

ATLANTA OFFICE MARKET

OVERVIEW



ATLANTA'S VACANCY DECREASES TO 16.1% Net Absorption Positive 1,137,788 SF in the Quarter

The Atlanta Office market ended the second quarter 2012 with a vacancy rate of 16.1%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 1,137,788 square feet in the second quarter. Vacant sublease space decreased in the quarter, ending the quarter at 1,778,434 square feet. Rental rates ended the second quarter at \$18.47, an increase over the previous quarter. A total of five buildings delivered to the market in the quarter totaling 376,222 square feet, with 1,578,085 square feet still under construction at the end of the quarter.

Absorption

Net absorption for the overall Atlanta office market was positive 1,137,788 square feet in the second quarter 2012. That compares to positive 729,355 square feet in the first quarter 2012, positive 478,529 square feet in the fourth quarter 2011, and positive 328,395 square feet in the third quarter 2011.

Tenants moving out of large blocks of space in 2012 include: PricewaterhouseCoopers LLP moving out of 144,644 square feet at Ten 10th Street-Millennium in Midtown; Northrop Grumman Corporation moving out of 48,088 SF at 3375 Northeast Expy; and Kids II moving out of 44,844 square feet at 555 North Point Ctr E in Alpharetta.

Tenants moving into large blocks of space in 2012 include: SunTrust Robinson Humphrey moving into 135,075 square feet at Atlanta Financial Center - South Tower; Kids II moving into 105,818 square feet at Terminus 200; and SunTrust Bank moving into 96,000 square feet at Campanile Plaza.

The Class-A office market recorded net absorption of positive 847,402 square feet in the second quarter 2012, compared

to positive 76,574 square feet in the first quarter 2012, positive 321,111 in the fourth quarter 2011, and positive 122,841 in the third quarter 2011.

The Class-B office market recorded net absorption of positive 187,483 square feet in the second quarter 2012, compared to positive 361,956 square feet in the first quarter 2012, positive 123,675 in the fourth quarter 2011, and positive 138,119 in the third quarter 2011.

The Class-C office market recorded net absorption of positive 102,903 square feet in the second quarter 2012 compared to positive 290,825 square feet in the first quarter 2012, positive 33,743 in the fourth quarter 2011, and positive 67,435 in the third quarter 2011.

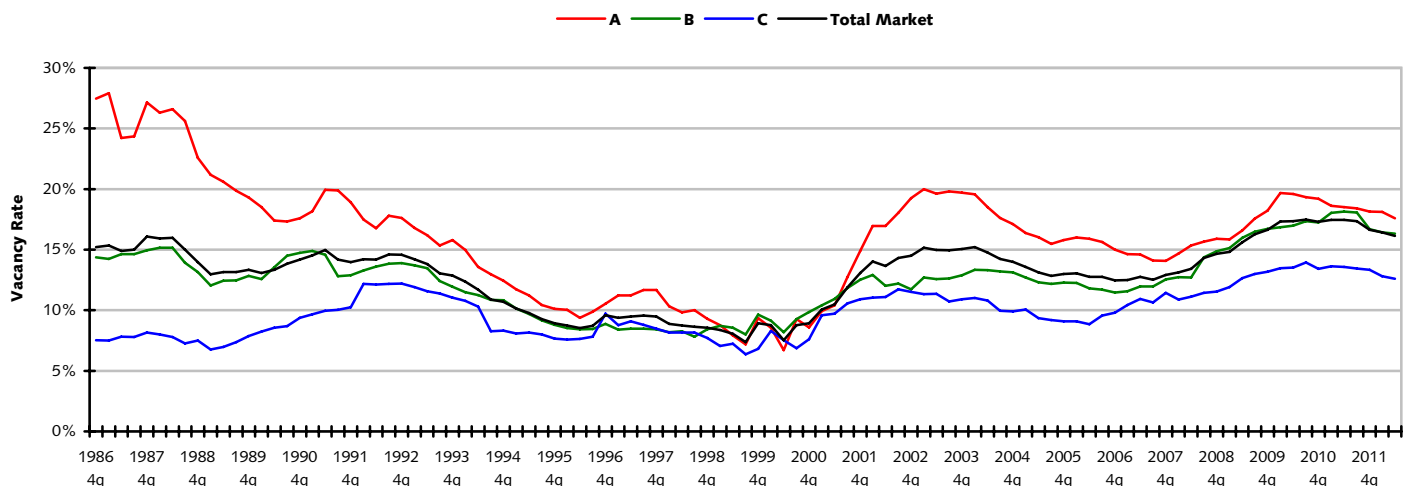
Net absorption for Atlanta's central business district was negative (95,424) square feet in the second quarter 2012. That compares to negative (115,038) square feet in the first quarter 2012, negative (41,788) in the fourth quarter 2011, and negative (4,825) in the third quarter 2011.

