

Solid Q1 Results to Start the Year for Atlanta Office

Key Takeaways

- › Similar to a year ago, Atlanta's office market begins 2019 with solid absorption results. Just over 540,000 square feet of space was absorbed in the first quarter.
- › Three large occupancies were major contributors to the positive gains this quarter. Georgia Tech occupied 289,000 square feet at the newly delivered Coda, Serta Simmons occupied 210,000 square feet at its new build-to-suit at Assembly Yards, and Northside Hospital moved into 178,000 square feet at Perimeter Summit.
- › With one million square feet delivered, Atlanta's overall office vacancy rate increased slightly from the previous quarter; up 20 basis points (0.2%).
- › As anticipated, Midtown saw a couple of new projects break ground this quarter including The Interlock and Atlantic Yards. Even more are expected to start in the second quarter.
- › First quarter's strong leasing and absorption sets the Atlanta office market up for stronger than expected occupancy gains this year; possibly the highest since 2015.

Atlanta Office Market

Atlanta's office market begins the year where it left off 2018 with positive momentum and solid fundamentals boosting overall results in the first quarter. At the forefront of this activity were the deliveries of Midtown's Coda tower and Serta Simmons build-to-suit at the former GM plant. With Coda now officially part of the Midtown skyline, the submarket has leaped ahead of Northeast Atlanta as the fifth largest office submarket in Atlanta. The office building, totaling 670,000 square feet, has garnered a lot of attention over the past few years; and has also been a catalyst to a number of new projects in the general area surrounding it including Anthem's new 352,000 square-foot technology center and Norfolk Southern's recently announced 1.3 million square-foot corporate

Market Indicators

Relative to prior period

	ATL Q1 2019	ATL Q2 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	13.5%	14.9%	12.8%
Change From Q4 2018	0.2%	0.2%	-
Year-Over-Year Change	0.3%	1.4%	-0.1%
Absorption YTD (Thousands Square Feet)	540	558	32
Construction Deliveries YTD (Thousands Square Feet)	1,000	976	24
Under Construction (Millions Square Feet)	5.1	4.8	0.3

Asking Rents

Per Square Foot Per Year

Average Quoted	\$26.15	\$30.20	\$19.61
Change From Q4 2018	0.3%	-	2.6%
Year-Over-Year Change	5.6%	4.7%	4.7%

Atlanta Office Market (continued)

headquarters project. Coda delivered to the market 73% leased with Georgia Tech anchoring the building. The university was the largest occupancy in the first quarter, moving into 289,000 square feet. Other notable tenants set to occupy the building later this year include WeWork, Keysight Technologies, and Thyssenkrupp. Serta Simmons was Atlanta's second largest office occupancy in Q1. The bedding manufacturer occupied its new 210,000 square-foot build-to-suit at Assembly Yards becoming the first major office tenant to open at the massive redevelopment of the old Doraville GM plant.

In spite of the 540,000 square feet of space absorbed this quarter, Atlanta's overall office vacancy rate increased slightly to 13.5%. This is mostly due to the one million square feet of space delivered. Elsewhere,

a few sizeable move-outs also took place this quarter which mitigated occupancy gains. At the top of the list was AT&T which vacated another 175,000 square feet at its Midtown tower. The company continues to phase out of the building and still has more yet to vacate. There were also a few consolidations and contractions in the quarter which resulted in large blocks of space put back on the market. Examples include AIG which as a part of its relocation from Central Perimeter to Buckhead contracted their space use by just under 58,000 square feet. Also, Bluelinx relocated within the Cumberland/Galleria submarket and as a result reduced their office space by 82,000 square feet. Nevertheless, despite these and others, the net result for the quarter was soundly positive. This coupled with strong leasing activity; most recently from large preleasing commitments and also WeWork's continued expansion in the market, means Atlanta office market remains resolute.

