

ATLANTA OFFICE MARKET

THIRD QUARTER 2017

Job growth remains strong, but absorption does not follow

Users have many options for office space

ECONOMY

Office-using job growth outperforms national averages

Atlanta enjoyed a healthy economy in 2016 and, while 2017 has seen some slowing, Atlanta's economy continues to outperform the nation. Atlanta ranked fourth among all metro areas in population growth in 2016, and second in job growth over the past twelve months. Construction, professional and financial services, healthcare, and hospitality are leading job growth and the metro area is enjoying healthy wage growth as well.

Dr. Rajeev Dhawan of Georgia State University's Economic Forecasting Center predicted in August that Atlanta will add 65,500 jobs in 2017, with more than 25% of those considered "premium" or high-paying. He added that the next two years are likely to see lower job growth rates due to expected slowdowns in corporate and manufacturing hiring, particularly in those companies impacted by global monetary and trade factors.

Moody's Analytics reports that the Atlanta MSA's job gains are twice the national rate, and the local economy will continue to outpace the nation with a 3.7% rise in gross metro product in 2017. Moody's forecasts that Atlanta will continue to benefit from multiple growth engines, including professional and financial services, technology, healthcare, and construction. The abundance of opportunities has fueled an increase of more than 100,000 jobs over the past year, which marks the best 12-month total since 2005.

DEVELOPMENT

A wide range of new projects are underway

At the end of Q3 2017 Atlanta had nearly 2.0 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 1.6 million SF have already been completed this year in Buckhead, North Fulton, and in the Northwest, and spec construction is underway in most major submarkets. The larger projects underway are in desirable and heavily amenitized locations, and several smaller properties are also being developed to take advantage of changing user preferences. Approximately 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



16.4%

Down slightly from Q2

ABSORPTION



-100,233 SF

Demand in Class A space offset by weakness in Class B

RENTAL RATE



\$24.90 PSF

Asking rates still on the rise in nearly every submarket

UNDER CONSTRUCTION



2.2 Million SF

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

AVERAGE SALE PRICE



\$180 PSF

Up from previous 12-month period

JOB GROWTH



2.8%

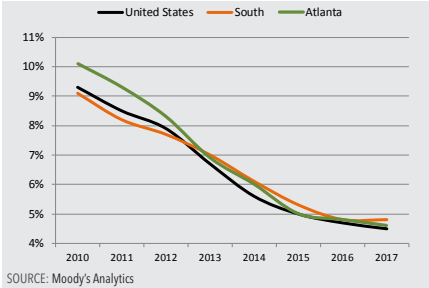
Annual job growth still outpacing the U.S. average

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UNEMPLOYMENT RATE

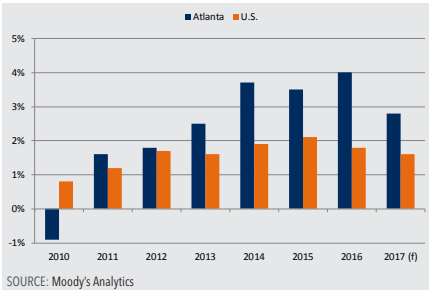


VACANCY

Vacancy dips slightly across metro Atlanta

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 has remained around that level since then, and is currently 16.4% as of Q3 2017, down slightly from Q2. Atlanta's Class A vacancy rate is 15.8%, unchanged from last quarter and still among the lowest levels seen in a decade. The Class B vacancy rate of 17.6% is the lowest seen in that sector in a decade. Among Atlanta's major submarkets, overall rates are lowest in Midtown (12.0%) and Buckhead (14.5%), while the lowest Class A vacancy rates are found in Midtown and the smaller Northlake submarket.

PAYROLL JOB GROWTH

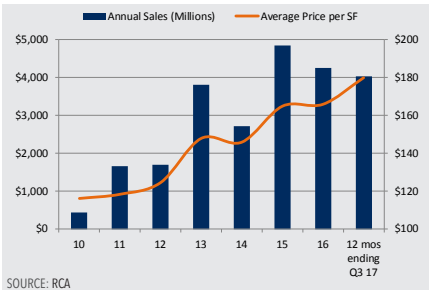


DEMAND

Slowdown in absorption, especially for Class B properties

Following a surge of demand from 2012 through 2015, Atlanta's office absorption slowed in 2016, and this trend has continued to date in 2017. Following four years in which annual absorption ranged from 2.0 million to 3.5 million SF each year, Atlanta absorbed just 500,000 SF in 2016. The first three quarters of 2017 have seen absorption seesaw from negative to positive and back again; in Q3, Atlanta reported negative absorption of 100,233 SF following strong demand in Q2. The Class A sector's positive absorption of 100,731 SF during the quarter was more than offset by losses in Class B space. Demand in Q3 was weighted toward the suburban submarkets, particularly North Fulton, but Downtown also recorded healthy demand. For the year to date, Midtown and Northwest saw the highest levels of absorption.

