

Market Analysis

Third Quarter 2019

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(800) 866-1124 x2403

Jack Kern

Director of Research and
Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Chris Nebenzahl

Senior Analyst
Chris.Nebenzahl@Yardi.com
(800) 866-1124 x2200

Veronica Grecu

Senior Real Estate Market Analyst
Veronica.Grecu@Yardi.com
(306) 955-1855 x7583

Author

Timea-Erika Papp

Senior Associate Editor
Timea-Erika.Papp@Yardi.com

Aggregated and anonymized
expense and lease expiration
data is available to Yardi Matrix
subscribers. Please contact us
for details!

For more information please contact:

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Solid Demand Keeps Momentum Going



Atlanta's office market fundamentals continue to strengthen as the metro consolidates its status as an economic powerhouse. Driven by strong tenant demand, a robust development pipeline, a relatively low cost of doing business and a skilled workforce, Atlanta's expansion is showing no signs of slowing down. As of July, office-using employment accounted for 28.8% of the metro's labor pool, well above the national share of 21.8%, while the unemployment rate stood at 4% in August. On par with national trends, professional and business services led job growth with the addition of 20,400 positions, up 3.9% year-over-year.

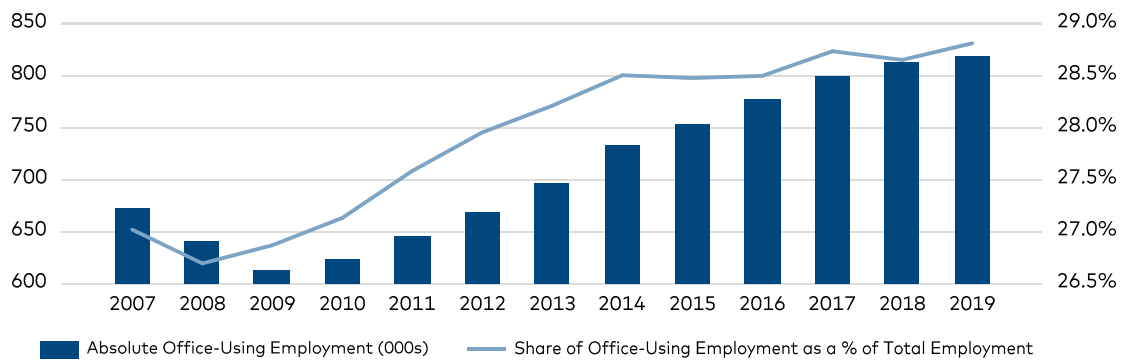
Some 5.2 million square feet of space was under construction in Atlanta as of August, equating to 2.9% of total stock. With nearly 1.1 million square feet scheduled to come online by year's end, 2019 is set to exceed last year's supply of 1.8 million square feet across 13 properties. Midtown leads the metro in construction activity, with five developments underway totaling more than 1.6 million square feet.

Investor interest remains solid and 2019 is shaping up to be another strong year for investment. Office sales in Atlanta amounted to nearly \$2 billion year-to-date through August, with some 11.3 million square feet sold at an average of \$175 per square foot. Healthy transaction activity in the first eight months of 2019 indicates that investors are still keen on deploying capital in the metro. With acquisition yields for stabilized top-rated assets hovering in the 5.75% to 6.75% range, Atlanta is in line with established markets like Phoenix and booming metros such as Denver.

ECONOMIC SNAPSHOT

- Atlanta gained 23,000 office-using jobs year-over-year through July, as job growth continued at a fast rate in the metro. Office-using employment accounted for 28.8% of the total workforce, well above the national share of 21.8%. According to the Bureau of Labor Statistics, the metro's unemployment rate stood at 4% in August, dropping by 30 basis points year-over-year, and by 130 basis points since August 2017.
- On par with national trends, professional and business services led job growth with the addition of 20,400 jobs, up 3.9% year-over-year. The information sector gained 1,700 positions (up 1.7%) and financial activities added 900 jobs, for a modest 0.5% expansion. Atlanta had a total of 818,000 office-using jobs as of July, as the metro continues to draw major employers thanks to solid market fundamentals and a skilled talent pool.
- The Midtown submarket is in high demand, consistently attracting major companies. For example, health insurance giant Anthem has agreed to anchor 740 West Peachtree, with room for 3,000 employees, while Invesco is planning to lease 300,000 square feet at MetLife's Midtown Union and add 500 jobs, growing its local workforce to nearly 1,200.

