



TRANSWESTERN

# ATLANTA OFFICE MARKET

## Q3 2023

### TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.4	3.0	↑	3.9	↑
NET ABSORPTION (THOUSANDS SF)	(642.3)	896.4	↓	(44.3)	↓
OVERALL VACANCY RATE	23.6%	21.6%	↑	19.3%	↑
OVERALL VACANT SF (MSF)	40.4	36.7	↑	32.0	↑
UNDER CONSTRUCTION (MSF)	2.1	2.6	↓	3.9	↓
ASKING RENT, FULL SERVICE (PSF)	\$31.67	\$31.14	↑	\$29.64	↓
SALES VOLUME (MILLIONS)	\$395	\$1,838	↓	\$715.4	↑

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

### OFFICE MARKET CONTINUES SLIDE IN THIRD QUARTER

The Atlanta office market took yet another step back in the third quarter of 2023, with negative absorption of 642,247 SF. The losses were spread evenly throughout the market, with five different submarkets posting six-digit losses. The overall vacancy rate increased 70 basis points to 23.6%, with the Class A overall rate seeing an even larger rise, increasing 80 basis points to 26.9%. Asking rents saw a slight increase of \$0.18 in Q3 of 2023, thanks mostly to a rise in rates among suburban Class B properties. Four buildings delivered in Q3, adding over 600,000 SF of new product to the market, with more deliveries on the horizon for Q4 of 2023. The year is expected to finish on another poor note, as several large move-outs are planned for Q4, including Cox vacating over 400,000 SF in the Central Perimeter submarket.

Atlanta has seen a rapid increase in the amount of space available for sublease over the past three years, and while Q3 did not see an increase in that number, it did not go down. 5.0% of all Atlanta office inventory is available for sublease, almost double the national average. Sublease availabilities are most prevalent in suburban submarkets such as Central Perimeter and North Fulton which have 9.4% and 6.2% of their total inventories on the sublease market respectively.

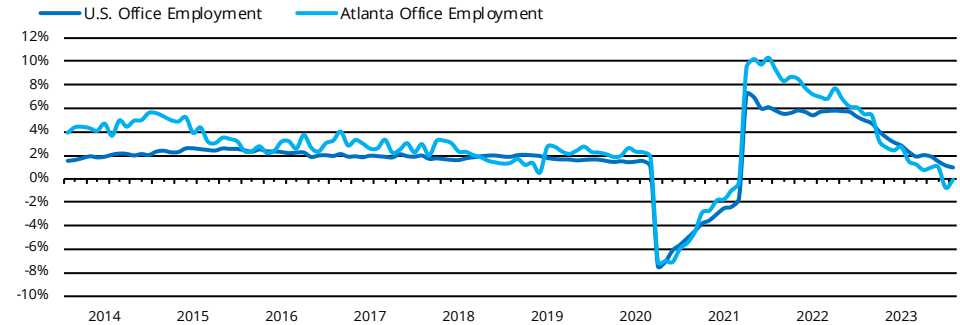


### ECONOMY

#### Atlanta Sees Decline in Office-Using Jobs

- Over the 12 months ending in August of 2023, the Atlanta metro area has added 54,000 nonfarm jobs. Within office-using jobs however, Atlanta has lost 600 jobs in the last year, posting its first year-over-year office-using jobs decline since May of 2021.
- Both the Atlanta and national office-using year-over-year jobs growth has been steadily decreasing for the past two years, with Atlanta finally turning negative at -0.1% in August. Last quarter saw 1.0% year-over-year growth, a significant decline compared to August of 2022, which had 5.5% growth for the year prior. The national data is much the same, with 1.0% year-over-year growth as of August 2023, and 5.0% growth from the period prior.
- Atlanta's unemployment rate was 3.7% in August, just below the national rate of 3.8%. Atlanta's rate rose 50 basis points (0.5%) in August. While a bit larger than years past, an August rise in the unemployment rate has been a consistent trend for the Atlanta metro area.
- Jobs in Atlanta have increased by 7.9% since 2017, outpacing the national growth rate of 3.8% by 4.1%. 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.

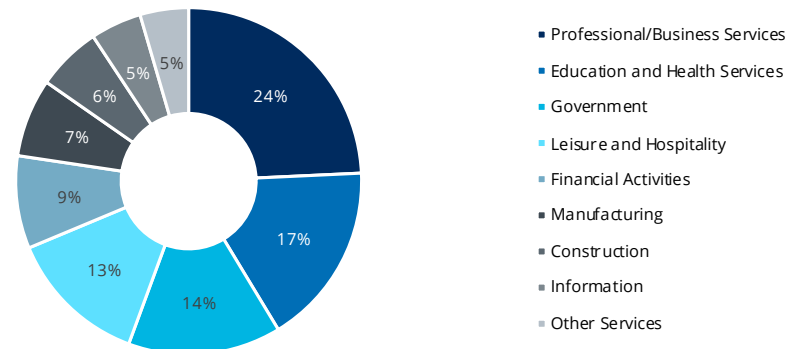
### Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

