Absorption and vacancy trend positively while leasing and development dwindle

▼ 18.8%
Vacancy Rate

▲ 158K
SF Net Absorption

▶ $27.91
FSG / Lease Rate

▼ N/A
SF Under Construction

▼ 1.5M
SF YTD Leasing Activity

Note: Arrows indicate change from previous quarter (unless otherwise indicated).

HIGHLIGHTS

- Positive 158,400 sq. ft. of direct net absorption was recorded in Q4 2022, the first quarter of positive activity for the submarket since Q1 2022. Year-to-date, net absorption totaled positive 216,000 sq. ft.
- The Vectra Bank Headquarters was completed in Q4 2022, delivering 127,000 sq. ft. of space to the market and leaving the Southeast with no projects currently under construction.
- Leasing activity decreased 72.3% quarter-over-quarter to 139,000 sq. ft., while activity for the year totaled 1.5 million sq. ft., a decrease of 24.8%.
- Sublease availability increased 5.9% quarter-over-quarter to 2.1 million sq. ft., a slower increase than the previous quarters, but still reaching a new peak.
- Total vacancy dropped to 18.8% in Q4 2022, decreasing 40 bps quarter-over-quarter.
- The average direct asking lease rate remained relatively stable, increasing 0.4% quarter-over-quarter to $27.91 per sq. ft. FSG.

Figure 1: Sublease Availability by Class

Source: CBRE Research Q4 2022

Vacancy

Total vacancy in the Southeast submarket decreased by 40 bps in Q4 2022, reversing the trend of increasing vacancy seen in the last two quarters. Year-over-year, there was no change in total vacancy, with an 18.8% rate also seen in Q4 2021. Class A total vacancy remained the same as last quarter at 18.3%. Class B properties saw a quarter-over-quarter decrease of 100 bps, resulting in a total vacancy of 21.8%. Direct vacancy decreased 10 bps to 15.8%, while sublease vacancy shrunk 20 bps to 3.1%. The biggest move impacting vacancy was the Starz relocation from 8900 Liberty Circle to 6363 S Fiddlers Green Circle, which generated a net vacancy increase of 216,000 sq. ft. This loss was offset by Bio-Techne and Quantum Corp occupying 149,000 sq. ft. with their moves to 10771 E Easter Ave and 10770 E Briarwood Ave, respectively.

