Office Market Trends Atlanta

Grubb & Ellis Research

Third Quarter 2007

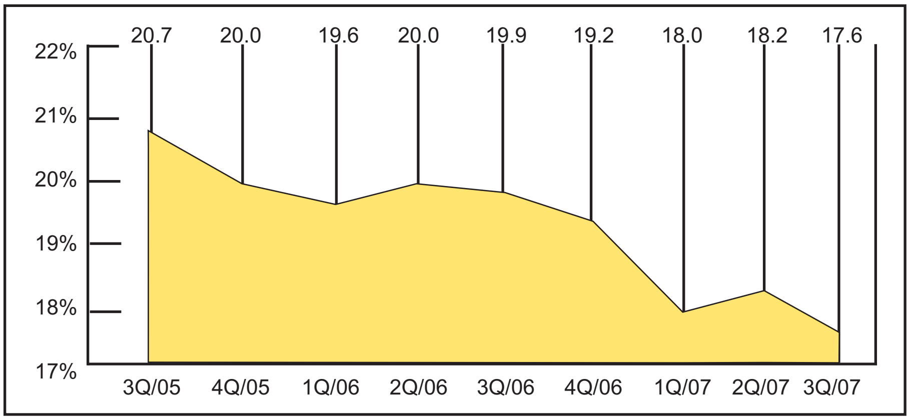
Grubb & Ellis
Property Solutions Worldwide

Lower Vacancy, New Construction and Operating Expenses Push Rents

Contents

Overview

Atlanta's office market activity, coupled with several top economic development rankings, resulted in a third quarter that bodes well for Atlanta's corporate climate. The overall office market posted a vacancy of 17.6 percent, a decrease of 60 basis points from the previous quarter. Concurrently, net absorption rose to over 1 million square feet for the quarter, with most corporate movement occurring in the Central Perimeter, Cumberland/Galleria and Downtown submarkets. Given the tightening market vacancy along with over 4.6 million square feet under construction, average quoted rental rates for the overall market subsequently rose from $21.81 to $22.02 per square foot, full service. While rents are rising, also due in part to escalating operating expenses, corporate tenants in Atlanta continually benefit from rents that are significantly lower than other major metropolitan areas in the country. As announced in the third quarter by location consultant The Boyd Company, Atlanta is the second least



Office Vacancy Rate*
** All Classes of Space*

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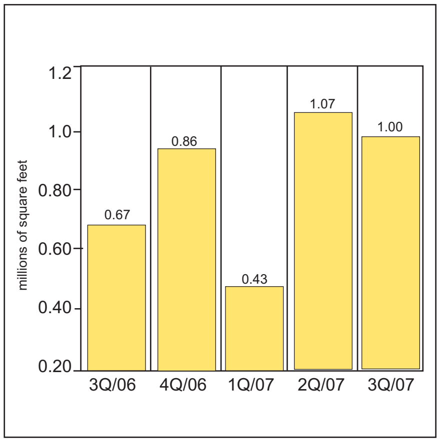
expensive city to operate a corporate headquarters amongst 30 cities with populations over two million that are home to regional concentrations of Fortune 500 companies. Atlanta's business community also benefits from a young and well-educated workforce ranking as the third best city for young professionals by Forbes magazine in July. This segment of Atlanta's population is forecasted to grow and be a significant part of the metro area's projected population of over 7 million by 2020 – an expected increase of 40 percent from 2000-2020, the largest projected increase in the nation by the US Census Bureau.

Market Announcements

Third quarter was an outstanding period for new construction activity, with five trophy office buildings totaling 2.7 million square feet breaking ground in Buckhead and Midtown bringing the metro area's total amount of office space under construction up to nearly 4.7 million square feet. In Buckhead, all three trophy towers broke ground without preleasing and are projected to deliver mid-2009. The first building at Terminus by Cousins Properties leased extremely well prompting the ground breaking of another 534,000 square feet in Terminus 200. Pope & Land kicked off 425,000 square feet at 3630 Peachtree, which will have another sixteen floors of high-end residential units. After being a proposed building for years, Two Alliance Center broke ground by new owner Tishman Speyer, which will add another 493,000 square feet to the Buckhead market. In Midtown, following the third quarter delivery of approximately 350,000 square feet in the second building at Atlantic Station (201 17th Street), AIG broke ground on 535,000 square feet at 271 17th Street with significant preleasing announcements. Womble Carlyle Sandridge & Rice PLLC, BB&T Corporation and Ford & Harrison LLP committed to 100,000 square feet, 80,000 square feet and 52,000 square feet, respectively. The other major mixed-use development underway in Midtown is 12th & Midtown where the One Midtown office tower of 725,000 square feet broke ground without preleasing.

