

ATLANTA MEDICAL 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)	(45.6)	173.5	↓	58.2	↑
OVERALL VACANCY RATE	10.7%	10.3%	↑	10.6%	↓
OVERALL VACANT SF (MSF)	3.0	2.9	↑	2.9	↓
UNDER CONSTRUCTION (MSF)	0.2	0.4	↓	0.3	↓
ASKING RENT, FULL SERVICE (PSF)	\$26.83	\$25.44	↑	\$24.42	↑
SALES VOLUME (MILLIONS)	\$132.6	\$154.1	↓	\$113.3	↑

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

SMALL STEP BACK IN Q2 FOR ATLANTA MEDICAL OFFICE MARKET

After a solid start to 2023, the Atlanta medical office market took a small step back in Q2, with negative absorption of 45,557 SF across Class A and B medical properties. Year-to-date, the market has gained 26,555 SF of positive absorption, with Northeast, South Atlanta, and Buckhead checking in as the best-performing submarkets during that period. The market's vacancy rate increased 80 basis points to 10.7%, thanks in part to several vacant Q2 deliveries. Asking rents have seen strong gains over the past few years, with another solid increase of \$0.33 since Q1 of 2023. Two buildings delivered totaling 205,732 SF, while a further 241,333 SF remains under construction across the market.

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 10,700 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.

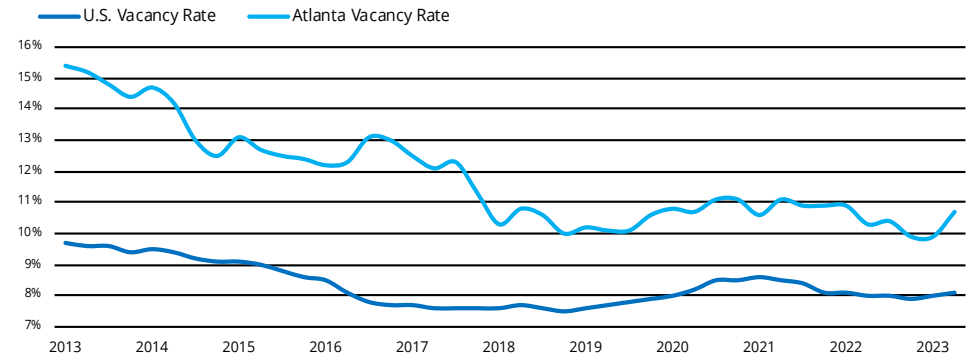


VACANCY

Vacancy Rate Rise in Q2

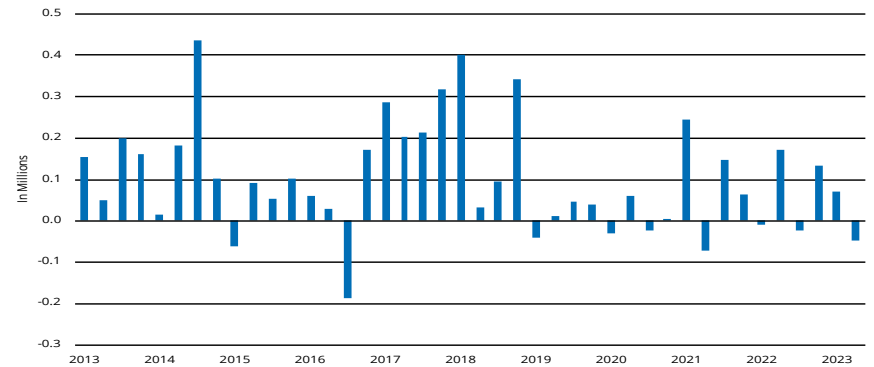
- The Atlanta medical office overall vacancy rate rose 80 basis points in Q2 to 10.7%. Year-over-year, the market’s vacancy rate has risen 40 basis points from 10.3%.
- The Q2 rise in vacancy can be attributed to vacant deliveries and negative absorption. Over 200,000 SF of new supply delivered in Q2, over half of which is vacant space. The market also saw negative absorption of 45,557 SF, further raising the vacancy rate. Year-to-date, Atlanta still has positive absorption of 26,555 SF. With solid leasing momentum across the market vacancy should fall in the coming quarters. The market reached a five-year vacancy height of 11.2% in Q4 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 0.8% overall vacancy rate. Vacancy is higher in the suburbs, with North Fulton/Forsyth and Northeast boasting the highest rates in the market at 15.2% and 16.4% respectively.
- The best performing submarket in Q2 was Northeast, which saw positive absorption of 72,832 SF. The submarket’s vacancy date did rise 160 basis points however, mostly due to the delivery of Medical Center Blvd in Lawrenceville.