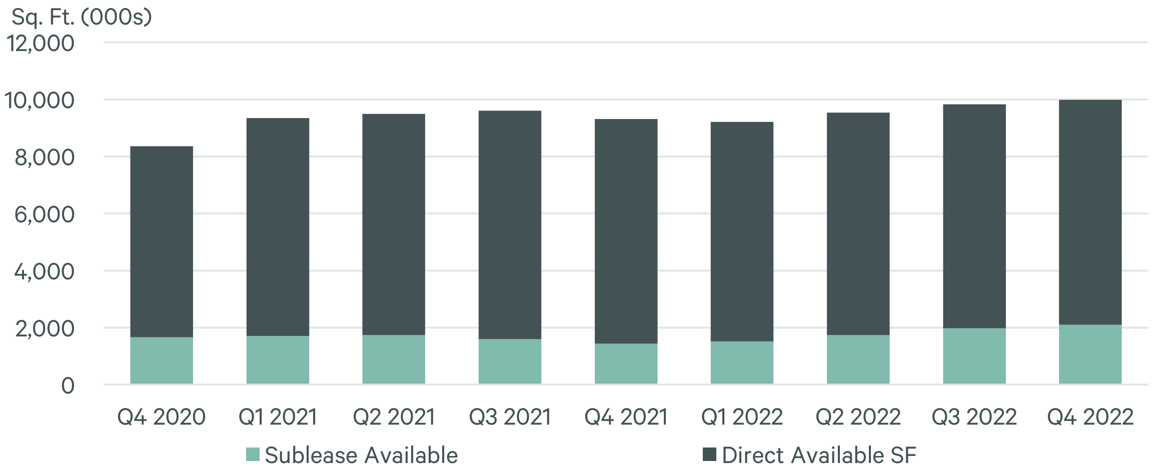
Sublease Availability

Sublease availability rose at a slower pace, increasing 5.9% quarter-over-quarter, compared to a 13.7% increase in Q3 2022. Available sublease space grew to 2.1 million sq. ft., marking the highest level since tracking began in 1990 and surpassing the previous peak of 2.0 million sq. ft. seen in 2001. Class A sublease availability increased 8.5% quarter-over-quarter to 1.4 million sq. ft., while Class B availability increased 1.4% to 716,000 sq. ft. The largest addition this quarter was Western Union adding 100,000 sq. ft. at 4582 S Ulster Street, while the largest removal was 70,000 sq. ft. at 10002 Park Meadows Dr due to Allstate's former space going direct. Greenwood Plaza had the greatest net increase in space, adding 110,000 sq. ft. Conversely, Meridian/Ridgegate had the greatest net decrease, removing 40,000 sq. ft. Sublease availability in the Southeast has increased 45.8% year-over-year.

Development

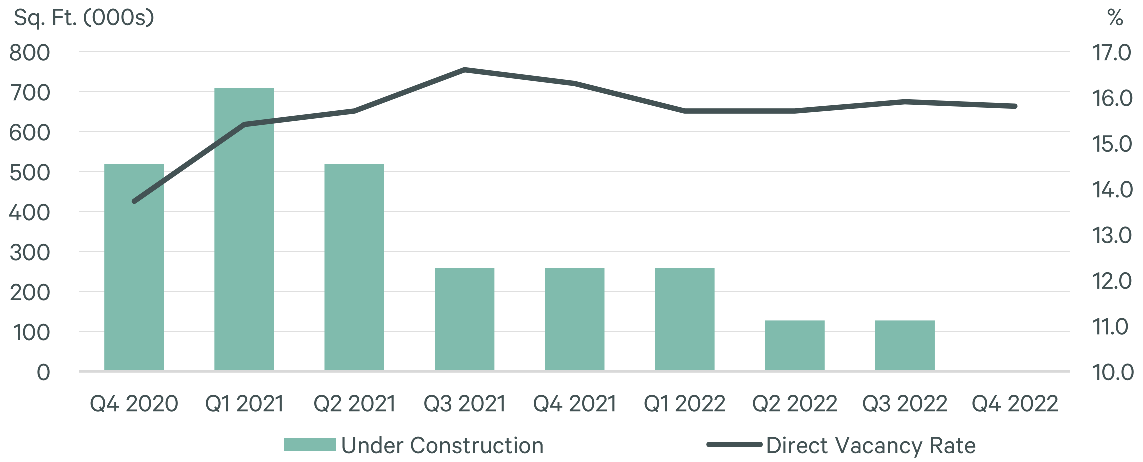
The submarket's single office project under construction was completed this quarter, with Vectra Bank's Headquarters delivering 127,000 sq. ft. of space. Vectra Bank is now occupying a large portion of the building, with the remaining 35,000 sq. ft. of vacant space having had a minimal impact on the market. As of the end of Q4 2022, there is currently 0 sq. ft. of office under construction. The effect of rising interest rates and lack of demand from potential anchor tenants have impacted the supply pipeline.

Figure 2: Sublease Available vs. Direct Available



Source: CBRE Research Q4 2022

Figure 3: Under Construction vs. Direct Vacancy Rate



Source: CBRE Research Q4 2022

Leasing Activity

Leasing volume recorded a 72.3% quarter-over-quarter decline to 139,000 sq. ft. in Q4 2022. A total to 1.5 million sq. ft. was transacted in 2022, a 24.8% decrease year-over-year. The majority of space leased this quarter was in Class A buildings, which account for 67.1% of activity. Class B had the other 32.9%, as Class C buildings had no notable leases signed. There were no renewals or expansions/contractions executed in Q4 2022, as all deals completed were new leases.

