

3Q24

# Atlanta Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- The market’s unemployment rate increased 29 basis points year over year to 3.4% at the end of August 2024, remaining 76 basis points lower than the national average of 4.2%.
- Job growth was up 1.4% year over year, modestly reversing a recent decline in the pace of job growth.
- Seven of the 10 sectors reported employment growth, with the leisure and hospitality sector leading job gains at 4.5% over the past 12 months.
- Office-using jobs in the market was 892,680 employees, reflecting a decline of 0.4% year over year.

## Major Transactions

- Law firm Morris, Manning & Martin, LLP inked the largest deal of the quarter, signing a new lease for 104,440 SF at Two Alliance in the Buckhead submarket.
- Flight to quality continues to remain an important driver in some of the largest and most notable deals signed in the third quarter of 2024, with all of the top five largest deals signed in Class A assets.
- The top five deals were in four different submarkets, with two in Buckhead and one each in Downtown, Midtown and Central Perimeter, indicating demand for high quality space in several submarkets.

## Leasing Market Fundamentals

- Annual full-service asking rental rates increased to a historical high of \$32.28/SF, reflecting a 2.9% increase year over year. The annual pace of rent growth has generally been declining since 2017.
- Overall vacancy rates increased by 70 basis points year over year to 25.8%, as year-to-date supply still outpaced occupancies.
- The under-construction pipeline declined 33.8% year over year to 1.4 MSF and has generally been slowing, allowing existing inventory more time to absorb vacancies.
- The average deal size for all classes in the third quarter of 2024 was 5,983 SF, with Class A deal size continuing to be larger at 8,502 SF on average.

## Outlook

- New construction is projected to decline further through the remainder of 2024, which will provide existing office buildings more time to absorb vacant space, rather than competing with newer, higher-end deliveries.
- Class A properties featuring spec suites are expected to continue demanding the majority of small to mid-size deals in the market.
- While rents will continue to increase, the pace of rent growth will stabilize in the near and medium term, given the level of available inventory.
- Opportunities remain in the Atlanta office investment market to see more sales of distressed assets. The lower cost basis enables new owners to reduce risk and provide greater potential for increased ROI.

1. Economy
2. Leasing Market Fundamentals

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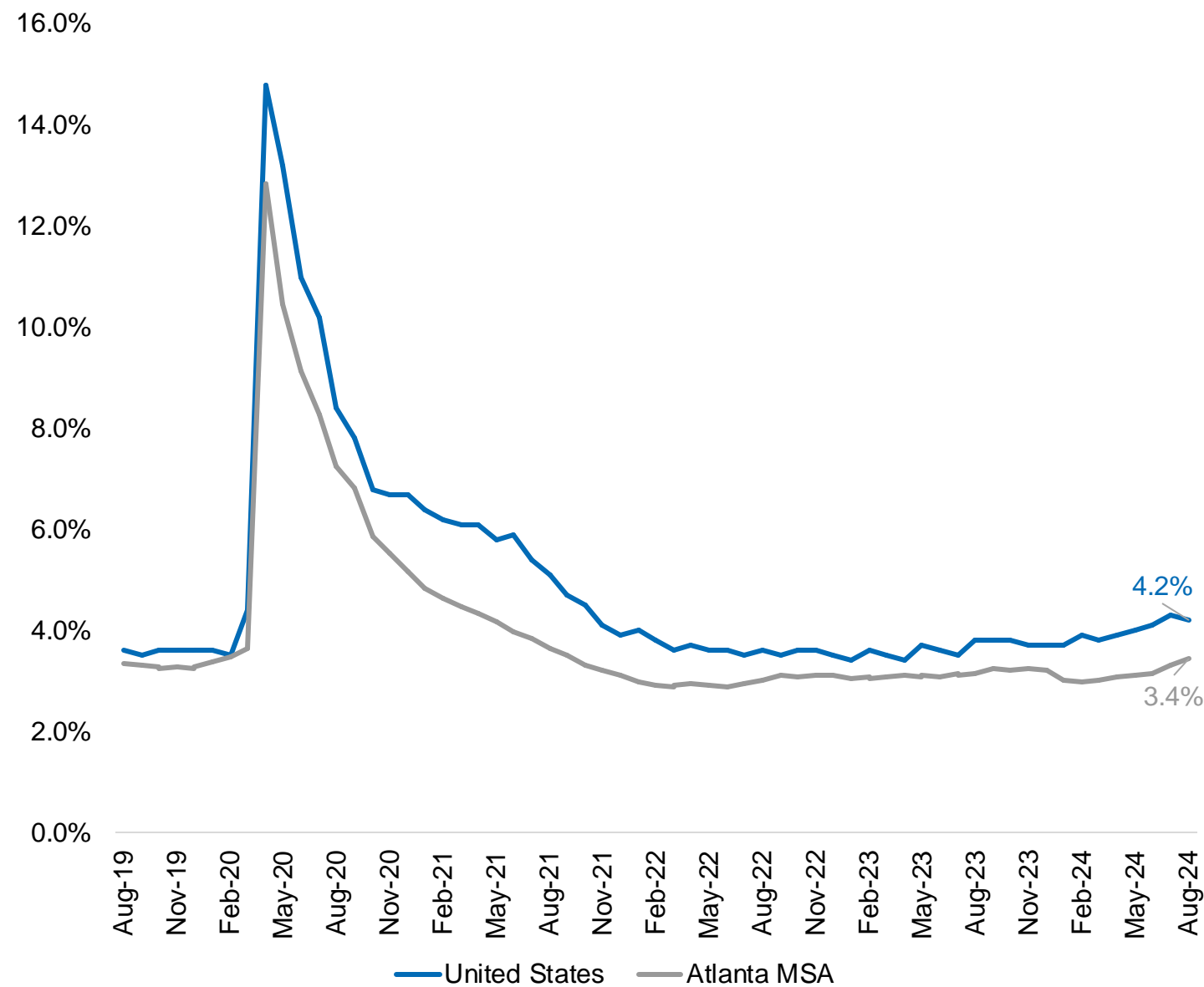
# Economy



