Savills Studley Research
Atlanta

Savills Studley Report
Atlanta office sector

Q1 2016



SUMMARY

Market Highlights

SHARP DECLINE IN AVAILABILITY AND VACANCY RATES

The region's availability rates reversed a stretch of increases in the prior three quarters, falling by 1.6 pp to 19.5% overall and by 1.7 pp to 17.9% in Class A buildings. Atlanta's Class A vacancy rate dropped to 11.7% in the first quarter, falling to 11.4% in the Urban Core and 12.0% in Suburban Atlanta.

CLASS A RENT UP FROM A YEAR AGO

Class A rent for the region spiked by 9.7% from a year ago to $26.04. Class A rent in Suburban Atlanta jumped by 8.2% to $24.05 year-on-year. Class A rent in Buckhead registered the sharpest year-on-year growth of 11.3% to $32.77.

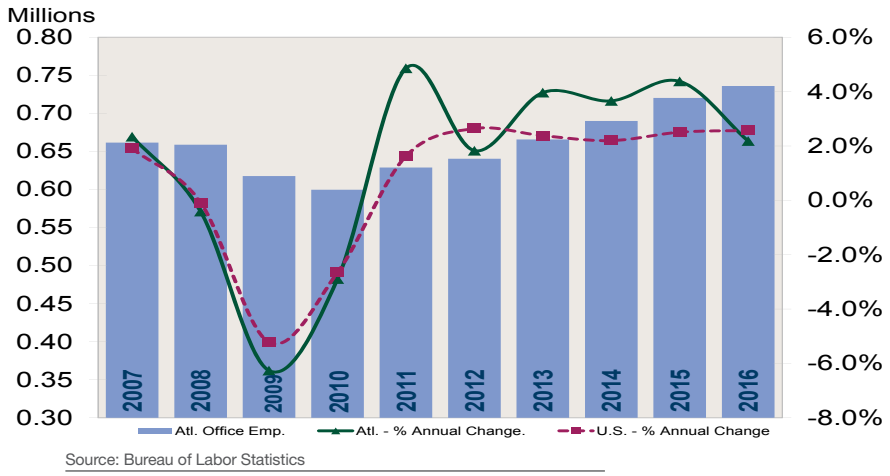
LEASING INCREASES

Tenants leased 1.6 msf in the region during the first quarter, the highest volume since midyear 2015 and a 49.4% spike from the fourth quarter. Tenants have leased 5.9 msf in the last four quarters, a slight decrease from the 6.4 msf leased in the prior four and well below the long-term historical average of 8.7 msf.

"Steady leasing activity and rental rate growth in Buckhead, Midtown and the Perimeter appears to finally be encouraging more developers to proceed with new construction as well as major renovations to office parks in Suburban Atlanta."

