

# MARKET REPORT

"The urban corridor...considerably outperformed the suburbs during the third quarter."

- Richard Bowers, SIOR

The Atlanta office market closed the third quarter of 2010 with 10,451 square feet of positive absorption. Year-to-date absorption is now at a negative 422,535 square feet following the second quarter's 447,140 square feet of negative absorption and a first quarter positive absorption figure of 14,154 square feet. Although the amounts are trivial, two of the first three quarters of 2010 have been positive, perhaps an early indication of a healthy recovery ahead.

The overall average rental rate of \$21.29 per square foot — less than the national average of \$21.61— continued a downward trend, falling six consecutive quarters from \$21.69 per square foot in the first quarter of 2009. Class A average office rates of \$23.88 per square foot this quarter dropped 13 cents on average from \$24.01 during the previous quarter. Class B fell only 10 cents to \$18.05 per square foot, while Class C took the hardest hit, dropping 22 cents from \$15.25 per square foot last quarter to \$15.03 in the third quarter.

The urban corridor, which is about half the size of the suburban market in terms of total existing square feet, considerably outperformed the suburbs during the third quarter. After five straight quarters of negative absorption, the urban corridor posted 352,508 square feet of third-quarter positive absorption while the suburbs counterbalanced with negative 342,057 square feet. Only six of the sixteen Atlanta submarkets recorded positive absorption figures. Buckhead/Lenox was the lone bright spot this quarter, accounting for 364,215 square feet of absorption. Following Buckhead was NE Expressway-South with 24,689 square feet and Downtown with 17,932 square feet of positive absorption.

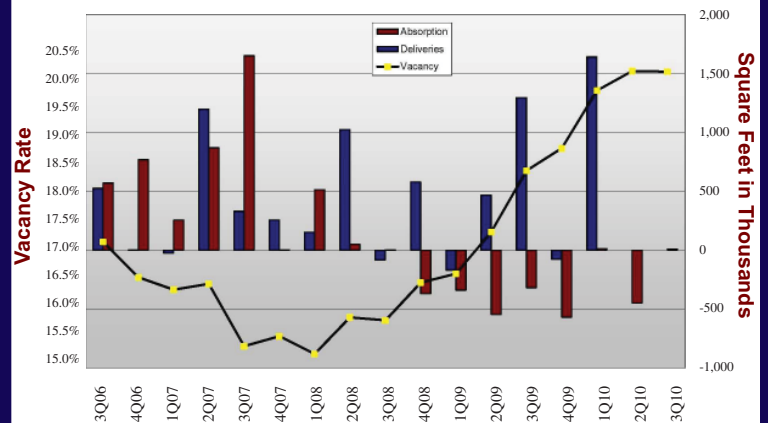
Buckhead year-to-date absorption now totals 245,834 square feet, making it the best performing submarket so far this year. After delivering nearly 2 million square feet over the last two years and witnessing vacancy rates closing in on 30 percent, vacancy rates tumbled back down to 26.59 percent in the third quarter. Class A vacancy levels remain at 28.86 percent vacant compared to 21.45 percent for class B and 25.21 percent for class C buildings. Major move-ins for Buckhead this quarter include Sony Ericsson's nearly 50,000 square feet at Terminus 200, Wells Fargo's 58,000 square feet at Prominence in Buckhead, and Novelis' occupancy of 100,178 square feet at Two Alliance Center. The Buckhead submarket accounts for 11.31 percent of the overall Atlanta office market with 15,273,538 square feet of existing space and is also the leader in total available square feet with 4,061,640 square feet. With an overall average rental rate of \$26.19 per square foot, Buckhead was the only Atlanta submarket that experienced an increase in average rental rates over the second quarter of 2010.

