

MARKETBEAT ATLANTA

Office Q4 2019



CUSHMAN &
WAKEFIELD

17.9%

Vacancy Rate

YoY
Chg



12-Mo.
Forecast



4.5M

Net Abs. YTD, SF



\$27.12

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

2.9M

Atlanta
Employment

YoY
Chg



12-Mo.
Forecast



3.2%

Atlanta
Unemployment Rate



3.6%

U.S.
Unemployment Rate



Source: BLS

ECONOMY: Healthy Employment Persists

Metro Atlanta's economy continued to improve throughout the fourth quarter of 2019. Employment trended higher at a growth rate of 2.0% as non-farm employment rose by 56,900 jobs year-over-year (YOY). Office-using employment is forecasted to continue growing in 2020, albeit at a slower rate than in recent years.

The Metro Atlanta unemployment rate decreased 40 basis points (bps) YOY to 3.2%, below the national average. This marks the lowest unemployment recorded in Atlanta this expansion cycle. Office-using industries experienced healthy annual job growth, with Professional and Business Services and Financial Activities rising by 1.5% and 0.3% respectively.

SUPPLY: Speculative Building Deliveries Abound

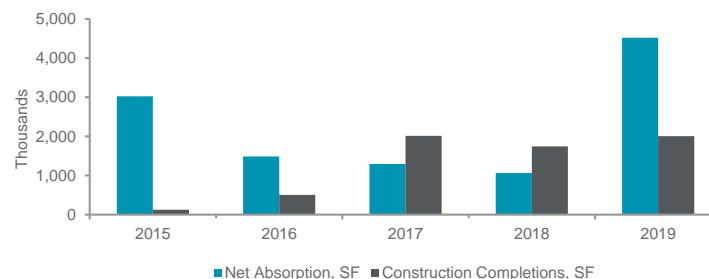
Large space dispositions and speculative construction completions contributed to an increase in Atlanta's vacancy rate to a recent high of 17.9%, up 170 bps YOY. The CBD region drove this increase, with vacancy climbing to 16.9% as large tenants shed long-expected blocks of space. Including those spaces disposed of over the past year, there are currently 26 vacancies in excess of 100,000 square feet (sf) across Metro Atlanta. Large-block availabilities of this size comprise 29.2% of all vacant space in the CBD market, while they account for only 13.2% in the suburbs where small and mid-sized vacancies abound. Ample opportunities for tenants of all sizes exist within high-quality assets throughout the region, as 65.2% of available space is contained within the Class A inventory.

More than 2.0 million square feet (msf) of new office product was delivered across Metro Atlanta in 2019, 85.1% of which was built on a speculative basis. Nearly 610,000 sf of newly-delivered space remains available, contributing to the rise in overall vacancy. One notable exception occurred at 725 Ponce, which was completed during Q2 2019 and was leased in full before year-end.

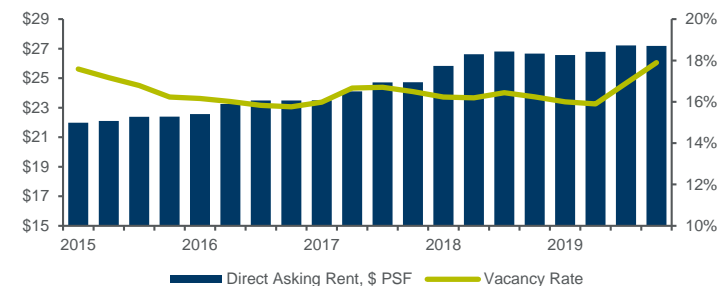
PRICING: Class B Product Drives Average Rent Increase

At \$27.19 per square foot (psf) gross, the direct average asking rental rate reached its highest year-end point this cycle, rising \$0.52 psf YOY. This increase was driven by a rise in higher-priced available space in the Class B inventory, which recorded a 4.4% rent increase since 2018. Meanwhile, the lease-up of premium space in Midtown caused a modest dip in the Metro Atlanta Class A average to \$30.26 psf. However, at \$38.61 psf, Midtown remains the priciest Class A submarket in Metro Atlanta and demands a 27.6% premium over the rest of the market.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & DIRECT ASKING RENT





DEMAND: New Facilities Drive Activity

Atlanta recorded 8.1 msf of new leasing activity in 2019 following a record-breaking 2018 (9.9 msf). While mid-sized and small tenants were active throughout the year, more sizable transactions dwindled as the number of new deals larger than 100,000 sf dropped from 16 in 2018 to nine in 2019. Each of these large transactions was executed in buildings that were not yet constructed. The flight to quality persisted, as 78.3% of annual activity occurred within Class A assets.

Renewal activity was healthy as 128 tenants opted to remain in place throughout 2019, totaling 1.7 msf. While an increasing number of large tenants have decided to relocate into newly-constructed facilities, a plethora of companies in the 30,000- to 80,000-sf range exercised their options to renew.

