



PMRG

Market AT A Glance

ATLANTA OFFICE
MARKET REPORT
SECOND QUARTER 2014



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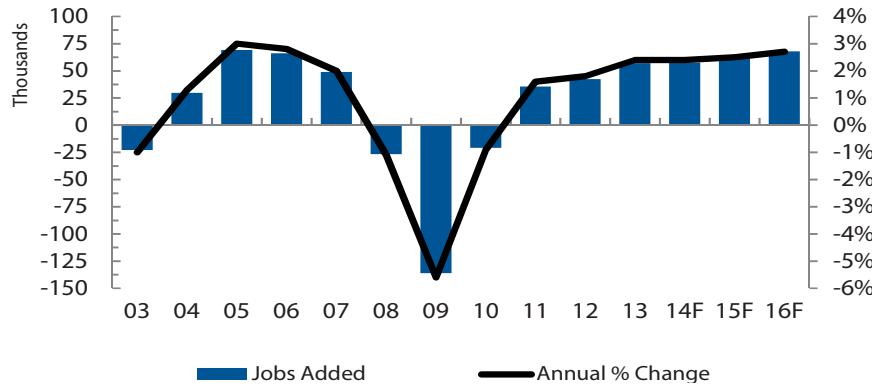
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ECONOMIC OVERVIEW

During the first-half of 2014, Atlanta's economy demonstrated signs of picking up steam with 59,400 jobs created for the 12 months ending May 2014, which represents a 2.5% annual increase. Growth was evident in nearly all industry sectors, with particularly strong annual gains in the professional & business services sector (+20,100 jobs); the trade, transportation & utilities sector (+14,600 jobs); and the leisure & hospitality sector (+9,400 jobs). During the same period, Atlanta's unemployment rate has dropped 70 basis points to 7.3% in May. The sustained positive economic indicators signify Atlanta is in the midst of fully recovering from the downturn experienced from 2008 to 2010, with the current employment level only 13,100 jobs below its pre-recession peak recorded in December 2007. Based on the current rate of job growth, Atlanta is on pace to fully recover all jobs lost during the downturn during the second-half of 2014.

The metro Atlanta area continues to attract relocation and expansion activity, with particularly strong growth in the healthcare, technology, and homebuilding sectors. Recent headquarter relocations and corporate expansions include State Farm Insurance, Carter's, Athenahealth, Airwatch, Ernst & Young, Infosys, Pulte Group and ExactTarget, which provides clear evidence of the area's increasing attractiveness to corporate users looking for a highly skilled and educated work force. Atlanta's economy is forecasted to exhibit continued strength and accelerate with the creation of 61,300 jobs in 2015 and a strong addition of 67,800 jobs in 2016, according to the Economic Forecasting Center at Georgia State University.

Employment Trends



Source: U.S. Bureau of Labor Statistics, Georgia State University

Employment Growth by Sector

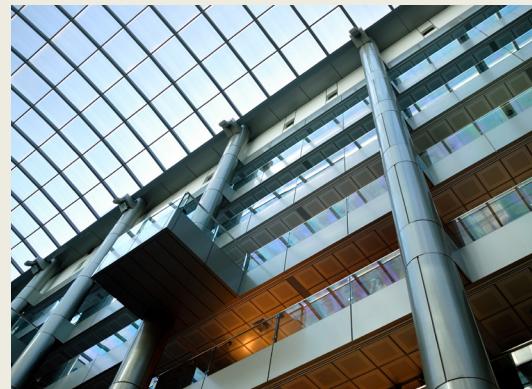
	Current Reading	12-Months Prior Reading	Annual Change	HEALTH (Improving or Declining)
Mining	1.2	1.2	0.0%	►
Construction	97.6	90.5	7.8%	►
Manufacturing	151.0	148.8	1.5%	►
Trade, Transportation & Utilities	546.9	532.3	2.7%	►
Information	85.3	84.8	0.6%	►
Financial Activities	158.7	155.9	1.8%	►
Professional & Business Services	453.3	433.2	4.6%	►
Education & Health Services	300.0	295.2	1.6%	►
Leisure & Hospitality	258.5	249.1	3.8%	►
Other Services	93.2	93.9	-0.7%	▼
Government	319.5	320.9	-0.4%	▼

Source: U.S. Bureau of Labor Statistics, Employment Data as of May 2014.
All Employees, In Thousands, Data Not Seasonally Adjusted

