

# Office Market Trends Atlanta

Grubb & Ellis Research  
Fourth Quarter 2008



## Struggling Economy Undermines Office Market

### Executive Summary

Years of tremendous growth earlier in the decade gave way to recessionary forces in 2008, resulting in office market stagnation. A clearer picture is forming of how turmoil in the housing and financial markets inevitably led to commercial real estate market contraction. A vicious cycle of rising residential inventories, falling home values, devalued mortgage securities and diminishing bank profits led to market illiquidity and a fear among banks to extend credit to corporations, consumers and other banks. This “capital crunch” spread quickly and essentially hindered access to debt markets, prompting companies to raise cash and reign in spending. With fresh fears of recession and an aversion to debt, many leaders in the business community chose to hold off on major decisions until the return of stability to the financial markets. Office space absorption has suffered as a result. Many businesses are now running operations ultra-conservatively in an effort to infuse stability - delaying moves to new space, renewing in their current location and in some cases shedding jobs to cut costs.

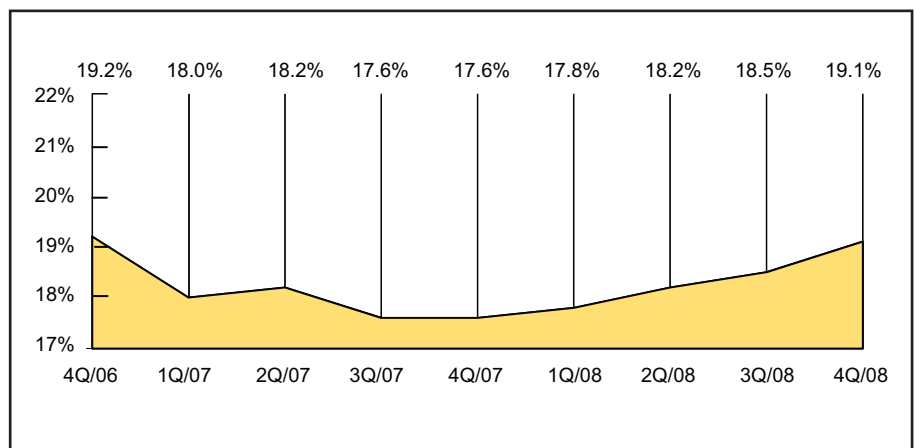
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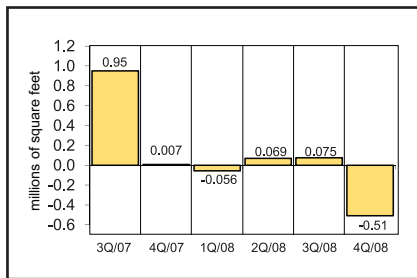
**Office Vacancy Rate\***  
\* All Classes of Space

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## Market Activity

Nervous decision makers generally remained on the sidelines during the fourth quarter, as evidenced by overall net occupancy losses totaling 513,187 square feet. This brought overall 2008 net absorption to (425,070) square feet. Overall vacancy rose as expected due to weakening market conditions and now stands at 19.1 percent, a 60 basis point rise since the end of the third quarter. Despite indicators to the contrary, a significant rise in sublease space did not occur during the fourth quarter, with a total of 5,013,752 square feet available. This level of sublease availability is essentially unchanged from third quarter 2008 and may be explained by tenants in the marketplace choosing to take advantage of lower occupancy costs through committing to subleases. On average, sublease space in Metro Atlanta can be had at a discount of about 30 percent, a significant savings versus traditional leases with the building landlord.

Rental rates are averaging \$22.50 per square foot and are on the decline, falling by roughly 7.5 percent since the end of the third quarter. Class A rates are typically the first to fall as landlords struggle to complete both with one another and lower priced alternatives such as subleases and Class B buildings. Class B rates are averaging \$19.02 per square foot, a marginal decrease from third quarter. In the current environment, many landlords are willing to discount a tenant's rental rate in exchange for a longer lease term, particularly if the tenant is nearing the end of its original term. This benefits both parties to the transaction, saving the tenant cash both in the short and near term and providing the landlord with a steady stream of income over a longer period of time.



