

Industrial Market Trends Atlanta

Grubb & Ellis Research

Fourth Quarter 2008



Housing, Retail Sectors Impact Industrial Facilities

Executive Summary

Official declarations of a recession combined with the struggling housing and retail sectors impacted decision makers, causing a slowing of new demand in the industrial market. Manufacturers are taking the hardest hit from a contracting economy. The decline in new lease and construction activity suggests softening demand for distribution, manufacturing and other industrial space requirements. Manufacturers continue to reduce inventories and lower capacity to offset the slowing rate of activity. According to the Institute for Supply Management, manufacturing continues to contract at an accelerated pace as their reported index plummeted to 32.4 percent, the lowest level in 28 years. Historic lows were recorded in all ten subcategories from production to export/imports. From September to December, the new orders index also dropped to 16.1, the lowest level within the past sixty years.

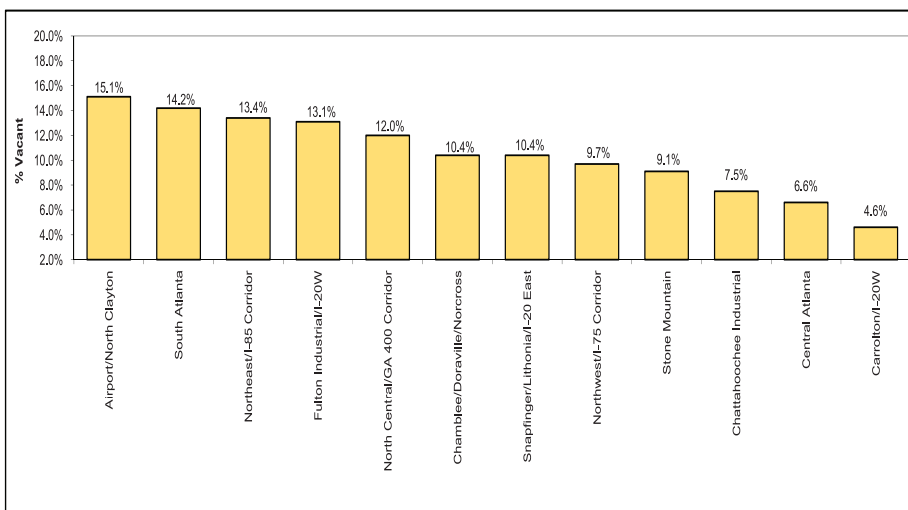
Contents

Executive Summary	1
Overview	2
Forecast	4
Opportunities/Challenges	4
Market Snapshot	6

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Vacancy Rate by Submarket*

* All Classes of Space

Industrial Market Trends Fourth Quarter 2008

Overview

Closure and layoff announcements of homebuilder, construction, housing supply and manufacturing companies were all too common in local media sources this quarter. Two large carpet manufacturing giants in north Georgia, one long-time building supply company and two chemical companies also announced closing their operations in Georgia or relocating and merging their operations.

Tenants seeking large blocks of space continue to be scarce, as was the case in third quarter. Companies are still looking for ways to cut costs by downsizing or opting for short-term and month-to-month lease renewals. There is now 6,389,475 square feet of available industrial sublease space. Some landlords are offering lower lease rates if their tenants agree to renew early. Although leasing activity remained stagnant with a moderate overall negative absorption of 464,761 square feet, there were some significant deals and occupancy in fourth quarter.

In the Fulton Industrial/I-20W submarket significant move-ins and renewals occurred in the fourth quarter and positive absorption totaled 432,032 square feet. Publix occupied 354,620 square feet in their new space at 425 Hartman Road and Amware moved into their 242,362-square-foot space at 650 Selig Drive. Sanderson Industries Incorporated renewed their lease in three buildings in Atlanta Industrial Park for a total of 184,180 square feet. Etonic also moved into 65,418 square feet at 1000 Westlake Parkway.

