



**PMRG**  
Market ATLANTA Glance

ATLANTA OFFICE  
MARKET REPORT  
THIRD QUARTER 2015



**PMRG** | PM Realty Group



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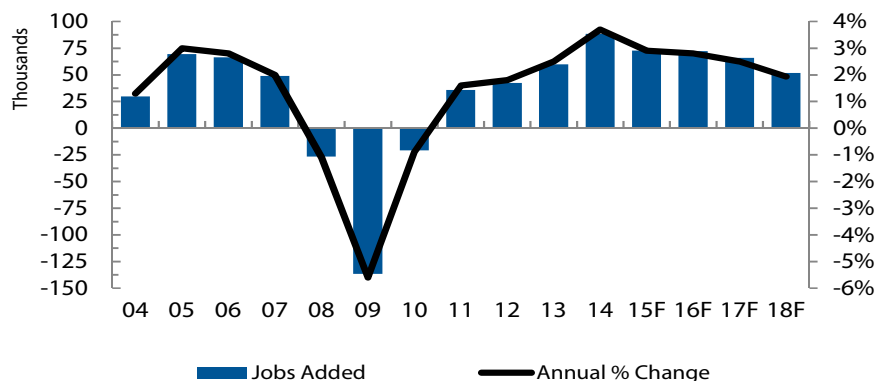
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## ECONOMIC OVERVIEW

Atlanta's economic expansion continues to charge ahead with 66,400 new jobs created during the last 12 months ending in August 2015, which represents a solid 2.6% annual increase. Most notably, the Atlanta metro area has created 356,200 jobs since its trough in early 2010 and continues to advance at a faster pace than the 2.1% national employment growth rate. The industry sectors largely contributing the strong annual employment gains were in professional & business services (+18,500 jobs), trade, transportation & utilities (+16,800 jobs), leisure & hospitality (+10,100 jobs), and education & health services (+9,800 jobs). Meanwhile, the metro area's unemployment rate stood at 5.7% in August, down 160 basis points compared to 12 months ago.

The Atlanta metro area continues to attract relocation and expansion activity and has quickly built a reputation as a hub for the tech sector, which is among the leaders for economic growth, along with biosciences and advanced manufacturing. A number of planned expansions and relocations by large firms attest to the strength of Atlanta's tech and corporate cluster. Recent corporate relocations and expansions include Mercedes-Benz USA, Kaiser Permanente, Comcast, Sage, N3, Varian Medical Systems and Veritiv, which provides clear evidence of the area's increasing attractiveness to employers seeking a highly skilled and educated work force. Atlanta's economic outlook will remain bright as the metro area is forecasted to create 72,500 jobs in 2015, followed by an addition of 72,000 jobs in 2016, according to Moody's Analytics.

## Employment Trends



Source: U.S. Bureau of Labor Statistics, Moody's Analytics

## Employment Growth by Sector

	Current Reading	12-Months Prior Reading	Annual Change	HEALTH (Improving or Declining)
Mining & Logging	1.3	1.3	0.0%	▲
Construction	110.9	103.6	7.0%	▲
Manufacturing	155.9	153.6	1.5%	▲
Trade, Transportation & Utilities	572.2	555.4	3.0%	▲
Information	88.1	89.2	-1.2%	▼
Financial Activities	165.6	160.8	3.0%	▲
Professional & Business Services	488.8	470.3	3.9%	▲
Education & Health Services	318.8	309.0	3.2%	▲
Leisure & Hospitality	275.9	265.8	3.8%	▲
Other Services	94.6	95.9	-1.4%	▲
Government	320.1	320.9	-0.2%	▲

Source: U.S. Bureau of Labor Statistics, Employment Data as of August 2015.  
 All Employees, In Thousands, Data Not Seasonally Adjusted



