

4Q23

Atlanta Office Market Overview



Market Observations

Economy

- The market's unemployment rate ticked up by 49 basis points year over year to 3.5% but remained well below the five-year average of 4.0%.
- Although job growth pace has slowed compared with recent highs to 2.5% year over year, employment growth continues to outpace pre-pandemic levels, with 2019 growth averaging 2.4%.
- Seven of the 10 sectors reported employment growth, with education and health sector leading job gains at 7.0% over the past 12 months.
- Office-using jobs in the market reached an all-time historical high of 917,780 employees at the end of November 2023, reflecting a 10.1% growth since 2019.

Major Transactions

- The General Services Administration (GSA) inked the largest deal of the quarter, signing a 94,610 SF lease at Lakewood II 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 quarter of 2023, with four of the top five largest deals signed in Class A assets.
- The Buckhead and Cumberland/Galleria submarkets each had two of the largest deals signed in the fourth quarter, with one relocation to Midtown rounding out the top five largest deals.

Leasing Market Fundamentals

- Annual full-service asking rental rates increased to an all-time high of \$31.79/SF, a 2.8% increase year over year.
- Overall vacancy rates increased by 80 basis points year over year to a near-historical high of 24.4%, driven by supply outpacing net absorption.
- The under-construction pipeline remained unchanged at 2.1 MSF from the third quarter of 2023, but has generally been slowing, which should lower the risk of overbuilding.
- The average deal for the fourth quarter of 2023 was 5,381 SF, an average of 10.9% more than the previous quarter but 14.3% less than a year ago.

Outlook

- Return To Office is expected to gradually increase throughout 2024.
- Class A assets with Spec suites will continue to garner the majority of the small to mid-size deals in the market.
- Spending on new construction is expected to remain flat for 2024.
- 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

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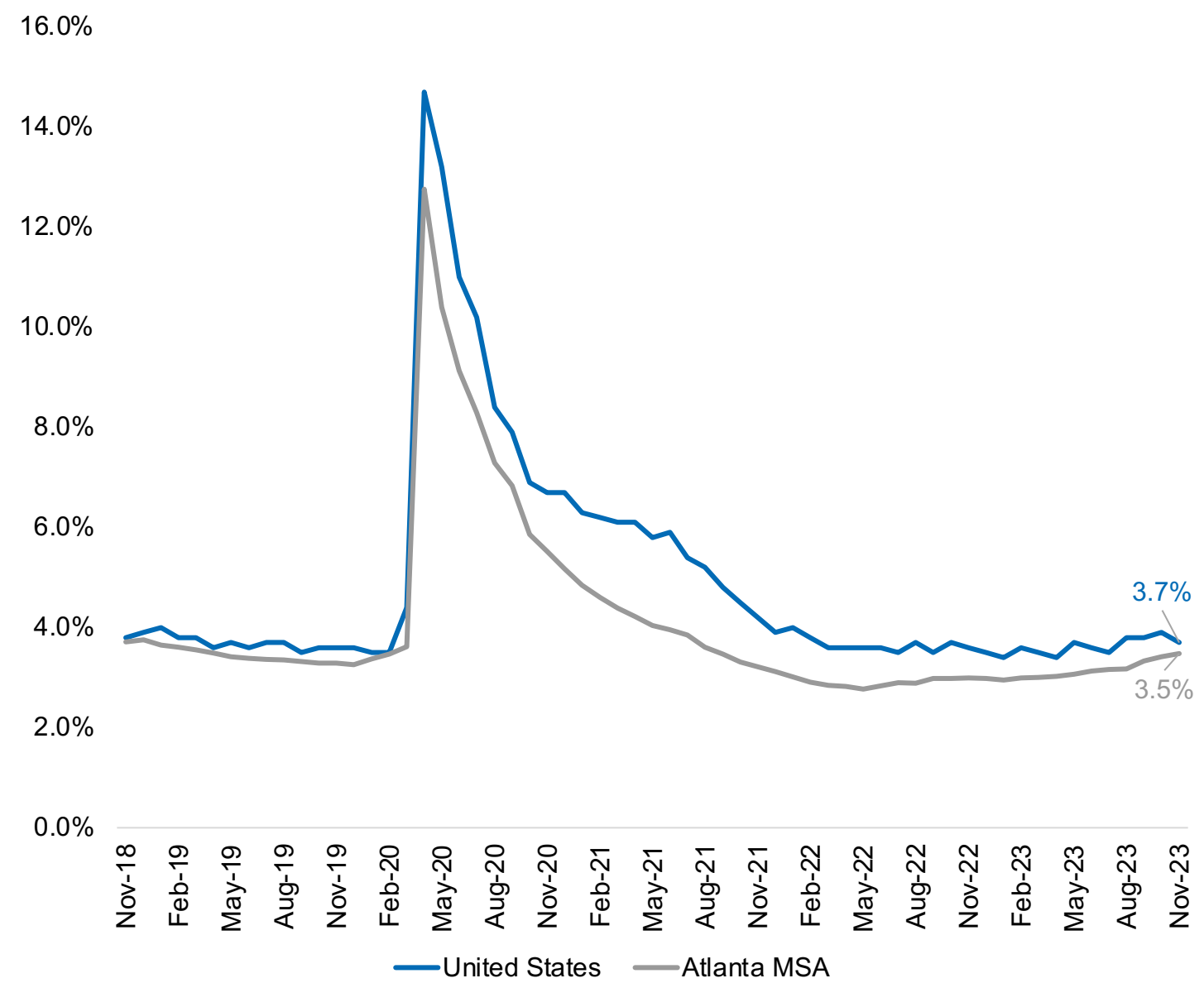
Economy



