

MARKETBEAT

ATLANTA OFFICE REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION



3Q10

ECONOMY

The national economic recovery remained sluggish in the third quarter. A stagnant job market continued to erode consumer confidence and limit spending, even as new jobless claims receded and GDP growth exceeded estimates.

Atlanta's economic recovery continued to lag the nation; though there were signs of gradual recovery in third quarter 2010. Trade and tourism activity continued to bolster Atlanta's economy and private sector job growth reached its strongest level since 2007. Consumer spending remained constrained by tepid overall job growth and stagnant home prices, while persistent weakness in the commercial real estate and financial sectors continued to present downside risks to sustained economic recovery.

OVERVIEW

As reflected by healthy leasing activity, Atlanta's office market has begun to gradually rebound from recession. Roughly 6.6 million square feet (msf) leased year-to-date, as activity was dominated by consolidation and downsizing among corporate users seeking operational efficiencies and cost savings within the market. As a result of modest net occupancy losses in the second and third quarters, however, 123,650 square feet (sf) of negative overall absorption was reported year-to-date.

A surplus of first generation space continued to drive demand, as nearly 15.0% of the leasing activity reported year-to-date was focused in buildings completed within the last five years. However, Atlanta remained critically oversupplied at quarter's end. Overall vacancy measured 21.5% as of third quarter despite a 20.0% decrease in sublease vacancies year-to-date to 2.7 msf. An aggressive speculative construction cycle ended in first quarter, as 574,557 sf were under construction on a build-to-suit basis at third quarter's end.

Tenants in the market continued to benefit from aggressive concession packages in select markets and available value opportunities. Overall asking rents decreased for a second straight quarter to an average of \$21.41 per square foot (psf).

In the largest sales transaction to close year-to-date, Dewberry Capital acquired the 439,388-sf, class A 1155 Peachtree in third quarter from Wells Fargo for \$80.00 psf following a first quarter foreclosure. Year-to-date, investment activity totaled nearly 1.3 msf while user sales activity exceeded 400,000 sf.

FORECAST

The impact of a tepid economic recovery on Atlanta's office sector will be limited in the near-term. Vacancies will remain elevated, even as aggressive rental rate and concession packages attract interest from major corporate users. Improving conditions in the employment sector will help stabilize occupancy levels by year-end; though downward pressure on rents will persist to impact property values. Debt markets are recovering, though investment activity will remain limited with interest focused on value opportunities and an expanding pipeline of core assets.

BEAT ON THE STREET

"Every lease negotiation feels like SEC football. There are clear winners and losers, for sure, but tenants can't win if they don't play the game. Despite the recent negative absorption, the markets are turning and we are one or two quarters away from a much better report card. It's time for tenants to get their helmets on and get back in the game."


– Ken Ashley, Senior Director


ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.6%	2.7%	3.1%
CPI Growth	-0.3%	1.6%	1.6%
Regional			
Unemployment	10.1%	10.6%	10.3%
Employment Growth	-5.6%	-1.3%	0.7%

Source: Moody's | Economy.com

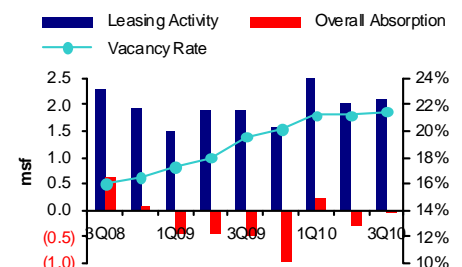
MARKET FORECAST

LEASING ACTIVITY will gradually improve as value opportunities persist and payrolls gradually expand. 

OVERALL ABSORPTION will stabilize even as a lack of significant job growth among office-using industries will limit net occupancy gains in fourth quarter. 

CONSTRUCTION: A lack of financing resulting from excess vacant inventory and weak market fundamentals will continue to dissuade speculative activity. 

