



AVISON
YOUNG

Atlanta Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and an increase in vaccination rates have allowed the metro Atlanta unemployment rate to rebound from a high of 12.6 percent down to **3.9 percent**.
- Office-using job losses have totaled **2.7 percent** which is slightly higher than the overall total number of job losses at **1.9 percent**. This is due in part to metro Atlanta's industrial market that remained strong during the pandemic.



Recovery rate

- The overall post-COVID rate of recovery, which is the rate that people are returning to specific locations of interest tracked by extrapolated cell phone data, is **42.9 percent**.
- Atlanta office occupiers have navigated their return-to-work strategies differently, with large corporate users waiting to return while smaller companies have already gone back. The overall office rate of recovery is a comparatively low **19.2 percent**, though that number will significantly increase when major employers begin to return to the office later this year.



Office demand

- Leasing activity has increased in the first half of 2021 and has almost returned to pre-pandemic levels.
- The tech industry has significantly increased their footprint and now have **12.0 percent** of the leased space in Atlanta, which ranks slightly behind the banking and finance industry and law firms.
- The Midtown submarket remains the most active, seeing **20.6 percent** of all leasing activity in the first half of 2021.

Key takeaways



Office supply

- Total vacancy is the highest it has been since 2012, totaling **20.6 percent**.
- While the sublease market has seen an increase in available space, up **42.9 percent** from this time in 2020, Atlanta has not seen as high of a surge during the pandemic as markets such as Austin, San Francisco and New York.



Pricing trends

- Landlords continued to increase their asking rents during the pandemic, up **2.0 percent** year-over-year. However, they have also increased their T.I. packages to allow tenants to use these extra funds to cover some of their rent costs.
- Construction costs have played a large role in the surge of rental rates in the Midtown submarket where new construction buildings are commanding gross rates close to **\$60.00 psf**.



Capital markets

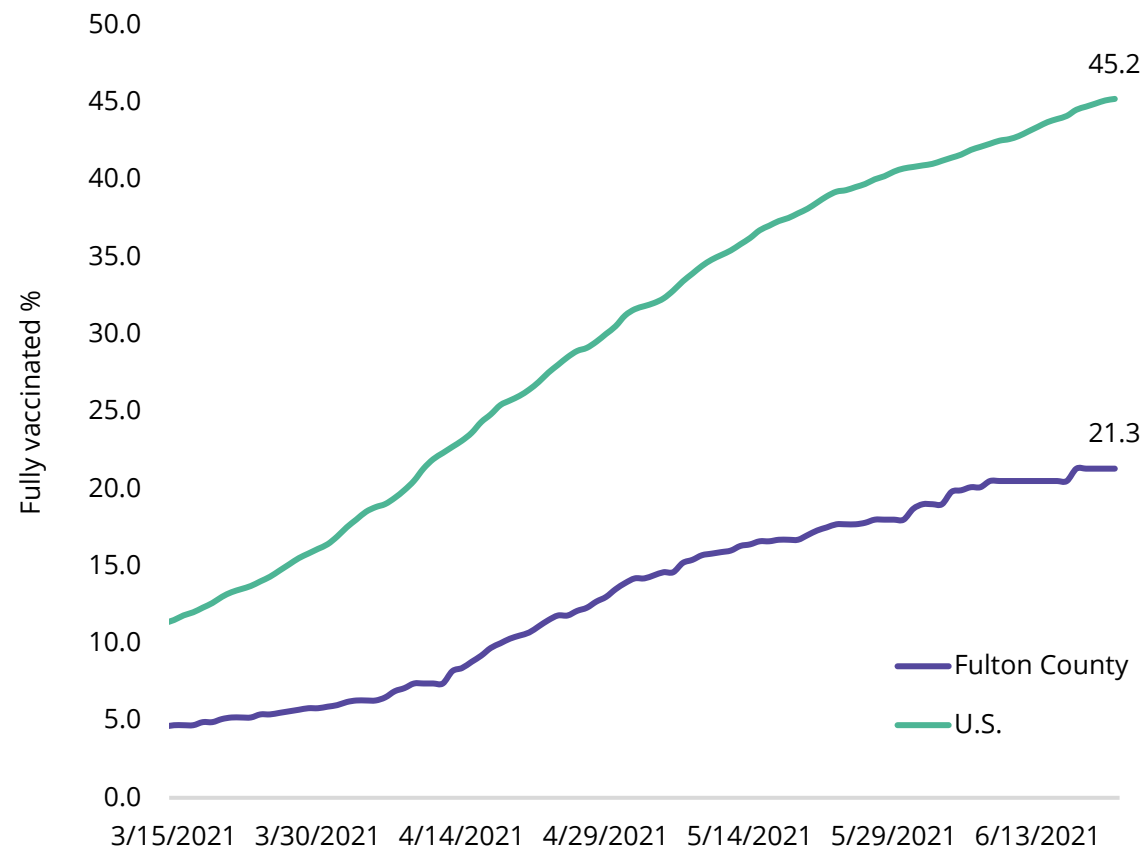
- **“Flight to quality”** has become the trend as investors are willing to invest in well performing assets, especially new construction properties such as Twelve24 and Anthem’s new building in Midtown.
- Investment activity came to a halt in 2020 as investors paused transactions due to the pandemic. Now activity is up **120.4 percent** from the same time in 2020 as investors must place the capital that they didn’t last year.
- Average cap rates have remained flat, due to current interest rates. Suburban cap rates are around **7.0 percent** while urban class A are around **6.0 percent**.

Vaccination rates

44%

City of Atlanta population that is fully vaccinated, in line with U.S. average

Only 21.3% of Atlantans were vaccinated within their residing county, leaving 22.7% to seek their vaccinations outside of their county during peak demand.



