

A modern office interior with a brick wall, a staircase, and people working. A woman in a white top and blue skirt is walking up the stairs, and a man in a grey blazer and khaki pants is walking down. In the foreground, a man in a white shirt is sitting at a desk with a computer monitor, working. The office has a warm, industrial feel with wooden floors and exposed brick walls.

AVISON
YOUNG

Atlanta Office Insight Report

Q3 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 **3.1 percent**.
- Office-using job losses have totaled **0.9 percent** which is slightly lower than the overall total number of job losses at **1.5 percent**. This is due to many companies reopening their offices and employees returning to work.



Recovery rate

- Atlanta’s average post-COVID office visitor volume, which is the rate that people are returning to single tenant occupied buildings tracked by extrapolated cell phone data, is down by **83.1 percent**. Nationally, markets like Atlanta that have high tech concentrations, and numerous Fortune 500/1000 companies, have been most delayed in their return to office.
- Total visitor volume throughout different areas of interest in metro Atlanta has increased **68 percent** since September 2020. The most notable is transit at **92.4 percent** due to increased activity at Hartsfield-Jackson International Airport.



Office demand

- Leasing activity significantly increased in the third quarter with **2.4 msf** of new leases signed. This is the largest quarterly total since the third quarter of 2019.
- This brings the year-to-date total of activity to **5.7 msf**, a 26.4% increase from the same time in 2020.
- Metro Atlanta recorded positive absorption in the third quarter, **835,049 sf**, for the first time since the pandemic began. Microsoft played a large role as they occupied 523,000 sf in two buildings at Atlantic Yards.

Key takeaways

Office supply

- Total vacancy remained unchanged from the second quarter of 2021, totaling **20.6 percent** again.
- While the sublease market has seen an increase in available space, up **25.2 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.
- New construction remains active in metro Atlanta with **4.0 msf** currently underway, however, this is slightly down from the high of 5.4 msf seen at the beginning of the year.

Pricing trends

- Landlords continued to increase their asking rents during the pandemic, up **2.6 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.
- Metro Atlanta hit a record high average asking rental rate in the third quarter of 2021, breaking the **\$30.00 psf** mark for the first time.

Capital markets

- Investment sales activity continued its upward trend in the third quarter, increasing **197 percent**, from the beginning of the year.
- Most of the activity is still centered around well performing, single story, suburban office properties, however in the third quarter there was an uptick in urban sales.
- The largest sale of the quarter was 725 Ponce at **\$300 million** purchased by Cousins Properties from New City Properties. It sold for just over **\$800 psf** which is a record high in metro Atlanta.

Employment and unemployment rate

3.1%

Metro Atlanta unemployment rate as of August 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 15.5% since April 2020.



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

Office-using job gains and losses

-0.9%

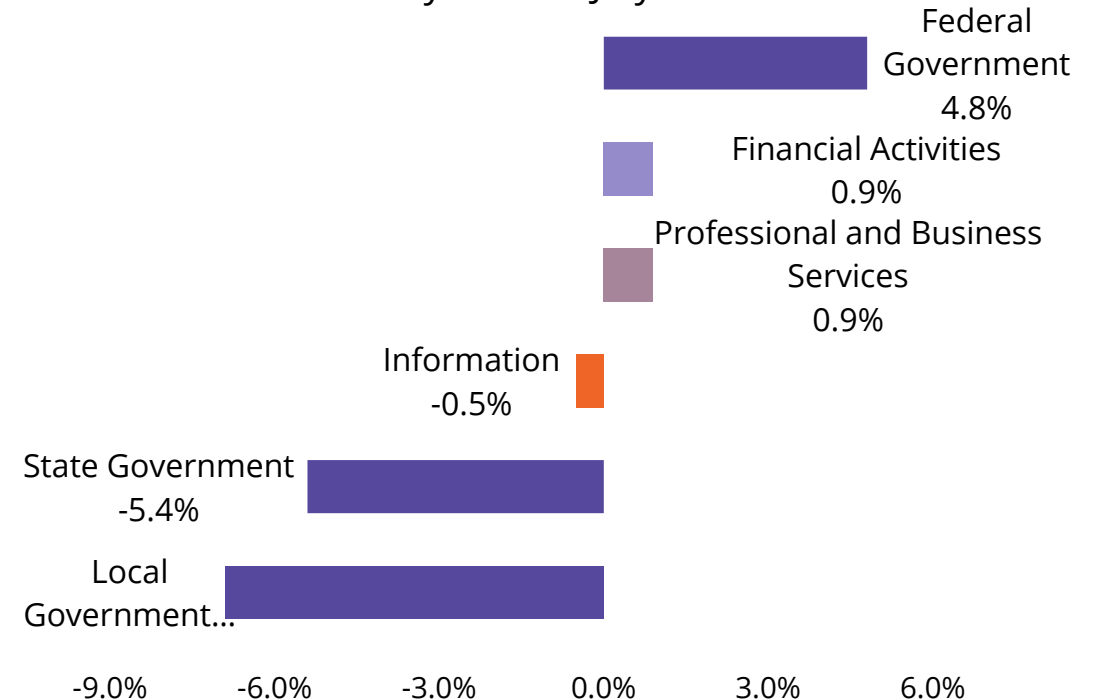
Change in office-using employment during the pandemic

Atlanta MSA job losses have declined by 1.5% since the start of the pandemic, though office-using jobs contracted by 0.9%. 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 July 2021



