

FIGURES | ATLANTA OFFICE | Q1 2024

High availability and lease rollover kickstart the year

▲ 32.4%

Total Availability Rate

▼ -1.5M

SF Net Absorption

▶ 1.9M

SF Under Construction

▲ \$31.46

Overall Direct Lease Rate

▲ \$33.82

Class A Direct Lease Rate

Note: Arrows indicate change from previous quarter.

Key Takeaways

- Reaching 32.4% in the first quarter, availability continues to break records as reassessment of space needs by office tenants lingers.
- Lease consolidations are evident in the high number of net move-outs, totaling 1.5M sq. ft. Notably, the Downtown submarket accounted for nearly 54.7% of total vacated space.
- Overall, average asking rates increased to \$31.46/per sq. ft., up 3.2% year-over-year, highlighting flight-to-capital as an enduring trend. Class A rates continued to climb with clusters of amenity-rich space elevating the rate ceiling.

The Atlanta office market distress continues as availability rises for the 9th consecutive quarter. While there was a slight improvement in leasing activity this quarter, it is important to note only 53% of the 2.2M sq. ft. leased was in new deals or expansions. Furthermore, newer deals were the result of term rollover rather than new-to-market leasing. Despite this, both Class A and overall rents rose this quarter, with Midtown West commanding the highest rates. The upward trajectory in rents can be attributed to the escalating build-out costs and concessions rather than demand. The construction pipeline remains unchanged, with no new projects breaking ground. The absence of new development, along with anticipated delivery delays in current projects under construction further contribute to the complexities of the market.

FIGURE 1: Leasing Activity SF by Year. Leasing activity units measured per 1 million sq. ft.



Source: CBRE Research, Q1 2024

Office Absorption

The Atlanta office market begins the year with 1.5M sq. ft. of negative absorption, carrying over the adverse conditions of last year, and highlighting the largest single period with an occupancy loss since the fourth quarter of 2020. Downtown accounted for more than half of the negative absorption this quarter due in part to one large move-out. Elsewhere, the loss of occupancy was witnessed across the Atlanta market, with even the most active submarket in the past year, Midtown, seeing negative absorption. In the suburban markets, Central Perimeter exhibited the largest aggregate of move-out activity with a national insurance firm vacating multiple buildings in the submarket. The negative activity continues to reflect the ongoing market sentiment of occupiers shedding space as economic uncertainty lingers.

Leasing Activity

This quarter, there was over 2.2M sq. ft. of leasing activity recorded. Despite being almost double the leasing activity from the previous quarter, a large portion of the deals signed were due to lease rollover. This means tenants were compelled to negotiate new long-term leasing agreements due to lease expirations, resulting in relocation rather than new leasing. The top deals from Manhattan Associates and GDOR were renewal/contraction deals, which had an overall negative impact on occupancy. Additionally, the top new leases/expansions signed this quarter showed a trend of consolidation to singular buildings rather than corporate expansion across multiple locations. This can be echoed in the lackluster pipeline of out-of-market prospects economic development authorities in Atlanta typically oversee. As a result of these factors, office demand will remain subdued.

FIGURE 2: Key Leasing Transactions in Q1

Tenant	Location	Size (sq. ft.)	Submarket	Transaction Type
Manhattan Associates	Wildwood Center	210,417	Cumberland/Galleria	Renewal/Contraction
Georgia Department of Revenue	2500 Century Parkway	118,084	Northlake	Renewal/Contraction
Confidential	1055 Lenox Park Blvd NE	103,229	Buckhead	New Lease
Pond and Co.	Peachtree Ridge	101,891	Peachtree Corners	Renewal
Workday, Inc.	3350 Peachtree	57,202	Buckhead	Expansion

Source: CBRE Research, Q1 2024

FIGURE 3: Class A Absorption and Availability - Measured per 1,000 sq. ft. units and percentage



