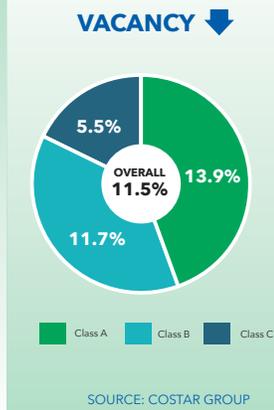
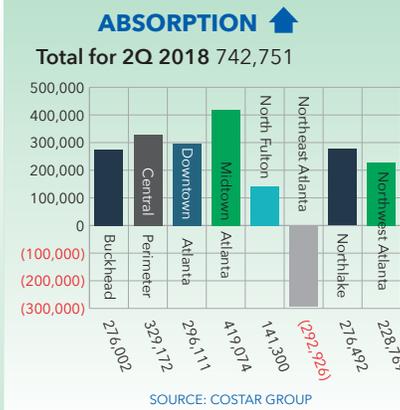




Q2 2018 MARKET REPORT

THE NUMBERS

Office **Rental Rates** continued to increase as the average quoted rental rate for Class A buildings was \$28.51/RSF at the end of the second quarter, with Midtown leading the way at \$36.83/RSF, followed by Buckhead at \$33.59/RSF, \$29.48/RSF in Central Perimeter and \$26.58/RSF in the Northwest/Cumberland submarket. Positive Net **Absorption** for the second quarter of 2018 totaled 742,751 RSF, and overall **Vacancy** rates decreased slightly to 11.5%. By submarket, the lowest vacancies were Midtown at 8.0%; Downtown at 10.1%; North Fulton at 10.9%; and Northwest at 12.3%.



TRENDING NOW

LOFT OFFICE BUILDINGS SELLING FOR RECORD PRICES

Two creative loft-office developments recently sold for prices previously reserved only for trophy office buildings in Buckhead and Midtown. Earlier this year, **Armour Yards**, a 186,779 square foot adaptive reuse project developed by Third & Urban, sold for over \$350 per square foot to a subsidiary of Preferred Apartment Communities. The three-building project is located in an old industrial area near Monroe Drive and I-85 which is also home to the Sweetwater Brewery. Initially, loft offices appealed only to creative firms like those

locating at **King Plow Arts Center**. However, in the late '90's, technology startups were drawn to loft space with the appeal of high ceilings, exposed brick and open environments. That has all changed with **Ponce City Market**, attracting larger tech companies and national firms like Athenahealth and Cox Enterprises. Recently, Reliance Worldwide Corporation, an Australian-based plumbing company, leased over 80,000 square feet at **Defoor Hills Loft Office** on the **Upper Westside** resulting in the sale of this 91,000 square foot adaptive-reuse conversion for over \$380 per square foot. To put this in perspective, **One Atlantic Center**, formerly known as the IBM Tower, sold in late 2016 for \$289 per square foot, the **Atlanta Financial Center** sold for \$243 per square foot and the BB&T Tower at **Atlantic Station** sold for \$336 per square foot. With a proven exit-strategy, expect to see a lot more adaptive reuse projects in Midtown and Downtown.



COWORKING SPACES: How Much is Enough?

Over the past five years Atlanta has become a major center of coworking spaces in the US. Only a few years ago, coworking was considered to be a movement or trend, with many believing it would fade away but some now say it is the 'new normal'. It has become an industry within itself with the arrival of new major players WeWork, Industrious, Serendipity Labs and Spaces, Regus' response to the new more collaborative coworking concept. Coworking now takes up 27 million square feet of office space across the US, and there are over 14,000 coworking locations in the world today. Driven both by the increase in start-up companies and corporate users motivated by the new accounting standards requiring companies to report leases on their balance sheet, the flexibility of short term commitments is very attractive to both parties.

Atlanta coworking spaces now account for over 1 million square feet including 6 of the 20 largest leases in Buckhead and Midtown over the past year. There seems to be no slowing in sight. Spaces just announced a new 56,000 square foot lease in the new **Star Metals** project in West Midtown and WeWork expanded to 100,000 square feet in Buckhead. Further, WeWork indicated that it expects to have 15 to 20 locations in Atlanta by the end of 2020, making Atlanta its largest market in the Southeast. The big question is 'How Much is Enough...or Too Much?' With all tenants on short-term leases, a slowdown in the economy could put coworking spaces in trouble which would have a serious impact on the office market. As a result, it is reported that even the Federal Reserve is closely following the growth of coworking spaces.



