

# ATLANTA OFFICE MARKET

SECOND QUARTER 2017

## Q2 brings healthy demand, new product to the market

Rents continue to rise across major submarkets

### ECONOMY

#### Job and wage growth continue to outperform the nation

Atlanta enjoyed a healthy economy in 2016 and, while 2017 has seen a slight slowdown in growth, Atlanta's economy continues to outperform the nation. Atlanta ranked fourth among all metro areas in population growth in 2016, according to Census Bureau estimates, and the job market is on a solid footing. Construction, professional and financial services, healthcare, and hospitality are leading job growth and the metro area is enjoying healthy wage growth as well. In 2017, job growth is projected to slow a bit from the previous year but remain well ahead of national averages.

Dr. Rajeev Dhawan of Georgia State University's Economic Forecasting Center reported in May that jobs are on the rise in metro Atlanta, particularly in those areas that are less impacted by global uncertainty. Dhawan predicted that Atlanta will add 65,000 jobs in 2017, with about 21% 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 figures from 2016.

Moody's Analytics predicts that the Atlanta MSA will continue to outpace the national economy in 2017 with a 3.0% rise in gross metro product. Moody's forecasts that Atlanta's financial services, technology, healthcare, and leisure & hospitality sectors will continue to support above-average job and wage growth.

### DEVELOPMENT

#### New projects underway in every submarket

At the end of Q2 2017 Atlanta had nearly 2.2 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. New developments totaling 1.4 million SF have already been completed this year in Buckhead, North Fulton, and in the Northwest, and spec construction is underway in nearly every major submarket. Most of the larger projects are in desirable and heavily amenitized locations and several smaller, niche properties are also being developed to take advantage of shifting user preferences. Just over 40% of the spec space under construction has already been pre-leased, and since most of Atlanta's space is due to be completed in 2018 or 2019, more of this space is likely to be taken by users prior to delivery.

### QUARTERLY SNAPSHOT

#### VACANCY



**16.5%**

Up slightly from Q1

#### ABSORPTION



**401,457 SF**

Healthy demand across most major submarkets

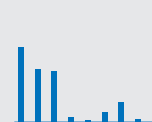
#### RENTAL RATE



**\$24.46 PSF**

Asking rates still on the rise across the market

#### UNDER CONSTRUCTION



**2.2 Million SF**

Most of that due to be completed in 2018-2019; 40% pre-leased

#### JOB GROWTH

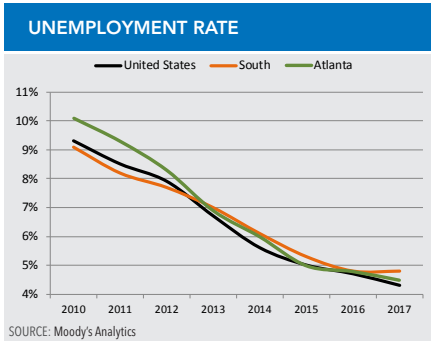


**2.7%**

Growth in 2017 projected to outpace the U.S. average

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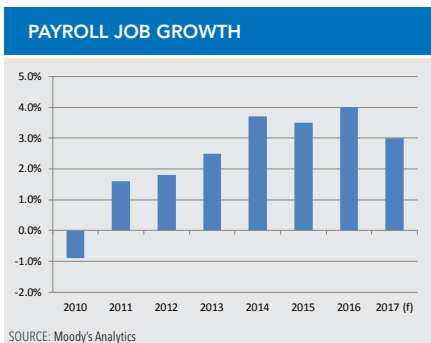
SECOND QUARTER 2017



## VACANCY

### Vacancy bumps up slightly due to new deliveries

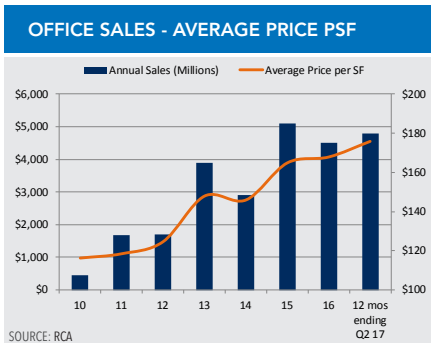
Atlanta's vacancy rate declined for five consecutive years based on healthy absorption and limited development; as a result, vacancy dropped to 16.0% in 2015, its lowest rate in eight years. Vacancy remained around that level throughout 2016 before rising in the first half of 2017, reaching 16.5% as of Q2 2017. Atlanta's Class A vacancy rate is 15.8%, up from last quarter due to the delivery of new product but still among the lowest levels seen in a decade. The Class B vacancy rate of 17.8% is the lowest seen in that sector in a decade. Among Atlanta's major submarkets, overall rates are lowest in Midtown (12.1%) and Buckhead (14.2%), while the lowest Class A vacancy rates are found in Midtown and Central Perimeter.



