

ATLANTA MEDICAL OFFICE MARKET

FOURTH QUARTER 2017

Demand is at its highest level in a decade

Asking rents are up 3% year-over-year

ECONOMY

Job and wage growth continue to outperform the nation

Atlanta enjoyed a healthy economy in 2017, which continues to outperform the nation. Atlanta's unemployment rate is at its lowest point in a decade (4.1%), and the area is expected to continue attracting relocations from workers and businesses for the foreseeable future. The metro area is enjoying above-average wage growth, and Moody's forecasts that Atlanta will continue to benefit from multiple growth engines, including professional and financial services, technology, and healthcare.

VACANCY

Vacancy reaches a new low as market tightens

Q4 2017's vacancy rate of 9.7% is down from Q3's 10.1%, and is the lowest reported here in more than a decade. This quarter's decline was due to healthy absorption combined with a low level of new deliveries. Vacancy declined in nearly all of Atlanta's submarkets, including North Fulton at 7.2% and Buckhead at 7.6%, while Central Perimeter's vacancy is steady at 8.3%. The Midtown/Downtown submarket reports vacancy at a very low 1.0%, about as tight a market as one could find.

ABSORPTION

Demand achieved a ten-year high point in 2017

In Q4 2017 Atlanta's medical office market absorbed 190,783 SF, above Q3's level of demand and contributing to an annual total of 639,378 SF. This is the highest level seen in Atlanta since 2008. Demand in 2017 was strongest in the North Fulton and Northwest submarkets, but Central Perimeter and South Atlanta also enjoyed healthy demand during the year.

DEVELOPMENT

Projects underway around Atlanta to meet the demand

For much of the decade, medical office development in Atlanta has been relatively muted, with the exception of a few major on-campus additions by the area's largest healthcare providers. As of the end of 2017, there are 700,532 SF of medical office product under construction, more than 60% of it already leased. Among the largest are 371 East Paces Ferry in Buckhead and Northside Forsyth MOB V in Forsyth County. Northside Hospital has a major project underway in Midtown, and there are other projects under construction in Forsyth and DeKalb counties among others.

FORECAST

A tight market will lead to more rent growth, development

For the past several years the Atlanta medical office market has seen steady levels of demand and limited development, which has brought vacancy down from over 15% to 9.7% today. This has given rise to healthy rent growth across the market, with asking rates now averaging \$23.35/SF and some submarkets seeing rents as high as \$29.00 on a triple-net basis. Even with development on the rise, most of that space is already spoken for, so the forecast calls for continuing rent growth and a vacancy rate that will continue ticking downward over the next 24 months.

