

3Q23

Atlanta Office Market Overview

NEWMARK

Market Observations

Economy

- The market's unemployment rate ticked up by 28 basis points year over year to 3.2%, the highest since November 2021 but below the five-year average of 4.1%.
- Despite a slowing economy, job growth continued, albeit at a slower pace, growing 1.8% in the third quarter of 2023.
- Most sectors, except financial activities, information and leisure and hospitality, reported employment growth, with government leading job gains at 6.0% over the past 12 months.
- Office-using jobs in the market increased slightly to 907,600 employees, a 0.4% increase over the previous quarter.

Major Transactions

- AT&T signed the largest lease of the quarter for 129,655 SF for the full building at 1277 Lenox Park, part of a five-building campus it sold to Bridge Commercial back in 2018.
- Lonzo America signed the second-largest lease of the quarter, renewing its Suburban office lease that was coming due in early 2025.
- Three of the top five deals in the third quarter of 2023 were new direct leases, which included AT&T, FirstKey Homes and Bradley Arand Bould Cummings LLP.

Leasing Market Fundamentals

- Annual full-service asking rental rates increased to an all-time high of \$31.54/SF, a 2.5% increase year over year.
- Overall vacancy rates increased by 70 basis points year over year to a historical high of 24.3%, driven by supply outpacing net absorption, although the gap has decreased in recent quarters.
- The under-construction pipeline continues to slow, with 2.4 MSF in progress, which should lower the risk of overbuilding.
- Deals continue to be inked, albeit smaller. Deal size averaged 4,805 SF in the third quarter of 2023, an average of 18% less than the previous quarter and 23.8% less than a year ago.

Outlook

- The Atlanta office market will likely see continued suppressed growth this year. Office investment activity will remain low in the near term due to elevated inflation and a steeper cost of debt.
- The supply and demand gap will likely continue to narrow, as new construction slows, allowing new inventory to be absorbed.
- The closing rent spread between Class A and Class B assets will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets.
- The office market is expected to remain tenant friendly with continued muted demand. As a result, overall asking rents are projected to flatten in the near term.

