

# REED MARKET FUNDAMENTALS

The Essential Resource for Construction Industry Forecasts

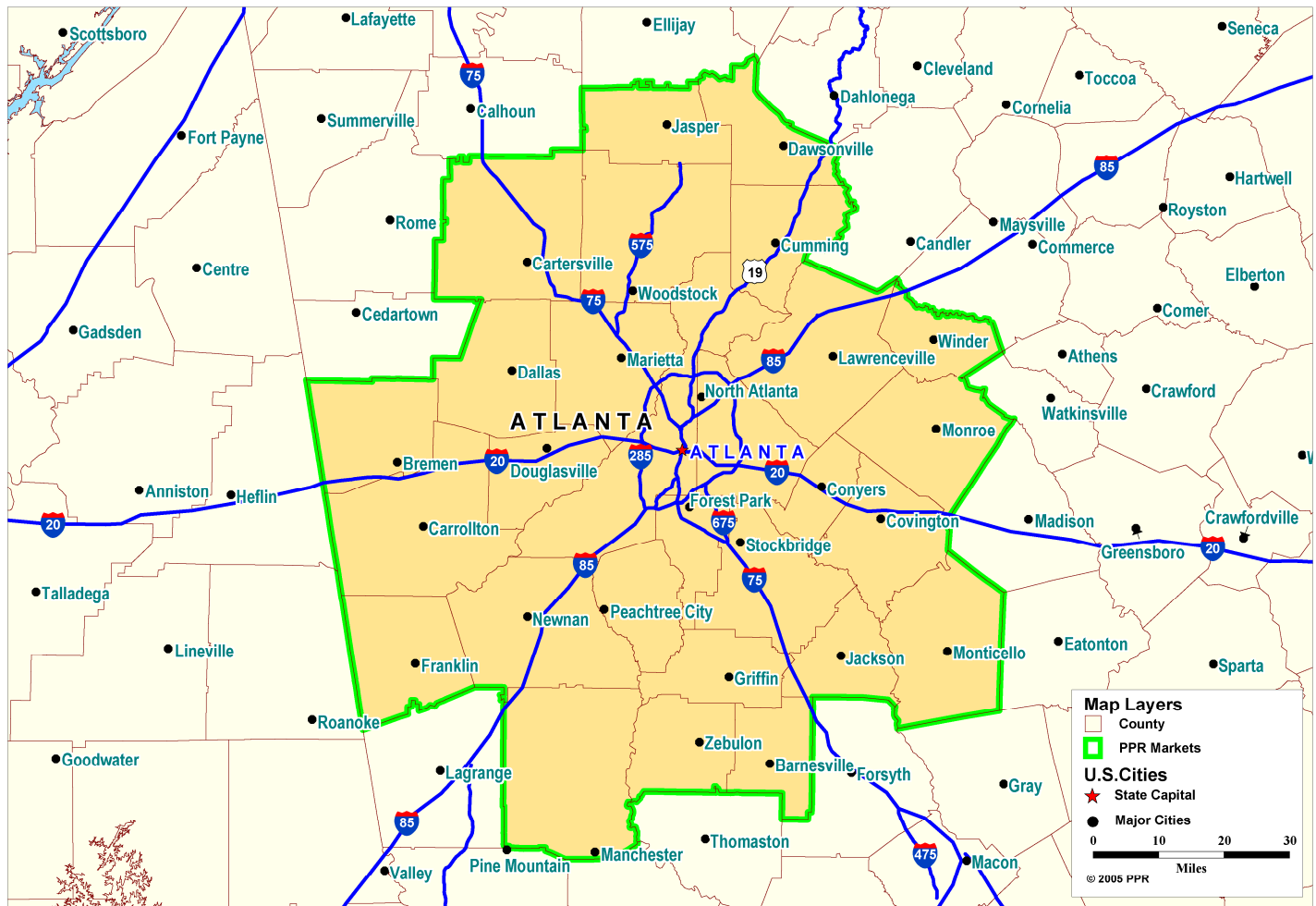
Developed by Property and Portfolio Research

All Property  
Types

Atlanta

2 Feb  
2010

## METRO MAP



## ECONOMIC OVERVIEW

Sources: PPR; Moody's Economy.com

### Metro Economic Trends

**Atlanta continues to struggle, as the monthly job numbers continue to shrink.** Over the past year, total employment fell by about 4.9% (or 116,400 jobs) here, versus 3.5% at the national level. That said, it does seem that job losses are decelerating. Over the past three months (as of November), employment only fell by 0.3%. Distress is still highly concentrated in construction, manufacturing, professional services, trade, and finance. These steep declines are likely a result of Atlanta's high exposure to national retail (due to distribution and headquarters operations here), the near complete shutdown in home construction, and its below-average exposure to stabilizing industries (i.e., government and education and health services). When all is said and done, roughly 220,000 jobs will have been lost in Atlanta (significantly outpacing the losses sustained during the last downturn). This represents about 10% of the metro's total employment base. Consequently, the metrowide unemployment rate is skyrocketing and has jumped more than 400 basis points from the end of 2008 to 10.4% in November. Though more pain is on the way, there is an end in sight. The job losses are expected to begin subsiding by late next year, a few quarters later than national average job losses. The only sector to emerge relatively unscathed from this downturn will be education and health services.

**The news is not all bad for Atlanta, as some firms have recently announced plans to expand their presence here.** NCR, a tech-related firm, is planning to relocate its headquarters from Dayton, OH, to Duluth, bringing 1,250 jobs to Gwinnett County. Currently, the firm maintains a 100,000 SF campus on Satellite Road and will take another 100,000 SF–200,000 SF of office space there. Verizon Wireless is also adding to local payrolls, with plans to open a customer service center in Alpharetta that will create an additional 600 jobs for the area. First Data, which is relocating its headquarters to Atlanta from Denver, plans to create up to 1,000 new jobs over the next three years. Although these expansions are a positive sign for the Atlanta economy, the metro must still contend with a solid chunk of economic distress in the near term. In fact, firms continue to hand out pink slips in order to cut costs. Rite Aid has closed its distribution center in Newnan (eliminating 297 jobs), and the AJC is looking to cut another 245 jobs.

**Despite minimal exposure to growth industries (i.e., tech and energy), the Atlanta economy is expected to see a solid recovery.** In fact, the five-year forecast employment growth, at 2.6% per year, will put this metro at the top of the PPR54. Strong population growth will support expansion in the government, education and health services, and retail. The trade, transportation, and warehousing sectors will also help drive the metro's economic recovery, as Atlanta is centrally located for moving "stuff" around the country to consumers. Also, look for higher-paying service jobs in business and finance, the tourist industry, and construction to help drive growth in the long run here. However, more muted in-migration and population growth could derail Atlanta's job recovery. *Updated: 07-Jan-2010*

### U.S. Economic Trends

The U.S. economy expanded in the third quarter of 2009 for the first time since the second quarter of 2008, growing by 2.2% (annualized). Government, consumers, and exports all pitched in to support the recovery; business investment was the only modest exception. And while demand picked up, more of it was supplied from new production rather than existing inventory.

The pickup in third quarter GDP growth was a welcome sign that the recession is over. Yet stimulus initiatives were instrumental to the recovery, calling into question its strength and durability. Policy support extended well beyond the 8% increase in federal spending. The cash-for-clunkers program, which ended in August, led to a 20% jump in durable-goods consumption. The homebuyer tax credit (recently extended to April 2010) and low mortgage rates — engineered in part through the Federal Reserve's commitment to purchase \$1.5 trillion of mortgage securities and Agency debt — helped spark a 19% spike in residential investment, ending 14 straight quarters of decline. These components accounted for two-thirds of the economy's growth, not counting the additional support to state and consumer spending provided by other transfers and tax breaks. Meanwhile, the labor market remains abysmal. December saw 85,000 job losses, bringing the total to 7.2 million since December 2007, while the unemployment remains stuck in the double digits (10%) for the first time since 1983.

Still, there is no denying the nascent signs of recovery. Financial conditions are improving: capital markets have begun to thaw, evidenced by the 70% rally in stock prices since March 2009 and lower yields on corporate debt. Aggressive cost cutting and improved financial-sector performance (helped by an upward-sloping yield curve and reduced competition) have stoked corporate profits, an important internal source of investment capital. And home prices have tentatively stabilized. The combination of rising asset values, stronger corporate earnings, and ongoing stimulus funding will sustain domestic spending. Meanwhile, robust growth in emerging markets, coupled with a depreciating dollar, should support healthy gains in exports. Once businesses exhaust internal efficiencies, hiring and investment should follow, and rising employment and wages should, in turn, drive consumption. Moreover, the inventory cycle, which added nearly one percentage point to GDP growth in the third quarter, has several more quarters to run.

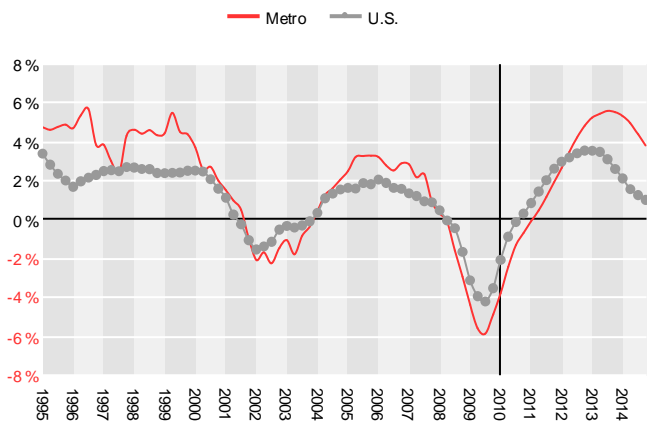
But unlike the robust recoveries that followed deep recessions in the past, this one will be painfully sluggish. Temporary employment, a leading indicator of broader employment, has been rising since August, but average hours worked are at an all-time low, leaving firms with ample capacity to boost output before beginning to hire new employees. Despite recent stock market gains, household wealth is still \$11 trillion below its peak, and struggling regional and local banks continue to curb lending, factors that will continue to weigh on consumer spending. And sooner or later, extraordinary fiscal and monetary support will need to be withdrawn in the face of mounting long-run budgetary and inflationary concerns. *Updated: 12-Jan-2010*

