

ATLANTA OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Atlanta Employment	2.7M	2.8M	▲
Atlanta Unemployment	4.3%	3.7%	▼
U.S. Unemployment	4.4%	3.9%	▼

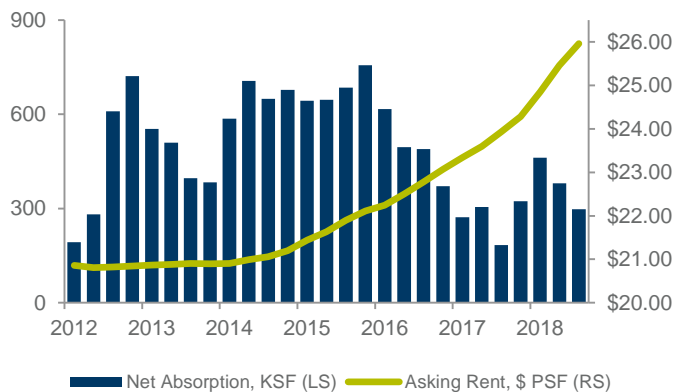
Numbers above are quarterly averages

Market Indicators (Overall, All Classes)

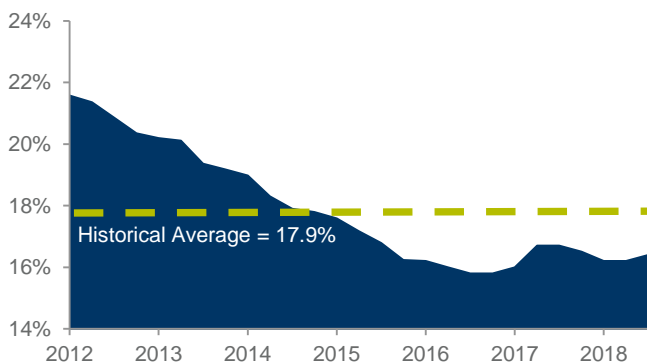
	Q3 17	Q3 18	12-Month Forecast
Vacancy	16.7%	16.4%	▲
Net Absorption (sf)	68k	-261k	▲
Under Construction (sf)	3.1M	3.0M	▼
Average Asking Rent*	\$24.72	\$26.74	▲

\*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent  
4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Atlanta economy continued to expand through the third quarter of 2018 and gained 52,050 jobs year-over-year (YoY), up 1.9% compared to 1.1% YoY nationwide. Atlanta's unemployment rate fell from 4.3% in the third quarter of 2017 to 3.7% in the third quarter of 2018, while the national unemployment rate was 3.9% as of preliminary third-quarter data.

Market Overview

A strong economy has enabled the Atlanta office market to withstand the trends working against it. Office-using employment continues a geometric rise in the Atlanta market, but the "urbanization" trend has coincided with (and resulted in) a wave of corporate relocations and consolidations in the market. Coupled with relatively low construction deliveries in the most attractive submarkets, office occupancy has remained in a narrow range since 2016.

However, the spectacular success the office market has experienced in the core CBD submarkets has led to a rising tide of record-high rents across the entire market, while leasing activity shows no signs of slowing. Urbanization, augmented with the trend of corporate relocations and consolidations, has resulted in a significant bifurcation of the Atlanta office market. There is CBD Class A office, and then there is everything else. This drastic disparity has only widened in 2018.

Overall average asking office rents rose to \$26.74 gross per square foot (psf), up 0.8% from the second quarter to a 11th consecutive record high. Year-over-year (YoY) office rent growth of 8.2% in the third quarter of 2018 was spread evenly among CBD and Suburban submarkets, and Class A and non-Class A buildings.

Average office rents in the CBD submarkets (Downtown, Midtown, and Buckhead) surpassed \$32.00 psf for the first time to a fourth consecutive record high (\$32.14 psf). Suburban office rents rose for the sixth consecutive quarter to another record high (\$24.11 psf; 8.5% YoY).

Large corporate move-outs coupled with this jump in rents have caused a crushing burden of negative absorption in key suburban submarkets. The divide between quality CBD office product and suburban and non-Class A product continues to widen. Class A office absorption in the CBD submarkets year-to-date (YTD) stands at 1.1 million square feet (msf), while

suburban Class A and overall Class B & C office have significant negative absorption (-796,697 square feet (sf)). The overall office market saw -261,207 sf of negative absorption in the third quarter, pulling down YTD net absorption to 285,748 sf. CBD leasing activity fell for the fourth straight quarter (619,127 sf in the third quarter) as inventory has dried up and large availabilities are scarce. However, of the 3.0 msf of office space under construction, 69.7% is located in the CBD (65.8% in the Midtown submarket alone). 50.2% of the CBD speculative construction (1.0 msf) is pre-leased.