Downtown finished the third quarter with positive 17,932 square feet of absorption, ranking as the third highest among all Atlanta submarkets. With 16,794,417 total existing square feet, Downtown is the largest submarket along the urban corridor. Downtown also has the highest occupancy rate with 81.41 percent, beating its competing markets of Midtown at 75.73 percent and Buckhead at 73.41 percent occupied. Class A rental rates within the Downtown area average \$23.99 per square foot, more than \$3 less than the urban corridor's total class A average of \$27.12. Since the first quarter of 2010 at 18.96 percent, vacancy rates have declined to 18.59 percent in the third quarter. Downtown currently has nine office towers with over 100,000 square feet of contiguous office space available, the most of any submarket. Plenty of opportunity exists in this strategically located market, especially for large users seeking to take advantage of the most affordable intown location. Although there has not been any significant office development in Downtown since early 2007, the area is experiencing improvements in other areas. A \$60 million renovation has begun at the Hyatt Regency, one of Atlanta's most historic landmarks; and the transformation of 200 Peachtree (the former Macy's Building) into the Grand Atrium should only make this submarket even more desirable.

Leading the quarter in negative absorption is the I-75/I-285 submarket, which is the second largest Atlanta submarket, with negative 153,891 square feet. Much of this can be attributed to First Data Corp. which officially vacated 124,000 square feet at Powers Ferry Landing East to consolidate in its new corporate headquarters at Glenridge Highlands II. The vacancy rate in I-75/I-285 is approaching 20 percent, up from 18.01 percent a year ago to 19.39 percent presently. Among the most consistent under-performing submarkets is GA-400 North with eight straight quarters of negative four-quarter cumulative absorption. Following closely is the I-285/GA-400 submarket with seven straight

<b>OFFICE MARKET SNAPSHOT</b>	
Total Square Feet:	135,088,945
Vacant Square Feet:	27,060,921
Percent Occupied:	79.97%
Absorption for Quarter:	10,451
Average Rental Rates:	\$21.29
Space Delivered YTD*:	1,640,626
Class "A" Avg. Rental Rate:	\$23.88
* Excludes Net Losses	

## METRO ATLANTA OFFICE MARKET SUMMARY 3RD QUARTER 2010



## ATLANTA'S TOP FIVE RANKING SUBMARKETS

### Net Absorption 3rd Quarter 2010:

Buckhead/Lenox	364,215
NE Expressway-South	24,689
Downtown	17,932
I-285E/Stone Mtn	7,855
I-75 Corridor	4,240

### Total Available Square Feet:

Buckhead/Lenox	4,061,640
I-285/GA-400	3,804,830
I-75/I-285	3,656,071
Midtown	3,635,906
Downtown	3,122,405

### Total Existing Square Feet:

I-285/GA-400	22,303,103
I-75/I-285	18,857,310
Downtown	16,794,417
GA-400 North	15,787,617
Buckhead/Lenox	15,273,538

### Submarket Occupancy Rate:

I-75 Corridor	95.48%
NE Expressway-South	88.65%
I-285E/Stone Mtn	87.12%
I-285/I-85/Northlake	85.17%
Decatur	83.91%

### Average Quoted Rental Rate:

Buckhead/Lenox	\$26.19
Midtown	\$25.75
I-285/GA-400	\$21.95
I-75 Corridor	\$21.77
Downtown	\$21.39

### Average Quoted Class A Rates:

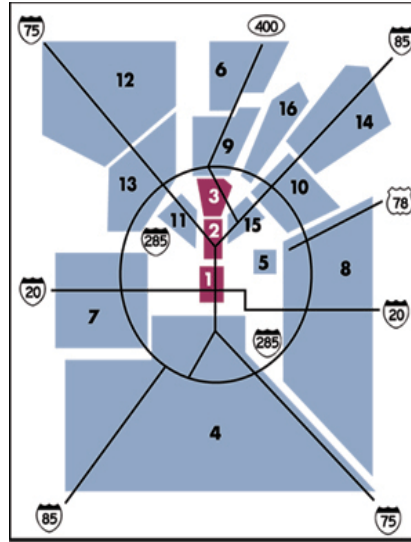
I-75 Corridor	\$30.00
Midtown	\$28.67
Buckhead/Lenox	\$28.24
Downtown	\$23.99
I-285/GA-400	\$23.46

quarters. These two submarkets posted third-quarter occupancy rates of 82.72 percent and 82.94 percent respectively.

