

# ATLANTA OFFICE MARKET

FOURTH QUARTER 2017

## Absorption & asking rents rise in Q4

Vacancy remains near cycle lows

### 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. Professional and financial services, technology, and hospitality are leading job growth and the metro area is enjoying above-average wage growth as well.

Dr. Rajeev Dhawan of Georgia State University's Economic Forecasting Center predicted in November that Atlanta would add 68,900 jobs in 2017, with 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 continues to outpace the nation with a 3.5% 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, and healthcare.

### DEVELOPMENT

#### New projects underway in most submarkets

At the end of 2017 Atlanta had nearly 1.9 million SF of speculative office space under construction, in addition to another 2.0 million SF of build-to-suit projects for NCR, State Farm, Mercedes, and HD Supply. New developments totaling 1.7 million SF have already been completed this year in Buckhead, Midtown, 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 35% 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 leased prior to delivery.

### QUARTERLY SNAPSHOT

#### VACANCY



**16.1%**

Down from earlier in the year

#### ABSORPTION



**612,749 SF**

Healthy demand in Class A and B space during the quarter

#### RENTAL RATE



**\$25.05 PSF**

Asking rates continue to rise in nearly every submarket

#### UNDER CONSTRUCTION



**1.9 Million SF**

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

#### AVERAGE SALE PRICE



**\$179 PSF**

Up from previous 12-month period

#### JOB GROWTH



**3.1%**

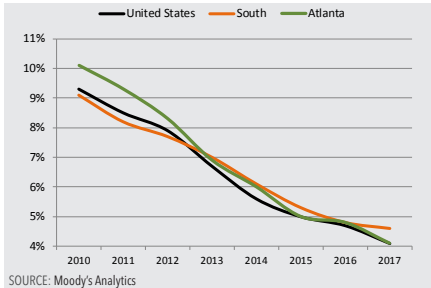
Annual job growth still outpacing the U.S. average

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FOURTH QUARTER 2017



## UNEMPLOYMENT RATE

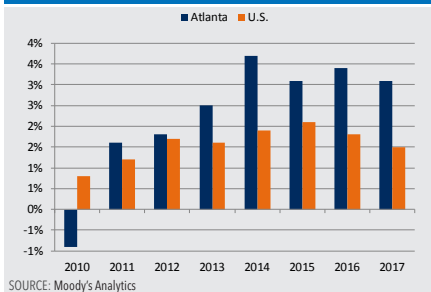


## VACANCY

### Vacancy declines in Class A & B space

Healthy absorption and limited development contributed to declining vacancy in Atlanta, with vacancy reaching an eight-year low of 16.0% in 2015. Vacancy has remained around that level since then, and is currently 16.1% as of Q4 2017, down slightly from Q3. Atlanta's Class A vacancy rate is 15.6%, down from last quarter and among the lowest levels seen in the past decade. The Class B vacancy rate of 16.9% is also near a decade low. Among Atlanta's major submarkets, overall rates are lowest in Midtown (10.7%) and North Fulton (14.3%), while the lowest Class A vacancy rates are found in Midtown and the smaller Northlake submarket.

## PAYROLL JOB GROWTH

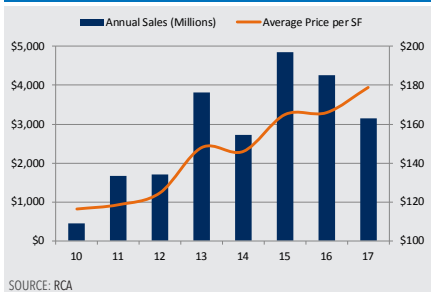


## DEMAND

### Annual absorption in 2017 nearly matches previous year

Following a surge of demand from 2012 through 2015, Atlanta's office absorption slowed in 2016, and this trend has continued throughout 2017. Following four years in which annual absorption ranged from 2.0 million to 3.5 million SF each year, Atlanta absorbed approximately 600,000 SF in 2016. Similar demand was seen in 2017, with 575,000 SF of annual absorption reported. Q4 provided Atlanta's strongest demand of the year, with absorption of 612,749 SF reported. Most of the demand in 2017 was found in Atlanta's Class A sector, but Class B space enjoyed healthy positive absorption of 140,000 SF during Q4. Demand in Q4 was weighted toward the suburban submarkets, particularly the Northwest, but Downtown also enjoyed healthy demand. For the year, Northwest and Midtown saw the highest levels of absorption.