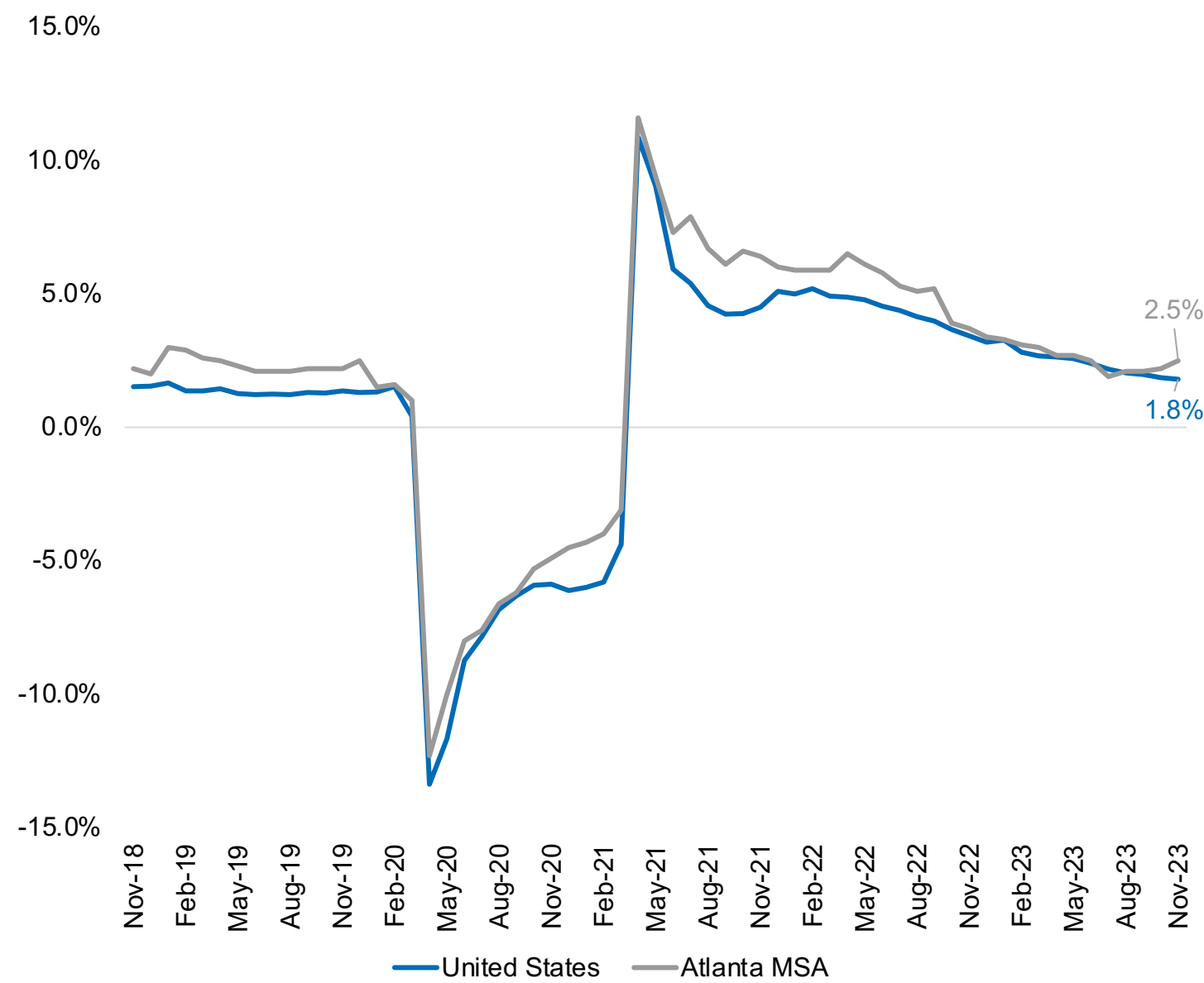
Metro Employment Trends

The Atlanta market has generally reported lower unemployment rates compared with the national average, while also generally being an outperformer in employment growth. Recent national economic headwinds have pushed the metro’s unemployment rate to increase by 49 basis points year over year, while still below the national rate by 22 basis points. The employment year-over-year growth rate slowed by 120 basis points compared with the previous year, although it improved by 30 basis points over the previous quarter.

