

ATLANTA OFFICE MARKET

QUARTERLY GROWTH OVERSHADOWED BY COVID-19

Atlanta's office market started the new decade on a strong note, but the narrative was overtaken by the ongoing impacts from the COVID-19 crisis around the country. Most investment and leasing activity has paused throughout the market and country as tenants and owners try to assess the long-term impacts on a constantly-evolving situation.

STRONG MARKET FUNDAMENTALS

Metrics for Atlanta's office market started off 2020 on a high note, with decreasing vacancy, increased rents and demand outpacing new supply. The vacancy rate fell 20 basis points over the quarter to 17.3%, the third consecutive quarterly decline. It was only 10 basis points higher than the average vacancy rate of 17.2% during the past five years. The sublease vacancy was 0.9% for the second consecutive quarter but is expected to rise, at least in the short term.

The average asking rental rate continued its ascent, increasing 1.2% from the end of last quarter to \$28.32/SF, in part due to the new construction completed in the market. This also represented a 33.0% growth from five years ago. The rate of growth is expected to slow during 2020 as the market recovers from current economic uncertainties and a slowdown in leasing volume.

Net absorption for the quarter totaled 2.0 million square feet, as demand outpaced new supply for the second consecutive quarter. It was also the first quarterly total over 1 million square feet in three years. This was driven primarily due to the completion of State Farm's newest tower in Central Perimeter, which brought 670,000 square feet of absorption as employees and operations were consolidated from outside the region. In addition, Anthem Blue Cross Blue Shield expanded by 200,000 square feet as it relocated to its new tower in Midtown. WeWork moved into three new office locations, representing net new growth of 150,000 square feet for the market.

SEVEN NEW PROPERTIES COMPLETED

In the first quarter of 2020, seven buildings were completed, totaling 1.8 million square feet. Overall, the new construction was 84.1% pre-leased. The 1.8 million square feet delivered in the first quarter was the largest single-quarter total in over five years. This sets up 2020 to far exceed the 2.0 million square feet of new space delivered in 2019.

More than 1.0 million square feet was built in Central Perimeter, adjacent to the Dunwoody MARTA station. State Farm's

CURRENT CONDITIONS

Atlanta's office vacancy rate fell 20 basis points from the end of 2019 to 17.3% at the end of first-quarter 2020.

Net absorption of 2.0 million square feet outpaced new supply for the second consecutive quarter, and it was the first quarterly total over 1.0 million square feet in over three years.

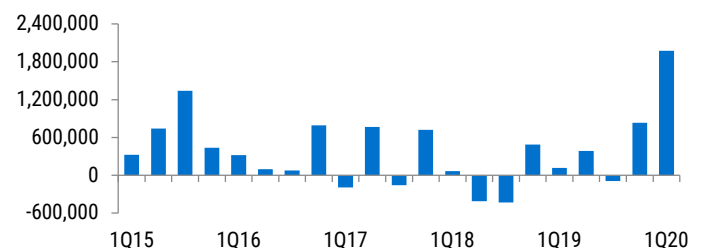
The 1.8 million square feet delivered in the first quarter was the largest single-quarter total in over five years.

MARKET ANALYSIS

Asking Rent and Vacancy



Net Absorption (SF)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory (SF)	152.1 M	149.8 M	148.9 M	↑
Vacancy Rate	17.3%	17.5%	17.7%	↑
Quarterly Net Absorption (SF)	2.0 M	832,443	119,148	↓
Average Asking Rent (FS/SF)	\$28.32	\$27.98	\$27.03	↑
Under Construction (SF)	4.5 M	5.9 M	5.2 M	↓
Deliveries (SF)	1.8 M	460,380	718,000	↑

670,000-square-foot second tower of its Eastern headquarters was completed. Trammell Crow completed 1224 Hammond, a 335,000-square-foot building built on a former pad site of Perimeter Mall. The property was 73.9% pre-leased by Insight Global. Anthem Healthcare completed the first of two new towers in Midtown.

NEW CONSTRUCTION STARTS SLOW

More than 4.5 million square feet was under construction at the end of the first quarter, a 29.1% drop from the peak of 6.3 million square feet in mid-2019. Over half of the new space is in the Midtown submarket, but 60.4% is pre-leased. Negotiations are underway for an additional portion of the new space, further cementing landlords' bullish sentiment on the submarket's health.

Of note this quarter was the pause in construction of Phipps Tower in Buckhead. While work continues on the new hotel as part of the mixed-use development, the softening Buckhead office fundamentals led to Simon Properties halting work on the new tower.

