

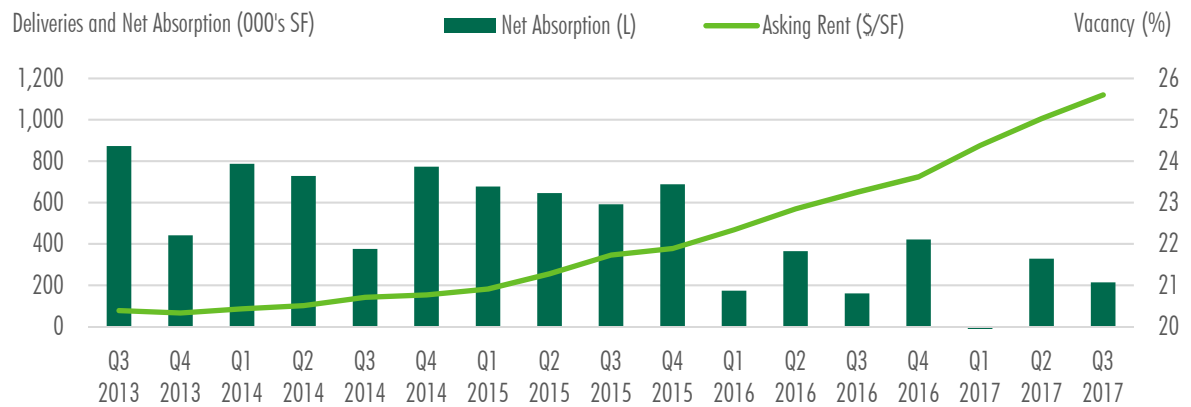
Atlanta Office, Q3 2017

Rents continue to push higher despite cooling absorption

▼ Vacancy Rate 17.5%
▲ Overall Rate \$25.60 PSF
▲ Class A Rate \$27.88 PSF
▼ Net Absorption 213,902 SF
▼ Construction 1,643,643 SF
▼ Completions 172,906 SF

*Arrows indicate change from previous quarter.

Figure 1: Historical Deliveries vs. Vacancy Rate by Quarter



Source: CBRE Research, Q3 2017.

Q3 MARKET CONDITIONS

With net absorption barely exceeding 210,000 sq. ft. in the third quarter, the Atlanta office market continues to post lower office activity compared to just over a year ago. From the start of 2013 to the end of 2015, the average quarterly net absorption was just under 620,000 sq. ft. Since the start of 2016, the average has dropped to just under 228,000 sq. ft. per quarter. It is important to note that absorption numbers are being propped up by the completion of preleased space in Atlanta's newest office developments.

In the meantime, overall office rents, which have risen consistently over the last four years, hit a new record high of \$25.60 per sq. ft. on a full service basis. Since 2013, the average overall rent has risen \$5.27 per sq. ft., or 26%. Some of this push is due to the higher asking rates of newly delivered office developments like Three Alliance Center in Buckhead and Riverwood 200 in Cumberland. Asking rates for new Class A towers are generally ranging between the mid-\$30's to the mid-\$40's per sq. ft.

PARKING SCARCITY

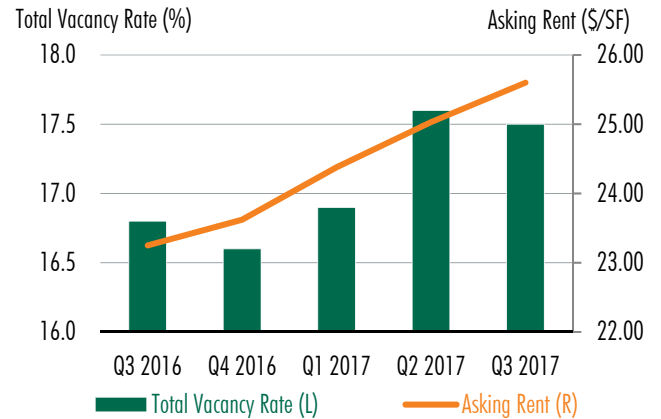
An expanding economy and advancing workplace efficiencies have given rise to a form of tightening within Atlanta’s office market: parking capacity. A challenge many businesses face today is balancing the need to add employees while being strategic about occupancy and operational costs. While leasing more space or realigning existing space helps accommodate new employee growth, often underestimated is the need to accommodate a greater number of workers and how they will park their automobiles. How tenants and landlords deal with increasing parking requirements is rapidly becoming a key point of contention.

