

Atlanta



Quick Stats

15.4%

Overall vacancy down 80 basis
points year-over-year

534,573 SF

Year-to-date absorption for the
market in 2019

3.1 MSF

SF under construction in the first
quarter with 33% preleased

\$30.23 PSF

Average Class A asking rate up 4.4%
in the last 12 months

Market Overview

Atlanta's office market remained positive at the beginning of 2019. Leasing activity well ahead of 2018's pace allowed the market to record another quarter of strong absorption. As the market moves in a positive direction, vacancy rates will continue to decline while rental rates increase at a faster pace.

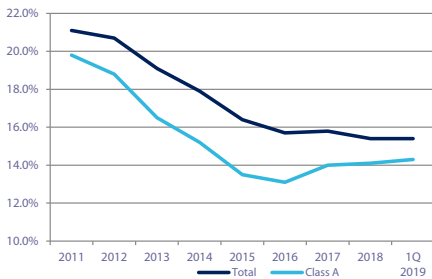
Vacancy and Absorption

The Atlanta office market's positive trend at the end of 2018 continued in the first quarter of 2019. The market recorded 534,573 square feet (sf) of positive absorption during the first three months of the new year. The Northeast submarket saw the largest amount of absorption, 315,000 sf, as Serta Simmons moved into their newly constructed property. The Midtown submarket recorded the second most positive absorption for the quarter, even though AT&T vacated 175,000 sf, with 143,066 sf of net gains. Georgia Tech occupied their new 289,000 square foot

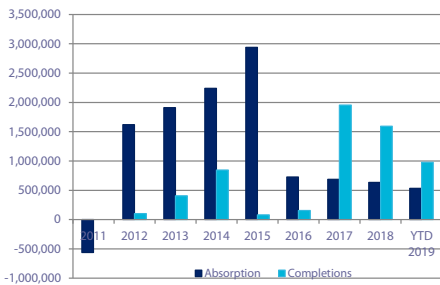
space at Coda when the building delivered at the beginning of the year. The overall vacancy rate for the Atlanta market dropped 80 basis points year-over-year to 15.4% in the first quarter. This is the largest year-over-year decrease the market has seen since the first quarter of 2016. The Class A market saw a decrease in the first quarter of 40 basis points and ended with a 14.3% vacancy rate. The Class B market saw a significant amount of activity in the first quarter which put the market at the lowest vacancy it has seen since 2009. The market ended the quarter at 18.2%, a 150 basis point decline year-over-year. As Class A rents continue to rise, some companies are no longer able to afford the escalated rents at their existing location. When renewing is no longer an option, these groups are beginning to look at Class B space in order to remain in their desired submarkets.

As office construction remains limited, and vacancy low, average asking rental rates will see an upward trend

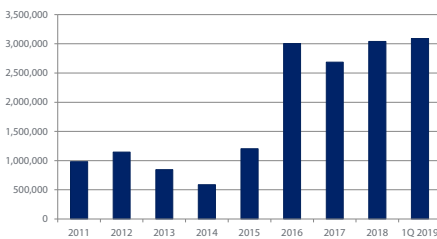
Vacancy Trends



Absorption vs. Completions



SF Under Construction



Leasing Activity

Leasing activity in the first quarter of 2019 saw an increase year-over-year and is up 9.7%. The overall market recorded 2.2 million square feet (msf) of activity, and should maintain this pace as new job announcements continue to dominate the headlines in metro Atlanta. The Central Perimeter submarket saw the largest amount of leasing activity for the first quarter with 473,292 sf leased. The largest lease of the quarter, a 366,196 sf deal, was signed by Norfolk Southern at 1200 Peachtree Street in the Midtown submarket. The trend of co-working companies leasing large blocks of space continued in the first quarter. WeWork signed a 100,000 square foot deal at 101 Marietta Street in Downtown, in addition to two leases they signed in Midtown at 1389 Peachtree and 881 Peachtree. New construction projects are seeing strong activity as well with Smith, Gambrell & Russell being announced as an anchor tenant at Selig's new 1105 West Peachtree mixed-use project in Midtown. They will occupy 97,000 sf in the 665,000 square foot office portion of the development.

New Construction

The pace of new construction activity saw a slight increase at the end of the first quarter. Currently there are 3.1 msf under construction in the market, of which 33% is preleased. The West Midtown market, as well as Atlantic Station, has seen an influx in new construction with approximately 1.2 msf underway. The market saw almost 1.0 msf enter the inventory in the first three months of 2019. Coda was the largest completion at 670,000 sf followed by Serta Simmons new property in Doraville that is 210,000 sf.

