

4Q24

Atlanta Office Market Overview



NEWMARK

Market Observations

Economy

- The market’s unemployment rate increased 42 basis points year over year to 3.7% at the end of November 2024 but is 54 basis points lower than the national average of 4.2%.
- Job growth was up 0.5% year over year, the slowest pace of growth since early 2021.
- Six of the 10 sectors reported employment growth, with the leisure/hospitality and government sectors leading job gains at 3.5% for both sectors over the past 12 months.
- Office-using jobs in the market was 877,130 employees, reflecting a decline of 1.3% year over year.

Major Transactions

- Global insurance firm AIG inked the largest deal of the quarter, signing a new, long-term lease for 178,666 SF at Summit Two in the Central Perimeter submarket.
- Flight to quality continues to remain an important driver in some of the largest and most notable deals signed in the fourth quarter of 2024, with all of the top five largest deals signed in Class A assets.
- Each of the top five deals were in different submarkets -- Central Perimeter, Buckhead, Downtown, North Fulton/Forsyth and Midtown -- indicating demand for high-quality space in several submarkets.
- During 2024, Atlanta experienced 26 office trades greater than \$10 million representing nearly \$825 million in aggregate volume and an average deal size just under of \$31 million. While this activity is significantly below historical norms, it does represent a year-over-year increase of 260% in deal count and 235% in aggregate volume.

Leasing Market Fundamentals

- Annual full-service asking rental rates continues to increase, reporting a new historical high of \$32.98/SF, reflecting a 3.4% increase year over year. While the rental rate growth in 2024 was slightly higher than the 3.2% reported in 2023, the annual pace of rent growth has generally been declining since 2017.
- Although net absorption was positive 62,785 SF in the fourth quarter of 2024, three new buildings delivered vacant. As a result of supply outpacing occupancies, the vacancy rate increased by 20 basis points quarter over quarter to 26.2%.
- The under-construction pipeline continues to consistently slow, declining by 61.5% quarter over quarter to 522,000 SF, the lowest level in recent years. The historically low pipeline along with no new construction starts in 2024 will improve the supply-demand imbalance.
- The average deal size for all classes in the fourth quarter of 2024 was 6,714 SF, with Class A deal size continuing to be larger at 8,981 SF on average.

Outlook

- New construction will likely be muted in the near term, 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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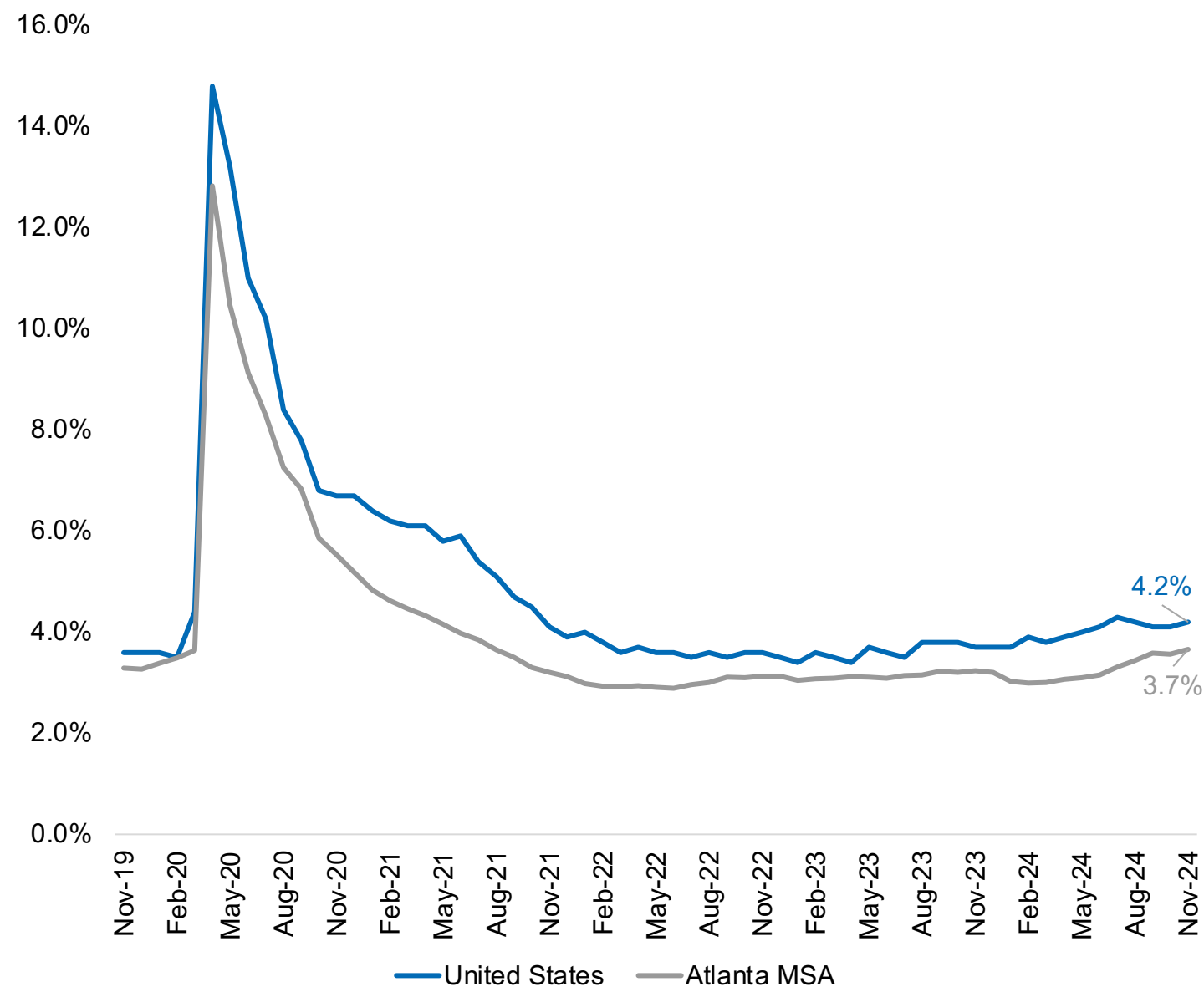
Economy



