

MarketWatch: Atlanta

OFFICE MARKET TRENDS
SECOND QUARTER 2011



Buckhead, Midtown Show Signs of Stabilization Suburban Submarkets Remain Soft

Atlanta's office market continues to recover, albeit at a pace slower than previous cycles. While the speed of the current recovery is sluggish, it is similar in that the urban submarkets of Buckhead and Midtown are leading the rest of the metro area in terms of leasing activity and occupancy gains. Buckhead in particular is seeing solid absorption, posting more than 166,000 square feet of occupancy gains since the start of the year – this is particularly impressive considering the fact the submarket added approximately 2.0 million square feet of new Class A office towers just as the economy took a nosedive in late 2008. Midtown has also enjoyed a strong performance over the first half of 2011, further solidifying its stature as the home for the legal industry – Morris, Manning & Martin recently announced they will relocate to occupy 114,000 square feet in the Campanile building.

In Atlanta's suburban submarkets, the midyear 2011 outlook is not quite as positive, although there are scattered positive signs throughout the metro area. While Central Perimeter and the Northeast area both saw a loss of occupancy over the last six months, North Fulton and the other suburban submarkets experienced positive space gains, with the Class B sector in general outperforming Class A properties. While the suburbs are lagging behind Buckhead and Midtown in terms of absorption, they are posting a relatively stronger performance in terms of overall vacancy rates.

The pace of Atlanta's office market recovery remains at the mercy of job growth. While unemployment figures are slowly improving, dropping into single digits for the first time in more than a year, until the metro area begins to generate new jobs at a more robust rate the office market will continue to recover at a slow pace. Atlanta has historically led the nation in terms of job growth coming out of previous economic downturns, but this time the metro area is near the bottom of the list nationally when comparing US cities in terms of job creation. The good news is that Atlanta's long-term prospects remain rock-solid – an established and diverse economy, continued in-migration boosting population, and a world-class infrastructure led by the world's busiest airport will support the local economy once employers inevitably begin hiring as confidence in the national outlook solidifies.

TRANSACTION HIGHLIGHTS

Notable Lease Deals

Completed between 4/1/11 and 6/30/11

Tenant	Building	Lease SF	Comments
Morris Manning & Martin	Campanile	140,000	Leaving 114,000 SF at AFC
Cotton States	One Deerfield Center	66,500	Vacated 105,000 SF at 244 Perimeter Center Pky
Kemira	1000 Parkwood	23,827	Signed 12-year lease

Notable Office Building Sales

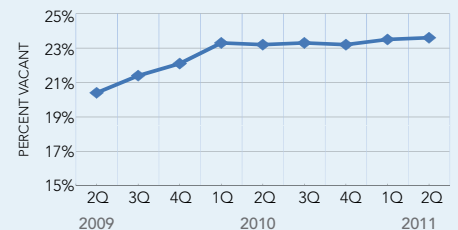
Completed between 4/1/11 and 6/30/11

Building	Total SF	Price	Price PSF	Comments
2 Ravinia Drive	437,826	\$40,419,000	\$92	Purchased by Parkway Properties, Inc
55 Ivan Allen Boulevard	348,658	\$57,000,000	\$163	6.75% cap rate
6120 Powers Ferry Road	137,818	\$20,450,000	\$148	83% occupied at time of sale

Market Trends

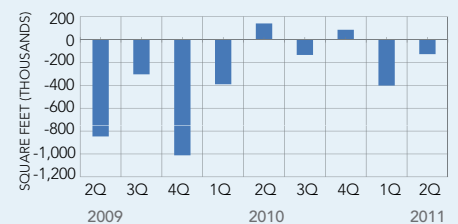
Vacancy Rate **23.6%** **3-Month Trend**

Calmed by the lack of new development and improved confidence in the market, overall vacancy levels have remained flat during the past 18 months



