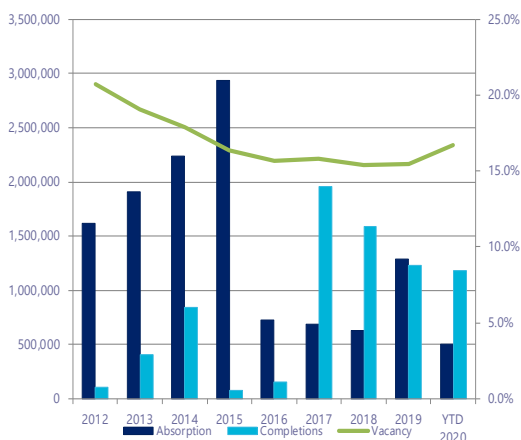




Market Snapshot

	3Q19	3Q20
Inventory	153.8 msf	155.5 msf
Vacancy	15.4%	16.7%
YTD Net Absorption	902,984 sf	498,836 sf
YTD Deliveries	1.5 msf	1.2 msf
Under Construction	4.2 msf	3.8 msf
Avg. Asking Rents	\$28.22 psf	\$29.31 psf
Unemployment	3.5%	6.3%

Absorption, Deliveries & Vacancy



Although the Atlanta office market recorded strong activity during the first half of 2020, it has begun to see some negative impact from COVID-19. There is still much uncertainty as economists are still predicting an upcoming global recession due to the financial headwind effects that widespread closures in response to COVID-19 are creating throughout the nation and around the globe.

Metro Atlanta's average asking rental rates continued to rise during the third quarter of 2020. The overall average asking rate ended the quarter at \$29.31 per square foot (psf) gross, up 3.9% year-over-year. This is the lowest year-over-year increase the market has seen since 2014, which could signal a change in market conditions due to COVID-19. Average class A rates rose at a pace of 3.8% to a record high \$32.32 psf. Class B average rates increased 4.0% to finish the quarter at \$21.26 psf.

After a positive first half of 2020, the Atlanta office market recorded its first quarter of negative absorption in two years. The market saw negative net absorption of 443,130 square feet (sf), bringing the year-to-date total down to 498,836 sf. Leasing activity saw 1.2 million square feet (msf) of new leases signed during the quarter, for a year-to-

date total of 4.5 msf. This is the lowest quarterly total the Atlanta market has ever recorded. While the volume of deals is down 35% from this time last year, there were still a few large leases signed such as Mailchimp, Deluxe Corporation and Rooms To Go.

Office vacancy saw a significant increase, ending the third quarter at 16.7%, up 130 basis points (bps) year-over-year. Class A vacancy ended the quarter up 160 bps year-over-year reaching 16.5%, while class B vacancy saw a slight increase of 50 bps to 17.5% in the same period. The increase in vacancy was expected with the negative absorption, but it could have been much worse. If the pace of leasing activity does not pick up in the last three months of the year, the vacancy rate could continue to increase into 2021 as the pandemic continues to affect the commercial real estate market.

At the end of the third quarter, the Atlanta office market had 3.8 msf under construction, of which 47% of the space is preleased. The market saw a minimal amount of new inventory in the third quarter for a year-to-date total of 1.2 msf. A majority of the construction activity remains in the Midtown submarket with 2.9 msf underway.

