

MARKET BRIEF

ATLANTA'S 2023 OUTLOOK

A LOOK BACK, AND A LOOK AHEAD

Atlanta commercial real estate fundamentals remained strong in 2022, highlighted by continued strength within the industrial sector. Office properties held up remarkably well in the face of secular changes as occupiers balanced their space needs against work flexibility. This past year brought with it many positives, but rising inflation and action by the Federal Reserve may lead to a slowing of economic conditions in 2023. While these actions stand to impede overall investment and expansion activity, local factors such as net migration, corporate relocations, labor quality and affordability arguably weigh more heavily in determining market strength. Moreover, markets possessing these strong local growth drivers tend to recover faster from slower economic periods. As seen in Figure 1, high-growth markets such as Atlanta, Dallas and Phoenix recovered jobs more quickly than their large-market peers post-pandemic.

Property markets experienced solid performance in 2022, but the new year will bring fresh challenges. The following report is a brief review of office and industrial market conditions and some considerations as 2023 approaches.

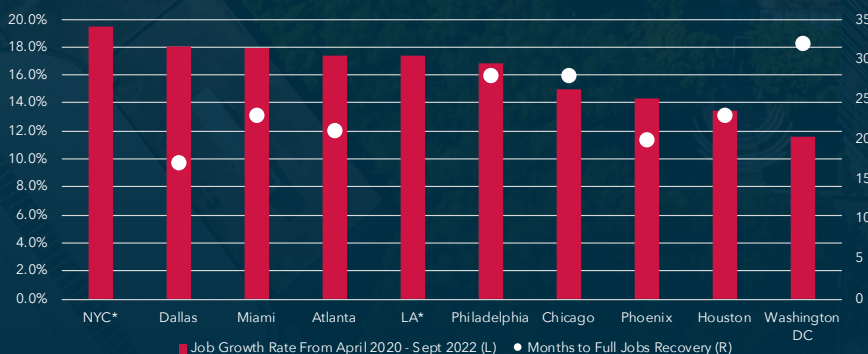


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Source: BLS. *Market has not yet reached pre-recession employment peak.

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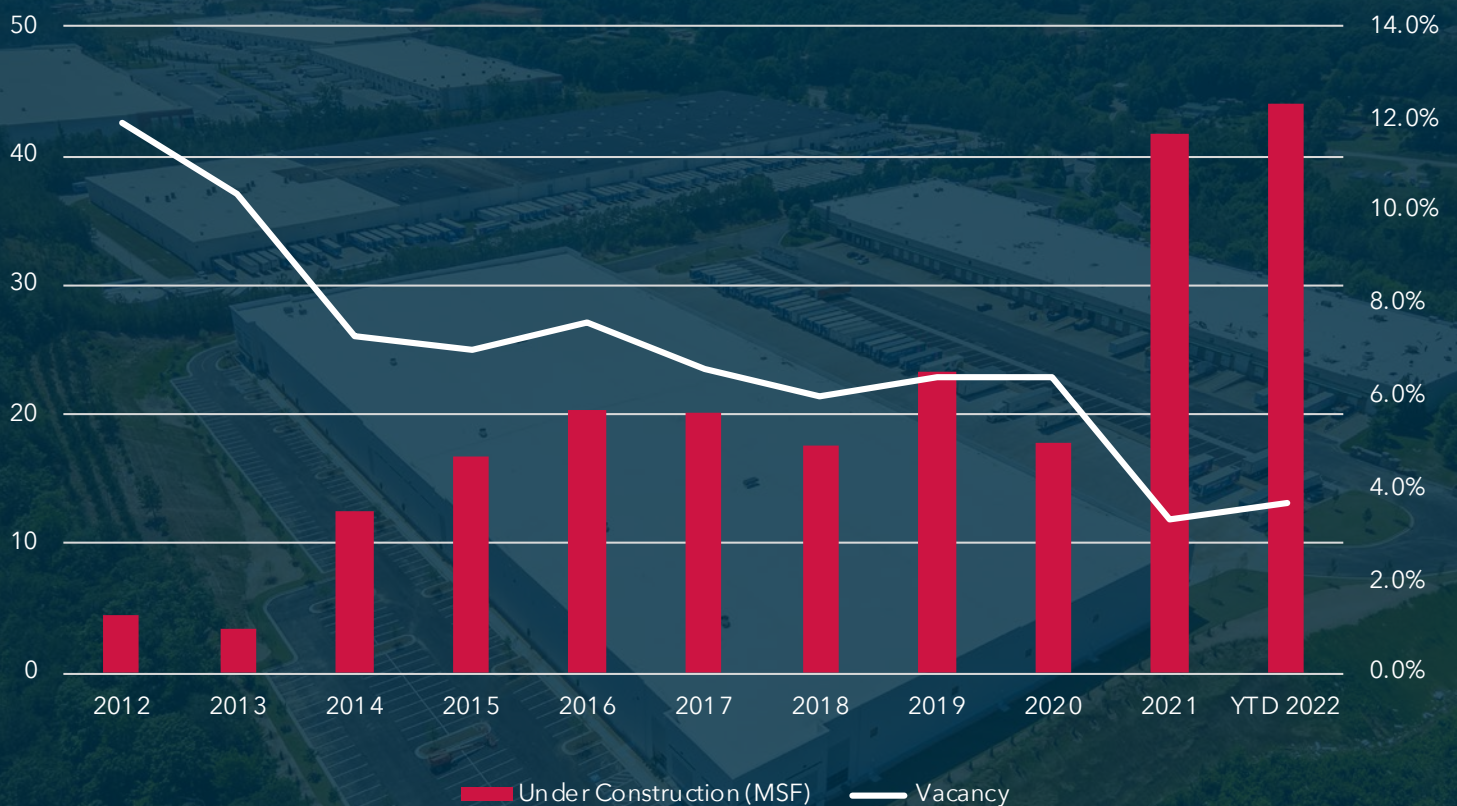
INDUSTRIAL PROPERTIES