The northeast continues to be the most active submarket in terms of volume of move-ins and lease deals, even during this period of economic contraction. Freightliner leased 376,380 square feet at 2510 Mill Center Parkway and will be moving in either the first or second quarter of 2009. Georgia Floors vacated 93,100 square feet at 605 Best Friend Court in the third quarter and K Max backfilled the same space in the fourth quarter. Meanwhile, Suniva moved into their 60,000-square-foot space at 5775 Peachtree Industrial Boulevard and Elite Transportation occupied their space at 4601 Winters Chapel Road. Further northeast, CPO Commerce moved into their 67,200-square-foot space at 900 Raco Drive.

South Atlanta did not fare well with negative 857,077 square feet of absorption this quarter. The largest contributor to this negative absorption was Exel Logistics' move-out from 1200 Oakley Industrial Boulevard and 5305 Oakley Industrial Boulevard, which returned 622,304 square feet of

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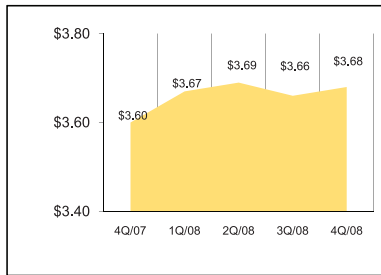
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Industrial Market Trends Fourth Quarter 2008

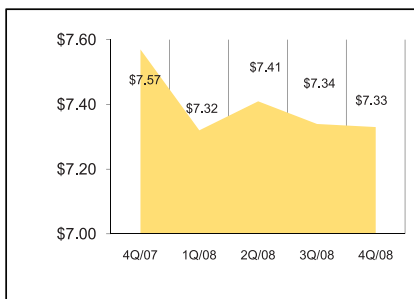
space back to the market. However, Peachtree Logistics will be occupying the vacant 422,304 square feet at 5395 Oakley Industrial Boulevard in 2009. National Distribution Centers vacated 289,343 square feet at 7135 Southlake Parkway and Westpoint Stevens vacated 200,576 square feet at 7405 Graham Road. On the positive side, EGL moved into 140,812 square feet at 4081 Southmeadow Parkway.



**Industrial Rents
Warehouse/Distribution**

Development Highlights

New construction activity has all but come to a stand-still. Developers are struggling to secure financing for new projects, and if they are successful many lenders are requiring them to provide 40 to 50 percent of the project cost up front. The November uptick in non-residential private construction of 0.7 percent does not represent lasting improvement since the commercial property construction pipeline will be clearing in 2009. It's rough seas for commercial contractors even without the credit crunch. With a dearth of new construction projects in the pipeline throughout Metro Atlanta, the biggest challenge they will face is finding work in a down economy.

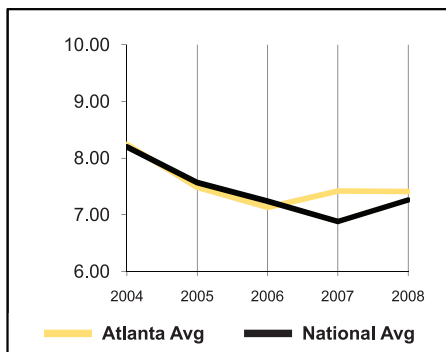


**Industrial Rents
R&D/Flex**

The Northeast/I-85 Corridor consistently delivered new industrial space every quarter in 2008 and the fourth quarter was no exception. Braselton Logistics Center, the 439,338-square-foot Commonwealth Properties warehouse development, delivered with no pre-lease commitments. Progress Center added 50,000 square feet to the inventory in Lawrenceville. The Progress Center building was purchased by Johnstone Supply Retailers/Wholesalers in November for \$3,054,450, or \$61.09 per square foot. Johnstone Supply currently occupies 30,000 square feet and is leasing the remaining 20,000 square feet of vacant space. In the North Central/GA 400 Corridor, Crescent Resources delivered three new buildings to Shiloh 400 Business Center for a total of 238,115 square feet. More than 23,000 square feet delivered at Redi Road Industrial Park in two buildings, both of which are currently for sale. Further northwest in the Northwest/I-75 corridor, Building 500 at Chastain Meadows delivered, adding an additional 83,898 square feet to the inventory. A little further south in the Fulton Industrial/I-20 submarket, a 93,000-square-foot warehouse delivered completely vacant and available for lease at Corporate Ridge. Moving southwest into the Airport/North Clayton submarket, Duke's new 213,000-square-foot warehouse development at Camp Creek Business Center delivered with the entire building ready for tenant tenancy.

