

ATLANTA  
OFFICE MARKET

FOURTH QUARTER 2016

## 2016 saw slowing demand following near-record year

Asking rents continued to reach new peaks

## ECONOMY

## Slower job growth forecast for 2017

Atlanta enjoyed healthy economic growth in 2016, but Dr. Rajeev Dhawan of Georgia State University's Economic Forecasting Center predicts that Atlanta will see a slowdown in job growth in 2017, followed by accelerated growth in 2018. Atlanta is projected to add nearly 40,000 jobs in 2017, with about 20% of those jobs considered "premium" or high-paying. This figure has been revised downward from earlier forecasts due to global economic and political uncertainty.

In recent years, Atlanta's job growth has been driven by the professional and business services sector, a strong driver of office employment, as well as construction, healthcare, manufacturing, 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. Additionally, a variety of development projects (apartments, hotels, office, stadiums, warehouses, 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

## New projects are on the way in urbanized submarkets

Over the past several years Atlanta saw historically low levels of new development, even as demand gained strength and the market for office space tightened. As of the end of 2016 Atlanta has more than 1.7 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 Buckhead, Central Perimeter, North Fulton, and in the Northwest near the new Braves stadium. Most of these projects are located in mixed-use or heavily amenitized locations, and 35% of the spec space under construction has been pre-leased. Still, all of the spec space is due to be completed in 2017, which will impact market vacancy and other factors over the short term. The level of new space coming to market for lease in Atlanta remains well below recent demand trends, and very few new projects are expected to launch in the next 12-24 months.

## QUARTERLY SNAPSHOT

## VACANCY



16.1%

Unchanged from Q3

## ABSORPTION



475,678 SF

Strongest level of demand in 2016

## RENTAL RATE



\$23.92 PSF

Asking rates rise in nearly every submarket

## UNDER CONSTRUCTION



1.7 Million SF

All of that due to be completed in 2017

## JOB GROWTH

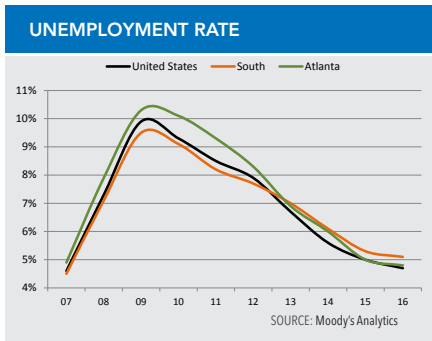


4.0%

Stronger than projected for the past 12 months

# ATLANTA OFFICE MARKET

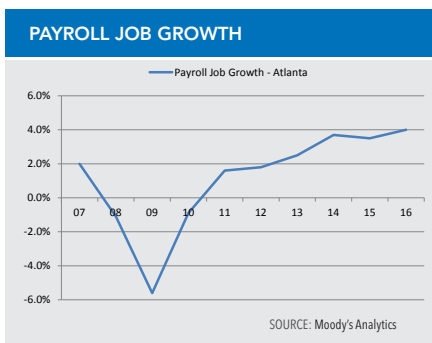
FOURTH QUARTER 2016



## VACANCY

### Vacancy was low, but changed little during 2016

Atlanta's vacancy rate declined in nearly every quarter for five years as a result of healthy absorption and limited development activity; as a result vacancy declined to 16.0% at the end of 2015, its lowest rate in eight years. Vacancy remained around that level throughout 2016, dipping to 15.9% at mid-year before ending the year at 16.1%. Atlanta's Class A vacancy rate is 14.5%, its lowest level in a decade, while the Class B vacancy rate of 18.0% is the lowest since 2009. Among Atlanta's major submarkets, overall rates are lowest in Buckhead (11.6%) and Midtown (12.9%), while the lowest Class A vacancy rates are found in those two submarkets as well as the Northwest.