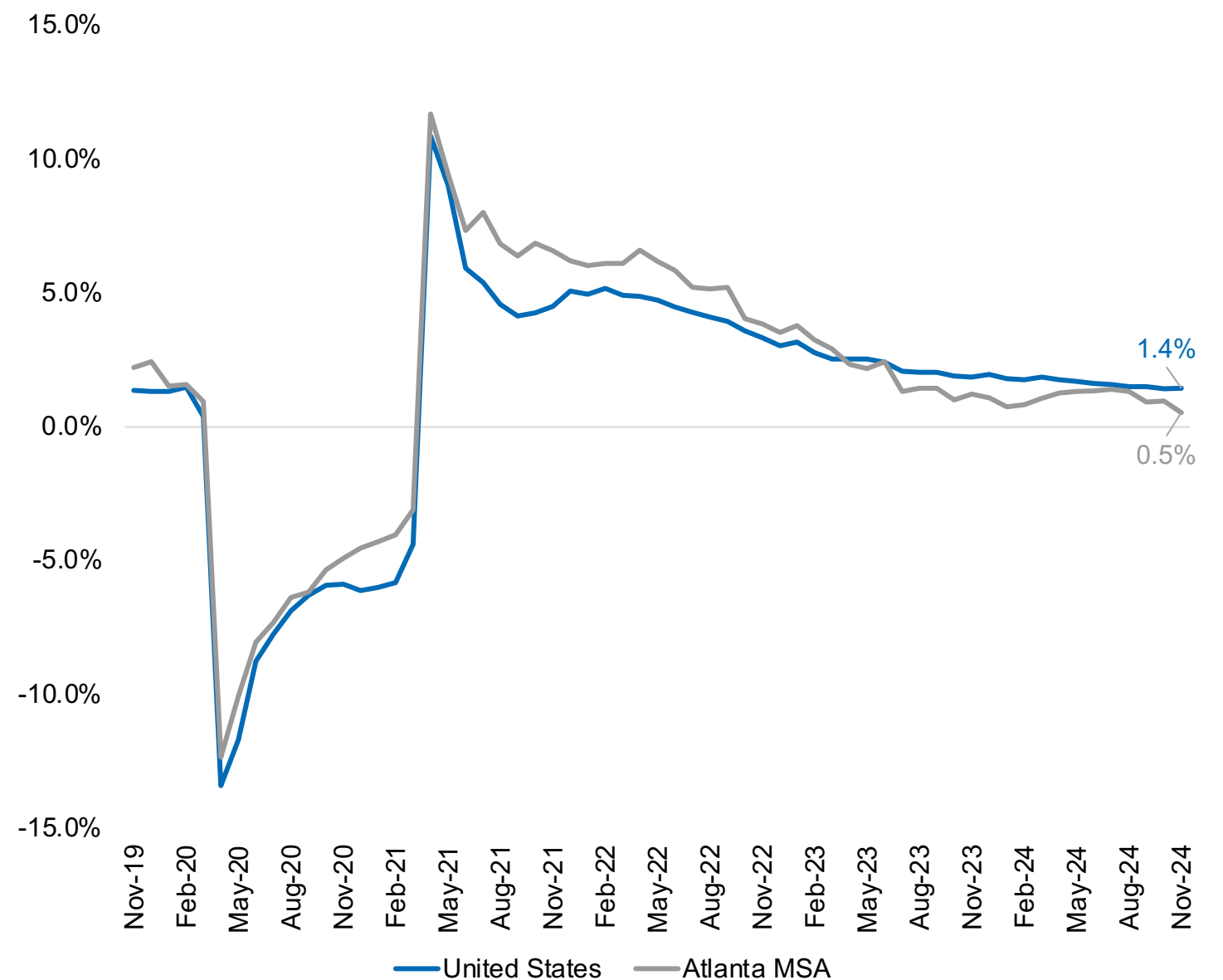
Metro Employment Trends

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 fourth quarter of 2024 at 3.7%, continuing to remain below the national rate by 54 basis points. The market's year-over-year employment growth rate slowed by 68 basis points to 0.5% in November 2024, the slowest year-over-year comparison since March 2021.

