

Office Market Trends Atlanta

Grubb & Ellis Research
Second Quarter 2008



Business Expansions Keep Atlanta Afloat

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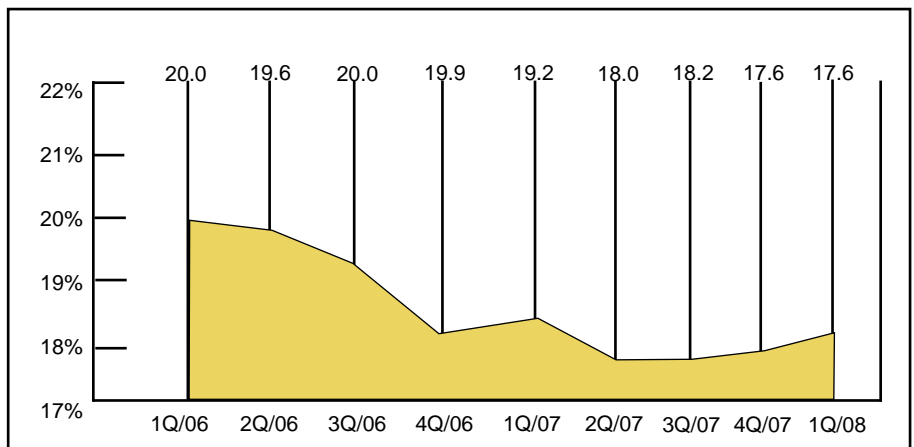
Overview

The economy became the focus of many Americans during the second quarter. Rising inflation, increasing energy costs and a housing market in turmoil have many citizens watching the bottom line. Business leaders are following suit, which is resulting in delays or postponements of transactions in the commercial real estate marketplace. Leasing transactions are taking longer to close and sublease space, an indicator of company downsizing, has increased by more than 450,000 square feet this quarter. Despite these challenges the needs of tenants in the marketplace have only become greater. For example, tenant rep brokers must evaluate how the decision by Fulton County to reassess all commercial properties will affect their clients. It is expected that landlords will pass tax increases through to tenants with an estimated average of a \$2.00 per square-foot operating expense adjustments. For companies in buildings such as The Pinnacle and 1180 Peachtree, where property taxes are expected to increase anywhere from 50 to 207 percent, the impact of these increases on business operations could be substantial.

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Office Vacancy Rate*
* All Classes of Space

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Market Activity

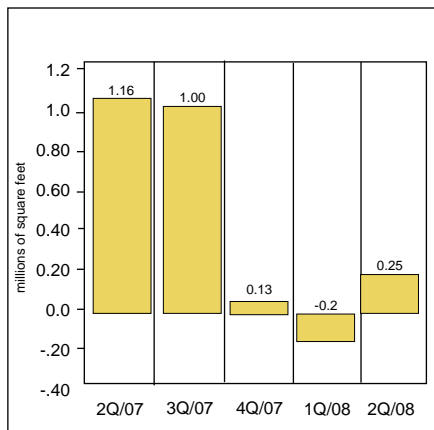
Despite sluggish office leasing activity halfway into 2008 there were a handful of submarkets reporting positive movement. This led to an overall net absorption total of 253,470 square feet for Metro Atlanta during the second quarter, bringing year-to-date net absorption to 56,873 square feet. Highlights include the Midtown submarket, which absorbed more than 400,000 square feet of office space, and the unexpected rise in Class C absorption in Cumberland/Galleria due to its expanding life sciences sector.

In Midtown, overall vacancy decreased by 2.9 percent thanks to large-scale tenant move-ins and a lack of new product deliveries. The Georgia Department of Transportation recently expanded its operations and has begun its phased move-in at 600 West Peachtree Street. The Georgia DOT will fully occupy its 282,000 square foot space by fall. Invesco also took a significant block of space, moving into 177,667 square feet at Dewberry Capital's Two Peachtree Point.

