

ATLANTA OFFICE MARKET

COVID-19 LEAVES OFFICE MARKET QUIET

COVID-19 brought the Atlanta office market to a virtual standstill, as the shelter-in-place order in April temporarily reduced almost all occupancy. Leasing decisions are being put on hold as companies try to ascertain the lasting impacts from the ongoing health crisis and what it means for real estate. Lease expirations are driving activity, and will for the near term, as companies look at short-term renewals to allow for more time for any implementation of workplace changes as a result of COVID-19.

The office market fundamentals were positive for the second quarter. The vacancy rate dropped 10 basis points from last quarter to 17.4%, the third consecutive quarterly decline. This was 40 basis points lower than the rate at this point in 2019. Sublease vacancy remained below 1.0%, a positive indicator the market remained relatively stable. The region's second-quarter vacancy rate was far below the peak of 22.5% two years after the Great Recession.

The average asking rental rate continued to climb, reaching \$28.76/SF at the end of the quarter. This was up 1.6% from last quarter and 4.4% from one year ago, driven primarily to the delivery of new Class A space and rising availability across all classes. The Class A average asking rate crossed the \$31.00/SF threshold. The \$31.50/SF rate in the second quarter was 1.8% higher than last quarter and 3.7% higher than last year at this point. New construction continued to command rates over \$48.00/SF.

Net absorption for the quarter was 142,681 square feet, bringing the year-to-date total to 2,066,647 square feet. The lack of tenant movement during the quarter was a result of the shelter-in-place order throughout the state in April, forcing many companies to postpone or change plans. There is expected to be carry over into third-quarter 2020 due to the delayed moves.

SUBLEASE AVAILABILITY ON THE RISE

The sublease availability rate is often considered an indicator of market strength. During the 2008-2009 recession, Atlanta's sublease availability peaked at 4.0%. At the end of the second quarter, Atlanta's sublease availability rate was 2.7%. It was the third quarterly increase and reached the high mark seen three times since 2018. This is expected to rise as companies across different industries transition to work-from-home models on a continuous basis. The increases are being tempered overall as workers generally remain away from office space.

CURRENT CONDITIONS

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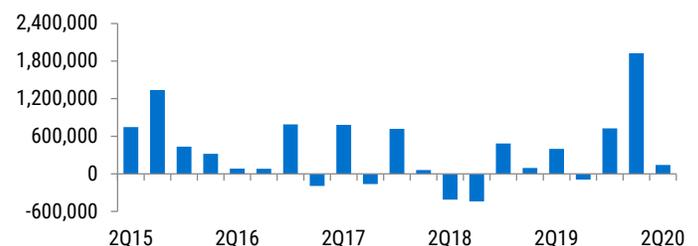
The eight buildings in Midtown under construction total 2.9 million square feet, 59.8% of the space in Atlanta's total pipeline.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory (SF)	152.4 M	152.3 M	149.5 M	↑
Vacancy Rate	17.4%	17.5%	17.8%	↑
Quarterly Net Absorption (SF)	142,681	1.9 M	399,822	↓
Average Asking Rent (FS/SF)	\$28.76	\$28.32	\$27.55	↑
Under Construction (SF)	4.9 M	4.7 M	6.2 M	↓
Deliveries (SF)	328,038	1.8 M	678,239	↑

FOUR NEW PROPERTIES COMPLETED

Four new buildings totaling 328,000 square feet were completed this quarter, bringing the year-to-date total up to 2.1 million square feet of additional inventory. The four buildings were spread out amongst four different submarkets. The largest building, The Edison Chastain, is 152,000 square feet, 100% available for lease and only the second new building in the Marietta/Kennesaw submarket since 2010. In Decatur, the 52,000-square-foot 120 West Trinity Place was pre-leased by WeWork. Midtown's latest completion, 300 Colony Square, is 87,000 square feet and 82.5% pre-leased. The fourth building, The Row Building in Chamblee, is the latest conversion of obsolete industrial space in the NE I-85 Inside I-285 submarket by Parkside Partners.

MIDTOWN DOMINATES CONSTRUCTION PIPELINE

Midtown has the largest concentration of new construction in the pipeline. The eight buildings total 2.9 million square feet, 59.8% of the 4.9 million square feet under development in the Atlanta market. The pipeline is 63.6% pre-leased, which should limit any potential spikes in vacancy from the new space. The bulk of the space is expected to be completed in 2021, with only one building anticipated in 2022.

