

1Q24

Atlanta Office Market Overview



Market Observations

Economy

- The market's unemployment rate remained unchanged year over year at 3.0% but remained well below the five-year average of 4.0%.
- Job growth pace has slowed compared with recent highs to 0.9% year over year, but improved 10 basis points over the previous quarter.
- Seven of the 10 sectors reported employment growth, with leisure and hospitality sector leading job gains at 5.2% over the past 12 months.
- Office-using jobs in the market declined 2.0% year over year, ending February 2024 at 890,020.

Major Transactions

- Supply chain software company Manhattan Associates inked the largest deal of the quarter, renewing their 209,767 SF headquarters space at Wildwood Center in the Cumberland/Galleria submarket.
- Flight to quality continues to remain a central theme in some of the largest and most notable deals signed in the first quarter of 2024, with four of the top five largest deals signed in Class A assets.
- The top four deals were all over 100,000 SF, which was not the case for any quarter in 2023. Larger occupiers are likely becoming more ready to make decisions about their space requirements.

Leasing Market Fundamentals

- Annual full-service asking rental rates increased to \$31.75/SF, a 2.0% increase year over year.
- Overall vacancy rates increased by 170 basis points year over year to 25.7%, driven by supply outpacing net absorption.
- The under-construction pipeline declined 23.3% year over year to 1.9 MSF and has generally been slowing, indicating a lower the risk of overbuilding.
- The average deal size for all classes in the first quarter of 2024 was 5,676 SF, with Class A deal size being larger at 7,296 SF on average.

Outlook

- New construction is expected to continue declining in 2024, reducing the risk of oversupply.
- Class A assets with spec suites will continue to garner the majority of the small to mid-size deals in the market.
- The pace of rent growth is likely to moderate.
- The Atlanta office investment market will see sales of distressed assets, bringing new owners in with a new lower basis.

