MARKET HIGHLIGHT: ATLANTA

Atlanta’s position as the undeniable capital of the South and a must-be location for all national companies and global firms will contribute to the expected uptick in demand for office space as companies set up regional offices, expand or relocate to Atlanta.

For the first time in decades, the city’s office market has virtually no new construction. Coupled with positive absorption in most submarkets and continued job and population growth, rental rates should increase and concessions decrease in 2014 as well. On average, rents have been flat for 15 years, but positive absorption and demand will help the market turn from one dominated by companies seeking low rates and extensive concessions to a landlord market with multiple tenants seeking an increasingly smaller inventory of space.

Downtown, Buckhead

Atlanta’s core submarkets of Midtown, Buckhead, Central Perimeter and downtown all offer opportunities for future development. Each submarket has distinct characteristics that drive demand, and each will continue to grow with all asset classes benefiting from the synergistic and 24/7 environment that is taking shape. Downtown will likely attract more global companies seeking signage space on one Atlanta’s more high-profile towers and extensive exposure from Centennial Olympic Park. New attractions such as the College Football Hall of Fame and Civil Rights Museum will also draw millions of visitors to the area, increasing visibility for companies seeking exposure through building signage.

Also downtown, Georgia State University’s growth and recent acquisition of more than 1 million square feet of outdated office space will offer an opportunity for a new development in the future. Many of the relocating tenants are filling remaining vacancies and demand for Class A quality space should increase. New buildings with large floor plates and the latest technology will likely benefit the most.

Meanwhile, over-development in the Buckhead office market is turning out to be an outstanding catalyst for growth in all product types. Buckhead is benefiting from an influx of new tenants to the many Class A office towers that are finally being leased up.

ALL SIGNS FAVORABLE FOR ATLANTA’S OFFICE MARKET

 Buyers and Sellers

The demand for purchasing Atlanta’s office properties is strong from numerous capital sources, much of which is new capital or funds that have been created to take advantage of purchasing quality office product at an attractive acquisition basis. However, risk remains. The cost to back-fill vacancy remains high, and competition from existing buildings and submarkets will require conservative lease-up and renewal assumption.

For sellers, there are numerous reasons to sell. Owners with well-leased buildings are taking advantage of the low-rate lending environment and improved market conditions to sell and achieve a respectable return on or return of capital after holding the investment through arguably the most difficult environment in the history of real estate. Some sellers are banks or special servicers that were unable to work out a plan with the owner and have either turned the property around themselves or are selling at a discount, seeking to recoup their original investment. Most owners would be wise to hold their office product as the market improves and values and rents increase.