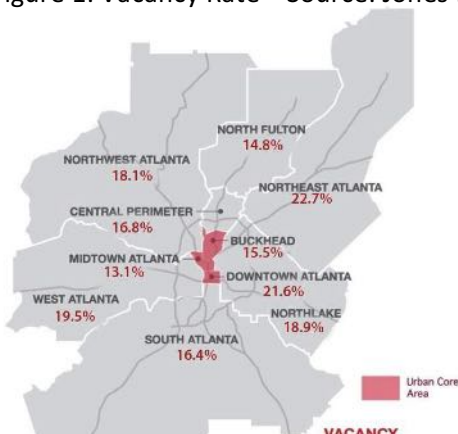


Atlanta Office Market Report

From: Meng Gao



Figure 1: Vacancy Rate Source: Jones Lang LaSalle



Fundamentals		From Previous Quarter	Forecast
YTD Net Absorption	-293,663 s.f.	↑	↑
Under Construction	4,076,418 s.f.	↓	↓
Total Vacancy	17.5%	↑	--
Average Asking Rent (Gross)	\$24.46 p.s.f.	↑	↑
Concessions	Steady	/	--

Table1: Fundamental Data of Atlanta Office Market Q2 2017

Office Insight

Atlanta's economy continues to grow at a pace exceeding national trends in Q2 2017, as well as the office market.

Rental Rate

Atlanta has a competitive low rental rate than other cities in the United States with similar market scales, which makes the city more appealing to companies. As we can see from Figure 4, only Buckhead has higher rental rate than the United States.

Vacancy Rate

The total vacancy in 2017 rate is higher than 2016 in Atlanta. In spite of the positive absorption, Atlanta's overall vacancy rate increased slightly quarter-over-quarter due to the delivery of new office product. Vacancy rate could probably decrease after 2019.

Urban Core

Atlanta is among the nation's fastest-growing urban areas, with one outcome being that office-using employment continues on the upswing. The office buildings in Downtown are currently too compact with relatively low vacancy rates.¹ Midtown vacancies are low,

