MARKET REPORT

OFFICE

Atlanta Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

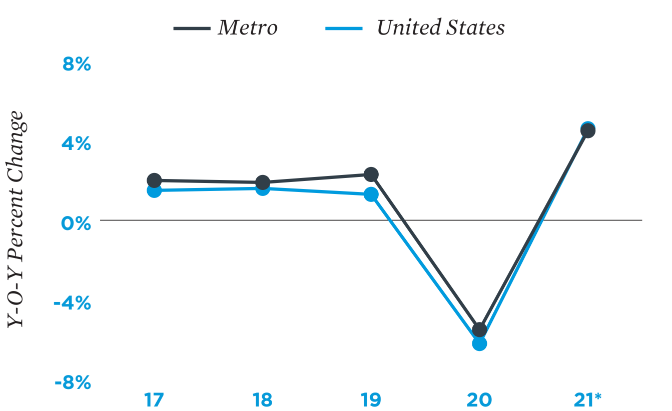
4Q/21

Atlanta's Office Recovery Delayed in Short Term by Peaking Construction Cycle

Key office drivers indicate momentum. Both demographic and economic factors support tailwinds in the office sector. Annual household growth reached 1.9 percent in the second quarter, more robust than the national rate of 1.2 percent. Many of these new households are the result of migration away from the Northeast and Midwest. The pace of household gains is projected to rise to 2.5 percent over the next year. These new residents are finding an increase in employment opportunities in high-paying tech jobs as Google and Microsoft open sizable operations in Midtown. Microsoft is hiring 1,500 spots to occupy more than 500,000 square feet at the Atlantic Yards. Beyond the tech industry, other firms are moving their headquarters or hubs into the metro due to the favorable business climate.

Development pipeline presents short-term challenge. Construction will rise to the highest level since the global financial crisis as projects planned well ahead of the pandemic are topped off. The result is a vacancy rate that is approaching 20 percent and could break that threshold before reversing course. Buckhead and Midtown face the longest path forward after vacancy rose above 25 percent at midyear. Midtown, in particular, will grapple with nearly 1 million additional square feet under construction. Nonetheless, these two premier office districts often sign the largest leases, which may quickly lower available space as companies begin to expand their footprints.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook

122,000 JOBS
will be created

EMPLOYMENT:

Local firms will raise headcounts by 4.5 percent this year as the combination of reopening and migration provide tailwinds. Job gains in traditional office-using roles reach 3.0 percent with the addition of 24,000 positions.

5,400,000 SQ. FT.
will be completed

CONSTRUCTION:

Completions increase substantially in 2021 as inventory expands by 1.9 percent. Over the previous five years, average annual deliveries were 2.6 million square feet.

170 BASIS POINT
increase in vacancy

VACANCY:

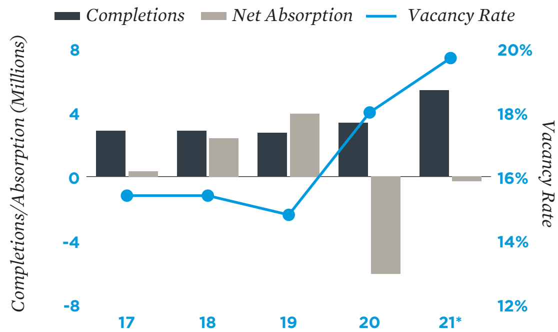
Although net absorption turned positive in the second quarter, the impact of new construction will push up vacancy to 19.7 percent in 2021. The rate climbed 320 basis points last year as demand fell due to the health crisis.

2.3% DECREASE
in asking rent

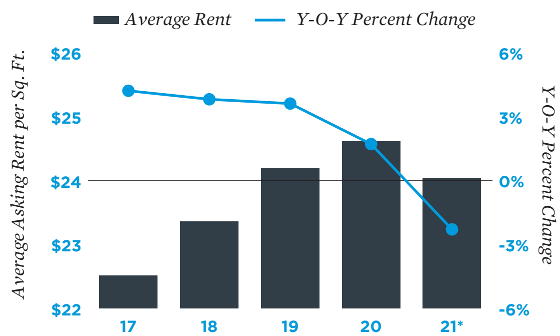
RENT:

As competition for tenants rises, the average asking rent is projected to retreat to $24.04 per square foot, returning to levels last recorded in the third quarter of 2019. In 2020, the average rent inched up 1.7 percent.

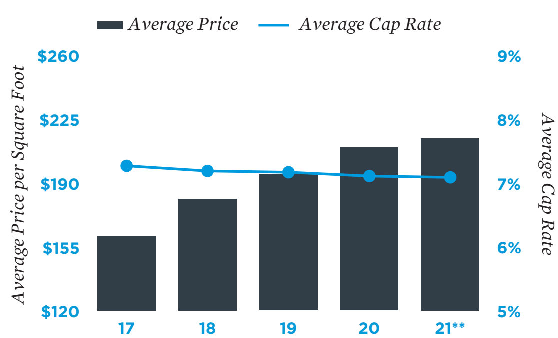
Supply and Demand



Rent Trends



Sales Trends



** Forecast **Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

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2Q21 — 12-Month Period

CONSTRUCTION

3,560,000 sq. ft. completed

- Developers ramped up construction in the first half of 2021 as nearly 2.9 million square feet came online, four times the level of completions in the second half of last year.
- Approximately 4.7 million square feet of office space is underway, including 3.1 million square feet of speculative floor plans.

VACANCY

290 basis point increase in vacancy Y-O-Y

- At midyear, average vacancy climbed to 19.0 percent, the highest rate since 2011 when the global financial crisis hampered operations. However, space demand turned positive in the second quarter.
- Most of the rise in the availability rate occurred in the Class A sector, where vacancy increased 400 basis points to 24.8 percent.

RENT

1.6% increase in the average asking rent Y-O-Y

- The rise in marketed Class A space during the yearlong period ending in June resulted in asking rent inching up to $25.04 per square foot.
- In the CBD, the average asking rent ticked 1.3 percent higher over the 12 months ending in June while suburban rates advanced 1.6 percent to $22.29 per square foot on average.

Investment Highlights

- Overall transaction velocity dipped 14 percent in the 12-month period ending at midyear. Investors increased acquisitions for Class C properties during that time, more than doubling the number of deals compared with the previous period. Class A sales, meanwhile, fell significantly as institutions awaited more clarity on the recovery in office leasing following the pandemic.
- Buyers focused on assets with strong tenant rosters that are well-positioned to weather the downturn. As a result, the average sales price increased 6 percent year over year in June to $214 per square foot. The mean size of buildings that changed hands declined by approximately 35 percent as re-leasing concerns heightened.
- First-year returns held steady at 7.1 percent in the 12-month period ending in June, remaining at the lowest rate since 2006. The average Class C rate was in the mid-7 percent range, while Class A properties can trade at 5 percent in some cases.