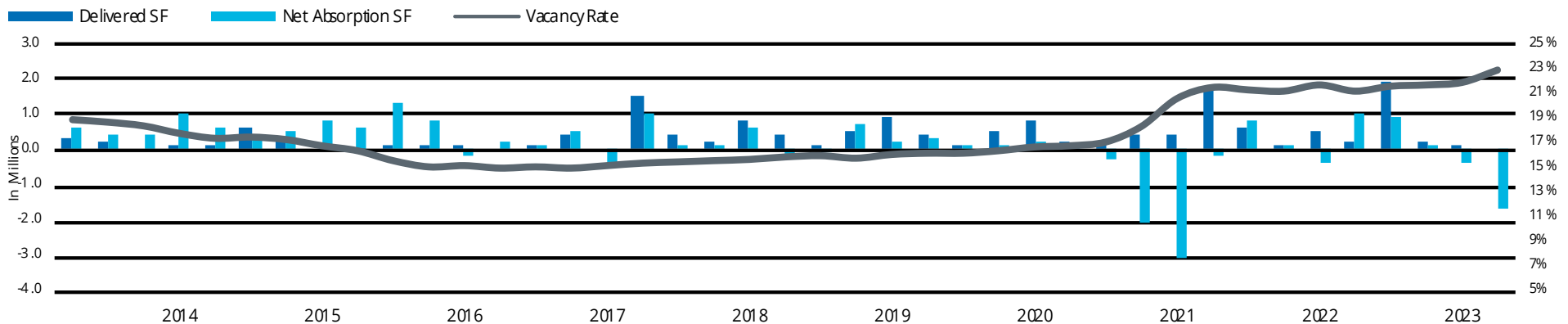
Source: CoStar, Transwestern

OVERALL ATLANTA VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

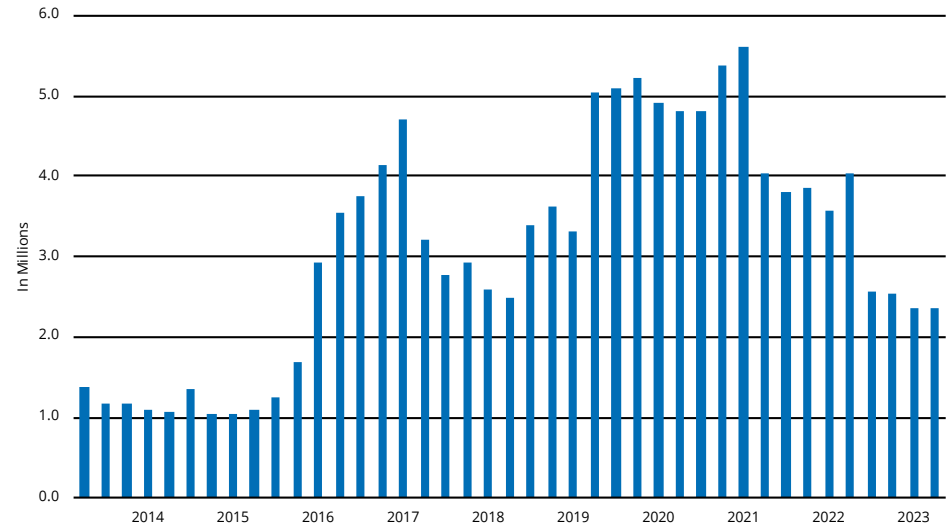


CONSTRUCTION

No Change to Construction Pipeline in Q2

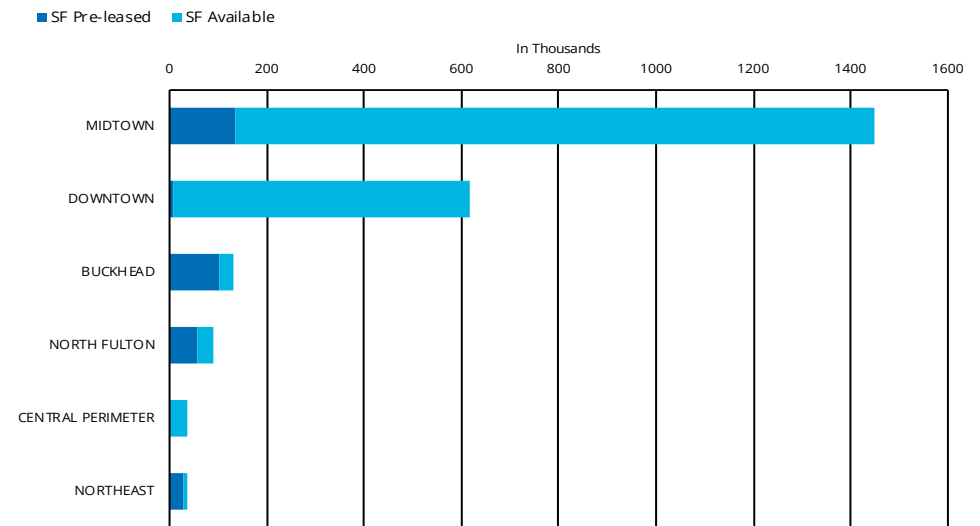
- There is currently 2.4 million SF under construction in the Atlanta office market, with no groundbreaking or deliveries taking place in Q2.
- Q3 of 2023 is set to be a big quarter, with five buildings totaling 814,542 SF scheduled to deliver. Three of the five new deliveries are in the West Midtown micro-market: 765 Echo (274,974 SF), Interlock Phase II (265,000 SF), and Stockyards (36,817 SF). Junction at Krog, a 135,000 SF building in the Downtown submarket, and the 129,751 SF Garden Hills Office Building in Buckhead round out the expected Q3 2023 deliveries. Combined, these five buildings are 23.6% pre-leased.
- 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 1.4 million SF underway in Midtown across six projects, four of them are in the “West Midtown” micro market.
- Approximately 15% of current under construction space in Atlanta is pre-leased.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