OFFICE MARKET ASSESSMENT

Strong employment growth continued to drive office leasing demand with 608,703 sq. ft. of direct net absorption recorded during the second quarter of 2014, bringing the trailing 12-month occupancy gain total to 3.2 million sq. ft. – its highest annual gain experienced since 2007. Class A product posted 300,493 sq. ft. of direct absorption during the quarter and have accounted for just over 2.4 million sq. ft. of space absorbed within the past 12 months. As a result of the solid demand, Class A direct occupancy rates increased by 30 basis points to 83.9% and have moved up 210 basis points within the past 12 months to reach its highest level in five years. The Class B sector also contributed to the quarterly gains with 292,861 sq. ft. of direct absorption, bringing the trailing 12-month total to 734,467 sq. ft. Class B direct occupancy rates moved up 50 basis points to 80.2% during the second quarter and have improved by 60 basis points within the past 12 months.

Several noteworthy leases were signed during the first-half of 2014, which will further boost absorption numbers in the coming quarters. The largest transaction year-to-date involved Fiserv securing a 376,351 sq. ft. lease at the Cobalt Center, which will include the relocation of about 2,000 employees from Peachtree Corners by August 2015. In addition, Halyard Health, currently known as Kimberly-Clark Health Care, recently inked a 174,000 sq. ft. lease at 5405 Windward Parkway in Alpharetta as the firm plans to expand their headquarters from Roswell. Allstate also leased 100,986 sq. ft. of direct space at The Towers at Wildwood Plaza, with expected occupancy early in 2015.



Atlanta Ranked 3rd Fastest Growing Metro:

The Atlanta metropolitan area was the third-fastest growing area in the nation between 2000 and 2010, behind Houston and Dallas. The Atlanta region's one million new residents in the 28-county area represented a growth rate of 24%, which is the largest population gain in the Southeast.

Home to 27 Fortune 1000 Companies:

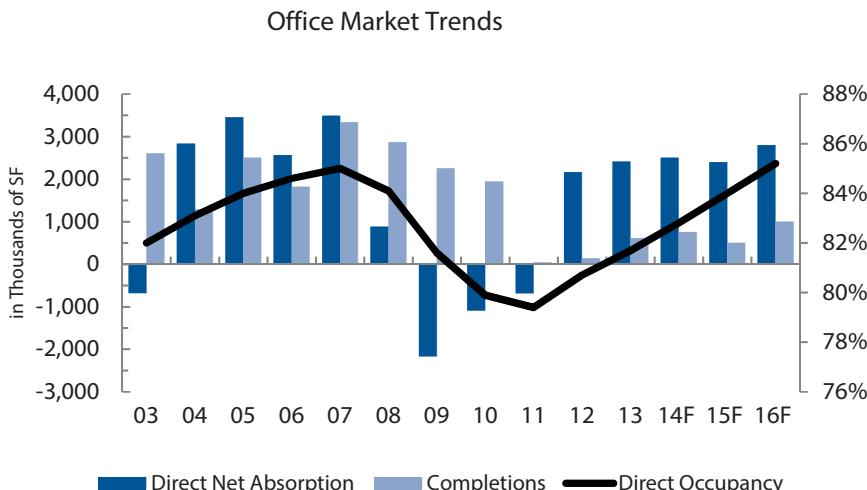
Atlanta ranks third in the nation among cities with the highest concentration of Fortune 500 headquarters. Twenty-seven metro Atlanta headquartered companies placed among the Fortune 1,000, of which fourteen are among the Fortune 500.

Atlanta Ranked Least Costly Business Location:

Atlanta was ranked the least-costly location to do business in the United States among the 27 largest metro areas, according to a new study from audit, tax and advisory firm KPMG. The "2014 Competitive Alternatives" study measured 26 cost components in each market, including labor, taxes, real estate, and utilities, as they apply to 19 industries over a 10-year analysis horizon.

FORECAST

- A flight to quality trend will remain as tenants are more increasingly confident in securing long-term lease commitments, but the negotiating power will continue to further shift to the landlord's favor due to space availability constraints for well-located properties with strong amenities.
- This trend coupled with historically low speculative construction levels will help facilitate strong improvements in the Class A market, primarily within the Buckhead, Central Perimeter and Midtown submarkets.
- Future rent growth will primarily occur within the Class A sector as corporate users prefer more efficient, higher quality space in well-located areas with great infrastructure and amenities.



