

ATLANTA OFFICE MARKET

QUIET START TO 2019 FOR ATLANTA'S OFFICE MARKET

Market fundamentals were quiet to start 2019 in Atlanta's office market. Lower job growth in 2018 resulted in a slowdown in the office market that has continued into the new year. The vacancy rate crept up 20 basis points over the quarter to 17.4%, remaining above 17.0% for the past year due to the completion of new construction. However, several leases have been signed in the past six months with more pending that will have a positive impact on the market and lead to lower vacancy in 2019. Norcross/Peachtree Corners and NE I-85 Outside I-285/Gwinnett maintained the region's highest vacancy rates after several tenants relocated inside the Perimeter in 2018. The space has yet to be backfilled.

Net absorption for the first quarter of 2019 totaled 290,252 square feet, the second-lowest first-quarter total in five years. In Midtown, Georgia Tech occupied 290,000 square feet at its new Coda building, while AT&T moved out of an additional 175,000 square feet. In Cumberland/Galleria, Thyssenkrupp moved into 82,000 square feet ahead of the construction of its new headquarters, while Serendipity Labs opened its newest 22,000-square-foot location.

The average asking rental rate remained relatively unchanged from last quarter at \$27.03/SF across all classes. Meanwhile, the Class A average continued to flirt with \$30.00/SF, rising 0.9% over the quarter to \$29.63/SF. Class C product experienced the highest jump of the quarter as the average rate rose 3.0% to \$21.12/SF.

COMPLETION OF HIGH-PROFILE CODA BUILDING

Georgia Tech completed its newest addition to Tech Square during the first quarter. Coda is a 760,000-square-foot office tower that aims to combine education and industry in a collaborative environment. The university occupies about one-third of the building, with another third pre-leased by companies looking to take advantage of the building's incubator/development focus.

Parkside Partners completed a 48,000-square-foot building in Chamblee, which was 75.4% pre-leased to Veritiv Operating Company. This is the second of four old industrial buildings that Parkside is redeveloping at the new Eastside Chamblee complex.

Since the current development cycle began in 2014, more than 5.1 million square feet has been built in Atlanta. This accounts for 3.4% of the region's total inventory.

CURRENT CONDITIONS

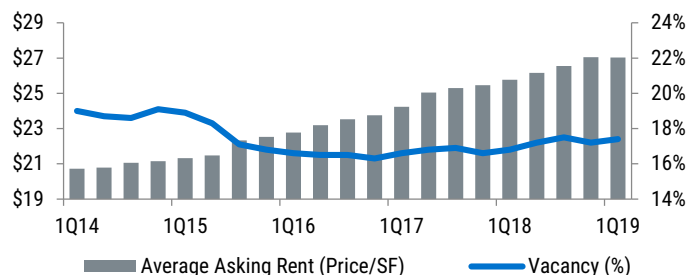
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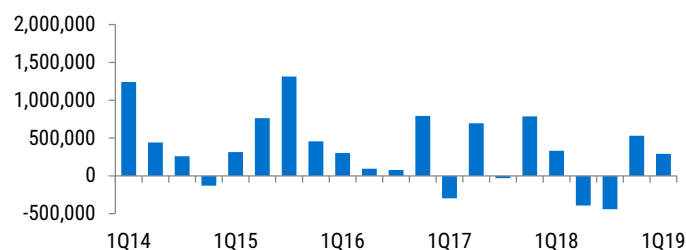
The largest lease signed in the first quarter was a sale/leaseback—by Norfolk Southern Corporation for 366,000 square feet.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory (SF)	148.8 M	147.7 M	147.0 M	↑
Vacancy Rate	17.4%	17.2%	16.8%	↑
Quarterly Net Absorption (SF)	290,252	529,522	330,929	↓
Average Asking Rent (FS/SF)	\$27.03	\$27.05	\$25.77	↑
Under Construction (SF)	4.9 M	4.4 M	3.4 M	↑
Deliveries (SF)	808,000	277,000	948,240	↑

4.9 MILLION SQUARE FEET UNDER CONSTRUCTION

Twenty buildings totaling 4.9 million square feet were under construction at the end of the first quarter. Four new buildings totaling 900,000 square feet were added to the pipeline. These included the new 8 West development in the west Midtown portion of Northside Drive/I-75. It is a 175,000-square-foot office building with ground-floor retail being constructed on a speculative basis. Selig Enterprises kicked off development of 1105 West Peachtree Street, a 664,000-square-foot tower in Midtown that is 37.6% pre-leased to Google and Smith Gambrell & Russell.

The majority of the new development is concentrated in Midtown and Central Perimeter. Three additional buildings in Midtown totaling 1.3 million square feet will be underway next quarter, furthering the expansion of Atlanta's hottest submarket.

