AVISON YOUNG

FIRST QUARTER 2016

Atlanta Office Market Report

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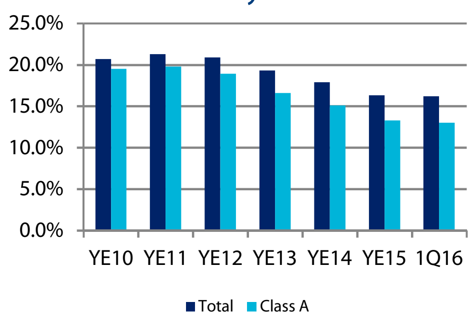
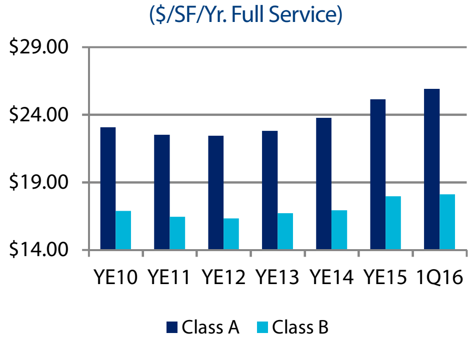
MARKET FACTS

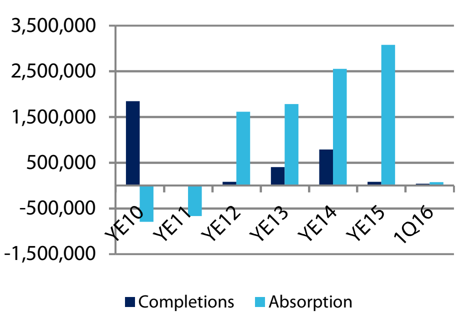
Vacancy Rates



Asking Rental Rates
($/SF/Yr. Full Service)



Net Absorption vs. Completions



Market Takeaway

After a blockbuster performance in 2015 when net absorption surged to more than 3 msf, the Atlanta office market took a breather in early 2016 with net absorption positive but modest at 68,719 sf. Vacancy ended the first quarter at 16.2%, down by 10 basis points (bps) since the end of 2015 and by 120 bps year-over-year. Activity was strong in the Class A market, with tenants absorbing 369,410 sf. The activity was largely offset, however, by negative absorption in the Class B market. Class B vacancy rose by 40 bps to 23.2% in the first quarter but is still 110 bps lower than it was one year earlier. The largest new vacancy of the quarter occurred in the Norcross/Peachtree Corners submarket, where Fiserv vacated another 220,674 sf as it completed its expansion and relocation to Cobalt Center in Alpharetta. In the Airport/South Atlanta submarket, the FAA vacated a 97,969-sf building at Camp Creek Business Center. Multiple tenant moves led to a combined 184,813 sf of negative absorption in Downtown Atlanta, which maintains Atlanta's highest urban vacancy rate at 21.9%.

Class A vacancy ended the first quarter at 13.0%, down by 130 bps year-over-year and its lowest level since 2001. In the largest move-in of the quarter, Kaiser Permanente took occupancy of 157,000 sf at Pershing Point Plaza in Midtown. WellStar leased 143,132 sf at Two Parkway Center in the Cumberland/Galleria submarket, General Motors moved into 86,598 sf at 3585 Engineering Drive in the Norcross/Peachtree Corners submarket, HD Supply expanded into 56,152 sf at Cumberland Center II in the Cumberland/Galleria submarket, and CHEP USA moved into 76,000 sf at Windward Oaks II in the North Fulton/Forsyth submarket.

Asking rental rates continued on a steep upward trajectory in the first quarter. The overall average rate stood at $22.61, up by 7.3% since the first quarter of 2015. The average Class A rate rose to $25.90, an increase of 8% year-over-year and a record high for the region. With Class A availability limited and rental rates rising at a steady clip, development activity has begun to surge. Of the 2.2 msf currently underway, 1.3 msf broke ground in the first quarter. The largest project is a 485,000-sf build-to-suit headquarters facility for NCR in Midtown. At SunTrust Park in the Cumberland/Galleria submarket, soon to be the new home of the Atlanta Braves, a 260,000-sf tower broke ground and is fully leased to Comcast. In the Central Perimeter submarket, GE Asset Management broke ground on 355,000 sf of speculative space at 4004 Perimeter Summit. The first building at Armour Yards was the only completion of the quarter, delivering 40,118 sf of loft office space to the Buckhead submarket. Two more buildings totaling 95,589 sf are scheduled for completion at the project by the end of the year.

