

ATLANTA MEDICAL OFFICE MARKET

Q4 2023

TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.3	2.7	↑	3.9	↑
NET ABSORPTION (THOUSANDS SF)	214.8	111.9	↑	193.5	↑
OVERALL VACANCY RATE	10.3%	10.4%	↓	10.8%	↓
OVERALL VACANT SF (MSF)	3.0	2.9	↑	3.0	↓
UNDER CONSTRUCTION (MSF)	0.2	0.5	↓	0.3	↓
ASKING RENT, FULL SERVICE (PSF)	\$26.47	\$25.37	↑	\$24.58	↑
SALES VOLUME (MILLIONS)	\$95.2	\$271.0	↓	\$111.3	↑

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

GREAT Q4 TO CLOSE OUT A SOLID YEAR FOR ATLANTA'S MEDICAL OFFICE MARKET

The Atlanta medical office market closed out 2023 with another positive quarter, seeing 214,773 SF of positive absorption and an 80 basis point decrease in overall vacancy rate to 10.3%. The market has seen good leasing activity over the past two years, which resulted in positive absorption of 434,079 SF across 2023 among Class A and B properties. Northeast, Northwest, and South Atlanta have been the best-performing submarkets during that period. Atlanta's asking rents saw a 2.9% increase in Q4 2023, while the construction pipeline was unchanged, with two deliveries slated for Q1 2024.

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 boom in medical office job growth over the past 5-10 years, highlighted by adding 27,100 medical jobs over the past year, far outpacing the national growth rate.

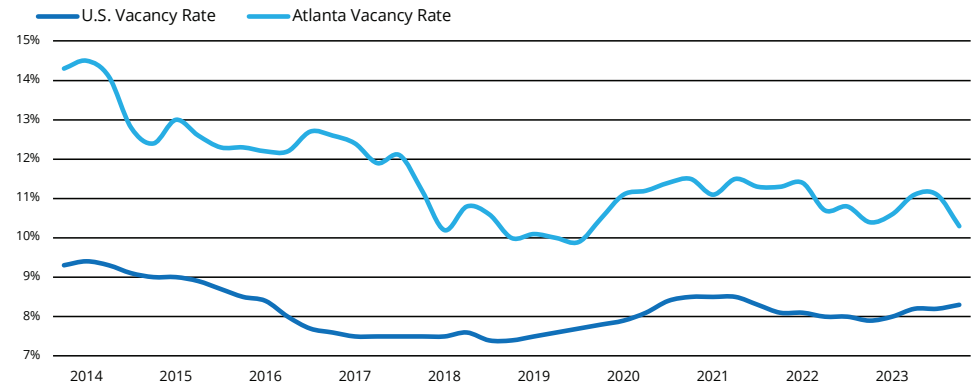


VACANCY

Vacancy Rate Falls Thanks to Strong Q4

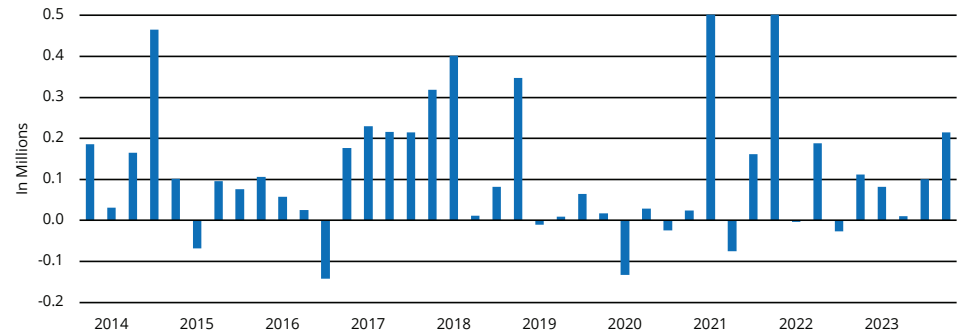
- The Atlanta medical office overall vacancy rate fell 80 basis points in Q4 of 2023 from 11.1% to 10.3%, the largest single-quarter drop in vacancy the market has seen since 2018.
- Year-over-year the market's vacancy rate was unchanged at 10.3%, but this does not represent a lack of leasing activity. 392,331 SF of space was added to the market in the form of new deliveries in 2023, which was offset by positive annual absorption of 434,079 SF, holding the market's vacancy in place. With solid leasing momentum and a shrinking construction pipeline, Atlanta's vacancy rate should fall in the coming quarters. The market reached a five-year vacancy height of 11.5% in Q4 of 2020 and has been steadily declining since.
- Q4 2023 saw positive absorption of 214,773 SF across the entire market, the fifth-consecutive quarter of positive absorption for Atlanta. The best performing submarket in Q4 2023 was Northeast, which saw positive absorption of 117,693 SF. Overall, seven submarkets were positive while two turned negative in Q4.