### OFFICE MARKET ASSESSMENT

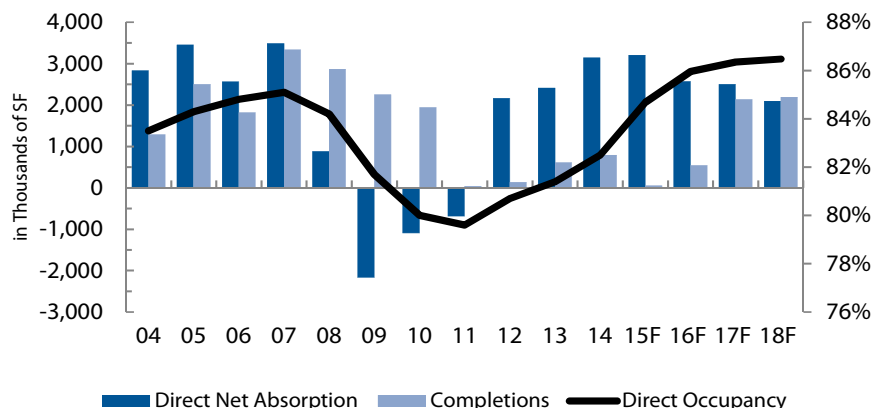
Strong employment growth continues to fuel office leasing demand citywide with its 17th consecutive quarter of positive absorption, bringing the cumulative occupancy gains total to over 9.9 million sq. ft. since the end of the Great Recession. Atlanta's office leasing market closed the third quarter with an impressive 1.1 million sq. ft. of direct net absorption, pushing the year-to-date total to just over 2.7 million sq. ft. This marked the second consecutive quarter for absorption levels to exceed the one million sq. ft. mark last experienced over 15 years ago and is currently on pace to finish the year with its strongest occupancy gain since 2007. Class A product accounted for the majority of the quarterly demand with 749,587 sq. ft. of direct absorption growth, increasing the year-to-date total to nearly 2.1 million sq. ft. As a result of solid demand and restrained development activity, Class A direct occupancy rates have improved by 300 basis points to 86.2% over the prior 12 months to reach a 14-year high. The Class B market has also contributed with 316,111 sq. ft. of direct absorption growth during the quarter, and 531,374 sq. ft. year-to-date. Consequently, Class B direct occupancy levels have moved up 110 basis points to 81.5% within the past 12 months.

With the local economy expanding at a swift pace, Atlanta's office market fundamentals have significantly improved within the past two years. Despite the robust office employment growth, developers have remained reluctant to move forward on speculative construction to meet the surging demand for office space with the exception of Three Alliance and Riverwood 200. As a result, the construction pipeline has remained mostly limited to corporate-owned and build-to-suit projects for growing companies such as Cox Communications, State Farm, NCR Corp, Comcast, Mercedes Benz, Genuine Auto Parts and Synovus Bank. The current lack of adequate new development will lead to further space tightening and demand spilling over into adjacent submarkets, but there are several proposed construction projects on the drawing board that could break ground after preleasing requirements are achieved to meet future demand beyond 2016.

### FORECAST

- A flight to quality trend coupled with historically low speculative construction levels will further shift the negotiating power to the landlord's favor, especially within well-located properties with greater infrastructure and amenities.
- As the Class A office market continues to tighten, large corporate users needing immediate space will increasingly consider Class B space options in the urban core submarkets or venture out to the northern suburbs as a more economically viable alternative.
- With a few construction projects coming online in the near term, occupancy and rental rates are projected to continue rising over the next 12 to 18 months.

Office Market Trends



#### Atlanta Ranked 10th Largest Economy:

Atlanta is the 10th largest metro economy in the U.S. by real GDP and the largest in the South, yet living and business costs compare with metros of smaller size. A diverse industrial structure, strong population growth, reasonable business costs, and high educational attainment lift Atlanta's growth potential above the nation's.

#### Home to 29 Fortune 1000 Companies:

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

#### Atlanta Ranked Least Costly Business Location:

Atlanta has lowest relative cost of doing business among the nation's 27 largest metro areas, according to a recent 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.