1. Economy
2. Leasing Market Fundamentals

1Q24

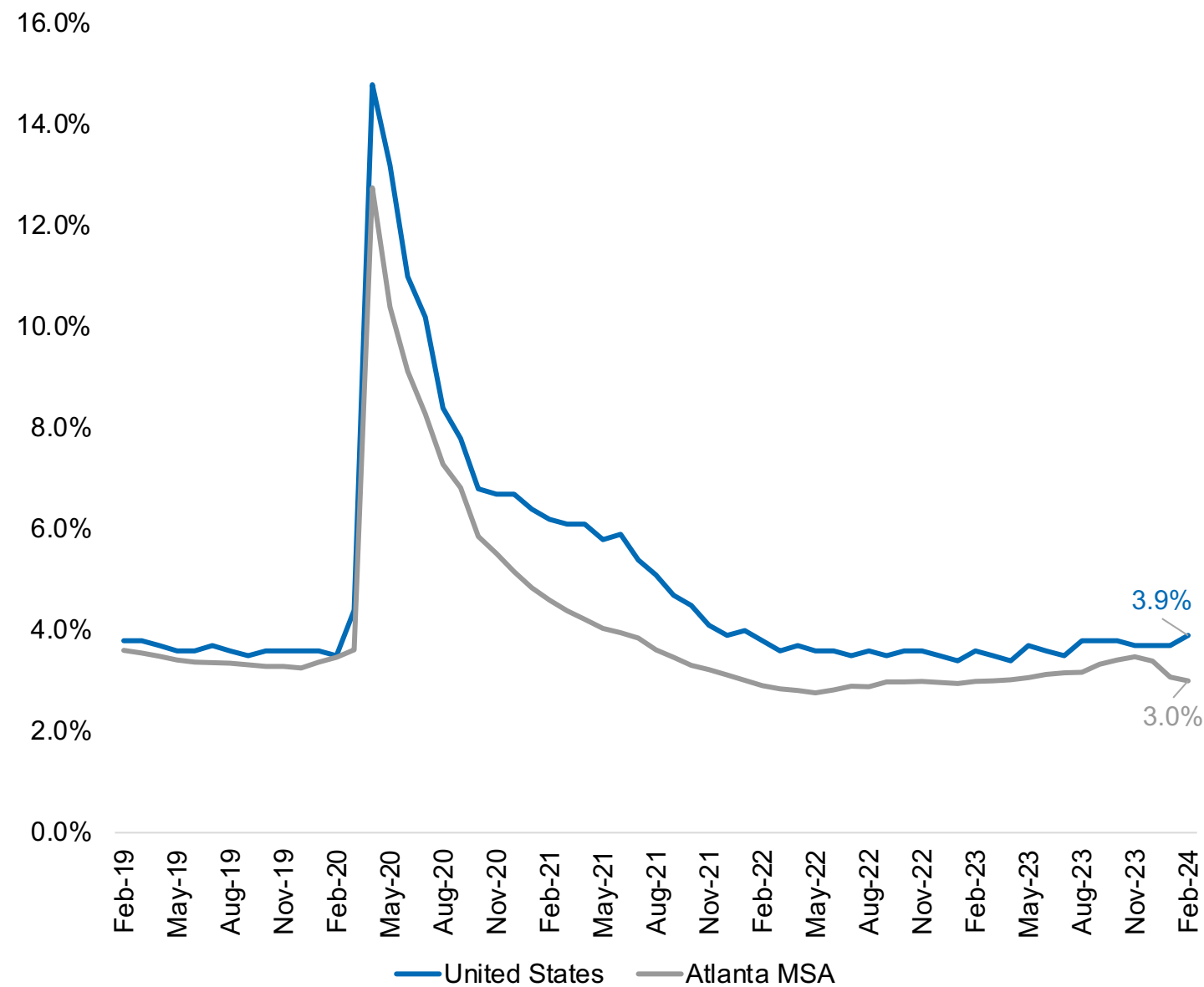
Economy



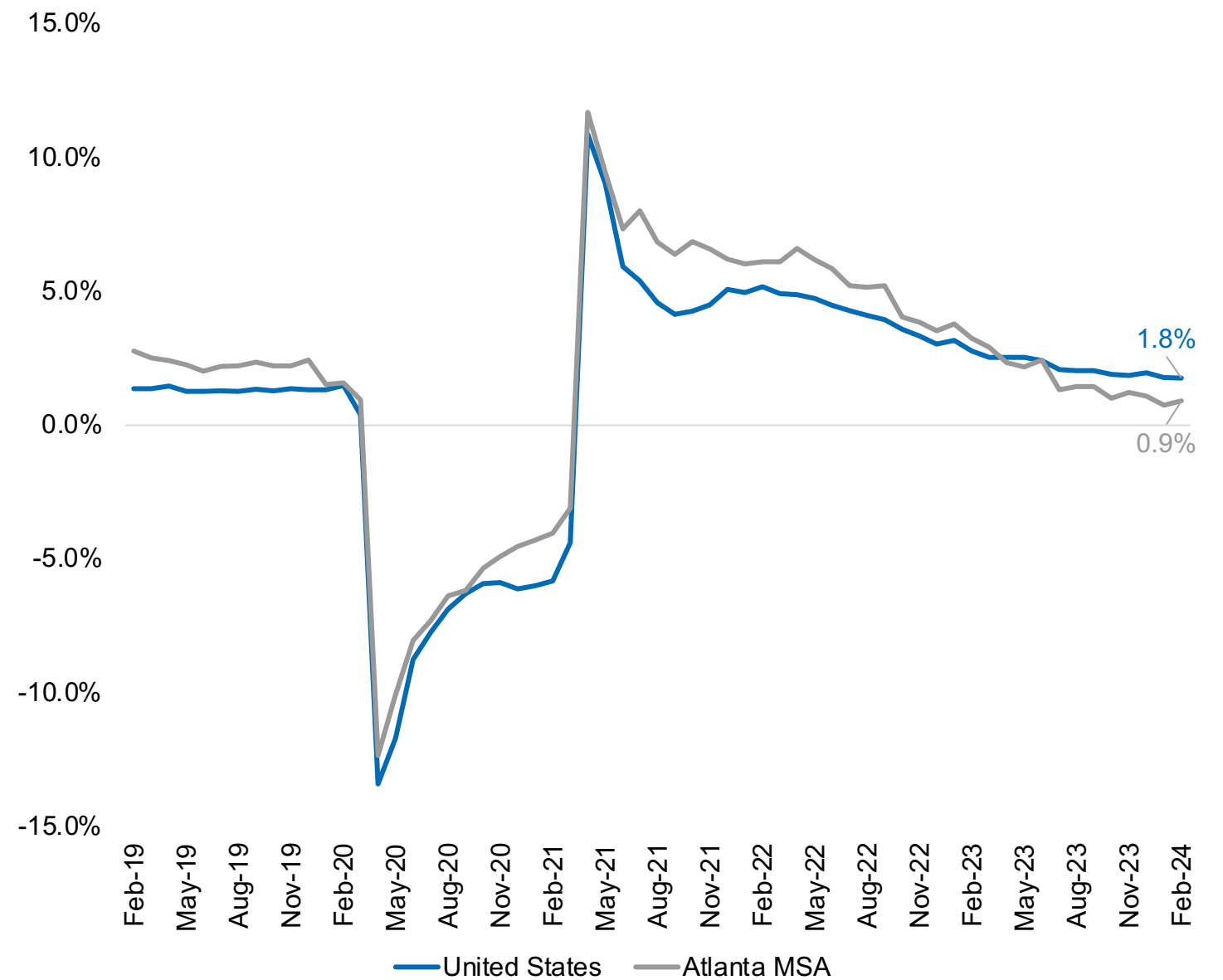
Metro Employment Trends

The Atlanta market has generally reported lower unemployment rates compared with the national average. Despite recent national economic headwinds, the metro's unemployment rate closed the first quarter of 2024 at 3.0%, continuing to remain below the national rate by 90 basis points and was relative unchanged year over year. The employment year-over-year growth rate slowed by 234 basis points compared with the previous year, although it improved by 10 basis points over the previous quarter.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change