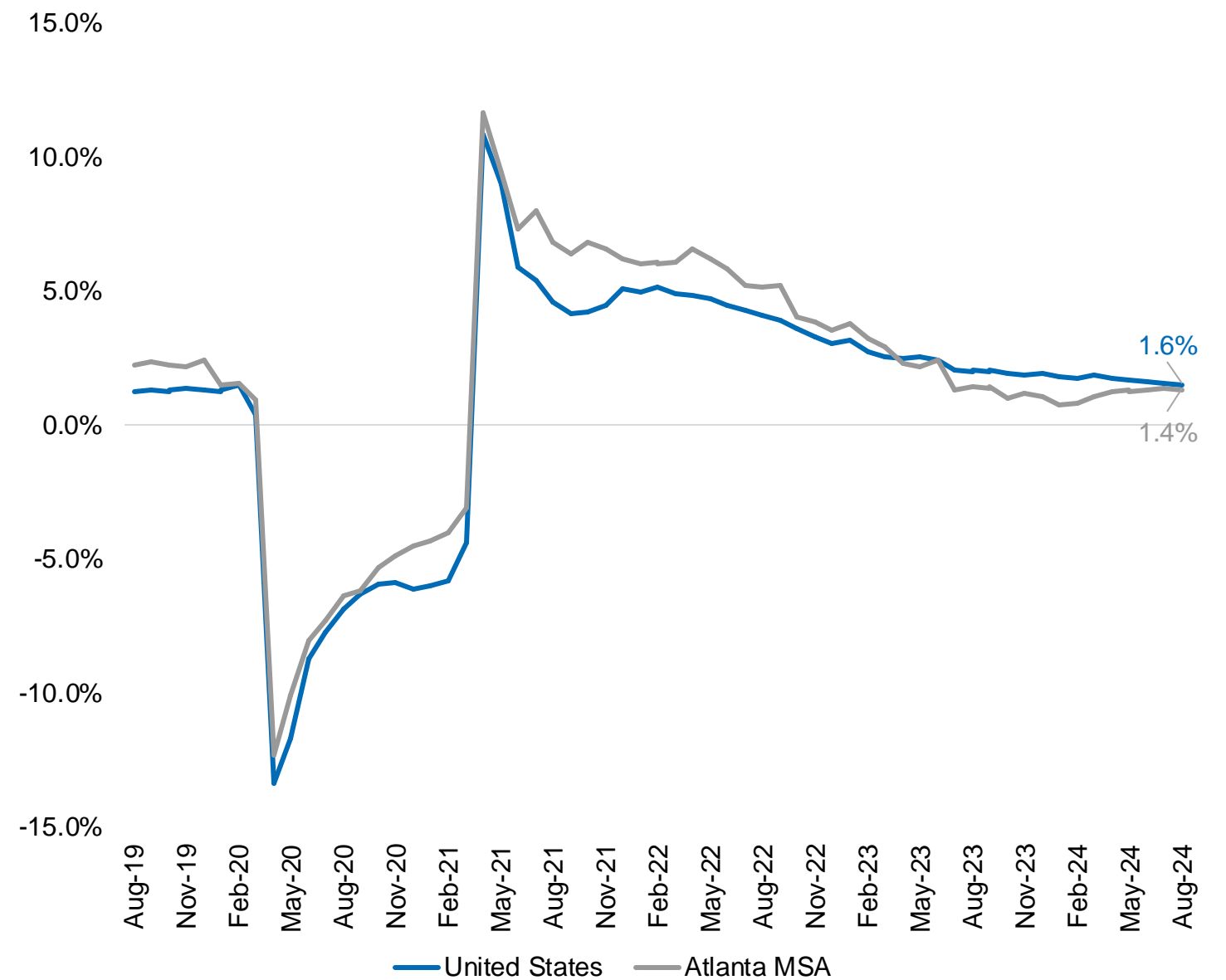
# Metro Employment Trends

The Atlanta market has generally reported lower unemployment rates compared with the national average. Despite a slowing national economy, the metro's unemployment rate closed the third quarter of 2024 at 3.4%, continuing to remain below the national rate by 76 basis points. The market's year-over-year employment growth rate slowed by nine basis points to 1.4% in August 2024, although the August 2024 growth rate was an improvement compared to the seven-month average between January to July 2024 of 1.1%.

