

ATLANTA OFFICE MARKET

SECOND QUARTER 2016

Construction picks up steam in Q2 as demand for space rises

Class A rents rose 8% over the past 12 months to a new peak

ECONOMY

Moderate job growth expected through 2016 and into next year

Atlanta enjoyed robust economic growth in 2015, and 2016 is projected by most economists to offer another healthy performance. Dr. Rajeev Dhawan of Georgia State University's Economic Forecasting Center predicted in May that Atlanta job growth will slow its pace slightly in 2016 from 2015's rate, but continue to see declining unemployment with moderate job growth through 2018. Atlanta is projected to add 68,500 jobs in 2016, with an average of 23% 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, and this trend is expected to continue over the next several years.

Global issues impacted corporate hiring at a national level in the first quarter of 2016, but Dhawan reports that construction in metro Atlanta continues at a strong pace. Projects are underway in suburban Atlanta near Dunwoody and Sandy Springs, and near SunTrust Park in Cobb County. Downtown and Buckhead also have seen increases in office and mixed-use development.

A variety of projects in every sector (apartments, hotels, office, stadiums, warehouses, etc.) will keep construction jobs and equipment in demand for the next several years. In addition, Atlanta saw a 46% increase in housing permits in the first quarter of 2016, driven by large increases in multifamily construction in Cobb and Fulton counties.

Moody's Analytics predicts that the Atlanta MSA will outpace the national economy in 2016 with a 4.0% rise in gross metro product. Moody's forecasts that Atlanta's economy "will be a top performer in the South and nationally" in 2016. 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 attracts firms in need of growing room

The past several years have seen historically low levels of new development, even as demand gained strength and the market for office space tightened. As of Q2 2016, Atlanta now has nearly 1.7 million SF of new speculative office space under construction, in addition to nearly a million SF of build-to-suit development for companies like NCR, Comcast, and HD Supply. Spec construction has returned in Buckhead, Central Perimeter, North Fulton, and in the Northwest near the new Braves stadium. Approximately 27% of the spec space under construction has already been pre-leased. While other office projects may launch in the coming months, the level of new space coming to market for lease in Atlanta remains well below recent demand trends.

QUARTERLY SNAPSHOT

VACANCY



15.9%

Down from Q1 to a nine-year low; Class A vacancy is 14.4%

ABSORPTION



444,358 SF

A return to healthy demand following a pause in Q1

RENTAL RATE



\$23.10 PSF

Rates continue to rise in every major submarket

UNDER CONSTRUCTION



1.7 Million SF

Construction levels rising for spec projects

JOB GROWTH



3.1%

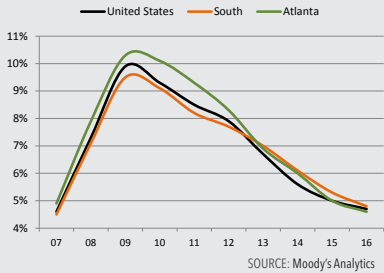
Projected Atlanta MSA job growth in 2016

ATLANTA OFFICE MARKET

SECOND QUARTER 2016



UNEMPLOYMENT RATE

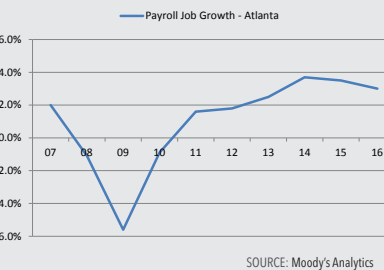


VACANCY

Vacancy declines to a nine-year low

Through the end of 2015, Atlanta's vacancy rate had declined every quarter for more than four years as a result of healthy absorption and limited development activity, and market vacancy declined to its lowest rate in eight years. Following a brief pause in Q1, vacancy continued its downward trend in Q2, reaching 15.9% at mid-year. Atlanta's Class A vacancy rate declined to 14.4%, which is its lowest level in a decade, while the Class B vacancy rate of 18.2% is the lowest since 2009. Among Atlanta's major submarkets, overall rates are lowest in Buckhead (11.4%) and North Fulton (13.1%), while the lowest Class A vacancy rates are found in Central Perimeter, Buckhead, and North Fulton (12.3% for all three). Buckhead remains the only Atlanta submarket in which Class B vacancy is below 10%, having reached a new low of 7.1%.

