

Atlanta



Market Facts

15.4%

Overall vacancy down 40 basis points
year-over-year

632,616 SF

Year-to-date absorption for the market
in 2018

3.0 MSF

SF under construction in the fourth
quarter with 46% preleased

\$30.06 PSF

Average Class A asking rate up 6.5% in
the last 12 months

Market Overview

Atlanta's office market rebounded in the fourth quarter of 2018 after two consecutive quarters of negative absorption. Leasing activity well ahead of 2017's pace allowed the market to record the second strongest quarter of absorption since 2015. As the market moves in a positive direction, vacancy rates will continue to decline while rental rates increase at a faster pace.

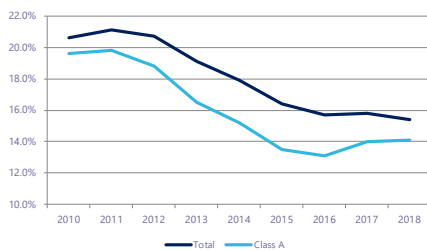
Vacancy and Absorption

The Atlanta office market recorded positive absorption in the fourth quarter of 2018, seeing 530,020 square feet (sf) of net gains. This brings the year-end total to 632,616 sf of positive absorption. The Midtown submarket recorded the most positive absorption for the quarter due to NCR's second phase of their new headquarters delivering 277,000 sf. The Downtown submarket saw the second largest yearly total of absorption with

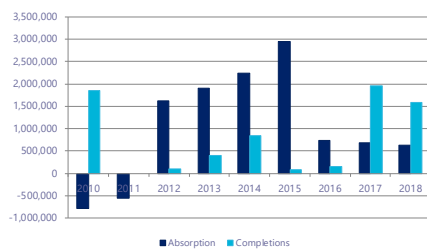
approximately 345,000 sf of net gains. Atlanta's CBD market pushed absorption to remain positive, as the suburban markets totaled almost 500,000 sf of negative absorption for the year. Leasing activity has increased in these markets; positive absorption should return in 2019. During the fourth quarter the Atlanta market saw its largest decline in vacancy since 2016, ending at 15.4%, a 40 basis point (bps) decrease year-over-year. The Class A market improved significantly in the fourth quarter, seeing a vacancy rate of 14.1%, down 100 bps from the rate in the third quarter of 2018. The Class B market continued its downward trend to finish the fourth quarter at 18.7%. As new construction remains tempered and leasing activity continues at its current pace, the Atlanta market should see a downward trend in the overall vacancy rate in 2019.

As new job announcements dominate the headlines, leasing activity and absorption will continue to move the office market in a positive direction in 2019.

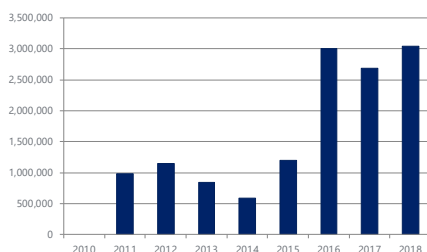
Vacancy Trends



Absorption vs. Completions



SF Under Construction



Leasing Activity

Leasing activity in the fourth quarter of 2018 saw an increase year-over-year and is up 45.3%. The overall market recorded 2.5 million square feet (msf) of leasing activity, bringing the year-to-date total to 9.6 msf. The North Fulton/Forsyth submarket saw the largest amount of leasing activity for the fourth quarter with 478,133 sf leased. McKesson signed the largest new lease in the submarket for 104,000 sf at 1110 Sanctuary Parkway. The largest lease of the quarter, a 112,500 sf new deal, was signed by WeWork at The Interlock in the Midtown submarket. Metro Atlanta has seen a surge in co-working companies leasing significant amounts of space in 2018. WeWork has leased over 200,000 sf in the Atlanta market over the last 12 months while Spaces, Industrious and others have signed well over 100,000 sf combined. As Atlanta continues to draw technology companies and other start-ups, it is expected that co-working spaces will be in high demand.

New Construction

The pace of new construction activity saw a slight increase at the end of the fourth quarter. Currently there are 3.0 msf under construction in the market, of which 46% is preleased. While the amount preleased is below 50%, a majority of new projects such as 10000 Avalon, have waited to break ground until they had a major tenant signed. If this trend continues there should not be a large amount of vacant space entering the inventory.

