Point of View

King Industrial Realty, Inc.

The Numbers Tell The Story

It seems that after all the trials and tribulations the Atlanta industrial market has faced recently, we are running out of adjectives to describe this unprecedented downturn. Nevertheless, the problems remain the same. Diminished leasing activity, combined with tenant turnover, derailed the Atlanta industrial market for the third consecutive quarter and has prognosticators scratching their heads about when the market will rebound.

In the second quarter of 2009, leasing activity dropped by 24 percent compared to last quarter, resulting in only 6,579,703 square feet of activity. This marks Atlanta's lowest level of output since the second quarter of 2003. Far more detrimental, however, was the sheer volume of tenant turnover triggered by businesses closing down shop or consolidating operations.

Consequently, after setting new lows for negative net absorption during the last couple of quarters, Atlanta sunk to new depths in the second quarter of 2009 by posting -6,146,461 square feet of negative net absorption. As Atlanta's tenant base crumbled in the second quarter, its availability jumped by 6,170,186 square feet to 19.2 percent, eclipsing its previous high of 19.1 percent in the third quarter of 2003.

Unfortunately, all 12 metro Atlanta submarkets contributed to this collapse. The scale of negative net absorption ranged from a low of -321,205 square feet in the Chattahoochee Industrial district to a high of -822,153 square feet in the Fulton Industrial district, with each submarket averaging just over a half million square feet of negative net absorption this quarter.

Meanwhile, some of the major move outs in the second quarter were Ritz Camera shuttering its 200,000 square foot distribution facility up the I-85 North corridor, Ashley Furniture vacating 200,000 square feet in the Fulton Industrial district, and Rite Aid closing three distribution centers in southwest Atlanta totaling around 700,000 square feet.

Yet in the midst of all this upheaval, there was some encouraging news. In June, General Mills announced it will be breaking ground on a massive, LEED certified, build-to-suit project in Social Circle, Georgia totaling 1.5 million square feet. Sim F. Doughtie, CCIM, SIOR, MCR and President of King Industrial Realty, orchestrated this landmark deal in conjunction with Corporate Service Consortium, Inc. Upon completion this facility will be the largest "green" distribution building in the Southeastern United States. The only unfortunate part is that this transaction occurred just outside the metro Atlanta region in Walton County and is, therefore, not reflected in the metro Atlanta industrial statistics for the second quarter.

Charles B. King, Jr., SIOR
CEO

Total Market

	Total Inventory	Net Absorption	Total Available	% Available	Total Activity	# of Deals	Avg SF Per Deal
Distribution	506,099,832	-6,146,461	97,301,876	19.2%	6,579,703	479	13,736
Service Center	22,537,463	-412,566	6,254,282	27.8%	467,379	112	4,173

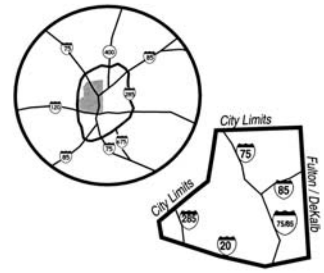
CORFAC International

	Total Inventory	Market Share	Total Available	% Available	Total Activity	# of Deals

Market Maps

AREA 10

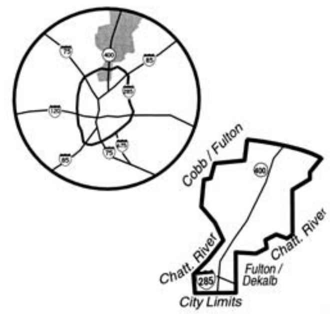
Distribution	**25,880,799**	**5.1%**	**5,017,800**	**19.4%**	**279,827**	**26**
Service Center	**812,287**	**3.6%**	**304,930**	**37.5%**	**18,979**	**2**



The distribution market in the Chattahoochee Industrial district fared better than the rest for the second quarter of 2009. Even with a net absorption of –321,205 square feet, they landed on top of the ladder. With activity just half of the total reached in the first quarter, Area 10 had no chance to outpace the tenant exodus. The service center market out-preformed its first quarter activity, but again could not offset the reduction in their tenant base and logged net absorption of –36,365 square feet for the quarter.

AREA 15

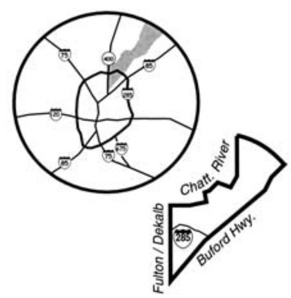
Distribution	**23,360,536**	**4.6%**	**4,334,557**	**18.6%**	**265,838**	**49**
Service Center	**3,251,098**	**14.4%**	**905,111**	**27.8%**	**90,777**	**29**



The 400 North corridor fell victim to reduced activity and significant outflow thanks to several owner occupants putting their buildings on the market. The resulting net absorption dipped further into negative territory than Area 15 has ever gone, falling to –655,794 square feet. The service center market took position at the bottom of the pile accruing net absorption of –116,139 square feet.