PAYROLL JOB GROWTH



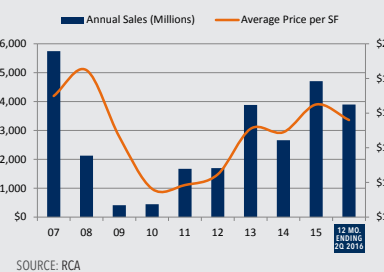
Atlanta now has 1.7 million SF of new speculative office space under construction, in addition to nearly a million SF of build-to-suit development

DEMAND

Moderate absorption in the first half of 2016

Net absorption was strong throughout 2015, with the Class A sector driving demand in both urban and suburban markets. In Q1, healthy Class A demand was offset by losses in the Class B sector, resulting in a pause in demand for the first time in several years. Q2 brought a return to moderate demand, with nearly 445,000 SF of net absorption in the quarter; nearly two-thirds of this was in the Class A sector, which is consistent with the market's makeup. Absorption was highest in the Northwest and Midtown, both quarterly and year-to-date, with strong Class A demand in those two markets as well as the Northeast.

OFFICE SALES - AVERAGE PRICE PSF



RENTAL RATES

Record rents seen across metro Atlanta

Asking rents increased in every major submarket in the first half of 2016 in both the Class A and B sectors. Overall asking rents rose to \$23.10 PSF in Q2, with Class A rents rising to a record average of \$26.68 PSF. Class A rates rose by 8% in the 12 months ending in Q2, while Class B rents rose by nearly 6% 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 current average of \$33.39 PSF. Class A rates in Midtown and Central Perimeter average approximately \$31.00 and \$28.00 PSF, respectively, while Class A rates in North Fulton have reached \$24.00; each of those averages represents a new record high for Class A space in those submarkets.

Transaction Highlights

Notable Office Lease Deals

Completed between 4/1/16 and 6/30/16

TENANT	PROPERTY NAME	LEASE (SF)	COMMENTS
Anthem Health	Three Glenlake	101,412	New Lease
Equifax	One Atlantic Center	100,000	New Lease
Fitzgerald & Co.	Stockyards	46,000	New Lease

Notable Office Building Sales

Completed between 4/1/16 and 6/30/16

PROPERTY NAME	RBA	PRICE	COMMENTS
Riveredge Summit	457,131	\$80.7 million (\$177 PSF)	Acquired by Ares Capital
Huntcrest	393,189	\$61.2 million (\$155 PSF)	Acquired by TerraCap
Brookside One & Two	266,797	\$42.5 million (\$159 PSF)	Acquired by Equus



