

Atlanta



Market Facts

15.9%

Total market vacancy, down 90 bps year-over-year

13%

Class A vacancy, the lowest level since 2001

3 MSF

SF under construction in the second quarter, 49% of which is preleased

\$26.73 PSF

Average Class A asking rate, up 8% in the last 12 months and a new record high for Atlanta

Market Overview

Following a slow start to the year, activity rebounded in Atlanta's office market during the second quarter with absorption totaling 450,918 sf. Overall vacancy fell to 15.9%, down 90 bps year-over-year. Class A vacancy ended the quarter at 13%, down 80 bps in the last 12 months, and Class B vacancy fell 100 bps during the same period to end the quarter at 22.5%. The strongest net absorption of the quarter occurred in the Cumberland/Galleria submarket, where Lincoln Financial took occupancy of 108,820 sf at Riveredge Summit. Activity was also strong in Midtown, where multiple tenants moved into Ponce City Market.

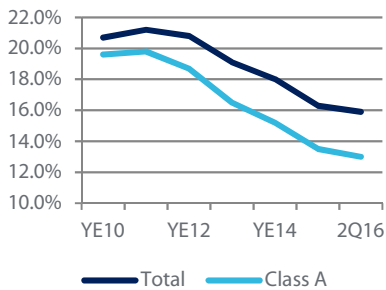
Leasing Activity

Midtown continues to experience some of Atlanta's strongest tenant demand. In the largest transaction of the quarter, Equifax leased 100,000 sf at One Atlantic

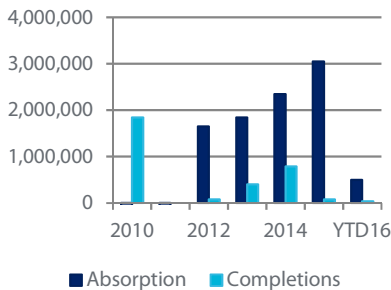
Center after announcing plans to create 150 new jobs in the Atlanta metro. Equifax plans to keep its existing owned office in Alpharetta but will consolidate employees to One Atlantic Center from space it currently leases at 500 Northpark in the Central Perimeter submarket. Elsewhere in Midtown, advertising firm Fitzgerald & Co. preleased 46,000 sf at Stockyards Atlanta, an adaptive re-use project being developed by Federal Capital Partners, and Regus leased 41,824 sf for its new co-working space concept at the recently renovated 715 Peachtree St NE, formerly home to J.C. Penney's regional headquarters. In the North Fulton/Forsyth submarket, Microsoft preleased 43,000 sf at 8000 Avalon, a 224,000-sf building currently being developed by Hines and Cousins Properties. In the Cumberland/Galleria submarket, Aflac leased 46,978 sf for its IT department at Galleria 100.

Nearly one-third of the 3 msf currently under construction is contained in single-tenant buildings for NCR, HD Supply and Comcast.

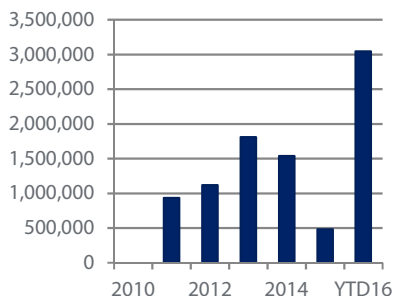
Vacancy Trends



Absorption vs. Completions



SF Under Construction



New Construction

Development activity continued to surge in the second quarter with five projects totaling 650,725 sf breaking ground, bringing year-to-date starts to 1.9 million sf. Of the 3 million sf underway in the second quarter, including speculative projects and three large single-tenant buildings, nearly half of the space has been preleased. Among speculative buildings, totaling 2.1 msf, 26% of the space has been spoken for. The largest pockets of construction are in the Cumberland/Galleria submarket (1.1 msf), Midtown (676,115 sf) and Buckhead (609,505 sf). The largest building to break ground in the second quarter was Encore Center, a 222,000-sf build-to-suit for HD Supply in the Cumberland/Galleria submarket. HD Supply has announced plans to add 500 jobs in the Atlanta metro over next 5 years. Also in the Cumberland/Galleria submarket, TPA Group broke ground on 3400 Overton, a 103,856-sf building that is 65% preleased with Synovus Financial Corp. as its anchor tenant. In Midtown, Federal Capital Partners began work on Stockyards Atlanta, an adaptive re-use project totaling 136,000 sf.