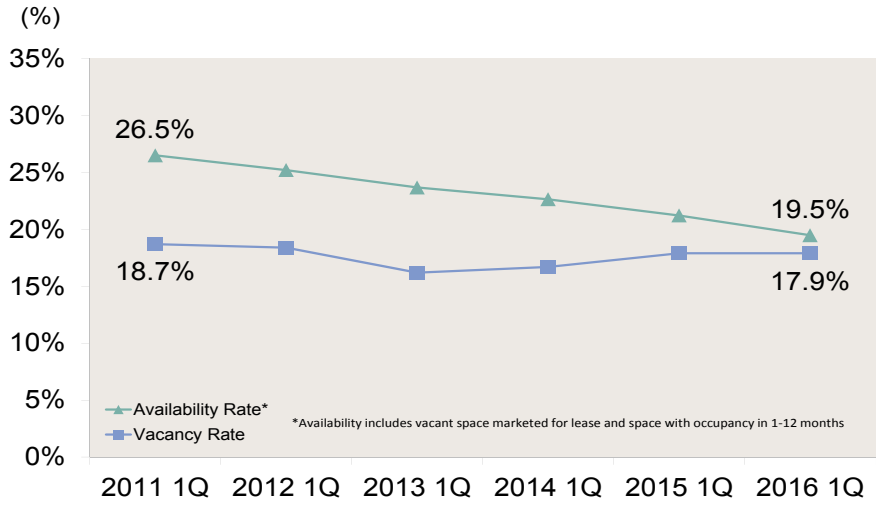
Chris White, EVP, Market Leader

Office-Using Employment Trends

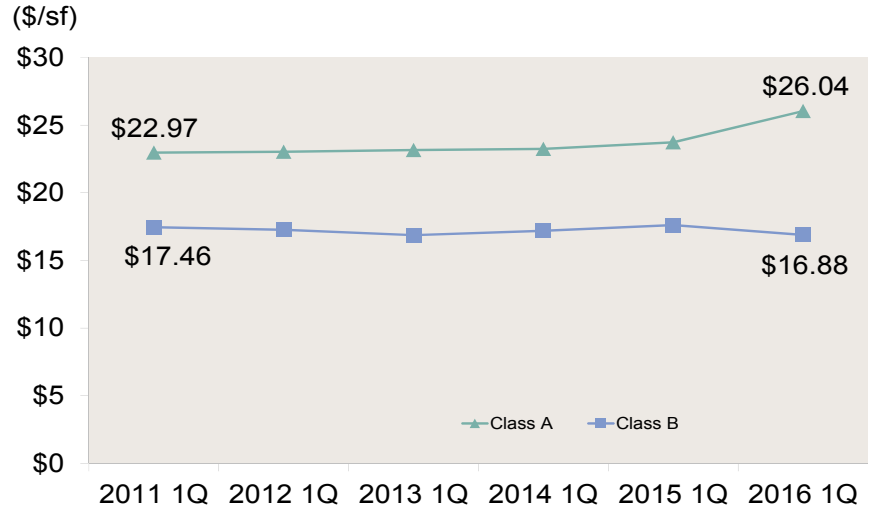


Source: Bureau of Labor Statistics

Availability Rate Trends



Asking Rent Trends



Law Firms and Fintech Contributing to Local Job Growth

Despite turbulence in global equity markets and slowing growth in many countries, the U.S. job engine has continued to roll along at a steady rate in the last several quarters. Similarly, office-using employment in the Atlanta region is still expanding at a consistent pace. The metro region has added nearly 25,000 office-using jobs in the last 12 months and, as of January, was more than 78,000 office-using jobs above the pre-recession peak attained in March of 2007.

Law firm expansions have been few and far between in most markets around the country, including Atlanta, where many firms have shed space. However, the past quarter has seen growth in the sector. For instance, the top lease for the quarter was signed by Baker Hostetler – a law firm which entered the Atlanta market for the first time in 2014, when it combined with local boutique firm Woodcock Washburn. Last year it added 30 lawyers from McKenna Long & Aldridge. The expanding firm took 67,960 sf at The Proscenium in Midtown. Another firm in expansion mode is Polsinelli PC, which acquired local firm Rafuse Hill & Hodges, in 2014. Polsinelli leased 44,696 sf at One Atlantic Center in the first quarter. Established Atlanta firm Taylor English Duma signed an expansion and renewal at 1600 Parkwood Circle S.E. for 79,000 sf in which it added 24,000 sf.

Atlanta's financial tech sector has been a much bigger impetus for regional job growth. Merchant e-Solutions, a subsidiary of Brazil's Cielo, recently announced that it had chosen Atlanta for its U.S. headquarters. The electronic payments company will invest approximately $5.0 million at Live Oak Square in Buckhead and eventually have up to 140 employees based in a 22,320-sf space at the property. The company's Chief Executive Officer, Tom Bell, said that the expansion would give the company access to "the amazing talent of this rich financial technology epicenter." Based on numbers from the American Transaction Processors Coalition, more than 70% of all U.S. payments are processed in Georgia's "Transaction Alley."