Market Trend Indicators

	Current Quarter	Change from Previous Quarter	Year	12-month Forecast
Direct Occupancy	84.4%	▲	▲	▲
Trailing 12 mos. Direct Net Absorption	3,515,285	▲	▲	▲
Under Construction	903,690	▲	▲	▲
Direct Asking Rents	\$21.90	▲	▲	▲



"Strong absorption and limited development will lead to tighter market conditions and exert upward pressure on rental rates for high quality space in the most desirable submarkets", said Bill Weghorst, EVP, Managing Director, Southeast Division.

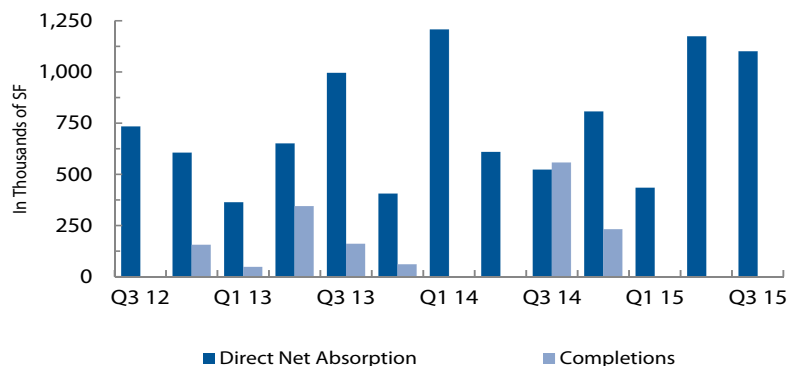
### Submarket Occupancy Ranking

Rank	Submarket	Occ. Rate	Y-O-Y % Change
1	Buckhead	88.4%	2.9%
2	South Atlanta	87.0%	3.7%
3	North Fulton	86.9%	3.3%
4	Central Perimeter	86.0%	1.2%
5	Midtown	84.6%	4.1%
6	Northwest	84.4%	2.8%
7	Downtown	81.5%	-0.8%
8	Northeast	76.4%	0.9%