It is no coincidence that the two submarkets with the largest amount of trophy office space under construction are also the two submarkets with the highest Class A average quoted rents of all metro Atlanta submarkets. Midtown posted $27.70 per square foot, full service while Buckhead posted $27.49 per square foot, full service. Many landlords of Class A properties in-town are shifting from full service rental rate terms to triple net terms as evidenced in Buckhead and Midtown where all five of the trophy buildings that broke ground third quarter are quoting on a triple net basis. This trend is also seen in many existing Class A buildings as landlords are



Office Net Absorption

** All Classes of Space*

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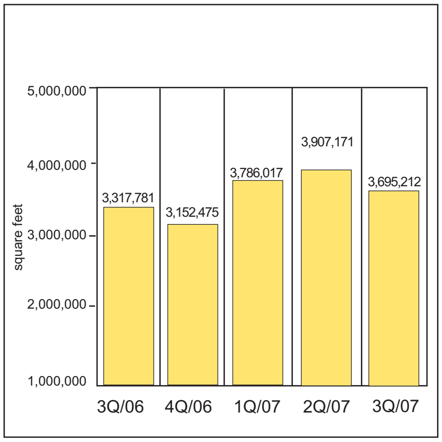
leery of absorbing the increasing cost of operating expenses. Thus, office tenants in the marketplace should carefully evaluate the financial impact of a net lease in light of the variable costs for operating expenses.

Many large office tenants were busy this quarter moving to new space, which contributed to an overall market net absorption of over 1 million square feet bringing the year-to-date total to approximately 2.5 million. Significant move-ins included nearly 200,000 square feet at Terminus 100 in Buckhead by a number of tenants including Smith Barney (44,543 square feet), Wachovia Bank (36,128 square feet), Premier Global Services (36,128 square feet), Miles Properties and Lockton Companies (23,684 square feet each). At Ravinia in Central Perimeter, T-Mobile moved into 152,000 square feet at One Ravinia and Eclypsis Corporation moved into nearly 78,000 square feet at Three Ravinia. A host of move-ins totaling approximately 150,000 square feet occurred in Downtown's One Ninety One Peachtree Tower including Chamberlain, Hrdlicka, White, Williams & Martin (35,000 square feet), Synergy Energy (25,000 square-foot sublease), and HOK (20,000 square feet). On the flip side, one of the largest move outs included Premier Global Services vacating approximately 75,000 square feet at The Lenox Building in Buckhead.



Available Office Sublease Space

** All Classes of Space*

Challenges

While Atlanta has a business climate poised for continued growth with its diverse economy, low cost of doing business and living, strategic location, young and well-educated labor pool and exploding population, the challenge lies in the metro area's infrastructure, particularly roadways. In a new report by the Texas Transportation Institute, Atlantans' driving times are steadily increasing despite efforts of some to carpool, use mass transit, or live closer to the workplace. Metro area drivers lost on average 60 hours annually due to traffic congestion in 2005 yet they drove fewer highway miles. Such statistics place Atlanta only behind Los Angeles for the highest number nationwide of extra hours the average driver was delayed in traffic. The study also showed Atlanta's road capacity has not historically kept up with the pace of population growth. While the state promotes telecommuting, mass transit and synchronized traffic lights, the crux of the issue is funding. Only 5 percent of the state's transportation budget of $2.6 billion is being used for road projects, according to the Georgia Department of Transportation, due to essentially all gas tax revenue in the state having to be spent on maintenance costs and debt service.

