

A Pothole In The Road To Recovery

After showing signs in the second quarter 2011 that the Atlanta industrial market might have taken that first step toward recovery, the third quarter hit a pothole. Following the 1,707,652 square feet of positive net absorption in the second quarter, the third quarter experienced 934,063 square feet of negative net absorption. The only positive news that I can relay regarding the persistence of the negative net absorption is that it continues to dissipate.

Activity in the third quarter was also disappointing with only 628 transactions totaling 8,644,167 square feet of industrial space leased or sold. This was especially frustrating after we averaged 720 transactions and 12,004,998 square feet of activity over the first two quarters of 2011. It's not all bad news, however. If we were to repeat the third quarter performance during the fourth quarter of this year, the Atlanta industrial market would still be able to achieve total activity between 41 and 42 million square feet for the year. That would make for a good year on the activity front.

So, after two quarters of robust activity and one quarter of positive net absorption, why did we experience a slowdown in activity and have a return to negative net absorption? After numerous conversations with industrial brokers in our market, many stated they saw a noticeable drop in interest from users during the summer months. No one really knows why except that, for the first time in several years, these individuals were actually taking their families on vacations. Additionally, due to reduced staffs they also had to cover for other employees who were taking vacations.

More recent conversations with industrial brokers foster some better news. Now that the summer vacation months are behind us, activity is picking up and brokers are showing space again. I believe this is a good sign. I contend that there continues to be pent up demand in the industrial marketplace. After over three years of sitting on the sidelines and being in survival mode, industrial users feel the need to expand their operations in order to pick up new customers and gain market share. They also want to take advantage of the lower industrial rental rates before they begin to rise again and lock in for a longer term to hold the reduced rate.

Some of the positive developments happening in the industrial market these days include the arrival of LifeScience Logistics and Round 2 into the Atlanta market. LifeScience is taking 255,000 square feet and Round2 is leasing 258,000 square feet, both in the Fulton Industrial district. Sany America completed its 400,000 square foot headquarters operation in Peachtree City. The possible approval of the Mitsubishi HVAC building would bring another 500,000 square feet to Gwinnett County.

With the uncertainty coming out of Washington D.C. from our law makers and the turbulence being experienced in the Global markets, there is no way to foresee additional potholes down the road. However, if we continue to achieve high activity numbers each quarter, it will only be a matter of time before we begin to achieve the goal of positive net absorption for the Atlanta industrial market.

Sim F. Doughtie, CCIM, SIOR, MCR
President

Total Market

	Total Inventory	Net Absorption	Total Available	% Available	Total Activity	# of Deals	Avg SF Per Deal
Distribution	606,123,147	-934,063	124,446,706	20.5%	8,644,167	628	13,765
Service Center	25,920,304	162,643	7,273,948	28.1%	687,002	171	4,018

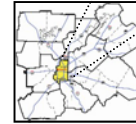
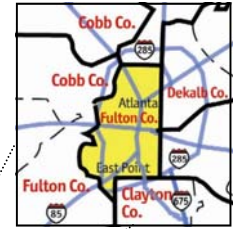
	Total Inventory	Market Share	Total Available	% Available	Total Activity	# of Deals
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Market Maps

CITY OF ATLANTA

Distribution	49,930,120	8.2%	12,066,975	24.2%	502,442	44
Service Center	1,002,492	3.9%	378,045	37.7%	30,767	8

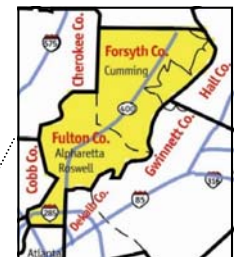
Activity in the distribution sector in the City of Atlanta region fell sharply in the third quarter. With only 502,442 square feet of deals recorded, net absorption dropped back into negative numbers. The negative net absorption of -364,409 square feet sent the availability rate up to 24.2 percent – a new high point for this region. The service center sector had a different story to tell this quarter. Activity was up to 30,767 square feet allowing a second consecutive quarter of positive net absorption. This net absorption of 18,767 square feet shaved almost two percent off the availability rate now at 37.7 percent.