Unemployment Rate, Seasonally Adjusted



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

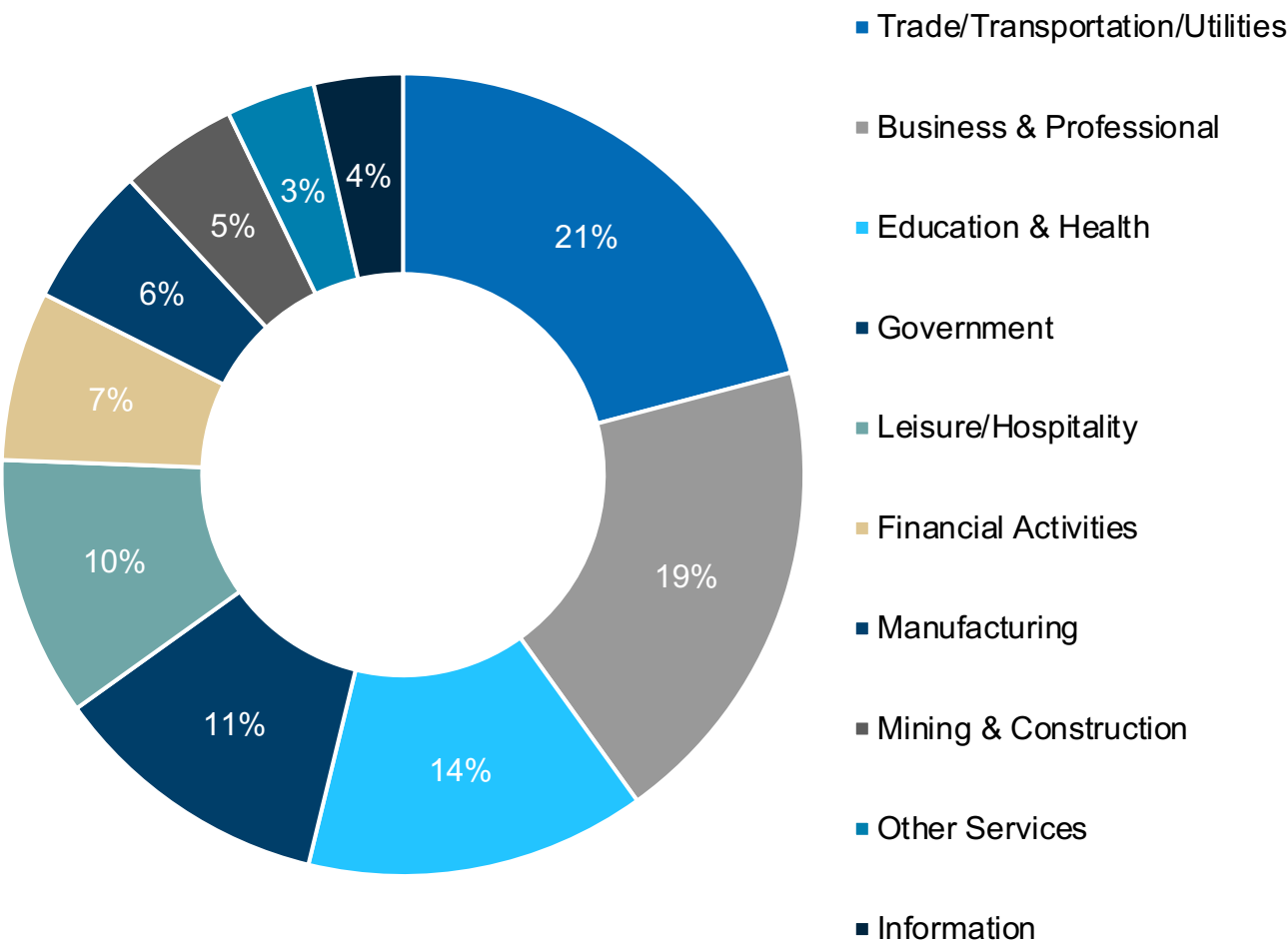


Source: U.S. Bureau of Labor Statistics, Atlanta MSA

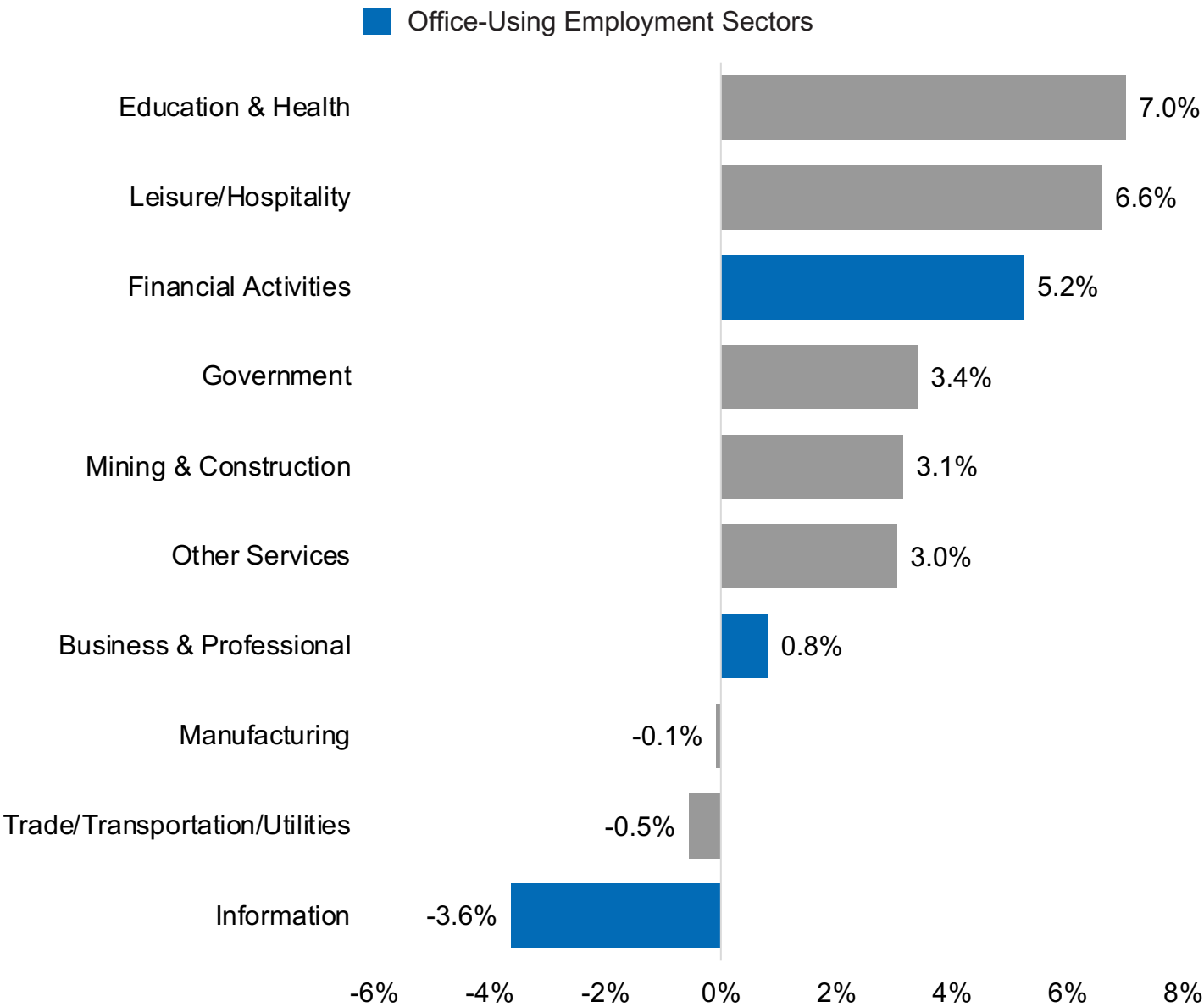
Employment Growth Continues Across Most Sectors

The Atlanta market has a high industry diversity with the top two industries, accounting for only 40.1% 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 19.2%. Most industries in the metro reported growth, with the office-using information sector being a notable exception at a 3.6% contraction year over year, while business and professional grew 0.8% and financial activities growing by 5.2%.

Employment by Industry, November 2023



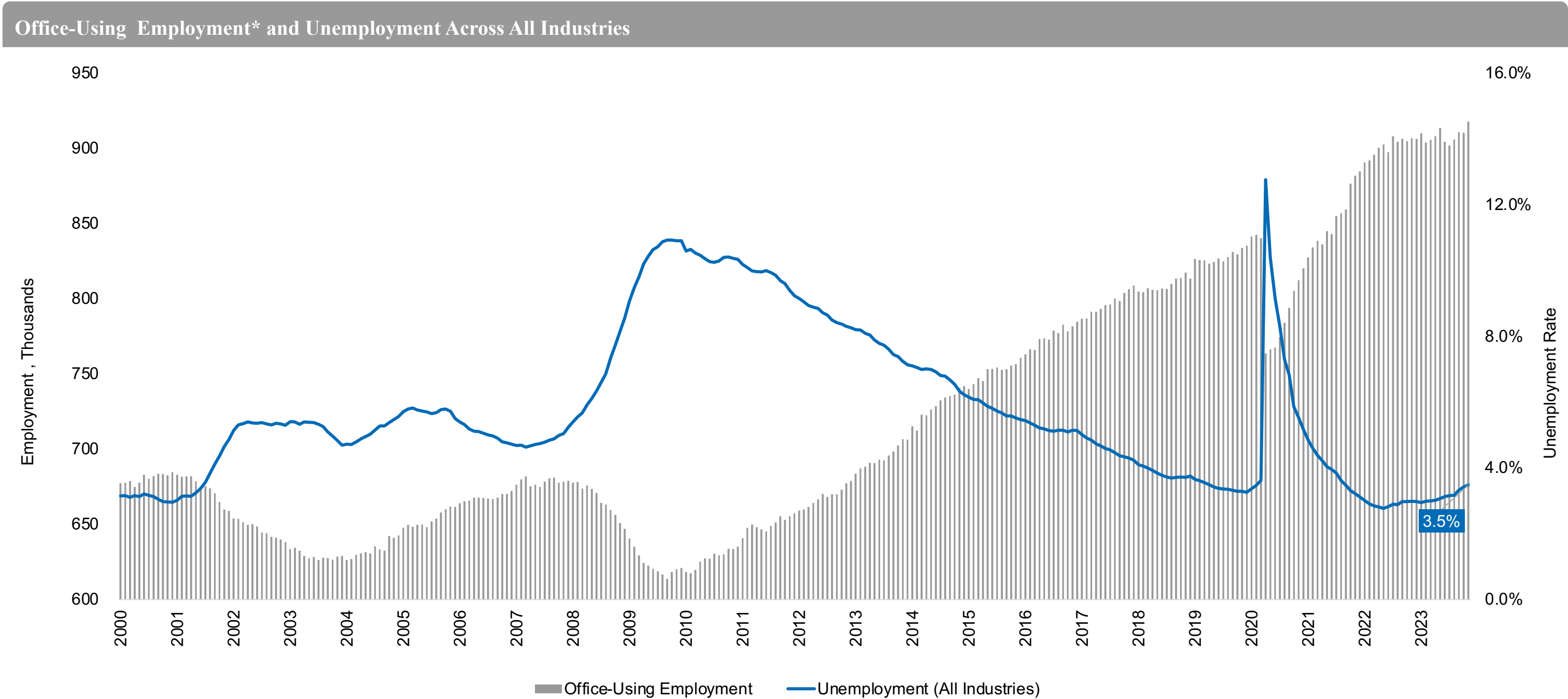
Employment Growth by Industry, 12-Month % Change, November 2023



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

Overall Office-Using Employment at Historical High

Office-using employment in the Atlanta Metro increased 1.2% year over year to 917,780 employees, a historical high. Currently, the seasonally adjusted unemployment rate is at 3.5%, above the 3.4% average levels reported in 2019, indicating that other industries outside of office-using jobs likely contribute to most of the unemployment rate.