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

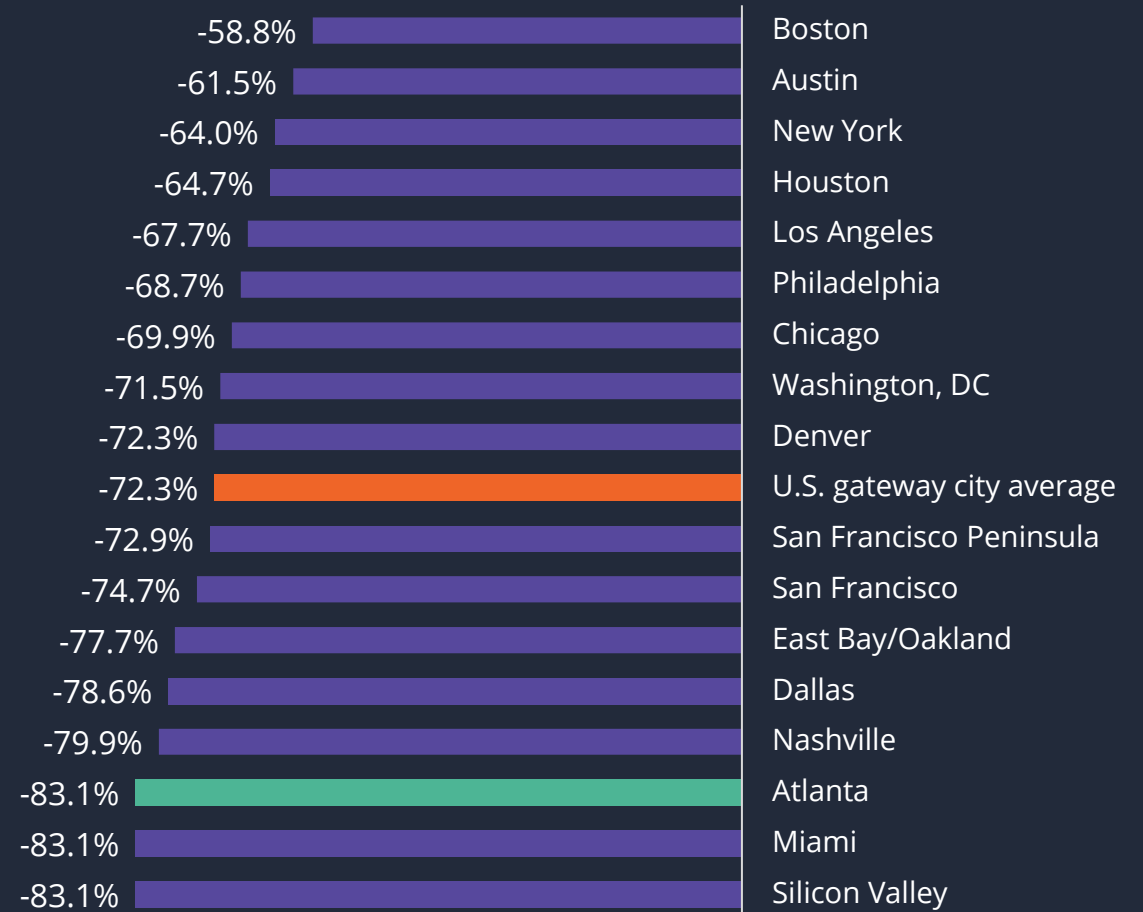
U.S. return-to-work rates since start of COVID

-72.3%

Average office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Return-to-work efforts across cities have been influenced by governmental regulations (informed by infection and vaccination rates), office-using industry composition and employees' reliance on mass transit.

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Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

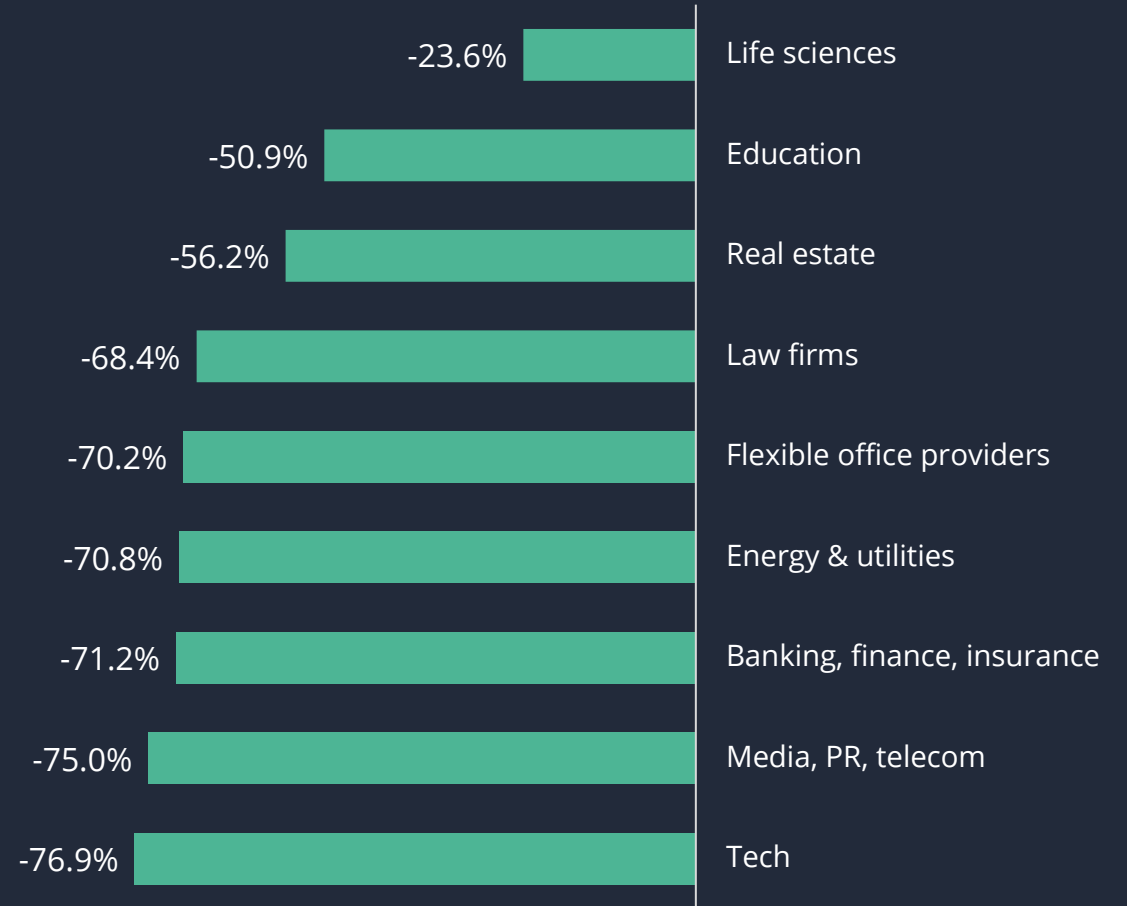
U.S. return-to-work rates since start of COVID

-76.9%

Average tech office visitor volumes across U.S. gateway cities, March 2, 2020 vs. September 20, 2021

Tech companies have adopted remote work strategies more than most major office-occupying industries, while life sciences and real estate companies have embraced flexible in-office and remote working arrangements.

