

White-Collar Job Losses, Still-Rising Rents, World Cup Prep Among Atlanta CRE's Predictions For '23

December 21, 2022 | Jarred Schenke, Bisnow Atlanta (<https://www.bisnow.com/author/jarred-schenke-5711>) (<mailto:jarred@bisnow.com>)

Atlanta commercial real estate will largely be immune to the chill of the coming economic winter, the region's industry leaders predicted for 2023. The local industry's pipes are likely insulated against rising borrowing costs and the deep freeze in debt markets, they said, but that doesn't mean there won't be some pain.



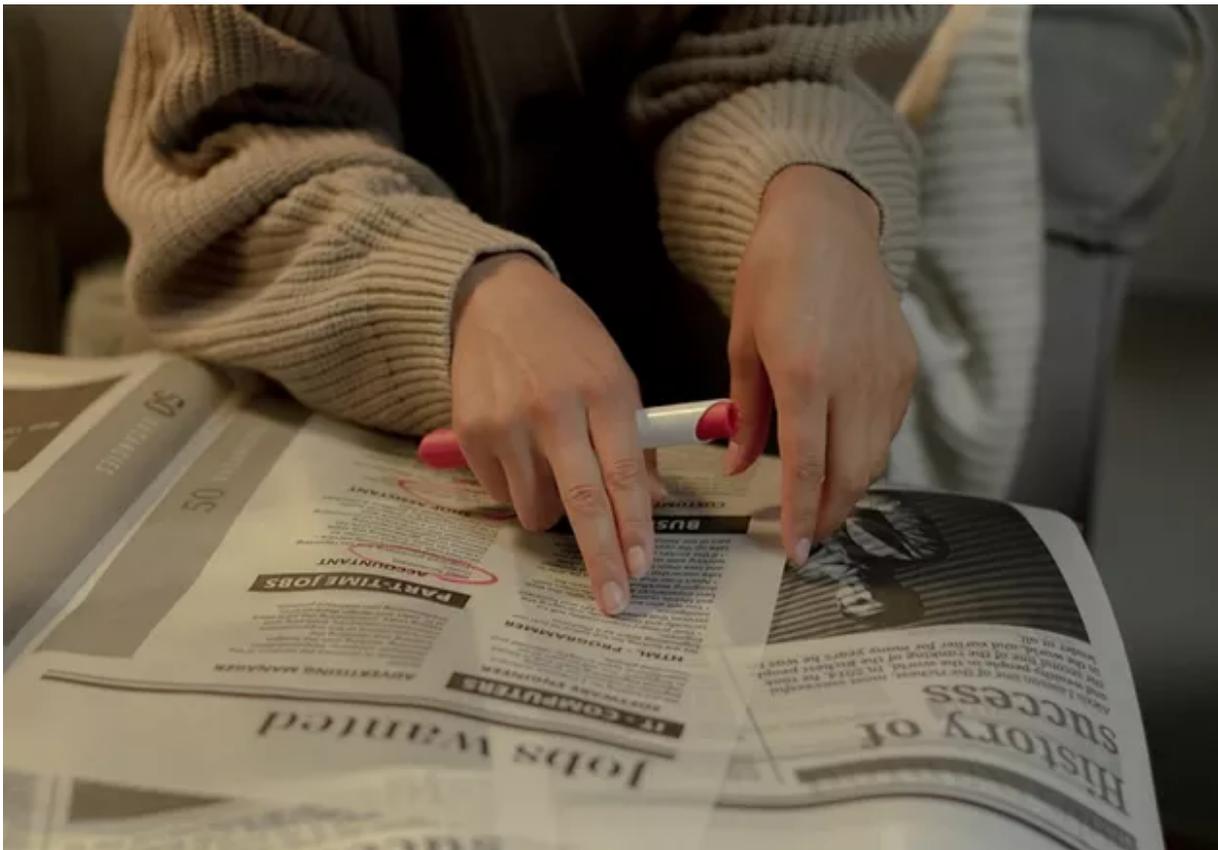
A potential deluge of layoffs could further hurt an office market already struggling with contraction and lack of use. The office real estate market is "facing headwinds from the three-headed monster of declining office usage, inflation and rising interest rates (<https://www.bisnow.com/tags/rising-interest-rates>)," OA Development partner Brian Granath (<https://www.bisnow.com/tags/oa-development-partner-brian-granath>)

told *Bisnow* via email. Granath said companies are shrinking their office space usage when negotiating new office deals and renewals (<https://www.bisnow.com/atlanta/news/office/office-tenants-on-the-downsizing-trend-in-atlanta-panelists-say-115418>) in Metro Atlanta.