The highlight of the second quarter was Microsoft's pre-lease of Atlantic Yards North and South. The two buildings under construction at Atlantic Station in Midtown total 523,000 square feet and were

started on a speculative basis. The software company's lease represents new growth for the market, which continues to attract technology companies with its educated workforce, highly-ranked universities, connected airport and lower cost of living.

MARKET OUTLOOK

COVID-19 brought Atlanta's office market to a virtual standstill during the second quarter and will still have a major impact until a vaccine is developed and widely available. Atlanta's diverse economy positions it well to weather the storm, as its high concentration of business and professional services jobs are more likely to be as productive in a work-from-home environment. The growing tech sector in the region brings additional confidence for job opportunities, with Microsoft's new lease at Atlantic Yards in the spotlight.

While space utilization rates remain to be seen, early forecasts predict most office-using tenants will not see a large decline in the amount of space leased. Rather, it will be more of a reconfiguration of current space to a higher ration of square feet per employee for social distancing, while incorporating a larger percentage of employees working remotely at any given time.

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Microsoft	Atlantic Yards North & South	Midtown	New	523,511
Lease Plan	1165 Sanctuary Parkway	North Fulton/Forsyth	Renewal/Expansion	81,615
Confidential	250 E Ponce De Leon Avenue	Decatur	New	69,782
Bank of America	1355 Windward Concourse	North Fulton/Forsyth	Renewal	61,379
Lewis Brisbois Bisgaard & Smith	600 Peachtree Street NE	Downtown	New	48,002

SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Square Feet	\$/SF
3567, 3577 & 3617 Parkway Ln	Norcross/Peachtree Corners	\$30,900,000	191,626	\$161
5555 Triangle Pkwy	Norcross/Peachtree Corners	\$11,100,000	86,000	\$129
5871 Glenridge Drive	Central Perimeter	\$10,800,000	65,000	\$165

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)
Suburban	116,408,350	1,885,471	18.2 %	4,685	1,296,902	\$30.65	\$22.40	\$27.54
Airport/South Atlanta	4,402,784	-	19.3 %	43,547	55,340	\$19.96	\$24.71	\$23.71
Buckhead	17,505,222	-	15.6 %	-36,395	-118,540	\$38.29	\$28.28	\$37.20
Central Perimeter	24,147,056	429,200	19.1 %	101,043	1,139,475	\$30.27	\$23.57	\$28.95
Cumberland/Galleria	21,012,263	371,240	17.2 %	117,497	94,912	\$28.80	\$22.64	\$26.45
Decatur	1,463,708	-	4.3 %	57,758	61,367	\$28.52	\$27.91	\$28.24
East Cobb	408,469	-	8.2 %	4,921	10,742	-	\$19.02	\$19.02
I-20 East/Conyers	662,003	-	7.5 %	-1,471	1,585	\$22.50	\$17.85	\$19.12
I-20 West/Douglasville	388,637	-	4.6 %	2,532	7,074	-	\$12.87	\$13.06
Marietta/Kennesaw	2,906,525	-	19.9 %	-108,614	-95,819	\$29.14	\$22.74	\$25.41
NE I-85 Inside I-285	6,151,486	-	14.9 %	-95,548	-52,550	\$28.67	\$22.61	\$23.04
NE I-85 Outside I-285/ Gwinnett	7,297,850	-	25.8 %	75,417	6,932	\$22.07	\$20.78	\$21.43
Norcross/ Peachtree Corners	6,093,348	-	24.3 %	-187,592	-141,003	\$22.06	\$17.84	\$19.67
North Fulton/Forsyth	19,306,878	128,031	18.1 %	20,114	165,307	\$27.43	\$21.51	\$25.89
Northlake/ Stone Mountain	3,097,517	-	22.6 %	9,971	122,451	\$23.50	\$21.45	\$21.54
Northside Drive/I-75	1,564,604	957,000	9.2 %	1,505	39,629	\$36.47	\$30.37	\$32.33
CBD	35,990,995	3,011,456	15.0 %	137,996	769,745	\$34.30	\$30.73	\$33.10
Downtown	15,455,157	93,245	17.3 %	6,005	-105,131	\$29.42	\$24.46	\$28.43
Midtown	20,535,838	2,918,211	13.3 %	131,991	874,876	\$39.32	\$32.64	\$36.50
Atlanta Market	152,399,345	4,896,927	17.4 %	142,681	2,066,647	\$31.50	\$24.03	\$28.76

