

Office Market Trends Atlanta

Grubb & Ellis Research
First Quarter 2008



Construction Increases Despite Stalled Absorption

Overview

The Metro Atlanta office market exhibited reduced leasing activity during the first quarter of 2008 - not an unexpected result of economic forces impacting space requirements for tenants in the marketplace. The lingering drought, stagnating housing market, tightening lending standards and increasing cost of energy has placed downward pressure on many sectors of the economy. However, Metro Atlanta's fundamentals remain strong and have counteracted some of the negative effects of an economy in flux with continued increases in employment, personal income growth and strong consumer spending. Additionally, Metro Atlanta ranked 2nd in the nation in population growth over the last year and added approximately 55,000 new jobs during the same period. The positive job growth is particularly important as it is directly correlated to office space demand and may also stem potential negative absorption.

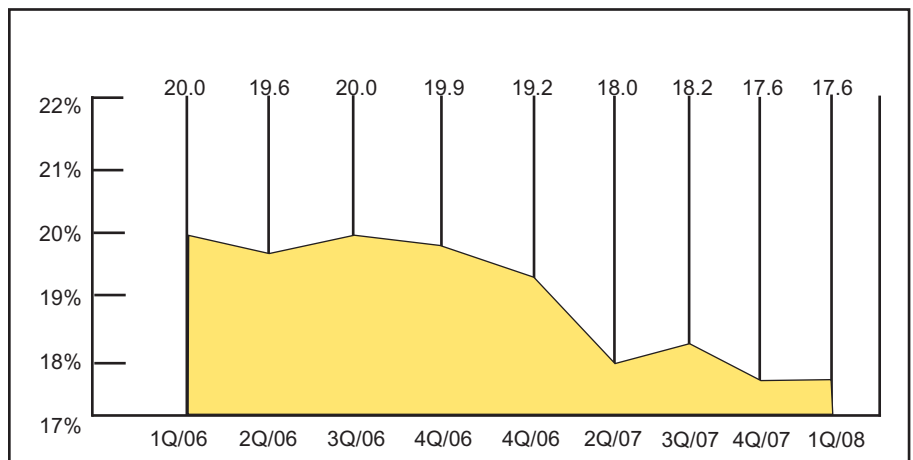
Contents

Overview	1
Market Activity	2
Construction Update	3
Outlook	3
Select Transactions	5
Market Snapshot	6

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Dan Wagner
Research Manager
E-mail: dan.wagner@grubb-ellis.com

Grubb & Ellis Company
3424 Peachtree Road, NE, 8th Floor
Atlanta, GA 30326
Phone: 770.552.2474
Internet: www.grubb-ellis.com



Office Vacancy Rate*
* All Classes of Space

Office Market Trends First Quarter 2008

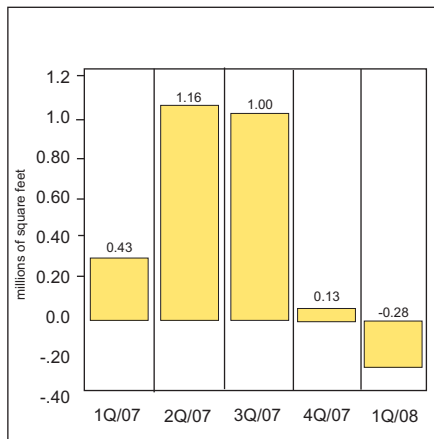
Market Activity

Despite some significant new deals executed, overall net absorption fell during the first quarter with approximately 280,000 square feet worth of net occupancy losses. The majority of the loss was experienced in the Central Perimeter and Midtown submarkets and to a lesser degree in Buckhead. Homebanc Mortgage filed bankruptcy in August of 2007 and recently vacated its 160,000 square foot space at 2002 Perimeter Summit. Additionally, Central Perimeter took a direct blow when AT&T Wireless announced it would move out of its 300,000 square foot space at Glenridge Highlands Two and relocate to Lenox Park in Buckhead.

The majority of the recently emptied space has yet to be backfilled, but there is light at the end of the tunnel in the form of prospects rumored to be in the hunt for new space. Among them are software giant Oracle Corporation, which is said to be looking for approximately 100,000 square feet of space, and BCD Travel, which may move quickly to find upwards of 90,000 square feet. Additionally, the Reznick Group recently helped reduce vacancy at 2002 Perimeter Summit by expanding into an additional 25,000 square feet.

