

Atlanta



Market Facts

16.0%

Overall vacancy unchanged year-over-year

544,985 SF

Year-to-date absorption for the market in 2018

2.0 MSF

SF under construction in the first quarter with 57% preleased

\$28.96 PSF

Average Class A asking rate up 3.6% in the last 12 months

Market Overview

Atlanta's office market saw the pace of new construction activity begin to slow in the first half of 2018. This decrease in activity, coupled with another quarter of positive absorption, has allowed the vacancy rate to stabilize. Average asking rental rates continue to increase as the pace of leasing activity remains high.

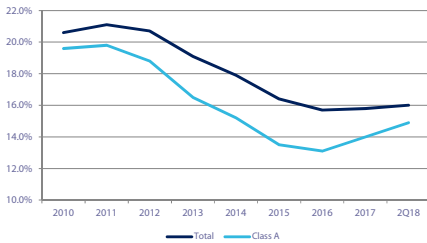
Vacancy and Absorption

The Atlanta office market recorded another quarter of positive absorption in the second quarter of 2018. The market saw 49,390 square feet (sf) of positive net gains in the second quarter, bringing the year-to-date total to 544,985 sf of positive absorption. The Downtown submarket saw the largest amount of positive absorption for the quarter, recording 138,214 sf of net gains. The largest occupancy was Boston Consulting Group taking approximately 38,000 sf at 100 Peachtree Street. The Midtown

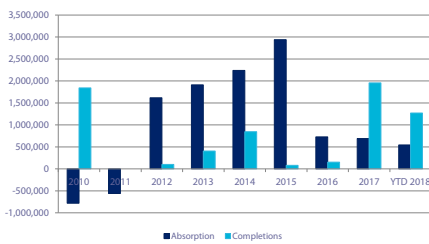
submarket has seen the most absorption during the first half of 2018, recording 362,671 sf of net gains, even with AT&T vacating almost 200,000 sf at their Midtown location. The Atlanta market, recording positive absorption during the first six months of the year, has allowed the vacancy rate to stabilize after seeing a slight increase in 2017. The Atlanta office market posted a 16.0% vacancy rate in the second quarter, which is the same rate seen at this time in 2017. The Class A market recorded negative absorption for the second quarter, primarily due to the AT&T move out, and saw the vacancy rate increase 120 bps to 14.9%. The Class B overall vacancy rate saw a 180 bps decrease year-over-year to 18.9%. The Atlanta market should see the vacancy rate begin to decrease during the remainder of 2018, as new construction activity has slowed, and leasing activity is picking up momentum.

As new construction remains limited, the Atlanta office market should see the vacancy rate decrease, and average asking rental rates continue their upward trend

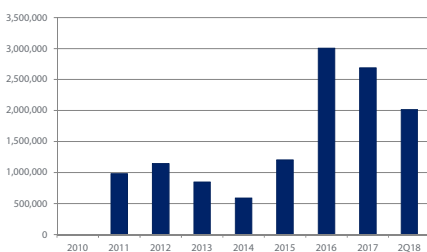
Vacancy Trends



Absorption vs. Completions



SF Under Construction



Leasing Activity

Leasing activity in the second quarter of 2018 saw an increase year-over-year, and was up 8.2%. The overall market recorded 2.5 million square feet (msf) of leasing activity, bringing the year-to-date total to 4.6 msf. This is the highest quarter of leasing activity since the fourth quarter of 2016. The North Fulton submarket saw the largest amount of leasing activity for the second quarter with 531,931 sf leased. Delta Dental Insurance signed the largest new lease in the submarket for 51,341 sf at 1120 Sanctuary Parkway. This location, in addition to the two other renewals they signed, will house 200-300 employees. The Cumberland/Galleria submarket saw the second largest amount of leasing activity in the second quarter with 435,879 sf. The urban submarkets are slightly behind the pace of activity seen during the first half of 2017, yet asking rental rates continue to increase.

New Construction

The pace of new construction activity remained low at the end of the second quarter. Currently there are 2.0 msf under construction in the market of which 57% is preleased. The only new project to break ground during the second quarter was Hines' 230,000 sf new speculative building at Atlantic Station in Midtown. This is the first speculative construction to break ground since 725 Ponce in the first quarter of 2017. Star Metals is the next project expected to break ground in 2018, as it has already preleased 56,000 sf of its 222,000 sf to Regus.