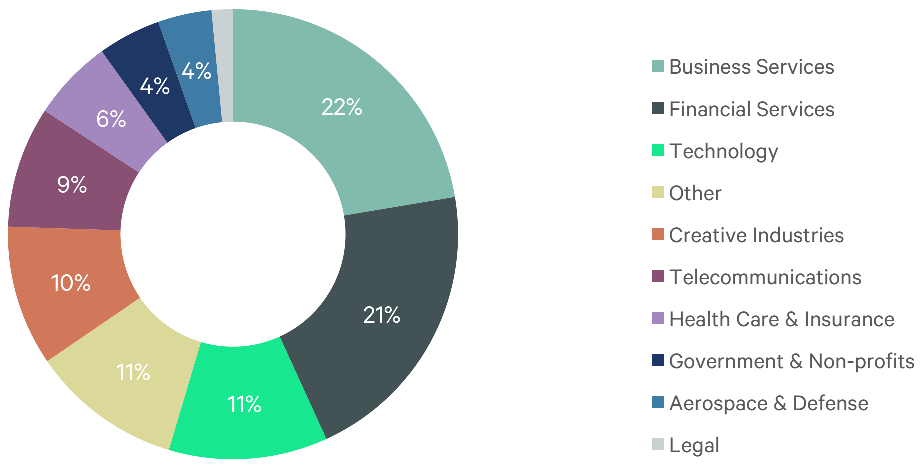
The rolling four-quarter total of leasing activity decreased to 1.5 million sq. ft. in Q4 2022.The Business Services industry had the most leasing activity with 329,000 sq. ft. signed, making up 22.4% of the total. The Financial Services was second with 307,000 sq. ft (20.8%), followed by Technology with 168,000 sq. ft. (11.4%). Financial Services saw the greatest increase in its share of leasing activity, growing 14.1% from the 7.7% it accounted for in 2021.

Figure 4: Top Lease Transactions

Lease Type	Tenant	SF	Address	Micromarket
New Lease	Anglo Gold	33,000	6363 S Fiddlers Green Cir	Greenwood Plaza
New Lease	Ideas Commitment Results	25,000	9540 S Maroon Cir	Meridian/Ridgegate
New Lease	Advanced Emissions Solutions	25,000	7051 E Maplewood Ave	Greenwood Plaza
New Lease	The Garrett Companies	22,000	5075 S Syracuse St	DTC
New Lease	A-Z Sync	21,000	5690 Dtc Blvd	DTC