### Employment Trends

NAICS Category	Current Value Dec 2009		Current Dec 2009			Annual Growth Rates Past Decade (2000 - 2009)			Forecast (2010 - 2014)		
	Employment*	Location Quotient**	Metro	U.S.	PPR54	Metro	U.S.	PPR54	Metro	U.S.	PPR54
Manufacturing	143	0.71	-10.5 %	-9.9 %	-7.3 %	-3.9 %	-3.9 %	-3.6 %	1.2 %	0.6 %	0.8 %
Trade, Transportation and Utilities	499	1.16	-6.7 %	-3.4 %	-3.7 %	-0.7 %	-0.4 %	-0.4 %	1.8 %	1.2 %	1.4 %
Retail Trade	241	0.95	-5.2 %	-2.8 %	-3.2 %	-0.7 %	-0.3 %	-0.3 %	2.1 %	1.2 %	1.3 %
Wholesale Trade	140	1.44	-10.4 %	-4.0 %	-4.5 %	-1.1 %	-0.5 %	-0.2 %	1.0 %	1.5 %	1.6 %
Transportation, Warehouse, Utilities	119	1.46	-5.0 %	-4.7 %	-3.9 %	-0.2 %	-0.5 %	-0.8 %	2.2 %	1.0 %	1.1 %
Financial Activities	139	1.05	-7.5 %	-3.9 %	-3.5 %	-0.6 %	0.0 %	-0.1 %	2.4 %	1.7 %	1.5 %
Government	339	0.87	0.2 %	-0.3 %	-0.6 %	2.3 %	0.9 %	1.0 %	2.1 %	1.2 %	1.4 %
Natural Resources, Mining and Construction	98	0.86	-17.2 %	-13.4 %	-12.2 %	-2.6 %	-0.9 %	-0.7 %	5.7 %	2.9 %	2.7 %
Construction	96	0.94	-17.4 %	-13.7 %		-2.5 %	-1.2 %	-0.9 %	5.8 %	3.2 %	2.8 %
Natural Resources and Mining	1	0.11	-6.8 %	-10.9 %		-4.8 %	1.7 %	1.8 %	2.1 %	0.6 %	1.6 %
Education and Health Services	268	0.80	2.2 %	2.0 %	1.6 %	3.6 %	2.7 %	2.6 %	3.6 %	2.8 %	3.0 %
Professional and Business Services	365	1.26	-6.5 %	-3.1 %	-3.6 %	-0.4 %	0.3 %	0.4 %	4.6 %	3.2 %	2.9 %
Information	78	1.60	-5.2 %	-4.6 %	-5.0 %	-2.7 %	-2.2 %	-2.0 %	1.2 %	1.3 %	1.1 %
Leisure and Hospitality	233	1.03	0.7 %	-1.6 %	-1.8 %	1.8 %	1.2 %	1.4 %	4.7 %	3.1 %	2.6 %
Other Services	98	1.06	1.2 %	-1.9 %	-1.7 %	0.7 %	0.5 %	0.8 %	3.3 %	2.2 %	1.8 %
<b>Total Employment</b>	<b>2,259</b>	<b>1.00</b>	<b>-4.4 %</b>	<b>-3.1 %</b>	<b>-3.0 %</b>	<b>0.0 %</b>	<b>0.1 %</b>	<b>0.2 %</b>	<b>3.1 %</b>	<b>2.0 %</b>	<b>2.0 %</b>

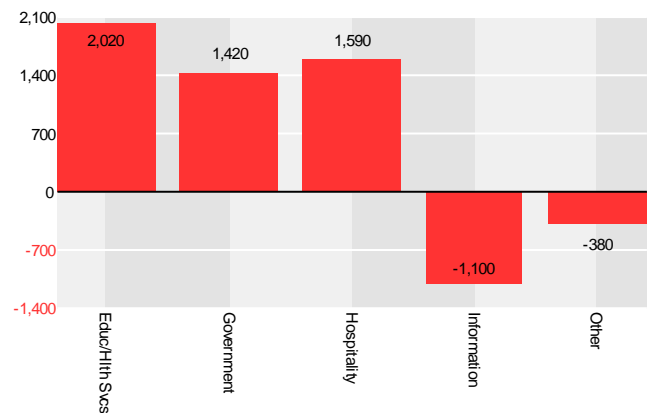
\*In Thousands \*\*Location Quotient measures the concentration of an industry within a metro relative to that of the nation.

### Job Growth Year-Over-Year

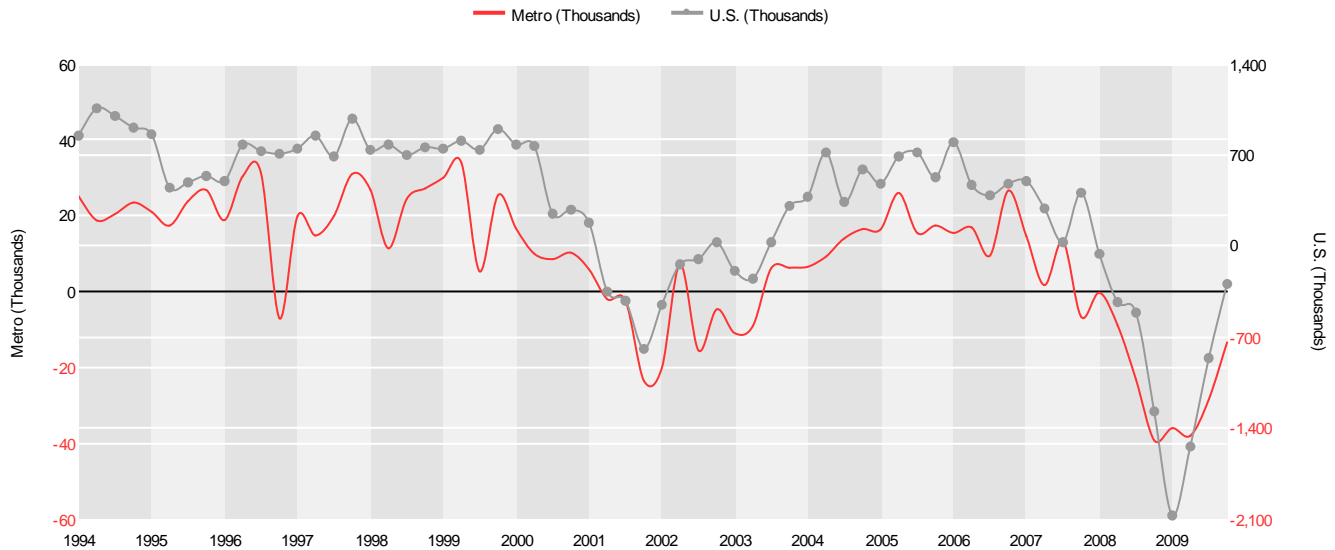


### Largest Contributors to Job Growth Over Last 6 Months

As of Dec 2009



### Quarterly Changes in Total Employment

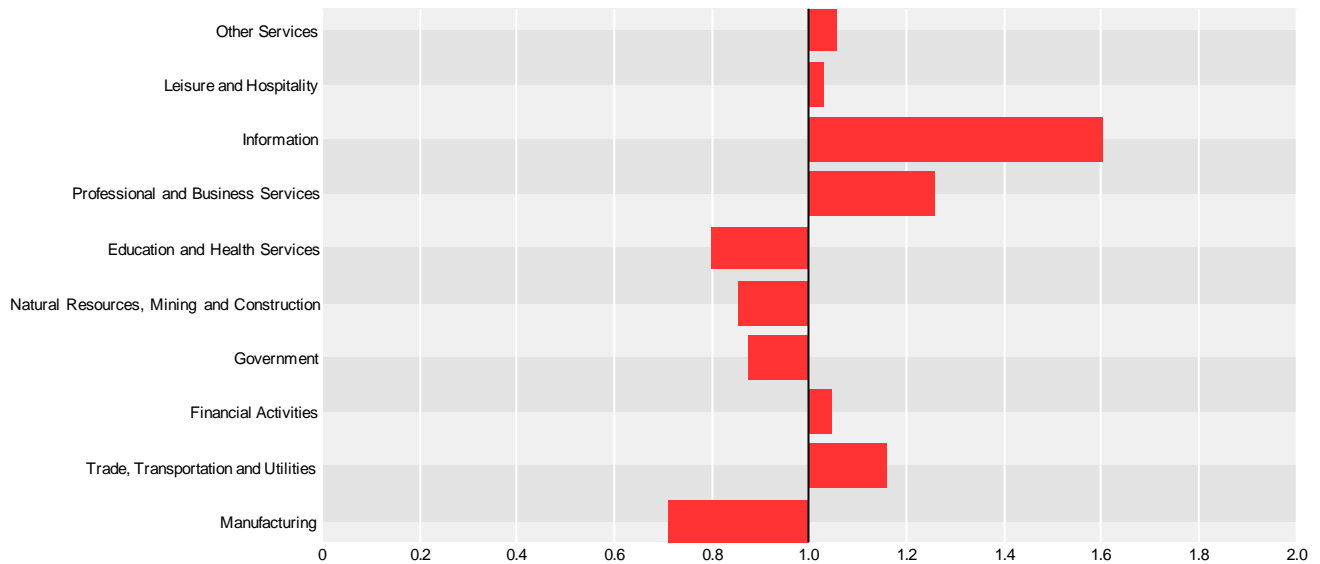


### Major Employers

Atlanta is a headquarters market and boasts 13 Fortune 500 Companies. As a result, many of the major employers in the metro are big dogs. This list includes Delta Airlines (26,000), Wal-Mart Stores, Inc. (25,000), AT&T (21,000), Home Depot (9,100), IBM (7,000), and SunTrust Banks, Inc (6,700). Unfortunately, layoffs are plaguing some of the firms that make up this list, as the battered consumer, weakened housing market, and financial crisis weigh heavily on individual and business spending. Cyclical industries such as airlines, housing, and financial services are facing the most risks. For instance, Delta Airlines announced it will cut at least 2,100 jobs this year using voluntary buyouts and/or layoffs, on top of the 4,000 employees that took buyouts last year. Delta is also renewing its lease at Hartsfield-Jackson Airport (the first time in 30 years), which could provide risk to up or downside. Home Depot announced that 462 jobs would be cut at its headquarters in Cumberland and that it would be closing all of its Expo business. Although many of the major employers do not expect to implement major layoffs, most have hiring and salary freezes, including SunTrust, Turner Broadcasting, UPS, and Coca-Cola. Given the severity of the recession and expectations for continued deterioration, layoffs are not off the table.

Atlanta's several universities and hospitals will help buoy job growth in this cycle. Emory University (10,400), WellStar Health System (8,500), and Northside Hospital (7,100) are some of the metro's major employers. Yet the education and health services industry is 20% less concentrated here than at the national level (0.8 location quotient). Though this sector maintains a below-average concentration in Atlanta, it did actually posted job growth over the past year, expanding by 1.9% year-over-year as of August. In addition, this is the only employment sector (besides government) that is expected to remain in the black during this recession. At about 2.1% per year, forecast growth in this sector will be among the fastest in Atlanta – helping to lead a solid recovery. *Updated: 07-Jan-2010*

### Employment Concentration Relative to the U.S.



## POPULATION AND MIGRATION TRENDS

Sources: PPR; Moody's Economy.com

### Demographic Trends

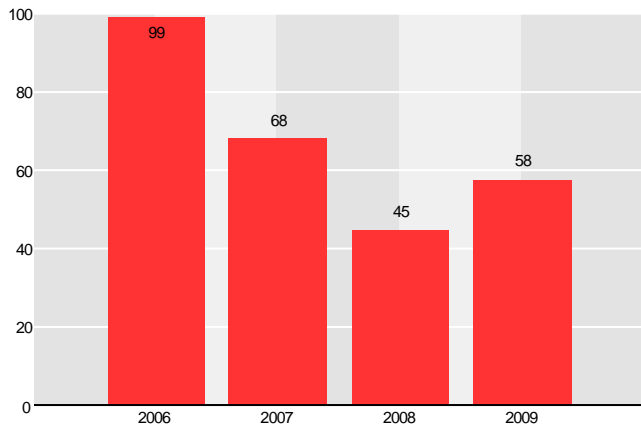
	Current Value Dec 2009			Current Dec 2009			Annual Growth Rates Past Decade (2000 - 2009)			Forecast (2010 - 2014)		
	Metro	U.S.	PPR54	Metro	U.S.	PPR54	Metro	U.S.	PPR54	Metro	U.S.	PPR54
Population*	5,530	308,560	166,460	1.9 %	1.0 %	0.9 %	2.8 %	1.0 %	1.1 %	2.1 %	1.0 %	1.1 %
Households*	2,014	115,299	61,412	1.6 %	0.8 %	0.9 %	2.7 %	0.9 %	1.1 %	2.3 %	1.2 %	1.3 %
Median Household Income	\$53,810	\$50,699	\$56,540	-2.8 %	1.6 %	-3.8 %	0.5 %	2.2 %	1.6 %	4.3 %	2.6 %	2.8 %
Labor Force*	2,642	153,059	83,617	-2.7 %	-1.0 %	-0.8 %	1.4 %	0.9 %	0.8 %	3.5 %	0.9 %	1.4 %
Unemployment**	10.3 %	10.0 %	9.7 %	9.8 %	9.3 %	9.1 %	5.1 %	5.5 %	5.4 %	7.3 %	7.8 %	8.0 %

\*In Thousands \*\*The Unemployment Rate provided in the Annual Growth Rates section is the average unemployment rate during the specified period.