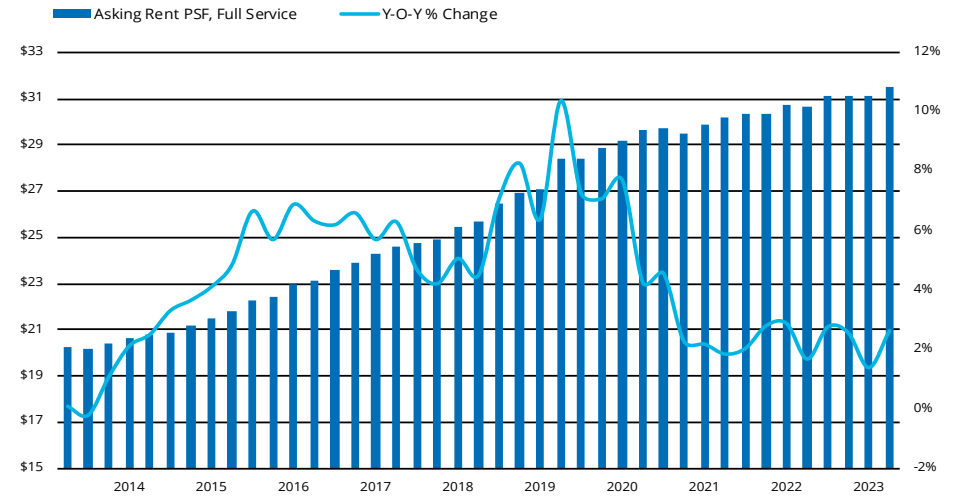


RENTAL RATES

Asking Rents See Q2 Uptick

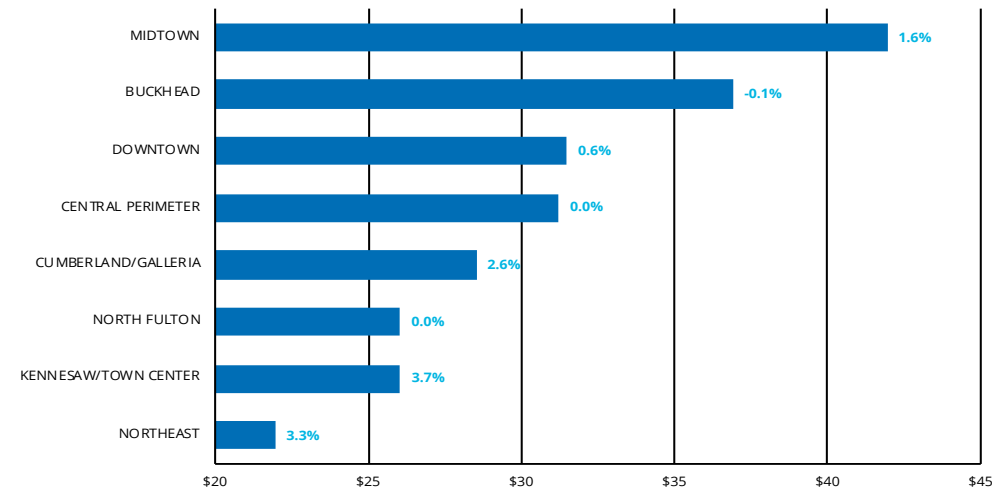
- Atlanta’s average asking rental rate rose \$0.34 during the second quarter of 2023 to an average of \$31.48 PSF. This was a 1.1% increase from Q1 and is a 2.6% rise year-over-year. This is the largest increase since Q3 of 2022, after which rents stagnated and did not move for two consecutive quarters.
- Class B properties saw the largest increase in Q2, with the average Q2 asking rent rising \$0.63 from \$23.62 to \$24.25, a 2.7% increase. Class B asking rents have now risen 9.9% over the past two years in Atlanta. The Class A gains in Q2 2023 were much more moderate, rising just \$0.10 to \$33.39. Class A rents have been relatively unchanged since Q3 of 2022, seeing just a 0.2% decrease since then.
- Rents fell in Buckhead and Central Perimeter on a year-over-year basis, while they rose or remained level in all other submarkets. The largest decrease in average asking rents for Q2 was seen in the North Fulton submarket where the rate fell by \$0.26 in Q2. North Fulton has seen a sharp rise in vacancy as well as sublease availabilities, with 6.5% of their current inventory on the sublease market. These discounted availabilities have caused landlords to drop rates to compete, a trend that is likely to continue further into 2023.
- Q1 2023 asking rents were highest in Midtown and Buckhead at \$41.94 and \$36.91, respectively. Midtown’s Class A asking rate was \$42.51 and Buckhead’s was at \$37.94.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