INVESTMENT

Pricing and volume hit a plateau in Q2

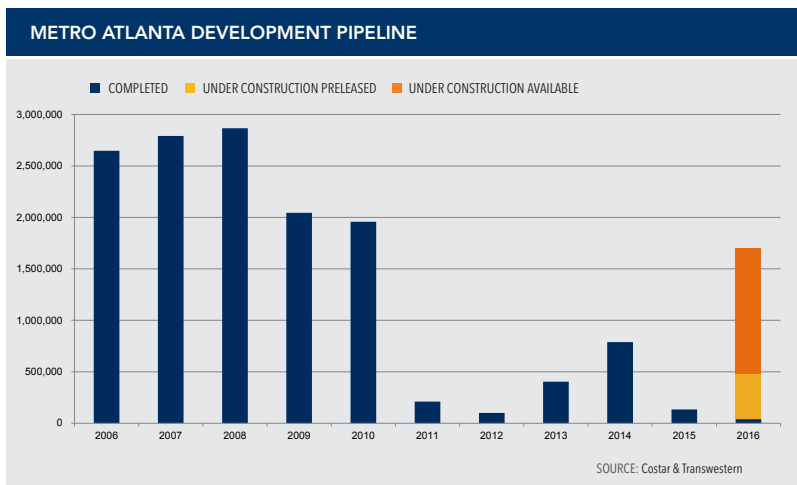
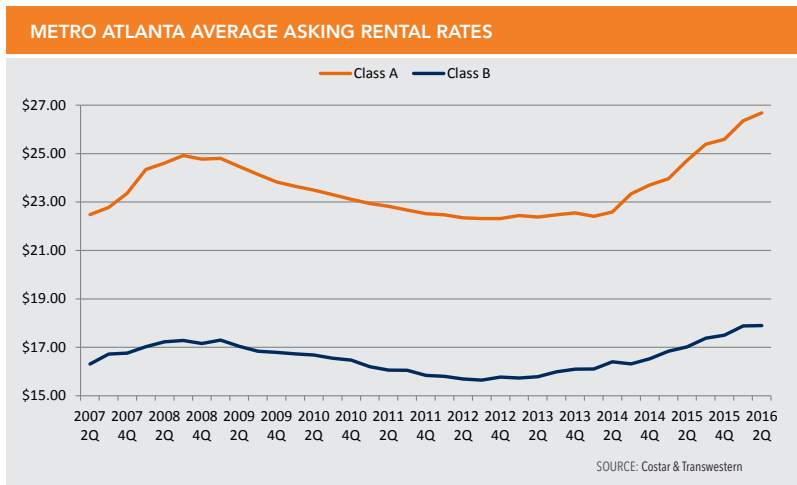
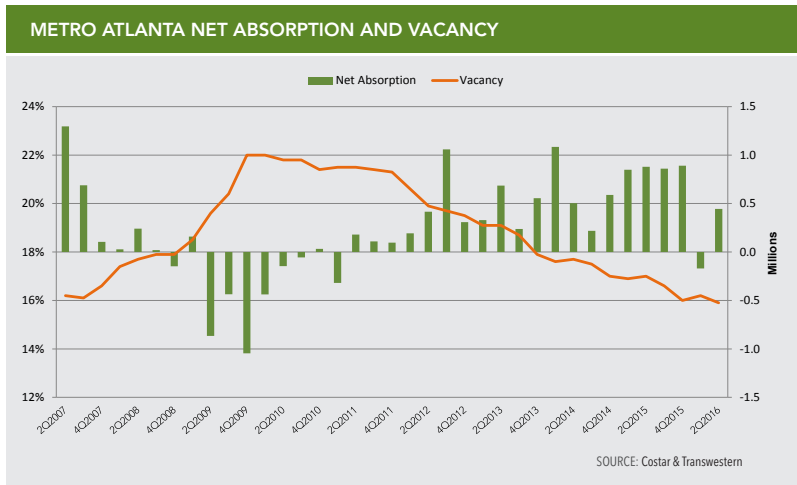
In 2015, investment sales volume was \$4.71 billion, up significantly from the previous year and the highest level of sales since 2007. The number of properties traded rose by 24% from 2014, while the average price per square foot rose by 11% from the previous year to \$165 PSF. In the 12 months ending Q2, volume dipped to \$3.9 billion, while average price per square foot declined slightly from the previous period. Still, 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 the remainder of 2016.

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

FORECAST

Vacancy will continue to decline as rents rise to new heights

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. The first half of 2016 has seen more moderate levels of demand, along with continuing rent growth and an expanding construction pipeline – reflecting investor and owner confidence in the market. While most major submarkets have at least one major new development underway, available office space is expected to continue to tighten throughout 2016 and 2017.



