

Richard Bowers & Co: Q2 2008 Atlanta office market report

Atlanta office market shows positive absorption, modest gain in rental rates for second quarter 2008

Atlanta (July X, 2008) – During the second quarter of 2008, the Atlanta office market continued to show signs of good health in a poor economy, posting positive net absorption of 346,581 square feet. Total absorption for the first half of 2008 is 1,094,969 square feet. The I-285/GA-400 submarket led net absorption gains with 303,711 square feet, while the Northeast Expressway-North and I-285/I-85/Northlake submarkets also performed well for the quarter with positive net absorption of 166,141 and 132,358 square feet, respectively.

Rental rates throughout Atlanta increased during the second quarter from \$21.44 per square foot to \$21.69 per square foot, primarily due to new Class A office market deliveries totaling 1,070,852 square feet and concentrated in two large office towers, Sovereign in Buckhead (496,921 square feet), and Two Glenlake in the I-285/GA-400 submarket (354,953 square feet). With these new deliveries, vacancy rates have increased modestly from 14.81% to 15.24% since the first quarter 2008.

The increase in rental rates supports previous predictions by Richard Bowers & Co. that rental rates should increase by as much as \$1 per square foot over 2008. The average rental rate for the urban corridor is \$24.54 per square foot compared to the suburbs at \$20.26 per square foot, a greater than \$4.00 per square foot differential.

With four suburban developments projected for delivery for the remainder of the year totaling only 409,557 square feet, there is a strong likelihood that vacancy rates will move significantly downward. Should the market improve for the second half with some large users in play and assuming that Atlanta reaches a total absorption for 2008 of 2,500,000 square feet, vacancy rates by year's end in Atlanta would be approximately 14 percent, a significant reduction in availability and approximately 700,000 square feet less in absorption than calendar year 2007.

Along the urban corridor, Buckhead/Lenox led quarterly net absorption with 183,119 square feet. However, Buckhead may be a submarket with future occupancy issues. With five new high-rise office towers committed to deliver (Sovereign delivers this quarter) in 2008, 2009, and 2010 totaling 2,452,771 square feet, Buckhead could face a very competitive situation.

Congestion issues with this amount of additional square footage and a limited road system to accommodate growth in office, retail, and residential space will be a challenge for the Buckhead submarket.

With gasoline prices and congestion as they are, a number of companies are considering an urban location where public transportation is readily available, particularly Downtown given its pedestrian environment, concentration of business, government and entertainment facilities, and economics.

In another boost for Downtown, Governor Perdue recently announced his endorsement for a commuter rail “pilot” program between Griffin and Atlanta. The intended terminus for the project is a Multimodal Passenger Terminal in Atlanta, currently planned for “The Gulch” adjacent to the Five Points Marta Station. These factors, combined with no new urban deliveries scheduled for the balance of the year, will drive occupancy rates in the urban corridor higher to approximately 87%-88% occupancy by year end 2008.

Existing office buildings afford excellent values and concessions compared to new office towers, many of which are priced at or above \$30.00 per rentable square foot. Notwithstanding, new buildings also offer concessions and excellent tenant improvement allowances.

Although the economic outlook is difficult, absorption projections for the remainder of calendar year 2008 are relatively positive with Atlanta’s continued growth, attractive quality as the leading metro center for young professionals, and several large users in the market for space.

About Richard Bowers & Co:

Established in 1980 and headquartered in its flagship property of 260 Peachtree Street in Atlanta, Richard Bowers & Co. is the largest independently owned commercial real estate firm in Metro Atlanta.

A member of TCN Worldwide—a national affiliation of real estate firms—the company represents clients and owners in office, retail, and industrial sales and leasing, land and investment sales, financial services, development, relocation services, interior design and construction management and property management. Clients include numerous FORTUNE 500 corporations, regional and national headquarters, professional firms and major institutions. In 2007, the company completed 323 property sales and leasing requirements totaling 2,673,134 million square feet of space.

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RICHARD BOWERS & CO.
QUARTERLY OFFICE REPORT

07/02/08

Categ: Urban/Suburban
 Market Analysis Summary
 2nd Quarter 2008

The Atlanta Office Market

	<u>2nd Quarter 2008</u>	<u>2nd Quarter 2007</u>
Year to Date Absorption	1,094,969	1,288,370
2nd Quarter's Absorption	346,581	1,032,604
Total Existing Square Feet	131,570,125	129,759,225
Total Available Square Feet	20,055,096	21,244,722
Percent Of Total Space Vacant	15.24%	16.27%
Average Quoted Rental Rate	\$21.69	\$21.01
Space Delivered YTD - Square Feet (Does not include net losses)	1,222,852	1,453,811