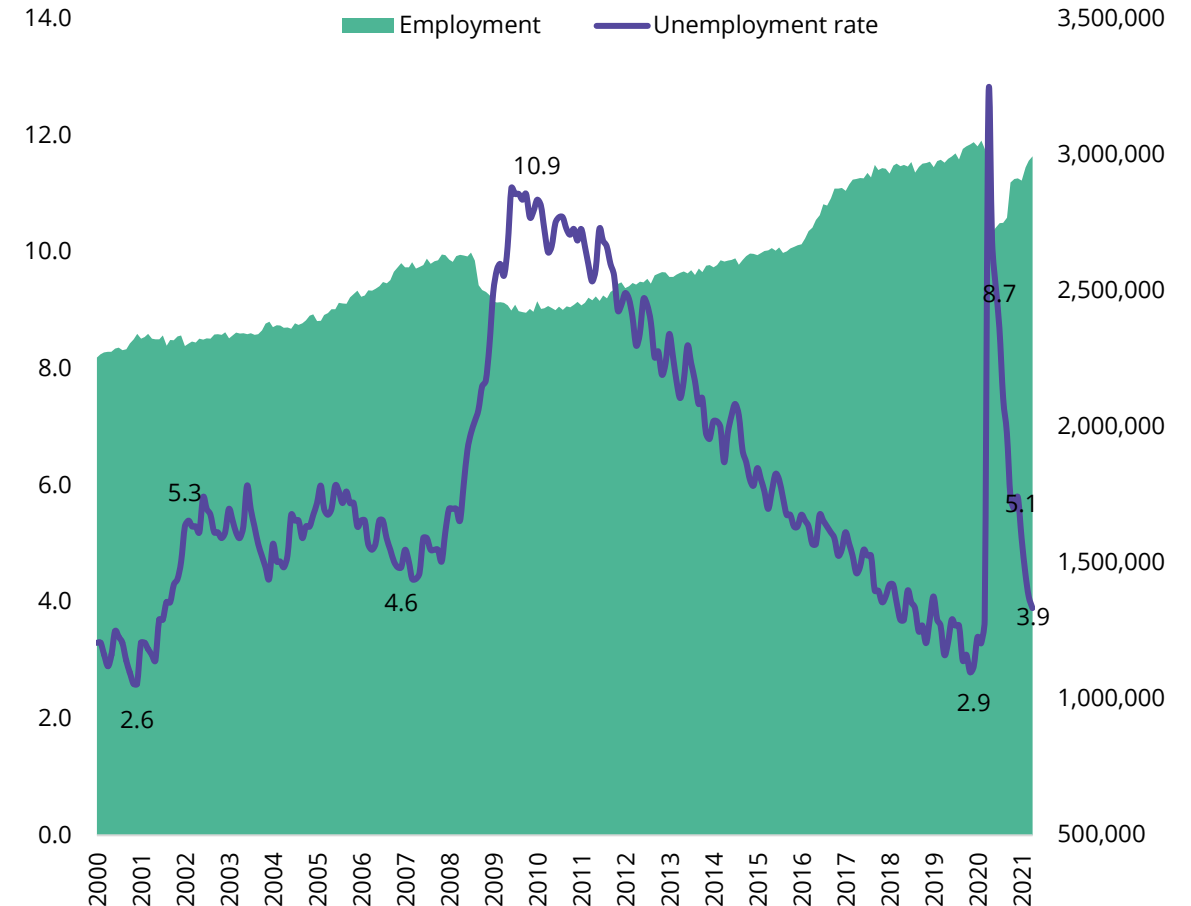
Source: CDC, Georgia Department of Health

Employment and unemployment rate

3.9%

Metro Atlanta unemployment rate as of April 2021, trending toward historic low of 2.6%

Historically tightened labor market conditions at the end of 2019 were halted by the pandemic with nearly 450,000 job losses between February and April 2020. However, with Georgia being one of the first states to reopen, metro Atlanta has seen a job growth rate of 15% since April 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-2.7%

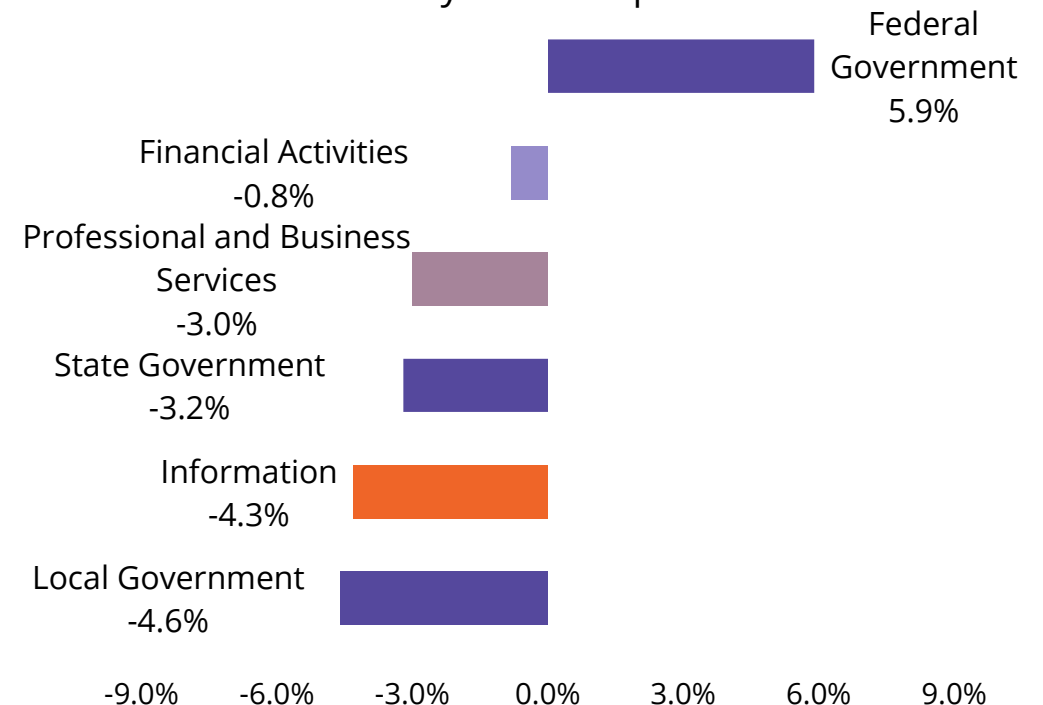
Change in office-using employment during the pandemic

Atlanta MSA job losses have declined by 1.9% since the start of the pandemic, though office-using jobs contracted by 2.7%. This recession's impact on the office-using labor market has been less severe than the global financial crisis in 2008, when Financial Activities job losses totaled 8.5%.

