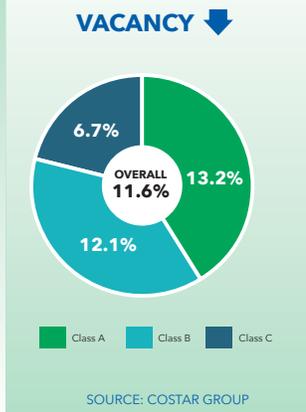




Q4 2017 MARKET REPORT

THE NUMBERS

Office **rental rates** continued to increase as Midtown surpassed Buckhead as Atlanta's most expensive submarket with quoted Class A rents reaching \$34.54/RSF, compared to Buckhead at \$33.25/RSF, \$28.69/RSF in Central Perimeter and \$25.41/RSF in North Fulton. Positive Net **Absorption** for 2017 was 1,890,661 RSF, a 27% increase over 1,488,629 RSF in 2016. **Vacancy** rates declined to 11.6%, down from 11.9% at the end of 2016 and vacancies by submarket are Midtown at 8.4%, North Fulton at 10.6%, Central Perimeter at 13.4% and Buckhead at 13.4%.



**TRENDING NOW
TRANSFORMING MEGA MALLS**

Phipps Plaza, one of Atlanta's largest and most prestigious shopping malls with brands including Saks, Gucci and Tiffany's, recently announced plans for a major expansion but not with more retail stores. Simon Property Group, who owns both Phipps and **Lenox Square**, presented plans for a new 12-story office building, 120-room luxury Nobu Hotel and restaurant and a 90,000 square foot Life Time Fitness center. Construction will begin this year with completion scheduled for the spring of 2020. Phipps already

features the 480,000 square foot Phipps Tower office building, which is 92%, occupied. Simon also implied Lenox Square could follow shortly with similar changes.

Could this be the future trend for mega malls like North Point, Cumberland and Perimeter Mall? With on-line sales continuing to increase market share and retail traffic declining, major malls need to attract more destination customers and create an experience to drive traffic to their stores. **Avalon** in Alpharetta is a great example of how retail is changing by creating experiences to generate traffic even in off-hours and we expect to see transformation of other major malls if they are to retain their top-brand stores.



PRIORITY PARKING FOR ELECTRIC CARS

Driving an electric vehicle could provide you with priority parking in future commercial projects in the City of Atlanta. The Atlanta City Council passed a resolution recently requiring developers to install electrical infrastructure to support EV chargers in all new commercial and residential construction. Further, one of every five parking spaces (20 percent) in commercial parking decks will have to be "EV-ready" imposing the strictest standards of any city in the country. The new ordinance follows action earlier this year where the parking ratio for future projects was further reduced in the Buckhead area. The intentions may

be good but, in reality, parking is already inadequate in Buckhead and Midtown and restricting spaces to specific types of vehicles will make parking even more challenging. Current parking ratios in high-rise Buckhead and Midtown office buildings average approximately two spaces per 1,000 rentable square feet of office space leased. With only 20 parking spaces for a company leasing 10,000 rentable square feet and 4 of those restricted to electric vehicles may be the incentive needed to go electric. Hopefully autonomous cars get here sooner than expected.



THE EDISON NEARS COMPLETION

Phase One of The Edison, located just south of Windward Parkway, is scheduled to be delivered in February. The 24-acre project will have two 107,000 square foot, two-story office buildings with a 5,000 square foot amenities complex that will include a conference center, tenant lounge, coffee bar and fitness center. The buildings will feature the accoutrements that appeal to tech tenants - concrete floors, 15-foot ceilings, floor-to-ceiling windows and garage-style roll-up doors that bring the outdoors into the office space. An acre of green space - dubbed "The Quad" - will serve as an informal gathering spot. The campus-style design targets growth-stage technology companies, ideally tenants who require at least 10,000 - 25,000 square feet. A strong parking ratio of 5 spaces per 1,000 rentable square feet will be very appealing to technology companies whose office density tends to exceed normal parking ratios. Also, the rental rate for Phase One is \$28.00/RSF plus electric, which will be separately metered allowing companies to control their own HVAC. This benefits companies whose employees work after normal business hours and on weekends.

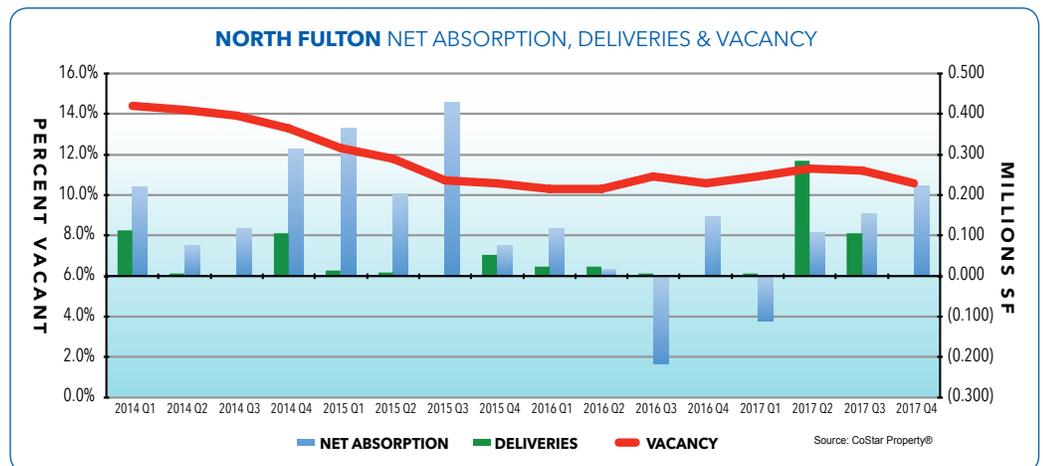


SUBMARKET FOCUS - NORTH FULTON

The North Fulton submarket was very active in 2017 with 371,743 square feet of positive net absorption (PNA) including 213,872 square feet of PNA in Class A space. Only the Northwest submarket experienced greater PNA with 444,721 square feet. Vacancies declined slightly to 10.6 % while the average quoted rental rates increased again to \$22.02 per square foot overall and \$25.41 per square foot in Class A space. The only significant office buildings under construction in North Fulton are **Jackson Healthcare's** new 267,000 square foot building and the 107,000 square foot first phase of **The Edison** to be delivered in February.

As we look back at 2017, leasing activity continued toward smaller to midsize deals leaving ten existing options for office requirements over 50,000 square feet with just over half of those able to accommodate at least 100,000 square feet including The Edison. **Sanctuary Park** has the most vacancy partly due to Verizon and Microsoft relocating and The Hartford downsizing. The highlight of the year in North Fulton was **8000 Avalon** which opened in April and is now 100% leased with prominent tenants including Microsoft, SAP, Crown Castle and BitPay, commanding rental rates approaching \$40.00 per square foot.

Looking forward, we expect the overall market to continue to flourish. With the highly anticipated, **330-room luxury Hotel Avalon** opening in January along with approximately 60,000 SF of event space at the **Alpharetta Convention Center**. Alpharetta will now have a strategic amenity that will attract more new business to the area. We also expect Avalon's last office building, **10000 Avalon**, to break ground in 2018. With numerous existing options and a number of development sites looking for anchor tenants, larger tenants will be able to once again push concessions and drive economic terms.



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