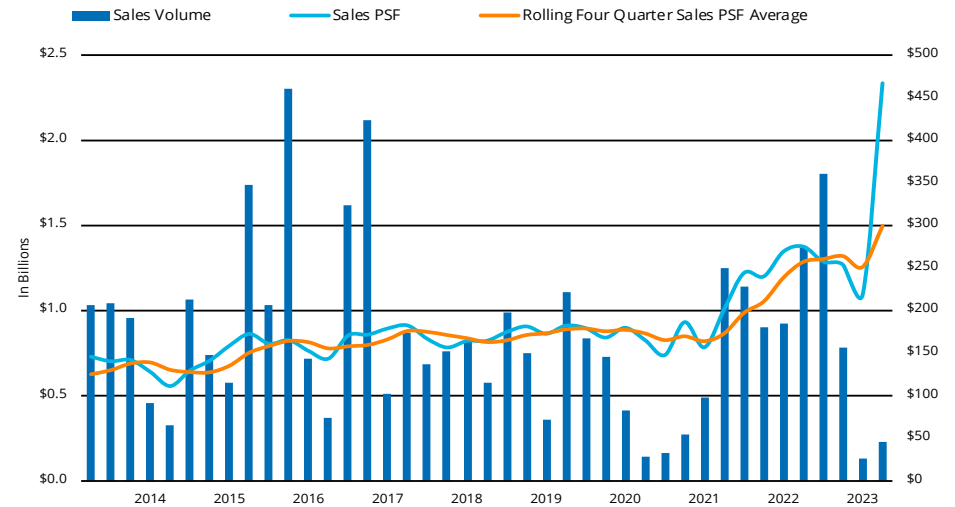


SALES

Limited Investment Sales Activity in Q2

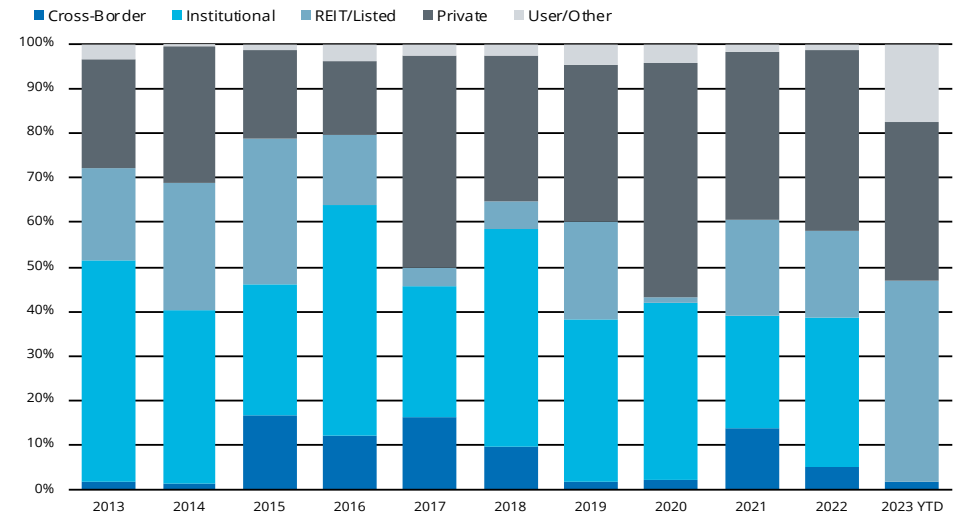
- After a strong 2022 that saw an average quarterly transaction volume of \$1.2 billion, 2023 has seen a total of just \$360 million in sales across Q1 and Q2 combined.
- Q1 2023 saw just \$127 million in office transactions, the lowest quarterly figure in well over 10 years. Q2 had slightly more activity, checking in at \$233 million in sales, mostly thanks to one large transaction.
- On May 31, Armada Hoffler Properties purchased The Interlock at 1115 Howell Mill Rd in West Midtown from SJC Ventures for \$215,000,000, or \$537/SF. SJC broke ground on the 400,000 SF Class A tower in 2019, finishing construction in 2021. The building is currently 96.8% leased. This is largest office investment sale that Atlanta has seen since August of 2022.
- The Atlanta investment sales market has seen activity slow significantly thus far in 2023, reflecting trends elsewhere in 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.

SALES VOLUME



Source: Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	PROPERTY	SUBMARKET	TYPE	SF LEASED
DELOITTE	Promenade Tower	Midtown	New Lease	71,870
INSIGHT GLOBAL	Ashford Green	Central Perimeter	Renewal	60,622
SAGE SOFTWARE INC.	619 Ponce de Leon Ave	Midtown	New Lease	57,000
HERSCHEND FAMILY ENTERTAINMENT	155 Technology Pky	Northeast	New Lease	30,962
BURR & FORMAN	1075 Peachtree St	Midtown	New Lease	28,423
ERNST & YOUNG	Lake View I	North Fulton	Renewal	27,048

NOTABLE SALES

PROPERTY	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
THE INTERLOCK	Midtown	\$250,000,000	400,000	\$538	Armada Hoffler Properties	SJC Ventures
LAKESIDE CENTRE (1957, 1767, 1975)	Northlake	\$20,000,000	197,827	\$101	Greenleaf Capital	Onward Investors
900 MEANS ST	Midtown	\$8,700,000	40,000	\$217	CBRE	SAB Capital
TOWN POINT SERVICE CENTER	Kennesaw/Town Center	\$8,100,000	70,140	\$115	SilverCap Partners	Angelo Gordon & Co.
2920 BRANDYWINE RD	Northeast	\$6,330,000	73,330	\$86	FD Stonewater	Parkside Partners
3955 JOHNS CREEK CT	North Fulton	\$6,050,000	53,788	\$112	Montage Semiconductor	Jacqueline Chiusano