Unemployment Rate, Seasonally Adjusted



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

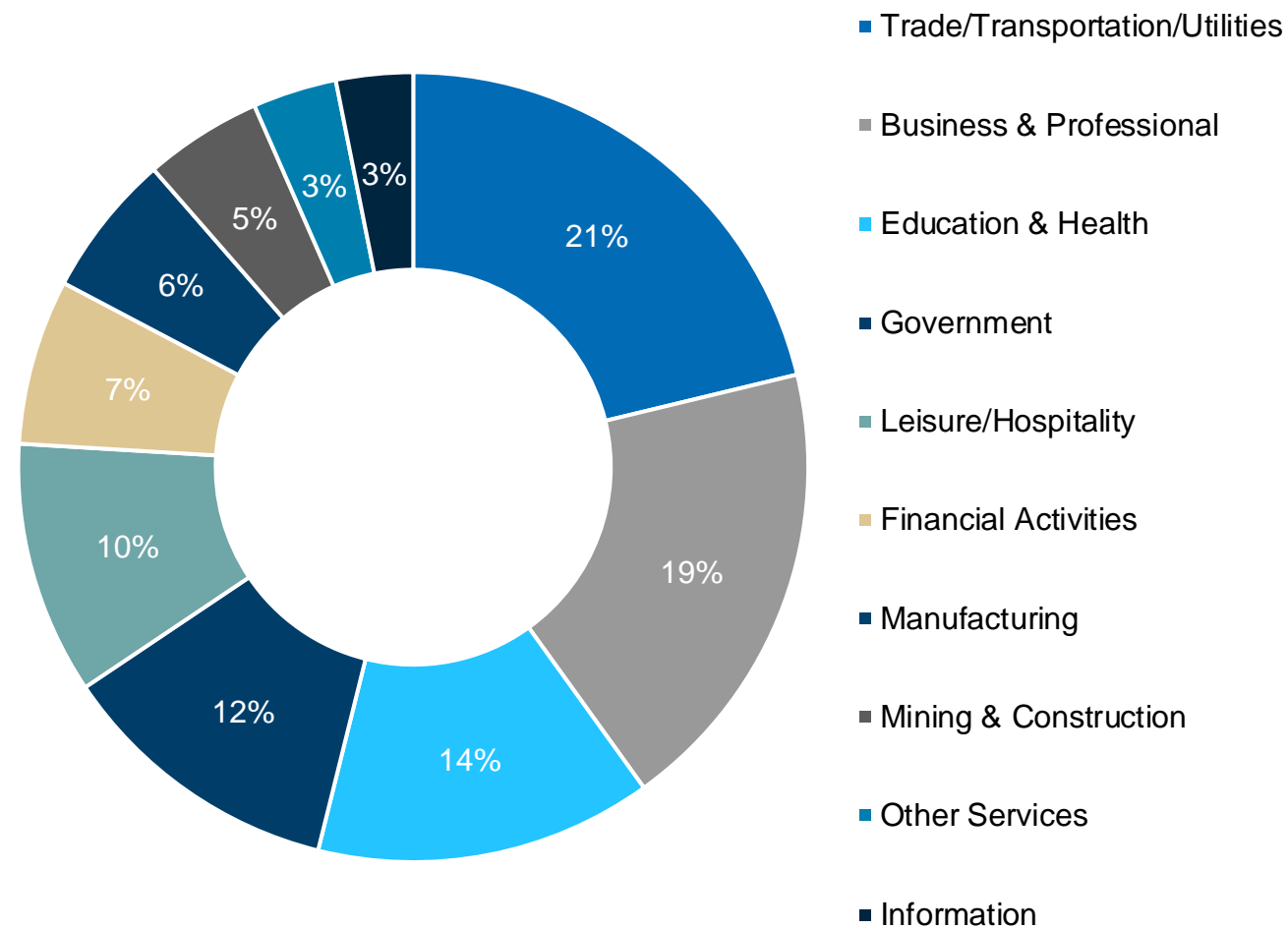


Source: U.S. Bureau of Labor Statistics, Atlanta MSA

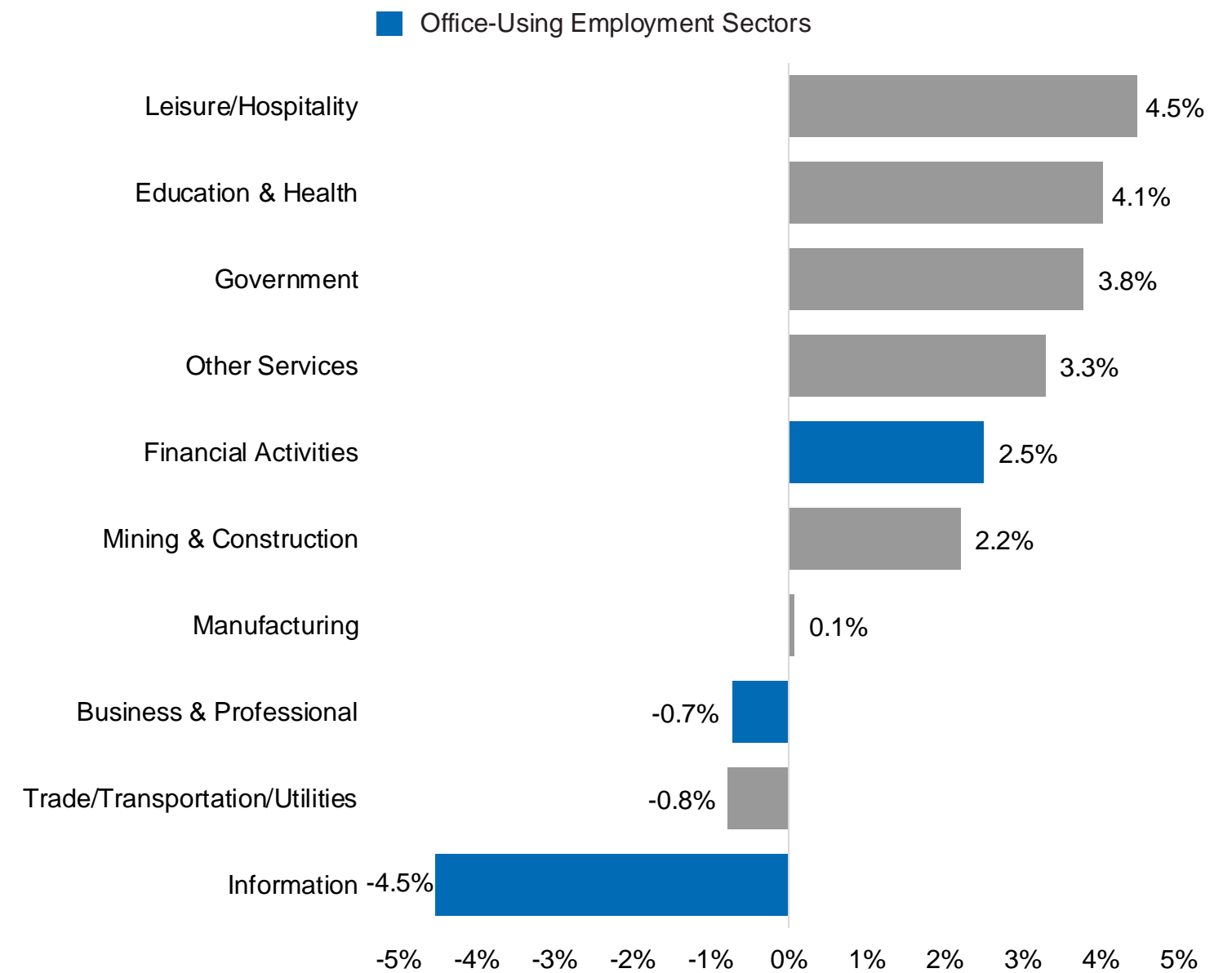
# Employment Growth Largely Continues, Despite Declines in Two Office-Using Sectors

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 metro at 18.8%. While most industries in the metro continued reporting growth, two of the main three office-using sectors contracted for the second consecutive quarter, with the business and professional sector and information sector declining by 0.7% and 4.5% year over year, respectively. Meanwhile, financial activities grew by 2.5%.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

