

Midtown

Q4 2020 ATLANTA SUBMARKET REPORT

Corporate Consolidation Spoils an Otherwise Positive Year for Midtown.

MARKET FUNDAMENTALS - MIDTOWN

	EoY Value	YoY Change	Trend
Avg Asking Rates	\$40.23	\$0.27	▲
Net Absorption	(87,377)	(312,741)	▼
Vacancy	14.7%	2.3%	▲
Leasing Activity	151,453	(179,793)	▼
Sublet Space	593,159	338,372	▲
Office-Using Jobs	802,200	(37,800)	▼
Under Const.	4,004,501	(57,917)	▼
Deliveries	190,381	(41,760)	▼

HIGHLIGHTS

Despite the pandemic, Midtown remains stable with asking rates holding firm while overall availability rises due to slowing leasing activity and a sharp increase in sublet inventory. While overall asking rates saw a small drop over last quarter, rates were up \$.27 or 70bps YOY. Overall vacancy rose 2.3% to finish the year at 14.7%, its highest in almost 10 years. Net absorption dropped significantly over last quarter with -754K SF, while available sublease space continued to climb ending the year at 593K, although still far off its peak of 734K SF in 4Q09. At year-end 2020 AT&T completed its consolidation giving back 789k SF at Tower Square causing a negative net absorption number for Midtown in 2020. This was the first time in nearly 10 years that Midtown posted a negative net absorption number for the year.

In 2020 Midtown delivered almost 630K SF of new product and had an additional 11 buildings under construction totaling 4M SF (more than half of Atlanta's total SF under construction). It is of note that while Midtown's 5-year average for under construction SF sits at 2.3M SF, recent years have been white-hot for the submarket, undeniably pulling up the average. While market conditions in Atlanta are expected to soften, developers and investors are still bullish on the market's future given that the product under construction is over 60% pre-leased.

Notable projects under construction include Norfolk Southern's 750K SF HQ at 650 W Peachtree St (100% pre-leased), Selig's 680K SF project at 1105 W Peachtree St (100% pre-leased), and MetLife's 612K SF building at 1331 Spring St (48% pre-leased).

OUTLOOK

While the pandemic has continued to threaten much of the strong gains seen in late 2019/early 2020, Atlanta has held up well relative to other major cities. Atlanta benefits from being a diversified economy, which has proven stronger when weathering downturns. Only about one-third of Atlanta's employment base are high-risk industries such as tourism or hospitality. As proven by several recent large relocations, businesses will continue to need office space and Atlanta is well-positioned to capitalize on future growth with a healthy pipeline, an educated workforce, and an affordable cost of living compared to core coastal cities.

METRO ATLANTA STATS AT A GLANCE

	SF TOTAL	SF VACANT	4Q NET ABS	% OCC	ASKING	YoY Change		
						OCC	ABS	PSF
Buckhead	22,290,015	3,522,204	(124,554)	84.2%	\$36.78	(1.80%)	(260,061)	+\$0.45
Midtown	27,497,550	4,038,369	(754,811)	85.3%	\$40.23	(2.33%)	(831,570)	+\$0.27
North Fulton	29,906,147	4,666,071	(252,816)	84.4%	\$25.05	(2.16%)	(24,720)	+\$0.18
Downtown	31,860,829	3,758,040	(305,469)	88.2%	\$28.76	(1.53%)	(243,172)	(\$0.40)
Northeast	23,894,613	4,061,924	144,786	83.0%	\$20.54	0.35%	(106,848)	+\$0.86
Central Perimeter	32,824,070	6,179,505	(244,899)	81.2%	\$29.29	(1.76%)	(228,052)	+\$0.90
Northwest	33,601,506	5,041,138	(309,576)	85.0%	\$26.91	(1.48%)	(687,353)	+\$0.52
TOTAL	201,874,730	31,267,251	(1,847,339)	84.5%	\$29.33	(1.6%)	(1,854,812)	+\$0.40 / SF

RENTAL RATES

- Average class A/B asking rates in Midtown ended the year at \$40.23 per square foot, representing a 110bps drop QOQ, but a 70bps increase YOY. Midtown has seen explosive rent growth in the past several years: 2016-2019 saw the submarket post an average yearly growth of 12%, outpacing any other Atlanta submarket in this metric. That asking rates have softened slightly is no surprise considering the ongoing pandemic, but expect continued downward pressure on rates as availability rises and leasing activity remains slow.

