

Uncertainty and Opportunity in the Office Market

State Properties Commission (SPC)



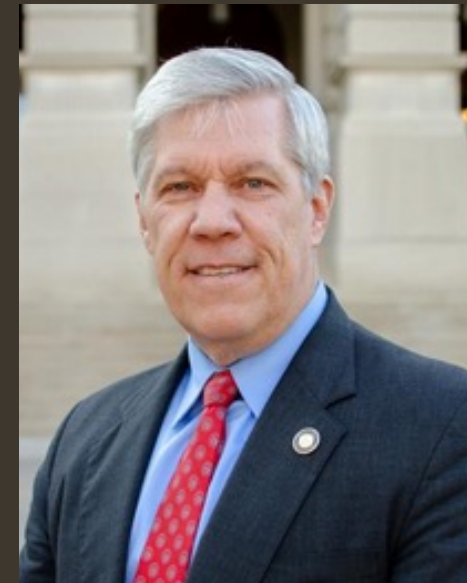
State Properties Commission

The State Properties Commission is charged with acquiring and disposing all state-owned real property and providing lease assistance to state entities



Leadership

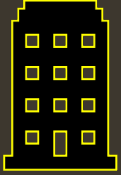
Chairman – Governor Brian P. Kemp



State Property Officer /
Executive Director - Marty Smith

Current State of US Office Market 2023

Highlights



Flat occupancy with more back to work mandates coming (Google, Amazon, Meta, Zoom)



Leasing activity has slowed – “wait and see”



Interest rates / cost of capital is high with significant office loans maturing in 2023-2024



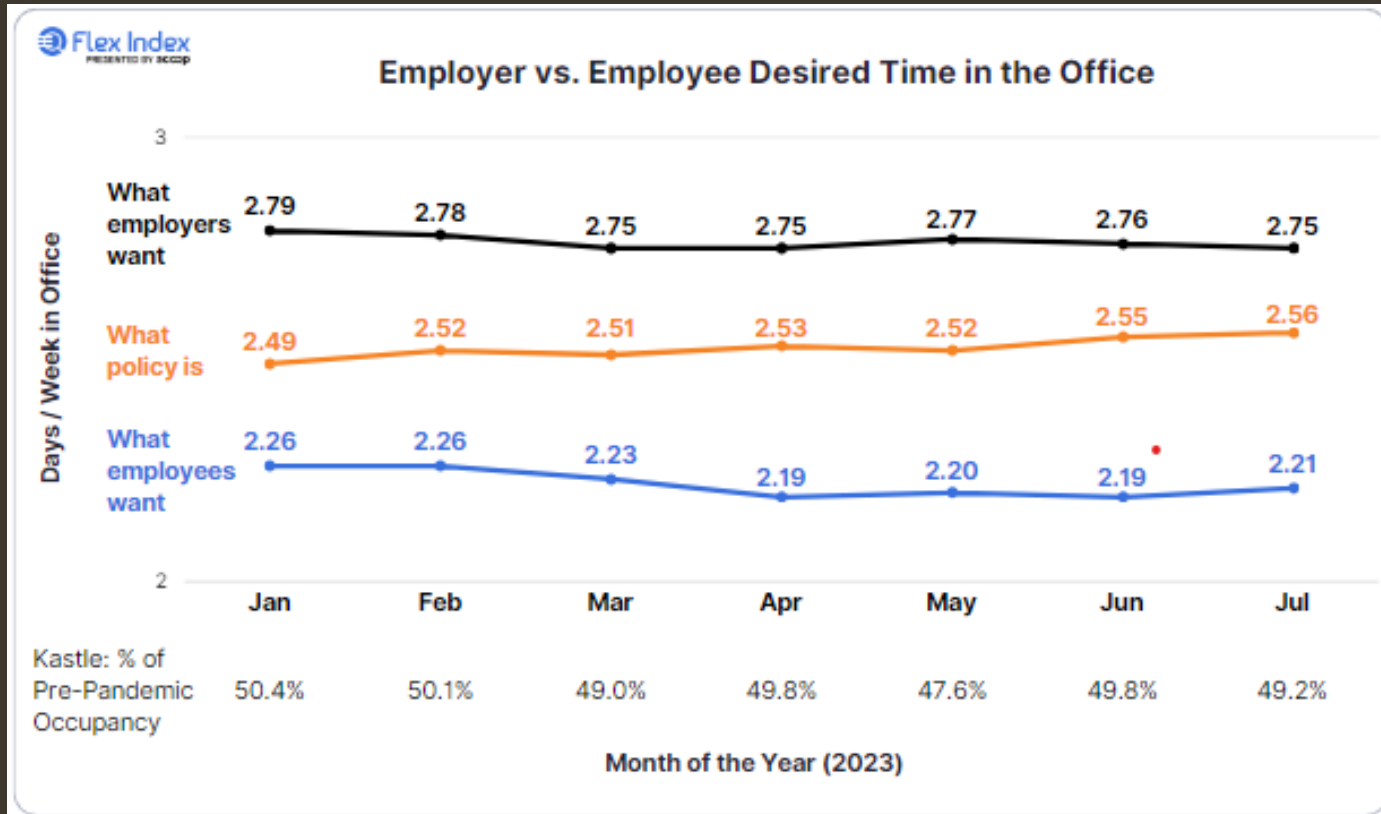
Flight to quality – less space but better location, amenities, etc. to “Earn back the Commute”