Rental Rates

Metro Atlanta average asking rental rates continued their upward trend

during the second quarter of 2018.

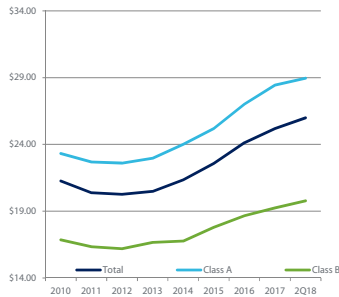
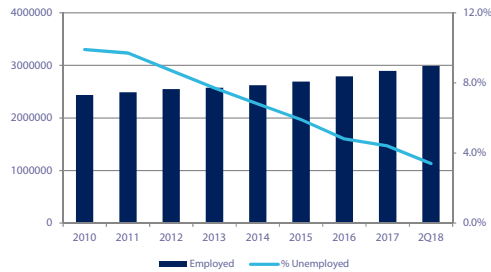
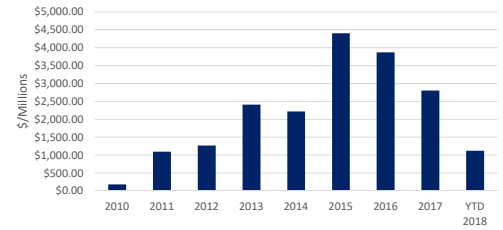
The average asking rate ended the quarter at \$25.99 per square foot (psf), up 5.2% year-over-year. The average Class A rate rose by 3.6% to \$28.96 psf. Average Class B rates rose at a slightly higher rate of 4.5% to \$19.78 psf in the same period. Midtown once again has the highest Class A asking rates, finishing the second quarter at \$37.22 psf, up 10.5% year-over-year. The Central Perimeter submarket has the highest suburban asking rental rates at \$28.29 psf. As the demand for Class A space challenges the supply, asking rental rates will continue to rise.

Investment Sales

Office investment sales remained active in the second quarter, with investors spending \$364 million in Metro Atlanta. The total spent so far in 2018 is up to \$1.1 billion, slightly behind the pace of activity in 2017. In one of the largest sales of the quarter, PCCP purchased Cumberland Center II in the Cumberland/Galleria submarket, from Crocker Partners for \$68.25 million (\$163/sf). The property was 94% occupied at the time of purchase and recorded a cap rate of 7.75%.

Outlook

Job growth remains strong in Metro Atlanta, continuing to push the office market in a positive direction. According to the Bureau of Labor Statistics, employment in the Atlanta Metro grew by more than 44,000 jobs between May 2017 and May 2018. This is a growth rate of 1.6%, and is the same growth rate that the US is seeing. As the real estate fundamentals of the Atlanta office market continue to see positive momentum, the second half of 2018 will continue to be a landlord's market.

Average Asking Rental Rate
(psf/year/full service)Metro Atlanta Employment
(May of each year)Office Investment Sales
(in millions)

Select 2Q 2018 Lease Transactions

Tenant	Property	Type	Submarket	SF
Delta Dental Plans Association	1130 Sanctuary Parkway	Renewal	North Fulton	162,308
Conduent	100 Southcrest Drive	New Lease	Airport/South Atlanta	120,276
BlueLinx Corporation	1950 Spectrum Circle	New Lease	Cumberland/Galleria	68,023
Call Rail	100 Peachtree Street	Expansion	Downtown	58,233
Regus	1055 Howell Mill Road	Prelease	Midtown	56,120
Delta Dental Insurance Company	1120 Sanctuary Parkway	Renewal	North Fulton	51,886
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Baker Donelson Bearman Caldwell	3414 Peachtree Road	Renewal	Buckhead	50,248
Edible Arrangements	980 Hammond Drive	Sublease	Central Perimeter	43,921

