Industrial Market Trends Atlanta

Grubb & Ellis Research

Third Quarter 2008

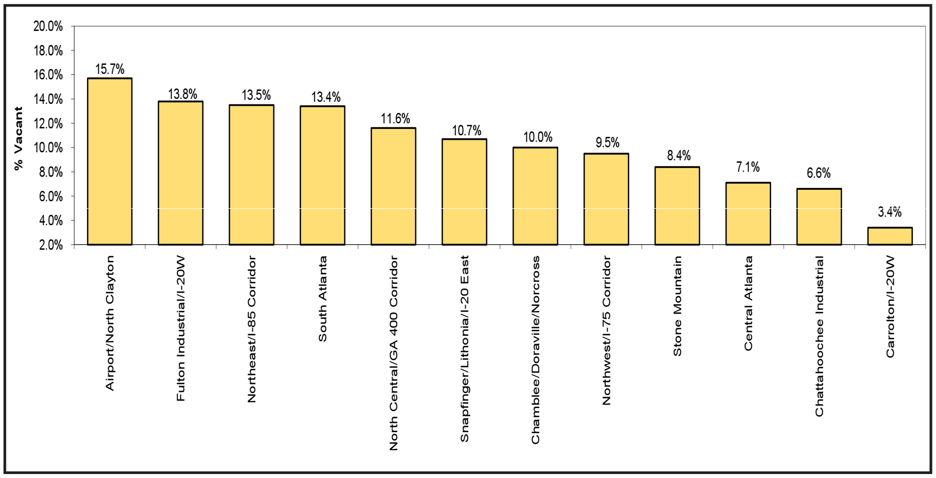
Grubb & Ellis
Property Solutions Worldwide

Renewal Activity Escalates in Slow Economy

Contents

Executive Summary

A continued decline in tenant activity in the third quarter led to companies opting for short-term and month-to-month lease renewals while future expansion plans were put on hold. There is pent-up demand for space as some companies expressed their need to expand at a local level, but were overruled by their national and regional corporate offices. Although many companies could take advantage of liberal lease terms and flexible concessions, their corporate leaders refuse to make a move until they can determine if they need to contract or expand further down the road. Not only are they concerned about their plans for future growth, but the cost of relocation alone is enough to make them wait and hold onto their capital. Many companies find themselves in an indefinite holding pattern and do not want to lock into any long-term commitments until they see how the economy is going to shake out. In addition, fuel shortages, coupled with rocketing energy and food prices have led to decision-makers "tucking in their horns while watching and waiting for the storm to pass" in anticipation of more positive economic signs. The good news is, overall, tenants are staying put and operating their businesses as usual.



Vacancy Rate by Submarket*

** All Classes of Space*

Atlanta Industrial Market Trends
is a newsletter published quarterly by Grubb & Ellis Company. To obtain additional copies or other Grubb & Ellis publications, please contact:

Andrea Franklin
Senior Research Analyst
andrea.franklin@grubb-ellis.com

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

Overview

Tenants seeking large blocks of space have been scarce, as was the case in second quarter. While leasing activity in the second quarter could be characterized as much reduced, the third quarter’s activity was also slow, even considered stagnant, with a moderate overall negative absorption recorded at 636,857 square feet. Active industry sectors during the third quarter included textile wholesale suppliers, auto parts and electronics distributors, information technology related companies, media distributors, packaging and industrial supply companies. There was moderate activity in the most active core submarkets with renewals being the most common lease transactions. Tenants continued to “play it safe” by looking for ways to cut costs with short-term renewals, extensions, month-to-month leases and by renegotiating their current agreements or reducing space.

Even with moderate negative absorption and stagnant market activity, the Northeast/I-85 Corridor was most active in the third quarter with move-ins, renewals, leases, a few sales and even some expansions. Walgreen’s moved into their 518,000 square-foot distribution center at Wayne Poultry Road in Pendergrass. Menlo Worldwide, a logistics supply-chain company, extended their 256,700 square-foot lease at Shawnee Ridge for an additional five years. Mitsubishi vacated their 287,196 square-foot space at 1001 Cherry Drive and moved into their new 265,000 square-foot distribution and electronics repair facility at Park 85 in Braselton. Blue Sky Imports, a Georgia-based jewelry wholesaler, signed a lease at 485 Horizon Drive, moving from their 43,250 square-foot space at 3000 Pacific Drive in the Norcross to their expanded 96,188 square-foot facility in Suwanee. LSI Corporation leased 57,085 square-feet at 4164 Shackleford Road and moved from their former 52,537 square-foot location at 6145 Northbelt Parkway. Several renewals included Video Products Distributors - 72,000 square-feet at 215 Satellite Boulevard, Thermopro - 52,800 square-feet at 1600 Distribution Drive, Engineered Packaging Services - 56,000 square-feet at 1300 Lakes Parkway and Broadcom – 47,764 square-feet at 4385 Rivergreen Parkway.