Industrial Market Trends Fourth Quarter 2008

As market contraction continues, expect to see asking rates decrease with more liberal concessions and shorter lease terms and renewals.



Cap Rate Trends

Source: Real Capital Analytics

Investment Overview

Many commercial real estate investors are waiting to see if lenders will relax their current credit restrictions, making it easier for investors to borrow money. Pricing on a per-square-foot basis throughout 2008 has averaged approximately \$50 to \$51 dollars per square foot. Cap rates rose by ten basis points to end the year at an average of 7.5 percent. In the northeast, Cobalt Capital Partners recently purchased two buildings located in Summit Ridge and one at 4125 Buford Highway for a sum total of \$18,130,000, or \$42.51 per square foot. Istar HG I recently sold 3120 Breckinridge Boulevard to HRPT Properties Trust for \$17,500,000. Norfolk Southern purchased 150 acres of industrial land in Locust Grove for \$13,253,700, or \$88,358 per acre.

Forecast

Manufacturing and ordering levels declined to the lowest levels reported in decades in the fourth quarter of 2008. The number of imports and exports into Georgia's ports has now declined for seven consecutive months, the first decrease in cargo in the last 15 years. Exports fell almost 6 percent in November, according to the Georgia Ports Authority. The reduction of manufacturing jobs increased in the fourth quarter with several announcements of company closings. While economists are predicting that the economy will begin to turn around sometime in mid-to-late 2009, some business sectors are moving ahead with expansion plans now. Ryla Teleservices, NCR Corporation and Suniva, an energy product manufacturer, will all generate jobs this year. Kia, who is still developing their auto assembly plant southwest of Atlanta, will also spur additional employment growth. As market contraction continues, expect to see asking rates decrease with more liberal concessions and shorter lease terms and renewals. Average escalations have dropped from three to three and one-half percent per year and are now averaging two to two and one-half percent increases year over year due to marketplace competition. Many industrial users will continue to stay put in their current spaces and renew early to immediately reduce occupancy costs. Manufacturers and vendors to housing related industries in particular will continue to downsize until these sectors stabilize.