OVERALL VACANCY RATE



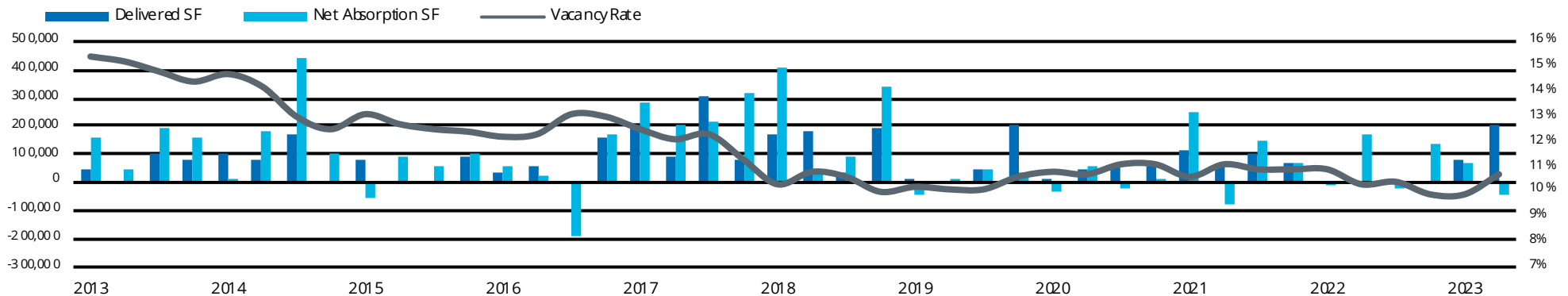
Source: CoStar, Transwestern

NET ABSORPTION



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

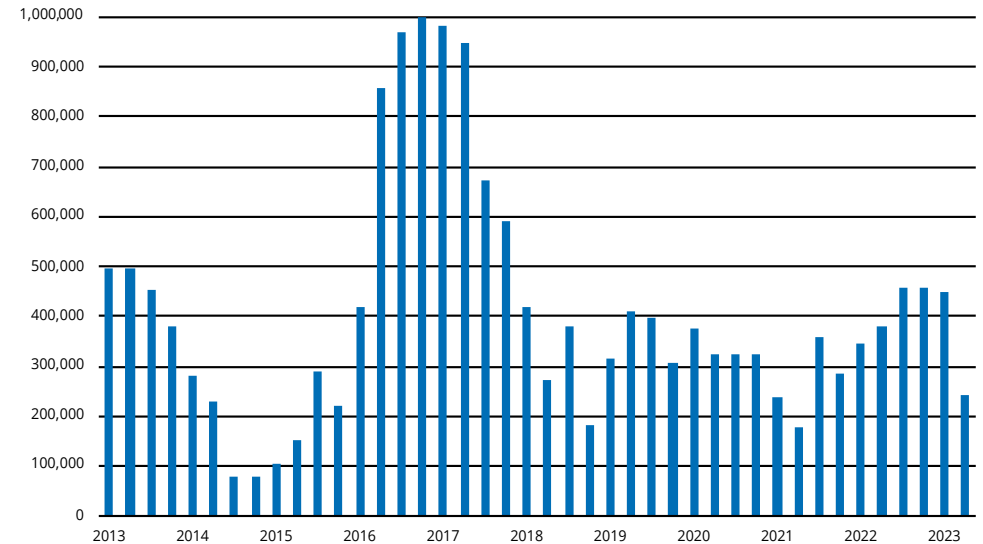


CONSTRUCTION

Big Q2 Deliveries, More to Come for Construction Pipeline

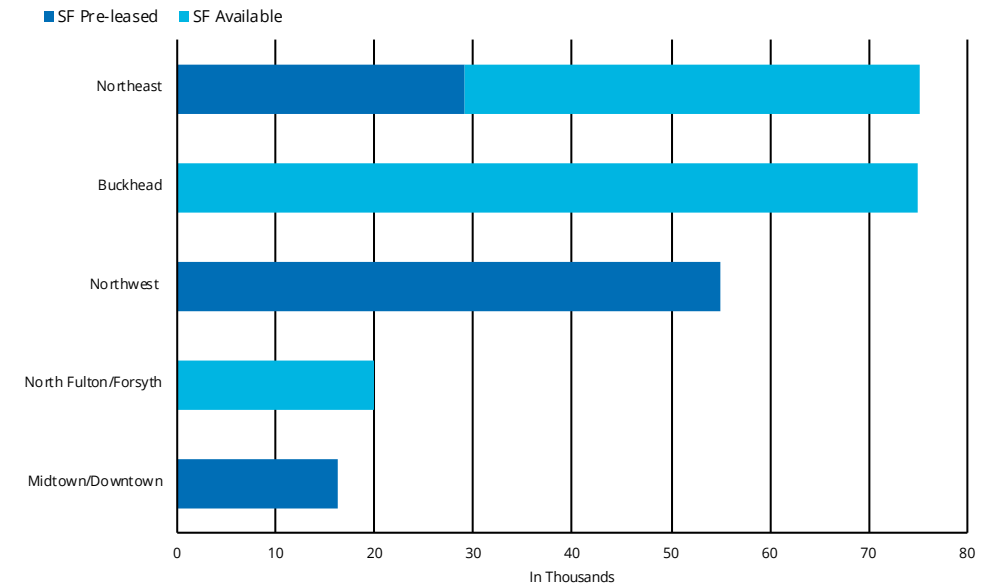
- There are currently six buildings totaling 241,333 SF under construction across the Atlanta medical office market. Q2 saw two buildings totaling a combined 205,732 SF deliver. Under construction space is currently at least 40% pre-leased across the market.
- Medical Center Blvd in Lawrenceville and 4359 W Atlanta Rd SE in Smyrna were the two Q2 deliveries. Medical Center Blvd is a 145,000 SF building developed by Realty Trust Group that is currently 63% leased. Construction started in August of 2021, and the building officially delivered in May of 2023. 4359 W Atlanta Rd SE is a 60,732 SF building in the Northwest submarket that is 0% leased.
- There are three major projects set to deliver in Q3 2023. Darlington Medical Center, a 75,000 SF 5-story building in Buckhead, 2870 Ronald Reagan, a 20,000 SF building in Forsyth, and 2130 Braselton Hwy, a 30,138 SF project in Buford.
- Pipeline:
 - o Darlington Medical Center: 75,000 SF, Q3 2023.
 - o 2870 Ronald Reagan: 20,000 SF, Q3 2023.
 - o 2103 Braselton Hwy: 30,138 SF, Q3 2023.
 - o 2306 Wisteria Dr – NSH Snellville MOB: 45,000 SF, Q4 2023.
 - o 65 Cloverleaf Dr: 55,000 SF, Q1 2024.
 - o 525 Moreland Ave SE – The Lodge: 16,195 SF, Q1 2024.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