MARKET INDICATORS

All Space | Second Quarter 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
BUCKHEAD	21,231,663	5,338,222	25.1%	156,938	25.9%	129,751	(788,062)	(643,737)	\$36.91
MIDTOWN	25,600,467	5,302,096	20.7%	380,167	22.2%	1,449,254	68,279	90,277	\$41.94
DOWNTOWN	18,633,276	3,952,527	21.2%	116,401	21.8%	618,871	(53,539)	(348,481)	\$31.48
CENTRAL PERIMETER	24,600,186	5,803,726	23.6%	635,809	26.2%	35,656	(474,114)	(513,911)	\$31.22
NORTH FULTON	21,242,662	4,772,383	22.5%	591,175	25.2%	88,500	(145,297)	(199,244)	\$26.04
CUMBERLAND/GALLERIA	20,800,138	3,765,659	18.1%	308,048	19.6%	0	(27,076)	454	\$28.52
KENNESAW/TOWN CENTER	4,349,531	786,555	18.1%	260,079	24.1%	0	(64,970)	(87,392)	\$26.05
NORTHLAKE	11,756,610	2,738,996	23.3%	19,388	23.5%	0	(82,118)	(73,106)	\$25.11
NORTHEAST	14,955,597	2,607,150	17.4%	182,938	18.7%	35,580	(128,159)	(360,256)	\$21.96
SOUTH ATLANTA	6,199,309	525,333	8.5%	11,380	8.7%	0	39,021	69,388	\$22.07
WEST ATLANTA	1,812,455	915,813	50.5%	20,000	51.6%	0	3,868	97,324	\$33.83
TOTAL	171,181,894	36,508,460	21.3%	2,682,323	22.9%	2,357,612	(1,652,167)	(1,968,684)	\$31.48



