

ATLANTA OFFICE MARKET

OVERVIEW



ATLANTA'S VACANCY DECREASES TO 16.7%

Net Absorption Positive 619,887 SF in the Quarter

The Atlanta Office market ended the fourth quarter 2011 with a vacancy rate of 16.7%. The vacancy rate was down over the previous quarter – primarily due to the removal of Ponce City Market (in Midtown) from the office inventory at the start of the conversion of the property, with net absorption totaling positive 619,887 square feet in the fourth quarter. Vacant sublease space decreased in the quarter, ending the quarter at 2,036,256 square feet. Rental rates ended the fourth quarter at \$18.67, an increase over the previous quarter. A total of two buildings delivered to the market in the quarter totaling 22,793 square feet, with 1,828,130 square feet still under construction at the end of the quarter.

Absorption

Net absorption for the overall Atlanta office market was positive 619,887 square feet in the fourth quarter 2011. That compares to positive 416,136 square feet in the third quarter 2011, negative (36,712) square feet in the second quarter 2011, and negative (262,216) square feet in the first quarter 2011.

Tenants moving out of large blocks of space in 2011 include: AT&T Wireless moving out of 376,350 SF at 12525 Cingular Way; AutoTrader.com moving out of 195,200 SF at 245 Perimeter Center; Centers for Disease Control and Prevention moving out of 125,788 square feet at 12 Executive Park Dr.

Tenants moving into large blocks of space in 2011 include: SunTrust Bank moving into 254,619 square feet at Marquis Two Tower; InComm moving into 184,824 square feet at American Cancer Society Center; and Coca Cola moving into 148,229 square feet at Oak View III.

The Class-A office market recorded net absorption of posi-

tive 396,201 square feet in the fourth quarter 2011, compared to positive 172,325 square feet in the third quarter 2011, positive 43,444 in the second quarter 2011, and positive 817,723 in the first quarter 2011.

The Class-B office market recorded net absorption of positive 210,587 square feet in the fourth quarter 2011, compared to positive 177,154 square feet in the third quarter 2011, negative (152,051) in the second quarter 2011, and negative (939,772) in the first quarter 2011.

The Class-C office market recorded net absorption of positive 13,099 square feet in the fourth quarter 2011 compared to positive 66,657 square feet in the third quarter 2011, positive 71,895 in the second quarter 2011, and negative (140,167) in the first quarter 2011.

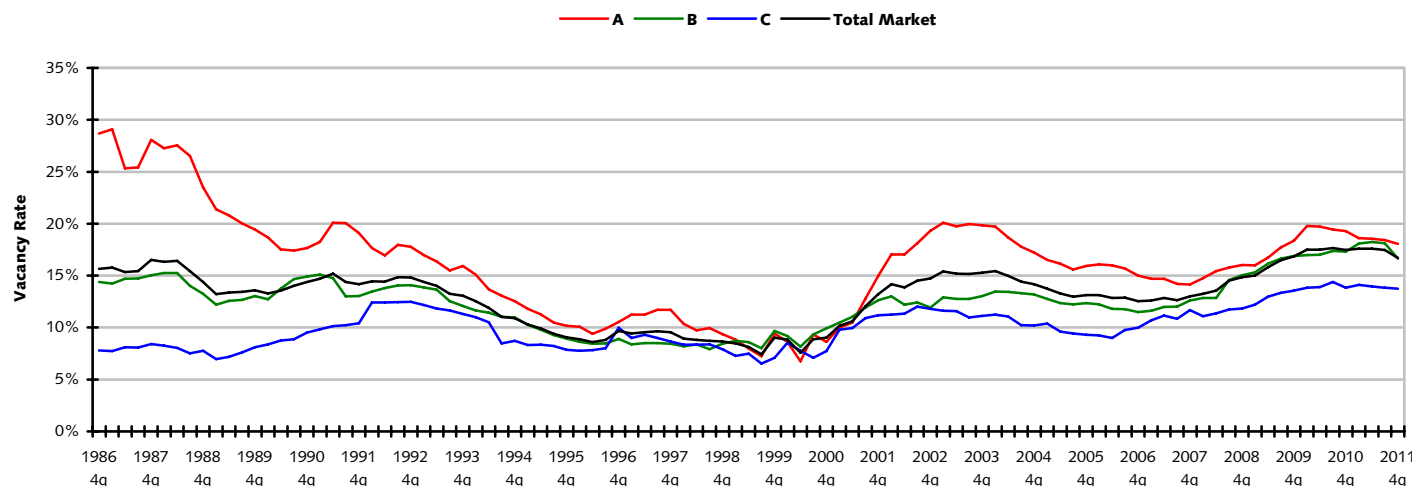
Net absorption for Atlanta's central business district was negative (43,048) square feet in the fourth quarter 2011. That compares to negative (30,525) square feet in the third quarter 2011, negative (129,039) in the second quarter 2011, and negative (234,559) in the first quarter 2011.

