

# Atlanta



## Market Facts

**16.2%**

Overall vacancy up 50 basis points year-over-year

**102,596 SF**

Year-to-date absorption for the market in 2018

**2.6 MSF**

SF under construction in the third quarter with 55% preleased

**\$29.60 PSF**

Average Class A asking rate up 4.6% in the last 12 months

## Market Overview

Atlanta's office market saw the pace of new construction slightly increase in the third quarter of 2018. Average asking rental rates continue to increase, especially as higher priced Class A space comes on the market. The vacancy rate saw a slight upward tick, but as leasing activity remains high the market should stabilize by the end of the year.

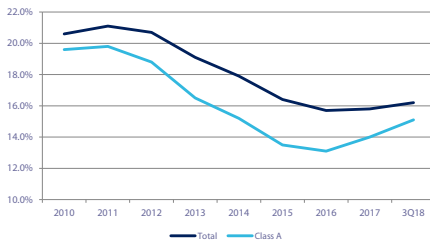
### Vacancy and Absorption

The Atlanta office market recorded negative absorption in the third quarter of 2018. The market saw 119,175 square feet (sf) of net losses in the third quarter, but due to a strong first quarter, the year-to-date total is 102,596 sf of positive absorption. A majority of the negative absorption is driven by companies, such as AT&T, downsizing their space and leaving the Atlanta market. The Downtown submarket saw the largest amount of positive absorption for the

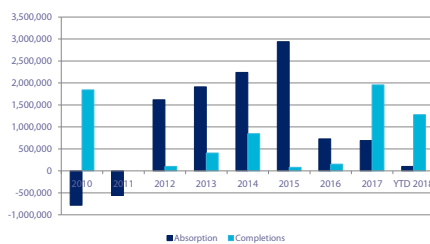
quarter, recording 186,559 sf of net gains. Bank of America Plaza had the highest building absorption, with 70,366 sf, as Revel Systems, Buckley Beal and Flexport Inc. occupied the property. The Midtown submarket has seen two consecutive quarters of negative absorption, a first since 2013, due to AT&T downsizing and moving part of their operations to Dallas. The Atlanta market has seen a slight uptick in vacancy, ending the third quarter at 16.2%, which is a 50 basis point (bps) increase. The Class A market has recorded the majority of the negative absorption, therefore the vacancy rate has seen an increase to 15.1%, up 130 bps. The Class B overall vacancy rate saw a 110 bps decrease year-over-year to 18.9%. The Atlanta market should see the vacancy rate begin to stabilize during the last three months of 2018, as new construction activity has slowed, and leasing activity is picking up momentum.

As leasing activity gains momentum, the Atlanta office market will shift back to positive absorption by the end of 2018

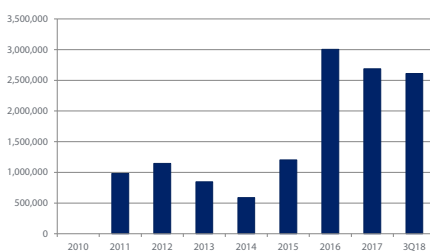
### Vacancy Trends



### Absorption vs. Completions



### SF Under Construction



### Leasing Activity

Leasing activity in the third quarter of 2018 saw an increase year-over-year, and is up 12.2%. The overall market recorded 2.2 million square feet (msf) of leasing activity, bringing the year-to-date total to 7.0 msf. The Cumberland/Galleria submarket saw the largest amount of leasing activity for the third quarter with 446,554 sf leased. ThyssenKrupp Elevators signed the largest new lease in the submarket for 210,000 sf at The Battery. This new headquarter location will house more than 900 employees as well as a 420-foot-tall elevator qualification and test tower. The largest lease of the quarter, a 359,000 sf renewal & expansion, was signed by Inspire Brands at Three Glenlake in the Central Perimeter submarket. Numerous new announcements such as Starbucks opening a new regional office in Atlanta with 500 jobs, and Salesforce expanding by 600 more jobs will push leasing activity up through the end of 2018 and into 2019.

### New Construction

The pace of new construction activity saw a slight increase at the end of the third quarter. Currently there are 2.6 msf under construction in the market of which 55% is preleased. Two new projects broke ground during the third quarter, the first was 10000 Avalon, a 246,000 sf speculative project with AXIS Capital Holdings signing a 75,000 sf prelease. The second was Twelve24, a 335,000 sf project that will be home to Insight Global who signed a 204,000 sf prelease at the beginning of 2018.

### Rental Rates

Metro Atlanta average asking rental rates continued their upward trend during the third quarter of 2018. The

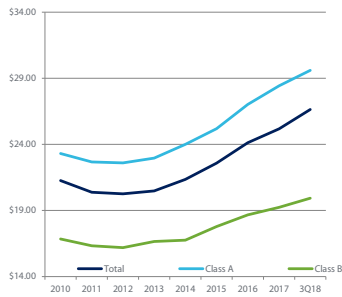
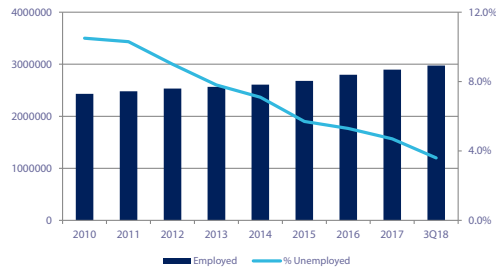
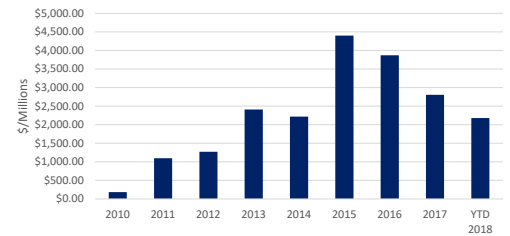
average asking rate ended the quarter at \$26.64 per square foot (psf) gross, up 6.6% year-over-year. The average Class A rate rose by 4.6% to \$29.60 psf. Average Class B rates rose at a much higher rate of 7.4% to \$19.93 psf in the same period. Midtown once again has the highest Class A asking rates, finishing the third quarter at \$37.19 psf, up 6.1% year-over-year. The Central Perimeter submarket has the highest suburban asking rental rates at \$28.51 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 the third quarter, with investors spending \$1.0 billion in Metro Atlanta. The total spent thus far in 2018 is up to \$2.2 billion, a 29.5% increase from the pace in 2017. The largest sale of the quarter was Lenox Park, a 1.0-msf five-building office park, which Bridge Commercial purchased from Fortress Investment Group for \$251.5 million. The office park, located in the Buckhead submarket, was 85% leased at the time of the sale.

### 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 area grew by more than 53,700 jobs between August 2017 and August 2018. This is a growth rate of 2.0%, well ahead of the 1.6% growth the US is currently experiencing. As leasing activity gains momentum the Atlanta office market should see a shift to positive absorption, this will push rental rates higher and see the market end 2018 on a strong note.

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

## Select 3Q 2018 Lease Transactions

Tenant	Property	Type	Submarket	SF
Inspire Brands	Three Glenlake	Renewal/Expansion	Central Perimeter	359,000
ThyssenKrupp	The Battery	Prelease	Cumberland/Galleria	210,000
Undisclosed	1015 Windward Ridge	New Lease	North Fulton/Forsyth	96,900
Carestream Dental	One Overton Park	New Lease	Cumberland/Galleria	54,000
Carr, Riggs & Ingram	4004 Summit	New Lease	North Fulton/Forsyth	49,544
FullStory	1745 Peachtree	Prelease	Midtown	49,200
Pandora Media	Campanile	New Lease	Midtown	49,000
Thrivent Financial	1125 Sanctuary	New Lease	North Fulton/Forsyth	47,308
AIG	One Alliance	New Lease	Buckhead	42,000

## Select 3Q 2018 Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
Lenox Park	Buckhead	Bridge Commercial	1,040,950	\$251,500,000	\$242
Palisades Office Park	Central Perimeter	Oaktree Capital	638,915	\$121,000,000	\$189
7000 Central Park	Central Perimeter	Starwood Capital	415,324	\$104,800,000	\$252
Buckhead Tower at Lenox Square	Buckhead	TPA Group	348,152	\$96,500,000	\$277

## Select Construction Projects

Property	Submarket	Projected Completion	Total SF	% Preleased	Asking Rate PSF
Coda	Midtown	First Quarter 2019	760,000	71%	Withheld
Anthem Technology Center*	Midtown	First Quarter 2020	352,000	100%	N/A
725 Ponce	Midtown	First Quarter 2019	343,000	0%	\$32.50 NNN
Twelve24	Central Perimeter	Fourth Quarter 2019	335,000	61%	Withheld
NCR Headquarters*	Midtown	Fourth Quarter 2018	277,000	100%	N/A
10000 Avalon	North Fulton/Forsyth	Second Quarter 2019	246,000	29%	Withheld
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 Construction	AVERAGE ASKING RENT		
		Total	Class A	Class B	3Q18	YTD		Total	Class A	Class B
Buckhead	19,708,327	13.3%	13.9%	9.5%	15,574	150,677	-	\$34.88	\$35.67	\$25.33
Downtown	17,115,173	16.5%	18.4%	8.9%	186,559	261,731	-	\$26.12	\$27.20	\$22.22
Midtown	18,703,560	10.3%	11.2%	5.3%	(27,848)	327,423	1,989,931	\$36.29	\$37.19	\$25.65
<b>Urban Total</b>	<b>55,527,060</b>	<b>13.3%</b>	<b>14.1%</b>	<b>8.0%</b>	<b>174,285</b>	<b>739,831</b>	<b>1,989,931</b>	<b>\$32.48</b>	<b>\$33.64</b>	<b>\$24.26</b>
Airport/South Atlanta	4,424,606	20.9%	8.6%	25.0%	1,037	(41,284)	-	\$19.69	\$22.81	\$19.13
Central Perimeter	23,089,055	16.3%	15.5%	19.7%	(21,564)	3,995	335,000	\$28.51	\$30.19	\$21.70
Cumberland/Galleria	20,645,760	17.6%	18.0%	17.9%	116,018	(25,985)	-	\$25.18	\$27.23	\$20.04
Decatur/Stone Mountain	1,648,380	6.3%	2.8%	4.6%	(6,999)	(20,010)	-	\$22.32	\$25.94	\$19.04
Duluth/Suwanee/Buford	7,933,339	25.0%	20.9%	30.1%	96,861	(201,344)	-	\$19.33	\$21.58	\$16.48
I-20 East/Conyers	479,530	11.0%	-	10.5%	(16,979)	(3,178)	-	\$15.88	-	\$15.88
I-20 West/Douglasville	548,143	10.3%	-	9.1%	7,141	18,919	-	\$17.98	-	\$18.65
Norcross/Peachtree Corners	6,364,875	30.0%	28.6%	31.7%	(150,504)	(51,518)	-	\$18.96	\$20.96	\$17.58
North Fulton/Forsyth	19,646,064	16.0%	14.6%	19.7%	(365,513)	(394,340)	284,500	\$24.25	\$26.18	\$20.25
Northeast Atlanta	8,340,686	16.3%	7.4%	22.0%	57,141	99,250	-	\$20.88	\$24.94	\$20.11
Northwest Atlanta	3,750,454	8.2%	5.4%	10.4%	(10,099)	(21,740)	-	\$22.16	\$27.49	\$21.42
<b>Suburban Total</b>	<b>96,870,892</b>	<b>17.8%</b>	<b>15.9%</b>	<b>21.4%</b>	<b>(293,460)</b>	<b>(637,235)</b>	<b>619,500</b>	<b>\$24.11</b>	<b>\$26.93</b>	<b>\$19.52</b>
<b>Total Market</b>	<b>152,397,952</b>	<b>16.2%</b>	<b>15.1%</b>	<b>18.9%</b>	<b>(119,175)</b>	<b>102,596</b>	<b>2,609,431</b>	<b>\$26.64</b>	<b>\$29.60</b>	<b>\$19.93</b>

BY CLASS	Inventory	Vacancy	3Q Absorption	YTD Absorption	SF Under Construction	Sublease SF
Class A	103,868,469	15.1%	(91,228)	306,196	2,570,931	1,421,410
Class B	44,245,169	18.9%	(31,742)	(255,298)	38,500	244,235
Class C	4,284,314	11.9%	3,795	51,698	-	2,900
<b>Total Market</b>	<b>152,397,952</b>	<b>16.2%</b>	<b>(119,175)</b>	<b>102,596</b>	<b>2,609,431</b>	<b>1,668,545</b>

*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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