

Atlanta



Quick Stats

15.8%

Overall vacancy down 30 basis points year-over-year

886,349 SF

Year-to-date absorption for the market in 2019

3.1 MSF

SF under construction in the second quarter with 29% pre-leased

\$30.85 PSF

Average Class A asking rate up 6.8% in the last 12 months

Market Overview

Atlanta's office market saw an increase in activity during the second quarter of 2019. Strong leasing activity allowed for another quarter of positive absorption, while the vacancy rate recorded another decline. Asking rental rates continue to break records as some buildings in the CBD submarkets are at the highest rates ever recorded in metro Atlanta.

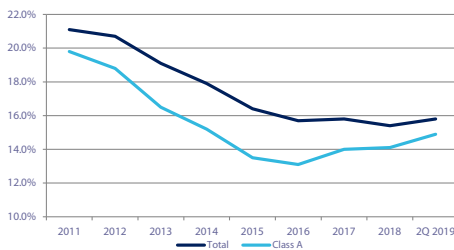
Vacancy and Absorption

During the second quarter of 2019 the Atlanta office market continued its positive momentum after a strong first three months of the year. The market recorded 351,776 square feet (sf) of positive absorption during the second quarter, for a year-to-date total of 886,349 sf. This is the strongest first half of a year the market has seen since 2015. The North Fulton submarket saw the largest amount of absorption, 278,000 sf, as McKesson moved into 104,000 sf at Stonebridge I. The Cumberland/Galleria

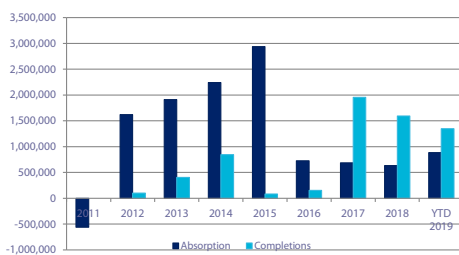
submarket recorded the second most positive absorption for the quarter, with 237,000 sf of net gains. This was welcomed news for the submarket after it recorded negative absorption in 2018. The overall vacancy rate for the Atlanta market dropped 30 basis points year-over-year to 15.8% in the second quarter. The decrease in rate was not as significant as previous quarters due to 725 Ponce delivering 371,000 sf of vacant inventory during the second quarter. The property should see its occupancy rate rise soon as BlackRock recently announced they will take 132,000 sf in the building. The Class A market also saw a 30 basis point decline in the second quarter ending with a 14.9% vacancy rate. The Class B market saw a higher year-over-year decrease in vacancy, 50 basis points, for an 18.2% rate. The vacancy rate will continue to decrease as long as leasing activity in existing buildings remains high and new construction projects see an uptick in pre-leasing activity.

As urban office properties are quoting record high rental rates, expect tenants to begin looking at other options for space requirements

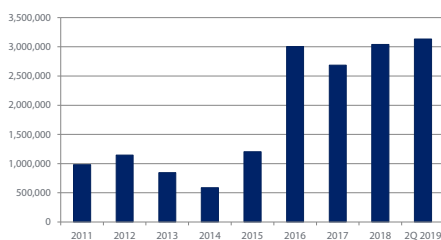
Vacancy Trends



Absorption vs. Completions



SF Under Construction



Leasing Activity

Leasing activity in the second quarter of 2019 remained strong with 2.0 million square feet (msf) of new leases signed, bringing the year-to-date total to 4.3 msf. This is the sixth consecutive quarter where at least 2.0 msf has been leased. The North Fulton submarket saw the largest amount of leasing activity for the second quarter with 468,490 sf leased. The largest lease signed in this submarket was Data Scan Technologies taking 88,000 sf at 5925 Cabot Parkway. The largest lease of the quarter, a 275,000 sf deal, was signed by Anthem at 712 W Peachtree in the Midtown submarket. The trend of co-working companies leasing large blocks of space continued in the second quarter, and is now growing into suburban submarkets. WeWork has announced plans to take a large amount of space in Central Perimeter, while Spaces has leased 40,000 sf in the same submarket. New construction projects have seen some pre-leasing activity, however, more speculative buildings are beginning to break ground without an anchor tenant such as T3, Atlantic Yards and 8West.

New Construction

The pace of new construction activity saw a slight increase at the end of the second quarter. Currently there are 3.1 msf under construction in the market, of which 29% is preleased. The Midtown submarket has the most amount of new space underway at 1.6 msf, while the suburbs have seen an increase in activity with 1.2 msf under construction. The only property to be completed this quarter was 725 Ponce which brings the year-to-date new inventory number to 1.3 msf. An additional 464,000 sf is expected to be completed by the end of 2019.