**TRAILING FOUR-QUARTER CBD CLASS A ABSORPTION WAS 1.3 MSF, BUT THE BALANCE OF THE MARKET TURNED NEGATIVE (-151,008 SF). CORPORATE RELOCATIONS CONTRIBUTED SIGNIFICANTLY TO THE DISPARITY.**

In the third quarter of 2018, overall office vacancy ticked up to 16.4% but is down 0.3% YoY. Vacancy continued to plunge in the CBD (14.6%, down 1.8% YoY), but suburban submarkets, hit with over 440,000 sf of corporate relocations, saw a jump in vacancy in the third quarter (17.4%, up 0.5% YoY).

**Outlook**

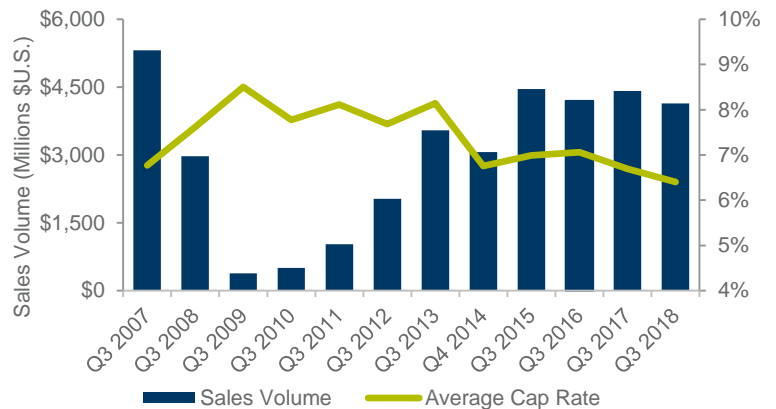
Strong economic growth and in-migration to Atlanta, and the accompanying war for talent, will continue to push the Atlanta office market to more record heights and lead to a recovery in those suburban submarkets struggling to rebound from the 1.3 msf loss of occupancy due to corporate relocations since 2016.

**Office Highlights**

- Despite negative absorption YTD (-631,681sf), and a 57-bps vacancy rise in the third quarter, the suburban submarkets set another record high for overall average rent (\$24.11 psf).
- The CBD has the lowest amount of vacant space (7.3 msf) since the second quarter of 2007, although CBD office inventory has expanded by over 20% in the intervening years.

