

Positive Activity Continues for Atlanta's Office Market in Q3

Key Takeaways

- › Atlanta's office market continues its string of positive activity absorbing just over 175,000 square feet in the third quarter.
- › Midtown returned to the lead spot this quarter, accounting for basically all of the positive results in Q3. Outside of this submarket, activity was mostly equalized with move-ins, both large and small, offset by similar sized vacancies.
- › For the sixth consecutive quarter, the office vacancy rate in Atlanta has shown no significant movement. Supply and demand fundamentals have remained balanced during this time.
- › Third quarter deliveries were limited to small office buildings under 100,000 square feet. New projects breaking ground in Q3 were also of the same size.
- › Continued demand for space has pushed Atlanta's average office rent to yet another record high of \$27.50/sf.
- › With the year nearly complete, Atlanta's office market has almost matched 2018's total net absorption. Given the anticipated amount of occupancy gains next quarter, the city is likely to finish 2019 with its highest annual absorption total in 4 years.

Atlanta Office Market

Heading into the final quarter of the year, Atlanta's office market continues to show enduring positive results. The third quarter saw over 175,000 square feet of office space absorbed, representing the fourth consecutive period of occupancy gains. Year-to-date, the amount of net absorption in the market almost tops all of 2018's total. Following a brief hiatus, Midtown returned to top form this quarter, essentially accounting for all of the positive activity. Led by Keysight Technologies' occupancy at Coda, and expansions from both Invesco and Accenture, the submarket's net absorption totaled 176,816 square feet this quarter. This has brought Midtown's year-to-date amount

Market Indicators

Relative to prior period

	ATL Q3 2019	ATL Q4 2019*
VACANCY	-	↓
NET ABSORPTION	+	+
CONSTRUCTION	↓	↑
RENTAL RATE	↑	↑
CAP RATES	↑	-

*Projected

Summary Statistics

Atlanta Office Market

	ATL Market	ATL Class A	ATL Class B
Vacancy Rate	13.6%	15.2%	13.0%
Change From Q2 2019	-	0.2%	-
Year-Over-Year Change	0.1%	0.4%	-
Absorption YTD (Thousands Square Feet)	1,380	1,055	174
Construction Deliveries YTD (Millions Square Feet)	2.0	1.8	0.2
Under Construction (Millions Square Feet)	6.9	6.4	0.5

Asking Rents

Per Square Foot Per Year

Average Quoted	\$27.50	\$31.22	\$20.56
Change From Q2 2019	1.5%	0.2%	3.0%
Year-Over-Year Change	7.5%	6.2%	6.5%

Atlanta Office Market (continued)

to just under 470,000 square feet; behind only North Fulton's total of 502,581 square feet which saw strong results in Q1 and Q2 thanks to Jackson Healthcare's expansion delivery and other large occupancies by Veeam and McKesson. Beyond submarket details, the absorption by product class in the third quarter was intriguing. The Class A market actually experienced a net loss of occupied space as a host of large contractions and vacancies transpired, examples being State Farm's 47,000 square-foot vacancy at Three Ravinia and Oldcastle's 51,000 square-foot contraction at 900 Ashwood. The largest vacancies in Q3 were General Electric leaving 151,000 square feet in Northwest Atlanta and Inspire Brands leaving 1155 Perimeter Center West in Central Perimeter. In Inspire's case though, the company relocated to more space within the submarket resulting in net positive growth overall.

With a somewhat modest quarter of positive absorption, and deliveries totaling slightly more than the same amount, the overall vacancy rate for Atlanta office showed no significant movement from the prior quarter. It has basically ranged between 13.5% to 13.7% for the past year. Specific to vacancy levels, the submarkets capturing most of the attention this quarter were Midtown and Central Perimeter. For Midtown, the aforementioned positive activity led to a 60 basis point drop in its overall vacancy rate from Q2. Meanwhile, Central Perimeter experienced a third consecutive quarter of occupancy losses which pushed the vacancy rate here up to its highest level in six years. The submarket has been hit hardest recently by a number of large move-outs; most notably from State Farm's consolidations out of multi-tenant office buildings. Nevertheless, in spite of these types of give-backs, rental rates continue to rise. For the Atlanta market as a whole, average rents increased to yet another new record this quarter.