Market Trend Indicators

	Current Quarter	Change from Previous Quarter	12-month Forecast
Direct Occupancy	82.3%	▲	▲
Direct Net Absorption	608,703	▼	▲
Under Construction	758,992	►	▲
Direct Asking Rents	\$20.03	▲	▲



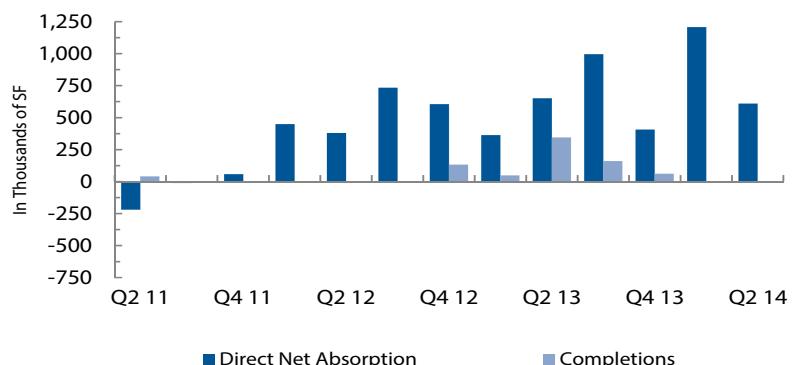
"Moderate job growth and limited development are expected to continue throughout 2014, which will lead to a tighter market for quality space and further rent growth in the most desirable submarkets", said Bill Weghorst, EVP, Managing Director, Southeast Division.

Submarket Occupancy Ranking			
Rank	Submarket	Occ.	Y-O-Y%
		Rate	Change
1	Buckhead	85.7%	3.3%
2	Central Perimeter	84.5%	3.3%
3	South Atlanta	83.7%	-3.7%
4	Midtown	83.1%	1.8%
5	North Fulton	82.8%	1.7%
6	Northwest	82.0%	0.0%
7	Downtown	81.6%	1.7%
8	Northeast	74.9%	-0.8%

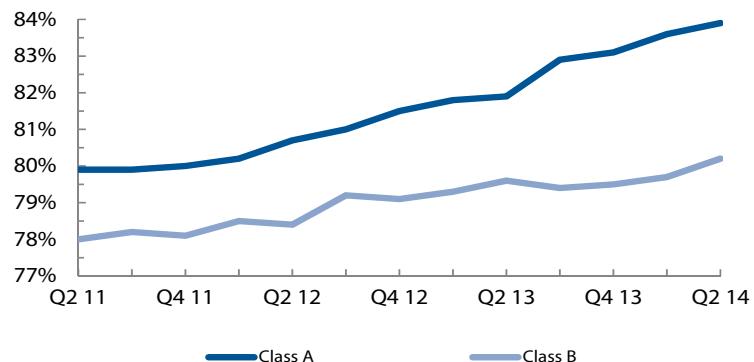
NET ABSORPTION & VACANCY

- Midtown posted 214,505 sq. ft. of direct net absorption during the quarter, with the Class A market accounting for 174,494 sq. ft. of the quarterly demand. Recent tenant move-ins included Purchasing Power (46,222 sf), Jackson Spalding (35,928 sf), Miller & Martin (35,640 sf) and Lord Aeck & Sargent (30,016 sf).
- Buckhead recorded 200,740 sq. ft. of direct absorption, with the Class A sector capturing 92% of the quarterly growth. The largest occupancy gains involved Pulte Group moving into 108,000 sq. ft. at One Capital City Plaza and MagMutual occupying 40,922 sq. ft. at Piedmont Center 14.
- Central Perimeter posted 125,621 sq. ft. of direct absorption, which comes on the heels of recording nearly 464,000 sq. ft. of occupancy gains in the prior quarter as State Farm further expanded their footprint. The Class B sector accounted for 193,863 sq. ft. of absorption growth as CH2M Hill moved into 97,468 sq. ft. at Embassy Row in a relocation from Sterling Pointe II and 400 Northpark.
- North Fulton posted 109,895 sq. ft. of direct absorption, with the quarterly gains nearly evenly split with Class A totaling 51,761 sq. ft. and Class B with 55,159 sq. ft. The Class A market has witnessed a flurry of leasing activity with recent deals by Fiserv, Kimberly Clark, Andritz Hydro, Resurgens Rehabilitation and Kinder Morgan, which will further boost the absorption totals in future quarters.
- Northwest Atlanta posted 164,278 sq. ft. of negative absorption largely due to Coca Cola relinquishing 197,035 sq. ft. at The Towers at Wildwood Plaza and relocating their employees to SunTrust Plaza Garden Offices in downtown Atlanta. On a positive note, Allstate recently secured a 100,986 sq. ft. lease and Vonage Business Solutions leased 80,000 sq. ft., which will help backfill this space in the coming quarters.