Market Absorbing Higher Rents

Atlanta's job market has kept demand for office space elevated. Additionally, the influx of companies from other markets has been a critical support to steady rental rate growth in Buckhead, Midtown and Central Perimeter. Asking rent in all three of

these submarkets has posted double-digit growth. Based on the latest Savills Effective Rent Index, tenants paid more per square foot and landlords walked away with more profit (while making modest reductions to concession packages) in Class A buildings during 2015. Tenant effective rent increased by 27.9% to $23.84. Landlord effective rent spiked from $2.62 to $7.22 – a 175.7% jump – but remained well under the pre-recession peak of $10.19 attained in 2006.

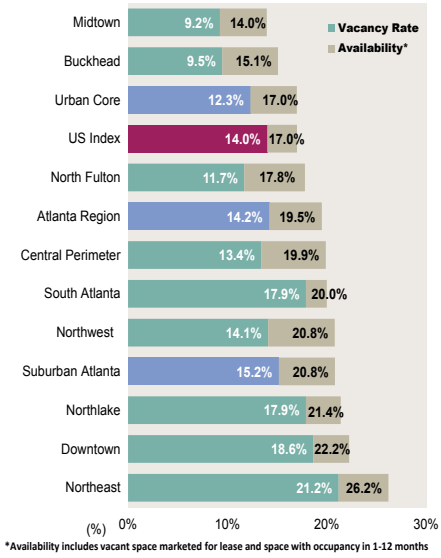
Higher rents are forcing a few tenants to look for more cost-effective space options. In general, both companies already based in the region and those setting up operations for the first time have shown a growing willingness to invest in their workforce and the space that houses it. It is a little easier for such companies to agree to a higher rent if they are also capturing more efficient space, upgraded amenities and the latest technology for the long haul.

Abundance of Proposals, but Development Remains Controlled – for Now

While much of the new construction underway (e.g., Three Alliance Center in Buckhead) as well as proposed development (such as Campanile's six-story addition in Midtown) is concentrated in the Urban Core, suburban submarkets are seeing a boom in build-to-suit activity, most of it concentrated in Central Perimeter. State Farm's massive (approximately 2.2 msf), four-building regional campus is taking shape. The 21-story centerpiece building could be ready for occupancy as early as this summer. The insurance company is subleasing about 585,000 sf of office space it currently occupies at the Terraces development at Hammond Drive and Central Parkway. The sublease term is only through August 2019.

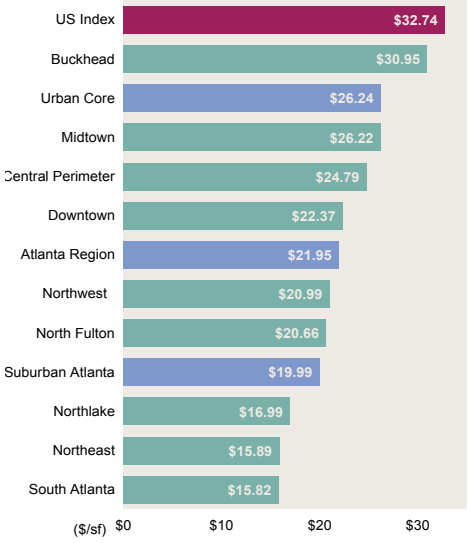
State Farm hopes to have as many as 1,600 employees at its new location in 2016, and up to 8,000 once the entire complex is completed. The surge in commuters will surely test the capacity of local roads and MARTA. Other new projects include GID Development's High Street, a mixed-use development across from the rear entrance to Perimeter Mall and Dunwoody MARTA station, and Charlie Brown's CrownTower on the former Gold Kist corporate campus, which includes a combination of high-rise residential and office towers plus a hotel. Several other developers are eager to further expand the Perimeter's office stock. For example, 4004 Perimeter Summit is a proposed 15-story, 355,000-sf building located in the 1.8-msf Perimeter Summit office park across from I-285 at Ashford Dunwoody Road. Ownership has

