

Office Market Trends Atlanta

Grubb & Ellis Research

Third Quarter 2008



Tenants Hanging Tough Amidst Turndown

Overview

As third quarter 2008 comes to an end all eyes are on the economy and its impact on the commercial real estate industry. Weakening economic fundamentals are eroding confidence among business leaders, many of whom have avoided committing to substantial blocks of new office space. Instead, many leaders are choosing to stay put in their current location until credit markets recover and economic activity rebounds. Predictably, overall absorption has remained flat and sublease space, a primary indicator of company downsizing, has been gradually rising. Despite these negative indicators, the Atlanta market remains fundamentally sound. Tenant growth and expansion has slowed, and despite the rise in sublease availability there is no indication that companies are taking steps to substantially reduce owned or leased blocks of space. There is no exodus of companies from core submarkets. Thus far tenants have been content to reduce costs and watch the bottom line until the economy stabilizes.

Contents

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

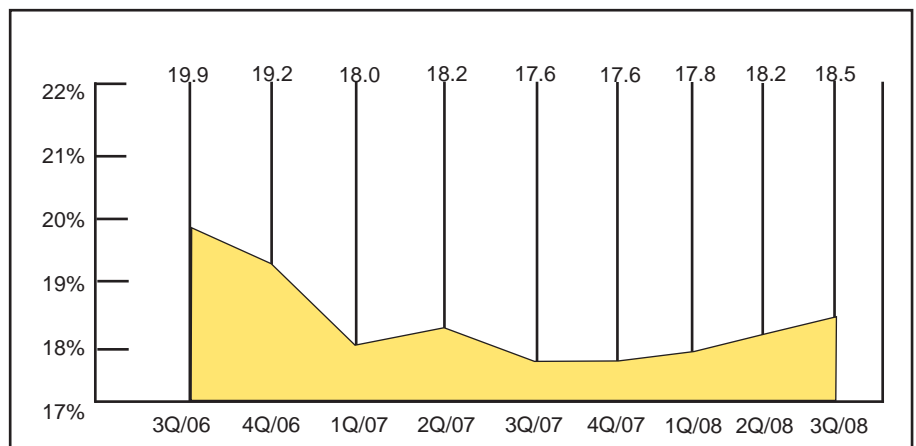
Atlanta Office Market Trends

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Office Vacancy Rate*

* All Classes of Space

Office Market Trends Third Quarter 2008

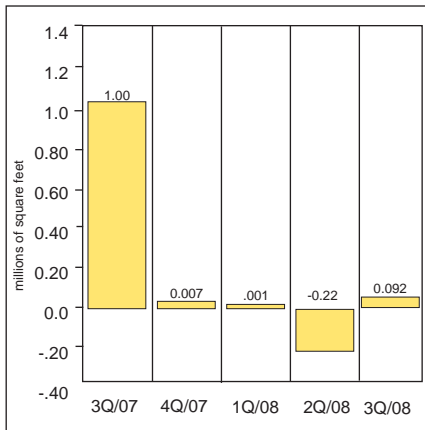
Market Activity

In response to the sluggish economic environment, overall market activity is slightly negative to date, with small-scale third quarter occupancy losses and slight increases in vacancy. Moves to first or second generation space have often been delayed by the cost of moving and the efficiency of renewing in the current location on a short-term basis. This has resulted in fewer tenants relocating and smaller swings in absorption at the submarket level. Combined net absorption totals (113,617) square feet year-to-date and overall vacancy has climbed to 18.5 percent. Class A rental rates average \$24.31 per square foot. Highlights during the third quarter include Jackson Health Care moving into 188,000 square feet at 2655 Windward Parkway and Travelers taking 183,000 square feet at 100 Windward Concourse.

An area to keep watch on is the sublease market, which has grown significantly over the last 12 months and stands at a total of 5,011,299 square feet as of third quarter. The give back of space has been gradual, similar to the national market trend over the last year. A large majority of offerings are originating from Class A suburban office environments. Companies which choose to downsize and place space back on the market are essentially attempting to cut occupancy costs, a rising trend.

The Buckhead submarket is in a most exciting phase, with nearly 2,000,000 square feet of Class A space under construction in four buildings. Regent Partners' 3344 Peachtree has leased nearly 80 percent of its space and is the latest success story in this submarket. Spanx has recently agreed to occupy nearly 38,000 square feet in the building early next year and Littler Mendelson P.C. expanded by more than 7,000 square feet, bringing their total occupancy to 37,040 square feet. Buckhead's challenge going forward will be filling the additional 2 million square feet of inventory as it delivers over the next 15 months.