Rental Rates

Metro Atlanta average asking rental rates continued their upward trend during the fourth quarter of 2018. The

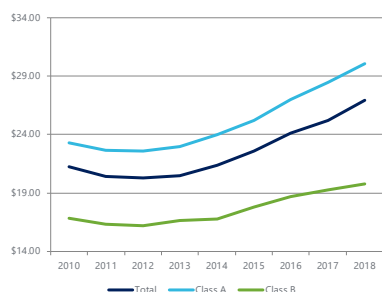
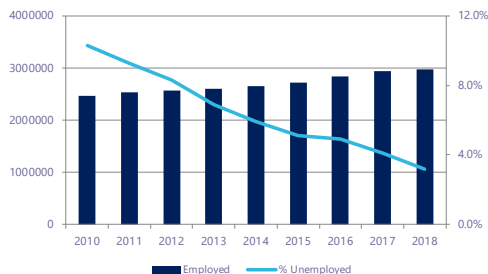
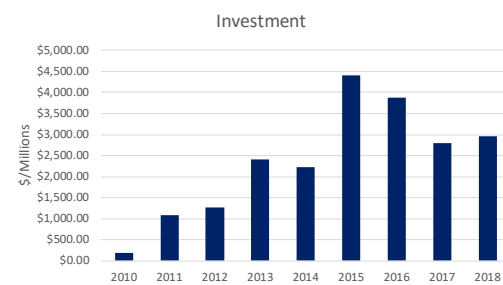
average asking rate ended the quarter at \$26.90 per square foot (psf) gross, up 6.8% year-over-year. The average Class A rate rose by 6.5% to \$30.06 psf, breaking the \$30 mark for the first time. Average Class B rates rose at a slower pace of 4.4% to \$19.77 psf in the same period. Midtown once again has the highest Class A asking rates, finishing the third quarter at \$36.90 psf, up 5.5% year-over-year. The Central Perimeter submarket has the highest suburban asking rental rates at \$27.93 psf. As demand for space, particularly in the Class A sector, challenges supply, asking rental rates will continue to rise.

Investment Sales

Office investment sales ended 2018 on a strong note with approximately \$749 million in sales. The total spent for the entire year was \$3.0 billion, an 8.0% increase from the pace in 2017. The largest sale of the quarter was Prominence in Buckhead which New York Life Insurance purchased from Crocker Partners for \$166 million. The Class A office building, located in the Buckhead submarket, was 90% leased at the time of the sale.

Outlook

Job growth continued its upward trend in Metro Atlanta during the fourth quarter. According to the Bureau of Labor Statistics, employment in the Atlanta Metro area grew by more than 69,900 jobs between December 2017 and December 2018. This is a growth rate of 2.5%, significantly ahead of the 1.8% growth the US is currently experiencing. As new job announcements continue to dominate the headlines, Metro Atlanta's office market should maintain its positive growth into 2019.

Average Asking Rental Rate
(psf/year/full service)Metro Atlanta Employment
(December of each year)Office Investment Sales
(in millions)

Select 4Q 2018 Lease Transactions

Tenant	Property	Type	Submarket	SF
WeWork	The Interlock	Prelease	Midtown	112,500
McKesson	1110 Sanctuary Parkway	New Lease	North Fulton/Forsyth	104,012
Veeam	Northwinds VII	New Lease	North Fulton/Forsyth	80,986
Anthem Blue Cross Blue Shield	Suntrust Plaza Garden	New Lease	Downtown	61,812
Kapsch	2850 Premiere Parkway	New Lease	Duluth/Suwanee/Buford	56,500
Habitat for Humanity	Marquis II	New Lease	Downtown	54,603
Undisclosed	1150 Sanctuary Parkway	New Lease	North Fulton/Forsyth	50,000
OneTrust Privacy Management	600 Northpark	New Lease	Central Perimeter	50,000
Angel Oak	Lakeside Commons II	New Lease	Central Perimeter	47,298

Select 4Q 2018 Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
Prominence in Buckhead	Buckhead	New York Life Insurance	433,000	\$166,000,000	\$383
3445 Peachtree	Buckhead	Barings LLC	286,648	\$82,573,500	\$288
1000 Windward Concourse	North Fulton/Forsyth	B Developments	251,425	\$43,935,000	\$175
Peachtree Technology Park - 4 Buildings	Norcross/Peachtree Corners	TerraCap Management	251,285	\$27,919,000	\$111

