

ATLANTA CITY HIGHLIGHTS

ATLANTA OFFICE MARKET

For the first time in 30 years, not a single office building greater than 50,000 square feet is being built on speculation in the Atlanta office market. There are several macro-economic reasons for this but the principal cause is the relatively slow increase in employment.

Rajeev Dhawan, the director of Economic Forecasting Center at the J. Mack Robinson College of Business at Georgia State University, expects Georgia to add 26,800 jobs in 2012, of which 6,300 jobs would be considered 'premium' jobs, while Atlanta's economy will gain 17,400 of those jobs for the year — with 3,900 being premium or well-paid positions. This is all good, but it may not be enough.

Compounding the jobs challenge, office users are looking for less square footage per employee to reduce occupancy costs. The average is now under 200 square feet per employee and likely to trend lower.

Against this backdrop, the Atlanta office market ended the first quarter with a vacancy rate of 16.5 percent, according to CoStar Group. In addition,

there is nearly 1.9 million square feet of available sublease space. Net absorption for the overall Atlanta office market was 520,046 square feet, CoStar reported. Despite this positive data point, Atlanta office rents — which ended the first quarter of the year at \$18.36 per square foot — could not support new office developments.

Carrying over from the first quarter, Atlanta should experience modest net absorption gains for the balance of the year, most of which will still be concentrated in Class A buildings as tenants continue their flight to quality.

Class A space in Buckhead has been the biggest beneficiary of Atlanta's flight to quality in companies not just moving to higher quality office buildings, but also upgrading submarkets. Since January 2010, Buckhead has accounted for approximately 75 percent of the Class A net absorption in Atlanta. A majority of the office space developed in the last cycle, which afforded tenants significant concessions, is now committed. Furthermore, only two buildings in the entire submarket, Phipps Tower and

Atlanta Plaza, contain blocks in excess of 100,000 square feet.

While heavy concessions are starting to burn off, asking rates will tread along the bottom and not see significant improvements until occupancy levels rise considerably.

In terms of leasing activity, Kids II is moving into 105,818 square feet at Terminus 200 in Buckhead, while ACE USA is moving into 96,293 square feet at Royal Centre Two North Fulton. FLEETCOR will relocate into 65,846 square feet at Spalding Ridge in the Peachtree Corners submarket.

Cox Enterprises is responsible for the biggest owner/user activity in Atlanta as it continues to develop two 300,000-square-foot buildings in the Central Perimeter submarket in an effort to consolidate its operations.

While there are no major speculative office buildings in the pipeline, Jamestown Properties is redeveloping the former Sears distribution center on the eastern edge of Midtown into a mixed-use property. Rebranded as Ponce City Market, the 2.1 million-square-foot center will include a hotel,

residential and retail components, and some speculative office space.

For the remainder of 2012, we are guarded and expect that most of the activity will consist of vertical movement which will generate a minor amount of true net absorption — around 500,000 square feet.

The biggest upcoming issue in the community will be determined July 31, when voters will approve or reject a transportation sales tax initiative with much of the added tax revenue slated to expand the 10-county Metro Atlanta region to build 157 transportation projects. (We believe it will pass.) The sales tax would reach 9 percent in Atlanta and 8 percent in Fulton and DeKalb if passed.

The net effect of added transportation revenue has potential long-term consequences for all the Metro Atlanta counties. Namely, a likely increase in speculative, suburban office development projects along the new routes.

— Alan Joel and Dan Granot are co-principals of Atlanta-based Joel & Granot Commercial Real Estate/CORFAC International.

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