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.

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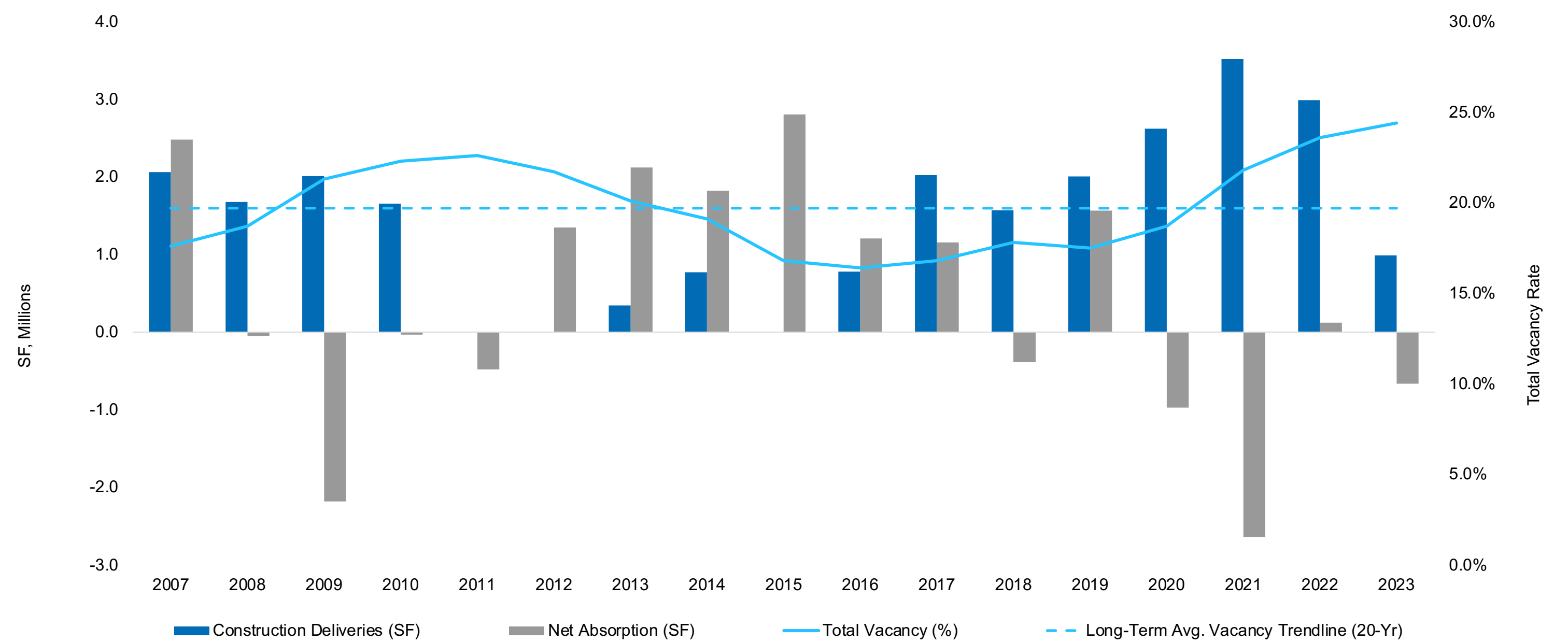
Leasing Market Fundamentals



Vacancy Increases as Year-to-Date Construction Deliveries Outpace Net Absorption

The Atlanta office vacancy rate increased by 80 basis points year over year to 24.4% in the fourth quarter of 2023. Starting in 2021, office occupancies slowed in the market and was outpaced by new supply. As the volume of deliveries decreased since the peak in 2021, supply moved towards being more in balance with demand. Vacancy rates have remained elevated in the market due to older office buildings sitting vacant as occupiers continued a flight to quality towards newer buildings.

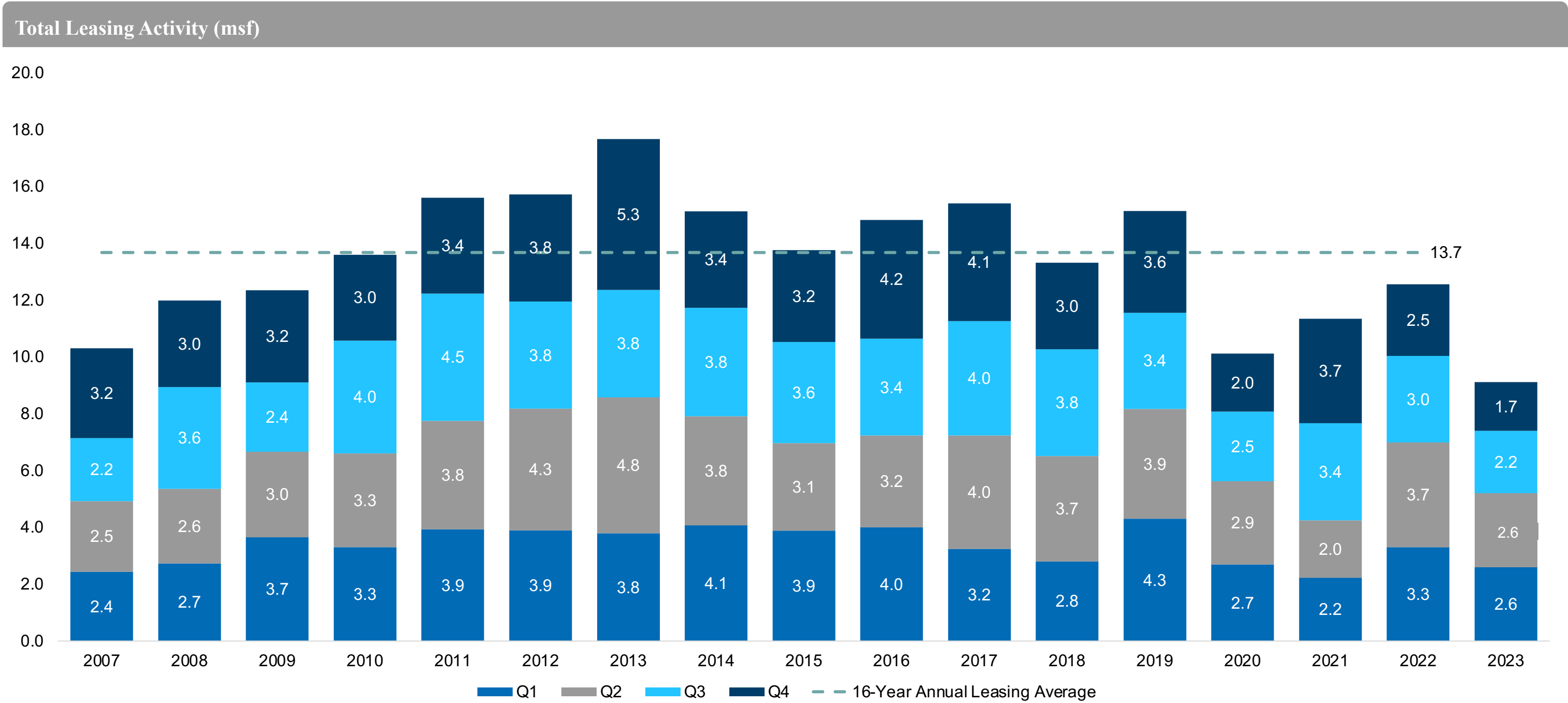
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Leasing Activity Continues to Slow, Impacted by Smaller Deals Done