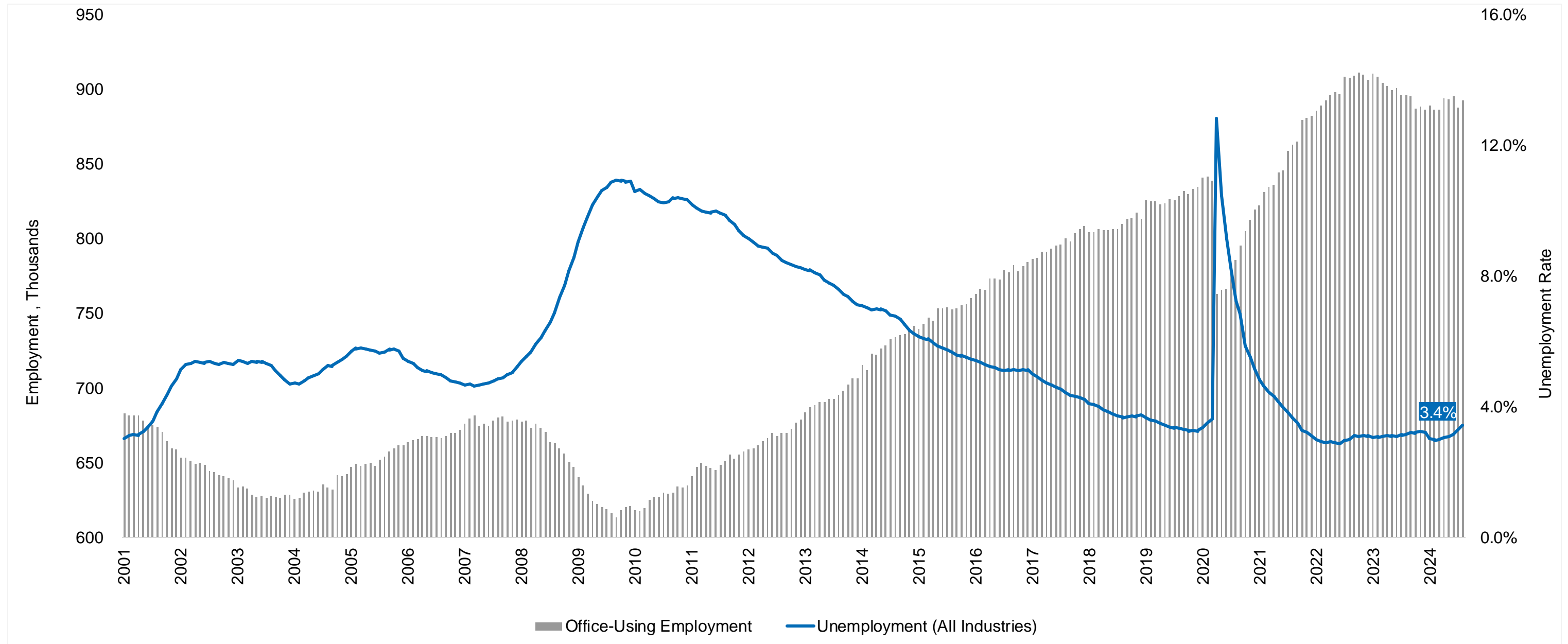


Source: U.S. Bureau of Labor Statistics, Atlanta MSA

# Overall Office-Using Employment Reports Slowing Declines

Office-using employment in the Atlanta metro decreased 0.4% year over year to 892,680 employees at the end of the third quarter, which is a smaller decline than the 0.6% reported in the previous quarter. The decline continues to be largely driven by the office-using information sector. Currently, the seasonally adjusted unemployment rate is at 3.4%, which is same as the average unemployment rate in 2019, indicating that office-using jobs are now having a neutral effect on the unemployment rate. It is worth noting that office-using employment grew by 6.9% since the pandemic and is only 2.0% lower than the 911,110 employment peak in October 2022.

## Office-Using Employment\* and Unemployment Across All Industries



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

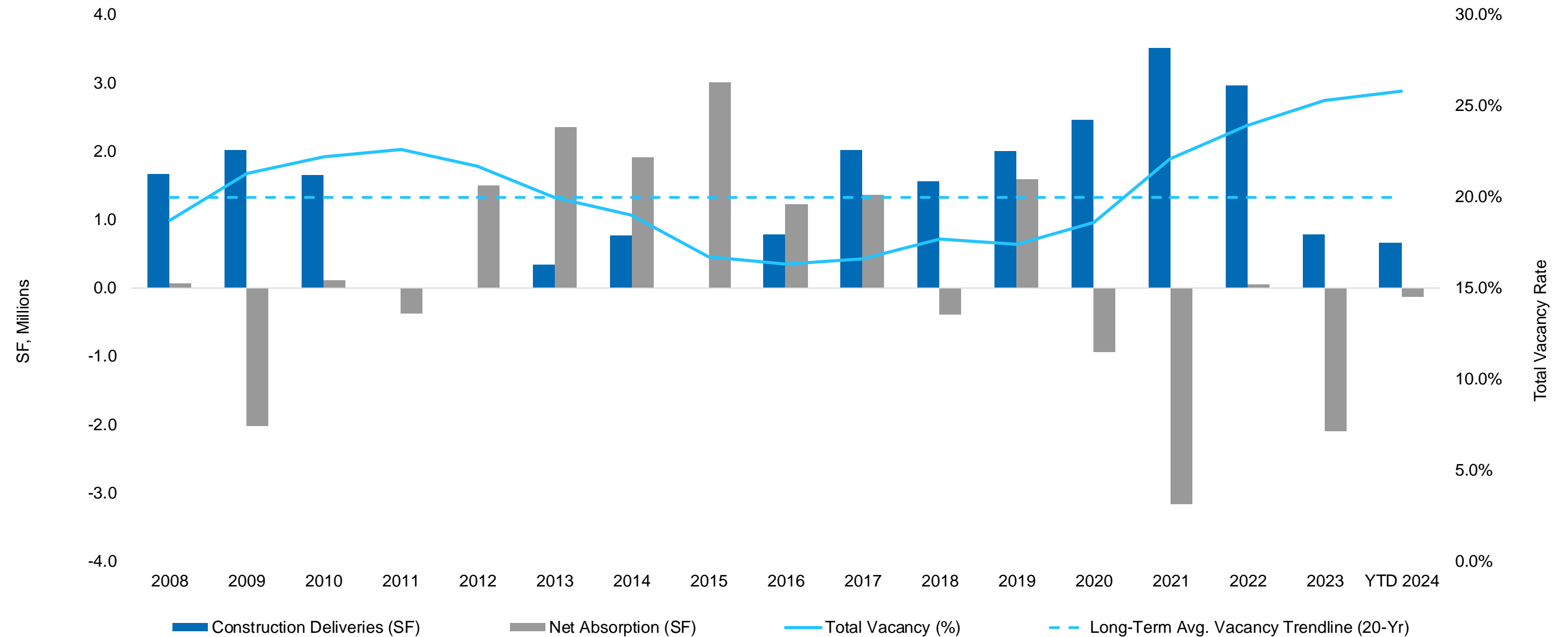




# Supply Outpaces Demand, Leading to Slight Uptick in Vacancy

From 2020 to 2022, the market reported historic highs in deliveries coupled with elevated levels of negative absorption. Since then, deliveries have slowed, with only the 95,924-SF Southern Post project coming online in the third quarter of 2024. Net absorption was negative 125,325 SF during the quarter, leading to a marginal increase in the vacancy rate by 10 basis points quarter over quarter to 25.8%.

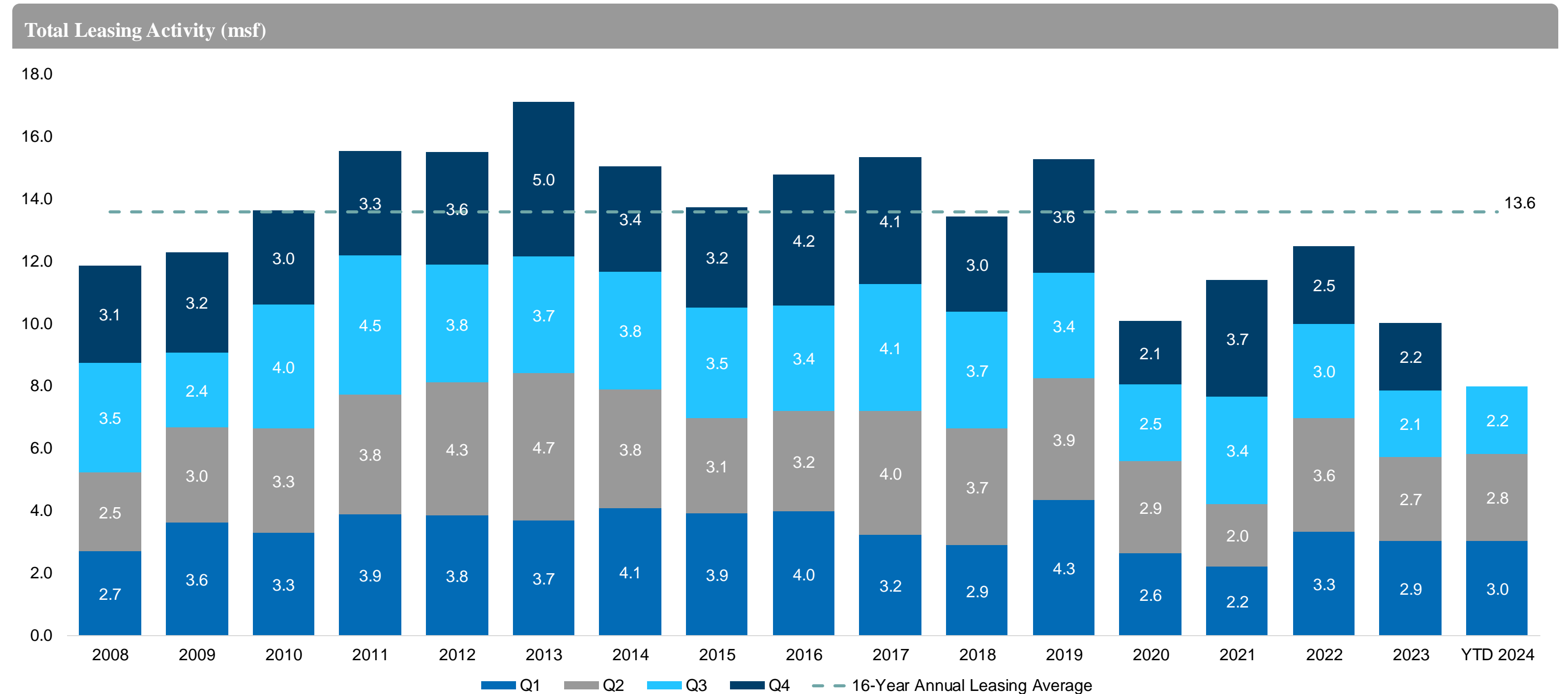
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