UPDATE - Recent Transactions in the Market

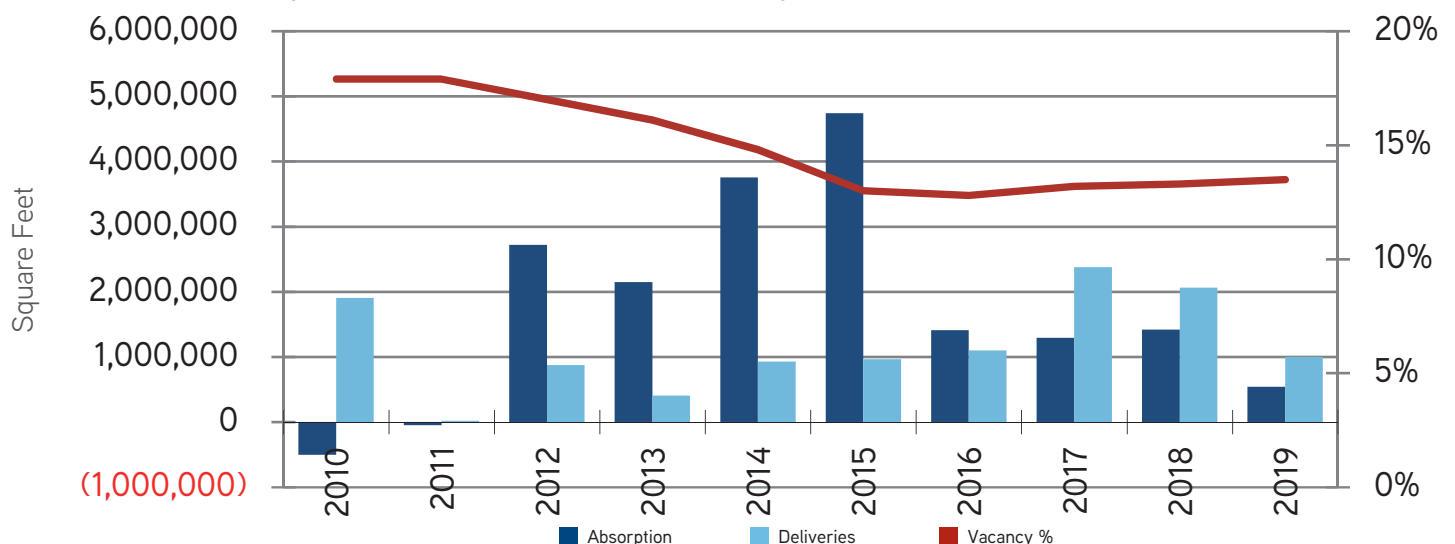
Notable Leasing Activity

TENANT	PROPERTY	SUBMARKET	LANDLORD	SIZE (SF)	TYPE
Norfolk Southern	1200 Peachtree	Midtown	Cousins Properties	366,196	Class A Sale-Leaseback
Google	1105 West Peachtree	Midtown	The Selig Co.	161,292	Class A Prelease
WeWork	101 Marietta St.	Downtown	The Dilweg Co.	100,300	Class A Lease
Smith Gambrell Russell	1105 West Peachtree	Midtown	The Selig Co.	96,758	Class A Prelease
Home Depot	340 Interstate North	Northwest Atlanta	Dev. Authority of Cobb	83,105	Class B Lease

Notable Sales Activity

PROPERTY	SUBMARKET	SALES DATE	SALE PRICE	SIZE (SF)	PRICE / SF	BUYER
1200 Peachtree Street	Midtown	3/4/2019	\$82,000,000	370,000	\$221.62	Cousins Properties
3535 Piedmont Rd.	Buckhead	2/6/2019	\$58,000,000	300,454	\$193.04	The Ardent Companies
2100 Riveredge	Northwest Atlanta	1/28/2019	\$45,225,000	264,818	\$170.78	River Edge Inc.
Royal Centre Two	North Fulton	3/21/2019	\$24,850,000	152,878	\$162.55	The Simpson Organization
200 Ashford Center North	Central Perimeter	1/10/2019	\$24,620,000	159,154	\$154.69	TerraCap Management

Historical Absorption, Deliveries and Vacancy Rates



Vacancy & Availability

- > With office vacancy increasing slightly from last quarter, the trend for the overall rate remains relatively flat over the past three years.
- > Coda's delivery resulted in 270,000 square feet of vacant space added to the market. Close to 150,000 square feet of this vacant space will be occupied in Q2.
- > Specific to Class A product, the Cumberland/Galleria submarket in Northwest Atlanta saw the largest drop in available space. On the opposite end of the spectrum, North Fulton saw the largest increase in space available.
- > As more space continues to deliver to the market, absorption levels should also keep pace. Because of this, Atlanta's overall office vacancy rate is expected to remain somewhat level in 2019.