BUS-RAPID TRANSIT ON GEORGIA 400

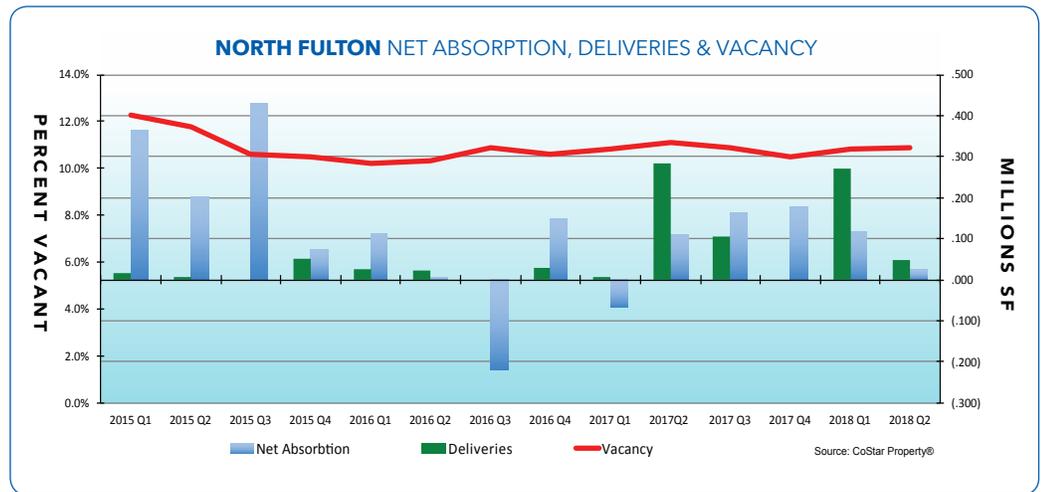
The State of Georgia announced they will spend \$100 million to build a bus-rapid transit line on Georgia 400 from Interstate 285 north to Exit 12 along the toll lanes to further alleviate traffic congestion along Georgia 400. The project is a unique partnership between the state, Fulton County and MARTA and will feature four bus-only interchanges at sites to be determined along the 16-mile stretch from I-285 north to McFarland Road. The \$1.8 billion toll lanes project is projected to reduce travel times along the Georgia 400 corridor by 20 to 25 minutes per trip by 2030. The \$100 million will come from bond money the General Assembly included in the fiscal 2019 state budget. It's the second state bond package dedicated to transit in recent years. Historically, the state has been reluctant to help local governments pay for transit projects. The state recently received a \$184 million federal grant to help kick-start the toll lanes.

The project is in conjunction with the major construction underway at the Georgia 400 and I-285 interchange including increased ramp capacity and collector distributor lanes to help reduce weaving, merging and accelerating/decelerating conflict at the interchange. Completion is expected by 2020.



SUBMARKET FOCUS - NORTH FULTON

The office market in North Fulton has been very active the first half of 2018. **Cousins Properties** just announced they will start construction this summer on the new 251,000 square foot, **10000 Avalon** office building, signing **Axis Reinsurance Co.** to a 76,000 square foot, 15 year lease on the building. **8000 Avalon** is 100% leased. **The Edison** delivered its first building totaling slightly over 100,000 square feet on two floors but no leases have been signed to date. The most active development has been **Sanctuary Park**, the nine-building, 1.6 million square foot office park located on Westside Parkway west of Georgia 400 near Encore Parkway. In April, they announced the addition of a new \$10 million, 25,000 square foot amenities center to include a food hall, fitness center, conference rooms and training space for its tenants. Leases in excess of 200,000 square feet have been signed this year including a 100,000 expansion by Delta Dental which now leases over 265,000 square feet in the park. Other significant new tenants include Alliant Insurance, Philadelphia Insurance and Synergis. In addition, they have over 600,000 square feet in proposals out to prospects of which they are confident they will land at least one additional new 50,000 square foot tenant.



Alpharetta City Center began opening in the 2nd quarter and will continue to open the 11 new restaurants through the fall of this year. The 26-acre mixed-use district encompassing six city blocks in Alpharetta's downtown historic district consists of 100,000 square feet of restaurants and shops, a 36,000 square foot office building and 168-unit rental units. The restaurant area, known as The Gardens, features individual buildings scattered through three city blocks of parks and greenspace. All restaurants will feature local operators and will contain either outdoor dining patios, porches, rooftop or gardens.



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ATLANTA INSIGHT™ is a quarterly market update published by Wm. Leonard & Co. designed to help you stay on top of emerging trends in the Atlanta commercial real estate market.

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