

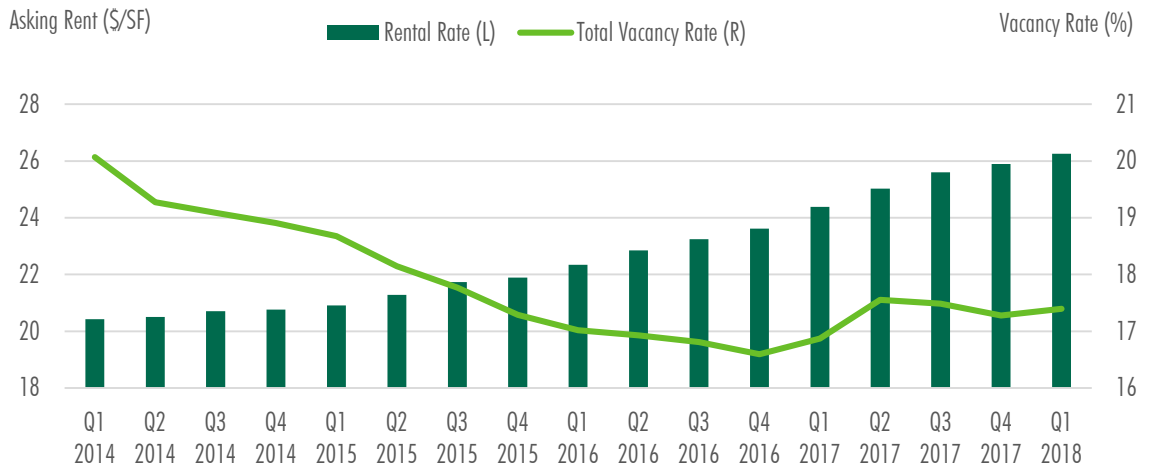
Atlanta Office, Q1 2018

Build-to-suit development masks strong office activity levels

▲ Vacancy Rate 17.4%
▲ Overall Rate \$26.25 PSF
▲ Class A Rate \$28.35 PSF
▼ Net Absorption 133,925 SF
▼ Construction 1,288,643 SF
▲ Completions 355,000 SF

Figure 1: Historical Vacancy Rate and Rental Rate by Quarter

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q1 2018.

Q1 2018 MARKET CONDITIONS

In market where economic conditions are strengthening and the ability to attract and retain talent is becoming critical to business success, users are looking to secure best-in-class space. Unable to find it, especially at a large scale, tenants often have to secure space in build-to-suit or owner-occupied facilities. While these transactions are indicative of a strong market, they can lead to misleading indicators of market activity. This is the case this quarter.

Vacancy did have a 10 basis point increase, mainly due to the delivery of 4004 Perimeter Summit, a 355,000 sq. ft. speculative office tower in the Central Perimeter submarket.

The first quarter of 2018 closed with the lowest level of absorption reported in the last four quarters, which suggests a slowing of market activity. However this figure is misleading due to the movement of NCR and Mercedes Benz to properties not included in the tracked inventory. Combined the two companies occupied 710,000 sq. ft. of additional space that was not accounted for in market absorption.

As far as transactions among the active inventory, absorption was led by WestRock's occupancy of 147,000 sq. ft. of office space, and Hodges-Mac, a provider of employee benefits communication and custom enrollment services, occupied a 60,000 sq. ft. space, both in the Central Perimeter submarket.

ATLANTA'S 2017 JOB GROWTH REMAINED STRONG – WILL IT CONTINUE?

Atlanta's job growth came in just shy of 60,000 for calendar year 2017, this after 81,800 gains in 2016 and 78,800 in 2015. Since the end of 2010 nearly 450,000 jobs have been added to the market, placing the region near the top of the U.S. in terms of percentage growth, and in turn placing it on the short list of markets for corporate relocation, startup activity and capital investment interest.

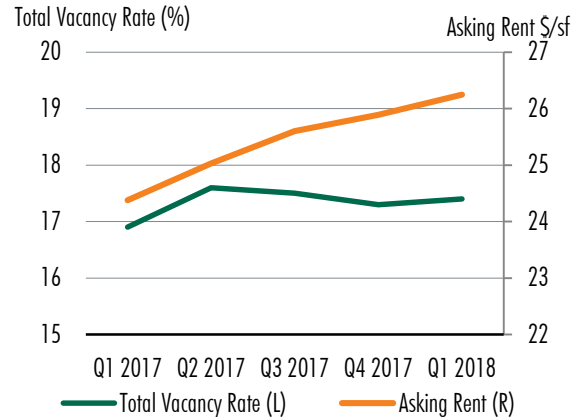
The growth has been both robust and sustained for several years, but the pace is expected to moderate in the coming years. The wind down should go mostly unnoticed in large part because Atlanta's job growth rate downshifted to a more sustainable pace in January of 2017. During this deceleration period Atlanta ranked second overall in terms of job growth rate among the largest U.S. metropolitan areas and absorbed more than 850,000 sq. ft. of office space. This suggests that the demand for office space should remain healthy for the foreseeable future.

