

MARKETBEAT

SAVANNAH, GA OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



2Q10

ECONOMY

The high national unemployment rate of 9.7% continues to impede the national office market recovery. The unemployment rate in Metro Savannah remained at 8.3% through April of 2010. These sustained unemployment levels nationally and locally resulted in decreased demand for office space and downward pressure on rental rates. As companies strive to achieve and maintain operational efficiency, there is fear that the 2010 economic recovery will be a “jobless recovery,” further delaying 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. The Georgia Ports Authority released encouraging numbers in October 2009 that indicate a turn-around and increase in retail container traffic of 1.7% over October 2008. This trend continued through the end of 2009 with slight increases reported in container traffic over the previous year.

OVERVIEW

Available office space in Metro Savannah remained abundant, resulting in a 25.25% vacancy in the CBD. It is important to note that the majority of vacancy in the CBD is attributed to small remnant spaces and there are very few large increments of contiguous spaces available with tenant improvements in place. On a positive note, the vacancy in the non-CBD (Southside, Westside, Bryan, Effingham and Islands Submarkets) declined by 1.69% to 21.31%. Asking rental rates held steady, averaging \$18.63 per square foot in Savannah’s CBD and \$18.83 per square foot 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. The majority of large leases signed in the first six months of the 2010 were attributed to educational and governmental related institutions.

FORECAST

Savannah’s office market will remain soft through the end of 2010. Expect effective rental rates to remain stagnant 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. Opportunistic tenants will take advantage of current market conditions to reduce their occupancy costs and upgrade their facilities. Within the next 12 to 18 months expect to see multiple GSA build-to-suit office projects get underway within the Downtown Historic Savannah and Westside Submarkets. 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. 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.

BEAT ON THE STREET

– Bill Sparks, SIOR, Gilbert & Lattimore

“Educational and governmental related tenants are responsible for the majority of new, substantial leases signed in the first half of 2010. These two sectors, along with healthcare are driving the bulk of activity in the Savannah office market. In addition, expect multiple GSA build-to-suits to begin construction within the next 12 to 18 months.”

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Regional			
Unemployment	8.2%	9.0%	8.0%
Employment Growth	-4.9%	-0.5%	1.5%

Source: Moody’s | Economy.com

MARKET FORECAST

LEASING ACTIVITY increased driven mostly by lease expirations.



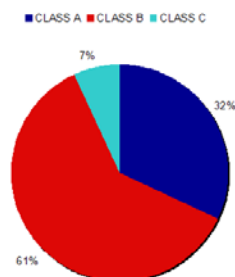
DIRECT ABSORPTION remained flat due to lack of employment growth and businesses not committing to larger, longer leases.



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



INVENTORY BY BUILDING CLASS



GILBERT & LATTIMORE
Commercial Real Estate, LLC

MARKET/SUBMARKET STATISTICS

Southside	824,923	41	21.00%	0	0	\$19.38
Westside	734,101	29	25.33%	0	0	\$18.81
Effingham County	239,062	25	17.00%	0	0	\$17.75
Bryan County	171,987	18	33.00%	0	0	\$18.11
Islands	165,320	11	10.23%	0	0	\$20.10
CBD*	1,236,797	48	25.25%	0	0	\$18.63
NON-CBD*	2,135,393	124	21.31%	0	0	\$18.83
Savannah MSA TOTAL	3,372,190	172	21.97%	0	0	\$18.80

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

MARKET HIGHLIGHTS

SIGNIFICANT 1Q 2010 NEW LEASE TRANSACTIONS				
BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
200 Stephenson Avenue	Southside	South University	11,000	A
Chatham Center	Westside	Phoenix University	8,000	B
Southern Oaks Professional Bldg	Westside	Chatham County Pardon & Parole	17,500	A
SIGNIFICANT 1Q 2010 SALE TRANSACTIONS				
BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
The Commerce Building	Downtown	Chatham County	58,000	Undisclosed
SIGNIFICANT 1Q 2010 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				



FOR INDUSTRY-LEADING INTELLIGENCE TO SUPPORT YOUR REAL ESTATE AND BUSINESS DECISIONS, GO TO CUSHMAN & WAKEFIELD'S KNOWLEDGE CENTER AT www.cushmanwakefield.com/knowledge

Gilbert & Lattimore Commercial Real Estate, LLC
 104 West State Street, Suite 220
 Savannah, Georgia 31401
 (912) 236-8992 www.gicre.com

*MARKET TERMS & DEFINITIONS BASED ON BOMA AND NAIOP STANDARDS.

This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. Cushman & Wakefield accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

Please consider your environmental responsibility before printing this