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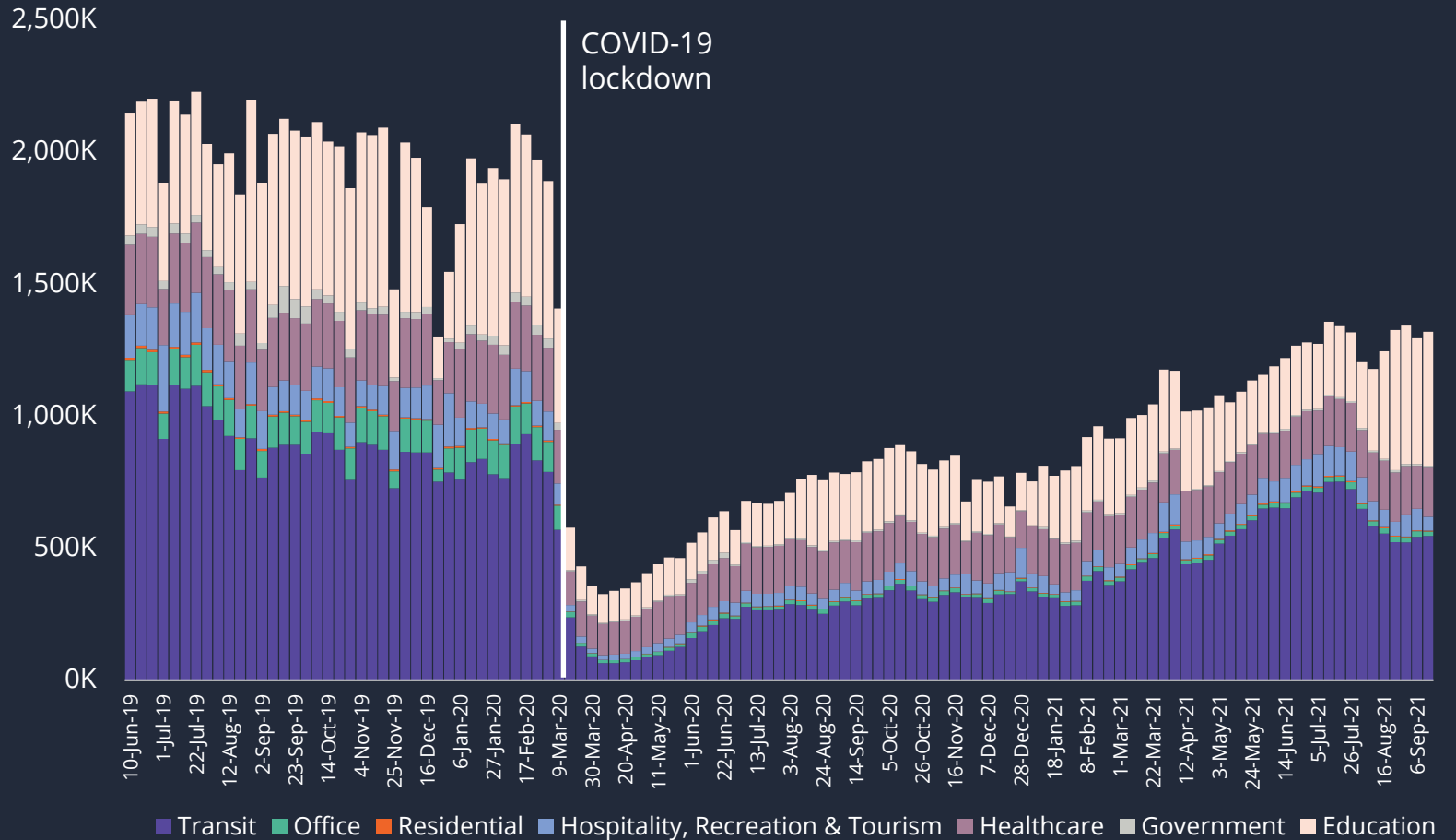
Note: Representative full-building office occupiers only. Weekdays only. Data as of September 20, 2021. Source: Orbital Insight, AVANT by Avison Young

Local historical visitor volumes

68%

Total visitor volume,
September 14, 2020 vs.
September 13, 2021

Education (96.3%) and transit (92.4%) have exceeded COVID levels, though office (-2.5%) has lagged all other property types as single tenant buildings have not seen their employees return.