OVERALL LEASING AND ABSORPTION VS. VACANCY RATES



MARKET/SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT ABSORPTION	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
CBD	15,463,139	52	21.9%	19.5%	597,781	0	0	162,843	249,812	\$20.41
Midtown	17,750,571	75	23.8%	21.7%	514,052	0	697,450	(381,263)	(154,052)	\$28.72
Buckhead	16,733,648	71	25.0%	23.6%	1,472,084	0	909,445	262,135	173,867	\$29.05
Central Perimeter	23,406,321	168	21.7%	20.0%	1,426,591	514,557	0	(159,046)	160,669	\$23.09
Georgia 400	17,645,846	182	20.3%	16.9%	817,857	60,000	0	(174,997)	(213,528)	\$20.32
I-75/Northside Drive	388,586	7	14.1%	3.6%	1,305	0	0	(3,776)	(3,776)	N/A
NW/Cumberland/Galleria	20,015,635	176	21.4%	18.7%	781,195	0	0	(128,989)	(46,492)	\$23.23
GA 120/Johnson Ferry Rd	223,156	6	9.9%	9.9%	21,223	0	0	8,347	8,347	N/A
I-75 North/Marietta	2,889,969	50	20.3%	18.5%	106,151	0	0	(21,800)	(66,450)	\$18.52
Northwest Atlanta	23,517,346	239	21.1%	18.3%	909,874	0	0	(146,218)	(108,371)	\$22.78
I-85/I-285/NE Atlanta	7,045,345	141	10.5%	10.1%	184,752	0	0	(55,609)	(52,246)	\$19.75
I-85 NE/Gwinnett Co/I-985	6,634,874	104	20.0%	19.2%	268,220	0	0	33,646	60,945	\$21.68
Peachtree Corners	6,027,860	149	24.7%	24.1%	249,159	0	0	(255,153)	(160,308)	\$19.89
Northeast Atlanta	19,708,079	394	18.0%	17.4%	702,131	0	0	(277,116)	(151,609)	\$21.10
Decatur	1,321,458	25	13.0%	12.6%	48,353	0	0	(52,752)	(52,752)	\$22.19
Northlake/Stone Mountain	2,989,508	46	16.9%	16.5%	24,629	0	0	1,666	(1,173)	\$19.60
Northlake/Decatur	4,310,966	71	15.7%	15.3%	72,982	0	0	(51,086)	(53,925)	\$20.75
I-20 West	484,049	8	19.5%	19.5%	2,972	0	0	(5,960)	(5,960)	\$23.00
Airport/South Atlanta	3,337,551	67	27.0%	26.5%	87,620	0	0	(32,925)	(20,553)	\$21.08
South Atlanta	3,821,600	75	26.0%	25.7%	90,592	0	0	(38,885)	(26,513)	\$21.22
Non-CBD	126,894,377	1,275	21.5%	19.6%	6,006,163	574,557	1,606,895	(966,476)	(373,462)	\$25.04
TOTAL	142,357,516	1,327	21.5%	19.6%	6,603,944	574,557	1,606,895	(803,633)	(123,650)	\$24.42

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1150 Sanctuary Parkway	Georgia 400	Coca-Cola Co.	137,525	A
Terminus 200	Buckhead	Kids II, Inc.	97,120	A
250 Williams Street	Central Business District	InComm Holdings	89,887	A
191 Peachtree	Central Business District	Carlock, Copeland & Stair	52,000	A

SIGNIFICANT 3Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	Buyer	SQUARE FEET	PURCHASE PRICE
1155 Peachtree	Midtown	Dewberry Capital	439,388	\$35,000,000
41-53 Perimeter Center East	Central Perimeter	Atlanta Property Group	282,100	\$14,865,000
Suwanee-Gateway One	I-85 NE/Gwinnett Co/I-985	SDM Partners	143,000	\$7,722,000

SIGNIFICANT 3Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Central Park	Central Perimeter	Cox Enterprises	514,557	12/12
Westside Park	Georgia 400	AdvancED	60,000	12/10



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