Rental Rates

Metro Atlanta average asking rental rates continued their upward trend during the first quarter of 2019. The average asking rate ended the quarter at \$27.10 per square foot (psf) gross, up 5.7% year-over-year. The average Class A rate rose by 4.4% to \$30.23 psf. Average Class B rates rose at a slower pace of 3.4% to \$20.03 psf in the same period. Midtown once again has the highest Class A asking rates, finishing the first quarter at \$37.76 psf, up 3.1% year-over-year. The Central Perimeter submarket has the highest suburban asking rental rates at \$30.15 psf.

Investment Sales

Office investment sales began 2019 on a strong note with approximately \$400 million in sales. This is slightly behind the pace of activity at the same time in 2018, but that quarter had the record sale of Three Alliance to boost the total amount sold. The largest sale of the quarter was 1200 Peachtree which Cousins purchased from Norfolk Southern for \$82 million. Norfolk Southern will occupy the building until their new headquarters is completed in 2021.

Outlook

Job growth continued its upward trend in Metro Atlanta during the first quarter. According to the Bureau of Labor Statistics, employment in the Atlanta Metro area grew by more than 60,000 jobs between March 2018 and March 2019. This is a growth rate of 2.2%, significantly ahead of the 1.7% growth the US is currently experiencing. As new job announcements continue to dominate the headlines, Metro Atlanta's office market should maintain its positive growth through 2019.

Metro Atlanta Job Update

How is metro Atlanta's job growth performing against the nation and other top metro areas



Metro Atlanta Office-Using Employment

The Professional and Business Services industry led office-using job growth from March 2018-March 2019 in metro Atlanta



U.S. Job Growth

The U.S. saw 1.7% job growth from March 2018-March 2019



U.S. Net Job Gains

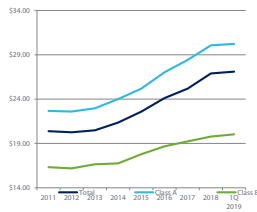
The U.S. gained 2.5 million jobs from March 2018-March 2019



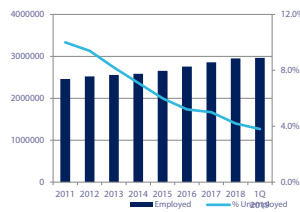
Southeast Job Growth

Metro Atlanta led net gains with 60,000 and Orlando had the largest job growth of 3.6%

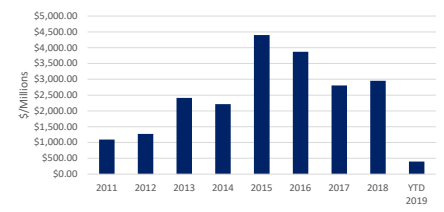
Average Asking Rental Rate (psf/year/FS)



Metro Atlanta Employment (February of each year)



Office Investment Sales (in millions)



Select 1Q 2019 Lease Transactions

Tenant	Property	Type	Submarket	SF
Norfolk Southern	1200 Peachtree	New Lease	Midtown	366,196
WeWork	101 Marietta	New Lease	Downtown	100,300
Smith, Gambrell & Russell	1105 W Peachtree	Prelease	Midtown	96,758
Home Depot	340 Interstate N Pkwy	New Lease	Cumberland/Galleria	83,105
OS National	3097 Satellite Blvd	New Lease	Duluth/Suwanee/Buford	70,779
McKinsey and Co	725 Ponce	Prelease	Midtown	69,056
Samsara	The Proscenium	Sublease	Midtown	64,910
Brightree, LLC	125 Technology Pkwy	New Lease	Norcross/Peachtree Corners	60,500
Levelor	5775 Glenridge Dr	New Lease	Central Perimeter	43,055

Select 1Q 2019 Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
1200 Peachtree	Midtown	Cousins Properties	370,000	\$82,000,000	\$222
Piedmont Center 14	Buckhead	The Ardent Companies	300,454	\$58,000,000	\$193
2100 Riveredge	Cumberland/Galleria	River Edge Inc	266,681	\$45,225,000	\$170
Royal Centre Two	North Fulton/Forsyth	The Simpson Organization	152,878	\$24,850,000	\$163