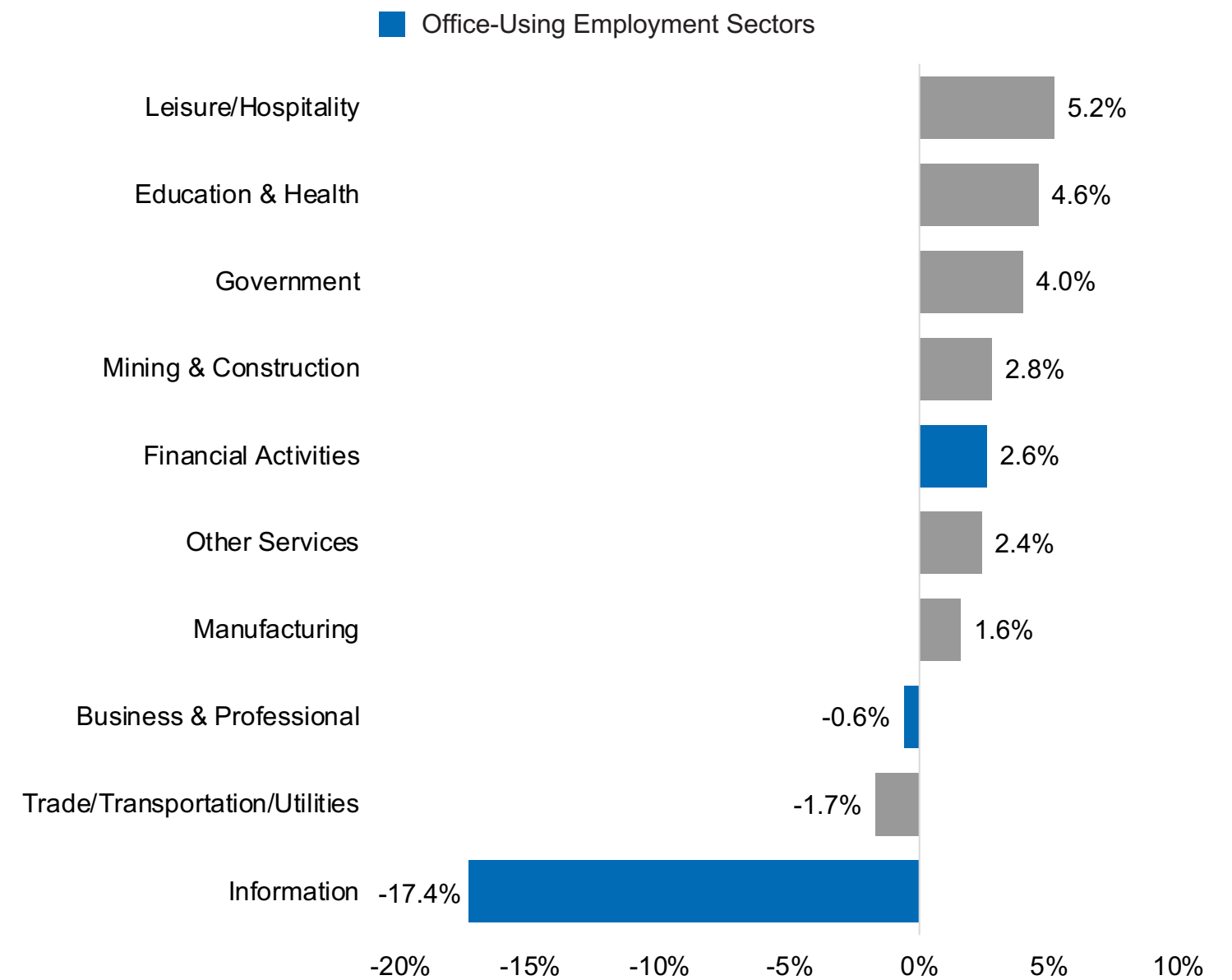
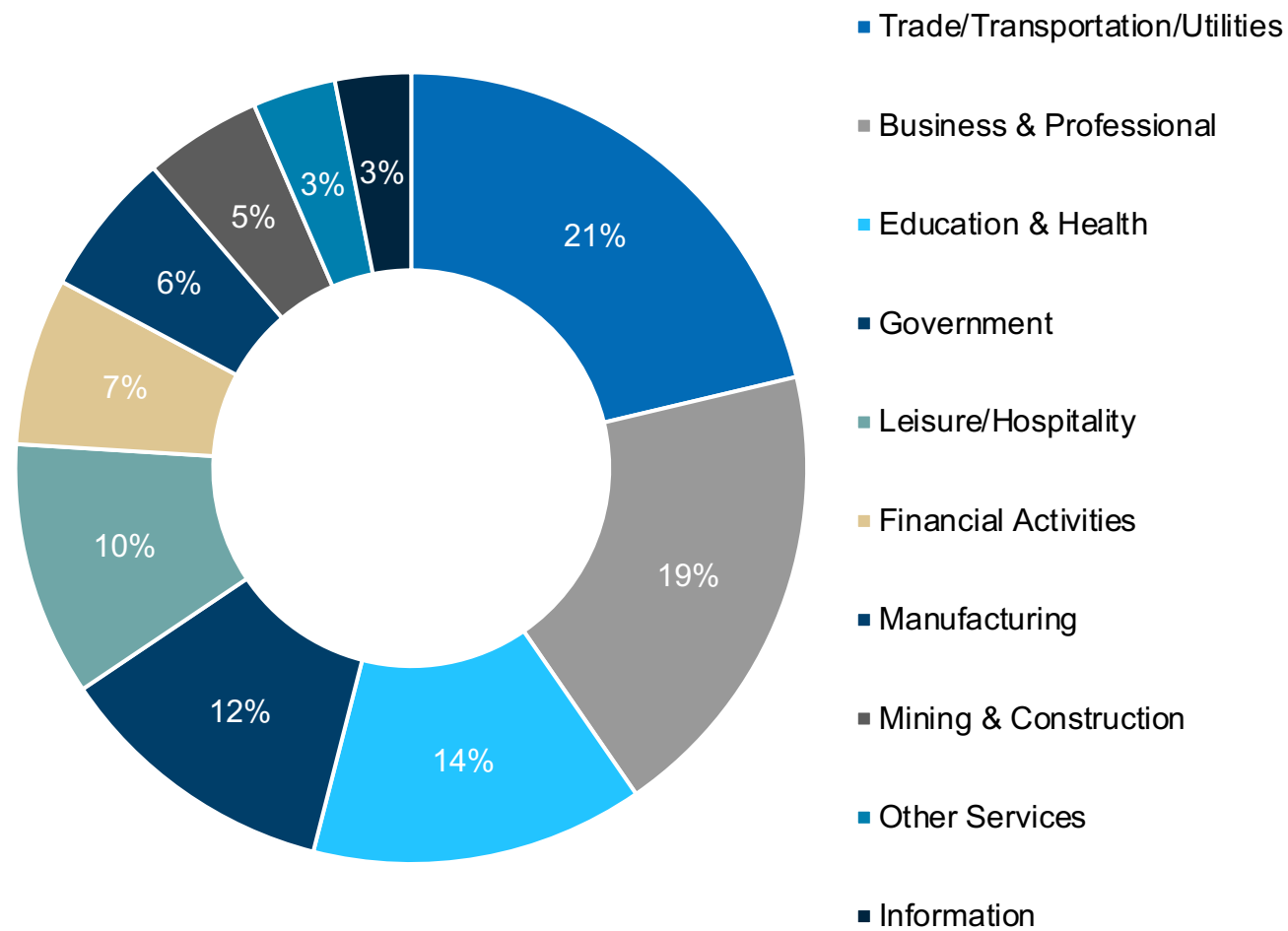
Source: U.S. Bureau of Labor Statistics, Atlanta MSA

Employment Growth Continues Across Most Sectors

The Atlanta market has a high industry diversity with the top two industries, accounting for only 40.4% of the market's industry employment share. The office-using employment's business and professional sector is the second-largest industry sector in the metroplex at 19.1%. While most industries in the metro reported growth, two of the main three office-using sectors saw contractions, most notably the information sector declining 17.4% year over year, while business and professional contracted by 0.6%. Financial activities grew by 2.6%.

