

ATLANTA OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Atlanta Employment	2.7M	2.8M	▲
Atlanta Unemployment	4.3%	3.4%	▼
U.S. Unemployment	4.1%	3.7%	▼

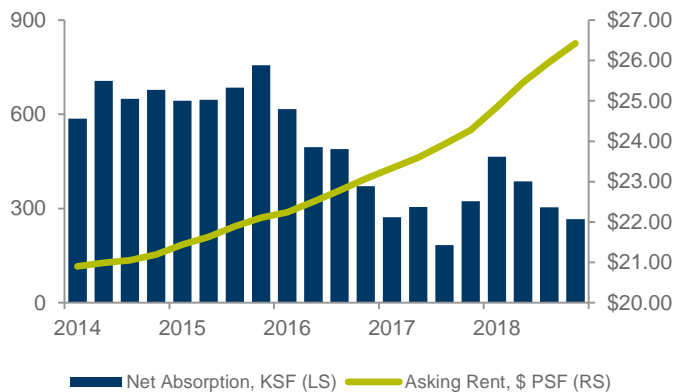
Numbers above are quarterly averages

Market Indicators (Overall, All Classes)

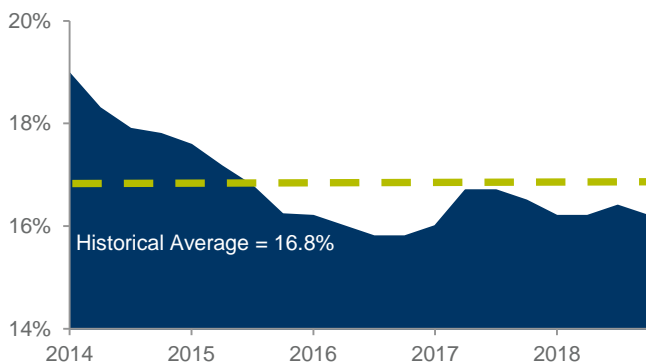
	Q4 17	Q4 18	12-Month Forecast
Vacancy	16.5%	16.2%	▲
Net Absorption (sf)	906k	756k	▼
Under Construction (sf)	2.9M	3.5M	▼
Average Asking Rent*	\$24.78	\$26.64	▲

*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 fourth quarter of 2018 and gained 59,800 jobs, up 2.2% year-over-year (YOY) compared to 1.1% nationwide. Atlanta's unemployment rate fell below the national average in 2018, dropping from 4.3% in the fourth quarter of 2017 to 3.4% in the fourth quarter of 2018. The national unemployment rate was 3.7% as of preliminary fourth-quarter data.

Market Overview

A strong economy has enabled the Atlanta office market to withstand trends working against it. Office-using employment continues a steady rise in metro Atlanta. However, an urbanization trend from the suburbs to the urban core has coincided with a wave of large corporate consolidations and office space reductions across the market. With relatively low construction deliveries in this economic cycle, overall occupancy has remained stable and above the historical average since 2016. However, a closer look reveals a significant bifurcation of the Atlanta office market. CBD Class A office space has carried the entire market to new records and offset the relatively flat suburb net absorption due to corporate downsizing.

The overall office market saw 755,561 square feet (sf) of positive absorption in the fourth quarter, bringing up year-to-date (YTD) net absorption to +1.1 million square feet (msf). However, large corporate move-outs, coupled with suburban rents reaching record highs for seven consecutive quarters, have caused a crushing burden of negative absorption in the outlying suburban submarkets. Class A office absorption in the CBD submarkets reached 1.5 msf, while suburban Class A and overall Class B and C office had significant negative absorption (-466,041 sf) concentrated in Peachtree Corners, Gwinnett, and I-75 North/Marietta.

In the fourth quarter of 2018, overall office vacancy declined to 16.2% and is down 0.3% YOY. Vacancy continued to plunge in the CBD (14.2%, down 2.0% YOY), but suburban submarkets, despite a slight decline in the fourth quarter, saw a 0.8% jump YOY (17.4%)

However, rents continue to rise in the suburbs. The spectacular success of the office market in the core CBD submarkets has fueled a rising tide of record-high rents across the entire market.

YOY office rent growth of 7.5% in the fourth quarter of 2018 was spread evenly among CBD and suburban submarkets, and Class A and non-Class A buildings. Overall average asking office rents were essentially unchanged from the third quarter at \$26.64 per square foot (psf). Office rents rose very slightly in the CBD to a fifth consecutive record high of \$32.14 psf, and suburban rents also inched a few pennies higher, rising for the seventh consecutive quarter to \$24.19 psf.