A number of infrastructure improvements have been or are being considered. Among the significant projects are the completion of the Downtown Connector access road improvements for Midtown at the 17th Street bridge and the interstate ramps off GA-400 at Hammond Drive. Further consideration of transportation alternatives and funding — including streetcar, commuter rail, and “hot lanes”— continue to spark debate. Despite some concerns it appears the GA-400 tollway, originally set to expire in the summer of 2011, will continue through 2020 for additional work, particularly the ingress/egress to GA-400 at Sidney Marcus and I-85. Another major infrastructural concern is water and the ongoing struggle to meet the guidelines put in place between Georgia, Florida and Alabama. The airport is continuing its work on the international concourse, with the possibility of an additional land acquisition from the Hapeville Ford Plant. Hartsfield-Jackson, the world’s busiest airport, is expected to become even larger with the announcement that Southwest Airlines has merged with AirTran.

Despite continued slow activity, the Atlanta office market could start to make a significant turn, particularly if the economy improves and job growth takes place. No new office development is on the horizon, and none is anticipated for at least several years. With the fact that over 150,000 office workers in the metro Atlanta region have lost their jobs, there could be significant pent up demand with an improved economy.

## METRO ATLANTA SUBMARKETS



### URBAN CORRIDOR SUBMARKETS

- 1 Downtown
- 2 Midtown
- 3 Buckhead / Lenox

### SUBURBAN SUBMARKETS

- 4 Airport / South
- 5 Decatur
- 6 GA-400 North
- 7 I-20W/Greenbriar
- 8 I-285 E / Stone Mountain
- 9 I-285 / GA-400
- 10 I-285 / I-85 / Northlake
- 11 I-75 Corridor
- 12 I-75N/Marietta/Johnson Ferry
- 13 I-75 / I-285
- 14 NE Expressway-North
- 15 NE Expressway-South
- 16 Peachtree Corners

## OFFICE TOTALS BY SUBMARKET

	Total Sq. Ft.	Vacant Sq. Ft.	Occupancy Rate	Absorption This Qtr.	Absorption Year to Date	Avg. Rent Rate
<b>Urban</b>						
Downtown	16,794,417	3,122,405	81.41%	17,932	(2,104)	\$21.39
Midtown	14,981,031	3,635,906	75.73%	(29,639)	(270,926)	\$25.75
Buckhead/Lenox	15,273,538	4,061,640	73.41%	364,215	245,834	\$26.19
<b>Urban Totals</b>	<b>47,048,986</b>	<b>10,819,951</b>	<b>77.00%</b>	<b>352,508</b>	<b>(27,196)</b>	<b>\$24.34</b>
<b>Suburban</b>						
Airport/South	3,239,696	912,027	71.85%	(6,113)	(3,269)	\$16.69
Decatur	1,142,709	183,843	83.91%	(2,565)	(32,843)	\$19.88
GA-400 North	15,787,617	2,728,497	82.72%	(91,099)	(68,644)	\$19.38
I-20W/Greenbriar	321,053	85,907	73.24%	1,060	(530)	\$13.70
I-285/GA-400	22,303,103	3,804,830	82.94%	(90,496)	(11,125)	\$21.95
I-285/I-85/Northlake	4,259,720	631,658	85.17%	(4,112)	(53,981)	\$17.19
I-285E/Stone Mtn	320,920	41,338	87.12%	7,855	2,215	\$13.76
I-75 Corridor	1,127,333	50,946	95.48%	4,240	7,947	\$21.77
I-75/I-285	18,857,310	3,656,071	80.61%	(153,891)	(267,056)	\$20.41
I-75N/Marietta/Johnson F	3,169,873	674,105	78.73%	(2,439)	19,482	\$18.58
NE Expressway-North	4,760,932	1,118,203	76.51%	(2,441)	70,994	\$18.22
NE Expressway-South	4,663,151	529,482	88.65%	24,689	15,534	\$18.47
Peachtree Corners	8,086,542	1,824,063	77.44%	(26,745)	(74,063)	\$16.73
<b>Suburban Totals</b>	<b>88,039,959</b>	<b>16,240,970</b>	<b>81.55%</b>	<b>(342,057)</b>	<b>(395,339)</b>	<b>\$19.66</b>
<b>Total/Wgt. Averages</b>	<b>135,088,945</b>	<b>27,060,921</b>	<b>79.97%</b>	<b>10,451</b>	<b>(422,535)</b>	<b>\$21.29</b>



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