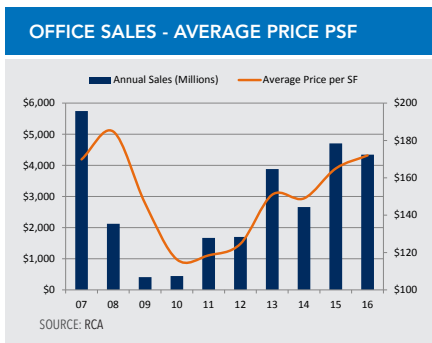


### Strong absorption in urban submarkets demonstrates that users continue to prefer quality space in denser, more walkable environments

## DEMAND

### Absorption slowed in 2016, with bright spots in urban areas

Net absorption was strong throughout 2015, with the Class A sector driving demand in both urban and suburban markets. In 2016, urban Class A demand continued to outpace other sectors, but the year saw a general slowing in demand for the first time in several years. Following a slow first half of the year, absorption was healthy in Q4 at 475,678 SF, but that exceeded the annual total of 416,841 SF. Strong absorption in Midtown and the Northwest was offset by losses in suburban areas. Buckhead and Downtown also saw positive demand during the year, demonstrating that users continue to prefer quality space in denser, more walkable environments.



## RENTAL RATES

### Asking rents rise to new highs

Asking rents increased in every major submarket throughout 2016 in both the Class A and B sectors. Overall asking rents rose to \$23.92 PSF in Q4, with Class A rents rising to a record average of \$27.49 PSF. Class A rates rose by more than 7% during 2016, while Class B rents rose by more than 5% during the same period. Rates remain highest in Class A properties in Buckhead, where asking rents rose by 4% during the year to a current average of \$34.24 PSF. Class A rates in Midtown and Central Perimeter average approximately \$31.56 and \$28.46 PSF, respectively, while Class A rates in North Fulton have reached \$25.52; each of those averages represents a new record high for Class A space in those submarkets.

## Transaction Highlights

### Notable Office Lease Deals

Completed between 10/1/16 and 12/31/16

TENANT	PROPERTY NAME	LEASE (SF)	COMMENTS
Troutman Sanders	Bank of America Plaza	230,416	Renewal
Anthem	Bank of America Plaza	148,192	New Lease
Crawford and Company	Midori	109,172	New Lease

### Notable Office Building Sales

Completed between 10/1/16 and 12/31/16

PROPERTY NAME	RBA	PRICE	COMMENTS
One Atlantic Center	1,100,312	\$315 million (\$286 PSF)	Acquired by Starwood Capital
Three Ravinia	813,145	\$210 million (\$258 PSF)	Acquired by Preferred Apartment Communities
Atlanta Financial Center	908,659	\$222.5 million (\$245 PSF)	Acquired by Sumitomo Corp. of America



**INVESTMENT**

**Volume dips but pricing rises**

In 2015 investment sales volume was \$4.7 billion, up significantly from the previous year and the highest level of sales since 2007. In addition the average price per square foot rose by 11% to \$165 PSF. In 2016, volume dipped to just below \$4.4 billion, even as the average price per square foot rose to an eight-year peak of \$172 PSF. 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.