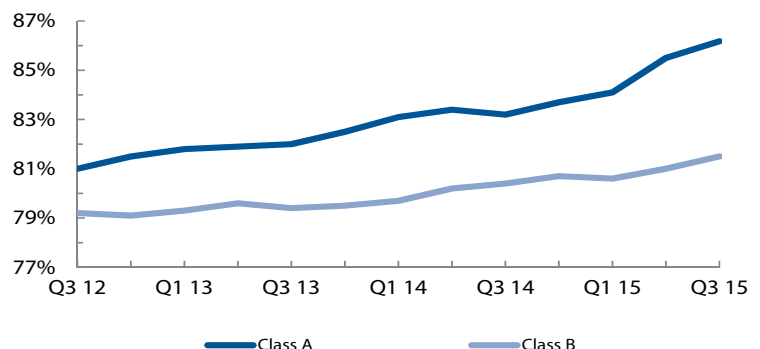
## NET ABSORPTION & VACANCY

- North Fulton featured the largest quarterly gain with 444,872 sq. ft. of direct space absorbed, bringing the year-to-date total to 758,506 sq. ft. The bulk of the quarterly gains occurred in the Class A sector largely due to Fiserv moving into 376,351 sq. ft. at Cobalt Center in their relocation from Northeast Atlanta.
- Northwest Atlanta recorded 337,900 sq. ft. of direct absorption during the quarter, pushing the year-to-date total to 666,914 sq. ft. The Class B sector accounted for the majority of the growth, compliments of Home Depot moving into roughly 197,000 sq. ft. at Newmarket Business Park.
- Buckhead posted 203,228 sq. ft. of direct absorption during the quarter, pushing the year-to-date total to 433,298 sq. ft. The largest quarterly gains involved RentPath occupying 74,776 sq. ft. in Atlanta Plaza and SAP taking down 43,741 sq. ft. at One Alliance Center. Other noteworthy move-ins included Amazon, USAA, and Applied Systems taking down full floors.
- Midtown Atlanta experienced 102,364 sq. ft. of positive direct absorption, bringing the year-to-date total to 462,507 sq. ft. The Class A sector recorded 105,949 sq. ft. of direct absorption growth, with the largest gains taking place in Ponce City Market as Industrious occupied 27,981 sq. ft. and Athenahealth moved into 21,155 sq. ft. of expansion space. Hendrick and Document Technologies also took down a combined 23,331 sq. ft. at 400 Colony Square.
- Central Perimeter recorded 77,417 sq. ft. of direct net absorption, pushing the year-to-date total to 267,401 sq. ft. The largest quarterly gains included Mercedes Benz (89,288 sq. ft. at Sterling Pointe II), Engle Martin & Associates (39,719 sq. ft. at Glenridge Highlands II) and Amtrak (36,973 sq. ft. at Concourse Corporate Center Four). However, these gains were offset by Oracle Corp. leaving behind 75,269 sq. ft. at 500 Northpark and SAP moving out of 37,907 sq. ft. at 1001 Perimeter Summit.

### Direct Net Absorption vs. Completions



### Direct Occupancy Rates



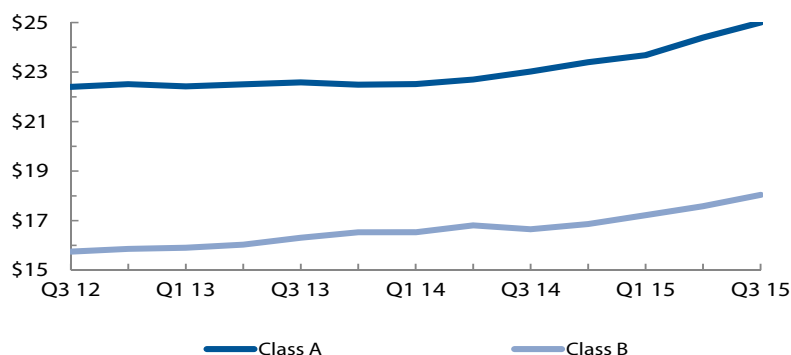
### RENTAL RATES & LEASING ACTIVITY

- Citywide Class A full-service gross asking rents rose by \$0.61 to \$25.00 per sq. ft. during the quarter and have jumped by 8.6% or \$1.98 within the past 12 months to finally surpass its prior peak recorded in 2008.
- Class B asking rents increased by \$0.46 to \$18.04 per sq. ft. during the quarter and have moved up 8.3% or \$1.39 per sq. ft. within the past year to reach record highs.
- Strong demand has depleted the supply of large contiguous space options and given landlords the confidence to raise rental rates across all submarkets. The largest annual hike in Class A asking rents have occurred in Downtown (18.7%), Buckhead (13.9%), Midtown (11.6%), North Fulton (7.8%) and Central Perimeter (7.3%).
- As a result of Atlanta's recent supply-demand imbalance, landlords of existing product have much more leverage to raise rents. With a modest amount of new construction underway, this means that rental rates have grown organically, as opposed to new inventory artificially pushing average rents up as experienced in prior cycles.
- As steady economic growth continues to push occupancy rates higher, landlords in the most desirable submarkets will continue to gain negotiation leverage with fewer concessions being offered, and rental rates trending upwards.
- The transition to efficient and collaborative space has resulted in the size of parking requirements increasing with 5 spaces per 1,000 sq. ft. becoming more standard. If the trend of smaller work space prevails, landlords could be left with space that is either unleaseable or left as common space for additional building amenities.
- Leasing velocity has remained strong but has demonstrated signs of slowing down largely due to limited availabilities in the most desirable submarkets. The trailing four-quarter volume of Class A direct space leased totaled nearly 6.2 million sq. ft., which is 22.6% below the market's 10-year historical average.

