

ATLANTA  
OFFICE MARKET

FIRST QUARTER 2017

## A pause in demand

Vacancy is still near historic lows

## ECONOMY

## Job growth continues to outpace the nation

Atlanta enjoyed a healthy economy in 2016 and, while 2017 may bring a slight slowdown in growth, most economists project that Atlanta's economy will continue to outperform the nation. Dr. Rajeev Dhawan of Georgia State University's Economic Forecasting Center predicted in February that Atlanta will add more than 52,000 jobs in 2017, with about 20% of those jobs considered "premium" or high-paying. While this is lower than in recent years, the forecast has been revised upward due to stronger-than-expected employment data at the end of 2016.

Atlanta's job growth generally has been driven by the professional and business services sector, a strong driver of office employment, as well as construction, healthcare, and the leisure and hospitality sector. The city's healthcare and technology sectors are expected to continue expanding, but corporations and manufacturers that rely on international trade may be challenged in the near term due to global and political uncertainty. Additionally, a variety of development projects (apartments, hotels, office, stadiums, etc.) has kept construction jobs and equipment in demand in recent years, but many of the largest projects will be completed in 2017, with fewer projects likely to begin right away.

Moody's Analytics predicts that the Atlanta MSA will continue to outpace the national economy in 2017 with a 3.7% rise in gross metro product. Moody's forecasts that over the long term, "strengthening demographics, including a large and resourceful workforce pool, combined with a friendly tax policy, will attract new businesses and residents."

## DEVELOPMENT

## A variety of new projects are underway

At the end of Q1 2017 Atlanta had nearly 3.3 million SF of speculative office space under construction, in addition to nearly a million SF of build-to-suit projects for NCR, Comcast, and HD Supply. Spec construction has returned in Midtown, Buckhead, Central Perimeter, North Fulton, and in the Northwest near the new Braves stadium. Most of these projects are located in desirable and heavily amenitized locations, and there are now a few smaller, niche properties under construction to take advantage of shifting user preferences. While nearly 42% of the spec space under construction has already been pre-leased, the majority of Atlanta's spec space is due to be completed within the next six months and this will impact market vacancy over the short term. Still, the level of new space coming to market for lease in Atlanta remains below recent demand trends. The Atlanta market is unlikely to see many more new projects launching in the next 12-24 months.

## QUARTERLY SNAPSHOT

## VACANCY



16.3%

Up slightly from Year-End 2016

## ABSORPTION



-476,229 SF

Demand paused in Q1 across the market

## RENTAL RATE



\$23.94 PSF

Asking rates continue to rise in most submarkets

## UNDER CONSTRUCTION



3.3 Million SF

Most of that due to be completed in the next 6 months

## JOB GROWTH



3.6%

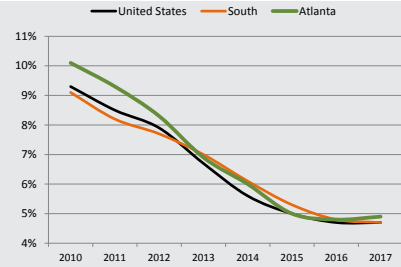
Projected for 2017

# ATLANTA OFFICE MARKET

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## UNEMPLOYMENT RATE



SOURCE: Moody's Analytics

## VACANCY

### Vacancy bumps up slightly, remains near historic lows

Atlanta's vacancy rate declined consistently for five years as a result of healthy absorption and limited development; as a result vacancy declined to 16.0% in 2015, its lowest rate in eight years. Vacancy remained around that level throughout 2016 before rising slightly to 16.3% in Q1 2017. Atlanta's Class A vacancy rate is 15.2%, up from last quarter but still among the lowest levels seen in a decade. The Class B vacancy rate of 18.0% is the lowest seen in that sector since 2009. Among Atlanta's major submarkets, overall rates are lowest in Buckhead (11.4%) and Midtown (13.6%), while the lowest Class A vacancy rates are found in those two submarkets as well as Central Perimeter.

## PAYROLL JOB GROWTH



SOURCE: Moody's Analytics

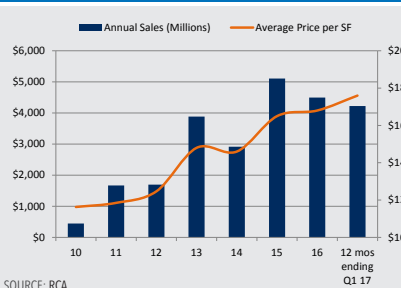
### Buckhead, Midtown, and Downtown saw positive absorption, though demand slowed from recent quarters

## DEMAND

### As absorption slows, urban areas still outperform the suburbs

Atlanta enjoyed a surge of demand from 2012 through 2015, but in 2016 office absorption slowed for the first time in several years. Following four years in which annual absorption ranged from 2.0 million to 3.5 million SF each year, Atlanta absorbed less than 300,000 SF in 2016. Quarterly absorption was negative for the first time in a year during Q1 2017, with negative absorption reported in every major suburban submarket. The urban submarkets of Buckhead, Midtown, and Downtown all saw positive absorption in Q1, though even there demand slowed from recent quarters. Downtown and Midtown experienced the quarter's strongest absorption, but Q1 saw a pause in demand across the board.