< LOOKING BACK

Industrial properties enjoyed another banner year in 2022 as robust demand was met with supply growth increases. Vacancy is historically low, at 3.7%, and 15 MSF of absorption has been realized as of Q3, which should place year-end total occupancy gains north of 20 MSF. Rental rate growth remains very aggressive, especially within smaller spaces. After construction delays earlier this year, new supply is accelerating. Over 26 MSF has been added to the inventory in 2022, already far surpassing 2021's yearly total. While industrial fundamentals remain very healthy, sales volume fell in Q3 as rising financing costs increased the delta between buyer and seller expectations.

> LOOKING AHEAD

The availability of space remains very tight and this will continue to inflate occupancy costs in the near term. While there may be lingering concerns over new supply, the level of construction is healthy given current market vacancy and demand levels. In fact, **if all of the uncommitted under construction space (34 MSF) delivered today, Atlanta's vacancy rate would climb to approximately 8%**, a historically healthy level. It's expected that the Fed's efforts to slow the economy will result in a short-lived period of cooling demand in 2023. While there's a possibility this could impact overall leasing volume in 2023, Atlanta's economic durability and fundamental industrial health will lead to widely positive demand in 2023.



< LOOKING BACK

Office properties held up remarkably well in 2022 despite headwinds in the form of occupier downsizing and secular changes due to evolving workforce trends. Vacancy remains elevated at 19.0%, but more than 1.3 MSF was absorbed through Q3 and average rents rose to over \$30 PSF. Despite efforts to bring more employees back to the office, data from Kastle Systems show average physical office occupancies across the U.S. hovering around 47%. The advent of remote work has helped employee retention, but simultaneously placed upward pressure on vacancy. More than 2.4 MSF of new supply has entered the market in 2022, with healthy levels of pre-commitment prior to delivery.

> LOOKING AHEAD

Despite a strong performance in 2022, there are some warning signs on the horizon. A recent analysis of availability levels in metro Atlanta buildings found **1/5th of the office inventory to be 50% or more available (buildings 100,000 SF and greater)**. This elevated availability may cause further demand vs. supply imbalance and place upward pressure on vacancy levels in 2023. Consequently, conditions are poised to swing further in favor of occupiers and this will increase landlord competition. While workforces are becoming more distributed, ultimately it's the office which facilitates the best business outcomes. Expect more companies to return to the office in 2023 in order to build culture, collaborate and be productive together, especially if the labor market slackens.