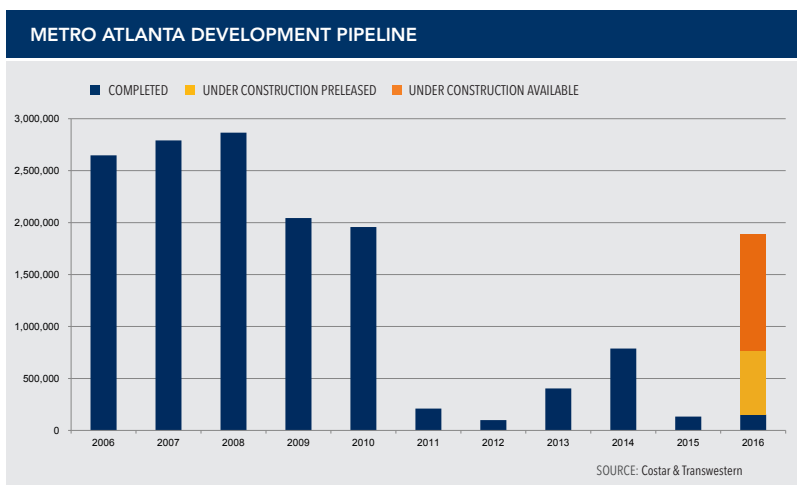
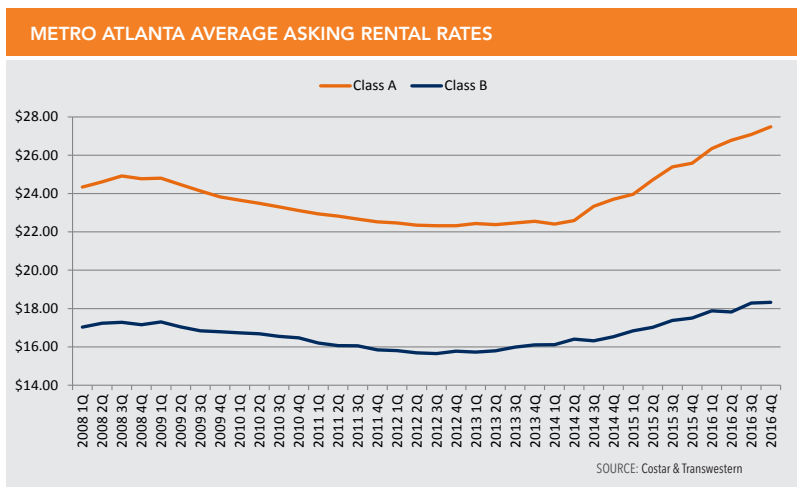
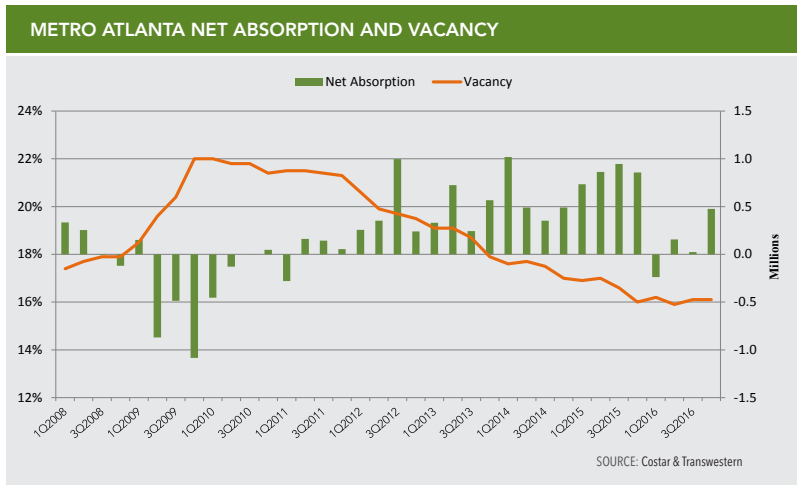
*Asking rents increased in every major submarket throughout 2016*

**FORECAST**

**2017 likely to bring slower rent growth, few building starts**

In recent years the Atlanta office market has enjoyed tenant demand that far outstripped the amount of new product being added. Atlanta's office market absorbed 3.5 million SF of space in 2015 alone with essentially no new completions, resulting in sharp declines in vacancy and near-record rent growth.

In 2016 we saw lower levels of demand, while rent growth continued and few projects were completed. While rents continue to hit new peaks, the Atlanta office market is poised to see 1.7 million SF of new spec space delivered in 2017, with most of that space as yet unleased. As a result, vacancy is likely to rise slightly over the near term as this new inventory comes to market. Rent growth may slow during this period, but asking rents are unlikely to decline. Finally, it is unlikely that many new spec construction projects will kick off during 2017, which will allow even moderate demand to chip away at vacancies over the following 12 to 24 months.