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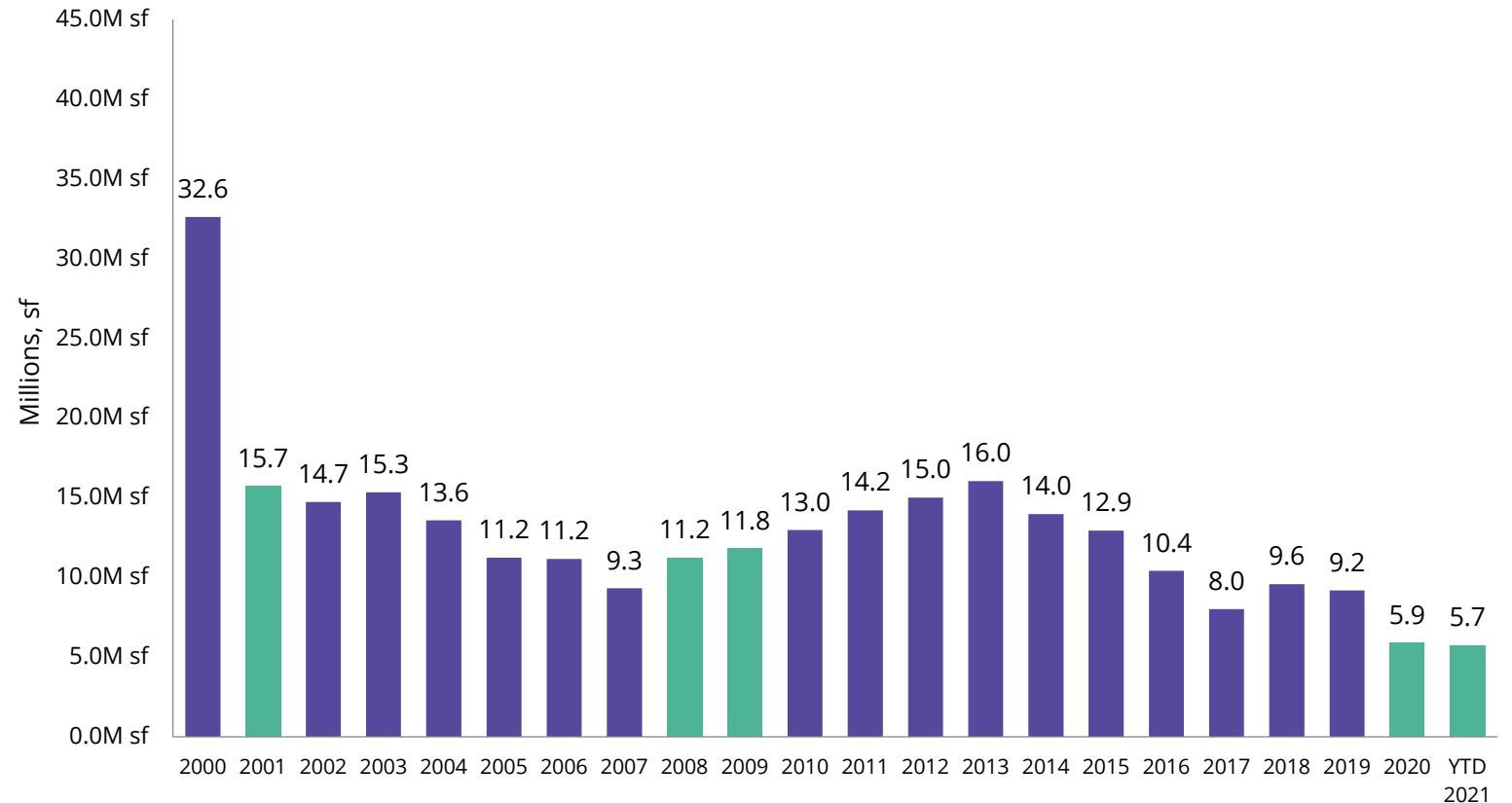
Note: Representative areas of interest. Weekdays only.
Weekly visitor volumes referenced above.
Source: Orbital Insight, AVANT by Avison Young

Office leasing activity

26.4%

2021 YTD leasing activity compared to this time in 2020

Leasing activity saw a significant increase in the third quarter of 2021, with 2.4 msf of new leases signed. This is the largest quarterly total seen since the third quarter of 2019.

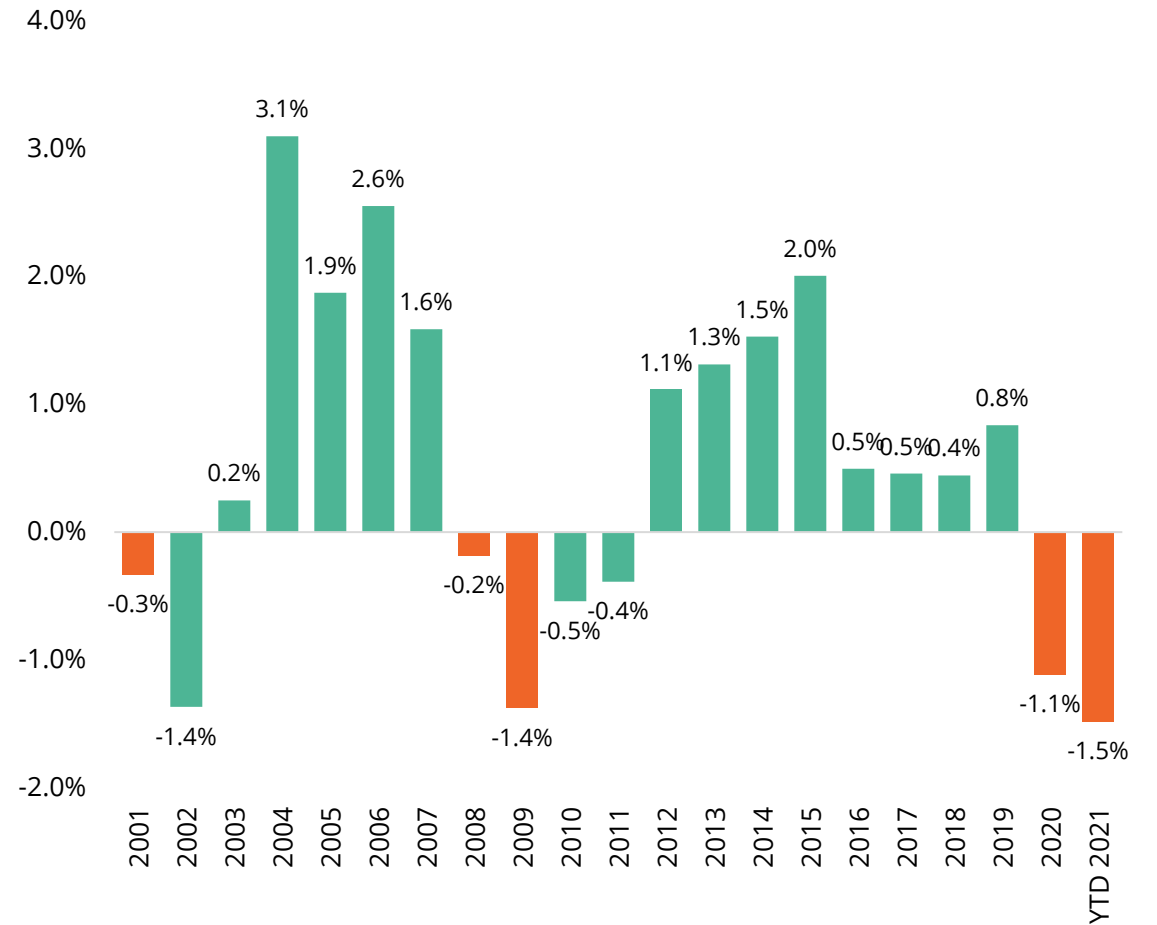


Note: Green bar represents recession years.
Source: CoStar and AVANT by Avison Young

-2.6%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption from 2020 to 3Q21 totaled negative 4.2 msf, which is -2.6% 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%).