Unemployment Rate, Seasonally Adjusted



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

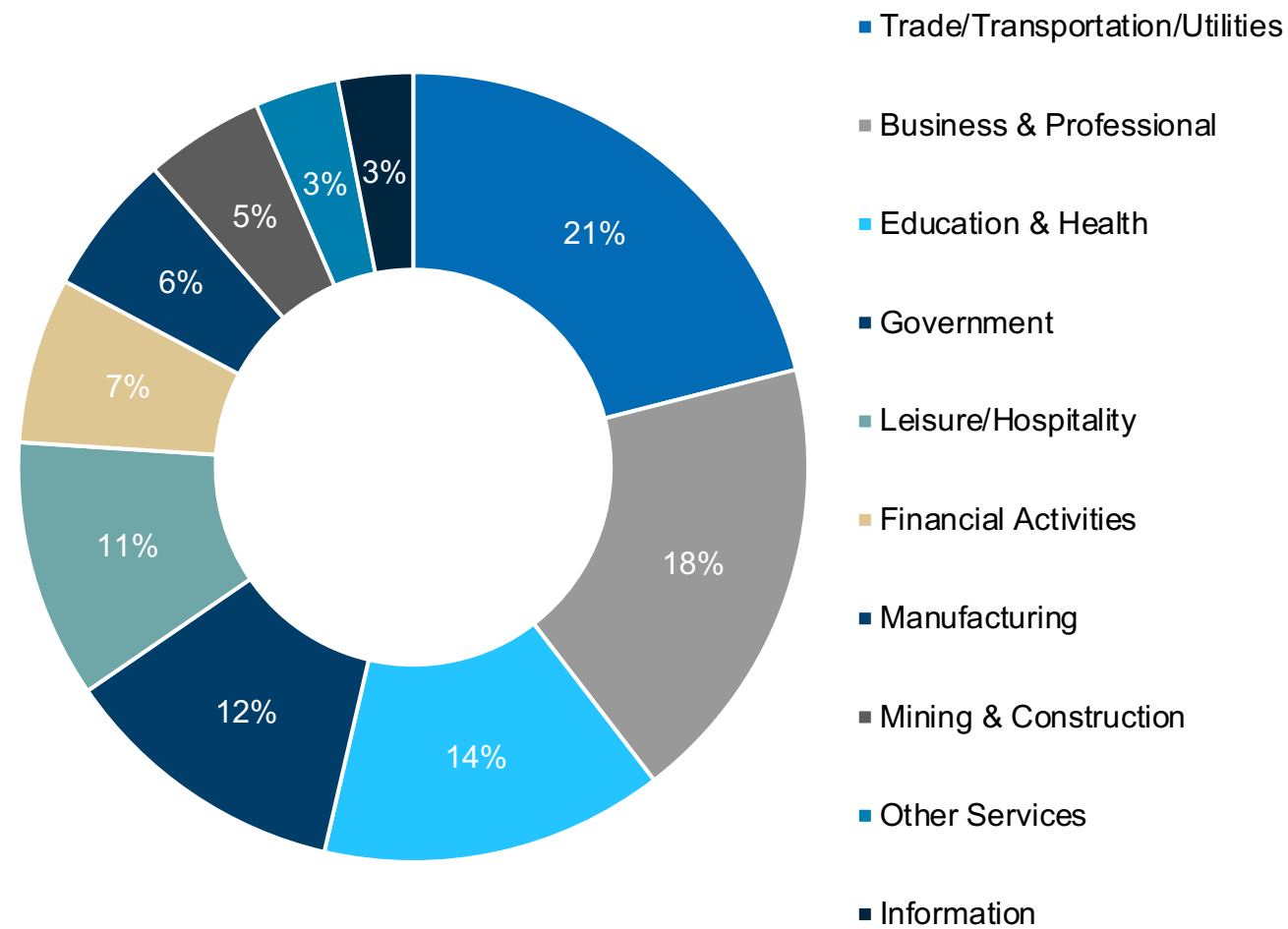


Source: U.S. Bureau of Labor Statistics, Atlanta MSA

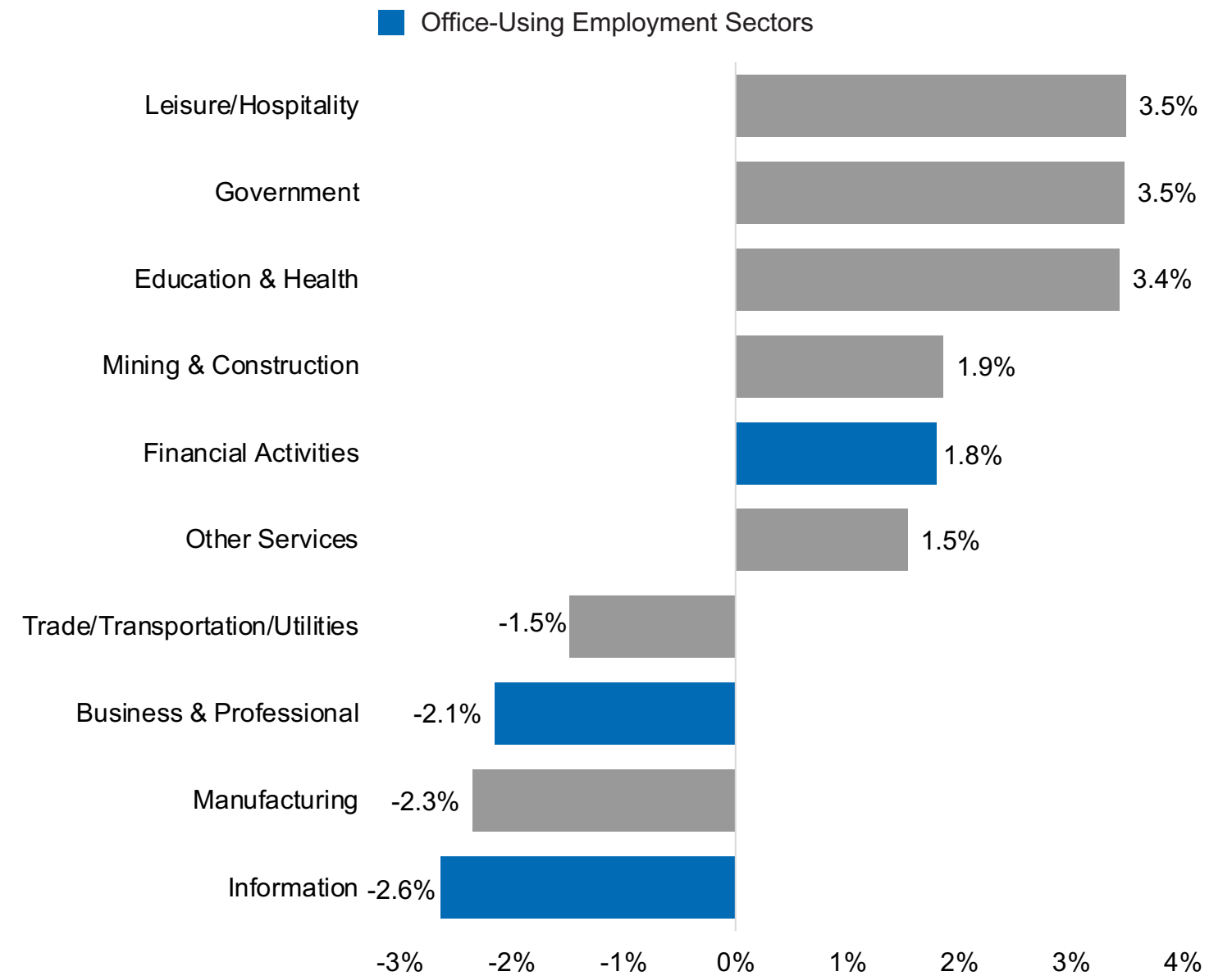
Employment Growth Continues Despite Ongoing Declines in Two Office-Using Sectors

The Atlanta market has a high industry diversity with the top two industries accounting for only 39.6% 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 18.5%. While most industries in the metro continued reporting growth, two of the main three office-using sectors contracted for the fourth consecutive quarter, with the business and professional sector and information sector declining by 2.1% and 2.6% year over year, respectively. Meanwhile, financial activities grew by 1.8%.

