

Atlanta



Market Facts

16.2%

Total market vacancy up 10 bps year-over-year

495,596 SF

Year-to-date absorption for the market in 2018

2.2 MSF

SF under construction in the first quarter with 65% preleased

\$28.97 PSF

Average Class A asking rate up 5.3% in the last 12 months

Market Overview

During the first three months of 2018 the Atlanta office market saw notable leasing and sales activity. While the overall Metro Atlanta market recorded positive absorption, the vacancy rate saw another upward tick. However, asking rental rates continue to rise, while new job announcements, particularly in the technology industry, dominate the headlines.

Vacancy and Absorption

The Atlanta office market started 2018 on a positive note, unlike this time in 2017 when the market saw negative absorption for the first time since 2011. The market recorded 495,596 square feet (sf) of positive net gains in the first quarter. The Midtown submarket saw the largest amount of positive absorption for the quarter, recording 529,718 sf of net gains. This was due to NCR occupying 485,000 sf at their new

headquarters located at 864 Spring Street. The Buckhead submarket saw an uptick in absorption after ending 2017 in the negative, recording 215,201 sf of net gains. Although the overall market began the year with positive absorption, there was a slight uptick in vacancy. The Atlanta office market posted a 16.2% vacancy rate in the first quarter, up 10 basis points from the beginning of 2017. This was partially due to the fact that 4004 Perimeter Summit delivered 355,000 sf of vacant inventory into the market. The Class A market recorded the highest absorption since 2012, and ended the quarter at 14.7%. The Class B overall vacancy rate saw a 130 bps decrease to 19.7% at the end of the first quarter. The Atlanta market should see the vacancy rate begin to decrease during the rest of 2018, as new construction buildings have strong preleasing totals and won't add much vacant space to the inventory.

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

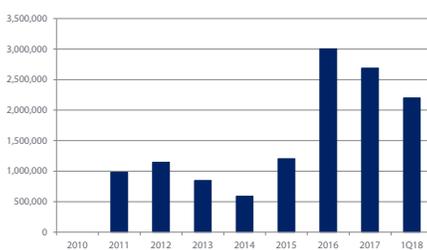
Vacancy Trends



Absorption vs. Completions



SF Under Construction



Leasing Activity

Leasing activity in the first quarter of 2018 saw an increase year-over-year, and was up 12.7%. The overall market recorded 2.0 million square feet (msf) of leasing activity, with 1.5 msf of it occurring in the suburban submarkets. The Central Perimeter submarket saw the largest amount of leasing activity for the first quarter with 687,640 sf leased. Insight Global signed the largest lease in the submarket for 205,800 sf at 1224 Hammond Drive. This is the first lease signed in the 340,000 sf proposed building, which will see construction begin in the summer of 2018. The Cumberland/Galleria submarket saw the second largest amount of leasing activity in the first quarter of 281,000 sf. The urban submarkets are slightly behind the pace of activity seen at the beginning of 2017, yet asking rental rates continue to increase.

New Construction

The pace of new construction activity remained low at the end of the first quarter. Currently there is 2.2 msf under construction in the market and 65% is preleased. The only new project to break ground during the first quarter was Anthem's 352,000 sf new technology center in Midtown. This will house over 3,000 employees for the company. As the pace of new construction remains stable and minimum vacant space is added to the inventory, the vacancy rate should rebound from recent increases.

Rental Rates

Metro Atlanta average asking rental rates continued their upward trend during the first three months of 2018. The average asking rate ended the first quarter at \$25.65 psf, up 5.7% year-

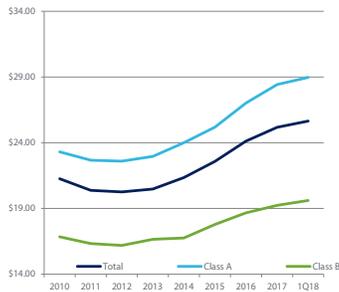
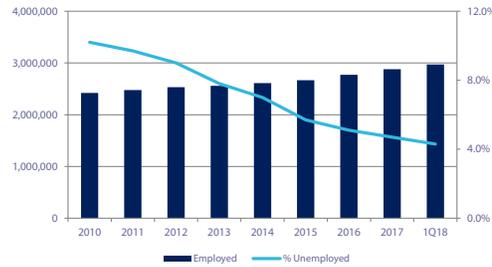
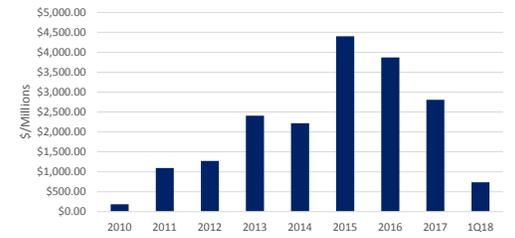
over-year. The average Class A rate rose by 5.3% to \$28.97 psf. Average Class B rates rose at a slightly higher rate of 5.5% to \$19.61 psf in the same period. Midtown once again has the highest Class A asking rates, finishing the first quarter at \$36.61 psf, up 14.8% year-over-year. The Central Perimeter submarket has the highest suburban asking rental rates at \$28.14 psf. As the demand for Class A space challenges the supply, asking rental rates will continue to rise.

Investment Sales

Office investment sales saw a significant increase in activity in the first quarter, up 78.8% from the same time in 2017. Sales totaled approximately \$736 million in the first quarter, driven by increased interest in the urban market. In the largest sale of the quarter, the State of Florida Retirement Fund purchased Three Alliance in Buckhead from Tishman Speyer for \$270 million (\$533/sf). This newly constructed, 506,000 sf building set an Atlanta sales price record in terms of price per square foot.