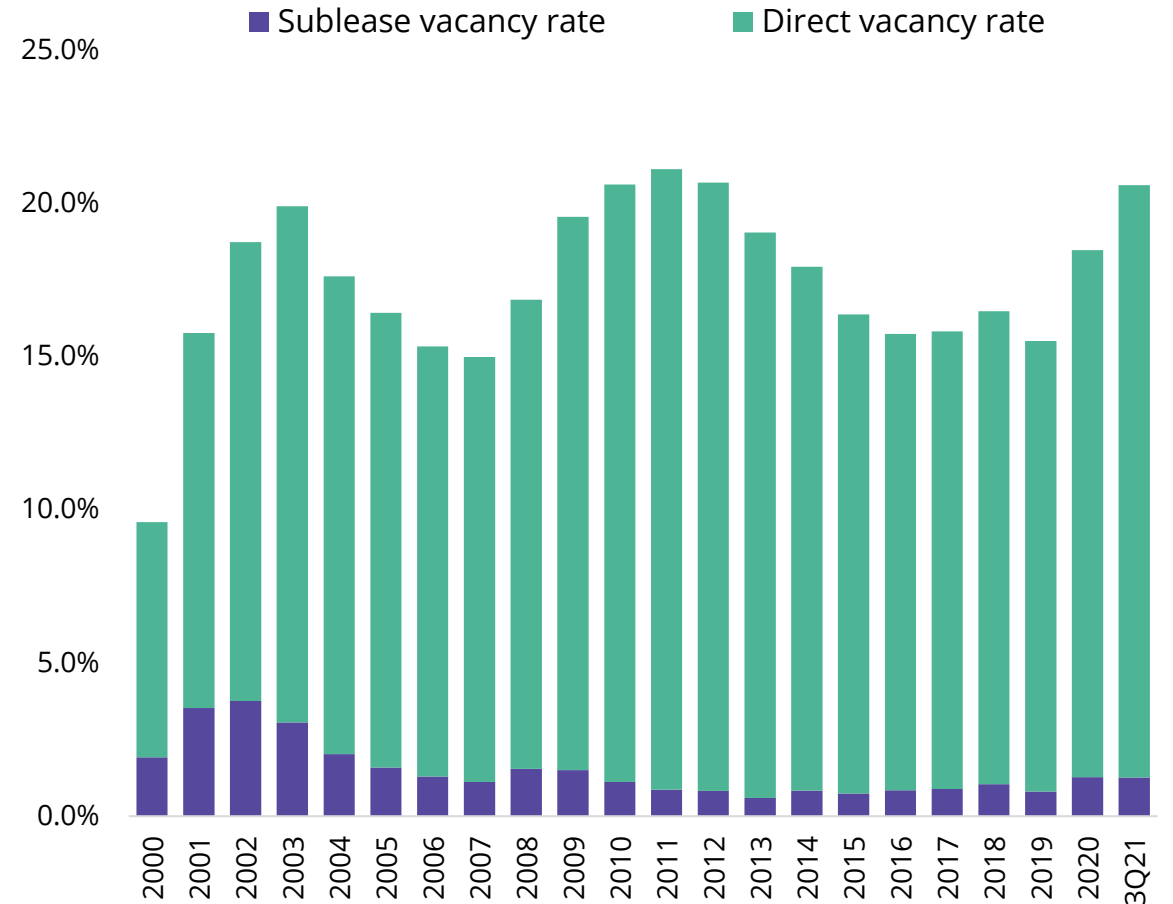
Note: Orange bar represents recession years.
Source: CoStar and AVANT by Avison Young

Vacancy rate

19.3%

Atlanta's direct vacancy rate nears record high as of Q3 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 6.1% of the total vacancy rate is comprised of sublease space, significantly lower than the 22.4% seen in 2001.



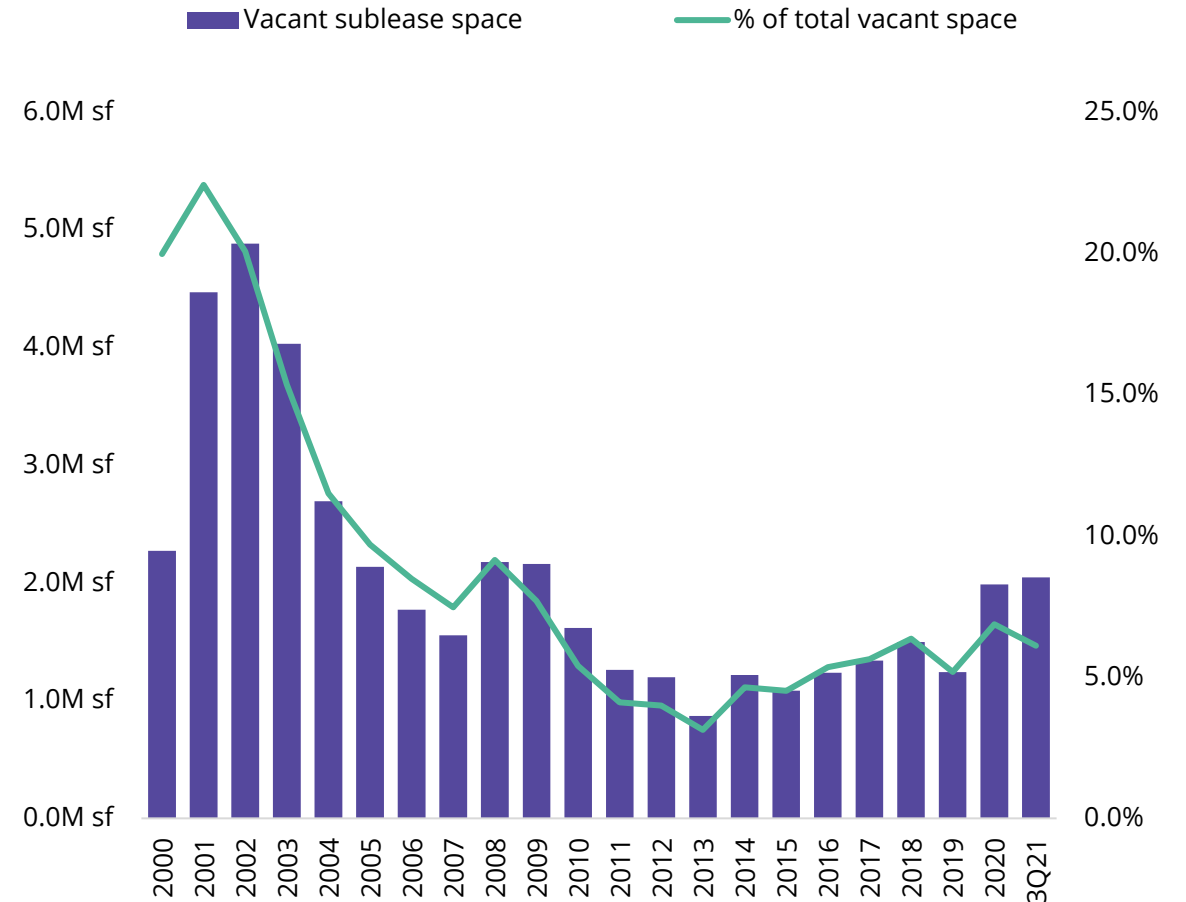
Source: AVANT by Avison Young and CoStar

