

Atlanta



Quick Stats

15.5%

Overall vacancy up 10 basis points
year-over-year

1.3 MSF

Year-to-date absorption for the
market in 2019

4.8 MSF

SF under construction in the fourth
quarter with 45.5% preleased

\$31.67 PSF

Average Class A asking rate up 6.4%
in the last 12 months

Market Overview

After a slow third quarter of 2019, the Atlanta office market rebounded in the last three months of the year. Strong leasing activity from previous quarters allowed for another quarter of positive absorption, however, there was a slight uptick in vacancy. Asking rental rates continue to break records as some buildings in the CBD submarkets are at the highest rates ever recorded in metro Atlanta.

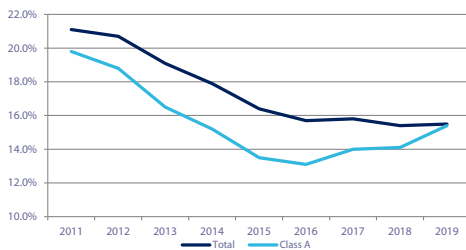
Vacancy and Absorption

The Atlanta office market continued its positive trend in the fourth quarter, seeing an increase in activity from the third quarter of 2019. The market recorded 388,212 square feet (sf) of positive absorption during the fourth quarter, for a year-to-date total of 1.3 million square feet (msf), the largest yearly total since 2015. The Cumberland/ Galleria submarket saw the largest amount of positive net gains, 159,528 sf, as Floor & Decor moved into 190,000 sf at 2500 Windy

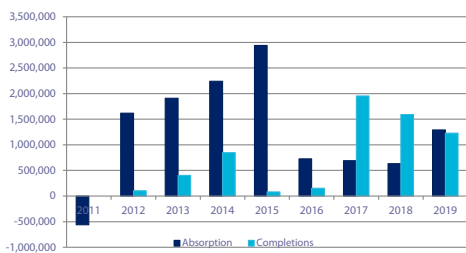
Ridge Parkway. Even with the large amount of positive absorption, the overall vacancy rate for the Atlanta market increased 10 basis points year-over-year to 15.5% in the fourth quarter. This slight uptick is due to the market recovering from the low amount of absorption seen in the third quarter and an upward trend is not expected to continue into 2020. The Class A vacancy rate saw a 130 basis point increase in the fourth quarter ending with a 15.4%. The increase in the Class A sector was due to negative absorption recorded in the third quarter. The Class B market saw an increase in activity and ended the quarter with a 16.3% vacancy rate, down 240 basis points year-over-year, and is the lowest rate recorded since 2008. The trend of Class B space performing better than Class A could continue in 2020 as Class A rental rates continue to rise and some tenants make the decision to move into Class B space to remain in their desired location, but at an affordable rate.

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

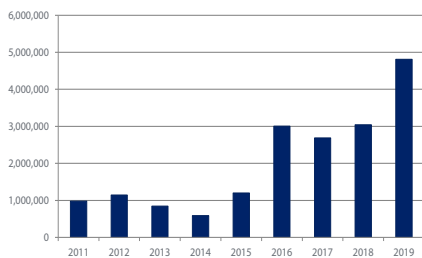
Vacancy Trends



Absorption vs. Completions



SF Under Construction



Leasing Activity

Leasing activity in the fourth quarter of 2019 remained strong with 2.3 msf of new leases signed, bringing the year-to-date total to 9.2 msf. This is slightly behind the pace of activity seen in 2018. The Central Perimeter submarket saw the largest amount of leasing activity for the fourth quarter with 565,358 sf leased. The largest new lease signed this quarter was Emory Healthcare taking 224,000 sf at the Northlake Mall redevelopment. They are taking the former Sears space, as well as additional sections of the mall, and will house more than 1,600 new employees. This new project is anticipated to break ground in 2020 and should be completed by the second quarter of 2021. Leasing activity in new office construction projects remains strong in metro Atlanta compared to the industrial sector.

New Construction

The pace of new construction activity saw a significant increase during the fourth quarter. Currently there are 4.8 msf under construction in the market, of which 45.5% is preleased. This is the largest amount of new construction since the first quarter of 2008. The Midtown submarket has the most amount of new space underway at 3.3 msf, and saw the only new project to break ground during the quarter. Midtown Union is a 610,000 sf office building that will be anchored by Invesco and is part of a larger mixed-use development that will consist of a 355-unit residential tower, 205-key boutique lifestyle hotel and 30,000 sf of retail. At the end of 2019 the market saw 1.7 msf of new space enter the inventory, which is up 6.3% from the end of 2018.