## OFFICE SALES - AVERAGE PRICE PSF



## RENTAL RATES

### Asking rents continue to rise

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 2017. Overall asking rents rose to an average of \$25.05 PSF in Q4, with Class A rents dipping slightly to an average of \$28.40 PSF. Class A rates rose by more than 5% during the year, while Class B rents rose by 4.5% during the same period. Asking rents rose in every submarket except Buckhead during Q4, and average rates remain highest in Class A properties in Midtown (\$35.05) and Buckhead (\$33.83). Most major submarkets continue to set new record highs each quarter for their Class A properties.

Completed between 10/1/17 and 12/31/17

## Transaction Highlights

### Notable Office Lease Deals

TENANT	PROPERTY NAME	LEASE (SF)	COMMENTS
WeWork	Terminus 100	47,670	New Lease
ConstructConnect	Technology Park	38,000	Renewal
Ford & Harrison	271 17th Street	37,561	New Lease

### Notable Office Building Sales

Completed between 10/1/17 and 12/31/17

PROPERTY NAME	RBA	PRICE	COMMENTS
Live Oak Square	201,488	\$50.1 million (\$249 PSF)	Acquired by Sage Equities & Anchor Capital
Parkway 400	194,644	\$39.6 million (\$204 PSF)	Acquired by Velocis
2245-2247 Northlake Pkwy.	406,292	\$41.5 million (\$102 PSF)	Acquired by SDM Partners



**INVESTMENT**

**Pricing up nearly 8% in 2017**

In 2015 investment sales volume reached its highest level since 2007 at nearly \$5 billion before volume began to slow. Sales volume was \$4.5 billion during 2016, and that figure slowed again to \$3.2 billion in 2017. The average sale price per square foot has continued to rise, though, reaching an average of \$179 PSF at the end of 2017. This is a nearly 8% gain over the previous year. Atlanta continues to attract investors for both well-located trophy properties and value-add opportunities.