Select 2Q 2018 Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
District at Chamblee	Northeast	Boyd Watterson Asset Management	378,931	\$98,200,000	\$259
Cumberland Center II	Cumberland/Galleria	PCCP LLC	419,456	\$68,250,000	\$163
Peachtree 25th	Buckhead	Noro Management, Inc	366,232	\$62,200,000	\$170
Defoor Hills	Midtown	Nuveen Global Cities REIT, Inc	91,873	\$33,808,000	\$368

Select Construction Projects

Property	Submarket	Projected Completion	Total SF	% Preleased	Asking Rate PSF
Coda	Midtown	First Quarter 2019	760,000	60%	Withheld
Anthem Technology Center*	Midtown	First Quarter 2020	351,981	100%	N/A
725 Ponce	Midtown	First Quarter 2019	343,000	0%	\$32.50 NNN
NCR Headquarters*	Midtown	Fourth Quarter 2018	277,000	100%	N/A
T3 West Midtown @ Atlantic Station	Midtown	Third Quarter 2019	230,000	0%	N/A

*Single-tenant leased property

Market By The Numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION		SF Under	AVERAGE ASKING RENT		
		Total	Class A	Class B	2Q18	YTD	Construction	Total	Class A	Class B
Buckhead	19,658,840	12.5%	13.0%	8.5%	115,969	331,170	-	\$33.07	\$33.76	\$25.13
Downtown	17,084,990	16.8%	18.7%	12.3%	138,214	95,394	-	\$26.04	\$27.08	\$20.61
Midtown	18,593,132	10.3%	11.1%	6.2%	(167,047)	362,671	1,975,451	\$36.06	\$37.22	\$25.87
Urban Total	55,336,962	13.1%	13.9%	9.4%	87,136	789,235	1,975,451	\$31.44	\$32.55	\$22.98
Airport/South Atlanta	4,340,107	21.5%	7.8%	24.8%	14,025	(42,321)	-	\$19.27	\$20.29	\$18.94
Central Perimeter	23,059,227	16.0%	15.0%	20.0%	(63,028)	96,462	-	\$28.29	\$30.00	\$21.71
Cumberland/Galleria	20,354,355	19.4%	19.3%	21.2%	28,501	(93,809)	-	\$25.05	\$27.09	\$19.92
Decatur/Stone Mountain	1,648,380	6.7%	5.3%	3.3%	(1,448)	(13,011)	-	\$22.02	\$25.72	\$18.14
Duluth/Suwanee/Buford	7,933,339	25.9%	22.2%	30.3%	(184,454)	(312,256)	-	\$19.11	\$21.31	\$16.39
I-20 East/Conyers	479,530	7.7%	-	9.5%	7,041	13,801	-	\$15.98	-	\$15.98
I-20 West/Douglasville	473,583	15.8%	-	11.2%	(13,604)	(5,330)	-	\$16.50	-	\$18.41
Norcross/Peachtree Corners	6,287,950	27.0%	24.1%	29.5%	115,032	123,117	-	\$18.22	\$20.81	\$17.72
North Fulton/Forsyth	19,397,471	14.0%	13.4%	15.7%	25,981	(43,270)	38,500	\$23.80	\$25.82	\$20.08
Northeast Atlanta	8,368,399	17.0%	10.2%	20.6%	49,937	45,009	-	\$20.64	\$25.30	\$19.97
Northwest Atlanta	3,746,682	8.8%	2.2%	13.0%	(15,729)	(12,641)	-	\$20.35	\$26.84	\$19.34
Suburban Total	96,089,023	17.7%	15.8%	21.1%	(37,746)	(244,249)	38,500	\$23.86	\$26.78	\$19.40
Total Market	151,425,985	16.0%	14.9%	18.9%	49,390	544,985	2,013,951	\$25.99	\$28.96	\$19.78

BY CLASS	Inventory	Vacancy	2Q Absorption	YTD Absorption	SF Under Construction	Sublease SF
Class A	102,538,904	14.9%	(20,014)	689,141	1,975,451	1,464,295
Class B	44,900,991	18.9%	18,851	(188,935)	38,500	147,494
Class C	3,986,090	11.0%	50,553	44,780	-	2,900
Total Market	151,425,985	16.0%	49,390	544,985	2,013,951	1,614,689

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



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