Employment by Industry, February 2024

Employment Growth by Industry, 12-Month % Change, February 2024

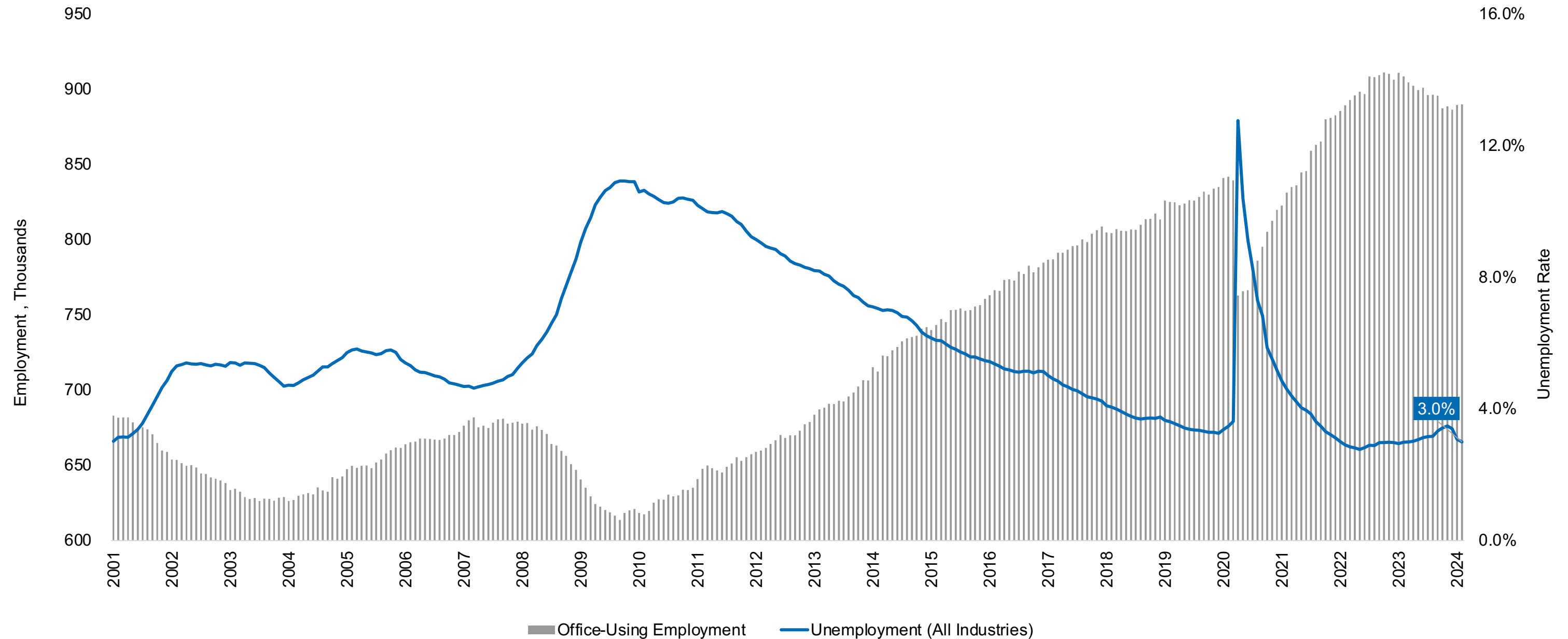


Source: U.S. Bureau of Labor Statistics, Atlanta MSA

Overall Office-Using Employment Declines

Office-using employment in the Atlanta Metro decreased 2.0% year over year to 890,020 employees, likely a result in a significant decline in office-using information sector. Currently, the seasonally adjusted unemployment rate is at 3.0%, below the 3.4% average levels reported in 2019, indicating that office-using jobs likely contributed to most of the unemployment rate.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Atlanta MSA

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

1Q24

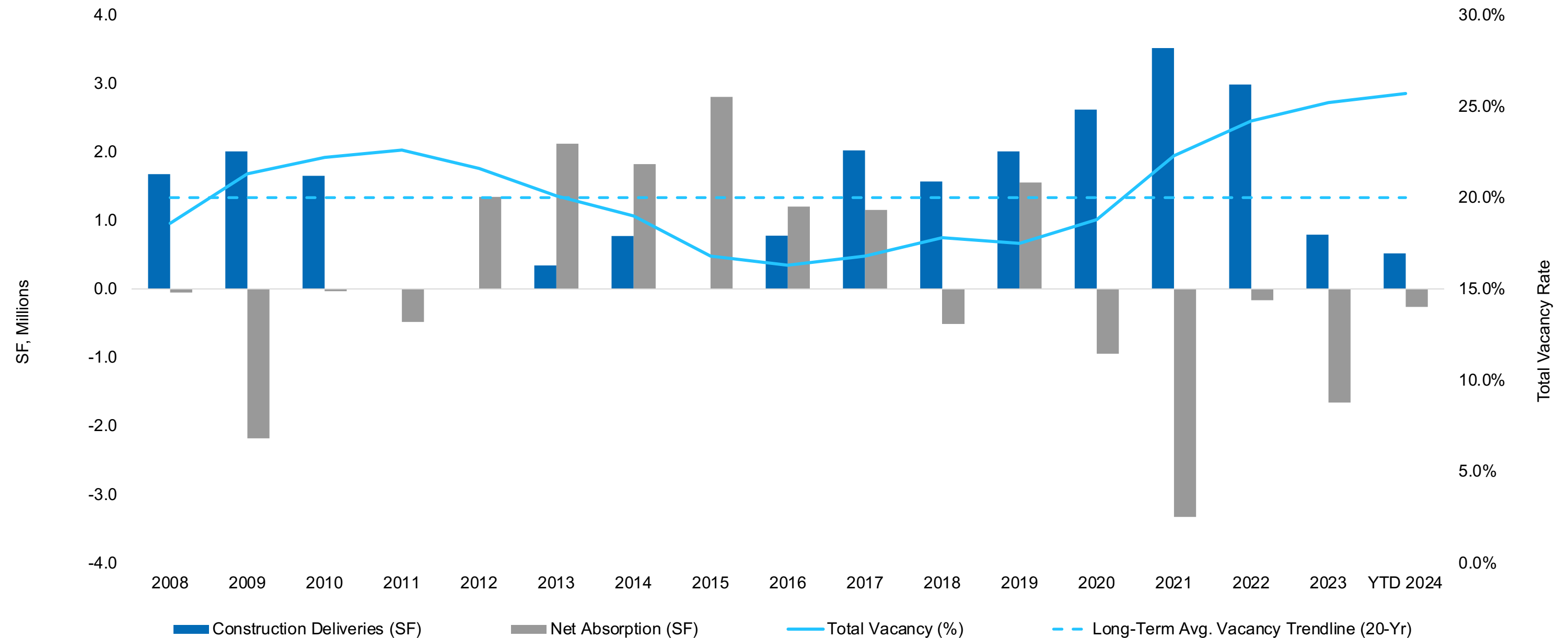
Leasing Market Fundamentals



Vacancy Increases as Construction Deliveries Outpace Net Absorption

The Atlanta office vacancy rate increased by 170 basis points year over year to 25.7% in the first quarter of 2024. From 2020 to 2022, the market reported historic highs in deliveries coupled with negative absorption. Since then, deliveries have been more muted with net absorption less negative as of the first quarter of 2024. Vacancy rates remain elevated due to older office buildings sitting vacant as occupiers continue to move towards newer, higher-quality buildings.

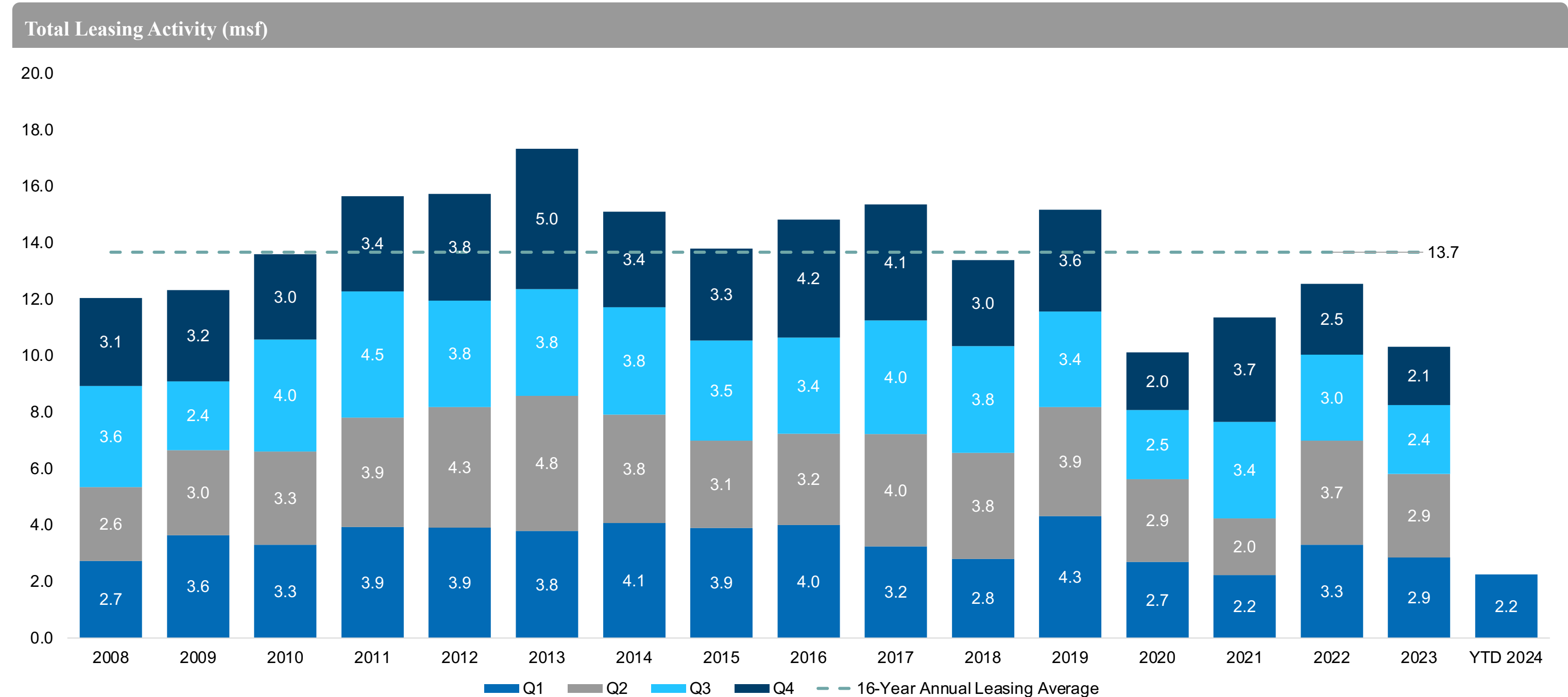
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Leasing Activity Increased Quarter Over Quarter