Direct Net Absorption vs. Completions



Direct Occupancy Rates

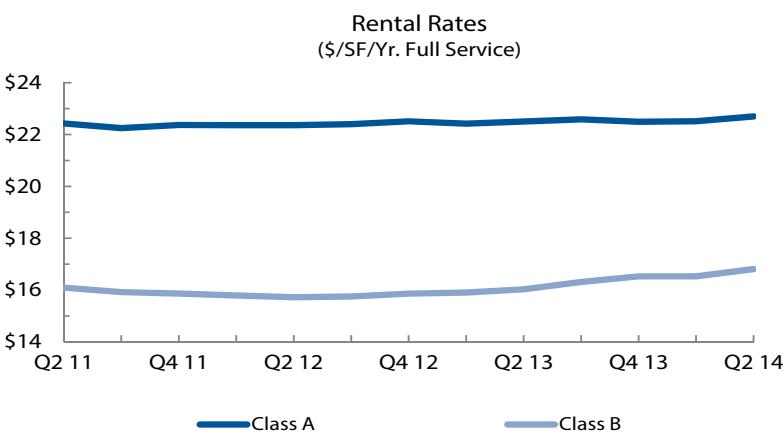


RENTAL RATES & LEASING ACTIVITY

- Class A asking rents rose by \$0.19 to \$22.70 per sq. ft. (gross) during the quarter and have increased by 0.9% or \$0.20 within the past 12 months. Class A asking rents remain 7.5% or \$1.85 per sq. ft. below its cyclical peak recorded mid-2008.
- Class B asking rents jumped by \$0.28 to \$16.81 per sq. ft. during the quarter and have moved up 4.9% or \$0.78 within the past 12 months. Class B rents remain 5.0% or \$0.88 per sq. ft. below the market's peak recorded at year-end 2008.
- The lack of upward pressure on rental rates in some submarkets suggests that tenants continue to hold bargaining power, but the tide is changing as landlords are offering fewer concessions and rental rates have been trending upwards in the most desired submarkets.
- Strong demand has depleted the supply of large contiguous space options, causing Class A asking rents to climb in 6 of 8 submarkets. Most notably, landlords in the Central Perimeter submarket have raised Class A rents by 7.4% to \$24.44 per sq. ft. within the past 12 months.
- As a result of the flight to quality trend, landlords will continue to offer aggressive incentives for second and third generational product in submarkets with high vacancy rates, but these large space options will gradually diminish as leasing activity remains strong.
- Class A leasing velocity has declined from the swift pace experienced in 2013, as large space options in the most desirable submarkets have become limited. At the end of the second quarter, the trailing four-quarter volume of Class A direct space leased totaled 8.2 million sq. ft., which is 7.5% below the market's 5-year historical average. However, Class B market has benefitted with 4.6 million sq. ft. leased within the past 12 months, 24.3% above its 5-year historical average.