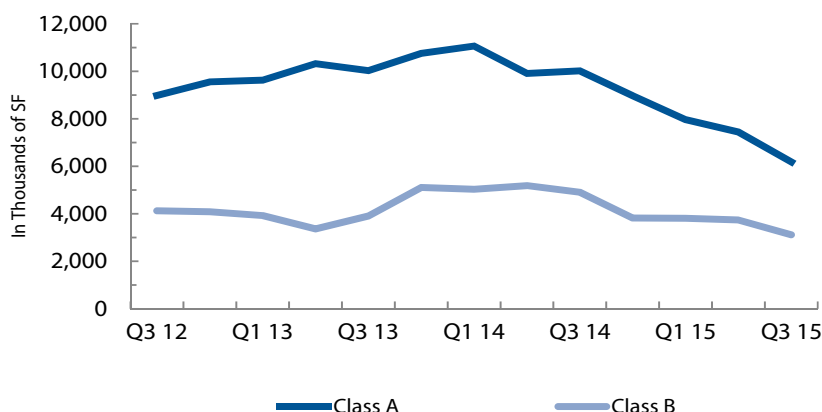


"Atlanta's office market fundamentals will continue to steadily improve into 2016, with leasing activity in the northern suburbs picking up as space in Central Perimeter, Buckhead and Midtown becomes limited," said Chip Roach, EVP, Atlanta Market Leader.

**Rental Rates**  
(\$/SF/Yr. Full Service)



**Direct Leasing Activity**  
Rolling 12-Months



#### Submarket Rental Rate Ranking

Rank	Submarket	Rental Rate	Y-O-Y % Change
1	Buckhead	\$29.00	13.5%
2	Midtown	\$27.12	12.6%
3	Central Perimeter	\$24.10	9.2%
4	Downtown	\$21.63	18.7%
5	North Fulton	\$20.82	8.3%
6	Northwest	\$20.65	6.1%
7	South Atlanta	\$17.36	2.5%
8	Northeast	\$17.02	2.7%



