

# Office Market Trends Atlanta

Grubb & Ellis Research  
Fourth Quarter 2007



## Weak Quarter for Net Absorption, Yet Significant Deals In The Market

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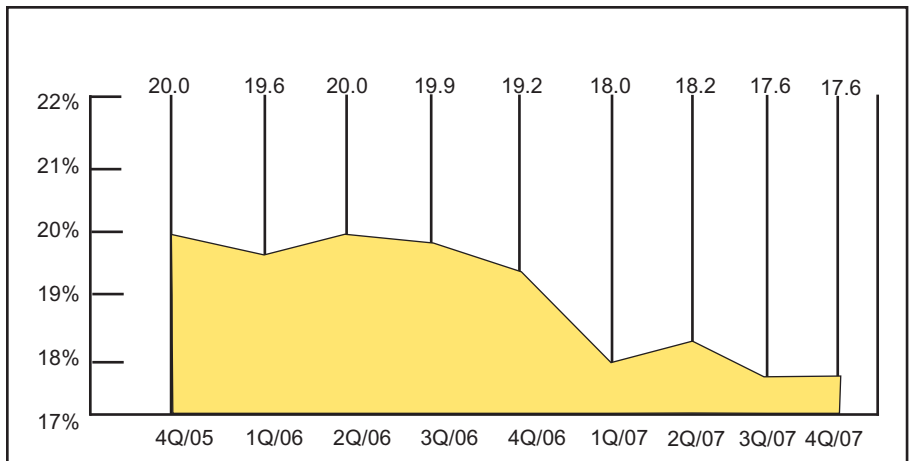
### Overview

Although Atlanta's economy has dampened by an increasing number of residential foreclosures, the statewide drought, and weakening housing, manufacturing and financial services sectors, there were many positive announcements for Atlanta's office market made in the fourth quarter. Georgia now ranks the second best business climate in the nation in a survey by Site Selection magazine of commercial real estate decision makers and data on development projects. Furthermore, Atlanta posted the tenth highest employment growth in the past decade among the top 100 metropolitan areas, as studied by the Brookings Metropolitan Policy Program. Also attesting to the promising outlook for the business climate is the announcement by the University System of Georgia that a record number of college students enrolled in the fall of 2007. Currently at over 270,000 students, the statewide system of 35 public colleges and universities expects another 100,000 by 2020.

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**Kelly Sydney**  
Client Services Manager  
E-mail: [kelly.sydney@grubb-ellis.com](mailto:kelly.sydney@grubb-ellis.com)

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

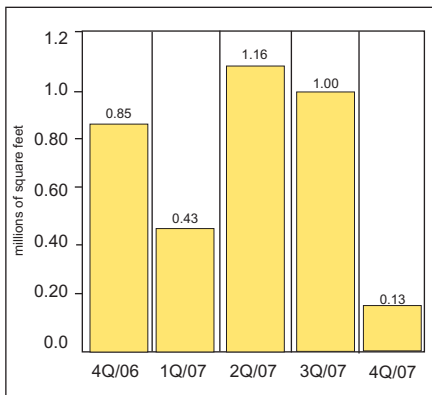


**Office Vacancy Rate\***  
\* All Classes of Space

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## Market Announcements

Despite a slump in terms of net absorption during the fourth quarter, with the only major intown Class A move-in being Nelson Mullins Riley & Scarborough LLP taking approximately 100,000 square feet at Atlantic Station's 201 17th Street, future move-ins look promising as many significant leases were announced. Marking the single largest office lease of the year was the Georgia Department of Transportation's (GDOT) fourth quarter signature for nearly 250,000 square feet at Cousins' One Georgia Center in Downtown. The long-awaited INVESCO deal came to fruition for approximately 178,000 square feet. INVESCO's corporate headquarters will relocate from London to Atlanta in addition to its two local operations at One Midtown Plaza and 1315 Peachtree consolidating at Dewberry's Two Peachtree Pointe in Midtown. The momentum at Downtown's One Ninety One Peachtree continued with two more law firms choosing the tower - Merchant & Gould PC will take approximately 19,000 square feet and Fields Howell Athans & McLaughlin LLP signed for nearly 25,000 square feet. Another significant move will be the relocation of AT&T's U.S. wireless division headquarters from 400,000 square feet at Glenridge Highlands Two to Lenox Park. Also in the works is Portuguese energy technology company EFACEC who will move its headquarters from Miami to Atlanta.