Further south, the Airport/North Clayton and South Atlanta submarkets followed with a few significant lease deals, renewals and move-ins. Computer Sciences Corporation (CSC), a government defense contractor, signed a five-year 453,000 square-foot renewal at 185 Southside Industrial Parkway in South Atlanta. JVC leased 540,000 square-feet at New Manchester Distribution Center with an expected move-in during the first quarter of 2009. A separate division in their organization currently occupies

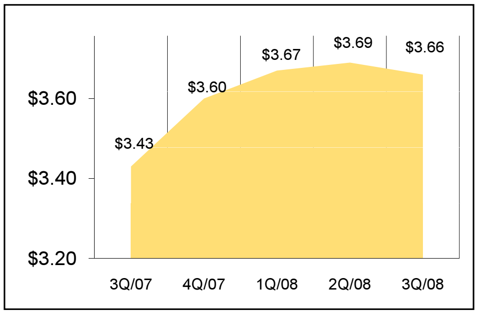
Atlanta Industrial Market Trends Contributors

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

Sara Hill
Database Coordinator
sara.hill@grubb-ellis.com

Rebecca Roberts
Graphic Designer
rebecca.roberts@grubb-ellis.com

9103 Riverside Parkway. Harman International Industries, an audio and electronics manufacturer, moved into 305,000 square-feet at 4475 South Fulton Parkway and UTI United States, Incorporated, a logistics supply-chain company, occupied an 80,425 square-foot space at AMB Hartsfield East. Unipart Group, Limited, an auto parts and logistics company based in Oxford, England, leased and occupied space at Royal 85, Building 3.

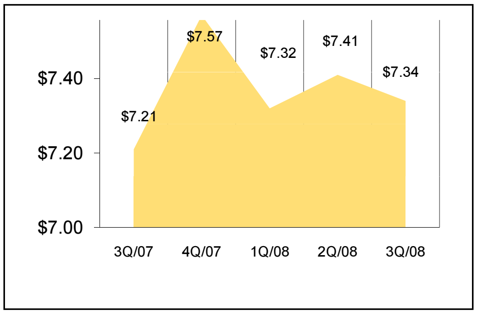


Industrial Rents
Warehouse/Distribution

Moving west to the Fulton Industrial and I-20 West submarkets, ConMed Corporation inked a 157,200 square-foot lease deal and moved into 1250 Terminus Drive in Lithia Springs and Core-Mark International leased 62,400 square-feet at 3655 Atlanta Industrial Drive. Meanwhile, in the Northwest/I-75 Corridor Atlanta Bonded Warehouse occupied a 182,000 square-foot space at 7060 Battle Drive and in Stone Mountain Ceradyne moved into 48,287 square-feet.