### Office Net Absorption

\* All Classes of Space

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Buckhead has become the most debated and analyzed submarket over the last several months, and for good reason. With Class A vacancy standing at 18.3 percent and nearly two million uncommitted square feet slated to deliver over the next year, a glut of unoccupied floors will likely cause some consternation among landlords. However, Two Alliance Center has experienced some interest and could announce its first lease commitment in the coming months, which would be a major win for that particular project. Aside from this news no other prospects have been announced for any of the other projects currently under construction here. If Buckhead delivers Two Alliance Center, 3630 Peachtree and Terminus 200 as scheduled, overall vacancy will likely surpass twenty-five percent if no new significant leasing takes place in 2009. The good news, however, is the overall lack of new construction in the balance of Metro Atlanta. New and expanding Class A tenants will have an

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abundance of first generation space from which to choose in Buckhead, and aside from Midtown, landlords will have little competition from neighboring submarkets due to a lack of new construction.

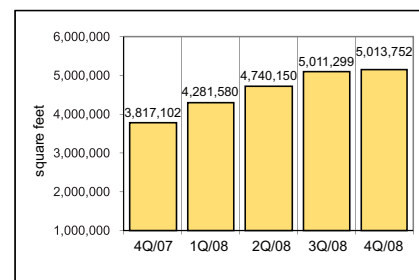
Intown markets performed well during 2008, with Midtown recording positive absorption of nearly 35,000 square feet. Move-ins from the Georgia Department of Transportation, Kilgannon and A.D.A.M Software helped to keep occupancy rates stable. Daniel Corporation's 12th and Midtown is still slated to deliver in early 2010 and has attracted significant attention from prospective tenants. This leasing activity prior to delivery is a good sign for Midtown, which may see an increase in vacancy as new product is introduced to the submarket over the next year. A bit further south, Downtown absorbed a submarket leading 288,673 square feet in 2008, bringing its 17.4 million square foot inventory to 20.2 percent vacant. Switch and Data, a data center and network services provider, recently signed a 79,000 square foot lease at 180 Peachtree Street and will occupy during the first quarter of 2009.

## Construction Update

Buildings currently under construction in Metro Atlanta face an uphill battle in terms of securing new tenancy but they do have a significant advantage in the marketplace – they have already secured financing. The challenge for developers moving forward will likely be obtaining financing with reasonable terms. While developers are not currently clamoring to kick off the next big project, future development could be challenging unless financing becomes easier to obtain. Medical office plazas are experiencing increased demand as the population ages; in Metro Atlanta 650,000 square feet of medical office space delivered in 2008 and another 200,000 square feet is currently under construction.

## Outlook

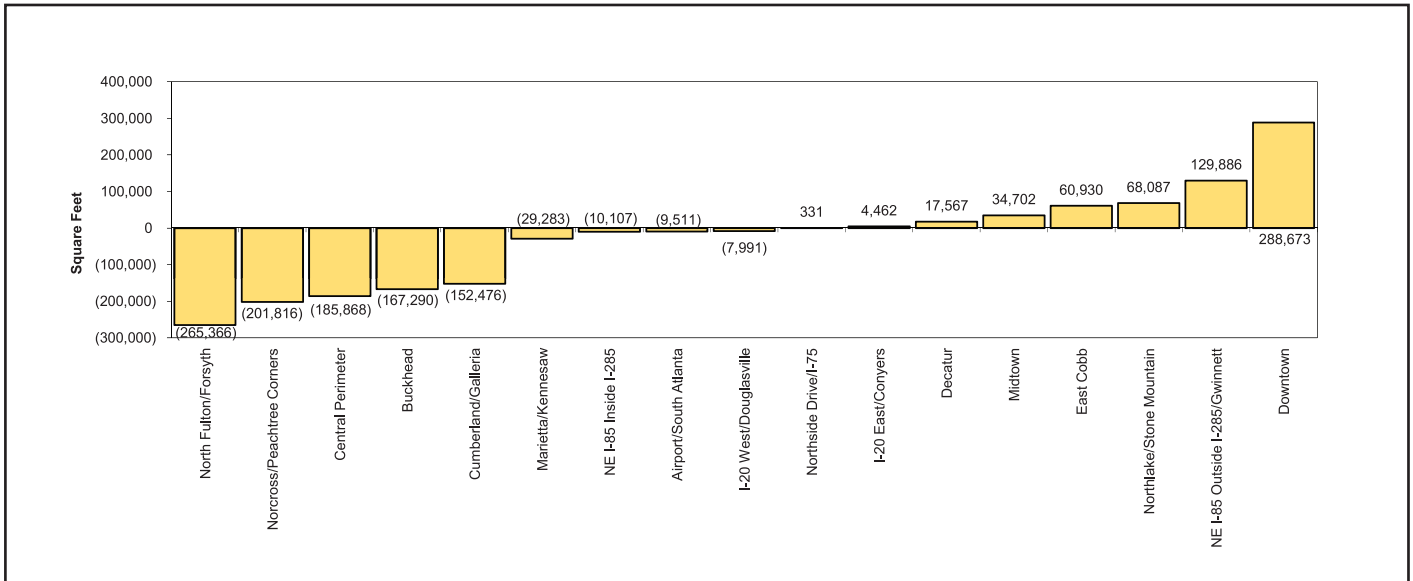
Metro Atlanta's office sector health hinges on the region's job growth prospects. Atlanta lost more than 60,000 jobs during 2008, a much deeper loss than originally projected by local economists. Should this trend continue into 2009, which economic forecasters are predicting, further softening of office market fundamentals will occur. However, Metro Atlanta's position as a jobs generator and the fastest growing MSA in the United States naturally positions it to benefit from positive growth once economic expansion returns. Tenants will continue to have the upper hand in the marketplace through early 2009 as vacancy levels rise and rental rates decline.



