

Savills Studley Report Atlanta office sector

Q3 2017



SUMMARY

Market Highlights

RISE IN LEASING

Leasing volume jumped by more than 35%, rising to 2.1 msf and exceeding the market's long-term quarterly average by nearly 10%. Even so, transaction volume during the last four quarters totaled only 7.5 msf, falling short of the long-term annual average of 8.0 msf.

AVAILABILITY DOWN SLIGHTLY

The region's overall availability rate dipped by 170 basis points from 19.2% to 17.5% and declined by 80 basis points from 18.7% to 17.9% in Class A properties.

SLIGHTLY LOWER RENTS

Average asking rent for the region decreased from last quarter by 2.9% to \$23.76 overall. However, it has jumped by 2.3% compared to the third quarter of 2016, from \$23.21.

SALES STEADY

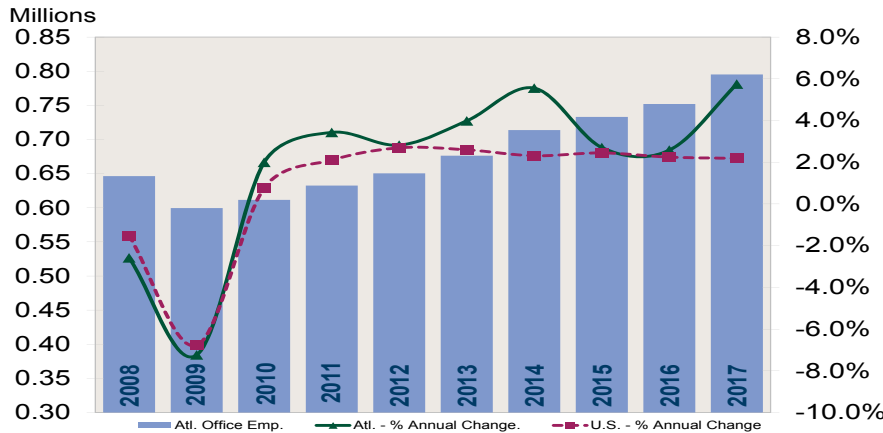
Year-to-date office property sales (through July) totaled \$1.67 billion – rising by 1.9% compared to the \$1.64 billion sold during the same period in 2016.

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"Atlanta's thriving tech sector was very active this summer, with deals completed in multiple submarkets. As the region's connection to sectors such as fintech expands, the market will need to keep a watch on any signs of overlap between competing firms."

John Flack,
Executive Managing Director

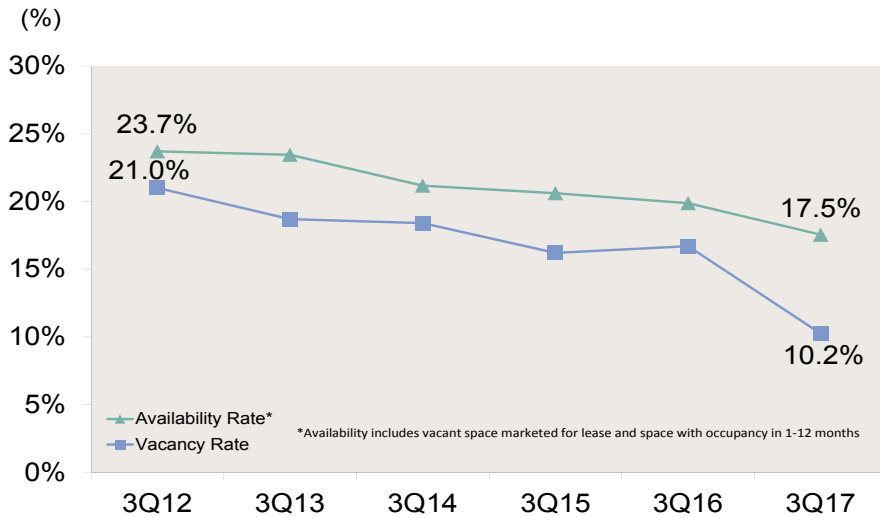
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Office-Using Employment Trends