## OFFICE SALES - AVERAGE PRICE PSF



SOURCE: RCA

## RENTAL RATES

### Asking rents continue to rise in most submarkets

Asking rents increased in every major submarket throughout 2016 in both the Class A and B sectors, and with few exceptions this trend continued in Q1. Overall asking rents rose to \$23.94 PSF in Q1, with Class A rents rising to a record average of \$27.57 PSF. Class A rates rose by nearly 7% over the past year, while Class B rents rose by almost 4% during the same period. Average rates remain highest in Class A properties in Buckhead (\$34.34) and Midtown (\$32.08), but rents rose in every submarket except Downtown and Northwest in Q1. In fact, in most major submarkets Class A asking rents continue to set new record highs each quarter.

## Transaction Highlights

### Notable Office Lease Deals

Completed between 1/1/17 and 3/31/17

TENANT	PROPERTY NAME	LEASE (SF)	COMMENTS
WestRock	400 Northpark	194,718	New Lease
CBRE	Three Alliance Center (UC)	104,817	New Lease
Atlanta Regional Commission	Peachtree Center	41,381	New Lease

### Notable Office Building Sales

Completed between 1/1/17 and 3/31/17

PROPERTY NAME	RBA	PRICE	COMMENTS
One & Two Premier Plaza	316,600	\$54.7 million (\$173 PSF)	Acquired by Zeller Realty Group
Crown Pointe 1040 & 1050	499,968	\$83.4 million (\$167 PSF)	Acquired by KBS
Ashford Center	161,247	\$22.4 million (\$139 PSF)	Acquired by OA Development



**INVESTMENT**

**Pricing continues to rise while volume slows**

In 2015 investment sales volume reached its highest level since 2007 at \$5.1 billion before slowing to a still-impressive \$4.5 billion in sales during 2016. Following a significant bump of 13% in 2015, the average price per square foot continued to rise in 2016, reaching \$168 PSF. In Q1 2017 pricing rose still further to \$176 PSF, a 5% gain over the previous year. In contrast, sales volume dropped in Q1, bringing the rolling 12-month total down by 6%. Atlanta continues to attract investors for both well-located trophy properties and value-add opportunities. We expect to see fewer sales in 2017, due to the sheer number of assets that have recently traded as well as the gap between buyer and seller expectations.