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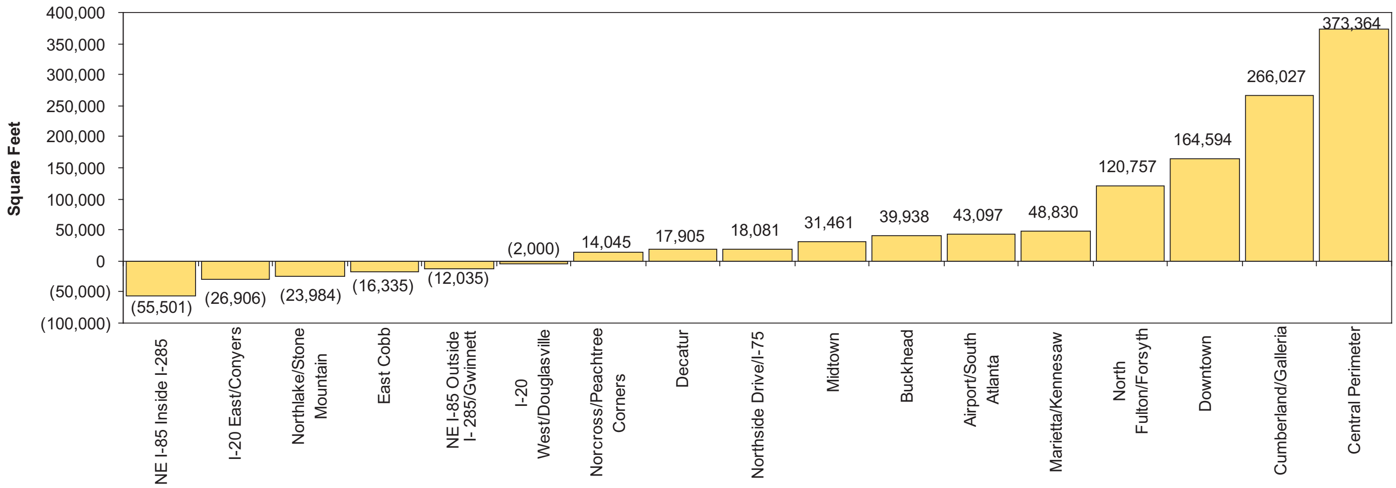


Q3 2007 Net Absorption By Submarket

**All Classes of Space*

Select Transactions

Grubb & Ellis is pleased to announce that it represented the following companies in office transactions during the third quarter of 2007:

Ogletree, Deakins, Nash, Smoak & Stewart PC
Direct Lease
191 Peachtree
Atlanta, GA

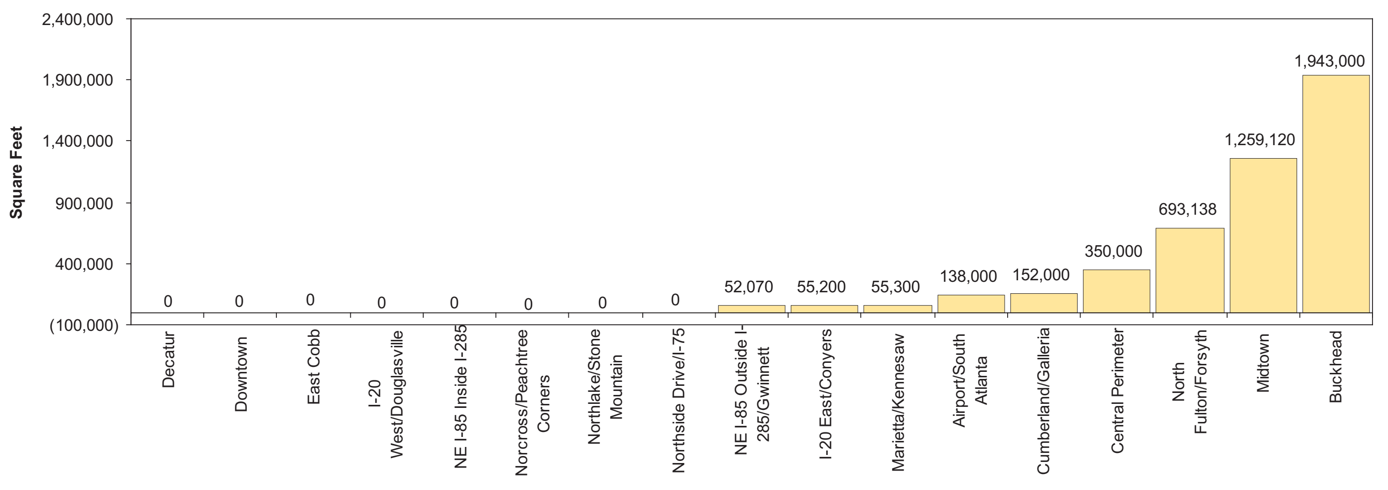
AdvanceMe Inc.
Direct Lease
500 Barrett Office Center
Kennesaw, GA