### Population & Migration

**Over the long run, below-average living costs and a large, diverse economy will help attract new residents (especially those in the younger age cohorts) to the metro.** Atlanta has expanded rapidly during the boom years, as young professionals have been attracted to affordable housing, above-average incomes, and a thriving job market. Recently, however, population growth in this metro has slowed from its heated pace during the housing boom, as hefty job losses have plagued the market. Still, growth in the metro's population base continues to nearly double the national average, at 1.9% year-over-year as of September, as more than 54,000 residents moved into Atlanta. Yet this rate is roughly half what it was in 2005 and 2006. An above-average percentage of the population over 25 years old in Atlanta has earned a bachelor's degree. The highly educated labor force helps to attract well-paying jobs and corporate relocations to the metro. And once job growth returns to Atlanta in early 2011, population growth and in-migration will gain more momentum. However, the depress housing market at the national level could dampen Atlanta's outlook for in-migration, as homeowners underwater on their mortgages are now less mobile. *Updated: 03-Dec-2009*

### Net Migration



### Population by Age and Educational Attainment

Age Cohort	Value	Rank of 54	U.S. Value
Total Population (000s)	5,530	7	308,560
<20 / Children	28.7 %	9	26.9 %
20-34 / Young Adult	21.7 %	13	20.6 %
20-65 / Working Age	62.9 %	7	60.2 %
35-54 / Prime Spenders	30.9 %	2	28.0 %
65+ / Retirement Age	8.3 %	53	12.9 %
% > 25 with Bachelor Degree	31.4 %	13	24.6 %

### Demographics

Atlanta is one of the younger metros in the Southeast, with a median age of about 33 years, roughly two years younger than the national median. Clearly, the metro has a very high share of residents aged 20–34 (those most likely to rent apartments). At 22% of the population, this group is sizable enough to rank Atlanta in the top 15 of the PPR54 for this metric. Atlanta also maintains one of the highest percentages of prime spenders in the PPR54, at about 31% of the metro's population base. An above-average percentage of the population over 25 years old in Atlanta has earned a bachelor's degree. The highly educated labor force helps to attract well-paying jobs and corporate relocations to the metro. That said, metros like Seattle, with a large tech-based economy, and D.C., which maintains stability from the government, may be more attractive to would-be migrants (especially young job seekers) than Atlanta. *Updated: 05-Oct-2009*

### Costs

Atlanta falls in the middle of the pack in terms of living costs, coming in at roughly 2% below the national average. Slightly cheaper housing costs and a young, diverse economy has attracted a large number of people to the metro over the past several years. This trend will likely continue, as Atlanta will remain a bargain when compared to other major cities (such as New York and LA). In terms of business costs, Atlanta ranks in the bottom quartile in the PPR54. As a result, corporate relocations here are very common. Firms are also attracted to the metro's maturing economy and a massive pool of young, educated workers to draw from. Atlanta should continue to see more firms set up shop and/or expand their operations here in the future. *Updated: 07-Jan-2010*

## SUPPLY, DEMAND, AND VACANCY TRENDS

Sources: PPR; Moody's Economy.com; Reed Construction Data

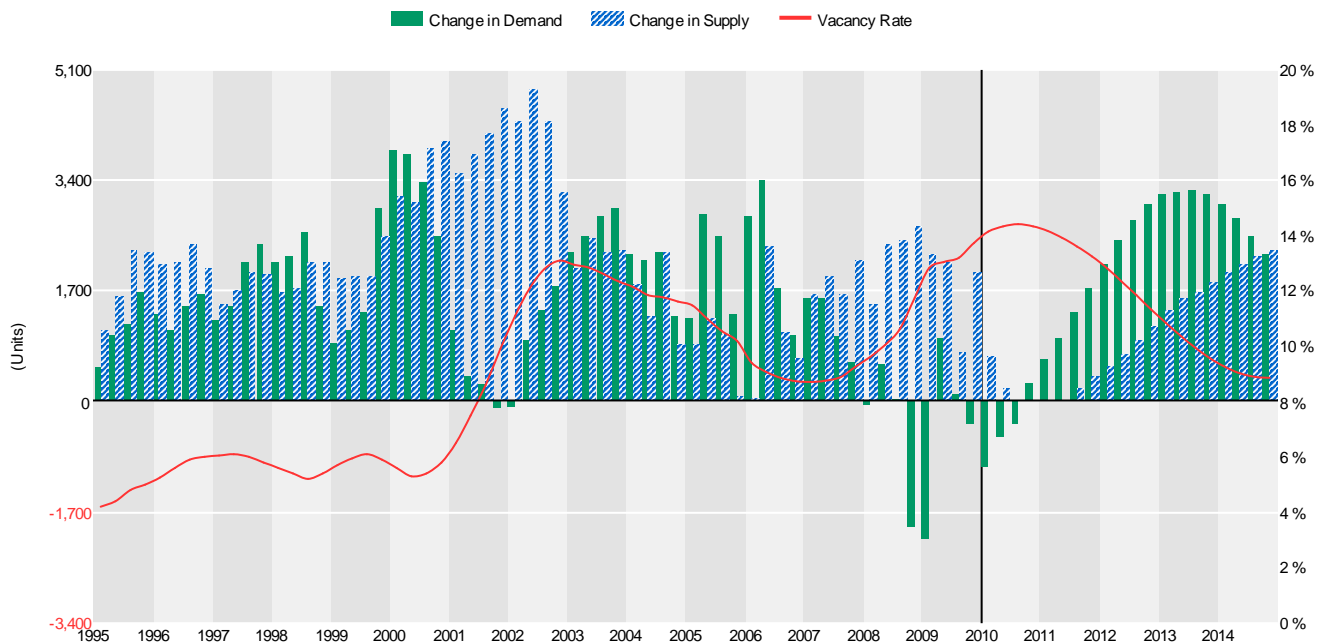
### Supply, Demand, and Vacancy Statistics *As of 2009Q4*

	Annual Trends								
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Change in Supply*	4,139	7,384	9,045	7,136	889	585	3,331	6,509	8,637
Change in Demand*	9,039	4,786	-1,314	-1,399	-1,578	4,759	10,439	12,851	10,667
Vacancy Rate (Q4)	8.7 %	9.3 %	11.8 %	13.7 %	14.3 %	13.2 %	11.3 %	9.6 %	8.9 %

	Quarterly Trends								
	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4
Change in Supply*	2,689	2,262	2,128	767	1,979	689	200	0	0
Change in Demand*	-1,938	-2,103	972	95	-364	-1,000	-542	-341	305
Vacancy Rate	11.8 %	12.8 %	13.1 %	13.2 %	13.7 %	14.1 %	14.3 %	14.4 %	14.3 %

\*In Units

### Quarterly Supply, Demand, and Vacancy *As of 2009Q4*



### Historical and Forecast Summary *As of 2009Q4*

	Historical Peak and Trough				Historical Volatility		Average Annual Growth Rates			
	Peak	Period	Trough	Period	Supply Volatility Ratio	Correlation	Historical		Forecast	
							Metro	PPR54	Metro	PPR54
Vacancy Rate	13.7 %	2009Q4	3.9 %	1994Q3	1.95	0.29	3.3 %	1.5 %	1.0 %	0.6 %
Demand (Annual)	14,110*	1986	-1,399*	2009	1.87		3.1 %	1.4 %	2.1 %	1.1 %
Supply (Annual)	16,626*	2002	-1,716*	1992	0.29		-0.2 %	-0.1 %	1.1 %	0.5 %

\*In Units

### Demand Trends

**There is another year of pain in store for the Atlanta apartment market, but the long-run outlook is positive.** The deterioration in fundamentals started to dissipate at the end of 2009, as levels of shadow supply in the for-sale housing market stabilized due to increasing home sales last year. That said, the odds are still not in the metro's favor. Another wave of residential foreclosures is set to hit the market later this year, as more option arms begin to reset, which will drive the shadow inventory back up. The housing-induced recession has also dampened mobility at the national level. Although Atlanta's population base continues to expand at twice the national average (1.9% year-over-year as of September), this is about half the rate seen during the housing boom. These weaker-than-normal demographic trends will continue to weigh on apartment demand.

**Despite these headwinds, Atlanta is positioned to have one of the strongest recovery stories in the PPR54.** This is a young metro, and outsized growth, especially in the 20–34-year-old age cohort, will drive above-average formation of apartment-renting households over the next five years. In fact, nominal apartment demand from 2009–14 will equate to nearly 11% of Atlanta's current apartment inventory, besting the PPR54 average by about six

percentage points. In terms of demand growth, the metro is expected to see gains of 2% per year during the forecast – ranking Atlanta in the top quartile of the PPR54. *Updated: 25-Jan-2010*

### Supply Trends

**The for-sale housing market's problems are having some serious implications for the local rental market in Atlanta, as shadow supply continues to enter the competitive rental pool.** Residential developers became overzealous during the housing boom. With unsold inventories and foreclosures still climbing, the shadow market is expanding. Continued depression in the local condo market will likely cause more of this repositioning over the next year or so, which will continue to pad the rental stock. Areas of above-average risk for this trend include Midtown and Buckhead (specifically Brookhaven and Lindbergh).