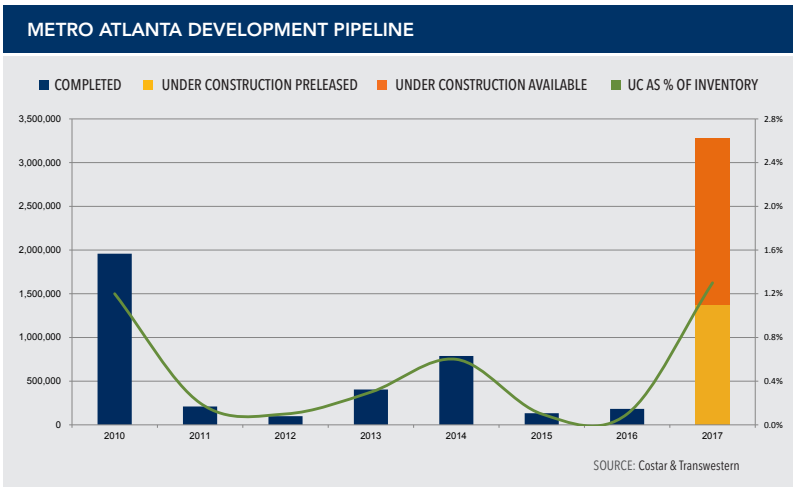
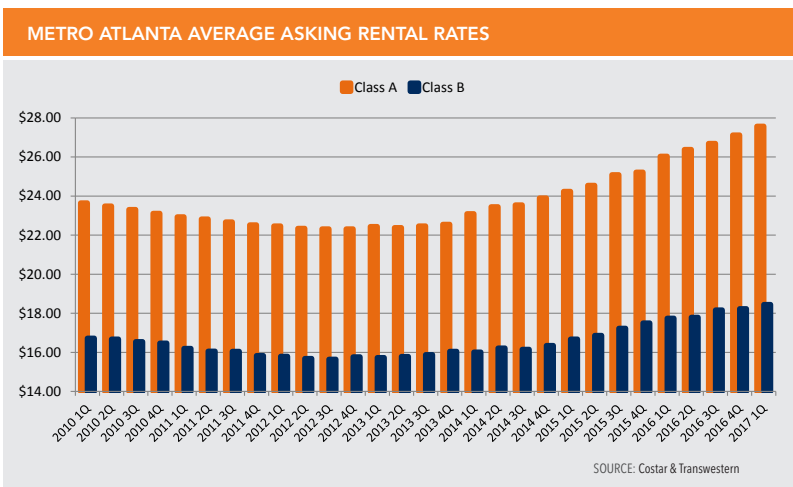
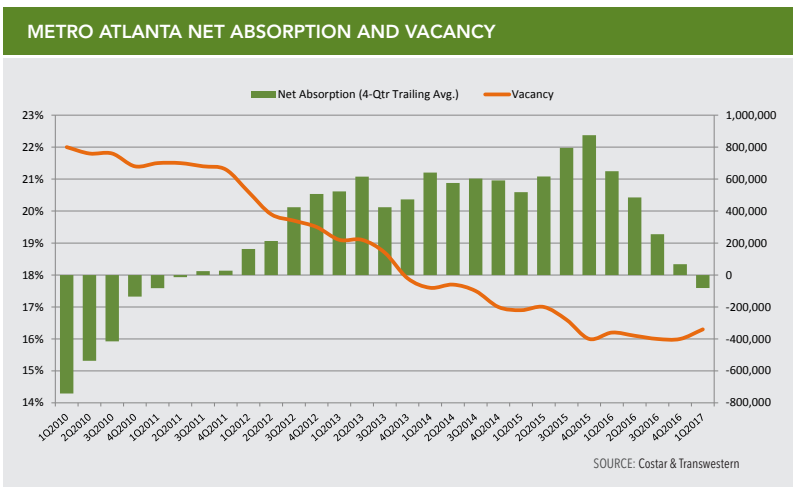
*Atlanta continues to attract investors for both well-located trophy properties and value-add opportunities*

**FORECAST**

**Increased deliveries are likely to lead to a short-term increase in vacancy**

For several years the Atlanta office market enjoyed user demand that far outstripped the amount of new product being added, resulting in steep declines in vacancy and record rent growth.

Q1 2017 brought a pause in demand and, in rare cases, small declines in asking rents. Over the next six months the Atlanta office market is poised to see 1.8 million SF of new spec space delivered, with a little more than half of that space as yet unleased. Without a strong rebound in demand this is likely to result in an upward bump in vacancy rates, at least over the near term. Rent growth may slow during this period, but asking rents are unlikely to decline by much. It is unlikely that many new spec construction projects will begin during 2017 without significant pre-leasing, which will allow even moderate demand to chip away at vacant space.