Rental Rates

Market-wide asking rental rates remain on a steep upward trajectory, rising by 7.1% in the last year to end the quarter at \$23.30 psf, a record high for the region. The average Class A asking rate ended the second quarter at \$26.73, up by 8% over the last 12 months, and the average Class B rate rose by 4.4% to \$18.12 in the same period. Buckhead posts the highest average Class A rate at \$33.39, up 7.8% in the last 12 months. Other submarkets with steep increases in Class A rates during

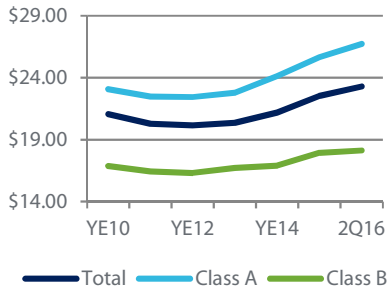
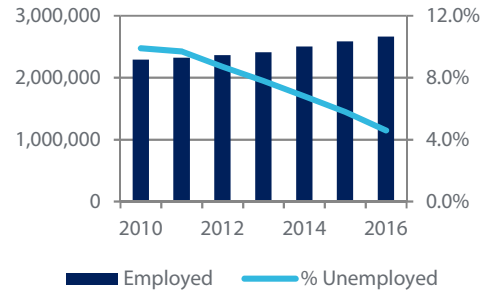
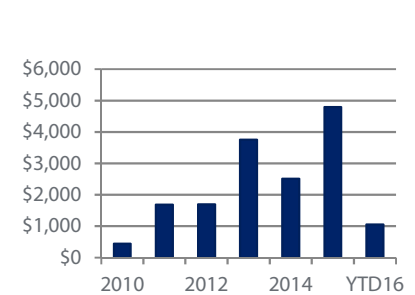
the last year include Midtown, at 11.1%, Downtown at 9.1%, Cumberland/Galleria, at 9%, and Central Perimeter, at 7.2%. Tenants are also faced with surging tenant improvement costs. In addition to the rising cost of materials, contractors are stretched thin following a downturn in which many subcontractors left the industry. While this trend is playing out in markets across the U.S., Atlanta is more heavily impacted due to a wave of large-scale construction projects, including two professional sports stadiums.

Investment Sales

Office sales activity totaled \$360 million in the second quarter, down from \$690 million in the first quarter. The largest transaction was Ares Capital's acquisition of 468,988 sf at Riveredge Summit for \$80.7 million (\$172 psf).

Outlook

Despite a surge in office development activity, the Atlanta market is projected to favor landlords well into 2017. Nearly half of the space underway has already been preleased, and just 255,866 sf is scheduled for delivery in 2016. Job growth continues to be strong in Atlanta. In the 12 months ending May 2016, the metro area added 76,600 jobs for a growth rate of 3%, according to the Bureau of Labor Statistics. Unemployment fell from 5.8% to 4.6% during this period. The region continues to have success with corporate recruiting, most recently being chosen by General Electric for its North American Information Technology headquarters, which will ultimately bring more than 400 jobs to the region. The company is reportedly looking at office sites in Midtown, which has emerged as a hub for technology companies.

Average Asking Rental Rate
(psf/year/full service)Metro Atlanta Employment
(May of each year)Office Investment Sales
(in millions)

Notable Lease Transactions

Tenant	Property	Type	Submarket	SF
Equifax	One Atlantic Center	New Lease	Midtown	100,000
Aflac	Galleria 100	New Lease	Cumberland/Galleria	46,978
Fitzgerald & Co.	Stockyards Atlanta	Prelease	Midtown	46,000
Microsoft	8000 Avalon	Prelease	North Fulton/Forsyth	43,000
Regus	715 Peachtree St NE	New Lease	Midtown	41,824
TelX	250 Williams St NW	New Lease	Downtown	37,390
Amdocs	Northwinds VI	Renewal/Expansion	North Fulton/Forsyth	37,000
Southeast Mortgage	Duluth Office Center South	New Lease	Duluth/Suwanee/Buford	29,368
HNTV	101 Peachtree Tower	New Lease	Downtown	25,470

Notable Sale Transactions

Property	Submarket	Buyer	Total SF	Sale Price	Price/SF
Riveredge Summit	Cumberland/Galleria	Ares Capital	468,988	\$80,700,000	\$172
1000 Parkwood	Cumberland/Galleria	Adventus Real Estate Partners	212,705	\$38,900,000	\$183
Brookside I & II	North Fulton/Forsyth	Equus Capital Partners	266,797	\$42,500,000	\$159
Huntcrest I & II	Duluth/Suwanee/Buford	Terracap Management Corporation	206,000	\$33,926,694	\$165