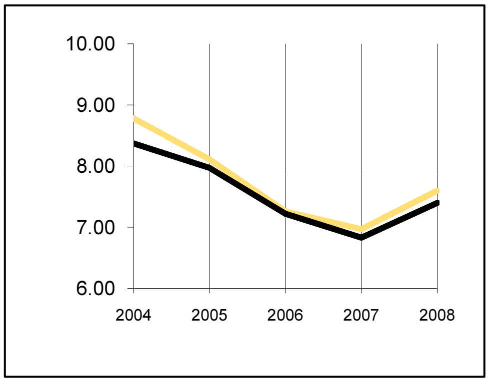
Development Highlights

New construction activity has virtually come to a halt. Many developers are taking a “wait and see” approach until there are indications of an economic turn-around. Buildings that were planned and proposed earlier this year have since been shelved with no future plans to resurrect these projects. Halted groundbreakings and holds on any new projects continue to keep vacancy levels down while existing vacant space is absorbed. A handful of projects are currently under construction primarily in the northwest, northeast and north central submarkets, including significant projects in outlying areas. In the Northwest/I-75 Corridor, three buildings on Northpoint Parkway in Acworth, totaling 490,000 are slated to deliver early in the fourth quarter and three Taylor & Mathis buildings totaling 340,719 square-feet at Chastain Meadows are on schedule to deliver at the end of fourth quarter. In the northwest outskirts, the 200,000 square-foot Highwoods Properties project in Cartersville is expected to be tenant-ready by February 2009. In the North Central/GA 400 Corridor a 210,000 square-foot building at Cabot Business Center is expected to be ready for occupancy early in the fourth quarter. In the Northeast/I-85 Corridor the 439,338 square-foot distribution center on Highway 124 in Braselton will deliver by the end of October. The 195,160 square-foot facility at 2475 Mill Center Parkway will be ready for occupancy first quarter 2009. There were a few significant building deliveries in the I-20 West Corridor; Westpoint at Riverside, Building A, a 744,000 square-foot warehouse/distribution facility in Austell delivered with no pre-lease agreements and Hartman IV and V, totaling 682,681 square-feet also delivered with no secured pre-lease agreements. Republic Property Company also completed their 202,120 square-foot facility, Jiles Distribution Center, in Kennesaw in the Northwest/I-75 Corridor.



Industrial Rents
R&D/Flex

Average escalations of 3 to 3.5 percent per year over the lease term have dropped to 2.5 percent increases year over year due to competition within the marketplace.



Source: Real Capital Analytics

Investment Overview

Overall sales volume in investment grade industrial product is holding to a twelve month rolling average, with $1.5 billion in product changing hands since third quarter 2007. Pricing on a per-square-foot basis was trending higher in recent months at $51.40 for product sold over the 12 month period through the second quarter, but has since declined in the third quarter to approximately $49.1 per-square-foot. Cap rates are averaging 7.6 percent or about 0.2 percent higher than the current national average. The largest sales transaction recorded during the third quarter was First Industrial's eight property portfolio acquisition totaling $81,915,000.00. The Northwest/I-75 Corridor is still a hot spot for investments and acquisitions as Sealy & Company Incorporated acquired six properties at Newmarket Parkway in September for a total of $47 million. IDI also sold two buildings on Royal Drive in Kennesaw to Gateway Sycamore Incorporated for $25 million in August. In addition, First Industrial acquired 7060 Battle Drive, a 405,000 square-foot facility for $14.25 million. It was originally leased back to Hershey, but since the sale of the building they moved out and Atlanta Bonded Warehouse moved into 182,000 square feet. In the Northeast/I-85 Corridor, Taylor & Mathis sold the Firearms Training Systems (FATS) building to KBS Realty Advisors for $17.8 million. The Fulton Industrial/I-20 West submarket is active with investors like Centerpoint Properties Trust, who recently purchased the new Staples Distribution Center from First Industrial for $21.8 million.