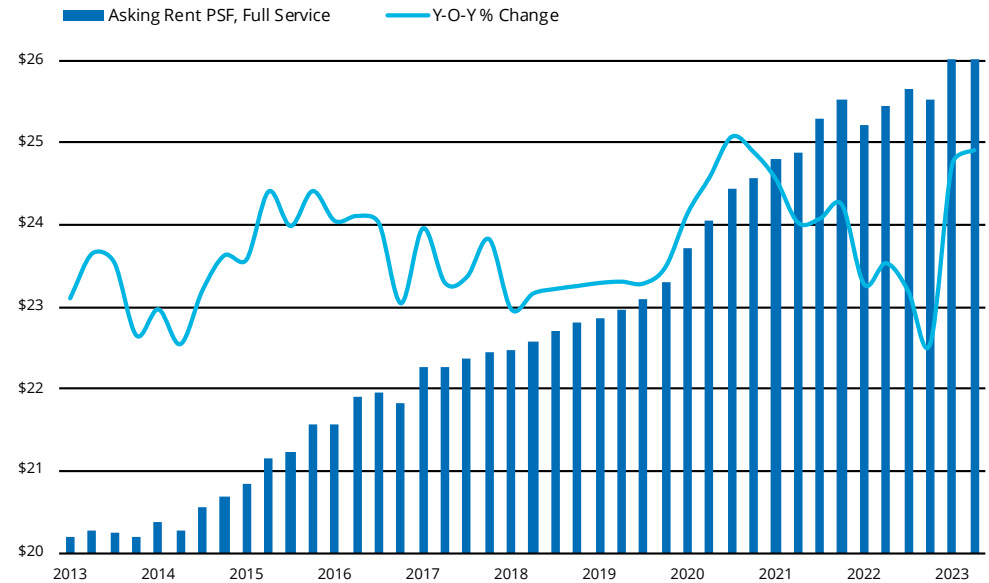


RENTAL RATES

Asking Rents Continue to Rise in Q2

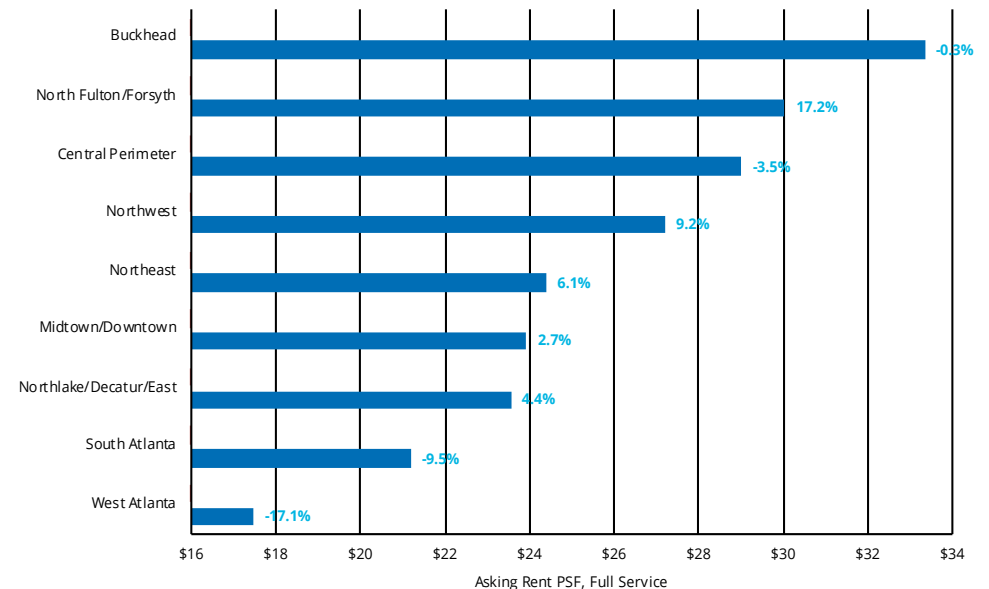
- The average medical office asking rent in Atlanta saw a 120 basis point rise of \$0.33, finishing at \$26.83 across Class A and Class B properties in Q2. Rents have risen 5.4% year-over-year, the largest year-over-year increase the market has seen since Q3 of 2020, when rates rose at a 5.8% year-over-year clip. Much of this growth has come in the past two quarters, as rents were stagnant from Q4 of 2021 through Q4 of 2022, rising just \$0.02 during that period.
- Rents are highest in Buckhead and North Fulton/Forsyth at \$33.34/SF and \$30.04/SF respectively. North Fulton/Forsyth has seen a particularly large increase in rates over the past year, with average asking rents rising 17.2% over the past year from \$25.63 to \$30.04. The Northwest Atlanta submarket also saw a large jump, rising 9.2% to \$27.20, a \$2.29 increase over the past year.
- Atlanta's average asking rent is \$0.66 lower than the national average asking rental rate for medical office buildings. Atlanta's rents are rising at a faster rate though, as the national year-over-year growth rate is 2.5%.
- 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



