

Savills Studley Report Atlanta office sector

Q3 2018



SUMMARY

Market Highlights

LEASING DECLINES

Quarterly deal volume dropped to 2.1 million square feet (msf), the weakest quarterly activity since year-end 2016. Tenants have leased 8.9 msf in the four most recent quarters, slightly below the long-term annual average of 9.0 msf.

AVAILABILITY PUSHED HIGHER

The market's overall availability rate, (space that is currently vacant or will be in the next 12 months), jumped by 70 basis points from 20.3% to 21.0%. Class A availability rose by 40 basis points to 22.1%. The availability rate in Class B and C buildings posted a sharper 110 basis point jump.

ASKING RENT INCREASES

Average asking rent for the region registered a quarter-on-quarter increase of 1.5% to \$26.20 and has spiked by 10.5% year-on-year. The Class A average rent increased by 1.4% to \$29.40, and has jumped by 7.7% year-on-year.

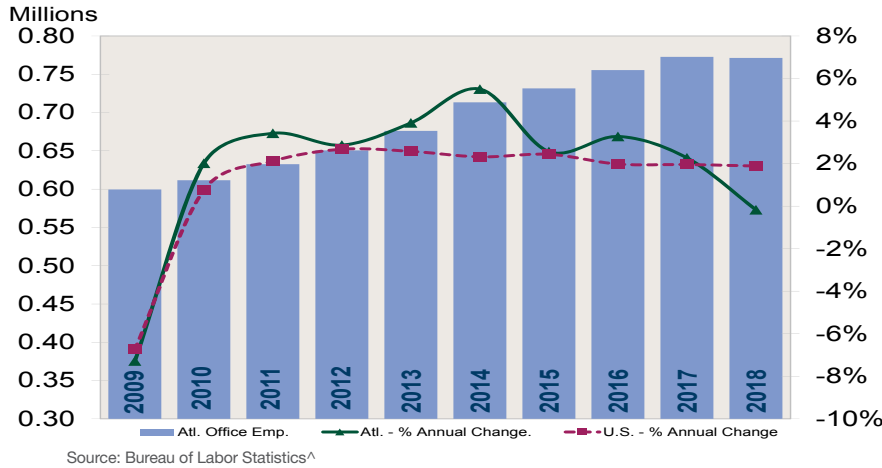
SALES UP

Office property sales during the first seven months of the year totaled \$2.0 billion, a 1.6% increase compared to the first seven months of 2017.

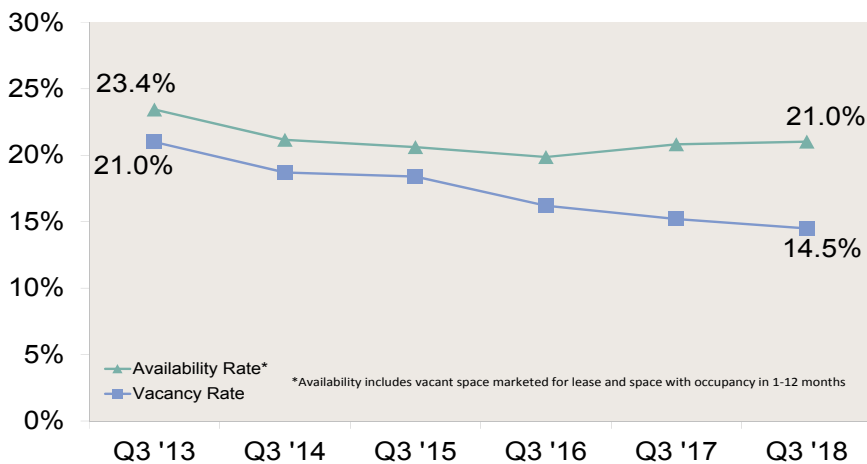
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"A relative low cost of doing business and access to premium tech and engineering talent has helped Atlanta continue as a top destination for companies across the globe to relocate and expand operations. While this influx of business is beneficial for the success of the city as a whole, it is causing occupiers to become more creative than ever to stay ahead of a tightening market"