## DEMAND

### Healthy demand across most office submarkets

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 just over 600,000 SF in 2016. Following one quarter of negative absorption in Q1 2017, Atlanta saw demand return in Q2 with 401,457 SF of positive absorption. While demand in Q2 was split evenly between urban and suburban submarkets, absorption was far stronger in the Class A sector. Northwest and Midtown saw the highest levels of absorption, both for the quarter and for the year to date.



### Following one quarter of negative absorption in Q1 2017, Atlanta saw demand return in Q2

## 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 the first half of 2017. Overall asking rents rose to \$24.46 PSF in Q2, with Class A rents rising to a record average of \$28.04 PSF. Class A rates rose by nearly 7% over the past year, while Class B rents rose by almost 6% during the same period. Average rates remain highest in Class A properties in Buckhead (\$34.42) and Midtown (\$33.71), but rents rose in every submarket except North Fulton during Q2. Most major submarkets are seeing new record highs each quarter for Class A properties.

## Transaction Highlights

### Notable Office Lease Deals

Completed between 4/1/17 and 6/30/17

TENANT	PROPERTY NAME	LEASE (SF)	COMMENTS
Cotiviti	One Glenlake	66,100	New Lease
Reliance Worldwide	Defoor Hills	60,760	New Lease
Crown Castle	8000 Avalon	55,622	New Lease

### Notable Office Building Sales

Completed between 4/1/17 and 6/30/17

PROPERTY NAME	RBA	PRICE	COMMENTS
BB&T Tower (271 17th Street)	541,789	\$182 million (\$336 PSF)	Acquired by Lionstone Investments
American Cancer Society Center	998,770	\$166 million (\$166 PSF)	Acquired by Carter Validus
Equitable Building (100 Peachtree Street)	622,084	\$79.5 million (\$128 PSF)	Acquired by Zeller Realty Group



**INVESTMENT**

**Pricing and volume continue to rise**

In 2015 investment sales volume reached its highest level since 2007 at \$5.1 billion before slowing to a still-impressive \$4.5 billion during 2016. For the 12 months ending in Q2 2017, sales volume was nearly \$4.8 billion, a 7% increase from the previous 12 months. Following a significant increase of 13% in 2015, the average price per square foot has continued to rise, reaching an average of \$176 PSF in Q2 2017. This is a 5% gain over the previous year. Atlanta continues to attract investors for both well-located trophy properties and value-add opportunities. We expect to see fewer sales in the remainder of 2017, due to the number of assets that have recently traded as well as the gap between buyer and seller expectations.