SPOTLIGHT: NORTHSIDE DRIVE/I-75

More than 800,000 square feet of office space is under construction in the submarket, immediately to the west of Midtown and Georgia Tech. Historically a small industrial area, the neighborhood has undergone a transformation over the past decade, with significant multi-family and retail developments. The new office space completes the transition into a true 24/7 neighborhood, which benefits from proximity to Midtown and Georgia Tech.

The new office space under construction is in midrise buildings but has significantly pre-leasing from coworking operators. Previous new construction projects in the area were conversions of obsolete industrial properties into one- and two-story loft office buildings.

MARKET OUTLOOK

COVID-19 will have a direct impact on Atlanta's office market activity for 2020. Leasing activity slowed dramatically in March, which will result in a decrease in executed transactions over the next three to six months. Construction activity will become more intermittent as permitting divisions at local jurisdictions are slower to inspect and approve projects. Softening fundamentals are likely over the next six to nine months, until business operations are back to normal.

As the economy fluctuates on a daily basis, companies are focusing on steadying revenue streams. This has resulted in office tenants looking at all options, including subleasing excess space as decreasing profits force employee layoffs. It remains to be seen what impacts, if any, the social distancing directives during the COVID-19 outbreak will have on space utilization and design of office space moving forward.

SELECT LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Macy's	T3 at West Midtown	Midtown	New	107,712
Confidential	Pershing Point Plaza	Midtown	New	58,000
Acoustic	South Terraces	Central Perimeter	New	57,000
Toyota Financial Services	11625 Rainwater Drive	North Fulton/Forsyth	New	56,642
Merchant E-Solutions	1150 Sanctuary Parkway	North Fulton/Forsyth	New	53,917

SELECT SALE TRANSACTIONS

Building	Submarket	Sale Price	Square Feet	\$/SF
55 Allen Plaza	Downtown	\$90,000,000	349,000	\$258
1000 Marietta Street NW	Northside Drive/I-75	\$80,000,000	194,000	\$412
934 Brady Avenue NW	Northside Drive/I-75	\$69,700,000	142,478	\$489
244 Perimeter Center Parkway NE	Central Perimeter	\$41,700,000	106,929	\$390
3700 Mansell Road	North Fulton/Forsyth	\$36,600,000	346,416	\$106

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	116,246,912	1,934,886	18.0 %	1,348,727	1,348,727	\$29.99	\$22.27	\$26.98
Airport/South Atlanta	4,402,784	-	20.3 %	11,793	11,793	\$19.94	\$24.72	\$23.57
Buckhead	17,505,222	-	15.6 %	-99,720	-99,720	\$37.84	\$28.33	\$36.53
Central Perimeter	24,147,056	429,200	19.3 %	1,060,024	1,060,024	\$30.31	\$23.41	\$29.00
Cumberland/Galleria	21,223,182	371,615	18.1 %	-28,739	-28,739	\$28.82	\$22.47	\$26.62
Decatur	1,411,708	52,000	4.9 %	3,609	3,609	\$28.25	\$27.79	\$27.99
East Cobb	408,469	-	9.4 %	5,821	5,821	-	\$19.06	\$19.06
I-20 East/Conyers	662,003	-	7.3 %	3,056	3,056	\$22.50	\$17.53	\$18.78
I-20 West/Douglasville	388,637	-	5.3 %	4,542	4,542	-	\$12.87	\$13.13
Marietta/Kennesaw	2,702,761	152,612	12.1 %	12,795	12,795	\$28.19	\$22.08	\$23.87
NE I-85 Inside I-285	6,115,474	36,000	12.8 %	45,519	45,519	\$28.92	\$22.43	\$22.95
NE I-85 Outside I-285/ Gwinnett	7,297,850	-	26.9 %	-68,485	-68,485	\$22.06	\$20.52	\$21.28
Norcross/ Peachtree Corners	6,068,965	-	21.2 %	46,589	46,589	\$21.91	\$18.06	\$19.75
North Fulton/Forsyth	19,250,680	-	17.6 %	201,319	201,319	\$27.51	\$21.57	\$25.89
Northlake/ Stone Mountain	3,097,517	-	23.0 %	112,480	112,480	\$23.50	\$21.34	\$21.42
Northside Drive/I-75	1,564,604	893,459	9.3 %	38,124	38,124	\$35.52	\$30.46	\$32.12
CBD	35,859,376	2,589,273	15.2 %	628,011	628,011	\$33.87	\$30.70	\$32.82
Downtown	15,455,157	93,775	17.4 %	-111,136	-111,136	\$29.66	\$24.44	\$28.63
Midtown	20,404,219	2,495,498	13.5 %	739,147	739,147	\$38.11	\$32.63	\$35.87
Atlanta Market	152,106,288	4,524,159	17.3 %	1,976,738	1,976,738	\$30.96	\$23.93	\$28.32