Midtown is another submarket with new development activity, as 271 17th Street and Daniel Corporation's 12th & Midtown vie for tenancy. Seyfarth Shaw is in the marketplace and may take space at 12th and Midtown and 271 17th Street is nearly 50 percent committed as of third quarter. Branch Banking and Trust, Womble Carlyle and Ford & Harrison, LLP are all committed to the building and will occupy during the first half of 2009. Invesco completed its 177,000 square foot move-in to Two Peachtree Pointe and Adams Software, a health systems technology company, took 24,409 square feet of space at the Millennium in Midtown. Asking rents in Midtown are on par with Buckhead rates, at \$28.25 per square foot for class A space.



Office Net Absorption

* All Classes of Space

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Office Market Trends Third Quarter 2008

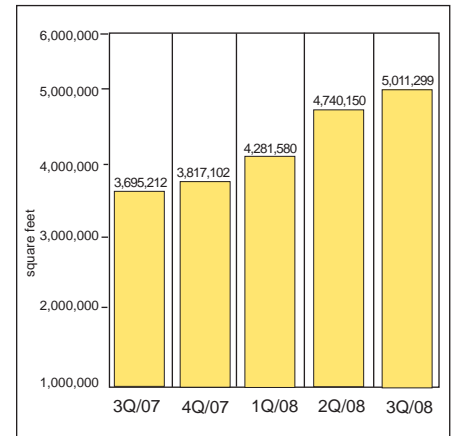
Overall absorption is negative in the Cumberland/Galleria submarket despite some significant positive tenant activity. GE returned 72,671 square feet of space to the market at 100 City View and Waste Management moved out of 22,357 square feet at Overlook III. On the positive side of the equation, Superior Essex moved into 75,000 square feet at 6120 Powers Ferry Road and Eye Consultants of Atlanta will occupy approximately 47,000 square feet at Cumberland Center IV within the coming months.

Construction Update

Buckhead developers are building amidst softening demand and increasing sublease availability. As demand weakens landlords may need to become more aggressive in order to achieve acceptable occupancy. As new deliveries draw near, look for leasing reps to entice companies with free rent and concessions. With more than 2 million square feet of construction underway and historical absorption tracking at roughly 350,000-500,000 square feet per year, it's clear Buckhead is in for a vacancy spike over the next 12 months. Financial markets will also have an impact on the growth of office inventory in Atlanta as developers attempt to secure financing for proposed projects. Lending requirements are becoming extremely difficult to meet, which may cause a drop in construction activity moving forward.

