

# Atlanta



## Market Facts

**16.0%**

Total market vacancy down 30 bps  
year-over-year

**13.7%**

Class A vacancy up 20 bps  
year-over-year

**3.1 MSF**

SF under construction in the first  
quarter with 60% preleased

**\$28.07 PSF**

Average Class A asking rate up 6.7% in  
the last 12 months

## Market Overview

After a slow start to 2017, the Atlanta Office Market regained its momentum during the second quarter of 2017. While the overall Metro Atlanta recorded positive absorption, the Class A market is still trying to fully recover from the negative absorption posted in first quarter. As new jobs are consistently announced for Metro Atlanta, office market conditions will continue to tighten.

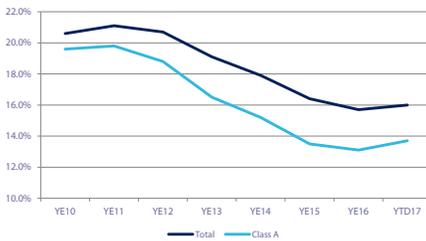
### Vacancy and Absorption

The Atlanta office market rebounded in the second quarter of 2017 with 559,280 sf of positive absorption. This brought the market to 186,350 sf of positive absorption year-to-date. The Cumberland/Galleria submarket led in absorption with 340,000 sf, due in large part to RaceTrac occupying 138,000-sf at 200 Galleria. The submarket also benefited from two new construction

projects that were heavily preleased becoming occupied the same quarter they entered the inventory. The positive absorption led to a 16.0% vacancy rate for the second quarter. This is a 30 bps decrease year-over-year. The Class A market is still trying to fully recover from the negative absorption in the first quarter and ended the second quarter at 13.7% vacancy, a 20 bps increase from this time in 2016. The Class B overall vacancy rate saw a 230 bps decrease to 25.0% at the end of the quarter. As new job announcements continue to dominate the headlines, we expect the Atlanta office market to continue to tighten during the second half of 2017. As speculative construction begins to slow, buildings that are scheduled to deliver later in the year continue to show signs of strong activity, and we don't expect them to affect the vacancy rate as negatively as the 2010 market.

As 1.4-msf entered the inventory in second quarter, and 3.1-msf is currently underway, the Atlanta market should remain tight due to significant preleasing.

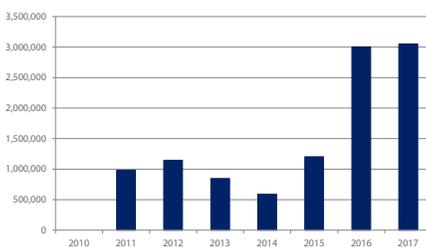
### Vacancy Trends



### Absorption vs. Completions



### SF Under Construction



### Leasing Activity

The second quarter of 2017 saw an uptick in leasing activity and is back on pace with the rate of activity in 2016. The overall market recorded 2.3-msf of leasing activity, which brings the year-to-date total to 4.2-msf. The Central Perimeter submarket saw the largest amount of leasing activity for the second quarter in a row with 452,231 sf leased. Cotiviti signed the largest lease in the submarket at 66,000-sf at 1 Glenlake with the option to expand the space over the next few years. The North Fulton submarket followed closely with 399,673 sf of leasing activity. As existing Class A space becomes more limited, companies may need to look at other options for space such as repurposed industrial buildings or new construction.

### New Construction

Construction activity continues to be at the forefront of conversation in Metro Atlanta, but is beginning to see a slight slowdown. Currently there is 3.1-msf under construction in the market and 60% is preleased. No new significant projects broke ground during the second quarter, but over 1.4-msf was completed. An estimated total of 2.1-msf should enter the inventory by the end of 2017 and, it is possible the market could see one or two new projects kick off before the end of the year.

### Rental Rates

Metro Atlanta broke the average asking rental rate record for the sixth quarter in a row. The average asking rate ended the second quarter of the year at \$24.71 psf, up 5.8% year-over-year. The average Class A rate rose by 6.7% to \$28.07 psf, the first time the market has broken the \$28.00 mark.

