

ATLANTA OFFICE MARKET

FIRST QUARTER 2016

Class A rents rose 10% in past 12 months to new peak

Demand slips in Q1 due to declines in the Class B sector

ECONOMY

Job growth continues at a moderate pace

Atlanta enjoyed robust economic growth in 2015, and another healthy performance is projected for 2016 by most economists. Dr. Rajeev Dhawan of Georgia State University's Economic Forecasting Center predicted in February that Atlanta will continue to see declining unemployment with moderate job growth through 2018. Atlanta is projected to add about 53,000 jobs a year for the next few years, with an average of 18% of those jobs considered "premium" or high-paying. Atlanta's job growth in 2015 was largely driven by the professional and business services sector, a strong driver of office employment.

While office development remains constrained, the construction industry has plenty of projects to keep employment high in that sector. Large projects such as the Braves and Falcons stadiums and the Savannah port expansion are taking up much of the skilled workforce, while apartment, hotel, and new headquarters projects across the region will keep construction jobs and equipment occupied for several years. Atlanta also saw a 12.5% increase in housing permits in 2015, with an increase of 5.3% projected in 2016.

Dhawan said that in spite of global headwinds, the domestic economy remains healthy, with local job growth seen in sectors like trade, hospitality, education, and healthcare. Manufacturing growth slowed in 2015, as the strong dollar put upward pressure on international purchases. Still, unlike other parts of the country, lower oil prices are proving to be an advantage for metro Atlanta. "Through much of the forecast period," according to Dhawan's report, "global malaise will hinder job advancement, but expect domestic demand to give it all she's got."

Moody's Analytics forecasts job gains in metro Atlanta to outpace the nationwide average over the next several years due to the city's strong demographics, low cost of doing business, and diverse range of industries.

DEVELOPMENT

New construction begins to gain momentum

The past five years saw historically low levels of new development, even as demand gained strength. As of Q1 2016, Atlanta has nearly 1.3 million SF of new office space under construction, with all of that space projected for completion in 2017. Towers under construction include Three Alliance Center, the first new tower in Buckhead in years; Riverwood 200, located near the new Braves stadium; and 4004 Perimeter Summit, the first new spec project in Central Perimeter in more than a decade. Other office projects are likely to launch in the coming months, but the level of new space coming to market for lease in Atlanta is still well below recent demand trends.

QUARTERLY SNAPSHOT

VACANCY



16.1%

Up slightly from Q4's record low; Class A vacancy is 14.4%

ABSORPTION



-42,725 SF

Healthy demand in Class A canceled out by Class B losses

RENTAL RATE



\$22.84 PSF

Rates up in every major submarket

UNDER CONSTRUCTION



1.3 Million SF

Construction levels beginning to rise

JOB GROWTH

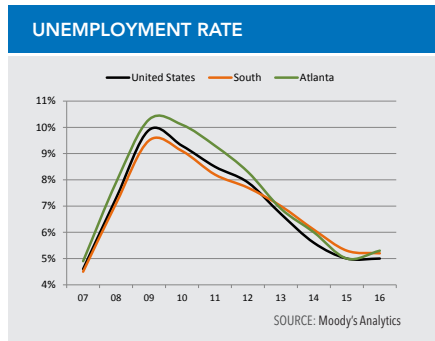


3.0%

Projected Atlanta MSA job growth in 2016

ATLANTA OFFICE MARKET

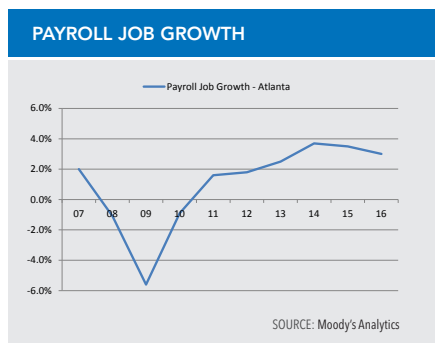
FIRST QUARTER 2016



VACANCY

Vacancy rises slightly from an eight-year low

As of year-end 2015, Atlanta's vacancy rate had declined each quarter for more than four years and market vacancy declined to 15.9%, its lowest rate in eight years. In Q1, overall vacancy rose slightly to 16.1%, while Atlanta's Class A vacancy rate rose to 14.4% from 14.2% at year's end. These rates are still among the lowest seen in the past decade. Among Atlanta's major submarkets, overall rates are lowest in Buckhead (11.3%) and North Fulton (13.5%), while the lowest Class A vacancy rates are found in Central Perimeter and Buckhead (11.8% for both), as well as North Fulton (12.7%). Buckhead remains the only Atlanta submarket in which Class B vacancy is below 10%.