OVERALL VACANCY RATE

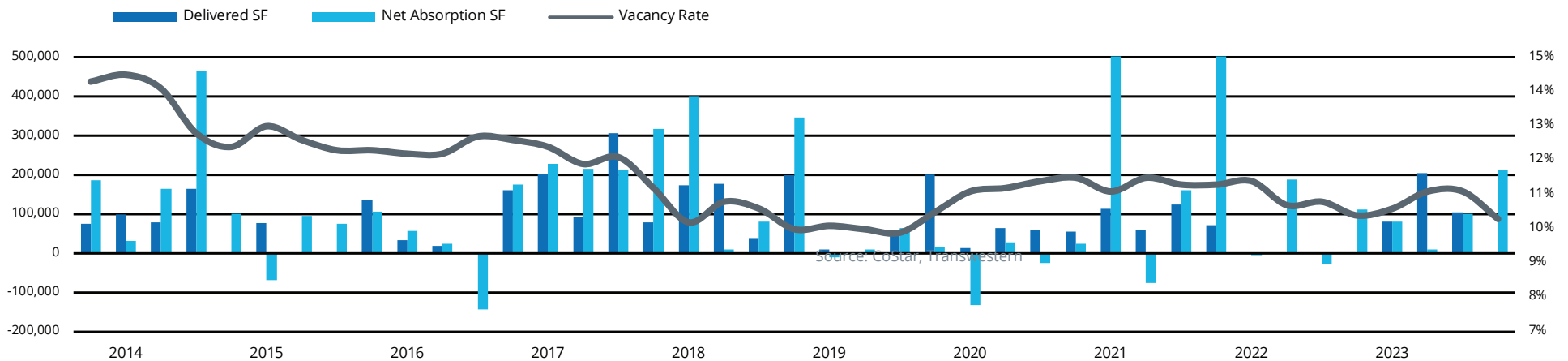


Source: CoStar, Transwestern

NET ABSORPTION



DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

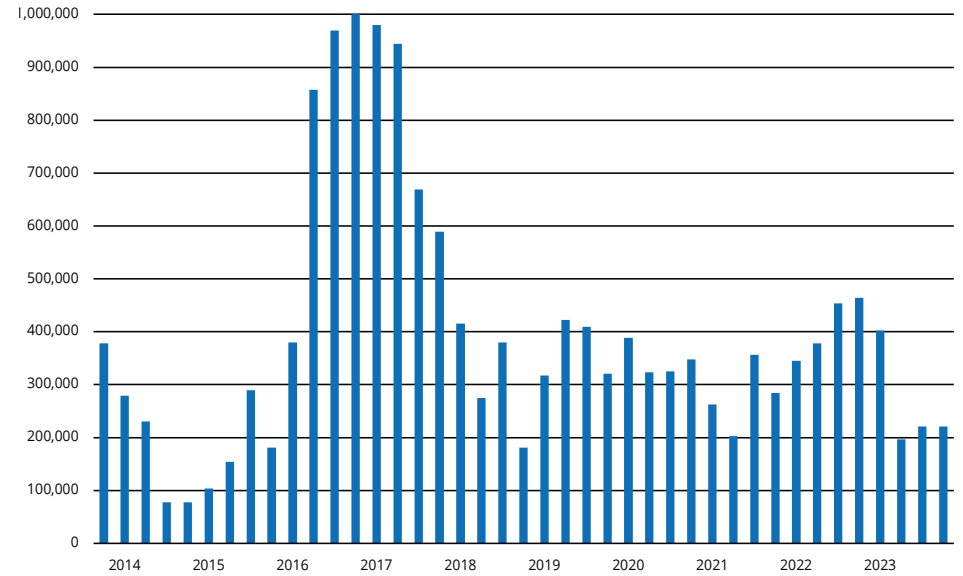


CONSTRUCTION

No Change to the Construction Pipeline in Q4

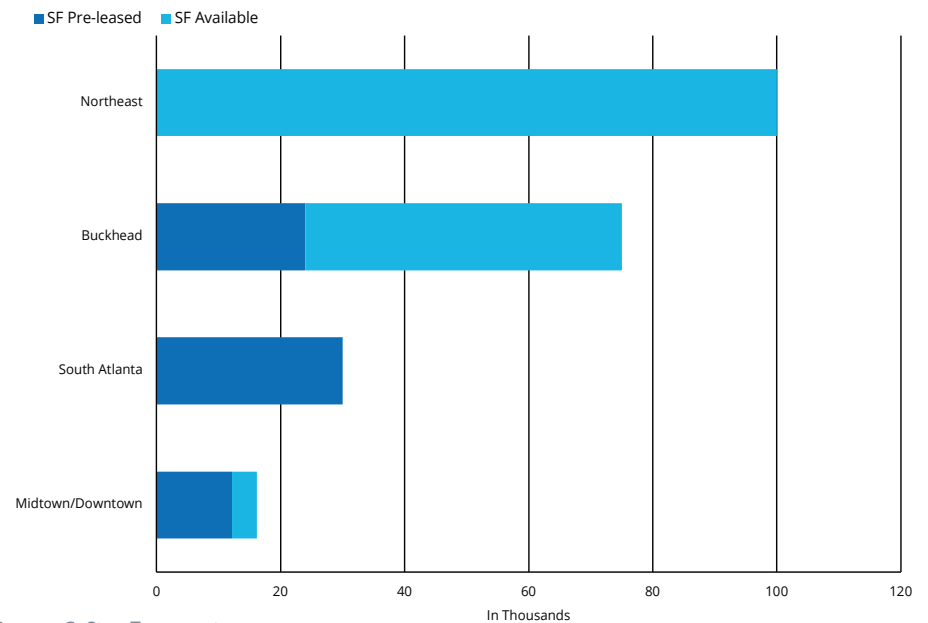
- Following a busy Q3 2023 where four buildings delivered and another broke ground, there were no changes to the construction pipeline in Q4 2023.
- There are currently four buildings totaling 221,195 SF under construction across the Atlanta medical office market.
- Two buildings are slated for a Q1 2024 delivery: 2021 Peachtree Medical and The Lodge at 525 Moreland Ave. 2021 Peachtree Medical is located at 2021 Peachtree Rd in the Buckhead submarket. Owned by Varden Capital Partners and leased by Transwestern, Darlington Medical Center is located next to Piedmont Atlanta Hospital and The Shepherd Center, a nucleus of medical office activity in Buckhead/Midtown. The Lodge at 525 Moreland Ave is a 16,195 SF building in the Downtown submarket slated for a March 2024 delivery.
- Northside Medical Buford is located at 2800 Buford Drive in the Duluth/ Suwanee/Buford area of the Northeast Atlanta submarket. The 100,000 SF, four-story building is set to deliver in May of 2024.
- Pipeline:
 - 2021 Peachtree Medical: 75,000 SF, Q1 2023.
 - 525 Moreland Ave SE – The Lodge: 16,195 SF, Q1 2024.
 - Northside Medical Buford: 100,000 SF, Q2 2024.
 - 180 North Park Trl – Urology of Greater Atlanta: 30,000 SF, Q4 2024