OFFICE SALES - AVERAGE PRICE PSF



Atlanta ranks fourth among all metro areas in population growth, and second in job growth

RENTAL RATES

Asking rents keep rising across Atlanta

Asking rents increased in every major submarket throughout 2016 in both the Class A and B sectors, and with few exceptions this trend has continued in 2017. Overall asking rents rose to an average of \$24.90 PSF in Q3, with Class A rents rising to a record average of \$28.50 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 Midtown (\$35.15) and Buckhead (\$34.55), but rents rose in every submarket except Central Perimeter during Q3. Most major submarkets are seeing new record highs each quarter for their Class A properties.

Transaction Highlights

Notable Office Lease Deals

Completed between 7/1/17 and 9/30/17

TENANT	PROPERTY NAME	LEASE (SF)	COMMENTS
Eversheds Sutherland	999 Peachtree	188,823	Renewal
Aon	Three Alliance Center	64,655	New Lease
Aveanna Healthcare	Platinum Tower	60,899	New Lease

Notable Office Building Sales

Completed between 7/1/17 and 9/30/17

PROPERTY NAME	RBA	PRICE	COMMENTS
Piedmont Center 1-4, 15	849,000	\$144 million (\$170 PSF)	Acquired by Ardent
One West Court Square	438,274	\$30.7 million (\$84 PSF)	Acquired by NORO Management/Pope & Land



INVESTMENT

Pricing up 8% year-over-year

In 2015 investment sales volume reached its highest level since 2007 at nearly \$5 billion before slowing to a still-impressive \$4.5 billion during 2016. For the 12 months ending in Q3 2017, sales volume was just over \$4 billion, a small decrease from the previous 12 months. The average sale price per square foot has continued to rise, though, reaching an average of \$180 PSF in Q3 2017. This is an 8% gain over the previous year. Atlanta continues to attract investors for both well-located trophy properties and value-add opportunities. We expect to see more prominent trades in the remainder of 2017, including the recently-completed Three Alliance Center, which could fetch a record price for Atlanta.

