MARKET REPORT

OFFICE

Atlanta Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

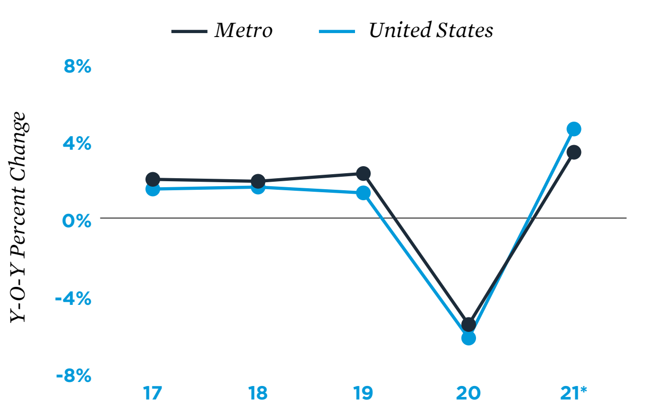
2Q/21

Return to Core Office Districts to Define Overall Atlanta Office Market Performance

Atlanta economy steadier than much of nation. Several factors contributed to a "soft landing" for the local market, including reopening timelines and a relatively low cost of living. Minus the states that never had a blanket shutdown, Georgia was among the earliest areas to loosen restrictions related to the COVID-19 pandemic. As residents left densely populated metros in the Northeast and Upper Midwest, Atlanta was a favored destination for remote workers. The population of the metro jumped 2 percent last year, and a stronger gain is projected for 2021. As a result, tech talent has increased significantly in the market. Many of these workers will be hesitant to transition back to their previous locales and opt to remain in the affordable metro.

Office market recovery hinges on urban locations. Similar to core locations across the country, some of the Class A office districts in Atlanta have struggled through the recession. Tenants paying high rents have been more inclined to return space to the market until a clearer trajectory of the economic recovery materializes. Buckhead, Downtown and Midtown posted vacancy above 22 percent in the first quarter. In the lower tiers, occupancy remained more sturdy over the last 12 months, climbing just 180 basis points year over year to 13.5 percent in the first quarter. Limited construction in the Class B/C segment will also limit upward pressure on vacancy amid weaker demand.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook

93,000 JOBS
will be created

EMPLOYMENT:

A 3.4 percent rise in payrolls this year will bring total employment to within 2.0 percent of the pre-recession level. Traditional office-using sectors are anticipated to grow 1.7 percent with the addition of 14,000 jobs.

4,400,000 SQ. FT.
will be completed

CONSTRUCTION:

Developers continue to be active in the market, increasing inventory 1.6 percent in 2021. The most square feet underway is in the Midtown/Pershing Point submarket. However, 75 percent of the 2.8 million square feet under construction in the area is pre-leased.

170 BASIS POINT
increase in vacancy

VACANCY:

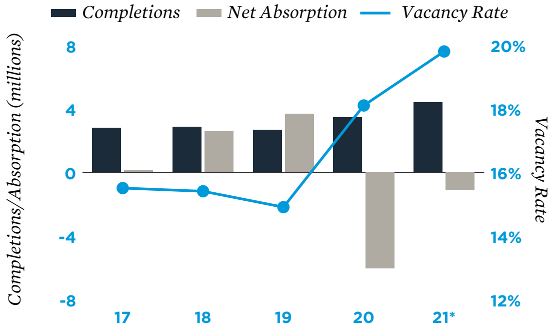
As companies shuffle their office space needs this year and transition to new or modified work models, vacancy climbs to 19.8 percent, topping the peak rate during the prior recession.

3.8% DECREASE
in asking rent

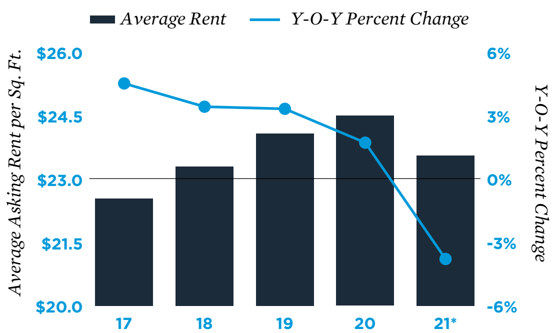
RENT:

Owners will be more generous with tenant improvements this year while also reducing market rates. By year end, the average asking rent is expected to fall to $23.55 per square foot, returning rent close to the level at the end of 2018.

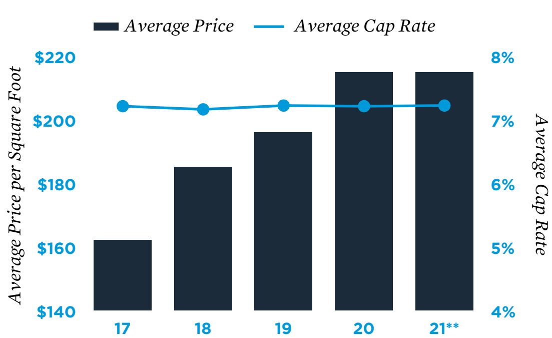
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

1Q21 — 12-Month Period

CONSTRUCTION

1,931,000 square feet completed

- Builders increased inventory by 0.7 percent during the yearlong period ending in March. Over the previous year, developers added nearly 3.6 million square feet.
- Of the 6.7 million square feet of space under construction, approximately 3.5 million square feet has existing leasing commitments.

VACANCY

300 basis point increase in vacancy Y-O-Y

- A combination of new supply and the negative impact of the crisis pushed vacancy up to 18.6 percent, the highest rate since mid-2012.
- Top-tier space recorded a 410-basis-point rise in vacancy in the last 12 months to 23.8 percent at the end of the first quarter. The rate is now above the high watermark during the previous recession.

RENT

1.1% increase in the average asking rent Y-O-Y

- In the first quarter, space was marketed for $24.63 per square foot, up modestly from 12 months prior as an additional 5.9 million square feet of Class A space became available.
- Year over year, CBD rents rose 1.6 percent to $30.33 per square foot while suburban rent advanced 0.6 percent to $21.97 per square foot.

Investment Highlights

- Investment activity slowed last year, though the decrease in the number of transactions was significantly less than many other markets. Deal flow decreased 5 percent from 2019 to 2020 due to declines in the Class A and B segments. Class C assets changed hands at a 14 percent higher pace. Thus far in 2021, the pace of sales velocity is down relative to last year, though buyers have moved back into the top- and mid-tier arena in the past few months.
- During the 12-month period ending in March, the average price was $215 per square foot, up 7 percent from the prior year. The quality of tenants associated with the assets and healthy demand for Class C properties propelled the increase in valuations.
- The average cap rate held steady at 7.2 percent in the yearlong period ending in the first quarter. Although downward pressure has persisted in other property classes, the average cap rate has remained flat for Atlanta offices since 2017, indicative of a floor for returns that investors are willing to accept.

IPA Office

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