Office users are active, committing to new leases in higher quality product during this expansion, however, a key distinction between this and prior cycles is the frequency with which tenants are focused on workplace strategy and efficient use of space. The average sq. ft. occupied per worker continues to decline across most industry groups. A result of more employees per sq. ft. is an increase in the parking requirement for the tenant, which poses a challenge for some buildings where the number of spaces per building size (parking ratio) is low.

Another contributing factor is metro Atlanta’s rapidly growing economy. Recent job gains have been impressive - Atlanta had the highest rate of year-over-year office using job growth in at mid-year 2017 among the top-10 largest metro areas creating nearly 37,000 office using jobs.

It comes as no surprise that as hiring strengthens, office occupancies and the demand for parking rises. So while overall demand contributes to parking scarcity, the trend of occupier densification is quite prominent and poses challenges as companies relocate, particularly as it relates to newer CBD buildings that possess lower parking ratios.

Figure 2: Overall Atlanta Rental Rate and Vacancy



Source: CBRE Research, Q3 2017.

Figure 3: Key Leasing Transactions

Tenant	Location	Size (Sq. Ft.)	Submarket	Transaction Type
Eversheds Sutherland	999 Peachtree Street	175,706	Midtown	Renewal/Contraction
AJC	Perimeter Center	127,823	Central Perimeter	Renewal
Sprint	Cumberland Center I	86,690	Cumberland/Galleria	Renewal/Contraction
Safe-Guard	Concourse Corporate Center Two	86,000	Central Perimeter	Renewal/Expansion
Aveanna Health	Platinum Tower	60,000	Cumberland/Galleria	New

Source: CBRE Research, Q3 2017.

OFFICE ABSORPTION

Atlanta posted 213,902 sq. ft. of absorption during Q3. The Cumberland/Galleria submarket experienced the greatest amount of absorption for the second straight quarter, with 168,666 sq. ft., while North Fulton followed with 115,055 sq. ft. Class A properties posted the highest absorption with 313,101 sq. ft. Absorption among Class B and Class C product was negligible.

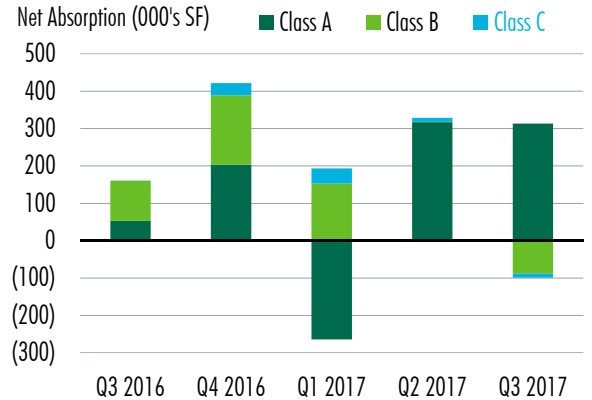
OFFICE RENTAL RATES

Overall asking rental rates for Atlanta’s office market showed strong growth in Q3 2017. The average overall asking rate increased by \$.57 per sq. ft. to an all-time high of \$25.60 per sq. ft. on a full service basis. Similarly, Class A space increased from \$27.41 per sq. ft. in Q2 2017 to a new record of \$27.88 per sq. ft. in Q3 2017. Class B properties increased from \$20.10 per sq. ft. to \$20.65 per sq. ft. and Class C properties increased to \$21.36 sq. ft. The Atlanta market will likely continue to see similar increasing rate trends in the short term.

OFFICE VACANCY RATES

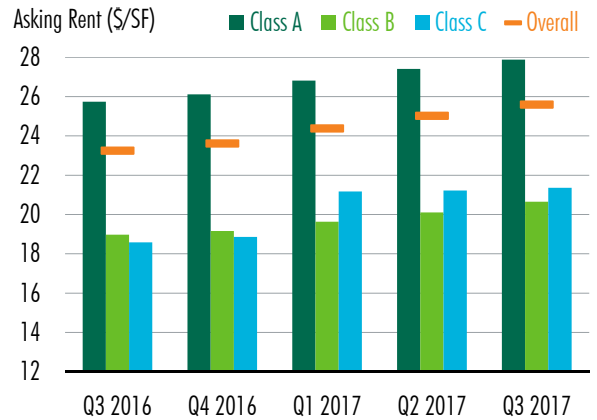
The overall vacancy rate decreased by 10 basis points (bps) to 17.5% in Q3 2017. Class A decreased 20 basis points (bps) to 15.8. Class B vacancy remained relatively flat at 21.5%. Class C increased 80 bps to 8.7%. With some speculative space still under construction, Class A vacancy rates are expected to temporarily increase in the coming quarters while lease-up activity occurs. This should be a short term phenomenon as demand for office space is strong in metro Atlanta.