The FIRE rich Midtown and Downtown office environments essentially canceled out each other's quarterly absorption with Midtown losing 200,000 square feet and Downtown absorbing 191,000 square feet. Cousins' 191 Peachtree Tower continued its successful run signing Deloitte to a 260,000 square foot renewal and expansion deal and bringing the tower to 87 percent leased. Newmark Southern Region recently announced it will occupy 21,000 square feet in the 201 17th Street building at Atlantic Station in Midtown.

A bit further north, IT Services Firm Wipro Technologies signed a 30,000 square foot lease at Piedmont Center 14. There are a good number of tenants seeking space in Buckhead and more favorable rates may appear as an abundance of new space delivers to the market over the next two years. The North Fulton office submarket market posted negative net absorption activity in the first quarter with occupancy losses totaling 45,000 square feet. Despite the overall negative activity, the Class A sector of the market posted positive absorption of 132,000 square feet - a vast improvement over the fourth quarter. Asking rental rates for Class A space in North Fulton are averaging \$20.67 per square foot, which is roughly \$1.50 per square foot less than the Metro Atlanta average, making this submarket attractive to companies seeking a suburban office environment. Recent activity in North Fulton



Office Net Absorption

** All Classes of Space*

Atlanta Office Market Trends Contributors

Andrea Franklin

Research Analyst
andrea.franklin@grubb-ellis.com

Frances Scarlett

Graphic Designer
frances.scarlette@grubb-ellis.com

Office Market Trends First Quarter 2008

includes International Environmental Management Inc. inking a 19,000 square foot deal at the Northwinds V building and Gresham Smith and Partners renewing for 10,000 square feet at Georgia 400 Center II.

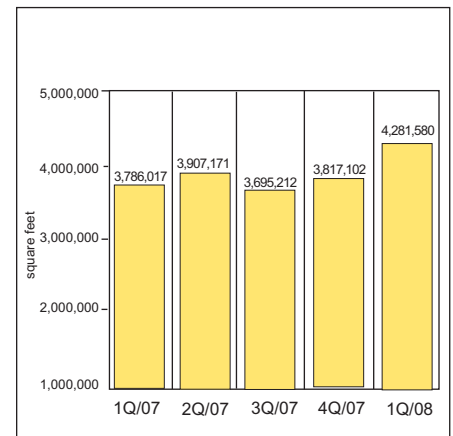
Construction Update

Buckhead is “bucking” the trend of reduced development activity in the face of slow growth with nearly two million square feet under construction. Projects such as Tishman Speyer’s Two Alliance Center and the office component of Regent Partners 3344 Peachtree are competing for tenancy, to the likely detriment of older Class A and upper B properties which inevitably lose their luster once new product delivers. Additionally, Crescent Resources is adding to the building boom and recently broke ground on Phipps Tower, a 475,000-square-foot project located on the Buckhead Loop. The redevelopment of Buckhead Village will add another 300,000 square feet into the mix with the Buckhead Esplanade building complemented by high-end retail and residential properties.

Further south, the 12th & Midtown building will add 725,000 square feet to the office inventory and will include a 400 room hotel and 60,000 square feet of retail space. Atlantic Station is also active this quarter with continued construction of 271 17th street, which is slated to deliver nearly 300,000 square feet. Approximately half of the building is already committed. In North Fulton, Jones Lang LaSalle has two projects under construction totaling 360,000 square feet, and there are several smaller Class B projects under development or slated to begin construction in the coming weeks.

