

Savills Studley Report Atlanta office sector

Q1 2018



SUMMARY

Market Highlights

LEASING DECLINES

Following a strong quarter of activity, with 2.2 million square feet (msf) leased – quarterly activity declined to 2.1 msf in the first quarter of 2018. Tenants have leased 7.9 msf in the four most recent quarters, on track with the long-term market average.

AVAILABILITY DOWN

The market's overall availability rate, (space that is currently vacant or will be in the next 12 months), decreased by 50 basis points from 19.7% to 19.2%. The Class A availability rate increased by 120 basis points to 21%.

RENT PUSHES HIGHER

Average asking rent for the region jumped by 2.2% during the quarter, rising to \$24.72 for all classes. Class A asking rent rose by 1.3% during the quarter, starting the year with an average of \$28.12.

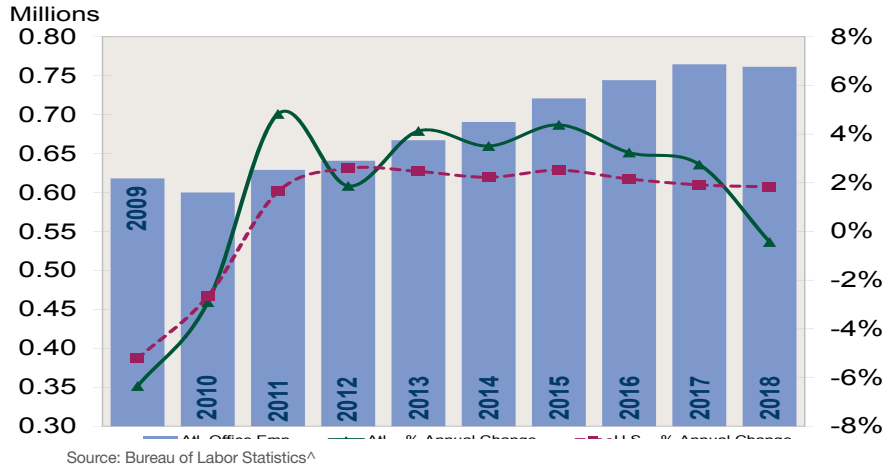
SALES UP

Office property sales during the last six months (through February 2018) totaled \$2.3 billion, a 10.9% increase compared to the previous six-month total of \$2.0 billion.

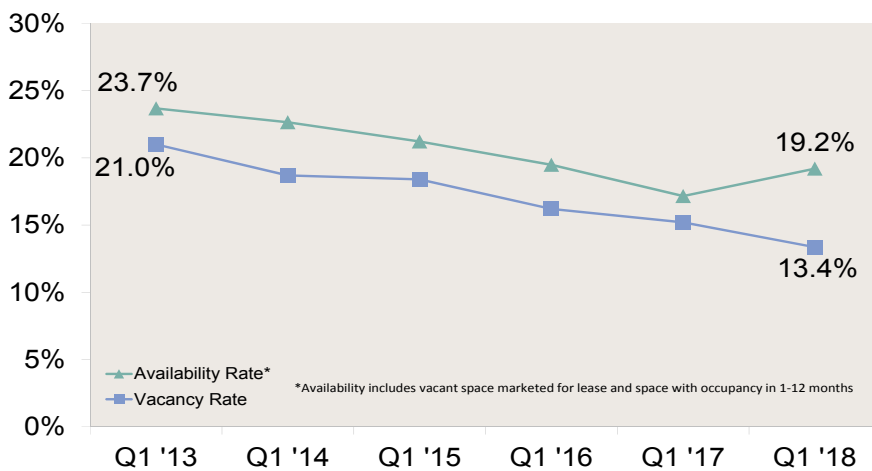
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"The Atlanta Market has seen remarkable growth in the post-recession era. Rents are rising at an unprecedented rate, driving us to get more creative about ways to drive down occupancy costs. A growing and talented digital workforce and a relatively low cost of doing business are leading more companies to move and grow operations in Atlanta than ever before."