UPDATE - Recent Transactions in the Market

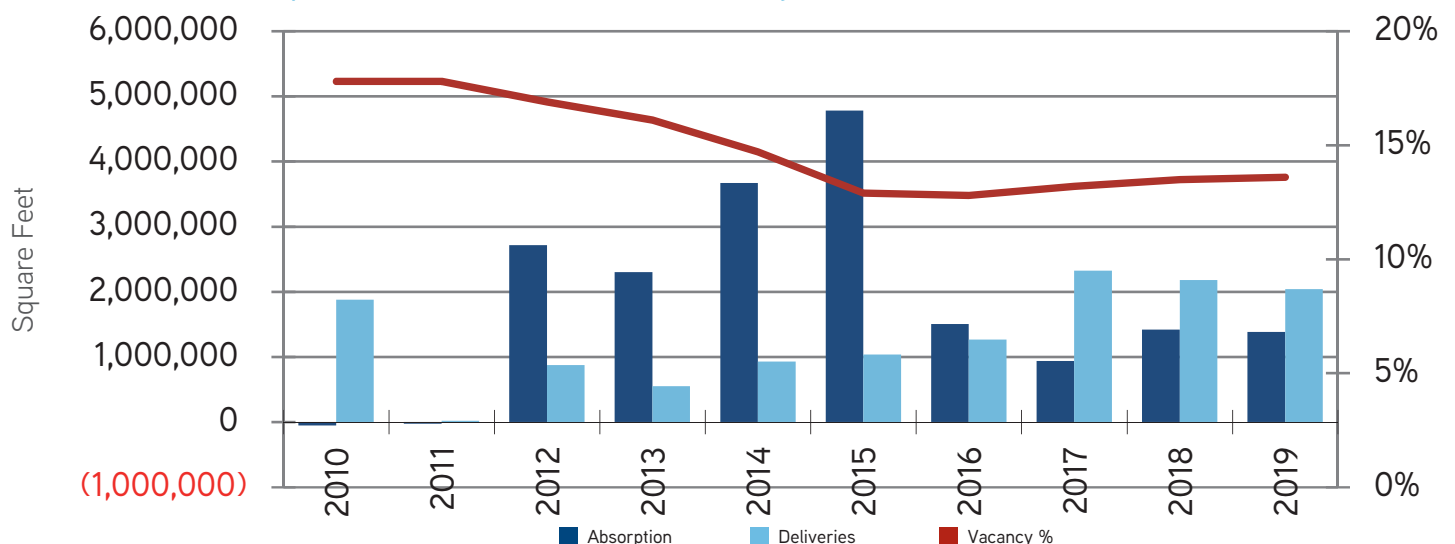
Notable Leasing Activity

TENANT	PROPERTY	SUBMARKET	LANDLORD	SIZE (SF)	TYPE
Pruitt Healthcare	5238 Peachtree Rd.	Northlake	Greenstone Properties	197,455	Build-To-Suit
VMWare AirWatch	1155 Perimeter Ctr.	Central Perimeter	Piedmont Office Realty	152,726	Class A Renewal
WeWork	1155 Perimeter Ctr.	Central Perimeter	Piedmont Office Realty	71,821	Class A Lease
Owens & Minor	1 Edison Drive	North Fulton	TPA Group	66,917	Class A Lease
Ameris	Two Securities Centre	Buckhead	Atlanta Property Group	58,625	Class A Lease