[VIEW DASHBOARD](#)

Total change in Atlanta MSA* job gains/(losses)

February 2020 to April 2021



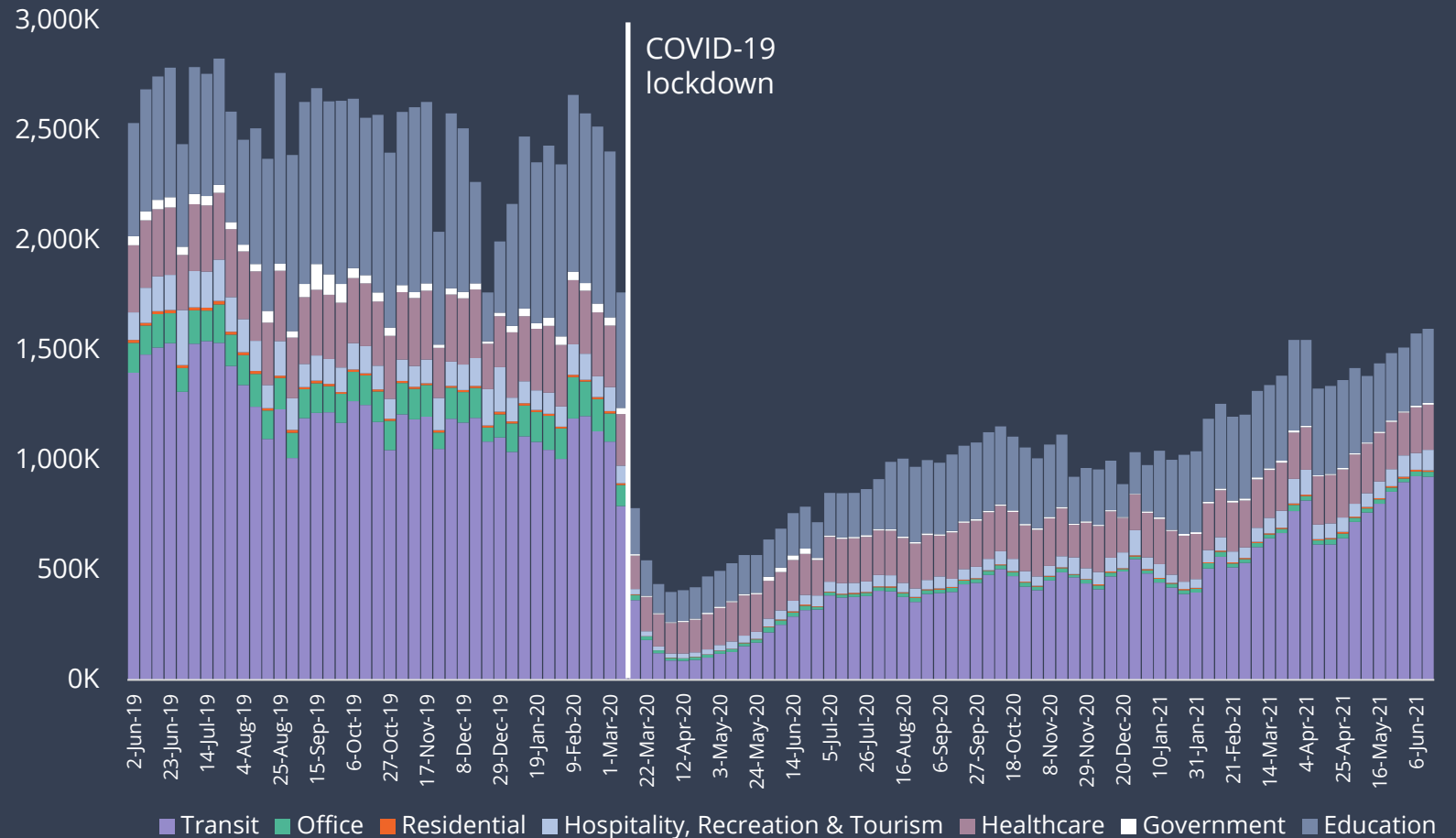
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Atlanta recovery index

42.9%

Post-COVID rate of recovery based on representative locations through 6/20/2021

Activity levels have escalated in recent months and continue to trend upward. Activity has increased by 110.5% year-over-year, underpinned by strong growth in transit (+221.8%) and hospitality (+90.8%).



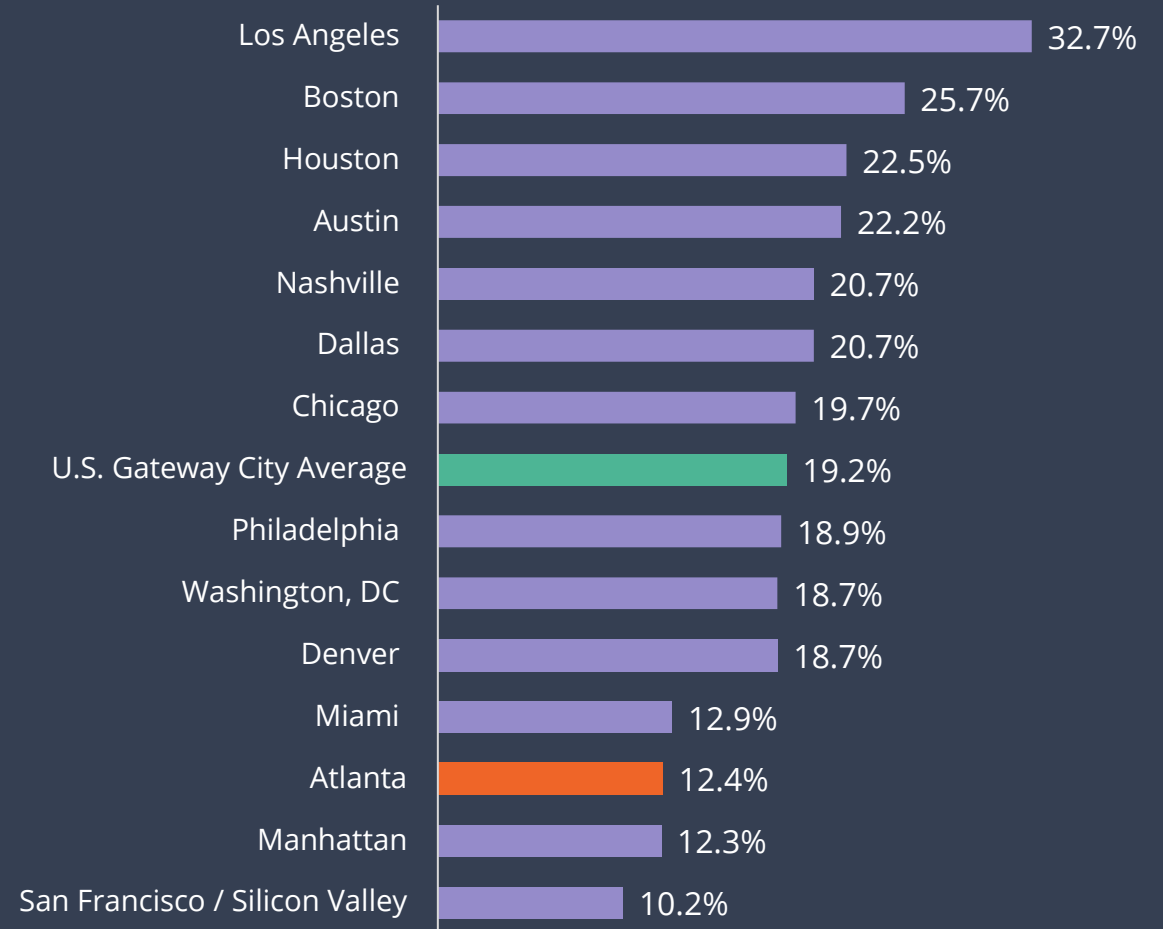
Note: Representative areas of interest.
Pre-COVID period measured as 12/1/2019 to 3/8/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insights, AVANT by Avison Young

Office recoveries across U.S. gateway cities

19.2%

Average post-COVID rate of recovery for large corporate occupiers across U.S. gateway cities

Atlanta is home to numerous Fortune 500/1000 companies, as well as large tech users which make up a significant portion of the markets occupied office space. Most of these companies, except for The Coca-Cola Company and UPS, have not announced plans to return to office, which is keeping Atlanta under the national average for now. Once these companies return Atlanta will see a significant increase in the recovery rate.