WILL TAX REFORM REIGNITE OFFICE DEMAND IN ATLANTA?

From 2013 through 2015, Atlanta's average quarterly net absorption was 619,000 sq. ft., however, the last two years have averaged only 247,000 sq. ft. per quarter. While market fundamentals remain relatively healthy, factors such as space densification, cost, and telecommuting have worked as a drag on overall demand for space.

Renewed demand could be realized thanks to the forthcoming Tax Cuts and Jobs Act, which is expected to stimulate the U.S. economy through a combination of increased liquidity and a lower cost of capital. Stronger corporate earnings are expected as a result of the tax changes, and while it is unknown exactly how corporations will treat any realized gains, office occupier demand in the tech and financial services sectors could see an uptick.

Figure 2: Overall Atlanta Rental Rate and Vacancy



Source: CBRE Research, Q1 2018.

Figure 3: Key Leasing Transactions

Tenant	Location	Size (Sq. Ft.)	Submarket	Transaction Type
Insight Global	1134 Hammond Dr.	205,000	Central Perimeter	New
Northside Hospital	1001 Summit Blvd.	178,289	Central Perimeter	New
Newell Brands	7840 Roswell Rd.	102,202	Central Perimeter	New / Renewal
First Data Corporation	1600 Terrell Mill Rd.	50,972	Cumberland Galleria	Expansion
Baker Donelson	3414 Peachtree Rd. NE	50,248	Buckhead	Renewal

Source: CBRE Research, Q1 2018.

OFFICE ABSORPTION

Atlanta posted more than 130,000 sq. ft. of absorption during Q1. The Central Perimeter submarket experienced the greatest amount of absorption with almost 240,000 sq. ft., while Buckhead followed with more than 125,000 sq. ft. Class A properties posted the highest absorption with over 150,000 sq. ft. while absorption among Class B and C product was negligible.

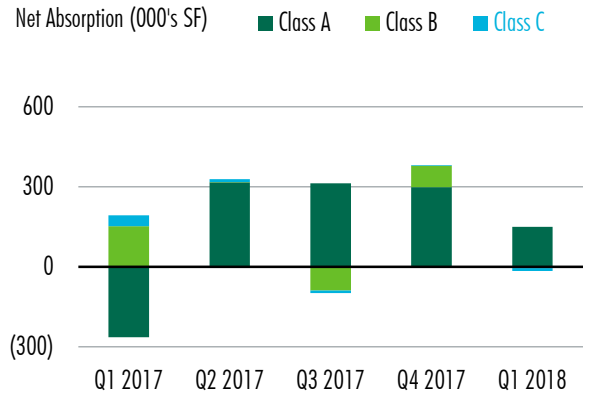
OFFICE RENTAL RATES

Overall asking rental rates for Atlanta’s office market showed strong growth in Q1 2018. Asking rates continue to increase and once again rise to a new record high, ending the first quarter at \$26.25 per sq. ft. on a full service basis. This is a trend that has been recurring for the last four years. Similarly, Class A space increased from \$28.06 per sq. ft. in Q4 2017 to a new record of \$28.35 per sq. ft. in the first quarter, a 5.7% increase of just a year ago.. Class B properties increased from \$21.01 per sq. ft. to \$21.55 per sq. ft. The Atlanta market will likely continue to see similar increasing rate trends in the short term

OFFICE VACANCY RATES

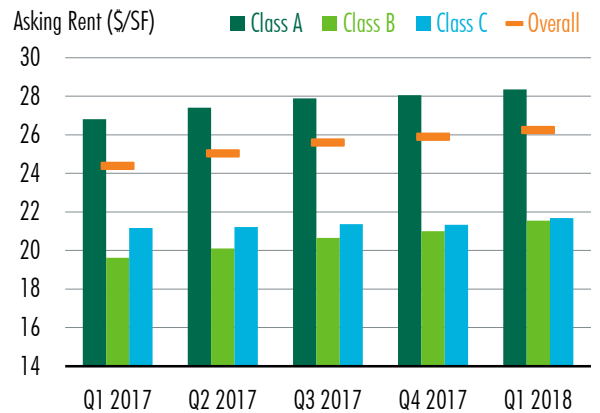
The overall vacancy rate increased by 10 basis points (bps) to 17.4% in Q1 2018 mainly due to the delivery of 4004 Perimeter Summit in the Central Perimeter submarket. Class A followed with the same increase ending the quarter increasing 10 bps to 15.7%. Class B remained unchanged staying at 21.3%. With some speculative space still under construction, Class A vacancy rates are expected to continue to 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 the Atlanta market.