GA 400

Distribution	24,726,895	4.1%	4,339,634	17.6%	423,161	74
Service Center	3,496,278	13.5%	998,557	28.6%	45,769	16

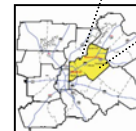
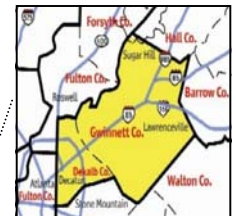
It's been more than two years since activity was this low in the GA 400 distribution sector. The 423,161 square feet inked, however, was enough to allow net absorption to post a positive 22,449 square feet. The availability rate landed at 17.6 percent. The only new construction reported during the third quarter of 2011 belongs to this region, thanks to an 8,558 square foot spec building. The reduction in activity to 45,769 square feet in the service center sector produced more devastating consequences. At less than half of that seen in the second quarter, this level of activity caused net absorption to drop to -32,333 square feet and pushed the availability rate up to 28.6 percent.



I-85 NORTHEAST

Distribution	158,142,944	26.1%	27,799,451	17.6%	2,802,435	198
Service Center	10,541,484	40.7%	2,981,525	28.3%	269,331	65

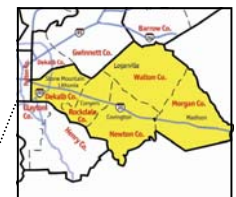
The blue ribbon for activity among the distribution sectors goes to the I-85 Northeast region. The 2,802,435 square feet this region achieved was more than a million past its closest rival. Although net absorption remained positive for a fifth consecutive quarter, the 245,268 square feet recorded was the lowest seen in those five quarters. The availability rate dropped to 17.6 percent. The service center sector laid claim to highest level of activity and highest net absorption among its peers. The 269,331 square feet in deals resulted in 102,701 square feet of net absorption. More than a percent was erased from the availability rate coming in at 28.3 percent.



I-20 EAST

Distribution	50,355,224	8.3%	10,822,760	21.5%	446,921	39
Service Center	956,383	3.7%	248,781	26.0%	15,000	3

The distribution sector in the I-20 East region lost the momentum it saw in the second quarter of 2011. Activity plummeted to 446,921 square feet and pushed net absorption back into negative territory. The -85,216 square feet of net absorption, fortunately, had little effect on the availability rate as it increased by only one-tenth of a percent to 21.5. The service center sector saw only a slight decrease in activity to 15,000 square feet. That was enough to post a second consecutive quarter of positive net absorption. This 13,000 square feet of net absorption dropped the availability rate to 26.0 percent.



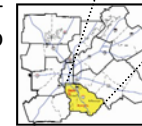
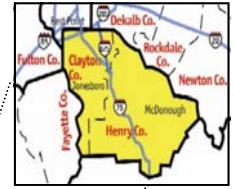
Total Inventory Market Share Total Available % Available Total Activity # of Deals

Market Maps

AIRPORT/I-75 SOUTH

Distribution	69,787,205	11.5%	17,240,181	24.7%	546,667	39
Service Center	1,053,092	4.1%	341,345	32.4%	40,207	9

For the fourth consecutive quarter, the distribution sector of the Airport/I-75 South region saw a reduction in activity. The 546,667 square feet of activity recorded in the third quarter; however, was enough to keep net absorption from dipping as low as that seen in the first two quarters of 2011. Posting at -342,510 square feet, this negative net absorption added a half percent to the availability rate, now at 24.7 percent. On the other hand, the service center sector moved in the right direction. An increase in activity to 40,207 square feet allowed an advance in net absorption to 10,408 square feet. The availability rate took full advantage of this upshot and fell to 32.4 percent.



I-85 SOUTHWEST

Distribution	20,696,209	3.4%	3,180,625	15.4%	623,241	19
Service Center	204,314	0.8%	71,350	34.9%	2,016	1

The 623,303 square feet of activity seen in the distribution sector of the I-85 Southwest region was the best seen in this region in three years. Even better, net absorption broke a five quarter negative streak and reached 231,303 square feet of positive net absorption. A full one and a half percent fell off the availability rate and closed the quarter at 15.4 percent – the lowest among the distribution sectors. The service center sector used every little bit of its activity. The 2,016 square feet of activity crossed directly over to net absorption. In this tiny region, even a tiny amount of positive net absorption has a big impact on availability. The 34.9 percent available is a full percent improvement over second quarter 2011.



