



MERGERS & ACQUISITIONS

THE ATLANTA OFFICE MARKET IS POISED FOR BIG CHANGE

Accelerating success.



NEW MERGERS & ACQUISITIONS ARE IMPACTING ATLANTA'S OFFICE MARKET

Mergers inevitably bring change on many levels, and certainly headquarter relocations are a large part of the picture. The city of Atlanta will be impacted by the recent companies combining, from the office market to job creation and losses. And while there will be uncertainty, the city is in a good position to capitalize on the opportunities the mergers will also bring.

The Atlanta office market is poised for big change thanks in part to recent mergers and acquisitions – some of which are so large that they've been making news headlines. Along with these mergers and acquisitions come decisions about where the new combined companies will be headquartered, impacting office markets. For Atlanta that will bring both opportunities and some uncertainty.

THE OPPORTUNITIES

The city of Atlanta has been host to a string of financial companies merging. First, on January 1, 2019, Cadence Bancorporation completed its merger with State Bank. Next, the fintech company Payscale announced its merger with NXGEN on May 14, 2019. Then, on May 28, 2019, Global Payments and Total System Services (TSYS) announced their merger — all of them set to expand office use in Atlanta.

The Global Payments/TSYS merger will create the firm known as Global Payments, making it a major player in the fintech world and likely resulting in more jobs for the area. Global Payments is already a large space-user in the Atlanta office market occupying over 230,000 square feet in Buckhead and Central Perimeter. Additionally, TSYS has a significant presence in the Atlanta office market where it leases almost 90,000 square feet.

Global Payments, the merged company, is expected to keep its headquarters in both the Atlanta and Columbus, Georgia markets. But, given the current presence of the original Global Payments in Atlanta, it's possible that the merged company could consolidate into a single location in one of the city's most popular office submarkets.

Given Midtown's prominence with technology companies, including its proximity to Georgia Tech and the future labor talent coming from the university, Global Payments may choose one of the many new office towers currently proposed or under construction in the fast-growing submarket. Of course, this is only speculation and maintaining the firm's four locations across the Atlanta office market is also possible. The same scenarios could play out for the other mergers as well.