Vacant sublease space

805,000 sf

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, at 58.1%, than the record amount seen during the Dot-com recession.



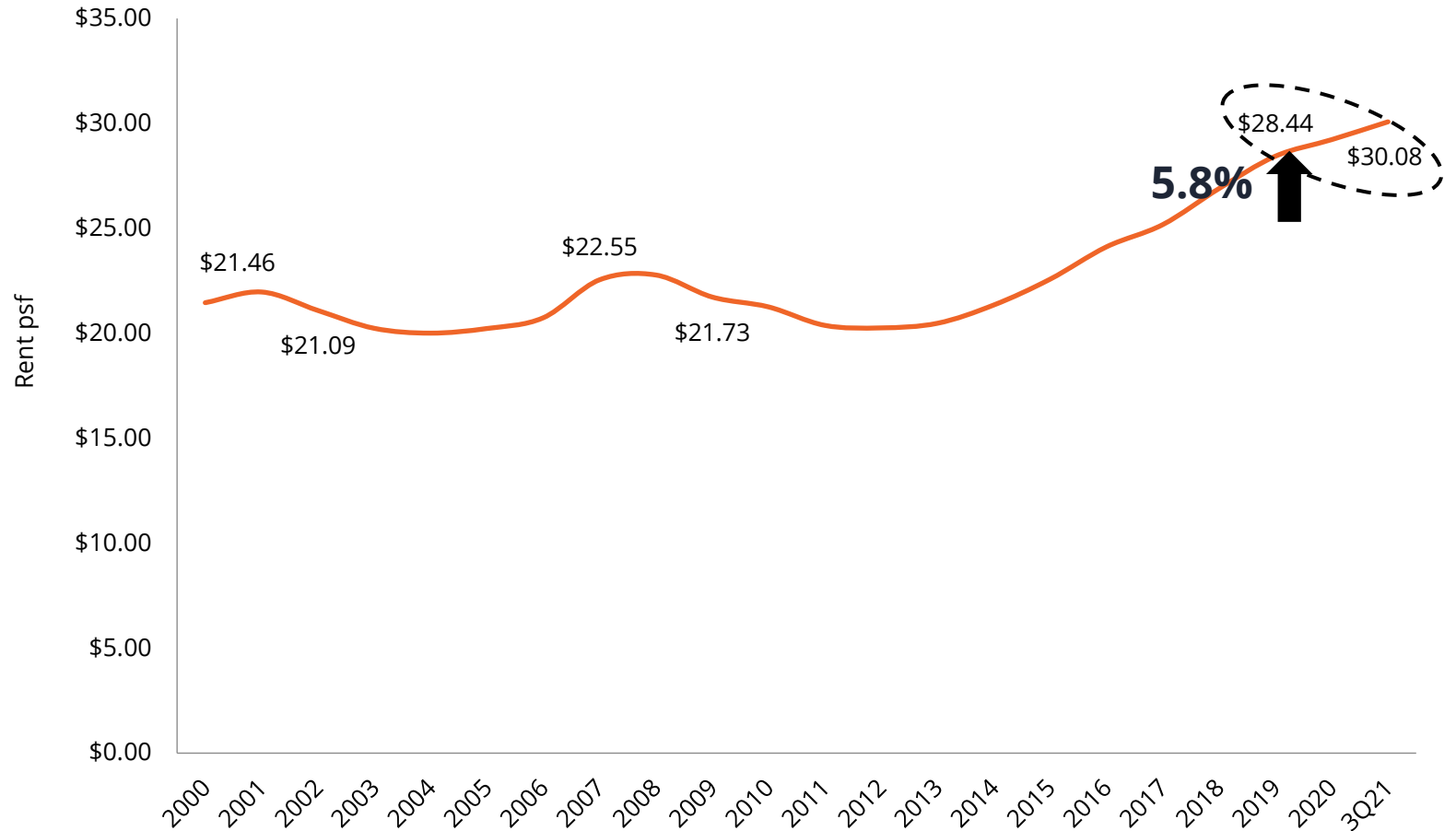
Source: AVANT by Avison Young

Base rents

+5.8%

Change in rents since the onset of the pandemic

Base rents continued to increase during the pandemic, up 5.8%, 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 at a slower pace than seen in 2018 and 2019.