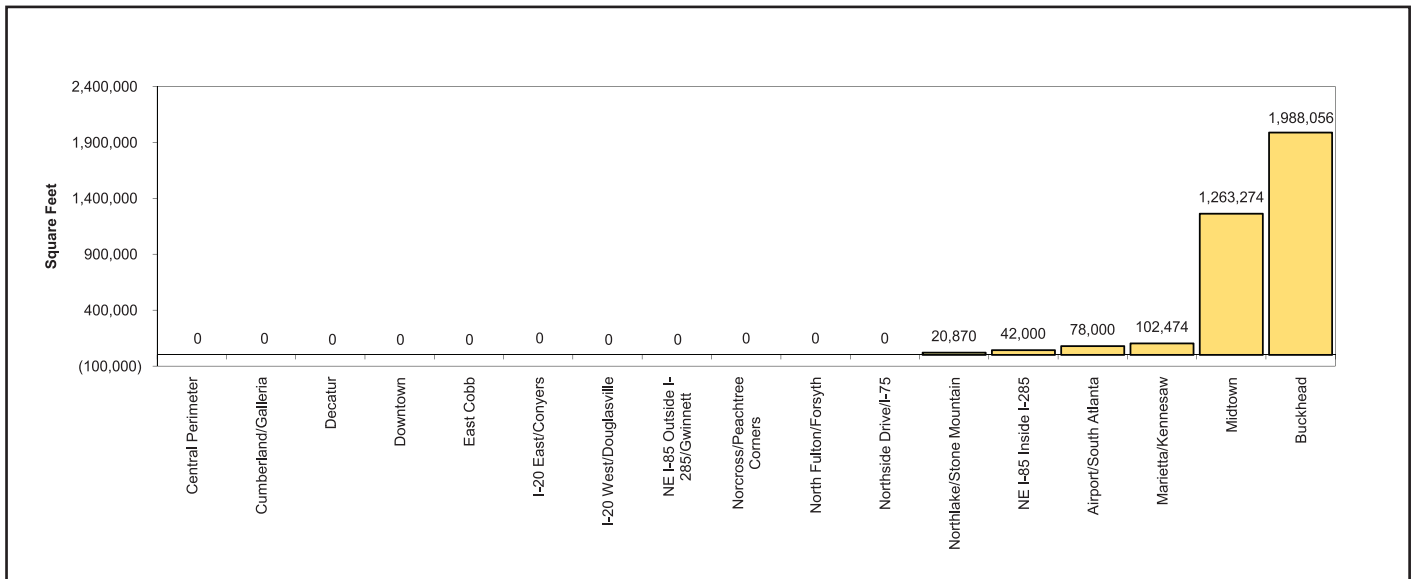
**Available Office Sublease Space**

*\* All Classes of Space*

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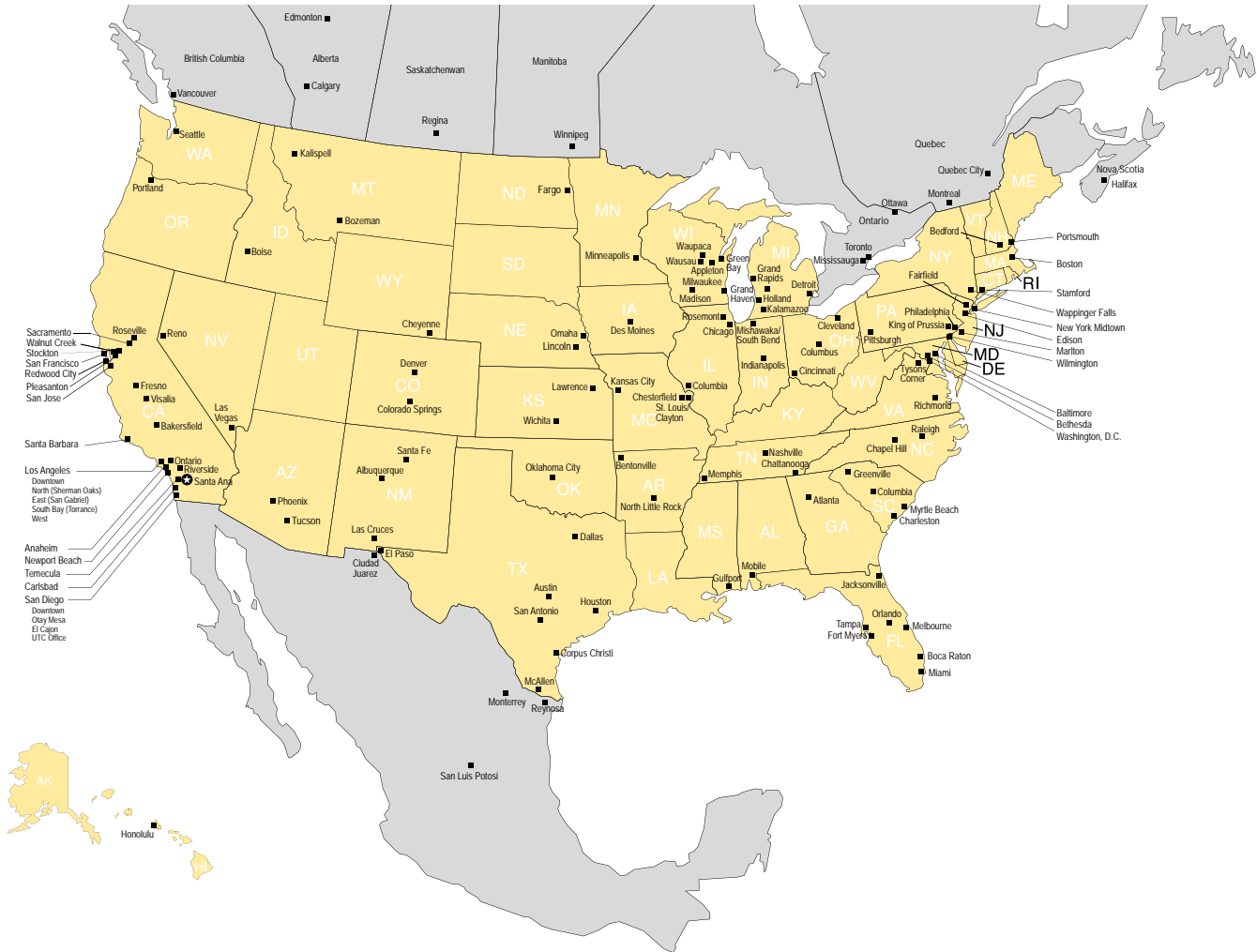
**Q4 2008 Net Absorption By Submarket**  
*\*All Classes of Space*



**Q4 2008 Under Construction By Submarket**  
*\*All Classes of Space*

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Nationwide coverage delivered through the Grubb & Ellis system.