Availability Rate Comparison



*Availability includes vacant space marketed for lease and space with occupancy in 1-12 months

Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
BakerHostetler	67,960	The Proscenium	Midtown
Raymond James	55,216	Two Buckhead Plaza	Buckhead
Polsinelli PC	44,696	One Atlantic Center	Midtown
Atlanta HIDTA	43,942	Royal Peachtree Corners, Bldg 4	Northeast
eVestments	40,188	Glenridge Point	Central Perimeter
AMGP Georgia Managed Care Company, Inc.	40,151	Ashford Green	Central Perimeter
Taylor English Duma LLP	31,526	Parkwood	Northwest
Lendmark Financial Services	27,551	Huntcrest III	Northeast
Charles S Ackerman Co. Inc.	25,310	10 Glenlake	Central Perimeter
Merchant e-Solutions	22,320	Live Oak Square	Buckhead
Sum of Leases	**398,860**		

construction financing for the building but is waiting to sign a tenant before breaking ground.

Change at Suburban Parks as Well

Landlords at a few older suburban office parks are poised to make upgrades and enhancements to their complexes. The feasibility of some projects, particularly the proposed redevelopment of complexes that were constructed in the 1970s or 1980s, remains to be seen. Concourse Corporate Center is undergoing a $90.0-million expansion that could include a new hotel, a new residential building and restaurants. The Simpson Organization wants to rezone Peachtree Dunwoody Pavilion as a mixed-use project, enabling them to add a 170-room hotel, a new office building and an apartment building as well as retail. Three of the four mid-rise office buildings, first constructed in the 1970s, would remain but would be significantly renovated, including the addition of several floors.

Central Perimeter's traffic has already intensified in recent years as more companies have concentrated their employees in this area. During the last four years, as part of a major consolidation of its operations, Cox Enterprises Inc. has constructed two buildings (600,000 sf and 578,000 sf, respectively) along Perimeter Center West Parkway. Most of Cox's subsidiaries – Cox Automotive, Manheim and the Atlanta Journal-Constitution – and a total of about 7,500 employees are now in close proximity to the main campus at Central Park.

Developers are still bidding on infrastructure improvement jobs to the Georgia 400/I-285 interchange. The overhaul is not expected to be complete until 2019 or beyond. It is hoped that the improvements to the interchange, as well as to the Abernathy Road exit on Georgia 400, will alleviate the worst of the traffic congestion in and around the Perimeter and allow for additional companies – and residents – to commit to the area.