Purpose of the office is evolving – culture, mentoring, team building, etc.

Current State of US Office Market

Occupancy levels compared to pre-covid

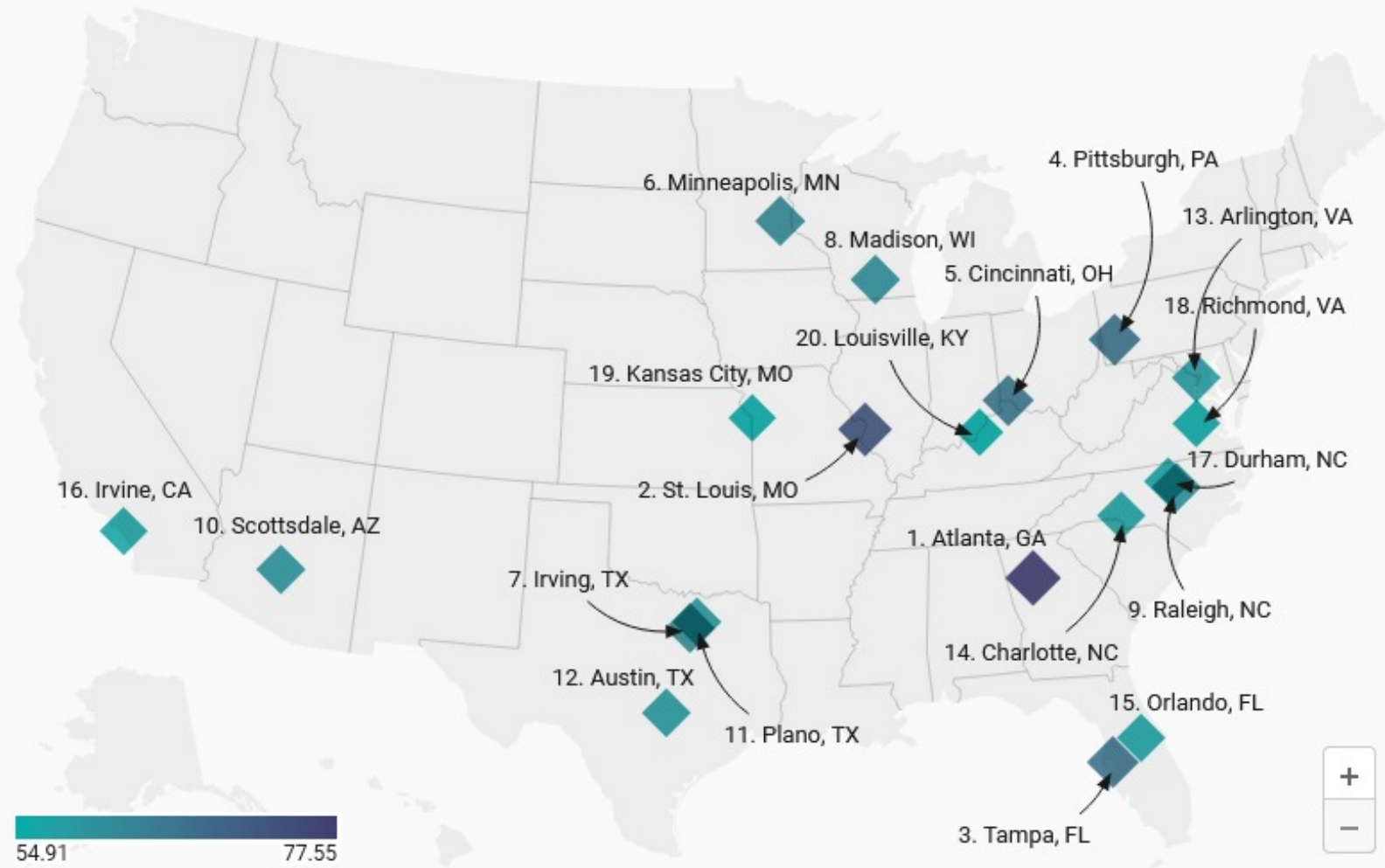


- Post-pandemic return-to-office trend has plateaued at around **50%**
- Employees are **coming into the office** on an average on **3.5 days a week (Friday?)**
- As job market cools, employers likely to gain leverage to increase in-person work.

Shifting Hybrid work Environment

- Necessary to attract and retain talent
- The Atlanta job market had the most hybrid job listings (771 per 100,000 residents)
- Hybrid beginning to mean 3-4 days in the office vs. 2-3 days

Mid-Sized, Southern U.S. Cities Dominate Top Places for Hybrid Workers



Source: Based on CommercialSearch analysis of CommercialEdge, The Trust for Public Land, Glassdoor, The Federal Communications Commission, the U.S. Environmental Protection Agency, and the U.S. Census Bureau data. • Get the data • Embed • Download image • Created with Datawrapper

1 Atlanta

Employers embracing a new work environment

Relax the Dress Code

Analysis of 27,000 job postings across the United States by job firm Adzuna

- Casual dress code has risen from 57.5% of postings in 2019 to 70% of postings in 2022.
- Business casual dress codes has fallen from 41% in 2019 to 29.4% in 2022.



Perspective on Productivity

Workers who have schedule flexibility reported 29% higher productivity - although workers also spent fewer hours working throughout the day.

- Fewer promotions, lower commitment

Employers want to balance productivity and retention. According to a Pew study, at-home workers are 18% less productive.

- Expect mentoring, team building

Current State of US Office Market

Properties in demand

- Flight-to-quality driving demand with occupiers seeking best-in-class locations and amenities
 - Mixed-use districts anchored by trophy office buildings are among the most appealing locations
 - Occupiers are seeking out less space, but are seeking out higher-quality space