Select Construction Projects

Property	Submarket	Projected Completion	Total SF	% Preleased	Asking Rate PSF
Coda	Midtown	First Quarter 2019	760,000	71%	Withheld
Anthem Technology Center*	Midtown	First Quarter 2020	352,000	100%	N/A
725 Ponce	Midtown	First Quarter 2019	343,000	0%	\$37.00 NNN
Twelve24	Central Perimeter	Fourth Quarter 2019	335,000	61%	Withheld
3 Battery Ave	Cumberland/Galleria	First Quarter 2020	332,486	56%	\$36.00 NNN
10000 Avalon	North Fulton/Forsyth	Second Quarter 2019	246,000	40%	Withheld
T3 West Midtown @ Atlantic Station	Midtown	Third Quarter 2019	230,000	0%	Withheld

*Single-tenant leased property

Market By The Numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION		SF Under Construction	AVERAGE ASKING RENT		
		Total	Class A	Class B	4Q18	YTD		Total	Class A	Class B
Buckhead	19,833,430	12.0%	12.4%	9.3%	23,646	174,323	-	\$35.41	\$36.19	\$25.54
Downtown	17,163,352	15.3%	16.6%	9.3%	83,152	344,883	65,000	\$26.55	\$27.44	\$23.60
Midtown	19,013,586	9.2%	10.0%	5.3%	276,216	603,639	1,715,072	\$36.24	\$36.90	\$26.77
Urban Total	56,010,368	12.1%	12.7%	8.1%	383,014	1,122,845	1,780,072	\$33.08	\$34.01	\$25.41
Airport/South Atlanta	4,424,240	20.2%	8.9%	24.2%	31,665	(9,619)	51,272	\$19.93	\$24.69	\$19.30
Central Perimeter	23,496,666	16.4%	15.0%	21.3%	57,617	61,612	335,000	\$27.93	\$30.35	\$20.15
Cumberland/Galleria	20,573,203	18.2%	18.0%	20.1%	(31,674)	(57,659)	369,000	\$25.57	\$27.74	\$20.09
Decatur/Stone Mountain	1,626,387	8.0%	6.0%	4.3%	(9,472)	(29,482)	-	\$21.59	\$25.85	\$19.45
Duluth/Suwanee/Buford	7,942,661	22.1%	17.7%	27.4%	70,167	(131,177)	-	\$19.20	\$21.70	\$16.15
I-20 East/Conyers	499,530	7.9%	-	9.6%	3,834	656	-	\$14.80	-	\$18.84
I-20 West/Douglasville	474,119	12.0%	-	11.1%	-	18,919	-	\$18.97	-	\$18.89
Norcross/Peachtree Corners	6,330,054	27.9%	27.3%	28.9%	10,446	(41,072)	-	\$18.55	\$21.19	\$16.58
North Fulton/Forsyth	19,189,873	14.7%	13.2%	18.4%	101,332	(293,008)	457,570	\$24.66	\$26.70	\$20.36
Northeast Atlanta	8,417,397	14.6%	7.3%	19.2%	43,731	142,981	48,000	\$21.21	\$25.03	\$20.05
Northwest Atlanta	3,845,712	13.3%	6.0%	16.0%	(130,640)	(152,380)	-	\$22.01	\$27.91	\$21.30
Suburban Total	96,819,842	17.4%	15.2%	21.2%	147,006	(490,229)	1,260,842	\$24.11	\$27.26	\$19.33
Total Market	152,830,210	15.4%	14.1%	18.7%	530,020	632,616	3,040,914	\$26.90	\$30.06	\$19.77

BY CLASS	Inventory	Vacancy	4Q Absorption	YTD Absorption	SF Under Construction	Sublease SF
Class A	103,781,939	14.1%	597,987	904,183	3,040,914	1,225,791
Class B	44,572,452	18.7%	(11,274)	(266,572)	-	268,315
Class C	4,475,819	13.2%	(56,693)	(4,995)	-	2,900
Total Market	152,830,210	15.4%	530,020	632,616	3,040,914	1,497,006

Avison Young Atlanta currently tracks Class A, B & C office buildings that are 20,000 square feet or greater, not owner occupied, not medical and not government.



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