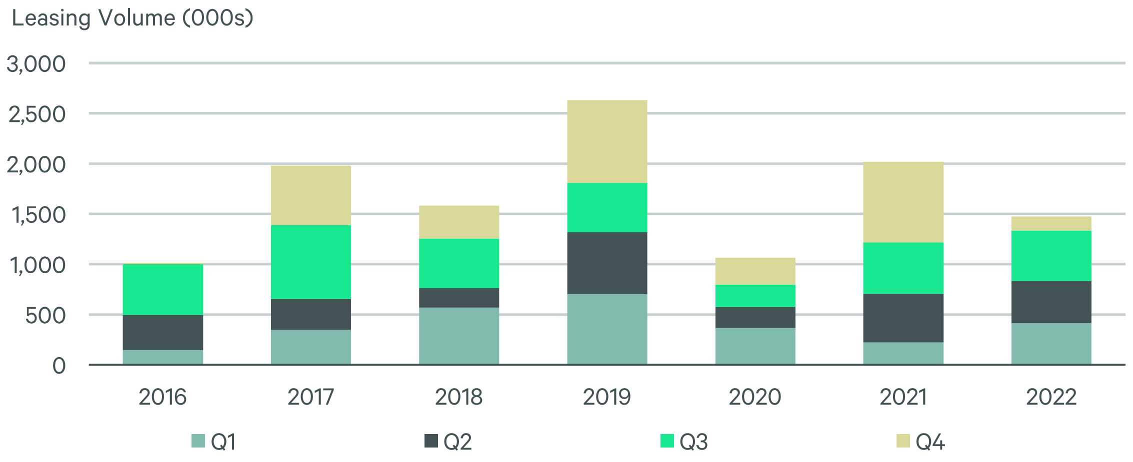
Source: CBRE Research Q4 2022

Figure 5: Leasing Activity by Industry (Q1 2021 – Q4 2022)



Source: CBRE Research Q4 2022

Figure 6: Annual Leasing Volume



Source: CBRE Research Q4 2022

Net Absorption

The submarket ended Q4 2022 with positive 158,400 sq. ft. of net absorption, reversing the trend of negative absorption that occurred in the last two quarters. Total net absorption for the year came to positive 216,000 sq. ft., a vast improvement over the negative 722,600 sq. ft. of net absorption seen at the end of Q4 2021. Class B space was responsible for this reversal, with positive 184,700 sq. ft. of net absorption this quarter and positive 593,500 of sq. ft. net absorption for 2022. In contrast, Class A space had negative 38,000 sq. ft. in Q4 2022 and negative 400,000 sq. ft. of net absorption for the year.

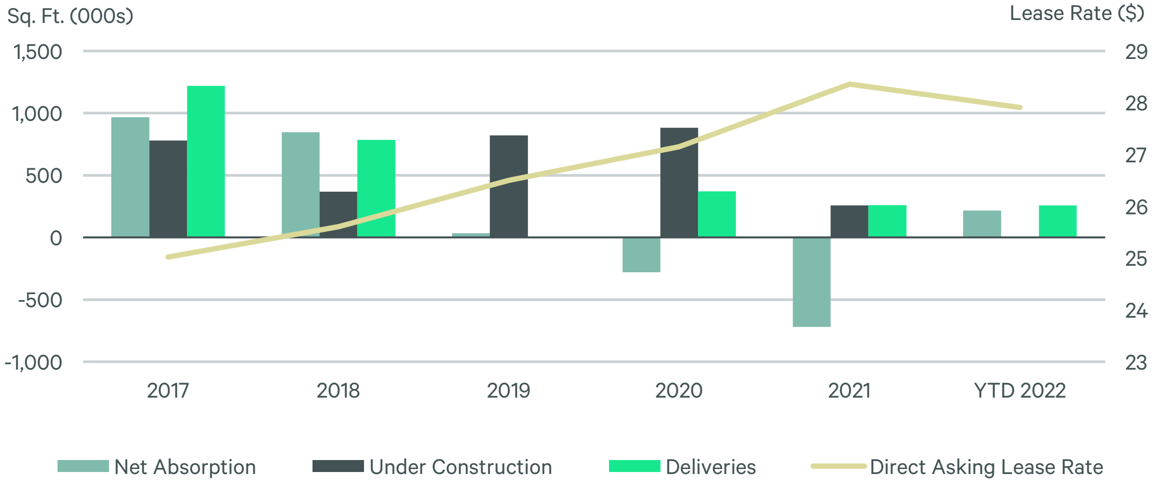
Average Asking Lease Rates

The Overall average direct asking lease rate increased just 0.4% quarter-over-quarter to $27.91 per sq. ft. FSG. Rates declined only 1.6% year-over-year, demonstrating that most landlords have not decreased rates despite the change in market dynamics. Average Class A increased $0.01 to $30.38 per sq. ft. FSG, while average Class B rose $0.34 to reach $25.09 per sq. ft. FSG. Greenwood Plaza still holds the highest average direct rate, which increased to $30.12 per sq. ft.