Rental Rates

Metro Atlanta's average asking rental rates continued to break records in the fourth quarter. The average asking rate ended the quarter at a record high \$28.44 per square foot (psf) gross, up 5.7% year-over-year. The average Class A rate rose by 6.4% to \$31.67 psf. Average Class B rates rose at a slower pace of 5.9% to \$20.88 psf in the same period. Class A Midtown rates continue to be the highest and reached the \$40 mark for the first time, ending the quarter at \$40.85 psf. This is up 10.7% from the end of 2018, and was the largest submarket increase of the quarter.

Investment Sales

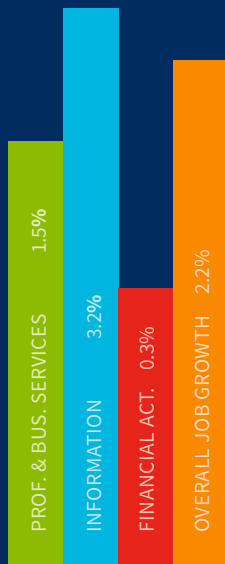
Office investment sales remained active in the fourth quarter, but behind the pace of 2018. Sales totaled \$496 million which brings the year-to-date total to \$2.7 billion. The largest sale of the quarter was the sale of 8601 Dunwoody Place. The Dilweg Companies purchased the seven building portfolio from Stockbridge Capital Group for \$51.5 million. The average price per square foot ended the year at \$142, up 4.3% from the end of 2018.

Outlook

Job growth continued its upward trend in metro Atlanta during the fourth quarter. According to the Bureau of Labor Statistics, employment in the Atlanta metro area grew by more than 62,000 jobs between November 2018 and November 2019. This is a growth rate of 2.2%, well ahead of the 1.5% growth the U.S. is currently experiencing. As new job announcements continue to dominate the headlines, metro Atlanta's office market should maintain its positive growth into 2020.

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 Information industry led office-using job growth from November 2018 - November 2019 in metro Atlanta



U.S. Job Growth

The U.S. saw 1.5% job growth from November 2018 - November 2019



U.S. Net Job Gains

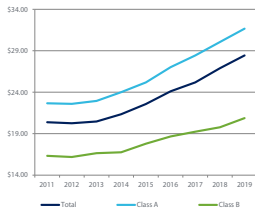
The U.S. gained 2.2 million jobs from November 2018 - November 2019



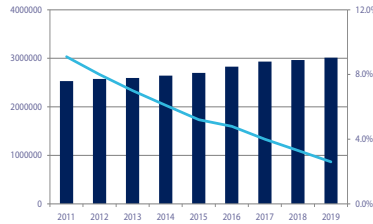
Southeast Job Growth

Atlanta led in job gains with 62,000 while Raleigh led in job growth at 3.9%

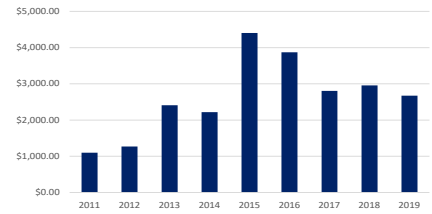
Average Asking Rental Rate (psf/year/FS)



Metro Atlanta Employment (November of each year)



Office Investment Sales (in millions)



Select 4Q 2019 Lease Transactions

Tenant	Property	Type	Submarket	SF
Emory Healthcare	4820 Briarcliff Road	Prelease	Northeast	224,000
T-Mobile	1 Ravinia Drive	Renewal	Central Perimeter	148,118
AT&T Wireless	5600 Glenridge Drive	New Lease	Central Perimeter	138,142
The Art Institute	6600 Peachtree Dunwoody Road	Renewal	Central Perimeter	112,367
MarketSource	11700 Great Oaks Way	Renewal	North Fulton/Forsyth	100,484
Change Healthcare	5995 Windward Parkway	New Lease	North Fulton/Forsyth	80,000
American InterContinental University	6600 Peachtree Dunwoody Road	Renewal	Central Perimeter	75,698
Siemens Energy	3617 Parkway Lane	New Lease	Norcross/Peachtree Corners	74,844
Medciphers	4165 Shackleford Road	New Lease	Duluth/Suwanee/Buford	57,085