Leasing activity increased by 8.8% quarter over quarter to 2.2 MSF by the end of the first quarter of 2024. Activity in the market remains slower, with leasing in the first quarter comparatively slower than quarterly activity over the past 16 years at 3.4 MSF. Deal size averaged 5,676 SF in the first quarter of 2024, slightly increasing by 60 SF compared to the previous quarter. The average deal size is indicative of recent rightsizing trends.

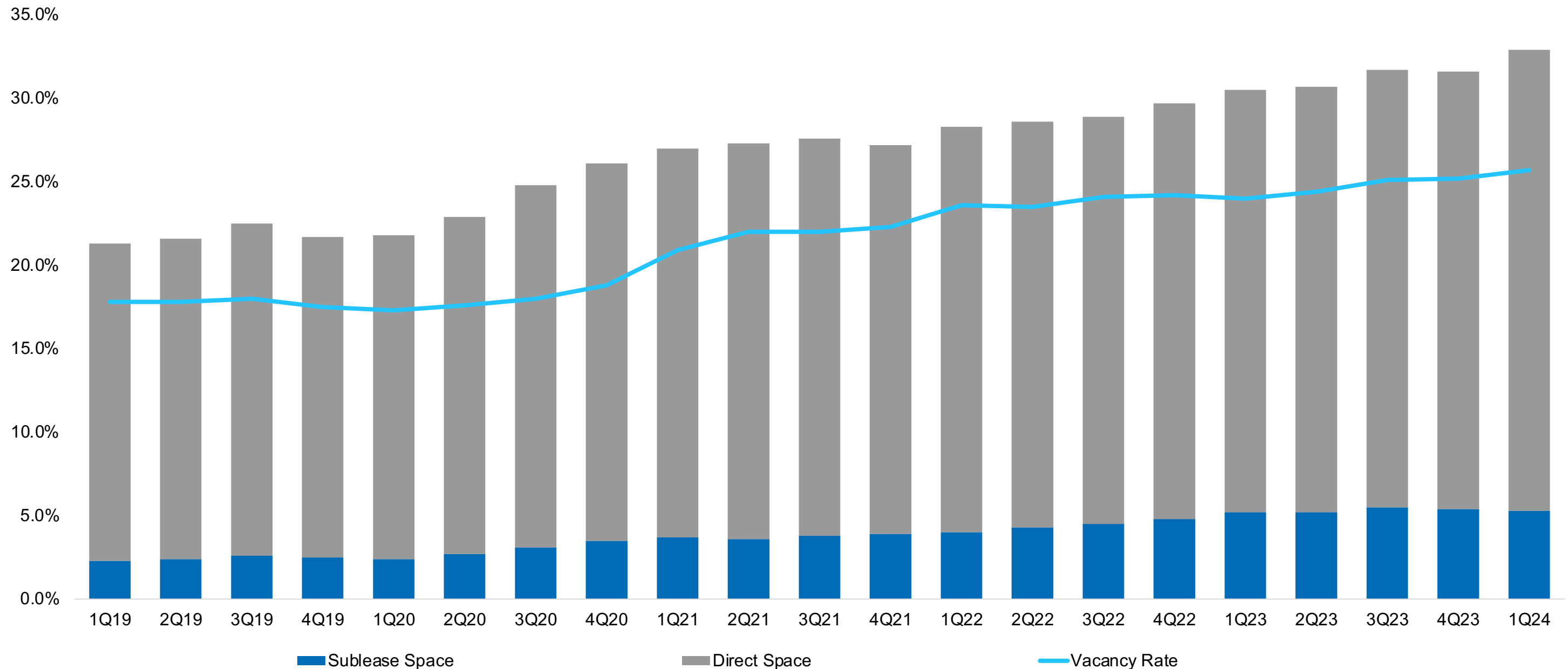


Source: Newmark Research, CoStar

Overall Availability Increases to New High

In the first quarter of 2024, sublease availability eased 10 basis points quarter over quarter to 5.3%. Sublease availability decreased for two consecutive quarters, reversing the trend of gradual increases seen since the pandemic peak at of 5.5% in the third quarter of 2023. Direct availabilities have generally increased since the pandemic, ending the first quarter of 2024 at an all-time high of 27.6%. Vacancy rates increased by 50-basis-points quarter over quarter to 25.7% in the first quarter of 2024.