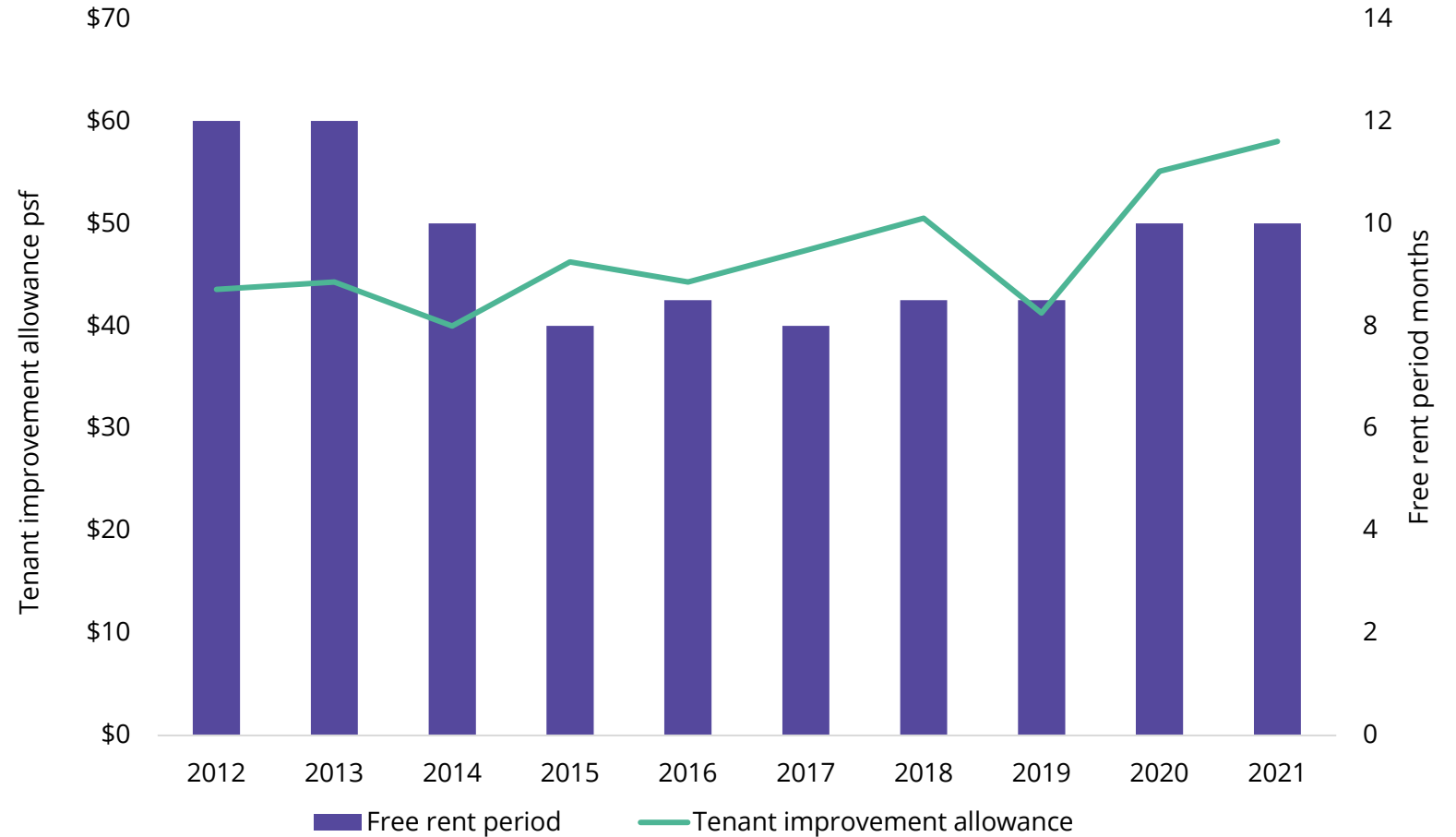


Source: AVANT by Avison Young and CoStar

5.3%

Change in tenant improvement allowance amounts, year-to-date 2021

Tenant improvement allowances and free rent periods have begun to stabilize as activity levels have risen, though both metrics remain near historical highs.



Note: Excludes subleases, expansions and renewals. Normalized to 10-year lease terms.
Source: AVANT by Avison Young