Figure 7: Asking Rates by Class

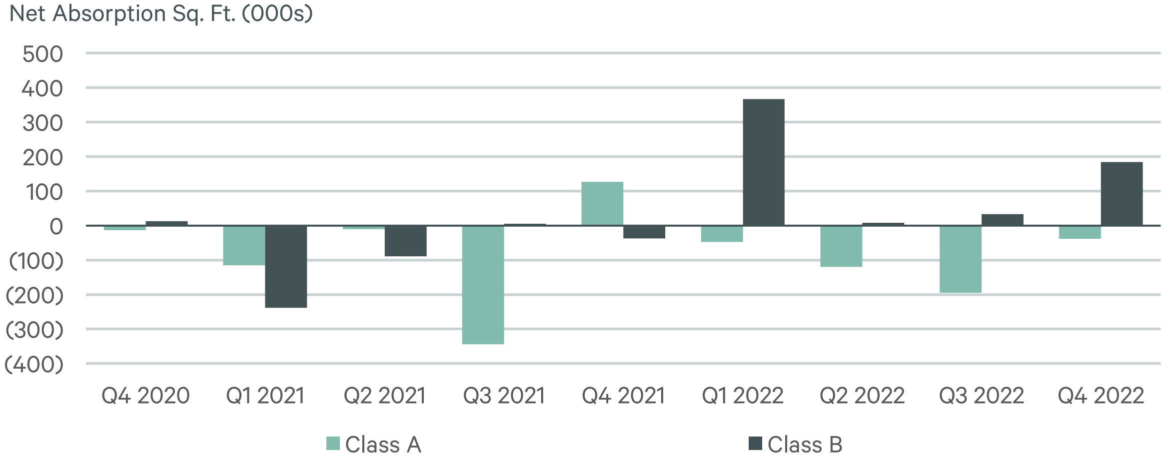
Source: CBRE Research Q4 2022

Figure 8: Net Absorption, Construction, Deliveries and Lease Rates



Source: CBRE Research Q4 2022

Figure 9: Net Absorption by Class

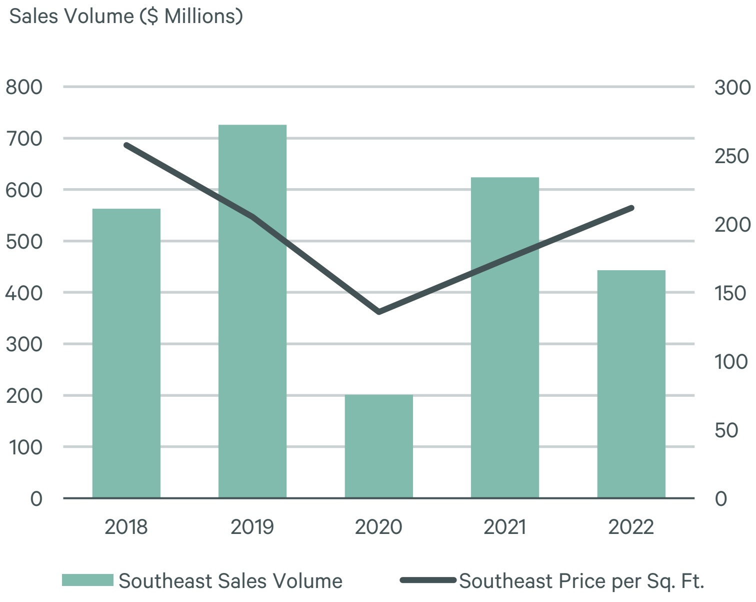


Source: CBRE Research Q4 2022

Investment Trends

Sales volume decreased 17.9% on a quarterly basis with three properties selling in Q4 2022. Spanning a combined 371,900 sq. ft., 5500 Greenwood Plaza Blvd, 9510 S Meridian Blvd, and 333 Inverness Drive S sold for a total of $41.1 million. 5500 Greenwood Plaza had the highest price per sq. ft. at $224.75, and 333 Inverness Drive had the lowest at $76.16 per sq. ft., bringing the overall submarket to $110.40 per sq. ft. for the quarter. Year-over-year total sales volume decreased 30.0%, while the overall submarket price per sq. ft. increased 21.6% to $211.54.