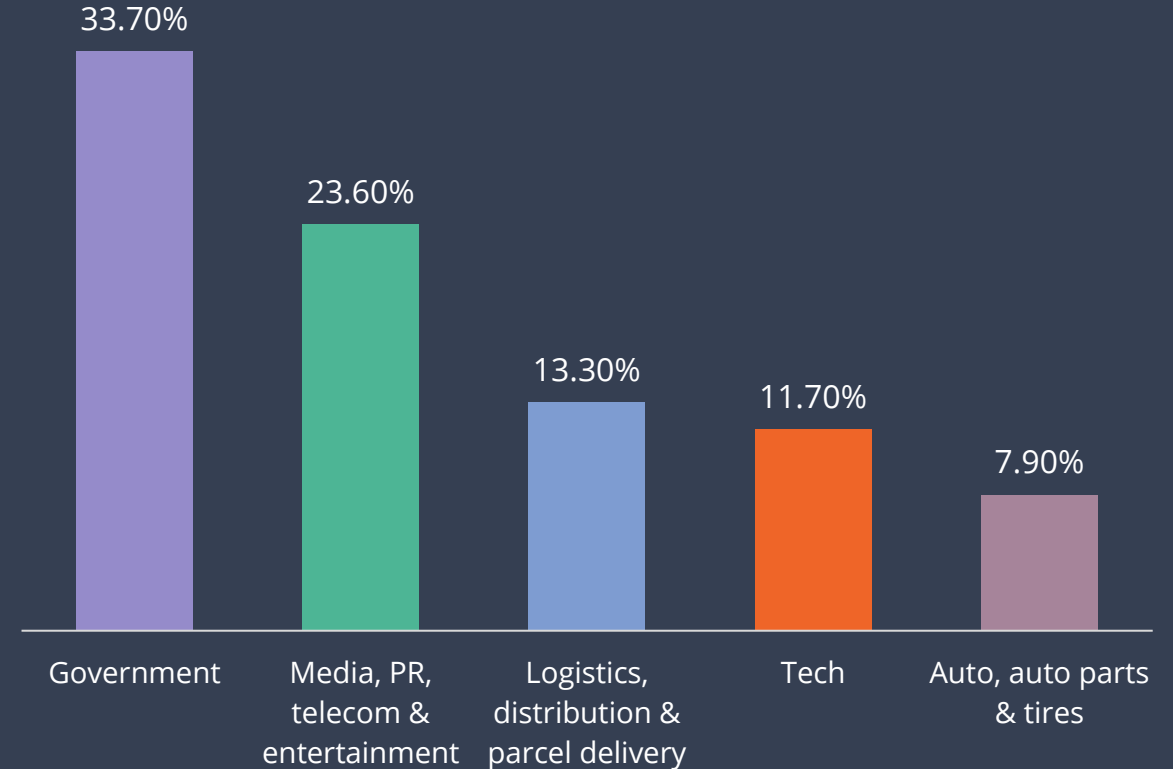
Note: Select, representative occupiers only. Weekdays only.
Pre-COVID period measured as 6/1/2019 to 3/14/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insights, AVANT by Avison Young

Atlanta office recovery index by industry

12.4%

Post-COVID rate of recovery for representative Atlanta office occupiers through 6/20/2021

Office employers are still assessing when/if they will return in full over the coming months. Atlanta, being home to the CDC, has allowed the government industry to see the highest recovery rate, followed by media firms. The tech industry, which preferred to keep the work from home model, has seen a much lower rate of recovery.



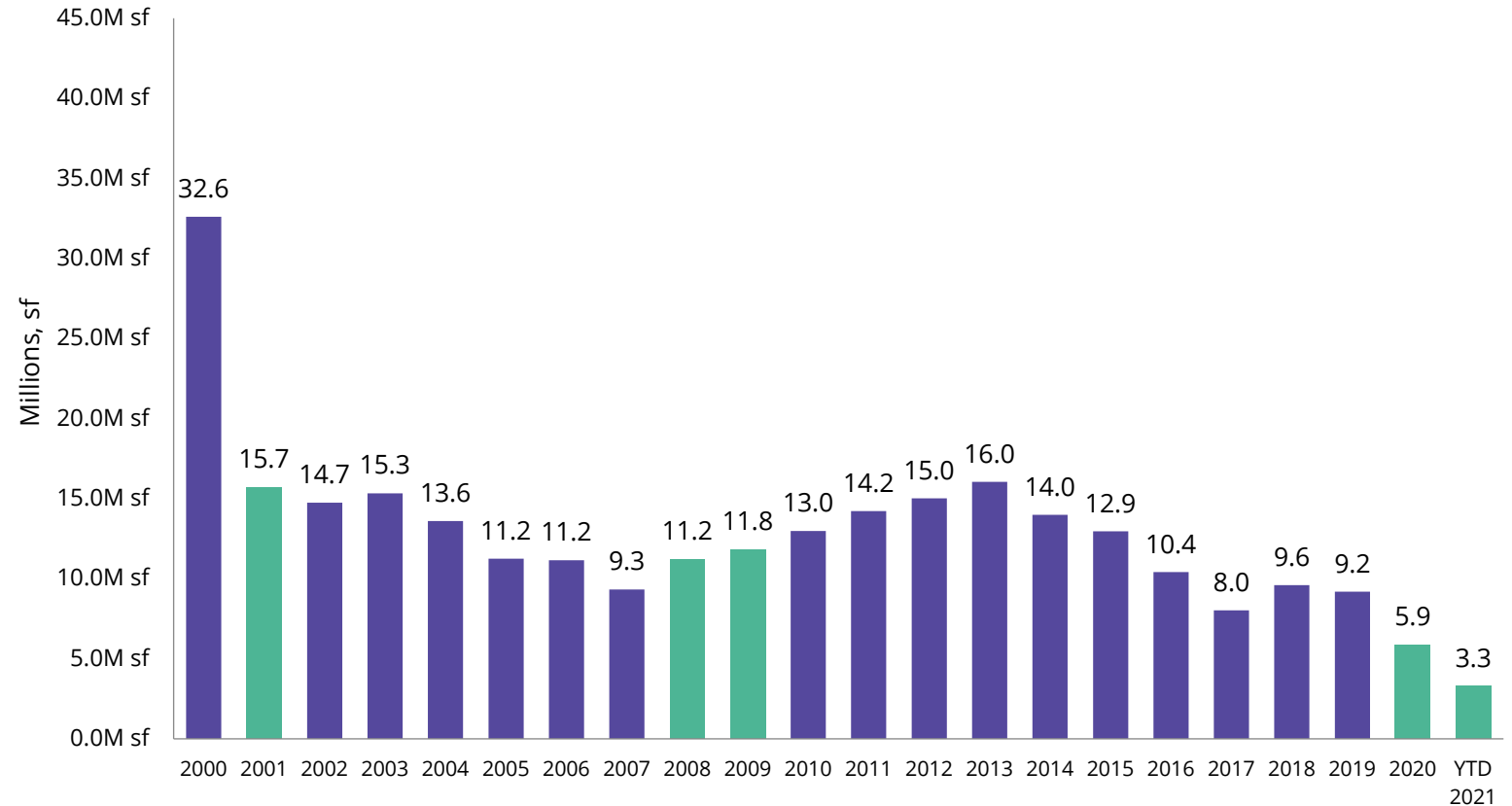
Note: Select, major occupiers only. Weekdays only.
Pre-COVID period measured as 6/1/2019 to 3/14/2020.
Post-COVID period measured as 3/15/2020 to 6/20/2021.
Source: Orbital Insights, AVANT by Avison Young