# Leasing Activity Dips, Remains Below 16-Year Historical Quarterly Average

Leasing activity decreased by 22.6% quarter over quarter to 2.2 MSF in the third quarter of 2024. Activity in the market remains slower, with leasing in the third quarter comparatively slower than quarterly activity over the past 16 years at 3.4 MSF. Deal size averaged 5,983 SF, reflecting a 1,084 SF decrease quarter over quarter. The average deal size continues to reflect ongoing rightsizing trends.

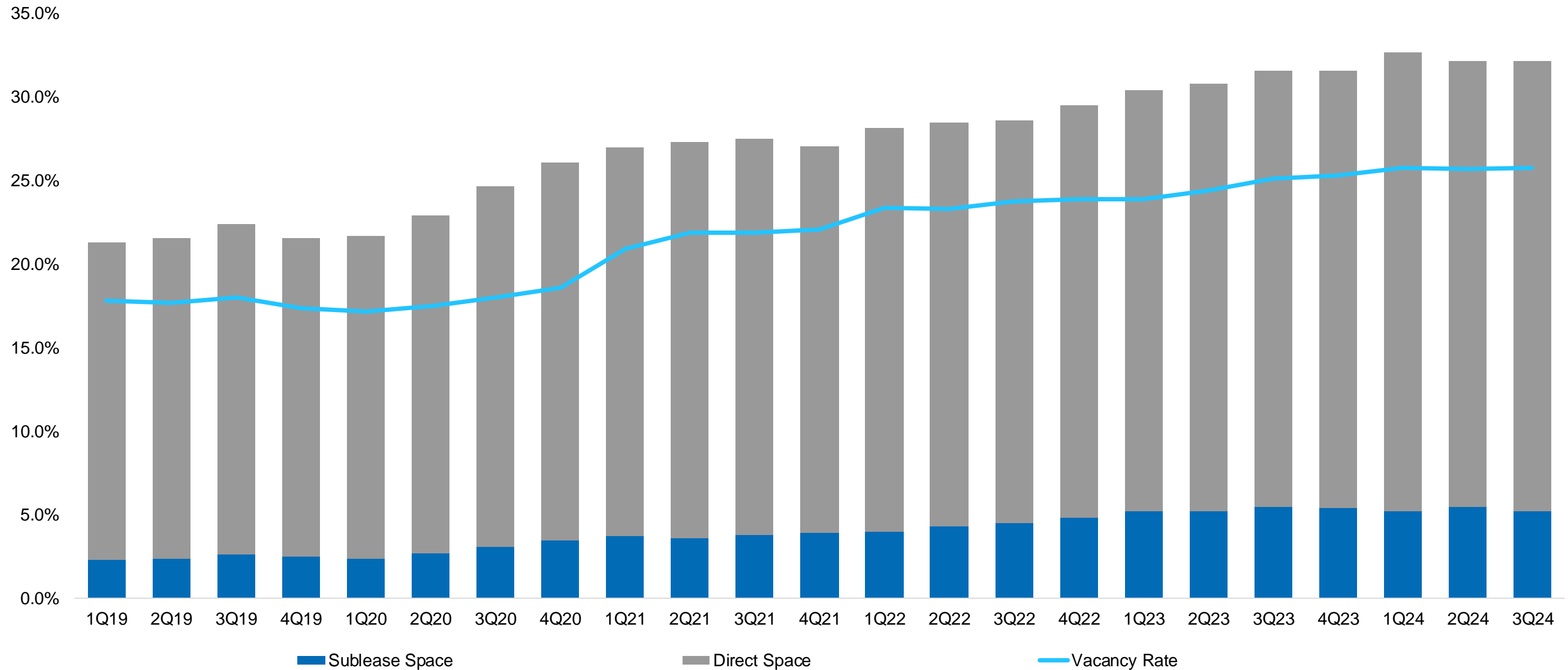


Source: Newmark Research, CoStar

# Overall Availability Largely Flat

In the third quarter of 2024, direct availabilities increased by 30 basis points quarter over quarter to 27.0%. Although up slightly from the previous quarter, the direct availabilities are 50 basis points below the peak of 27.5% in the first quarter of 2024. Sublease availability ended the third quarter at 5.2%, a 30-basis-point decrease quarter over quarter. The net effect was that total availability was unchanged quarter over quarter at 32.2%. Over the same period, vacancy rates increased by 10 basis to 25.8%.

