

# MARKET REPORT

Office  
Atlanta Metro Area

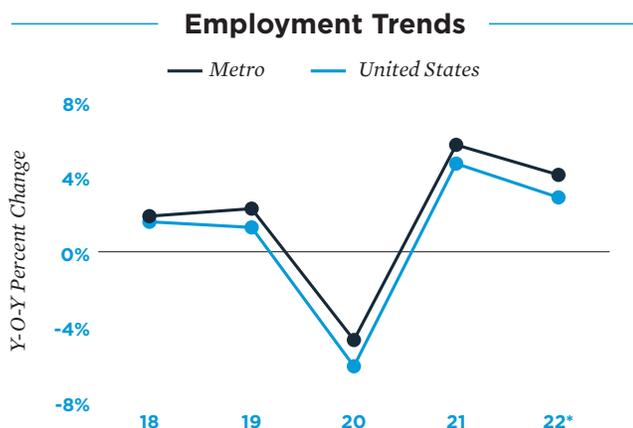
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4Q/22

## Regionally Low Operating Costs and Options for Large Offices Continue to Attract Companies

**Major firms expand Atlanta office footprints.** A bevy of corporate relocations and a broader return to the office has improved tenant demand for available space in Atlanta, compressing vacancy 100 basis points year-over-year in June. Recently strong absorption indicates more cost-conscious companies are establishing workplaces in the metro, as Atlanta's operating costs are notably lower than many Northeast markets. With one of the least expensive average internet costs in the country, the metro may attract additional companies that plan to remain on a hybrid work model, such as Honeywell, who recently expanded its division HQ in Midtown. Additionally, Moderna is planning to establish an enterprise solutions hub to capitalize on the state's life science cluster, potentially fueling demand for office space among smaller companies that support the biotech firm.

**Location preferences are changing.** Offices in suburban areas have reported three consecutive quarters of vacancy tightening, resulting in rent gains above the 10-year average. Six of the nine suburban submarkets recorded triple-digit year-over-year vacancy compressions during the second quarter. As Atlanta is home to one of the longest average work-travel times in the country, local suburban office locations may be advantaged in the current labor shortage. Companies could leverage shorter commute times to attract workers to offices. As more firms have moved to a remote work format, however, some may choose not to renew their expiring leases, creating potential volatility in the near term.



\* Forecast  
Sources: BLS; CoStar Group, Inc.

## Office 2022 Outlook

  
**120,000**  
**JOBS**  
*will be created*

### EMPLOYMENT:

Atlanta will register another robust year of job growth, as the metro's worker count is set to exceed the pre-pandemic high by nearly 130,000. Approximately 50 percent of the positions added this year will be in traditionally office-using sectors.

  
**3,128,000**  
**SQ. FT.**  
*will be completed*

### CONSTRUCTION:

Development remains strong, with more than 3 million square feet of space finalized for a fourth consecutive year. Completions, however, pale in comparison to the record 4.8 million square feet delivered last year.

  
**10**  
**BASIS POINT**  
*increase in vacancy*

### VACANCY:

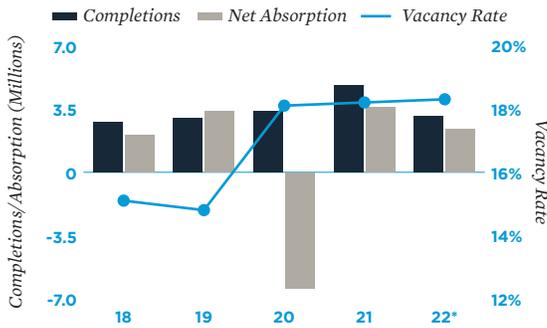
Vacancy will climb slightly this year to 18.3 percent, as positive net absorption fails to keep pace with another wave of supply additions. Year-end availability is expected to exceed the pre-pandemic mark by 350 basis points.

  
**3.0%**  
**INCREASE**  
*in asking rent*

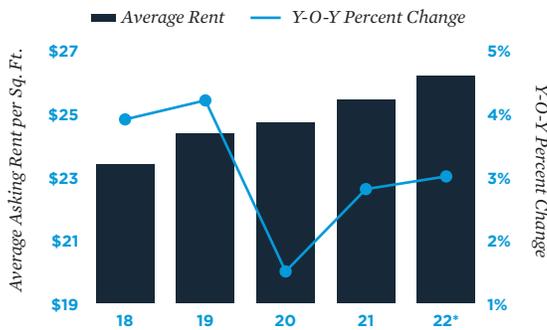
### RENT:

The pace of rent growth reaches a three-year high during 2022, with a broader return to in-office operations aiding demand for space. This year's gain will push the average asking rate to \$26.18 per square foot by year-end.

### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q 2022 - 12-Month Period

### CONSTRUCTION

**2,908,000 sq. ft. completed**

- Inventory grew by 1.0 percent over the past 12 months ending in June, with less than 1 million square feet finalized in the first half of 2022. Large projects, such as the Midtown Union building, will be completed later this year.
- Nearly 100,000 square feet of medical space delivered over the four quarters ending in June, with 382,000 square feet underway as of August.

### VACANCY

**100 basis point decrease in vacancy Y-O-Y**

- Roughly 4.1 million square feet was absorbed in the second half of 2021, the highest total for any six-month period on record. This activity and positive demand in the first half of 2022 dropped vacancy to 18.1 percent.
- At the end of June, the Class B/C segment reported the largest year-over-year basis point drop on record, tightening sector vacancy to 11.5 percent.

### RENT

**2.5% increase in the average asking rent Y-O-Y**

- Spearheaded by suburban asking rent growth, the average marketed rate increased to \$25.75 per square foot across the greater metro.
- Suburban rent grew by 3.5 percent year-over-year in June, while the average rate for available space in the CBD rose by 1.2 percent. Stronger rent growth outside Downtown may signal a preference change among tenants.

## Investment Highlights

- Suburban office trades are accounting for a larger portion of overall deal flow in Atlanta. Investors seeking upside potential are acquiring Class B/C buildings with a median age of 25 years and upgrading these properties during a shift in tenant demand, one that favors offices more conveniently located near suburban residential nodes. Properties within this bracket have recently sold for an average of \$162 per square foot.
- Atlanta's average sales price rose by 7 percent during the past year ending in June to \$234 per square foot, a pace of growth that mirrors the 2013-2021 average. This yearlong increase exceeded gains recorded in Charlotte and all four major Texas metros. With a higher average cap rate than those metros, at just under 7 percent, Atlanta is becoming more attractive for buyers seeking higher yields.
- After historically being concentrated in North Atlanta, medical office transaction activity has shifted to South Atlanta. Here, properties are trading at low-5 to mid-7 percent cap rates. A growing population in areas like Henry, Fayette and Clayton counties may be attracting investors, as the average asking rent for offices in South Atlanta reported a 10.5 percent annual gain during the second quarter.

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: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; Tipalti Approve  
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