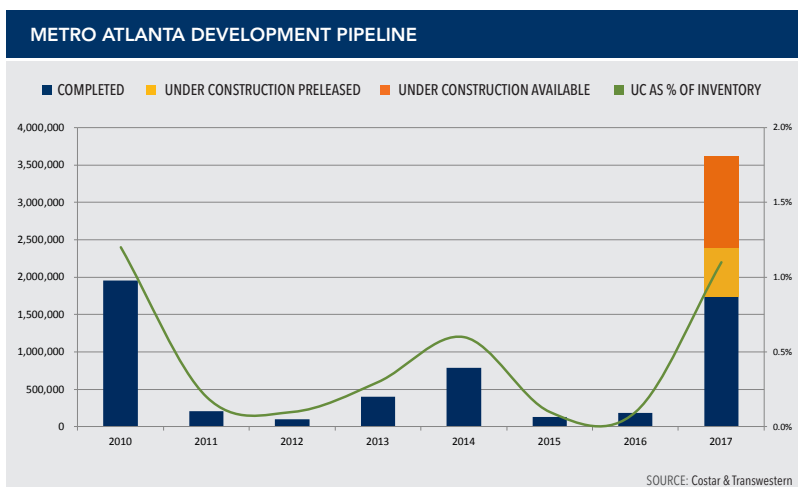
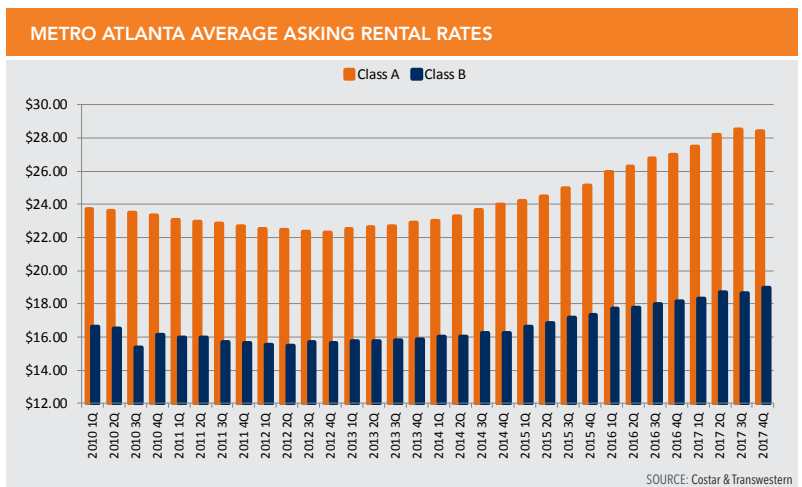
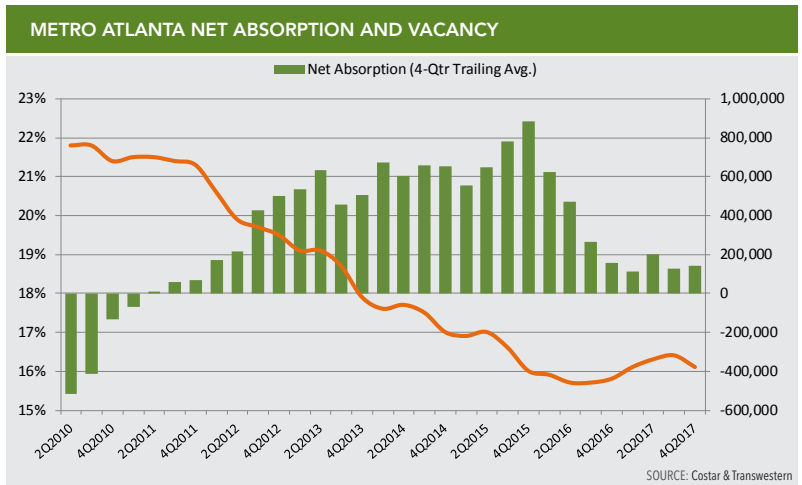
*Most of the demand in 2017 was found in Atlanta's Class A sector, but Class B space also enjoyed healthy absorption*

**FORECAST**

**Fundamentals remain strong, but the market is changing**

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 2017 deliveries exceeded demand for the first time in several years, leading to a very small increase in vacancy. While nearly 2.0 million SF of spec space are under construction, most of that space is set to deliver within the next eighteen months with few new projects expected 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 strong job growth does not fully translate into increased occupancy. While the year ended on a high note, office demand has slowed in the past two years 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