Office leasing activity

-0.6%

2021 YTD leasing activity compared to this time in 2020

Although activity is down from when the pandemic began in 2020, Atlanta's leasing activity saw an increase at the beginning of 2021 and is on trend to return to pre-pandemic levels.

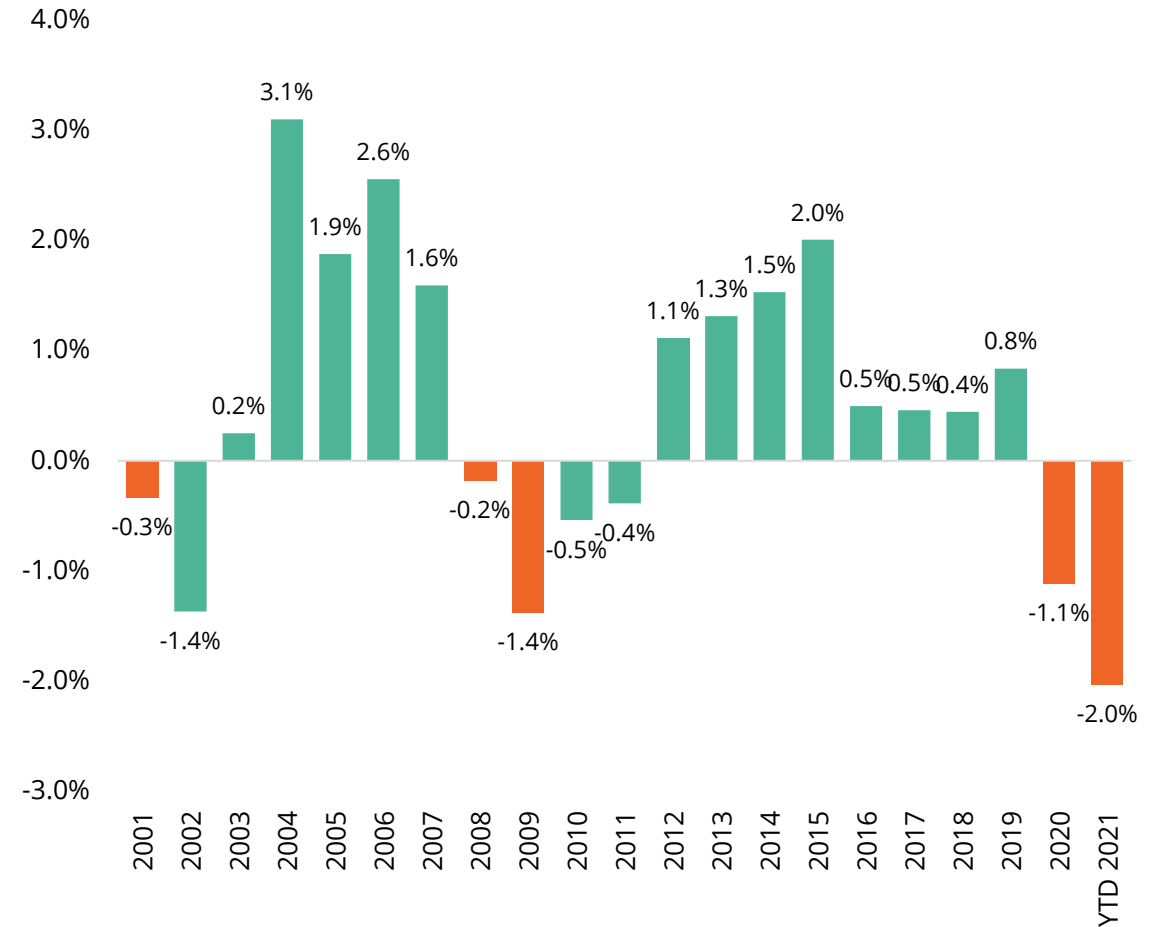


Source: AVANT by Avison Young

-3.1%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from 2020 to 2Q21 has totaled 5.0 million sf, totaling -3.1% of the existing stock. This negative absorption significantly surpasses the lows of the early 2000's recession (-0.3%) and global financial crisis (-1.6%).