# ATLANTA OFFICE MARKET

FOURTH QUARTER 2016

## 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	16,111,227	1,837,484	11.4%	115,074	1,952,558	12.1%	-53,920	117,721	585,238	\$34.24
Buckhead Class B	3,349,130	285,074	8.5%	14,709	299,783	9.0%	-14,914	-87,700	-	\$24.67
Buckhead Overall	19,460,357	2,122,558	10.9%	129,783	2,252,341	11.6%	-68,834	30,021	585,238	\$33.12
Downtown Class A	13,097,141	2,624,258	20.0%	58,281	2,682,539	20.5%	248,973	65,734	-	\$25.34
Downtown Class B	6,034,170	1,213,999	20.1%	0	1,213,999	20.1%	5,489	1,320	-	\$18.52
Downtown Overall	19,131,311	3,838,257	20.1%	58,281	3,896,538	20.4%	254,462	67,054	-	\$24.43
Midtown Class A	14,792,909	1,690,581	11.4%	47,807	1,738,388	11.8%	109,308	569,644	-	\$31.56
Midtown Class B	3,350,356	588,760	17.6%	4,551	593,311	17.7%	13,779	82,536	-	\$24.03
Midtown Overall	18,143,265	2,279,341	12.6%	52,358	2,331,699	12.9%	123,087	652,180	-	\$29.13
<b>Urban Submarkets Total</b>										
Urban Class A	44,001,277	6,152,323	14.0%	221,162	6,373,485	14.5%	304,361	753,099	585,238	\$30.69
Urban Class B	12,733,656	2,087,833	16.4%	19,260	2,107,093	16.5%	4,354	-3,844	-	\$21.59
Urban Overall	56,734,933	8,240,156	14.5%	240,422	8,480,578	14.9%	308,715	749,255	585,238	\$28.65
<b>SUBURBAN SUBMARKETS</b>										
Central Perimeter Class A	17,250,103	2,132,659	12.4%	363,717	2,496,376	14.5%	-60,250	-536,751	355,000	\$28.46
Central Perimeter Class B	5,386,904	1,215,249	22.6%	53,155	1,268,404	23.5%	10,419	184,338	-	\$23.11
Central Perimeter Overall	22,637,007	3,347,908	14.8%	416,872	3,764,780	16.6%	-49,831	-352,413	355,000	\$26.84
North Fulton Class A	12,673,620	1,756,823	13.9%	84,977	1,841,800	14.5%	-5,071	-284,866	228,182	\$25.52
North Fulton Class B	7,811,176	1,020,539	13.1%	32,585	1,053,124	13.5%	76,376	111,099	-	\$17.54
North Fulton Overall	20,484,796	2,777,362	13.6%	117,562	2,894,924	14.1%	71,305	-173,767	228,182	\$23.10
Northeast Class A	6,206,299	1,210,233	19.5%	54,359	1,264,592	20.4%	-16,816	99,782	-	\$21.02
Northeast Class B	10,770,848	2,795,544	26.0%	67,229	2,862,773	26.6%	93,391	-126,828	-	\$15.44
Northeast Overall	16,977,147	4,005,777	23.6%	121,588	4,127,365	24.3%	76,575	-27,046	-	\$17.33
Northlake Class A	3,279,592	249,468	7.6%	7,594	257,062	7.8%	-3,637	-45,201	-	\$22.85
Northlake Class B	7,920,562	1,349,802	17.0%	119,168	1,468,970	18.5%	86,502	108,480	-	\$17.15
Northlake Overall	11,200,154	1,599,270	14.3%	126,762	1,726,032	15.4%	82,865	63,279	-	\$18.00
Northwest Class A	14,356,649	1,785,926	12.4%	197,409	1,983,335	13.8%	-30,286	312,072	564,906	\$26.57
Northwest Class B	10,146,210	1,871,994	18.5%	34,123	1,906,117	18.8%	18,732	-47,443	-	\$18.21
Northwest Overall	24,502,859	3,657,920	14.9%	231,532	3,889,452	15.9%	-11,554	264,629	564,906	\$23.13
South Atlanta Class A	1,014,022	141,253	13.9%	0	141,253	13.9%	1,701	12,873	-	\$20.64
South Atlanta Class B	5,880,312	664,476	11.3%	12,850	677,326	11.5%	-4,679	-115,374	-	\$16.55
South Atlanta Overall	6,894,334	805,729	11.7%	12,850	818,579	11.9%	-2,978	-102,501	-	\$17.21
West Atlanta Class A	0	0	0.0%	0	0	0.0%	0	0	-	\$0.00
West Atlanta Class B	862,825	47,062	5.5%	0	47,062	5.5%	581	-4,595	-	\$15.22
West Atlanta Overall	862,825	47,062	5.5%	0	47,062	5.5%	581	-4,595	-	\$15.22
<b>Suburban Submarkets Total</b>										
Suburban Class A	54,780,285	7,276,362	13.3%	708,056	7,984,418	14.6%	-114,359	-442,091	1,148,088	\$25.96
Suburban Class B	48,778,837	8,964,666	18.4%	319,110	9,283,776	19.0%	281,322	109,677	-	\$17.36
Suburban Overall	103,559,122	16,241,028	15.7%	1,027,166	17,268,194	16.7%	166,963	-332,414	1,148,088	\$21.91
<b>ATLANTA TOTAL</b>										
Overall Class A	98,781,562	13,428,685	13.6%	929,218	14,357,903	14.5%	190,002	311,008	1,733,326	\$27.49
Overall Class B	61,512,493	11,052,499	18.0%	338,370	11,390,869	18.5%	285,676	105,833	-	\$18.32
Overall Class A & B	160,294,055	24,481,184	15.3%	1,267,588	25,748,772	16.1%	475,678	416,841	1,733,326	\$23.92

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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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