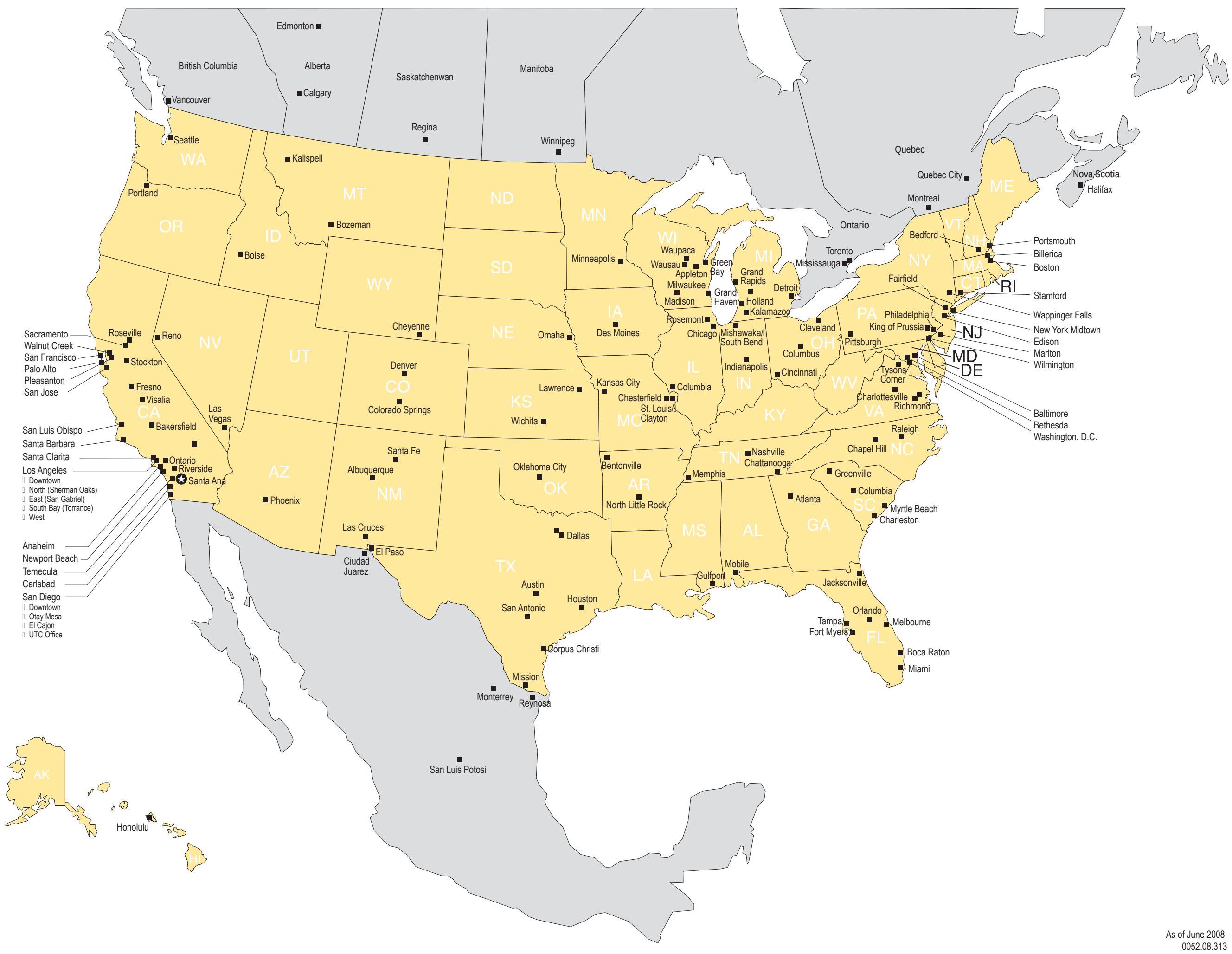
Forecast

Most manufacturing production levels remain low and many manufacturing companies are reporting that new orders are well below 2007 levels. The number of export orders declined in September, reversing the trend from recent months. There has been a reduction in manufacturing related jobs, especially in the housing sectors. Manufacturing companies expect activity to remain close to or fall below current levels over the next six months. Logistics companies are transporting fewer shipments of retail, automotive, and construction-related goods, but have experienced gains in shipments of coal, minerals, farm products and chemicals. As the economic downturn continues, expect to see a decrease in asking rates and more liberal lease terms. A year ago, landlords frequently declined a three year lease and now they are accepting short-term direct deals, renewals and month-to-month leases to retain occupancy. Average escalations of 3 to 3.5 percent per year over the lease term have dropped to 2.5 percent increases year over year due to competition within the marketplace. Most industrial users are staying in their current spaces but as long as the housing market and banking systems continue on a downward spiral, vendors to housing related industries in particular are reducing space and will continue to do so until these sectors stabilize.

Opportunities and Challenges

Overall absorption activity is still in the red as of third quarter 2008 and tenants in the marketplace will benefit as a result. The Northeast/I-85 Corridor and Airport/South Atlanta submarkets remain the most productive in terms of lease activity, but there is still plenty of available space and landlords are willing to negotiate. However, decisions to expand or downsize are virtually at a complete stand-still and deals are taking much longer to close even with free rent and liberal concessions. Industrial brokers have been primarily engaged in assisting tenants with short and long-term renewals and space consolidations. New construction has dwindled tremendously with few significant projects in the pipeline. As time passes and new space is absorbed in future quarters it's possible Metro Atlanta could experience some market tightening in late 2009 and beyond due to a lack of new space deliveries. Despite gloomy economic predictions, Metro Atlanta still offers highly competitive rental rates, an excellent quality of life and is still a sought after location for doing business. With an infrastructure well suited for logistics and industrial space users, Atlanta will continue to attract new business operations.