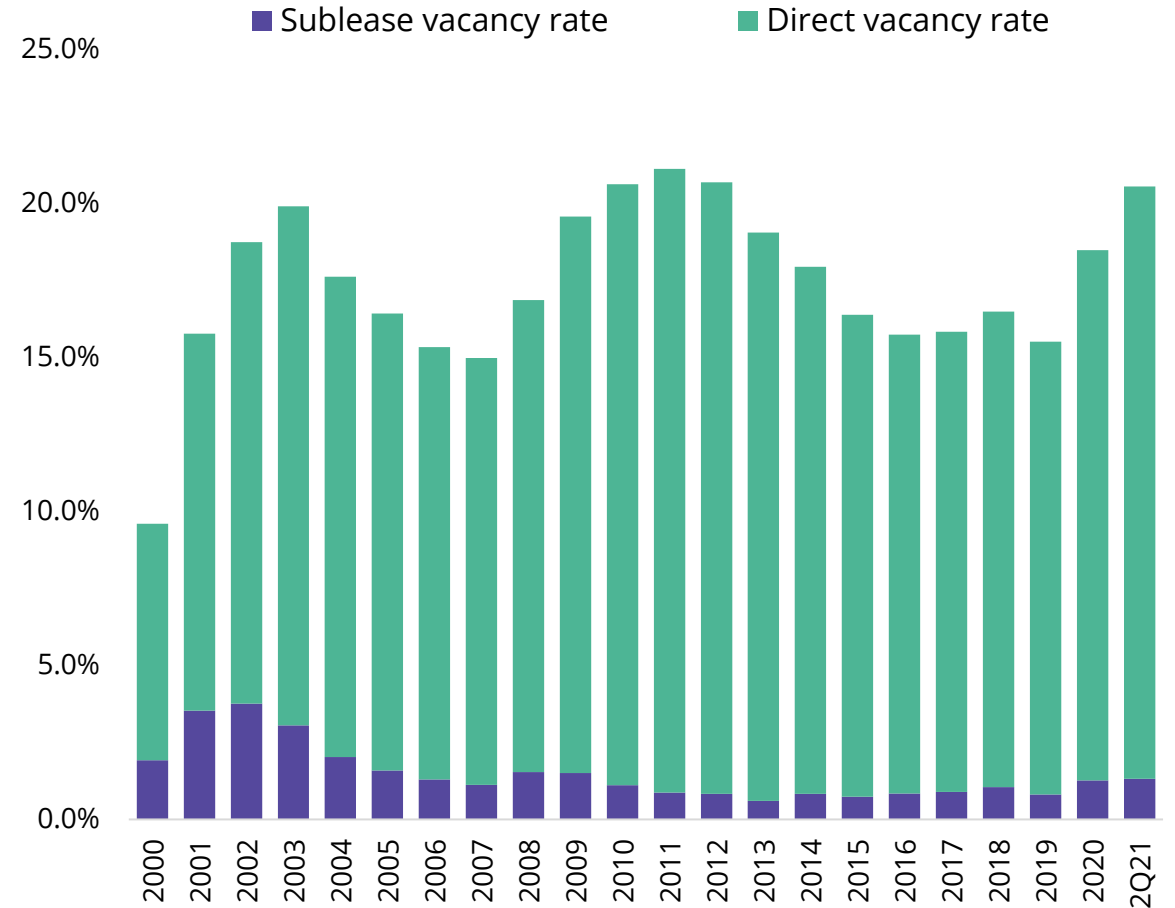
Source: AVANT by Avison Young

Vacancy rate

19.2%

Atlanta's direct vacancy rate nears record high as of Q2 2021

Although Atlanta's direct vacancy rate is near the record high of 20.3% set in 2011, the amount of sublease space on the market remains small. Currently 6.4% of the total vacancy rate is comprised of sublease space, significantly lower than the 22.4% seen in 2001.



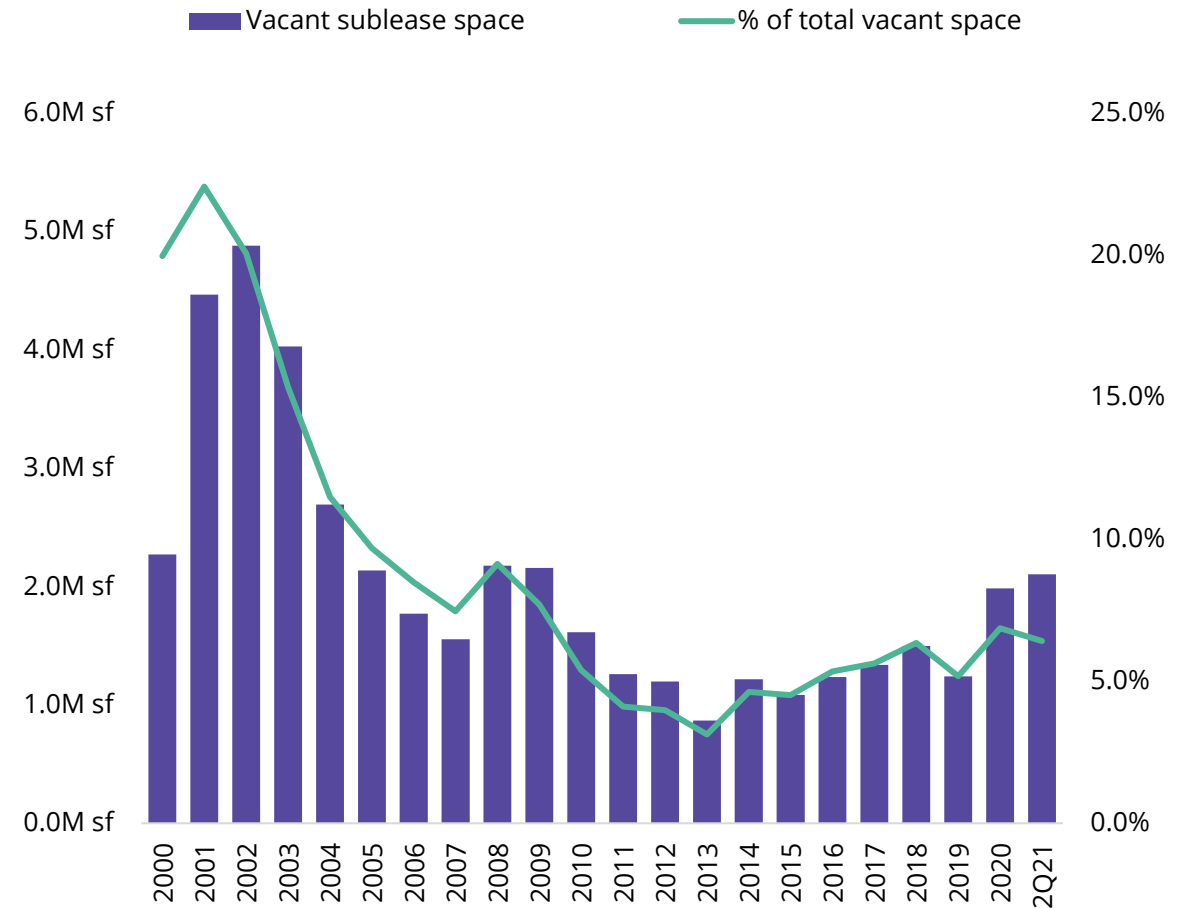
Source: AVANT by Avison Young

Vacant sublease space

2.1 msf

Significant increase in sublease space since 2019

While the amount of sublease space on the market is close to global financial crisis levels, it is still significantly less, 56.9% than the record amount seen during the Dot.com recession.