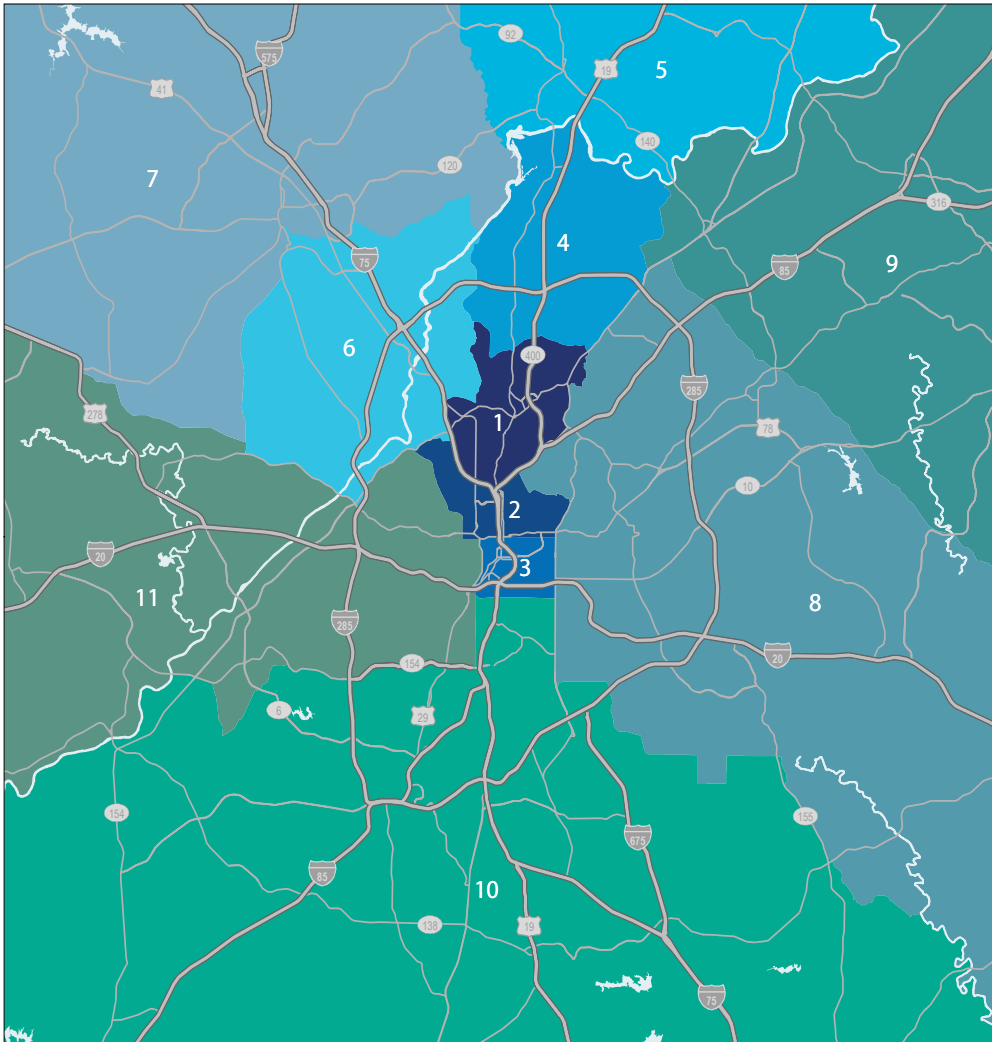
MARKET INDICATORS

Class A | Second Quarter 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
BUCKHEAD	17,892,927	4,863,540	27.2%	141,713	28.0%	129,751	(791,257)	(746,341)	\$37.94
MIDTOWN	22,819,148	5,036,228	22.1%	322,142	23.5%	1,449,254	127,871	67,078	\$42.51
DOWNTOWN	13,725,185	3,509,433	25.6%	110,520	26.4%	618,871	(45,954)	(341,560)	\$31.63
CENTRAL PERIMETER	19,965,073	5,175,640	25.9%	549,426	28.7%	35,656	(364,516)	(393,920)	\$31.99
NORTH FULTON	13,234,499	3,385,051	25.6%	383,649	28.5%	0	(84,739)	(133,145)	\$27.77
CUMBERLAND/GALLERIA	13,627,521	2,570,599	18.9%	292,496	21.0%	0	(32,526)	(23,610)	\$30.49
KENNESAW/TOWN CENTER	1,305,630	251,748	19.3%	62,969	24.1%	0	(52,238)	(48,871)	\$28.80
NORTHLAKE	4,429,962	1,184,908	26.7%	1,669	26.8%	0	(25,964)	(15,359)	\$26.73
NORTHEAST	6,620,108	1,543,693	23.3%	76,587	24.5%	35,580	(76,999)	(192,935)	\$23.11
SOUTH ATLANTA	780,302	124,913	16.0%	9,428	17.2%	0	(7,012)	(9,796)	\$24.09
WEST ATLANTA	361,285	273,385	75.7%	0	75.7%	0	0	0	\$39.36
TOTAL	114,761,640	27,919,138	24.3%	1,950,599	26.0%	2,269,112	(1,353,334)	(1,838,459)	\$33.50

Class B | Second Quarter 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
BUCKHEAD	3,338,736	474,682	14.2%	15,225	14.7%	0	3,195	102,604	\$29.69
MIDTOWN	2,781,319	265,868	9.6%	58,025	11.6%	0	(59,592)	23,199	\$28.25