Available Space as Percent of Overall Market

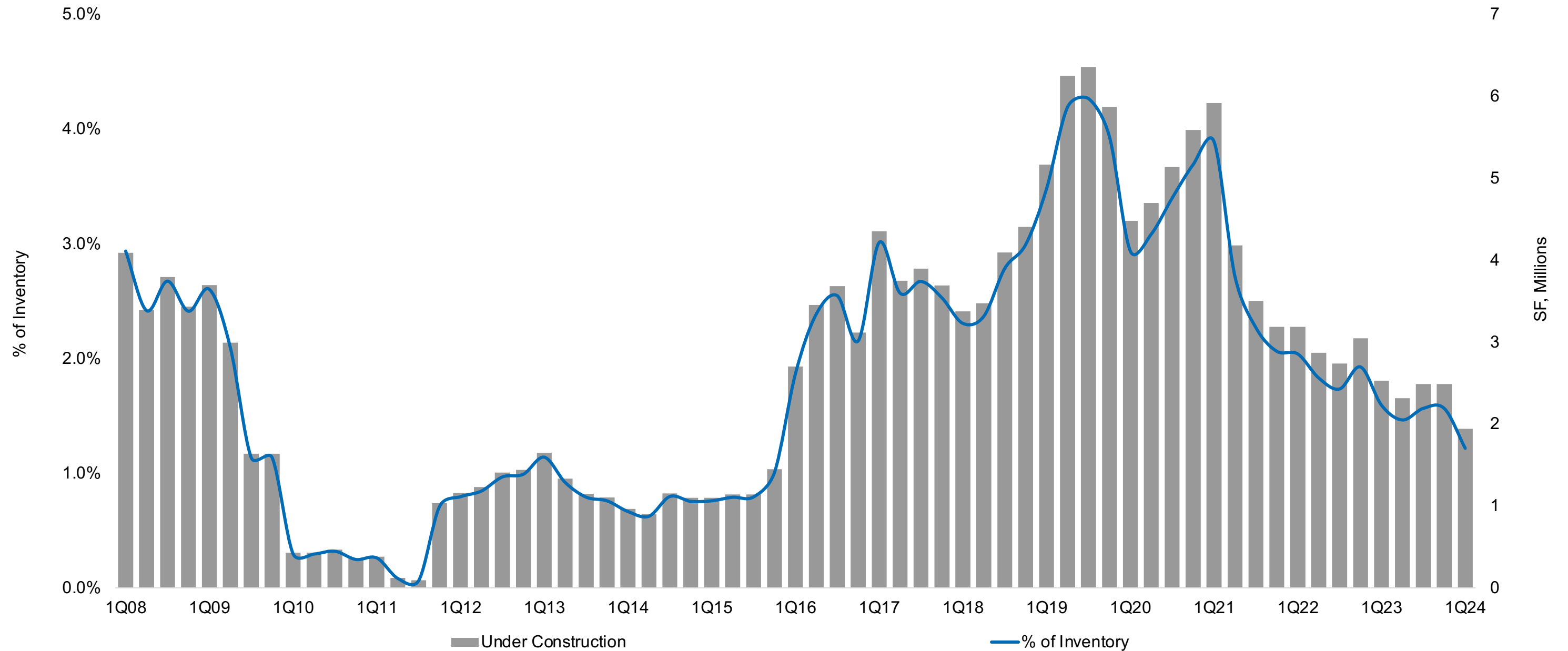


Source: Newmark Research, CoStar

Construction Activity Decreases

As of the first quarter of 2024, the market had 1.9 MSF under construction, a 22.1% decline from the previous quarter. Construction activity has declined since the highs reached in 2019 to the beginning of 2021, indicating less risk of overbuilding. New deliveries will continue to be supported by a flight-to-quality space in the market where new product is built, rather than renovating older, obsolete buildings.