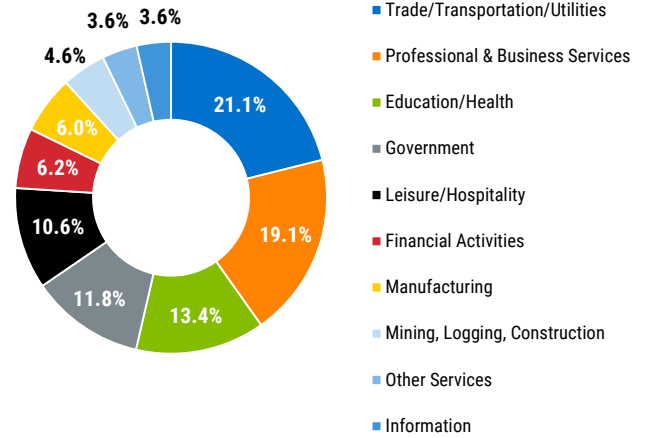
ECONOMIC CONDITIONS

The end of the quarter was highlighted by the COVID-19 outbreak in the United States and the unfolding impacts on the region's economy. Telecommuting became more prevalent, public schools were closed and layoffs in the aviation and retail industries started to occur. Next quarter will provide the first real look at those impacts in Atlanta.

The first two months of 2020 highlighted continued growth for the region. Two of the three industries with the highest year-over-year growth were office-using, further supporting the expanded fundamentals. Payroll employment overall, though, dropped considerably in February over the previous year. The 42,000 jobs added in the 12 months leading to February 2020 was the lowest 12-month total since September 2012.

EMPLOYMENT BY INDUSTRY

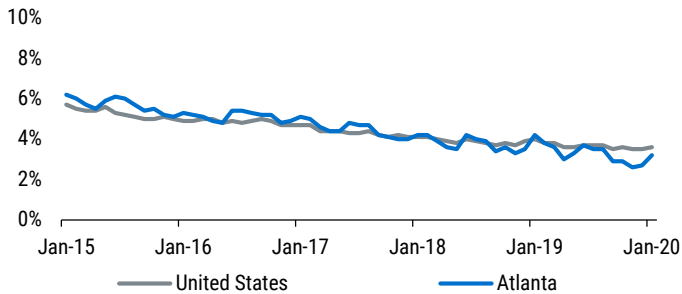
Atlanta, February 2020



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

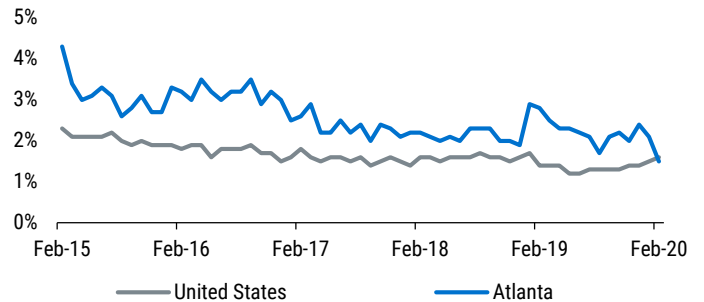
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

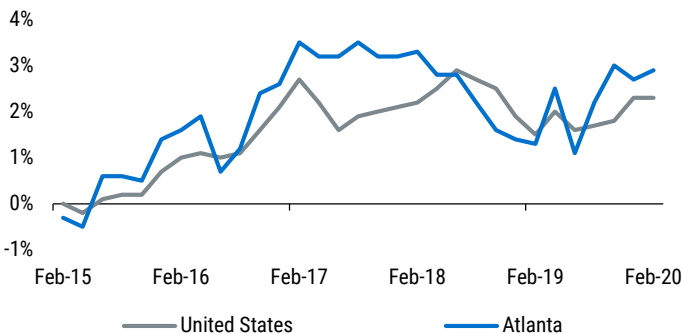
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