NEW DEVELOPMENTS HIGHLIGHT TOP LEASES

Three of the top six leases signed in the first quarter were for space in buildings under construction in Midtown. Google and Smith Gambrell & Russell signed for a total of 257,000 square feet at Selig's new project at 1105 West Peachtree Street, while McKinsey & Co signed the first pre-lease at 725 Ponce for 65,000 square feet. These are two high-rise projects that started on a speculative basis but will be completed with a significant portion of the space committed.

In the largest lease of the first quarter, Norfolk Southern Corporation took 366,000 square feet for its sale/leaseback of its current building

as it begins construction on its new headquarters building. Twelve percent of the top 25 transactions were expansions for the market, while 50.0% were new transactions. More than half of the space leased was located in Midtown, with 62.7% leased in the Central Business District of Downtown and Midtown combined.

NEIGHBORHOOD SPOTLIGHT: WEST MIDTOWN

With the addition of a third building in the development pipeline, the west Midtown portion of the Northside Drive/I-75 submarket is experiencing a building boom. More than 400,000 square feet was under construction at the end of the first quarter. The area is undergoing a transformation from a run-down, obsolete industrial neighborhood on the backside of Georgia Tech to one with renovated new retail stores and top-tier restaurants. The new office developments—Star Metals, Interlock and 8 West—are the first projects dedicated to new office construction, as the limited existing stock was mostly conversions of old industrial warehouses.

MARKET OUTLOOK

Despite 15 months of lackluster fundamentals, most experts remain bullish on Atlanta. New requirements in the market are being executed, which will help absorb the new space delivered to the market. What remains to be seen how corporate merger and acquisition activity will impact a few of the area's larger employers and users of office space.

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Norfolk Southern Corporation	1200 Peachtree St NE	Midtown	Sale/Leaseback	366,196
Google	1105 W Peachtree St	Midtown	New	161,000
WeWork	101 Marietta St	Downtown	New	100,300
Smith Gambrell & Russell	1105 W Peachtree St	Midtown	New	96,000
Veeam Software	2550 Northwinds Pky	North Fulton/Forsyth	Expansion	90,000

SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Square Feet	\$/SF
1200 Peachtree	Midtown	\$82,000,000	366,196	\$223
Piedmont Center 14	Buckhead	\$58,000,000	300,301	\$193
Ashford Office Center	Central Perimeter	\$24,600,000	158,384	\$155
Barrett Business Center	Cumberland/Galleria	\$23,700,000	186,000	\$127
Peachtree Palisades East	Buckhead	\$23,300,000	224,824	\$104

SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Availability Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)
Suburban	113,474,523	3,041,693	18.0 %	-66,723	-66,723	\$28.95	\$21.56	\$25.94
Airport/South Atlanta	4,322,811	51,272	23.2 %	-19,439	-19,439	\$21.30	\$20.37	\$20.41
Buckhead	17,455,399	49,200	14.8 %	31,374	31,374	\$36.80	\$26.55	\$35.19
Central Perimeter	23,124,849	1,438,700	17.7 %	-94,004	-94,004	\$29.98	\$24.93	\$28.70
Cumberland/Galleria	21,179,005	371,615	19.7 %	51,421	51,421	\$27.48	\$21.49	\$25.44
Decatur	1,411,708	-	5.3 %	9,254	9,254	\$27.16	\$26.99	\$27.03
East Cobb	408,469	-	8.2 %	2,137	2,137	-	\$16.44	\$16.44
I-20 East/Conyers	662,003	-	10.2 %	-6,361	-6,361	\$22.50	\$18.46	\$19.44
I-20 West/Douglasville	388,637	-	3.5 %	-10,381	-10,381	-	\$19.85	\$14.24
Marietta/Kennesaw	2,526,079	-	8.9 %	-22,583	-22,583	\$28.47	\$22.05	\$24.04
NE I-85 Inside I-285	5,862,617	210,000	11.6 %	53,555	53,555	\$27.78	\$20.99	\$21.35
NE I-85 Outside I-285/ Gwinnett	7,371,586	-	26.9 %	12,452	12,452	\$21.66	\$19.47	\$20.51
Norcross/ Peachtree Corners	6,084,723	-	24.4 %	-1,271	-1,271	\$21.40	\$16.77	\$19.03
North Fulton/Forsyth	18,358,216	484,239	17.6 %	-82,334	-82,334	\$26.63	\$21.40	\$24.97
Northlake/ Stone Mountain	2,978,428	-	23.5 %	-5,557	-5,557	\$22.00	\$21.60	\$21.59
Northside Drive/I-75	1,339,993	436,667	7.2 %	15,014	15,014	\$22.53	\$29.04	\$27.20
CBD	35,325,732	1,858,685	15.3 %	356,975	356,975	\$32.04	\$29.73	\$31.19
Downtown	15,705,872	39,429	17.2 %	180,290	180,290	\$28.32	\$20.46	\$26.74
Midtown	19,619,860	1,819,256	13.8 %	176,685	176,685	\$36.69	\$32.76	\$34.76
Atlanta Market	148,800,255	4,900,378	17.4 %	290,252	290,252	\$29.63	\$23.15	\$27.03