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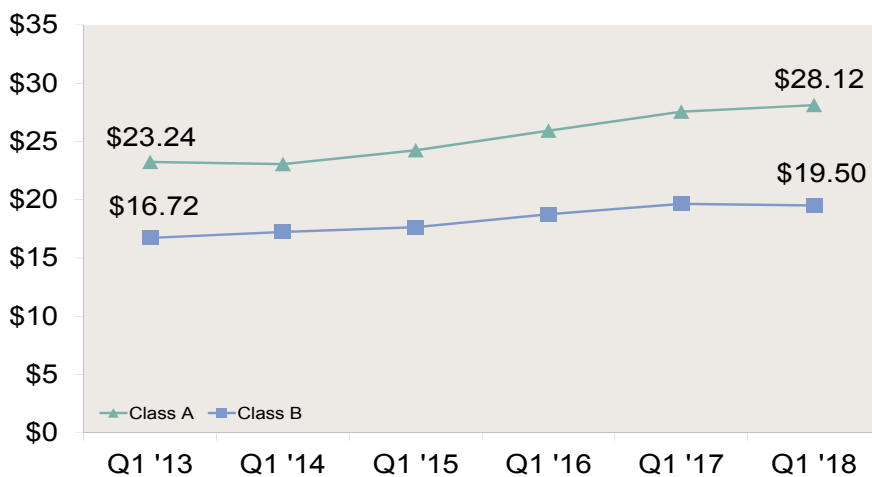
Office-Using Employment Trends



Availability Rate Trends



Asking Rent Trends (\$/sf)



More Good than Bad

Atlanta is in its eighth year of a long, remarkable rally in its economy and office market. Much more so than in prior cycles, the city has balanced the benefits of steady expansion with the challenges that come with such growth. Atlanta has strengthened many of its attractive traits such as a growing and highly educated workforce, while restraining some of its long-standing deficiencies such as overbuilding (at least in the office sector).

On the other hand, while the last few years have been a gold rush for some of Atlanta's real estate players, many tenants in both the residential and commercial sectors have experienced the pain of soaring rents, an inevitable side effect of rapid growth. Business revenues in many industries are rising and recruiting efforts are benefitting from the steady population growth, but more and more companies across the city are finding that when the time comes to address a real estate need they are having to go deeper into their wallets than ever before.

Strong population growth, due largely to the inward migration of households from other markets, remains the base for above-average hiring. This includes movement from college campuses; the second largest market for inward migration in 2017 was Athens, GA, which is home to the University of Georgia. According to the American Community Survey one-year estimates, as of year-end 2016 the percentage of 25 to 34-year olds with college degrees in Atlanta reached 60% compared to Dallas (37%), Charlotte (50%) Nashville (51%) and Raleigh (56%). The steady flow of highly educated younger workers helps to keep the run-up in wages in check. It also is a big draw for tech firms and other businesses tasked with long-term payroll expansion campaigns.

Deal Sweeteners

Adding to these labor force advantages, city and state incentive packages sweeten the deal for relocating tenants. Economic development authorities provide enticing incentives to help lure tech firms from around the country or help cultivate organic business growth. This includes small tax credits targeting startups such as The Angel Investor Tax Credit. More prominent are colossal incentives to encourage tech firms to bring their headquarters and jobs to the Peach State. NCR Corporation, for example, received over \$55 million in incentives to move its headquarters from Dayton, Ohio, a move that facilitated the addition of 1,800 jobs to the state on top of the existing 3,600 NCR employees that call Georgia home.

In addition to the lure of incentives and a deep labor pool, companies based in higher-cost locations appreciate reduced operating costs, including lower rent. New York-based Namely recently picked Atlanta for its operations hub. The human resources software firm, currently based in Buckhead's Atlanta Tech Village, has about 400 local employees and plans to add about 300 people over the next few years. They are currently considering eight locations in Central Perimeter for 25,000 sf of space. The company plans to grow to as much as 100,000 sf in the next several years.

Lost in the massive expansions by the likes of Anthem, NCR, Insight Global and State Farm is the core of office space demand in the Atlanta market – mid-sized, established professional and business service firms adding one or multiple floors. The first quarter brought some such leases. Boston Consulting Group, for example, announced plans to add an entire 20,000-sf floor in the former Equitable tower (100 Peachtree).

