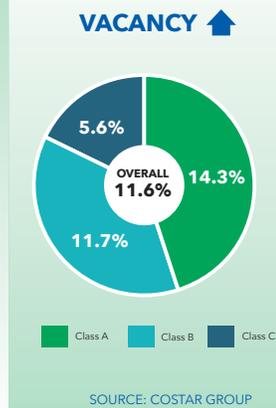
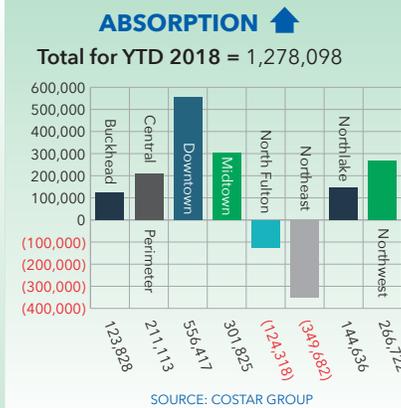




Q3 2018 MARKET REPORT

THE NUMBERS

Office **Rental Rates** continued to increase as the average quoted rental rate for Class A buildings was \$28.84/RSF at the end of the third quarter, with Midtown leading the way at \$36.97/RSF, followed by Buckhead at \$34.95/RSF, \$30.15/RSF in Central Perimeter and \$27.93/RSF Downtown. Positive Net **Absorption** for the third quarter of 2018 totaled 119,725 RSF, and overall **Vacancy** rates increased slightly to 11.6%. By submarket, the lowest vacancies were Midtown at 8.5%; Downtown at 9.6%; North Fulton at 11.6%; and Northwest/Cumberland at 12.0%.



**THE GULCH
ATLANTA'S CROWN JEWEL?**

Like many American cities, Atlanta's downtown core has seen a resurgence in recent years. Yet there remains a hole of sorts in the fabric of downtown Atlanta. Despite many attempts by business and governmental officials, a more than 40-acre site sits undeveloped between Mercedes-Benz Stadium, Centennial Olympic Park, Castleberry Hill and south downtown. This site, known for years as "the Gulch" – remains highly underutilized. The area around it has been built up over the years so that the street grid surrounding the site is at some points 40 feet above ground level. The challenges and costs associated with this grade have resulted in the Gulch remaining a hole in the heart of downtown Atlanta for over 70 years.

Los Angeles-based developer CIM has proposed a project to develop the Gulch into a mix of uses. These uses would complement the surrounding area's amenities and attractions, providing a walkable district in an area that is currently pedestrian unfriendly. Thousands of jobs would be added downtown. Several million square feet of office space would be developed along with thousands of residential units, with 20% of such units allocated to affordable housing. Hotels to house the 15.7 million annual visitors the existing downtown attractions bring to Atlanta would be built, and new destination entertainment/retail venues would support these visitors and residents alike. The project is massive in scale, but such scale is required to deliver a successful project for the City of Atlanta.



725 PONCE

725 Ponce is bringing new loft office space to the Atlanta BeltLine's Eastside Trail directly across from the highly successful Ponce City Market development. The 12-story, 370,000 square foot, Class A spec office building is under construction at the location of the old 'murder Kroger' site with a new, 60,000 square foot urban prototype Kroger grocery store connected on the first level plus a Starbucks with a walk-up-window accessible from the BeltLine. The building is expected to be delivered in March 2019 and rental rates will exceed \$50.00 per square foot. The office building will

feature multiple terraces with BeltLine views, 13-foot ceilings and 10-foot industrial windows, a private shuttle service to MARTA and a chef-driven restaurant. In addition, there are numerous restaurants and other amenities located in the immediate area.

Along with over 240,000 square feet remaining at CODA and Hines' 230,000 square foot T3 West Midtown at Atlantic Station, Midtown leads the rest of Atlanta with the largest amount of spec office space in the market. Timing, however, could be very good with strong activity in Midtown.