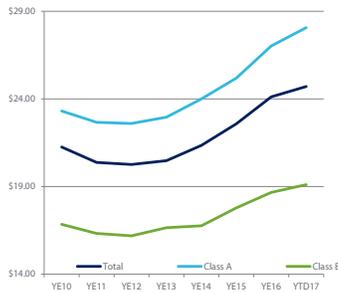
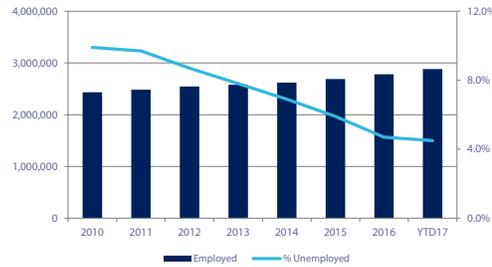
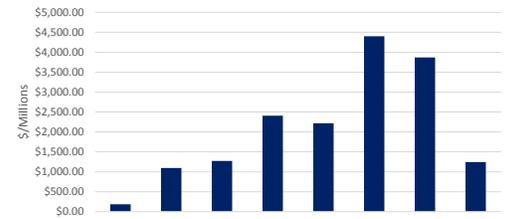
Average Class B rates rose by 6.2% to \$19.11psf in the same period. This historic average between Class A and Class B rates is \$6.00, therefore if Class B rates continue to grow at a strong pace the gap between rates will begin to close. The Buckhead submarket continues to have the highest average asking rental rate with an average of \$34.31 psf in Class A space. The Midtown submarket is catching up as it saw Class A rates grow by 6.4% year-over-year to an average of \$33.68 psf.

### Investment Sales

Office investment sales picked up steam in the second quarter of 2017 significantly outpacing sales in the first quarter. Sales totaled approximately \$865 million in the second quarter, with a year-to-date total of \$1.2 billion. In the largest sale of the quarter, Lionstone Investments purchased 271 17th Street in Midtown for \$182 million (\$336/sf). The Downtown submarket saw two significant properties trade, the American Cancer Society building and 100 Peachtree, and continues to receive increased interest from investors.

### Outlook

Job growth continues to drive Metro Atlanta's office market. According to the Bureau of Labor Statistics, employment in the Atlanta Metro grew by more than 79,000 jobs between May 2016 and May 2017. This is a growth rate of 3.0%, almost doubling the growth of the U.S. at 1.6% year-over-year. As speculative construction begins to slow and leasing activity remains high, it is expected that the Atlanta office market will stay in the landlords' favor with low vacancy and high rental rates through the second half of 2017.

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

## Select Lease Transactions

Tenant	Property	Type	Submarket	SF
Serta Simmons	Assembly	New Lease	Northeast	210,000
Cotiviti	1 Glenlake Pky	New Lease	Central Perimeter	66,100
Reliance Worldwide Corporation	2300 Defoor Hills	New Lease	Midtown	60,760
Hodges-Mace	5775 Glenridge Dr	New Lease	Central Perimeter	59,439
Crown Castle	8000 Avalon	New Lease	North Fulton/Forsyth	55,622
Computer Generated Systems	3795 Data Dr	Sublease	Norcross/Peachtree Corners	55,047
M3 Accounting+Analytics	1715 N Brown Rd	New Lease	Duluth/Suwanee/Buford	52,589
Haverty Furniture	Centrum at Glenridge	Renewal	Central Perimeter	49,000
Advisor Group	Wildwood Center	New Lease	Cumberland/Galleria	42,133

## Select Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
American Cancer Society	Downtown	Carter Validus Mission Critical REIT II, Inc	998,770	\$166,000,000	\$167
100 Peachtree	Downtown	Zeller Realty Group	622,084	\$79,450,000	\$128
271 17th	Midtown	Lionstone Investments	541,789	\$182,000,000	\$336
Regions Plaza	Midtown	PGIM Real Estate	502,846	\$176,000,000	\$350

## Select Construction Projects

Property	Submarket	Projected Completion	Total SF	% Preleased	Asking Rate PSF
Coda	Midtown	First Quarter 2019	760,000	60%	Withheld
NCR Headquarters*	Midtown	First Quarter 2018	485,000	100%	N/A
725 Ponce	Midtown	First Quarter 2019	430,000	0%	\$32.50 NNN
4004 Perimeter Summit	Central Perimeter	Fourth Quarter 2017	355,000	0%	\$31.50 - \$32.50 NNN
Comcast Tower*	Cumberland/Galleria	Fourth Quarter 2017	260,000	100%	N/A
Encore Center*	Cumberland/Galleria	First Quarter 2018	222,000	100%	N/A
3400 Overton	Cumberland/Galleria	Third Quarter 2017	173,000	63%	\$28.00 - \$29.00 FS