Star Metals – Howell Mill

Asking Rent- \$50 - \$60 / sq foot



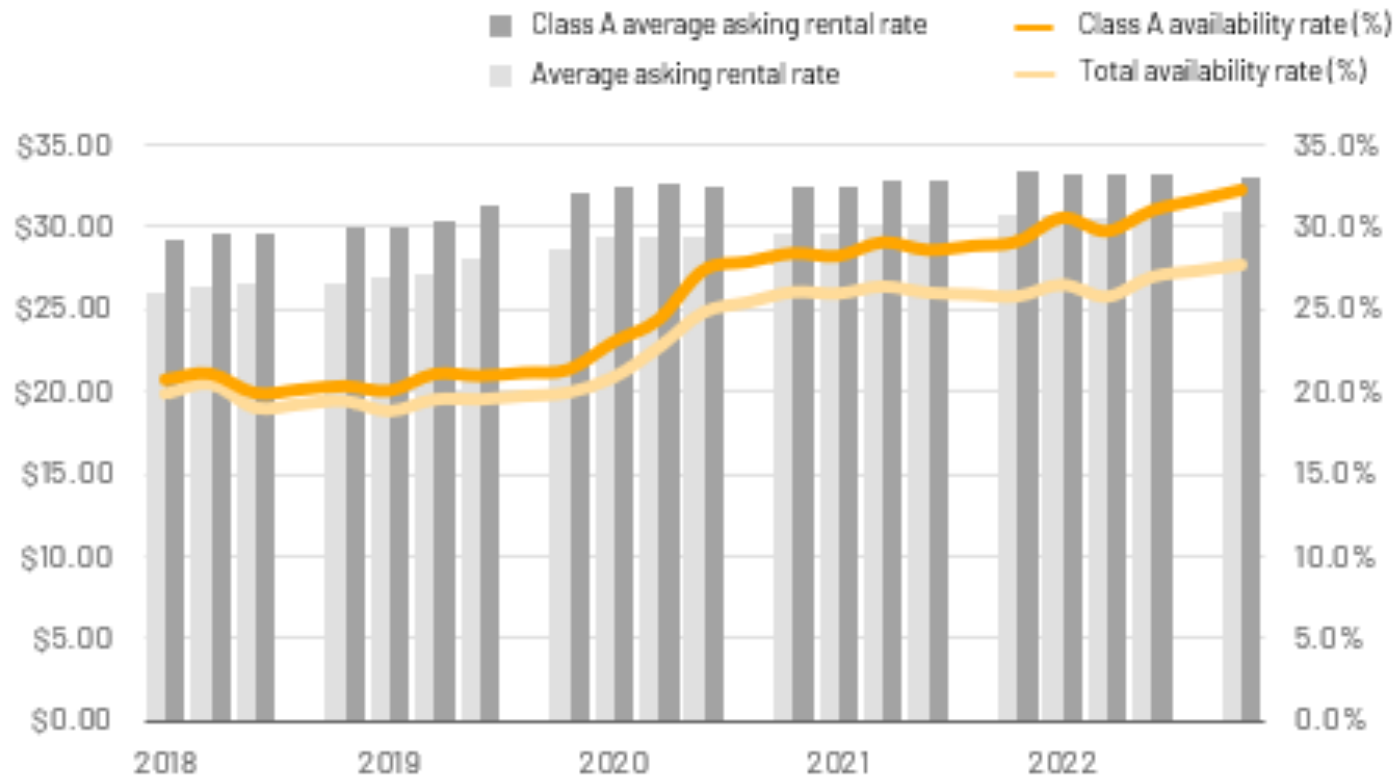
1330 West Peachtree

Asking Rent - \$19 / sq foot

Current State of US Office Market

Rental Rates and Vacancy (Atlanta)