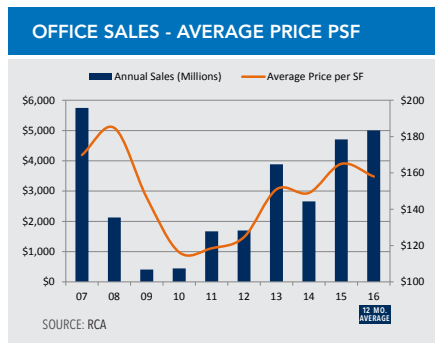


The level of new space coming to market for lease in Atlanta is well below recent demand trends

DEMAND

Absorption slows due to drop in demand for suburban Class B space

Net absorption was strong in 2015, with the Class A sector driving demand in both urban and suburban markets. In Q1, the Class A sector's net absorption of 262,000 SF was offset by losses in the Class B sector of more than 300,000 SF, resulting in essentially flat demand across metro Atlanta for the first quarter in several years. This may simply be a pause in activity following 2015's record year, when for the first time in a decade Atlanta enjoyed four consecutive quarters of net absorption approaching 1.0 million SF each. Q1 absorption was highest in Midtown and North Fulton, with strong Class A demand in those two markets as well as the Northwest.



RENTAL RATES

Record rent growth continues across Atlanta

Asking rents increased in every major submarket during 2015 and this continued in Q1 2016. Overall asking rents rose to \$22.84 PSF in Q1, with Class A rents rising to a record average of \$26.35 PSF. Class A rates rose by 10% in the 12 months ending in Q1, while Class B rents rose by nearly 7% during the same period. Rates remain highest in Class A properties in Buckhead, where asking rents rose by 8% in the past year to a record-high average of \$33.71 PSF. Class A rates in Midtown and Central Perimeter average \$30.00 and \$28.00 PSF, respectively; each of those is up about \$1.00 PSF from the previous quarter. Class A rates in Buckhead, Central Perimeter, Midtown, and North Fulton are all achieving new record highs each quarter.

Transaction Highlights

Notable Office Lease Deals

Completed between 1/1/16 and 3/31/16

TENANT	PROPERTY NAME	LEASE (SF)	COMMENTS
Wellstar	Parkway Center	112,924	New Lease
BakerHostetler	The Proscenium	67,960	New Lease
Microsoft	Sanctuary Park	47,420	Renewal

Notable Office Building Sales

Completed between 1/1/16 and 3/31/16

PROPERTY NAME	RBA	PRICE	COMMENTS
Bank of America Plaza	1,312,980	\$220 million (\$168 PSF)	Acquired by Shorenstein Properties
Barrett Lakes	327,000	\$51 million (\$155 PSF)	Acquired by Adventus
512-590 Means Street	144,000	\$27 million (\$187 PSF)	Acquired by Stockbridge