Source: CBRE Research, Q1 2024

FIGURE 4: Key Sale Transactions in Q1

Location	Size (sq. ft.)	Submarket	Sale Price	Price Per Sq. ft.	Seller	Buyer
6405 Sugarloaf Pkwy	142,919	Northeast	\$23.5 Million	\$164.43	Georgia Baptist Mission Board	IJMS Family Holdings
Lincoln Center	186,846	Central Perimeter	\$14.6 Million	\$77.87	Parmenter Realty Partners	Innova Solutions
Woodside Terrace	123,982	North Fulton	\$14.5 Million	\$116.95	Ravi Zacharias Ministries	Free Chapel
200 Barrett Summit	80,250	Northwest	\$10.0 Million	\$124.61	Lincoln Property Company	Ser Familia

Source: CBRE Research, Q1 2024

Office Occupancy and Availability

Elevated availability lingers in the market maintaining a record high 32.4% of Atlanta's office inventory. Submarkets within the CBD averaged over 35% availability with Midtown West posting 47% of its inventory as available. In the case of this specific submarket, the elevated rate can be attributed to the market's expansion given how much new product has delivered over the past couple of years. Overall, the stubbornly high availability rate in Atlanta continues to be the result of corporate tenants with substantial footprints offloading unneeded space amidst economic distress. Many of these tenants are opting to sublease entire buildings and consolidate their leases into a single location. In some cases, owner-occupiers are going as far as shedding HQ locations and regional satellite offices in an effort to mitigate the impact of current economic conditions.

North Fulton is leading the submarkets with 36 large blocks of space over 40K sf. ft. available for lease. Alongside, North Fulton, Central Perimeter maintains 28 large blocks of Class A space. Among the CBD market, The entirety of Midtown's large block inventory consists of Class A space. Large blocks of space are expected to further impact Atlanta's office availability in the quarters to come.

FIGURE 5: Number of contiguous blocks of space 40K sq. ft. and up, in existing buildings



Sublease Availability

Though still down from last year's peak, sublease volume remains elevated at 9.3M sq. ft.; equivalent to 6% of the total office market. The availability of Q1 2024 subleases remains consistent with the previous quarter, with some variances observed among submarkets. Notably, Central Perimeter saw a reduction of 262K sq. ft., despite VMware surrendering 190K sq. ft. of new sublease space within the same submarket. It is worth noting the subleases removed within Central Perimeter were converted to available direct space. Additional sublease space was introduced to the market with North Fulton gaining 137K sq. ft., Midtown West gaining over 65K sq. ft., and the Northeast and Northwest markets gaining over 40K sq. ft. each. North Fulton, Cumberland/Galleria, and Central Perimeter continue to be significant sources of sublease availability, accounting for 60% of the total amongst the submarkets. While the market may have reached its peak in terms of sublease availability, these spaces remain viable options for tenants.