Meanwhile overall leasing activity shows no signs of slowing. Suburban leasing activity reached 6.6 msf for 2018 with 1.7 msf in the fourth quarter, which was the best year since 2008. CBD leasing activity in the fourth quarter of 2018 surpassed 1.0 msf for the first time since 2010 (1.1 msf) and only the sixth quarter on record. The CBD has almost 1.6 msf of office under construction, 48.4% of which is pre-leased.

CBD CLASS A NET ABSORPTION WAS +1.6 MSF IN 2018, THE BEST YEAR EVER RECORDED, WHILE THE REMAINDER OF THE MARKET HAD SIGNIFICANT NEGATIVE ABSORPTION.

Outlook

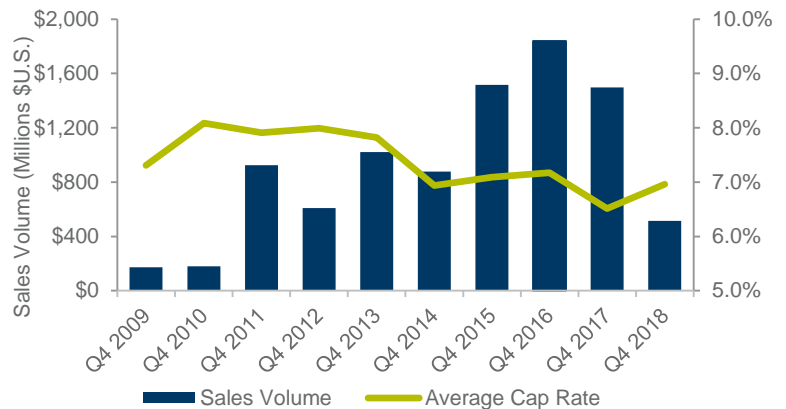
Suburban office submarkets are struggling to rebound from the 2.1 msf loss of occupancy since 2016 due to corporate consolidations and office space reductions. However, economic and population growth in metro Atlanta shows no signs of slowing in the coming year. Record high rents and historic low vacancy in the CBD submarkets, coupled with strong suburban leasing activity in the second half of 2018, should stabilize the absorption situation in the suburbs and lead to another impressive year for the Atlanta office market in 2019.

Office Highlights

- Despite negative absorption in 2018 (-283,744 sf), overall average asking rents in suburban submarkets set a third-consecutive record high (\$24.11 psf) in the fourth quarter of 2018.
- Vacant office space in CBD submarkets (7.3 msf) is the lowest since the fourth quarter of 2005. In the intervening years, CBD office inventory has expanded by over 26%.