INVESTMENT

Pricing and volume rose in previous 12 months

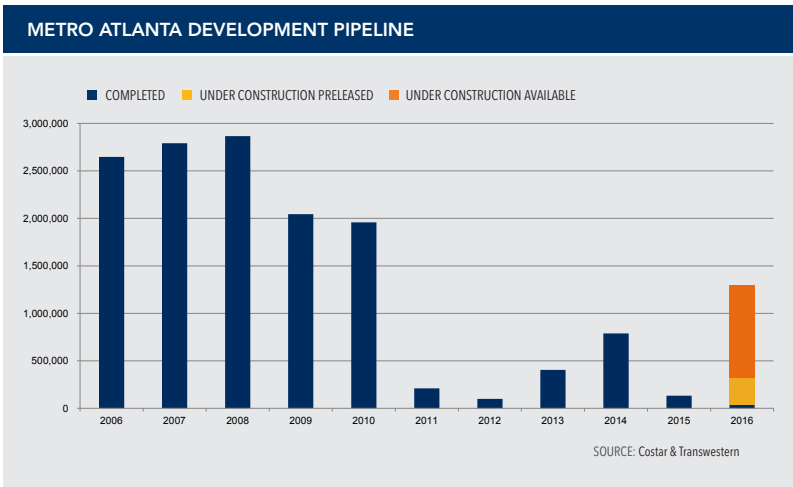
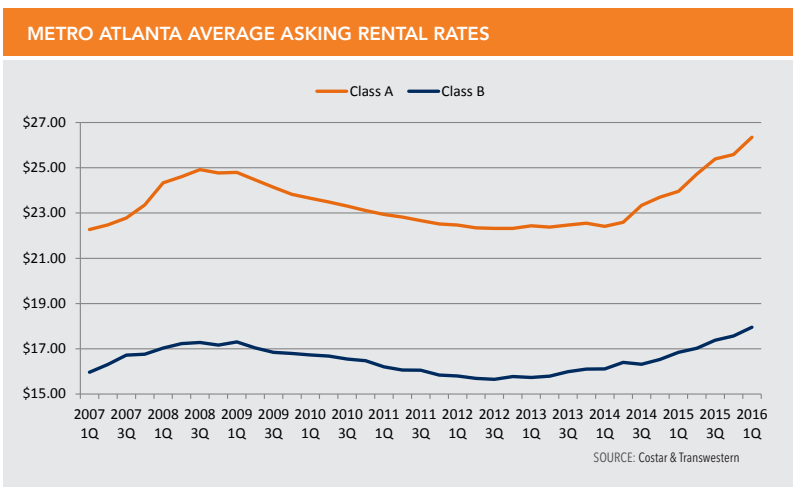
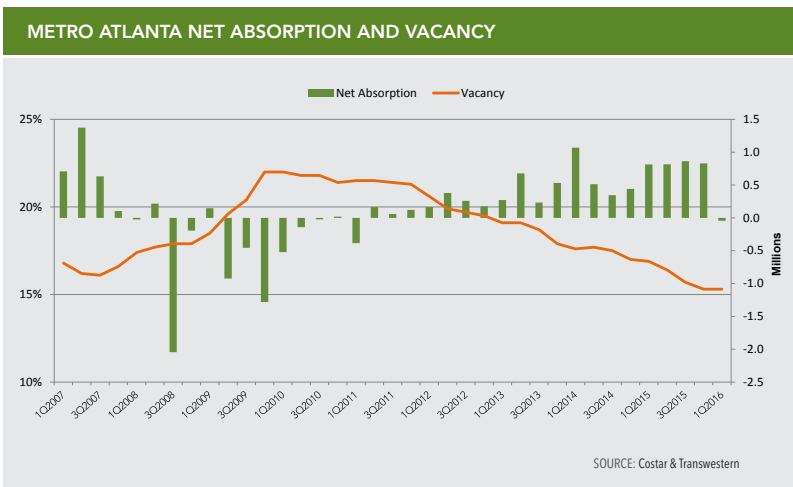
In 2015, investment sales volume was \$4.71 billion, up significantly from the previous year and the highest level of sales since 2007. The number of properties traded rose by 24% from 2014, while the average price per square foot rose by 11% from the previous year to \$165 PSF. In the 12 months ending Q1, volume rose to \$5.0 billion, while the number of properties traded stayed consistent into the new year. Of the ten highest prices per foot achieved for office properties in Atlanta, seven have taken place since the recovery began. Based on data from Real Capital Analytics and our own market intelligence, the market should continue to see strong performance from quality assets through 2016.

Class A asking rates in Buckhead, Central Perimeter, Midtown, and North Fulton are all achieving new record highs each quarter

FORECAST

Rents will continue to rise, demand will accelerate throughout 2016

Over the past two years, the Atlanta office market experienced tenant demand that far outstripped the amount of new product being added. Atlanta's office market absorbed 3.6 million SF of space in 2015 alone with essentially no new completions, resulting in sharp declines in vacancy and near-record rent growth. Q1 saw this historic level of demand slow temporarily, even as rent growth continued and new projects broke ground – reflecting investor and owner confidence in the market. While development is beginning to increase in some submarkets in response to pent-up demand, available office space is expected to continue to tighten throughout 2016 and 2017.