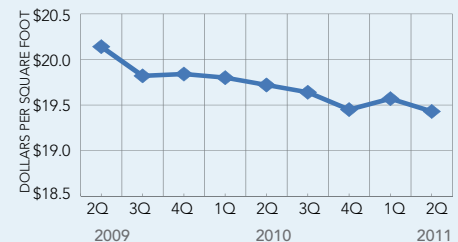
Absorption **-128,159 SF**

The year is off to a sluggish start with the first two quarters of 2011 netting a space loss of more than half a million square feet, a trend that is likely to reverse during the second half of the year



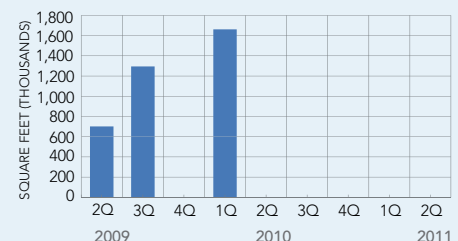
Rental Rates **\$19.43 PSF**

Average rental rates have been on a steady decline over the past three years but appear to be leveling off as the market works to reach equilibrium



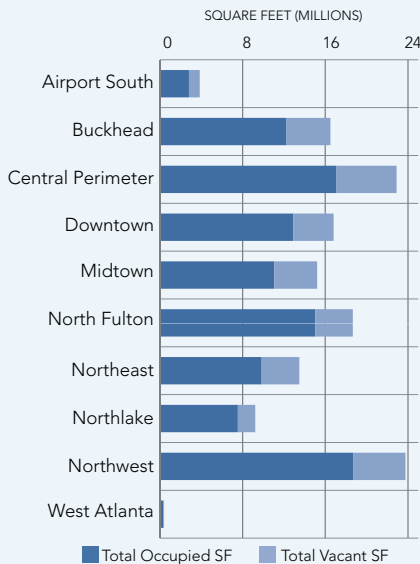
New Deliveries **0 SF**

Metropolitan Atlanta has not delivered any new office product in more than a year and currently has no new projects in the pipeline

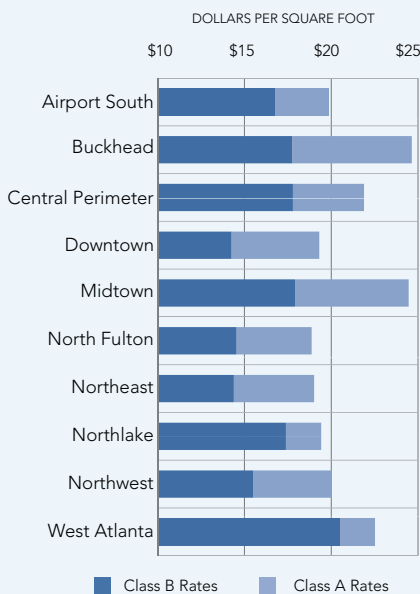


Submarkets at a Glance

Size Comparison



Average Rental Rates



Methodology

The information in this report is the result of Transwestern's ongoing analysis of Atlanta's key for-lease office properties. We compile our quarterly statistics based on a defined inventory of Class "A" and "B" multi-tenant office buildings of 20,000 square feet or more in size and exclude all medical, government, owner occupied and office condo buildings.

Economic Conditions

- Atlanta's unemployment rate returned to single digits in March of 2011 after an extended period – the current rate of 9.8% was supported by the creation of 8,600 jobs since the start of the year
- Infrastructure improvement programs such as the \$21.4 million enhancement of the Georgia 400/I-85 interchange will help boost the local economy, but significant requirements to bring many roads and bridges up to necessary standards remain in the planning stages until financing can be secured – no easy task in an era of governmental budget shortfalls

Development

- Aerotropolis, the mixed-use redevelopment of the former Ford plant in Hapeville, took a major step forward with the announcement that Porche would construct their new US headquarters on a 26-acre site
- Stalled for nearly two years, the Streets of Buckhead project also received a major boost with new ownership acquiring the mixed-use project and announcing plans that are more aligned with the current economic climate