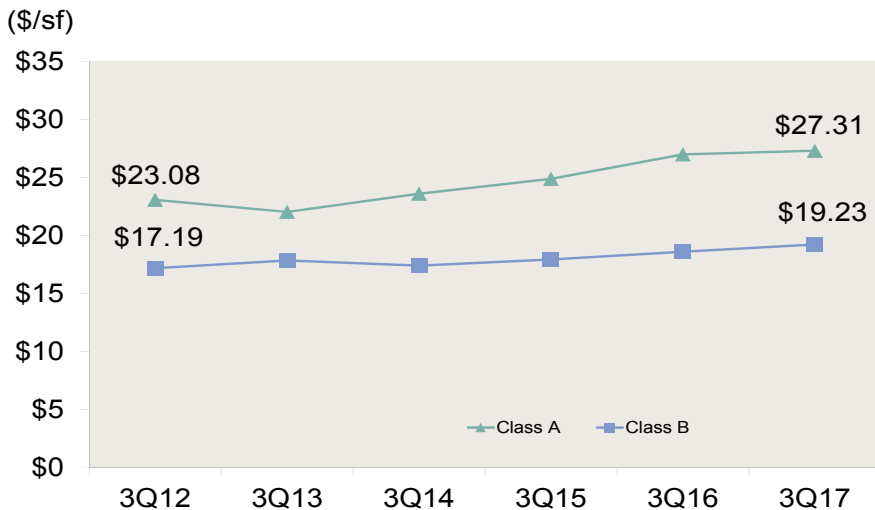
Source: Bureau of Labor Statistics

Availability Rate Trends



*Availability includes vacant space marketed for lease and space with occupancy in 1-12 months

Asking Rent Trends



Atlanta's Tech Eco-System Flourishing

Atlanta's tech ecosystem continues to flourish as more and more firms from around the globe recognize the favorable conditions for innovation in the Metro Atlanta area. Expansion has been pervasive, occurring among a diverse array of firms in terms of age, size and sub-sector. Some growth has been home-grown, but the biggest injection of capital and hiring is coming from domestic and foreign transplants relocating to the region or setting up an outpost locally. These firms are drawn to Atlanta's growing and youthful workforce and its lower cost of living and doing business.

Specialization a Mark of Maturity

In prior cycles, Atlanta was viewed largely as a top location for back office and IT support services. Atlanta still gains many of these jobs, but specialized sectors are also maturing. Fintech has received a lot of recent attention, but a less volatile and more established niche is data center and disaster recovery. Veeam Software, which employs 300 people locally, is reportedly considering a major expansion in Atlanta. The Swiss-backed software company develops backup, disaster recovery and virtualization management software for data centers. They currently lease more than 50,000 sf at Northwinds II building and are reportedly negotiating to take the entire 147,000-sf building. Atlanta has more data center jobs as a percentage of its workforce than any other major metro area in the U.S.

Campus Setting the Current Front-Runner

Atlanta offers tech firms at least three different settings to consider – corporate office space in a luxury setting in Buckhead, sprawling suburban office parks in North Fulton and a burgeoning incubator/university hub in Midtown. It is this last area and the several blocks surrounding Georgia Tech and Tech Square that has captured many of the recent headlines regarding expansion among tech companies. Atlanta is home to a highly educated talent pool with over 40,000 college graduates entering the workforce each year. Many of them want to work, live and play in the midst of all that Midtown has to offer – it is most similar to the college/campus setting millennials prefer.

Midtown's Coda continues to draw tenants – Keysight Technologies leased 50,686 sf at the Tech Square building expected to be completed in 2019. The Santa Rosa-based

firm ultimately selected Atlanta over Silicon Valley and Seattle due to the rich talent pool provided by Georgia Tech as well as the city's low cost of living. With an asking rent of \$51.00, Coda is projected to be one of Atlanta's most expensive office buildings in history. Just down the street, professional services firm Accenture announced it will add about 800 jobs in Atlanta. They will add 40,000 sf in Tech Square's Centergy Building, more than doubling their office space. As part of the expansion Accenture will open a 30,000-sf "innovation hub" – one of ten such hubs across the country that the Fortune 500 Firm has planned by 2020.

Tech companies are also taking space in more traditional corporate office buildings such as 715 Peachtree. Honeywell International leased an additional 30,000 sf at the building, adding on to the 62,000 sf it already leases at the building. The growth is part of a long-term plan by the Morris Plains, NJ-based firm to hire 730 product software engineers and 100 corporate employees in the next five years. Finally, MailChimp is adding 18,000 sf at Ponce City Market, pushing its occupancy at the building to nearly 135,000 sf. The additional floor could accommodate up to 100 employees.