Rental Rates

Metro Atlanta average asking rental rates continued their upward trend during the second quarter of 2019. The average asking rate ended the quarter at \$27.54 per square foot (psf) gross, up 6.0% year-over-year. The average Class A rate rose by 6.8% to \$30.85 psf. Average Class B rates rose at a slower pace of 2.6% to \$20.19 psf in the same period. Midtown rates are experiencing unprecedented growth as some high profile properties, such as Ponce City Market, are quoting almost \$60 psf gross. This trend has pushed average Midtown Class A rates over the \$38.00 mark for the first time ever.

Investment Sales

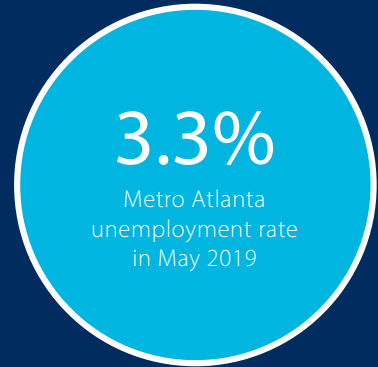
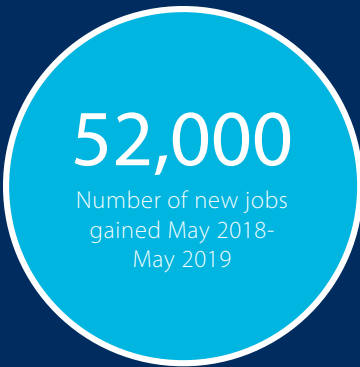
Office investment sales saw an increase in the second quarter of 2019. Sales totaled \$823 million, which is double what was seen in the first quarter. This brings the year-to-date total to \$1.2 billion. The largest sale of the quarter was the portfolio sale of One and Three Glenlake in Central Perimeter. Starwood Capital purchased the two buildings from Columbia Property Trust for \$227.5 million. Three Glenlake was recently fully leased by Inspire Brands for their HQ relocation.

Outlook

Job growth continued its upward trend in Metro Atlanta during the second quarter. According to the Bureau of Labor Statistics, employment in the Atlanta Metro area grew by more than 52,000 jobs between May 2018 and May 2019. This is a growth rate of 1.9%, well ahead of the 1.6% 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 May 2018 - May 2019 in metro Atlanta



U.S. Job Growth

The U.S. saw 1.6% job growth from May 2018 - May 2019



U.S. Net Job Gains

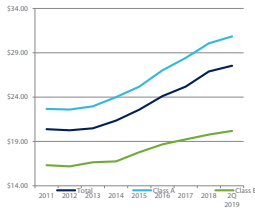
The U.S. gained 2.3 million jobs from May 2018 - May 2019



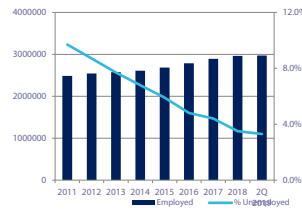
Southeast Job Growth

Miami led in job gains with 57,000 while Orlando has the largest growth at 3.6%

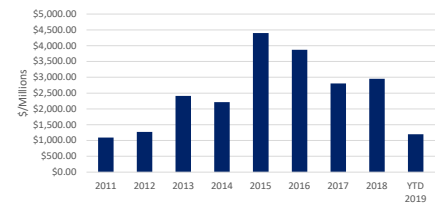
Average Asking Rental Rate (psf/year/FS)



Metro Atlanta Employment (May of each year)



Office Investment Sales (in millions)



Select 2Q 2019 Lease Transactions

Tenant	Property	Type	Submarket	SF
Anthem	712 W Peachtree	Prelease	Midtown	275,000
Jones Day	1220 Peachtree	Prelease	Midtown	115,896
Data Scan Technologies	5925 Cabot Pkwy	New Lease	North Fulton/Forsyth	87,972
The Clorox Co	1150 Sanctuary Pkwy	New Lease	North Fulton/Forsyth	72,180
LGE Community Credit Union	3100 Cumberland Blvd	New Lease	Cumberland/Galleria	59,348
LeaseQuery	Three Ravinia	New Lease	Central Perimeter	52,888
Invesco	Two Peachtree Pointe	Expansion	Midtown	49,970
CommonGrounds	999 Peachtree	New Lease	Midtown	49,506
Spaces	One Concourse	New Lease	Central Perimeter	38,658