Chris White,
Vice Chairman, Market Leader
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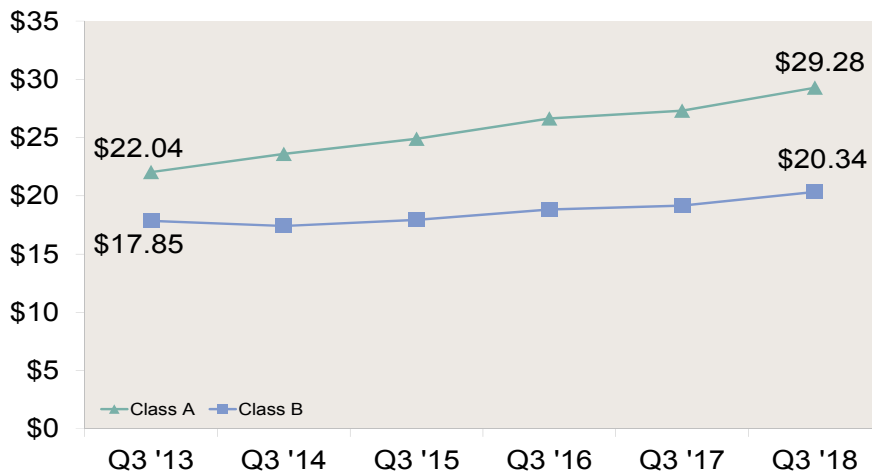
Office-Using Employment Trends



Availability Rate Trends



Asking Rent Trends (\$/sf)



Midtown and Fourth Ward Bring Change to Market

In other major metros, such as Chicago and Denver, rental rate growth has started to slow. Rent has started to inch lower in other cities such as Midtown Manhattan, Baltimore and Northern New Jersey. In contrast, tenants continue to face steady rent increases in Atlanta. Asking rent is up by more than 10% compared to a year ago. The timing of new construction is partially behind this. Development activity in Midtown and other emerging neighborhoods such as West Midtown and Old Fourth Ward have gained momentum in the last several quarters. New suburban product is also boosting rent in North Fulton. Up until the last few quarters, landlords remained relatively restrained in terms of new construction. Since 2013, 5.6 msf of speculative office space delivered. By comparison, 20.6 msf was constructed between 2003 and 2008. Another 3.4 msf is underway, 66% is pre-leased.

Asking rent for the entire region, has increased by 9.9% from a year ago; only Boston, Seattle and Silicon Valley have posted stronger increases. Buckhead, traditionally the first to see rent growth in prior cycles, is once again setting trends for rent growth. Average Class A asking rent has jumped from the \$27/sf range in late 2013 to more than \$35/sf currently.

Midtown Expands

Midtown is also adding to the rent pressures, thanks primarily to consistent demand from the tech sector. More tenants expanded their presence in Midtown during the summer. SalesLoft added more than 40,000 sf at Regions Plaza (1180 West Peachtree Street), pushing its commitment at the building to 70,000 sf. The expansion will accommodate the software company's plans to increase payroll to more than 500 employees. SalesLoft recently raised \$50 million in a funding round led by Insight Venture Partners. Fintech firm Revel Systems announced a 25,547-sf lease on the 38th floor in Bank of America Plaza. Based in San Francisco, Revel will move its 40 Atlanta employees from WeWork in Colony Square. The relocation will accommodate a big expansion and the addition of as many as 170 new jobs in the next few years.

New construction activity also pushes landlords leasing space in existing buildings to refresh their properties as well. Located two blocks south of Technology Square, the area around Bank of America Plaza, sometimes called The SoNo district, has seen a resurgence in demand. The

opening of new stores and restaurants, and development of new condo projects has heightened the appeal of this micro-district.

Pandora leased 49,000 sf at Campanile in Midtown. Based in Oakland, California, the largest U.S. music-streaming service will more than quadruple from the 11,000 sf it leased at the BB&T Tower back in 2013. Earlier this year the music-streaming service said that growth in Atlanta is part of an effort to save \$45 million annually, noting that Atlanta provides "a significant opportunity to add instrumental talent in a region with lower costs than the company's headquarters."