130 bps

Increase YOY vacancy

3.9%

YOY rent growth

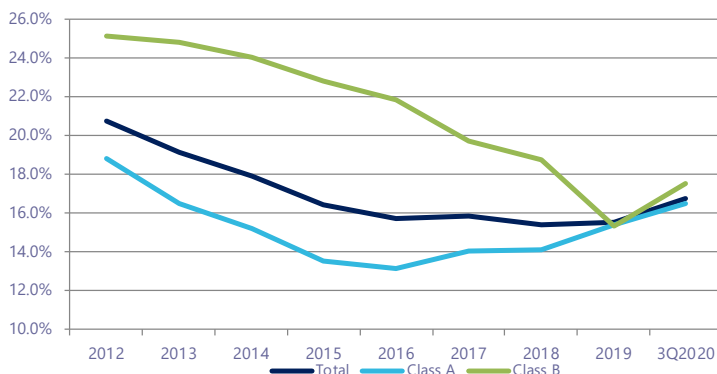
3.8 msf

under construction

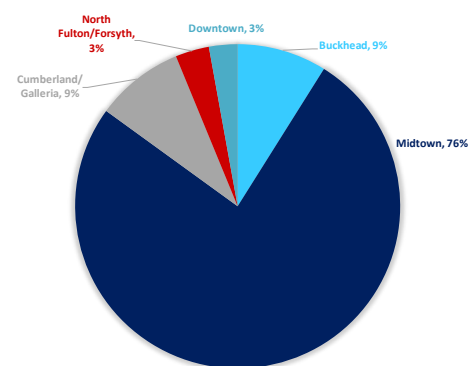
Market Highlights

- Mailchimp announced they will be relocating to a 300,000-sf space at a new \$1 billion development on the Beltline's Eastside Trail. While part of the decision to move was triggered by the lack of room to expand at Ponce City Market, another reason for selecting this new location was that more than 30% of their employees use the Beltline to get to work.
- Deluxe Corporation has signed a 171,000-sf sublease at Glenridge Highlands Two for a new technology innovation center. The \$10 million center will bring over 700 jobs to Atlanta. Deluxe's President and CEO said, "Metro Atlanta is a global fintech and payments industry capital, so it is the right place to expand our business."
- Investment sales activity in metro Atlanta during the third quarter of 2020 continued to see a decrease due to COVID-19. While there has been some activity, most of the sales have been small portfolio transactions. Investors spent \$143 million, which is down 79% from the pace of activity during the same period in 2019. Year-to-date the Atlanta office market has seen \$765 million of investment properties sold, down 64% compared to the same period in 2019. Investors are continuing to look for assets that are high performing and will boost their portfolios, but most have put any new purchases on hold until they see how the pandemic will further affect the commercial real estate market.
- One of the larger sales of the quarter was SF Partners purchasing 155 and 157 Technology Parkway from Stockbridge Capital Group for \$10.3 million. The two properties total 116,500 sf and were approximately 75% leased at the time of the sale.
- The Atlanta market has seen a surge in sublease space coming on the market, but at this time the majority of it is still occupied. The market currently has 4.1 msf of sublease space available, which is up 33% from the third quarter of 2019, but only 1.3 msf is vacant. As tenants continue to examine their office space needs during the pandemic, it is anticipated this number will increase through the end of the year.

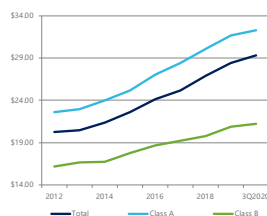
Vacancy by Property Type



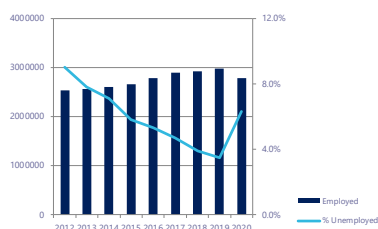
Under Construction



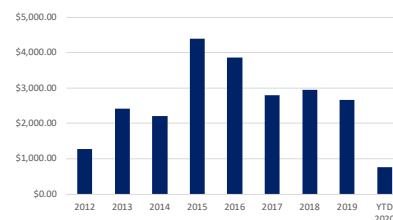
Average Asking Rental Rate (psf/year/FS)



Metro Atlanta Employment (August of each year)



Office Investment Sales (in millions)



Select 3Q 2020 Lease Transactions

Tenant	Property	Type	Submarket	SF
Mailchimp	760 Ralph McGill Boulevard	Prelease	Downtown	300,000
Deluxe Corporation	5565 Glenridge Connector	Sublease	Central Perimeter	171,269
Rooms To Go	4004 Summit Boulevard	New Lease	Central Perimeter	60,000
AMI	3095 Satellite Boulevard	New Lease	Duluth/Suwanee/Buford	53,010
First Advantage	1 Concourse Parkway	Renewal	Central Perimeter	36,731
Venture X	3333 Peachtree Road	New Lease	Buckhead	30,392
Moneypenney	2915 Premiere Parkway	New Lease	Duluth/Suwanee/Buford	27,906
Twilio	950 E Paces Ferry Road	Sublease	Buckhead	24,653
MarkeTeam	1200 Abernathy Road	Sublease	Central Perimeter	23,460

Select 3Q 2020 Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
Gwinnett Commons	Duluth/Suwanee/Buford	CIP Real Estate Property Services	236,567	\$30,377,041	\$130
Cobb Corporate Center/ Northwood Commons	Northwest & Norcross/ Peachtree Corners	TerraCap Management	236,698	\$20,377,561	\$87
155 & 157 Technology Parkway	Norcross/Peachtree Corners	SF Partners	116,530	\$10,300,000	\$88
5180 Roswell Road Portfolio	Central Perimeter	Diamond National Realty	64,000	\$8,945,000	\$140