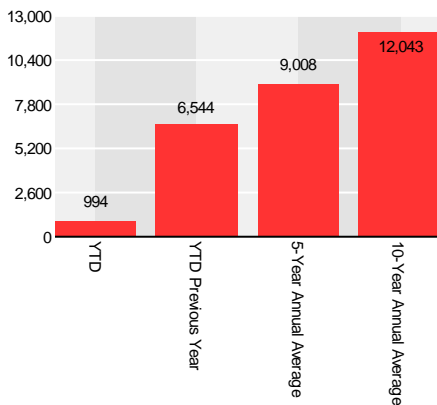
Developers are proposing a fair number of new apartment projects, but very few are moving forward. Over the next 18 months, ground-up supply will be less of a risk. Developers with projects in the planning pipeline are hesitant to break ground in this environment, allowing new supply deliveries to remain relatively minimal in the near term. In fact, several planned projects have been put on hold or even canceled, which will dampen new supply deliveries here in the near term. Though at least one of these developments shows up in just about every submarket in the metro, the Midtown/Brookwood area rises to the top of the list, with four projects that are being reevaluated. These include the 297-unit Cirque at Metropolitan Center and the 360-unit Morningside. Some of these projects will likely rise from the ashes of this recession later in the forecast. **Atlanta remains a low-barrier-to-entry market where large projects can pop up quickly, and no submarket is really safe from supply-side risks in the long run.**

**Developers are looking to tap into future growth in South Fulton County, and several mixed-use projects (with an apartment component) have come to the table recently.** Over the past several years, development was focused north of the city, following demographic shifts. Now that the population base has begun to expand south of Atlanta proper, infill projects are beginning to pop up in this area. Mostly known as a major warehouse node, this submarket is becoming more popular with office tenants and residents looking to live close to the metro's urban core. In fact, from 2000–08, the population ballooned to more than 380,000 residents - a 23% increase. This growth bodes well for future office and apartment demand in South Fulton County. However, developers are beginning to ramp up their activity. For instance, Oxford Properties is planning to build townhouses and apartments in Hapeville. Look for more rental projects to get off the ground here once the credit markets thaw. *Updated: 25-Jan-2010*

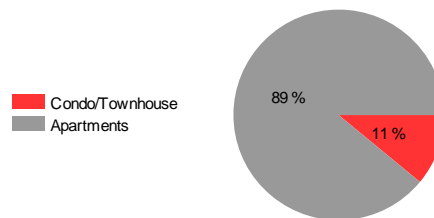
### Major Construction Projects

Title	Submarket	City	Status	Size (Units)	Target Start	Target Completion
Sorelle Apartments	Buckhead/Sandy Springs	ATLANTA	Underway	401	Nov 2006	Mar 2009
Alexan Midtown West	Midtown	Atlanta	Underway	397	Dec 2007	Nov 2009
The Goodwynn at Town Brookhaven	Buckhead/Sandy Springs	ATLANTA	Underway	372	Apr 2008	Dec 2009
Woodside Vista	South Fulton	ATLANTA	Underway	370	Sep 2007	May 2009
Gables Century Center	Dekalb/Rockdale	ATLANTA	Underway	359	Jul 2007	Mar 2009

### Multifamily Permits



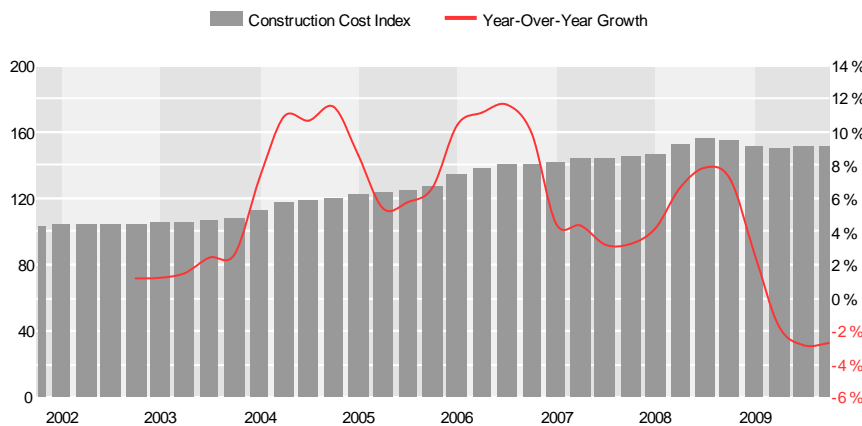
### Multifamily Underway by Subclass



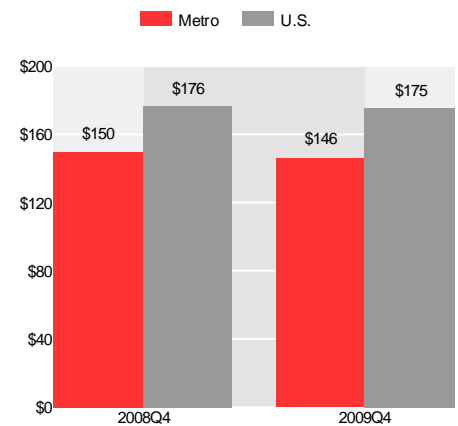
## CONSTRUCTION COSTS

Source: Reed Construction Data

### Construction Cost Index



### Construction Cost/SqFt



## HOUSING TRENDS

Sources: PPR; Moody's Economy.com

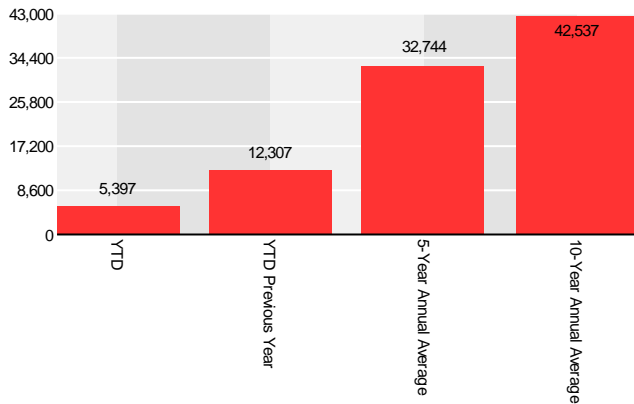
### Single-Family Housing Trends

**Signs of stabilization are starting to surface, but has the market really turned?** As of September, the Case-Shiller index for home prices in Atlanta were down 9.3% on a year-over-year basis, and home prices are in line with levels seen earlier in the decade. That said, the index remained flat when compared to the second quarter and even jumped 1.1% since the first quarter. Steep discounts are likely bringing buyers back to the negotiating table, but the overhang of unsold homes could take some time to burn off. Luckily, Atlanta is expected to maintain a steady stream of new residents coming into the metro. Solid in-migration will help eat away at this overhang, especially now that homeownership has become even more affordable. *Updated: 28-Dec-2009*

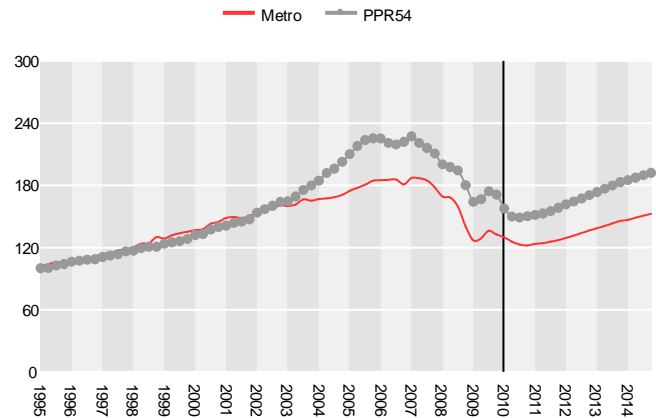
### Condo Trends

**Weakness in the condo market is beginning wane.** Yet, Buckhead and Midtown in particular are still facing a significant amount of pressure, as developers brought on a lot of new product in recent years. Consequently, distress in the market has caused some ground-up condo developers to implement "Plan B" by either converting units to apartments or auctioning office units. Overall, the in-town condo market will continue to face headwinds in the near term, and pressure from the growing shadow inventory will weigh on apartment fundamentals. *Updated: 28-Dec-2009*

### Single-Family Permits



### Home Price Index (Base Year: 1993)



### Single-Family Housing Statistics

	Metro			Rank of 54 (Current)	United States		
	Current (2009Q4)	Year-Ago	Growth		Current (2009Q4)	Year-Ago	Growth
Median S-F Home Price	\$123,330	\$130,480	-5.5 %	47	\$172,890	\$181,500	-4.7 %
Median Household Income	\$53,810	\$55,332	-2.8 %	24	\$50,699	\$49,913	1.6 %
S-F Home Price / HH Income	2.3	2.4		51	3.4	3.6	
Home Ownership Rate		69.3 %				68.1 %	

## SUPPLY, DEMAND, AND OCCUPANCY TRENDS

Sources: PPR; Moody's Economy.com; Smith Travel Research

### Occupancy Summary

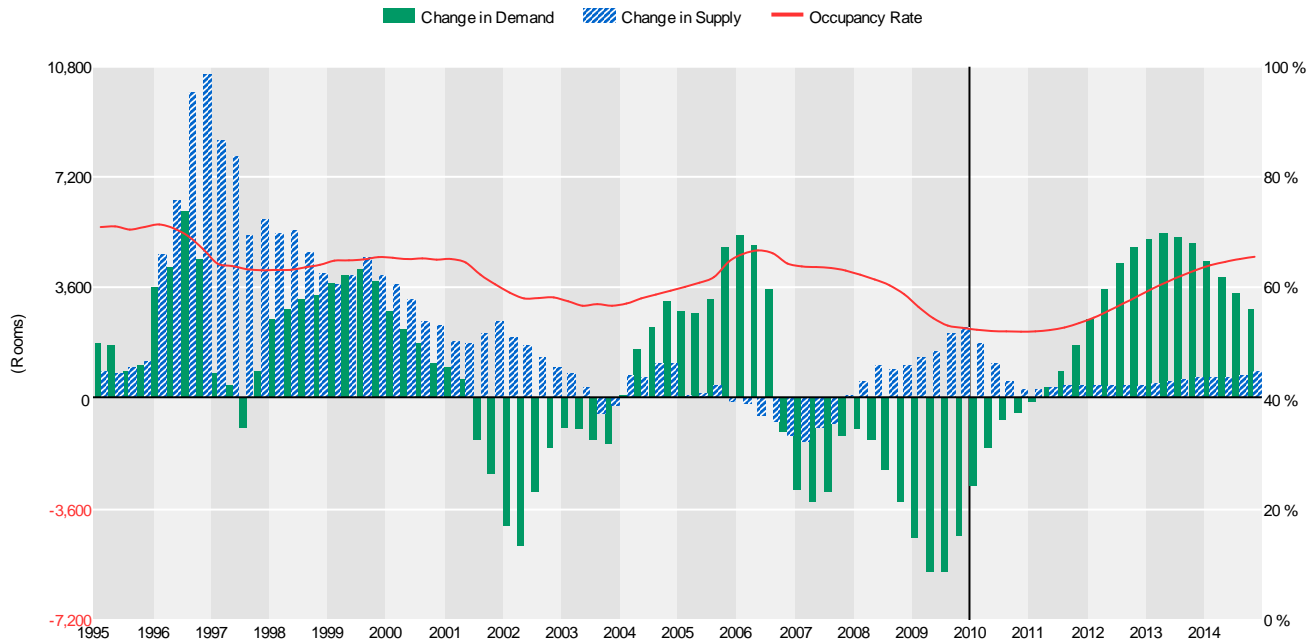
Both tourists and business travelers fill Atlanta's hotel rooms. That advantage is a double whammy right now, as both leisure and business travel are struggling as individuals and corporations pinch pennies. With fewer travelers, hotel occupancies are headed south. Peak-to-trough occupancy declines will total 16 percentage points in this cycle, as occupancies fall well below their 2002 lows. Supply additions in the near term will be relatively muted, allowing the market some breathing room and time to recover. Trough-to-2014 occupancy gains will total 14% percentage points, ranking the market fifth in the PPR54. *Updated: 29-Jan-2010*

