

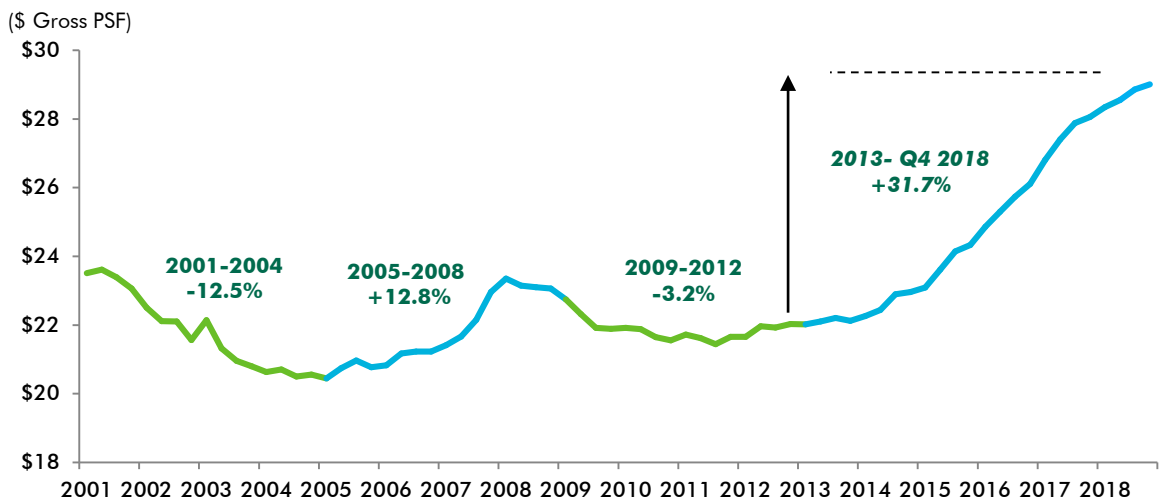
Atlanta Office, Q4 2018

Speculative office construction activity hits highest level in years

 Vacancy Rate 17.0%	 Overall Rate \$27.05 PSF	 Class A Rate \$29.01 PSF	 Net Absorption 331,054 SF	 Construction 2,772,263 SF	 Completions 0 SF
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Figure 1: Historical Class A Asking Rates

*Arrows indicate change from previous quarter.



Source: CBRE Research, Q4 2018.

The Atlanta office market finished 2018 on a high note with over 331,000 sq. ft. of overall net absorption during the fourth quarter, the highest in a year. Thanks to a really strong third quarter, Class B office accounted for almost 700,000 sq. ft. of absorption for the year. The strong absorption combined with no new office deliveries during the quarter decreased the overall vacancy level to 17%, the lowest in almost a year. It has also pushed asking rents to their highest ever.

The Central Perimeter submarket led the way with 136,000 sq. ft. of overall net absorption. During the quarter, OneTrust, a privacy software company, relocated from Midtown to Central Perimeter. The company originally occupied 12,000 sq. ft., but now has expanded to occupy 77,000 sq. ft. in two buildings in Northpark.

Another Central Perimeter area company expanded their headquarters into two buildings during the quarter. FinTech company Elavon occupied 56,000 sq. ft. in Concourse Center buildings Two and Four. According to the *Atlanta Business Chronicle*, more than 60% of the financial technology industry's companies are based in metro Atlanta and more than 70% of all U.S. payments are processed here.

The overall Atlanta office rent continues its impressive run as Q4 marked the 20th straight quarter of increase. Overall rents increased 4.5% in the last year to break the \$27.00 per sq. ft. on a full service basis for the first time. Average Class A rent continues its similar pattern charging past the \$29.00 per sq. ft. increasing 3.4% in the last year.

CONSTRUCTION ACTIVITY RAMPES UP

From 2007 to 2010, developers delivered an annual average of almost 2 million sq. ft. of speculative office space to the Atlanta market. Since then, the pace has slowed to roughly 350,000 sq. ft. per year. Things are changing though as developers look to capitalize on the recent string of economic announcements in the region. There is now 3.3 million sq. ft. in the development pipeline with 2.8 million sq. ft. officially classified as under construction.

Midtown has the most activity with some developments expected to be completed in 2019 including the 760,000 sq. ft. Georgia Tech-anchored Coda building. It will include 645,000 square feet of office space, 80,000 square feet of high-performance computing space and 20,000 square feet of street-level restaurant and retail space. Other construction activity in Midtown includes the 360,000 sq. ft. 725 Ponce as well as the wood-framed, 205,000 sq. ft. T3 located in Atlantic Station.