Source: AVANT by Avison Young

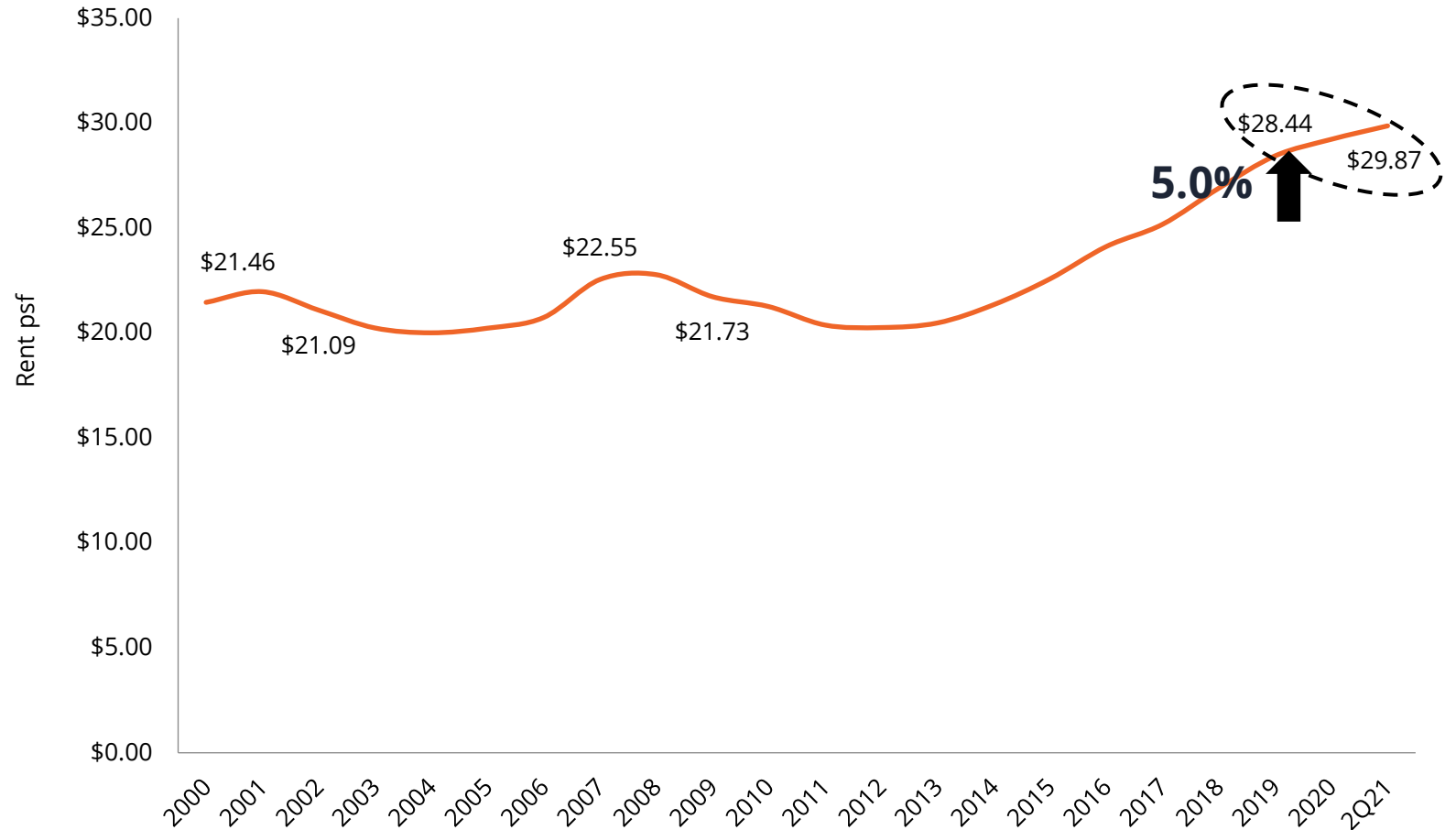
Base rents

+5.0%

Change in rents since the onset of the pandemic

Base rents continued to increase during the pandemic, up 5.0%, which is quite the shift compared to the levels last witnessed in the early 2000s (-5.7%) and the global financial crisis (-5.7%).

Although there was an increase, it was a slower pace than seen in 2018 and 2019.