1. Economy
2. Leasing Market Fundamentals

3Q23

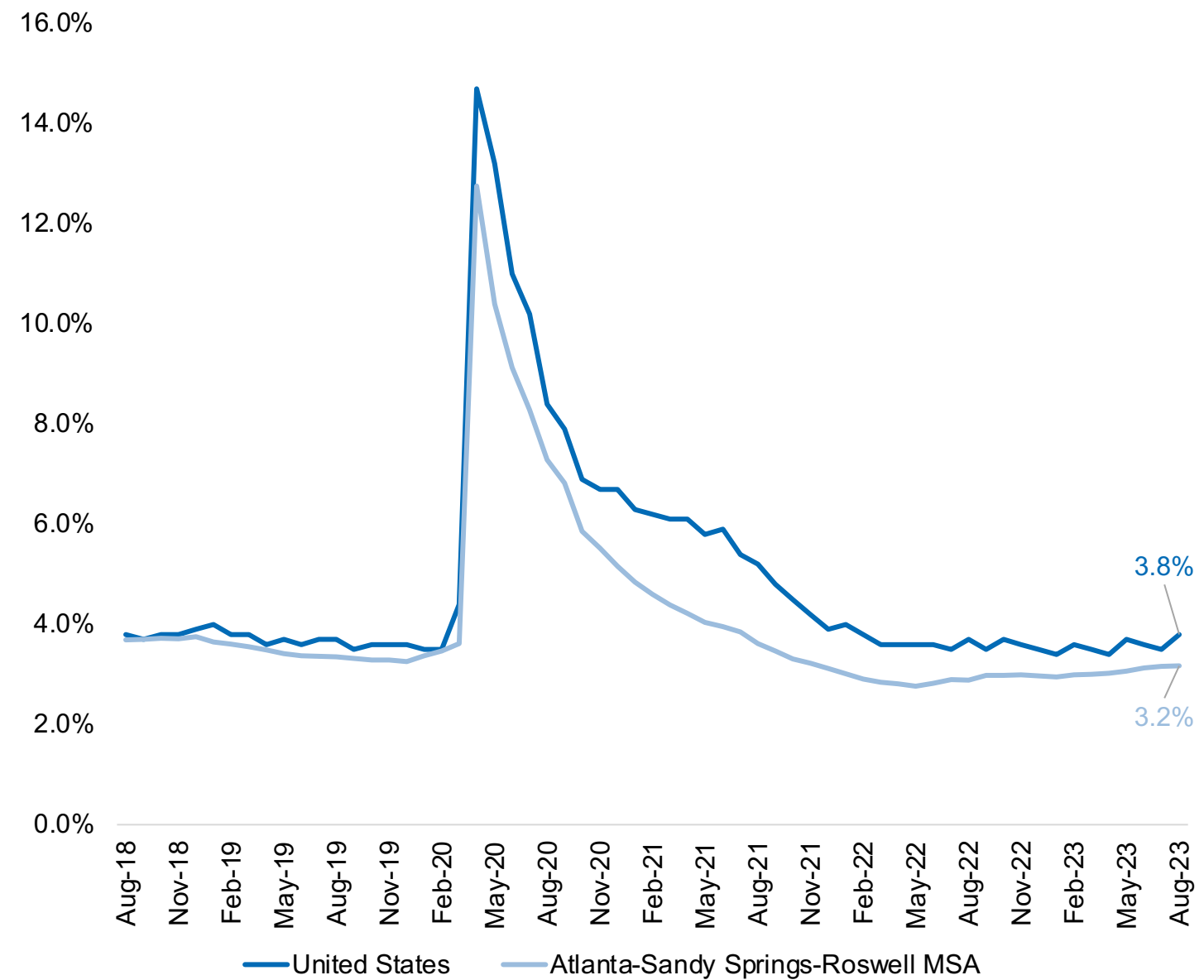
Economy



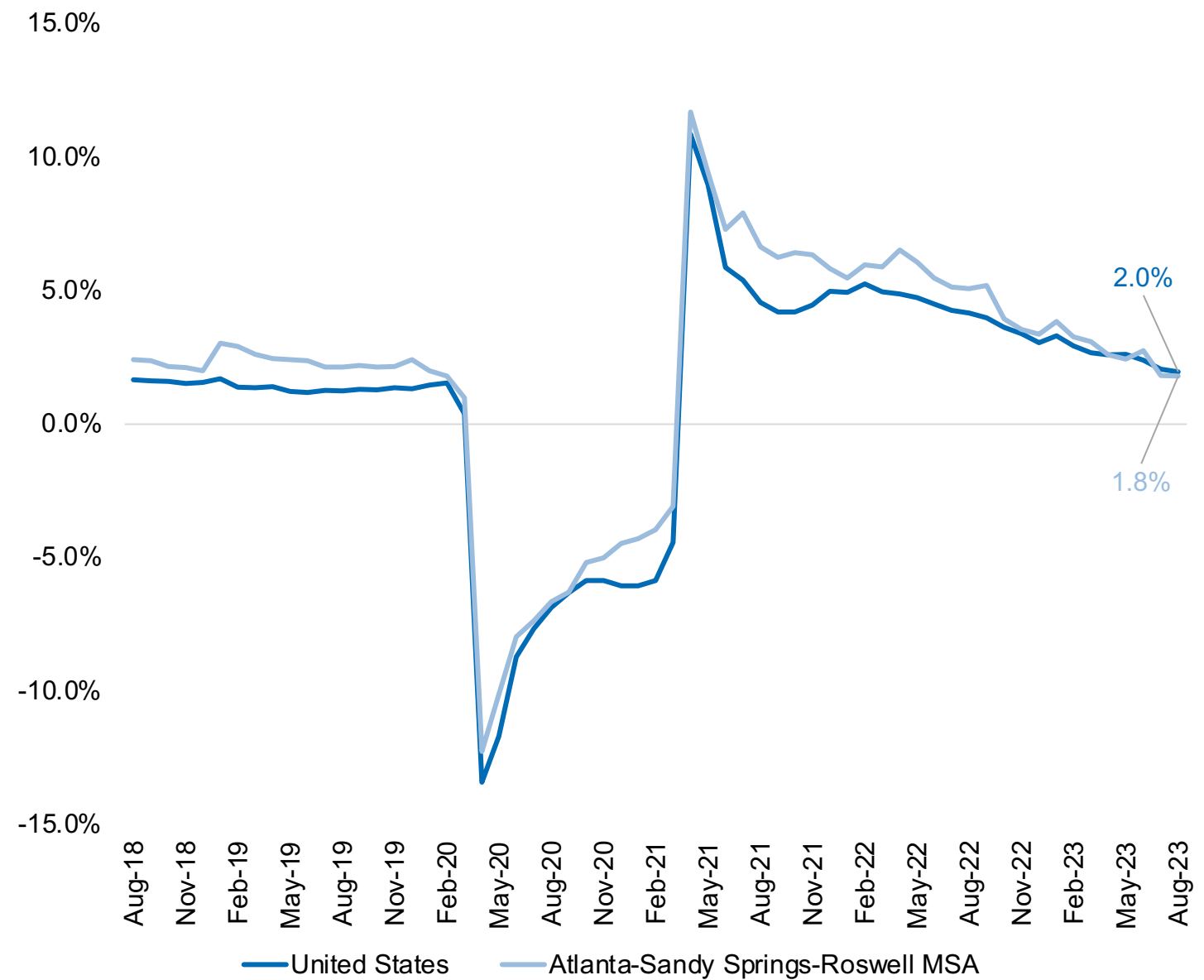
Metro Employment Continues to Slow

The Atlanta Metro has generally reported lower unemployment rates compared with the national average, ending the third quarter of 2023 at 3.2%, a 28-basis-point increase year over year. Recent economic headwinds led employment growth to slow by 329 basis points to 1.8% in the third quarter of 2023.

Unemployment Rate, Seasonally Adjusted



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



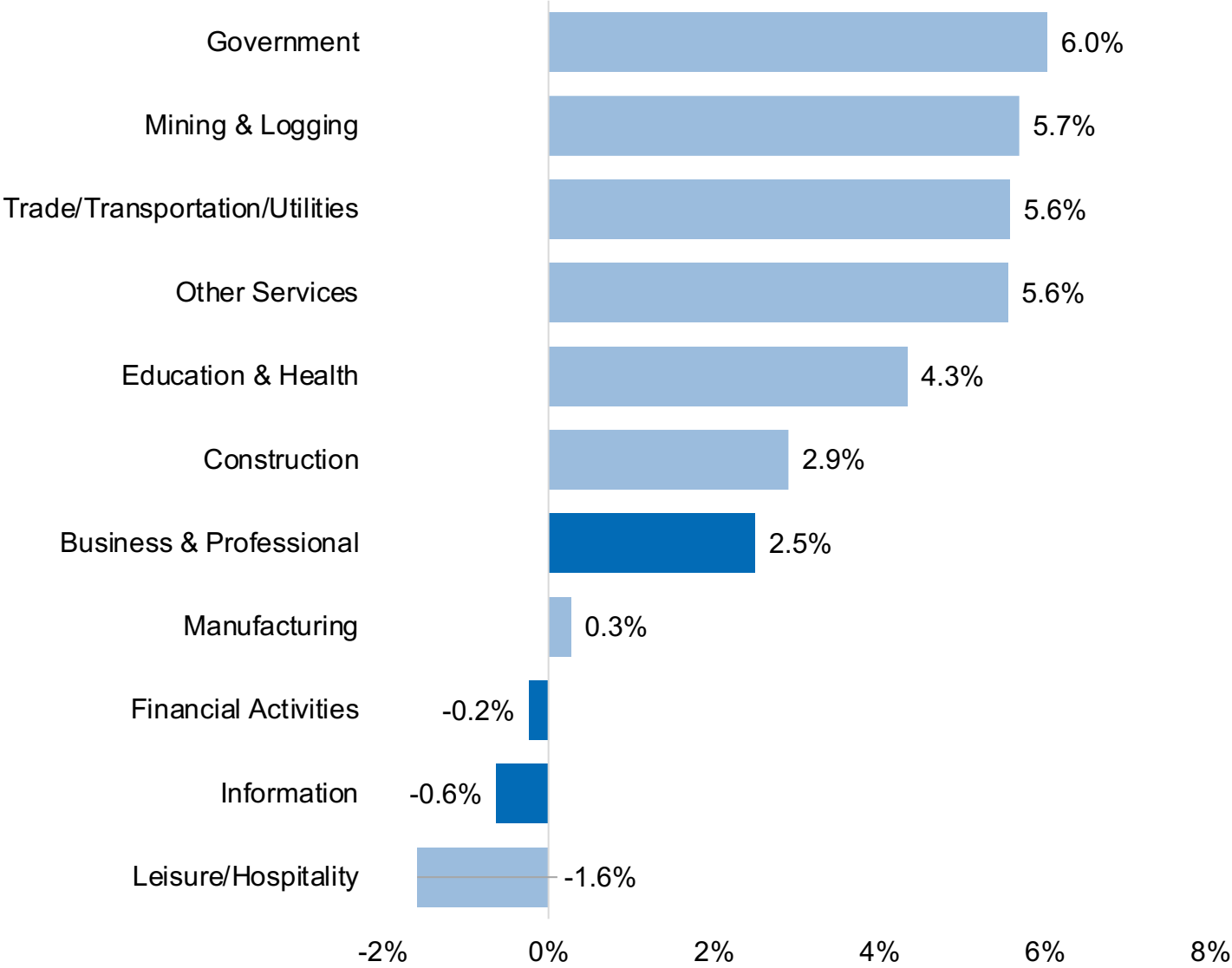
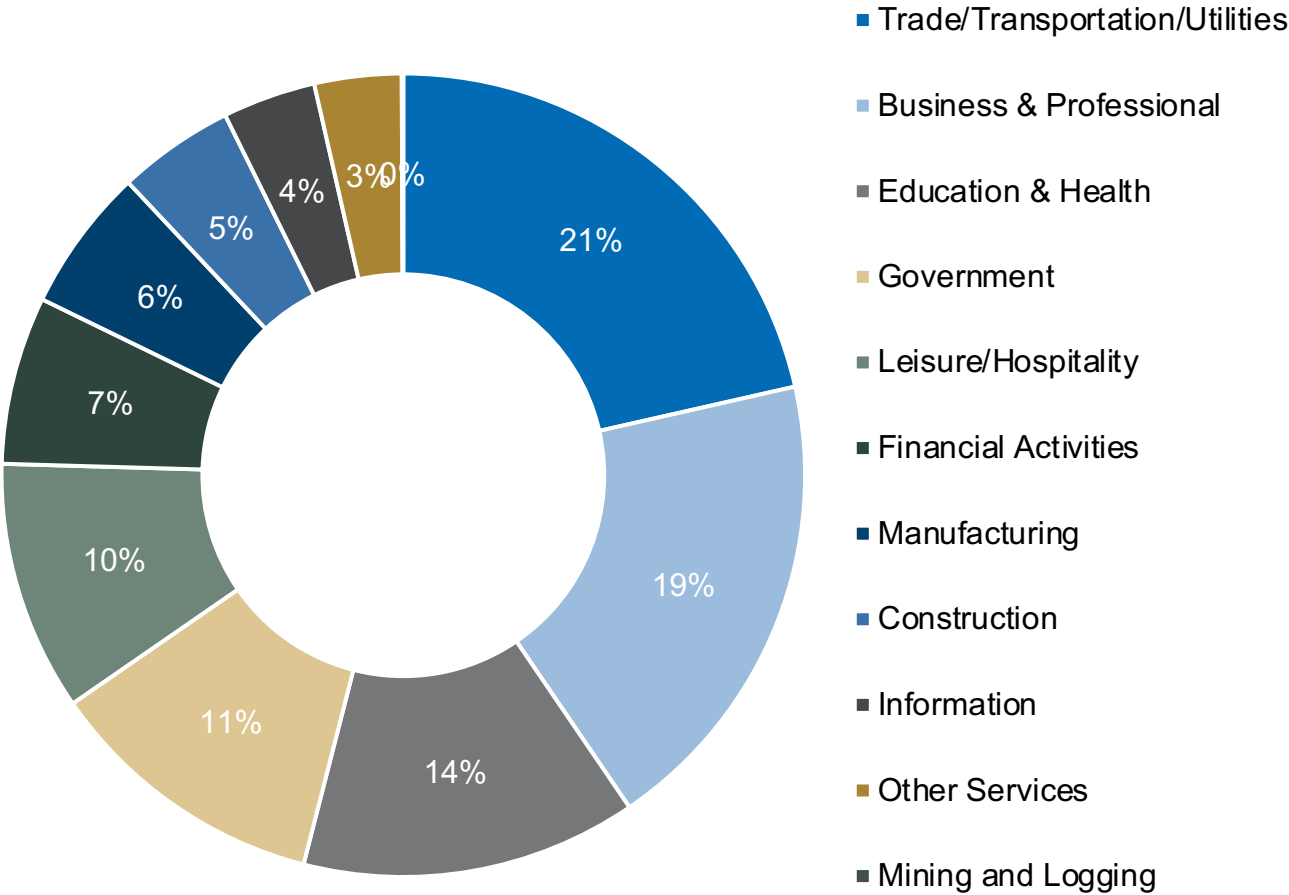
Source: U.S. Bureau of Labor Statistics, Atlanta-Sandy Springs-Roswell MSA