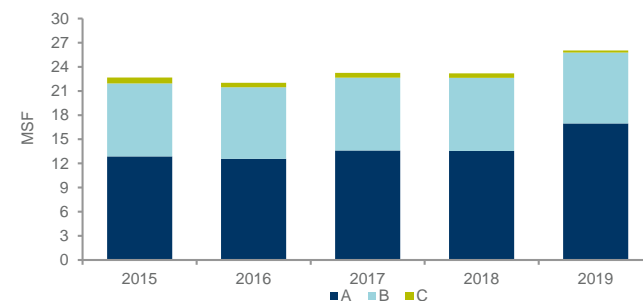
Still, new demand exceeded supply as nearly 1.3 msf of positive net absorption was recorded in Q4 2019, with the non-CBD submarkets accounting for 62.4% of this quarterly total. More than 4.5 msf of positive net absorption was recorded across Metro Atlanta throughout the year, the largest annual net gains in recent history. Absorption was almost equally distributed, with the CBD and suburban areas achieving totals of 2.2 msf and 2.3 msf of gains respectively. Midtown drove the rise in occupancy, accounting for 26.0% of the annual total. Strong activity within new construction bolstered Midtown's performance, as substantial pre-leasing occurred within Coda and 725 Ponce prior to the buildings' completions.

Construction was completed on 15 projects in 2019, totaling 2.0 msf and providing 1.7 msf of speculative space to the market. In addition to build-to-suit facilities for Serta Simmons and others, robust leasing activity in speculative buildings before construction completion or shortly thereafter resulted in only 30.4% of the newly-delivered space remaining vacant by the close of the year.

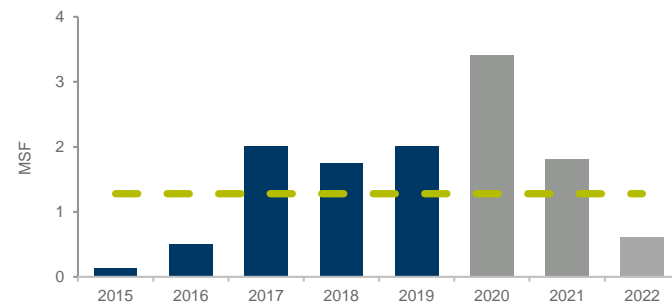
Outlook

- The construction pipeline remains robust as more than 5.8 msf is currently under construction, with 3.4 msf slated to deliver in 2020.
- As high-quality speculative facilities approach construction completion, sustained rent growth should continue both in the CBD and suburban areas of Atlanta, though likely at a slower pace.
- While demand is expected to remain strong in the coming year, several large vacancies are expected for the years 2021 to 2023 as current Atlanta tenants shed space in existing office buildings in favor of new build-to-suit facilities.
- Properties with unique amenities or proximity to attractions like the BeltLine will continue to outperform the remainder of the market. Landlords will capitalize on the advantages such opportunities offer to employers looking to recruit and retain top talent.

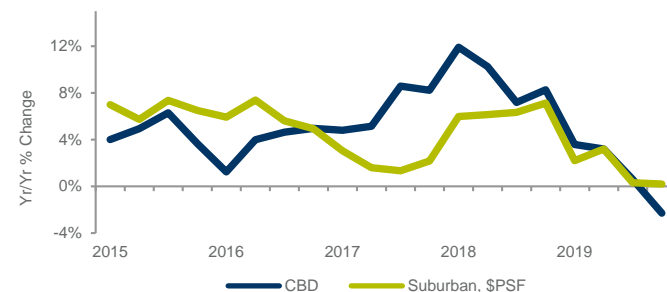
VACANT SPACE BY CLASS



NEW SUPPLY



CLASS-A ASKING RENT TREND





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Downtown	15,446,718	179,375	2,752,593	19.0%	148,697	366,704	530,199	30,000	\$26.65	\$27.91
Midtown	19,357,704	117,663	2,894,436	15.6%	120,870	1,175,401	2,240,113	3,869,426	\$35.77	\$38.53
Buckhead	17,530,486	264,561	2,619,677	16.5%	202,886	652,065	746,030	354,427	\$35.64	\$36.35
Central Perimeter	22,622,266	350,256	4,881,277	23.1%	151,444	409,489	1,237,984	335,000	\$28.19	\$30.82
Georgia 400 Corridor	18,446,771	197,717	2,553,423	14.9%	141,092	887,202	933,426	353,800	\$24.56	\$26.64
Northwest Atlanta	23,912,790	238,758	4,072,845	18.0%	277,836	420,853	950,235	524,098	\$25.43	\$27.43
Airport/South Atlanta	3,558,985	9,186	498,100	14.3%	19,762	75,740	115,228	37,610	\$20.35	\$25.07
Northlake/Decatur	4,071,741	31,125	881,768	22.4%	7,577	-19,396	400,410	304,000	\$22.60	\$24.56
Northeast	20,407,191	199,103	3,299,674	17.1%	185,528	550,707	964,888	0	\$19.96	\$22.17
ATLANTA TOTALS	145,354,652	1,587,744	24,453,793	17.9%	1,255,692	4,518,765	8,118,513	5,808,361	\$27.12	\$30.10