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

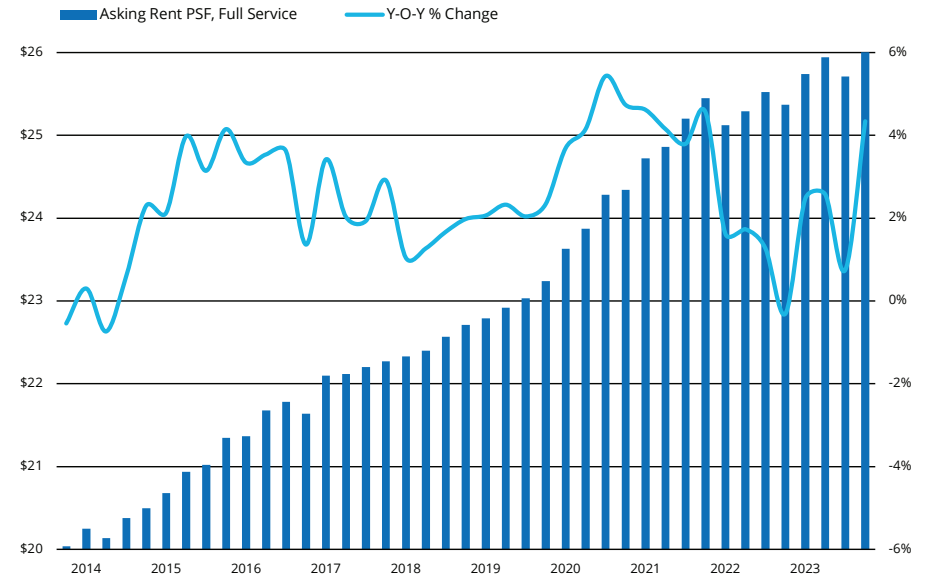


RENTAL RATES

Asking Rents on the Rise

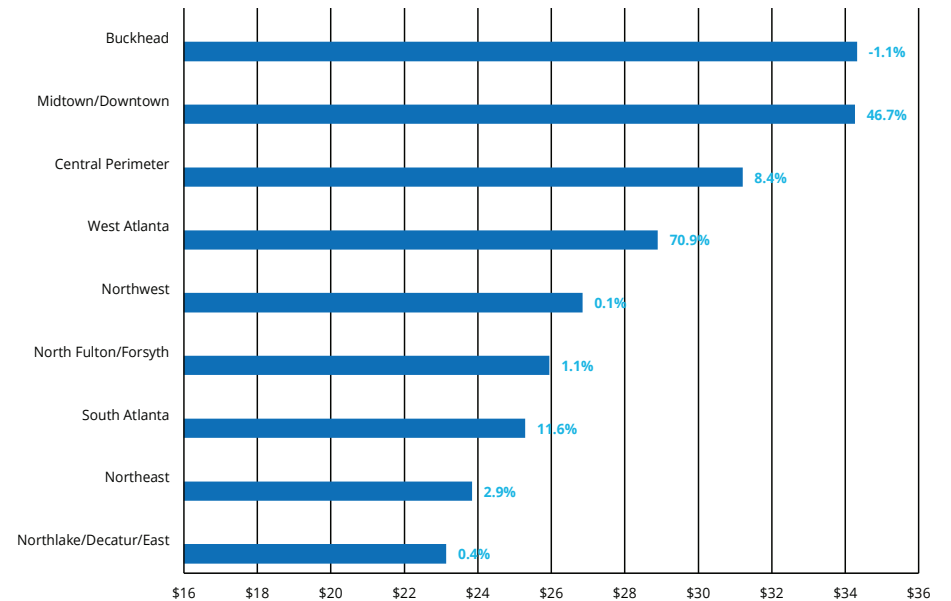
- The average medical office asking rent in Atlanta rose in Q4 2023, increasing by \$0.76 (2.9%) from \$25.71 to \$26.47. Rents also rose on a year-over-year basis, seeing a 4.3% increase across 2023. This is a reversal from 2022 which saw a decrease in average asking rents of -0.3%.
- West Atlanta and Midtown/Downtown saw massive year-over-year rental rate increases of 70.9% and 46.7% respectively. While fundamentals are strong in these markets, these massive increases are due to spaces leasing up in submarkets that have little available supply: West Atlanta has less than 1 million SF of inventory while Midtown/Downtown boasts a 0.5% vacancy rate. Any small changes to inventory will have massive effects on the average rental rates in these tight submarkets.
- Rents are highest in Buckhead at \$34.32/SF. Buckhead is the only submarket in Atlanta to see a decline in asking rents over the past year, with a 1.1% drop from \$34.70 to \$34.32 across 2023.
- South Atlanta and Central Perimeter saw strong rental rate increases in 2023 of 11.6% and 8.4% respectively. Both of these submarkets saw positive absorption and a decline in vacancy over 2023, with this dwindling supply pushing rates higher.
- Atlanta's average rental rate is expected to increase in the coming quarters as space across the market continues to lease up: falling vacancy rates will encourage landlords to raise rents.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern



MARKET INDICATORS

All Classes of Space | Q4 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	1,598,181	126,833	7.9%	8,610	8.5%	75,000	1,906	40,857	\$34.32
MIDTOWN/DOWNTOWN	1,494,322	4,355	0.3%	3,635	0.5%	16,495	3,500	4,551	\$34.26
CENTRAL PERIMETER	3,614,145	352,846	9.8%	25,512	10.5%	0	65,119	(7,805)	\$31.21
NORTH FULTON/FORSYTH	4,613,872	714,339	15.5%	69,872	17.0%	0	4,048	(7,268)	\$25.95
NORTHEAST	3,200,273	403,507	12.6%	13,679	13.0%	100,000	117,683	277,435	\$23.84
NORTHLAKE/DECATUR/EAST	4,119,815	458,744	11.1%	5,299	11.3%	0	(7,019)	(54,850)	\$23.14
NORTHWEST	5,358,747	281,532	5.3%	32,448	5.9%	0	62,515	102,671	\$26.85
SOUTH ATLANTA	3,592,262	376,361	10.6%	10,821	10.9%	30,000	4,300	106,496	\$25.29
WEST ATLANTA	969,347	64,627	6.7%	0	6.7%	0	(37,279)	(28,008)	\$28.90
TOTAL	28,560,964	2,783,144	9.7%	169,876	10.3%	221,495	214,773	434,079	\$26.47