Atlanta's Office Construction

23 properties

under construction or renovation

5.3 msf

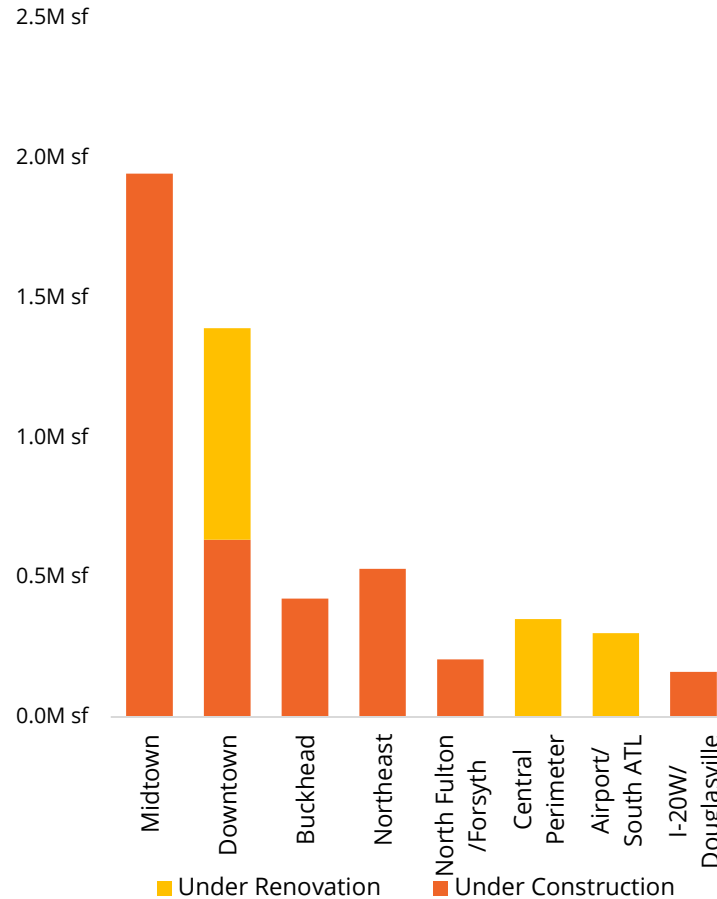
under construction or renovation

30%

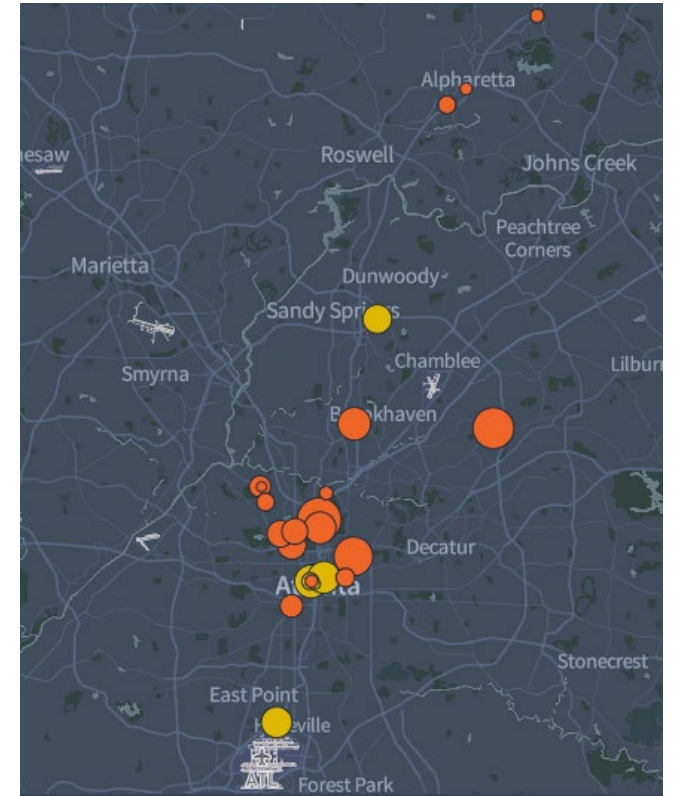
Preleased space in under construction buildings

500,000 sf

expected to deliver in 2021



Source: AVANT by Avison Young

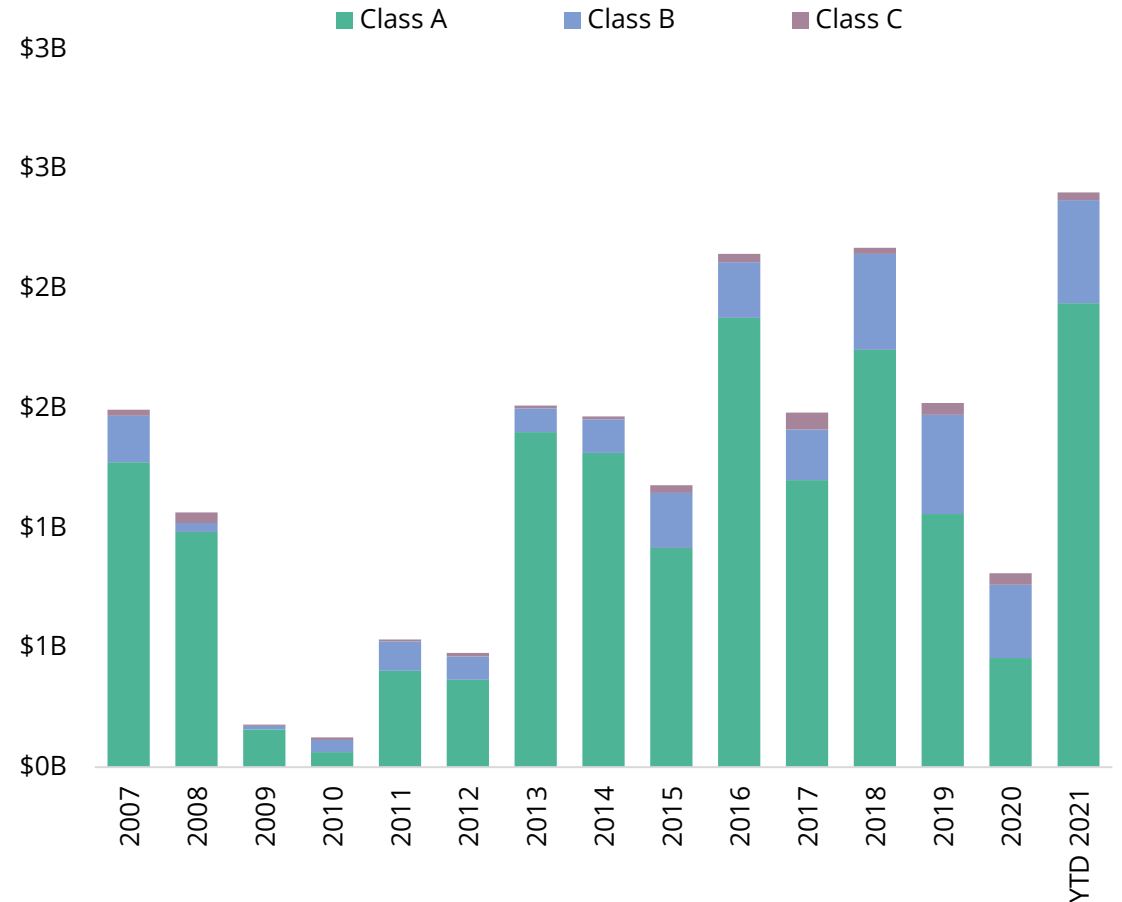


Office investment dollar volume

\$3.2B

Atlanta office dollar volume 2020 to present

After a slow start in 2021, office investment sales have significantly increased, up 197% from the end of 2020, due in large part to several large urban property sales. As the return to office continues, and building occupancy becomes more secure, investment activity will remain on this upward trend.



Source: AVANT by Avison Young, RCA, CoStar

Looking forward



Here's what we can expect

- As companies resume hiring now that they have made decisions on what their return to office will look like, **the unemployment rate will decrease** through the end of the year and potentially reach a historic low.
- Leasing activity in metro Atlanta will continue to increase as new job announcements are released almost weekly. For example, Visa announced they have just **leased 123,000 sf in Midtown** and will be creating 1,000 new jobs for the space.
- **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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