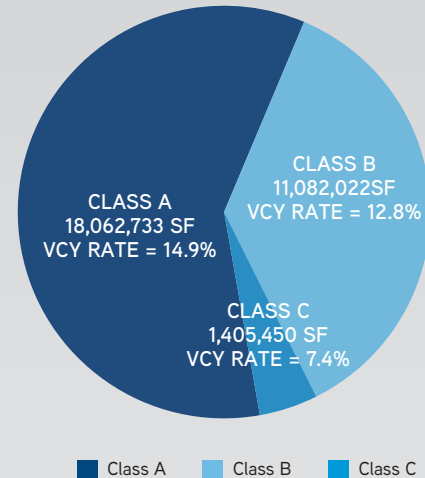
Absorption & Leasing Activity

- > Office absorption was strong to start the year. The Atlanta market absorbed over 540,000 square feet in Q1. The majority of this activity came from two large tenants: Georgia Tech and Serta Simmons.
- > Three office submarkets experienced net absorption levels over 100,000 square feet this quarter. These include Downtown, Midtown, and Northlake. As mentioned earlier, Midtown's and Northlake's gains came from large tenants occupying new space. For Downtown, this is the seventh consecutive positive quarter for the submarket. It continues to see positive momentum from companies looking to locate here.
- > As seen by Q1's overall leasing activity, demand for office space remains elevated. This is highlighted by the preleasing commitments from Google; Smith, Gambrell, & Russell; and Brightree for new office space in the market.
- > Following this quarter's performance, and given the anticipated occupancy gains expected in Q2, Atlanta's office market is poised for another compelling year of absorption. Levels could reach their highest amount since 2015.

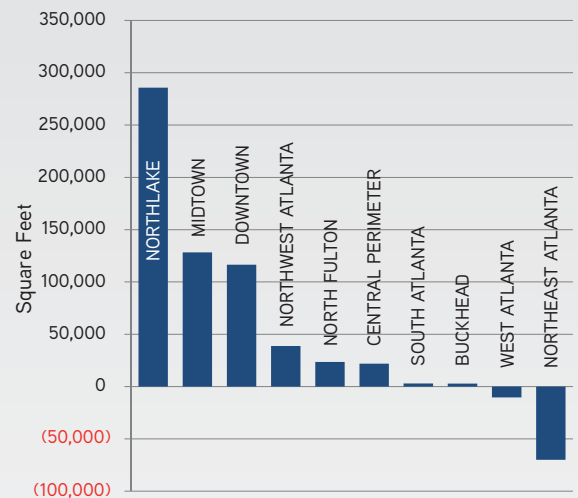
Rental Rates

- > Atlanta office rents continue to climb. The average increased by almost \$0.10/sf from last quarter. That being said, the average Class A rent plateaued in Q1, showing no significant movement.
- > Buckhead's Class A rent rose 1.3% this quarter; the most of any other submarket in Atlanta. The increase is the fifth consecutive quarterly bump of one percent or higher for this type of product here.
- > Few headwinds exist to inhibit the rise in Atlanta's rental rates. The positive fundamentals shaping the market, along with the anticipated deliveries of newer, and more costlier buildings will continue to push average rents to even higher records later this year.