**Office Net Absorption**

*\* All Classes of Space*

The market is also seeing many large users "in the market" for new office space. Accounting firm Habif, Arogeti & Wynne LLP, currently at Glenridge Highlands Two, could double in size to 120,000 square feet and is searching the Central Perimeter market in addition to considering expansion opportunities upon AT&T's departure. Marsh Inc., currently at Prominence, is said to be searching for at least 150,000 square feet. GE Consumer Finance, currently at 3330 Cumberland Blvd, is looking for up to 100,000 square feet in the Cumberland/Galleria market. BCD Travel, currently at Lenox Park, is exploring options for its North American headquarters.

On the contrary, Atlanta's office market is feeling the effects of the housing credit crunch with several related operations being downsized or terminated. HomeBanc Mortgage Corp. defaulted on their lease of approximately 160,000 square feet at Perimeter Summit upon filing bankruptcy. Home Capital, Inc. also filed and vacated three floors at Palisades. With a need for capital, Century Pacific Mortgage Corp. sold its multi-tenant, 51,000-square-foot building at Century Lakeview Park in Norcross but still occupies a portion of the building. Building products distributor BlueLinx Holdings

### Atlanta Office Market Trends Contributors

#### Andrea Franklin

Database Coordinator  
andrea.franklin@grubb-ellis.com

#### Frances Scarlett

Graphic Designer  
frances.scarlette@grubb-ellis.com

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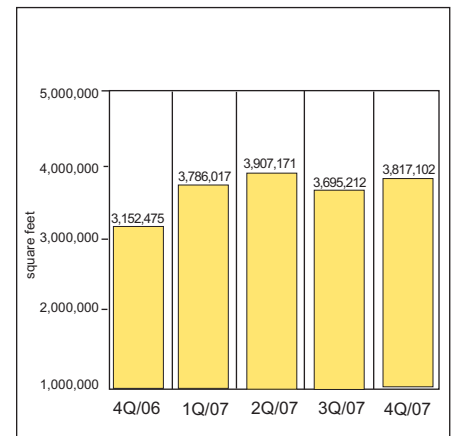
announced their plan to consolidate its leased corporate headquarters and sales center into one building, putting 100,000 square feet on the market. Two other significant subleases put on the market are CompuCredit's 75,000 square feet at Concourse Corporate Center and Capmark Financial Group's 60,000 square feet at Three Ravinia.

## Construction Update

Buckhead and Midtown's boom of construction continues with 47 percent and 31 percent of the metro's Class A projects, respectively. In Buckhead, just one of the four towers has been successful with preleasing. Regent Partners announced Staubach taking a floor at 3344 Peachtree, adding to its growing list of tenants including Littler Mendelson, Jones Lang LaSalle, Fifth Third Bank and the Buckhead Club. The building topped out this quarter but will not deliver until May 2008. 3630 Peachtree, Two Alliance Center and Terminus 200 have yet to secure preleasing but are on pace to deliver throughout 2009. Cousins Properties announced bringing in Prudential Real Estate Investors to form a \$172.5 million joint venture to develop, own and lease the 550,000-square-foot Terminus 200. The capitalization of the venture is expected to cover the building's construction cost. Construction of another 500,000 square feet in Buckhead at Crescent Resources' Phipps Tower could also begin in 2008. In Midtown, the status has not changed since third quarter with one of the two towers under construction having secured preleasing. The third building at Atlantic Station, 271 17th Street, has attracted Womble Carlyle Sandridge & Rice PLLC, BB&T and Ford & Harrison. Prospecting activity from large users has been very good for 12th & Midtown although no commitments to help fill its 725,000 square feet have been announced.