Figure 10: Investment Activity



Source: CBRE Research Q4 2022

Figure 11: Quarterly Statistics

	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Total NRA (SF)	36,987,900	36,987,900	37,119,633	37,119,633	37,246,633
Under Construction (SF)	258,733	258,733	127,000	127,000	-
Direct Vacant (%)	16.3	15.7	15.7	15.9	15.8
Sublease Vacant (%)	2.4	2.2	2.9	3.3	3.1
Direct Available (%)	21.3	20.8	21.0	21.1	21.2
Sublease Available (%)	3.9	4.1	4.7	5.3	5.6
Sublease Available (SF)	1,437,018	1,519,270	1,739,969	1,978,611	2,095,792
Net Absorption (SF)	94,098	334,970	(121,337)	(156,124)	158,443
Average Direct Asking Lease Rate ($)	28.35	28.25	28.11	27.81	27.91

Source: CBRE Research Q4 2022

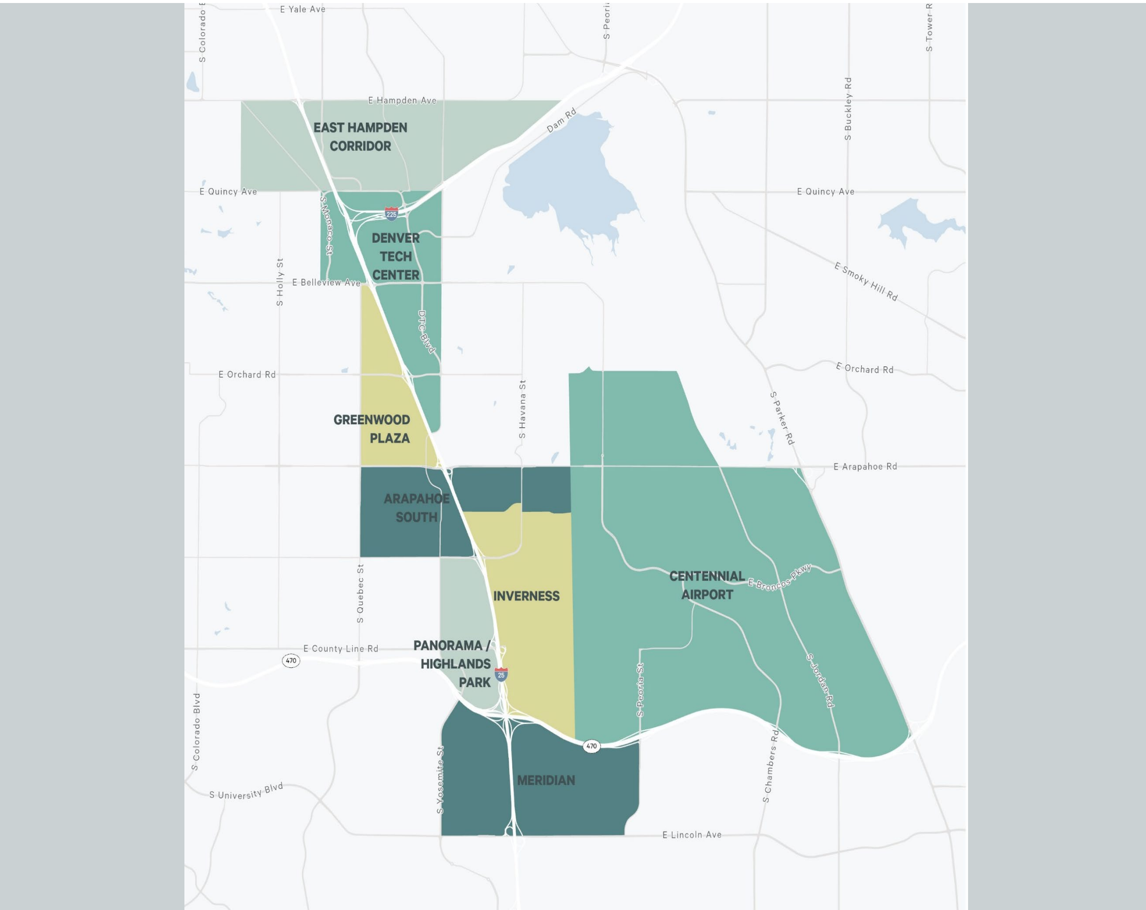
Market Statistics

Figure 12: Quarterly Statistics by Class

Class A	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022
Total NRA (SF)	21,838,441	21,852,635	21,852,635	21,992,756	21,992,756	21,992,756	22,124,489	22,124,489	22,251,489
Direct Vacant (%)	11.8	12.3	12.4	13.7	13.1	13.8	14.1	14.9	15.5
Sublease Available (SF)	1,257,886	1,451,505	1,455,061	1,299,470	1,149,779	1,235,499	1,171,563	1,272,137	1,379,703
Total Available (%)	21.9	24.8	24.9	25.7	24.2	25.6	25.5	26.4	26.7
Net Absorption (SF)	(12,951)	(114,727)	(10,488)	(344,079)	127,234	(47,537)	(119,762)	(194,455)	(37,996)
Average Direct Asking Lease Rate ($)	30.01	30.59	30.27	31.64	31.83	31.34	31.06	30.37	30.38
Class B	**Q4 2020**	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**Q1 2022**	**Q2 2022**	**Q3 2022**	**Q4 2022**