Office-Using Employment



Source: Bureau of Labor Statistics (BLS). Data as of July 2019

Employment Growth by Sector as of July 2019 (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	543	19.1%	20,400	3.9%
70	Leisure and Hospitality	319	11.2%	11,800	3.8%
65	Education and Health Services	360	12.7%	9,100	2.6%
15	Mining, Logging and Construction	136	4.8%	7,100	5.5%
90	Government	326	11.5%	3,700	1.1%
30	Manufacturing	175	6.2%	3,400	2.0%
40	Trade, Transportation and Utilities	606	21.4%	3,300	0.5%
50	Information	99	3.5%	1,700	1.7%
55	Financial Activities	176	6.2%	900	0.5%
80	Other Services	99	3.5%	-3,400	-3.3%

Source: Bureau of Labor Statistics (BLS). Data as of July 2019

LEASING | Vacancy

- As of August, Atlanta's office vacancy rate was 16.2%, thanks to new deliveries and company relocations. Strong tenant demand and consistent preleasing activity are expected to maintain a steady vacancy rate in the coming quarters, in spite of high levels of new construction across the metro.
- Recent deliveries have already started to put pressure on vacancy rates in several submarkets. In Midtown—where two office projects totaling 1.2 million square feet have recently come online—the vacancy rate stood at 17.9%. In West Atlanta, the conversion of Inland Tract saw the creation of 77,500 square of office space, bringing the submarket's vacancy rate to 7.6%.

LEASING | Listings

- In August, the average asking rate was \$26.13 per square foot in Atlanta. Class A product averaged \$29.09 per square foot, while Class B was listed for significantly less, at \$20.23 per square foot.
- Buckhead, one of the largest submarkets in the metro, commanded the highest average asking rate as of August (\$34.77 per square foot). Midtown followed closely with asking prices averaging \$34.04 per square foot. Central Perimeter rounded out the top three, with an average asking rate of \$29.63 per square foot.

COWORKING

- As of August, Atlanta had more than 3 million square feet of coworking space, accounting for 1.6% of total inventory. Midtown had the highest concentration of shared space (540,400 square feet), equal to 2.6% of the submarket's office stock.
- WeWork is the largest coworking provider in the metro, with 733,614 square feet across 13 locations in six submarkets. Atlanta is home to 42 coworking providers, with Regus operating the largest number of locations (35) across 13 submarkets.

Vacancy by Submarket

Top Submarkets	Vacancy Rate (%)
Austell	2.6%
South Henry County	3.2%
Forsyth County	4.9%
East Atlanta\Decatur	6.4%
Cherokee County	6.9%

Source: Yardi® Matrix. Data as of August 2019

Note: Vacancy including sublease

Available Properties

Top Submarkets	Square Feet Available	Properties Available
Central Perimeter	3,537,430	115
Midtown	3,186,450	47
Galleria	2,627,150	101
Alpharetta	2,482,600	123
Buckhead	2,282,490	70
Total Market	24,025,200	954

Source: Yardi® Matrix. Data as of August 2019

Top Coworking Tenants (Square Feet)