Further northwest in the Cumberland/Galleria office submarket Quintiles Transnational Corporation more than doubled in size, moving into their 184,000 square-foot space at 1600 Terrell Mill Road. Silverton Bank, formerly known as The Bankers Bank, vacated their 73,000 square-foot space at Paces Summit I and expanded into 143,000 square feet at the newly delivered office building The Medici. Additionally, Scientific Research signed a 93,000 square-foot lease at Wildwood Office Park and will be moving in the third quarter.

The Downtown office submarket posted negative overall net absorption activity in the second quarter, with occupancy losses totaling 90,326 square feet. Despite these move-outs positive activity was recorded when Georgia State University Board of Regents leased 67,000 square feet at 75 Piedmont Avenue. Additionally, Cushman & Wakefield took the entire seventh floor at 55 Allen Plaza.

The Central Perimeter submarket welcomed Newell Rubbermaid to its new 350,000 square foot corporate headquarters at 3 Glenlake during the second quarter. There were some smaller move-ins and expansions ranging from 5,500 square feet up to 80,000 square feet, most of which took place within Class B office space. However, this positive activity could not make up for move-outs during the quarter, resulting in overall negative absorption of 164,031 square feet. CH2M Hill Companies renewed their 75,957 square-foot lease and will be expanding into an additional 14,226 square feet of



Office Net Absorption

** All Classes of Space*

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sublease space. Global Workplaces renewed their 24,700 square-foot lease at 600 Northpark and Clearwire leased 20,094 square feet at 200 Glenridge Point Parkway.

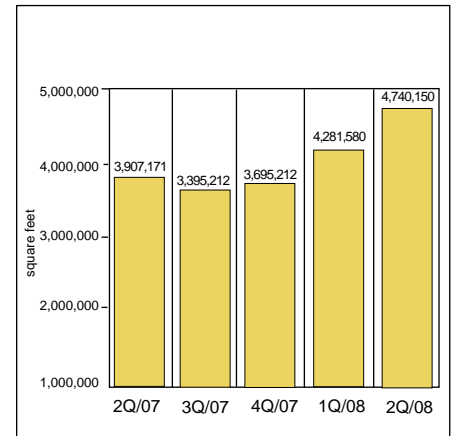
Construction Update

Cranes abound in Buckhead, where two million square feet of office space is under construction. Two Alliance Center, Terminus 200, 3630 Peachtree and Phipps Tower are all Class A properties competing for tenancy. The challenge Buckhead developers are facing with so much new space hitting the market is attracting tenants to lease the new space at higher rates. A strategy all have been following to this point is to quote net lease rates instead of conventional full service rates. To date there have been no significant leasing commitments announced for Buckhead's future office product.

Midtown construction is still bustling with the Daniel Company's 12th and Midtown mixed development, including 725,000 square feet of office space, a 400 room hotel and 60,000 square feet of retail space. Seyfarth Shaw is reportedly looking to relocate to the 12th and Midtown building and may take up to 75,000 square feet. In Atlantic Station, the 300,000 square-foot 271 17th Street is still active and slated to deliver by the end of 2008.