Notable Sales Activity

PROPERTY	SUBMARKET	SALES DATE	SALE PRICE	SIZE (SF)	PRICE / SF	BUYER
400 & 600 Galleria	Northwest Atlanta	8/26/2019	\$225,000,000	866,228	\$259.75	Piedmont Office Realty Tr.
950 E Paces Ferry Rd.	Buckhead	7/31/2019	\$205,000,000	631,808	\$324.47	KKR
Lindbergh Center	Buckhead	9/27/2019	\$187,000,000	955,000	\$195.81	Rubenstein/Monarch Capital
171 17th Street	Midtown	7/18/2019	\$176,500,000	510,268	\$345.90	Prime US REIT
715 Peachtree	Midtown	6/25/2019	\$123,037,000	318,466	\$386.37	Northwood Investors

Historical Absorption, Deliveries and Vacancy Rates



Vacancy & Availability

- > The office vacancy rate has remained relatively unchanged in Atlanta over the past year. This is due to the balance between new inventory added and demand for space in the market.
- > Midtown had the highest drop in vacancy quarter-over-quarter with a 60 basis point decline (0.6%). Year-over-year, the Peachtree Corners area of Northeast Atlanta has seen the largest drop at 140 basis points (1.4%). This subarea has witnessed a bit of a resurgence in 2019 following years of negative growth.
- > A combination of consolidations and contractions is resulting in more available space in certain submarkets. Central Perimeter has been hit hardest as of late, mostly due to State Farm vacating multi-tenant buildings.
- > With limited supply additions, and a strong quarter of occupancy gains expected next quarter, Atlanta's office market could see a more pronounced drop in vacancy in Q4.

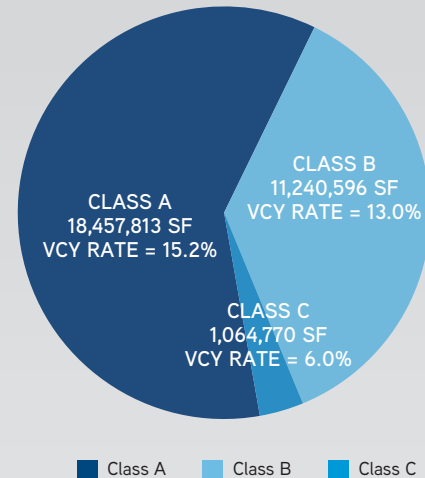
Absorption & Leasing Activity

- > This quarter's 176,000 square feet of positive absorption brings the year-to-date total to just under 1.4 million square feet. This is almost equal to all of 2018's total.
- > Class A occupancies were key to Midtown being the top office submarket this quarter. Secondary submarkets such as Northlake and South Atlanta experienced positive gains in both Class B and Class C product.
- > Leasing activity was steady in Q3. PruittHealth recently announced plans for a 198,000 square-foot build-to-suit in the Chamblee area of Northlake. Meanwhile, WeWork remained active in their Atlanta expansion, signing for a total of 208,000 square feet in four office buildings.
- > Given Fourth Quarter's projected absorption figures, the Atlanta office market will most likely cross the 2-million square-foot total for 2019. This would be the highest amount of office space absorbed in a year since 2015.