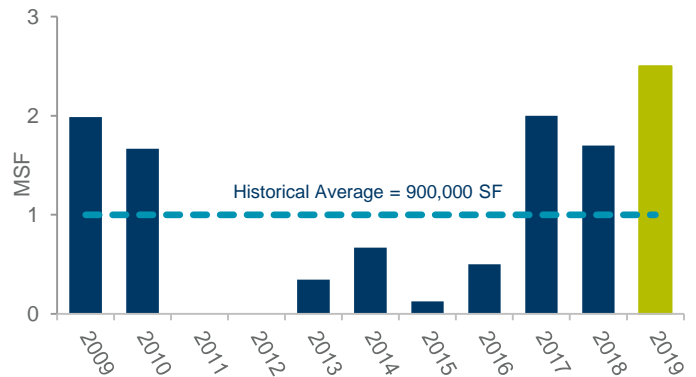
Atlanta Investment Sales

AVERAGE CAP RATE ROSE 50 BASIS POINTS YEAR-OVER-YEAR TO 7.0%



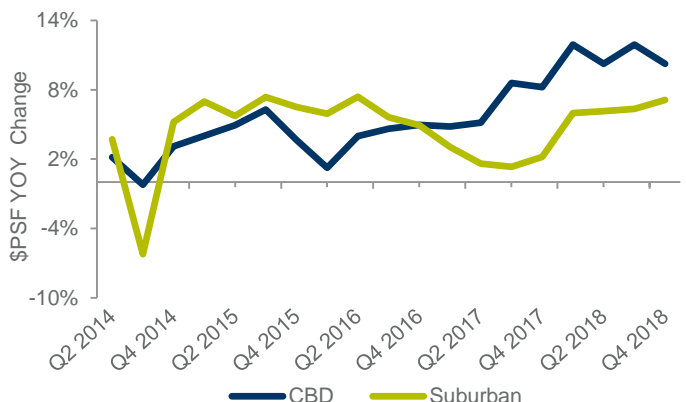
New Supply

2018 NEW SUPPLY SURPASSED HISTORICAL AVERAGE



Class A Asking Rent Trend

CBD AND SUBURBAN AVERAGE ASKING RATES CONTINUE TO CLIMB



MARKETBEAT

Atlanta

Office Q4 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	17.5%	16.4%	840,224	0	403,134	403,134	\$27.25	\$30.15
Midtown	18,040,138	11.2%	10.3%	1,214,720	1,996,137	741,121	698,137	\$34.39	\$37.49
Buckhead	17,363,833	14.4%	13.0%	1,275,089	0	245,621	248,730	\$35.09	\$36.42
CBD	50,528,515	14.2%	13.0%	3,330,033	1,996,137	1,389,876	1,350,001	\$32.19	\$34.53
Central Perimeter	22,726,387	16.5%	15.0%	2,082,924	339,500	19,335	21,502	\$28.57	\$31.08
Georgia 400 Corridor	18,245,101	15.5%	14.7%	1,225,724	453,800	110,024	5,743	\$23.74	\$26.57
I-75/Northside Drive	1,628,879	18.4%	16.6%	44,107	0	(54,351)	(62,873)	\$28.92	\$34.82
NW/Cumberland/Galleria	18,455,137	18.9%	18.5%	1,737,950	369,000	246,656	219,479	\$24.56	\$27.81
GA 120/Johnson Ferry Rd	232,533	10.8%	10.8%	16,176	0	0	0	\$21.55	\$0.00
I-75 North/Marietta	3,345,017	11.5%	8.5%	206,811	0	(77,987)	(114,334)	\$24.42	\$26.65
NORTHWEST SUBTOTAL	23,661,566	17.7%	16.9%	2,005,044	369,000	114,318	42,272	\$24.84	\$27.87
I-85/I-285/NE Atlanta	6,974,374	11.5%	11.4%	196,301	258,000	(30,326)	(30,326)	\$21.46	\$30.45
I-85 NE/Gwinnett Co./I-985	7,426,328	22.5%	20.7%	379,397	0	(71,046)	(186,167)	\$18.80	\$21.83
Peachtree Corners	5,595,546	20.1%	19.8%	208,762	20,000	(151,107)	(151,107)	\$19.20	\$21.73
NORTHEAST SUBTOTAL	19,996,248	18.0%	17.2%	784,460	278,000	(252,479)	(367,600)	\$19.52	\$22.37
Decatur	1,321,458	11.0%	10.8%	90,154	0	(5,901)	(5,901)	\$22.91	\$25.67
Northlake/Stone Mountain	2,842,225	30.7%	30.7%	260,206	0	(16,453)	(16,453)	\$23.02	\$22.30
NORTHLAKE/ DECATUR SUBTOTAL	4,163,683	24.5%	24.4%	350,360	0	(22,354)	(22,354)	\$23.00	\$22.96
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	19.1%	19.0%	160,272	51,272	31,445	31,445	\$20.27	\$18.61
SOUTH SUBTOTAL	3,507,713	18.0%	17.8%	160,643	51,272	36,693	36,693	\$20.30	\$18.61
NON-CBD	92,300,698	17.4%	16.4%	6,609,155	1,491,572	5,537	(283,744)	\$24.19	\$27.77
ATLANTA TOTALS	142,829,213	16.2%	15.2%	9,939,188	3,487,709	1,395,413	1,066,257	\$26.64	\$30.37