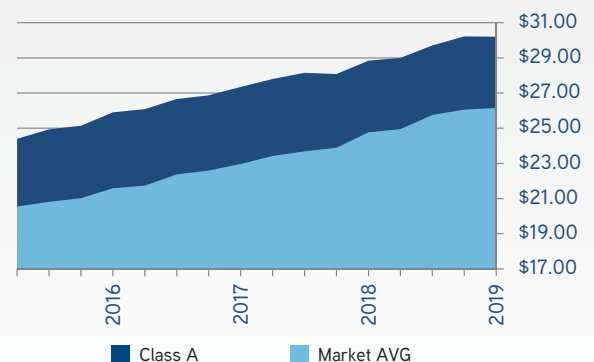
Q1 2019 | Vacant Space By Type



Q1 2019 | Net Absorption By Submarket



Q1 2019 | Atlanta Rental Rates Overall Market & Class A (per sq. ft.)



Sources: CoStar Property, Colliers Research

Construction

- › One million square feet of new office delivered in the first quarter. The largest buildings to come online were Coda and Serta Simmons' build-to-suit.
- › Midtown remains the most active submarket in terms of new office development. The starts of Atlantic Yards, Interlock, and Star Metals have led to an aggregate total of almost 2.2 million square feet now under construction in the submarket.

Investment Activity

- › Coming off a solid quarter of investment activity, volume was expectedly down in the first quarter. The most significant transaction to take place was the sale-leaseback of Norfolk Southern's current headquarters in Midtown to Cousins Properties.
- › Although investors continue to seek opportunities in the Atlanta office market, few availabilities, along with approaching headwinds keep the outlook sparse.

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.

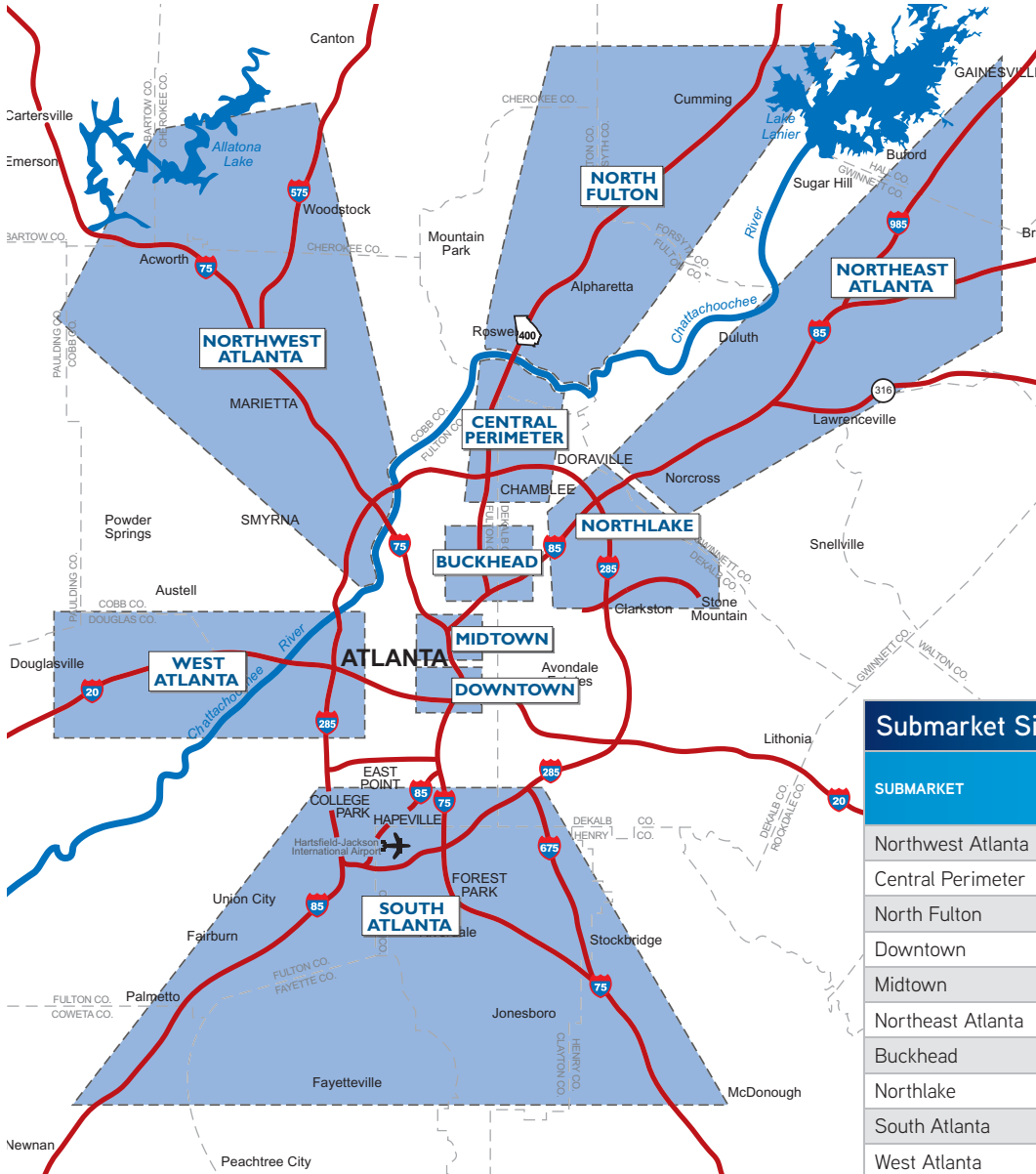
Construction Activity (100,000 SF+)