Significant Construction Projects

Property	Submarket	Projected Completion	Total SF	% Preleased	Asking Rate PSF
Three Alliance	Buckhead	First Quarter 2017	506,647	0%	\$31.00 - \$36.00 NNN
NCR Headquarters*	Midtown	First Quarter 2018	485,000	100%	N/A
4004 Perimeter Summit	Central Perimeter	Fourth Quarter 2017	355,000	0%	\$38.00 FS
Riverwood 200	Cumberland/Galleria	Second Quarter 2017	308,000	66%	\$29.50 NNN
Comcast Tower*	Cumberland/Galleria	Fourth Quarter 2017	260,000	100%	N/A
8000 Avalon	North Fulton/Forsyth	Second Quarter 2017	228,182	19%	Withheld
Encore Center*	Cumberland/Galleria	First Quarter 2018	222,000	100%	N/A
Stockyards Atlanta	Midtown	Fourth Quarter 2016	136,000	74%	\$34.00 FS
Battery at SunTrust Park	Cumberland/Galleria	Second Quarter 2017	92,000	46%	\$29.00 NNN

*Single-tenant leased property

Market By The Numbers

BY SUBMARKET	Inventory	VACANCY			NET ABSORPTION		SF Under Construction	AVERAGE ASKING RENT		
		Total	Class A	Class B	2Q16	YTD		Total	Class A	Class B
Buckhead	18,895,309	10.5%	10.8%	9.3%	(26,489)	32,245	609,505	\$32.21	\$33.39	\$24.16
Downtown	16,536,357	21.2%	21.9%	20.1%	41,249	(128,910)	-	\$22.80	\$23.49	\$19.22
Midtown	17,803,776	11.6%	10.1%	19.6%	120,801	379,974	676,115	\$28.13	\$30.69	\$23.42
Urban Total	53,235,442	14.2%	13.7%	16.8%	135,561	283,309	1,285,620	\$27.64	\$28.85	\$22.54
Airport/South Atlanta	4,154,971	25.8%	17.7%	26.9%	(19,484)	(89,670)	-	\$16.27	\$19.70	\$15.55
Central Perimeter	22,777,864	13.9%	11.1%	23.4%	18,513	61,097	355,000	\$25.71	\$28.35	\$20.96
Cumberland/Galleria	19,912,723	16.1%	13.7%	21.1%	177,559	313,950	1,054,906	\$23.15	\$26.27	\$17.88
Decatur/Stone Mountain	1,410,942	6.4%	5.6%	7.5%	3,817	4,580	-	\$23.03	\$25.87	\$19.27
Duluth/Suwanee/Buford	7,226,678	21.5%	16.9%	26.6%	79,132	31,928	-	\$17.43	\$20.49	\$15.08
I-20 East/Conyers	532,558	25.9%	-	30.9%	3,922	7,160	-	\$18.05	-	\$18.09
I-20 West/Douglasville	615,905	8.2%	-	9.6%	7,139	6,492	-	\$17.94	-	\$14.90
Norcross/Peachtree Corners	6,382,274	33.1%	20.6%	42.0%	(39,072)	(184,991)	-	\$17.18	\$20.92	\$15.55
North Fulton/Forsyth	18,925,398	12.6%	10.8%	17.1%	63,784	65,550	-	\$22.22	\$24.09	\$18.15
Northeast Atlanta	7,921,087	21.1%	14.0%	24.7%	(1,404)	(35,854)	119,819	\$17.30	\$21.09	\$17.10
Northwest Atlanta	3,076,260	7.4%	3.1%	11.0%	21,451	35,871	228,182	\$20.13	\$24.03	\$18.71
Suburban Total	92,936,660	16.8%	12.4%	23.9%	315,357	216,113	1,757,907	\$21.43	\$25.29	\$17.44
Total Market	146,172,102	15.9%	13.0%	22.5%	450,918	499,422	3,043,527	\$23.30	\$26.73	\$18.12

BY CLASS	Inventory	Vacancy	2Q16 Absorption	YTD Absorption	SF Under Construction	Sublease SF
Class A	98,245,127	13.0%	260,564	513,492	3,043,527	3,249,115
Class B	43,978,699	22.5%	171,955	(77,881)	-	722,019
Class C	3,948,276	14.8%	18,399	63,811	-	62,385
Total Market	146,172,102	15.9%	450,918	499,422	3,043,527	4,033,519