FOURTH 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	17,064,902	2,569,352	15.1%	119,250	2,688,602	15.8%	58,684	44,493	-	\$33.83
Buckhead Class B	3,036,013	192,369	6.3%	36,889	229,258	7.6%	-12,021	-37,434	-	\$23.83
Buckhead Overall	20,100,915	2,761,721	13.7%	156,139	2,917,860	14.5%	46,663	7,059	-	\$32.93
Downtown Class A	13,045,402	2,372,858	18.2%	125,452	2,498,310	19.2%	96,680	225,463	-	\$26.29
Downtown Class B	5,793,880	931,045	16.1%	0	931,045	16.1%	-10,847	-137,026	99,000	\$20.08
Downtown Overall	18,839,282	3,303,903	17.5%	125,452	3,429,355	18.2%	85,833	88,437	99,000	\$25.45
Midtown Class A	14,900,888	1,422,318	9.5%	180,694	1,603,012	10.8%	52,600	155,286	1,190,000	\$35.05
Midtown Class B	3,252,976	323,282	9.9%	12,625	335,907	10.3%	13,705	111,970	-	\$25.64
Midtown Overall	18,153,864	1,745,600	9.6%	193,319	1,938,919	10.7%	66,305	267,256	1,190,000	\$33.56
<b>Urban Submarkets Total</b>										
Urban Class A	45,011,192	6,364,528	14.1%	425,396	6,789,924	15.1%	207,964	425,242	1,190,000	\$32.05
Urban Class B	12,082,869	1,446,696	12.0%	49,514	1,496,210	12.4%	-9,163	-62,490	99,000	\$22.52
Urban Overall	57,094,061	7,811,224	13.7%	474,910	8,286,134	14.5%	198,801	362,752	1,289,000	\$30.03
<b>SUBURBAN SUBMARKETS</b>										
Central Perimeter Class A	17,873,035	2,464,672	13.8%	297,304	2,761,976	15.5%	-46,651	-208,737	355,250	\$29.41
Central Perimeter Class B	5,506,840	1,209,222	22.0%	10,582	1,219,804	22.2%	-34,915	-71,260	-	\$21.20
Central Perimeter Overall	23,379,875	3,673,894	15.7%	307,886	3,981,780	17.0%	-81,566	-279,997	355,250	\$27.46
North Fulton Class A	12,982,691	1,790,282	13.8%	183,974	1,974,256	15.2%	148,694	56,290	151,584	\$25.72
North Fulton Class B	7,859,400	997,208	12.7%	19,367	1,016,575	12.9%	-26,707	50,928	-	\$19.45
North Fulton Overall	20,842,091	2,787,490	13.4%	203,341	2,990,831	14.3%	121,987	107,218	151,584	\$23.30
Northeast Class A	6,487,881	1,340,154	20.7%	44,359	1,384,513	21.3%	-40,612	-128,229	-	\$20.97
Northeast Class B	10,589,120	2,509,716	23.7%	120,717	2,630,433	24.8%	164,862	69,064	-	\$15.80
Northeast Overall	17,077,001	3,849,870	22.5%	165,076	4,014,946	23.5%	124,250	-59,165	-	\$18.00
Northlake Class A	3,381,130	225,491	6.7%	19,446	244,937	7.2%	3,006	45,031	93,000	\$24.37
Northlake Class B	8,156,830	1,417,857	17.4%	6,723	1,424,580	17.5%	53,501	-50,623	-	\$19.49
Northlake Overall	11,537,960	1,643,348	14.2%	26,169	1,669,517	14.5%	56,507	-5,592	93,000	\$20.50
Northwest Class A	15,488,942	2,434,199	15.7%	229,531	2,663,730	17.2%	209,428	307,245	-	\$26.80
Northwest Class B	10,151,453	1,729,224	17.0%	44,597	1,773,821	17.5%	-16,291	11,818	-	\$18.93
Northwest Overall	25,640,395	4,163,423	16.2%	274,128	4,437,551	17.3%	193,137	319,063	-	\$23.70
South Atlanta Class A	1,029,036	108,052	10.5%	0	108,052	10.5%	-9,164	53,201	-	\$20.54
South Atlanta Class B	5,680,628	589,525	10.4%	76,515	666,040	11.7%	13,167	84,211	-	\$17.70
South Atlanta Overall	6,709,664	697,577	10.4%	76,515	774,092	11.5%	4,003	137,412	-	\$18.04
West Atlanta Class A	0	0	0.0%	0	0	0.0%	0	0	-	\$0.00
West Atlanta Class B	864,941	54,209	6.3%	0	54,209	6.3%	-4,370	-7,147	-	\$17.30
West Atlanta Overall	864,941	54,209	6.3%	0	54,209	6.3%	-4,370	-7,147	-	\$17.30
<b>Suburban Submarkets Total</b>										
Suburban Class A	57,242,715	8,362,850	14.6%	774,614	9,137,464	16.0%	264,701	124,801	599,834	\$26.45
Suburban Class B	48,809,212	8,506,961	17.4%	278,501	8,785,462	18.0%	149,247	86,991	-	\$18.22
Suburban Overall	106,051,927	16,869,811	15.9%	1,053,115	17,922,926	16.9%	413,948	211,792	599,834	\$22.67
<b>ATLANTA TOTAL</b>										
Overall Class A	102,253,907	14,727,378	14.4%	1,200,010	15,927,388	15.6%	472,665	550,043	1,789,834	\$28.40
Overall Class B	60,892,081	9,953,657	16.3%	328,015	10,281,672	16.9%	140,084	24,501	99,000	\$18.98
Overall Class A & B	163,145,988	24,681,035	15.1%	1,528,025	26,209,060	16.1%	612,749	574,544	1,888,834	\$25.05

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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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