# ATLANTA OFFICE MARKET

FIRST QUARTER 2017

## Metro Atlanta Office Market Indicators

SUBMARKET	INVENTORY (SF)	DIRECT SF VACANT	DIRECT VACANCY RATE	SUBLEASE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	CURRENT NET ABSORPTION	UNDER CONSTRUCTION	AVE. QUOTED RENT PSF
<b>URBAN SUBMARKETS</b>									
Buckhead Class A	16,098,888	1,829,398	11.4%	108,479	1,937,877	12.0%	5,931	676,647	\$34.34
Buckhead Class B	3,349,130	258,601	7.7%	27,316	285,917	8.5%	6,353	-	\$25.46
Buckhead Overall	19,448,018	2,087,999	10.7%	135,795	2,223,794	11.4%	12,284	676,647	\$33.33
Downtown Class A	13,044,585	2,497,492	19.1%	86,995	2,584,487	19.8%	62,606	-	\$24.90
Downtown Class B	5,989,621	1,098,538	18.3%	0	1,098,538	18.3%	5,583	-	\$18.43
Downtown Overall	19,034,206	3,596,030	18.9%	86,995	3,683,025	19.3%	68,189	-	\$23.96
Midtown Class A	14,851,791	1,641,358	11.1%	310,004	1,951,362	13.1%	24,035	1,313,000	\$32.08
Midtown Class B	3,297,443	506,416	15.4%	5,986	512,402	15.5%	14,071	-	\$23.37
Midtown Overall	18,149,234	2,147,774	11.8%	315,990	2,463,764	13.6%	38,106	1,313,000	\$29.55
<b>Urban Submarkets Total</b>									
Urban Class A	43,995,264	5,968,248	13.6%	505,478	6,473,726	14.7%	92,572	1,989,647	\$30.78
Urban Class B	12,636,194	1,863,555	14.7%	33,302	1,896,857	15.0%	26,007	-	\$21.58
Urban Overall	56,631,458	7,831,803	13.8%	538,780	8,370,583	14.8%	118,579	1,989,647	\$28.73
<b>SUBURBAN SUBMARKETS</b>									
Central Perimeter Class A	17,307,752	2,072,605	12.0%	420,095	2,492,700	14.4%	-145,890	355,000	\$28.48
Central Perimeter Class B	5,412,394	1,185,123	21.9%	24,473	1,209,596	22.3%	8,429	-	\$23.40
Central Perimeter Overall	22,720,146	3,257,728	14.3%	444,568	3,702,296	16.3%	-137,461	355,000	\$26.87
North Fulton Class A	12,693,948	1,934,773	15.2%	72,998	2,007,771	15.8%	-163,747	373,718	\$25.61
North Fulton Class B	7,925,224	1,057,007	13.3%	16,423	1,073,430	13.5%	23,354	-	\$17.85
North Fulton Overall	20,619,172	2,991,780	14.5%	89,421	3,081,201	14.9%	-140,393	373,718	\$23.17
Northeast Class A	6,339,331	1,260,433	19.9%	41,566	1,301,999	20.5%	-23,268	-	\$21.28
Northeast Class B	10,476,617	2,746,469	26.2%	66,067	2,812,536	26.8%	-17,266	-	\$15.61
Northeast Overall	16,815,948	4,006,902	23.8%	107,633	4,114,535	24.5%	-40,534	-	\$17.71
Northlake Class A	3,288,978	328,225	10.0%	12,413	340,638	10.4%	-39,148	-	\$22.84
Northlake Class B	7,943,236	1,434,874	18.1%	124,474	1,559,348	19.6%	-20,103	-	\$17.58
Northlake Overall	11,232,214	1,763,099	15.7%	136,887	1,899,986	16.9%	-59,251	-	\$18.40
Northwest Class A	14,267,981	2,104,885	14.8%	223,197	2,328,082	16.3%	-359,506	564,906	\$26.55
Northwest Class B	10,335,937	1,716,531	16.6%	23,053	1,739,584	16.8%	111,384	-	\$17.94
Northwest Overall	24,603,918	3,821,416	15.5%	246,250	4,067,666	16.5%	-248,122	564,906	\$22.77
South Atlanta Class A	1,034,022	116,216	11.2%	4,000	120,216	11.6%	41,037	-	\$21.14
South Atlanta Class B	5,885,581	693,047	11.8%	59,925	752,972	12.8%	-8,862	-	\$16.58
South Atlanta Overall	6,919,603	809,263	11.7%	63,925	873,188	12.6%	32,175	-	\$17.28
West Atlanta Class A	0	0	0.0%	0	0	0.0%	0	-	\$0.00
West Atlanta Class B	864,941	48,284	5.6%	0	48,284	5.6%	-1,222	-	\$15.49
West Atlanta Overall	864,941	48,284	5.6%	0	48,284	5.6%	-1,222	-	\$15.49
<b>Suburban Submarkets Total</b>									
Suburban Class A	54,932,012	7,817,137	14.2%	774,269	8,591,406	15.6%	-690,522	1,293,624	\$26.01
Suburban Class B	48,843,930	8,881,335	18.2%	314,415	9,195,750	18.8%	95,714	-	\$17.51
Suburban Overall	103,775,942	16,698,472	16.1%	1,088,684	17,787,156	17.1%	-594,808	1,293,624	\$22.01
<b>ATLANTA TOTAL</b>									
Overall Class A	98,927,276	13,785,385	13.9%	1,279,747	15,065,132	15.2%	-597,950	3,283,271	\$27.57
Overall Class B	61,480,124	10,744,890	17.5%	347,717	11,092,607	18.0%	121,721	-	\$18.45
Overall Class A & B	160,407,400	24,530,275	15.3%	1,627,464	26,157,739	16.3%	-476,229	3,283,271	\$23.94

### CONTACT

Keith Pierce  
Senior Research Manager, Southeast  
404.842.6534  
keith.pierce@transwestern.com

### METHODOLOGY

The information in this report is the result of a compilation of information on key for lease 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 office buildings of 20,000 SF or more in size and exclude all medical, government, owner occupied and office condo buildings.



3340 Peachtree Road NE, Suite 1000  
Atlanta, GA 30326

T 404.842.6600 F 404.842.6517  
www.transwestern.com/atlanta

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