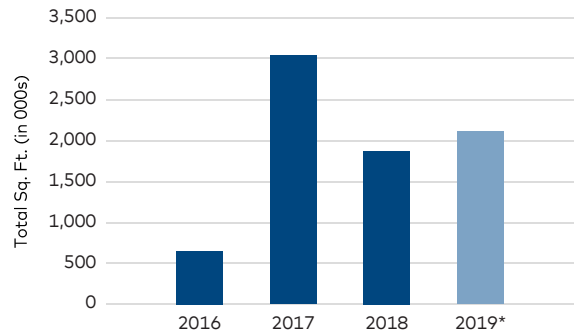
Coworking Tenant/ Operators	No. of Locations	Square Feet Leased
WeWork	13	733,614
Regus	35	703,546
Spaces	7	224,817
Industrious	10	190,861
Serendipity Labs	5	164,025

Source: Yardi® Matrix. Data as of August 2019

SUPPLY

- Developers completed seven projects totaling 1.9 million square feet year-to-date through August. Construction activity has slightly accelerated compared to the previous year, when 13 properties totaling 1.8 million square feet were delivered. With another 1.1 million square feet scheduled to come online by year's end, 2019 is projected to considerably surpass last year's completion levels.
- As of August, some 5.2 million square feet was under construction in Atlanta—equal to 2.9% of total stock—with 79% of that scheduled to come online over the next two years. Another 36.1 million square feet was in the planning and permitting stages, a sign that developers aim to match robust tenant demand.
- Midtown leads the metro in construction activity, with more than 1.6 million square feet underway across five developments. As of August, the submarket's new-supply pipeline accounted for 8.1% of existing inventory. The largest project under construction in Midtown is Selig Enterprises' 660,000-square-foot 1105 West Peachtree Street, scheduled for completion in the second quarter of 2021. The office tower has already landed commitments from law firm Smith Gambrell & Russell, which will anchor the building, and from Google—for at least 200,000 square feet.
- Development activity is also picking up in West Atlanta, where more than 1.5 million square feet of space was under construction as of August. In May, Hines and Invesco Real Estate broke ground on the submarket's largest office development, Atlantic Yards. Slated for delivery in late 2020, the 500,000-square-foot project will comprise two buildings.

Office Completions (Square Feet)



Source: Yardi® Matrix. Data as of August 2019
*Total Year Projections

Construction Activity

Top Submarkets	Square Feet Under Construction
Midtown	1,612,465
West Atlanta	1,537,237
East Atlanta\Decatur	403,000
Buckhead	354,427
Central Perimeter	335,000
Total Market	5,178,984

Source: Yardi® Matrix. Data as of August 2019

Construction Distribution

Top Submarkets	% of Inventory
West Atlanta	29.8%
East Atlanta\Decatur	12.9%
Cherokee County	8.8%
Midtown	8.1%
Brookhaven	2.3%
Total Market	2.9%

Source: Yardi® Matrix. Data as of August 2019

INVESTMENT TRANSACTIONS

- Office investment in Atlanta amounted to nearly \$2 billion year-to-date through August, with some 11.3 million square feet sold at an average \$175 per square foot. Transaction activity remained steady compared to the same interval in the previous year, when some 10.7 million square feet traded for \$2 billion, at an average price of \$199 per square foot.
- Investor interest is solid and 2019 is shaping up as another strong year for investment (with 73 assets sold through August). Although sales volume slightly dipped in 2018 (139 properties sold for \$3 billion) compared to 2017 (151 properties sold for \$3.3 billion), the wave of transactions closed in the first eight months of 2019 indicates that buyers are still prepared to deploy capital in the metro.
- The bulk of the assets that changed ownership year-to-date comprise Class A buildings (45%), but investors also focused on Class B properties (37%). With acquisition yields for stabilized top-rated assets hovering in the 5.75% to 6.75% range, Atlanta is in line with major markets such as Phoenix and booming metros like Denver.
- Galleria led the way in investment sales year-to-date through August, with 2.5 million square feet sold for a combined \$507 million, at an average price of \$206.05 per square foot. Piedmont Office Realty Trust paid \$212.4 million for Galleria 400 and 600 within the Atlanta Galleria Office Park, in the largest deal closed in the submarket. In a separate transaction, the company also acquired the Galleria 100 building for \$97.2 million.
- The biggest transaction year-to-date closed in Buckhead, where KKR acquired the 632,000-square-foot Salesforce Tower for \$205 million. The seller, Banyan Street Capital, retained a stake in the property, which sold for \$324.47 per square foot.