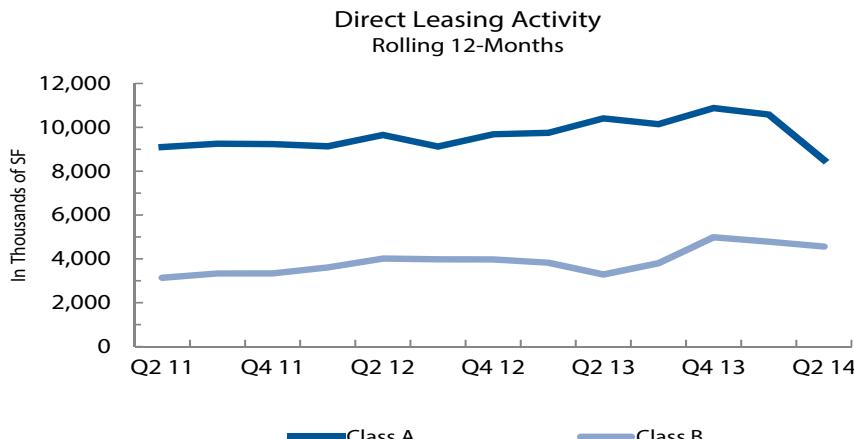


Atlanta's office market fundamentals will continue to steadily improve throughout 2014, with Central Perimeter, Buckhead and the northern suburbs remaining the submarkets to watch as corporations look to relocate or consolidate space," said Chip Roach, SVP, Leasing.



Submarket Rental Rate Ranking

Rank	Submarket	Rental Rate	Y-O-Y % Change
1	Buckhead	\$24.73	2.1%
2	Midtown	\$24.21	-5.6%
3	Central Perimeter	\$21.89	4.8%
4	Northwest	\$19.52	4.9%
5	North Fulton	\$19.35	4.1%
6	Downtown	\$17.58	-3.7%
7	South Atlanta	\$16.78	7.7%
8	Northeast	\$16.58	3.5%





NOTABLE LEASE TRANSACTIONS

- Vonage Business Solutions leased 80,000 sq. ft. at The Towers at Wildwood Plaza, with plans to relocate from 1375 Peachtree.
- EarthLink secured a 64,910 sq. ft. lease at The Proscenium in Midtown in the prior quarter, with plans to relocate from Pershing Pointe within the same submarket later in 2014.
- Preferred Apartment Communities signed a 60,774 sq. ft. Class A lease at The Medici in Buckhead, with plans to relocate from One Overton by August 2014.
- DW Waters leased 58,357 sq. ft. at 2300 Wildwood as the firm is being forced to relocate due to recent purchase of 5660 New Northside by Intercontinental Exchange.
- Emory University inked a 51,270 sq. ft. lease at 12 Executive Park Drive NE and plans to take occupancy in September 2014.
- Altisource Solutions secured a 46,859 sq. ft. lease at 400 Northpark in Central Perimeter, with occupancy expected by October 2014.
- Jackson Spalding leased 35,928 sq. ft. at Eleven Hundred Peachtree Street in Midtown.
- Andritz Hydro signed a 35,186 sq. ft. lease at 5405 Windward Pkwy and plans to occupy their space early in 2015.
- Resurgens Rehabilitation signed a 32,000 sq. ft. lease at 6335 Hospital Pkwy in North Fulton.
- Yardi Systems recently signed a 28,619 sq. ft. lease expansion at Mansell Overlook 500 in North Fulton, with occupancy expected during the third quarter.
- Regus secured a 26,002 sq. ft. lease at One Alliance Center in Buckhead, with occupancy expected by year-end.
- Streamline Healthcare recently inked a lease for 24,372 sq. ft. while Cozen O'Connor leased 24,328 sq. ft. at Promenade in Midtown.

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CONSTRUCTION

- The office construction pipeline remains well below its 10-year historical average of 2.3 million sq. ft., with 759,992 sq. ft. of office space underway (excluding owner/user development). This is down from its cyclical peak of 5.9 million sq. ft. underway in 2008 prior to the economic recession.
- New construction will likely be limited to single-tenant build-to-suit and owner/user development in the near term but there are several large tenants scouting the market who could help kick off a development.
- The first speculative office project to come out of the ground will likely be Tishman Speyer's Three Alliance Center, a proposed 500,000 sq. ft. Class A building in Buckhead, with expected delivery in mid-2016.
- Central Perimeter is the likely next location for new office development as large contiguous blocks of space have become scarce largely due to State Farm, but the insurance giant's looming 2.2 million sq. ft. campus have kept developers more restrained than in previous cycles even with the submarket's Class A direct occupancy rate at 88.8%.
- Other developers that could move forward with a new office tower include Ackerman & Co at its Abernathy 400 site, Manulife's 18-acre mixed-use site next to Ashford Green office building which calls for a 250,000 sq. ft. office building and Hines Interests' 100 Northpark, a site off Abernathy Rd that could accommodate 1.5 million sq. ft. of office.
- Hines and North American Properties have also announced plans to build an eight to 10-story office building at Avalon, the \$600 million Alpharetta mixed-use project at Georgia 400 and Old Milton Parkway. This would mark the first speculative building in North Fulton in almost seven years.