Outlook

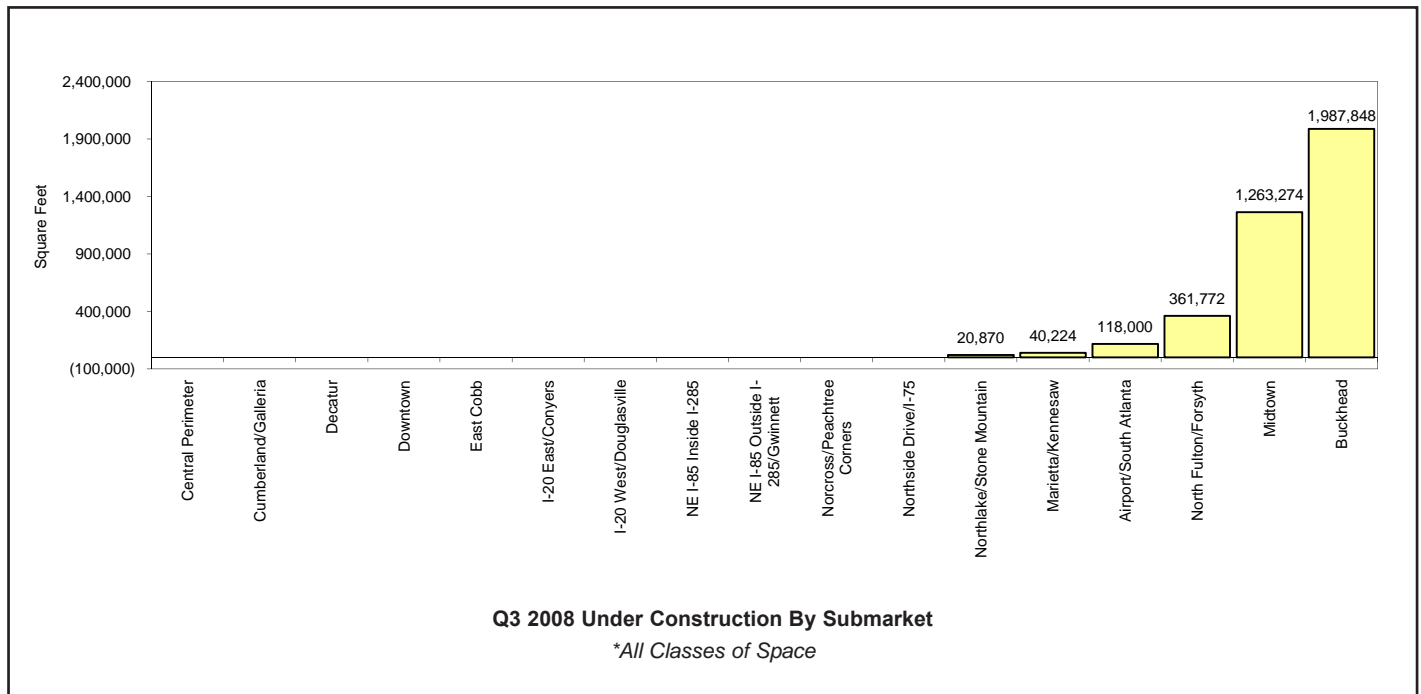
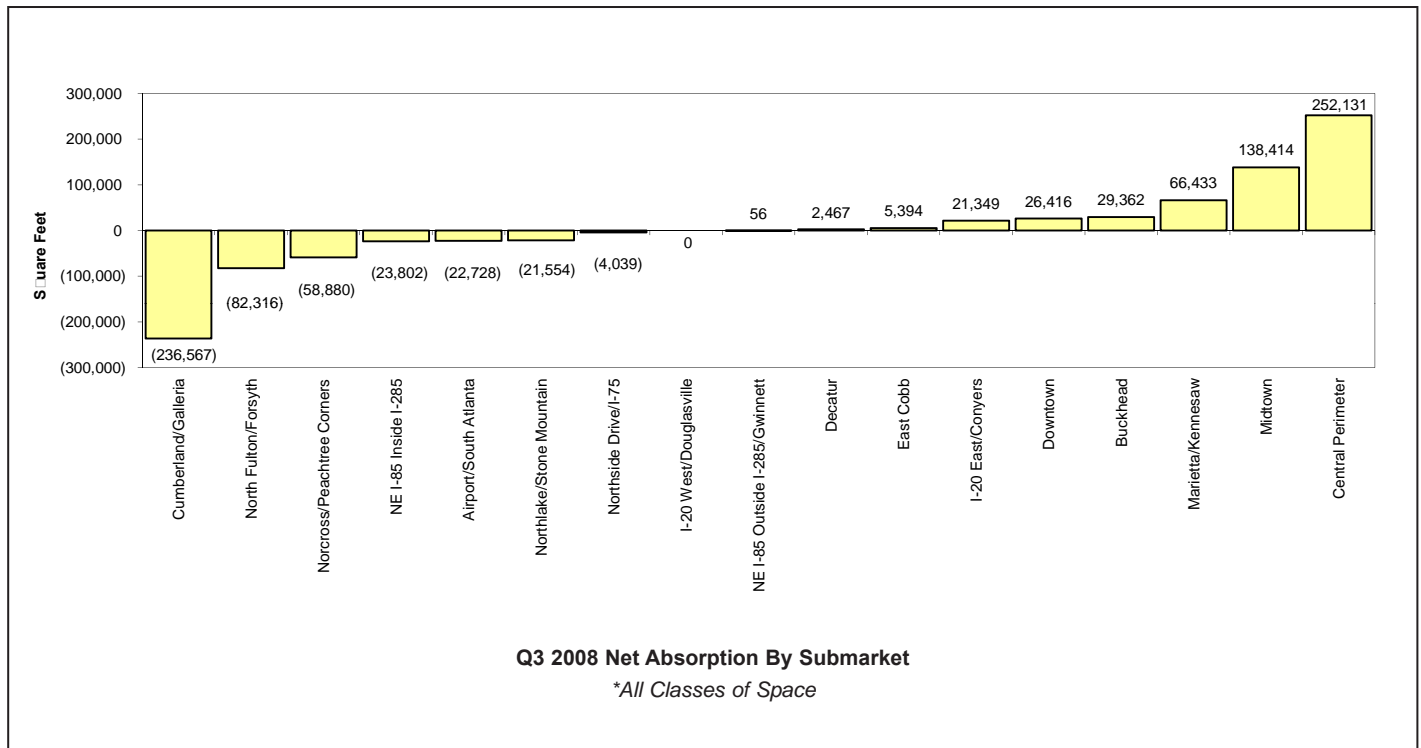
Looking ahead, the greatest challenge is accurately forecasting the overall impact of uncertainty in the U.S. economy on Metro Atlanta, the fastest growing metro region in the United States over the last 10 years. Unlike the "dot-com bust" of 2000-2001, wherein tenants shed space or ceased operations seemingly overnight, companies have been willing to exercise patience as market contraction runs its course. However, economic contraction has placed downward pressure on companies, many of which have resorted to tightening budgets and cutting costs, and in some cases eliminating jobs. It is predicted Metro Atlanta will lose an estimated 20,600 jobs by the end of 2008 according to Georgia State University's Economic Forecasting Center, a far cry from the 27,900 job additions originally forecast for the region. This is a reliable indicator of reduced office space demand, but because commercial real estate generally lags the broader economy the effects of these losses may not be experienced for months. A drop in overall demand will test the historically resilient submarkets of Buckhead and Midtown, both of which have new product under construction.