Transaction Volume

Top Submarkets	Total Transaction Square Feet	Total Transaction Volume (000s)
Galleria	2,459,997	\$506,875
Buckhead	1,115,904	\$314,350
Central Perimeter	1,259,596	\$307,797
Alpharetta	1,530,498	\$257,004
West Atlanta	567,748	\$183,575
Total Market	11,270,645	\$1,966,385

Source: Yardi® Matrix. Data as of August 2019

Average Price

Top Submarkets	Avg. Price Per Square Foot
Outlying Clayton County	\$427.57
West Atlanta	\$323.34
South Henry County	\$306.48
Buckhead	\$281.70
East Atlanta\Decatur	\$264.94

Source: Yardi® Matrix. Data as of August 2019

Investment Activity

Top Buyers	Total Transaction Square Feet	Total Transaction Volume (000s)
Piedmont Office Realty Trust	1,279,000	\$309,600
Starwood Property Trust	706,000	\$227,500
KKR	631,808	\$205,000
Prime US Reit	510,268	\$176,500
Crocker Partners	646,471	\$119,500

Source: Yardi® Matrix. Data as of August 2019



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Columbia Property Trust Exits Atlanta With \$187M Deal

A joint venture of Rubenstein Partners and Monarch Alternative Capital purchased the two-building office property.



Saltbox to Debut Novel Workspace Concept in Atlanta

The new startup, which has just closed a round of venture funding, will open its first co-warehousing location in November.



Piedmont Wraps Up Atlanta Tower Collection

The REIT's latest purchase brings a portfolio of trophy office assets under single ownership for the first time.



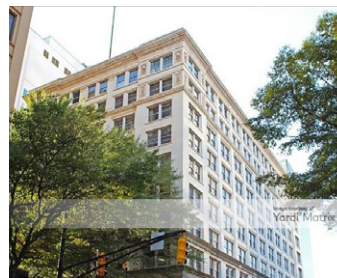
Trammell Crow Tops Out Twelve24

Insight Global has already leased 70 percent of the glass tower in the Central Perimeter neighborhood.