Construction Pipeline



SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROJECT NAME	SIZE (SF)	SUBMARKET	MAJOR TENANT	LEASED	DEVELOPER	TARGET COMPLETION
Cox Enterprises*	578,000	Central Perimeter	Cox Enterprises	100%	Cousins Properties	2Q 2015
Ponce City Market	487,034	Midtown	MailChimp, Athenahealth, Cardlytics	77%	Jamestown Properties	3Q 2014
Porsche Cars North America Facility*	200,000	South Atlanta	Porsche, Inc.	100%	Jacoby Development	3Q 2014
Buckhead Atlanta - 3035 Peachtree	125,000	Buckhead	Spanx	90%	Oliver McMillan	3Q 2014
Avalon Lofts - Bldg 5000	60,971	North Fulton	Wakefield Beasley, Integrated Care	79%	North American Properties	4Q 2014
Avalon Lofts - Bldg 6000	48,987	North Fulton	Undisclosed	28%	North American Properties	4Q 2014

* Owner-occupied (excluded from competitive statistics)

S U B M A R K E T S T A T I S T I C S

Submarkets	TOTAL SPACE AVAILABLE			DIRECT NET ABSORPTION			CONSTRUCTION		ASKING RENT	
	Total Inventory SF	Direct	Sublease	Direct Occupancy	Current Qtr.	Year To Date	Completions Current Qtr	Under Construction	Class A	Class B
Buckhead	20,037,327	3,478,860	286,213	85.7%	200,740	309,509	-	162,000	\$26.09	\$19.73
Midtown	18,182,422	3,332,801	297,193	83.1%	214,505	355,828	-	487,034	\$26.05	\$18.92
Downtown	21,928,377	4,888,817	344,304	81.6%	82,786	266,726	-	0	\$18.57	\$17.81
Central Perimeter	25,977,550	4,559,193	473,718	84.5%	125,621	589,529	-	0	\$24.44	\$19.13
Northwest	28,555,743	6,328,377	545,606	82.0%	(164,278)	86,258	-	0	\$22.76	\$16.39
North Fulton	22,534,862	4,099,095	463,443	82.8%	109,895	179,081	-	109,958	\$21.50	\$15.56
Northeast	17,924,536	5,002,134	230,858	74.9%	43,111	11,697	-	0	\$19.91	\$14.96
South Atlanta	8,380,478	1,548,072	128,211	83.7%	(3,677)	17,233	-	0	\$18.69	\$17.69
Totals	163,521,295	33,237,349	2,769,546	82.3%	608,703	1,815,861	0	758,992	\$22.70	\$16.81
Property Types	TOTAL SPACE AVAILABLE			DIRECT NET ABSORPTION			CONSTRUCTION		Asking Rent	Y-O-Y Change
	Total Inventory SF	Direct Available	Sublease Available	Direct Occupancy	Current Qtr.	Year To Date	Completions Current Qtr	Under Construction	Asking Rent	Y-O-Y Change
Class A	98,034,786	18,050,029	1,927,311	83.9%	300,493	999,501	-	721,992	\$22.70	0.9%
Class B	57,940,052	13,454,136	830,811	80.2%	292,861	804,918	-	37,000	\$16.81	4.9%
Class C	7,546,457	1,733,184	11,424	78.9%	15,349	11,442	-	-	\$12.35	-1.9%
Totals	163,521,295	33,237,349	2,769,546	82.3%	608,703	1,815,861	0	758,992	\$20.03	1.7%

M E T H O D O L O G Y

Total Inventory: The total inventory includes all single and multi-tenant leased office buildings with at least 20,000 square feet of gross rentable square footage.

Total Space Available: Available space currently being marketed which is either physically vacant or occupied.

Direct Space: Space that is being offered for lease directly from the landlord or owner of a building. Under construction space is not included in space available figures.

Sublease Space: Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation.

Direct Occupancy Rate: Direct space physically occupied divided by the total rentable inventory.

Direct Net Absorption: The net change in occupied direct space over a given period of time.

Under Construction: Office buildings which have commenced construction as evidenced by site excavation or foundation work.

Direct Asking Rents: The quoted full-service asking rent for available space expressed in dollars per square foot.



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A B O U T P M R G

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