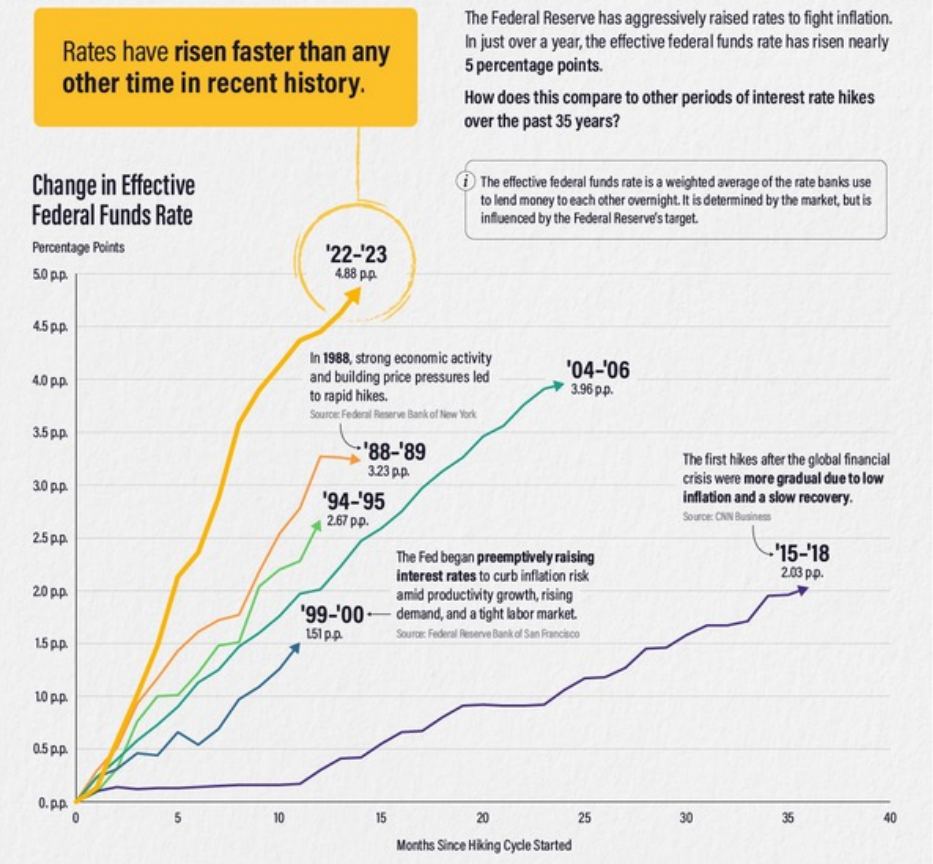
Asking Rent and Availability



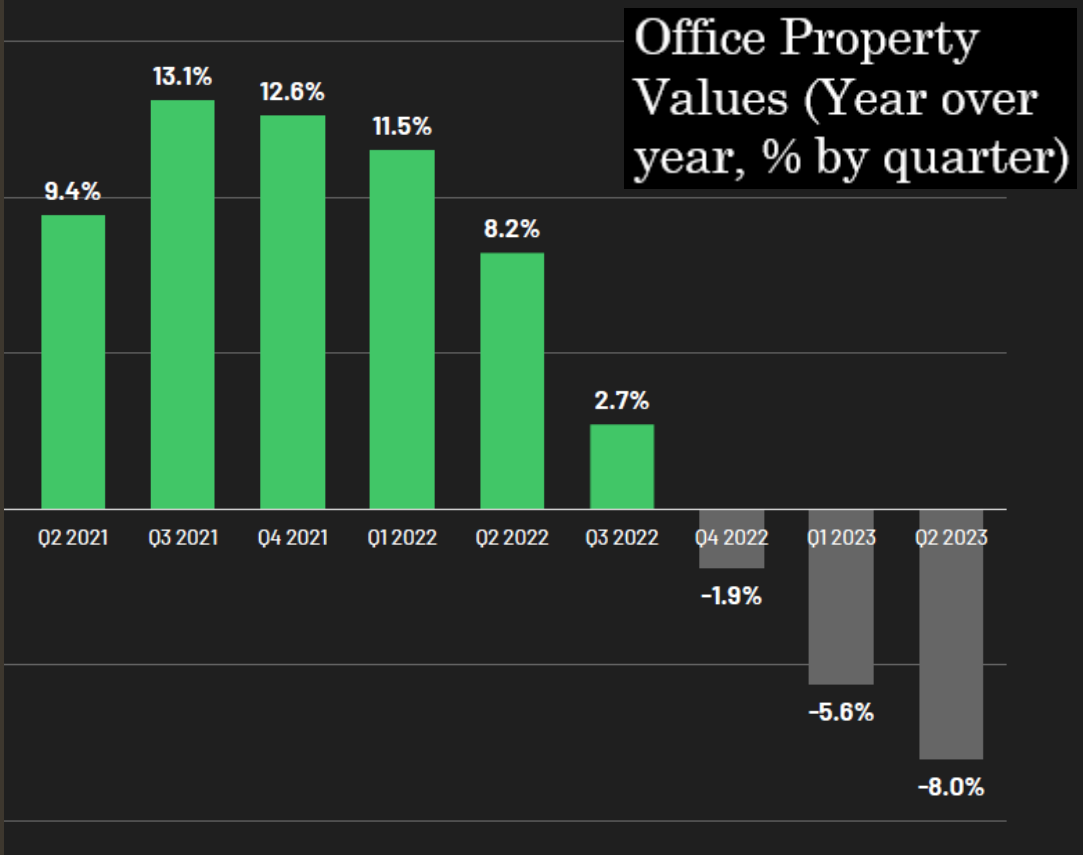
Relatively steady asking rent in a “wait and see” environment.

Vacancy rates continue to increase

Commercial Real Estate Lending Environment is Evolving Challenging



Shift from historically low interest rate environment leads to decline in property valuations