Outlook

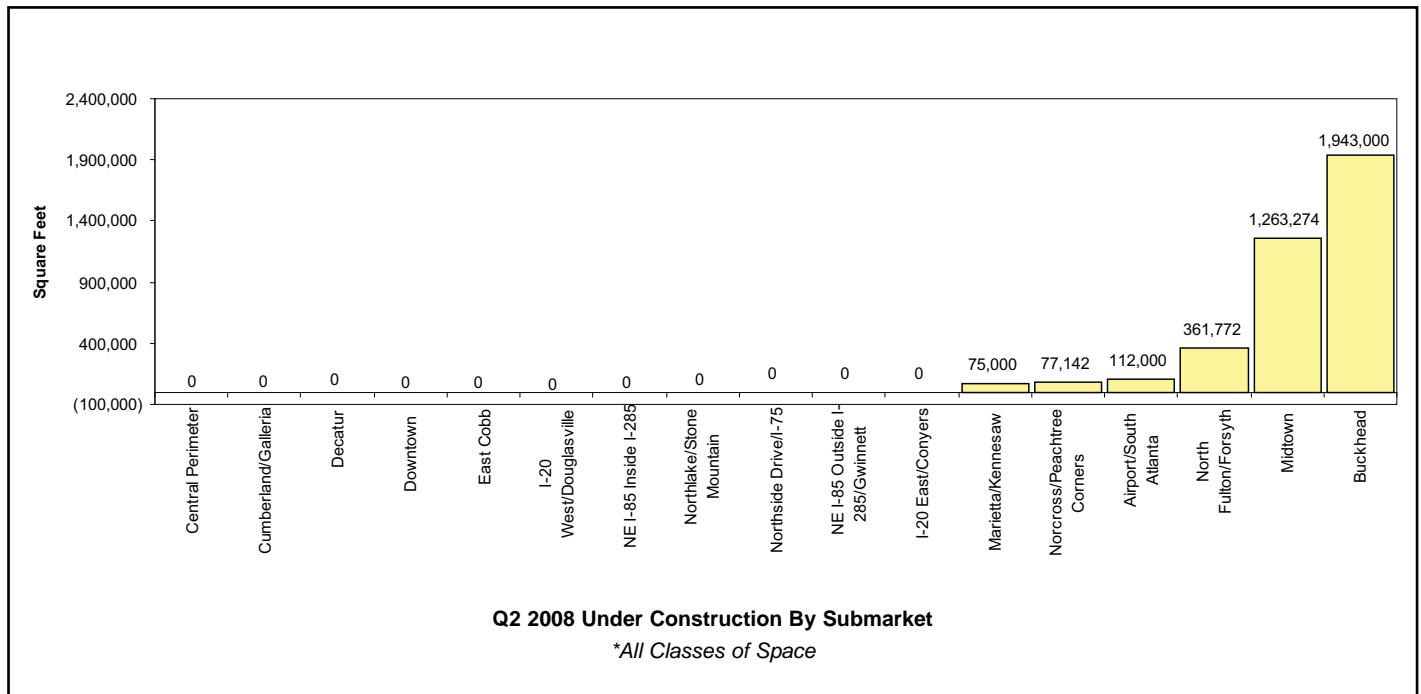
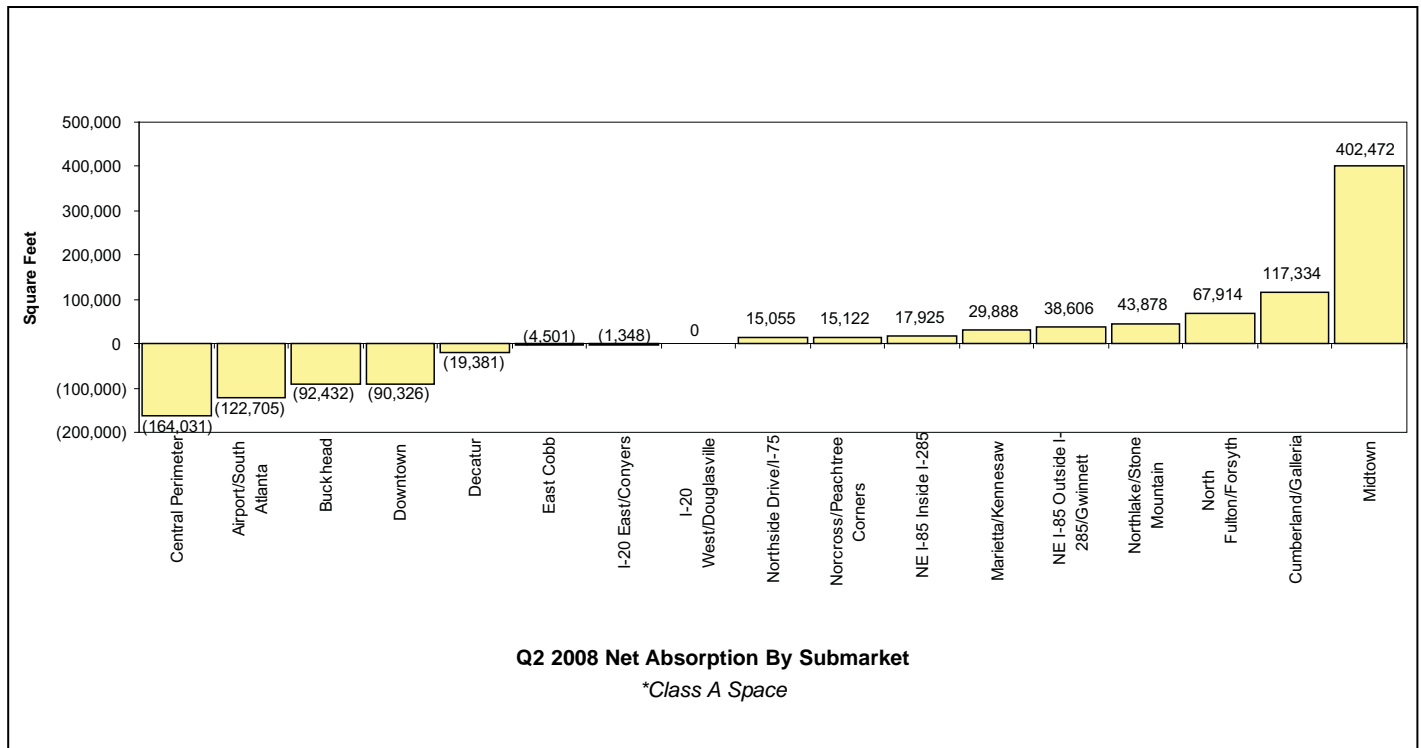
Despite economic concerns and rising inflation Metro Atlanta's office market remained active throughout the first half of 2008 thanks in large part to companies expanding into new space. Nevertheless, an elevated level of demand will be needed to fill the large blocks of space coming to the market over the next two years. Buckhead landlords in particular will need to be aggressive in order to secure leasing commitments – with two million square feet in the pipeline tenants will be able to “pick and choose” among many available relocation options. Atlanta should continue to draw new tenancy based on the merits of its comparatively low overall cost of living and economical office rental rates, however, Georgia officials are also taking an active role in recruiting new companies. The Georgia Department of Economic Development recently established a presence in China in order to promote trade between the two countries and also announced that PAX Technology, a China based company that provides electronic payment systems and point of sale software, will be establishing their headquarters in Georgia.