Select Construction Projects

Property	Submarket	Projected Completion	Total SF	% Preleased	Asking Rate PSF
725 Ponce	Midtown	Second Quarter 2019	370,931	20%	\$37.00 NNN
Anthem Technology Center*	Midtown	First Quarter 2020	352,000	100%	N/A
Atlantic Yards South	Midtown	Second Quarter 2020	350,000	0%	Withheld
Twelve24	Central Perimeter	Fourth Quarter 2019	335,000	61%	Withheld
3 Battery Ave	Cumberland/Galleria	First Quarter 2020	332,486	56%	\$36.00 NNN
Star Metals	Midtown	Third Quarter 2020	267,000	26%	\$48.00-\$50.00 FS
10000 Avalon	North Fulton/Forsyth	Second Quarter 2019	246,000	40%	Withheld

*Single-tenant leased property

Trends to Watch

Look for these three key trends to continue throughout 2019 in the Atlanta office market.



Leasing Activity
New job announcements will continue to drive strong activity.



Rental Rates
Should continue to increase as vacancy tightens.



Construction
Should remain tempered as developers wait for an anchor.

Market By The Numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION		SF Under	AVERAGE ASKING RENT		
		Total	Class A	Class B	1Q19	YTD	Construction	Total	Class A	Class B
Buckhead	19,744,315	12.8%	13.3%	9.2%	36,162	36,162	-	\$35.80	\$36.60	\$25.64
Downtown	17,156,966	13.7%	15.1%	6.8%	52,549	52,549	-	\$26.97	\$27.73	\$24.37
Midtown	19,761,743	11.1%	12.1%	5.0%	143,066	143,066	1,902,072	\$37.19	\$37.76	\$27.51
Urban Total	56,663,024	12.5%	14.4%	6.9%	231,777	231,777	1,902,072	\$33.68	\$34.56	\$26.01
Airport/South Atlanta	4,288,350	20.5%	9.4%	24.3%	76,339	76,339	-	\$19.71	\$24.02	\$19.71
Central Perimeter	23,467,308	16.6%	15.7%	20.1%	(48,904)	(48,904)	335,000	\$27.79	\$30.15	\$20.78
Cumberland/Galleria	20,331,542	17.5%	17.5%	18.7%	62,982	62,982	371,615	\$25.71	\$27.71	\$20.78
Decatur/Stone Mountain	1,561,282	6.9%	6.5%	4.8%	(6,658)	(6,658)	-	\$23.60	\$26.43	\$20.84
Duluth/Suwanee/Buford	7,848,031	21.5%	16.1%	27.8%	(44,598)	(44,598)	-	\$20.01	\$22.11	\$17.17
I-20 East/Conyers	507,706	16.2%	-	19.9%	(6,466)	(6,466)	-	\$13.86	-	\$15.38
I-20 West/Douglasville	442,587	19.2%	-	21.6%	(8,201)	(8,201)	-	\$18.39	-	\$18.90
Norcross/Peachtree Corners	6,311,378	27.3%	27.8%	28.0%	(39,118)	(39,118)	-	\$18.45	\$21.31	\$16.11
North Fulton/Forsyth	18,963,611	14.8%	12.9%	19.5%	41,926	41,926	457,570	\$24.76	\$26.97	\$20.36
Northeast Atlanta	7,942,573	13.9%	7.5%	18.2%	315,312	315,312	-	\$21.28	\$25.00	\$20.03
Northwest Atlanta	3,509,209	10.3%	5.4%	13.4%	(39,818)	(39,818)	24,000	\$23.00	\$28.03	\$21.76
Suburban Total	95,173,577	17.1%	15.2%	20.9%	302,796	302,796	1,188,185	\$24.04	\$27.17	\$19.33
Total Market	151,836,601	15.4%	14.3%	18.2%	534,573	534,573	3,090,257	\$27.10	\$30.23	\$20.03

BY CLASS	Inventory	Vacancy	1Q Absorption	YTD Absorption	SF Under Construction	Sublease SF
Class A	104,097,821	14.3%	433,679	433,679	3,066,257	1,275,674
Class B	43,569,397	18.2%	105,787	105,787	24,000	238,988
Class C	4,169,383	11.9%	(4,893)	(4,893)	-	-
Total Market	151,836,601	15.4%	534,573	534,573	3,090,257	1,514,662

Avison Young Atlanta currently tracks Class A, B & C office buildings that are 20,000 square feet or greater, not owner occupied, not medical and not government.



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