Net absorption for the suburban markets was positive 1,233,212 square feet in the second quarter 2012. That compares to positive 844,393 square feet in first quarter 2012, positive 520,317 in the fourth quarter 2011, and positive 333,220 in the third quarter 2011.

Vacancy

The office vacancy rate in the Atlanta market area decreased to 16.1% at the end of the second quarter 2012. The vacancy rate was 16.4% at the end of the first quarter 2012, 16.6% at the end of the fourth quarter 2011, and 17.4% at the end of the third quarter 2011.

VACANCY RATES BY CLASS 1986-2012



Source: CoStar Property®

Class-A projects reported a vacancy rate of 17.6% at the end of the second quarter 2012, 18.1% at the end of the first quarter 2012, 18.1% at the end of the fourth quarter 2011, and 18.4% at the end of the third quarter 2011.

Class-B projects reported a vacancy rate of 16.3% at the end of the second quarter 2012, 16.4% at the end of the first quarter 2012, 16.7% at the end of the fourth quarter 2011, and 18.1% at the end of the third quarter 2011.

Class-C projects reported a vacancy rate of 12.6% at the end of the second quarter 2012, 12.8% at the end of first quarter 2012, 13.3% at the end of the fourth quarter 2011, and 13.5% at the end of the third quarter 2011.

The overall vacancy rate in Atlanta's central business district at the end of the second quarter 2012 increased to 14.9%. The vacancy rate was 14.6% at the end of the first quarter 2012, 14.3% at the end of the fourth quarter 2011, and 14.2% at the end of the third quarter 2011.

The vacancy rate in the suburban markets decreased to 16.3% in the second quarter 2012. The vacancy rate was 16.7% at the end of the first quarter 2012, 17.0% at the end of the fourth quarter 2011, and 17.8% at the end of the third quarter 2011.

Largest Lease Signings

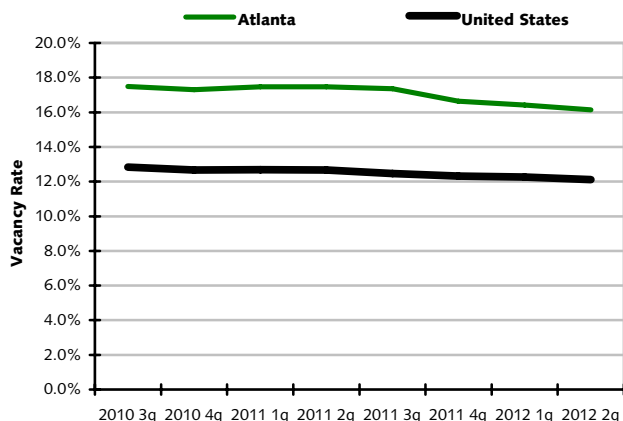
The largest lease signings occurring in 2012 included: the 434,513-square-foot lease signed by State Farm Insurance Company at Perimeter Center in the Central Perimeter market and the 102,362-square-foot lease signed by Airwatch LLC at 1155 Perimeter Ctr W in the Central Perimeter market.

Sublease Vacancy

The amount of vacant sublease space in the Atlanta market decreased to 1,778,434 square feet by the end of the second quarter 2012, from 1,897,002 square feet at the end of the first quarter 2012. There was 1,924,027 square feet vacant at the end of the fourth quarter 2011 and 2,089,789 square feet at the end of the third quarter 2011.

U.S. VACANCY COMPARISON

Past 8 Quarters



Source: CoStar Property

Atlanta's Class-A projects reported vacant sublease space of 1,304,066 square feet at the end of second quarter 2012, down from the 1,367,219 square feet reported at the end of the first quarter 2012. There were 1,341,709 square feet of sublease space vacant at the end of the fourth quarter 2011, and 1,420,147 square feet at the end of the third quarter 2011.

Class-B projects reported vacant sublease space of 450,227 square feet at the end of the second quarter 2012, down from the 506,668 square feet reported at the end of the first quarter 2012. At the end of the fourth quarter 2011 there were 560,402 square feet, and at the end of the third quarter 2011 there were 623,313 square feet vacant.

Class-C projects reported increased vacant sublease space from the first quarter 2012 to the second quarter 2012. Sublease vacancy went from 23,115 square feet to 24,141 square feet during that time. There were 21,916 square feet at the end of the fourth quarter 2011, and 46,329 square feet at the end of the third quarter 2011.

Sublease vacancy in Atlanta's central business district stood at 309,690 square feet at the end of the second quarter 2012. It was 295,590 square feet at the end of the first quarter 2012, 291,943 square feet at the end of the fourth quarter 2011, and 309,928 square feet at the end of the third quarter 2011.