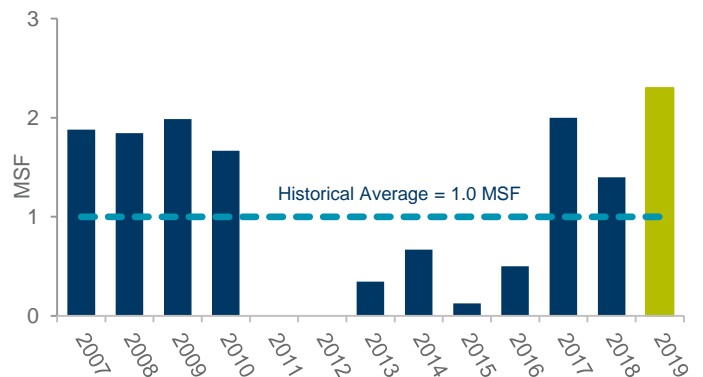
**Atlanta Investment Sales**

AVERAGE CAP RATE FELL 29 BASIS POINTS YEAR-OVER-YEAR TO 6.4%



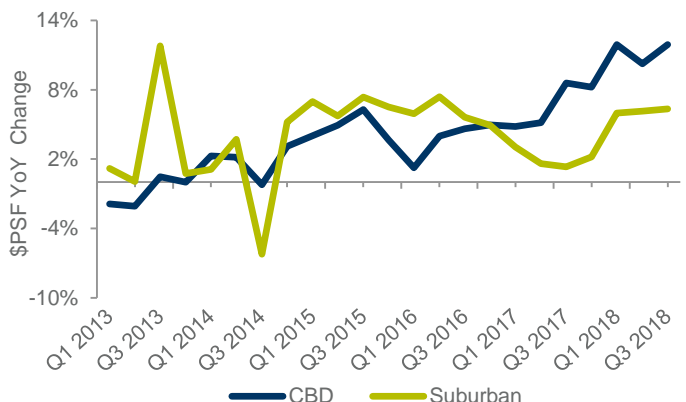
**New Supply**

NEW SUPPLY IN Q3 2018 SURPASSES HISTORICAL AVERAGE



**Class A Asking Rent Trend**

CBD AND SUBURBAN AVERAGE ASKING RATES CONTINUE TO CLIMB



# MARKETBEAT

## Atlanta

Office Q3 2018



SUBMARKET	INVENTORY	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY*	UNDER CONSTRUCTION	YTD DIRECT NET ABSORPTION	YTD OVERALL NET ABSORPTION	OVERALL WEIGHTED AVG. ALL CLASSES GROSS R.R.**	DIRECT WEIGHTED AVG. CLASS A GROSS R.R.**
Downtown	15,124,544	18.0%	16.8%	613,974	0	330,065	330,065	\$27.62	\$30.20
Midtown	17,763,138	11.5%	10.5%	742,951	1,962,270	451,086	408,102	\$34.25	\$37.27
Buckhead	17,363,833	14.9%	13.4%	819,892	115,905	176,153	179,262	\$34.95	\$36.23
<b>CBD</b>	<b>50,251,515</b>	<b>14.6%</b>	<b>13.4%</b>	<b>2,176,817</b>	<b>2,078,175</b>	<b>957,304</b>	<b>917,429</b>	<b>\$32.14</b>	<b>\$34.28</b>
Central Perimeter	22,726,387	16.7%	15.3%	1,459,972	339,500	(104,553)	(102,386)	\$28.33	\$30.71
Georgia 400 Corridor	18,100,929	15.3%	14.4%	671,292	389,941	32,760	(68,916)	\$23.51	\$26.39
I-75/Northside Drive	1,629,500	16.7%	15.0%	40,155	0	(20,289)	(28,811)	\$28.97	\$34.82
NW/Cumberland/Galleria	18,455,137	18.7%	18.3%	973,119	0	122,262	95,085	\$24.73	\$27.64
GA 120/Johnson Ferry Rd	232,533	10.8%	10.8%	15,132	0	0	0	\$21.55	\$0.00
I-75 North/Marietta	3,345,017	8.8%	5.8%	199,695	25,740	12,913	(23,434)	\$23.01	\$26.02
<b>NORTHWEST SUBTOTAL</b>	<b>23,662,187</b>	<b>17.1%</b>	<b>16.2%</b>	<b>1,228,101</b>	<b>25,740</b>	<b>114,886</b>	<b>42,840</b>	<b>\$24.87</b>	<b>\$27.72</b>
I-85/I-285/NE Atlanta	6,974,374	11.3%	11.2%	175,397	48,000	(16,741)	(16,741)	\$21.25	\$28.10
I-85 NE/Gwinnett Co./I-985	7,398,384	22.6%	20.8%	299,988	27,944	(143,734)	(258,855)	\$19.24	\$21.73
Peachtree Corners	5,816,221	23.7%	23.5%	181,876	20,000	(211,078)	(211,078)	\$18.71	\$21.47
<b>NORTHEAST SUBTOTAL</b>	<b>20,188,979</b>	<b>19.0%</b>	<b>18.3%</b>	<b>657,261</b>	<b>95,944</b>	<b>(371,553)</b>	<b>(486,674)</b>	<b>\$19.46</b>	<b>\$22.05</b>
Decatur	1,321,458	11.3%	11.2%	83,424	0	(10,009)	(10,009)	\$20.79	\$25.67
Northlake/Stone Mountain	2,842,225	31.1%	21.9%	49,090	0	(26,722)	(26,722)	\$23.08	\$21.39
<b>NORTHLAKE/ DECATUR SUBTOTAL</b>	<b>4,163,683</b>	<b>24.8%</b>	<b>18.5%</b>	<b>132,514</b>	<b>0</b>	<b>(36,731)</b>	<b>(36,731)</b>	<b>\$22.75</b>	<b>\$22.23</b>
I-20 West	522,244	11.2%	11.0%	371	0	5,248	5,248	\$20.50	\$0.00
Airport/South Atlanta	2,985,469	19.7%	19.6%	133,392	51,272	14,938	14,938	\$19.45	\$21.89
<b>SOUTH SUBTOTAL</b>	<b>3,507,713</b>	<b>18.4%</b>	<b>18.3%</b>	<b>133,763</b>	<b>51,272</b>	<b>20,186</b>	<b>20,186</b>	<b>\$19.55</b>	<b>\$21.89</b>
<b>NON-CBD</b>	<b>92,349,878</b>	<b>17.4%</b>	<b>16.3%</b>	<b>4,282,903</b>	<b>902,397</b>	<b>(345,005)</b>	<b>(631,681)</b>	<b>\$24.11</b>	<b>\$27.57</b>
<b>ATLANTA TOTALS</b>	<b>142,601,393</b>	<b>16.4%</b>	<b>15.3%</b>	<b>6,459,720</b>	<b>2,980,572</b>	<b>612,299</b>	<b>285,748</b>	<b>\$26.74</b>	<b>\$30.27</b>