PROPERTY	SUBMARKET	SIZE (SF)	DELIVERY DATE
State Farm Phase II - Bldg. 2	Central Perimeter	670,000	Fourth Quarter 2019
State Farm Phase II - Bldg. 3	Central Perimeter	429,200	First Quarter 2021
725 Ponce de Leon Ave.	Midtown	370,931	Second Quarter 2019
Anthem Technology Center	Midtown	352,000	Second Quarter 2020
Atlantic Yards South	Midtown	350,000	Third Quarter 2020
Twelve24	Central Perimeter	335,000	Fourth Quarter 2019
3 Battery Ave.	Northwest Atlanta	332,486	First Quarter 2020
Jackson Healthcare Expansion	North Fulton	267,000	Third Quarter 2019
Star Metals-1055 Howell Mill	Midtown	267,000	Fourth Quarter 2020
10000 Avalon	North Fulton	249,579	Second Quarter 2019
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	150,000	Third Quarter 2020
1 Edison	North Fulton	107,991	Third Quarter 2019
Halcyon Office - Bldg. 1200	North Fulton	100,000	Second Quarter 2019

Outlook

The robust start to the year shows Atlanta's positive office fundamentals continue to persevere. This is supported by the most recent job figures for Atlanta which show a year-over-year gain of 73,500 jobs in February. Leasing remains solid, construction activity is balanced, and the upward movement in rents persists. First quarter's performance is a reflection of the growth experienced by the market over the past couple of years. This same growth is expected to produce positive absorption levels throughout 2019. In Q2 alone, just under 1 million square feet of net absorption is anticipated. A significant portion of this occupancy gain can be tied to expansions and new headquarter relocations signed last year. Given the strength of Atlanta's office leasing in the first quarter, this suggests the market will remain positive for some time to come; even despite talks of the current economic expansion coming to its inevitable end. By mid-year, a number of announcements specific to large-space requirements in Atlanta will likely be realized. Additionally, construction starts could top 2.5 million square feet next quarter with 1105 West Peachtree and Norfolk-Southern's office headquarters being the largest to begin. All in all, Atlanta is poised for yet another strong year of gains. Given its current and expected activity, the metro area's office market could see its strongest year of absorption since 2015.

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	36.3 msf	86.1%
Central Perimeter	30.2 msf	85.5%
North Fulton	28.8 msf	87.4%
Downtown	27.8 msf	88.8%
Midtown	24.6 msf	88.6%
Northeast Atlanta	23.9 msf	80.8%
Buckhead	22.1msf	86.5%
Northlake	17.2 msf	88.9%
South Atlanta	13.2 msf	89.1%
West Atlanta	2.9 msf	77.3%

FOR MORE INFORMATION

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