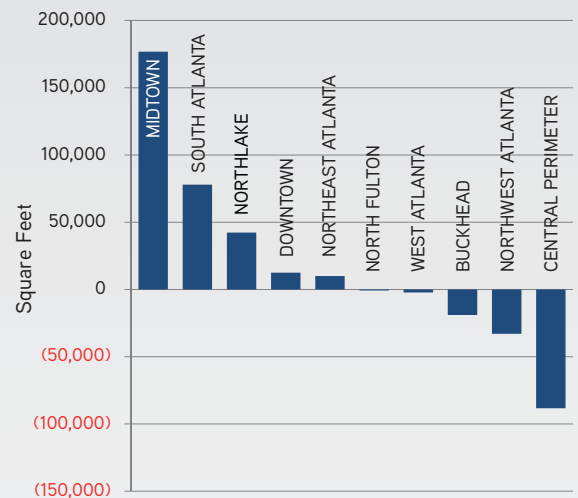
Rental Rates

- > The average market rent in Atlanta increased for a 21st consecutive quarter, reaching an all-time high yet again.
- > Midtown's Class A average is quickly approaching the \$40/sf high watermark. Year-over-year, the submarket has seen rents for this product type increase 8%.
- > Class B and C rents increased 3% and 6.5% respectively this quarter. These space categories posted strong occupancy gains during Q3 suggesting demand has shifted in their favor; possibly as a result of some companies being priced out of Class A space.
- > As demand for office continues steadily in the Atlanta market, rental rate records are expected to be broken yet again by year's end.

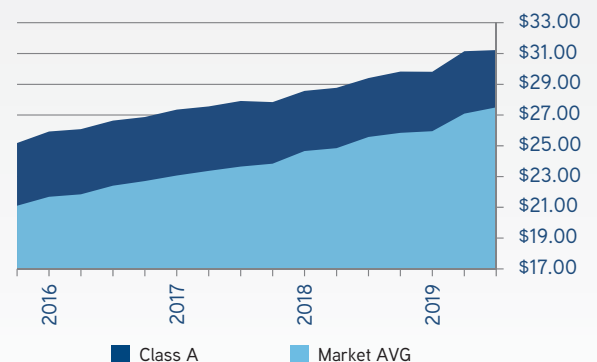
Q3 2019 | Vacant Space By Type



Q3 2019 | Net Absorption By Submarket



Q3 2019 | Atlanta Rental Rates Overall Market & Class A (per sq. ft.)



Sources: CoStar Property, Colliers Research

Construction

- › Smaller deliveries accounted for this quarter's inventory additions.
- › The next big office development to come online will be T3 West Midtown. Currently the project is unleased; however, rumors suggest this may not be the case upon the building's delivery.
- › Development activity continues to be a hot topic in Atlanta's office market. Midtown remains at the center of this discussion.

Investment Activity

- › Office investment was steady in the third quarter with \$746 million transacted. This pushes the year-to-date volume over 2018's total.
- › Class A investment was strongest in Buckhead and Midtown this quarter.
- › A steady stream of office investment is anticipated in Q4 with the typical year-end push by investors to expand and/or unload real estate assets.

DEFINITIONS

Absorption (Net)-The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy and subtracting all the negative changes in occupancy.

Vacancy Rate-A percentage of the total amount of physically vacant space divided by the total amount of existing inventory.

Vacant Space-Space that is not currently occupied by a tenant, regardless of any lease obligation on the space.

Sublease Space-Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

Deliveries-Buildings that complete construction during a specified period of time. A certificate of occupancy must have been issued for the property for it to be considered delivered.

Leasing Activity-The volume of square footage that is committed to and signed for under a lease obligation for a specific building or market in a given period of time. It includes direct leases, subleases and renewals of existing leases. It also includes any pre-leasing activity for buildings under construction or planned.

Build-to-Suit-A term describing property that was developed specifically for a certain tenant to occupy. Can be either leased or owned by the tenant.

Class A Office-A classification used to describe buildings that generally qualify as extremely desirable investment-grade properties and command the highest rents or sales prices compared to other buildings in the same market. Such buildings are well located and provide efficient tenant layouts as well as high quality floor plans.

Class B Office-A classification used to describe buildings that generally qualify as a more speculative investment, and as such, command lower rents or sales prices compared to Class A properties. Such properties have ordinary design, lack prestige and generally must depend on a lower rent/sales price to attract tenants/investors.