Employment by Industry, November 2024



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

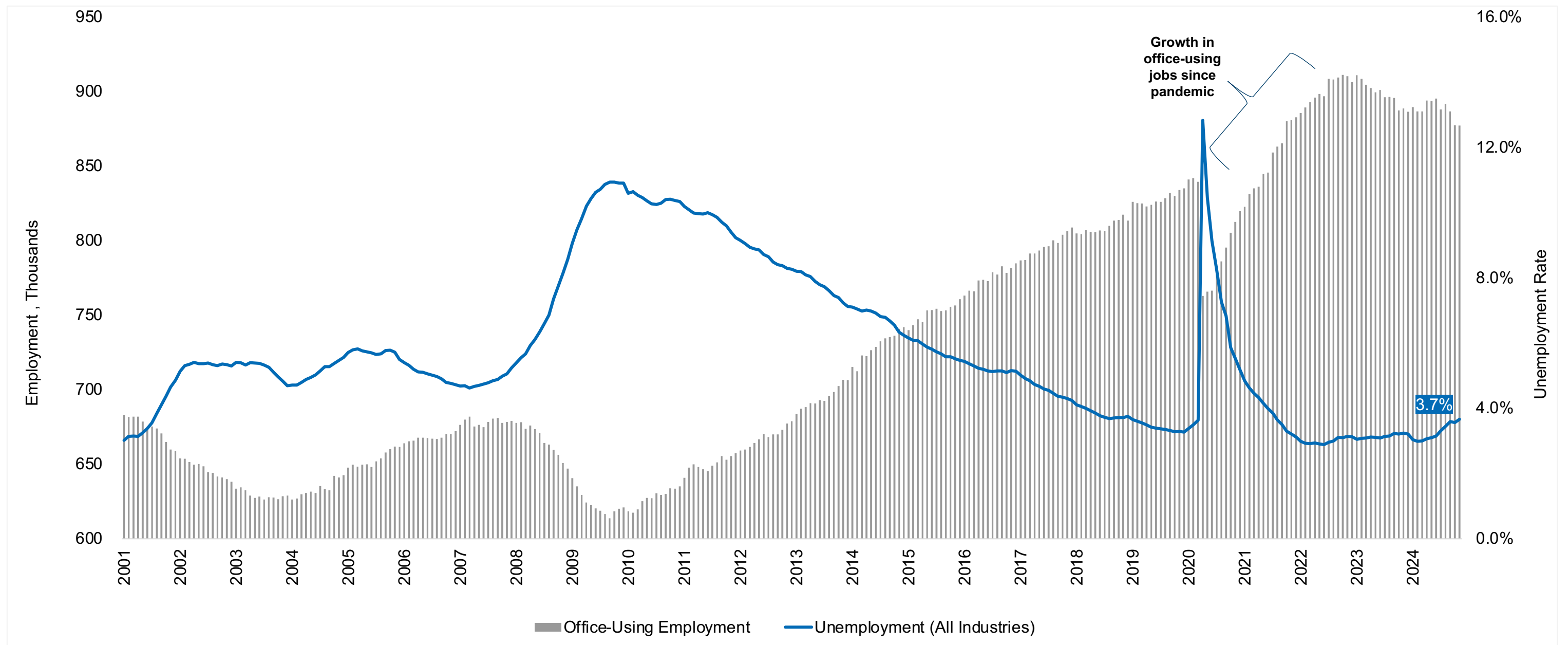


Source: U.S. Bureau of Labor Statistics, Atlanta MSA

Overall Office-Using Employment Declines

Office-using employment in the Atlanta metro decreased 1.3% year over year to 877,130 employees at the end of the fourth quarter, a larger year-over-year decline than any other quarter in 2024. The decline continues to be largely driven by the office-using information sector, although the pace of the slowdown in the business and professional sector increased in the fourth quarter. Currently, the seasonally adjusted unemployment rate is at 3.7%, well below the average unemployment rate of 5.8% recorded between 2001 and the previous quarter. It is worth noting that office-using employment grew by 5.1% since the pandemic and is only 3.7% 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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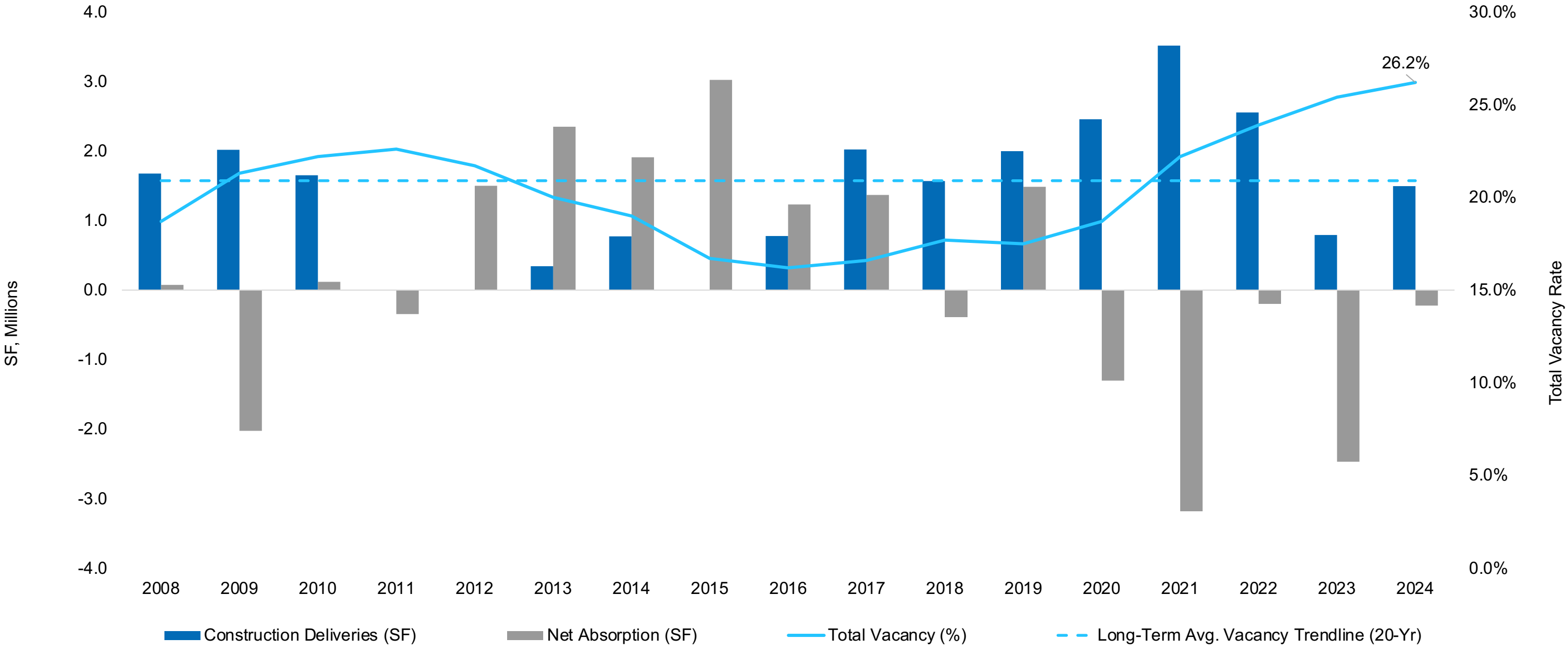
Leasing Market Fundamentals



Supply Outpaces Demand, Leading to Uptick in Vacancy

Office deliveries were at historic highs from 2020 to 2022 but have generally declined since. However, in the fourth quarter of 2024, deliveries reached the highest quarterly square footage volume since the third quarter of 2022. This surge comprised three deliveries – Society Atlanta, 1050 Brickworks and Spring Quarter – delivering a total of 835,235 SF of vacant office space. Consequently, despite positive net absorption of 62,785 SF, overall supply outpaced demand, resulting in the vacancy rate increasing by 20 basis points quarter over quarter to 26.2%.