QUARTERLY SNAPSHOT

VACANCY



9.7%

Down from Q3 to one of the decade's lowest levels

ABSORPTION



190,783 SF

Up from Q3; annual absorption is 639,378 SF

RENTAL RATE



\$23.35 PSF

Up 3% year-over-year

UNDER CONSTRUCTION



700,532 SF

62% of it already leased

AVERAGE SALE PRICE



\$305 PSF

Up substantially from previous 12-month period

JOB GROWTH



3.1%

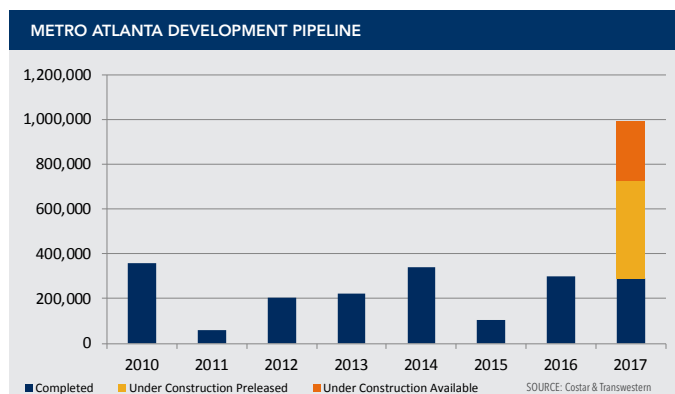
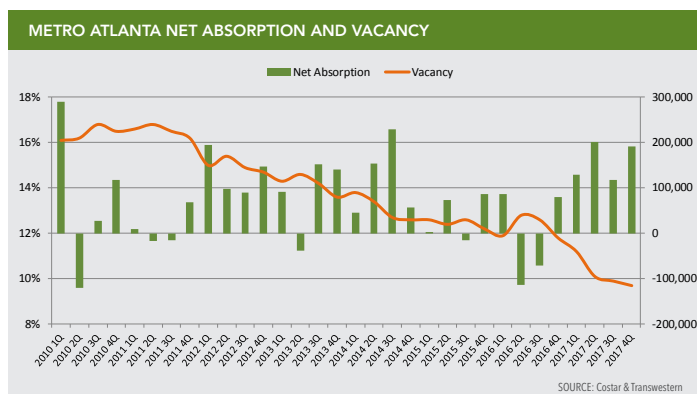
Annual growth continues to outpace the U.S. average

ATLANTA MEDICAL OFFICE MARKET

FOURTH QUARTER 2017

Metro Atlanta Medical Office Market Indicators

SUBMARKET	BUILDINGS	INVENTORY	DIRECT VACANT	DIRECT VACANCY RATE	SUBLEASE SF	TOTAL SF VACANCY	OVERALL VACANCY	CURRENT NET ABSORPTION	YTD NEW ABSORPTION	UNDER CONSTRUCTION	RENTAL RATE PSF
Buckhead	19	2,260,646	167,109	7.4%	3,774	170,883	7.6%	2,294	46,667	129,099	\$29.34
Midtown/Downtown	17	1,435,898	14,719	1.0%	0	14,719	1.0%	10,538	13,943	168,522	\$26.50
Central Perimeter	39	3,252,182	267,198	8.2%	3,033	270,231	8.3%	8,780	97,392	0	\$28.64
North Fulton/Forsyth	65	2,878,856	197,405	6.9%	10,256	207,661	7.2%	42,595	162,787	185,311	\$23.76
Northwest	140	5,009,255	469,642	9.4%	6,076	475,718	9.5%	32,979	132,066	0	\$21.68
Northlake/Decatur/East	67	2,456,501	255,234	10.4%	3,354	258,588	10.5%	37,455	54,855	90,000	\$20.25
Northeast	80	2,916,607	468,875	16.1%	7,504	476,379	16.3%	20,204	36,627	24,000	\$20.75
South Atlanta	82	2,700,095	348,934	12.9%	33,342	382,276	14.2%	35,938	84,496	103,600	\$20.55
West Atlanta	20	734,978	37,338	5.1%	0	37,338	5.1%	0	10,545	0	\$23.90
Totals	529	23,645,018	2,226,454	9.4%	67,339	2,293,793	9.7%	190,783	639,378	700,532	\$23.35



Transaction Highlights

Notable Medical Office Lease Deals

Completed between 7/1/17 and 12/31/17

TENANT	PROPERTY NAME	LEASE (SF)	COMMENTS
Accident Injury Centers	2045 Peachtree	18,883	New Lease
Northside Hospital	RiverStone Medical Plaza	16,770	New Lease
Newnan Dermatology	Newnan Medical Office	16,080	Renewal

Notable Medical Office Building Sales

Completed between 7/1/17 and 12/31/17

PROPERTY NAME	RBA	PRICE	PRICE PSF	COMMENTS
NSH Center Pointe I & II	348,741	\$156 million	\$447 PSF	97% occupied; Acquired by Physicians Realty Trust
Eight-Building Atlanta Portfolio	496,000	\$193.8 million	\$391 PSF	95% occupied; Acquired by Healthcare Realty Trust

CONTACT

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METHODOLOGY

The information in this report is the result of a compilation of information on key for lease medical office properties located in the Atlanta metropolitan area. We compile our quarterly statistics based on a defined inventory of Class A and B multi-tenant medical office buildings of 15,000 SF or more in size.



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