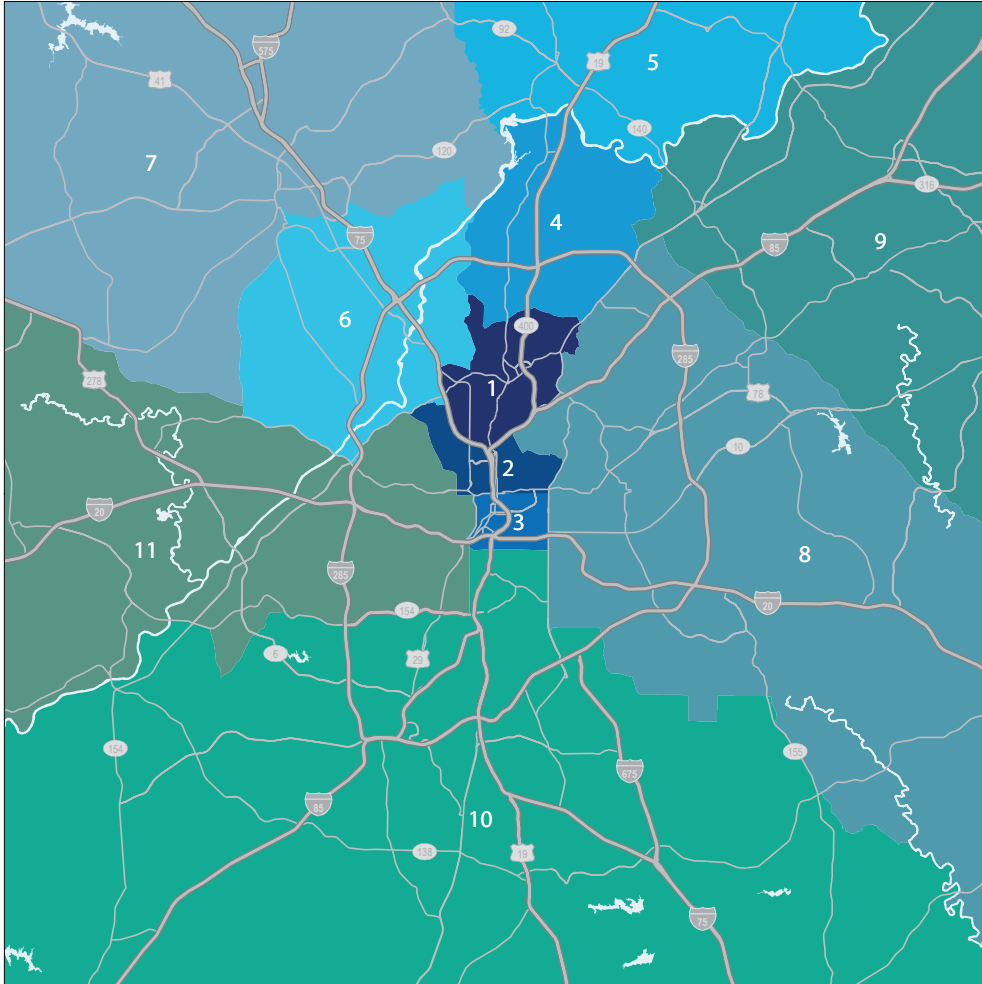
NOTABLE LEASES

TENANT	PROPERTY	SUBMARKET	TYPE	SF LEASED
PIEDMONT HEALTHCARE	1975 Hwy 64 W	South Atlanta	Renewal	10,936
PEDIATRIC ASSOCIATES	1485 Jesse Jewell Pky	Northeast	Renewal	9,852
GWINNETT PEDIATRIC & ADOLESCENT MEDICINE	595 Hurricane Shoals Rd	Northeast	Renewal	9,230
HYPERBARIC PHYSICIANS OF GEORGIA	5887 Glenridge Dr NE	Central Perimeter	New Lease	9,111
GEORGIA SKIN SPECIALISTS	2021 Peachtree Rd	Buckhead	New Lease	8,520

NOTABLE SALES

PROPERTY	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
11680 GREAT OAKS WAY	North Fulton	\$16,000,000	160,539	\$100	Lockwood Development	Reinsurance Group of America
874 W LANIER AVE	South Atlanta	\$12,159,680	40,063	\$303	James Edge III	Flagship Healthcare Properties
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
1979 LAKESIDE PKY	Northlake	\$10,657,664	201,088	\$53	Oglethorpe Power Corp	Onward Investors
4769-4797 S MAIN ST - ACWORTH	Northwest	\$8,775,000	39,169	\$224	SG Property Services	American Healthcare REIT

= Transwestern deal



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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