Total NRA (SF)	12,323,199	12,475,308	12,475,668	12,565,308	12,565,308	12,646,409	12,646,409	12,646,409	12,646,409
Direct Vacant (%)	17.9	22.0	22.7	22.8	22.9	20.0	19.4	18.9	17.4
Sublease Available (SF)	403,320	251,775	284,147	291,198	284,994	281,526	566,161	706,474	716,089
Total Available (%)	26.7	29.2	30.3	29.0	29.4	26.2	28.6	29.4	29.9
Net Absorption (SF)	12,414	(241,159)	(89,015)	5,262	(37,560)	367,293	8,506	33,013	184,724
Average Direct Asking Lease Rate ($)	24.49	24.35	24.26	24.80	24.99	24.68	24.70	24.75	25.09
Class C	**Q4 2020**	**Q1 2021**	**Q2 2021**	**Q3 2021**	**Q4 2021**	**Q1 2022**	**Q2 2022**	**Q3 2022**	**Q4 2022**
Total NRA (SF)	2,343,195	2,348,735	2,348,735	2,348,735	2,348,735	2,348,735	2,348,735	2,348,735	2,348,735
Direct Vacant (%)	9.5	9.8	9.2	10.5	10.3	9.6	11.2	9.8	9.3
Sublease Available (SF)	5,501	5,501	7,943	2,245	2,245	2,245	2,245	-	-
Total Available (%)	11.8	12.2%	11.8%	12.8%	12.8%	11.5%	11.7%	11.2%	11.0%
Net Absorption (SF)	12,038	3,449	14,252	(30,296)	4,424	15,214	(10,081)	5,318	11,715
Average Direct Asking Lease Rate ($)	17.73	17.27	18.01	18.48	18.24	17.95	17.98	18.25	18.29

Source: CBRE Research Q4 2022

Market Area Overview



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3003 East Harmony Road, Suite 300
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Survey Criteria

Includes all office buildings 10,000 sq. ft. and greater in size, excluding owner-user, in the Southeast Submarket (as displayed on the adjacent map). Buildings which have begun construction as evidenced by site excavation or foundation work.

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