While all of commercial real estate in Atlanta is being impacted by rising interest rates, consternation is not as pronounced among experts working in asset classes like apartments and warehouses, which have been star performers for investors in Atlanta the past few years.

Bisnow interviewed more than 20 local CRE executives to round up predictions on what trends are taking shape for Atlanta's real estate market in the coming year.

White-Collar Layoffs To Bite Into Office Occupancy



While experts say Atlanta's economic progress will largely emerge unscathed from the recession, the roles that will be cut are expected to predominantly office-using jobs, said Rajeev Dhawan (<https://www.bisnow.com/tags/rajeev-dhawan>), the director of the Economic Forecasting Center at the Robinson College of Business at Georgia State University.

“This is like the early 1990s when this was the last wave of middle-management contractions,” Dhawan said. “Covid showed you can do the same job by being at home, so you don’t need as many managers to watch the workforce.”

Dhawan expects the Fed will hike rates through March of next year, pushing the interest rate to 5.125%. The resulting hikes will tip the U.S. into a “mild” recession before the Fed reverses its focus to helping grow jobs and easing rates back by 200 basis points by the end of 2024, he wrote in an email. Atlanta, while faring better than other major cities, will also feel this pinch in jobs.

“[Companies] are laying off in middle management in marketing and sales,” he said. “You’re not going to let go of your servers, even if your restaurant business is not doing much, because you don’t know if you’ll get them back.”

Companies in Georgia have announced they are cutting more than 5,300 jobs this year so far, according to the Georgia Department of Labor (<https://www.dol.state.ga.us/public/es/warn/searchwarns>), up from more than 4,000 total layoffs in 2021.

Rick Lackey (<https://www.bisnow.com/tags/rick-lackey>), a former office brokerage firm leader and founder of REAL Professional Network — a company that hosts business lead meetings focused on the commercial real estate sector across the U.S. — said his network members are already seeing senior salespeople being cut as clients halted projects over the past few months.

Layoffs won't help an office market that is on the decline, even in Atlanta. The office vacancy rate jumped 30 basis points between the start of 2022 and the end of the third quarter to 15.4%, according to Colliers (<https://www.colliers.com/en/research/us-office-market-report-q3-2022>), with sublease space hitting record levels (<https://www.bisnow.com/atlanta/news/office/atlantas-office-market-on-the-slide-some-think-so-115753>).

“I think the layoffs are going to further exacerbate the low occupancy numbers,” Lackey said.

But so far, few tech companies have chopped headcount in Atlanta (<https://www.bisnow.com/atlanta/news/office/wave-of-tech-layoffs-likely-to-spare-atlantas-workforce-116652>) as part of their larger recent layoff

announcements (<https://www.computerworld.com/article/3679733/tech-layoffs-in-2022-a-timeline.html>).

“I think Atlanta, I wouldn’t say it’s bulletproof, but it’s way better than everybody else,” Lackey said. “The whole southeast United States is doing really well.”

Demand Will Fill The Huge Industrial Pipeline



If the freeze in the capital markets will do one thing to industrial developers, it will stop them from adding to the more than 40M SF of warehouse space under construction in the Metro Atlanta area, said Ferdinand Seefried (<https://www.bisnow.com/tags/ferdinand-seefried>), the executive chairman of Seefried Industrial Properties (<https://www.bisnow.com/tags/seefried-industrial-properties>).

“Few new buildings are started presently because of the limited availability of construction financing (<https://www.bisnow.com/atlanta/news/industrial/while-fed-actions-are-slowing-industrial-development-atlanta-activity-remains-robust-panel-says-116405>),” Seefried said in an email. “The terms for a construction loan are now tougher than one year ago. The loan-to-cost ratio is now less attractive.”

Last year, warehouse tenants absorbed more than 40M SF (<https://www.lee-associates.com/atlanta/2022/01/26/q4-2021-atlanta-industrial-market-report/>) in Metro Atlanta. While final absorption numbers for 2022 are still preliminary, King Industrial Realty (<https://www.bisnow.com/tags/king-industrial-realty>) President Sim Doughtie (<https://www.bisnow.com/tags/sim-doughtie>) said he expects tenants will shoot past last year's absorption number when all is accounted for.

“I would not be surprised if we reach something in the 45 to 46M SF range for 2022,” Doughtie said.

A combination of ongoing population growth in Atlanta, which added nearly 65,000 new residents in 2022 (<https://atlantaregional.org/news/atlanta-regional-commission/metro-atlanta-adds-65000-residents-in-2022-as-11-county-population-hits-5-1-million/>), continued e-commerce growth, manufacturers returning production to the U.S. and companies increasing their inventory due to the supply chain disruptions will continue to feed demand for warehouse space next year.