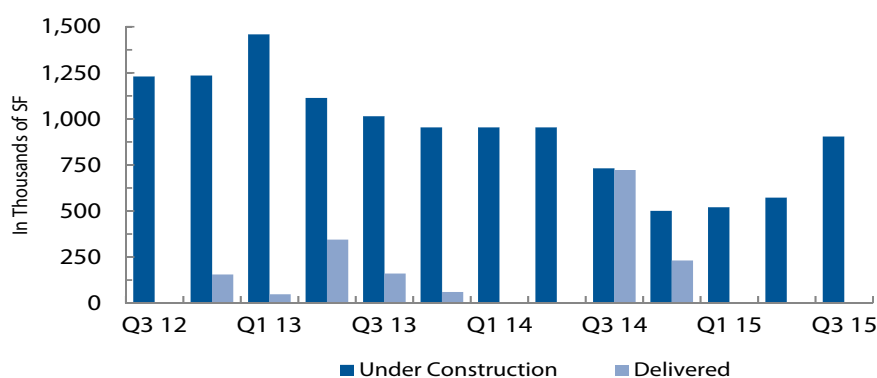
## NOTABLE LEASING ACTIVITY

- Newell Rubermaid purchased a 96,979 sq. ft. office building at 6655 Peachtree Dunwoody, with plans to relocate from Three Glenlake in early 2016.
- Lincoln Financial Group signed a 106,121 sq. ft. lease at RiverEdge Summit in Sandy Springs, with expected occupancy by second quarter 2016.
- United Healthcare signed a 105,110 sq. ft. lease at 2100 Riveredge Pkwy NW, with plans to relocate from Ashford Green by year-end.
- Technology firm N3 LLC has entered advanced discussions with the ownership of Buckhead's Piedmont Center buildings 1 – 4 to take at least 90,000 sq. ft., but other options may still be in play.
- Delta Community Credit Union signed a 79,000 sq. ft. pre-lease commitment in the Riverwood 200 office building. Bennett Thrasher LLP has also inked a 62,500 sq. ft. deal and Holder Construction secured a 55,954 sq. ft. deal in the development.
- Sage Software secured a 78,756 sq. ft. lease at Atlantic Station in Midtown, with a phased move-in starting in 3Q15.
- NextGen Healthcare recently leased 48,479 sq. ft. at Piedmont Center 5-8. The healthcare technology firm plans to relocate from Tower Place 100 in 4Q15.
- Rheem Manufacturing Company leased 46,128 sq. ft. at 500 Northpark in Central Perimeter, with plans to occupy space early in 2016.
- CSM Bakery leased 43,170 sq. ft. of Class B space at Lakeside Office Park, with expected occupancy by early 2016.
- Law firm Finnegan, Henderson, Farabow, Garrett & Dunner inked a 26,200 sq. ft. lease at 271 17th St in Midtown, with plans to relocate from Downtown Atlanta's Sun Trust Tower.
- Software firm Patienco Holdings, LLC signed a 24,726 sq. ft. sublease at Terminus 200, with plans to add up to 100 jobs over the next several months.

## CONSTRUCTION

- Comcast Corp. has recently secured a deal to anchor a 300,000 sq. ft. office tower at SunTrust Park, where it will locate its Central Division headquarters and house about 1,000 employees. The office tower will be a part of the Atlanta Braves' 74-acre, \$400 million mixed-use project located in Cobb County.
- Portman Properties will soon begin construction on Tech Square, a \$300 million, 750,000 sq. ft. mixed-use development at 700 Spring Street. Georgia Tech will be the anchor tenant taking roughly one-half of the new development and the remaining space will be available for corporate entities and partners.
- NCR Corp. has recently secured a 15-year pre-lease commitment to kick-start construction on a 485,000 sq. ft. headquarters building in Midtown's Tech Square. Construction is expected to break ground early in 2016 and deliver by early 2018.
- Mercedes-Benz USA plans to invest about \$100 million into a build-to-suit project totaling 250,000 sq. ft. in Sandy Springs, which is expected to be completed in 2017.
- Highwoods Properties and JV partner Seven Oaks Properties recently broke ground on Riverwood 200, a 308,000 sq. ft. office building. The project is already 69% pre-leased, which includes Delta Community Credit Union with 81,998 sq. ft., CPA firm Bennett Thrasher with 62,500 sq. ft. and Holder Construction with 56,000 sq. ft.
- Piedmont Realty Trust plans to develop Glenridge Highlands III, a 300,000 sq. ft. office building in Sandy Springs. AON is rumored to be in negotiations to possibly lease half the building.
- Developers with projects on the drawing board include Ackerman & Co at its Abernathy 400 site; Hines Interests' Northpark 700, a 26-story office tower in Sandy Springs (at Mount Vernon Hwy and Abernathy Rd), Crown Holding's "Ethos", a transit oriented development adjacent to State Farm's Park Center; and "Perimeter Summit" (at Lake Hearn) by GE Pension Trust and Seven Oaks Co., with a site in their master planned development. These projects will likely require substantial preleasing to begin construction.

Construction Pipeline



## SIGNIFICANT PROJECTS UNDER CONSTRUCTION

PROJECT NAME	SIZE (SF)	SUBMARKET	MAJOR TENANT	% PRE-LEASED	DEVELOPER	TARGET COMPLETION
State Farm - 236 Perimeter Center Pkwy NE*	602,000	Central Perimeter	State Farm	100%	KDC RE Development	4Q 2016
Three Alliance Center - 3550 Lenox Rd NE	500,000	Buckhead	N/A	0%	Tishman Speyer	4Q 2016
Riverwood 200	308,000	Northwest	Delta Community Credit Union	69%	Highwoods Properties	2Q 2017
Genuine Parts Phase II - 4205 Wildwood Pkwy*	150,000	Northwest	Genuine Parts	100%	Cousins Properties	3Q 2016
615 Peachtree*	107,000	Midtown	Georgia Proton Treatment	100%	Signet Development	1Q 2017
Ariana Office Building	52,000	North Fulton	Ariana Home Furnishings	50%	Ariana Home Furnishings	4Q 2015
Armour Yards	43,690	Buckhead	N/A	0%	Third & Urban	1Q 2016