Employment Growth Continues across Most Sectors

Metro Atlanta’s biggest two sectors account for 40.4% of market share . The office-using business and professional sector is the second-largest at 19.0%. Most industries in the metro, except three, reported growth with two office-using industries reporting year-over-year declines of 0.6% and 0.2% in information and financial activities, respectively. The largest office-using industry, business and professional services reported a 2.5% year-over-year gain.

Employment by Industry, August 2023

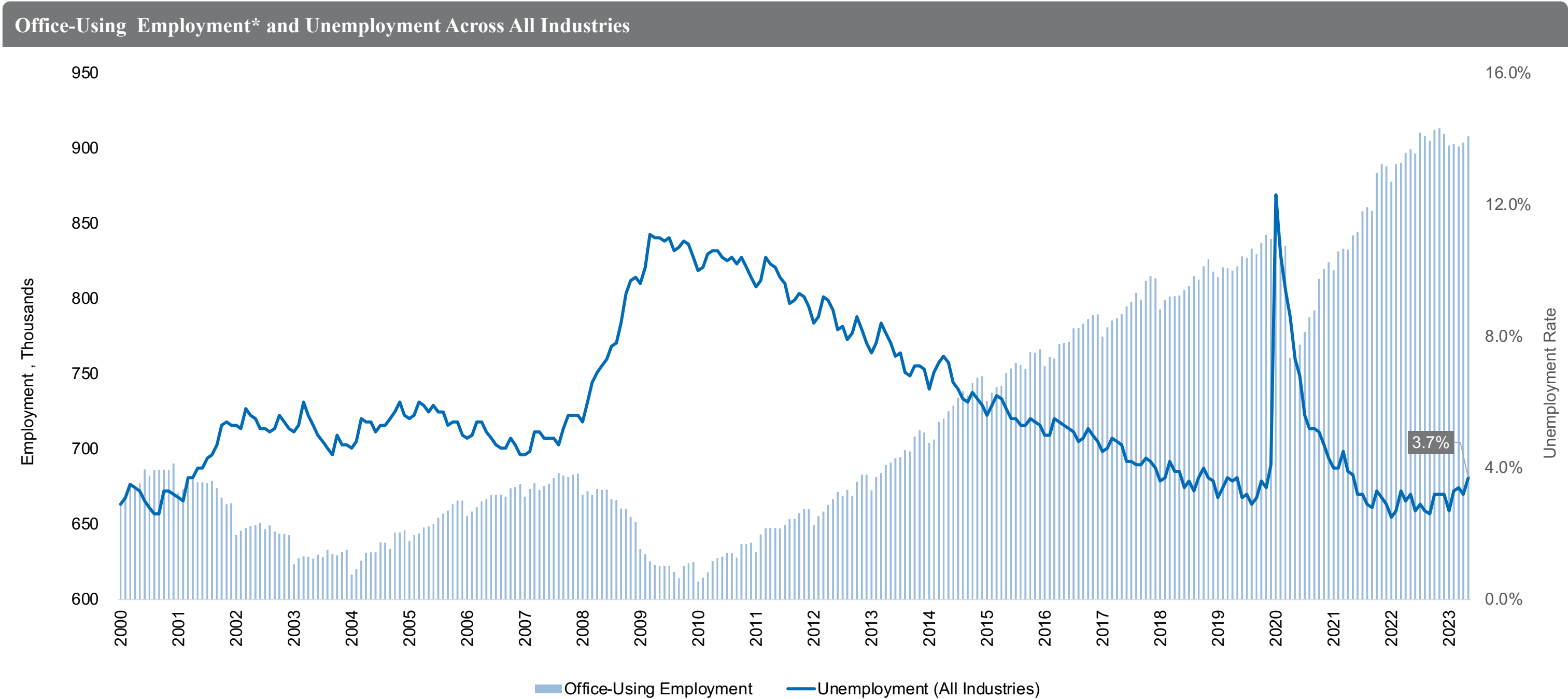
Employment Growth by Industry, 12-Month % Change, August 2023



Source: U.S. Bureau of Labor Statistics, Atlanta-Sandy Springs-Roswell MSA

Overall Office-Using Employment Continues to Grow

Office-using employment in the Atlanta market reached 907,600 employees as of the end of August 2023, decreasing by approximately 5,800 employees from the all-time historical high reported in November 2022. Currently, the non-seasonally adjusted unemployment rate is at 3.7%, below the 3.4% average levels reported in 2019, indicating that office-using jobs likely contribute to most of the unemployment rate.