Available Space as Percent of Overall Market

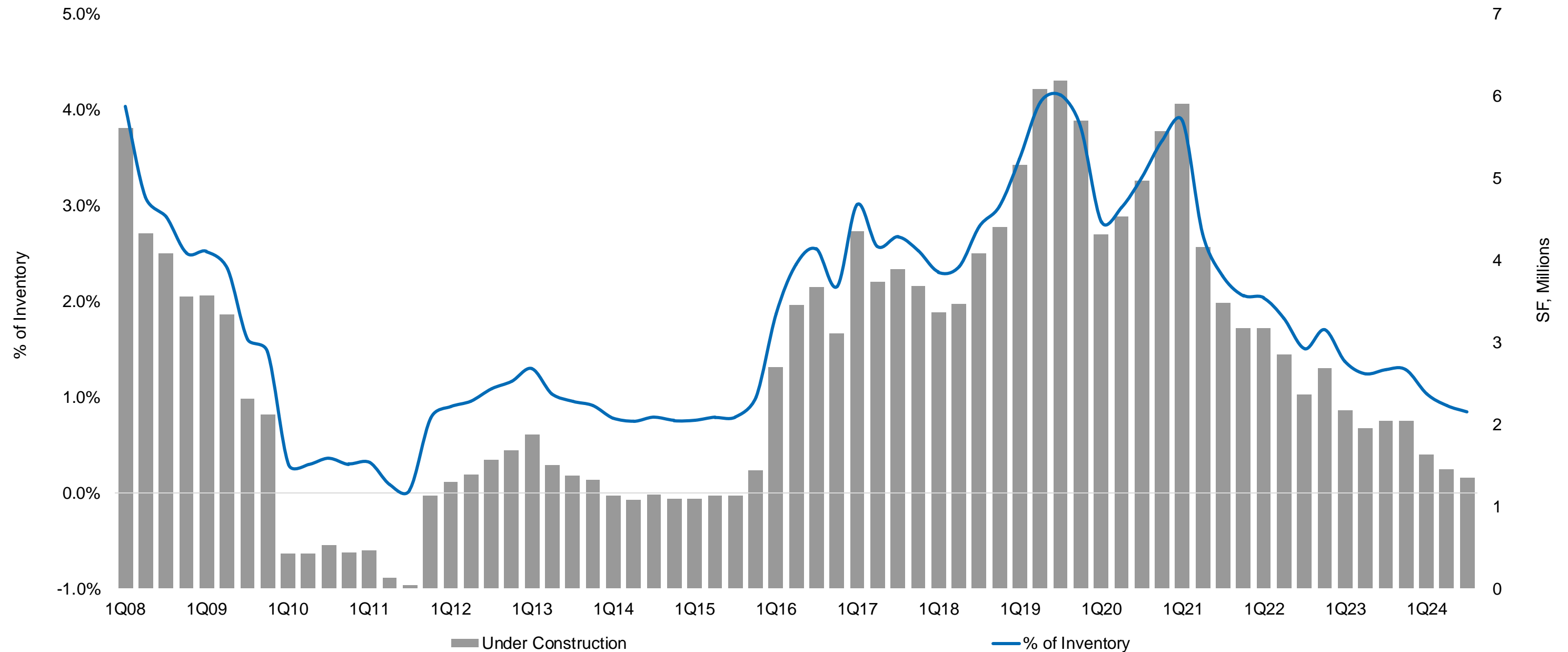


Source: Newmark Research, CoStar

# Construction Activity Continues to Decrease

At the end of the third quarter of 2024, the market had 1.4 MSF under construction, a 6.6% decrease from the previous quarter and a 33.8% year-over-year decline. The decrease continues a trend of declining activity since the highs reached in 2019 through the beginning of 2021. The slowdown will help limit additional inventory entering a market already facing historically high vacancy rates and slow absorption. This will give existing office space more time to absorb vacancies, potentially stabilizing market conditions over the coming quarters.