FIGURE 6: Available Sublease Inventory

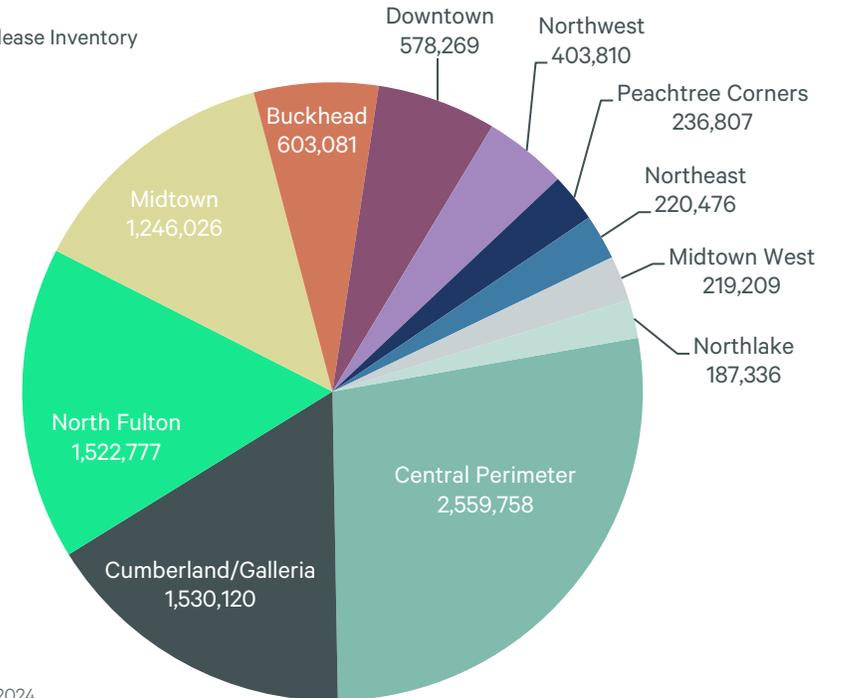


FIGURE 7: Large Contiguous Blocks



Address	675 W Peachtree St NW Tower Square	575 Morosgo Dr NE Uptown	3003 Summit Blvd 3003 Perimeter Center	2180 Lake Blvd NE Lenox Park - Building A	725 W Peachtree St Midtown Center II
Building Status	Existing	Existing	Existing	Existing	Existing
Class	A	A	A	A	A
RBA	1,458,499	932,251	390,906	350,460	282,009
Contiguous Sq. Ft.	1,177,953	770,249	390,906	350,460	282,009
Availability	Vacant	Vacant	Vacant	Vacant	May 2024
Asking rates	\$32.00-40.00/FSG	\$38.50-\$39.50/FSG	\$24.00/FSG (Sublease)	Withheld	Withheld
Owner	Icahn Enterprises	Rubenstein Partners	Wells Fargo & Company	Bridge Commercial Real Estate	CBRE Investment Management