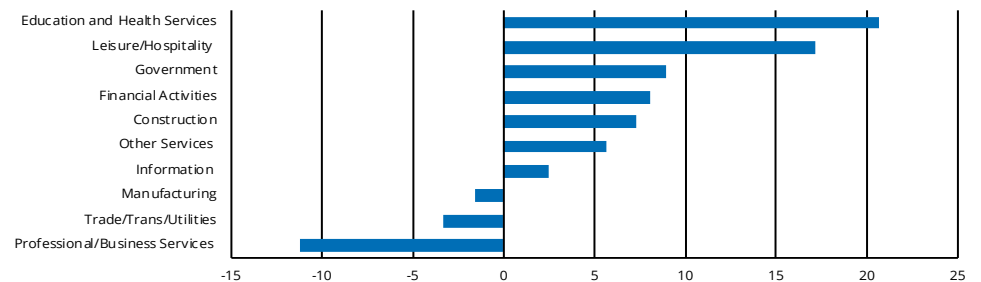
Atlanta | August 2023



Source: Bureau of Labor Statistics, Transwestern

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

Atlanta | August 2023



Source: Bureau of Labor Statistics, Transwestern

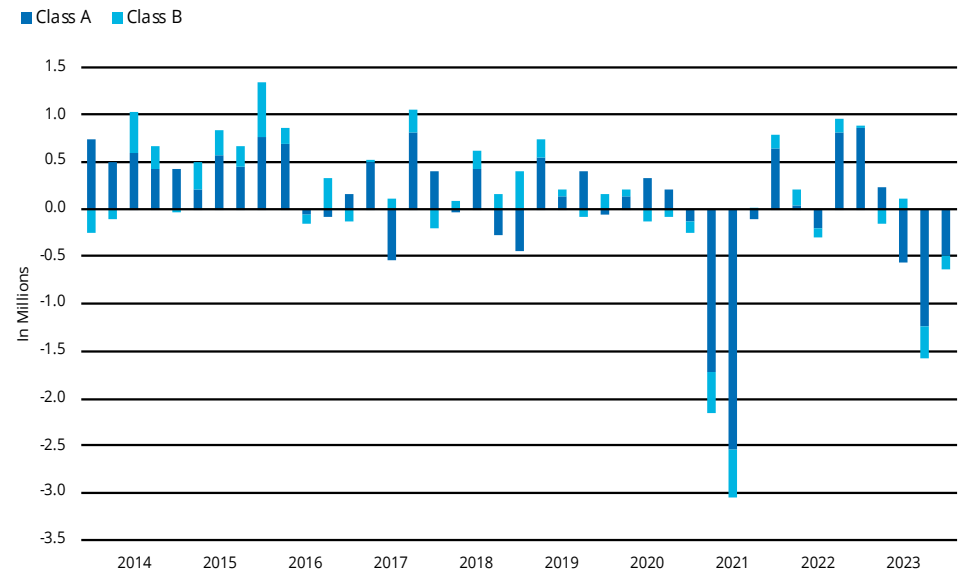


### NET ABSORPTION

#### Third Consecutive Negative Absorption Quarter for Atlanta

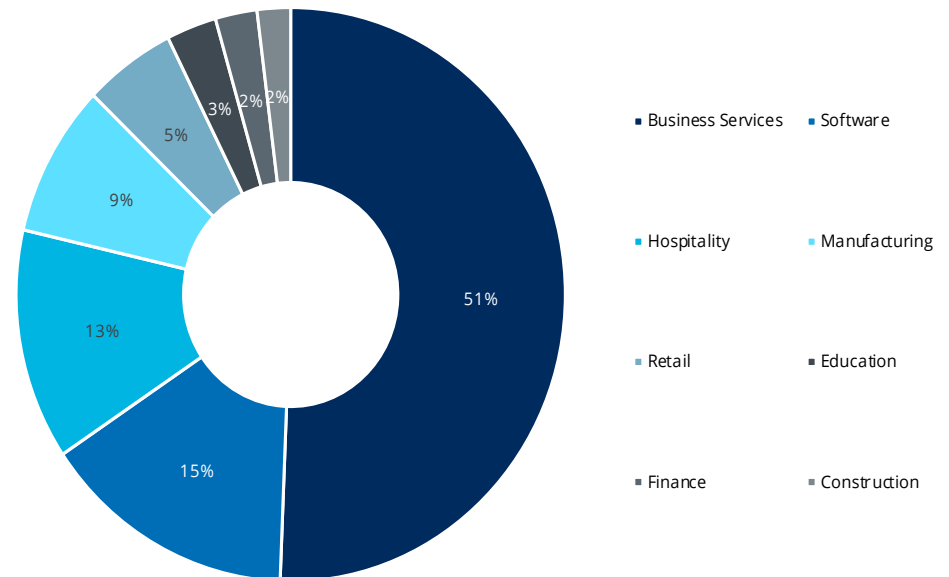
- The Atlanta office market saw negative absorption of 642,347 SF in Q3 of 2023, an improvement over the heavy losses suffered in Q2 of 2023, but still the third solidly negative quarter in a row. Year-to-date, Atlanta has suffered negative absorption of 2,663,199 SF, which would be the worst yearly figure in the market's history.
- Class A properties suffered the largest losses, with negative absorption of 428,982 SF, while Class B properties saw a more moderate loss of 159,365 SF in Q3.
- No one submarket caused the majority of the losses, with Midtown, Downtown, Central Perimeter, North Fulton, and Northeast Atlanta all posting negative absorption of 100,000 SF or greater. Buckhead and Northlake saw the only substantial positive absorption across the market, gaining 133,496 SF and 105,677 SF respectively. In total, eight submarkets suffered losses, while three saw gains.
- North Fulton saw negative absorption of 264,442 SF in Q3 2023, the heaviest losses suffered of any Atlanta submarket. The primary causes of this were two large move-outs in Class A, multi-story product. Phillips Electronics moved out of 135,384 SF at One Deerfield (13560 Morris Rd), and LexisNexis vacated 115,868 SF at 1100 Alderman Dr. These move-outs have brought North Fulton's year-to-date absorption to a loss of 449,923 SF.
- Despite posting just its second negative absorption quarter since Q1 of 2021, Midtown remains the best performing office submarket for Atlanta. Since Q2 of 2021, Midtown has added over 1.7 million SF of space. The submarket's vacancy rate has risen in that period thanks to over 3.1 million SF of deliveries, but leasing activity has remained solid relative to the rest of the market.

### NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

### SHARE OF LEASING ACTIVITY BY INDUSTRY



Source: CoStar, Transwestern

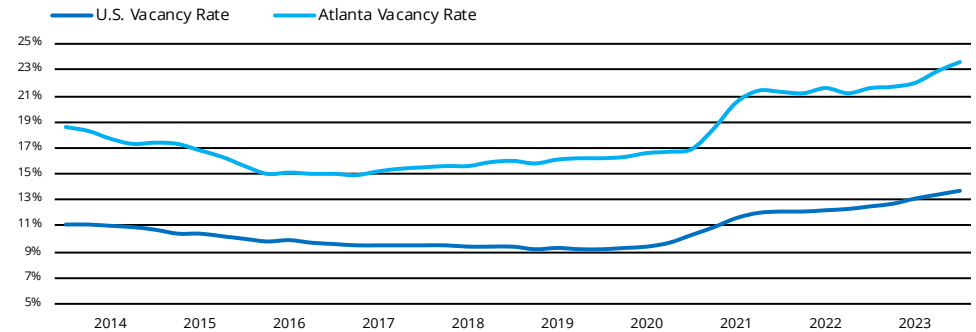


### VACANCY

#### Vacant Deliveries, Negative Absorption Cause Jump in Vacancy Rate

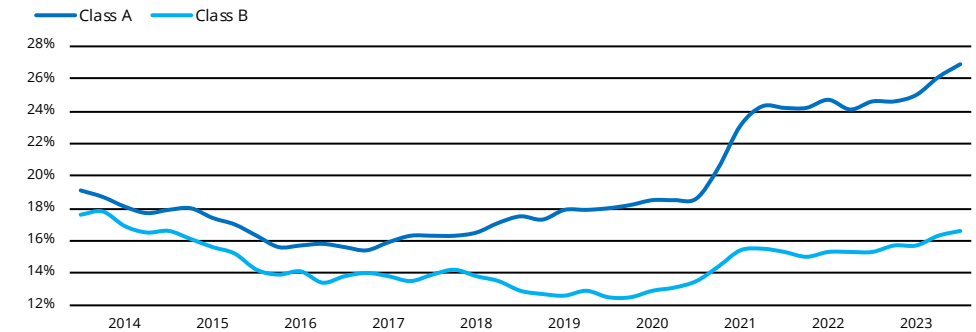
- Atlanta’s overall vacancy rate rose 70 basis points in Q3 2023 to 23.6%. Class A overall vacancy rose 80 basis points from 26.1% to 26.9%, while the Class B overall vacancy rate rose 30 basis points from 16.3% to 16.6%.
- The 70 basis point rise in Q3 of 2023 comes on the heels of a 90 basis point increase in Q2 of 2023. These are the largest quarterly increases in overall vacancy rate for the Atlanta market since Q1 of 2021.
- The Atlanta office market saw four buildings completed in Q3 that were a combined 68.3% vacant when they delivered.
- 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 has increased by over 1.5 million SF in 2023 alone. The vacant sublease rate currently sits at 1.7% 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