Vacancy should continue its downward trend through the remainder of 2016, although limited construction deliveries could put a damper on absorption. The next large-scale project isn't scheduled for completion until early 2017 when Tishman Speyer's Three Alliance will add 501,678 sf to the Buckhead submarket. While no space has been reported as preleased, that is likely to change before the building is completed. The highly active Buckhead submarket posts a vacancy rate of just 10.9%, and Atlanta's job market continues to make gains. Unemployment in the greater Atlanta region fell to 5.2% in March, down from 5.7% one year earlier. The market added 70,231 jobs during that time.

Market Indicators | First Quarter 2016

By Submarket	Total SF	Vacant SF	Vacant %	NET ABSORPTION 1Q16	NET ABSORPTION YTD	SF Under Construction	ASKING RENT Class A	ASKING RENT Class B
Buckhead	19,438,917	2,114,120	10.9%	32,698	32,698	597,267	$32.15	$23.85
Downtown	16,536,357	3,625,158	21.9%	(184,813)	(184,813)	-	$23.14	$19.44
Midtown	17,552,649	2,311,554	13.2%	251,705	251,705	540,115	$30.18	$23.47
Urban Total	**53,527,923**	**8,050,832**	**15.0%**	**99,590**	**99,590**	**1,137,382**	**$27.75**	**$22.47**
Airport/South Atlanta	4,112,090	1,071,216	26.1%	(66,305)	(66,305)	-	$19.82	$15.28
Central Perimeter	23,030,037	3,342,739	14.5%	71,301	71,301	355,000	$28.22	$20.68
Cumberland/Galleria	19,996,921	3,091,080	15.5%	154,887	154,887	660,000	$25.20	$17.90
Decatur/Stone Mountain	1,410,942	83,209	5.9%	10,210	10,210	-	$25.52	$19.39
Duluth/Suwanee/Buford	7,138,269	1,567,850	22.0%	(35,240)	(35,240)	-	$20.18	$15.54
I-20 East/Conyers	532,558	153,154	28.8%	(2,089)	(2,089)	-	-	$17.99
I-20 West/Douglasville	551,951	46,349	8.4%	(647)	(647)	-	-	$15.38
Norcross/Peachtree Corners	6,386,332	2,036,505	31.9%	(129,826)	(129,826)	-	$20.60	$15.12
North Fulton/Forsyth	18,922,420	2,467,293	13.0%	(11,510)	(11,510)	-	$24.01	$17.85
Northeast Atlanta	7,916,813	1,596,156	20.2%	(49,926)	(49,926)	-	$21.06	$17.14
Northwest Atlanta	3,011,995	226,170	7.5%	28,274	28,274	-	$23.44	$18.65
Suburban Total	**93,010,328**	**15,681,721**	**16.9%**	**(30,871)**	**(30,871)**	**1,015,000**	**$24.79**	**$17.42**
Totals	**146,538,251**	**23,732,553**	**16.2%**	**68,719**	**68,719**	**2,152,382**	**$25.90**	**$18.11**

By Class							Asking Rent	Sublease SF
Class A	98,131,153	12,775,603	13.0%	369,410	369,410	2,152,382	$25.90	3,386,442
Class B	44,299,593	10,286,891	23.2%	(325,069)	(325,069)	-	$18.11	806,229
Class C	4,107,505	670,059	16.3%	24,378	24,378	-	$14.05	2,930
Totals	**146,538,251**	**23,732,553**	**16.2%**	**68,719**	**68,719**	**2,152,382**	**$22.61**	**4,195,601**

Notable Lease Transactions

Tenant	Property	Type	SF	Submarket
HD Supply	Encore Center	Prelease	222,000	Cumberland/Galleria
First Data Corp.	Glenridge Highlands Two	Renewal	195,000	Central Perimeter
WellStar	Two Parkway Center	New Lease	143,132	Cumberland/Galleria
Insight Global	Ashford Green	Expansion/Renewal	75,437	Central Perimeter
BakerHostetler	The Proscenium	New Lease	67,960	Midtown
Polsinelli	One Atlantic Center	New Lease	44,696	Midtown
Colgate-Palmolive	Cumberland Center II	New Lease	17,248	Cumberland/Galleria
Zodiac Services*	Gateway Plaza	New Lease	15,573	Airport/South Atlanta

Transaction handled by Avison Young

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