## Challenges

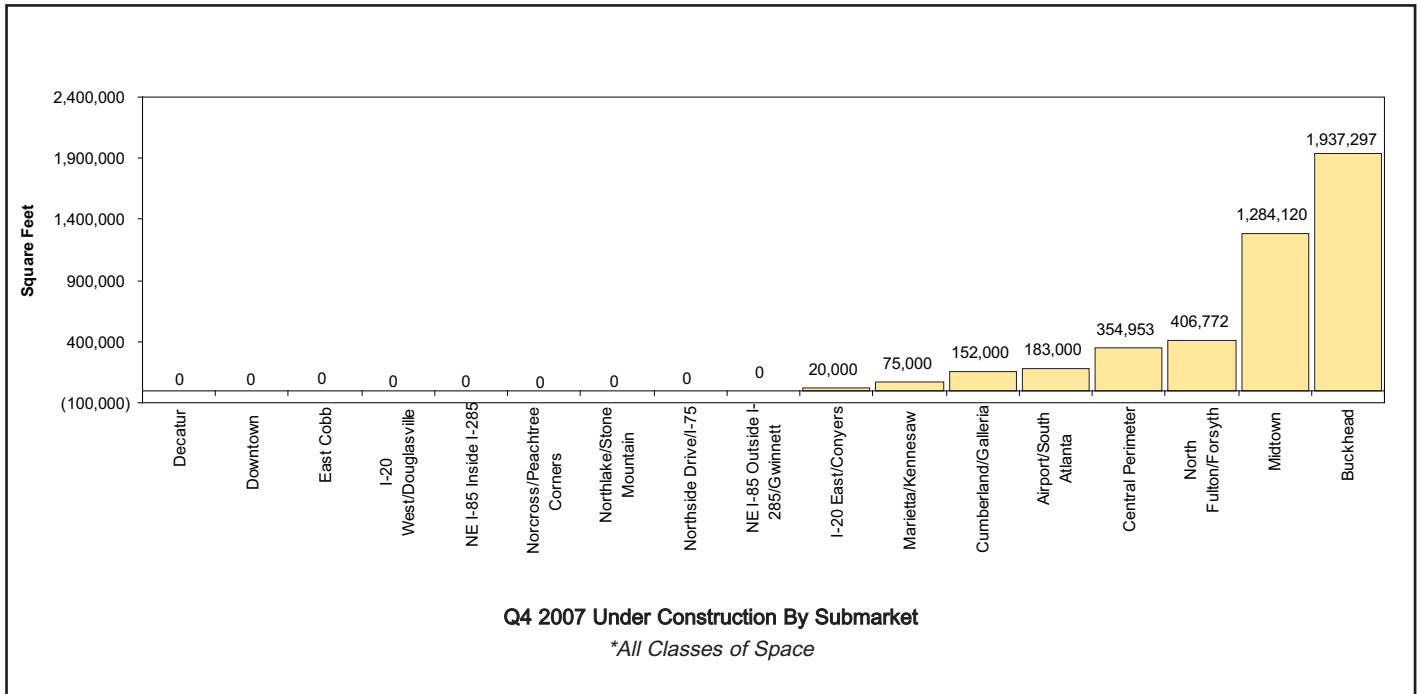
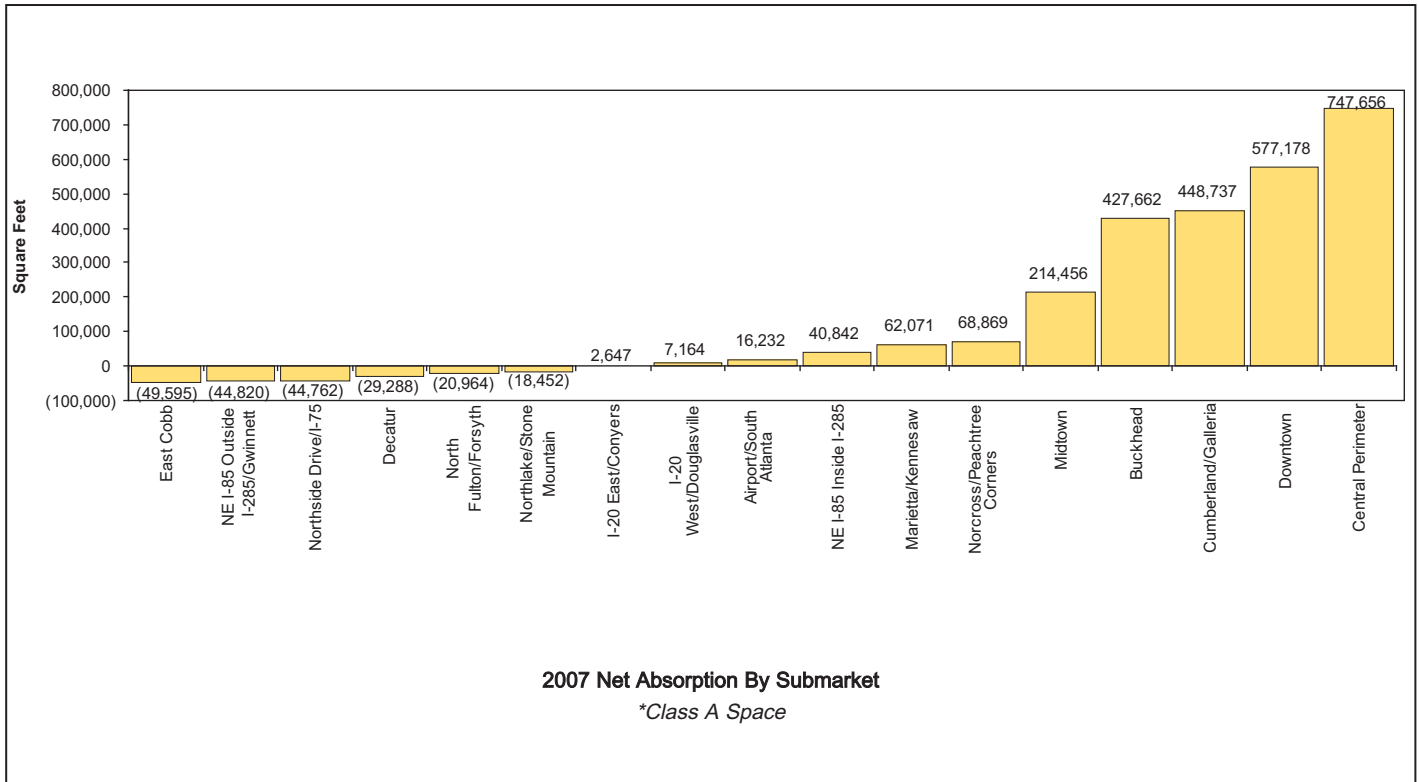
Rental rates are on the rise due to more trophy buildings coming online and escalating operating expenses. Local pricing for electricity is rising due to Georgia's Public Service Commission approval of a three-year settlement allowing Georgia Power to collect \$323 million more per year from its customers. Intown commercial property owners will also see significant tax increases, after years of minor increases, as the Fulton County Tax Assessors Office works with an external consultant to re-evaluate all 27,000 commercial parcels by May 2008.