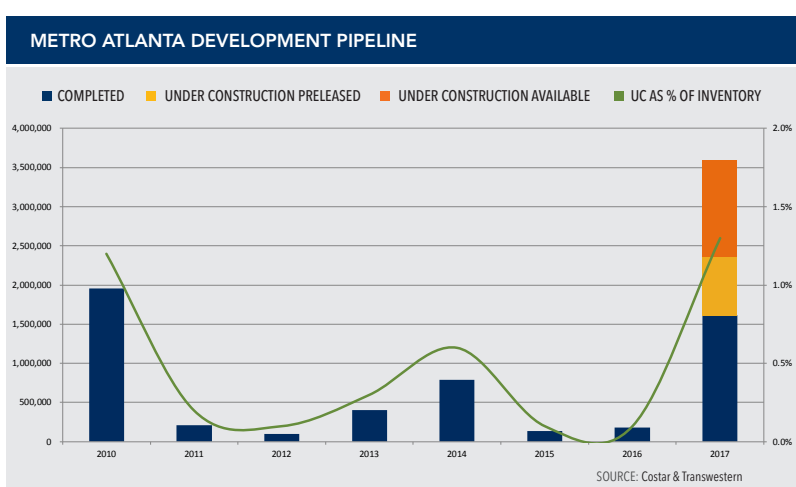
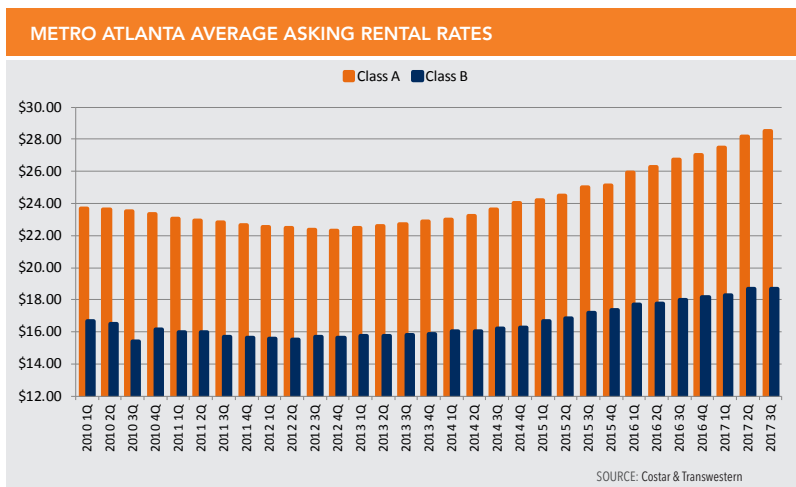
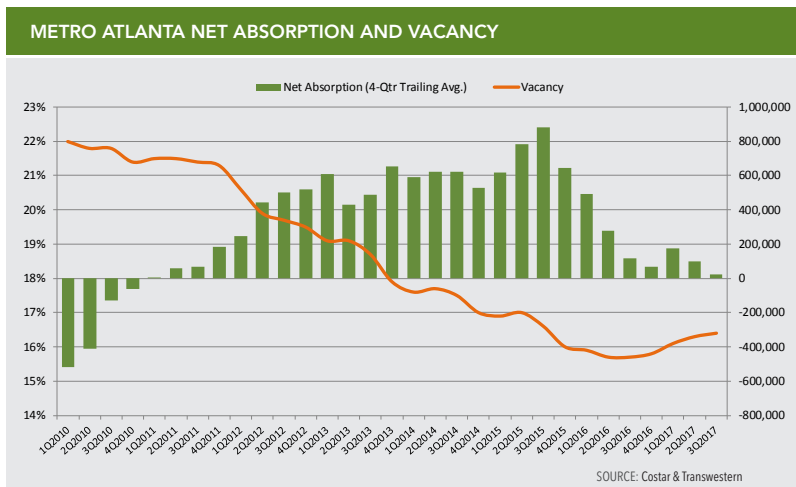
We are seeing two new dynamics impact the current cycle: greater emphasis on efficiency and the rise of alternative workspaces

FORECAST

Changes in the way companies use space

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 nine months of 2017 deliveries have exceeded demand, leading to a small increase in vacancy throughout the year. While nearly 2.0 million SF of spec space are under construction, most of that space is set to deliver across the next eighteen months with few projects planned to start during that time, making it likely that much of that space will be taken by users prior to delivery.

We are seeing two new dynamics impact the current cycle. The first is a greater emphasis on efficiency, with businesses consolidating and putting more workers into less space. The second is the rise of alternative workspaces, from smaller companies utilizing co-working space to an increasing number of businesses choosing to locate in nontraditional buildings. Both trends help to explain the current environment in which job growth does not fully translate into increased occupancy. Office demand has been slower in 2017 as users sort out their needs and react to rising rents in all property types. As owners and tenants adjust to changing workplace dynamics, Atlanta remains well-positioned to attract workers and businesses over the long term.