Net absorption for the suburban markets was positive 662,935 square feet in the fourth quarter 2011. That compares to positive 446,661 square feet in third quarter 2011, positive 92,327 in the second quarter 2011, and negative (27,657) in the first quarter 2011.

Vacancy

The office vacancy rate in the Atlanta market area decreased to 16.7% at the end of the fourth quarter 2011. The decrease was primarily due to the removal of Ponce City Market (in Midtown) from the office inventory at the start of the conversion of the

VACANCY RATES BY CLASS 1986-2011



Source: CoStar Property®

property. The vacancy rate was 17.5% at the end of the third quarter 2011, 17.6% at the end of the second quarter 2011, and 17.6% at the end of the first quarter 2011.

Class-A projects reported a vacancy rate of 18.1% at the end of the fourth quarter 2011, 18.4% at the end of the third quarter 2011, 18.6% at the end of the second quarter 2011, and 18.6% at the end of the first quarter 2011.

Class-B projects reported a vacancy rate of 16.7% at the end of the fourth quarter 2011, 18.1% at the end of the third quarter 2011, 18.2% at the end of the second quarter 2011, and 18.1% at the end of the first quarter 2011. The fourth quarter Class-B vacancy decrease was primarily due to the removal of Ponce City Market (in Midtown) from the office inventory at the start of the conversion of the property.

Class-C projects reported a vacancy rate of 13.7% at the end of the fourth quarter 2011, 13.8% at the end of third quarter 2011, 14.0% at the end of the second quarter 2011, and 14.1% at the end of the first quarter 2011.

The overall vacancy rate in Atlanta's central business district at the end of the fourth quarter 2011 increased to 14.6%. The vacancy rate was 14.5% at the end of the third quarter 2011, 14.4% at the end of the second quarter 2011, and 14.0% at the end of the first quarter 2011.

The vacancy rate in the suburban markets decreased to 17.0% in the fourth quarter 2011. The vacancy rate was 17.9% at the end of the third quarter 2011, 18.0% at the end of the second quarter 2011, and 18.1% at the end of the first quarter 2011.

Largest Lease Signings

The largest lease signings occurring in 2011 included: the 344,475-square-foot lease signed by Primerica at 3100 Breckinridge Blvd in the Northeast Atlanta market; the 203,245-square-foot deal signed by GE Consumer Finance at Windward Plaza - Building 300 in the North Fulton market; and the 135,075-

square-foot lease signed by SunTrust Robinson Humphrey at Atlanta Financial Center - South Tower in the Buckhead market.

Sublease Vacancy

The amount of vacant sublease space in the Atlanta market decreased to 2,036,256 square feet by the end of the fourth quarter 2011, from 2,223,036 square feet at the end of the third quarter 2011. There was 2,349,308 square feet vacant at the end of the second quarter 2011 and 2,324,391 square feet at the end of the first quarter 2011.

Atlanta's Class-A projects reported vacant sublease space of 1,423,939 square feet at the end of fourth quarter 2011, down from the 1,530,621 square feet reported at the end of the third quarter 2011. There were 1,679,355 square feet of sublease space vacant at the end of the second quarter 2011, and 1,672,483 square feet at the end of the first quarter 2011.

Class-B projects reported vacant sublease space of 583,359 square feet at the end of the fourth quarter 2011, down from the 639,553 square feet reported at the end of the third quarter 2011. At the end of the second quarter 2011 there were 610,143 square feet, and at the end of the first quarter 2011 there were 600,807 square feet vacant.

Class-C projects reported decreased vacant sublease space from the third quarter 2011 to the fourth quarter 2011. Sublease vacancy went from 52,862 square feet to 28,958 square feet during that time. There were 59,810 square feet at the end of the second quarter 2011, and 51,101 square feet at the end of the first quarter 2011.

Sublease vacancy in Atlanta's central business district stood at 314,820 square feet at the end of the fourth quarter 2011. It was 332,805 square feet at the end of the third quarter 2011, 275,918 square feet at the end of the second quarter 2011, and 265,118 square feet at the end of the first quarter 2011.

Sublease vacancy in the suburban markets ended the fourth quarter 2011 at 1,721,436 square feet. At the end of the third quarter 2011 sublease vacancy was 1,890,231 square feet, was 2,073,390 square feet at the end of the second quarter 2011, and was 2,059,273 square feet at the end of the first quarter 2011.