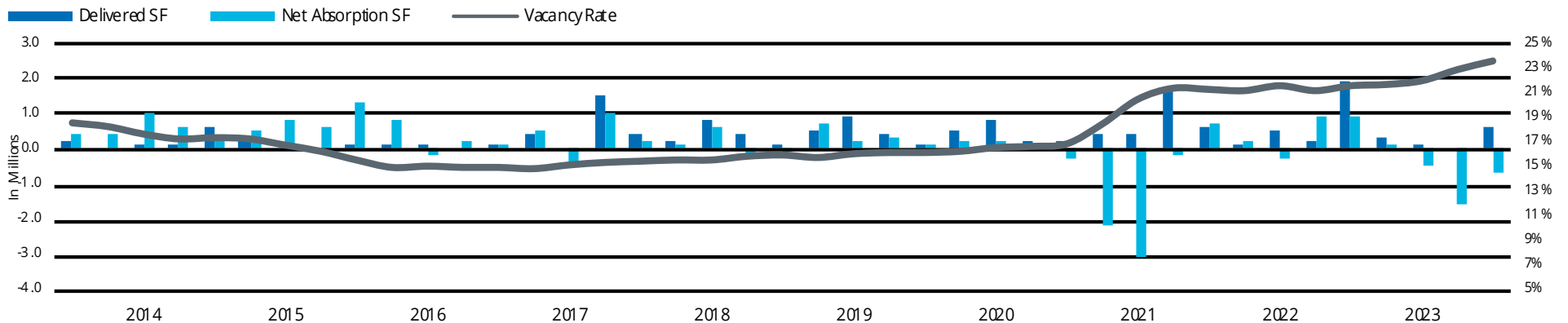
Source: CoStar, Transwestern

### OVERALL ATLANTA VACANCY RATE BY CLASS



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

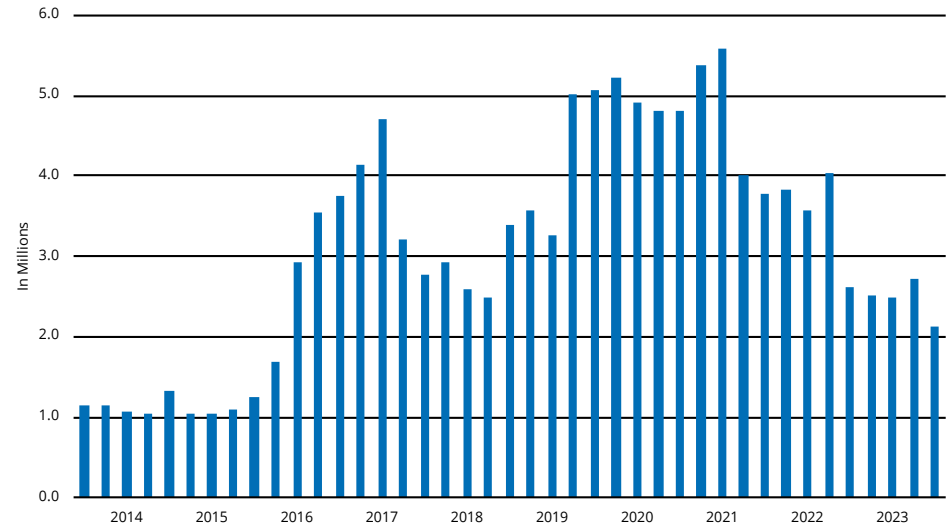


### CONSTRUCTION

#### Q3 Highlighted by Four Deliveries

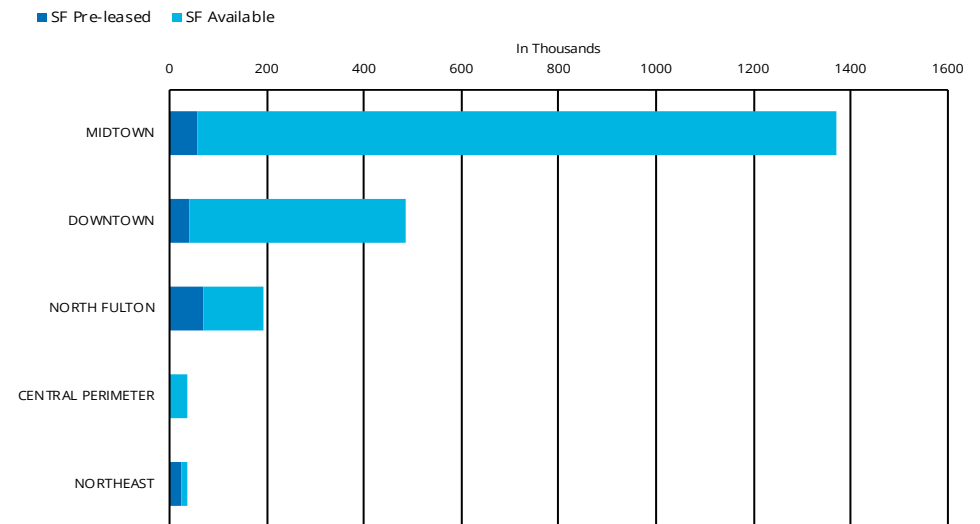
- Four buildings totaling 601,817 SF delivered in Q3 2023, all in urban submarkets. Interlock Phase II at 1042 Northside Drive in Midtown was the largest delivery at 265,000 SF. Also delivering in Midtown was Stockyards Atlanta, a 36,817 SF building developed by Clarion Partners. The Garden Hills Office Building in Buckhead (165,000 SF) and Junction at Krog District in Downtown (135,000 SF) rounded out the Q3 deliveries.
- There are currently 13 buildings totaling just over 2.1 million SF under construction in the Atlanta office market. This is the least amount of space underway in Atlanta since 2015.
- The major expected delivery for Q4 2023 is 765 Echo at the Echo Street West development in Midtown. The 274,974 SF building from Lincoln Property Company is currently 0% preleased.
- Over 60% of the space currently underway is located in the Midtown submarket. The major groundbreaking this year in Midtown was at 1072 W Peachtree St where Rockefeller Group is building a 60-story tower, 8 floors of which (224,000 SF) will be office space.
- Approximately 9% of current under construction space in Atlanta is pre-leased.

