

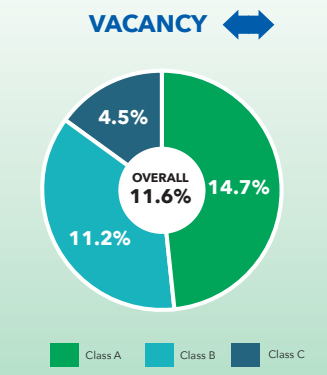
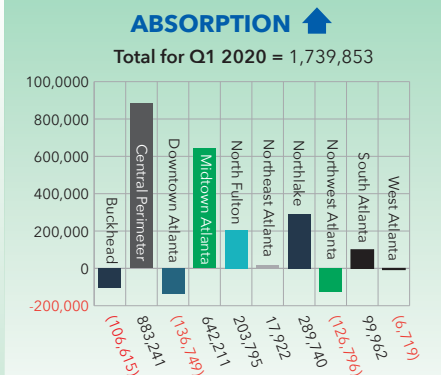
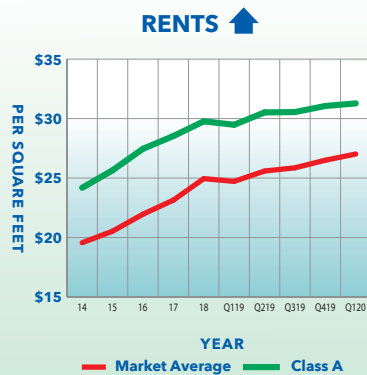


**Q1 2020 MARKET REPORT**

**THE NUMBERS**

Office **rental rates** continue to increase, and Q1 2020 positive net **absorption** totaled 1,739,853 rentable square feet. Central Perimeter led absorption at 883,241 square feet, followed by Midtown at 642,211 square feet, and Northlake at 289,740 square feet. Overall **vacancy** remained steady at 11.6%.

SOURCE: COSTAR GROUP



**THE WORKS**

**The Works** is an 80-acre adaptive mixed-use development in the heart of Atlanta's Upper Westside developed by **Selig Enterprises**, who celebrated 100 years in business last year. Some of the existing buildings at The Works were originally developed by Selig over 70 years ago. The Works' vision includes distinctive retail and dining, imaginative experiences and inspired gathering areas in an interconnected environment preserving the character of Atlanta's historic industrial buildings. The multi-phased masterplan comprises 350,000 square feet of retail and entertainment, 500,000 square feet of loft-

style office space, 500 residences, 200 hotel rooms and 13 acres of greenspace. Phase One, 27 acres, is currently under construction and scheduled for openings in June.

The retail will be anchored by **Fox Bros Bar-B-Q** with the new restaurant more than two and one-times larger than their present location on DeKalb Avenue. In addition, the project will feature the **Chattahoochee Food Works**, a food hall with 37 different offerings from celebrity chefs from as far away as New York City, and a test kitchen hosting various chefs and culinary events.

**FACEBOOK, MACY'S CHOOSE T3**

**T3 West Midtown**, the first heavy-timber office building in the Southeast, has signed **Facebook** to a new 36,000 square foot lease on its top floor of the Atlantic Station development relocating from its office at Brickworks. Facebook indicated that T3 offered 'a highly sustainable design in a vibrant, urban neighborhood'. T3, developed by Hines, stands for timber, transit and technology and the exposed timber beams and ceilings really set it apart from other building designs. Previously, **Macy's** announced that it is relocating its technology division from the west

coast to 108,000 square feet on the fourth, fifth and sixth floors at T3 and will employ over 600 people.

Hines, which has five more heavy-timber office projects like T3 West Midtown underway in five U.S. cities, has other significant projects under construction at Atlantic Station with Atlantic Yards. The two building, 520,000 square-foot **Atlantic Yards** development will be delivered later this year. Microsoft Corp. reportedly is in negotiations in the project for a major expansion.