Source: U.S. Bureau of Labor Statistics, Atlanta-Sandy Springs-Roswell MSA
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

3Q23

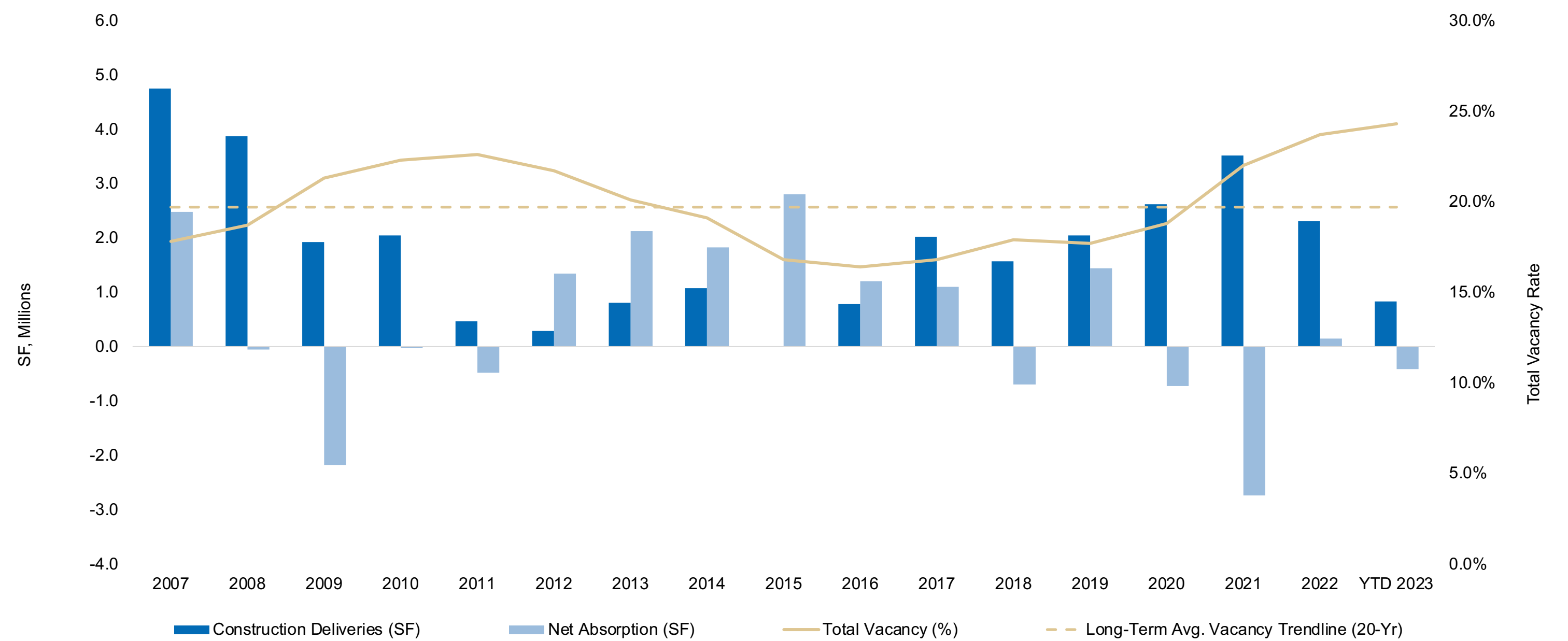
Leasing Market Fundamentals



Vacancy Increases as Construction Deliveries Continue Outpacing Net Absorption

The Atlanta Metro office vacancy rate increased by 70 basis points year over year to 24.3%, reaching an all-time historical high in the third quarter of 2023. Since the historical low of 16.4% vacancy in the fourth quarter of 2016, office occupancies have slowed in the market, with continued new office supply delivering, although at a more muted pace. Despite rising vacancy rates, demand in the market has trended towards a positive baseline in 2022 to 2023 following two years of negative occupancy in 2020 to 2021.

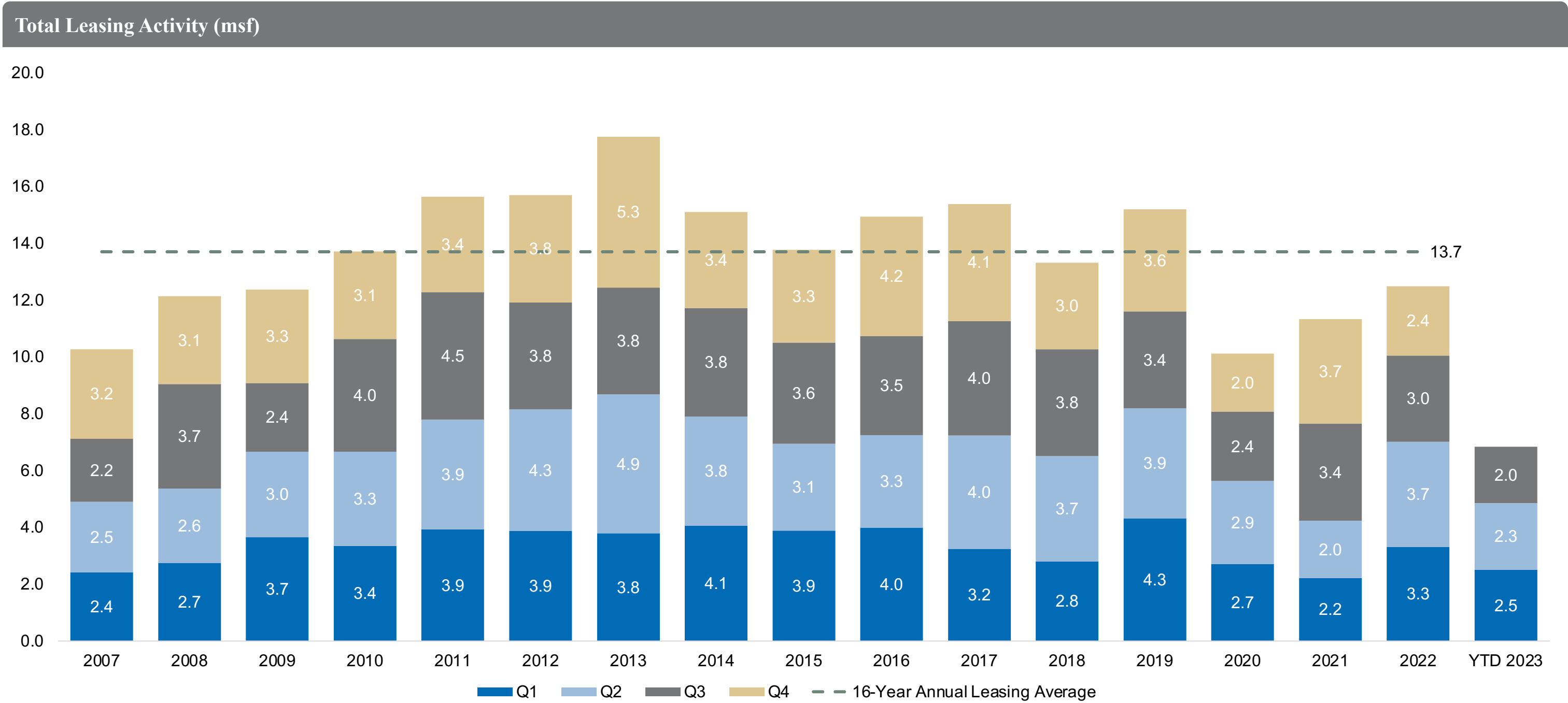
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Declining Deal Activity Results in Slowing Leasing Activity