Commercial Real Estate Lending Environment is Evolving Challenging

The negative effects of higher costs of capital continue

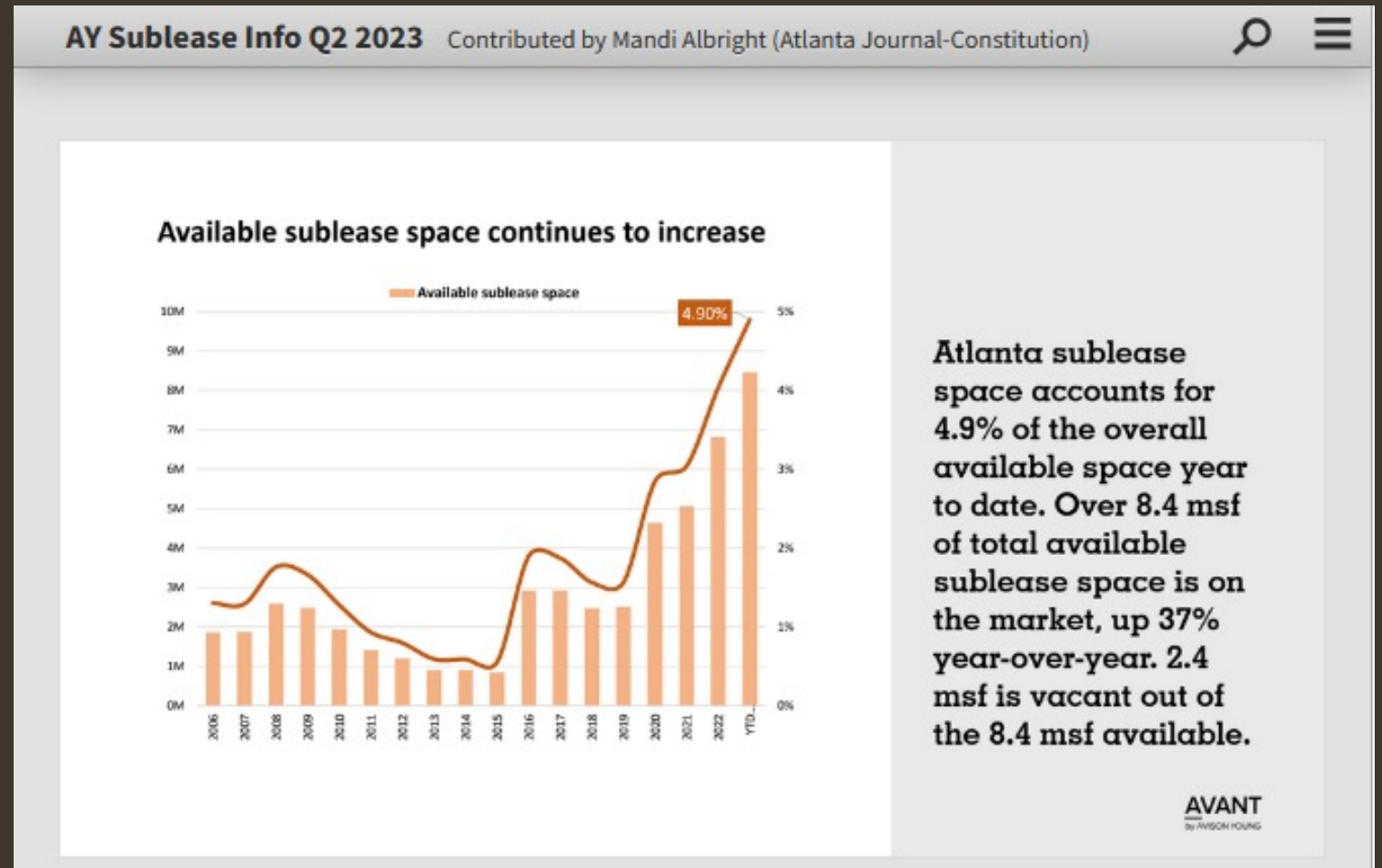


\$300 billion in office loans maturing in 2023 - 2024

- At-mid-year 2023, \$72.0 billion in commercial real estate loans are now distressed
- Cost of capital has at least doubled over the past year

What are Landlords / Owners doing with dated office buildings?

- Allow Subleases →
- Convert the Office building to residential
- Hope for return-to-work mandates or occupiers change their mind and want more space
- Hand over the keys
- Call the Government!