Select 4Q 2019 Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
8601 Dunwoody Pl (7 Properties)	Central Perimeter	The Dilweg Companies	448,135	\$51,500,000	\$115
5995 Windward Parkway	North Fulton/Forsyth	Grubb Properties	404,591	\$31,500,000	\$78
Chastain Center Portfolio	Northwest	Glenfield Capital	303,451	\$46,100,000	\$152
Windward Plaza Portfolio	North Fulton/Forsyth	Noro Management	283,888	\$49,750,000	\$175

Select Construction Projects

Property	Submarket	Projected Completion	Total SF	% Preleased	Asking Rate PSF
1105 West Peachtree	Midtown	Second Quarter 2021	664,184	40%	\$45.00-\$47.00 NNN
Midtown Union	Midtown	Fourth Quarter 2021	609,110	53%	\$45.00 NNN
Atlantic Yards South	Midtown	Second Quarter 2020	366,970	0%	Withheld
Anthem Technology Center*	Midtown	Third Quarter 2020	352,000	100%	N/A
One Phipps Plaza	Buckhead	First Quarter 2021	340,000	0%	\$56.00 FS
Twelve24	Central Perimeter	First Quarter 2020	335,000	61%	Withheld
3 Battery Ave	Cumberland/Galleria	Fourth Quarter 2020	332,486	56%	\$36.00 NNN

*Single-tenant leased property

Trends to Watch

Look for these three key trends to continue throughout 2020 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	4Q19	YTD	Construction	Total	Class A	Class B
Buckhead	19,763,239	13.2%	13.7%	10.3%	129,161	143,845	340,000	\$36.58	\$37.90	\$27.30
Downtown	16,594,209	14.0%	16.0%	4.8%	(31,115)	91,501	-	\$29.38	\$29.75	\$25.98
Midtown	20,920,476	12.2%	13.3%	5.3%	(71,756)	417,675	3,309,380	\$40.01	\$40.85	\$27.08
Urban Total	57,277,924	13.1%	14.2%	6.8%	26,290	653,021	3,649,380	\$36.12	\$37.03	\$26.45
Airport/South Atlanta	4,563,337	19.7%	7.6%	24.7%	63,002	104,741	48,000	\$22.14	\$25.10	\$21.77
Central Perimeter	23,971,354	18.7%	18.9%	18.1%	(1,699)	(410,211)	335,000	\$28.37	\$29.98	\$22.12
Cumberland/Galleria	20,519,047	16.9%	17.2%	17.1%	159,528	377,216	371,615	\$26.64	\$29.24	\$21.47
Decatur/Stone Mountain	1,657,051	5.1%	5.7%	4.8%	28,097	(3,094)	52,000	\$24.10	\$27.87	\$19.51
Duluth/Suwanee/Buford	8,040,810	19.0%	16.7%	21.8%	108,670	75,143	-	\$20.50	\$22.42	\$17.72
I-20 East/Conyers	535,443	7.0%	-	7.1%	(11,662)	(20,464)	-	\$20.26	-	\$21.25
I-20 West/Douglasville	489,263	19.5%	-	19.2%	(582)	(4,653)	-	\$19.74	-	\$19.87
Norcross/Peachtree Corners	6,214,434	21.3%	27.3%	18.2%	(15,817)	15,576	-	\$18.92	\$21.09	\$17.53
North Fulton/Forsyth	19,376,008	14.6%	13.6%	16.9%	(8,747)	265,148	357,570	\$25.02	\$26.99	\$21.16
Northeast Atlanta	8,224,950	15.6%	7.2%	20.7%	34,706	350,896	-	\$21.83	\$25.13	\$20.84
Northwest Atlanta	3,594,219	12.6%	7.8%	15.7%	6,426	(112,123)	-	\$22.56	\$28.14	\$21.14
Suburban Total	97,185,916	17.0%	16.3%	18.5%	361,922	638,175	1,164,185	\$24.79	\$27.75	\$20.42
Total Market	154,463,840	15.5%	15.4%	16.3%	388,212	1,291,196	4,813,565	\$28.44	\$31.67	\$20.88

BY CLASS	Inventory	Vacancy	4Q Absorption	YTD Absorption	SF Under Construction	Sublease SF
Class A	105,358,993	15.4%	216,182	1,098,572	4,813,565	916,575
Class B	45,201,292	16.3%	196,463	231,810	-	310,007
Class C	3,903,555	10.9%	(24,433)	(39,186)	-	14,400
Total Market	154,463,840	15.5%	388,212	1,291,196	4,813,565	1,240,982

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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