

Q3 2011

UNCERTAINTY CONTINUES TO STALL THE OFFICE MARKET

Positive Net Absorption

The office market felt a small positive push in the Third Quarter 2011 with 406,063 rentable square feet of **Positive Net Absorption (PNA)** slowing the decline experienced in the two previous quarters to just **(77,836)** rentable square feet of Negative Net Absorption (NNA) year-to-date. It is encouraging that all three categories of the office sector participated in the increase with Class B and Class C space being the major contributors with a total of 289,313 rentable square feet and 116,750 rentable square feet in Class A space. The overall **Vacancy Rate** dropped slightly from 17% to 16.9% as a result with Class A vacancies remaining higher at 18.3%.

The **Buckhead** submarket has been the big winner in 2011 with 379,296 rentable square feet of PNA in the Third Quarter for a total of 653,153 rentable square feet of PNA year-to-date, reducing the vacancy in Buckhead from 21.7% to 18.7% since the first of the year. **North Fulton** followed with 165,547 rentable square feet year-to-date PNA in spite of a tough Third Quarter with **(135,617)** rentable square feet of NNA. The biggest losers so far this year are **Midtown** with **(429,341)** rentable square feet of NNA year-to-date in spite of 56,749 rentable square feet of PNA in the Third Quarter increasing vacancies from 16.6% at the beginning of the year to 18.2% at the end of Q3; **Downtown** with **(335,313)** rentable square feet year-to-date and **Central Perimeter** with **(301,235)** rentable square feet of NNA year-to-date including **(72,380)** rentable square feet of NNA in Q3. Vacancy in the Central Perimeter submarket has increased from 20.4% to 21.4% since the first of the year making it the softest submarket in Metro Atlanta. The Central Perimeter market has experienced two positive quarters of absorption in the last four years. The addition of the Cox Headquarters buildings may improve the occupancy rate for the submarket but will not impact the market for the general tenant population.

New Construction

One positive note is that there is virtually no new speculative construction of office buildings anywhere in Metro Atlanta. It is astonishing that only one new building totaling 4,000 rentable square feet was delivered to the market in the Third Quarter bringing the total new construction delivered year-to-date to 63,177 rentable square feet. Anticipated deliveries in the fourth quarter will not increase the total to over 150,000 rentable square feet for the year. This is the **lowest amount of office space delivered to the Atlanta office market in thirty years**. The only year close was 1993 when approximately one million square feet was added.

To put this in perspective, over the last 30 years the Metro Atlanta office market has averaged over 6.5 million square feet of new construction delivered each year and from the period 1997-2001 over 53 million rentable square feet was delivered to the market averaging over 10 million rentable square feet annually.

Obviously many in the real estate and construction industries are feeling the pain of this down-cycle and no one knows when we will see a change of direction.

Two major buildings are under construction in the Central Perimeter market totaling 600,000 rentable square feet, both of which are pre-leased to Cox Communications for their corporate headquarters.

Opportunity

While we would all welcome a turn in the economy and the restoration of the real estate industry, which is so crucial to Atlanta's economy, there remains great opportunity for tenants in this market. There is a lot of activity in the market but a large percentage of these tenants will end up renewing in their present locations like the law firm of Morris Manning Martin did at the Atlanta Financial Center. Whether you are going to the market to gain leverage to extend your lease and renegotiate your terms or considering a relocation, the time is now to take advantage of this market. A number of buildings have changed ownership with new owners establishing a lower basis and inserting new capital for tenant improvements and concessions. Armed with this advantage they are able to attract new tenants with these concessions to improve occupancy.



For specific information on your submarket, please call Bill Leonard or Doug Legg at (404) 252-9700.

MAJOR METRO ATLANTA MARKETS

Class "A", "B", and "C" Office Market Third Quarter 2011

PRIMARY SUBMARKETS	EXISTING SPACE	VACANT SPACE	% VACANT	YTD NET ABSORPTION
Central Perimeter	33,505,313	7,161,127	21.4%	(315,235)
Chamblee/Dville/N Druid Hills	11,828,683	1,213,578	10.3%	35,298
Cumberland/Galleria	30,147,791	5,268,888	17.5%	(49,178)
Decatur	7,463,650	456,448	6.1%	23,576
Downtown Atlanta	35,171,152	5,060,669	14.4%	(335,313)
Duluth/Suwanee/Buford	14,963,844	2,355,950	15.7%	260,186
East Cobb	3,108,403	525,813	16.9%	(73,249)
Kennesaw/Town Center	10,714,538	1,607,587	15.0%	126,095
Lawrenceville/Lilburn	6,820,363	1,107,793	16.2%	74,844
Lower Buckhead	2,309,183	319,474	13.8%	(18,565)
Midtown/Pershing Point	24,699,089	4,476,021	18.1%	(453,020)
N Fulton/Forsyth County	35,279,360	5,925,070	16.8%	220,882
Norcross/Ptree Corners	10,501,527	2,660,405	25.3%	(286,571)
North Clayton/Airport	11,255,931	1,715,900	15.2%	15,525
Northlake/Lavista	5,301,133	843,569	15.9%	(12,061)
Northside Dr/Georgia Tech	1,589,202	320,331	20.2%	23,679
Stone Mountain	1,390,134	97,060	7.0%	17,669
Upper Buckhead	19,499,396	3,765,994	19.3%	671,718
Total Primary Submarkets	265,548,692	44,881,677	16.9%	(73,720)
Total Secondary Submarkets	30,254,314	4,977,559	16.5%	(4,116)
GRAND TOTAL	295,803,006	49,859,236	16.9%	(77,836)