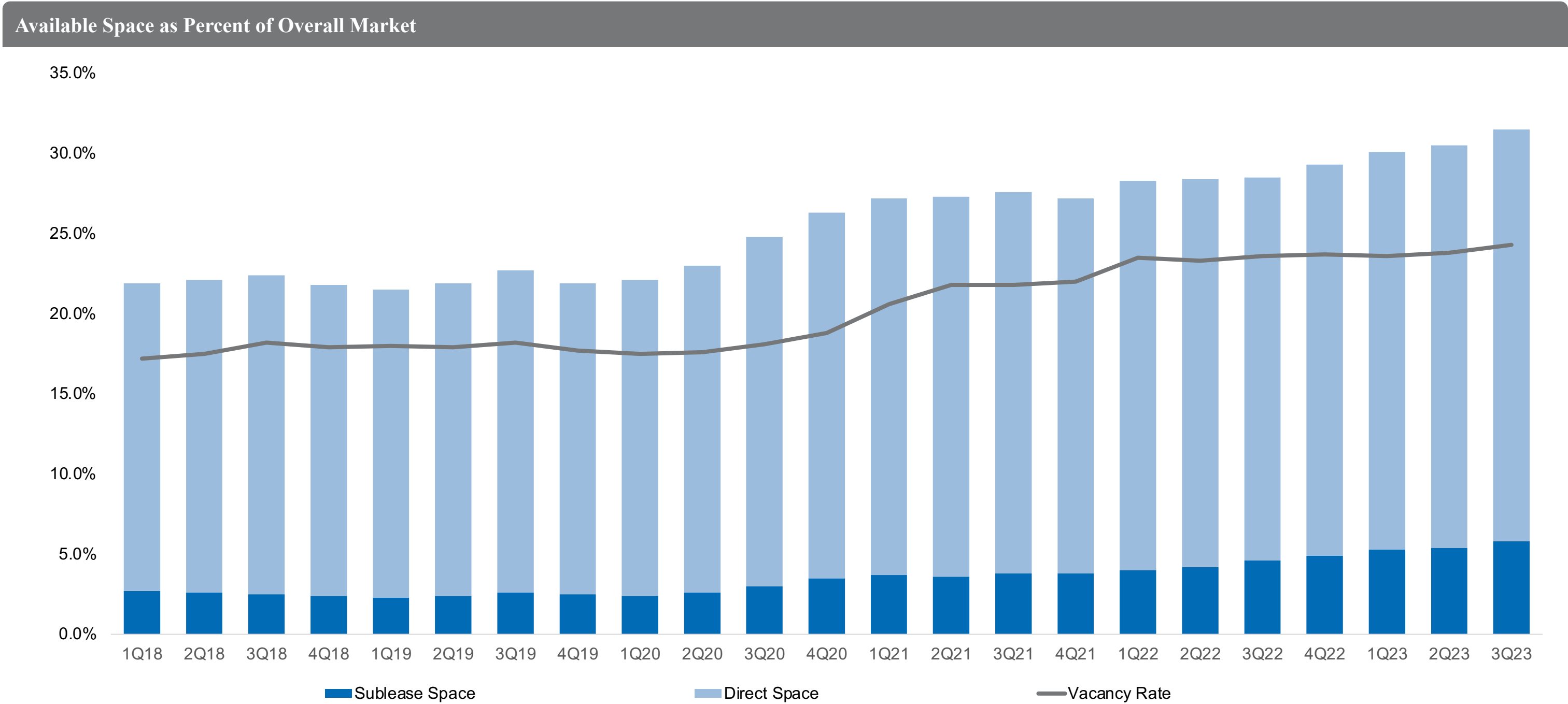
Leasing activity in the market remains slower, with year-to-date leasing activity slightly outpacing that of 2021 at 4.8 MSF. Since 2007, third-quarter leasing activity averaged 3.4 MSF, with the third quarter of 2023 well below historical averages at 2.0 MSF. Deal size averaged 4,805 SF in the third quarter of 2023, an average of 18% less than the previous quarter and 23.8% SF less than a year ago. The slowing leasing activity pace can be attributed to a slowing economy and more challenging debt liquidity environment, as well as the return-to-office push and pull between employees and employers.



