

Savills Studley Report Atlanta office sector

Q2 2018



SUMMARY

Market Highlights

LEASING INCREASES

Following a strong quarter of activity, with 2.1 million square feet (msf) leased in the first quarter – activity increased to 2.4 msf in the second quarter of 2018. Tenants have leased 8.8 msf in the four most recent quarters, on track with the long-term market average.

AVAILABILITY INCREASES

The market's overall availability rate, (space that is currently vacant or will be in the next 12 months), rose by 20 basis points from 20.1% to 20.3%. The Class A availability rate increased by 90 basis points to 21.7%.

RENT PUSHES HIGHER

Average asking rent for the region jumped by 2.7% during the quarter, rising to \$25.82 for all classes. Class A asking rent rose by 3.1% during the quarter, bringing the average to \$28.13.

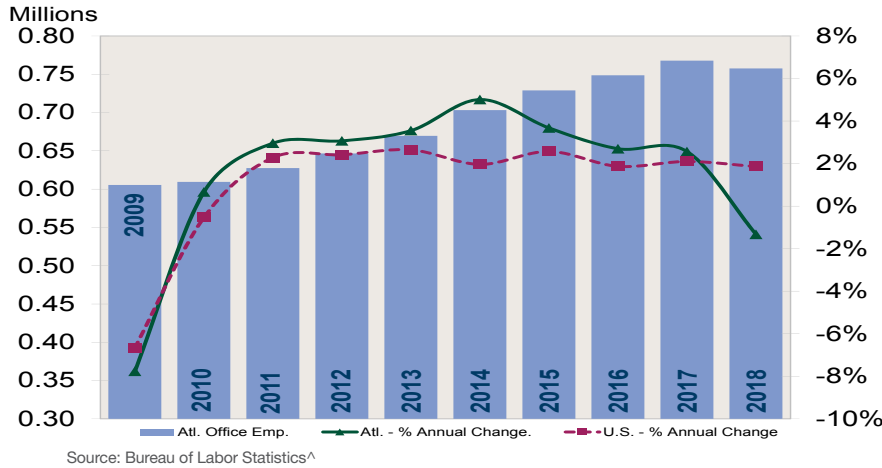
SALES UP

Office property sales during the last six months (through May 2018) totaled \$2.2 billion, a 10% increase compared to the previous six-month total of \$2.0 billion.

"Atlanta's thriving tech ecosystem is a top choice for innovation hubs. At the same time it has become a center of excellence for fintech. Both of these specializations support growth in cybersecurity and data centers."

Chris White,
Vice Chairman, Market Leader

Office-Using Employment Trends



Impact of Tech Sector Growth Spreads Far and Wide

It is hardly a news flash that Atlanta's tech ecosystem is flourishing. The extent of the growth in this cycle and its impact on the region is impressive. Atlanta has become a top choice for the digital era's version of the innovation hub. As technology firms seek talent for these facilities, they are coming back to Atlanta again and again. The region is also a center of excellence in fintech – more than 70% of all payment transactions go through Atlanta and six of the top 10 payment processing firms are based in Georgia. In turn the city has earned the nickname "Transaction Alley."

During the second quarter several fintech and payment processing companies expanded their hiring initiatives. InComm announced plans to add more than 150 jobs and invest over \$20 million in developments in Atlanta and Columbus. The prepaid and payment technology company recently acquired distribution rights for American Express prepaid gift cards.