MARKET INDICATORS

Class A + B | Q2 2023

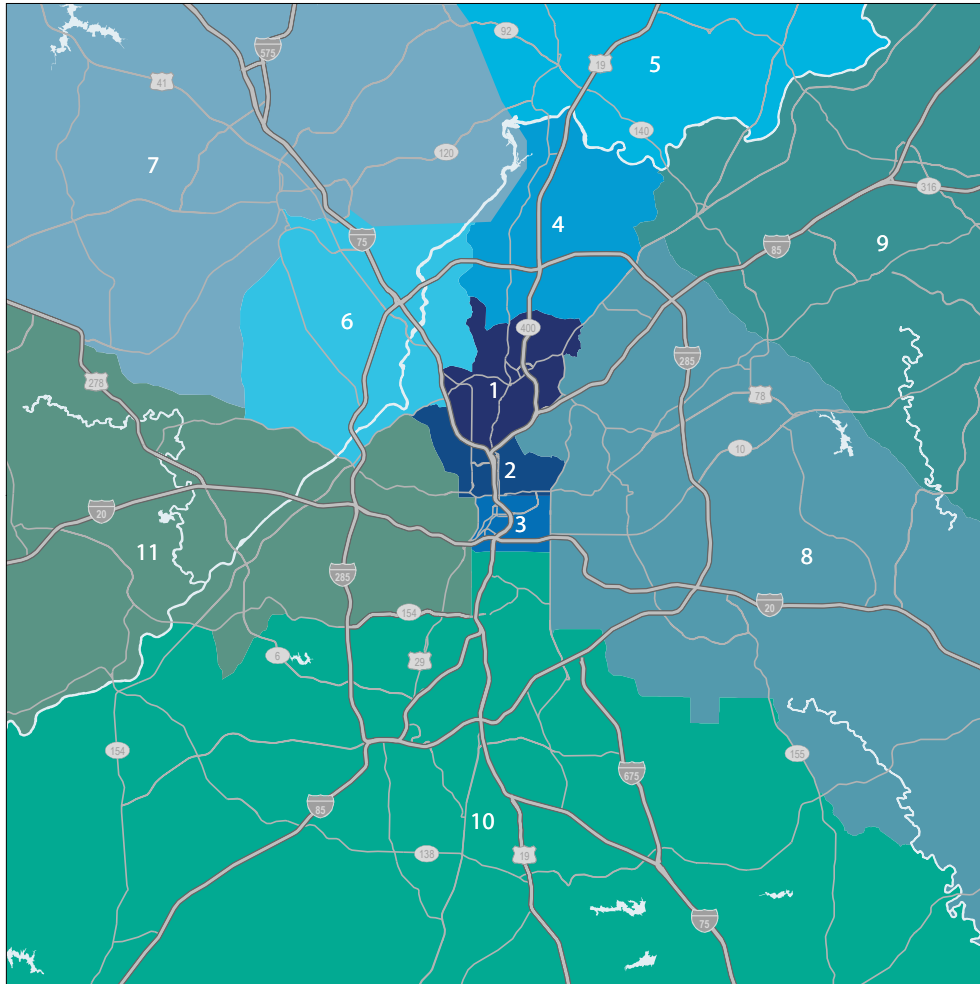
SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	YTD NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
BUCKHEAD	1,725,480	109,248	6.3%	10,129	6.9%	75,000	26,650	13,408	\$33.34
MIDTOWN/DOWNTOWN	1,494,322	9,099	0.6%	2,391	0.8%	16,195	(1,500)	1,051	\$23.93
CENTRAL PERIMETER	3,564,831	399,587	11.2%	33,789	12.2%	0	(66,584)	(67,841)	\$29.08
NORTH FULTON/FORSYTH	4,201,686	482,918	11.5%	157,640	15.2%	20,000	(42,005)	(54,111)	\$30.04
NORTHEAST	3,143,064	504,787	16.1%	13,612	16.5%	75,138	72,832	90,180	\$24.39
NORTHLAKE/DECATUR/EAST	4,043,674	437,250	10.8%	5,299	10.9%	0	(31,145)	(33,356)	\$23.55
NORTHWEST	5,292,454	346,189	6.5%	26,628	7.0%	55,000	3,521	10,574	\$27.20
SOUTH ATLANTA	3,617,518	434,152	12.0%	14,474	12.4%	0	(2,420)	55,638	\$21.18
WEST ATLANTA	981,734	25,607	2.6%	0	2.6%	0	(4,906)	11,012	\$17.47
TOTAL	28,064,763	2,748,837	9.8%	263,962	10.7%	241,333	(45,557)	26,555	\$26.83

NOTABLE LEASES

TENANT	PROPERTY	SUBMARKET	TYPE	SF LEASED
GRADY HEALTH SYSTEM	Cascade Outpatient Center	West Atlanta	New Lease	9,258
ABA THERAPY	294 Interstate North Cir NE	Northwest	New Lease	8,184
HYOX TREATMENT CENTERS	Pavilion at Windy Hill	Northwest	Renewal	7,113
RESTORE FIRST HEALTH	Riverdale Medical Office Building	South Atlanta	New Lease	7,110
GEORGIA UROLOGY	Hillandale Physicians Place	Northlake/Decatur/East	New Lease	4,516

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
874 W LANIER AVE	South Atlanta	\$12,159,680	40,063	\$303	James Edge III	Flagship Healthcare Properties
5000 & 5050 RESAERCH CT	Northeast	\$12,150,000	78,746	\$154	Woodside Health	Crossgate Partners
2976 CHAPEL HILL RD	West Atlanta	\$11,212,573	26,216	\$427	LOR Inc	Wilson Development Group
HURRICANE SHOALS PROFESSIONAL BLDG	Northeast	\$11,100,000	43,500	\$255	Anchor Health Properties	PAI Industries



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

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.