Outlook

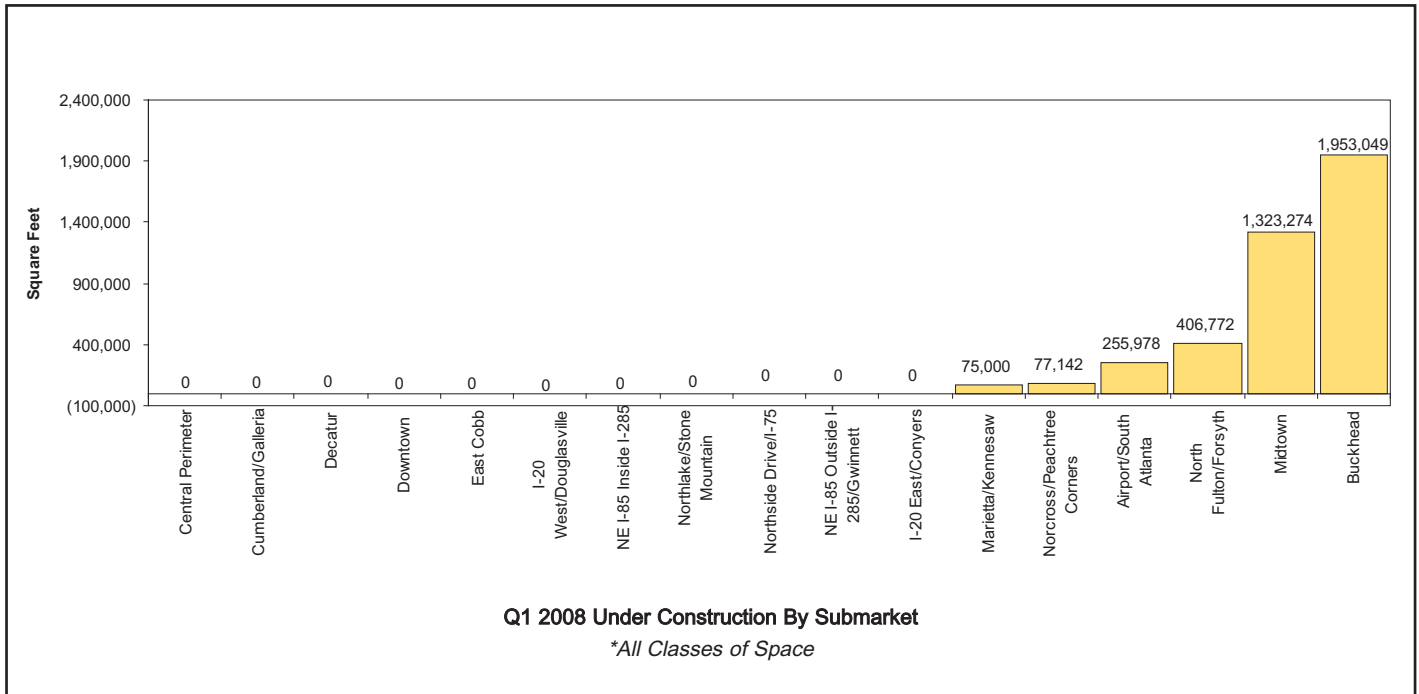
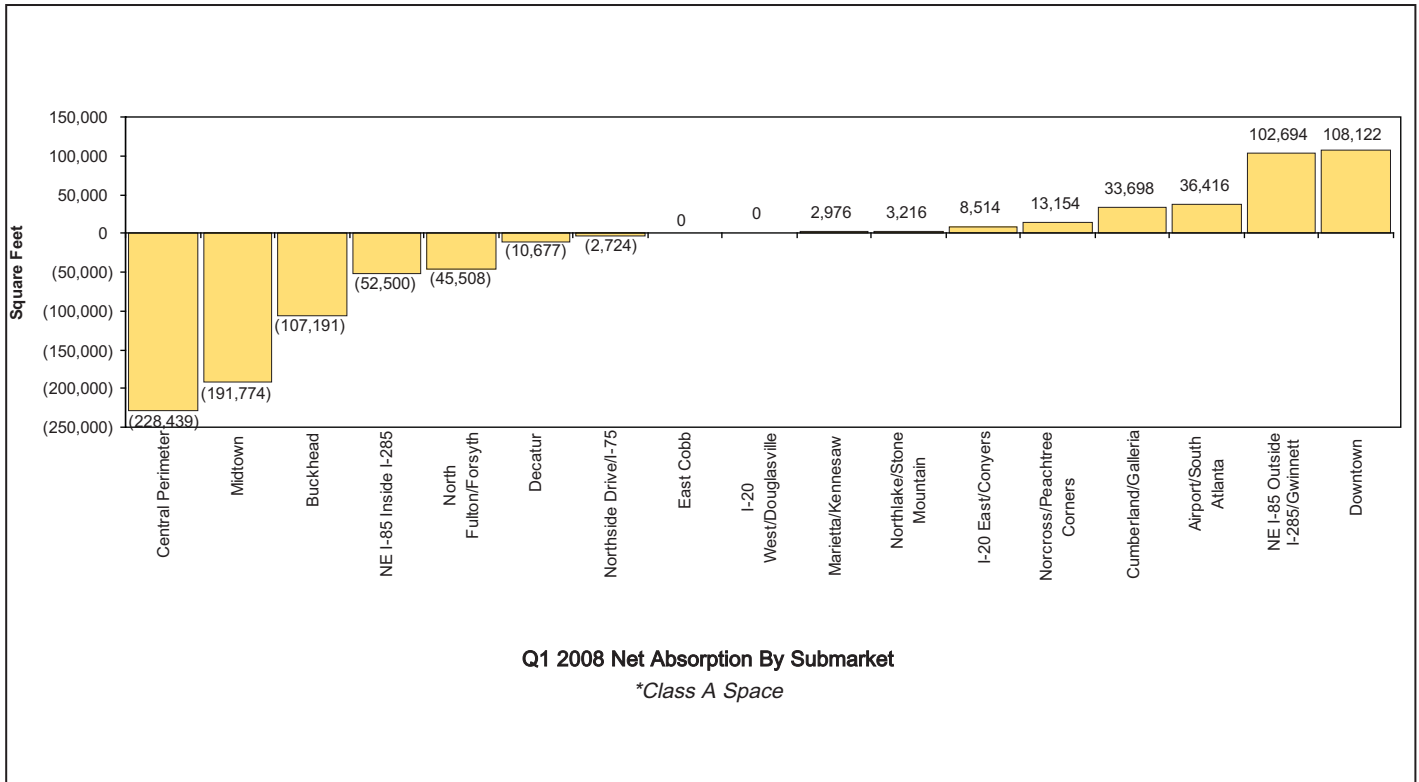
Leasing activity has leveled off, but it could be worse. The widespread southeastern drought is beginning to soften, and the housing market, while experiencing some contraction, has fared better in the South than in other areas of the nation. Developers in the Buckhead and Midtown submarkets continue to build and may face challenges in the coming months securing tenancy amidst a glut of new space. Decision makers appear to be in a “wait and see” mode. How and when this cycle breaks remains to be seen. Atlanta’s continued positive job growth paired with a bit more time for recovery in the lending and financial markets will ultimately lead to future demand for space.