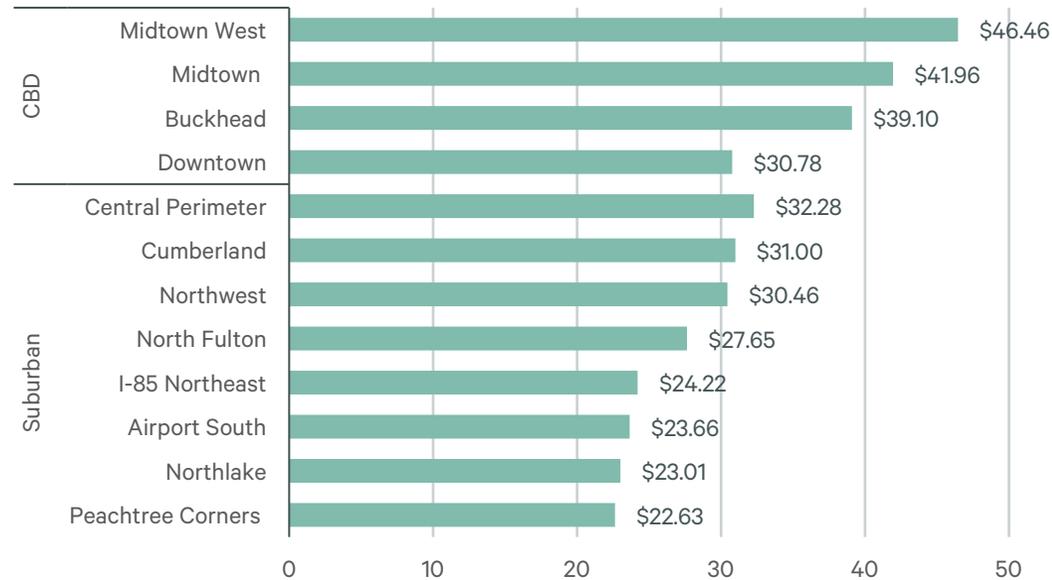
Source: CBRE Research, Q1 2024

Office Rental Rates

The Atlanta office market’s overall asking rate increased for a fourth consecutive quarter, reaching \$31.46/per sq. ft. in Q1. Overall asking rates saw marginal growth of 3.2% year-over-year. Though slightly decreasing from last quarter, Midtown West still commands the highest rates in the metro area with Class A rates averaging \$46.46/per sq. ft. Elsewhere, Class A rates in Midtown grew by 5.7% year-over-year and remain well above the market average. Suburban markets continue to climb steadily increasing by 1.6% year-over-year. Class A rates in Cumberland/Galleria remain the most consistent among the suburban markets exhibiting 3% year-over-year growth.

The current increased rate in the market can be justified by elevated construction costs, significant concessions, and record-high tenant improvement packages. While some office buildings may benefit from lower rents, the newest and most highly-amenitized buildings in Atlanta continue to attract companies looking for high-quality spaces, with most maintaining current rates. However, it remains to be seen whether the recent growth in rental rates will be sustainable given ongoing downsizing.

FIGURE 8: Class A Average Gross Direct Rental Rates



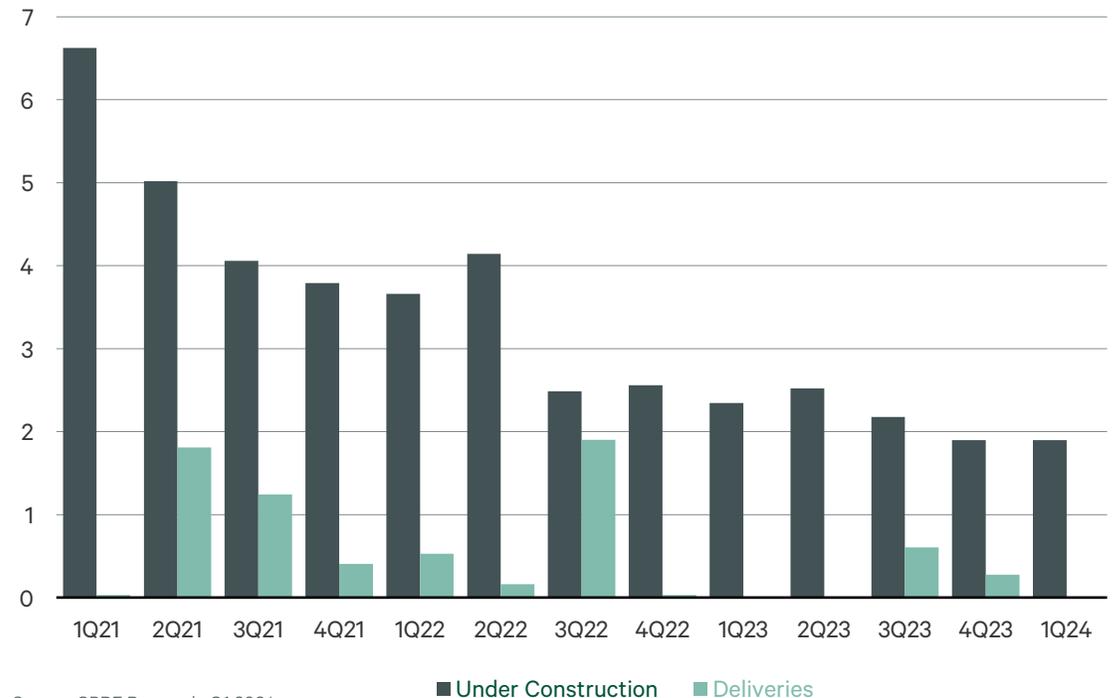
Source: CBRE Research, Q1 2024

Office Construction and Deliveries

The office development pipeline remained unchanged this quarter with just under 1.9M sq. ft. underway. Minimal preleasing continues with only one large deal signing this quarter. The largest speculative project underway is Spring Quarter, a 538K sq. ft. development in the Midtown submarket. The project is scheduled to deliver in late 2024 and has no current preleasing. In addition to Spring Quarter, Midtown is the location of three other significant projects under construction: 619 Ponce, the Society Atlanta Tower, and 1072 West Peachtree.