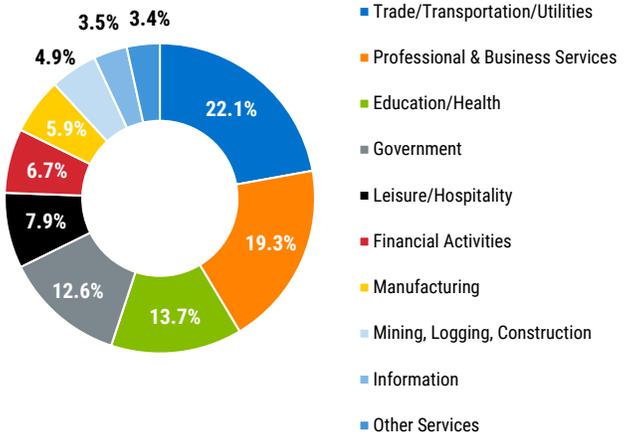
ECONOMIC CONDITIONS

This quarter provided the first look at the impacts from COVID-19 in Atlanta. The leisure/hospitality industry was devastated by the dramatic drop in convention business and visitors to the region. Office-using jobs, specifically the professional and business services and information industries, had telecommuting become more prevalent and widespread. This will likely help the region's economy weather the nation's economic downturn better than other markets.

Each industry sector experienced a decline in employment year-over-year as of May 2020. The region lost more than 260,000 jobs in the 12 months during this period. This was almost double the worst 12-month period during the Great Recession of 2008. The region's unemployment spiked as result to 10.3% in May. While this was more than three times higher than the rate one year ago, it was an improvement from the 12.7% unemployment in April.

EMPLOYMENT BY INDUSTRY

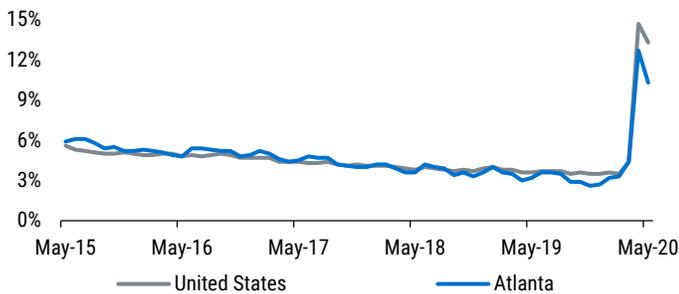
Atlanta, May 2020



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

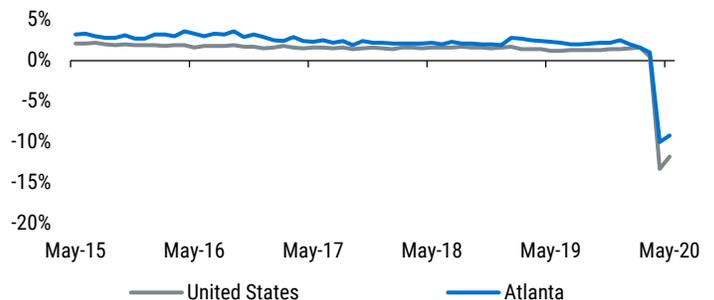
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

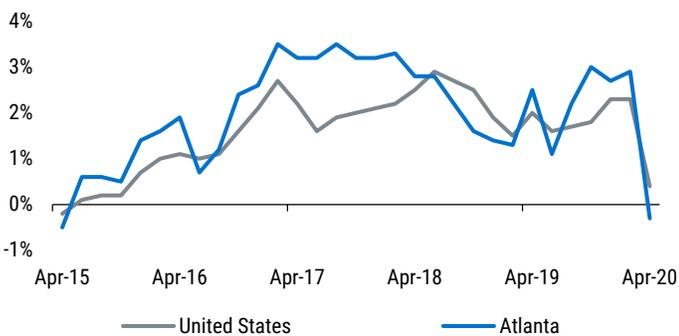
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

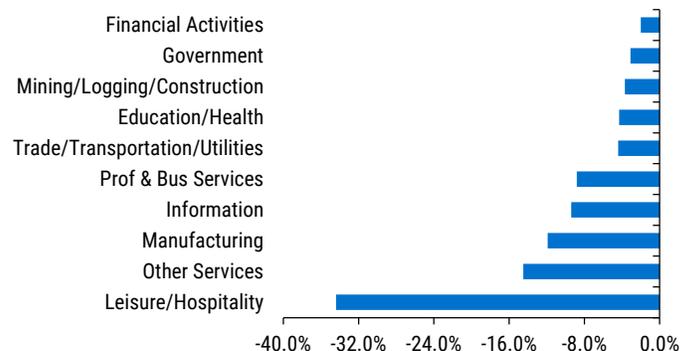
All Items, 12-Month % Change, Not Seasonally Adjusted