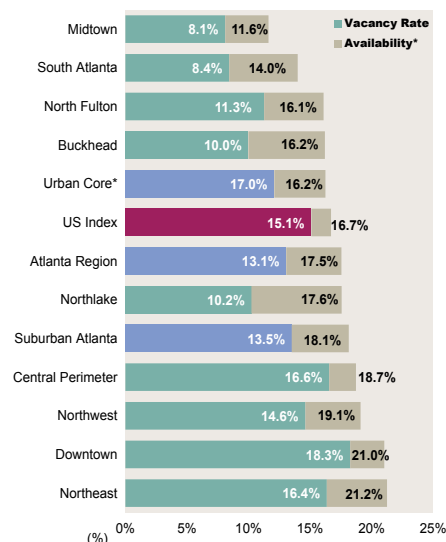
Buckhead Attracting Innovators As Well

Buckhead continues to garner strong activity among its core tenant base – banks and financial services, law firms and general professional business services. Its luxury setting, with extensive restaurants and housing, has also attracted some tech companies. BetterCloud announced plans to add 150 jobs and invest up to \$2 million at its software development headquarters in Buckhead. The New York-based company builds software platforms for managing and securing enterprise apps such as G Suite and Salesforce. The company leased 18,000 sf at Piedmont Center, a big jump from the 11,000 sf it currently occupies at 3405 Piedmont Road.

Growth in Alpharetta

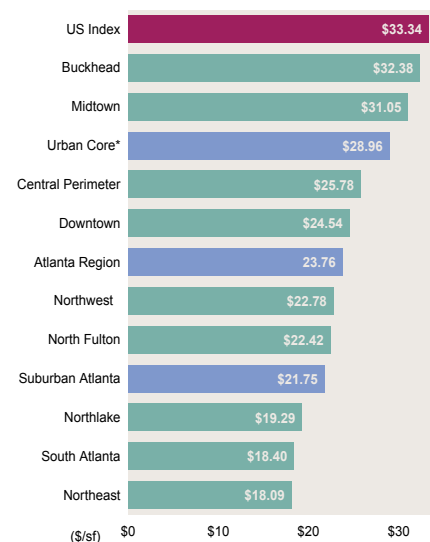
Alpharetta – traditionally a base for more established tech companies has seen a fair number of recent expansions. While Alpharetta and other suburban settings have lost tenants to the urban core, the reverse is rarely true. Most of the movement to new office buildings in North Fulton has come from businesses already based in the suburbs. The last few months brought a jump in large software firms making deals in North Fulton. The Ultimate Software Group,

Availability Rate Comparison



*Availability includes vacant space marketed for lease and space with occupancy in 1-12 months

Rental Rate Comparison



* Urban Core includes Downtown, Midtown and Buckhead

Major Transactions

Tenant	Sq Feet	Address	Market Area
Aon	64,655	Three Alliance Center	Buckhead
Aveanna Healthcare	60,899	Platinum Tower	Northwest
Ultimate Software	55,404	Royal Centre Four	North Fulton
Delta Dental Insurance Company	51,886	1120 Sanctuary Park	North Fulton
United Methodist Children's Home	51,839	1967 Lakeside Parkway	Northlake
Keysight Technologies	50,686	Coda	Midtown
Coyote Logistics	45,242	255 Ottley Drive (Armour Yards)	Buckhead
SAP	43,800	8000 Avalon	North Fulton
Accenture	40,000	75 5th Street NW	Midtown
Honeywell	30,000	715 Peachtree	Midtown
Sum of Leases	494,411		

for example, announced that it will add at least 100 jobs in Alpharetta, expanding payroll from about 200 employees to 300. To accommodate the growth, they will relocate from Georgia 400 to 55,404 sf at Royal Centre 4. In August, SAP's 43,800-sf, 10-year lease at 2660 Old Milton Parkway gave Hines and Cousins a big push forward. The German software firm will combine two existing Alpharetta offices and house its new ARiba division. The property, which delivered in June of this year, is now 93% leased. Tenants have been willing to pay rent approaching \$40 (\$38) a big premium relative to other Class A properties in North Fulton, which typically lease for just under \$30/sf.

Looking Forward

The recovery in Atlanta's office market seems to have a bit more room to run – the length of the runway remaining varies

from building to building and submarket to submarket, though. While many new developments are finding great success in the Atlanta area, there are properties, such as Central Perimeter's 4004 Perimeter Center, that are finding quite the opposite to be true. The soon-to-be completed property offers 360,000 SF of premium, class A office space, yet remains 0% leased.

Dependency on the tech sector is always a concern. For the time being, tech is a critical catalyst for hiring and office space demand. In prior cycles the tech sector, much like finance and energy, has had a tendency to flare up and then flame out. Potential overlap in the crowded fintech space is certainly something to keep a close eye on.

