

Landlord Giveaways Help Fuel Burst Of Atlanta Office Leasing

July 8, 2024 | Jarred Schenke, Atlanta (<https://www.bisnow.com/author/jarred-schenke-5711>) (<mailto:jarred@bi>)

The pace of companies taking office space has jumped in recent months as tenants pounce on deals offered by landlords hoping to stand out in a market that still has record-high levels of vacancy.



Companies leased 2.6M SF during the second quarter, a milestone not seen since Q1 2019, according to a Savills report (https://www.savills.us/research_articles/256536/363675-0). Leasing activity jumped 63% year-over-year and ticked up from 2.4M SF of leases signed in the first quarter.

Office tenants have been spurred to agree to deals as they gain more clarity on their updated office footprint needs in a hybrid work world.

“It’s a sign that business is happening and companies are making real estate decisions,” T. Dallas Smith & Co. principal Cedric Matheny (<https://www.bisnow.com/tags/cedric-matheny>) said. “They’ve done all the rightsizing that they needed to do.”

But they're also finding sweetheart deals as landlords race to grab leases.

It is increasingly common for landlords to offer a month of free rent for every year of a lease, brokers told *Bisnow*, a huge jump from the flat rate of two months regardless of lease term more than a year ago.

For major companies taking down a big block of space, Matheny said some landlords are even agreeing to 1.5 months free for every year — 15 months of free rent on a 10-year lease.

"We're getting what we ask for in free rent," Matheny said.

Landlords are digging deeper into their pockets to fund tenant build-outs, a sweetener to land a deal that eats at owners' bottom line. Tenant improvement allowances averaged between \$115 and \$120 per SF in the second quarter, up from \$70 to \$100 per SF two years ago, according to Savills.

"TI packages have to be incredibly hefty, which are really hard to digest in Atlanta," Avison Young principal Kirk Rich said. "Inflation kind of put those on a level playing field with other urban markets around the country."

Those ballooning TI packages allow landlords to keep their face rents high, and with the delivery of new office buildings hitting the market with ample available space, asking rents have been on the rise.

Asking rents reached \$32.61 per SF in the second quarter, a more than 5% increase year-over-year, and buildings in the central business district now top \$40 per SF in average asking rent, according to Savills.

All the leasing in the second quarter did little to reverse Metro Atlanta office landlords' fortunes. More than 1M SF of office space came back on the market in the first half of the year, according to Cushman & Wakefield. Available sublease space rose 500K SF year-over-year for a total of 8.7M SF in the second quarter, according to Savills.

Developers are underway with 1.3M SF of new office space, even as some new buildings have struggled to land tenants (<https://www.bisnow.com/atlanta/news/capital-markets/greenstone-set-to-sell-14thspring-to-california-investors-123680>).

The combined headwinds pushed the overall vacancy rate to 25% metro-wide and nearly 30% in the core Atlanta office markets of Buckhead (<https://www.bisnow.com/tags/buckhead>), Midtown and Downtown, Cushman & Wakefield reported.

While tenant activity has improved, the Atlanta economy continues to see a shrinkage in the types of jobs that typically are housed in offices.

While nonfarm job numbers have grown since the crash in 2020, up from 2.5 million in the region in May 2020 to nearly 3.1 million in May (<https://fred.stlouisfed.org/series/ATLA013NA>) this year, nonfarm office jobs have continued to contract each quarter metro-wide since the middle of last year, according to Savills (<https://www.bisnow.com/tags/savills>), citing Federal Reserve data.

“I don’t foresee each quarter [leasing activity] going up,” said Ally Juratovac, a research associate with Savills in Atlanta who authored the report. “I think a lot of them are reducing their square footage. Tech is definitely downsizing.”

Of the 10 largest office deals in the quarter, most were either renewals or companies relocating their local offices to other buildings, according to Savills.

Southern Company Gas inked the largest deal (<https://www.bisnow.com/atlanta/news/office/southern-company-gas-hq-moving-half-mile-south-in-midtown-124650>) of the year so far, taking 260K SF at Midtown Center II with plans to leave a similarly sized footprint at 10 Peachtree Place. Newell Brands (<https://www.bisnow.com/tags/newell-brands>) also announced a plan (<https://www.ajc.com/news/business/newell-brands-signs-180000-square-foot-lease-to-move-hq-in-sandy-springs/PFNHELLFZ5BUFADIDE2EKV6WNA/>) to move its headquarters to the Queen building at Concourse Corporate Center (<https://www.bisnow.com/tags/concourse-corporate-center>), and Piedmont Healthcare (<https://www.bisnow.com/tags/piedmont-healthcare>) is slashing its office footprint (<https://www.bisnow.com/atlanta/news/office/piedmont-healthcare-taking-banner-space-at-271-17th-st-123904>) in its headquarters relocation from Cobb County (<https://www.bisnow.com/tags/cobb-county>) to 164K SF in Atlantic Station (<https://www.bisnow.com/tags/atlantic-station>), according to Savills.

While AT&T signed a combined 200K SF in the quarter, the telecommunications giant also took back space in two (<https://www.bisnow.com/atlanta/news/office/atts-office-reversal-telecom-giant-takes-two-more-lenox-park-buildings-123960>) Buckhead office buildings it had emptied years earlier.

No technology companies made it to the top 10 list this past quarter, a far cry from the demand the industry drove for office space, particularly in Midtown, over the past few years.

While the biggest deals were relocations within the city, Rich said that is a sign that larger companies are finally reaching decisions on how much space they need as they push for employees to head back to the office more often. As big users sign leases, it encourages smaller firms to become more active in the office market, Rich said.

“The whole thing starts putting the culture back together that was prepandemic,” he said. “Yes, those numbers were skewed by big deals. I don’t think we need to find the negative in that.”

Given the struggles office owners are facing in the debt market, especially those with upcoming loan maturities, not all can compete for major leases.

Those that can may dismiss smaller tenants or those signing for shorter-term deals to avoid pumping more capital into a building, said Kirk Demetrops, a partner with MidCity Real Estate Partners.

“The landlords that are capable are going to play today’s market, and that’s high TI and concessions,” Demetrops said. “But some aren’t going to, either, because every dollar you put into it, you may not get it back.”

Contact Jarred Schenke at jarred@bisnow.com (<mailto:jarred@bisnow.com>)

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