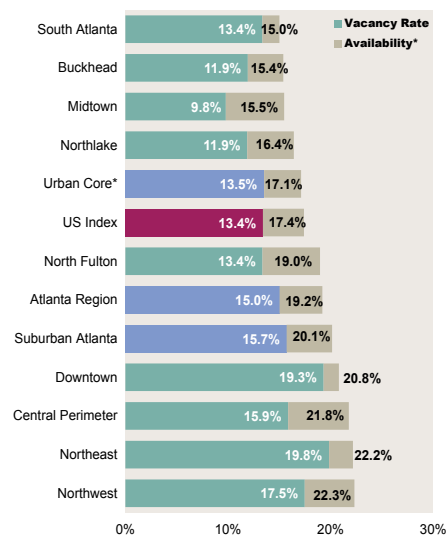
Firms have access to a growing pool of venture capital investors in Atlanta. Namely is just one of many Atlanta firms to recently secure another round of venture capital investment. According to the Technology Association of Georgia's (TAG) 2018 State of the Industry Report, venture investment in Georgia tech firms surged to nearly \$17 billion in 2017, spiking by 113% from 2016 – well above the national jump in VC of 7%.

Other firms considering Atlanta for a new headquarters include Change Healthcare. The Nashville-based health IT firm is mulling over an IPO and relocation to Atlanta that could bring up to 1,000 jobs to the region. Wallingford, Connecticut-based Edible Arrangements recently selected Atlanta for its second headquarters and quickly inked a sublease deal for 43,921 sf at Two Lakeside Commons in Central Perimeter. The president of the company explained that Atlanta was chosen because it will help “expand and diversify” their talent. Atlanta won out over several other cities including Boston, Dallas and Orlando.

A Lull or a Shift?

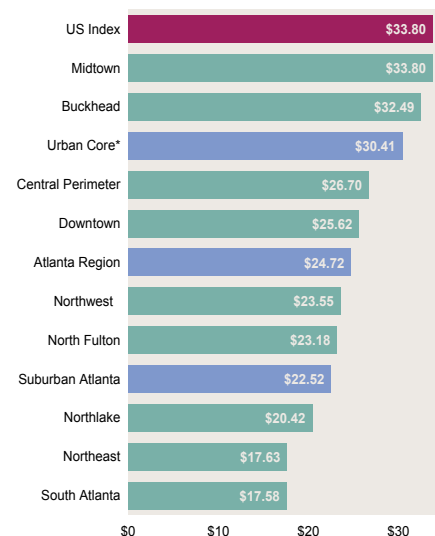
Overall employment growth is up 1.0% in the last 12 months; however, office-using employment showed a slight decrease at -0.2%. Professional/business services has shown a slight increase year over year with 0.86% growth, adding approximately 4,300 jobs in the Atlanta market this year. Some of the office job growth may not show up until the next few quarters, as companies that moved into the region ramp up recruiting efforts.

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
Northside Hospital	178,001	1001 Summit Blvd	Central Perimeter
Arby's	161,000	3 Glenlake Pky NE	Central Perimeter
Swift, Currie, McGhee & Hiers	89,277	1355 Peachtree St NE	Midtown
United Way of Greater Atlanta	74,658	40 NE Courtland St	Downtown
Newell Brands	60,402	7840 Roswell Rd	Central Perimeter
First Data	50,900	1600 Terrell Mill Rd SE	Northwest
Baker, Donelson, Bearman, Caldwell & Berkowitz	50,000	3414 Peachtree Rd NE	Buckhead
WeWork	50,000	771 Spring St	Midtown
Flexport Inc.	49,914	600 Peachtree St NE	Downtown
Edible Arrangements	43,921	980 Hammond Dr NE	Central Perimeter
Sum of Leases	808,073		

Although there are some signs that employment and leasing is moderating, it is too soon to say whether this is the beginning in the inevitable winding down of this recovery, or if it is just a temporary lull. A couple of significant leases in Central Perimeter boosted first-quarter leasing volume. Since mid-year 2017 six leases over 100,000 were completed, an increase from the two such leases in the prior three quarters. Overall availability has also increased a bit in the last four quarters, rising by 200 basis points to 19.2%, due primarily to increasing availability in North Fulton (up to 19.0%) and Northwest (up to 22.3%).

The Other Side of the Fence

Sustained growth always comes at a cost. Housing prices continue to soar, making it increasingly difficult for young workers to live in the city core. RE/MAX Georgia recently reported that sales prices for homes have jumped by 8% in the last year, nearly twice the national average increase of 4.9%. In the multi-family sector, HotPads said that city rents are

increasing at a pace that is nearly triple the national median. With the steady increase in population, Atlanta's traffic problem has worsened.