Source: Newmark Research, CoStar

Availabilities Increase to New High

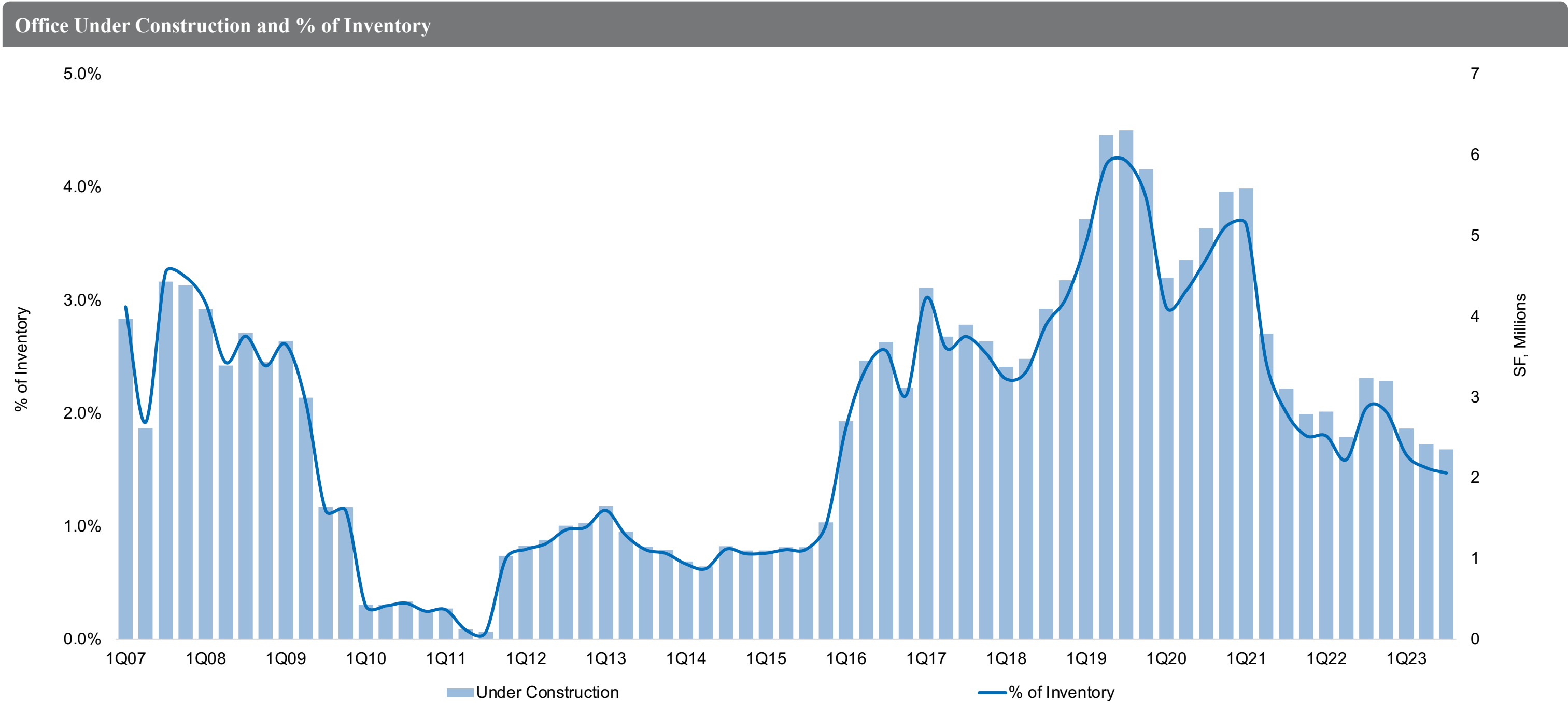
Sublease availabilities in the Atlanta Metro area have generally edged up since the pandemic, with the third quarter of 2023 reporting an all-time high of 5.8%, a 40-basis basis-point increase over the prior quarter. Direct availabilities have also generally increased since the pandemic, ending the third quarter of 2023 at an all-time high of 25.7%. Vacancies continue to increase alongside availabilities, reaching a new high at 24.3%.



Source: Newmark Research, CoStar

Construction Activity Continues to Slow

Construction activity has declined since the highs reached in 2019 to the beginning of 2021. As of the third quarter of 2023, the market had 2.4 MSF under construction, accounting for 1.5% of the market's inventory, indicating less risk of overbuilding.