Available Office Sublease Space

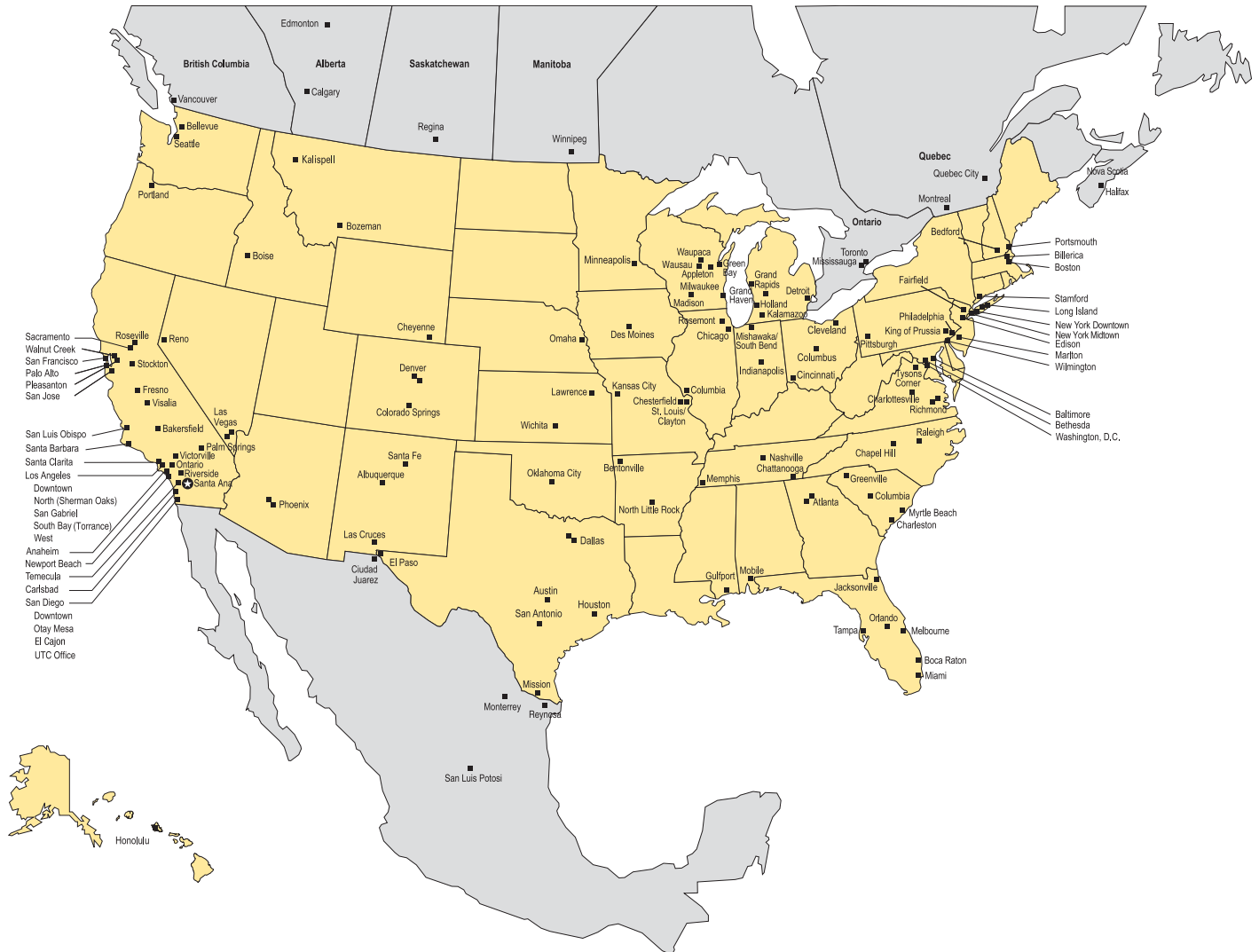
** All Classes of Space*

Office Market Trends First Quarter 2008



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Construction Watch

First Quarter 2008

	<i>New Speculative Development</i>				<i>New Build-to-Suit Development</i>			<i>New Owner Occupied Development</i>		
	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	10,923	-	-	-	-	-	-
Suburban	4,091,215	29.5%	400,160	400,160	354,953	-	-	171,251	10,000	10,000
Total	4,091,215	29.5%	411,083	411,083	354,953	-	-	171,251	10,000	10,000

Office Market Snapshot Atlanta First 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	3,613,949	20.7%	191,765	191,765	-	\$22.96	\$21.88
CBD Total	17,432,875	3,613,949	20.7%	191,765	191,765	-	\$22.96	\$21.88
Airport/South Atlanta	3,984,416	754,728	18.9%	67,835	67,835	255,978	\$21.35	\$18.22
Buckhead	12,984,293	1,942,160	15.0%	(95,907)	(95,907)	1,953,049	\$28.55	\$21.98
Central Perimeter	22,561,361	3,374,487	15.0%	(364,493)	(364,493)	-	\$23.99	\$19.31
Cumberland/Galleria	20,095,891	4,043,496	20.1%	13,865	13,865	-	\$22.66	\$17.60
Decatur	1,452,552	216,446	14.9%	20,560	20,560	-	\$24.48	\$20.25
East Cobb	498,848	53,881	10.8%	61,117	61,117	-	-	\$18.38
I-20 East/Conyers	680,553	128,649	18.9%	(21,502)	(21,502)	-	\$22.50	\$18.19
I-20 West/Douglasville	487,097	43,260	8.9%	-	-	-	-	\$24.50