\*Single-tenant leased property

## Market By The Numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION		SF Under	AVERAGE ASKING RENT		
		Total	Class A	Class B	2Q17	YTD	Construction	Total	Class A	Class B
Buckhead	19,444,235	12.8%	12.8%	12.7%	46,060	58,344	129,099	\$33.34	\$34.31	\$25.39
Downtown	17,322,408	18.6%	17.4%	17.7%	29,980	126,494	-	\$24.16	\$25.35	\$19.23
Midtown	18,023,943	10.9%	10.3%	13.8%	150,784	183,465	1,798,000	\$30.41	\$33.68	\$22.85
<b>Urban Total</b>	<b>54,790,586</b>	<b>14.0%</b>	<b>13.3%</b>	<b>15.0%</b>	<b>226,824</b>	<b>368,303</b>	<b>1,927,099</b>	<b>\$29.04</b>	<b>\$30.09</b>	<b>\$22.06</b>
Airport/South Atlanta	4,252,051	21.6%	9.5%	24.8%	31,082	99,733	-	\$16.81	\$20.64	\$15.46
Central Perimeter	23,182,844	13.9%	12.0%	20.9%	(56,281)	(202,336)	355,250	\$27.83	\$29.54	\$23.89
Cumberland/Galleria	20,190,343	17.7%	17.2%	19.1%	337,217	(1,624)	654,906	\$23.92	\$26.61	\$18.86
Decatur/Stone Mountain	1,533,690	7.8%	9.7%	5.6%	25,785	(10,282)	-	\$23.44	\$26.06	\$18.95
Duluth/Suwanee/Buford	7,495,442	23.0%	17.3%	29.4%	(47,198)	(25,204)	-	\$18.03	\$20.80	\$15.63
I-20 East/Conyers	532,508	17.0%	-	20.5%	5,962	9,713	-	\$17.82	-	\$17.89
I-20 West/Douglasville	473,425	13.3%	-	12.2%	2,156	937	-	\$17.21	-	\$16.05
Norcross/Peachtree Corners	6,347,122	29.7%	21.9%	35.3%	(24,338)	(65,205)	-	\$18.12	\$21.04	\$16.61
North Fulton/Forsyth	19,337,038	14.3%	14.0%	15.1%	53,390	(46,897)	55,100	\$23.14	\$25.45	\$17.94
Northeast Atlanta	8,132,685	20.2%	9.7%	25.7%	-3,665	8,533	60,000	\$19.54	\$24.07	\$18.65
Northwest Atlanta	3,052,318	6.1%	2.6%	9.2%	8,346	50,679	-	\$20.41	\$26.12	\$19.55
<b>Suburban Total</b>	<b>94,529,466</b>	<b>17.1%</b>	<b>14.1%</b>	<b>22.2%</b>	<b>332,456</b>	<b>(181,953)</b>	<b>1,125,256</b>	<b>\$22.77</b>	<b>\$25.95</b>	<b>\$18.57</b>
<b>Total Market</b>	<b>149,320,052</b>	<b>16.0%</b>	<b>13.7%</b>	<b>21.0%</b>	<b>559,280</b>	<b>186,350</b>	<b>3,052,355</b>	<b>\$24.71</b>	<b>\$28.07</b>	<b>\$19.11</b>

BY CLASS	Inventory	Vacancy	2Q Absorption	YTD Absorption	SF Under Construction	Sublease SF
Class A	100,957,485	13.7%	525,742	(55,566)	3,023,855	1,304,111
Class B	44,216,646	20.7%	27,455	227,790	28,500	215,687
Class C	4,145,921	18.7%	6,083	14,126	-	1,800
<b>Total Market</b>	<b>149,320,052</b>	<b>16.0%</b>	<b>559,280</b>	<b>186,350</b>	<b>3,052,355</b>	<b>1,521,598</b>



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