Rental Rates and Concessions

- Atlanta's soft economic conditions and a slowly-recovering office market means that tenants still have the upper hand in lease negotiations – companies, especially those with strong credit, are able to secure very favorable lease terms and lock in significant savings
- Despite the challenging environment for office landlords, asking rental rates have remained relatively flat over 2011 thus far, with an overall metro average of \$19.43 per square foot

Vacancy and Absorption

- Midtown's Campanile building was a big winner over the past quarter, attracting a Buckhead law firm, expanding Georgia's Own Credit Union, and reportedly courting SunTrust bank from Downtown – not bad for a formerly challenged property that was purchased for a relative bargain of \$35 million
- Leasing activity continues to improve as companies take advantage of the favorable conditions – there are a good number of 40,000+ square-foot tenants currently touring the Central Perimeter submarket and other parts of metro Atlanta, and when these leases are signed it will boost metro absorption figures

Investments

- Subsequent to first quarter's purchase of 3344 Peachtree, Parkway Properties continues to grow its Atlanta presence with the acquisition of the 437,846-square-foot Two Ravinia office tower in Central Perimeter as part of a six-property portfolio transaction
- Class A and B core assets continue to be very attractive to investors, but interest in value-add properties is rising as buyers are priced out of the few core opportunities and look for upside in a market in which they have long-term confidence
- Metro Atlanta continues to have one of the largest number of CMBS loans tied to delinquency — in the month of March alone Atlanta had 13 CMBS loans that transferred to special servicing