Of the 1.9M sq. ft. under construction, 485K sq. ft., or 25.6% is scheduled to deliver in the early half of the year. As tenants with upcoming lease expirations eye spec office development, leasing new construction will be an enticing option. Although ongoing economic headwinds will continue to limit proposed office developments, the lack of groundbreakings will provide the market with an opportunity to absorb existing supply, promoting market stabilization.

FIGURE 9: Construction and Deliveries – Construction units measured per million sq. ft.

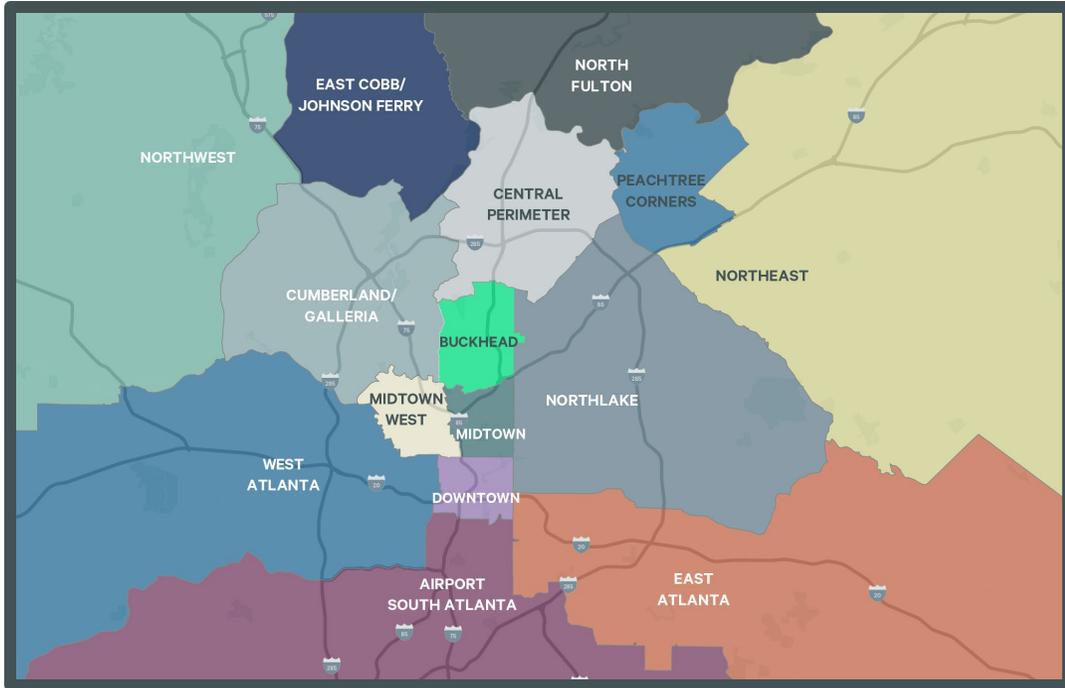


Source: CBRE Research, Q1 2024

FIGURE 10: Market Statistics

Submarket	Net Rentable Area (sq. ft.)	Total Vacancy Rate %	Total Availability Rate %	Q1 2024 Net Absorption (sq. ft.)	YTD Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Avg. Gross Direct Asking Lease Rate (\$/sq. ft./yr)	Deliveries (sq. ft.)
Downtown	17,743,735	30.5	35.1	(833,708)	(833,708)	0	\$29.93	0
Midtown	22,259,129	26.1	34.8	(152,766)	(152,766)	931,098	\$40.60	0
Buckhead	17,746,065	29.4	34.4	164,379	164,379	0	\$37.93	0
Midtown West	3,138,559	45.7	47.3	(32,857)	(32,857)	210,591	\$44.23	0
CBD	60,887,488	29.4	35.4	(854,952)	(854,952)	1,141,689	\$37.04	0
Cumberland/Galleria	19,093,545	20.6	28.5	(62,987)	(62,987)	250,000	\$29.75	0
Northwest	2,506,392	27.5	28.5	(11,210)	(11,210)	0	\$27.61	0
Central Perimeter	24,462,324	28.1	35.7	(560,917)	(560,917)	100,905	\$30.42	0
North Fulton	19,381,244	26.3	35.9	(93,965)	(93,965)	269,869	\$25.94	0
I-85/Northeast	6,578,410	17.6	20.6	11,297	11,297	0	\$21.45	0
Peachtree Corners	5,086,382	24.8	24.9	(12,289)	(12,289)	0	\$20.59	0
Northlake/Decatur	9,450,480	23.3	24.9	43,614	43,614	0	\$23.53	0
Airport South Atlanta	2,759,621	16.4	16.9	12,713	12,713	135,000	\$21.16	0
I-20 West	304,745	41.1	37.3	0	0	0	\$32.37	0
East Atlanta	302,869	8.5	12.4	5,745	5,745	0	\$22.92	0
East Cobb/Johnson Ferry	189,776	40.5	8.9	(12,506)	(12,506)	0	\$18.50	0
SUBURBAN	90,115,788	24.3	30.4	(667,999)	(667,999)	755,774	\$27.39	0
ATLANTA	151,003,276	26.3	32.4	(1,522,951)	(1,522,951)	1,897,463	\$31.46	0
ATLANTA- Class A	107,588,693	27.5	33.9	(1,154,936)	(1,154,936)	1,836,608	\$33.82	0
ATLANTA- Class B	41,530,876	23.9	29.2	(364,195)	(364,195)	60,855	\$24.44	0

Source: CBRE Research, Q1 2024



Survey Criteria