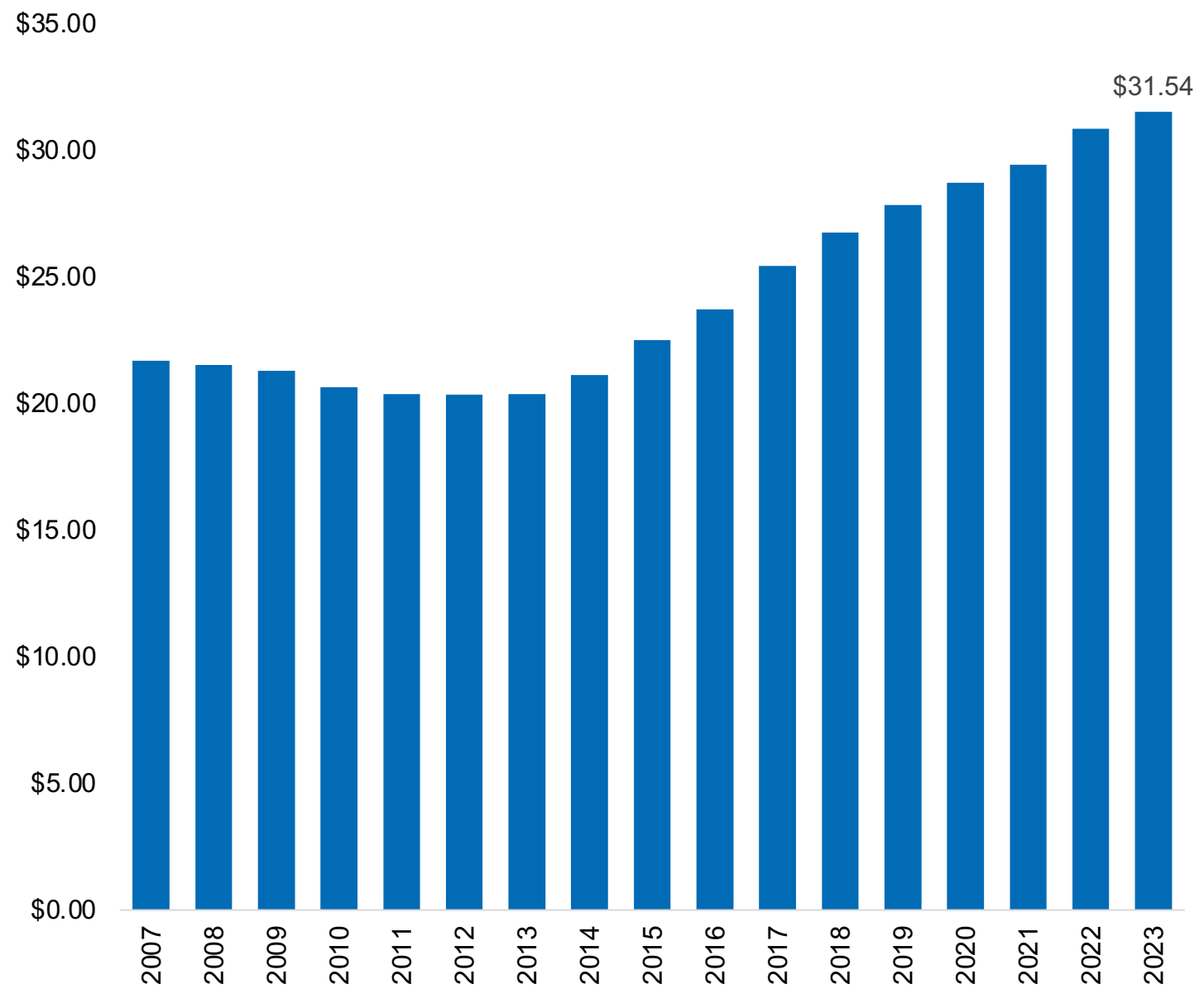


Source: Newmark Research, CoStar

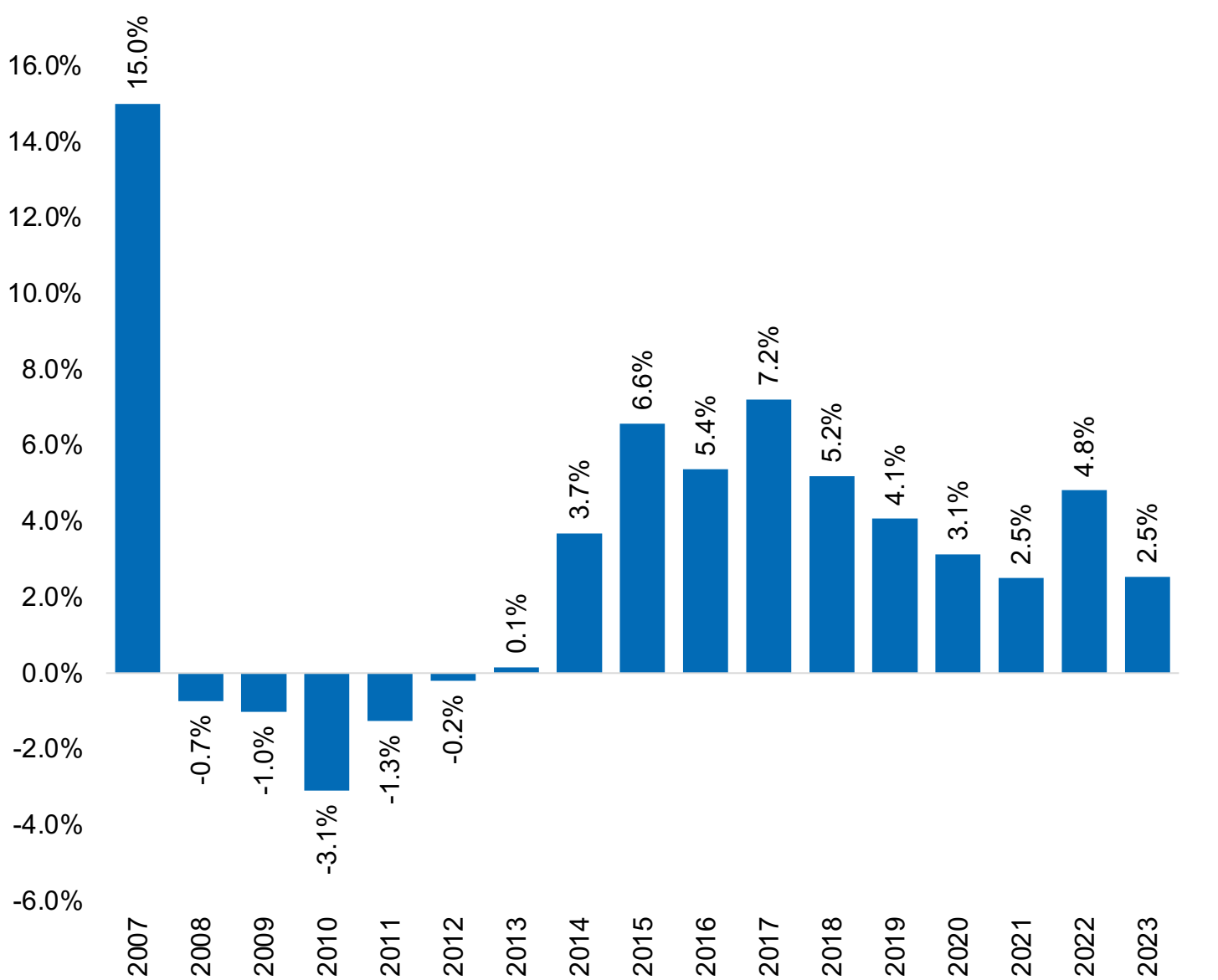
Asking Rates Reach New Historic Highs

Rents increased in the third quarter of 2023 by 2.5% year over year to \$31.54/SF, a new all-time high. Generally, asking rents are likely to remain elevated in a market impacted by inflation and increasing operating costs. Except for a spike in 2022, the rate of rent growth has slowed since 2017.