Duke Realty Sells Business Park For \$33M

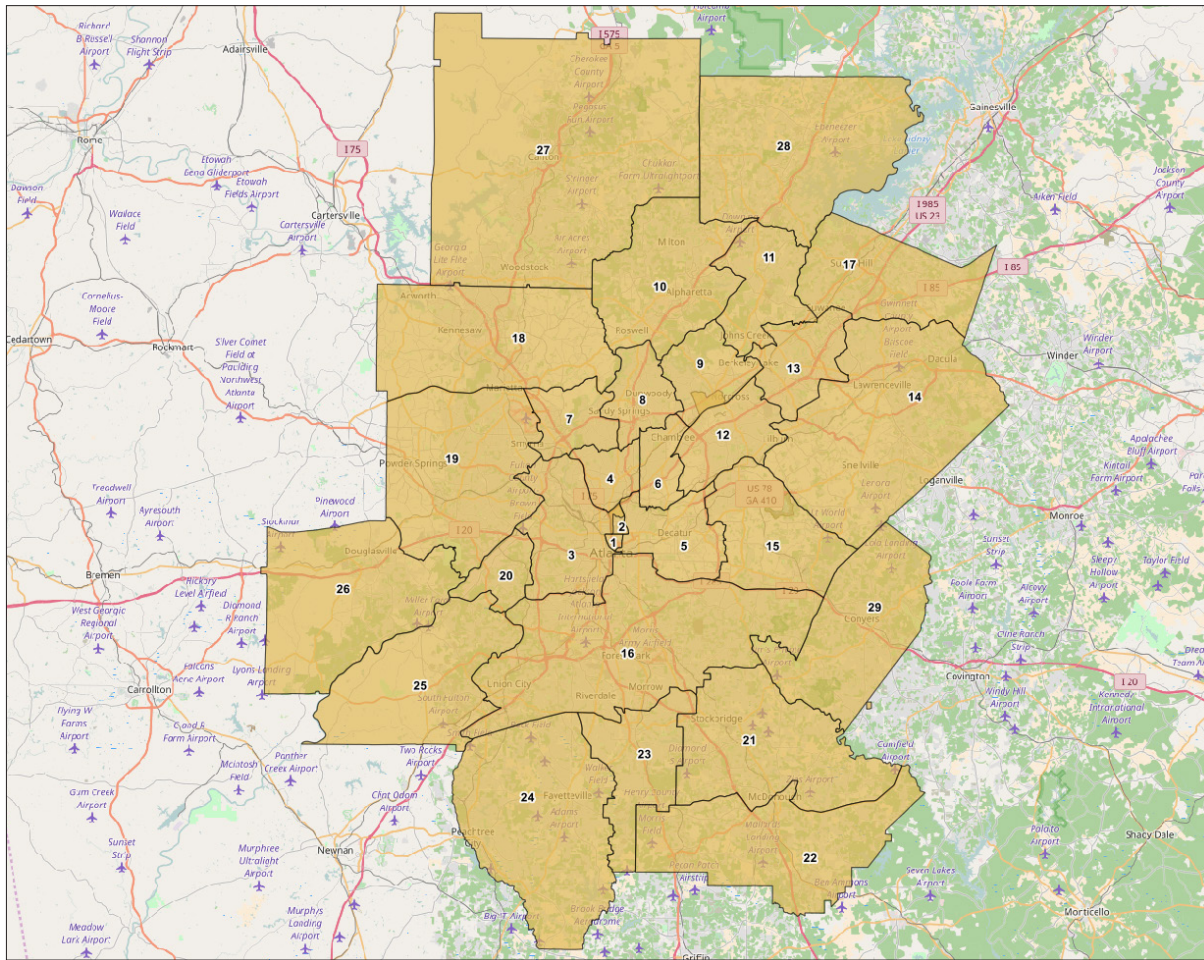
Savlan Capital acquired six office buildings totaling 298,433 square feet in Camp Creek Business Center. The new owner plans to invest \$2.5 million in property upgrades.



Historic Office Property Changes Ownership

Completed in 1898, the W.D. Grant Building is one block away from Woodruff Park. Four Mile Capital and Kramer Real Estate Investments purchased it out of bankruptcy in 2017.

YARDI MATRIX OFFICE SUBMARKETS | Metropolitan Atlanta



Area #	Submarket
1	Central Business District
2	Midtown
3	West Atlanta
4	Buckhead
5	East Atlanta/Decatur
6	Brookhaven
7	Galleria
8	Central Perimeter
9	Peachtree Corners
10	Alpharetta

Area #	Submarket
11	Johns Creek
12	Northlake/Chamblee
13	Duluth
14	Lawrenceville
15	Stone Mountain
16	South Atlanta
17	Braselton
18	Kennesaw
19	Austell
20	Fulton Industrial District

Area #	Submarket
21	North Henry County
22	South Henry County
23	Outlying Clayton County
24	Fayette County
25	Outlying Fulton County
26	Douglas County
27	Cherokee County
28	Forsyth County
29	Rockdale County

OFFICE REPORT DEFINITIONS AND METHODOLOGY

- Office using employment is defined as all jobs within the Professional and Business Services, Financial Activities and Information sectors.
- Rents shown in the listing section are reported on a Full Service (FSG) basis. Yardi Matrix subscribers have access to both listed rents and FSG equivalent rents.
- Class A and A+/Trophy buildings are combined for reporting purposes.
- Yardi Matrix tracks properties with 50,000 square feet or more.

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