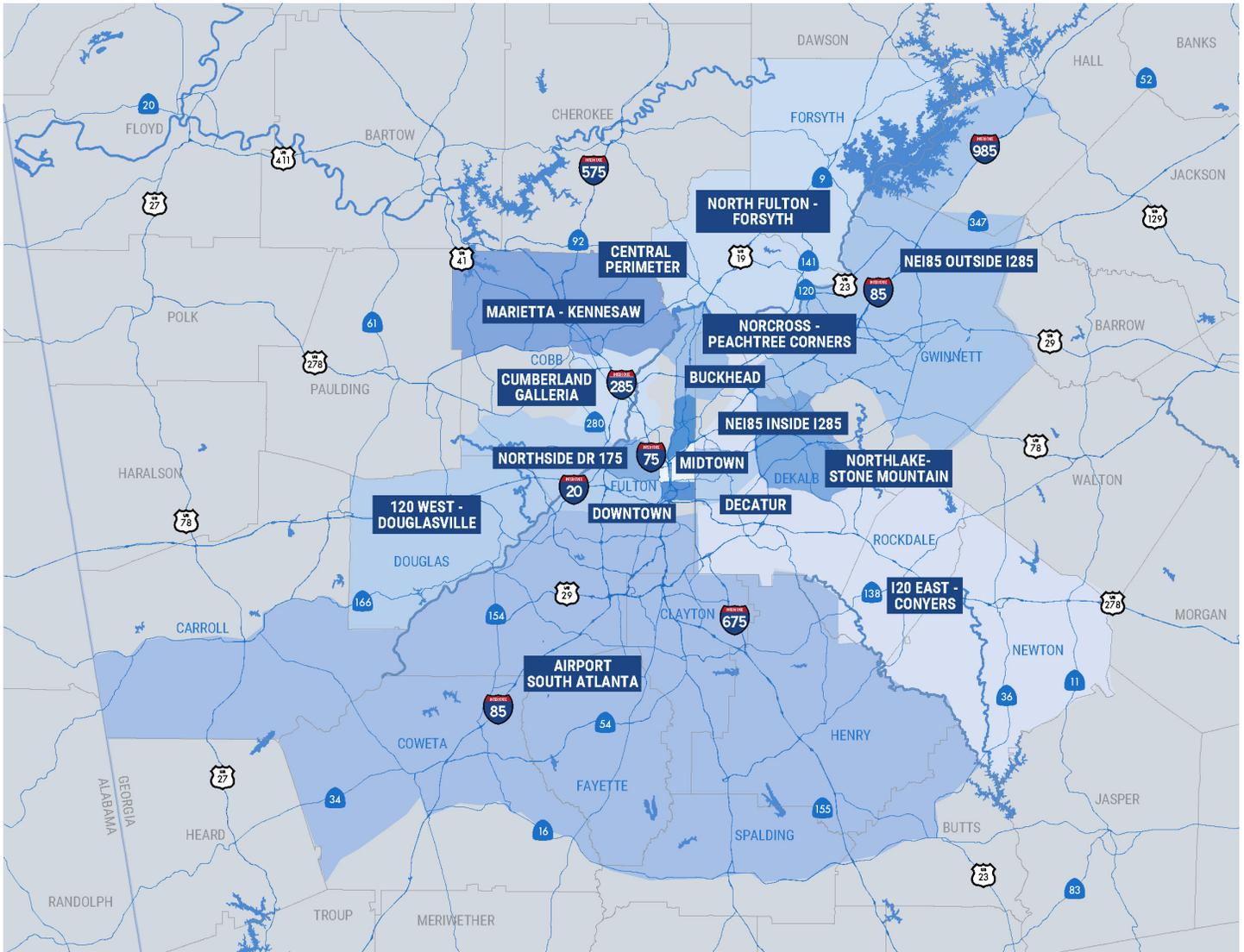
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Atlanta, May 2020, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics



ATLANTA

3424 Peachtree Road NE
Suite 800
Atlanta, GA 30326
770.552.2400

MARIANNE SKORUPSKI

Director of Research & Marketing
404.806.2724
mskorupski@ngkf.com

Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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