

MARKETBEAT

SAVANNAH, GEORGIA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q09

ECONOMY

In October of 2009 the national unemployment rate reached a 26 year high at 10.2%, wreaking havoc on the national office market. The unemployment rate in Metro Savannah climbed to 8.3%. Mounting job losses nationally and locally resulted in decreased demand for office space, rising vacancy rates and downward pressure on rental rates. As companies strive to maintain operational efficiency, there is fear that the 2010 economic recovery may be a “jobless recovery,” further impeding the improvement of office market fundamentals.

A lack of sustainable job growth in Savannah’s service and manufacturing sectors, and relatively weak consumer confidence may hinder Savannah’s chance for a rapid economic recovery. However, the Savannah area benefits from a diverse economy which includes the 4th largest container port in the country, tourism, multiple military bases, 40,000+ college students, and a strong inbound migration of pre-retirees and retirees. The area’s diversity sets Savannah apart from other markets and will be a driving force for future economic growth.

OVERVIEW

Available office space in Metro Savannah remained abundant, resulting in a 25% vacancy in our CBD, and a 23% vacancy in our Non-CBD (Southside, Westside, Bryan, Effingham and Islands Submarkets). Asking rental rates held steady, averaging \$18.66 in Savannah’s CBD and \$18.88 for Non-CBD Submarkets. There are currently no new office buildings under construction due to the abundance of available space and the lack of demand for office space and the lack of available capital to finance construction projects.

FORECAST

Savannah’s office market will remain soft through the end of 2010. Expect effective rental rates to decline as landlords compete for tenants and lease concessions become more prevalent. Direct absorption will remain flat until employment increases and businesses regain confidence and the ability to commit to larger, longer term leases. The construction of new office projects will remain limited to build-to-suit projects with no speculative development. Tenants will take advantage of current market conditions to reduce their occupancy costs and upgrade their facilities.

Within the next 12 to 24 months expect to see a number of build-to-suit office projects get underway in Downtown Historic Savannah. Many office tenants are attracted to the unique and desirable work, live, and play environment that Historic Downtown provides. The addition of approximately 1,085 parking spaces in the Ellis Square Underground Parking Garage will enable more businesses to locate in Historic Downtown making nearby office properties more desirable and more leasable.

The new 200 Stephenson Center, a true Class A building located in Savannah’s Southside, has experienced a high level of leasing activity with new tenant announcements scheduled for early 2010. Expect firms serving the coastal Georgia and South Carolina regions to continue to migrate to the Westside/West Chatham County Submarket, a growing area which offers a regionally centralized and accessible location.

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BEAT ON THE STREET


– Bill Sparks, Principal, Gilbert & Lattimore
“Expect Savannah’s office market to remain soft through the end of 2010 as the local economy awaits sustainable job growth. Effective rental rates will decline as lease concessions become more prevalent and tenants leverage the abundance of available, competing office space.”


ECONOMIC INDICATORS


| National | 2008 | 2009F | 2010F |
|-------------------|-------|-------|-------|
| GDP Growth | 0.4% | -2.5% | 2.3% |
| CPI Growth | 3.8% | -0.4% | 1.7% |
| Savannah MSA | | | |
| Unemployment | 6.6% | 8.3% | N/A |
| Employment Growth | -1.7% | -3.2% | N/A |

Source: Moody’s | Economy.com

MARKET FORECAST

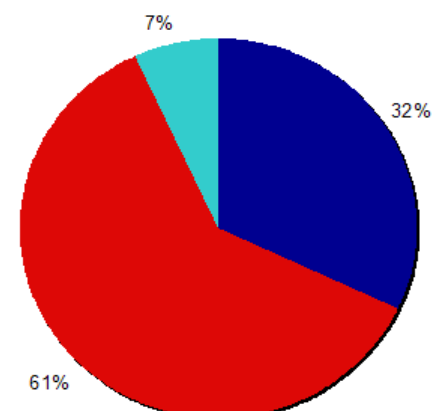
LEASING ACTIVITY will remain steady to slow driven mostly by lease expirations. 

DIRECT ABSORPTION remained flat due to lack of employment growth and businesses not committing to larger, longer leases. 

CONSTRUCTION: Office construction will remain limited to build-to-suit projects as developers exercise patience waiting on an economic recovery availability of capital. 

PERCENTAGE OF CLASS A, B, C OFFICE

■ CLASS A ■ CLASS B ■ CLASS C



MARKET/SUBMARKET STATISTICS

| MARKET/ SUBMARKET | INVENTORY | NO. OF BLDGS. | VACANCY RATE | UNDER CONSTRUCTION | CONSTRUCTION COMPLETIONS | CLASS A, B, C GROSS RENTAL RATE |
|-----------------------|-----------|---------------|--------------|--------------------|--------------------------|---------------------------------|
| Historic Downtown CBD | 1,236,797 | 48 | 25.0% | 0 | 0 | \$18.66 |
| Southside | 824,923 | 41 | 23.0% | 0 | 0 | \$19.40 |
| Westside | 734,101 | 29 | 30.0% | 0 | 0 | \$21.43 |
| Effingham County | 239,062 | 25 | 19.0% | 0 | 0 | \$17.75 |
| Bryan County | 171,987 | 18 | 33.0% | 0 | 0 | \$16.25 |
| Islands | 165,320 | 11 | 9.0% | 0 | 0 | \$19.55 |
| CBD* | 1,236,797 | 48 | 25.0% | 0 | 0 | \$18.66 |
| NON-CBD* | 2,135,393 | 124 | 23.0% | 0 | 0 | \$18.88 |
| Savannah MSA TOTAL | 3,372,190 | 172 | 24.0% | 0 | 0 | \$18.84 |

* Survey includes multi-tenant and single tenant buildings, 5,000 SF and above. Owner occupied buildings are not included.

MARKET HIGHLIGHTS

| SIGNIFICANT 4Q 2009 NEW LEASE TRANSACTIONS | | | | |
|--|-----------|----------------------|-------------|-----------------|
| BUILDING | SUBMARKET | TENANT | SQUARE FEET | BLDG CLASS |
| 135 Canal Street | Westside | Trinity Underwriting | 5,000 | B |
| 530 Stephenson Ave | Southside | Raymond James | 3,300 | B |
| Stephenson Executive Park | Southside | Coastal Corp. | 6,500 | B |
| SIGNIFICANT 4Q 2009 SALE TRANSACTIONS | | | | |
| BUILDING | SUBMARKET | Buyer | SQUARE FEET | PURCHASE PRICE |
| N/A | | | | |
| SIGNIFICANT 4Q 2009 CONSTRUCTION COMPLETIONS | | | | |
| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
| N/A | | | | |
| SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION | | | | |
| BUILDING | SUBMARKET | MAJOR TENANT | SQUARE FEET | COMPLETION DATE |
| N/A | | | | |

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