Mass Mutual
Direct Lease Extension and Expansion
Atlanta Financial Center
Atlanta, GA

M.A.C. Cosmetics Inc.
Direct Lease
400 Northpark
Atlanta, GA

Airgas South Inc.
Direct Lease Expansion
One TownPark Commons
Kennesaw, GA

Office Market Trends Third Quarter 2007



Q3 2007 Under Construction By Submarket

**All Classes of Space*

Nationwide coverage delivered through the Grubb & Ellis system.

Office Market Snapshot Atlanta Third Quarter 2007

By Submarket (All Classes)	Total (1) SF	Vacant (2) SF	Vacant %	Net Absorption Current Qtr	Net Absorption Year To Date	Under Const. (3) SF	Asking Rent (4) Class A	Asking Rent (4) Class B
Downtown	17,402,393	3,924,755	22.6%	164,594	587,269	-	$23.05	$19.68
CBD Total	**17,402,393**	**3,924,755**	**22.6%**	**164,594**	**587,269**	**-**	**$23.05**	**$19.68**
Airport/South Atlanta	3,955,126	716,132	18.1%	43,097	48,731	138,000	$20.19	$18.79
Buckhead	13,008,291	2,052,204	15.8%	39,938	377,258	1,943,000	$27.49	$21.64
Central Perimeter	22,621,218	3,153,217	13.9%	373,364	592,369	350,000	$23.50	$19.06
Cumberland/Galleria	19,933,298	3,866,461	19.4%	266,027	435,285	152,000	$22.25	$17.83
Decatur	1,463,117	168,377	11.5%	17,905	(10,652)	-	$24.31	$19.51
East Cobb	498,848	68,142	13.7%	(16,335)	(2,739)	-	-	$16.08
I-20 East/Conyers	645,353	104,130	16.1%	(26,906)	(12,795)	55,200	$22.50	$18.06
I-20 West/Douglasville	511,096	50,177	9.8%	(2,000)	21,114	-	-	$17.05
Marietta/Kennesaw	2,201,695	328,362	14.9%	48,830	122,797	55,300	$21.77	$19.11
Midtown	14,206,594	2,515,682	17.7%	31,461	185,977	1,259,120	$27.70	$20.05
NE I-85 Inside I-285	6,546,942	735,326	11.2%	(55,501)	100,649	-	$19.71	$18.45
NE I-85 Outside I-285/Gwinnett	7,385,223	1,962,866	26.6%	(12,035)	(131,136)	52,070	$20.41	$17.46
Norcross/Peachtree Corners	6,565,788	1,301,749	19.8%	14,045	101,751	-	$19.77	$17.12
North Fulton/Forsyth	17,198,343	2,699,317	15.7%	120,757	30,769	693,138	$20.25	$17.91
Northlake/Stone Mountain	3,546,102	633,764	17.9%	(23,984)	43,437	-	$20.50	$17.37
Northside Drive/I-75	935,156	50,975	5.5%	18,081	14,206	-	-	$20.27
Suburban Total	**121,222,190**	**20,406,881**	**16.8%**	**836,744**	**1,917,021**	**4,697,828**	**$23.84**	**$18.65**
Totals	**138,624,583**	**24,331,636**	**17.6%**	**1,001,338**	**2,504,290**	**4,697,828**	**$23.70**	**$18.71**

By Class (All Submarkets)							Available for Sublease CBD	Available for Sublease Suburban
Class A	81,031,508	13,909,687	17.2%	1,291,088	2,318,994	4,372,258	519,881	2,032,874
Class B	51,496,299	9,163,467	17.8%	(282,507)	244,020	325,570	13,000	985,621
Class C	6,096,776	1,258,482	20.6%	(7,243)	(58,724)	-	-	143,836
Totals	**138,624,583**	**24,331,636**	**17.6%**	**1,001,338**	**2,504,290**	**4,697,828**	**532,881**	**3,162,331**

(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.

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