Office Under Construction and % of Inventory

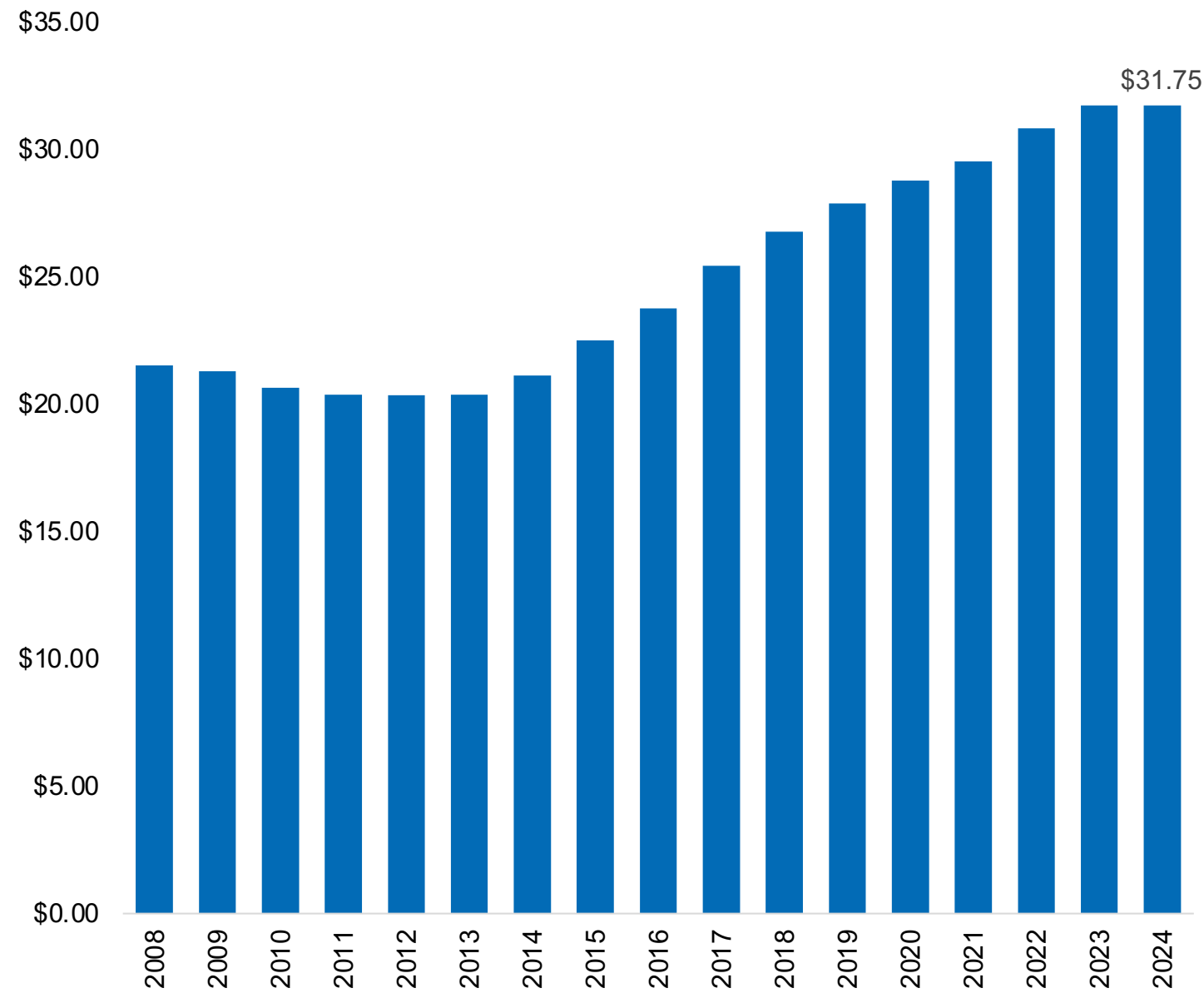


Source: Newmark Research, CoStar

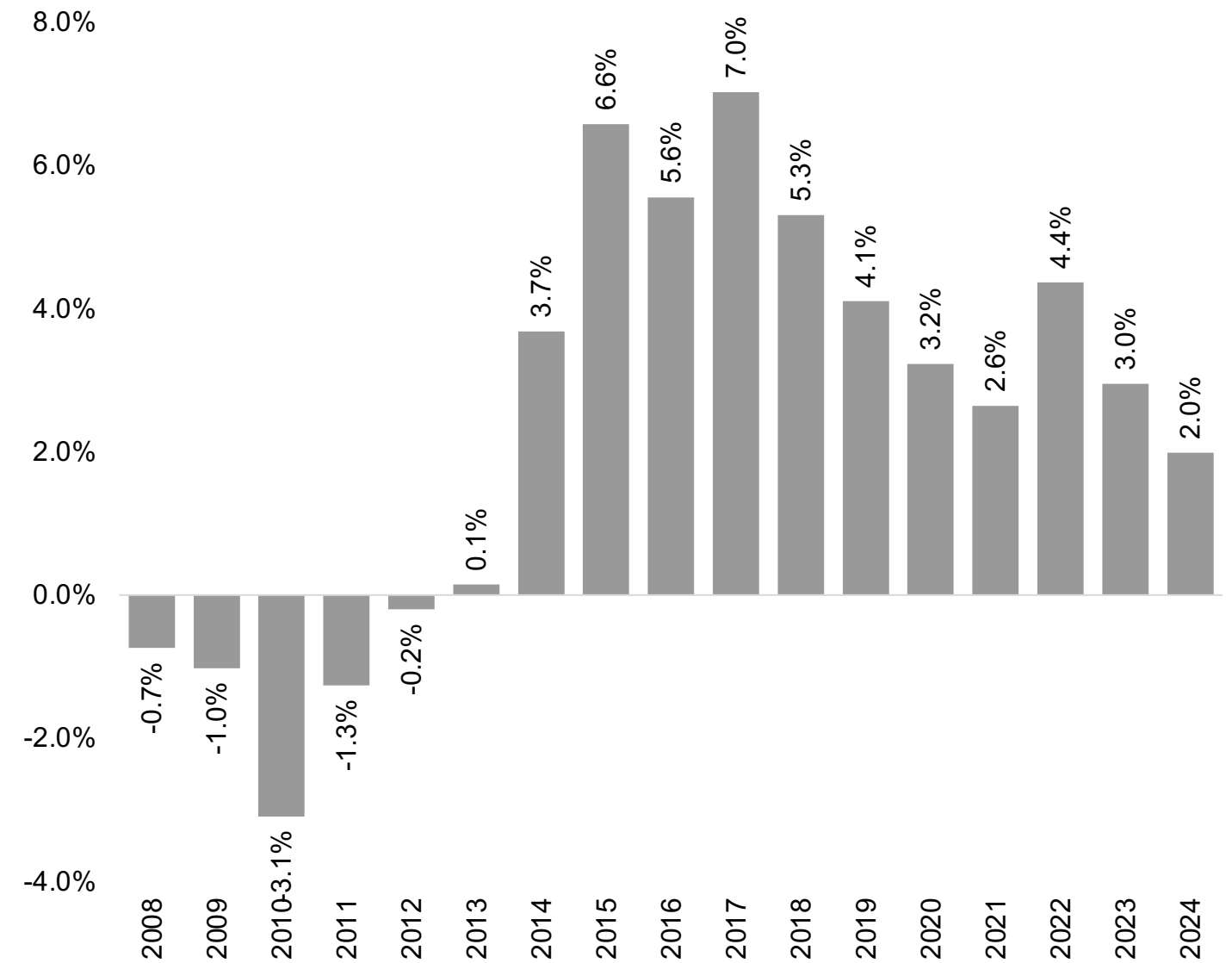
Asking Rents Unchanged From All-Time High

Rents remained at an all-time historical high of \$31.75/SF in the first quarter of 2024, remaining unchanged from the previous quarter. Asking rents are likely to remain elevated, coinciding with aggressive concession packages market-wide. However, the pace of rent growth in the first quarter of 2024 slowed to 2.0% year over year.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