A Taste of Seattle

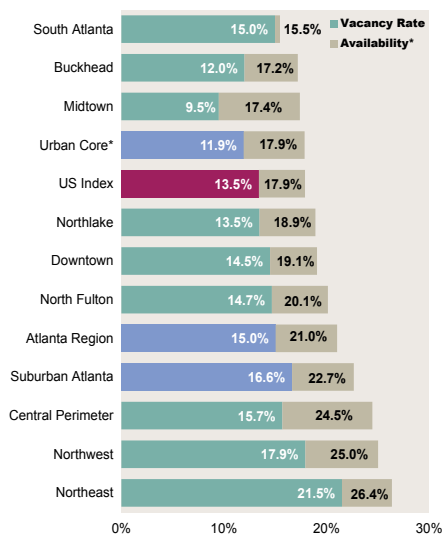
Retail brands are also choosing Atlanta for major expansions. Atlanta recently won the site selection competition for a new Starbucks regional headquarters. The center will employ 500 people. A building has not yet been finalized, but the Seattle-based retailer said it will lease 85,000 sf somewhere in Midtown and invest \$16 million. Site contenders include Portman Holdings' Coda development, underway at West Peachtree and Fourth Streets; the mixed-use development at 725 Ponce de Leon Ave.; and MetLife's Midtown Union mixed-use project at 17th and Spring streets. Starbucks said its new satellite office in Atlanta would be similar to one opened in Phoenix last year near Arizona State University. Instacart signed a 41,288-sf sublease for creative office space at Ponce City Market. The on-demand grocery service, founded in 2012, provides same-day grocery delivery service to customers in Atlanta and other major cities.

Pilot Project in Cobb County

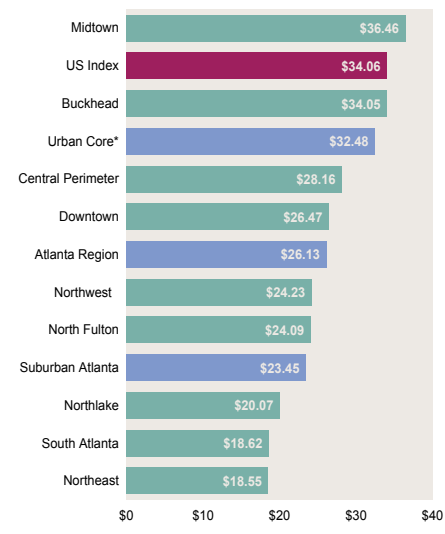
Suburban office parks are capturing some new tenants thanks to demand for corporate headquarter space. Thyssenkrupp Elevator announced plans for a 210,000-sf headquarters to be built near the Battery and SunTrust Park in Cobb County. The three-building complex will showcase some of the firm's newest technology. A 420-foot tall elevator qualification and test tower will pilot products such as the TWIN (a two-cabins-per-shaft elevator system) and MULTI (the world's first ropeless and sideways-moving elevator system). The Germany-based firm plans to eventually have 900 employees at the property, following the addition of more than 650 new employees.

Chamblee's extensive new development plans are gaining momentum. Parkside Partners is proposing a six-building, 340,000-sf loft-office development called Eden at Eastside that would bring 340,000 sf of loft space. More than 10 years ago,

Availability Rate Comparison



Rental Rate Comparison (\$/sf)



Major Transactions

Tenant	Sq Feet	Address	Market Area
Thyssenkrupp	210,000	3 Battery Ave	Northwest
Inspire Brands	161,000	3 Glenlake Pky	Central Perimeter
E*Trade	108,000	3 Edison Dr	North Fulton
Axis Capital	75,000	10000 Avalon Blvd	North Fulton
Salesloft	70,000	1180 W Peachtree St	Midtown
Thyssenkrupp	67,000	380 Interstate N Pky	Northwest
Delta Dental	51,341	1120 Sanctuary Pky	North Fulton
Pandora	49,000	1155 Peachtree St	Midtown
Thrivent Financial	47,308	1125 Sanctuary Pky	North Fulton
Siemens	45,574	4800 North Point Pky	North Fulton
Sum of Leases	884,223		

International Village – a mixed-use retail center – was proposed on the same parcel. Parkside Partners' plan reflects heightened demand for creative office space. Located on a 30-acre site next to Peachtree Dekalb Airport and the Atlanta Chinatown Mall, the site is also within walking distance of the Chamblee MARTA station. The station has become a focal point for extensive mixed-use developments. Parkside is also completing Trackside, a 76,000-sf building.

Suburban Sales Jump

It was a very active quarter for sales, particularly in suburban Atlanta. Investors are taking note of the accelerating development activity around SunTrust Park. New York based Innovatus Capital Partners paid an undisclosed amount for 3400 Overton. The investor said it acquired the building as part of its goal of adding Class A assets in suburban areas with "high population growth and positive economic indicators."

International buyers are also pursuing suburban assets. Vancouver, Canada-based Adventus Opportunity Fund of Vancouver paid \$73.25 million (\$209/sf) for TownPark Commons. The four-building, 350,000-sf campus in Kennesaw was more than 90% leased at time of sale.