# COVID-19'S IMPACT ON THE OFFICE MARKET

## OVERVIEW

The Commercial Real Estate (CRE) market is expected to take a hit from the effects of COVID-19 but it may be a while before it shows up in different sectors. Historically, the effects on CRE lag behind the overall economy 6-12 months however the **Retail** sector will see the most immediate impact with so many retailers already suffering before the virus and, sadly, the restaurant and hospitality industries could be decimated. The **Industrial** sector will likely experience the least impact with distribution

Some aren't budging but others are trying to qualify whether the tenant is actually experiencing a financial hardship or just being opportunistic. To proceed further landlords are insisting the request be made in writing with financials and an explanation of the situation. One client received an eight-page questionnaire to be completed to document their request. At this point it appears that they are not going to make it easy as they evaluate if the tenant has a real short term need and will it be a long-lasting viable business. The first thing

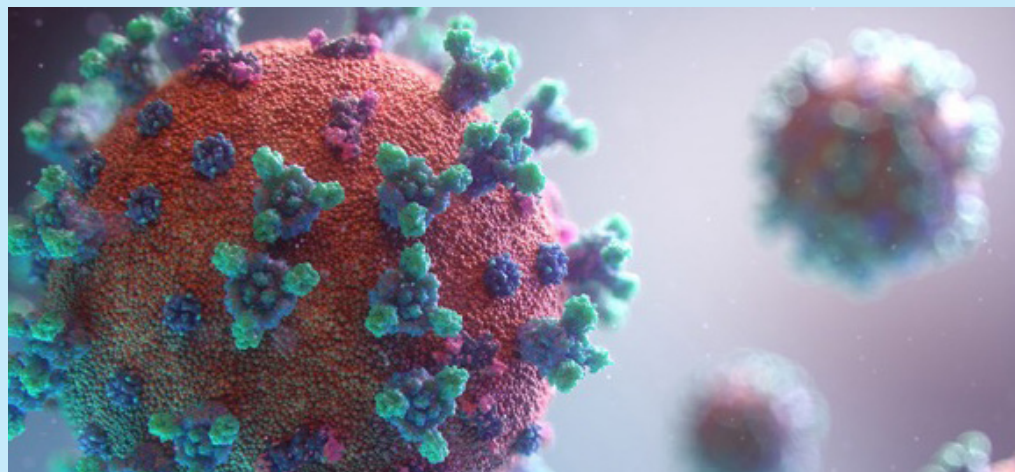
multiple clients who want to extend their lease early in exchange for the landlord taking back space or to use market concessions to reduce the immediate rent liability.

## FORCE MAJEURE

Governor Kemp issued a 'shelter-in-place' order which restricts businesses from operating out of their office unless they are conducting "essential services". This has raised another question for tenants. Does this order possibly invoke the Force Majeure clause in your office lease? Force majeure is defined as "unforeseeable circumstances that prevent someone from fulfilling a contract". While most office leases are similar, they are all drafted differently and force majeure clauses are typically included to protect the landlord, not the tenant. We spoke with Larry Kunin, Partner with Morris Manning & Martin, who specializes in this area of law and is a part of MMM's COVID-19 Task Force. He emphasized that any rights under force majeure or interruption of services will depend on the specific language in the lease. Have an attorney review the lease before taking any action.

## COWORKING

In previous CRE market downturns, executive suites suffered greatly. Coworking spaces typically attract startups and large corporate users and all are on short term leases (or have termination clauses) so their occupancy can decline quickly. The parent company of **Regus** and **Spaces** has already advised their UK landlords they won't pay rent for the next three months in exchange for adding term to their existing leases and **Softbank** reportedly backed out of its **\$3 billion** commitment to bail out WeWork. It is very likely that a number of coworking facilities will default on their leases. Remember, **WeWork** is one of the largest tenants in the US and the single largest in New York City. This will create opportunities for growing companies who want high-end space in prime buildings.



continuing to operate. The impact on the **Office** sector will be varied. Most office buildings are multi-tenant buildings providing diversity of risk for landlords and lease terms between five and ten years meaning 15-20% of leases expire annually. Another impact within the office sector will be on buildings where companies recently announced expansions into projects under construction. Some companies may try to terminate leases before any real money is spent and others may go to the sublease market.

## RENTAL CONCESSIONS

Landlords are receiving a lot of requests for short-term relief (i.e. free rent or rent deferment) from rent payments and the initial response is varied.

you need to do is to have your broker or attorney review your lease to determine what rights you have in situations like this. There are two things you need to demonstrate to the landlord. First, you have a unique, short-term cash flow issue based on your client base or individual situation. Second, and equally as important, you need to demonstrate that you have a viable business model and your business will thrive once we get past the virus so you can pay them back later. If the landlord does agree to a short-term rent abatement they will want to add term to the lease, i.e., two months of abatement with two or more months added to the lease term. Another option is to discuss an early renewal of your lease with concessions now. We are negotiating for



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**Ronnie Cannon**  
**Doug Legg**

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