Perceptions of market conditions shift largely, though, depending on point of view. Companies surveying the market from within are experiencing sticker shock, while those looking in from the outside may see things differently. The same is certainly true of a recent graduate from a university in Boston or Manhattan looking at apartments in Atlanta. Salaries for experienced talent in finance, law and tech are also heavily discounted.

Nevertheless, local businesses are paying record rent for Class A properties in prime locations. Additionally, landlords have cut back concessions two years in a row and first-year taking rent pushed above \$40/sf in higher-caliber Class A buildings during 2017, for the first time in the city's history.

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	18,658	578	3,882	-8.7%	4,144	20.8%	-2.0%	22.2%	\$25.62	1.8%	\$24.49
	Downtown - Class A	9,672	356	1,866	3.8%	1,907	19.3%	0.7%	19.7%	\$28.18	2.0%	\$27.42
2	Midtown	20,593	1,409	3,186	21.5%	2,191	15.5%	2.7%	10.6%	\$33.80	10.5%	\$30.05
	Midtown - Class A	16,274	1,186	2,814	27.3%	1,711	17.3%	3.7%	10.5%	\$34.99	10.7%	\$31.87
3	Buckhead	19,930	859	3,067	-7.5%	3,254	15.4%	-1.2%	16.3%	\$32.49	-0.9%	\$33.61
	Buckhead - Class A	16,343	783	2,607	-7.6%	2,930	16.0%	-1.3%	17.9%	\$33.56	-1.4%	\$34.70
4	Central Perimeter	24,245	1,673	5,280	-1.5%	5,470	21.8%	-0.3%	22.6%	\$26.70	2.0%	\$25.93
	Central Perimeter - Class A	17,302	1,313	3,943	1.8%	4,031	22.8%	0.4%	23.3%	\$28.27	1.1%	\$27.70
5	North Fulton	24,853	925	4,714	-1.1%	3,854	19.0%	-0.2%	15.5%	\$23.18	1.3%	\$22.62
	North Fulton - Class A	13,735	566	2,960	6.8%	2,616	21.6%	1.4%	19.0%	\$24.89	-0.4%	\$23.92
6	Northeast	21,887	893	4,853	-9.7%	4,435	22.2%	-2.4%	20.3%	\$17.63	-1.2%	\$18.65
	Northeast - Class A	6,376	369	1,883	-9.2%	1,486	29.5%	-3.0%	23.3%	\$20.40	0.3%	\$20.91
7	Northwest	30,333	1,003	6,770	1.3%	5,325	22.3%	0.3%	17.6%	\$23.55	-0.2%	\$23.43
	Northwest - Class A	15,091	568	4,041	9.2%	3,217	26.8%	2.3%	21.3%	\$26.58	-2.4%	\$26.11
8	Northlake	15,785	454	2,591	4.5%	2,354	16.4%	0.7%	14.9%	\$20.42	1.4%	\$18.97
	Northlake - Class A	3,756	111	722	89.5%	490	19.2%	9.1%	13.0%	\$24.57	4.4%	\$23.06
9	South Atlanta	12,004	178	1,802	-20.4%	1,282	15.0%	-3.8%	10.7%	\$17.58	-4.0%	\$19.28
	South Atlanta - Class A	1,054	37	50	-37.9%	81	4.7%	-2.9%	7.7%	\$21.80	-1.0%	\$19.93
1-3	Urban Core Total*	59,180	2,846	10,135	-0.5%	9,589	17.1%	-0.1%	16.2%	\$30.41	3.9%	\$29.21
	Urban Core - Class A	42,288	2,325	7,287	6.7%	6,547	17.2%	1.1%	15.5%	\$32.59	3.6%	\$31.94
4-9	Suburban Total	129,107	5,126	26,009	-3.4%	22,721	20.1%	-0.7%	17.6%	\$22.52	1.0%	\$22.30
	Suburban Total - Class A	57,314	2,964	13,598	5.6%	11,921	23.7%	1.3%	20.8%	\$25.78	-0.2%	\$25.22
1-9	Atlanta Region Total	188,287	7,972	36,144	-2.6%	32,309	19.2%	-0.5%	17.2%	\$24.72	2.2%	\$24.30
	Atlanta Region - Class A	99,602	5,289	20,885	6.0%	18,468	21.0%	1.2%	18.5%	\$28.12	1.3%	\$27.56

*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.
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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