Figure 4: Quarterly Net Absorption



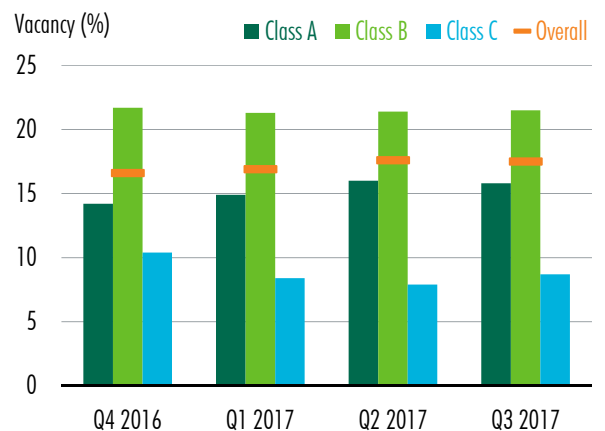
Source: CBRE Research, Q3 2017.

Figure 5: Rental Rates by Property Type



Source: CBRE Research, Q3 2017.

Figure 6: Vacancy by Property Type



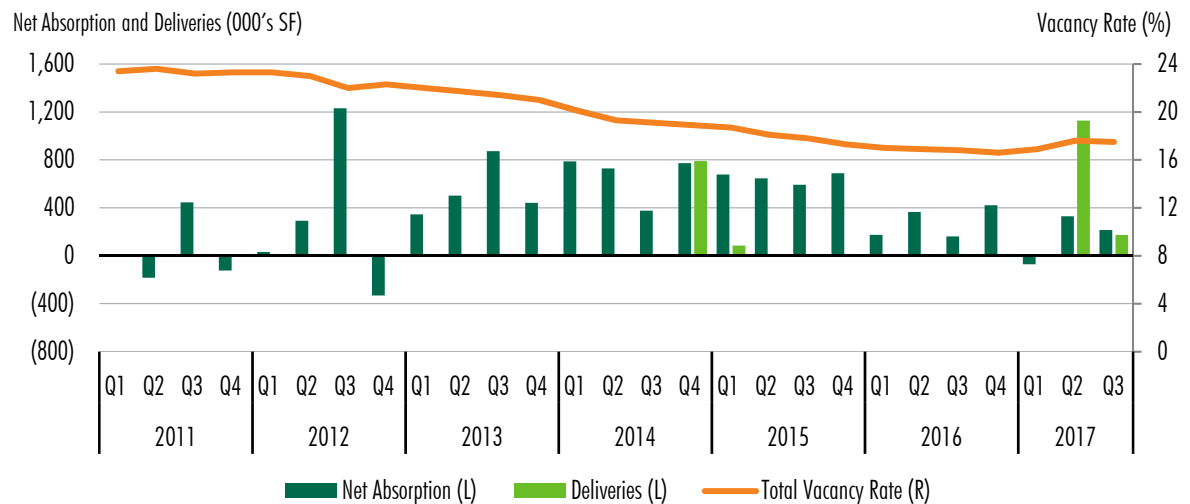
Source: CBRE Research, Q3 2017.