\* Owner-occupied (excluded from competitive statistics)



### SUBMARKET STATISTICS

Submarkets	Total Inventory SF	TOTAL SPACE AVAILABLE		Direct Occupancy	DIRECT NET ABSORPTION		CONSTRUCTION		ASKING RENT	
		Direct	Sublease		Current Qtr.	Year-to-Date	Completions Current Qtr	Under Construction	Class A	Class B
Buckhead	20,787,592	2,776,051	331,085	88.4%	203,228	433,298	-	543,690	\$30.89	\$23.06
Midtown	18,767,123	2,653,897	444,780	84.6%	102,364	462,507	-	-	\$29.34	\$23.44
Downtown	21,356,995	4,686,601	368,113	81.5%	53,406	(94,868)	-	-	\$22.32	\$17.90
Central Perimeter	26,401,207	4,377,927	1,049,013	86.0%	77,417	267,401	-	-	\$27.03	\$21.19
Northwest	28,485,935	5,517,416	647,959	84.4%	337,900	666,914	-	308,000	\$24.31	\$17.02
North Fulton	22,726,538	4,155,257	426,194	86.9%	444,872	758,506	-	52,000	\$23.15	\$17.34
Northeast	18,181,117	5,213,074	440,543	76.4%	(134,435)	99,007	-	-	\$20.45	\$15.12
South Atlanta	8,432,883	1,356,058	103,697	87.0%	15,941	115,934	-	-	\$18.74	\$17.79
Totals	165,139,390	30,736,281	3,811,384	84.4%	1,100,693	2,708,699	0	903,690	\$25.00	\$18.04

Property Types	Total Inventory SF	TOTAL SPACE AVAILABLE		Direct Occupancy	DIRECT NET ABSORPTION		CONSTRUCTION		ASKING RENT	
		Direct Available	Sublease Available		Current Qtr.	Year-to-Date	Completions Current Qtr	Under Construction	Asking Rent	Y-O-Y Change
Class A	99,256,052	16,625,693	3,042,625	86.2%	749,587	2,121,700	-	851,690	\$25.00	8.6%
Class B	58,761,293	12,788,758	768,759	81.5%	316,111	531,374	-	52,000	\$18.04	8.3%
Class C	7,122,045	1,321,830	0	83.8%	34,995	55,625	-	-	\$13.82	4.7%
Totals	165,139,390	30,736,281	3,811,384	84.4%	1,100,693	2,708,699	0	903,690	\$21.90	8.5%

### METHODOLOGY

**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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## ABOUT PMRG

Headquartered in Houston, Texas, PM Realty Group (PMRG) is one of the nation's leading real estate companies focusing on comprehensive property services, development and acquisitions. With a strategic presence in 30 markets, PMRG provides the highest quality services to its clients and investors. PMRG's clients and investors include large financial institutions, advisors and high net worth individuals. By capitalizing on the team's experience and expertise, PMRG has the ability to undertake large and challenging management, leasing, development and acquisition projects.

PMRG's portfolio, including projects managed for third parties, includes commercial office buildings, mixed-use centers, corporate headquarters, industrial buildings, medical facilities, high-rise multifamily buildings and re-appropriated military facilities.

Our goal is to generate exceptional returns for our clients and investors by focusing on real estate fundamentals. For additional information, visit [www.pmrgr.com](http://www.pmrgr.com).