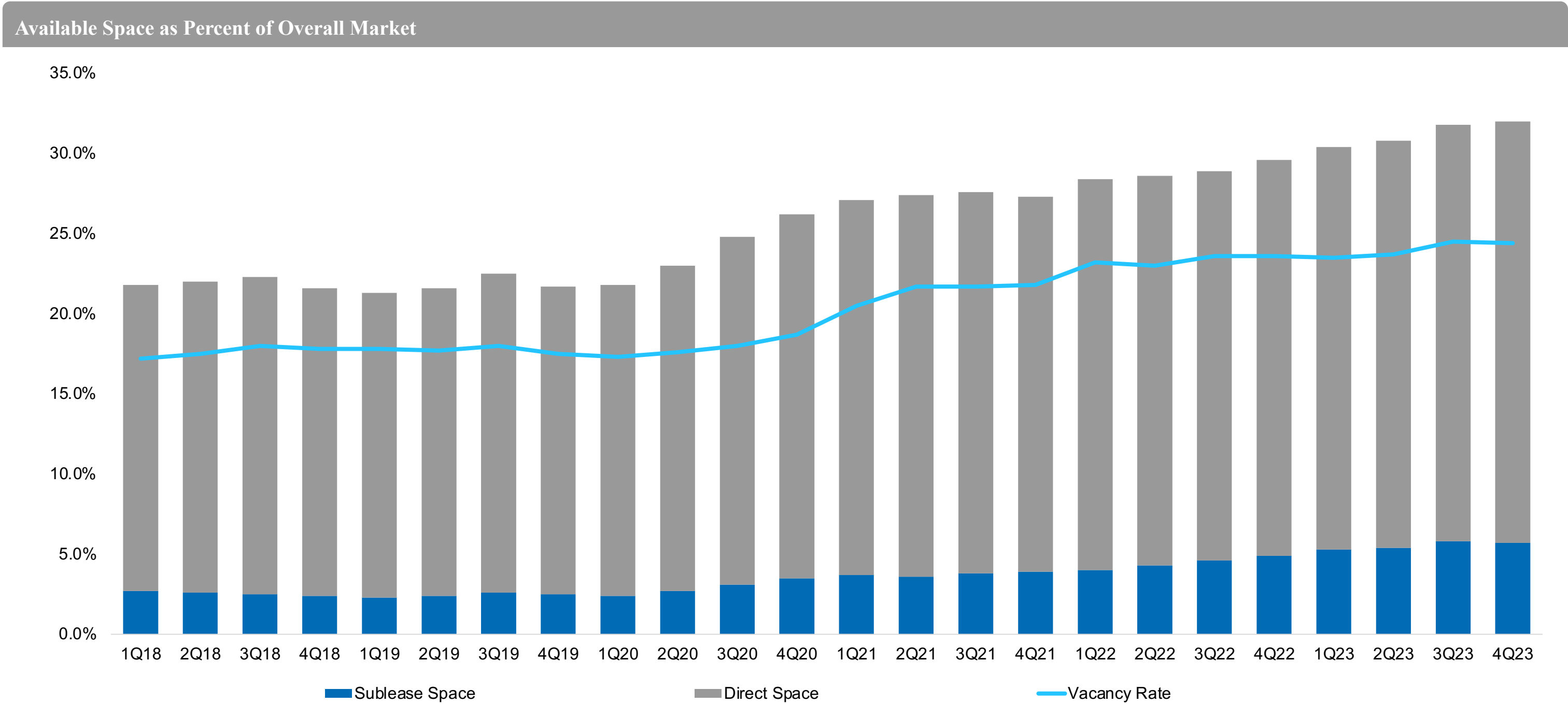
Leasing activity in the market remains slower, with 2023 leasing activity closing at 9.1 MSF, comparatively lower than yearly activity reported over the past 16 years at 13.7 MSF. Since 2007, fourth-quarter leasing activity averaged 3.3 MSF, with the fourth quarter of 2023 significantly below that average at 1.7 MSF. Deal size averaged 5,381 SF in the fourth quarter of 2023. The leasing activity is indicative of recent rightsizing trends.



