

MARKET REPORT

Office
Atlanta Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2Q/22

Absorption Stoked by Big-Name Leases; Optimism Fosters Speculative Development

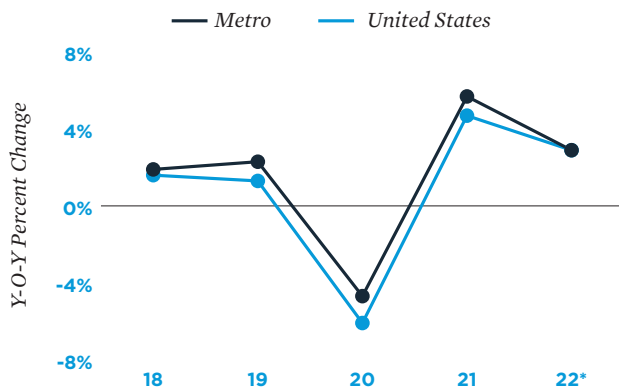
High-profile corporate move-ins underscore leasing activity.

Spurred by a number of expansions, the metro's 12-month net absorption total at the end of March exceeded 5.2 million square feet, the highest figure observed in this metric since at least 2007. Robust leasing should continue through the end of 2022, with multiple regional offices from Visa, Hapag-Lloyd and Carvana taking over 530,000 square feet off the market alone. Additionally, built-to-suit campuses leased by Mailchimp and Google highlight the return of activity to Atlanta's Midtown. The metro's status as a burgeoning information systems hub has also incentivized multiple firms, including Walmart and Nike, to establish cybersecurity operations here as early as 2023.

Rapid development may create headwinds for upper-tier assets.

Corporate relocations generated by Georgia's business-friendly climate have driven an optimistic development outlook. With less than 40 percent of the pipeline pre-leased, Atlanta ranks near highest among southeastern metros by proportion of speculative stock. While Class A rents have maintained consistent quarterly gains since the onset of the pandemic, vacancy rates registered no change over the 12-month period ended March, resting at 24.5 percent. Contemporary availability in Class B/C assets was just 11.9 percent. With marketed rent gains in the bottom two segments outpacing their top-tier counterparts by more than double, the current pace of construction could exacerbate an increasingly bifurcated recovery.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**85,000
JOBS**
will be created

EMPLOYMENT:

Around 40,000 of the positions created in 2022 are by traditionally office-using firms, constituting the second-fastest annual growth rate over the last two decades. Entering May, unemployment was 60 basis points below the pre-pandemic mark.



**4,100,000
SQ. FT.**
will be completed

CONSTRUCTION:

Following the delivery of 4.9 million square feet of space during 2021, the metro records a sixth consecutive year of supply expansion above 1 percent. The CBD alone is set to take on more than 2.3 million square feet of space before the end of this year.



**0
BASIS POINT**
change in vacancy

VACANCY:

Despite above-national demand for space stimulated by Atlanta's business-friendly climate, rapid stock expansion will translate to a wave of speculative deliveries. This combination will prevent a vacancy change, with availability holding at 18.4 percent.

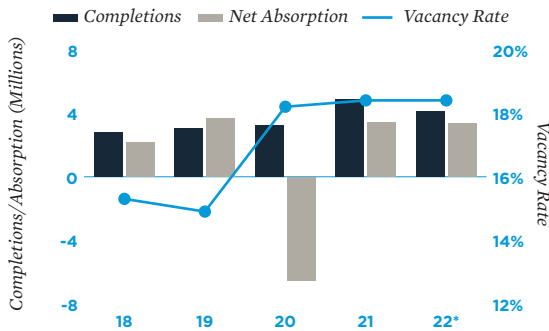


**3.7%
INCREASE**
in asking rent

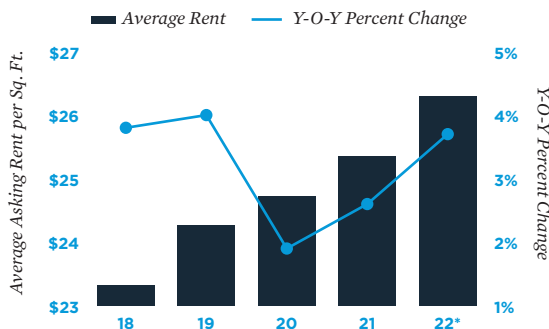
RENT:

The metro's average asking rent will reach \$26.30 per square foot, due to the highest annual pace of growth since the onset of the pandemic. Relatively tight conditions in the Class B and C sectors could drive rent momentum higher in these tiers.

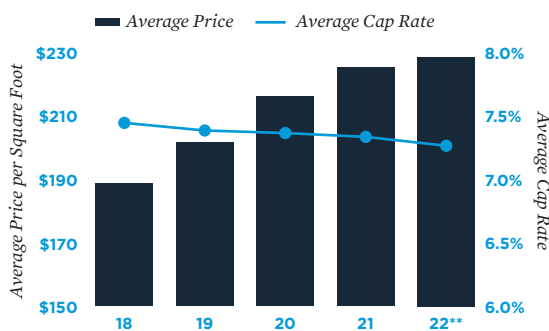
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q
Sources: CoStar Group, Inc.; Real Capital Analytics

Atlanta Office:

John Leonard

First Vice President, Regional Manager
Tel: (678) 808-2700 | john.leonard@marcusmillichap.com

For information on national office trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services
Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

4,308,000 sq. ft. completed

- Supported by robust development in the second and third quarters of last year, the CBD led construction activity with nearly 2.7 million square feet finalized over the yearlong span ended this March.
- Deliveries rose by nearly 2 million square feet on an annual basis, supported by the completion of projects that were delayed by the pandemic.



VACANCY

50 basis point decrease in vacancy Y-O-Y

- A 12-month net absorption count nearing 5.2 million square feet as of March represents the highest total seen in the metro in at least 15 years.
- Entering the second quarter, a 340-basis-point gap remains between current availability and the pre-pandemic equivalent, owing to a frenetic pace of construction keeping vacancy elevated.



RENT

2.7% increase in the average asking rent Y-O-Y

- Despite a continued gap between pre-pandemic vacancy and the current rate, the average marketed rent ended March at \$25.52 per square foot.
- Suburban zones led in rent growth, with marketed rents advancing 3.5 percent year-over-year here. South Atlanta surpassed all submarkets in this metric, observing a 9.0 percent increase.

Investment Highlights

- Drawn by positive rent growth through the worst of the health crisis, investors drove transaction activity to pre-pandemic levels as economic outlooks improved last year. While resurgent deal flow pushed the pricing average to \$235 per square foot by the end of this March, a larger share of trades involving lower asset tiers kept the average yield above 7 percent.
- Strong absorption gains over the past year have resulted in an uptick of foreign and institutional capital entering the market. As more buyers identify the region's high-growth characteristics, additional investor interest from these sources could be observed in the near future. Buyers have been seen integrating Class B assets in the sub-\$10 million tranche into their portfolios, though some larger acquisitions have been observed from institutions with more buying power.
- The metro's 55 and older cohort has grown nearly 15 percent over the trailing half-decade entering 2022, drawing investors to medical office deals. Properties are changing hands at yields ranging from the upper-5 percent band to as high as 8 percent. Investors pursuing opportunities in this sector may seek out properties further outside the Interstate 285 perimeter, where demographics typically skew older.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. 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. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics