

Atlanta



Quick Stats

15.4%

Overall vacancy down 80 basis
points year-over-year

902,984 SF

Year-to-date absorption for the
market in 2019

4.2 MSF

SF under construction in the third
quarter with 40% pre-leased

\$31.28 PSF

Average Class A asking rate up 6.1%
in the last 12 months

Market Overview

After a strong first half of 2019 the Atlanta office market saw a slight decrease in activity. Strong leasing activity from previous quarters 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.

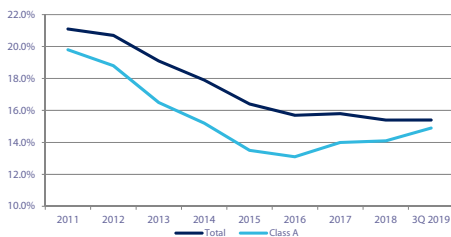
Vacancy and Absorption

During the third quarter of 2019 the Atlanta office market continued its positive trend, but at a slower pace than the first half of the year. The market recorded 16,635 square feet (sf) of positive absorption during the third quarter, for a year-to-date total of 902,984 sf. The Midtown submarket saw the largest amount of absorption, 164,842 sf, as Keysight Technologies moved into 50,000 sf at Coda. The Northeast submarket recorded the second most positive absorption for the quarter, with 119,413 sf of net gains.

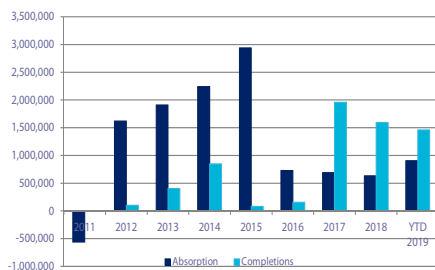
This was welcomed news for the submarket after it recorded negative absorption in the second quarter of the year. The overall vacancy rate for the Atlanta market dropped 80 basis points year-over-year to 15.4% in the third quarter. The Class A market saw a 20 basis point decline in the third quarter ending with a 14.9% vacancy rate. The decline in the Class A sector was smaller than previous quarters as negative absorption was recorded in the third quarter. General Electric is downsizing their presence in the Atlanta market after recent restructuring of the company and vacated over 175,000 sf in the Cumberland/Galleria submarket this quarter. The Class B market saw a much higher year-over-year decrease in vacancy, 190 basis points, for a 17.0% rate. This is the lowest the Class B vacancy has been since 2008. The vacancy rate should 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

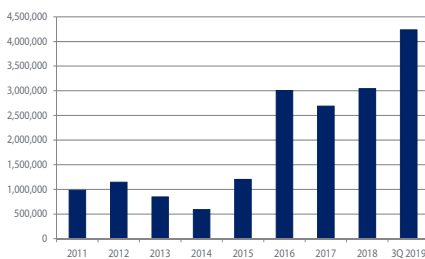
Vacancy Trends



Absorption vs. Completions



SF Under Construction



Leasing Activity

Leasing activity in the third quarter of 2019 remained strong with 2.6 million square feet (msf) of new leases signed, bringing the year-to-date total to 6.8 msf. This was the strongest quarter of activity the market has seen in 2019. The Central Perimeter submarket saw the largest amount of leasing activity for the third quarter with 651,358 sf leased. The largest lease signed in this submarket was WeWork taking 72,000 sf at 1155 Perimeter Center West. This will be their first suburban location in the Atlanta market. The largest lease of the quarter, a 297,000 sf deal, was signed by Invesco at Midtown Union in the Midtown submarket. Invesco is the first anchor tenant to sign at this mixed-use project which will begin construction in 2020 and is anticipated to be completed by the end of 2021. It will have over 600,000 sf of office space, 88,000 sf of retail space, a boutique hotel and 355 housing units. Leasing activity in new construction projects saw an uptick in the third quarter and after several recent company expansion and relocation announcements this trend should continue through the end of 2019.

New Construction

The pace of new construction activity saw a significant increase during the third quarter. Currently there are 4.2 msf under construction in the market, of which 40% is preleased. This is the largest amount of new construction since the first quarter of 2017. The Midtown submarket has the most amount of new space underway at 2.7 msf, primarily located in the West Midtown area. The office market saw 114,000 sf of new space enter the inventory in the third quarter for a year-to-date total of 1.5 msf.

Rental Rates

Metro Atlanta's average asking rental rates continued their upward trend during the third quarter of 2019. The average asking rate ended the quarter at a record high \$28.22 per square foot (psf) gross, up 5.9% year-over-year. The average Class A rate rose by 6.1% to \$31.28 psf. Average Class B rates rose at a slower pace of 5.6% to \$20.93 psf in the same period. Class A Midtown rates are experiencing unprecedented growth and reached a record high \$39.24 psf in the third quarter, up 8.2% from the third quarter of 2018. As the vacancy rate declines, rental rates are anticipated to continue their historic growth.

Investment Sales

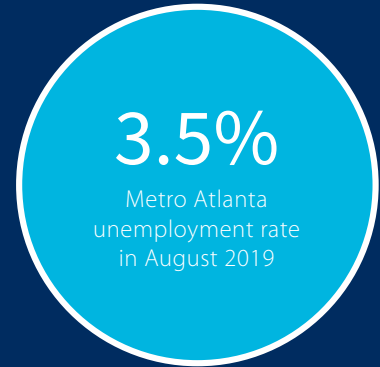
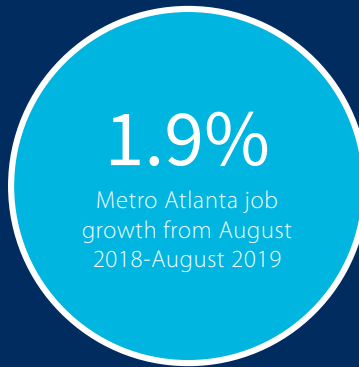
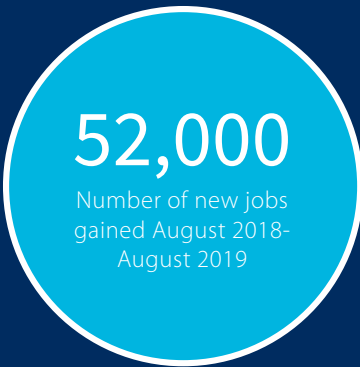
Office investment sales remained active in the third quarter. Sales totaled \$675 million, which is slightly behind the pace of activity at the same time in 2018. This brings the year-to-date total to \$2.2 billion. The largest sale of the quarter was the portfolio sale of 400 and 600 Galleria. Piedmont Office Realty Trust purchased the two buildings from State Teachers Retirement System of Ohio for \$225 million.

Outlook

Job growth continued its upward trend in Metro Atlanta during the third quarter. According to the Bureau of Labor Statistics, employment in the Atlanta Metro area grew by more than 52,000 jobs between August 2018 and August 2019. This is a growth rate of 1.9%, well ahead of the 1.4% 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 Metro Atlanta's job growth is 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 August 2018 - August 2019 in Metro Atlanta



U.S. Job Growth

The U.S. saw 1.4% job growth from August 2018 - August 2019



U.S. Net Job Gains

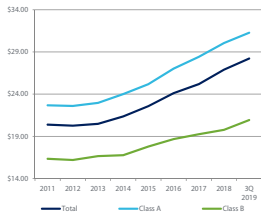
The U.S. gained 2.1 million jobs from August 2018 - August 2019



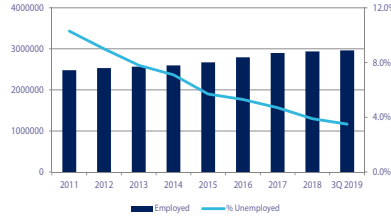
Southeast Job Growth

Orlando led in job gains with 53,400 and job growth at 4.1%

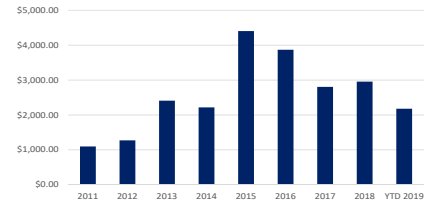
Average Asking Rental Rate (psf/year/FS)



Metro Atlanta Employment (August of each year)



Office Investment Sales (in millions)



Select 3Q 2019 Lease Transactions

Tenant	Property	Type	Submarket	SF
Invesco	Midtown Union	Prelease	Midtown	297,000
PruittHealth	5238 Peachtree Road	Prelease	Northeast	197,455
VMWare AirWatch	1155 Perimeter Center W	Renewal	Central Perimeter	152,726
BlackRock	725 Ponce	New Lease	Midtown	131,656
Samsara	The Proscenium	New Lease	Midtown	79,150
WeWork	1155 Perimeter Center W	New Lease	Central Perimeter	71,821
Owens & Minor	1 Edison	Prelease	North Fulton/Forsyth	67,283
Ameris Bancorp	Two Securities Centre	New Lease	Buckhead	58,625
OneTrust	600 Northpark	New Lease	Central Perimeter	49,724

Select 3Q 2019 Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
400 & 600 Galleria	Cumberland/Galleria	Piedmont Office Realty Trust	866,228	\$224,881,477	\$260
Salesforce Tower	Buckhead	Banyan Street Capital	631,808	\$205,000,000	\$324
The Willoughby	Downtown	Stockbridge Capital Group	58,547	\$23,800,000	\$407
Wildwood Park	Cumberland/Galleria	Jeffery Lopez	106,574	\$19,000,000	\$178

Select Construction Projects

Property	Submarket	Projected Completion	Total SF	% Preleased	Asking Rate PSF
1105 West Peachtree	Midtown	Second Quarter 2021	664,184	40%	\$41.00-\$43.00 NNN
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
Anthem Technology Center*	Midtown	First Quarter 2021	310,000	100%	N/A

*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	3Q19	YTD	Construction	Total	Class A	Class B
Buckhead	19,752,096	13.7%	14.3%	10.3%	(9,615)	14,684	340,000	\$36.22	\$37.36	\$27.69
Downtown	16,845,742	13.1%	15.2%	3.3%	32,451	122,616	-	\$27.85	\$28.61	\$26.82
Midtown	20,506,335	10.5%	11.5%	4.5%	164,842	489,431	2,728,836	\$38.67	\$39.24	\$27.46
Urban Total	57,104,173	12.4%	13.5%	5.9%	187,678	626,731	3,068,836	\$34.93	\$35.88	\$26.80
Airport/South Atlanta	4,545,337	19.9%	9.6%	23.8%	(5,219)	41,739	48,000	\$22.24	\$23.92	\$21.99
Central Perimeter	23,422,015	18.2%	17.9%	19.7%	(110,099)	(408,512)	335,000	\$28.94	\$30.33	\$22.84
Cumberland/Galleria	20,550,115	16.8%	17.3%	16.7%	(82,566)	217,688	371,615	\$26.46	\$29.11	\$20.97
Decatur/Stone Mountain	1,627,689	5.5%	6.0%	5.3%	(24,463)	(31,191)	52,000	\$24.19	\$27.57	\$18.73
Duluth/Suwanee/Buford	7,922,601	21.4%	17.5%	26.2%	(30,733)	(33,527)	-	\$20.50	\$22.58	\$17.83
I-20 East/Conyers	533,183	4.8%	-	5.2%	20,983	(8,802)	-	\$16.60	-	\$16.74
I-20 West/Douglasville	489,263	19.3%	-	20.6%	2,460	(4,071)	-	\$17.91	-	\$17.89
Norcross/Peachtree Corners	6,291,068	25.0%	28.3%	23.7%	14,094	31,393	-	\$19.58	\$21.46	\$17.69
North Fulton/Forsyth	19,581,650	15.0%	13.3%	18.6%	(45,948)	273,895	357,570	\$25.32	\$27.31	\$21.19
Northeast Atlanta	8,138,923	14.4%	6.8%	19.0%	119,413	316,190	-	\$21.51	\$25.03	\$20.58
Northwest Atlanta	3,573,522	12.7%	6.8%	16.7%	(28,965)	(118,549)	-	\$22.39	\$28.55	\$20.96
Suburban Total	96,675,366	17.3%	16.0%	19.7%	(171,043)	276,253	1,164,185	\$24.91	\$27.87	\$20.50
Total Market	153,779,539	15.4%	14.9%	17.0%	16,635	902,984	4,233,021	\$28.22	\$31.28	\$20.93

BY CLASS	Inventory	Vacancy	3Q Absorption	YTD Absorption	SF Under Construction	Sublease SF
Class A	104,712,100	14.9%	(84,210)	882,390	4,233,021	970,992
Class B	45,207,620	17.0%	101,842	35,347	-	281,170
Class C	3,859,819	12.2%	(997)	(14,753)	-	14,400
Total Market	153,779,539	15.4%	16,635	902,984	4,233,021	1,266,562

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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