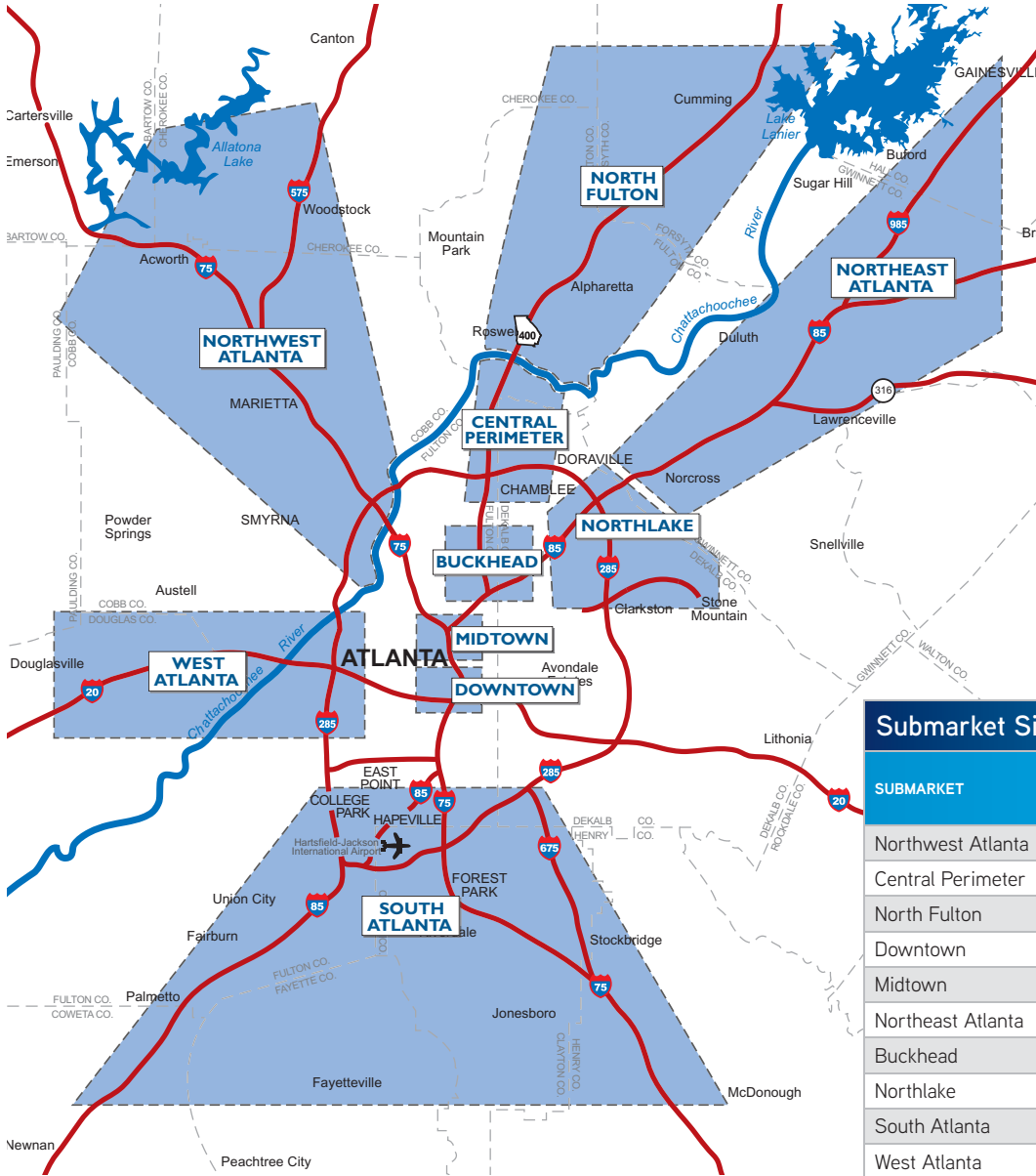
Construction Activity (150,000 SF+)