AREA 20

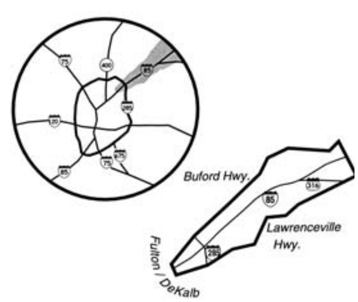
Distribution	**36,339,140**	**7.2%**	**6,705,602**	**18.5%**	**532,055**	**64**
Service Center	**3,629,700**	**16.1%**	**903,053**	**24.9%**	**67,503**	**11**



The distribution market in Area 20 saw definite progress for the second quarter. While activity slipped slightly, tenant retention improved dramatically. This formula resulted in net absorption of –415,650 square feet; although still in negative territory, an improvement nonetheless. The service center market, however, swung the opposite direction. While it was able to hold on to far more tenants than last quarter, activity was lower than it has been for the past two years. These two factors combined to drop net absorption to more than twice its level last quarter, landing at –61,185 square feet.

AREA 25

Distribution	**93,568,998**	**18.5%**	**15,664,484**	**16.7%**	**1,235,821**	**79**
Service Center	**4,959,500**	**22.0%**	**1,587,229**	**32.0%**	**114,818**	**23**



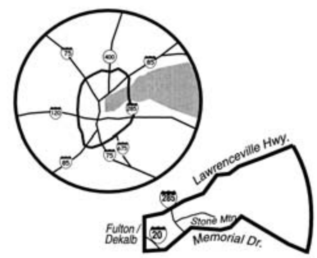
The I-85 North distribution market won the blue ribbon in the activity category this quarter, but fell short in net absorption. Unfortunately, a surplus of space was made available this quarter – with more than 500,000 square feet of that space available as subleases. The outcome of this imbalance was net absorption of –677,251 square feet. A decrease in activity and an increase in tenant turnover led to the inevitable in the service center market. Net absorption slid further down to –58,687 square feet to close the second quarter.

	Total Inventory	Market Share	Total Available	% Available	Total Activity	# of Deals

Market Maps

AREA 30

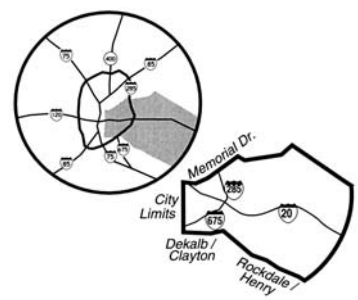
Distribution	**26,623,187**	**5.3%**	**4,753,592**	**17.9%**	**374,708**	**43**
Service Center	**1,565,445**	**6.9%**	**295,823**	**18.9%**	**7,970**	**7**



The Stone Mountain distribution market took baby steps in the right direction for the third quarter in a row. Despite a decrease in activity, net absorption of –322,503 square feet is quite a bit better than last quarter, thanks to tenants staying put. The service center market, however, took a different path. The same decrease in activity was coupled with an increase in tenant departure which allowed net absorption to fall for a third consecutive quarter, ending at –3,591 square feet.

AREA 40

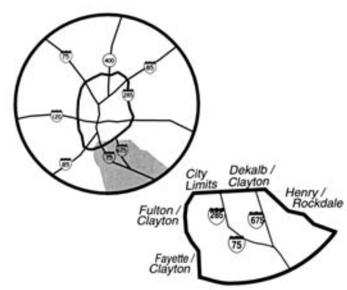
Distribution	**40,366,577**	**8.0%**	**6,419,038**	**15.9%**	**574,427**	**37**
Service Center	**421,426**	**1.9%**	**82,635**	**19.6%**	**5,000**	**1**



Unfortunately the modest increase in activity could not compete with the sizeable increase in space given up by tenants in the I-20 East submarket. For the ninth consecutive quarter, net absorption crawled further into the red and was recorded at –370,879 square feet. The service center market, however, was one of only two lucky players to enter into positive territory. With only one tenant leaving the area, the fall in activity did not stop the net absorption from rising to 3,155 square feet.

AREA 50

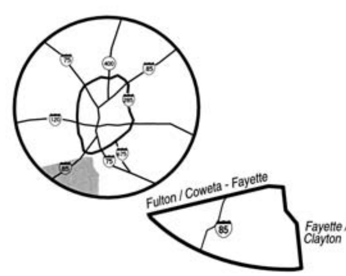
Distribution	**67,319,334**	**13.3%**	**14,917,410**	**22.2%**	**1,001,251**	**34**
Service Center	**946,809**	**4.2%**	**225,257**	**23.8%**	**13,859**	**3**



The Airport area tried hard to get it right this quarter, but they only got part of the equation correct. Activity was more than double what they generated last quarter, but tenant turnover took a bigger jump. The resulting net absorption of –619,072 square feet pushed Area 50 deeper in the hole. The service center market took just as drastic a leap further into the negative zone with net absorption of –16,213 square feet. Activity held steady, but the tenant base in this small submarket left in droves.