DOWNTOWN	4,908,091	443,094	9.0%	5,881	9.1%	0	(7,585)	(6,921)	\$27.58
CENTRAL PERIMETER	4,635,113	628,086	13.6%	86,383	15.4%	0	(109,598)	(119,991)	\$24.14
NORTH FULTON	8,008,163	1,387,332	17.3%	207,526	19.9%	88,500	(60,558)	(66,099)	\$22.36
CUMBERLAND/GALLERIA	7,172,617	1,195,060	16.7%	15,552	16.9%	0	5,450	24,064	\$23.12
KENNESAW/TOWN CENTER	3,043,901	534,807	17.6%	197,110	24.0%	0	(12,732)	(38,521)	\$24.65
NORTHLAKE	7,326,648	1,554,088	21.2%	17,719	21.5%	0	(56,154)	(57,747)	\$23.59
NORTHEAST	8,335,489	1,063,457	12.8%	106,351	14.0%	0	(51,160)	(167,321)	\$20.53
SOUTH ATLANTA	5,419,007	400,420	7.4%	1,952	7.4%	0	46,033	79,184	\$21.37
WEST ATLANTA	1,451,170	642,428	44.3%	20,000	45.6%	0	3,868	97,324	\$28.96
TOTAL	56,420,254	8,589,322	15.2%	731,724	16.5%	88,500	(298,833)	(130,225)	\$23.44



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

Spencer Papciak

Director of Research
 spencer.papciak@transwestern.com
 404 842 6585

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. An integrated approach formed from fresh ideas drives value for clients across commercial real estate services, development, investment management and opportunistic programs for high-net-worth investors. The firm operates through 30+ U.S. offices and global alliances with BNP Paribas Real Estate and Devencore. Learn more at transwestern.com and [@Transwestern](https://twitter.com/Transwestern).