Grubb & Ellis Office Locations



Industrial Market Snapshot Atlanta First Quarter 2008

By Submarket (All Property Types)	Total (1) SF	Vacant (2) SF	Vacant %	Net Absorption Current Qtr	Net Absorption Year To Date	Under Const. (3) SF	Asking Rent (4) WH/Dist	Asking Rent (4) R&D/Flex
Airport/North Clayton	14,914,167	2,334,437	15.7%	337,251	802,620	-	$3.54	$5.15
Carrollton/I-20W	1,770,760	60,800	3.4%	-	15,000	-	$2.00	-
Central Atlanta	17,717,577	1,249,933	7.1%	8,896	(36,692)	-	$4.99	$5.77
Chamblee/Doraville/Norcross	75,383,878	7,530,874	10.0%	(323,627)	(779,889)	-	$4.93	$7.51
Chattahoochee Industrial	26,383,734	1,739,699	6.6%	1,870	(201,074)	-	$6.60	$7.61
Fulton Industrial/I-20W	87,226,379	12,000,744	13.8%	(106,977)	(594,699)	93,200	$2.91	$4.77
North Central/GA 400 Corridor	25,260,950	2,917,862	11.6%	(87,952)	(307,626)	614,765	$5.98	$8.89
Northeast/I-85 Corridor	98,655,085	13,353,458	13.5%	36,424	1,068,121	1,265,968	$3.77	$7.54
Northwest/I-75 Corridor	56,786,463	5,417,564	9.5%	(400,955)	(766,917)	684,158	$4.42	$9.01
Snapfinger/I-20E	31,612,284	3,372,925	10.7%	(126,974)	(383,664)	45,234	$3.77	$5.26
South Atlanta	126,161,233	16,847,888	13.4%	(179,670)	1,675,312	-	$3.05	$5.86
Stone Mountain	28,336,624	2,367,076	8.4%	204,857	(631,141)	-	$4.30	$6.20
Suburban Total	**590,209,134**	**69,193,260**	**11.7%**	**(636,857)**	**(140,649)**	**2,703,325**	**$3.66**	**$7.34**
Totals	**590,209,134**	**69,193,260**	**11.7%**	**(636,857)**	**(140,649)**	**2,703,325**	**$3.66**	**$7.34**

By Property Type (All Submarkets)							Asking Rent
General Industrial	34,217,851	1,761,817	5.1%	90,189	(316,279)	-	$4.33
R&D/Flex	61,457,578	8,182,310	13.3%	(329,467)	(1,099,423)	-	$7.34
Warehouse/Distribution	494,533,705	59,249,133	12.0%	(397,579)	1,275,053	2,703,325	$3.66
Totals	**590,209,134**	**69,193,260**	**11.7%**	**(636,857)**	**(140,649)**	**2,703,325**	**$4.11**

(1) Inventory includes multi-tenant, single-tenant and owner-occupied buildings with at least 10,000 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 and owner-built projects.
(4) Asking rates are per square foot per year, triple net. Rates for each building are weighted by the amount of available space within the building.
***Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures*

Industrial Market Terms and Definitions

Inventory: Industrial Inventory includes all multi-tenant, single tenant and owner-occupied buildings at least 10,000 square feet.

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.

Industrial Product Types: Industrial buildings are categorized as warehouse/distribution, general industrial, R&D/flex and incubator based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

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.

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. Industrial rents are expressed as triple net where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rata basis.

Average Weighted Asking Rent: An average market rent where the asking rent for each building in the market is weighted by the amount of available space in the building.

Select Transactions

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

WEG Electric Motors
Direct Lease
250,000 SF
6655 Sugarloaf Parkway
Northeast/I-85 Corridor

Veracruz Investments, LLC
Industrial Building Sale
59,000 SF
1625 Oakbrook Drive
Chamblee/Doraville/Norcross

Creative Corporate Strategies
Industrial Building Sale
15,000 SF
3535 Best Friend Road
Chamblee/Doraville/Norcross

Grubb & Ellis
Property Solutions Worldwide