### UNDER CONSTRUCTION



Source: CoStar, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

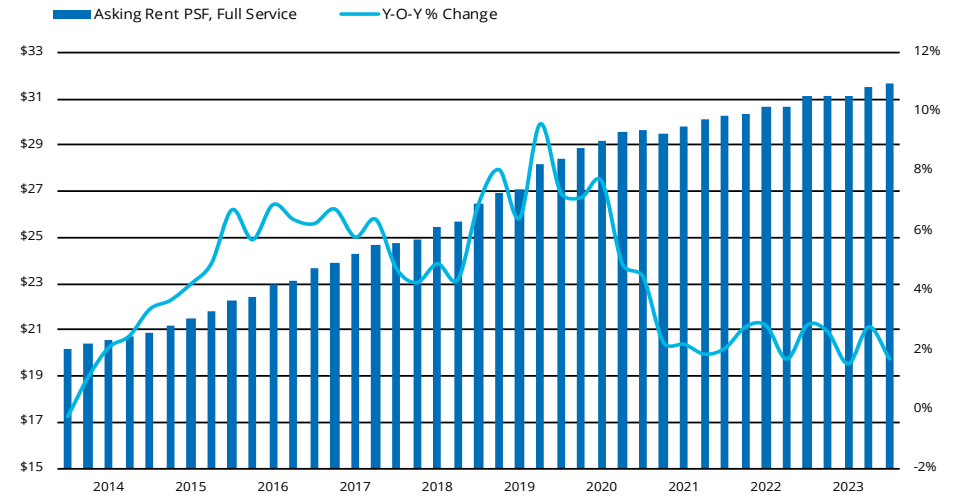


### RENTAL RATES

#### Asking Rents Rising in Suburban Atlanta

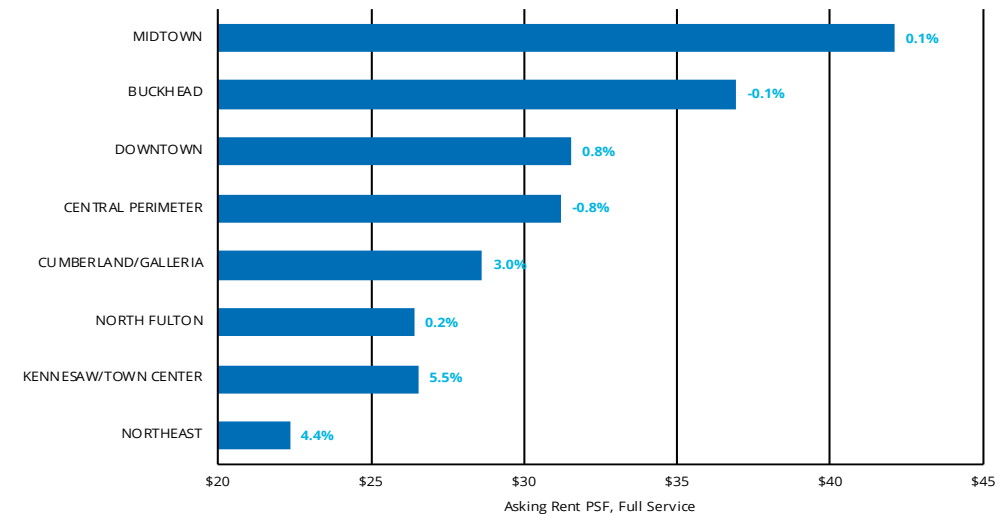
- Atlanta’s average asking rental rate rose \$0.18 during the third quarter of 2023 to an average of \$31.67 PSF. This was a 0.6% increase from Q2 and is a 1.7% rise year-over-year.
- Rising rents goes largely against market sentiment, where landlords are feeling pressure to keep rates competitive to get deals done. The majority of rate increases have been in select suburban submarkets, while in-town rates have remained stagnant.
- Kennesaw/Town Center, Northeast Atlanta, and Cumberland/Galleria have seen year-over-year rental rate increases of 5.5%, 4.4% and 3.0% respectively. Kennesaw/Town Center and Northeast Atlanta have seen their asking rents rise despite large increases in vacancy rates over the past year. Kennesaw/Town Center has seen a 470 basis point rise in year-over-year vacancy from 18.4% to 23.1%, while Northeast Atlanta’s vacancy rate has increased 330 basis points from 16.3% to 19.6% in that time period.
- Trends in the rest of Atlanta are more understandable considering the increased amounts of space being marketed: North Fulton, Central Perimeter, Midtown, Downtown, and Buckhead all have seen their rental rates remain relatively stagnant, with all five submarkets falling between -0.8% and 0.8% change year-over-year.
- Q3 2023 asking rents were highest in Midtown and Buckhead at \$42.09 and \$36.93, respectively. Midtown’s Class A asking rate was \$42.75 and Buckhead’s was at \$38.05.

