

ATLANTA'S OFFICE MARKET IS ON A SLOW MEND WITH LITTLE NEW CONSTRUCTION

While Atlanta's office market is far from healthy, it is clearly making strides. The market-wide vacancy rate in the first quarter of 2013 stood at 19.6 percent, the lowest level since 2009, according to Cassidy Turley. Just a year ago, the vacancy rate was 21 percent.

Cassidy Turley forecasts that increasing demand for Class A office space will push rents up 1 to 2 percent by the end of 2013. The average quoted asking rent for office space in Atlanta was \$18.94 per square foot in the first quarter.

"Values and demand for office space are slowly increasing throughout the city," says Scott Jackson, CEO of Atlanta-based Jackson Corporate Real Estate, which has completed 31 commercial real estate acquisitions totaling more than \$700 million in asset value since 2001. "There will also be very little new construction. With little construction and positive absorption, the office market will change from a tenant's market to a landlord's market in the next few years."

At the same time, rental rates and tenant concessions offered by landlords will remain aggressive this year, Jackson believes. Investors who can ac-

quire office buildings at prices well below replacement cost will do well. "Once the market clears, which will occur in 2013 and 2014, there will be upward pressure on rents and values."

Certain submarkets have helped to drive the recovery in Atlanta's office sector. In the first quarter, the Northwest, Central Perimeter and Buckhead submarkets posted the strongest absorption, according to Cassidy Turley. For instance, Buckhead experienced a total net absorption of 62,862 square feet in the first quarter, while the Central Perimeter submarket posted a total net absorption of 78,448 square feet.

The Central Perimeter also recorded one of the largest sales transactions in 2012. Regent Partners acquired Concourse Corporate Center, home to Atlanta's "King and Queen" buildings, for more than \$300 million.

Jackson predicts large companies such as State Farm will continue to



Scott Jackson

choose Central Perimeter for regional offices or headquarters. There have also been recent announcements for new office developments in the submarket. However, "the extensive cost to construct new product will delay these projects and rent will likely need to be \$25 per square foot for them to move forward. It's a risky proposition considering buildings such as [Concourse Corporate Center] can offer \$18 to \$22 per square foot and hit investment return requirements."

Another major development project is taking shape in an area known as the "Gulch," a large block of undeveloped land located adjacent to the CNN Center and the Atlanta sports and entertainment district. A team of developers, including Cousins Properties, plan to turn the area into a bus and rail terminal with office and retail. Cousins is also building the National College Football Hall of Fame and the National Center for Civil and Human Rights, which is expected to bring an influx of visitors into downtown.

Also adjacent to the CNN Center, Jackson Corporate Real Estate recently leased 125,000 square feet of office

space in its Centennial Tower to Turner Broadcasting, bringing the property to 80 percent occupancy. The company also owns a development site adjacent to the tower, which may be used to construct Centennial Tower II. Jackson is waiting for demand to increase and concessions to decrease before moving forward.

"We will market the Centennial Tower II as a build-to-suit opportunity," says Jackson. "Demand for building signage has become a major factor for large corporate users. With the increasing [number of] tourist attractions downtown, we expect to attract a large corporation to the site."

The Downtown, Midtown and Buckhead office markets will experience high sales and leasing transaction volumes in the year ahead, Jackson predicts. "People who may be relocating from 24/7 cities are looking for the city feel, and these three submarkets offer this," he says. "With continued demand for apartments, the office demand will follow as companies seeking a young workforce locate in these markets."

— Liz Burlingame

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