

### *FIVE PUZZLE PIECES*

Every real estate cycle produces head-scratching trends worth our attention. For example, in the last market run, metro Atlanta's population growth far outpaced employment gains, a warning something was amiss. The current cycle has presented at least five puzzles to decipher. These are described below, accompanied by a few data points.

#### **1. The ratio of population to employment growth has shifted dramatically, and is low even relative to the 1990s.**

The Atlanta MSA added an estimated 785,270 residents and 170,500 jobs from 2000 to 2007, a ratio of 4.6. From 2010 to 2017, 598,000 residents and 447,000 jobs were added, a ratio of only 1.3. During the 1990s, this figure was 1.7.

#### **2. The composition of Atlanta's population growth has long favored in-migration, but not so much in this cycle.**

From 2000 to 2009, net migration accounted for 64 percent of population growth in the Atlanta MSA, consistent with past trends. This has not been the case since 2010, with net migration at 53 percent and natural growth (births over deaths) comprising 47 percent of the population increase.

#### **3. Office absorption has been meager relative to previous economic expansions.**

In spite of significant employment growth from 2010 to 2017, metro Atlanta's office absorption has been very modest, particularly during the last two years. According to Jones Lang LaSalle, net office absorption averaged 1.2 million square feet in 2016 and 2017, which represents only a one percent annual increase in occupied space.

#### **4. Multifamily building permits declined 39 percent in 2017, and have been well below levels in prior cycles.**

A perception exists that apartments are rising on every corner, yet the data do not reflect that. From 2010 to 2017, multifamily building permits for the Atlanta MSA averaged 7,396 units annually, compared to a yearly figure of 14,783 units from 2000 to 2007.

#### **5. Coworking space was introduced to the Atlanta market less than 10 years ago, but is now enjoying exponential growth.**

The millennial generation has a lot to do with this trend, further spurred by pending revisions in accounting standards regarding the treatment of leases on corporate balance sheets. This collaborative work environment has not been stress-tested by a recession, and its rapid climb is worth watching.

## MIDTOWN MOJO

### Major Midtown Job Announcements

<b>NCR Corporation (Phase I &amp; II)</b>	<b>5,364</b>
<b>Anthem</b>	<b>3,000</b>
<b>Kaiser Permanente</b>	<b>900</b>
<b>Accenture</b>	<b>800</b>
<b>RIB Software AG</b>	<b>700</b>
<b>Equifax</b>	<b>670</b>
<b>Worldpay</b>	<b>600</b>
<b>OneTrust</b>	<b>500</b>
<b>SalesLoft</b>	<b>250</b>
<b>Keysight Technologies</b>	<b>241</b>

Source: Midtown Alliance

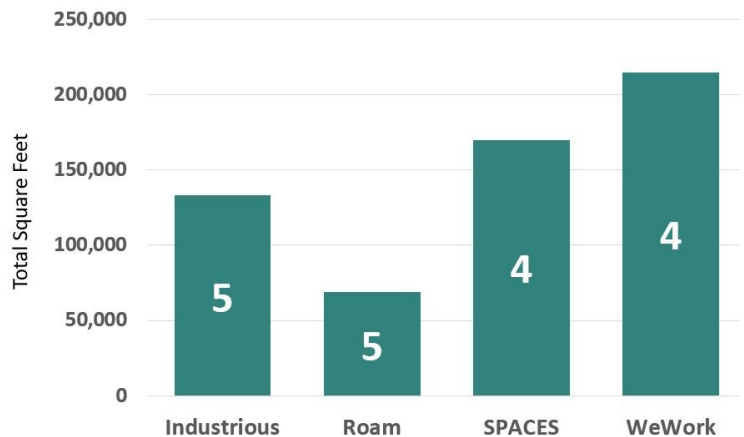
Midtown is exploding with more than just apartments. According to Midtown Alliance, approximately 16,680 new jobs have been announced since 2015. The technology sector is flourishing, and residential, retail, and office demand are growing right along with it. These new jobs are generally high-paying, which bolsters demand for luxury apartments. Speculative office space is being added in anticipation of the continued migration of technology companies. Coda, which is 70 percent pre-leased, will add 645,000 square feet to the market when it opens in early 2019. Hines plans to start an office development in Atlantic Station, and North American Properties is currently undertaking a significant overhaul of Colony Square that will add more retail and office space.

## THE COWORKING PHENOMENON

Coworking space is a relatively new trend in commercial real estate. In recent years, national and local coworking organizations have spread throughout the urban core and certain suburban pockets of Atlanta. By our count, there are at least eleven different organizations that occupy over 800,000 square feet of space in metro Atlanta. Unlike incubator spaces such as Switchyards and Atlanta Technology Village, which are geared towards start-up companies, coworking reaches a broader audience and is an attractive option for small satellite offices. WeWork, which entered the local market in 2015, is leading the charge with 215,000 square feet of space leased solely in Buckhead and Midtown. It will be interesting to monitor whether

the coworking movement is a short-term trend or a sustainable business model.

### LEADING COWORKING OPERATORS IN METRO ATLANTA



Note: The number in each bar represents the number of existing locations in metro Atlanta.

To monitor key economic and housing indicators, please visit our website. As always, your thoughts and feedback are encouraged.

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