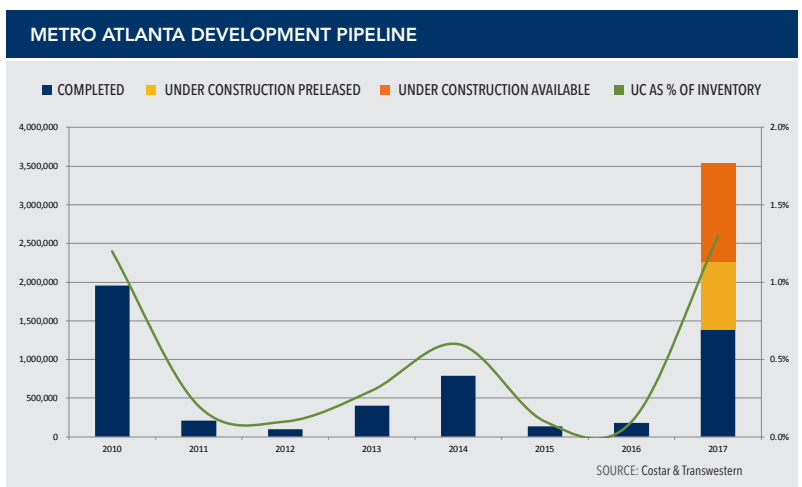
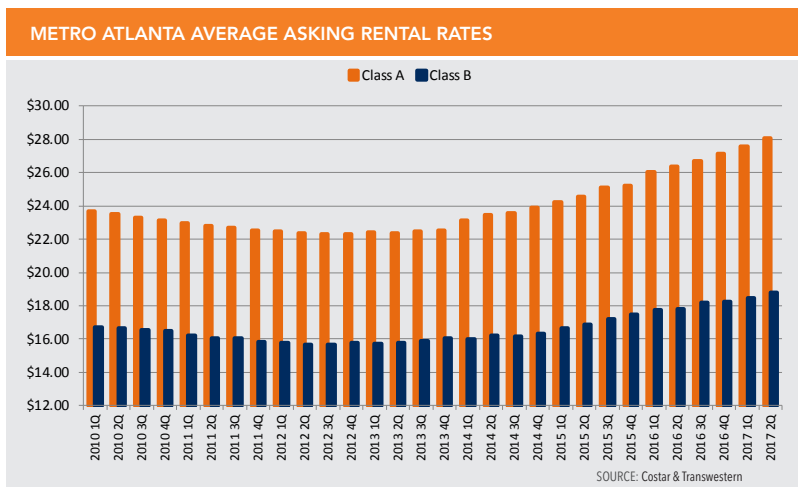
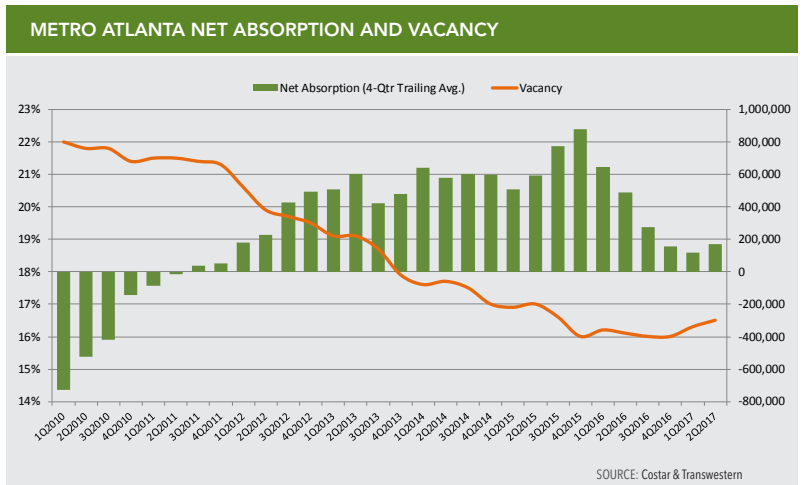
*Most major submarkets are seeing new record high rents each quarter for Class A properties*

**FORECAST**

**Rents will continue to rise while vacancy declines**

For several years the Atlanta office market enjoyed user demand that consistently exceeded the level of new supply, resulting in steep declines in vacancy and record rent growth. In the first half of 2017 deliveries exceeded demand, leading to a small increase in vacancy. Most of the new product set to deliver in 2017 has been completed, so the supply-demand balance is likely to tip in favor of demand in the second half of the year.

While more than more than 2.1 million SF of spec are still under construction, most of that space is set to deliver across the next two years, making it likely that much of that space will be taken by users prior to delivery. While several new development projects have been announced, it is unlikely that much new office construction will begin before the end of this year, which will allow even moderate demand to chip away at vacant space. Over the next six months the Atlanta office market can expect to see further rent growth and steady-to-declining vacancy rates.