### Supply, Demand, and Occupancy Statistics *As of 2009Q4*

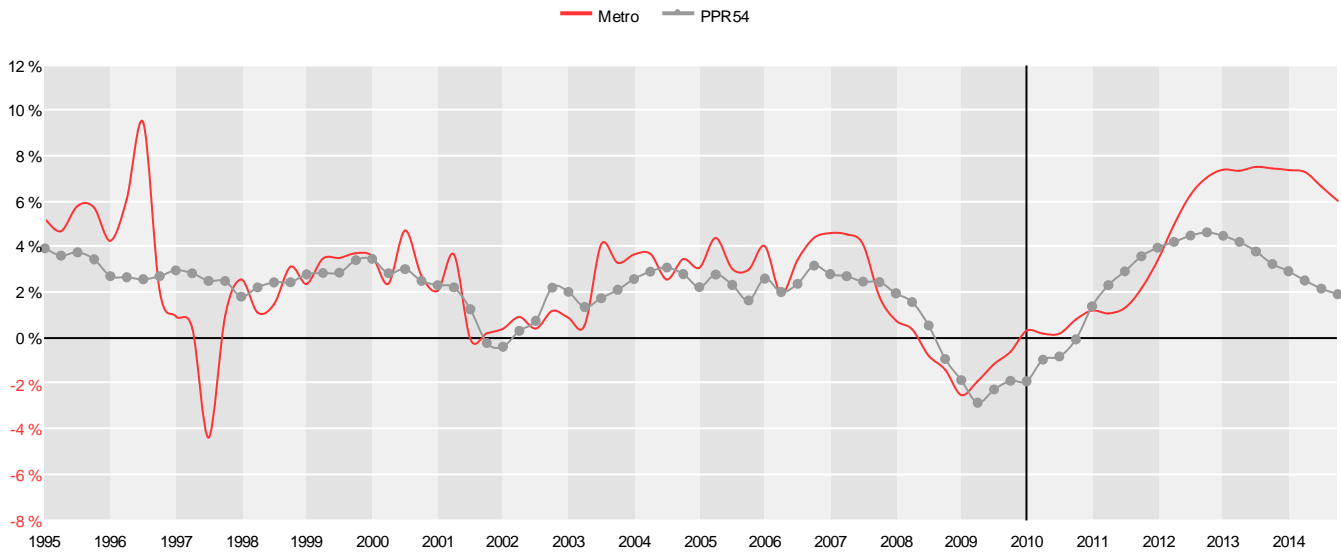
	Annual Trends									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2014
Demand (Rooms)	-1,109	-1,198	-3,340	-4,493	-481	1,712	4,948	5,024	2,920	2,920
Supply (Rooms)	-1,229	3	1,072	2,307	306	414	437	656	853	853
Occupancy Rate (Q4)	64.4 %	63.1 %	58.8 %	52.7 %	52.1 %	53.6 %	58.5 %	63.2 %	65.6 %	65.6 %

\*In Rooms

### Supply, Demand, and Occupancy Year-to-Year



### Leisure & Hospitality Employment Growth Year-Over-Year



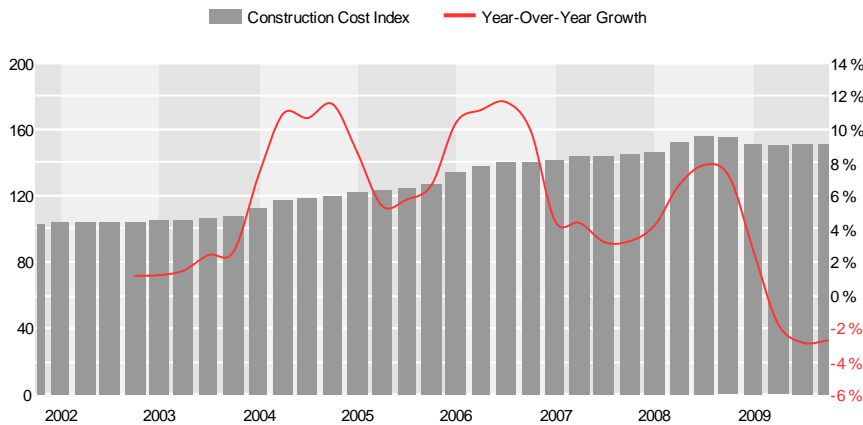
### RevPAR and Room Rate Trends

Occupancies are set to decline through the end of this year, dampening the outlook for RevPAR. RevPAR declined by about 19% in 2009, and it is expected to drop by another 2% in 2010. Last year's fall was in line with the PPR54 average, but RevPAR will continue to struggle through mid-2011 in Atlanta. At the national level, RevPAR is expected to turn the corner this year. Not helping matters is that ADRs are also falling. Last year room rates here descended by 13.2%, well above the PPR54 benchmark. RevPARs will remain in the red until mid-2011, when occupancies have turned around and room rate growth is back in the black. *Updated: 29-Jan-2010*

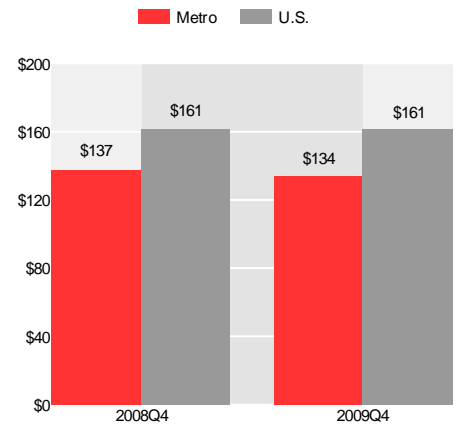
## CONSTRUCTION COSTS

Source: Reed Construction Data

### Construction Cost Index



### Construction Cost/SqFt



## SUPPLY, DEMAND, AND VACANCY TRENDS

Sources: PPR; Moody's Economy.com; Reed Construction Data

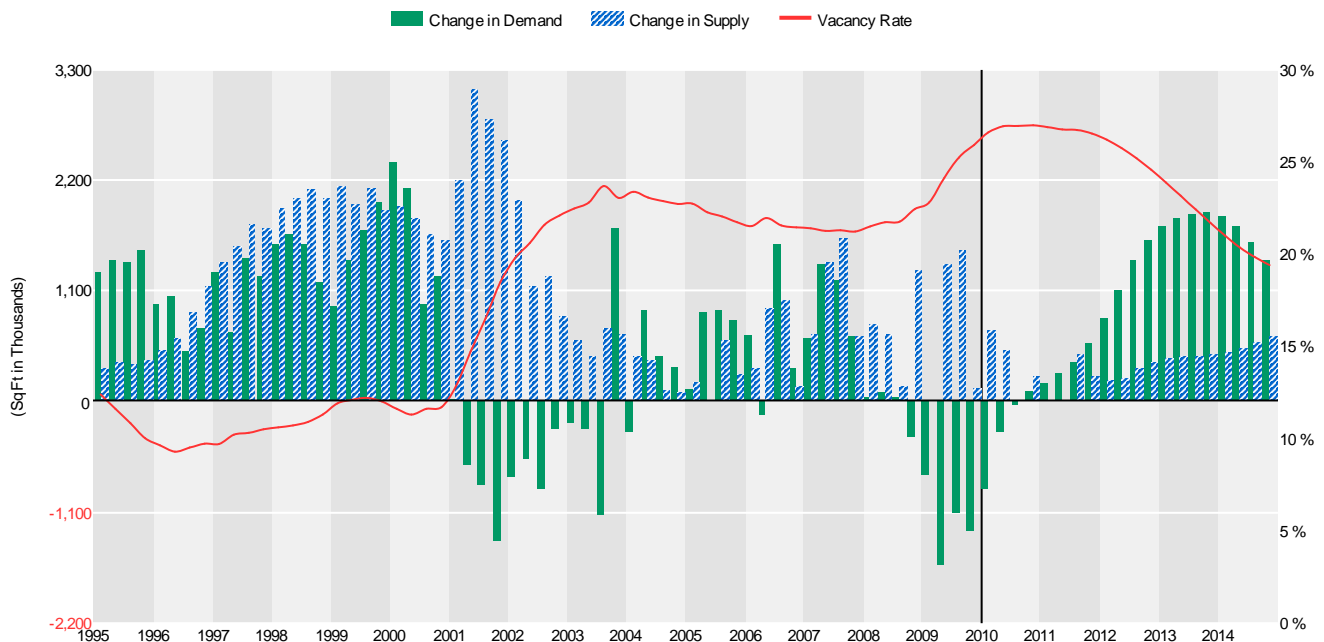
### Supply, Demand, and Vacancy Statistics *As of 2009Q4*

	Annual Trends									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Change in Supply*	2,403	4,320	2,875	3,003	1,455	714	1,170	1,781	2,275	
Change in Demand*	2,424	3,846	-168	-4,764	-1,100	1,446	4,930	7,339	6,597	
Vacancy Rate (Q4)	21.5 %	21.2 %	22.4 %	25.9 %	27.0 %	26.5 %	24.6 %	21.7 %	19.4 %	

	Quarterly Trends									
	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	
Change in Supply*	1,298	0	1,361	1,513	129	705	500	0	250	
Change in Demand*	-342	-728	-1,626	-1,114	-1,296	-868	-308	-34	110	
Vacancy Rate	22.4 %	22.8 %	24.1 %	25.2 %	25.9 %	26.6 %	26.9 %	26.9 %	27.0 %	

\*In Thousands of SqFt

### Quarterly Supply, Demand, and Vacancy *As of 2009Q4*



### Historical and Forecast Summary *As of 2009Q4*

	Historical Peak and Trough				Historical Volatility		Average Annual Growth Rates			
	Peak	Period	Trough	Period	Supply Volatility Ratio	Demand Volatility Ratio	Historical		Forecast	
							Metro	PPR54	Metro	PPR54
Vacancy Rate	25.9 %	2009Q4	9.3 %	1996Q2	1.67	1.65	4.5 %	2.8 %	0.7 %	0.6 %
Demand (Annual)	8,766*	1987	-4,764*	2009	0.29		3.9 %	2.2 %	2.4 %	1.8 %
Supply (Annual)	11,499*	1986	622*	1993			Net Demand	-0.6 %	-0.6 %	1.7 %

\*In Thousands of SqFt

### Demand Trends

**Renewals and relocations within the metro dominate leasing activity in Atlanta.** Smaller firms, those taking up less than 100,000 SF, continue to shed office space throughout the metro, and overall leasing activity remains slow. Though some deals are getting done, most of the action is concentrated on renewals. Sutherland, Asbill, and Brennan recently renewed its lease for 240,900 SF at 999 Peachtree, PC Management will remain in its 212,100 SF space at Piedmont Center, and PM Realty Group renewed for 135,000 SF at River Ridge in the Central Perimeter. SunTrust Robinson Humphrey recently renewed its lease at Atlanta Financial Center, occupying 92,000 SF in the building. In addition, the AJC is planning to vacate its downtown digs for 128,000 SF in the Central Perimeter, which will result in some vacant sublease space in the CBD. Turner Construction recently inked a deal for 30,000 SF at the new Two Alliance Center. Finally, Bank of America has renewed its lease at the Marquee in Midtown, but it is unclear how much space they will be occupying. That said, there have been some corporate relocations and expansions within the Atlanta metro. For instance, NCR is moving its headquarters to the metro from Ohio. Sony Ericsson is reportedly planning to bring 175 jobs to Atlanta, taking down as much as 35,000 SF of office space.