Select 2Q 2019 Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
Glenlake Portfolio	Central Perimeter	Starwood Capital	710,832	\$227,500,000	\$320
2727 Paces Ferry	Cumberland/Galleria	Farallon Capital Management	646,471	\$119,500,000	\$185
100 Galleria	Cumberland/Galleria	Piedmont Office Realty Trust	410,571	\$94,000,000	\$229
Georgia 400 Center Portfolio	North Fulton/Forsyth	KBS Strategic Opportunity REIT	417,728	\$91,000,000	\$218

Select Construction Projects

Property	Submarket	Projected Completion	Total SF	% Preleased	Asking Rate PSF
Atlantic Yards South	Midtown	Second Quarter 2020	366,970	0%	Withheld
Anthem Technology Center*	Midtown	First Quarter 2020	352,000	100%	N/A
One Phipps Plaza	Buckhead	First Quarter 2021	340,000	0%	Withheld
Twelve24	Central Perimeter	First Quarter 2020	335,000	61%	Withheld
3 Battery Ave	Cumberland/Galleria	Fourth Quarter 2020	332,486	56%	\$36.00 NNN
Star Metals	Midtown	First Quarter 2021	267,000	26%	\$48.00-\$50.00 FS
10000 Avalon	North Fulton/Forsyth	First Quarter 2020	249,579	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	2Q19	YTD	Construction	Total	Class A	Class B
Buckhead	19,773,328	13.6%	14.1%	9.8%	(11,863)	24,299	340,000	\$35.91	\$37.27	\$27.12
Downtown	16,809,950	15.6%	15.1%	16.6%	37,616	90,165	-	\$27.82	\$28.74	\$24.05
Midtown	20,617,916	11.7%	13.0%	4.2%	181,523	324,589	1,554,652	\$37.48	\$38.07	\$27.52
Urban Total	57,201,194	13.5%	13.9%	10.7%	207,276	439,053	1,894,652	\$34.11	\$35.15	\$26.04
Airport/South Atlanta	4,454,920	19.9%	10.6%	23.0%	(29,381)	46,958	52,000	\$19.55	\$23.84	\$19.13
Central Perimeter	23,451,824	18.0%	17.5%	20.0%	(249,509)	(298,413)	335,000	\$28.33	\$30.55	\$20.86
Cumberland/Galleria	20,293,952	16.6%	16.5%	17.7%	237,272	300,254	371,615	\$26.13	\$28.75	\$20.94
Decatur/Stone Mountain	1,561,282	6.3%	6.0%	6.9%	(70)	(6,728)	-	\$24.07	\$27.09	\$19.42
Duluth/Suwanee/Buford	7,808,027	21.3%	17.1%	26.2%	41,804	(2,794)	-	\$20.48	\$22.58	\$17.61
I-20 East/Conyers	533,183	15.2%	-	17.7%	(23,319)	(29,785)	-	\$14.74	-	\$16.65
I-20 West/Douglasville	489,263	17.0%	-	18.4%	1,670	(6,531)	-	\$17.84	-	\$17.79
Norcross/Peachtree Corners	6,392,006	24.1%	27.4%	22.6%	56,417	17,299	-	\$18.62	\$21.62	\$16.26
North Fulton/Forsyth	19,022,564	15.1%	13.6%	18.2%	277,917	319,843	457,570	\$25.19	\$27.26	\$21.04
Northeast Atlanta	8,191,911	15.3%	7.2%	20.5%	(118,535)	196,777	-	\$21.37	\$25.08	\$20.25
Northwest Atlanta	3,548,167	11.6%	5.1%	15.9%	(49,766)	(89,584)	24,000	\$22.66	\$28.28	\$21.53
Suburban Total	95,747,099	17.2%	15.7%	20.0%	144,500	447,296	1,240,185	\$24.49	\$27.80	\$19.78
Total Market	152,948,293	15.8%	14.9%	18.2%	351,776	886,349	3,134,837	\$27.54	\$30.85	\$20.19

BY CLASS	Inventory	Vacancy	2Q Absorption	YTD Absorption	SF Under Construction	Sublease SF
Class A	103,896,861	14.9%	532,921	966,600	3,110,837	1,057,478
Class B	45,132,483	18.2%	(172,282)	(66,495)	24,000	296,461
Class C	3,918,949	13.0%	(8,863)	(13,756)	-	-
Total Market	152,948,293	15.8%	351,776	886,349	3,134,837	1,353,939

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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