Marietta/Kennesaw	2,180,931	366,008	16.8%	(6,844)	(6,844)	75,000	\$21.24	\$18.94
Midtown	14,160,404	2,664,341	18.8%	(200,066)	(200,066)	1,323,274	\$28.08	\$20.42
NE I-85 Inside I-285	6,546,942	724,119	11.1%	(13,177)	(13,177)	-	\$19.29	\$18.57
NE I-85 Outside I-285/Gwinnett	7,461,293	1,844,429	24.7%	127,097	127,097	-	\$20.62	\$18.43
Norcross/Peachtree Corners	6,442,377	1,260,175	19.6%	(58,049)	(58,049)	77,142	\$20.35	\$16.81
North Fulton/Forsyth	17,513,626	2,961,175	16.9%	(45,508)	(45,508)	406,772	\$20.67	\$18.89
Northlake/Stone Mountain	3,101,584	614,765	19.8%	50,939	50,939	-	\$19.75	\$17.31
Northside Drive/I-75	886,097	72,928	8.2%	(7,531)	(7,531)	-	-	\$19.27
Suburban Total	121,038,265	21,065,047	17.4%	(471,664)	(471,664)	4,091,215	\$24.30	\$18.88
Totals	138,471,140	24,678,996	17.8%	(279,899)	(279,899)	4,091,215	\$24.06	\$19.09

By Class (All Submarkets)			Vacant %	Net Absorption		Under Const.	Available for Sublease	
	SF	SF		Current Qtr	Year To Date		CBD	Suburban
Class A	81,269,287	14,031,763	17.3%	(149,543)	(149,543)	3,760,237	504,123	2,555,199
Class B	51,442,392	9,248,716	18.0%	(198,246)	(198,246)	330,978	-	1,075,298
Class C	5,759,461	1,398,517	24.3%	67,890	67,890	-	-	146,960
Totals	138,471,140	24,678,996	17.8%	(279,899)	(279,899)	4,091,215	504,123	3,777,457

(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.