Opportunities and Challenges

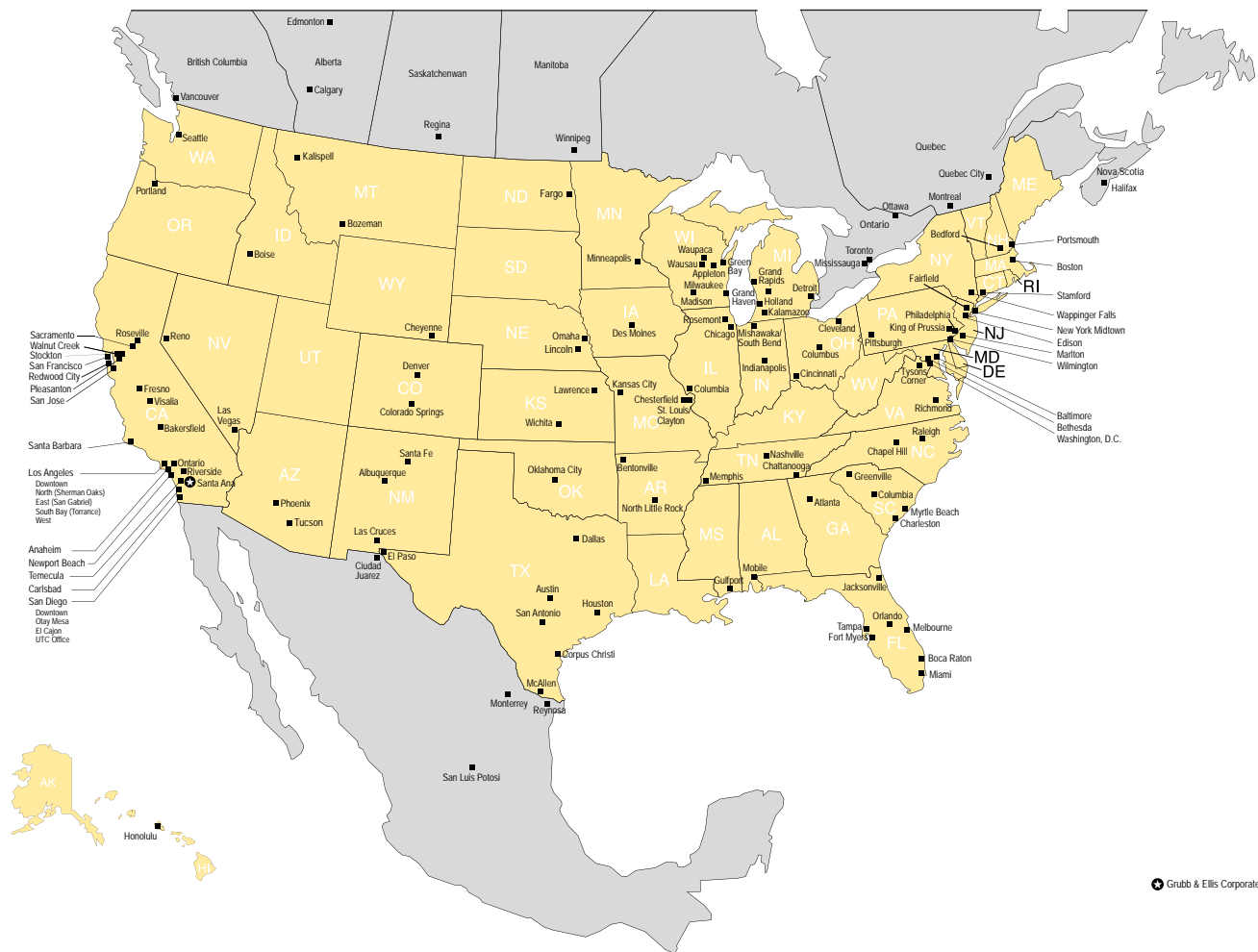
Overall absorption is still in the red as of fourth quarter 2008 and tenants in the marketplace will continue to benefit as a result. The Northeast/I-85 corridor remains the most productive in terms of lease activity, but with the increase in sublease space and a glut of newly constructed space, landlords will continue to aggressively negotiate leases. Industrial brokers are still

Industrial Market Trends Fourth Quarter 2008

primarily engaged in assisting tenants with short and long-term renewals and space consolidations. New construction has dwindled tremendously with few, if any, significant projects in the pipeline.

Despite the dismal economic outlook and forecast, the Atlanta market continues to rank among the fastest growing in the nation, with a population growth of 162,477 statewide and a growth rate of 1.7 percent, ninth nationally. Metro Atlanta still offers highly competitive rental rates, an excellent quality of life and is well positioned to continue to attract manufacturers and distributors into the area. As the economy recovers in late 2009 through 2010, look for new development to emerge slowly in the Northeast and South Atlanta submarkets. These are desirable pockets of commerce well suited for mixed-use development, business complexes and distribution centers. With an infrastructure competitively structured for logistics and space users, Atlanta will continue to attract and secure new business operations when the economy stabilizes.