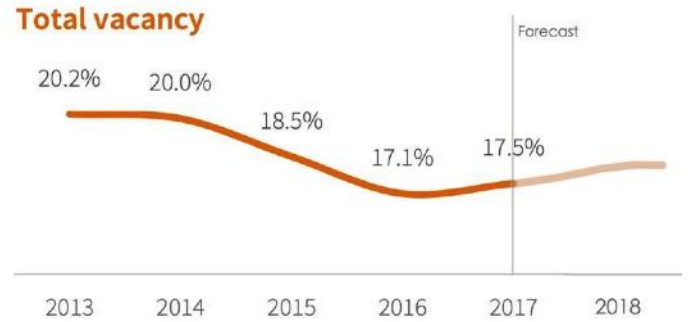


Figure 2: Annual Vacancy Rate Source: Jones Lang LaSalle

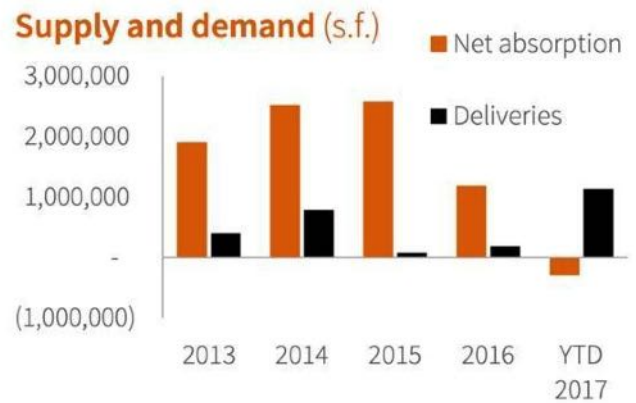


Figure 3: Supply and Demand Source: Jones Lang LaSalle



Figure 4: Rental Rate Comparison Q2 2017 Source: Savills Studley

Submarket	Inventory (s.f.)	Total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Direct vacancy (%)	Total vacancy (%)	Average direct asking rent (\$ p.s.f.)	YTD completions (s.f.)	Under construction (s.f.)
Buckhead	16,648,178	15,357	16,399	0.1%	14.6%	15.5%	\$33.28	560,047	148,410
Downtown	15,476,343	6,181	73,353	0.5%	20.5%	21.6%	\$23.94	0	99,000
Midtown	15,783,262	108,119	90,830	0.6%	11.2%	13.1%	\$30.37	353,010	2,007,500
Urban Core	47,907,783	129,657	180,582	0.4%	15.4%	16.7%	\$28.56	913,057	2,254,910
Central Perimeter	21,817,367	-17,458	-66,761	-0.3%	15.2%	16.8%	\$26.81	0	355,000
North Fulton	17,186,130	6,077	-116,133	-0.7%	14.4%	14.8%	\$22.97	224,000	188,536
Northlake	9,460,489	43,332	-27,277	-0.3%	17.5%	18.9%	\$19.49	0	231,066
Northeast	14,063,795	-56,555	-50,441	-0.4%	21.9%	22.7%	\$17.94	0	0
Northwest	20,871,565	92,405	-209,152	-1.0%	16.9%	18.1%	\$23.86	0	1,046,906
South Atlanta	2,968,118	24,531	-2,918	-0.1%	15.9%	16.4%	\$17.04	0	0
West Atlanta	207,745	-344	-1,563	-0.8%	19.5%	19.5%	\$16.05	0	0
Suburbs	86,575,209	91,988	-474,245	-0.5%	16.8%	17.9%	\$22.39	224,000	1,821,508
Atlanta	134,482,992	221,645	-293,663	-0.2%	16.3%	17.5%	\$24.46	1,137,057	4,076,418

Table 2: Office Statistics Q2 2017 Source: Jones Lang LaSalle

while demand keeps rising—along with rental rates. Downtown buildings offer undoubtedly desirable locations. But parking options are limited and becoming fewer. Office rent growth in Downtown has ranked in the top three in Atlanta’s metro area since 2015.²

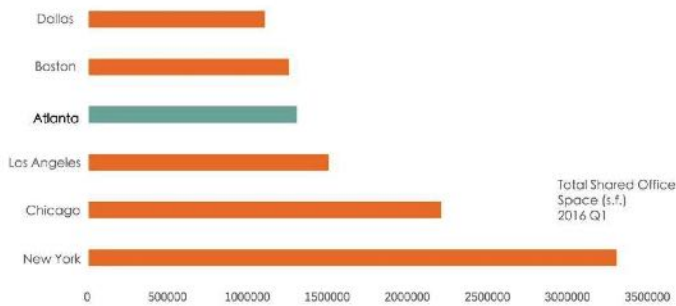


Figure 5: Total Shared Office Space Q1 2016

Source: Jones Lang LaSalle

Major Trends

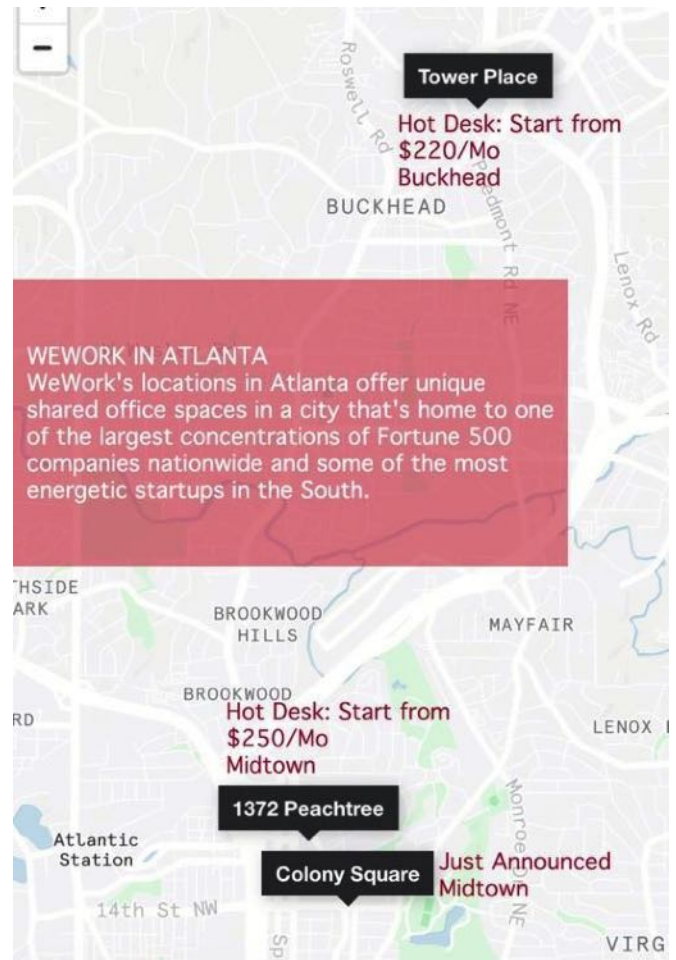
There is a significant increase in the co-work space. As shown in figure 5, Atlanta had the third amount of shared office space in the United States in 2016. WeWork, one of the leading co-work leasing companies, has three projects in Atlanta with several office desks available (See figure 6). There are still potential opportunities for co-work space market in Atlanta.

