

INVESTMENT FORECAST

Office
Atlanta

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2022

Atlanta's Economic Recovery Points Toward Strong Performance Once Supply Overhang Is Absorbed

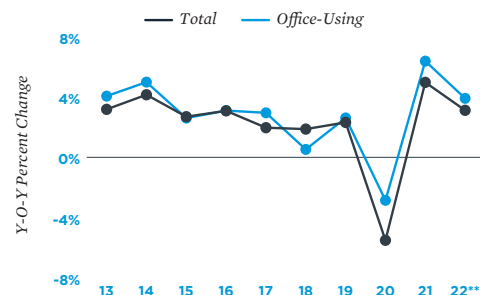
Office outlook brightens with time. The effects of the health crisis will take another year to work through the Atlanta office market as several large move-ins are offset by firms surrendering or reducing their footprints. For example, the largest lease signed during the second half of last year resulted in zero gain in occupied stock. Carvana is subleasing 570,000 square feet at Park Center's Building 1 from State Farm, which is moving to a hybrid model and no longer needs as much space. This trend is expected to continue through this year as office tenants absorb space available for sublease, which has increased 75 percent in the past two years. Another challenge facing the metro is the amount of speculative space underway. Approximately 65 percent of the office stock coming out of the ground did not have a leasing commitment as of late 2021. Despite the tenant churn anticipated in 2022, the long-term outlook remains positive as companies and professionals move to the market in above-average numbers.

Abundance of caution to ease as 2022 proceeds. In the early months of the year, investors will continue targeting assets without a sizable vacancy component due to the challenges securing tenants. Most buyers in every price tranche will follow this practice, though some institutions and REITs may acquire trophy assets if they become available, even prior to stronger tenant demand. Overall, the average first-year return was down 10 basis points between 2020 and 2021, reflective of risk aversion among buyers. The mean cap rate entering the year is in the low-7 percent range, which could drift higher as investors widen their acceptable criteria to include properties with more vacancy or tenants secured under shorter leases. Class A properties often change hands in the high-5 percent area, though returns take a secondary position to lease conditions and location. Owners of properties with solid tenant rosters, meanwhile, may take advantage of outsized demand for these assets and list while interest rates are low.

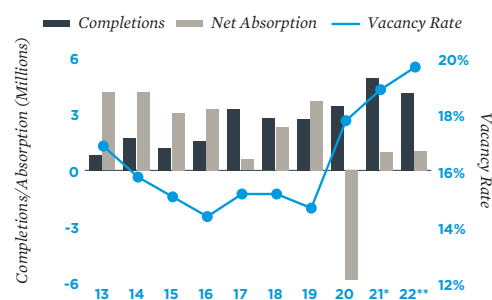
2022 Market Forecast

- Employment** ↑
 up 3.1%
 Following the addition of 135,200 spots in 2021, employers add 89,000 positions this year, including 33,800 office-using jobs.
- Construction** ↔
 4,100,000 sq. ft.
 Inventory expands by 1.4 percent in 2022 as the pace of construction slows by 800,000 square feet. Last year, builders completed 4.9 million square feet.
- Vacancy** ↑
 up 80 bps
 Vacancy climbs to 19.7 percent by the end of this year as local firms evaluate space needs. In 2021, the rate jumped 110 basis points due to softer demand gains.
- Rent** ↑
 up 3.3%
 Despite the rise in availability, the average asking rent for available space will climb to \$25.96 per square foot. This year's increase builds on a 1.9 percent advance in 2021.
- Investment** ○
 Buyers will pay a premium for properties with little upcoming lease uncertainty. As the trajectory of office demand becomes more clear, investors will broaden their acquisition prospects.

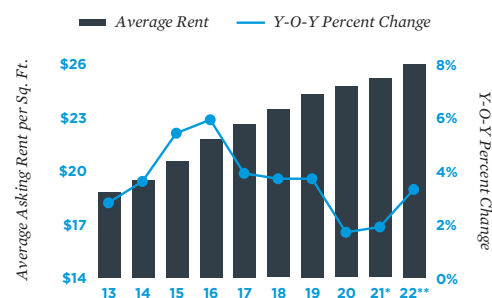
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.