AVAILABILITY

- Overall availability in Midtown continues to rise as leasing activity remains slow and companies grapple with the decision of when to return to the office. Overall class A/B availability jumped 8% QOQ and 21% YOY, hitting an all-time high of 25.5%. This trend is largely unsurprising given that leasing velocity for the last quarter was 151K, an almost 65% decrease in quarterly activity compared to the submarket's 5-year average of 422K SF per quarter.
- While the submarket recorded over 750K SF of negative net absorption in the fourth quarter, a majority was due to AT&T finalizing their HQ consolidation to Buckhead. Midtown fared well throughout the rest of 2020 having started the year off strong with 663K SF of positive absorption in the first quarter, ending the year at a minimal -87K SF of net absorption.
- Long term, investor sentiment remains strong as evidenced by several large recent lease signings in Midtown. These include Google signing for 475K SF at 1105 W Peachtree St, Microsoft signing for 523K SF at Atlantic Yards, and Mailchimp signing for 300K SF at 760 Ralph McGill.

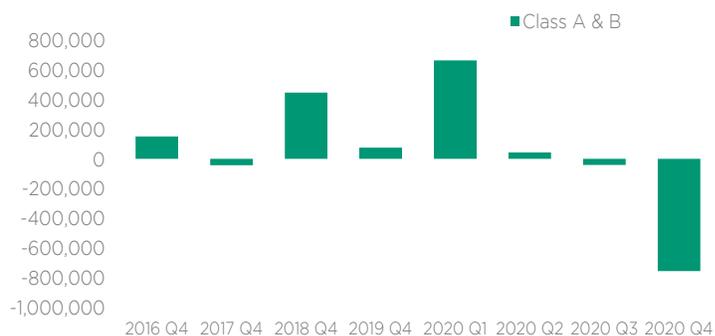
SUBLET INVENTORY

- As the pandemic has forced companies to postpone or re-evaluate their real estate needs, sublease availability in Atlanta has increased significantly. There is now 593K SF of sublet space available in Midtown, representing a 5% increase QOQ and a 133% increase YOY. Though sublet as a percentage of inventory has reached 1.9% for the first time in almost 10 years, we are still below the Great Recession's peak of 3.0% or 734K SF in 4Q09.
- While asking rates for direct space in Midtown have held relatively firm since the start of the pandemic, expect downward pressure on rental rates with the competition of increased sublet availability. There will be opportunities for tenants that are active in the market as free rent and other concessions have become more common in the short-term.

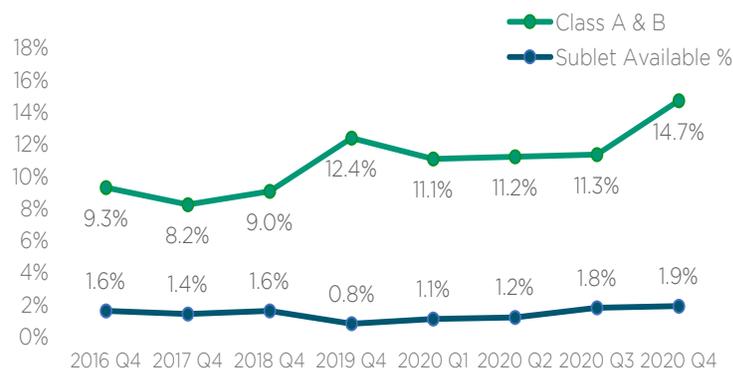
PSF RATES



NET ABSORPTION



VACANCY/SUBLET % OF INVENTORY



Disclaimer: Statistics are calculated using class A/B Office buildings totaling 15K+ SF in Metro Atlanta and relevant submarkets using CoStar Data as of 1/8/2021.

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