## Select Transactions

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

**First Data Corp.**  
 Direct Lease  
 183,000 SF  
 Glenridge Highlands Two  
 Central Perimeter

**American Security Insurance Company**  
 Direct Lease  
 70,393 SF  
 2975 Breckinridge Blvd.  
 NE I-85 Outside I-285

**Morgan Stanley & Co. Incorporated**  
 Lease Renewal  
 26,476 SF  
 Concourse Corporate Center Five  
 Central Perimeter

## Office Market Snapshot Atlanta Fourth 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	17,432,875	3,517,041	20.2%	27,252	288,673	-	\$23.06	\$20.43
<b>CBD Total</b>	<b>17,432,875</b>	<b>3,517,041</b>	<b>20.2%</b>	<b>27,252</b>	<b>288,673</b>	<b>-</b>	<b>\$23.06</b>	<b>\$20.43</b>
Airport/South Atlanta	4,189,494	1,037,152	24.8%	68,087	(9,511)	78,000	\$21.97	\$19.34
Buckhead	13,454,293	2,483,543	18.5%	43,941	(167,290)	1,988,056	\$28.36	\$21.45
Central Perimeter	22,926,976	3,739,206	16.3%	(106,934)	(185,868)	-	\$24.05	\$19.11
Cumberland/Galleria	20,248,097	4,392,839	21.7%	(250,274)	(152,476)	-	\$23.48	\$18.28
Decatur	1,452,552	219,439	15.1%	13,921	17,567	-	\$24.00	\$21.50
East Cobb	498,848	54,068	10.8%	(1,080)	60,930	-	-	\$17.91
I-20 East/Conyers	680,553	102,685	15.1%	5,963	4,462	-	\$22.50	\$17.70
I-20 West/Douglasville	487,097	51,251	10.5%	(7,991)	(7,991)	-	-	\$13.39
Marietta/Kennesaw	2,260,618	468,134	20.7%	(118,760)	(29,283)	102,474	\$21.81	\$18.87
Midtown	14,186,275	2,408,208	17.0%	17,298	34,702	1,263,274	\$28.29	\$20.62
NE I-85 Inside I-285	6,462,498	723,049	11.2%	8,947	(10,107)	42,000	\$21.36	\$18.47
NE I-85 Outside I-285/Gwinnett	7,491,948	1,872,295	25.0%	(25,822)	129,886	-	\$20.37	\$18.33
Norcross/Peachtree Corners	6,567,006	1,532,293	23.3%	(129,720)	(201,816)	-	\$20.36	\$16.86
North Fulton/Forsyth	17,922,469	3,582,876	20.0%	(49,685)	(265,366)	-	\$20.88	\$18.63
Northlake/Stone Mountain	3,101,584	597,617	19.3%	(5,176)	68,087	20,870	\$19.75	\$17.59
Northside Drive/I-75	946,097	65,066	6.9%	(3,154)	331	-	-	\$18.60
<b>Suburban Total</b>	<b>122,876,405</b>	<b>23,329,721</b>	<b>19.0%</b>	<b>(540,439)</b>	<b>(713,743)</b>	<b>3,494,674</b>	<b>\$24.47</b>	<b>\$18.93</b>
<b>Totals</b>	<b>140,309,280</b>	<b>26,846,762</b>	<b>19.1%</b>	<b>(513,187)</b>	<b>(425,070)</b>	<b>3,494,674</b>	<b>\$24.22</b>	<b>\$19.02</b>
<b>By Class (All Submarkets)</b>							<b>Available for Sublease</b>	
							<b>CBD</b>	<b>Suburban</b>
Class A	82,824,843	15,772,424	19.0%	(139,465)	(268,610)	3,277,330	465,393	3,367,948
Class B	51,633,266	9,881,615	19.1%	(349,923)	(404,442)	217,344	30,256	1,122,907
Class C	5,851,171	1,192,723	20.4%	(23,799)	247,982	-	-	27,248
<b>Totals</b>	<b>140,309,280</b>	<b>26,846,762</b>	<b>19.1%</b>	<b>(513,187)</b>	<b>(425,070)</b>	<b>3,494,674</b>	<b>495,649</b>	<b>4,518,103</b>

(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.