Source: Newmark Research, CoStar

Overall Availability Increases to New High

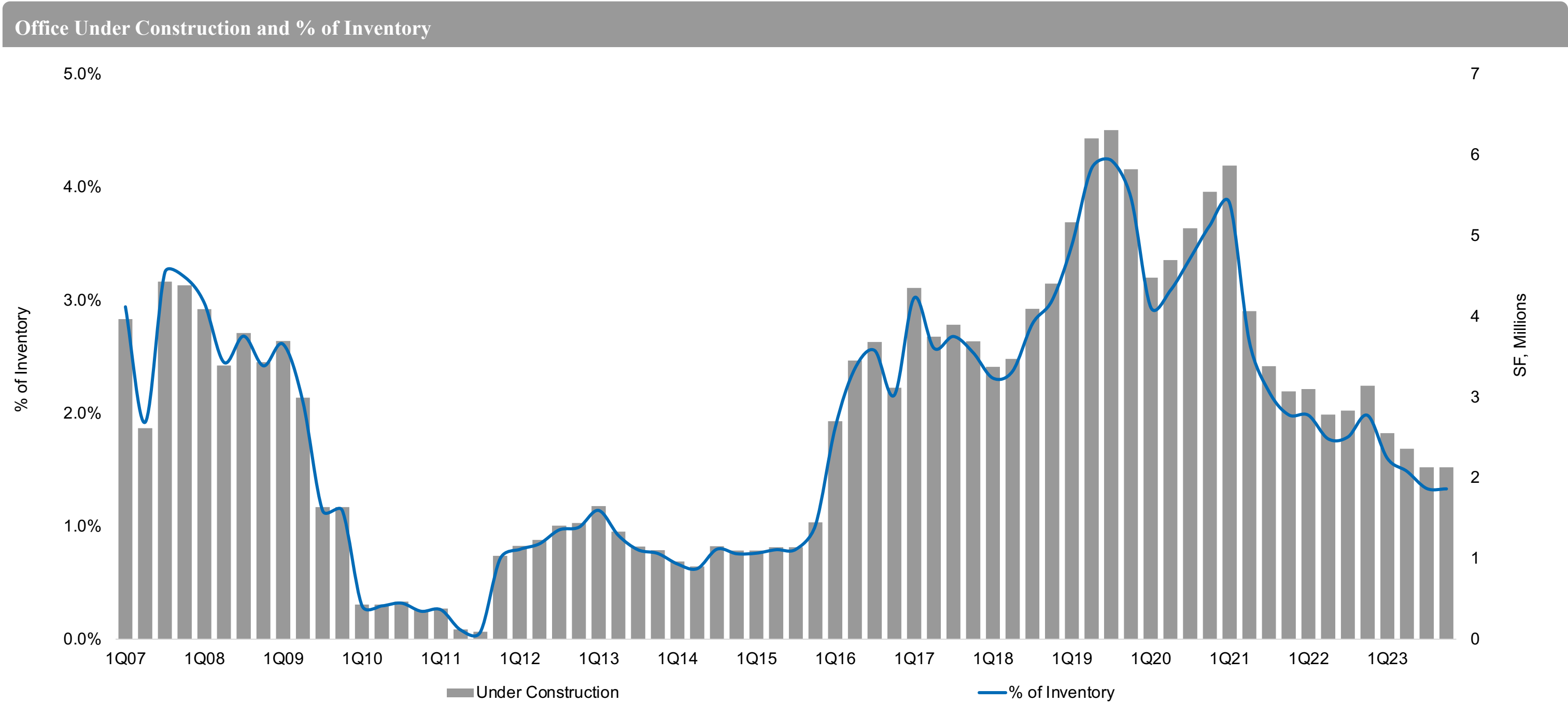
In the fourth quarter of 2023, sublease availability eased 10 basis points from the all-time high of 5.8% in the previous quarter, finally reversing a trend of generally edging up since the pandemic. Direct availabilities have also generally increased since the pandemic, ending the fourth quarter of 2023 at an all-time high of 26.3%. Like sublease availability, vacancy eased by 10 basis points in the fourth quarter of 2023 from the all-time high of 24.5% in the previous quarter.