### ASKING RENT



Source: CoStar, Transwestern

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



Source: CoStar, Transwestern

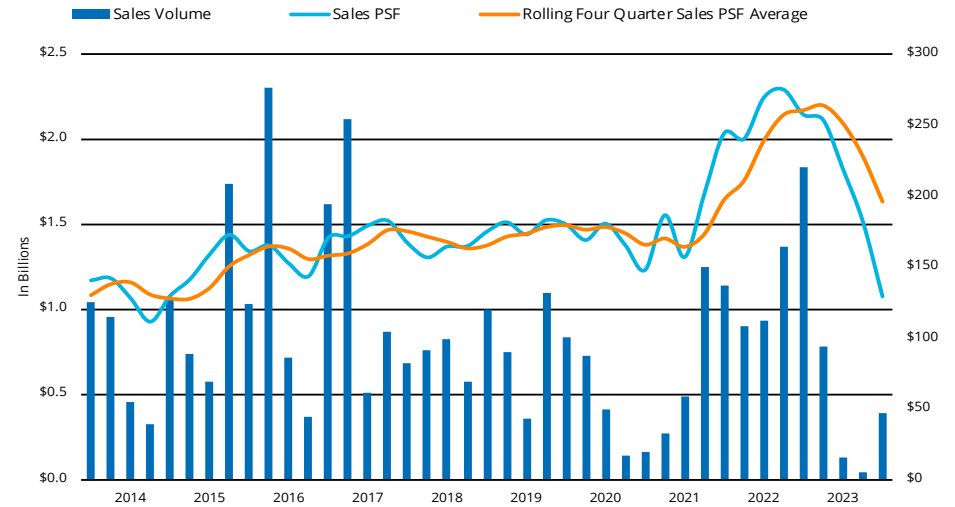


### SALES

#### Activity Picking Back Up After Slow Start to 2023

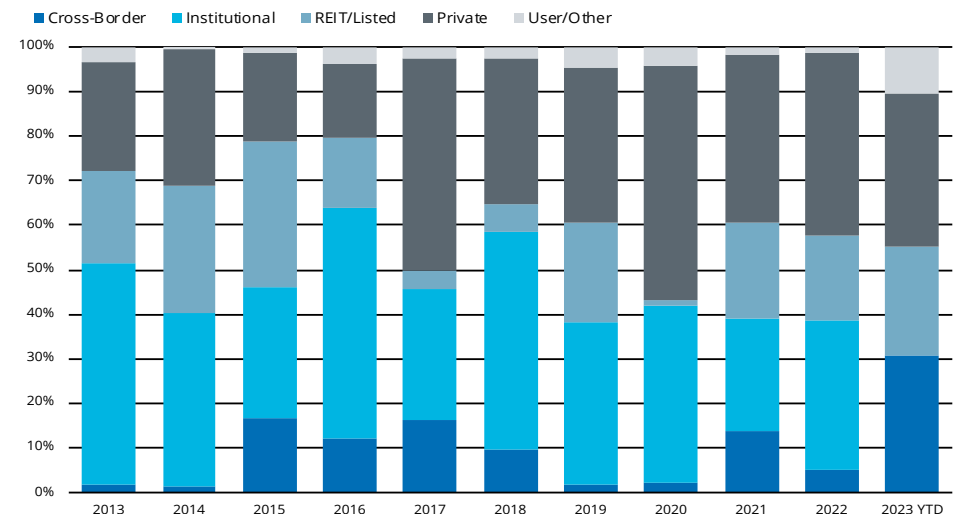
- Q3 2023 saw \$395 million in Atlanta office investment sales. This figure is still well below the quarterly totals the market saw in 2021 and 2022, but is an improvement over the first half of 2023, which had \$381 million in sales over the first two quarters combined.
- The highlight sale from Q3 2023 was at Three Ravinia in the Central Perimeter submarket. Estein USA purchased the 816,748 SF Class A office building from Blackstone Real Estate Income Trust on August 22 for \$175,000,000, or \$214/SF. Estein USA has said to have assumed just over \$112 million of debt from the seller. The property was 93.5% leased at the time of sale. Blackstone acquired Three Ravinia in 2022 as a part of a cash buyout of previous owner Preferred Apartment Communities and their 186 property portfolio.
- Several suburban office parks traded in Q3 2023, with TerraCap Management selling both Cobb Corporate Center and 33,35,190, and 192 Technology Park. Cobb Corporate Center in the Kennesaw/Town Center submarket was sold to Westmount Realty Capital for \$25.4 million (\$130/SF), and the Technology Park properties in Northeast Atlanta were purchased by SF Partners for \$23.9 million (\$97/SF).
- Elevated interest rates have stifled investment sales across all property types as debt remains difficult to acquire. The office investment sales market is still in a period of price discovery. With cap rates climbing and valuations declining, opportunistic buyers will soon be able to purchase quality assets for considerable discounts.