Office Average Asking Rent, \$/SF, FS



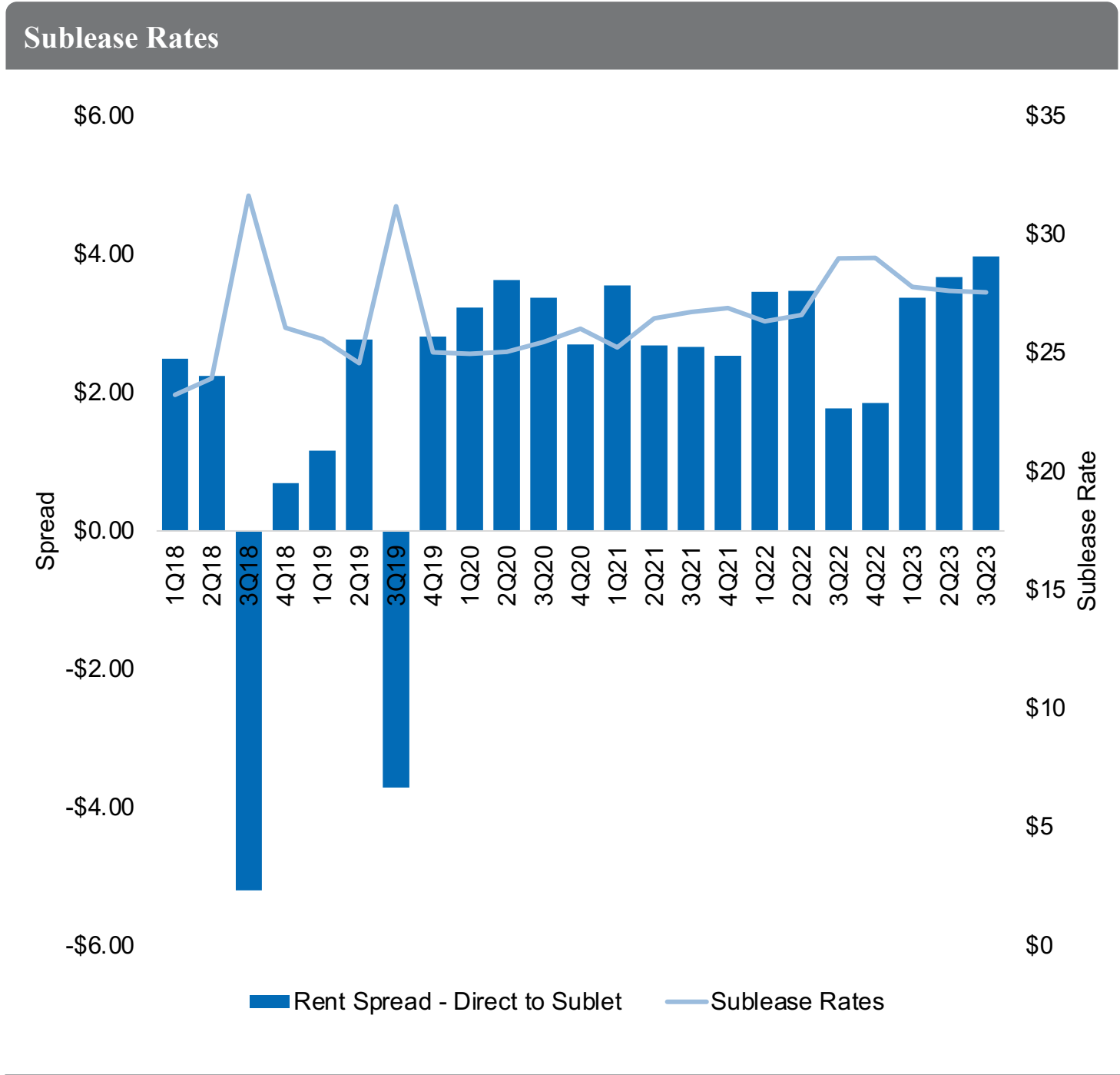
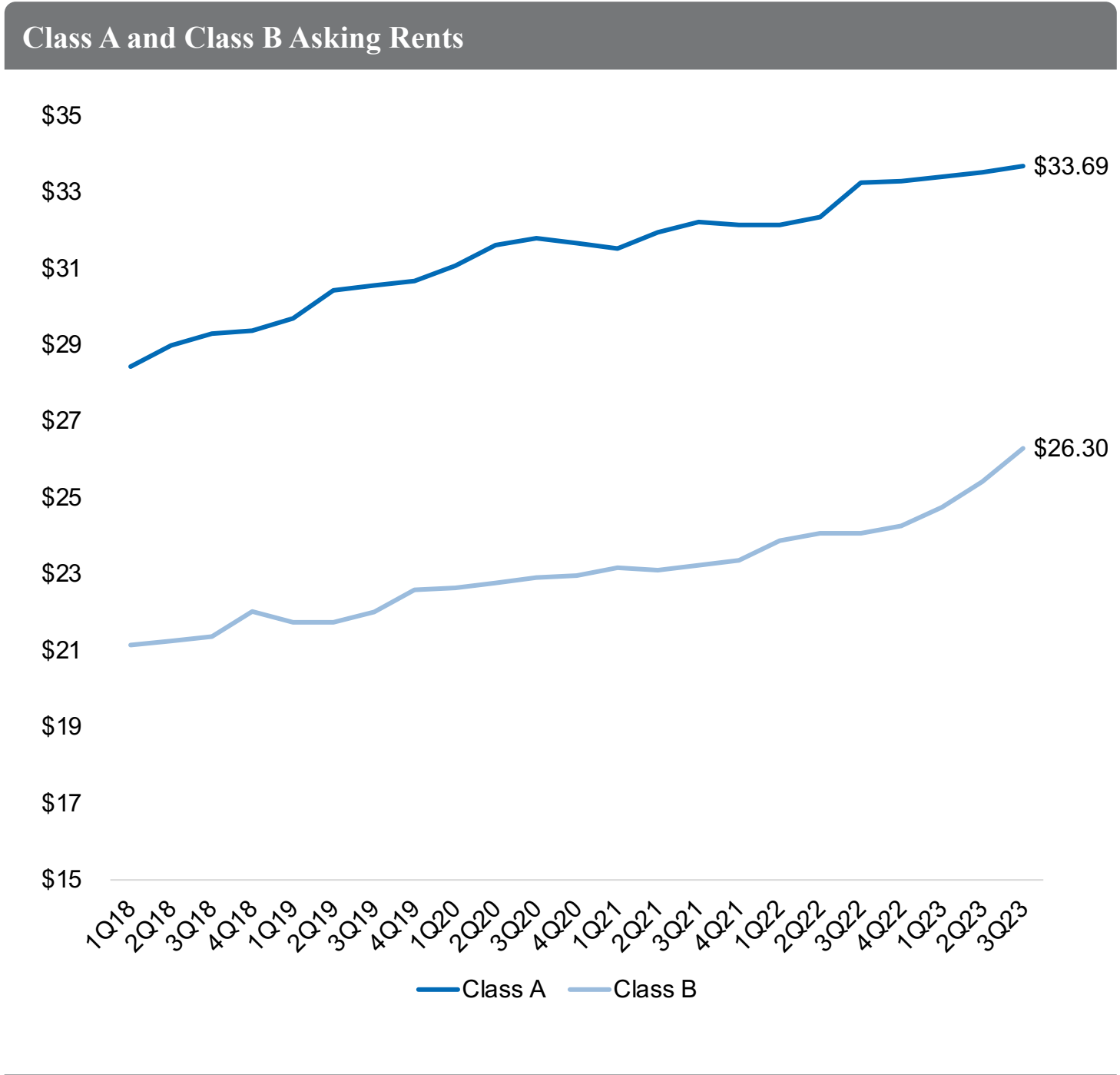
Year-over-Year Asking Rent Growth Rate



Source: Newmark Research, CoStar

Decreasing Rent Spread on Class A Assets

As of the end of the third quarter of 2023, Class A rents ended at \$33.69/SF, while Class B reported \$26.30/SF. Rent difference between the two assets are at \$7.39/SF, a 13.5% spread decrease since 2019. The closing rent spread between Class A and Class B assets will likely push more tenants to shed unused space and lease smaller footprints in higher-quality assets. Sublease rates have lowered in recent quarters, decreasing by 0.2% quarter-over-quarter. The rent spread between direct and sublease rates was \$3.97/SF at the end of the third quarter of 2023.



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Persists

Despite slowing leasing activity, flight to quality continues as a trend in the market due to the closing spread in rental rates on Class A spaces. As of the end of the third quarter of 2023, Class A space accounted for 64.4% of the market’s leasing activity by SF, but only 47.3% of the market’s deal volume. Average leases signed in Class A space were 6,535 SF and continue to remain larger than the average market deal size at 4,804 SF.

Notable 3Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
AT&T	1277 Lenox Park Boulevard	Buckhead	New Lease	129,655
The building is part of a five-building campus formerly owned by AT&T and which was never entirely decommissioned, allowing physical occupancy in the same quarter.				
Lonza America Inc. (Arxada)	1200 Bluegrass Lakes Pkwy	North Fulton	Renewal	93,963
Swiss company with global operations renewed their full-building lease in this suburban submarket, that was expiring in the first quarter of 2025.				
FirstKey Homes	600 Galleria Parkway	Northwest	New Lease	51,442
A portfolio company formed by Cerberus Capital, which provides acquisition and property management to a national, dedicated single-family rental portfolio. The new space will serve as their HQ.				
Bradley Arant Boult Cummings LLP	1230 Peachtree Street	Midtown	New Lease	33,229
Nashville-based national law firm expanding into Georgia with a new office in Atlanta with more than 20 lawyers.				
ExoTec North America Inc.	1745 Peachtree St NE	Buckhead	Sublease	39,896
The company is relocating from 200 Ottley Dr NE, which is also in Buckhead. They opened their North American location in 2022.				

Source: Newmark Research

Atlanta Office Submarket Overview (Page 1 of 2)



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Atlanta Office Submarket Overview (Page 2 of 2)



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Atlanta Office Submarket Map

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