Office Under Construction and % of Inventory

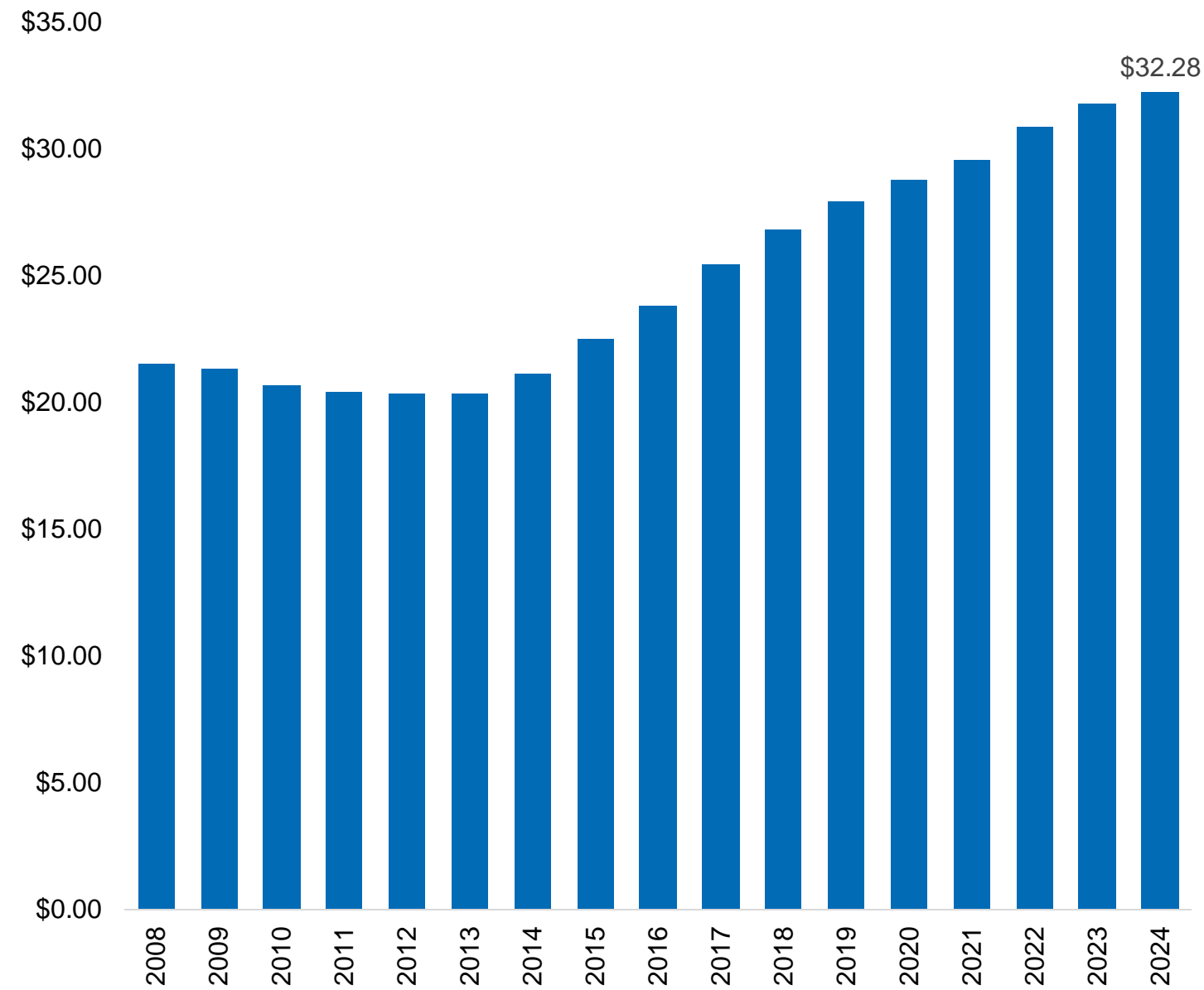


Source: Newmark Research, CoStar

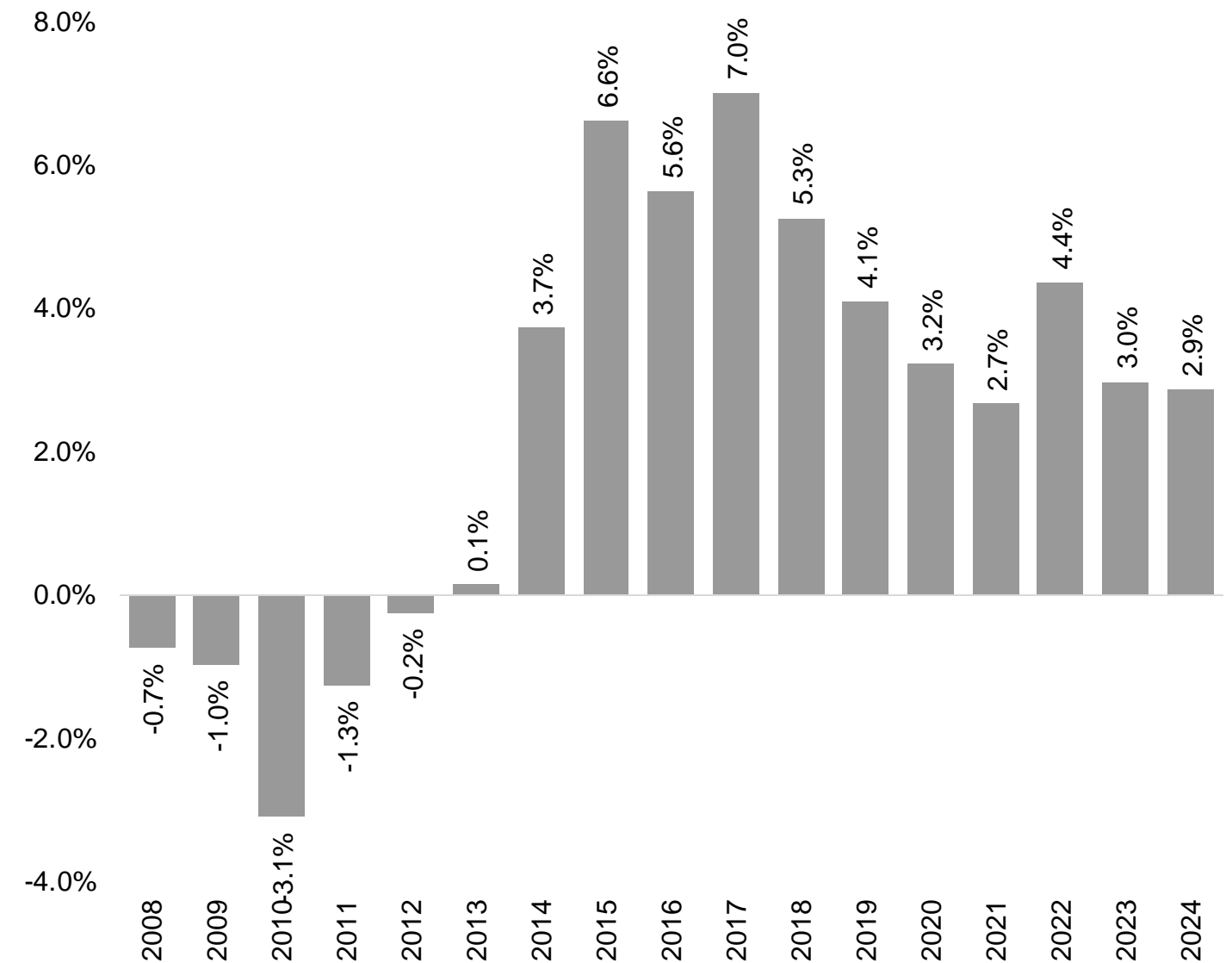
# Asking Rents at New All-Time High

Rents reached an all-time high of \$32.28/SF in the third quarter of 2024, a 2.9% year-over-year increase. Asking rents will continue to reflect increases, as concession packages remain aggressive market-wide. However, the pace of rent growth has moderated, and is expected to remain lower than the 2014 to 2019 pre-pandemic period, which averaged 5.4% annual rent growth.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