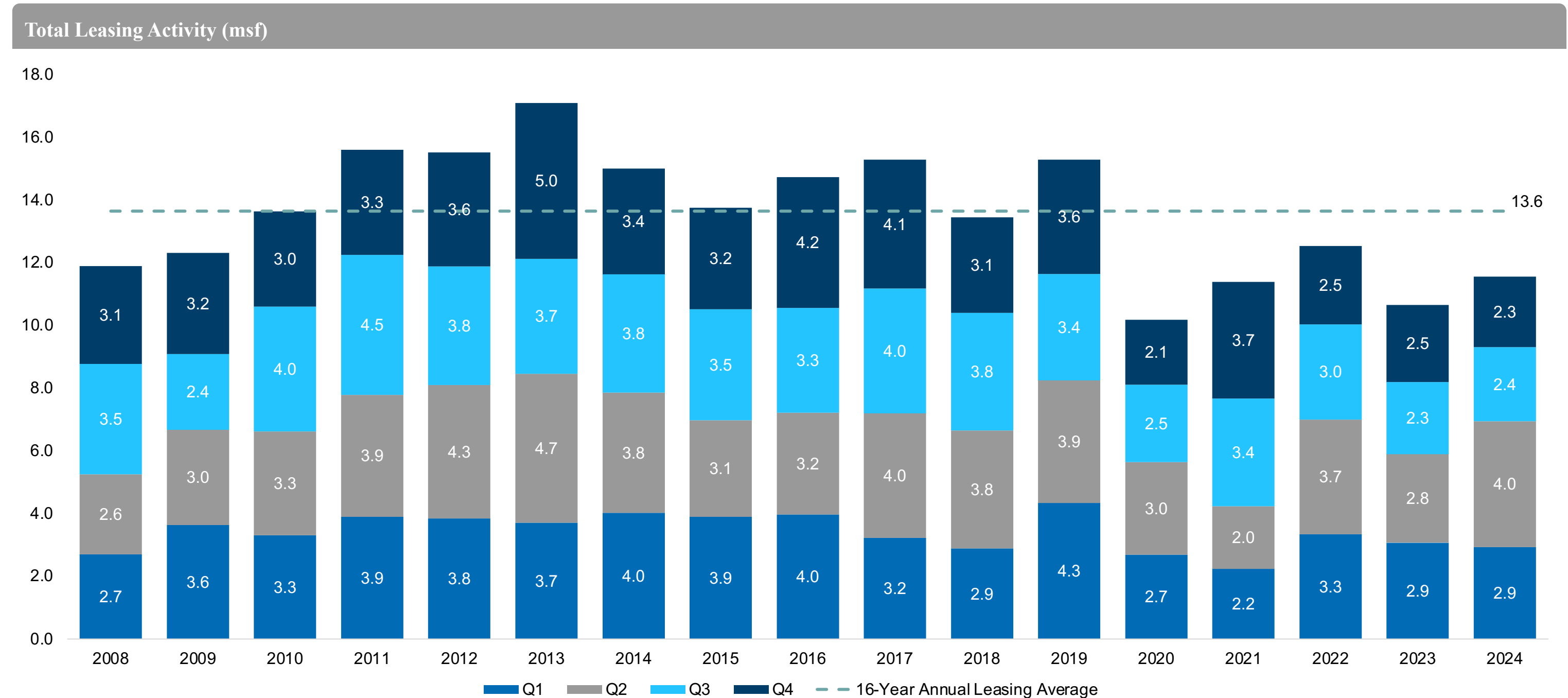
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research, CoStar

Full-Year Leasing Activity Up from 2023

While leasing activity decreased by 4.6% quarter over quarter to 2.3 MSF in the fourth quarter of 2024, yearly volume was 11.6 MSF, reflecting an 8.5% increase over 2023. Despite the increased activity in 2024, both quarterly and annual volume are still below the average of 3.4 MSF and 13.6 MSF, respectively, over the past 16 years. Deal size averaged 6,714 SF, reflecting a 1,362 SF increase quarter over quarter.

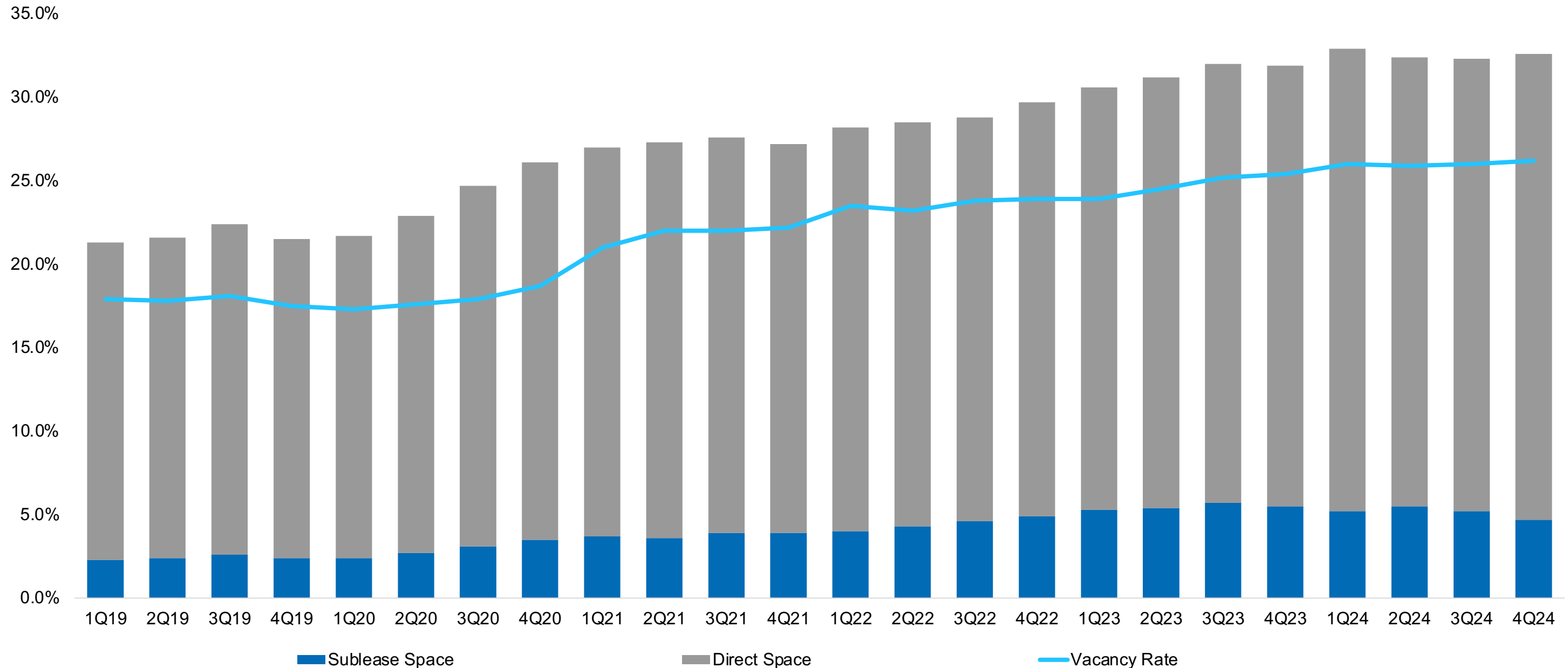


Source: Newmark Research, CoStar

Overall Availability Ticks Up, but Below Historical High

In the fourth quarter of 2024, direct availabilities increased by 80 basis points quarter over quarter to 27.9%, representing the most elevated level of direct availability since the first quarter of 2019. Sublease availability ended the fourth quarter at 4.7%, a 50-basis-point decrease quarter over quarter. As a result, total availability increased by 30 basis points quarter over quarter to 32.6%, but remains below the historical high of 32.9% reported in the first quarter of 2024. The vacancy rate increased by 20 basis to 26.2% in the fourth quarter of 2024.