Source: AVANT by Avison Young

Atlanta's Office Construction

23 properties

under construction or
renovation

5.7 msf

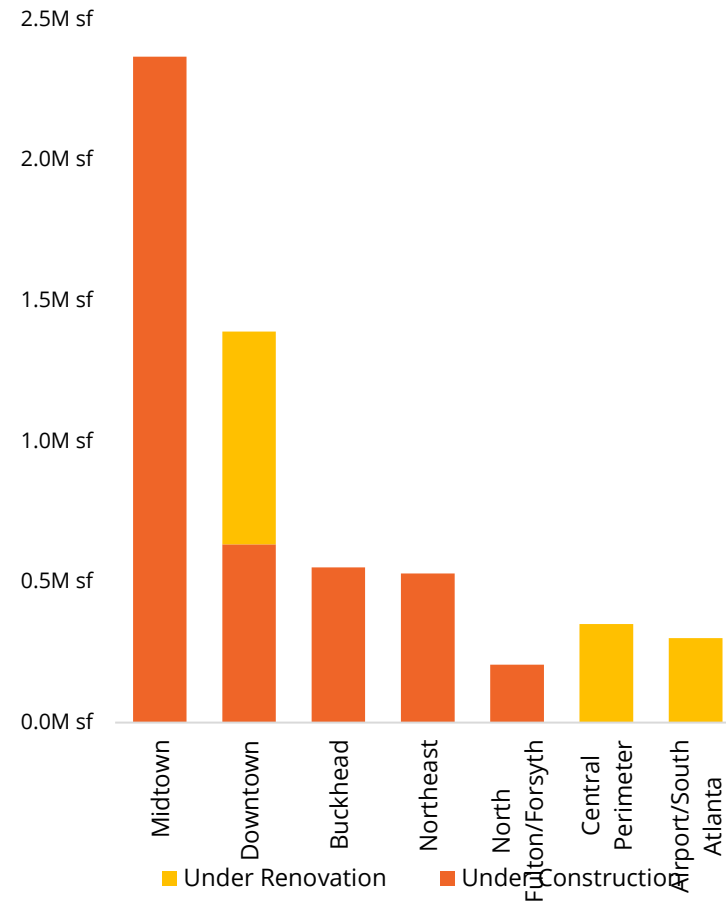
under construction or
renovation

31%

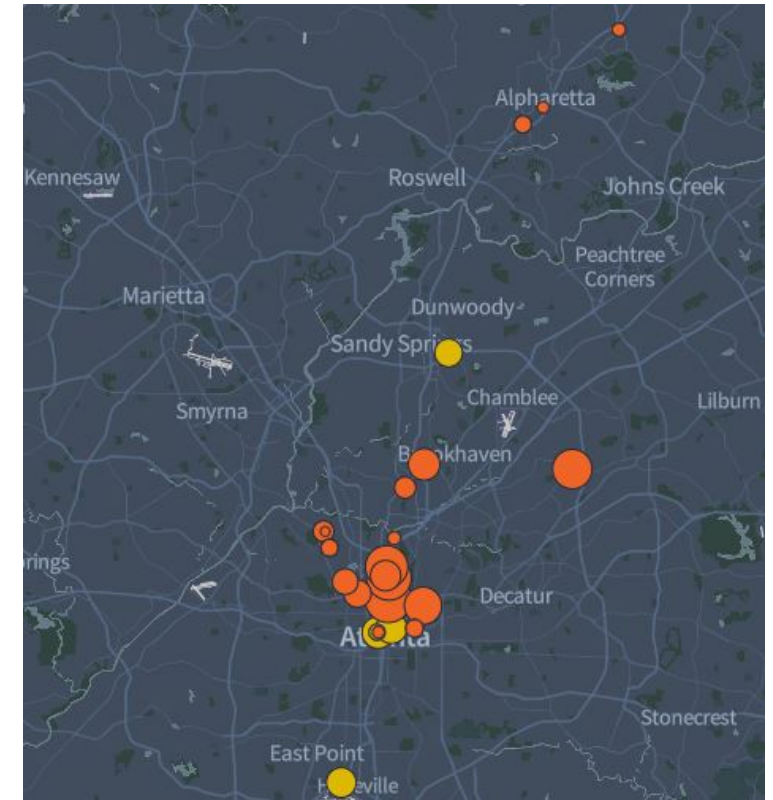
Preleased space in under
construction buildings

2.2 msf

expected to deliver in 2021



Source: AVANT by Avison Young

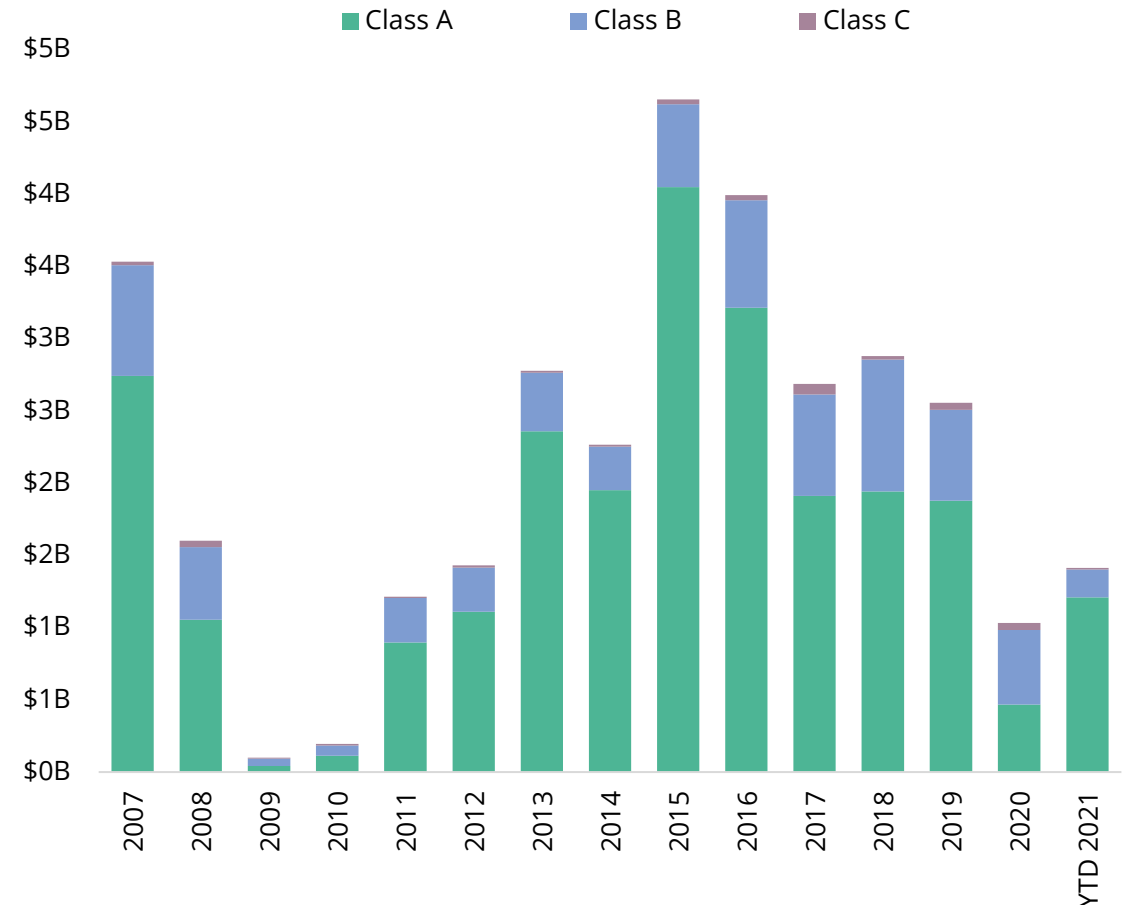


Office investment dollar volume

\$2.4B

Atlanta office dollar volume 2020 to present

Office investment sales activity saw a significant decline in the second half of 2020 when investors put most transactions on hold due to the pandemic. Thus far into 2021 the market has seen 37.1% more inventory trade than all of 2020.



Source: AVANT by Avison Young, RCA, CoStar

Looking forward



Here's what we can expect

- Companies have struggled to fill jobs due to the extra unemployment benefits given during the pandemic. As these benefits are removed, **the unemployment rate will decrease**, as more of the workforce returns by the end of 2021.
- As the tech industry grows its presence in Atlanta, **due to the proximity of top talent from Georgia Tech**, this will have a significant impact on absorption in the third and fourth quarter of 2021. Microsoft will move into 520,000 square feet at Atlantic Station while Google will occupy 500,000 square feet in core Midtown.
- **The supply of sublease space in the market should decrease** as companies take advantage of the pricing these spaces provide, as well as less space becoming available as companies return to the office.
- Asking rental rates will continue to increase as **landlords modify their concession packages** to offer more options for tenants to be able to afford the higher rates.



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Let's talk

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