“Industrial remains active and the [tenant] pipeline does not seem to be slowing, which is good considering the amount of new space underway,” Avison Young (<https://www.bisnow.com/tags/avison-young>) Managing Director Steve Dils (<https://www.bisnow.com/tags/steve-dils>) said. “I know there has been talk about Amazon (<https://www.bisnow.com/tags/amazon>) putting space on the market, but we think it will lease quickly as there are tenants out in the market that are looking to make a move quickly but want nice, well-located space.”

Atlanta Multifamily Rents Outperform Nation, Keep Rising



Landlords were able to push rents up 20% in Metro Atlanta in 2021, and while that breakneck pace slowed, multifamily rents grew 10% more this year, according to Marcus & Millichap (<https://www.marcusmillichap.com/research/market-report/atlanta/atlanta-3q22-multifamily-market-report>).

Rising interest rates and deteriorating economic conditions were headwinds this year for apartment landlords raising rents to the levels seen in 2021, when rents jumped more than 20% in Metro Atlanta. This year, rents are expected to rise under 10%, according to Marcus & Millichap.

But in Atlanta, despite a potential recession, renter demand still exceeds supply, positioning the market to continue to see rent growth in 2023, Northmarq Capital (<https://www.bisnow.com/tags/northmarq-capital>) Managing Director Jason Nettles (<https://www.bisnow.com/tags/jason-nettles>) said.

“We are still seeing rent rolls with 5%-plus rent growth, even into the seasonally slower winter months,” Nettles said.

The National Association of Realtors (<https://www.bisnow.com/tags/national-association-of-realtors>) recently named the metro area as the hottest housing market

(<https://www.nar.realtor/magazine/real-estate-news/10-housing-markets-expected-to-lead-the-nation-in-2023>) in the country for 2023 due to greater affordability, population growth, and wage ([https://www.bls.gov/regions/southeast/news-release/employmentcostindex_atlanta.htm#:~:text=Rankin%20noted%20that%20o1\(See%20chart%202.\)\)](https://www.bls.gov/regions/southeast/news-release/employmentcostindex_atlanta.htm#:~:text=Rankin%20noted%20that%20o1(See%20chart%202.)))) and job growth (https://www.bls.gov/regions/southeast/news-release/areaemployment_atlanta.htm), keeping buyers in the market.

H.J. Russell & Co. President Jerome Russell (<https://www.bisnow.com/tags/jerome-russell>) said he sees developers building more townhouses in 2023 in Atlanta as more people look for a middle ground between apartment life and single-family housing.

Not everyone thinks rents are going to stay as high as they've gotten. Haddow & Co. Managing Partner Ladson Haddow said there is "too much murkiness out there to throw a guess" at what happens to rents in 2023.

"Obviously '21, '22 experienced tremendous rent growth, and that was bound to plateau at some point. That couldn't have kept going forever," Haddow said. "Whether or not it declines next year remains to be seen."

World Cup, Infrastructure To Keep Construction Busy



Atlanta learned over the summer that it will become one of the host cities for the 2026 FIFA World Cup (<https://www.bisnow.com/tags/2026-fifa-world-cup>), an event that could bring more than \$400M in revenues to the city, the Atlanta Sports Council predicted (<https://www.atlantaneewsfirst.com/2022/06/16/atlanta-chosen-host-city-2026-fifa-world-cup/#:~:text=A%20host%20city%20could%20bring,at%20more%20than%20%2448>

While perhaps not on 1996 Summer Olympic standards, preparations for the World Cup will see a surge in construction activity in the city, said A.J. Robinson, president of Central Atlanta Progress (<https://www.bisnow.com/tags/central-atlanta-progress>). World Cup preparations will only be one outside force boosting construction work: The federal infrastructure law passed last year will funnel millions of dollars to Atlanta and the state as will the money being spent on MARTA's expansion, Robinson said.

Skanska (<https://www.bisnow.com/tags/skanska>) Vice President Matt Frey (<https://www.bisnow.com/tags/matt-frey>) said contractors also are seeing an increase in mission-critical projects, such as data centers, cloud storage facilities and internet infrastructure.

“This is particularly true in Atlanta, which has seen, and we expect will continue to see, a large rise in mission-critical work,” Frey said.

But don't expect the cost to build to come down. While some construction material prices have moderated this year, labor will remain tight in 2023, driving up construction costs, Doughtie said.

“It appears that everyone, no matter what business you are in, is having a hard time attracting labor. With 3 to 4 million workers 55-plus years old that are not coming back to work, this will only mean more labor shortages (<https://www.bisnow.com/tags/labor-shortages>) and an even bigger push for automation and robotics going forward,” he said.

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See Also: Flex Office And Events Company Convene Lays Off Dozens, Closes Chicago Office (</new-york/news/coworking/convene-layoffs-closing-chicago-location-116966>)

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