I-20 WEST/FULTON INDUSTRIAL

Distribution	118,330,932	19.5%	27,194,677	23.0%	1,652,758	62
Service Center	1,985,561	7.7%	521,277	26.3%	44,856	7

Activity in the third quarter fell by more than a million square feet in the distribution sector of the I-20 West/Fulton Industrial region. Coming in at 1,652,758 square feet, the activity was out-paced by space given back to the market resulting in net absorption falling to -1,033,516, the lowest among the distribution sectors in the third quarter. The availability rate took the hit as well and rose to 23.0 percent. The service center sector, however, saw different results from its reduction in activity. Down to 44,856 square feet, the activity was enough to post positive net absorption for the first time in four quarters. The 1,371 square feet of net absorption pushed the availability rate down to 26.3 percent.



I-75 NORTH/PAULDING COUNTY

Distribution	37,053,072	6.1%	6,236,768	16.8%	803,617	75
Service Center	5,120,982	19.8%	1,154,264	22.5%	173,615	37

A small reduction in activity in the distribution sector of the I-75 North/Paulding County region did not hinder this region from outperforming its peers. The 803,617 square feet of activity lead to net absorption of 258,610 square feet and won top honors in net absorption for distribution sectors this quarter. The availability rate also benefited and closed the quarter at 16.8 percent. The service center sector can be proud of its performance as well. The increase in activity to 173,615 square feet, unfortunately, did not lead to an increase in net absorption, but 56,208 square feet of net absorption was still on the positive side of the line. The availability rate stepped down to 22.5 percent.



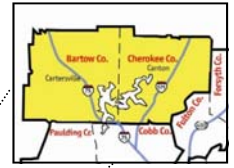
Total Inventory Market Share Total Available % Available Total Activity # of Deals

Market Maps

NORTHWEST

Distribution	25,980,579	4.3%	5,367,010	20.7%	231,552	28
Service Center	525,226	2.0%	190,731	36.3%	24,426	11

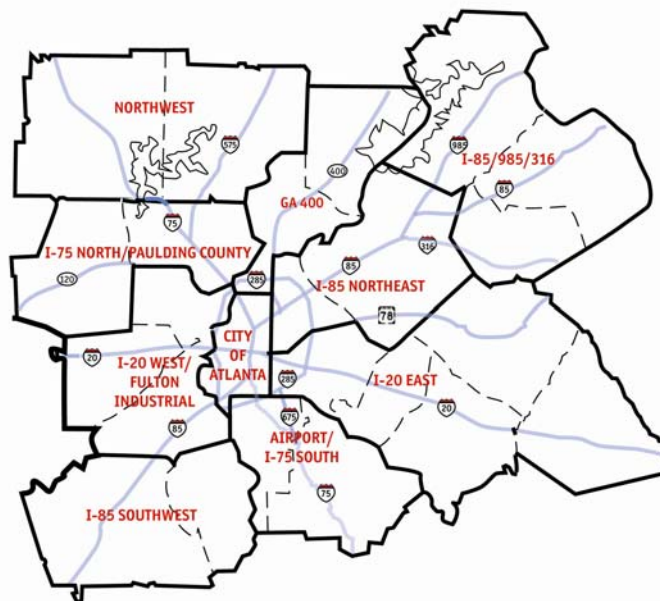
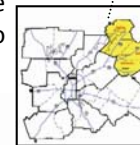
The distribution sector of the Northwest region put a fourth successful quarter on the books. Activity dipped to 231,552 square feet, but tenant stability allowed net absorption to remain positive at 13,571 square feet. A full percent fell off the availability rate which is now at 20.7 percent. The service center sector wasn't as lucky. A considerable increase in activity to 24,426 square feet was erased by tenant departures. Net absorption fell down to -8,154 square feet. The availability rate followed suit and rose to 36.3 percent.



I-85/316/985

Distribution	51,119,967	8.4%	10,198,625	20.0%	611,373	50
Service Center	1,034,492	4.0%	388,073	37.5%	41,015	14

Despite a drop in activity, the distribution sector of the I-85/985/316 region has no reason to complain. Activity of 611,373 square feet combined with tenant retention allowed net absorption to break free of four consecutive quarters in the red. Coming in at 120,387 square feet, this net absorption inched the availability rate down to 20.0 percent. It was a near miss in the service center sector. Activity tumbled to 41,015 square feet and was overtaken by tenant retreats. Net absorption fell back to negative numbers with -1,341 square feet. This small amount of negative net absorption had little effect on the availability rate which rose only two-tenths of a percent to 37.5 percent.



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