Includes all classes of competitive single and multi-tenant, non-owner-occupied office buildings 30,000 sq. ft. and greater in Metro Atlanta. Excludes: government and medical buildings.

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Definitions

Availability Rate: Total available sq. ft. divided by the total building area.

Available Sq. Ft.: Space in a building ready for occupancy within six months; can be occupied or vacant.

Vacancy Rate: Total vacant sq. ft. divided by the total building area.

Vacant Sq. Ft.: Existing space not occupied by a tenant. Vacant space can be available or not available.

Direct Space: Space leased directly from the owner of the building.

Sublease Space: Leased space by tenant or lessee of part or all leased premises to another tenant but with the original tenant retaining some right or interest under the original lease.

Avg. Gross Lease Rate (Direct): A calculated average that includes gross lease rate, weighted by their corresponding available square footage; in direct space only.

Total Rentable Area: The total rentable floor area square feet of the building.

Occupied Sq. Ft.: Building area not considered vacant.

Net Absorption: The change between leased and vacated space from one period to the next period.

Leasing Activity: Square footage committed to and signed under a lease obligation for a space in a given period.

Class Space: Letter grade system used to classify buildings based on criteria such as age of building, location, infrastructure, rental rates, and market perception.

Spec Suite: Also known as speculative space, move-in ready office spaces that are built-out and designed by the property owner with the goal of attracting tenants.

Deliveries: Completion of required construction for a building.

Capitalization Rates: Also known as cap rates, a measure used to estimate rates of return on commercial real-estate properties.

Note: As of Q3 2023, our methodology for collecting data has changed. In previous quarters, we considered space absorbed as soon as a company moved into said space. A new lease will impact absorption as soon as it is signed and confirmed. To reflect these changes, we have also gone back to our first and second quarter reports and changed those numbers proactively.

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