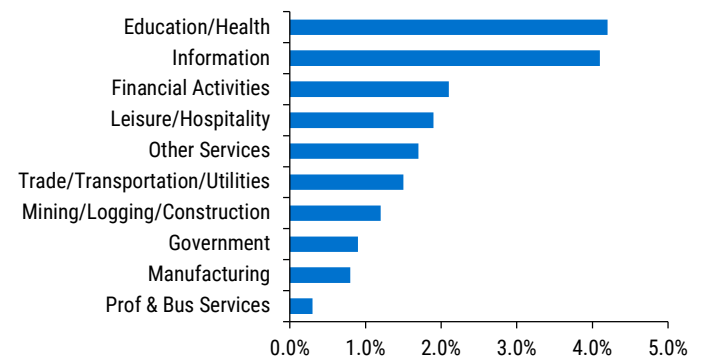
All Items, 12-Month % Change, Not Seasonally Adjusted



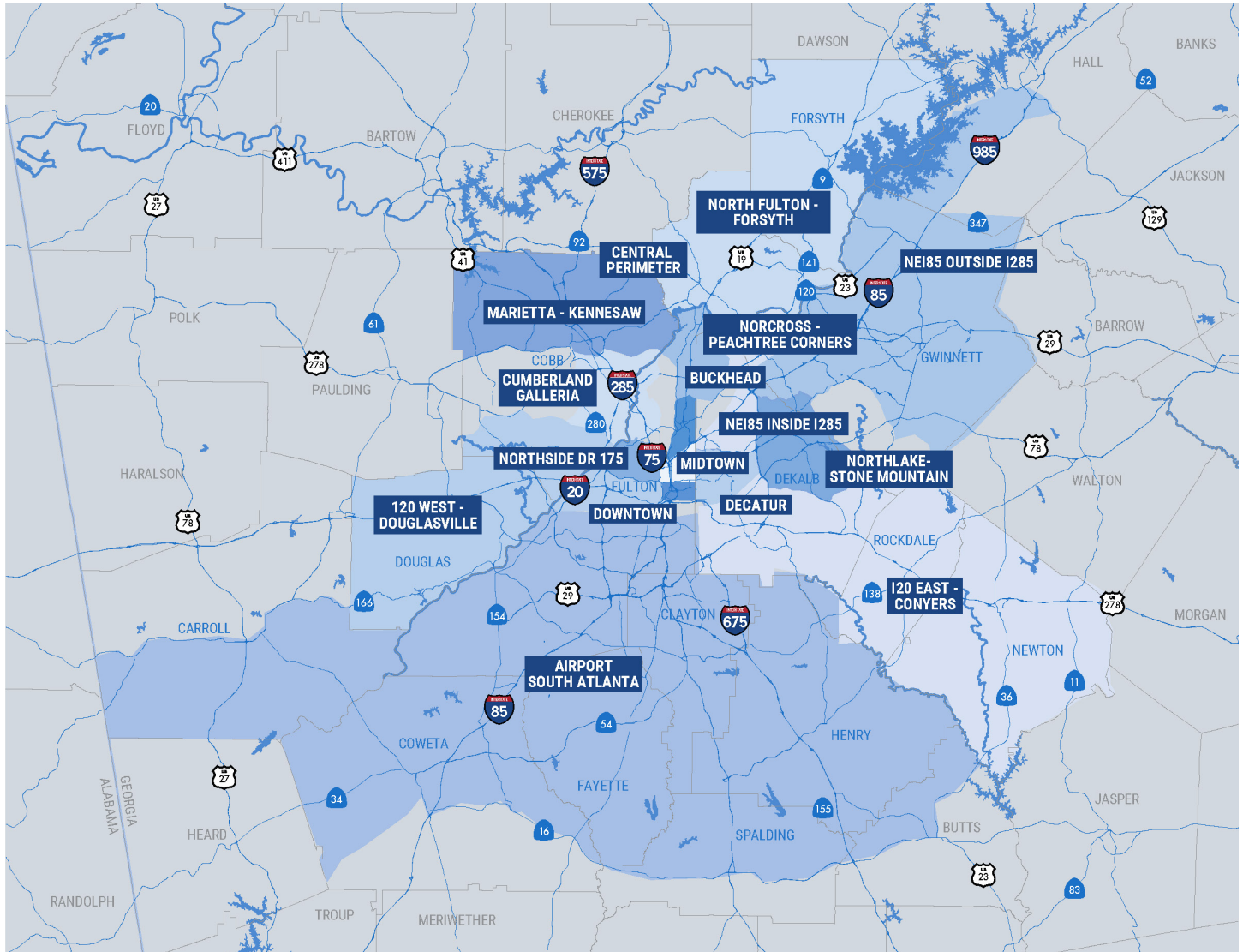
Source: U.S. Bureau of Labor Statistics

EMPLOYMENT GROWTH BY INDUSTRY

Atlanta, Feb 2020, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics



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