**Local law firms continue to make waves in the office market.** Several law firms within the Atlanta metro are reportedly scouting out new digs before their leases expire within the next two years. McGuireWoods LLP, currently at the Proscenium building in Midtown, is looking for up to 60,000 SF.; its lease is set to roll in May of 2011. Alston & Bird (the metro's largest law firm) is supposedly looking into building a new tower in Midtown next year, leaving behind space at One Atlantic Center. Weinberg, Wheelers, Hudgins, & Dial LLC is also working on inking a deal at the new 3344 Peachtree for 60,000 SF-70,000 SF of space, leaving behind space at Atlanta Plaza. And finally, Greenberg Traurig LLP is reportedly looking at a 125,000 SF lease in the new Terminus 200. The amount of office space on the market to chose from (and the concessions and rent breaks that accompany it), especially new Class A buildings, is surely piquing the interest of these law firms. That said, some law firms have decided to stay put in this uncertain environment. Sutherland Asbill & Brennan recently renewed its 241,000 SF lease at 999 Peachtree (expiring in 2020). In the near term, distress in the market and a wave of new supply coming on line in Buckhead and Midtown will keep tenants on top, and landlords will likely have to readjust their lease rate projections in order to remain competitive.

Given the large, diverse economy and the friendly business environment, employment growth (in key office-related industries) is expected to accelerate in the outer years of the forecast. **Consequently, the Atlanta office market has one of the most compelling recovery stories in the PPR54.** But this forecast is not without risk, as job growth and office demand depend on in-migration. The state of the national housing market is depressing mobility, as homeowners are still struggling to sell their homes. More muted demographics trends could spell trouble for Atlanta's office demand forecast. *Updated: 19-Jan-2010*

**Supply Trends**

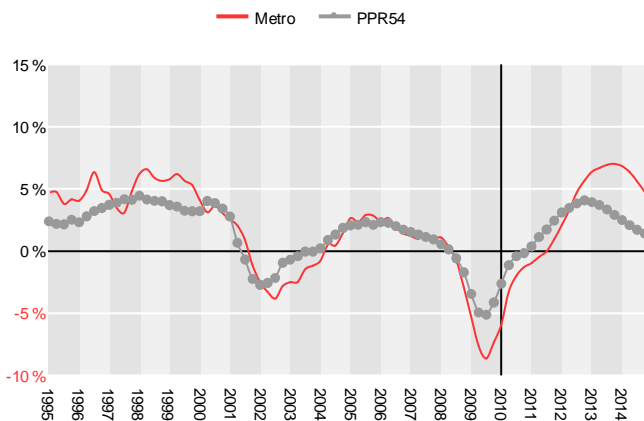
**Oversupply in Atlanta's core office submarkets is still the major supply story here.** Several major high-rise office towers are starting to top out in Buckhead and Midtown, with delivery dates set for later this year. In fact, from 2009–10 more than 2.6 million SF of new office space is set to come on line in these two submarkets. According to CoStar Group, projects of interest include Daniel Corporation's 12th & Midtown project (encompassing roughly 700,000 SF of office space) and the 500,000 SF Phipps Tower. Unfortunately, this supply wave is delivering into a down market, and rough seas lie ahead for fundamentals, leaving tenants with their hands on the rudder. As a result, landlords will likely offer substantial concessions and incentives in order to keep tenants in their buildings.

**Don't expect many changes to the Atlanta skyline within the next 18 months (beyond what's already underway).** On the whole, developers are relatively tame in this market. There is little capital to fund new projects, and this dearth will likely continue in the near term. As a result, more projects are getting delayed. For example, Duke Realty delayed construction on its 170,000 SF Legacy 1000 building in Duluth, which was slated to begin at the start of this year. And in some cases, sizable preleasing requirements are sending developers back to the drawing board to downsize planned projects. Outer-year deliveries could be beefier than expected, given the metro's developer-friendly environment and rapidly improving fundamentals. *Updated: 25-Jan-2010*

**Major Construction Projects**

Title	Submarket	City	Status	Size (SqFt)	Target Start	Target Completion
12th & Midtown Tower Phase II	Midtown	ATLANTA	Underway	680,000	Jan 2008	Mar 2010
Phipps Tower	Buckhead	ATLANTA	Underway	500,000	Dec 2007	May 2010
3630 Peachtree	Buckhead	Atlanta	Underway	425,000	Jul 2007	Mar 2010
Cobb Energy Centre (northern tower)	Northwest	ATLANTA	Underway	400,000	Dec 2007	Oct 2010
Midtown Mixed Use	Midtown	ATLANTA	Underway	150,000	May 2008	Nov 2010

**Office-Using Employment Growth Year-Over-Year**



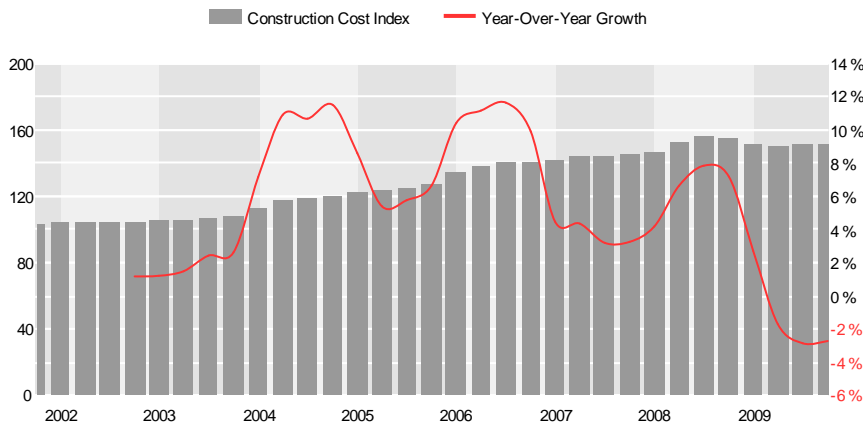
**Office-Using Employment Composition**

	% of Office-Using Employment		Year-Over-Year Growth	
	Metro	PPR54	Metro	PPR54
Information	11.5 %	8.1 %	-5.0 %	-6.0 %
Admin & Support	18.9 %	14.3 %	0.4 %	-3.2 %
Health	2.0 %	3.2 %	6.8 %	1.3 %
Management of Companies	8.0 %	4.6 %	0.3 %	-3.8 %
Finance & Insurance	13.7 %	18.3 %	-13.4 %	-3.3 %
Prof, Sci & Tech	23.5 %	26.7 %	-8.2 %	-2.6 %
Services				
Real Estate	6.0 %	6.4 %	-3.8 %	-2.6 %
Other	16.5 %	18.4 %	-2.8 %	-2.3 %

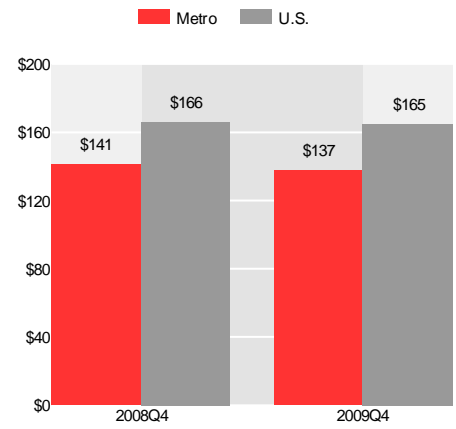
## CONSTRUCTION COSTS

Source: Reed Construction Data

### Construction Cost Index



### Construction Cost/SqFt



## SUPPLY, DEMAND, AND VACANCY TRENDS

Sources: PPR; Moody's Economy.com; Reed Construction Data

### Supply, Demand, and Vacancy Statistics *As of 2009Q4*

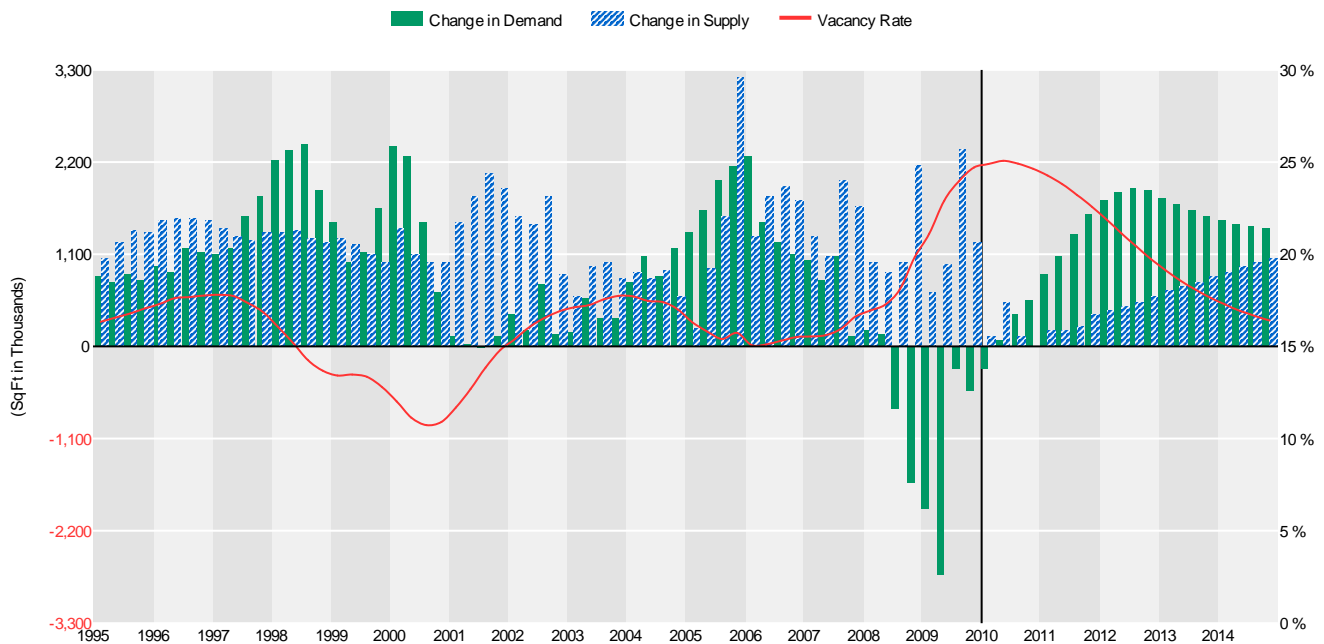
Annual Trends									
	2006	2007	2008	2009	2010	2011	2012	2013	2014
Change in Supply*	6,753	6,032	5,040	5,209	770	994	2,035	2,964	3,870
Change in Demand*	6,092	3,029	-2,038	-5,473	727	4,871	7,328	6,641	5,796
Vacancy Rate (Q4)	15.5 %	16.6 %	19.8 %	24.7 %	24.6 %	22.6 %	19.7 %	17.6 %	16.4 %