Sublease vacancy in the suburban markets ended the second quarter 2012 at 1,468,744 square feet. At the end of the first quarter 2012 sublease vacancy was 1,601,412 square feet, was 1,632,084 square feet at the end of the fourth quarter 2011, and was 1,779,861 square feet at the end of the third quarter 2011.

Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$18.47 per square foot per year at the end of the second quarter 2012 in the Atlanta market area. This represented a 0.1% increase in quoted rental rates from the end of the first quarter 2012, when rents were reported at \$18.46 per square foot.

The average quoted rate within the Class-A sector was \$21.97 at the end of the second quarter 2012, while Class-B rates stood at \$15.96, and Class-C rates at \$13.68. At the end of the first quarter 2012, Class-A rates were \$21.90 per square foot, Class-B rates were \$15.98, and Class-C rates were \$13.72.

The average quoted asking rental rate in Atlanta's CBD was \$17.99 at the end of the second quarter 2012, and \$18.51 in the suburban markets. In the first quarter 2012, quoted rates were \$17.83 in the CBD and \$18.52 in the suburbs.

Deliveries and Construction

During the second quarter 2012, five buildings totaling 376,222 square feet were completed in the Atlanta market area. This compares to three buildings totaling 85,700 square feet that were completed in the first quarter 2012, three buildings totaling 28,993 square feet completed in the fourth quarter 2011,

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and 14,390 square feet in two buildings completed in the third quarter 2011.

There were 1,578,085 square feet of office space under construction at the end of the second quarter 2012.

Some of the notable 2012 deliveries include: Cox Headquarters BLD 1, a 300,000-square-foot facility that delivered in second quarter 2012 and is now 100% occupied, and Parkway Professional, a 67,500-square-foot building that delivered in first quarter 2012 and is now 57% occupied.

The largest projects underway at the end of second quarter 2012 were Ponce City Market, a 450,000-square-foot building with 0% of its space pre-leased, and Primerica Building, a 344,476-square-foot facility that is 100% pre-leased.

Inventory

Total office inventory in the Atlanta market area amounted to 299,124,236 square feet in 15,115 buildings as of the end of the second quarter 2012. The Class-A office sector consisted of 116,661,755 square feet in 506 projects. There were 5,564 Class-B buildings totaling 128,005,786 square feet, and the Class-C sector consisted of 54,456,695 square feet in 9,045 buildings. Within the Office market there were 558 owner-occupied buildings accounting for 32,479,839 square feet of office space.

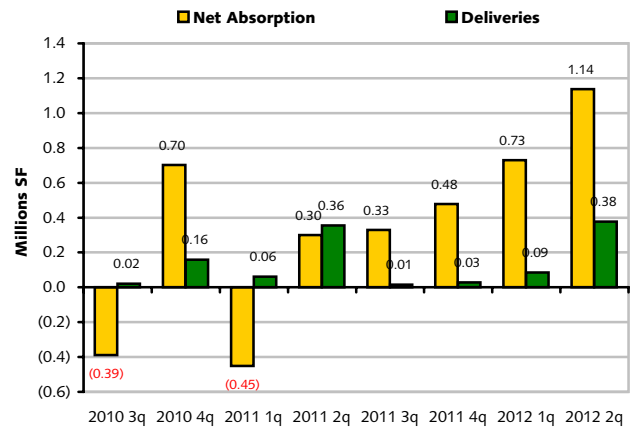
Sales Activity

Tallying office building sales of 15,000 square feet or larger, Atlanta office sales figures fell during the first quarter 2012 in terms of dollar volume compared to the fourth quarter of 2011.

In the first quarter, 26 office transactions closed with a total volume of \$484,530,714. The 26 buildings totaled 3,508,471 square feet and the average price per square foot equated to \$138.10 per square foot. That compares to 54 transactions totaling \$647,934,945 in the fourth quarter 2011. The total square footage in the fourth quarter was 6,779,146 square feet for an average price per square foot of \$95.58.

ABSORPTION & DELIVERIES

Past 8 Quarters



Source: CoStar Property*

Total office building sales activity in 2012 was up compared to 2011. In the first three months of 2012, the market saw 26 office sales transactions with a total volume of \$484,530,714. The price per square foot averaged \$138.10. In the same first three months of 2011, the market posted 15 transactions with a total volume of \$231,103,328. The price per square foot averaged \$171.95.

Cap rates have been higher in 2012, averaging 9.28% compared to the same period in 2011 when they averaged 8.20%.

One of the largest transactions that occurred within the last four quarters in the Atlanta market is the sale of Promenade in Atlanta. This 774,344 -square-foot office building sold for \$137,500,000 or \$177.57 per square foot. The property sold on 11/23/2011, at a 4.00% cap rate.

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