Select Construction Projects

Property	Submarket	Projected Completion	Total SF	% Preleased	Asking Rate PSF
1105 West Peachtree	Midtown	Second Quarter 2021	664,184	40%	\$45.00-\$47.00 NNN
Midtown Union	Midtown	Third Quarter 2022	612,947	49%	\$45.00 NNN
Atlantic Yards South	Midtown	Fourth Quarter 2020	366,970	100%	N/A
One Phipps Plaza	Buckhead	Second Quarter 2021	340,000	0%	\$56.00 FS
3 Battery Ave	Cumberland/Galleria	Fourth Quarter 2020	332,486	56%	\$36.00 NNN
Anthem Technology Center*	Midtown	Second Quarter 2021	310,000	100%	N/A
The Interlock	Midtown	Fourth Quarter 2020	290,000	63%	\$39.00 NNN

*Single-tenant leased property

Trends to Watch

Look for these three key trends to continue throughout 2020 in the Atlanta office market.



Sublease Space

Tenants are turning to the sublease market as their office space needs change during the pandemic



Rental Rates

Should continue to increase, but at a slower pace.



Construction

Should remain tempered as developers wait for an anchor.

Market By The Numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION		SF Under	AVERAGE ASKING RENT		
		Total	Class A	Class B	3Q20	YTD	Construction	Total	Class A	Class B
Buckhead	19,704,347	14.8%	15.3%	11.6%	(19,414)	(212,129)	340,000	\$37.10	\$37.96	\$26.89
Downtown	16,841,993	15.7%	18.0%	5.4%	(61,018)	(240,348)	108,400	\$28.67	\$28.91	\$27.27
Midtown	21,823,591	12.5%	13.0%	9.9%	(52,464)	630,107	2,902,611	\$40.79	\$41.68	\$25.04
Urban Total	58,369,931	14.2%	15.1%	8.5%	(132,896)	177,630	3,351,011	\$36.35	\$37.15	\$25.89
Airport/South Atlanta	4,542,340	22.1%	11.7%	26.4%	(12,554)	(29,038)	-	\$21.95	\$23.03	\$22.28
Central Perimeter	23,917,147	18.9%	19.6%	15.9%	(138,514)	344,245	-	\$29.13	\$30.27	\$22.63
Cumberland/Galleria	20,124,388	16.8%	16.4%	18.7%	(50,838)	31,931	335,561	\$27.43	\$29.03	\$21.53
Decatur/Stone Mountain	1,719,690	6.5%	7.9%	5.5%	(13,387)	24,162	-	\$26.71	\$29.99	\$22.24
Duluth/Suwanee/Buford	8,162,603	17.2%	15.1%	19.8%	(65,688)	(42,213)	-	\$20.90	\$22.60	\$18.50
I-20 East/Conyers	565,521	7.9%	-	8.0%	(7,334)	(31,445)	-	\$20.86	-	\$20.86
I-20 West/Douglasville	471,373	13.5%	-	14.3%	9,680	17,943	-	\$19.17	-	\$20.01
Norcross/Peachtree Corners	6,265,727	23.5%	28.4%	20.5%	(16,739)	(39,017)	-	\$20.31	\$21.46	\$19.10
North Fulton/Forsyth	19,627,203	17.3%	17.4%	17.4%	(1,857)	87,453	128,031	\$24.97	\$27.50	\$20.72
Northeast Atlanta	8,163,178	22.1%	17.3%	25.9%	(6,928)	57,597	-	\$22.34	\$25.04	\$21.39
Northwest Atlanta	3,529,726	13.1%	9.5%	15.9%	(6,075)	(100,412)	-	\$22.89	\$28.05	\$21.03
Suburban Total	97,088,896	18.2%	17.8%	19.5%	(310,234)	321,206	463,592	\$25.35	\$28.22	\$20.83
Total Market	155,458,827	16.7%	16.5%	17.5%	(443,130)	498,836	3,814,603	\$29.31	\$32.32	\$21.26

BY CLASS	Inventory	Vacancy	3Q Absorption	YTD Absorption	SF Under Construction	Available Sublease
Class A	107,811,650	16.5%	(221,285)	1,011,632	3,814,603	3,246,668
Class B	43,640,694	17.5%	(185,905)	(464,638)	-	829,987
Class C	4,006,483	12.5%	(35,940)	(48,158)	-	40,296
Total Market	155,458,827	16.7%	(443,130)	498,836	3,814,603	4,116,951

Avison Young Atlanta currently tracks Class A, B & C office buildings that are 20,000 square feet or greater, not owner occupied, not medical and not government.



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