Available Office Sublease Space

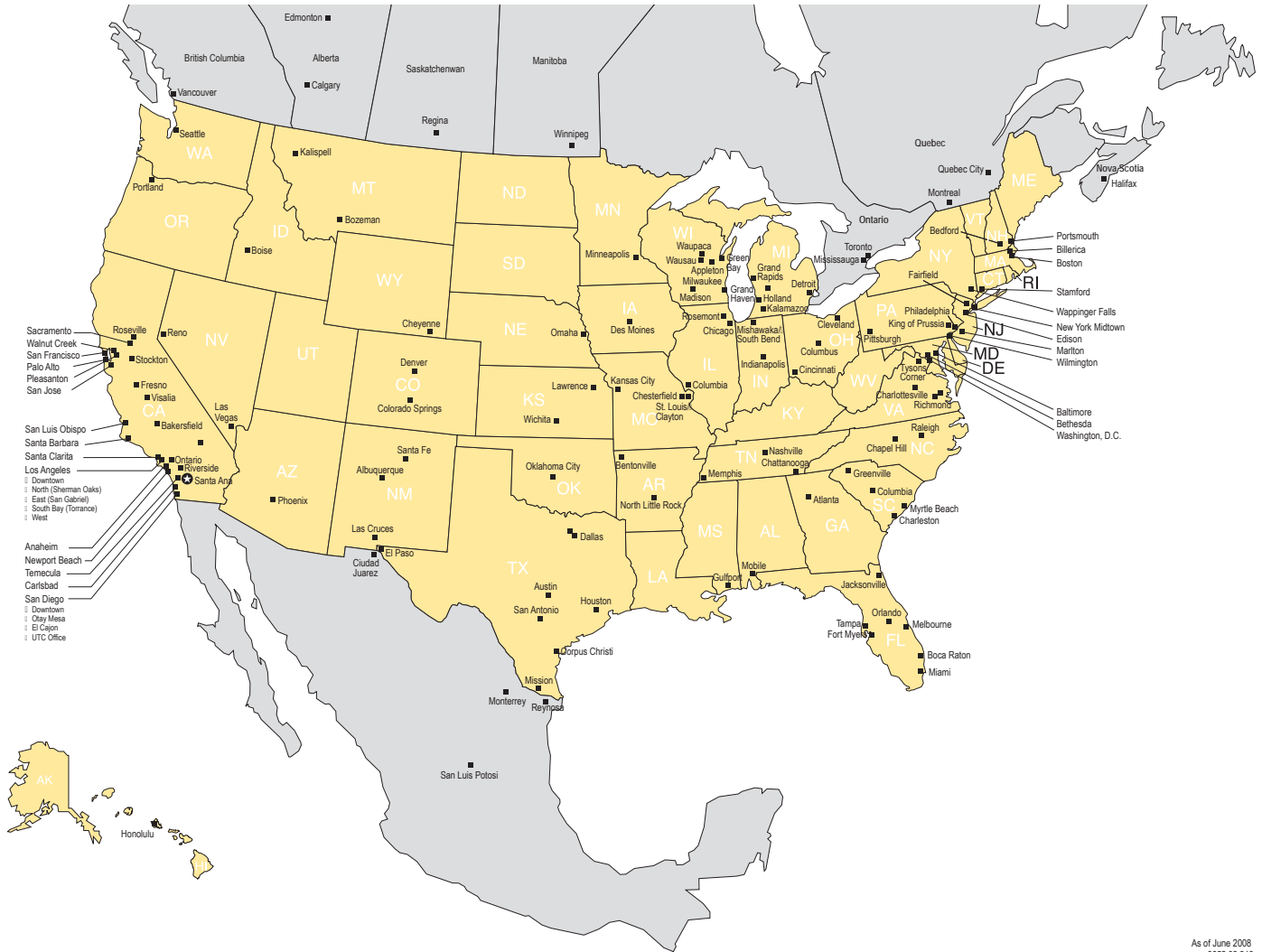
** All Classes of Space*

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As of June 2008
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Construction Watch

Second Quarter 2008										
	New Speculative Development				New Build-to-Suit Development			New Owner Occupied Development		
	Under Construction	Preleased %	Completed This Qtr	Completed YTD	Under Construction	Completed This Qtr	Completed YTD	Under Construction	Completed This Qtr.	Completed YTD
CBD	-	-	-	10,923	-	-	-	-	-	-
Suburban	3,877,036	29.0%	765,978	1,166,138	-	354,953	354,953	171,251	-	10,000
Total	3,877,036	29.0%	765,978	1,177,061	-	354,953	354,953	171,251	-	10,000