**Available Office Sublease Space**

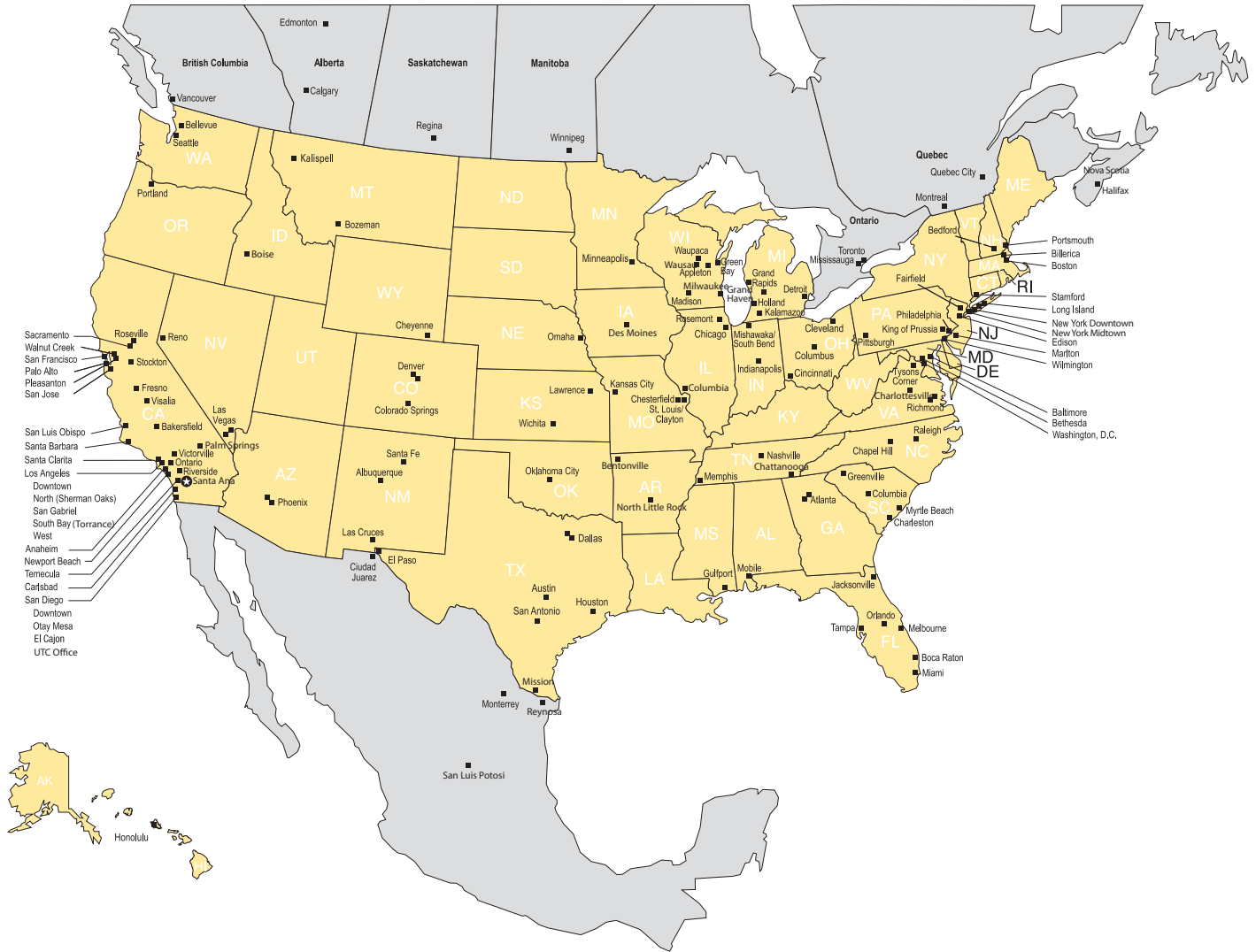
*\* All Classes of Space*

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Nationwide coverage delivered through the Grubb & Ellis system.