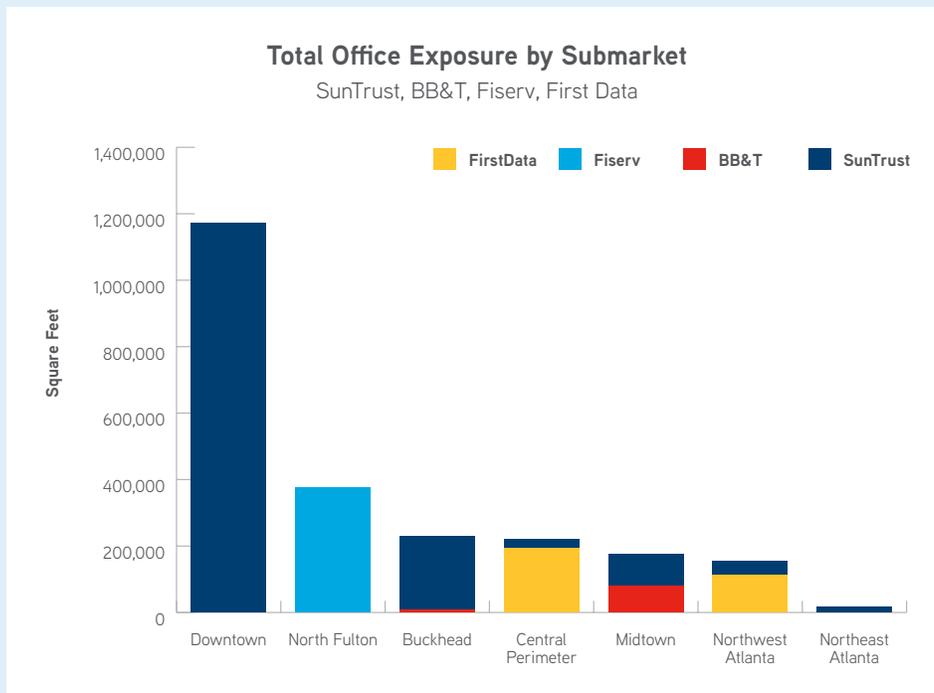
THE UNCERTAINTY

In June of 2019, SunTrust Banks, Inc. and BB&T Corporation announced the name of their recently merged company: Truist. It will be the 6th largest bank in the United States. SunTrust has been a dominant part of Atlanta's skyline, occupying over 1.5 million square feet of office space across the metro region, with a significant majority of that space in downtown Atlanta. Now the new company's headquarters will be moving from Atlanta to Charlotte, North Carolina, and this could be a big hit to Atlanta's office market.

Another potential loss to the city could be the merger between Fiserv and First Data (announced in January 2019). Both companies have a significant presence of occupied space in Atlanta — upwards of 700,000 square feet between the two. Fiserv will be the parent company following the merger and their headquarters is located in Wisconsin. So it's not unlikely for the company to consolidate and relocate First Data staff out of existing office buildings in Atlanta to Fiserv's location in North Fulton — or even to its Wisconsin headquarters. It has already been reported that the deal will result in some short-term job cuts.



Atlanta's SunTrust headquarters is moving to Charlotte, North Carolina.



Fiserv has a significant presence in Atlanta but may up and move to Wisconsin.

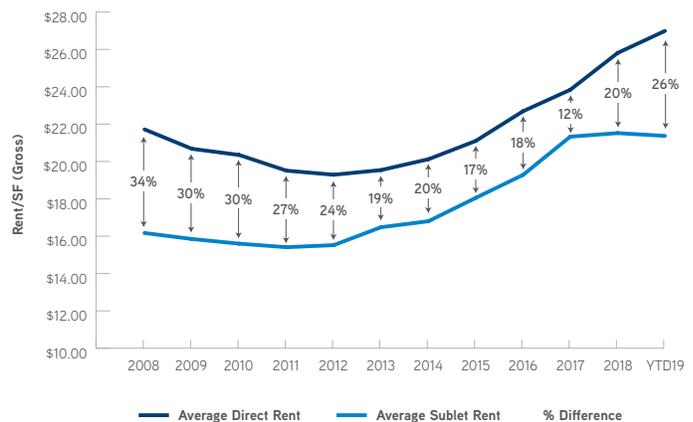
OVERALL GROWTH AND SUBLEASE SOLUTION

Even with these potential losses, other opportunities for growth in the Atlanta office market do exist — specifically companies seeking space in the city or looking to open new locations in the metro area. Atlanta’s overall direct office rental rate has increased 40% since its most recent low in 2012. The average gross rate now stands at \$27 per square foot. In a relatively short amount of time, this increase is tremendous and highlights the strength of Atlanta’s overall office market expansion. Strong demand for space, along with subdued delivery of new space, has resulted in continuous record highs.

To some extent, higher-priced office space has made it more difficult for start-ups and some companies to open locations in Atlanta, most notably in amenity-rich markets such as Midtown and Buckhead. And that has increased the use of sublease space in which companies lease the office space, vacate it before the term expires and put it back on the market for sublease in the hopes of recuperating some of the expense of the original lease.

With the potential of vacant space hitting the market from the recent mergers, some (if not most) of the space may be put back on the market in the form of sublease. Traditionally, these sublease spaces are advertised at a discount compared to those listed on a direct basis. For Atlanta, the average cost of sublease space is traditionally 25% less than the average cost of direct space. The quick turnaround between space vacated and then occupied could limit the losses Atlanta may experience from the major companies consolidating as part of a merger.

Atlanta Office Rent Comparison
% Difference Between Direct and Sublet Space Averages



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