Rental Rates

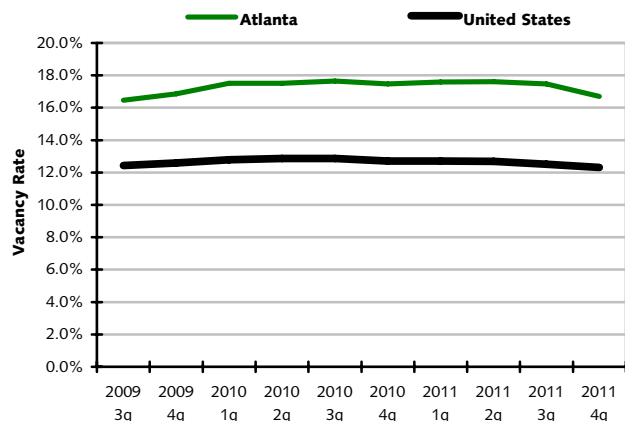
The average quoted asking rental rate for available office space, all classes, was \$18.67 per square foot per year at the end of the fourth quarter 2011 in the Atlanta market area. This represented a 1.6% increase in quoted rental rates from the end of the third quarter 2011, when rents were reported at \$18.38 per square foot.

The average quoted rate within the Class-A sector was \$21.59 at the end of the fourth quarter 2011, while Class-B rates stood at \$16.52, and Class-C rates at \$14.15. At the end of the third quarter 2011, Class-A rates were \$21.50 per square foot, Class-B rates were \$16.16, and Class-C rates were \$13.83.

The average quoted asking rental rate in Atlanta's CBD was

U.S. VACANCY COMPARISON

Past 10 Quarters



Source: CoStar Property*

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\$18.55 at the end of the fourth quarter 2011, and \$18.68 in the suburban markets. In the third quarter 2011, quoted rates were \$17.64 in the CBD and \$18.45 in the suburbs.

Deliveries and Construction

During the fourth quarter 2011, two buildings totaling 22,793 square feet were completed in the Atlanta market area. This compares to one building totaling 5,890 square feet that were completed in the third quarter 2011, two buildings totaling 44,328 square feet completed in the second quarter 2011, and 60,663 square feet in six buildings completed in the first quarter 2011.

There were 1,828,130 square feet of office space under construction at the end of the fourth quarter 2011.

Some of the notable 2011 deliveries include: New Hampton Place, a 40,162-square-foot facility that delivered in second quarter 2011 and is now 56% occupied, and 6670 Merchants Way, a 19,015-square-foot building that delivered in first quarter 2011 and is now 100% occupied.

The largest projects underway at the end of fourth quarter 2011 were Ponce City Market, a 750,000-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 294,623,914 square feet in 14,653 buildings as of the end of the fourth quarter 2011. The Class-A office sector consisted of 116,053,612 square feet in 504 projects. There were 5,509 Class-B buildings totaling 126,011,336 square feet, and the Class-C sector consisted of 52,558,966 square feet in 8,640 buildings. Within the Office market there were 548 owner-occupied buildings accounting for 30,540,165 square feet of office space.

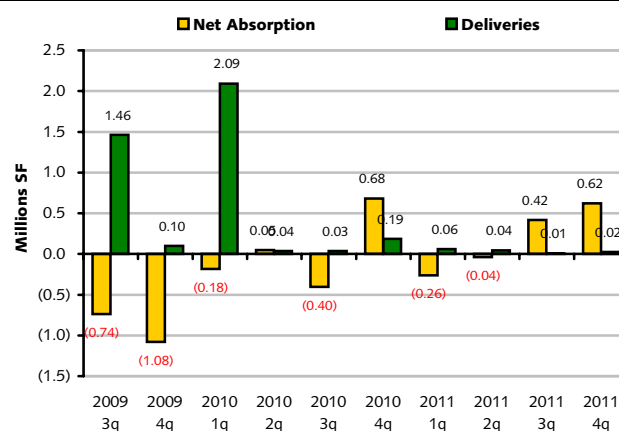
Sales Activity

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

In the third quarter, 23 office transactions closed with a total volume of \$267,117,638. The 23 buildings totaled 4,435,482

ABSORPTION & DELIVERIES

Past 10 Quarters



Source: CoStar Property

square feet and the average price per square foot equated to \$60.22 per square foot. That compares to 33 transactions totaling \$318,760,172 in the second quarter 2011. The total square footage in the second quarter was 4,374,210 square feet for an average price per square foot of \$72.87.

Total office building sales activity in 2011 was up compared to 2010. In the first nine months of 2011, the market saw 71 office sales transactions with a total volume of \$816,981,138. The price per square foot averaged \$80.46. In the same first nine months of 2010, the market posted 70 transactions with a total volume of \$437,993,460. The price per square foot averaged \$97.17.

Cap rates have been lower in 2011, averaging 9.58% compared to the same period in 2010 when they averaged 9.68%.

One of the largest transactions that has occurred within the last four quarters in the Atlanta market is the sale of 3344 Peachtree in Atlanta. This 483,726-square-foot office building sold for \$167,300,000, or \$345.86 per square foot. The property sold on 1/21/2011, at a 6.80% cap rate.

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