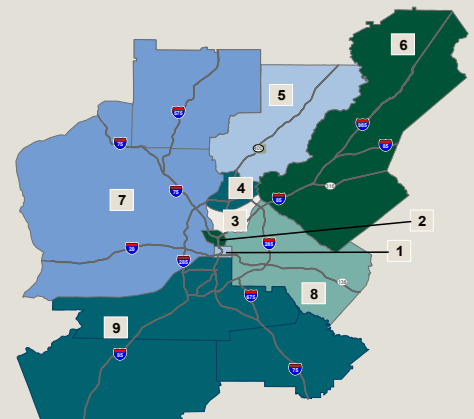
Map	Submarket	Total	Leasing Activity		Available SF		Availability Rate			Asking Rents Per SF		
		Inventory SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	Downtown	21,154	658	4,448	4.4%	4,107	21.0%	-2.2%	22.4%	\$24.54	2.1%	\$22.48
	Downtown - Class A	11,227	490	1,778	-12.4%	1,996	15.8%	-5.1%	20.5%	\$26.82	0.1%	\$25.55
2	Midtown	21,688	936	2,520	0.6%	2,848	11.6%	-1.5%	15.0%	\$31.05	8.1%	\$26.55
	Midtown - Class A	16,381	571	2,083	1.7%	1,994	12.7%	-1.6%	13.9%	\$32.54	9.9%	\$28.73
3	Buckhead	20,953	903	3,394	3.8%	3,010	16.2%	0.2%	14.7%	\$32.38	-3.9%	\$33.41
	Buckhead - Class A	16,741	753	2,911	-0.7%	2,417	17.4%	-1.4%	15.5%	\$32.75	-5.7%	\$35.93
4	Central Perimeter	25,656	1,190	4,804	-1.9%	5,358	18.7%	-1.8%	22.4%	\$25.78	-1.1%	\$25.30
	Central Perimeter - Class A	18,520	811	3,427	0.9%	3,924	18.5%	0.2%	21.2%	\$27.59	-1.1%	\$27.52
5	North Fulton	27,053	1,066	4,354	16.1%	3,893	16.1%	0.0%	16.7%	\$22.42	-2.2%	\$22.34
	North Fulton - Class A	14,879	642	2,544	3.2%	2,437	17.1%	0.0%	16.9%	\$24.85	1.8%	\$23.65
6	Northeast	24,214	919	5,145	19.2%	4,635	21.2%	-3.4%	26.5%	\$18.09	-5.2%	\$17.98
	Northeast - Class A	6,762	366	1,875	15.2%	1,653	27.7%	2.3%	25.8%	\$20.93	0.1%	\$20.58
7	Northwest	31,953	1,140	6,102	13.3%	5,613	19.1%	-1.7%	21.7%	\$22.78	-3.0%	\$22.71
	Northwest - Class A	15,676	762	3,304	-0.5%	3,420	21.1%	-0.7%	22.5%	\$26.23	0.6%	\$25.64
8	Northlake	16,537	466	2,904	27.7%	2,308	17.6%	-3.3%	21.1%	\$19.29	-3.3%	\$18.07
	Northlake - Class A	3,777	52	757	59.4%	311	20.0%	5.9%	9.3%	\$21.48	-10.0%	\$20.68
9	South Atlanta	13,433	225	1,879	62.4%	1,162	14.0%	-4.2%	18.3%	\$18.40	-10.2%	\$17.68
	South Atlanta - Class A	1,093	69	88	-5.9%	113	8.0%	-1.7%	11.8%	\$20.17	-0.5%	\$19.45
1-3	Urban Core Total*	63,795	2,498	10,362	3.2%	9,965	16.2%	-1.1%	17.2%	\$28.96	1.7%	\$27.19
	Urban Core - Class A	44,349	1,814	6,771	-3.4%	6,407	15.3%	-2.4%	16.2%	\$31.02	0.3%	\$30.62
4-9	Suburban Total	138,846	4,969	25,187	15.6%	22,969	18.1%	-2.0%	21.3%	\$21.75	-4.0%	\$21.48
	Suburban Total - Class A	60,706	2,702	11,995	5.4%	11,859	19.8%	0.4%	20.1%	\$25.25	-0.7%	\$24.53
1-9	Atlanta Region Total	202,640	7,466	35,550	11.7%	32,934	17.5%	-1.7%	19.9%	\$23.76	-2.9%	\$23.21
	Atlanta Region - Class A	105,055	4,516	18,767	2.1%	18,266	17.9%	-0.8%	18.5%	\$27.31	-0.6%	\$26.64

*The Urban Core includes the Downtown, Midtown and Buckhead submarkets

Please contact us for further information

Savills Studley
 Monarch Tower
 3424 Peachtree Road NE
 Suite 2100
 Atlanta, GA 30326
 (404) 467-0707

Branch Manager
 Chris White - EVP, Market Leader
 cwhite@savills-studley.com
 (404) 504-0019



(1) Percentage point change for availability rates.
 Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
 Statistics are calculated using both direct and sublease information.
 Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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