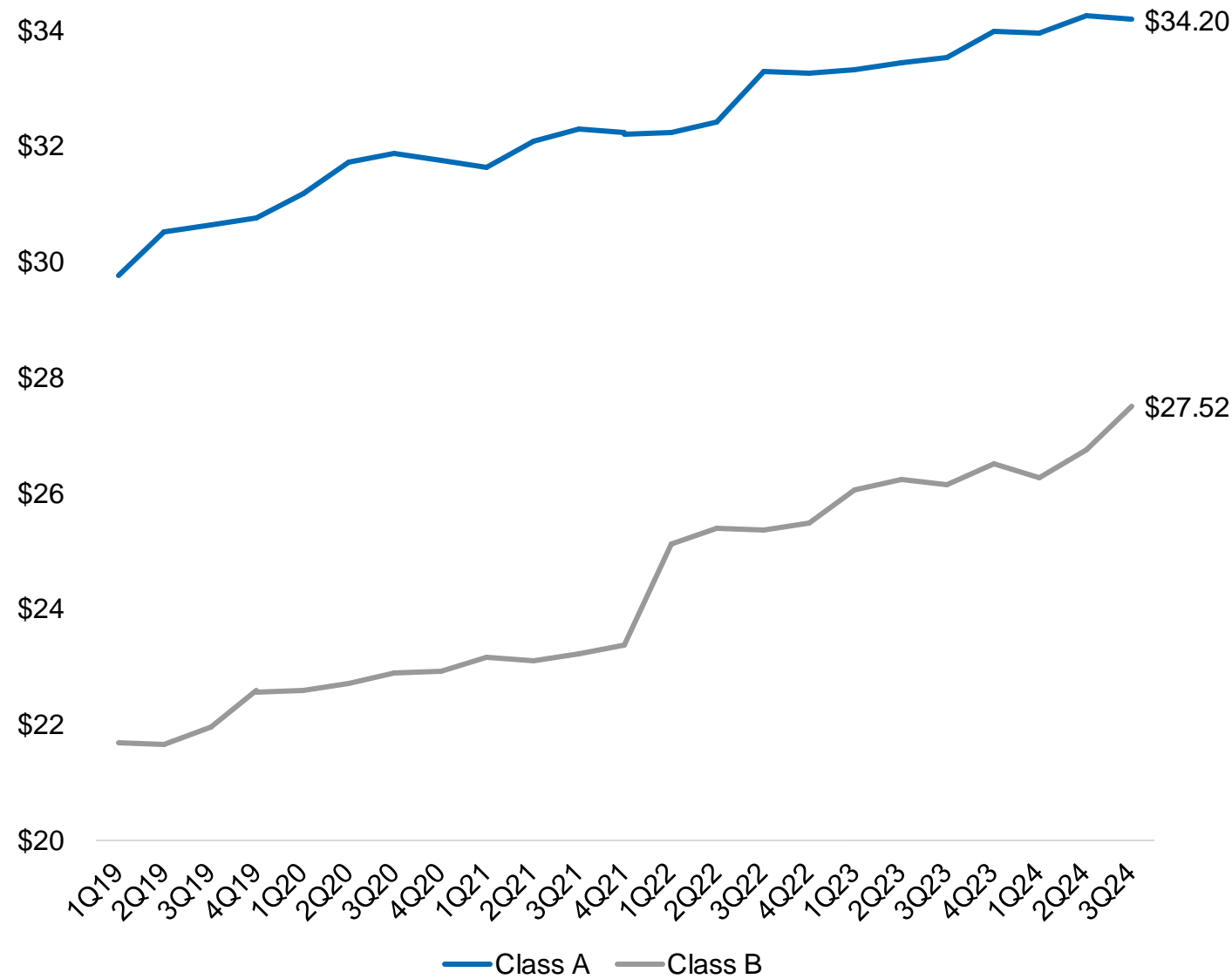


Source: Newmark Research, CoStar

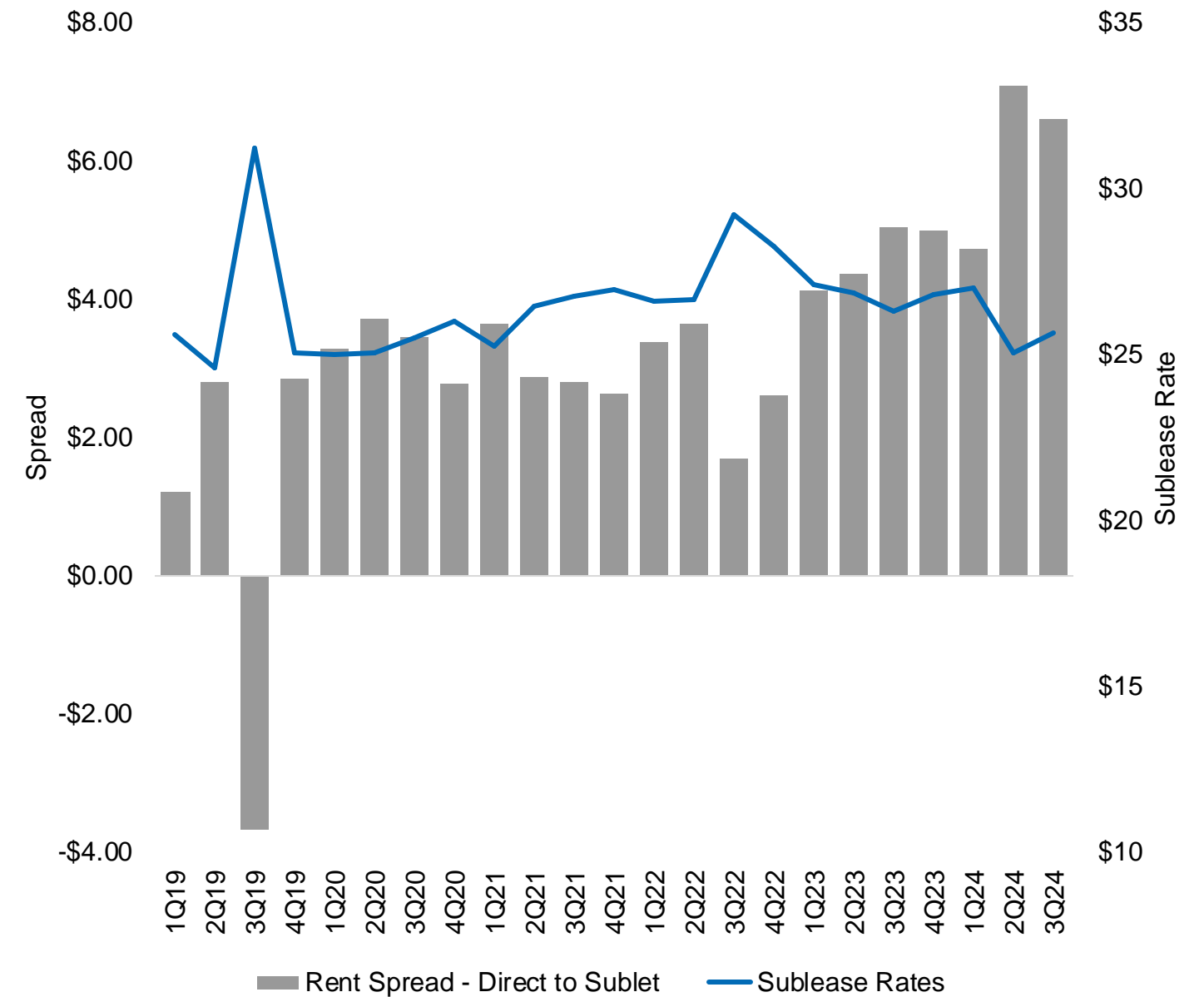
# Asking Rents Growth Reflect Continued Preference for Quality

As of the end of the third quarter of 2024, Class A asking rents ended at \$34.20/SF while Class B reported \$27.52/SF. The spread represents \$6.68/SF, or 19.5% of Class A rent. While the gap continues to be significant, reflecting continued preference for higher-quality space, the spread has decreased from an average of \$7.89/SF between 2021 and 2023. Sublease rates increased 2.5% quarter over quarter to \$25.68/SF in the third quarter of 2024. This reversed the trend of generally declining sublease asking rates since the second quarter of 2023.

**Class A and Class B Asking Rents**



**Sublease Rates**



Source: Newmark Research, CoStar

# Leasing Continues to be Concentrated in Class A

Flight to quality continues to remain a trend in the Atlanta office market. As of the end of the third quarter of 2024, Class A space accounted for 69.7% of the market's leasing activity by SF, but only 49.0% of the market's deal volume. Average leases signed in Class A space were 8,502 SF and continue to remain larger than the average market deal size at 5,983 SF.

## Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Morris, Manning & Martin, LLP	Two Alliance – 3560 Lenox Rd NE	Buckhead	Direct New	104,440
<i>Law firm Morris, Manning &amp; Martin will be relocating from Atlanta Financial Center, to Two Alliance, within the same submarket.</i>				
Truist	Truist Plaza – 303 Peachtree Center Ave	Downtown	Renewal	104,100
<i>Financial services firm Truist signed up for space in the Downtown Atlanta submarket, separate from their new national headquarters currently being developed in the Cumberland/Galleria submarket.</i>				
CoStar Group	Phipps Tower – 3438 Peachtree Rd	Buckhead	Renewal	82,131
<i>Real estate data company CoStar, headquartered in the Washington, DC metro, renewed their Atlanta location lease.</i>				
Cargill	NCR Headquarters Campus – 864 Spring St NW	Midtown	Sublease	82,000
<i>The nation's largest privately-held food producer executed a sublease in one of the two towers within technology company NCR's global headquarters. The space represents a new office hub for the Minnesota-based company, earmarked to be a tech hub for Cargill that will house up to 400 employees.</i>				
Omnissa	1155 Perimeter Ctr	Central Perimeter	Sublease	66,499*
<i>The technology company had recently been spun out by Broadcom, and as part of that deal Omnissa would sublease a portion of Broadcom's space. This included two separate sublease deals, one for 66,499 SF, and another for 60,891 SF.</i>				

Source: Newmark Research, CoStar

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## 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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