Quarterly Trends									
	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4
Change in Supply*	2,150	652	967	2,340	1,250	125	525	120	0
Change in Demand*	-1,625	-1,931	-2,741	-264	-536	-276	58	390	554
Vacancy Rate	19.8 %	21.1 %	22.9 %	24.0 %	24.7 %	24.9 %	25.1 %	24.9 %	24.6 %

\*In Thousands of SqFt

### Quarterly Supply, Demand, and Vacancy *As of 2009Q4*



### Historical and Forecast Summary *As of 2009Q4*

	Historical Peak and Trough				Historical Volatility		Average Annual Growth Rates			
	Peak	Period	Trough	Period	Supply Volatility Ratio	Correlation	Historical		Forecast	
							Metro	PPR54	Metro	PPR54
Vacancy Rate	24.7 %	2009Q4	8.8 %	1987Q1	2.29	0.05	3.8 %	2.3 %	1.1 %	0.8 %
Demand (Annual)	8,819*	1998	-5,473*	2009	1.24		3.6 %	2.3 %	3.2 %	2.0 %
Supply (Annual)	7,184*	2001	1,007*	1983			Net Demand	-0.2 %	0.0 %	2.1 %

\*In Thousands of SqFt

### Demand Trends

Near-term leasing strategies will likely continue to focus on maintaining current tenants by offering discounts and/or lowering rents. Poor fundamentals have left retail leasing on shaky ground, and vacant space continues to mount, especially in suburban shopping centers. Job losses and overall uncertainty in the economy have slashed consumer spending. And with the unemployment rate slated to reach nearly 11%, the near-term outlook is bleak. The housing market downturn has cut into furniture, electronics, and home improvement purchases as well. The tenants who are still standing are asking landlords for more concessions or downsizing their footprints. The third and fourth quarter yielded some decent-sized leases, but big-box tenants were few and far between. Yet, many of the deals inked recently, fell between 25,000 and 50,000 SF. According to CoStar Group, Hobby Lobby leased 45,000 SF at the Barrett Pavilion and Goodwill leased 44,600 SF at Merchant's Crossing. In addition, Costco (148,000 SF), LA Fitness (45,000 SF), and Publix (56,820 SF) recently took down space at Town Brookhaven.

**Recently completed projects may face an uphill battle.** Within the past year, several large retail projects have come on line, including the 600,000 SF Town Brookhaven, the 500,000 SF Canton Marketplace, and a 500,000 SF center in Loganville. However, these projects received financing several years ago and got underway just as the market had started to turn. Some of these developments have fared well; in fact, the Canton Marketplace and the Loganville shopping center are 95% and 94% occupied, respectively (per CoStar Group). Meanwhile, Town Brookhaven was only 47% occupied as of the fourth quarter. However, has been some recent leasing activity, with Costco and LA Fitness taking down space in this center in the third quarter, equating to about 192,000 SF.

**The demand recovery remains compelling in Atlanta for several reasons.** Once the economy starts to turn the corner, this market will see a pop in pent-up demand from residents who need to or want to spend money. Atlanta also maintains solid long-run drivers of retail sales growth. The need for retail will expand with the metro's population, as more "stuff" is needed to fill houses and apartments. Over the next five years, the local population base is expected to expand by an average of more than 2% per year as nearly 63,000 new residents move into the metro (ranked in the top 10 among the PPR54). And as Atlanta continues to urbanize, areas inside the perimeter stand to gain the most. Also, the metro's projected growth in the number of 35–54-year-olds over the next five years is among the highest in the 54 markets tracked by PPR. The number of higher-paying white-collar jobs is also set to increase, bolstering above-average median household incomes and likely giving a boost to discretionary spending. *Updated: 25-Jan-2010*

### Supply Trends

**Recently completed projects may face an uphill battle.** Within the past year, several large retail projects have come on line, including the 600,000 SF Town Brookhaven, the 500,000 SF Canton Marketplace, and a 500,000 SF center in Loganville. However, these projects received financing several years ago and got underway just as the market had started to turn. Some of these developments have fared well; in fact, the Canton Marketplace and the Loganville shopping center are 95% and 94% occupied, respectively (per CoStar Group). Meanwhile, Town Brookhaven was only 47% occupied as of the fourth quarter. However, has been some recent leasing activity, with Costco and LA Fitness taking down space in this center in the third quarter, equating to about 192,000 SF.

**A few smaller projects are set to deliver within the next two quarters, per CoStar, but the reprieve in construction is much needed in Atlanta.** With decision-making taking longer, retailers remaining cautious about expansion, and financing still hard to come by, developers are leery of breaking ground on any major retail project. Supply deliveries are falling steeply, as financing for new product remains elusive, and some of the functionally obsolete space will get demolished for development. Even still, from 2011–14 roughly 8.7 million SF of new space is slated to come on line in the Atlanta market, more than 4% of the metro's current inventory. Supply can ramp up rather quickly here, and the outer-year deliveries could be stronger than anticipated. *Updated: 25-Jan-2010*

### Major Construction Projects

Title	Subclass	City	Status	Size (SqFt)	Target Start	Target Completion
Harbins Crossing Towne Center	Big-Box/Power Center	DACULA	Underway	650,000	Dec 2007	May 2010
Town Brookhaven	Big-Box/Power Center	Atlanta	Completed	600,000	Apr 2007	Dec 2009
Suwanee Gateway	Big-Box/Power Center	TROY	Underway	360,000	Oct 2007	Oct 2011
Westside Crossing	Big-Box/Power Center	ATLANTA	Completed	300,000	Jun 2008	Oct 2009
Sugar Hill Marketplace	Big-Box/Power Center	NORTH LAS VEGAS	Underway	250,000	Dec 2007	Aug 2009

### Retail Demand Drivers

	Metro				United States		
	Current (2009Q4)	Year-Ago	Growth	Rank of 54 (Current)	Current (2009Q4)	Year-Ago	Growth
Real Retail Sales Per Capita Past 12 Months	\$6,086	\$6,387	-4.7 %	37	\$6,273	\$6,360	-1.4 %
Median Household Income	\$53,810	\$55,332	-2.8 %	24	\$50,699	\$49,913	1.6 %
Real Retail Sales (Total) Past 12 Months (Millions)	\$33,655	\$34,655	-2.9 %	8	\$1,935,472	\$1,943,215	-0.4 %

### Retail Subclass Trends

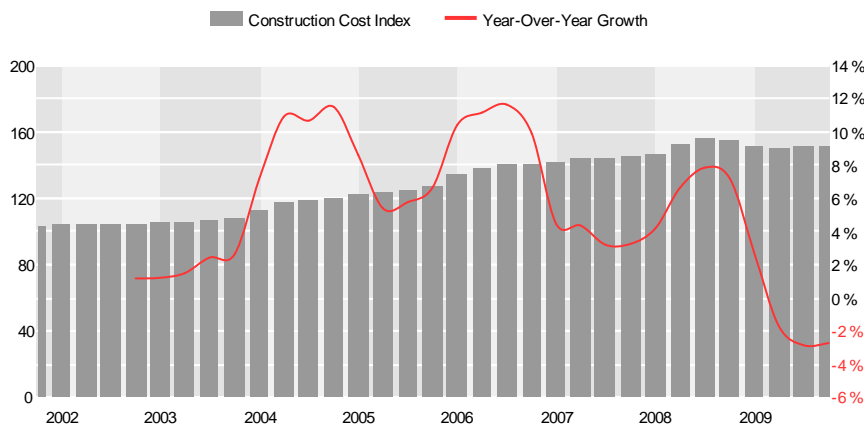
Atlanta is known to be perpetually over-retailed. Surprisingly, however, this market falls in the middle of the PPR54 pack in terms of mall SF per capita. Though Atlanta does maintain some large regional malls, there is a significant amount of smaller (and older) strip centers and ground-floor retail in the overall inventory. On the grocery front, Kroger remains the top grocer in Atlanta, garnering 32% of the market share in over 130 stores. Publix has fallen to third place (22% of the market share) behind Wal-Mart, though it still maintains 141 stores in the metro.

Though store closure announcements have subsided, the market isn't out of the woods just yet. Shopping centers are clearly bearing the brunt of this downturn, as vacancy rates in this subclass have skyrocketed over the past year. Malls have been struggling throughout the nation, and Atlanta is no exception. This property subclass maintains one of the lowest vacancy rates in the metro, per CoStar Group. But malls only make up relatively small percentage of the metro's total inventory while shopping centers account for the largest share, per CoStar Group. Going forward, shopping centers and power centers will likely continue to struggle to fill up empty space as credit-worthy tenants are still hard to come by. *Updated: 26-Jan-2010*

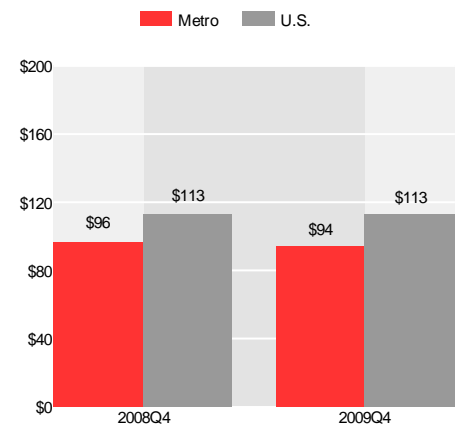
## CONSTRUCTION COSTS

Source: Reed Construction Data

### Construction Cost Index



### Construction Cost/SqFt



## SUPPLY, DEMAND, AND VACANCY TRENDS

Sources: PPR; Moody's Economy.com; Reed Construction Data

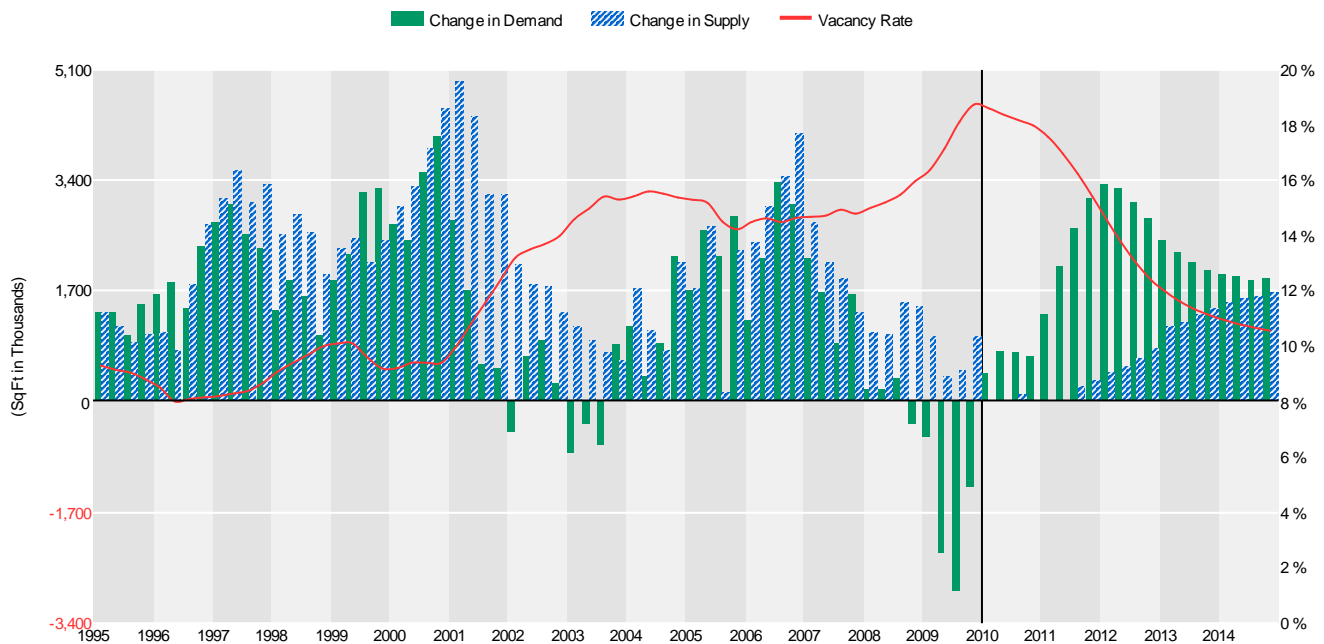
### Supply, Demand, and Vacancy Statistics *As of 2009Q4*