Figure 4: Quarterly Net Absorption



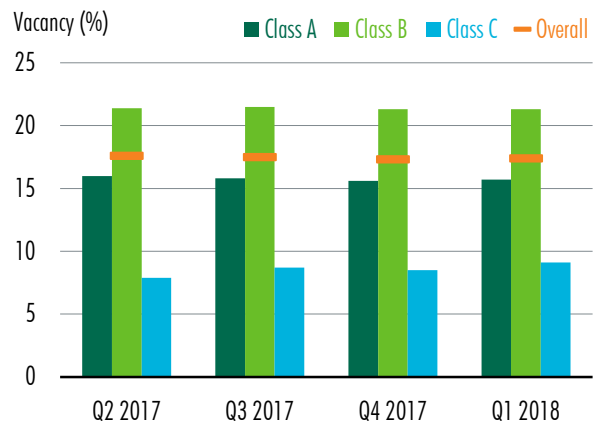
Source: CBRE Research, Q1 2018.

Figure 5: Asking Rates by Property Type



Source: CBRE Research, Q1 2018.

Figure 6: Vacancy by Property Type



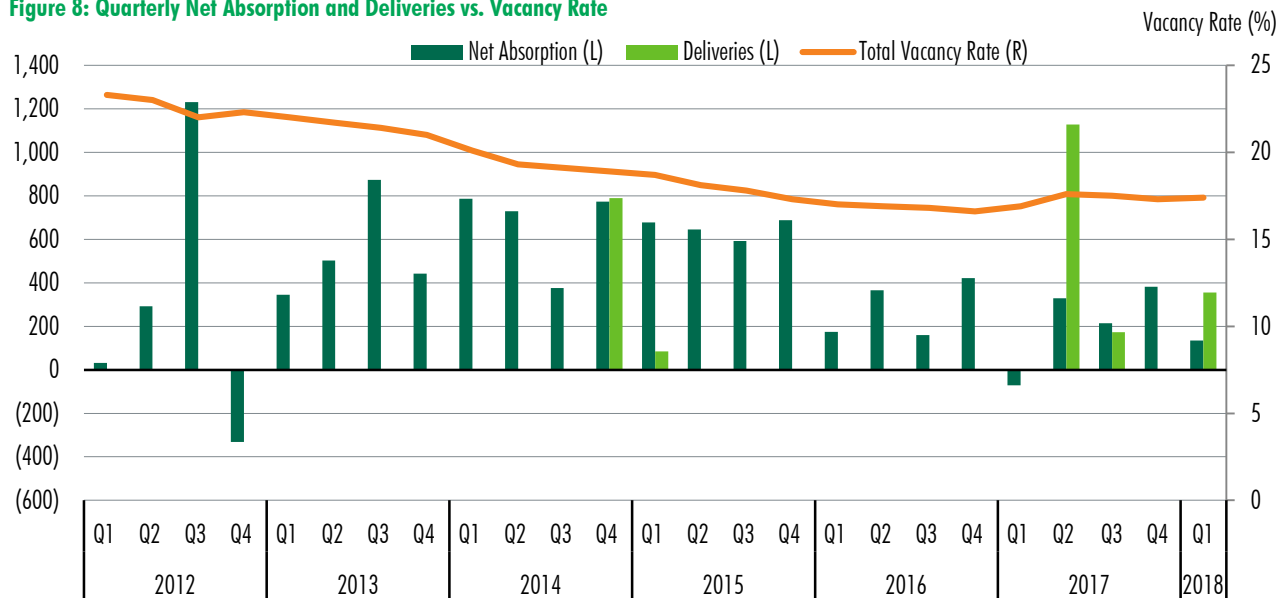
Source: CBRE Research, Q1 2018.