Office Conversion

2 Peachtree – sold to City for residential redevelopment



CNN- under redevelopment consideration

United Way Building – failed redevelopment



Dated Office Buildings

Mandates / Occupiers change their mind

- At Lenox Park AT&T leases 120K sq ft it vacated 5 years ago
- Since January, 1.7 million employees have been put under new return-to-office requirements (including Fed Gov. and CDC)
- Mark Zuckerberg – Employees who work in person “get more done”
- CEO of Zoom – “a structured hybrid approach is most effective for Zoom”

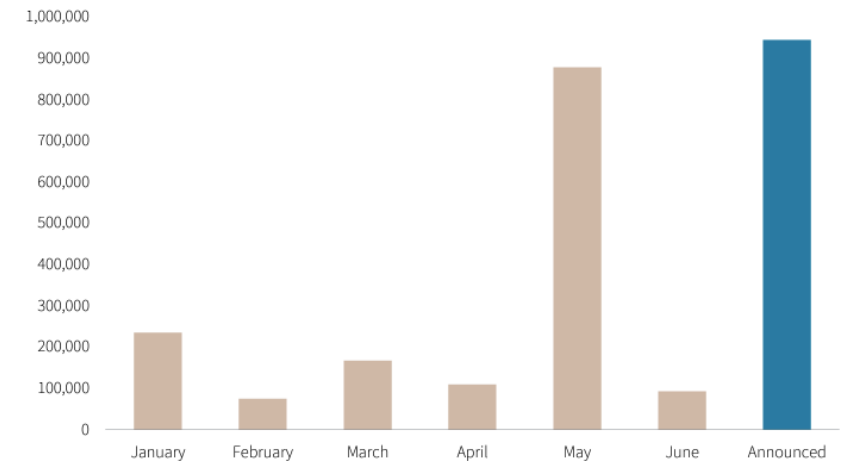
EXCLUSIVE: AT&T Leases Building It Once Vacated After Mandating Return To Office



Google Maps
1277 Lenox Park Blvd., which AT&T is planning to expand into.



U.S. employees subject to newly effective return-to-office mandates



Dated Office Buildings

Turn over the keys - receivership

- Tower Place 100 in Buckhead recently foreclosed on due to default on loan maturity (\$212M)
- Peachtree Center (6 buildings and mall) foreclosed on last year
- Grace Apartments on the Beltline going to foreclosure
- 2.5M sq feet of new office under construction - “Out with the old, in with the new”