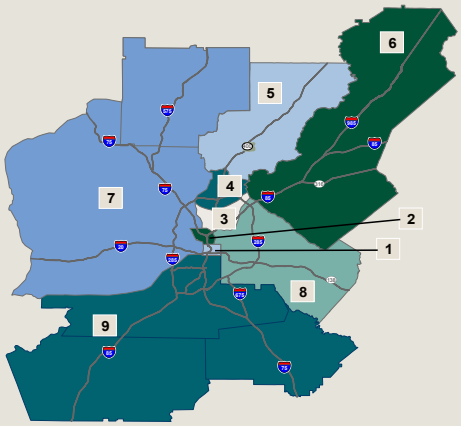
Map	Submarket	Total	Leasing Activity	Available SF			Availability Rate			Asking Rents Per SF		
		Inventory SF (1000's)	Last 12 Months	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. [1]	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
1	**Downtown**	18,339	231	4,080	-6.4%	4,644	22.2%	-1.5%	25.3%	$22.37	1.8%	$19.76
	Downtown - Class A	9,714	140	2,091	-2.6%	2,072	21.5%	-0.6%	21.3%	$25.68	4.9%	$21.93
2	**Midtown**	19,040	631	2,658	-6.6%	3,346	14.0%	-1.0%	17.6%	$26.22	-1.3%	$24.62
	MIdtown - Class A	14,323	510	1,866	-7.3%	2,431	13.0%	-1.0%	17.0%	$28.64	2.6%	$26.48
3	**Buckhead**	20,462	829	3,087	-4.8%	2,912	15.1%	-0.8%	14.2%	$30.95	-5.0%	$27.02
	Buckhead - Class A	15,594	623	2,448	-3.7%	2,128	15.7%	-0.6%	13.6%	$32.77	-6.7%	$29.44
4	**Central Perimeter**	23,901	1,055	4,763	-7.8%	4,611	19.9%	-1.7%	19.3%	$24.79	2.3%	$22.49
	Central Perimeter - Class A	18,551	724	3,326	-7.8%	2,987	17.9%	-1.5%	16.1%	$27.32	2.6%	$24.88
5	**North Fulton**	23,303	971	4,137	-4.7%	4,229	17.8%	-0.9%	18.1%	$20.66	-3.4%	$19.81
	North Fulton - Class A	14,443	650	2,629	-7.2%	2,402	18.2%	-1.4%	16.6%	$23.18	3.1%	$21.00
6	**Northeast**	17,515	628	4,583	-13.0%	5,060	26.2%	-3.9%	28.9%	$15.89	-10.8%	$17.31
	Northeast - Class A	6,404	253	1,598	-14.5%	1,785	25.0%	-4.2%	27.9%	$19.94	0.0%	$19.75
7	**Northwest**	25,910	1,101	5,379	-8.5%	6,495	20.8%	-1.9%	25.1%	$20.99	-4.9%	$19.20
	Northwest - Class A	15,217	717	3,216	-7.4%	3,655	21.1%	-1.7%	24.0%	$24.84	-1.5%	$22.28
8	**Northlake**	10,916	290	2,337	-4.9%	2,377	21.4%	-1.1%	21.8%	$16.99	-6.7%	$17.80
	Northlake - Class A	3,350	76	317	-50.2%	361	9.5%	-9.5%	10.8%	$21.23	3.8%	$20.72
9	**South Atlanta**	6,356	165	1,269	-4.6%	1,493	20.0%	-1.0%	23.5%	$15.82	-18.1%	$19.22
	South Atlanta - Class A	959	16	144	-7.8%	183	15.0%	-1.3%	19.1%	$18.80	-2.5%	$19.37
1-3	**Urban Core Total***	**57,841**	**1,694**	**9,826**	**-5.9%**	**10,901**	**17.0%**	**-1.1%**	**18.8%**	**$26.24**	**-2.3%**	**$23.79**
	Urban Core - Class A	**39,631**	**1,272**	**6,406**	**-4.4%**	**6,630**	**16.2%**	**-0.7%**	**16.7%**	**$29.32**	**-1.7%**	**$26.57**
4-9	**Suburban Total**	**107,901**	**4,209**	**22,467**	**-8.1%**	**24,265**	**20.8%**	**-1.8%**	**22.5%**	**$19.99**	**-4.6%**	**$19.49**
	Suburban Total - Class A	**58,924**	**2,435**	**11,230**	**-10.7%**	**11,373**	**19.1%**	**-2.3%**	**19.3%**	**$24.05**	**1.2%**	**$22.24**
1-9	**Atlanta Region Total**	**165,742**	**5,903**	**32,293**	**-7.4%**	**35,166**	**19.5%**	**-1.6%**	**21.2%**	**$21.95**	**-3.3%**	**$20.71**
	Atlanta Region - Class A	**98,555**	**3,708**	**17,636**	**-8.5%**	**18,003**	**17.9%**	**-1.7%**	**18.3%**	**$26.04**	**0.5%**	**$23.73**

*The Urban Core includes the Downtown, Midtown and Buckhead submarkets

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(1) Percentage point change for availability rates.
Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.
Statistics are calculated using both direct and sublease information.
Short-term sublet spaces (terms under two years) were excluded.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
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