# ATLANTA OFFICE MARKET

SECOND 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	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVE. QUOTED RENT PSF
<b>URBAN SUBMARKETS</b>										
Buckhead Class A	16,795,768	2,392,903	14.2%	131,045	2,523,948	15.0%	91,502	112,150	-	\$34.42
Buckhead Class B	3,349,130	313,682	9.4%	17,677	331,359	9.9%	-45,442	-39,089	-	\$25.39
Buckhead Overall	20,144,898	2,706,585	13.4%	148,722	2,855,307	14.2%	46,060	73,061	-	\$33.42
Downtown Class A	13,339,265	2,574,748	19.3%	167,564	2,742,312	20.6%	32,857	31,221	61,000	\$25.35
Downtown Class B	5,778,880	1,002,548	17.3%	0	1,002,548	17.3%	-12,239	-124,427	-	\$19.01
Downtown Overall	19,118,145	3,577,296	18.7%	167,564	3,744,860	19.6%	20,618	-93,206	61,000	\$24.19
Midtown Class A	14,778,499	1,440,150	9.7%	301,984	1,742,134	11.8%	75,568	151,014	1,313,000	\$33.71
Midtown Class B	3,276,943	426,608	13.0%	10,521	437,129	13.3%	61,612	59,298	-	\$22.63
Midtown Overall	18,055,442	1,866,758	10.3%	312,505	2,179,263	12.1%	137,180	210,312	1,313,000	\$30.49
<b>Urban Submarkets Total</b>										
Urban Class A	44,913,532	6,407,801	14.3%	600,593	7,008,394	15.6%	199,927	294,385	1,374,000	\$31.49
Urban Class B	12,404,953	1,742,838	14.0%	28,198	1,771,036	14.3%	3,931	-104,218	-	\$21.69
Urban Overall	57,318,485	8,150,639	14.2%	628,791	8,779,430	15.3%	203,858	190,167	1,374,000	\$29.37
<b>SUBURBAN SUBMARKETS</b>										
Central Perimeter Class A	17,849,836	2,173,220	12.2%	312,357	2,485,577	13.9%	-22,256	20,549	355,250	\$29.61
Central Perimeter Class B	5,415,144	1,196,285	22.1%	24,518	1,220,803	22.5%	-22,649	-17,871	-	\$23.58
Central Perimeter Overall	23,264,980	3,369,505	14.5%	336,875	3,706,380	15.9%	-44,905	2,678	355,250	\$27.81
North Fulton Class A	12,927,598	2,133,586	16.5%	132,580	2,266,166	17.5%	-55,643	-234,045	150,643	\$25.45
North Fulton Class B	7,925,364	958,650	12.1%	5,021	963,671	12.2%	79,884	114,439	-	\$18.14
North Fulton Overall	20,852,962	3,092,236	14.8%	137,601	3,229,837	15.5%	24,241	-119,606	150,643	\$22.99
Northeast Class A	6,341,389	1,215,078	19.2%	47,188	1,262,266	19.9%	-7,983	-31,251	-	\$20.91
Northeast Class B	10,633,959	2,806,781	26.4%	69,430	2,876,211	27.0%	-34,838	-52,104	-	\$15.82
Northeast Overall	16,975,348	4,021,859	23.7%	116,618	4,138,477	24.4%	-42,821	-83,355	-	\$17.75
Northlake Class A	3,408,819	322,788	9.5%	12,613	335,401	9.8%	32,121	-6,222	93,000	\$24.22
Northlake Class B	8,066,815	1,550,525	19.2%	117,571	1,668,096	20.7%	-188,076	-241,668	-	\$18.27
Northlake Overall	11,475,634	1,873,313	16.3%	130,184	2,003,497	17.5%	-155,955	-247,890	93,000	\$19.57
Northwest Class A	14,947,906	2,350,324	15.7%	226,770	2,577,094	17.2%	328,354	-32,660	172,906	\$26.58
Northwest Class B	10,276,143	1,633,428	15.9%	21,396	1,654,824	16.1%	42,224	151,914	-	\$18.19
Northwest Overall	25,224,049	3,983,752	15.8%	248,166	4,231,918	16.8%	370,578	119,254	172,906	\$23.09
South Atlanta Class A	1,034,022	98,510	9.5%	4,000	102,510	9.9%	17,706	58,743	-	\$20.82
South Atlanta Class B	5,686,389	612,091	10.8%	62,792	674,883	11.9%	28,632	63,864	-	\$17.53
South Atlanta Overall	6,720,411	710,601	10.6%	66,792	777,393	11.6%	46,338	122,607	-	\$17.97
West Atlanta Class A	0	0	0.0%	0	0	0.0%	0	0	-	\$0.00
West Atlanta Class B	864,941	48,161	5.6%	0	48,161	5.6%	123	-1,099	-	\$15.91
West Atlanta Overall	864,941	48,161	5.6%	0	48,161	5.6%	123	-1,099	-	\$15.91
<b>Suburban Submarkets Total</b>										
Suburban Class A	56,509,570	8,293,506	14.7%	735,508	9,029,014	16.0%	292,299	-224,886	771,799	\$26.39
Suburban Class B	48,868,755	8,805,921	18.0%	300,728	9,106,649	18.6%	-94,700	17,475	-	\$17.90
Suburban Overall	105,378,325	17,099,427	16.2%	1,036,236	18,135,663	17.2%	197,599	-207,411	771,799	\$22.45
<b>ATLANTA TOTAL</b>										
Overall Class A	101,423,102	14,701,307	14.5%	1,336,101	16,037,408	15.8%	492,226	69,499	2,145,799	\$28.04
Overall Class B	61,273,708	10,548,759	17.2%	328,926	10,877,685	17.8%	-90,769	-86,743	-	\$18.79
Overall Class A & B	162,696,810	25,250,066	15.5%	1,665,027	26,915,093	16.5%	401,457	-17,244	2,145,799	\$24.46

### CONTACT

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### 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.



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