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CURRENT STATISTICS

Submarket		Total Inventory SF	Direct SF Vacant	Direct Vacancy Rate	Sublease SF	Total SF Available	Overall Availability Rate	2Q2011 Net Absorption	SF Under Construction	Average Quoted Rental Rate PSF (full service)
URBAN SUBMARKETS										
Buckhead	Class A	13,300,413	3,227,433	24.3%	236,918	3,464,351	26.0%	162,999	0	\$24.64
	Class B	3,193,795	805,037	25.2%	23,706	828,743	25.9%	3,584	0	\$17.77
	Overall	16,494,208	4,032,470	24.4%	260,624	4,293,094	26.0%	166,583	0	\$23.49
Downtown	Class A	12,970,017	2,665,242	20.5%	256,638	2,921,880	22.5%	-167,511	0	\$19.31
	Class B	3,837,772	982,485	25.6%	4,080	986,565	25.7%	-16,647	0	\$14.26
	Overall	16,807,789	3,647,727	21.7%	260,718	3,908,445	23.3%	-184,158	0	\$18.17
Midtown	Class A	11,991,147	3,038,335	25.3%	248,651	3,286,986	27.4%	45,351	0	\$24.46
	Class B	3,225,443	847,986	26.3%	18,971	866,957	26.9%	37,982	0	\$17.91
	Overall	15,216,590	3,886,321	25.5%	267,622	4,153,943	27.3%	83,333	0	\$23.43
URBAN SUBMARKETS TOTAL										
Urban	Class A	38,261,577	8,931,010	23.3%	742,207	9,673,217	25.3%	40,839	0	\$22.78
	Class B	10,257,010	2,635,508	25.7%	46,757	2,682,265	26.2%	24,919	0	\$16.50
	Overall	48,518,587	11,566,518	23.8%	788,964	12,355,482	25.5%	65,758	0	\$21.73
SUBURBAN SUBMARKETS										
Airport South	Class A	788,936	282,437	35.8%	20,535	302,972	38.4%	-2,940	0	\$19.87
	Class B	3,067,496	711,228	23.2%	40,422	751,650	24.5%	50,120	0	\$16.81
	Overall	3,856,432	993,665	25.8%	60,957	1,054,622	27.3%	47,180	0	\$17.73
Central Perimeter	Class A	16,949,184	3,547,254	20.9%	134,895	3,682,149	21.7%	-25,442	0	\$21.89
	Class B	5,944,523	2,006,659	33.8%	115,907	2,122,566	35.7%	-245,876	0	\$17.79
	Overall	22,893,707	5,553,913	24.3%	250,802	5,804,715	25.4%	-271,318	0	\$20.58
North Fulton	Class A	12,393,207	1,780,743	14.4%	384,750	2,165,493	17.5%	-29,443	0	\$18.87
	Class B	6,261,644	1,399,873	22.4%	57,213	1,457,086	23.3%	108,471	0	\$14.55
	Overall	18,654,851	3,180,616	17.0%	441,963	3,622,579	19.4%	79,028	0	\$17.38
Northeast	Class A	5,484,981	1,358,874	24.8%	88,404	1,447,278	26.4%	-60,308	0	\$19.01
	Class B	7,995,941	2,105,198	26.3%	87,649	2,192,847	27.4%	-70,597	0	\$14.39
	Overall	13,480,922	3,464,072	25.7%	176,053	3,640,125	27.0%	-130,905	0	\$16.54
Northlake	Class A	2,084,555	366,616	17.6%	8,240	374,856	18.0%	28,801	0	\$19.42
	Class B	7,143,527	1,214,221	17.0%	97,793	1,312,014	18.4%	22,175	0	\$17.39
	Overall	9,228,082	1,580,837	17.1%	106,033	1,686,870	18.3%	50,976	0	\$17.83
Northwest	Class A	14,650,685	2,249,731	15.4%	355,698	2,605,429	17.8%	40,408	0	\$20.04
	Class B	9,105,286	2,330,754	25.6%	96,266	2,427,020	26.7%	-9,286	0	\$15.49
	Overall	23,755,971	4,580,485	19.3%	451,964	5,032,449	21.2%	31,122	0	\$18.00
West Atlanta	Class A	42,660	0	0.0%	0	0	0.0%	0	0	\$22.50
	Class B	360,923	67,477	18.7%	0	67,477	18.7%	0	0	\$20.54
	Overall	403,583	67,477	16.7%	0	67,477	16.7%	0	0	\$20.54
SUBURBAN SUBMARKETS TOTAL										
Suburban	Class A	52,394,208	9,585,655	18.3%	992,522	10,578,177	20.2%	-48,924	0	\$20.23
	Class B	39,879,340	9,835,410	24.7%	495,250	10,330,660	25.9%	-144,993	0	\$15.95
	Overall	92,273,548	19,421,065	21.0%	1,487,772	20,908,837	22.7%	-193,917	0	\$18.27
ATLANTA TOTAL										
TOTAL	Class A	90,655,785	18,516,665	20.4%	1,734,729	20,251,394	22.3%	-8,085	0	\$21.30
	Class B	50,136,350	12,470,918	24.9%	542,007	13,012,925	26.0%	-120,074	0	\$16.06
	Overall	140,792,135	30,987,583	22.0%	2,276,736	33,264,319	23.6%	-128,159	0	\$19.43

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Atlanta's Office Submarkets



For more information, please contact:

Jonathan Majors, Regional Market Research Analyst
404.842.6534 • jonathan.majors@transwestern.net

Market Highlights

With a current population of more than 5.1 million throughout the 28-county region, Atlanta is the 8th largest Metropolitan Statistical Area ("MSA") in the United States.

Long recognized as the economic engine of the Southeast, Atlanta today is known throughout the world as a dynamic business center, consistently outpacing comparable cities in nearly all key economic indicators. Ranked behind only New York and Houston for the number of Fortune 500 headquarters, Atlanta is also a location of choice for mid-sized companies and entrepreneurial start-ups.

Factors contributing to the city's success include superior air, rail, and highway transportation; a pro-business environment; an educated workforce; a diverse economy; a lower-than-average cost of doing business and living compared to other major cities; and an enviable quality of life.

Every time you sip a Coca-Cola, send a package via UPS, spend the night at Holiday Inn, board a Delta Air Lines plane, buy paint at Home Depot, get your credit rating checked by Equifax, dry your hands with a Brawny paper towel, or watch the news as it happens on CNN on your Philips television, you're doing business with Atlanta.

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3340 Peachtree Road, Suite 1000 • Atlanta, GA 30326
PHONE: 404.842.6600 • FAX: 404.842.6601

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