Other investors are making purchases in tried-and-true locations such as Buckhead. Bridge Investment Group recently paid approximately \$225 million for Lenox Park Office Park. The 32-acre, 1.04-msf campus comprising five buildings changed hands for \$216/sf. AT&T is still leasing most of the complex, but has vacated one building – 1277 Lenox Park Boulevard. Considering the limited number of big blocks available in Buckhead, a building with a significant vacancy or a big lease rollover may be an asset in this market. There are only 10 buildings offering a contiguous block of 50,000 sf currently in Buckhead and only eight such buildings in Midtown.

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	18,294	564	3,489	11.3%	4,244	19.1%	1.9%	23.2%	\$26.47	-0.5%	\$24.57
	Downtown - Class A	9,672	385	1,752	0.2%	1,778	18.1%	0.0%	18.4%	\$29.11	-1.3%	\$26.82
2	Midtown	20,124	1,442	3,500	-3.9%	2,488	17.4%	-0.7%	12.4%	\$36.46	0.9%	\$31.09
	Midtown - Class A	16,262	1,267	3,166	-4.5%	2,051	19.5%	-0.9%	12.6%	\$37.22	0.1%	\$32.62
3	Buckhead	19,499	812	3,353	3.2%	3,388	17.2%	0.6%	17.3%	\$34.05	2.2%	\$32.40
	Buckhead - Class A	16,403	714	2,962	3.8%	2,911	18.1%	0.7%	17.7%	\$34.95	2.0%	\$32.75
4	Central Perimeter	22,874	1,994	5,595	8.5%	4,755	24.5%	2.0%	20.7%	\$28.16	1.9%	\$25.79
	Central Perimeter - Class A	17,302	1,651	4,452	7.4%	3,379	25.7%	1.8%	19.5%	\$29.59	1.4%	\$27.63
5	North Fulton	22,881	1,333	4,606	1.7%	4,345	20.1%	0.3%	19.0%	\$24.09	2.1%	\$22.45
	North Fulton - Class A	14,046	975	2,975	-1.3%	2,544	21.2%	-0.3%	18.1%	\$25.54	2.0%	\$24.85
6	Northeast	18,154	863	4,787	5.0%	5,085	26.4%	1.2%	28.0%	\$18.55	-0.8%	\$18.09
	Northeast - Class A	6,436	464	1,933	7.3%	1,875	30.0%	1.9%	29.3%	\$21.00	-0.2%	\$20.93
7	Northwest	26,698	1,267	6,680	4.6%	6,016	25.0%	1.1%	22.6%	\$24.23	-0.6%	\$22.85
	Northwest - Class A	15,129	718	4,079	0.9%	3,304	27.0%	0.2%	21.9%	\$26.45	-1.3%	\$26.23
8	Northlake	13,065	377	2,471	-1.8%	2,876	18.9%	-0.4%	22.0%	\$20.07	-1.3%	\$19.29
	Northlake - Class A	3,728	129	671	-4.5%	757	18.0%	-0.8%	20.3%	\$24.06	-0.6%	\$21.48
9	South Atlanta	9,058	252	1,400	-10.0%	1,590	15.5%	-1.6%	17.5%	\$18.62	3.9%	\$17.29
	South Atlanta - Class A	994	29	101	57.9%	88	10.2%	3.7%	8.8%	\$23.90	6.6%	\$20.17
1-3	Urban Core Total*	57,917	2,818	10,342	3.1%	10,119	17.9%	0.5%	17.5%	\$32.48	1.7%	\$28.96
	Urban Core - Class A	42,337	2,365	7,880	-0.5%	6,739	18.6%	-0.1%	15.9%	\$34.50	1.0%	\$31.02
4-9	Suburban Total	112,730	6,086	25,539	3.4%	24,667	22.7%	0.8%	21.9%	\$23.45	0.2%	\$21.75
	Suburban Total - Class A	57,635	3,966	14,211	3.2%	11,946	24.7%	0.7%	20.8%	\$26.36	0.1%	\$25.25
1-9	Atlanta Region Total	170,647	8,903	35,881	3.3%	35,550	21.0%	0.7%	20.8%	\$26.13	1.2%	\$23.78
	Atlanta Region - Class A	99,972	6,331	22,091	1.9%	18,767	22.1%	0.4%	18.8%	\$29.28	1.0%	\$27.31

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

Please contact us for further information

Savills Studley

Monarch Tower
3424 Peachtree Road NE
Suite 2100
Atlanta, GA 30326
(404) 467-0707

Branch Manager

Chris White - Vice Chairman, Market Leader
cwhite@savills-studley.com
(404) 504-0019

(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.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.

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