Office Market Snapshot Atlanta Second Quarter 2008

By Submarket (All Classes)	Total (1)	Vacant (2)	Vacant %	Net Absorption		Under Const. (3)	Asking Rent (4)	
	SF	SF		Current Qtr	Year To Date	SF	Class A	Class B
Downtown	17,309,380	3,657,622	21.1%	(90,326)	101,439	-	\$22.94	\$21.32
CBD Total	17,309,380	3,657,622	21.1%	(90,326)	101,439	-	\$22.94	\$21.32
Airport/South Atlanta	4,128,394	1,021,411	24.7%	(122,705)	(54,870)	112,000	\$21.71	\$18.86
Buckhead	13,454,293	2,504,592	18.6%	(92,432)	(188,339)	1,987,848	\$28.83	\$21.72
Central Perimeter	22,883,771	3,907,824	17.1%	(164,031)	(528,524)	-	\$23.92	\$19.17
Cumberland/Galleria	20,248,097	3,947,694	19.5%	117,334	224,552	-	\$23.12	\$18.35
Decatur	1,452,552	235,827	16.2%	(19,381)	1,179	-	\$24.62	\$21.85
East Cobb	498,848	58,382	11.7%	(4,501)	56,616	-	-	\$18.44
I-20 East/Conyers	680,553	129,997	19.1%	(1,348)	(22,850)	-	\$22.50	\$18.00
I-20 West/Douglasville	487,097	43,260	8.9%	-	-	-	-	\$24.50
Marietta/Kennesaw	2,180,931	336,120	15.4%	29,888	23,044	75,000	\$21.69	\$18.69
Midtown	14,186,275	2,261,869	15.9%	402,472	202,406	1,263,274	\$28.23	\$20.79
NE I-85 Inside I-285	6,548,942	708,194	10.8%	17,925	4,748	-	\$19.39	\$18.62
NE I-85 Outside I-285/Gwinnett	7,461,293	1,815,874	24.3%	38,606	155,652	-	\$20.40	\$18.12
Norcross/Peachtree Corners	6,443,579	1,246,255	19.3%	15,122	(42,927)	77,142	\$20.06	\$16.86
North Fulton/Forsyth	17,560,626	2,938,261	16.7%	67,914	22,406	361,772	\$20.88	\$19.00
Northlake/Stone Mountain	3,101,584	570,887	18.4%	43,878	94,817	-	\$19.75	\$17.44
Northside Drive/I-75	946,097	57,873	6.1%	15,055	7,524	-	-	\$19.56
Suburban Total	122,262,932	21,784,320	17.8%	343,796	(44,566)	3,877,036	\$24.49	\$19.05
Totals	139,572,312	25,441,942	18.2%	253,470	56,873	3,877,036	\$24.22	\$19.18
By Class (All Submarkets)							Available for Sublease	
						CBD	Suburban	
Class A	82,291,240	14,850,102	18.0%	61,665	54,071	3,690,036	645,243	2,781,134
Class B	51,431,001	9,461,907	18.4%	(56,305)	(313,198)	187,000	12,756	1,155,389
Class C	5,850,071	1,129,933	19.3%	248,110	316,000	-	-	145,628
Totals	139,572,312	25,441,942	18.2%	253,470	56,873	3,877,036	657,999	4,082,151

(1) Inventory includes multi-tenant and single tenant buildings with at least 20,000 sq. ft.

(2) Vacant space includes both vacant direct and vacant sublease space.

(3) Space under construction includes speculative and build-to-suit for lease projects.

(4) Asking rates are per square foot per year full service. Rates for each building are weighted by the size of the building.

* Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.

Office Market Terms and Definitions

Inventory: Office inventory includes all multi-tenant and single tenant buildings at least 20,000 square feet. Owner-occupied, government and medical buildings are not included.

Construction Type: Speculative ("spec") construction is designed to attract tenants likely to be in the market when the project is leasing. Build-to-suit construction is designed for a specific tenant.

Office Building Classifications: Grubb & Ellis adheres to the BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above average for the area. Class B properties compete for a wide range of users with rents in the average range for the area. Class C buildings compete for tenants requiring functional space at rents below the area average.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory. The availability rate is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in physically occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot per year in most parts of the country and dollars per square foot per month in areas of California and selected other markets. Office rents are reported as full service where all costs of operation are paid by the landlord up to a base year or expense stop.

Average Weighted Asking Rent: An average market rent where the asking rent for each building in the market is weighted by the building size.