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 45,000 jobs between March 2017 and March 2018. This is a growth rate of 1.7%, and is slightly ahead of the 1.5% growth that the US is seeing. As the real estate fundamentals of the Atlanta office market continue to see positive momentum, and new construction remains limited, it is expected to stay a landlords' market throughout 2018.

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

Select 2018 Lease Transactions

Tenant	Property	Type	Submarket	SF
Insight Global	1224 Hammond Dr	Prelease	Central Perimeter	205,800
Northside Hospital	1001 Summit Blvd	New Lease	Central Perimeter	178,000
WeWork	771 Spring St	Prelease	Midtown	51,719
First Data	1600 Terrell Mill Rd	Expansion	Cumberland/Galleria	50,972
Flexport Inc.	Bank of America Plaza	New Lease	Downtown	49,914
Bureau of ATF&E	2635 Century Pky	New Lease	Northeast	37,726
QBE First	210 Interstate N Pky	Renewal	Cumberland/Galleria	37,595
Regus	3035 Peachtree Rd	New Lease	Buckhead	31,957
Horizon Software	2850 Premiere Pky	New Lease	Duluth/Suwanee/Buford	29,500

Select 2018 Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
Three Alliance	Buckhead	State of Florida Retirement Fund	506,647	\$270,000,000	\$533
Royal Centre - 3 Buildings	North Fulton/Forsyth	Bridge Commercial Real Estate	626,506	\$107,000,000	\$171
Pershing Point Plaza	Midtown	The Dilweg Companies	409,579	\$75,000,000	\$183
Armour Yards - 4 Buildings	Buckhead	Preferred Apartment Communities	182,940	\$67,000,000	\$366

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
Encore Center*	Cumberland/Galleria	Second Quarter 2018	222,000	100%	N/A
371 E Paces Ferry Rd	Buckhead	Second Quarter 2018	129,099	38%	\$27.50 NNN

*Single-tenant leased property

Market By The Numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION		SF Under	AVERAGE ASKING RENT		
		Total	Class A	Class B	1Q18	YTD	Construction	Total	Class A	Class B
Buckhead	19,538,083	12.5%	13.0%	9.3%	215,201	215,201	120,757	\$33.49	\$34.37	\$24.03
Downtown	17,078,835	19.2%	20.1%	16.5%	(42,820)	(42,820)	-	\$25.90	\$26.71	\$20.93
Midtown	18,539,783	10.6%	10.7%	10.0%	529,718	529,718	1,732,251	\$35.14	\$36.61	\$26.59
Urban Total	55,156,701	13.9%	14.2%	12.5%	702,099	702,099	1,853,008	\$31.20	\$32.28	\$23.68
Airport/South Atlanta	4,331,107	22.9%	8.0%	26.8%	(56,346)	(56,346)	-	\$18.83	\$19.99	\$18.45
Central Perimeter	23,655,017	15.1%	13.9%	19.8%	159,490	159,490	--	\$28.14	\$29.99	\$21.65
Cumberland/Galleria	20,124,292	18.8%	18.3%	20.4%	(122,310)	(122,310)	222,000	\$24.82	\$27.09	\$19.79
Decatur/Stone Mountain	1,621,880	8.0%	7.0%	3.8%	(11,563)	(11,563)	-	\$21.91	\$25.53	\$17.65
Duluth/Suwanee/Buford	7,844,782	24.7%	19.5%	30.5%	(127,802)	(127,802)	-	\$18.94	\$21.14	\$16.49
I-20 East/Conyers	479,530	6.5%	-	8.0%	6,760	6,760	-	\$15.44	-	\$15.54
I-20 West/Douglasville	473,425	12.9%	-	11.3%	8,274	8,274	-	\$16.52	-	\$16.35
Norcross/Peachtree Corners	6,423,404	28.6%	23.5%	31.7%	8,085	8,085	-	\$18.22	\$20.73	\$16.59
North Fulton/Forsyth	19,353,188	14.4%	14.0%	15.1%	(69,251)	(69,251)	65,100	\$23.51	\$25.83	\$19.59
Northeast Atlanta	8,275,880	17.5%	9.4%	21.9%	(4,928)	(4,928)	60,000	\$20.55	\$24.61	\$19.86
Northwest Atlanta	3,745,682	8.3%	1.1%	12.8%	3,088	3,088	-	\$20.87	\$25.30	\$19.82
Suburban Total	96,328,187	17.5%	15.1%	21.5%	(206,503)	(206,503)	347,100	\$23.68	\$26.78	\$19.11
Total Market	151,484,888	16.2%	14.7%	19.7%	495,596	495,596	2,200,108	\$25.84	\$28.97	\$19.61

BY CLASS	Inventory	Vacancy	1Q Absorption	YTD Absorption	SF Under Construction	Sublease SF
Class A	102,298,748	14.7%	709,155	709,155	2,161,608	1,120,361
Class B	45,221,682	19.7%	(207,786)	(207,786)	38,500	134,780
Class C	3,964,458	15.0%	(5,773)	(5,773)	-	27,407
Total Market	151,484,888	16.2%	495,596	495,596	2,200,108	1,282,548

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



For more information, please contact:

Sara Barnes
 Research Manager
 770.916.6125
 sara.barnes@avisonyoung.com

avisonyoung.com