Source: Newmark Research, CoStar

Construction Activity Unchanged from Previous Quarter

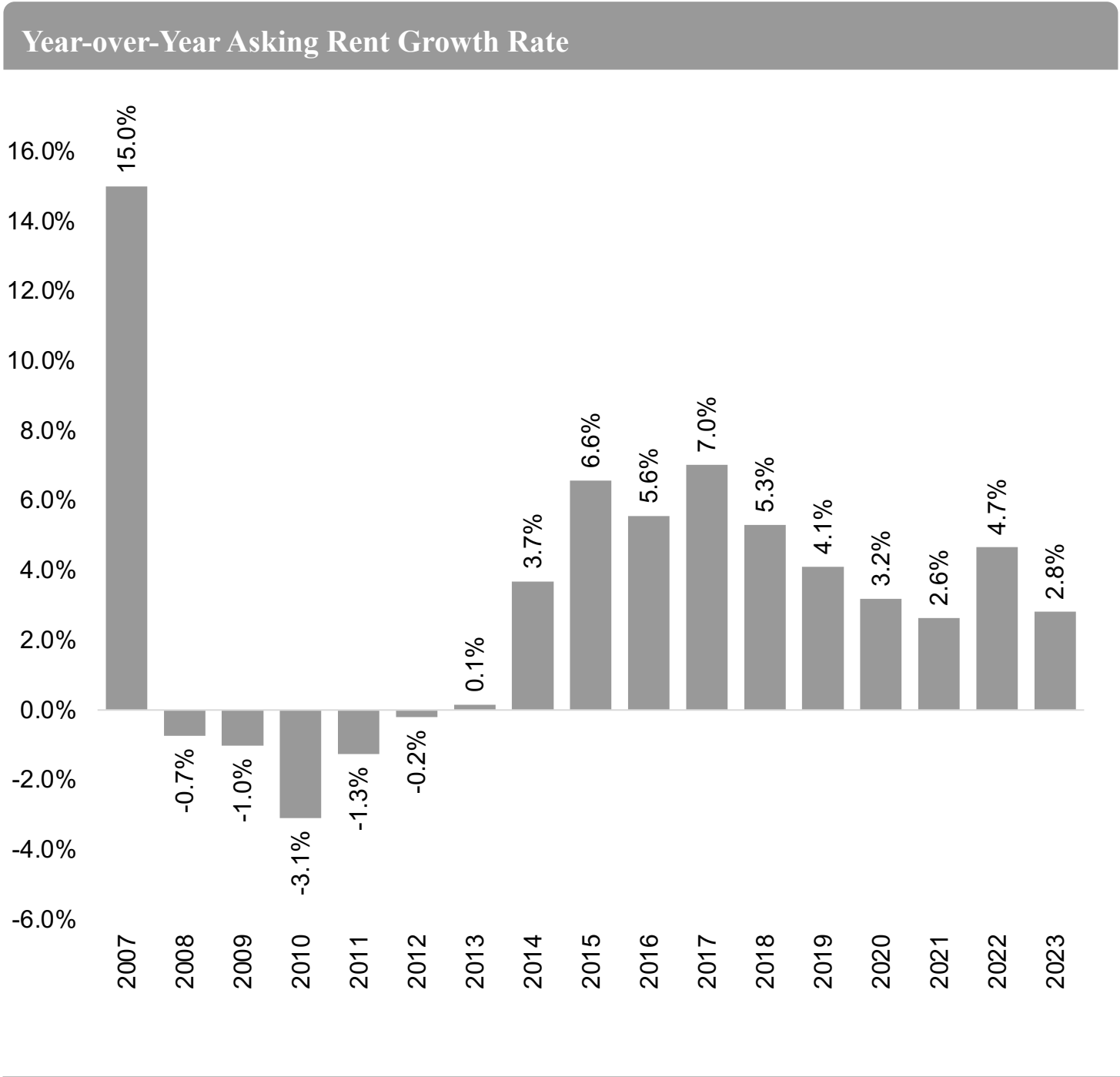
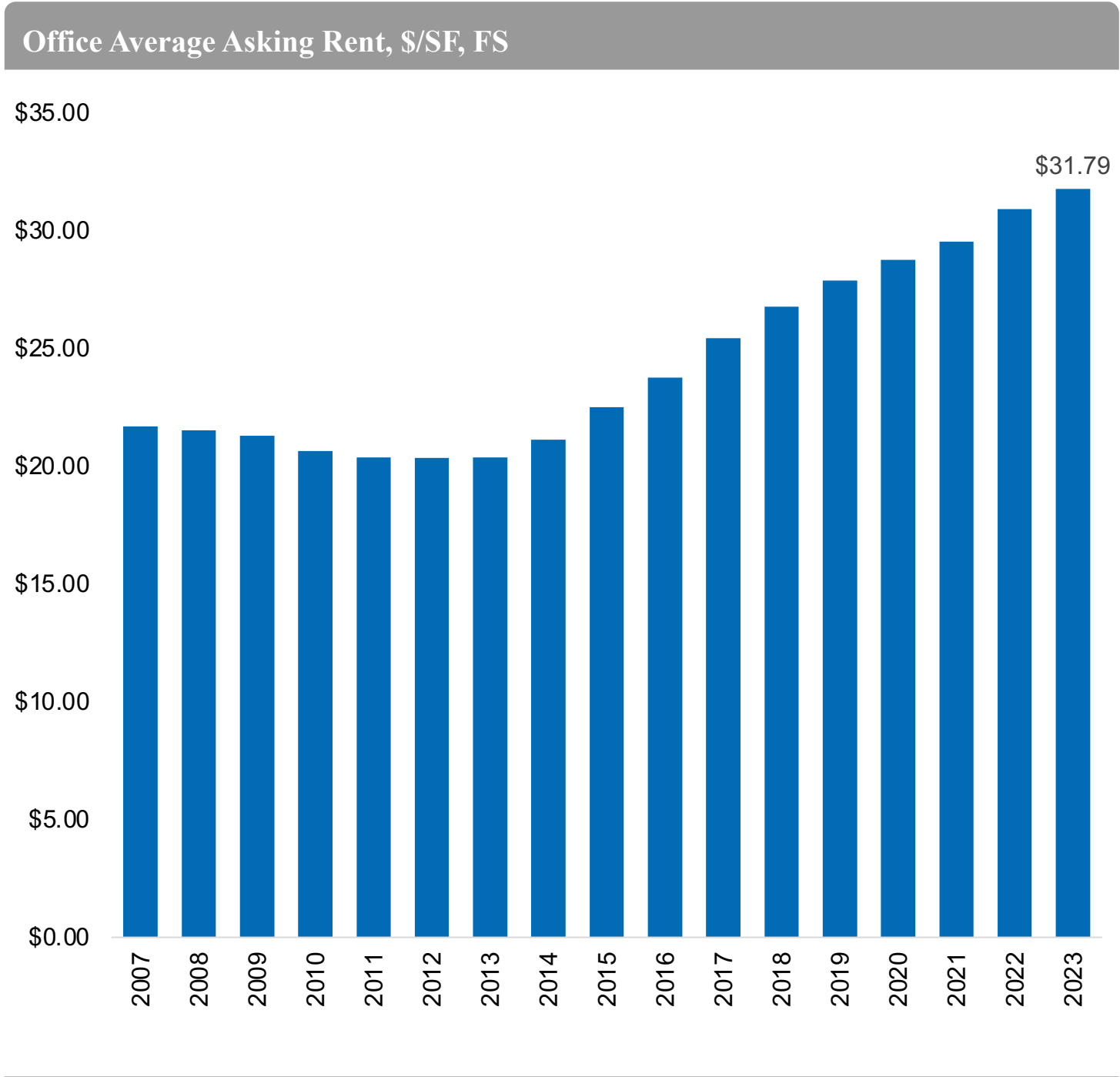
As of the fourth quarter of 2023, the market had 2.1 MSF under construction, unchanged from the previous quarter. Construction activity has declined since the highs reached in 2019 to the beginning of 2021, indicating less risk of overbuilding. New deliveries will continue to be supported by a flight-to-quality space in the market where new product is built, rather than renovating older, obsolete buildings.