## Select Transactions

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

**Frazier & Deeter, LLC**  
 Direct Lease Extension & Expansion  
 46,354 SF  
 Bank of America Plaza  
 Midtown/Downtown

**Littler Mendelson, P.C.**  
 New Direct Lease  
 30,000 SF  
 3344 Peachtree  
 Buckhead

**Association County  
 Commissioners of Georgia**  
 Direct Lease Extension  
 13,093 SF  
 The Hurt Building  
 Downtown

## Office Market Snapshot Atlanta Fourth Quarter 2007

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	17,402,393	3,738,576	21.5%	97,738	641,447	-	\$23.12	\$20.55
<b>CBD Total</b>	<b>17,402,393</b>	<b>3,738,576</b>	<b>21.5%</b>	<b>97,738</b>	<b>641,447</b>	<b>-</b>	<b>\$23.12</b>	<b>\$20.55</b>
Airport/South Atlanta	4,000,126	822,563	20.6%	(61,431)	(12,700)	183,000	\$20.64	\$17.95
Buckhead	13,008,291	1,849,710	14.2%	178,243	533,684	1,937,297	\$28.16	\$22.01
Central Perimeter	22,621,218	3,022,794	13.4%	99,603	799,754	354,953	\$23.89	\$19.28
Cumberland/Galleria	19,933,298	4,019,367	20.2%	(75,719)	439,799	152,000	\$23.38	\$17.52
Decatur	1,496,117	237,006	15.8%	(38,629)	(49,281)	-	\$24.31	\$21.00
East Cobb	498,848	114,998	23.1%	(46,856)	(49,595)	-	-	\$17.88
I-20 East/Conyers	680,553	107,147	15.7%	1,983	19,388	20,000	\$22.50	\$17.17
I-20 West/Douglasville	511,096	50,177	9.8%	-	21,114	-	-	\$18.93
Marietta/Kennesaw	2,224,339	354,118	15.9%	(36,660)	86,137	75,000	\$21.77	\$18.90
Midtown	14,206,594	2,480,523	17.5%	21,630	177,673	1,284,120	\$27.93	\$20.51
NE I-85 Inside I-285	6,546,942	710,942	10.9%	24,384	125,033	-	\$19.71	\$18.46
NE I-85 Outside I-285/Gwinnett	7,437,293	1,971,526	26.5%	37,687	(89,459)	-	\$20.52	\$17.90
Norcross/Peachtree Corners	6,565,788	1,200,506	18.3%	101,243	202,994	-	\$20.10	\$16.83
North Fulton/Forsyth	17,348,343	3,022,889	17.4%	(175,438)	(138,463)	406,772	\$20.59	\$18.49
Northlake/Stone Mountain	3,546,102	665,704	18.8%	(31,940)	11,497	-	\$20.50	\$17.45
Northside Drive/I-75	935,156	99,281	10.6%	34,815	25,900	-	-	\$20.00
<b>Suburban Total</b>	<b>121,560,104</b>	<b>20,729,251</b>	<b>17.1%</b>	<b>32,915</b>	<b>2,103,475</b>	<b>4,413,142</b>	<b>\$24.32</b>	<b>\$18.76</b>
<b>Totals</b>	<b>138,962,497</b>	<b>24,467,827</b>	<b>17.6%</b>	<b>130,653</b>	<b>2,744,922</b>	<b>4,413,142</b>	<b>\$24.11</b>	<b>\$18.86</b>

By Class (All Submarkets)			Vacant %	Net Absorption		Under Const.	Available for Sublease	
	SF	SF		Current Qtr	Year To Date		CBD	Suburban
Class A	81,226,508	13,878,798	17.1%	82,390	2,492,826	4,155,142	471,854	2,156,880
Class B	51,639,213	9,101,265	17.6%	33,154	303,847	258,000	-	1,044,982
Class C	6,096,776	1,487,764	24.4%	15,109	(51,751)	-	-	143,386
<b>Totals</b>	<b>138,962,497</b>	<b>24,467,827</b>	<b>17.6%</b>	<b>130,653</b>	<b>2,744,922</b>	<b>4,413,142</b>	<b>471,854</b>	<b>3,345,248</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.