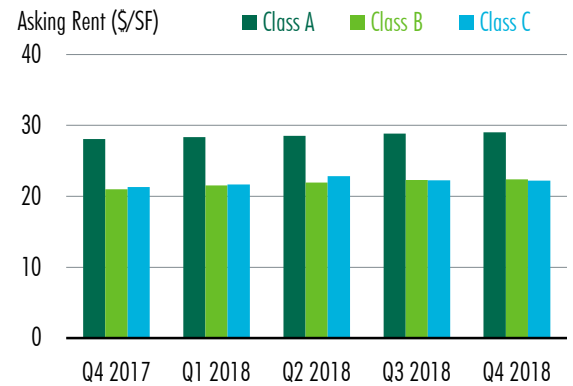
The buildings involving sitework have about 1.2 million sq. ft. preleased, or about 36% of the total speculative space under construction, which demonstrates strong leasing activity. Some of the larger leases include Insight Global's 206,000 sq. ft. lease at Twelve24 which is being constructed in Central Perimeter and Thyssen Krupp's 210,000 sq. ft. lease in 3 Ballpark Center within the Battery in Cumberland.

HIGH CONSTRUCTION COSTS CAUSE HIGH RENTS AND BUILDOUT COSTS

Accelerating construction costs along with favorable economic conditions and the tightening of office market availability has placed upward pressure on rents. The asking rent at newly constructed office buildings have reached record levels, many in the \$50 per sq. ft. range on a full service basis. From both a space build-out and rental rate perspective, there are few remedies to rising costs. During the moving process, tenants sometimes sacrifice concessions such as free rent for landlord-amortized tenant improvement dollars to offset the cost of space build-out. Consequently, the tenant negotiation process has become increasingly nuanced.

[Click Here](#) to read more about how accelerating construction costs are effecting commercial real estate.

Figure 2: Atlanta Asking Rental Rate by Class



Source: CBRE Research, Q4 2018.

Figure 3: Year-To-Date Key Leasing Transactions

Tenant	Location	Size (Sq. Ft.)	Submarket	Transaction Type
Delta Dental	1110-1130 Sanctuary Pkwy.	219,265	North Fulton	Renewal/Expansion
Insight Global	1134 Hammond Dr.	205,000	Central Perimeter	New
Northside Hospital	1001 Summit Blvd.	178,289	Central Perimeter	New
T-Mobile	1 Ravinia Drive	151,792	Central Perimeter	Renewal
Conduent Business Services	100 Southcrest Drive	120,276	South Atlanta	Renewal

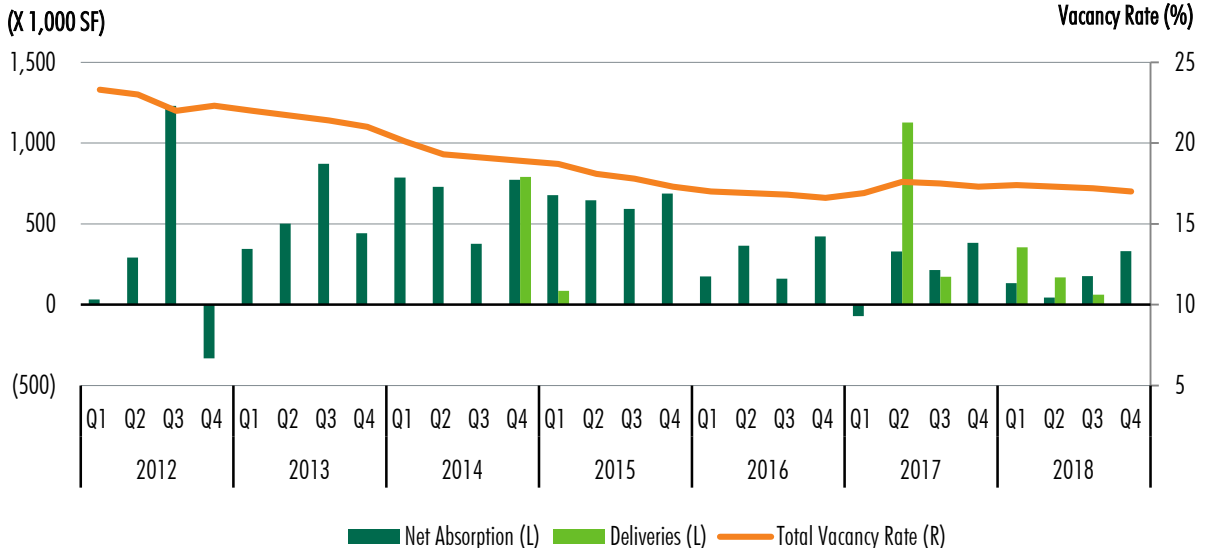
Source: CBRE Research, Q4 2018.