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
4500 Briarcliff Rd NE	Northlake/Decatur	Emory Healthcare	224,000	New Lease
Embassy Row, Bldg. 100	Central Perimeter	The Art Institute	112,367	Renewal
Embassy Row, Bldg. 500	Central Perimeter	American InterContinental University	75,698	Renewal
115 Perimeter Center Place	Central Perimeter	Acoustic L.P.	57,113	New Lease
675 Ponce de Leon	Midtown	Mailchimp	52,133	Expansion

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2019

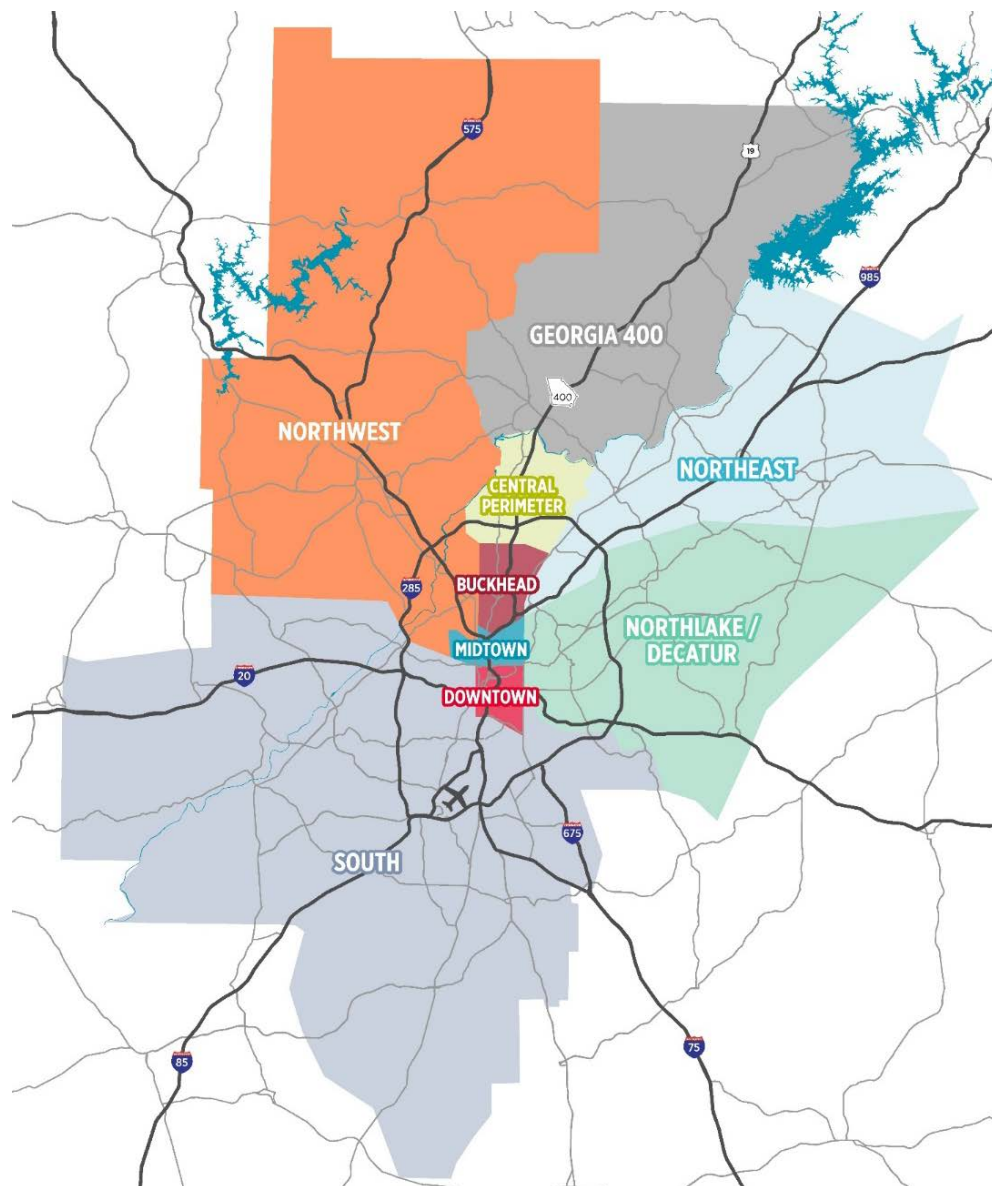
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
100 Edgewood Ave SE	Downtown	United Way of Greater Atlanta / Parkway Property Investments	323,599	\$17.7M/\$55
Windward Plaza Portfolio	Georgia 400	America's Capital Partners / Noro Management	276,000	\$49.8M/\$180
Cumberland Center IV	Northwest	James Campbell Company / Garrison Investment Group	223,509	\$44.5M/\$204
4411 E Jones Bridge Rd	Peachtree Corners	Peachland Homes / The Providence Group of GA	220,675	\$22.2M/\$101
Overlook I	Northwest	Albany Road RE Partners / Atlanta Property Group	137,661	\$22.0M/\$159

KEY CONSTRUCTION COMPLETIONS 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
Coda	Midtown	Georgia Tech	645,000	Portman Holdings, LLC
725 Ponce	Midtown	BlackRock	370,000	JPMorgan Chase & Co. / New City, LLC



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