ATLANTA OFFICE MARKET

FIRST QUARTER 2016

Metro Atlanta Office Market Indicators

SUBMARKET	INVENTORY (SF)	DIRECT SF VACANT	DIRECT VACANCY RATE	SUBLEASE SF	TOTAL VACANT SF	OVERALL VACANCY RATE	CURRENT NET ABSORPTION	UNDER CONSTRUCTION	AVE. QUOTED RENT PSF
URBAN SUBMARKETS									
Buckhead Class A	15,638,078	1,743,239	11.1%	98,277	1,841,516	11.8%	24,747	501,678	\$33.71
Buckhead Class B	3,914,778	365,008	9.3%	5,559	370,567	9.5%	5,557	-	\$23.87
Buckhead Overall	19,552,856	2,108,247	10.8%	103,836	2,212,083	11.3%	30,304	501,678	\$32.24
Downtown Class A	12,799,894	2,798,269	21.9%	33,442	2,831,711	22.1%	-178,288	-	\$23.14
Downtown Class B	6,014,938	845,553	14.1%	4,810	850,363	14.1%	-14,195	-	\$18.74
Downtown Overall	18,814,832	3,643,822	19.4%	38,252	3,682,074	19.6%	-192,483	-	\$22.45
Midtown Class A	14,772,630	1,931,591	13.1%	94,928	2,026,519	13.7%	207,831	-	\$30.09
Midtown Class B	3,229,915	652,820	20.2%	0	652,820	20.2%	46,230	-	\$23.44
Midtown Overall	18,002,545	2,584,411	14.4%	94,928	2,679,339	14.9%	254,061	-	\$27.64
Urban Submarkets Total									
Urban Class A	43,210,602	6,473,099	15.0%	226,647	6,699,746	15.5%	54,290	501,678	\$29.34
Urban Class B	13,159,631	1,863,381	14.2%	10,369	1,873,750	14.2%	37,592	-	\$21.42
Urban Overall	56,370,233	8,336,480	14.8%	237,016	8,573,496	15.2%	91,882	501,678	\$27.49
SUBURBAN SUBMARKETS									
Airport South Class A	1,066,022	160,832	15.1%	10,304	171,136	16.1%	21,682	-	\$19.94
Airport South Class B	5,864,496	716,525	12.2%	0	716,525	12.2%	-106,483	-	\$16.37
Airport South Overall	6,930,518	877,357	12.7%	10,304	887,661	12.8%	-84,801	-	\$17.14
Central Perimeter Class A	17,331,822	1,830,306	10.6%	214,283	2,044,589	11.8%	-100,919	355,000	\$28.00
Central Perimeter Class B	5,487,924	1,340,913	24.4%	92,751	1,433,664	26.1%	64,283	-	\$20.65
Central Perimeter Overall	22,819,746	3,171,219	13.9%	307,034	3,478,253	15.2%	-36,636	355,000	\$25.44
North Fulton Class A	12,734,269	1,492,271	11.7%	124,489	1,616,760	12.7%	88,994	-	\$24.01
North Fulton Class B	7,897,158	1,149,291	14.6%	23,379	1,172,670	14.8%	14,587	-	\$17.99
North Fulton Overall	20,631,427	2,641,562	12.8%	147,868	2,789,430	13.5%	103,581	-	\$21.90
Northeast Class A	6,201,673	1,175,263	19.0%	66,853	1,242,116	20.0%	93,207	-	\$20.42
Northeast Class B	10,543,869	2,862,878	27.2%	86,000	2,948,878	28.0%	-252,987	-	\$14.93
Northeast Overall	16,745,542	4,038,141	24.1%	152,853	4,190,994	25.0%	-159,780	-	\$16.97
Northlake Class A	3,276,999	231,290	7.1%	0	231,290	7.1%	-5,613	-	\$22.56
Northlake Class B	8,076,951	1,515,802	18.8%	130,248	1,646,050	20.4%	14,906	-	\$16.91
Northlake Overall	11,353,950	1,747,092	15.4%	130,248	1,877,340	16.5%	9,293	-	\$17.69
Northwest Class A	14,418,674	1,905,521	13.2%	191,943	2,097,464	14.5%	110,466	400,000	\$25.55
Northwest Class B	10,555,198	1,879,857	17.8%	17,668	1,897,525	18.0%	-76,083	-	\$17.90
Northwest Overall	24,973,872	3,785,378	15.2%	209,611	3,994,989	16.0%	34,383	400,000	\$22.14
West Atlanta Class A	0	0	0.0%	0	0	0.0%	0	-	\$0.00
West Atlanta Class B	844,133	36,549	4.3%	0	36,549	4.3%	-647	-	\$15.37
West Atlanta Overall	844,133	36,549	4.3%	0	36,549	4.3%	-647	-	\$15.37
Suburban Submarkets Total									
Suburban Class A	55,029,459	6,795,483	12.3%	607,872	7,403,355	13.5%	207,817	755,000	\$25.10
Suburban Class B	49,269,729	9,501,815	19.3%	350,046	9,851,861	20.0%	-342,424	-	\$16.95
Suburban Overall	104,299,188	16,297,298	15.6%	957,918	17,255,216	16.5%	-134,607	755,000	\$21.25
ATLANTA TOTAL									
Overall Class A	98,240,061	13,268,582	13.5%	834,519	14,103,101	14.4%	262,107	1,256,678	\$26.35
Overall Class B	62,429,360	11,365,196	18.2%	360,415	11,725,611	18.8%	-304,832	-	\$17.95
Overall Class A & B	160,669,421	24,633,778	15.3%	1,194,934	25,828,712	16.1%	-42,725	1,256,678	\$22.84

CONTACT

Keith Pierce
Senior Research Manager, Southeast
404.842.6534
keith.pierce@transwestern.com

METHODOLOGY

The information in this report is the result of a compilation of information on key for lease office properties located in the Atlanta metropolitan area. We compile our quarterly statistics based on a defined inventory of Class A and B multi-tenant office buildings of 20,000 SF or more in size and exclude all medical, government, owner occupied and office condo buildings.



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3340 Peachtree Road NE, Suite 1000
Atlanta, GA 30326

T 404.842.6600 F 404.842.6517
www.transwestern.com/atlanta