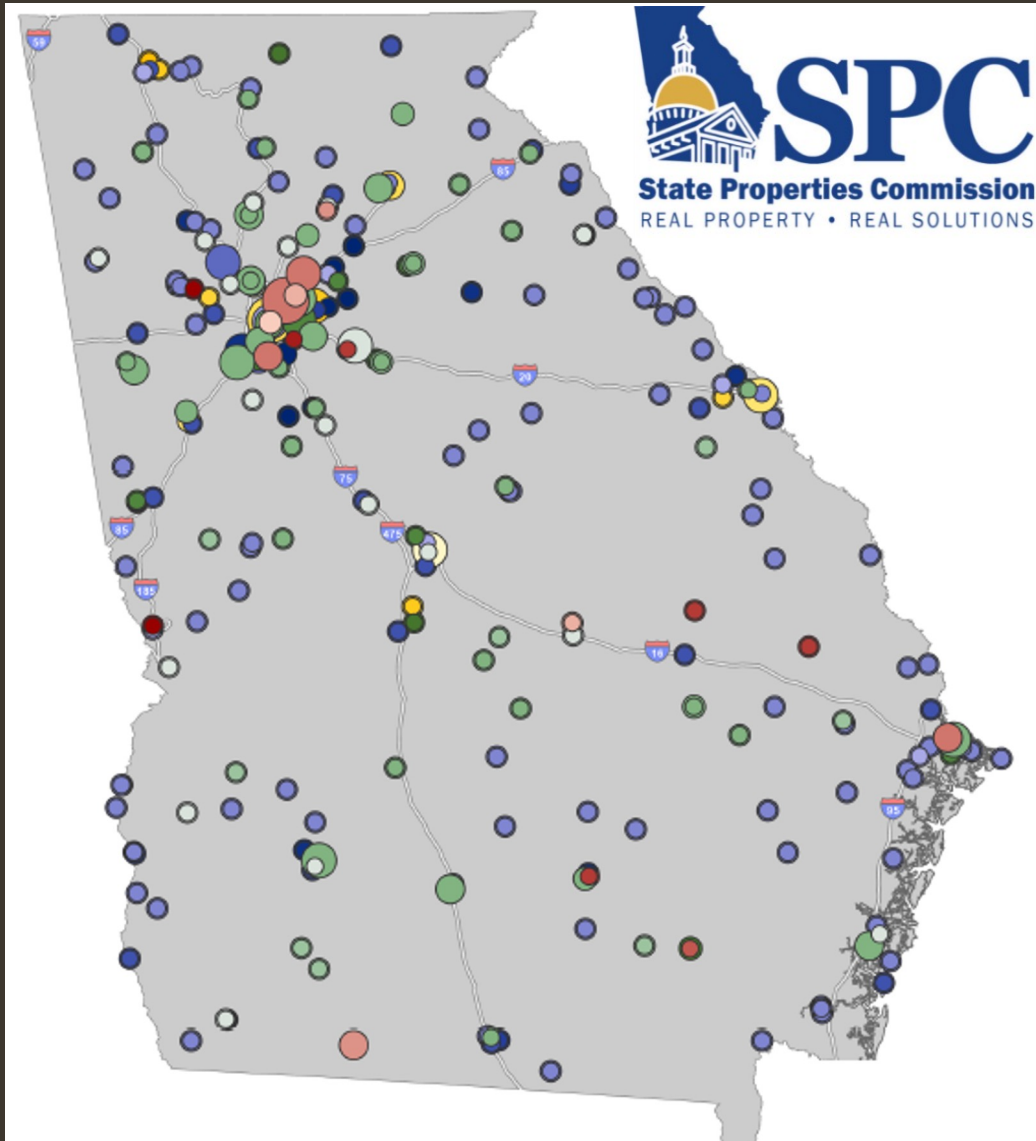


The Opportunities for State Government

- Flight to quality providing opportunities for State agencies to upgrade to better buildings/locations
- The lack of demand for office space, especially in older, Class B buildings afford the State the opportunity to renegotiate terms in existing locations.