Atlanta's Top Five Ranking Submarkets

Net Absorption 2nd Quarter 2008

I-285/GA-400	303,711
Buckhead/Lenox	183,119
NE Expressway - North	166,141
I-285/I-85/Northlake	132,358
I-75N/Marietta/JF	96,974

Total Existing Square Feet:

I-285/GA-400	22,335,626
I-75/I-285	18,842,310
Downtown	17,059,337
GA-400 North	15,448,001
Midtown	13,713,498

Average Quoted Rental Rate

Buckhead/Lenox	\$26.66
Midtown	\$26.07
I-285/GA-400	\$22.92
I-75 Corridor	\$22.23
Downtown	\$21.65

Total Available Square Feet:

I-75/I-285	3,370,163
I-285/GA-400	2,943,333
Downtown	2,855,624
GA-400 North	2,105,438
Buckhead/Lenox	1,951,260

Submarket Occupancy Rate

I-75 Corridor	93.90%
Decatur	90.43%
I-285E/Stone Mtn	89.98%
NE Expressway - South	88.59%
I-285/GA-400	86.82%

Space Delivered 2nd Quarter 2008 - Sq Ft

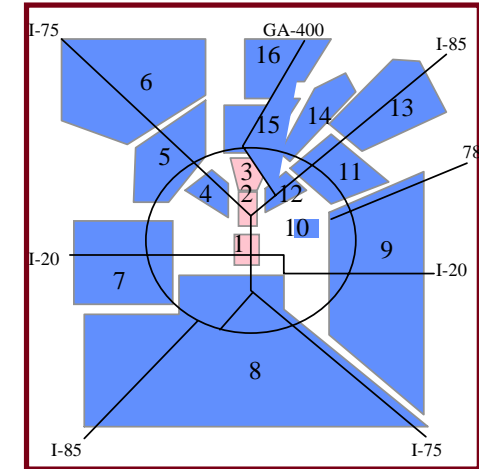
Buckhead/Lenox	496,921
I-285/GA-400	354,953
Airport/South	98,978
I-75N/Marietta/JF	75,000
GA-400 North	45,000

Atlanta Office Market: Comparison by Submarkets

Totals By Submarket

	2nd Quarter 2008					
	Total Sq. Ft.	Vacant Sq. Ft.	Occupancy Rate	Absorption This Qtr	Absorption YTD	Avg. Rent Rate
Urban						
Downtown	17,059,337	2,855,624	83.26%	(36,421)	121,860	\$21.65
Midtown	13,713,498	1,929,101	85.93%	(111,523)	105,403	\$26.07
Buckhead/Lenox	13,295,091	1,951,260	85.32%	183,119	161,504	\$26.66
Urban Totals	44,067,926	6,735,985	84.71%	35,175	388,767	\$24.54
Suburban						
Airport/South	3,059,300	766,466	74.95%	(22,606)	(70,134)	\$16.69
Decatur	1,141,165	109,260	90.43%	(5,494)	97,623	\$20.69
GA-400 North	15,448,001	2,105,438	86.37%	(135,493)	(29,924)	\$19.78
I-20W/Greenbriar	321,053	78,438	75.57%	(24,611)	(24,106)	\$14.31
I-285/GA-400	22,335,626	2,943,333	86.82%	303,711	429,463	\$22.92
I-285/I-85/Northlake	4,480,184	695,743	84.47%	132,358	130,244	\$17.65
I-285E/Stone Mtn	403,932	40,494	89.98%	(5,376)	(52,873)	\$13.50
I-75 Corridor	1,127,333	68,760	93.90%	5,302	25,402	\$22.23
I-75/I-285	18,842,310	3,370,163	82.11%	(188,302)	(9,363)	\$21.26
I-75N/Marietta/JF	3,169,873	460,615	85.47%	96,974	67,577	\$18.84
NE Expressway-North	4,501,115	829,186	81.58%	166,141	192,628	\$18.37
NE Expressway-South	4,663,151	532,230	88.59%	2,868	(47,716)	\$18.47
Peachtree Corners	8,009,156	1,318,985	83.53%	(14,066)	(2,619)	\$17.16
Suburban Totals	87,502,199	13,319,111	84.78%	311,406	706,202	\$20.26
Total/W. Averages	131,570,125	20,055,096	84.76%	346,581	1,094,969	\$21.69

Area Map



Area Boundaries

- | | |
|---------------------------------|-------------------------|
| 1. Downtown | 13. NE Expressway-North |
| 2. Midtown | 14. Peachtree Corners |
| 3. Buckhead/Lenox | 15. I-285/GA-400 |
| 4. I-75 Corridor | 16. GA-400 North |
| 5. I-75/I-285 | |
| 6. I-75N/Marietta/Johnson Ferry | |
| 7. I-20 W/Greenbriar | |
| 8. Airport/South | |
| 9. I-285 E/Stone Mountain | |
| 10. Decatur | |
| 11. I-285/I-85/Northlake | |
| 12. NE Expressway-South | |