PROPERTY	SUBMARKET	SIZE (SF)	DELIVERY DATE
Norfolk Southern HQ	Midtown	750,000	Third Quarter 2021
State Farm Phase II - Bldg. 2	Central Perimeter	670,000	First Quarter 2020
1105 West Peachtree	Midtown	664,184	Second Quarter 2021
State Farm Phase II - Bldg. 3	Central Perimeter	429,200	First Quarter 2021
Atlantic Yards South	Midtown	366,970	Third Quarter 2020
Anthem Technology Center	Midtown	352,000	Second Quarter 2020
1 Phipps Plaza	Buckhead	340,000	First Quarter 2021
Twelve24	Central Perimeter	335,000	First Quarter 2020
3 Battery Ave.	Northwest Atlanta	332,486	Third Quarter 2020
712 West Peachtree	Midtown	310,000	First Quarter 2021
Star Metals-1055 Howell Mill	Midtown	267,000	First Quarter 2021
10000 Avalon	North Fulton	249,579	First Quarter 2020
T3 West Midtown	Midtown	232,141	Fourth Quarter 2019
The Interlock	Midtown	200,000	Third Quarter 2020
8 West-889 Howell Mill	Midtown	180,000	Second Quarter 2020
Atlantic Yards North	Midtown	156,541	Third Quarter 2020
The Edison Chastain	Northwest Atlanta	152,612	First Quarter 2020

Outlook

As the final quarter of the year commences, the Atlanta office market is poised for a strong finish to 2019. Based on projected figures, net absorption is anticipated to reach almost 1 million square feet in the fourth quarter which would secure the metro area's highest annual total since 2015. Leading the occupancy gains will be Floor & Décor which is scheduled to move into its new headquarters at 2500 Windy Ridge, expanding its office footprint by 111,000 square feet. On an aggregate basis, however, WeWork is expected to occupy the largest amount of space in the fourth quarter. The company's aggressive expansion over the past year is making its way into the office absorption figures now with an estimated 238,000 square feet of move-in activity in four buildings over the next three months. While this continues to bode well for absorption levels here, WeWork's future expansion plans are somewhat up in the air given all of the latest controversy surrounding the company pulling its IPO. A most recent article reported by Reuters says the company will run out of money by the second quarter of next year if it continues its current expansion strategy. Despite this, the Atlanta office market has always been diverse enough to manage the unforeseen, not relying on one company's growth, or lack thereof, as the hallmark for overall success. With leasing and demand remaining steady, and development activity in check (...for now), the metro area's office market will continue to ride out the positive momentum as long as it can.

Atlanta Office Submarkets



OFFICE SUBMARKETS

The Atlanta office market consists of ten submarkets. They include the urban markets of Downtown, Midtown and Buckhead, and the suburban markets of Central Perimeter, North Fulton, Northwest Atlanta, Northeast Atlanta, Northlake, South Atlanta and West Atlanta. The major interstates in the region include: I-75, I-85, I-285, I-575, I-985, I-675 and I-20. Georgia 400 and US 316 also play important roles to Atlanta's transportation system.

Submarket Size & Occupancy		
SUBMARKET	SIZE	OCCUPANCY %
Northwest Atlanta	36.5 msf	86.2%
Central Perimeter	29.6 msf	83.4%
North Fulton	29.6msf	88.0%
Downtown	26.4 msf	86.6%
Midtown	25.3 msf	88.1%
Northeast Atlanta	24.1 msf	82.6%
Buckhead	21.8 msf	86.1%
Northlake	17.1 msf	88.3%
South Atlanta	13.1 msf	90.8%
West Atlanta	2.3 msf	89.3%

FOR MORE INFORMATION

Scott Amoson
 VP, Director of Research | Atlanta
 +1 404 877 9286
 scott.amoson@colliers.com

Bob Mathews
 CEO - Market Leader | Atlanta
 +1 404 888 9000
 bob.mathews@colliers.com

Holly Hughes
 President & COO | Atlanta
 +1 404 888 9000
 holly.hughes@colliers.com