

MARKET REPORT

Office
Atlanta Metro Area

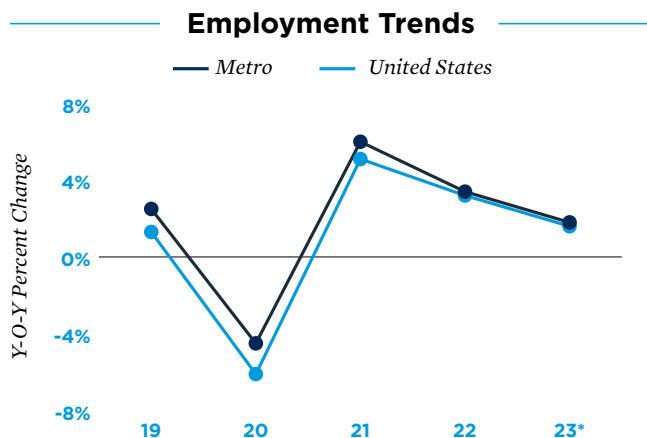
IPA
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4Q/23

Tech Slowdown and Downsizing Policies Curb Class A Demand; Tenant Base Steadier in Other Tiers

Vacancy in amenity-rich facilities jumps in first half. AT&T made headlines when it signed a 120,000-square-foot lease in Buckhead, located in a complex it had previously vacated. While this prompted hopes that a concrete return to office would reverse downsizing trends, this is a fraction of the 2.5 million square feet that the conglomerate has exited nationwide in the past half-decade. Amenity-rich spaces have been impacted as some larger firms recalibrate floor plans. Class A vacancy noted a 170-basis-point increase metro-wide over the first six months of 2023, placing the rate at 27.5 percent. Developers are taking note of subdued demand. Centennial Yards, a downtown mixed-use complex, placed plans for an office tower on the site on indefinite hold, with owners citing an abrupt decline in interest from tech firms previously in leasing talks.

Mid- and lower-tier office performance comparatively stable. Although demand continues to relax across all office segments, Class B and C assets are faring comparatively better than their upper-tier counterparts. Vacancy in these sectors entered July at 11.9 percent, and net absorption was positive during the first half of the year. While availability is elevated by historical standards, the tenant base for these offices should remain steady moving forward. In contrast to the well-resourced conglomerates who may have more flexible requirements for space, smaller mom-and-pop firms may not have the resources to enable fully remote, or even hybrid, operations.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2023 Outlook



**55,000
JOBS**
will be created

EMPLOYMENT:

Atlanta's broader employment base is on track to expand at a 1.8 percent clip in 2023. At the same time, office-using segments have seen some attrition so far this year, primarily driven by layoffs in the information sector.



**2,000,000
SQ. FT.**
will be completed

CONSTRUCTION:

Developers are expected to grow inventory by just 0.7 percent this year, the slowest annual pace seen since 2016. Still, another 3.4 million square feet was in progress across the metro as of September.



**160
BASIS POINT**
increase in vacancy

VACANCY:

Mostly driven by tenants in Class A complexes shedding footprints, Atlanta will mark a multi-decade high in vacancy at the end of this year. The metric is slated to close out 2023 at 20.4 percent.

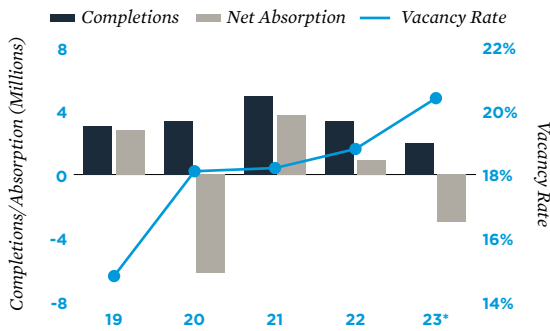


**0.9%
INCREASE**
in asking rent

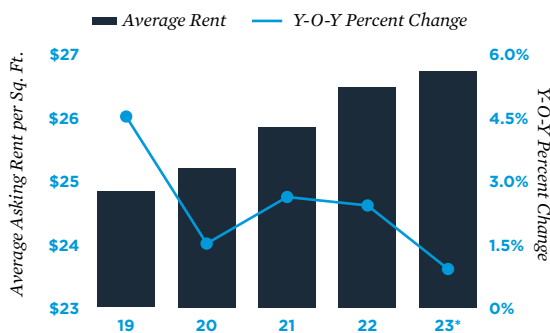
RENT:

Asking rents are slated to maintain upward momentum this year, but high vacancy will keep growth at the slowest pace since 2012. The mean market rate will reach \$26.72 per square foot at the end of the year.

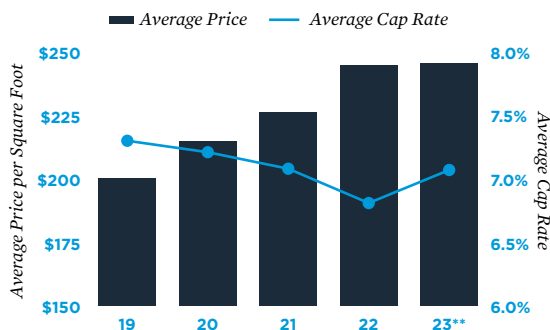
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

3,203,000 sq. ft. completed

- The completion total during the 12-month period ended in June was supported by 2 million square feet delivered in the third quarter of 2022.
- Roughly two-thirds of the inventory brought online this period was added to the urban core. The West Atlanta submarket accounted for an additional 760,000 square feet, mostly comprised of three I-20-adjacent projects.



VACANCY

180 basis point increase in vacancy Y-O-Y

- After falling in early 2022, vacancy resumed an upward trajectory during the yearlong span ended in June to reach a new record of 19.8 percent.
- Inventory expansion in the CBD accounted for a 210-basis-point increase in vacancy, placing the rate here at 21.9 percent entering July. Suburban areas saw a 150-basis-point advance to 18.7 percent during this time frame.



RENT

1.5% increase in the average asking rent Y-O-Y

- Positive rent movement continued during the 12-month period ended in June, with the mean market rate elevating to \$26.63 per square foot.
- A sizable amount of new supply in West Atlanta brought the mean market-ed rate here to \$24.28 per square foot, up 15.4 percent from a year prior.

Investment Highlights

- While transaction velocity declined from the near-record pace observed in 2021 and 2022, deal flow in the sub-\$10 million price tranche during the first half of this year was comparable to the pre-pandemic spans. Trades have been concentrated to the north of the city, in suburban locales where vacancy is comparatively lower.
- Contrasting lower-tier assets, trades of properties above \$15 million have proceeded at a multi-year low so far in 2023. This could reflect a combination of sharply rising vacancy among Class A properties, and institutional investors sidelined due to rapidly rising interest rates. Still, these parties are identifying high-occupancy assets even in challenged locales, with office towers changing hands in Midtown and the Central Perimeter.
- Unlike many other gateway markets, Atlanta saw per-square-foot pricing rise during the 12-month period ended in June from the previous span, pushing up to \$246 per square foot. The metro boasts the lowest entry costs among primary markets on the Eastern Seaboard. Along with the region's business-friendly environment, this should provide a solid foundation for long-term capital inflows.

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

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