### SALES VOLUME



Source: Real Capital Analytics, Transwestern

### BUYER CAPITAL COMPOSITION



Source: Real Capital Analytics, Transwestern



## NOTABLE LEASES

TENANT	PROPERTY	SUBMARKET	TYPE	SF LEASED
FIRSTKEY HOMES	Galleria 600	Cumberland	New Lease	51,442
PORTAL INNOVATIONS	Science Square Labs	Downtown	New Lease	32,467
GAS SOUTH	Three Ballpark Center	Cumberland	New Lease	31,006
RAM PARTNERS LLC	One Overton Park	Cumberland	New Lease	27,129
NATL CHRISTIAN CHARITABLE FOUNDATION	1150 Sanctuary Park	North Fulton	Sublease	25,713
KAHUA	10000 Avalon	North Fulton	Sublease	25,405

## NOTABLE SALES

PROPERTY	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
THE INTERLOCK	Midtown	\$215,000,000	400,000	\$538	Armada Hoffer Properties	SJC Ventures
THREE RAVINIA	Central Perimeter	\$175,000,000	816,748	\$214	Estein USA	Blackstone
COBB CORPORATE CENTER	Kennesaw/Town Center	\$25,400,000	195,609	\$130	Westmount Realty Capital	TerraCap Management
30,35,190,192 TECHNOLOGY PKY	Northeast	\$23,975,000	247,208	\$97	SF Partners	TerraCap Management
LAKESIDE CENTRE (1957, 1767, 1975)	Northlake	\$20,000,000	197,827	\$101	Greenleaf Capital	Onward Investors
TOWN POINT SERVICE CENTER	Kennesaw/Town Center	\$8,100,000	70,140	\$115	SilverCap Partners	Angelo Gordon & Co.



## MARKET INDICATORS

All Space | Third 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	21,341,019	5,475,801	25.7%	110,362	26.2%	0	133,496	(627,740)	\$36.93
MIDTOWN	25,998,195	5,643,090	21.7%	474,892	23.5%	1,371,437	(133,902)	(43,625)	\$42.09
DOWNTOWN	19,021,840	4,382,513	23.0%	203,754	24.1%	483,740	(197,110)	(478,734)	\$31.53
CENTRAL PERIMETER	24,396,451	5,685,288	23.3%	718,764	26.2%	35,656	(104,214)	(637,635)	\$31.20
NORTH FULTON	21,276,737	5,002,138	23.5%	597,026	26.3%	192,733	(264,442)	(449,923)	\$26.40
CUMBERLAND/GALLERIA	20,563,420	3,944,915	19.2%	372,748	21.0%	0	(59,883)	(95,963)	\$28.64
KENNESAW/TOWN CENTER	4,403,078	823,049	18.7%	269,113	24.8%	0	(19,928)	(107,320)	\$26.54
NORTHLAKE	11,757,626	2,619,394	22.3%	33,313	22.6%	0	105,677	32,571	\$25.19
NORTHEAST	14,808,862	2,731,218	18.4%	177,255	19.6%	35,580	(118,385)	(439,086)	\$22.34
SOUTH ATLANTA	6,217,531	494,014	7.9%	11,380	8.1%	0	30,119	100,707	\$22.17
WEST ATLANTA	1,508,172	585,123	38.8%	20,000	40.1%	0	(13,775)	83,549	\$34.08
<b>TOTAL</b>	<b>171,292,931</b>	<b>37,386,543</b>	<b>21.8%</b>	<b>2,988,607</b>	<b>23.6%</b>	<b>2,119,146</b>	<b>(642,347)</b>	<b>(2,663,199)</b>	<b>\$31.67</b>



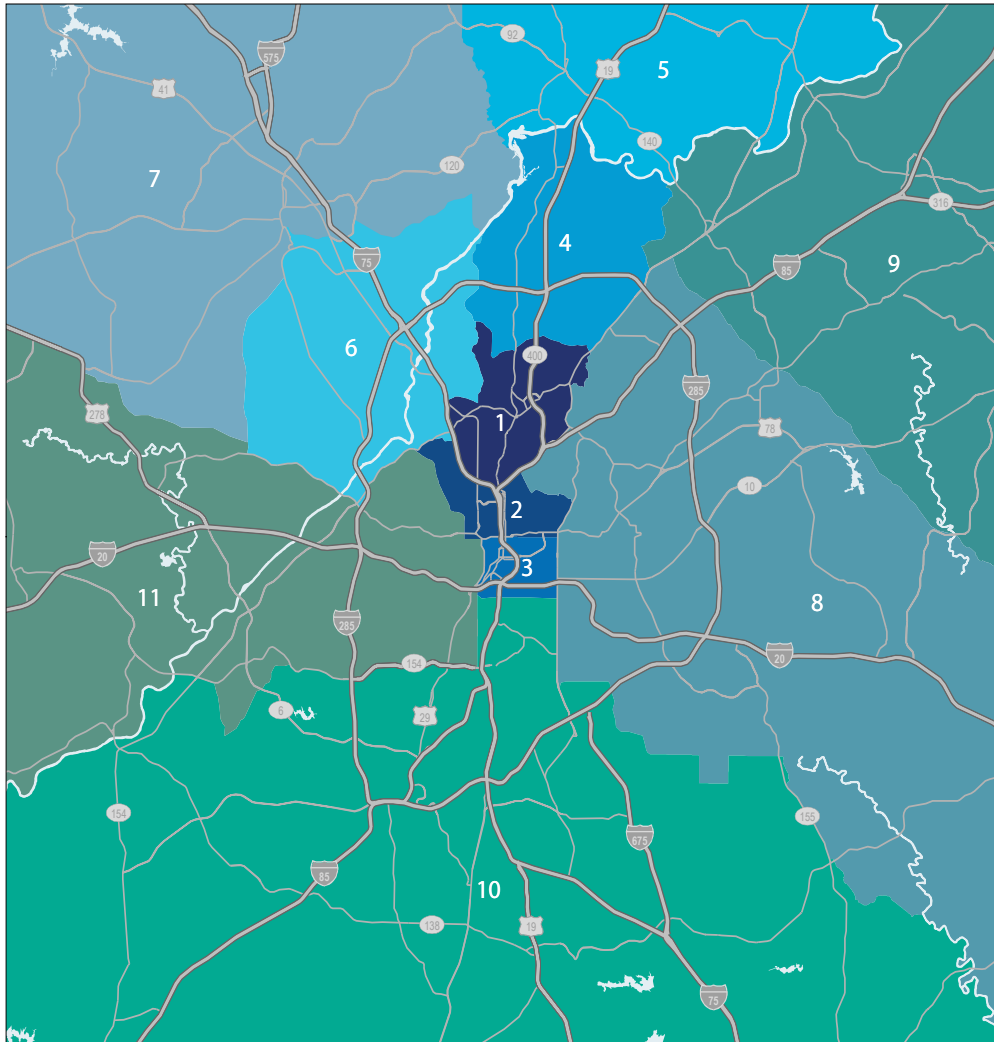
MARKET INDICATORS

Class A | Third 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	18,093,668	4,898,927	27.1%	95,937	27.6%	0	176,877	(570,952)	\$38.05
MIDTOWN	23,211,346	5,361,764	23.1%	420,551	24.9%	1,371,437	(122,128)	(55,050)	\$42.75
DOWNTOWN	14,079,271	3,886,644	27.6%	197,873	29.0%	483,740	(177,335)	(452,038)	\$31.77
CENTRAL PERIMETER	19,878,195	5,097,587	25.6%	600,597	28.7%	35,656	(66,865)	(485,965)	\$31.91
NORTH FULTON	13,726,430	3,760,319	27.4%	381,228	30.2%	104,233	(229,169)	(366,260)	\$28.06
CUMBERLAND/GALLERIA	13,342,706	2,716,479	20.4%	247,281	22.2%	0	(64,131)	(124,275)	\$30.62
KENNESAW/TOWN CENTER	1,305,630	263,322	20.2%	49,706	24.0%	0	1,689	(47,182)	\$28.84
NORTHLAKE	4,429,962	1,099,940	24.8%	4,367	24.9%	0	82,270	66,911	\$26.53
NORTHEAST	6,641,738	1,634,543	24.6%	46,540	25.3%	35,580	(60,803)	(214,183)	\$23.35
SOUTH ATLANTA	780,302	130,866	16.8%	9,428	18.0%	0	(5,953)	(15,749)	\$24.05
WEST ATLANTA	396,294	290,819	73.4%	0	73.4%	0	(17,434)	(17,434)	\$39.36
<b>TOTAL</b>	<b>115,885,542</b>	<b>29,141,210</b>	<b>25.1%</b>	<b>2,053,508</b>	<b>26.9%</b>	<b>2,030,646</b>	<b>(482,982)</b>	<b>(2,282,177)</b>	<b>\$33.59</b>

Class B | Third 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	3,247,351	576,874	17.8%	14,425	18.2%	0	(43,381)	(56,788)	\$28.98
MIDTOWN	2,786,849	281,326	10.1%	54,341	12.0%	0	(11,774)	11,425	\$27.28
DOWNTOWN	4,942,569	495,869	10.0%	5,881	10.2%	0	(19,775)	(26,696)	\$26.13
CENTRAL PERIMETER	4,518,256	587,701	13.0%	118,167	15.6%	0	(37,349)	(151,670)	\$24.23
NORTH FULTON	7,550,307	1,241,819	16.4%	215,798	19.3%	88,500	(35,273)	(83,663)	\$21.76
CUMBERLAND/GALLERIA	7,220,714	1,228,436	17.0%	125,467	18.8%	0	4,248	28,312	\$23.15
KENNESAW/TOWN CENTER	3,097,448	559,727	18.1%	219,407	25.2%	0	(21,617)	(60,138)	\$25.21
NORTHLAKE	7,327,664	1,519,454	20.7%	28,946	20.7%	0	23,407	(34,340)	\$24.02
NORTHEAST	8,167,124	1,096,675	13.4%	130,715	15.0%	0	(57,582)	(224,903)	\$20.89
SOUTH ATLANTA	5,437,229	363,148	6.7%	1,952	6.7%	0	36,072	116,456	\$21.54
WEST ATLANTA	1,111,878	294,304	26.5%	20,000	28.3%	0	3,659	100,983	\$29.39
<b>TOTAL</b>	<b>55,407,389</b>	<b>8,245,333</b>	<b>14.9%</b>	<b>935,099</b>	<b>16.6%</b>	<b>88,500</b>	<b>(159,365)</b>	<b>(381,022)</b>	<b>\$23.61</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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