ATLANTA OFFICE MARKET

SECOND 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	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVE. QUOTED RENT PSF
URBAN SUBMARKETS										
Buckhead Class A	16,141,081	1,903,692	11.8%	81,235	1,984,927	12.3%	-51,265	-17,954	510,000	\$33.39
Buckhead Class B	3,461,292	237,329	6.9%	8,408	245,737	7.1%	24,631	48,265	-	\$24.54
Buckhead Overall	19,602,373	2,141,021	10.9%	89,643	2,230,664	11.4%	-26,634	30,311	510,000	\$32.43
Downtown										
Downtown Class A	12,799,894	2,760,469	21.6%	24,065	2,784,534	21.8%	-2,565	-170,613	-	\$23.52
Downtown Class B	6,014,938	832,246	13.8%	4,810	837,056	13.9%	12,307	-1,888	-	\$18.57
Downtown Overall	18,814,832	3,592,715	19.1%	28,875	3,621,590	19.2%	9,742	-172,501	-	\$22.80
Midtown										
Midtown Class A	14,707,034	1,859,357	12.6%	92,180	1,951,537	13.3%	94,965	310,264	-	\$30.92
Midtown Class B	3,320,305	615,709	18.5%	3,791	619,500	18.7%	23,481	69,711	-	\$23.40
Midtown Overall	18,027,339	2,475,066	13.7%	95,971	2,571,037	14.3%	118,446	379,975	-	\$28.41
Urban Submarkets Total										
Urban Class A	43,648,009	6,523,518	14.9%	197,480	6,720,998	15.4%	41,135	121,697	510,000	\$29.66
Urban Class B	12,796,535	1,685,284	13.2%	17,009	1,702,293	13.3%	60,419	116,088	-	\$21.44
Urban Overall	56,444,544	8,208,802	14.5%	214,489	8,423,291	14.9%	101,554	237,785	510,000	\$27.80
SUBURBAN SUBMARKETS										
Central Perimeter Class A	17,355,320	1,908,190	11.0%	221,908	2,130,098	12.3%	-70,374	-202,103	355,000	\$28.16
Central Perimeter Class B	5,487,924	1,285,344	23.4%	44,443	1,329,787	24.2%	84,227	150,603	-	\$20.93
Central Perimeter Overall	22,843,244	3,193,534	14.0%	266,351	3,459,885	15.1%	13,853	-51,500	355,000	\$25.77
North Fulton										
North Fulton Class A	12,613,575	1,452,059	11.5%	93,111	1,545,170	12.3%	35,966	12,203	228,182	\$24.05
North Fulton Class B	7,810,451	1,113,389	14.3%	12,142	1,125,531	14.4%	12,382	35,930	-	\$18.07
North Fulton Overall	20,424,026	2,565,448	12.6%	105,253	2,670,701	13.1%	48,348	48,133	228,182	\$22.03
Northeast										
Northeast Class A	6,201,673	1,114,207	18.0%	85,726	1,199,933	19.3%	82,744	130,574	-	\$20.71
Northeast Class B	10,604,442	2,830,851	26.7%	141,047	2,971,898	28.0%	8,451	-244,536	-	\$15.13
Northeast Overall	16,806,115	3,945,058	23.5%	226,773	4,171,831	24.8%	91,195	-113,962	-	\$17.02
Northlake										
Northlake Class A	3,276,996	232,485	7.1%	150,000	382,485	11.7%	-1,195	-20,248	-	\$22.75
Northlake Class B	7,945,163	1,505,619	19.0%	114,104	1,619,723	20.4%	-2,990	36,712	-	\$16.88
Northlake Overall	11,222,159	1,738,104	15.5%	264,104	2,002,208	17.8%	-4,185	16,464	-	\$17.67
Northwest										
Northwest Class A	14,385,556	1,802,087	12.5%	222,852	2,024,939	14.1%	182,588	233,498	572,906	\$26.17
Northwest Class B	10,512,758	1,824,631	17.4%	17,307	1,841,938	17.5%	31,277	-2,660	-	\$17.83
Northwest Overall	24,898,314	3,626,718	14.6%	240,159	3,866,877	15.5%	213,865	230,838	572,906	\$22.52
South Atlanta										
South Atlanta Class A	1,066,022	173,344	16.3%	0	173,344	16.3%	-7,724	10,077	-	\$19.81
South Atlanta Class B	5,824,202	665,113	11.4%	0	665,113	11.4%	-17,162	-107,579	-	\$16.28
South Atlanta Overall	6,890,224	838,457	12.2%	0	838,457	12.2%	-24,886	-97,502	-	\$17.11
West Atlanta										
West Atlanta Class A	0	0	0.0%	0	0	0.0%	0	0	-	\$0.00
West Atlanta Class B	908,087	38,500	4.2%	0	38,500	4.2%	4,614	3,967	-	\$14.89
West Atlanta Overall	908,087	38,500	4.2%	0	38,500	4.2%	4,614	3,967	-	\$14.89
Suburban Submarkets Total										
Suburban Class A	54,899,142	6,682,372	12.2%	773,597	7,455,969	13.6%	222,005	164,001	1,156,088	\$25.37
Suburban Class B	49,093,027	9,263,447	18.9%	329,043	9,592,490	19.5%	120,799	-127,563	-	\$16.98
Suburban Overall	103,992,169	15,945,819	15.3%	1,102,640	17,048,459	16.4%	342,804	36,438	1,156,088	\$21.41
ATLANTA TOTAL										
Overall Class A	98,547,151	13,205,890	13.4%	971,077	14,176,967	14.4%	263,140	285,698	1,666,088	\$26.68
Overall Class B	61,889,562	10,948,731	17.7%	346,052	11,294,783	18.2%	181,218	-11,475	-	\$17.90
Overall Class A & B	160,436,713	24,154,621	15.1%	1,317,129	25,471,750	15.9%	444,358	274,223	1,666,088	\$23.10

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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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