AREA 55

Distribution	**20,717,033**	**4.1%**	**3,206,718**	**15.5%**	**220,204**	**24**
Service Center	**129,461**	**0.6%**	**51,519**	**39.8%**	**0**	**0**

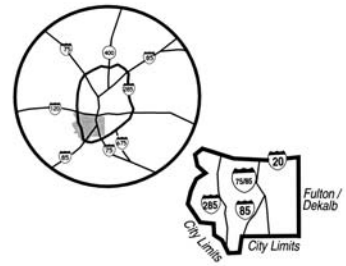


The bottom fell out in the Fayette/Coweta county distribution market. After leading the pack last quarter, they missed last place by the slimmest of margins in the second quarter. Activity plummeted and, with the bankruptcy of a large tenant in this submarket, available space flooded the market. Net absorption took a nose-dive to –793,144 square feet breaking a five quarter streak of positive net absorption. The service center fell flat this quarter. Without a single lease signed, departing tenants left them with a net absorption of -7,503 square feet.

	Total Inventory	Market Share	Total Available	% Available	Total Activity	# of Deals
AREA 60						
Distribution	**24,286,444**	**4.8%**	**5,934,238**	**24.4%**	**58,940**	**4**
Service Center	**220,559**	**1.0%**	**72,165**	**32.7%**	**4,800**	**1**

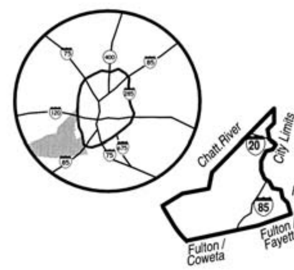
The South Atlanta distribution market faltered once again. Scrapping together only four new deals, Area 60 could not make up for the steady flow of tenant departures. Net absorption of –335,637 square feet marks the sixth quarter in a row this area has seen the negative region. The service center market followed suit in the second quarter. The lone deal inked in this submarket was not quite enough to balance the scale and net absorption went on the books at –2,170 square feet.

Market Maps



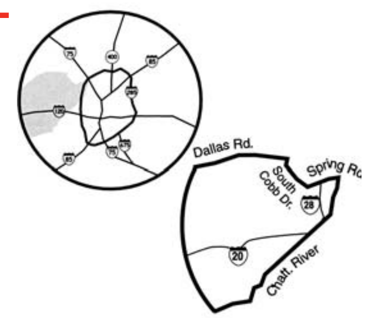
AREA 70						
Distribution	**70,115,150**	**13.9%**	**16,842,476**	**24.0%**	**1,170,285**	**41**
Service Center	**269,864**	**1.2%**	**91,026**	**33.7%**	**13,300**	**2**

The South Fulton county submarket just can't seem to break bad habits. For the second quarter, Area 70 brought up the rear. Almost two million square feet returned to the availability column; combine this surplus with a decrease in leasing activity and the result is inevitable. Net absorption hit the bottom at –822,153 square feet. The service center market saw the flip side of the coin and lead the pack with the highest net absorption. They kept all their tenants intact and converted 100% of their 13,300 square feet of activity into positive net absorption.



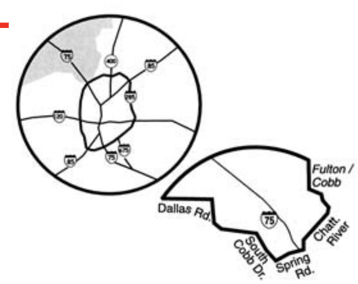
AREA 80						
Distribution	**44,337,067**	**8.8%**	**7,933,251**	**17.9%**	**398,306**	**26**
Service Center	**1,592,133**	**7.1%**	**498,133**	**31.3%**	**17,081**	**5**

Unfortunately, the I-20 West submarket gave up twice as much space as it convinced tenants to take. Fewer tenants vacated Area 80 this quarter, but activity took a significant drop as well and net absorption inched further south landing at –434,680 square feet. The service center market managed to tread water this quarter. A decrease in activity was met with a decrease in tenant turnover with the outcome being a marginal increase in net absorption to –51,126 square feet.



AREA 85						
Distribution	**33,185,567**	**6.6%**	**5,572,710**	**16.8%**	**468,041**	**52**
Service Center	**4,739,181**	**21.0%**	**1,237,401**	**26.1%**	**113,292**	**28**

The I-75 North submarket saw some improvement in the second quarter. Although activity dipped, more tenants stayed in place. This system allowed Area 85 to close the quarter with net absorption of –378,493 square feet – an improvement from last quarter. The service center market made tremendous progress ending with net absorption of –76,042 square feet, up from –226,995 square feet last quarter. They accomplished this feat by holding on to far more of their tenants than last quarter.



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