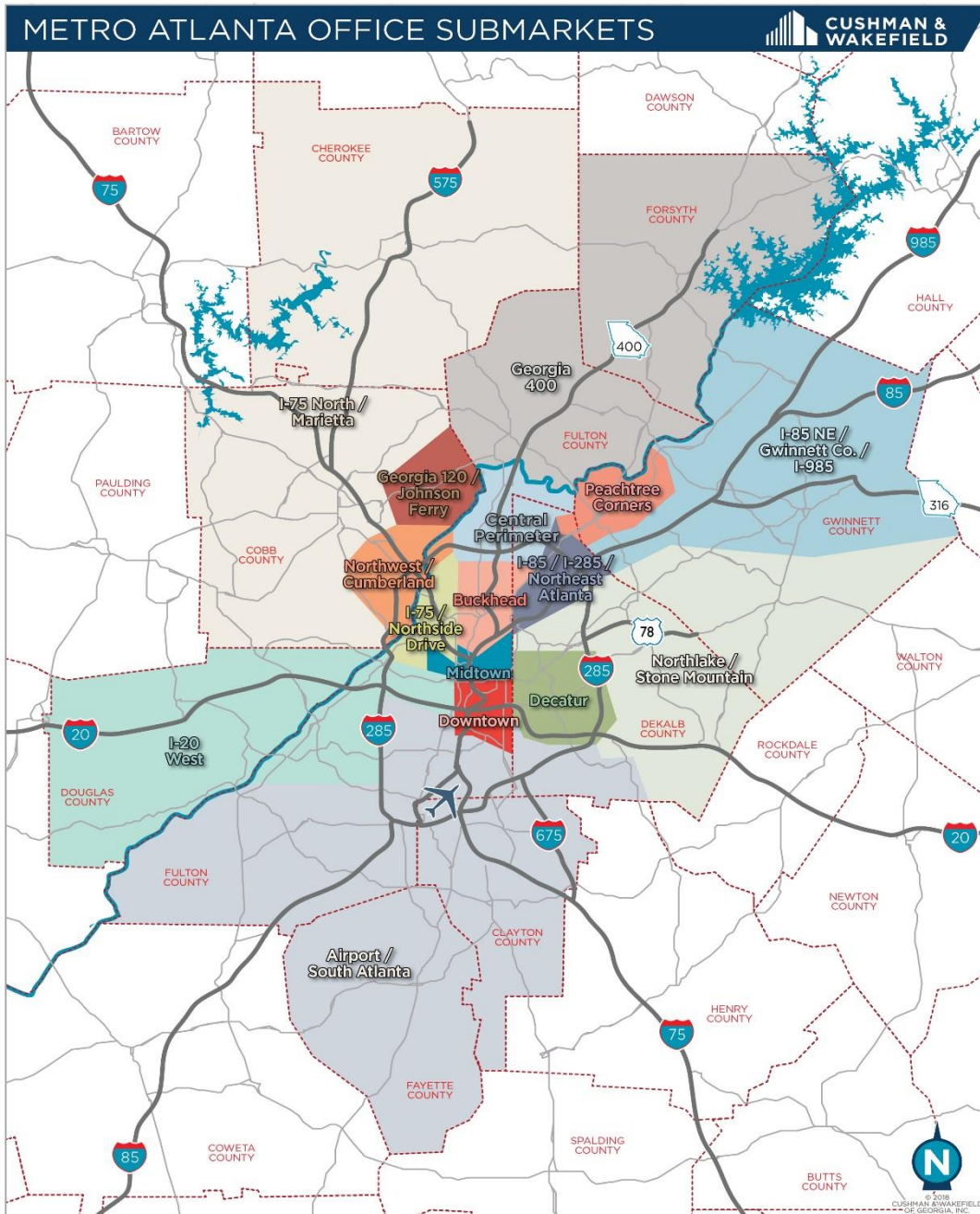
\*Leasing Activity does not include renewals; \*\*Rental rates reflect gross asking \$psf/year

### Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
One Ravinia Drive	151,792	T-Mobile	Renewal	Central Perimeter
945 East Paces Ferry Road	133,146	RSUI Group, Inc.	Renewal	Buckhead
3 Edison Drive	107,643	E*TRADE	New Lease	Georgia 400 Corridor
171 17 <sup>th</sup> Street	106,030	Wells Fargo	Renewal	Midtown

### Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
Lenox Park	1,040,327	Fortress Investment Group/ Bridge Commercial Real Estate	\$251,500,000 / \$242	Buckhead
7000 Central Parkway	403,315	CBRE Global Investors/ Starwood Capital Group	\$104,800,000 / \$260	Central Perimeter
3399 Peachtree Road	350,000	Paramenter/ TPA Group	\$96,500,000 / \$276	Buckhead



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