There are more alternative and adaptive reuse projects. For example, the Architecture Firm Stevens & Wilkinson revealed the new design of the adaptive reuse and historic renovation project at Ponce City Market. The design balanced between authentic elegance and functional structure, transformed the historic building into contemporary places.

There is an increasing trend in mixed-use construction. These buildings have mixed functions of office, residential and retail. For example, OliverMcMillan has greenlit a new 17-story, 360,000-square-foot office and retail complex to be constructed within the company's Buckhead Atlanta project in Upper Buckhead. It is a 1.5 million-square-foot mixed-use development home to office, retail and residential development including six blocks, 370 units, 20 stories of residence apartments.³

Figure 6: WeWork Map in Atlanta

Source: WeWork Website



Causes of the Market Shift

Decreased space per worker, increased demand for collaborative space, fast pace of the business activities are three major reasons for the emergence and development of the co-work spaces. To be specific, the reasons are:

Advances in Technology

The advances in internet, cloud service, paperless office resulted in reduced demand for several specific occupations, for example, secretaries. What's more, some professionals will opt to work from home or a coffee shop. Therefore, office space per person decreases.

Reduced Hierarchical Structure

Hierarchies are being replaced by cross unit organizational groupings with fewer layers and more decentralized decision making. Thus, fewer space is needed.

Clearer Division of Work

Companies want to do their own job rather than spend time and efforts in furnishing their offices. They would prefer to check-in to a ready-to-use office as soon as possible and leave this job to professionals.

Development of the Shared Economy

With the globalization of the shared economy, people can save money on everything by purchasing the services from the shared companies. For example, one can buy a ride from Lyft rather than buy a car.

Importance of Social Networking

As organizations become more laterally structured, boundaries begin to breakdown as different parts of the organization need to work more effectively together. As a result, there is a greater need for space and knowledge sharing.

Team Work and Efficiency

The move toward a team-based organizational structure results from pressures to make rapid decisions, to reduce inefficiencies, and to continually improve work processes. Thus, more common areas are needed in the offices.

Emergence of New Industries

The rapidly changing nature of today's world is fostering the emergence of new industries and innovative small businesses and companies. These companies and teams are short of start-up capital. They can only afford to sign a lease with the co-work companies. The flexibility and relatively low price from the co-work companies will absolutely attract entrepreneurs and small businesses. ⁴

Changing Nature

The changing nature of the office market leads to the requirement of flexibility in office space, which can be provided by the co-work leasing mode. Companies can simply rent more offices from the co-work companies if they hire more people.

Outlook in Atlanta

The concession of Atlanta office market would be relatively **steady**. However, there is a considerable uncertainty of the pre-leasing activities, for there are 1.95 million square feet of office space currently under construction in Q2 2017. Large-scale investment requires careful considerations.

Large companies searching for a high quality office space would have few options. The gap between rent in existing buildings and new properties has become more apparent.⁵ Demand for **quality product** would increase, especially in the most coveted sections of Buckhead and Perimeter submarket.

Transportation and parking will affect the office development more deeply. Public transportation and the beltline system will decrease the demand for parking space. With the innovation of transportation, autonomous vehicles and shared cars, the parking lot design of the future office building will need to be adjusted accordingly.

The idea of the co-work and alternative space will still be **preferred** for a relatively long period of time. There will be more flexibility in both the forms of office space and its leasing and rental system.

The demand for shared office will not disappear in a **recession**. There may be a new supply of customers to be captured as

companies shed leased space and wait for an economic downturn to pass.⁶

Investment Suggestions

Site Selection

Investments are preferred to locate in public transportation/bicycle/pedestrian accessible areas with small-scale parking lots. There are two possible solutions: follow the path of residential developers and build offices within walking distance of nightlife, culture and abundant multi-family construction in Downtown and Midtown; or push out to the Buckhead for more development options.⁷

Construction Types

Invest on offices with more flexibility in space and leasing system. Consider the co-work and alternative space, as well as small-scale mixed-use projects.

Space Design Suggestions

Design co-work office space according to these following key points:

- More and greater variety of meeting space;
- Smaller and more open individual workspaces;
- Flexible infrastructure;
- More technology-based devices and facilities.

Design alternative office space according to these following key points:

- Less noise and the ability to control interruptions;
- Cleaner air and control over temperature;
- Configurations with more collaborative space;
- More natural light;
- More natural ventilation. ⁸

Investment Strategy

Investments should be thoughtful, innovative and with diversity. Investments should always pace up with the continuously changing nature of the office market.

Figure 7: FLATS at Ponce City Market

Source: Stevens & Wilkinson



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Figure 8: OliverMcMillan Atlanta Office