	Annual Trends									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	
Change in Supply*	13,037	8,155	5,079	2,866	100	571	2,468	5,173	6,433	
Change in Demand*	9,853	6,441	399	-7,079	2,692	9,252	12,533	8,947	7,659	
Vacancy Rate (Q4)	14.6 %	14.8 %	16.0 %	18.7 %	18.0 %	15.4 %	12.4 %	11.1 %	10.6 %	

	Quarterly Trends									
	2008Q4	2009Q1	2009Q2	2009Q3	2009Q4	2010Q1	2010Q2	2010Q3	2010Q4	
Change in Supply*	1,477	1,010	371	485	1,000	0	0	100	0	
Change in Demand*	-351	-541	-2,317	-2,909	-1,312	456	791	767	679	
Vacancy Rate	16.0 %	16.4 %	17.1 %	18.1 %	18.7 %	18.6 %	18.4 %	18.2 %	18.0 %	

\*In Thousands of SqFt

### Quarterly Supply, Demand, and Vacancy *As of 2009Q4*



### Historical and Forecast Summary *As of 2009Q4*

	Historical Peak and Trough				Historical Volatility		Average Annual Growth Rates			
	Peak	Period	Trough	Period	Supply Volatility Ratio	Correlation	Historical		Forecast	
							Metro	PPR54	Metro	PPR54
Vacancy Rate	18.7 %	2009Q4	1.7 %	1984Q2	1.49	0.60	3.1 %	2.5 %	0.9 %	0.9 %
Demand (Annual)	12,802*	2000	-7,079*	2009	1.27		2.5 %	2.2 %	2.8 %	2.0 %
Supply (Annual)	15,700*	2001	785*	1991	0.60		-0.6 %	-0.3 %	2.0 %	1.1 %

\*In Thousands of SqFt

### Demand Trends

**Warehouse absorption remains weak in Atlanta.** Although some large leases have been signed recently, these deals haven't been enough to negate the space givebacks. According to CoStar Group, the fourth quarter yielded some large deals. Deere & Co. took 402,000 SF at the Westbridge Distribution Center in South Clayton; Viega leased 255,000 SF at the Greenwood Industrial Building, also in South Clayton; and Clorox Products renewed its 180,300 SF lease at the Newport Distribution Center in the Duluth area. FEMA recently signed at 10-year lease for 407,000 SF of space at the Airport Distribution Center II (with plans to move in in March). This will become the agency's Southeast hub. Some smaller renewals have also occurred recently, and firms staying put include Belmann Group, Reliable Tire Distributors, and Turf Care Supply. Landlords will continue to offer very attractive incentives in order to maintain occupancies, and renewals will likely continue to dominate leasing activity in the near term. In the uncertain economic environment, firms are unwilling to commit to space and are opting for one- or two-year lease renewals.

**Sublease remains an issue in the local warehouse market.** Per CoStar Group, sublease space in the warehouse market expanded by nearly 30% in Atlanta from the third to the fourth quarter, increasing to about 2.7 million SF. Although the market has worked through a lot of the pain, there is a large amount of empty space to contend with here. This will lead vacancies even higher and rents lower over the next several months.

**The short-term outlook is precarious, but there are some bright spots.** Firms related to less cyclical industries, such as food and groceries, are leaving a good taste in Atlanta's mouth. Recently, J.M. Smucker announced plans to locate near the airport – leasing all 557,000 SF in South Creek IV. General Mills, Pop Secret, and Trader Joe's are also seeking to establish their Southeast distribution centers here. And Atlanta's long-term prospects for demand growth are favorable, supported by the metro's below-average business costs; extensive road, rail, and air transportation links; and reasonable proximity to the thriving Port of Savannah. This metro is also one of the epicenters of population growth within the Southeast, which bodes well for demand from tenants providing "stuff" to consumers. Tenants associated with cargo flows and the airport will look to South Atlanta for distribution space, while retailers servicing the quickly growing Carolinas area will plant roots along the Northeast Corridor. And firms that need direct access to the Port of Savannah will be attracted to the I-20 East/Snapfinger Submarket. *Updated: 01-Feb-2010*

**Supply Trends**

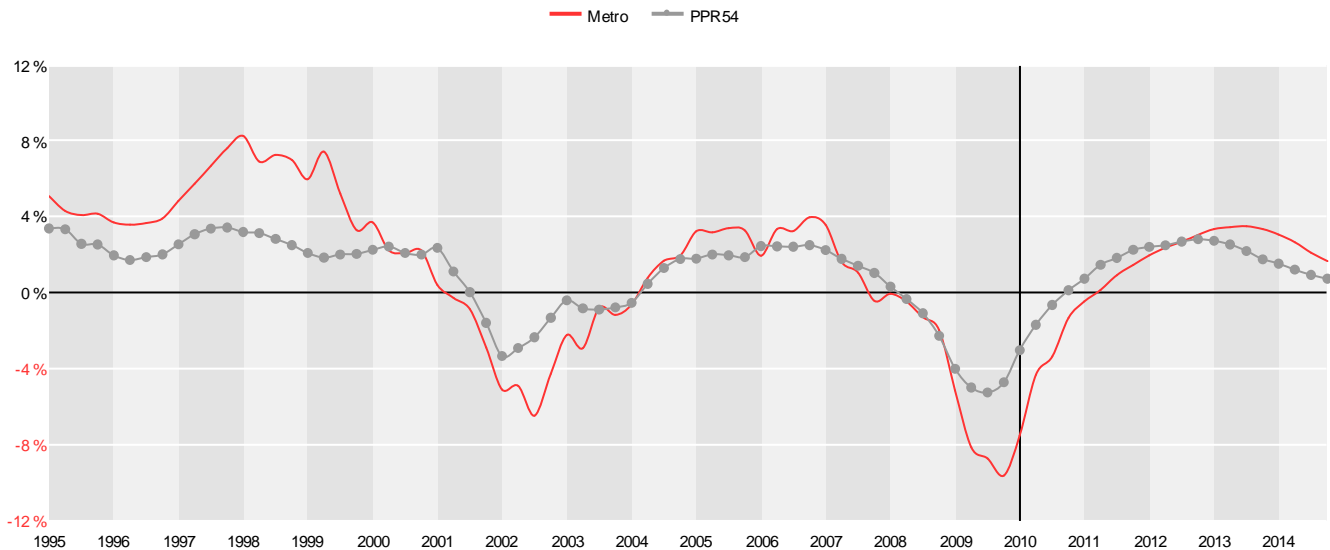
**The frozen credit markets and depressed demand are slowing the pace of construction in this normally developer-friendly market.** There are very few warehouse projects underway in the Atlanta metro, and this lull in construction will ultimately aid in the market's recovery. Speculative projects that delivered within the past year include the 240,000 SF warehouse at 120 Declaration Drive and two buildings at the Cherokee Commerce center totaling more than 300,000 SF. Developers will be slow to bring more product to market over the forecast, given the metro's elevated vacancy rate. Yet Atlanta's abundant affordable land and its cooperative local government give developers a perpetual green light.

**Supply-side risks are concentrated in Atlanta's major warehousing nodes.** Areas like the CBD and Stone Mountain are less likely to attract developer attention in the future, as long-run demand trends are less than stellar in these areas. Construction will remain laser-focused in the Northwest (along I-75), the Northeast (along I-85), South Atlanta (along I-75 and near the airport), and in the I-20 East and West submarkets. Tenants will look to set up shop in these submarkets due to their access to major nodes of transportation: highways, the airport, and the Port of Savannah. As a result, keep a watchful eye on new supply deliveries once the credit markets begin to loosen up and vacancies contract. In fact, some developers are already gearing up to bring new product to the Atlanta market. Alter Group plans to purchase the 180-acre King Mill site in Henry County and build approximately three million SF of warehouse/distribution space on it. In addition, IDI is nearing a deal with Clorox to build a 1.1 million SF build-to-suit in Fulton County, which would consolidate the firms existing warehouse leases in Atlanta. *Updated: 01-Feb-2010*

**Major Construction Projects**

Title	Submarket	City	Status	Size (SqFt)	Target Start	Target Completion
-------	-----------	------	--------	-------------	--------------	-------------------

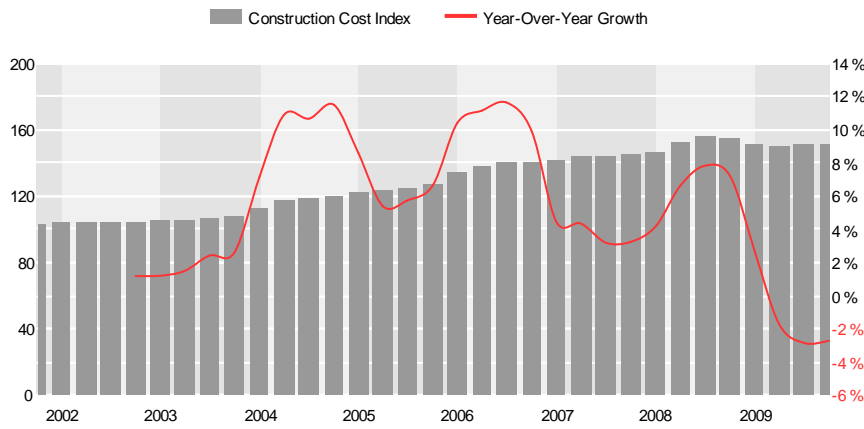
**Wholesale Trade Employment Growth Year-Over-Year**



## CONSTRUCTION COSTS

Source: Reed Construction Data

### Construction Cost Index



### Construction Cost/SqFt