Available Space as Percent of Overall Market

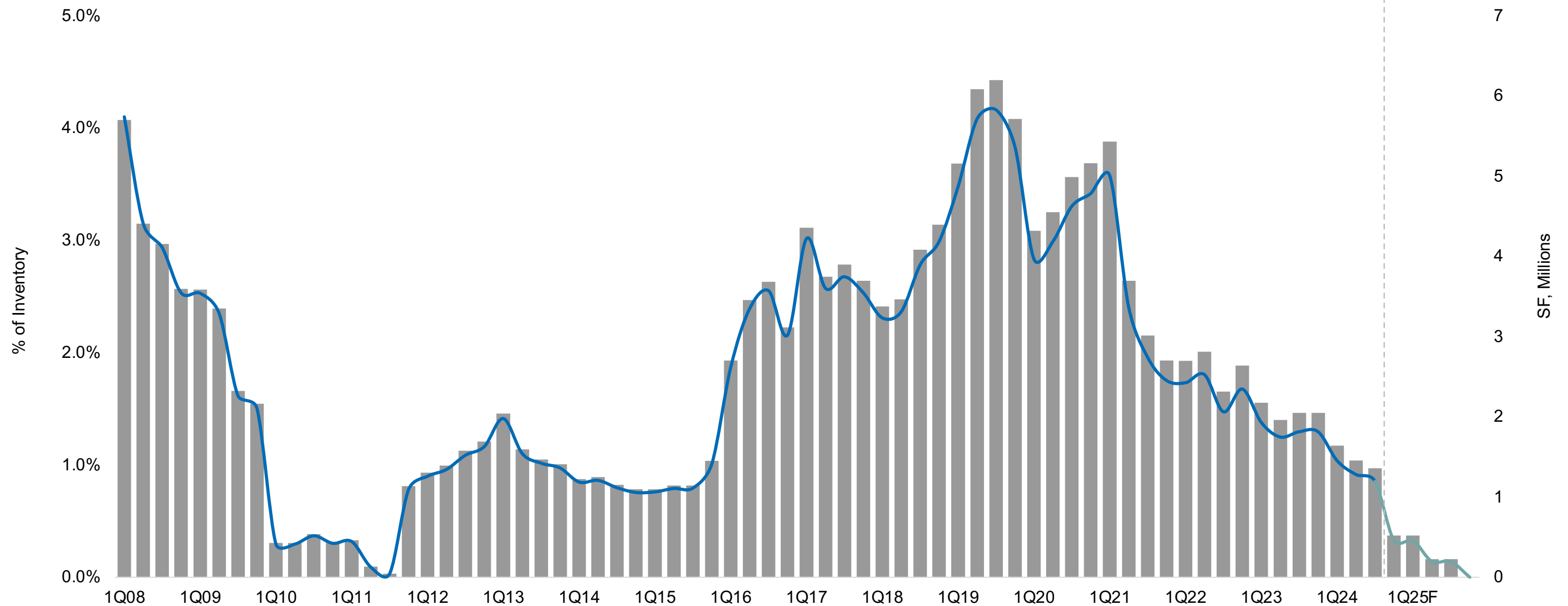


Source: Newmark Research, CoStar

Construction Activity Continues Declining Trend

At the end of the fourth quarter of 2024, the market had 522,000 SF under construction, a 61.5% decrease from the previous quarter and a 74.5% year-over-year decline. The decrease continues a trend of declining activity since the highs reached in 2019 through the beginning of 2021, with no new construction starts during the fourth quarter of 2024. The slowdown will help limit additional inventory entering a market already facing historically high vacancy rates and slow absorption, giving existing office space more time to absorb vacancies and potentially stabilizing market conditions over the coming quarters.