Source: Newmark Research, CoStar

Asking Rents Reach All-Time High

Rents continued increasing in the fourth quarter of 2023, reaching an all-time historical high of \$31.79/SF. Rental rates continue trending upwards due to rising operating expenses and inflation. Asking rents are likely to remain elevated, coinciding with aggressive concession packages market-wide. Rent growth pace has slowed to 2.8% in 2023, compared to 4.7% growth in 2022.

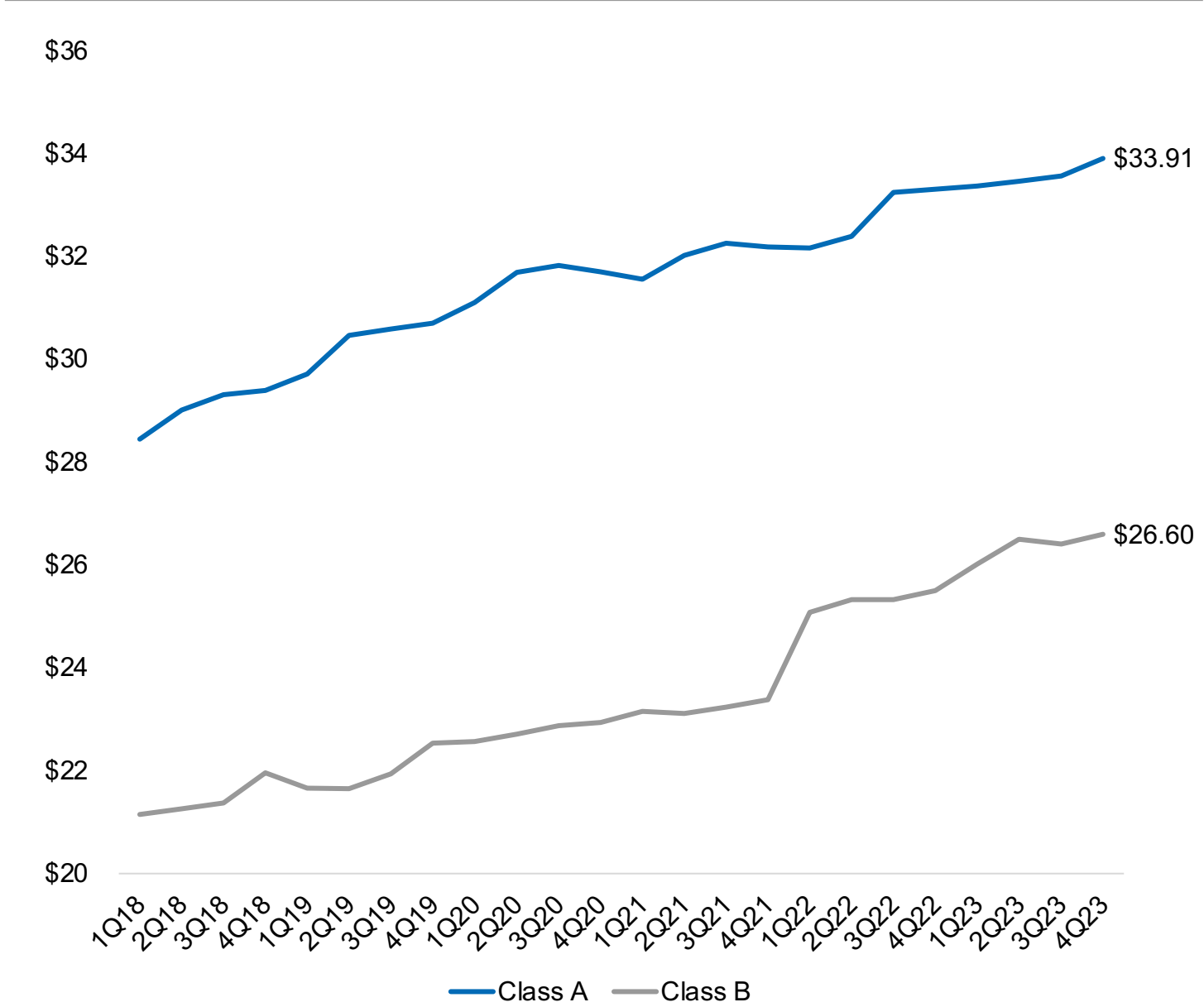


Source: Newmark Research, CoStar

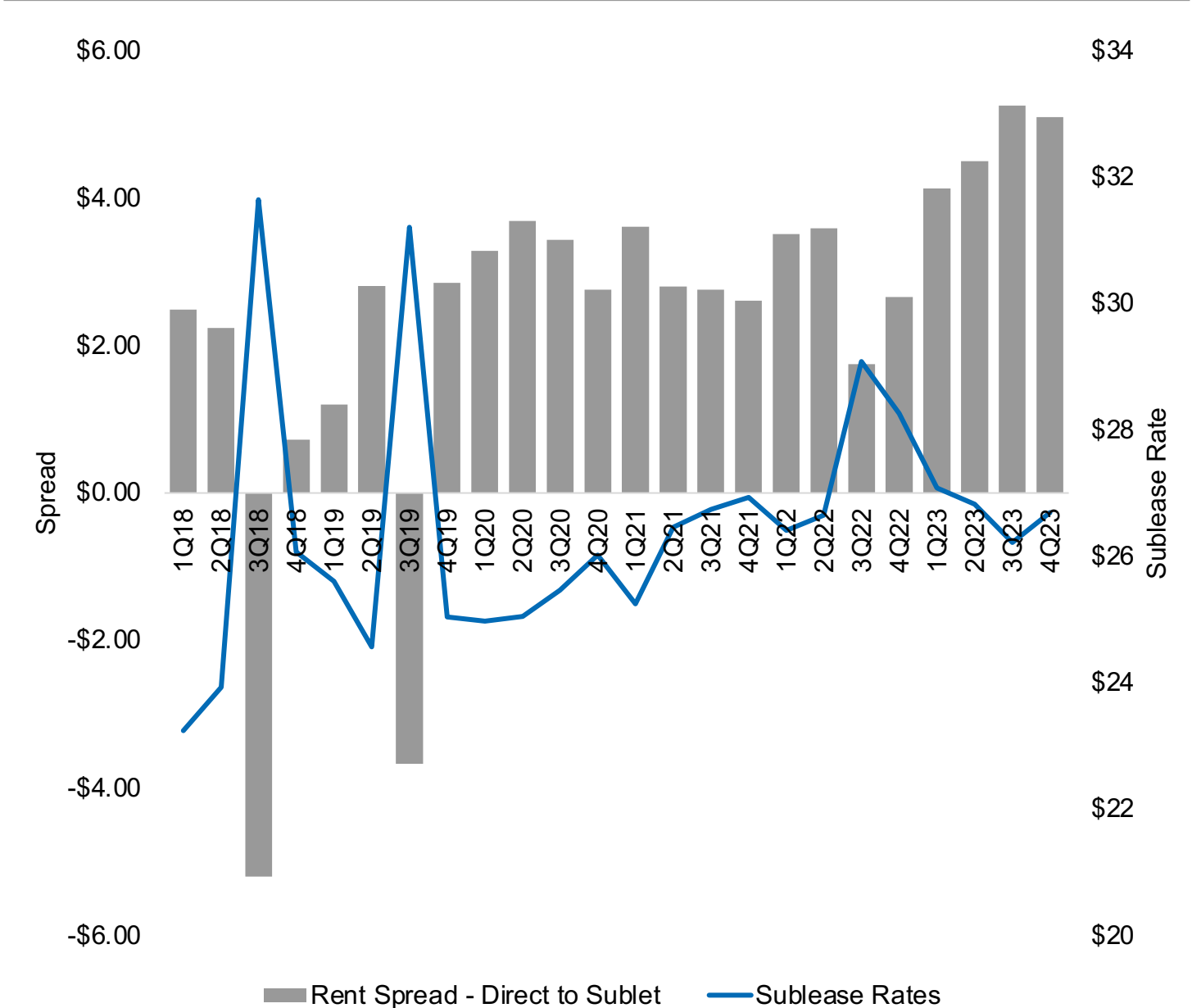
Rent Spread on Class A Assets Ticked Up

As of the end of the fourth quarter of 2023, Class A rents ended at \$33.91/SF, while Class B reported \$26.60/SF. Rent difference between the two assets are at \$7.31/SF, a 2.1% increase quarter over quarter. However, the spread decreased 15.5% since the third quarter of 2019. The closing rent spread will likely push more tenants to lease smaller footprints in higher-quality assets. Sublease rates have flattened in recent quarters, with asking sublease rents decreasing by 5.6% year over year.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Flight-to-Quality Leasing Activity Continues

Despite slowing leasing activity in the market, flight to quality continues to remain a trend in the Atlanta office market. As of the end of the fourth quarter of 2023, Class A space accounted for 73.3% of the market’s leasing activity by SF, but only 57.2% of the market’s deal volume. Average leases signed in Class A space were 6,896 SF and continue to remain larger than the average market deal size at 5,381 SF.

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
GSA	Lakewood II – 2233 Lake Park Dr	Cumberland/Galleria	Direct New	94,610
HC Government Realty Trust acquired the 119,150 SF building in Smyrna in December 2023 and brought GSA as a 94,610 SF tenant-in-tow.				
Spanx, Inc.	Buckhead Atlanta – 3035 Peachtree Rd	Buckhead	Extension	82,504
The apparel retailer extended the lease for their Atlanta office, which is also their global headquarters.				
GE Vernova	Galleria 600 – 600 Galleria Pky SE	Cumberland/Galleria	Direct New	77,163
As part of a planned 2024 spin-off by General Electric, GE Vernova signed up for 77,163 SF in one of the five buildings owned by Piedmont Office Realty Trust that make up Galleria on the Park.				
OneTrust LLC	505 N Angier Ave NE	Midtown	Direct New	73,533
The data privacy startup is relocating their U.S. headquarters from Sandy Springs to New City’s Fourth Ward project in Midtown. The motivation was recruitment and retention of their workforce.				
Trimont, LLC	Two Alliance Center – 3560 Lenox Rd NE	Buckhead	Direct New / Relocation	50,110
Trimont relocated from One Alliance to Two Alliance upon the expiration of their One Alliance lease.				

Source: Newmark Research, CoStar



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