Comparison by Sub-Market, continued

	Class "A"				Class "B"				Class "C"			
	Total Sq. Ft.	Vacant Sq. Ft.	Occupancy Rate	Average Rental Rate	Total Sq. Ft.	Vacant Sq. Ft.	Occupancy Rate	Average Rental Rate	Total Sq. Ft.	Vacant Sq. Ft.	Occupancy Rate	Average Rental Rate
Urban Corridor												
Downtown	9,168,016	1,217,396	86.72%	\$23.58	6,687,357	1,508,344	77.44%	\$19.62	1,203,964	129,884	89.21%	\$18.24
Midtown	9,677,960	1,407,562	85.46%	\$28.74	3,217,018	326,042	89.87%	\$20.46	818,520	195,497	76.12%	\$16.62
Buckhead/Lenox	<u>8,499,088</u>	<u>1,295,401</u>	<u>84.76%</u>	<u>\$28.74</u>	<u>4,546,070</u>	<u>636,235</u>	<u>86.00%</u>	<u>\$23.17</u>	<u>249,933</u>	<u>19,624</u>	<u>92.15%</u>	<u>\$19.05</u>
Urban Totals/Averages	<u>27,345,064</u>	<u>3,920,359</u>	<u>85.66%</u>	<u>\$27.01</u>	<u>14,450,445</u>	<u>2,470,621</u>	<u>82.90%</u>	<u>\$20.92</u>	<u>2,272,417</u>	<u>345,005</u>	<u>84.82%</u>	<u>\$17.75</u>
Suburban												
Airport/South	757,469	216,095	71.47%	\$19.88	1,240,448	213,502	82.79%	\$16.46	1,061,383	336,869	68.26%	\$14.68
Decatur	405,038	49,599	87.75%	\$23.14	736,127	59,661	91.90%	\$19.35	0	0	n/a	n/a
GA-400 North	11,478,564	1,457,888	87.30%	\$20.84	3,949,437	642,550	83.73%	\$16.71	20,000	5,000	75.00%	\$17.00
I-20W/Greenbriar	0	0	n/a	n/a	53,000	8,480	84.00%	\$23.25	268,053	69,958	73.90%	\$12.54
I-285/GA-400	14,900,654	1,785,965	88.01%	\$24.69	6,202,092	794,431	87.19%	\$20.20	1,232,880	362,937	70.56%	\$15.24
I-285/I-85/Northlake	522,357	65,606	87.44%	\$19.84	2,247,830	385,721	82.84%	\$17.61	1,709,997	244,416	85.71%	\$17.03
I-285E/Stone Mtn	54,681	26,794	51.00%	\$21.05	220,668	0	100.00%	\$12.46	128,583	13,700	89.35%	\$12.08
I-75 Corridor	212,000	0	100.00%	\$30.00	840,033	60,477	92.80%	\$20.49	75,300	8,283	89.00%	\$19.69
I-75/I-285	12,460,332	2,023,776	83.76%	\$23.15	5,699,717	1,192,657	79.08%	\$17.81	682,261	153,730	77.47%	\$15.47
I-75N/Marietta/JF	1,558,599	188,631	87.90%	\$20.69	1,243,356	208,282	83.25%	\$17.57	367,918	63,702	82.69%	\$15.33
NE Expressway-North	2,869,722	522,278	81.80%	\$19.84	1,599,569	303,726	81.01%	\$15.77	31,824	3,182	90.00%	\$17.00
NE Expressway-South	474,436	71,449	84.94%	\$21.81	3,728,385	434,556	88.34%	\$18.40	460,330	26,225	94.30%	\$15.59
Peachtree Corners	<u>2,285,643</u>	<u>185,956</u>	<u>91.86%</u>	<u>\$20.19</u>	<u>5,091,185</u>	<u>900,977</u>	<u>82.30%</u>	<u>\$16.31</u>	<u>632,328</u>	<u>232,052</u>	<u>63.30%</u>	<u>\$13.12</u>
Suburban Totals/Averages	<u>47,979,495</u>	<u>6,594,037</u>	<u>86.26%</u>	<u>\$22.58</u>	<u>32,851,847</u>	<u>5,205,020</u>	<u>84.16%</u>	<u>\$17.87</u>	<u>6,670,857</u>	<u>1,520,054</u>	<u>77.21%</u>	<u>\$15.36</u>
Totals & Averages	<u>75,324,559</u>	<u>10,514,396</u>	<u>86.04%</u>	<u>\$24.19</u>	<u>47,302,292</u>	<u>7,675,641</u>	<u>83.77%</u>	<u>\$18.80</u>	<u>8,943,274</u>	<u>1,865,059</u>	<u>79.15%</u>	<u>\$15.96</u>