Grubb & Ellis Office Locations



Grubb & Ellis Corporate Headquarters

January 2009
0052.09.319

Industrial Market Snapshot Atlanta Fourth Quarter 2008

By Submarket (All Property Types)	Total (1)	Vacant (2)	Vacant %	Net Absorption		Under Const. (3)	Asking Rent (4)	
	SF	SF		Current Qtr	Year To Date	SF	WH/Dist	R&D/Flex
Airport/North Clayton	14,914,167	2,252,209	15.1%	82,228	884,848	-	\$3.60	\$5.15
Carrollton/I-20W	1,770,760	80,800	4.6%	(20,000)	(5,000)	-	\$1.75	-
Central Atlanta	17,717,677	1,177,068	6.6%	72,965	36,273	-	\$5.64	\$5.84
Chamblee/Doraville/Norcross	75,381,518	7,812,854	10.4%	(352,946)	(1,124,229)	-	\$4.95	\$7.56
Chattahoochee Industrial	26,570,396	1,981,809	7.5%	(179,652)	(380,726)	91,170	\$5.70	\$8.90
Fulton Industrial/I-20W	87,319,579	11,478,683	13.1%	432,032	(427,258)	56,800	\$2.88	\$4.73
North Central/GA 400 Corridor	25,523,418	3,063,630	12.0%	116,700	(476,091)	364,800	\$6.11	\$8.63
Northeast/I-85 Corridor	99,257,321	13,271,757	13.4%	431,942	1,113,904	487,552	\$3.79	\$7.33
Northwest/I-75 Corridor	56,983,361	5,539,601	9.7%	128,095	(784,818)	645,368	\$4.65	\$8.50
Snapfinger/I-20E	31,612,284	3,286,643	10.4%	71,682	(277,012)	45,234	\$3.89	\$4.94
South Atlanta	126,161,369	17,929,422	14.2%	(869,034)	753,974	-	\$3.02	\$5.94
Stone Mountain	28,341,924	2,586,550	9.1%	(293,948)	(845,317)	-	\$4.22	\$6.31
Suburban Total	591,553,774	70,461,026	11.9%	(379,936)	(1,531,452)	1,690,924	\$3.68	\$7.33
Totals	591,553,774	70,461,026	11.9%	(379,936)	(1,531,452)	1,690,924	\$3.68	\$7.33

By Property Type (All Submarkets)	Asking Rent							
General Industrial	34,217,851	1,848,880	5.4%	(3,063)	(319,342)	91,170	\$3.94	
R&D/Flex	61,665,105	8,588,864	13.9%	(305,346)	(1,437,719)	-	\$7.33	
Warehouse/Distribution	495,670,818	60,023,282	12.1%	(71,527)	225,609	1,599,754	\$3.68	
Totals	591,553,774	70,461,026	11.9%	(379,936)	(1,531,452)	1,690,924	\$4.11	

(1) Inventory includes multi-tenant, single-tenant and owner-occupied buildings with at least 10,000 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 and owner-built projects.

(4) Asking rates are per square foot per year, triple net. Rates for each building are weighted by the amount of available space within the building.

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

Industrial Market Terms and Definitions

Inventory: Industrial Inventory includes all multi-tenant, single tenant and owner-occupied buildings at least 10,000 square feet.

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.

Industrial Product Types: Industrial buildings are categorized as warehouse/distribution, general industrial, R&D/flex and incubator based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

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.

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. Industrial rents are expressed as triple net where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rata basis.

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

Select Transactions

Grubb & Ellis is pleased to have completed the following transactions during the fourth quarter of 2008:

<p>Sanderson Industries, Inc. Lease Renewal 184,180 SF 3450-3550 Atlanta Industrial Pkwy. Fulton Industrial/I-20W</p>	<p>White Label Turf, LLC Sublease 166,000 SF 175 North Industrial Blvd. Calhoun, GA</p>	<p>Miller Electric Manufacturing Lease Extension 38,400 SF 2225 Cedars Rd. Northeast/I-85</p>
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