ATLANTA OFFICE MARKET

THIRD 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
URBAN SUBMARKETS										
Buckhead Class A	17,419,429	2,597,994	14.9%	158,324	2,756,318	15.8%	-90,079	-26,900	-	\$34.55
Buckhead Class B	3,144,168	209,715	6.7%	13,858	223,573	7.1%	-22,142	-12,443	-	\$23.90
Buckhead Overall	20,563,597	2,807,709	13.7%	172,182	2,979,891	14.5%	-112,221	-39,343	-	\$33.67
Downtown Class A	13,326,402	2,429,135	18.2%	138,689	2,567,824	19.3%	86,263	128,783	61,000	\$26.10
Downtown Class B	5,778,880	920,198	15.9%	0	920,198	15.9%	-5,152	-126,179	-	\$20.00
Downtown Overall	19,105,282	3,349,333	17.5%	138,689	3,488,022	18.3%	81,111	2,604	61,000	\$25.25
Midtown Class A	14,777,888	1,391,773	9.4%	408,088	1,799,861	12.2%	-59,817	93,704	1,313,000	\$35.15
Midtown Class B	3,291,976	359,974	10.9%	16,596	376,570	11.4%	26,805	92,740	-	\$23.50
Midtown Overall	18,069,864	1,751,747	9.7%	424,684	2,176,431	12.0%	-33,012	186,444	1,313,000	\$32.75
Urban Submarkets Total										
Urban Class A	45,523,719	6,418,902	14.1%	705,101	7,124,003	15.6%	-63,633	195,587	1,374,000	\$32.27
Urban Class B	12,215,024	1,489,887	12.2%	30,454	1,520,341	12.4%	-489	-45,882	-	\$21.95
Urban Overall	57,738,743	7,908,789	13.7%	735,555	8,644,344	15.0%	-64,122	149,705	1,374,000	\$30.09
SUBURBAN SUBMARKETS										
Central Perimeter Class A	17,844,162	2,296,881	12.9%	326,056	2,622,937	14.7%	-83,047	-104,950	355,250	\$29.31
Central Perimeter Class B	5,507,675	1,196,955	21.7%	16,655	1,213,610	22.0%	-25,185	-65,066	-	\$20.94
Central Perimeter Overall	23,351,837	3,493,836	15.0%	342,711	3,836,547	16.4%	-108,232	-170,016	355,250	\$27.30
North Fulton Class A	12,981,207	1,986,301	15.3%	130,787	2,117,088	16.3%	109,877	-86,542	151,584	\$25.56
North Fulton Class B	7,874,630	924,718	11.7%	43,028	967,746	12.3%	-1,539	112,145	-	\$18.97
North Fulton Overall	20,855,837	2,911,019	14.0%	173,815	3,084,834	14.8%	108,338	25,603	151,584	\$23.20
Northeast Class A	6,346,172	1,210,533	19.1%	35,574	1,246,107	19.6%	-2,438	-33,689	-	\$20.96
Northeast Class B	10,646,955	2,800,619	26.3%	76,031	2,876,650	27.0%	2,959	-72,427	-	\$15.75
Northeast Overall	16,993,127	4,011,152	23.6%	111,605	4,122,757	24.3%	521	-106,116	-	\$17.80
Northlake Class A	3,408,819	266,828	7.8%	14,885	281,713	8.3%	11,872	42,025	93,000	\$24.08
Northlake Class B	8,142,078	1,535,107	18.9%	117,148	1,652,255	20.3%	-31,339	-107,928	-	\$18.85
Northlake Overall	11,550,897	1,801,935	15.6%	132,033	1,933,968	16.7%	-19,467	-65,903	93,000	\$19.88
Northwest Class A	15,065,098	2,404,501	16.0%	213,415	2,617,916	17.4%	124,478	99,424	-	\$26.75
Northwest Class B	10,278,035	1,712,404	16.7%	36,805	1,749,209	17.0%	-122,649	45,110	-	\$18.85
Northwest Overall	25,343,133	4,116,905	16.2%	250,220	4,367,125	17.2%	1,829	144,534	-	\$23.55
South Atlanta Class A	1,032,916	95,488	9.2%	3,400	98,888	9.6%	3,622	62,365	-	\$20.50
South Atlanta Class B	5,744,313	664,839	11.6%	62,792	727,631	12.7%	-21,044	36,471	-	\$17.50
South Atlanta Overall	6,777,229	760,327	11.2%	66,192	826,519	12.2%	-17,422	98,836	-	\$17.90
West Atlanta Class A	0	0	0.0%	0	0	0.0%	0	0	-	\$0.00
West Atlanta Class B	864,941	49,839	5.8%	0	49,839	5.8%	-1,678	-2,777	-	\$15.90
West Atlanta Overall	864,941	49,839	5.8%	0	49,839	5.8%	-1,678	-2,777	-	\$15.90
Suburban Submarkets Total										
Suburban Class A	56,678,374	8,260,532	14.6%	724,117	8,984,649	15.9%	164,364	-21,367	599,834	\$26.36
Suburban Class B	49,058,627	8,884,481	18.1%	352,459	9,236,940	18.8%	-200,475	-54,472	-	\$17.96
Suburban Overall	105,737,001	17,145,013	16.2%	1,076,576	18,221,589	17.2%	-36,111	-75,839	599,834	\$22.46
ATLANTA TOTAL										
Overall Class A	102,202,093	14,679,434	14.4%	1,429,218	16,108,652	15.8%	100,731	174,220	1,973,834	\$28.50
Overall Class B	61,273,651	10,374,368	16.9%	382,913	10,757,281	17.6%	-200,964	-100,354	-	\$18.66
Overall Class A & B	163,475,744	25,053,802	15.3%	1,812,131	26,865,933	16.4%	-100,233	73,866	1,973,834	\$24.90

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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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