ECONOMIC CONDITIONS

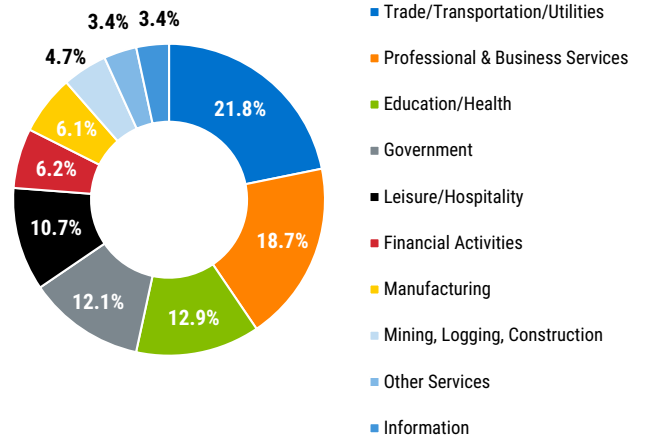
Construction Industry Continues Growth

Atlanta's unemployment rate was 4.2% in January 2019, 20 basis points higher than the U.S. rate. This was the first time it was above the national rate since February 2018. Nonfarm employment grew 2.3% in the 12 months ending in January 2019, after two consecutive months below 2.0%.

The mining/logging/construction industry continued to have the highest year-over-year growth rate in the market, measuring 7.5% over the 12 months ending in January 2019. The three industries with the largest year-over-year employment growth during this period, mining/logging/construction, leisure/hospitality and education/health, were non-office-using sectors, reflective of the stagnation in the office market in 2018. Profession and business services led the office-using sectors with 2.6% growth from January 2018 to January 2019.

EMPLOYMENT BY INDUSTRY

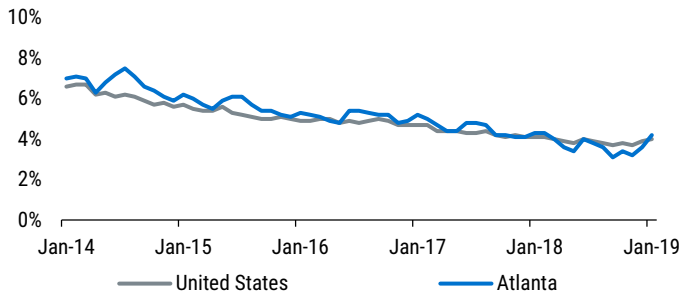
Atlanta, January 2019



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

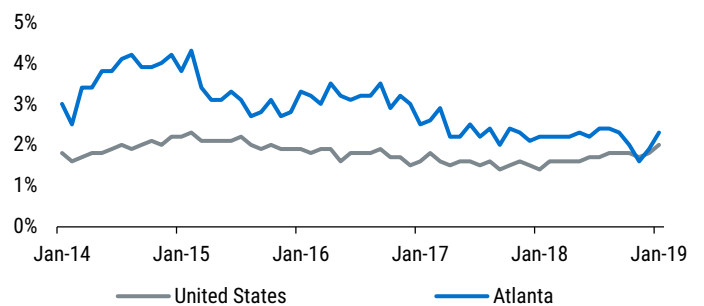
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

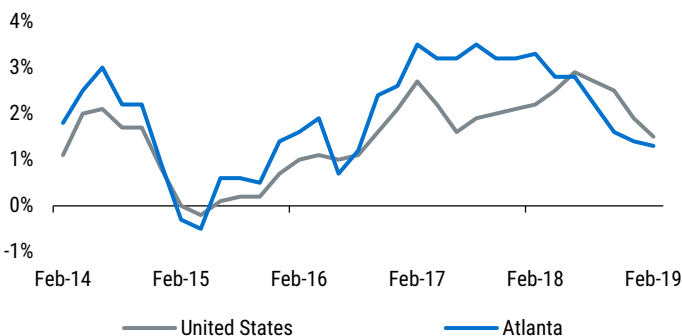
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