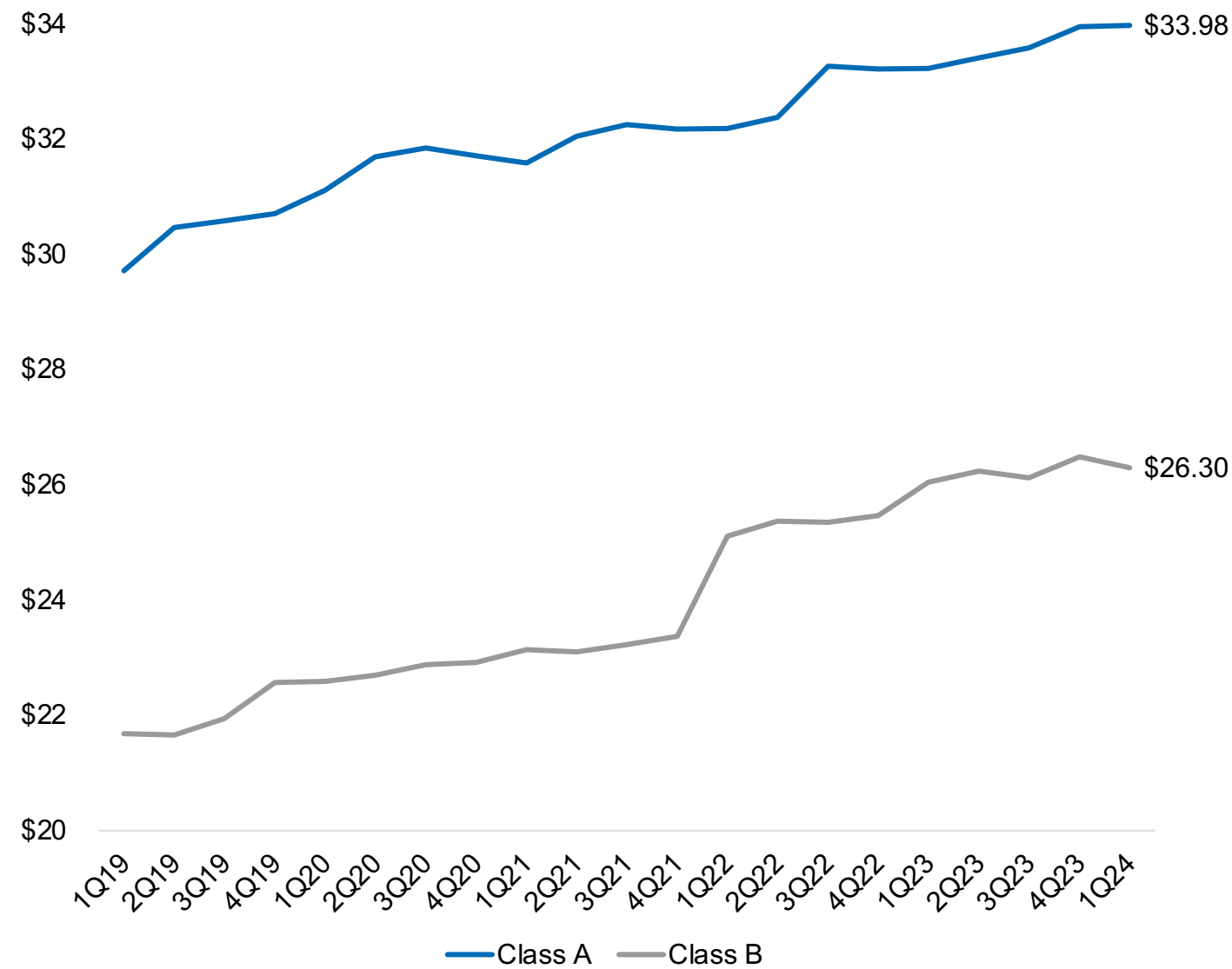


Source: Newmark Research, CoStar

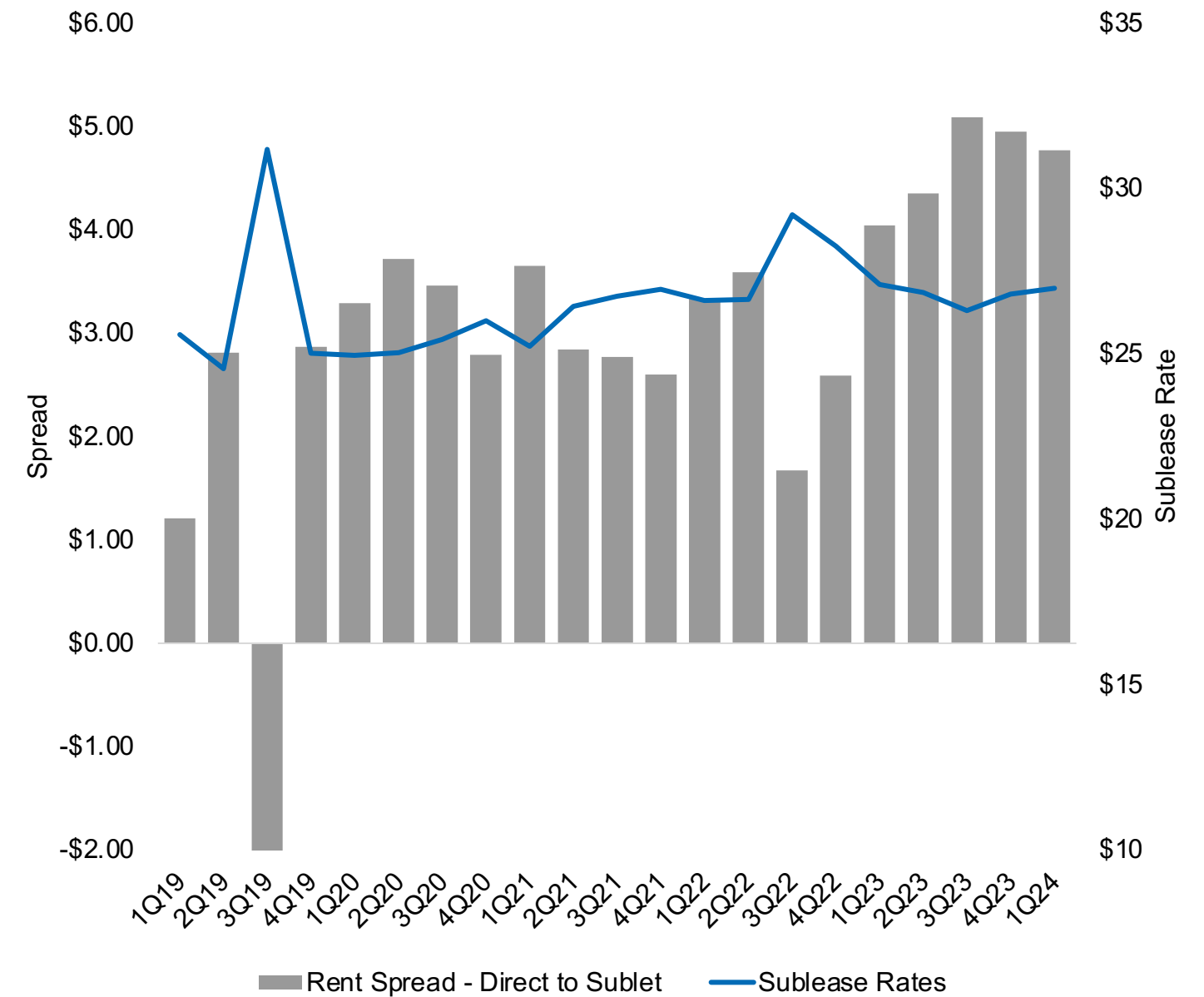
Asking Rents Growth Reflect Flight to Quality

As rents continue increasing, the bifurcation in rent spread between Class A and Class B assets continues to remain wide, above the \$7.00/SF mark. As of the end of the first quarter of 2024, Class A rents ended at \$33.98/SF, while Class B reported \$26.30/SF. Due to higher demand of quality assets, rent difference between the two assets are at \$7.68/SF, although the spread has decreased by 5.7% since 2019. Sublease rates, which had been declining since the third quarter of 2022, reversed in the last two quarters and increased by 0.7% quarter over quarter to \$26.98/SF in the first quarter of 2024.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Continues

Flight to quality continues to remain a trend in the Atlanta office market. As of the end of the first quarter of 2024, Class A space accounted for 66.3% of the market's leasing activity by SF, but only 52.0% of the market's deal volume. Average leases signed in Class A space were 7,296 SF and continue to remain larger than the average market deal size at 5,676 SF.

Notable 1Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Manhattan Associates	Wildwood Center – 2300 Windy Ridge Pky	Cumberland/Galleria	Renewal	209,767
<i>Supply chain software company renewed their headquarters space. They originally took 55,455 SF when they first moved in during 2000, expanding to their current footprint in 2007.</i>				
Workday	3350 Peachtree Rd	Buckhead	Renewal & Expansion	112,899
<i>The enterprise software company added 57,202 SF while extending their current lease, essentially doubling their footprint in Buckhead.</i>				
Georgia Department of Revenue	2500 Century Center – 2500 Century Pky	NE I-85 Inside I-285	Direct New	110,061
<i>The Georgia Department of Revenue relocated from 1800 Century Blvd NE, within the same market. The move reduced their footprint from 253,032 SF at 1800 Century.</i>				
Pond and Company	Peachtree Ridge – 3500 Parkway Ln	Norcross/Peachtree Corners	Renewal	101,891
<i>The architecture and engineering services firm renewed their headquarters space, where they have been tenants since 2016.</i>				
MiMedx	775 W Oak Commons	East Cobb	Renewal	79,854
<i>The medical supply company, which specialized in wound care products for clinicians, renewed their full-building lease.</i>				



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