Figure 7: Market Statistics

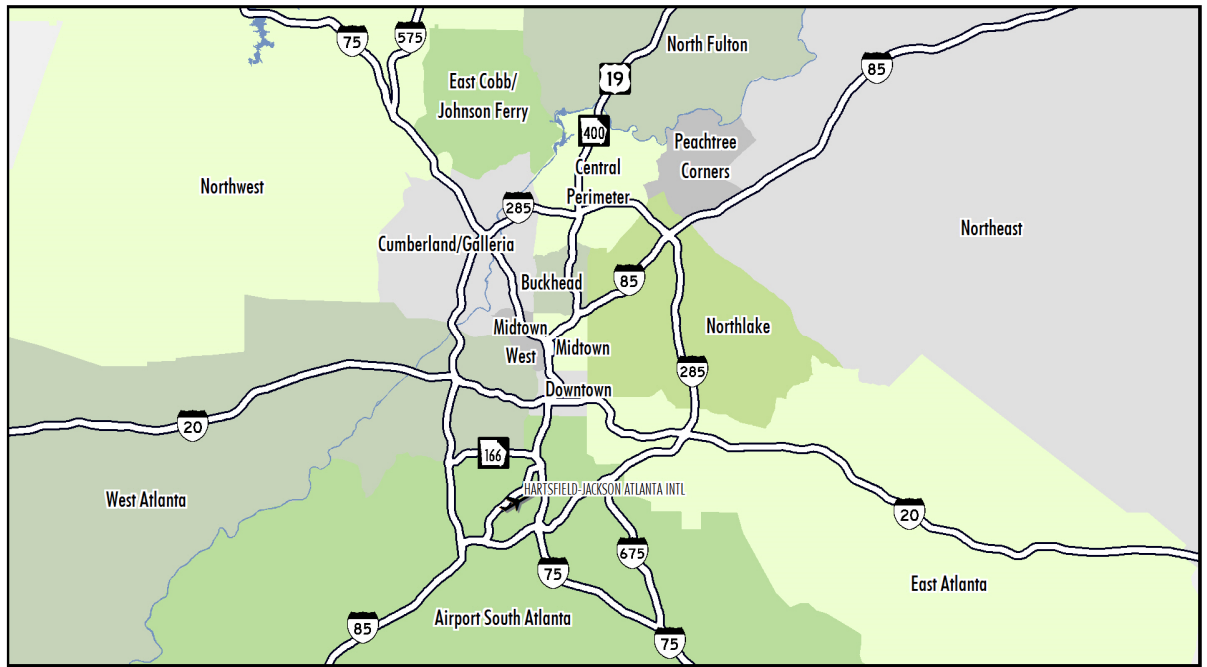
Submarket	Market Rentable Area (sq. ft.)	Vacancy Rate (%)	Sublease Space (sq. ft.)	Avail. Rate (%)	Q3 2017 Net Absorption (sq. ft.)	YTD Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Avg. Gross Asking Lease Rate (\$/sq. ft./Yr)
Downtown	17,430,992	18.8	260,852	20.9	94,677	149,782	61,000	24.11
Midtown	15,145,385	14.3	187,721	15.3	91,668	244,502	1,120,000	30.69
Buckhead	15,931,875	15.5	372,298	21.4	(125,390)	(27,285)	0	33.01
Midtown West	478,665	9.7	2,809	9.7	(8,765)	(8,215)	0	23.00
CBD	48,986,917	16.2	823,680	19.2	52,190	358,784	1,181,000	28.72
Cumberland Galleria	19,099,637	18.0	516,399	23.2	168,666	201,610	0	24.15
Northwest	2,146,060	8.2	111,286	13.3	(19,112)	(14,953)	0	25.13
Central Perimeter	21,565,932	17.7	820,428	23.9	(97,328)	(192,458)	355,000	26.64
North Fulton	17,513,178	15.7	322,875	19.2	115,055	62,835	107,643	24.86
I85/Northeast	6,197,445	23.0	31,994	25.9	(61,663)	(26,189)	0	19.82
Peachtree Corners	5,067,132	28.1	80,272	29.6	65,322	71,690	0	19.36
Northlake/Decatur	8,304,506	17.8	23,761	21.8	(17,808)	(47,673)	0	20.99
Airport South Atlanta	2,810,841	21.1	8,108	23.1	6,703	69,492	0	18.86
I20 West	374,200	12.3	16,590	21.2	(1,515)	(2,734)	0	15.18
East Atlanta	391,869	24.0	0	26.0	6,592	4,026	0	13.68
East Cobb/ Johnson Ferry	247,518	8.8	7,953	8.8	(3,200)	(12,909)	0	15.57
SUBURBAN	83,718,318	18.2	1,939,666	22.7	161,712	112,737	462,643	24.11
ATLANTA	132,705,235	17.5	2,763,346	21.4	213,902	471,521	1,643,643	25.60

Source: CBRE Research, Q3 2017.

Figure 8: Quarterly Net Absorption and Deliveries vs. Vacancy Rate



Source: CBRE Research, Q3 2017.


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