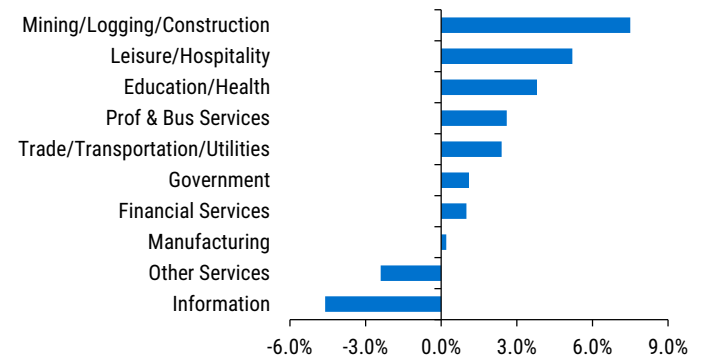
All Items, 12-Month % Change, Not Seasonally Adjusted



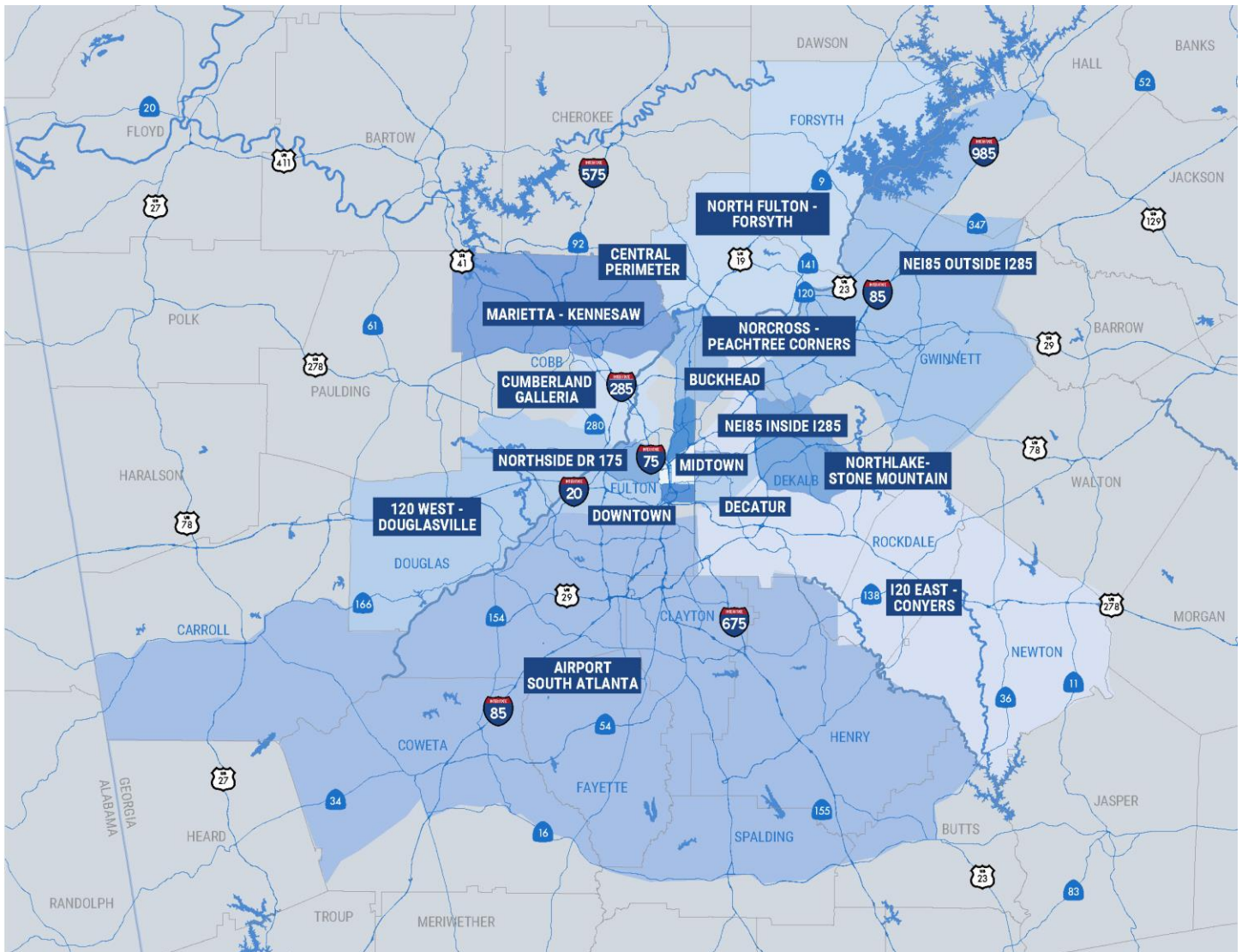
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Atlanta, January 2019, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics



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