Figure 7: Market Statistics

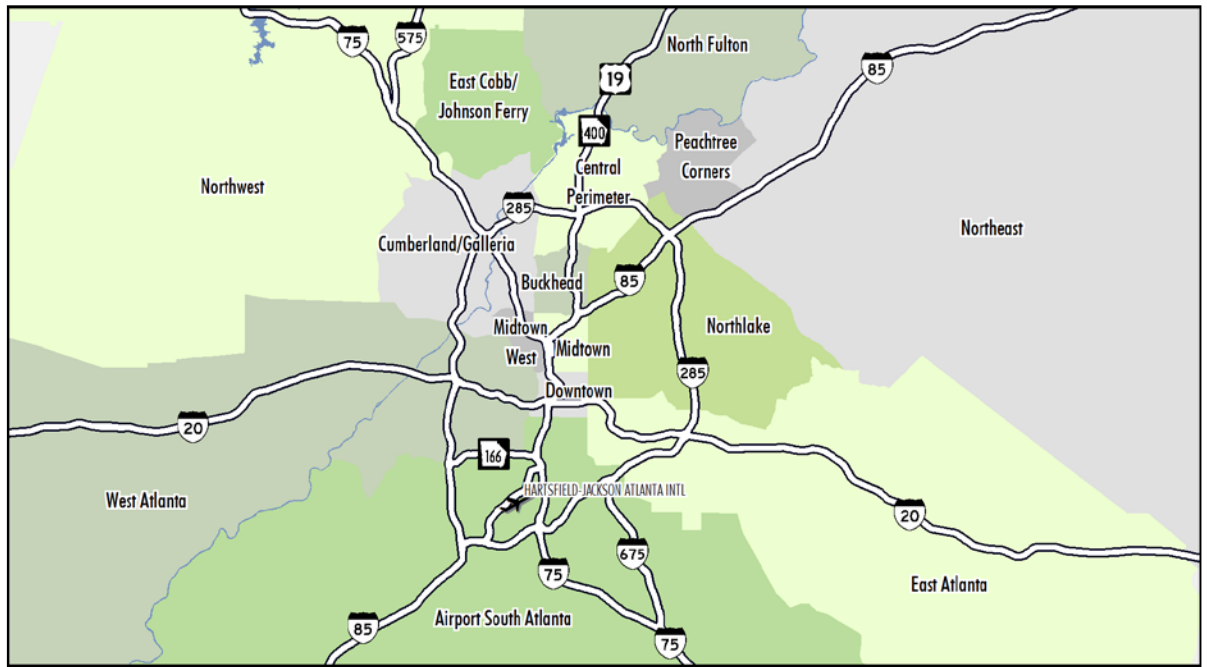
Submarket	Market Rentable Area (sq. ft.)	Vacancy Rate (%)	Sublease Space Avail. (sq. ft.)	Total Avail. Rate (%)	Q4 2018 Net Absorption (sq. ft.)	YTD Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Avg. Gross Asking Lease Rate (\$/sq. ft./Yr)
Downtown	17,491,992	16.7	155,155	20.2	43,968	394,317	0	26.07
Midtown	16,911,064	12.8	367,972	23.4	70,737	22,985	1,350,000	35.08
Buckhead	15,931,875	14.3	316,477	19.3	31,116	377,187	0	34.40
Midtown West	775,167	8.7	0	14.5	0	23,627	185,000	30.00
CBD	51,110,098	14.6	839,604	20.9	145,821	588,112	1,535,000	31.17
Cumberland Galleria	19,060,550	18.9	659,307	28.3	64,559	(138,426)	369,000	25.63
Northwest	2,146,060	11.3	85,636	16.3	(73,288)	(76,833)	0	24.68
Central Perimeter	21,786,689	18.1	725,033	28.6	135,842	239,597	335,000	27.80
North Fulton	17,620,821	15.6	255,828	22.8	17,717	(69,961)	433,991	25.96
I-85/Northeast	6,197,445	21.3	74,331	25.5	60,763	86,704	0	20.62
Peachtree Corners	5,193,530	29.6	70,094	33.2	11,647	(80,316)	0	20.44
Northlake/Decatur	8,364,506	18.4	14,266	23.8	(32,400)	(4,881)	48,000	22.16
Airport South Atlanta	2,776,551	17.0	17,620	28.3	4,368	116,454	51,272	19.70
I-20 West	374,200	11.4	0	11.8	0	8,971	0	16.00
East Atlanta	391,869	23.1	0	23.1	(430)	3,400	0	13.53
East Cobb/ Johnson Ferry	247,518	3.6	0	3.6	0	8,559	0	17.45
SUBURBAN	84,159,739	18.5	1,902,115	26.4	185,233	96,813	1,237,263	25.35
ATLANTA	135,269,837	17.0	2,741,719	24.3	331,054	684,925	2,741,719	27.05

Source: CBRE Research, Q4 2018.

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



Source: CBRE Research, Q4 2018.


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