LENOX PARK ACQUIRED

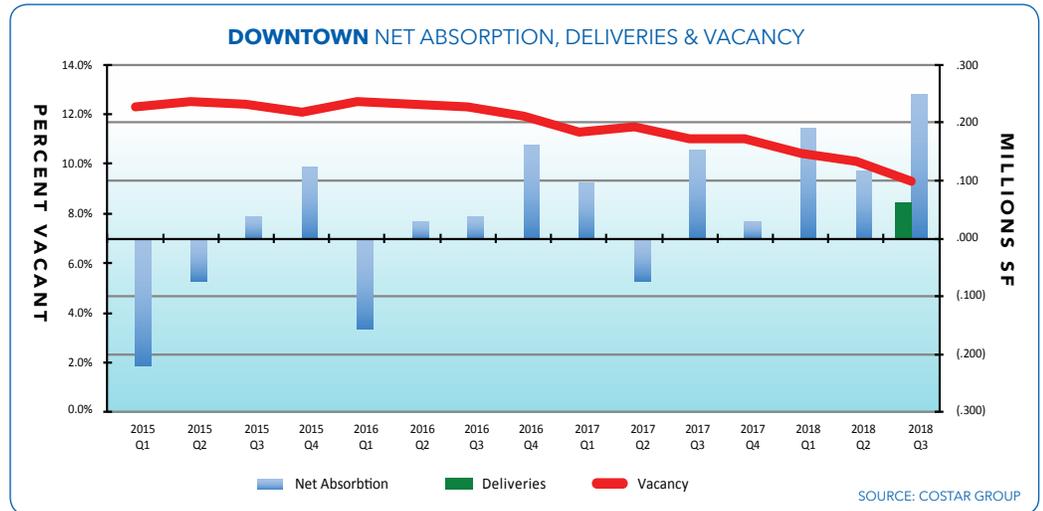
Lenox Park, a 32-acre, one million square foot office park located off of Roxboro Road, east of Lenox Square in Buckhead, was recently acquired by a division of Bridge Investment Group. The mixed-use development offers an in-town campus environment within walking distance of the Lenox MARTA rail station and also includes the 150-unit Marriott Residence Inn, 1,800 multi-family apartments, and several single-family developments. AT&T has been the primary tenant at Lenox Park for many years and occupies three of the five office buildings, however, Bridge plans to make major renovations to a recently vacated 153,000 square foot, seven-story office building that offers free covered parking, which is very unusual in Buckhead. This is the only campus-style office development in Buckhead and it should be a very attractive opportunity for a large corporate user. Lenox Park includes lifestyle amenities such as community green space, expansive outdoor patio space, an open access yoga room, state-of-the-art exercise facilities and a dog park. Future plans include improvements to the running trails and adding a tenant experience center.



MARKET FOCUS - METRO ATLANTA

The Atlanta office market is in a solid position, in part because of competitive advantages compared to major metros in the U.S. Office rents in Atlanta are about 15% lower than in Chicago, 40% less than in Los Angeles, and 60% below New York rates. The general cost of living in Atlanta is also less for workers compared with the average among the top 12 U.S. metros. Many employers have openly stated that moving their operations to Atlanta will save them millions, while still being able to attract skilled talent. As an example, the streaming music provider Pandora announced that it was going to beef up its presence in Atlanta, while reducing its headcount in the East Bay.

Atlanta's economy is producing a lot of new jobs. As a result of its above-average recovery, Atlanta has about 325,000 more jobs going into Q4 2018 than we did at the height of the last cycle (2007). White-collar employment has been a big driver of growth, especially the Professional and Business Services sector. One notable surge this cycle has been an increased presence of corporate IT operations, including those of GM, GE, Microsoft, Honeywell, and Verizon. Major construction projects highlighting these gains include NCR's new HQ, the Coda Tech Square project, and Anthem's new office tower. The growth of tech jobs is expected to continue to drive demand for high-end housing and office space, especially inside of the perimeter.



Rents continue to increase with one of the biggest winners of late being Downtown, thanks in part to an actual decline in net inventory as some high-vacancy projects have been converted to other uses. With rents in neighboring Midtown some of the most expensive in the metro, Downtown offers a value-play for proximity to Midtown's amenities. Supply has had the odd effect of increasing vacancy in Class A space, yet rents continue to climb in the face of this increasing vacancy.



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