Office Under Construction and % of Inventory

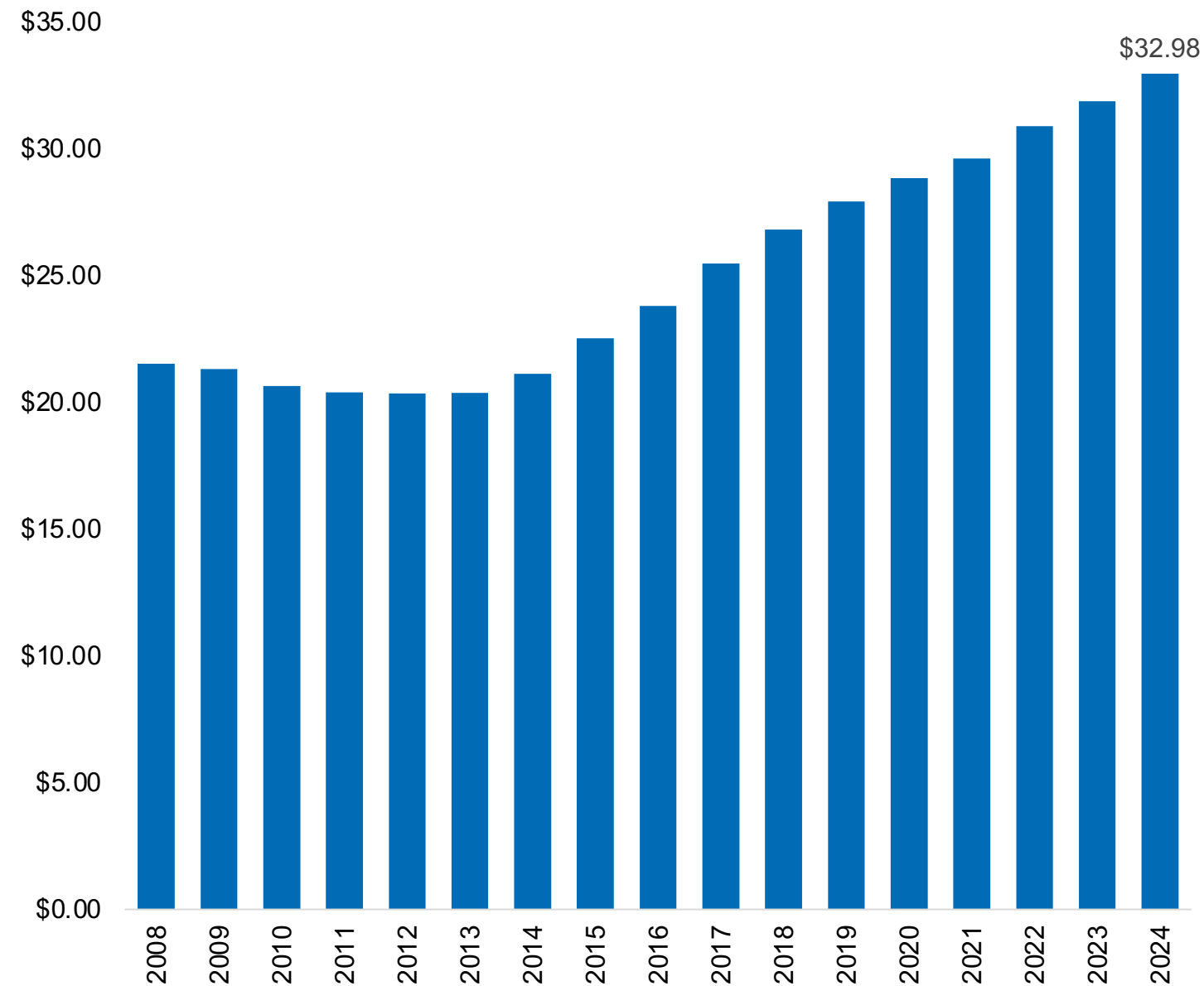


Source: Newmark Research, CoStar

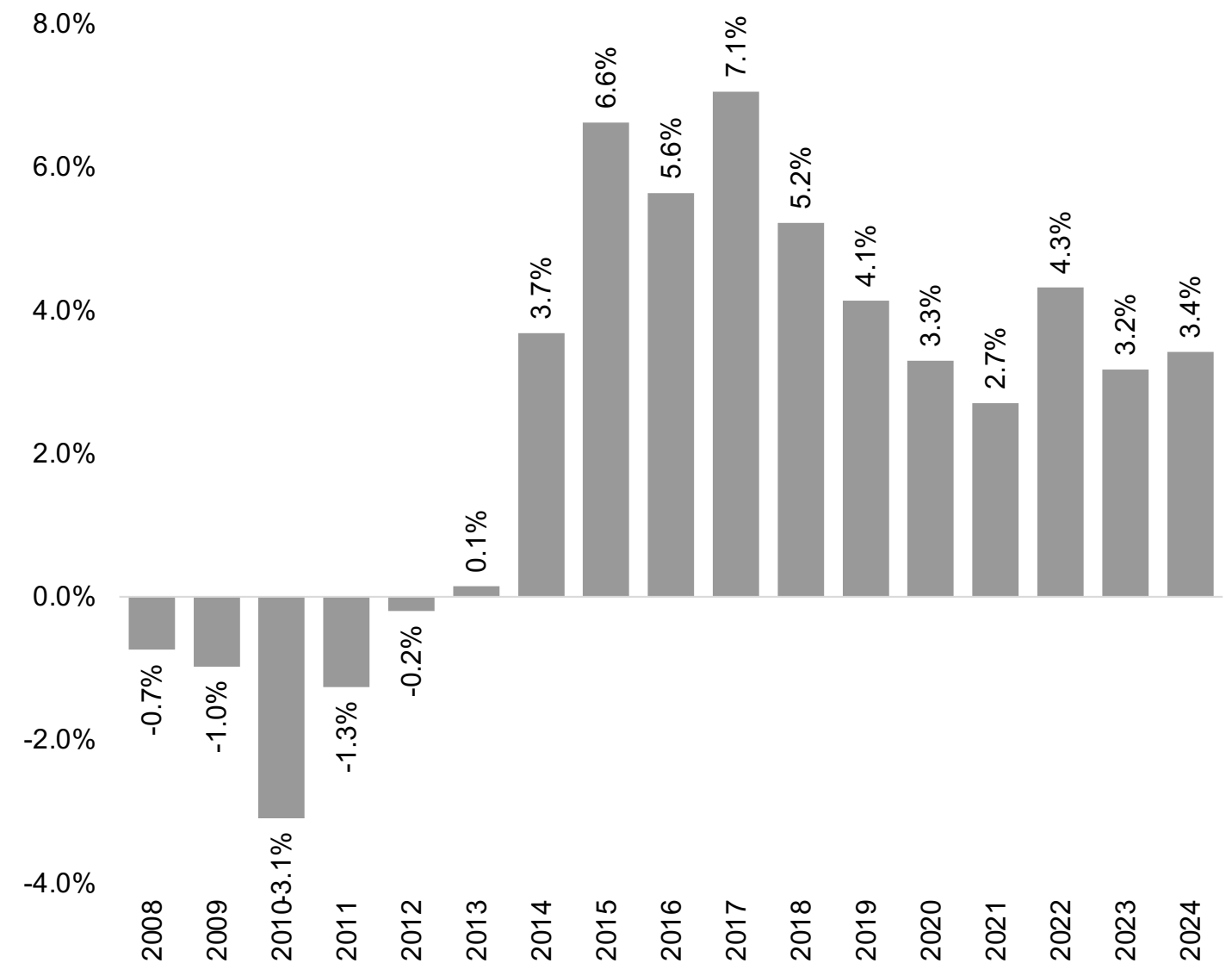
Asking Rents Reach New All-Time High

Rents reported a new all-time high of \$32.98/SF in the fourth quarter of 2024, a 3.4% year-over-year increase. Asking rents will continue to reflect increases, as concession packages remain aggressive market-wide. Despite 2024 ending with an annual rent growth rate 20 basis points higher than in 2023, the pace of rent growth has generally been moderating and is expected to remain below the pre-pandemic average annual growth of 5.4% reported between 2014 to 2019.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