Available Office Sublease Space

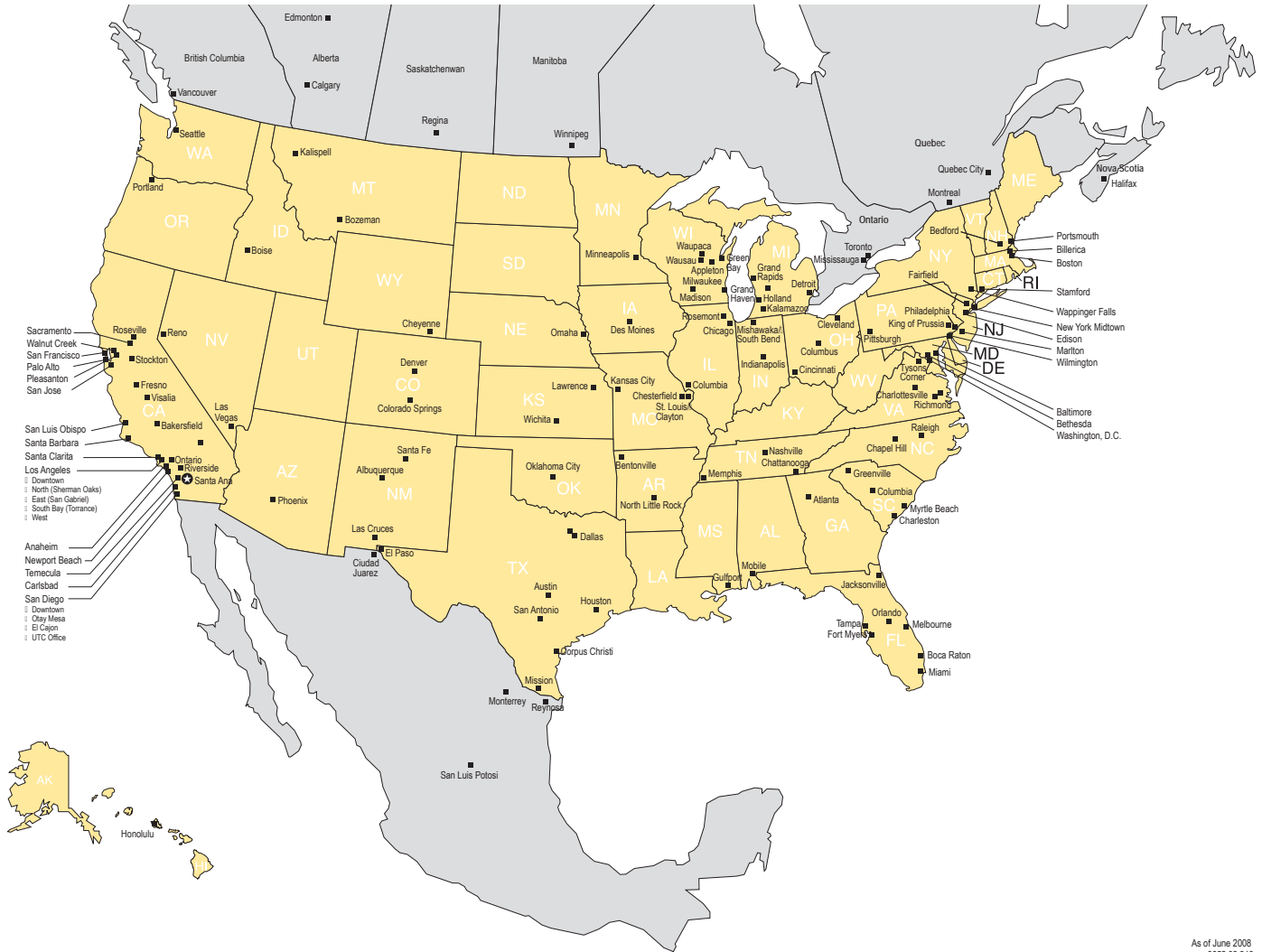
** All Classes of Space*

Office Market Trends Third Quarter 2008



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Nationwide coverage delivered through the Grubb & Ellis system.



As of June 2008
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Select Transactions

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

TRX, Inc.
Direct Lease
43,562 SF
Park Central Office Building
NE I-85 Inside I-285

Georgia Building Authority
Direct Lease
29,376 SF
Jefferson Station at the Buggy Works
South Atlanta

**Association County
Commissioners of Georgia**
Direct Lease
11,127 SF
Galleria 400
Cumberland/Galleria

Office Market Snapshot Atlanta Third 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	3,677,859	21.1%	26,416	127,855	-	\$23.06	\$20.40
CBD Total	17,432,875	3,677,859	21.1%	26,416	127,855	-	\$23.06	\$20.40
Airport/South Atlanta	4,148,394	1,064,139	25.7%	(22,728)	(77,598)	118,000	\$21.89	\$18.86
Buckhead	13,454,293	2,475,230	18.4%	29,362	(158,977)	1,987,848	\$28.65	\$21.80
Central Perimeter	22,906,635	3,655,693	16.0%	252,131	(109,393)	-	\$23.94	\$19.30
Cumberland/Galleria	20,248,097	4,159,675	20.5%	(236,567)	12,571	-	\$23.51	\$18.30
Decatur	1,452,552	233,360	16.1%	2,467	3,646	-	\$24.62	\$21.39
East Cobb	498,848	52,988	10.6%	5,394	62,010	-	-	\$18.36
I-20 East/Conyers	680,553	108,648	16.0%	21,349	(1,501)	-	\$22.50	\$18.00
I-20 West/Douglasville	487,097	43,260	8.9%	-	-	-	-	\$24.50
Marietta/Kennesaw	2,260,618	349,374	15.5%	66,433	89,477	40,224	\$21.76	\$18.65
Midtown	14,186,275	2,425,506	17.1%	138,414	28,068	1,263,274	\$28.25	\$20.50
NE I-85 Inside I-285	6,462,498	645,552	10.0%	(23,802)	(19,054)	-	\$19.39	\$18.68
NE I-85 Outside I-285/Gwinnett	7,461,328	1,815,853	24.3%	56	155,708	-	\$20.37	\$18.13
Norcross/Peachtree Corners	6,520,728	1,352,573	20.7%	(58,880)	(72,096)	-	\$20.45	\$16.87
North Fulton/Forsyth	17,560,626	3,191,748	18.2%	(82,316)	(231,081)	361,772	\$21.12	\$18.70
Northlake/Stone Mountain	3,101,584	592,441	19.1%	(21,554)	73,263	20,870	\$19.75	\$17.51
Northside Drive/I-75	946,097	61,912	6.5%	(4,039)	3,485	-	-	\$19.26
Suburban Total	122,376,223	22,227,952	18.2%	65,720	(241,472)	3,791,988	\$24.58	\$18.98
Totals	139,809,098	25,905,811	18.5%	92,136	(113,617)	3,791,988	\$24.31	\$19.07

By Class (All Submarkets)	Available for Sublease							
	SF	SF	Vacant %	Current Qtr	Year To Date	SF	CBD	Suburban
Class A	82,368,417	15,307,756	18.6%	68,159	(169,107)	3,638,894	728,146	2,953,367
Class B	51,590,610	9,455,135	18.3%	36,964	(247,523)	153,094	30,256	1,160,306
Class C	5,850,071	1,142,920	19.5%	(12,987)	303,013	-	-	139,224
Totals	139,809,098	25,905,811	18.5%	92,136	(113,617)	3,791,988	758,402	4,252,897

(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.