Moving Up the Rankings

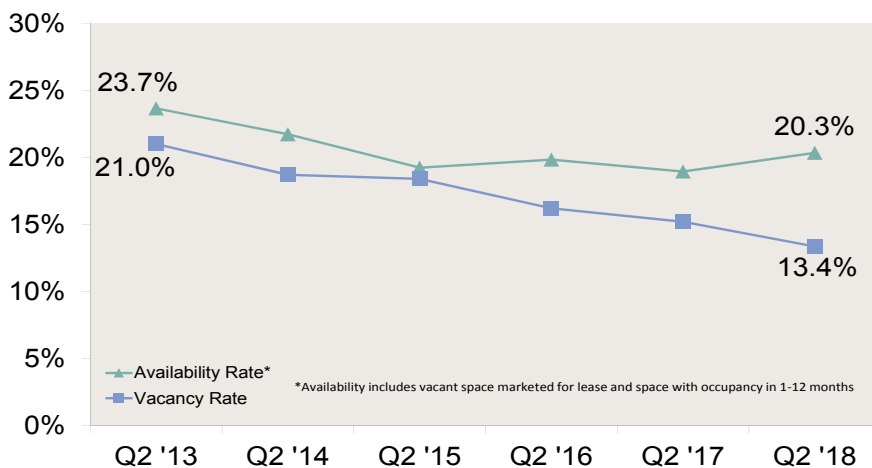
Atlanta's tech sector has pushed to new levels in this cycle. While Silicon Valley, San Francisco, Boston, New York City and Seattle remain the country's premium technology markets, Atlanta is close behind. The region has become a top 10 US tech employment market with 293,500 employees and a total payroll of \$25 billion. Atlanta is at the top nationally in job openings for work in STEM (Science, Technology, Engineering and Mathematics). The region has ample higher learning resources to generate a steady flow of young talent. Georgia Tech's Computer Engineering graduate program ranked 6th nationally. Finally, Georgia rose to a top six US market for venture capital in 2017 (up from 9 in 2016). Funding spiked by 113% reaching \$1.68 billion.

The City of Atlanta has fostered a favorable environment for the start-up community. With a large number of successful incubators and access to industry partnerships, newly formed technology companies are finding high levels of success. Georgia Tech's Advanced Technology Development Center, or ATDC, boasts a 90% success rate for startups after their first five years in operation.

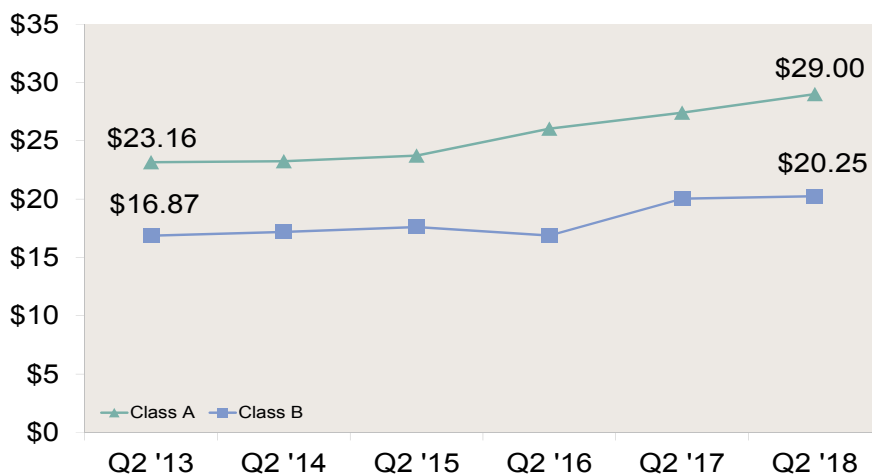
Different Sites to Select From

Tech firms in Atlanta are almost exclusively located in the city's tech corridor, which now spreads across a growing swath of the

Availability Rate Trends



Asking Rent Trends (\$/sf)



market that includes portions of the Midtown, Buckhead and North Fulton submarkets. The majority of larger tech groups and newer startups gravitate to Midtown's Tech Square. Newer startups gravitate to Midtown's Tech Square as the epicenter spreading out across Midtown and West & East Midtown. Many of the newest, most cutting-edge developments and redevelopments continue to break ground in Midtown. Proximity to Georgia Tech is ideal for a generation of companies hoping to attract talent by placing themselves in a vibrant city center that younger employees covet. Additionally, Buckhead's major incubator, Atlanta Tech Village (ATV), offers a solution for many small to medium sized companies looking for access to much of the city's industry.

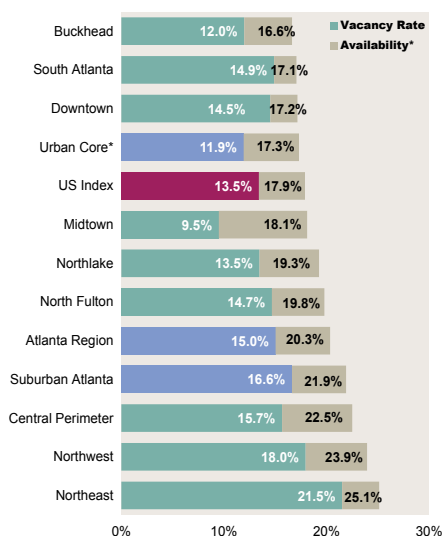
The starting point and focus for many of the biggest legacy tech firms that have survived multiple business and real estate cycles remains in North Fulton. Some of the up-and-coming fintech innovators have pushed into the urban core. However, many of the established companies such as Microsoft that are less dependent on a rapid recruitment of younger talent stayed in North Fulton. Rents are low and much of the older tech workforce prefers to live in the suburbs.