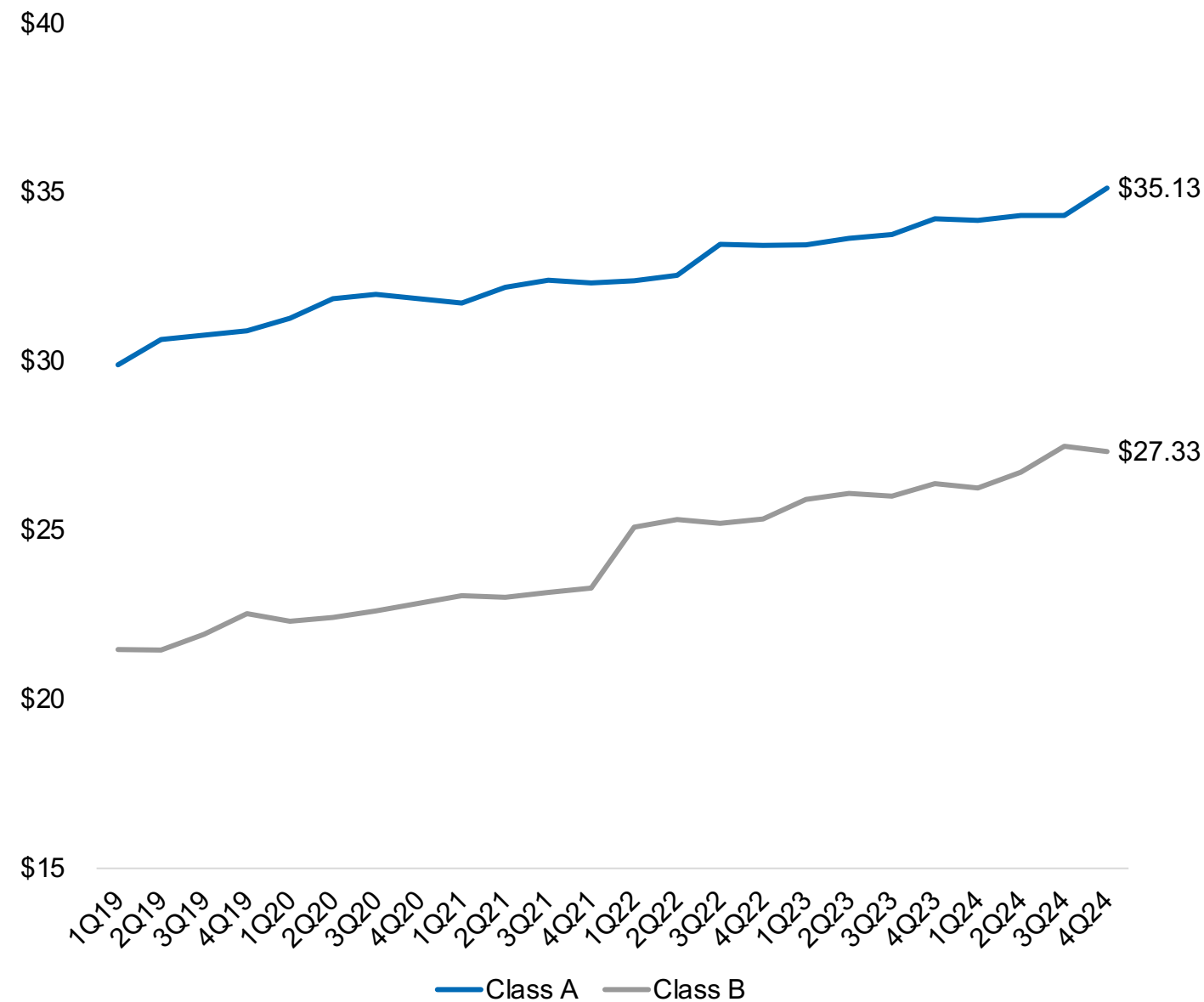


Source: Newmark Research, CoStar

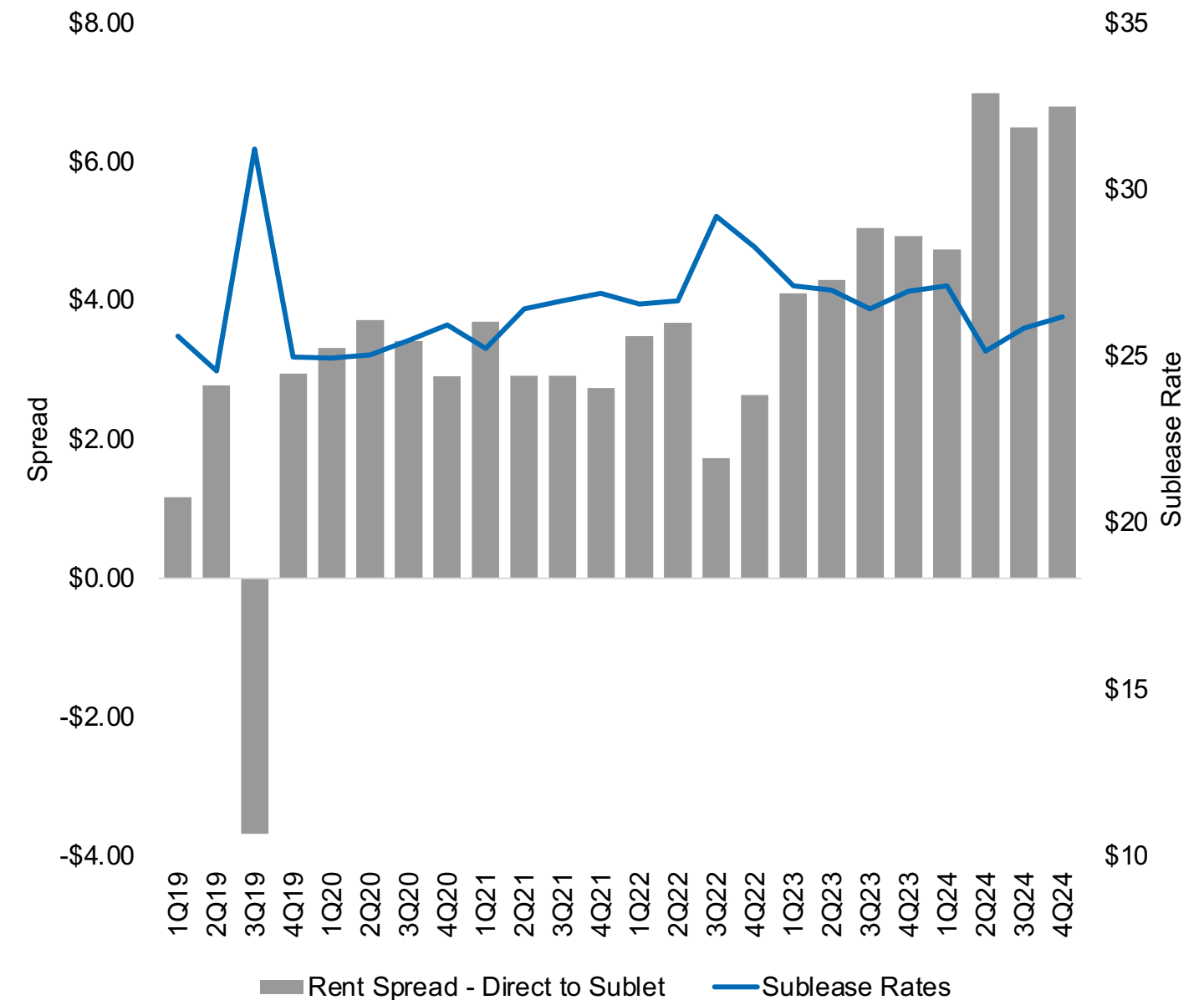
Asking Rents Continue Growing

As of the end of the fourth quarter of 2024, Class A asking rents ended at \$35.13/SF, reflecting a 2.7% year-over-year increase. Class B reported \$27.33/SF in asking rents over the same period, a 3.6% year-over-year increase. The spread represents \$7.80/SF and continues to be significant, reflecting preference for higher-quality space. Sublease rates decreased by 2.9% year over year to \$26.18/SF in the fourth quarter of 2024, continuing a trend of generally declining sublease asking rates since the third quarter of 2022.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Continues to be Concentrated in Class A Assets

Flight to quality continues to remain a trend in the Atlanta office market. As of the end of the fourth quarter of 2024, Class A space accounted for 72.1% of the market's leasing activity by SF, but only 53.9% of the market's deal volume. Average leases signed in Class A space were 8,981 SF and continue to remain larger than the average market deal size at 6,714 SF.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
AIG	Summit Two – 2002 Summit Blvd	Central Perimeter	Direct New	178,666
<i>Global insurance firm AIG is consolidating Buckhead and North Fulton/Forsyth offices in what will be its new regional headquarters.</i>				
Bank of America	The Pinnacle – 3455 Peachtree Rd NE	Buckhead	Renewal	127,688
<i>The financial services firm renewed as the Pinnacle's anchor tenant. The space houses several divisions, including private banking and the company's Merrill Lynch wealth advisory business.</i>				
Eversheds Sutherland	Bank of America Plaza – 600 Peachtree St NE	Downtown	Direct New	94,072
<i>The global law firm is relocating from 999 Peachtree in Midtown. The new space represents about a 50% reduction in their office footprint.</i>				
Avanos Medical	5405 Windward Pky	North Fulton/Forsyth	Renewal	90,438
<i>Avanos, a medical technology company, renewed the space they have occupied since 2015. The location serves as its global headquarters.</i>				
HNTB	14 th & Spring – 1150 Spring St NW	Midtown	Direct New	85,545
<i>HNTB, an infrastructure design firm, is the first tenant secured for 14th & Spring that delivered in 2022. Shorenstein acquired the then vacant building in June 2024. HNTB will be relocating from 191 Peachtree St NE in the Downtown submarket and will be doubling their footprint at the new Midtown location.</i>				

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Atlanta Office Submarket Map

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