Figure 7: Market Statistics

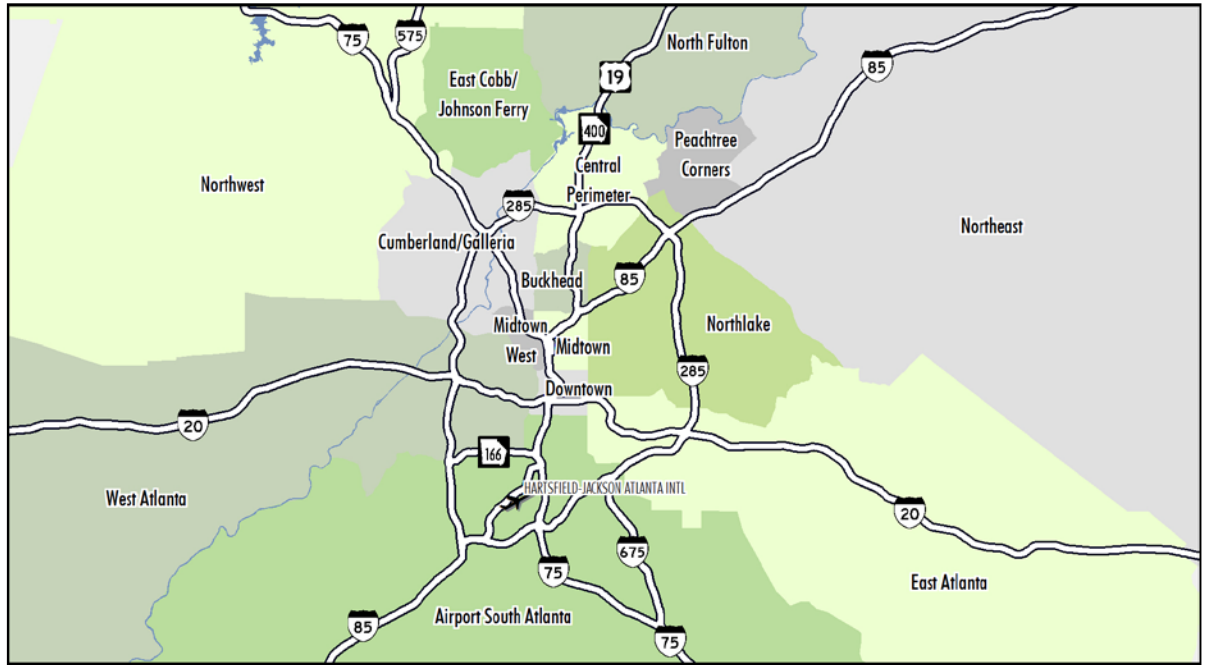
Submarket	Market Rentable Area (sq. ft.)	Vacancy Rate (%)	Sublease Space (sq. ft.)	Avail. Rate (%)	Q1 2018 Net Absorption (sq. ft.)	YTD Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Avg. Gross Asking Lease Rate (\$/sq. ft./Yr)
Downtown	17,430,992	18.9	146,975	20.6	(37,059)	(37,059)	61,000	24.81
Midtown	15,145,385	13.5	452,639	17.9	62,673	62,673	1,120,000	32.90
Buckhead	15,931,875	14.5	232,089	19.4	127,772	127,772	0	33.12
Midtown West	601,665	10.6	5,353	10.6	(1,192)	(1,192)	0	25.00
CBD	49,109,917	15.7	837,056	19.3	152,194	152,194	1,181,000	29.45
Cumberland Galleria	19,099,637	19.2	528,196	23.9	(161,372)	(161,372)	0	24.79
Northwest	2,146,060	6.7	111,253	13.8	25,784	25,784	0	25.39
Central Perimeter	21,920,932	18.0	671,985	26.8	239,289	239,289	0	27.11
North Fulton	17,513,178	15.1	349,936	19.6	(59,072)	(59,072)	107,643	24.93
I-85/Northeast	6,197,445	22.0	128,481	26.5	41,759	41,759	0	20.39
Peachtree Corners	5,067,132	27.1	31,743	30.9	(13,039)	(13,039)	0	19.62
Northlake/Decatur	8,304,506	18.7	16,089	20.3	(83,141)	(83,141)	0	22.19
Airport South Atlanta	2,810,841	21.4	8,108	23.0	(11,383)	(11,383)	0	18.48
I-20 West	374,200	11.6	16,590	16.3	8,274	8,274	0	16.00
East Atlanta	391,869	24.7	0	24.9	(2,658)	(2,658)	0	13.56
East Cobb/ Johnson Ferry	247,518	7.9	7,953	7.9	(2,080)	(2,080)	0	15.25
SUBURBAN	84,073,318	18.4	1,870,334	23.6	(18,269)	(18,269)	107,643	24.68
ATLANTA	133,183,235	17.4	2,707,390	22.0	133,925	133,925	1,288,643	26.25

Source: CBRE Research, Q1 2018.

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



Source: CBRE Research, Q1 2018.

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