Thriving Startups Have Ample Space Options

The city's startup community has gravitated mostly to incubators such as ATDC or ATV. These locations offer easy access to some of Atlanta's brightest tech minds. They also allow new companies to have a space to call home while not having to commit to long term, costly leases. Co-working space has also become a solution for these types of groups, large and small. Office Evolution, a Denver coworking firm, leased 6,900 sf at Perimeter Center East, firm plan its second location in Atlanta. They plan to have 10 centers in Atlanta; its first location is in Alpharetta.

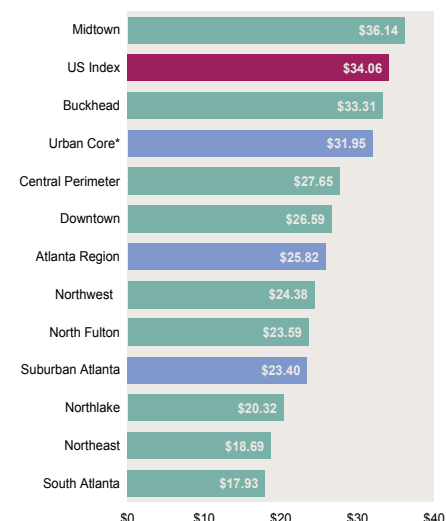
While leasing space in co-working centers or an incubator can be a good launching pad, most established businesses need to graduate to traditional leases if they want to take their culture and recruiting to a higher level. Ultimately, as more tech companies try to win the battle for talent, the choice of which of these three sections of the tech corridor – Buckhead, Midtown or North Fulton – to be based in plays a big role in recruiting and also in company culture. Atlanta is becoming more of a hub for younger workers, making a tech group's real estate strategy extremely important to their overall success. Breaking out of the incubator can be a leap of faith, but it can also have a profound impact on a company's overall brand and talent retention.

Availability Rate Comparison



*Availability includes vacant space marketed for lease and space with occupancy in 1-12 months

Rental Rate Comparison (\$/sf)



* Urban Core includes Downtown, Midtown and Buckhead

Major Transactions

Tenant	Sq Feet	Address	Market Area
Delta Dental Plans Association LLC	214,194	1120 & 1130 Sanctuary Pky	North Fulton
T-Mobile	151,792	1 Ravinia Dr	Central Perimeter
Georgia's Own Credit Union	100,000	100 Peachtree St NW	Downtown
Bluelinx	68,023	1950 Spectrum Circle	Northwest
CallRail	58,233	100 Peachtree St NW	Downtown
Spaces (Regus)	56,121	1055 Howell Mill Rd	Midtown
Terminus	41,698	3340 Peachtree Rd NE	Upper Buckhead
Elavon	40,896	4 Concourse Pky NE	Central Perimeter
Siemens Corporation	40,854	4800 North Point Pky	North Fulton
Arcadis	40,104	2839 Paces Ferry Rd	Northwest
Sum of Leases	811,915		

New development is also becoming more and more tech focused. Anthem and NCR are prime examples, but even non-build-to-suits such as Hines' T3 and Atlantic Yards are being built to accommodate the technology of the future. Buildings equipped with car-charging stations and being fitted for fiber are now becoming the norm. Creative/spec space is dominating the market, specifically in Midtown. This is no coincidence, as Midtown is where most well paid, young workers choose to live and work, evidenced by the massive uptick in multifamily development in the area. The market keeps speculating that the multi-family market may be overbuilt and rents should start to fall at some point. So far this has yet to unfold, as younger people continue to flock to Atlanta and demand for housing continues to rise.

Adding to expansion among Atlanta's tech firms, growth among a wide range of other industries including health care has kept demand for space relatively steady. This

includes healthcare giants such as Delta and smaller firms such as ECFMG, which recently leased 24,000 sf at Gateway Center. The Philadelphia-based nonprofit medical certification and training provider will occupy the space once the building, located near Hartsfield-Jackson International Airport, is completed.