- Some 2nd tier markets in Georgia have rare increased availability.

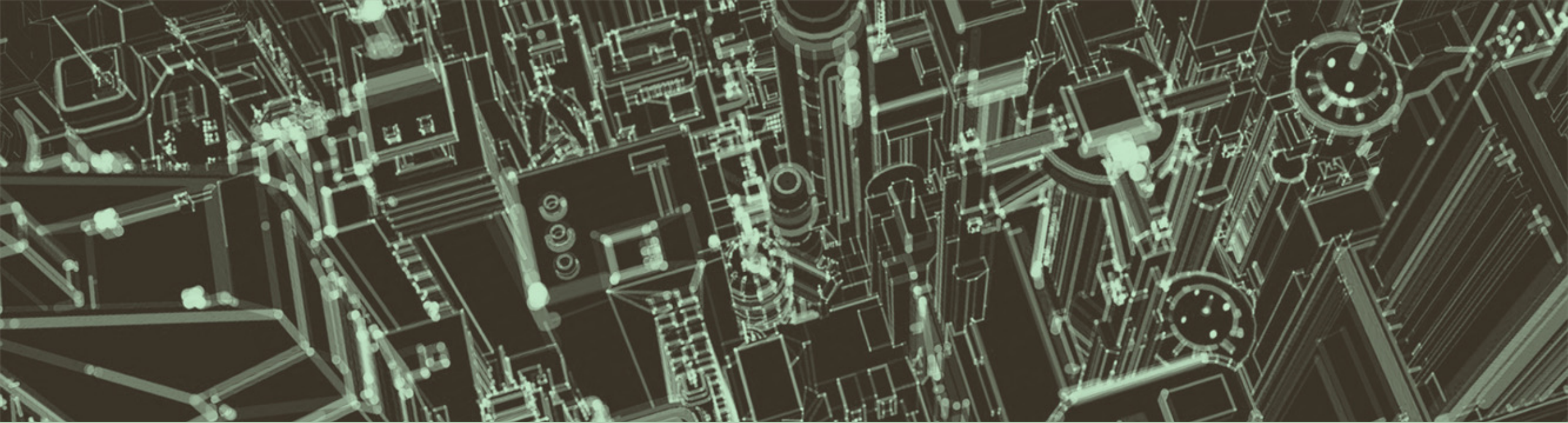


State Properties Commission



Lease Portfolio Highlights

- Total leases = 2,278
- Total Sq Ft. = 38,305,000
- 119 new / renegotiations completed by SPC last year
- Average rental rate = \$13.12 / sq ft.
- Over **\$30M** of cost avoidance last year.



Questions?