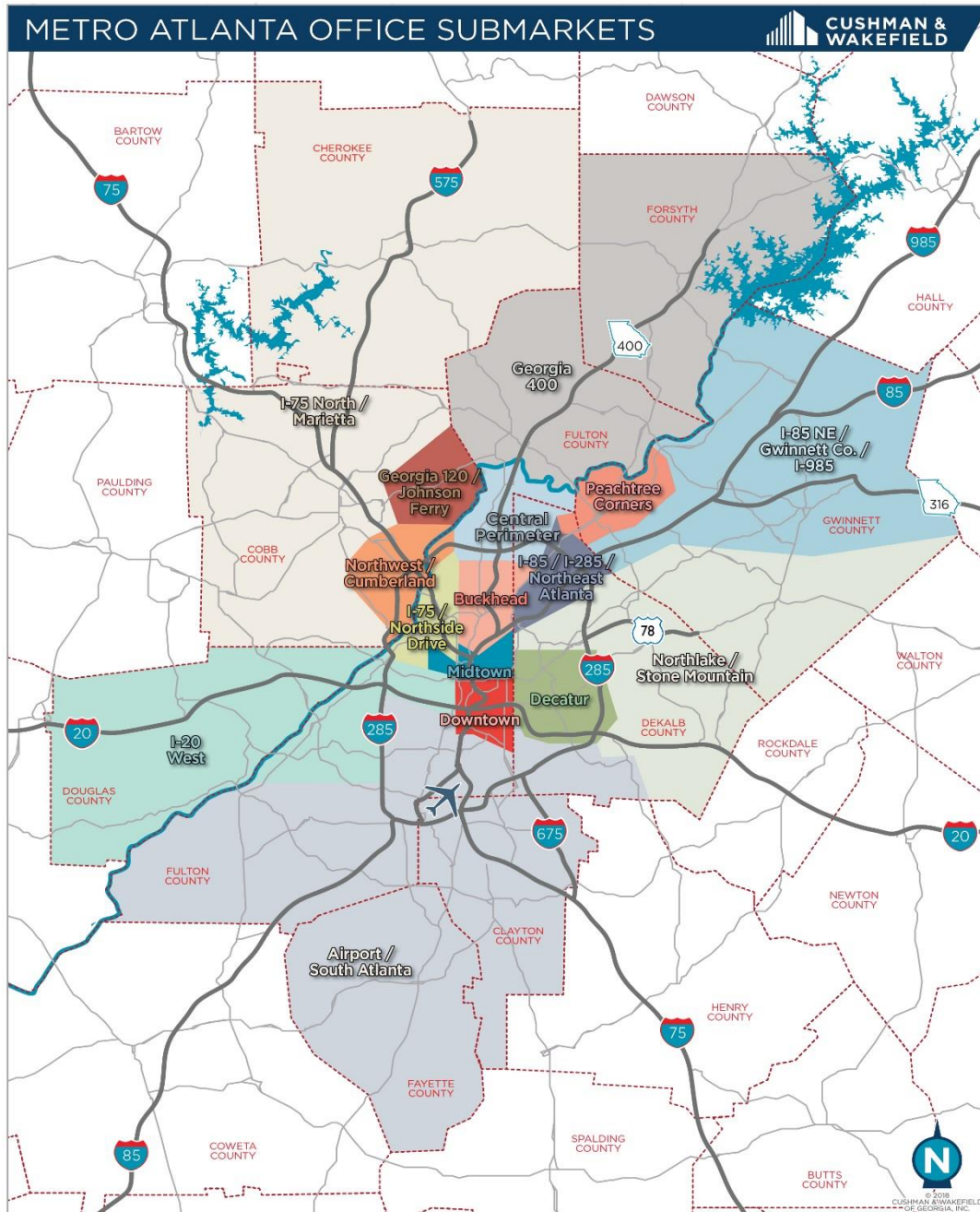
*Leasing Activity does not include renewals; **Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
320/340 Interstate North Parkway	220,000	Home Depot	New Lease	NW/Cumberland/Galleria
3 Battery Avenue	210,000	ThyssenKrupp	New Lease	NW/Cumberland/Galleria
2500 Windy Ridge Parkway	185,473	Floor & Decor	New Lease	NW/Cumberland/Galleria
1115 Howell Mill Road NW / The Interlock	118,000	WeWork	New Lease	Midtown

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
3475 Piedmont Road	422,439	Croker Partners/New York Life Insurance Company	\$166,000,000 / \$393	Buckhead
3445 Peachtree Road	286,648	The Brookdale Group/Barings Real Estate Advisors	\$82,573,500 / \$288	Buckhead
1000 Windward Concourse Parkway	251,425	UBS / B Developments	\$43,500,000 / \$173	Georgia 400 Corridor



Cushman & Wakefield
1180 Peachtree St. NE
Suite 3100
Atlanta, GA 30309

For more information, contact:
Clay M. Westbrook
Market Director - Research
Tel: +1 470 639 4907
clay.westbrook@cushwake.com

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