Looking Forward

Ideally, the expansion of cutting-edge technologically savvy locations in Atlanta will push forward innovative public transportation solutions to alleviate some traffic congestion. The effort to secure Amazon HQ2 has brought more focus on the city's congestion challenges. Only New York and LA have longer commute times than Atlanta on Amazon's Top 20 cities. Georgia's bid for Amazon reportedly exceeds more than \$1 billion in incentives. In addition to tax breaks and grants, future transportation improvements are included.

Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		Inventory SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	% Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	Downtown	18,264	693	3,134	-19.1%	4,133	17.2%	-4.1%	22.6%	\$26.59	3.7%	\$24.65
	Downtown - Class A	9,672	438	1,748	-6.3%	2,003	18.1%	-1.2%	20.7%	\$29.48	4.6%	\$26.76
2	Midtown	20,124	1,483	3,644	16.5%	2,522	18.1%	2.6%	12.5%	\$36.14	6.4%	\$28.73
	Midtown - Class A	16,262	1,272	3,315	18.3%	2,090	20.4%	3.2%	12.8%	\$37.19	6.1%	\$29.61
3	Buckhead	19,531	961	3,249	6.9%	3,227	16.6%	1.1%	16.5%	\$33.31	2.3%	\$33.57
	Buckhead - Class A	16,403	861	2,853	9.4%	2,894	17.4%	1.5%	17.6%	\$34.28	2.2%	\$34.62
4	Central Perimeter	22,918	1,785	5,156	0.0%	5,170	22.5%	0.0%	22.6%	\$27.65	3.1%	\$26.11
	Central Perimeter - Class A	17,302	1,422	4,146	5.9%	3,751	24.0%	1.3%	21.7%	\$29.19	3.3%	\$27.87
5	North Fulton	22,881	1,239	4,527	1.5%	3,981	19.8%	0.3%	17.4%	\$23.59	1.4%	\$22.92
	North Fulton - Class A	14,046	855	3,016	3.0%	2,713	21.5%	0.6%	19.3%	\$25.04	0.6%	\$24.41
6	Northeast	18,142	844	4,558	2.7%	4,404	25.1%	0.7%	24.3%	\$18.69	2.9%	\$19.23
	Northeast - Class A	6,396	401	1,802	-4.3%	1,628	28.2%	-1.3%	25.4%	\$21.04	3.1%	\$20.91
7	Northwest	26,661	1,071	6,384	0.0%	5,448	23.9%	0.0%	20.4%	\$24.38	1.6%	\$23.48
	Northwest - Class A	15,091	507	4,043	0.0%	3,319	26.8%	0.0%	22.0%	\$26.80	0.8%	\$26.08
8	Northlake	13,065	443	2,518	5.9%	2,236	19.3%	1.1%	17.1%	\$20.32	-3.1%	\$19.95
	Northlake - Class A	3,728	107	702	-0.6%	475	18.8%	-0.1%	12.7%	\$24.21	-1.4%	\$23.86
9	South Atlanta	9,112	292	1,555	-2.8%	1,223	17.1%	-0.5%	13.4%	\$17.93	-0.3%	\$19.44
	South Atlanta - Class A	994	32	64	53.5%	93	6.5%	2.2%	9.4%	\$22.42	8.1%	\$20.27
1-3	Urban Core Total*	57,919	3,137	10,028	-0.2%	9,881	17.3%	0.0%	17.1%	\$31.95	5.1%	\$28.48
	Urban Core - Class A	42,337	2,571	7,916	8.8%	6,987	18.7%	1.5%	16.5%	\$34.17	4.9%	\$30.94
4-9	Suburban Total	112,778	5,674	24,698	1.2%	22,462	21.9%	0.3%	19.9%	\$23.40	3.9%	\$22.66
	Suburban Total - Class A	57,557	3,324	13,772	1.9%	11,979	23.9%	0.4%	20.8%	\$26.33	2.2%	\$25.42
1-9	Atlanta Region Total	170,697	8,811	34,726	0.8%	32,343	20.3%	0.2%	18.9%	\$25.82	2.7%	\$24.57
	Atlanta Region - Class A	99,894	5,895	21,688	4.3%	18,965	21.7%	0.9%	19.0%	\$29.00	3.1%	\$27.42

*The Urban Core includes the Downtown, Midtown and Buckhead submarkets

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(1) Percentage point change for availability rates.

Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.

Statistics are calculated using both direct and sublease information.

Short-term sublet spaces (terms under two years) were excluded.

^Unless otherwise noted, source for data is Savills Studley.

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