

MARKETBEAT

ATLANTA RETAIL REPORT

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

CUSHMAN & WAKEFIELD
Global Real Estate Solutions™

4Q07

ECONOMIC OVERVIEW

The U.S. economy slowed substantially in 2007 under pressure from the continuing decline in the housing sector, rising energy prices and the emergence of the credit crisis. Although GDP expanded at an annual rate of 4.9% in third quarter, most of that growth was driven by higher exports. Consumer spending, the bedrock driver of growth, grew at an annual rate of 2.1% in the second and third quarters, compared with 3.8% in the preceding six months. By year-end employment growth slowed to about 95,000 jobs per month, roughly half the rate of 2006.

Atlanta's economy continued to outperform the nation as a result of strong population growth and its strength as a logistics and distribution center. However, employment growth slowed slightly in 2007 as a result of moderation in the corporate sector, particularly among financial services firms. Spillover from a slowing housing market on the construction sector remained minimal, though, as multi-family building permit issuance remained substantial and increased 9.0% from 2006.

National economic growth is expected to remain sluggish through the first half of 2008 as the combined effects of higher energy prices and declining home prices weigh on consumers while credit market troubles make businesses more wary about expansion plans. Exports will remain a bright spot as the declining dollar is leading to higher demand for U.S. products abroad and more international travel to the U.S. The U.S. economy is expected to strengthen during the second half of the year as the full effects of the interest rate reductions of the Federal Reserve work their way into the general economy. Though Atlanta's economy faces short-term risks from this national economic slowdown, continued population growth, its relative affordability and broad economic base will maintain Atlanta's status as an above-average performer over the long term.

BEAT ON THE STREET

"Atlanta's retail market remains strong as the city matures and the urban core is revitalized. Despite a slowing U.S. economy and the housing slump, Atlanta continues to experience healthy employment and population growth. This growth has attracted tenants of national and international renown to the city and its major development projects such as Allen Plaza, the Midtown Mile and The Streets of Buckhead."

—Matt Winn, Managing Director, Retail Consulting

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ECONOMIC INDICATORS

NATIONAL	2008F	2007	2006
Real GDP Growth	2.2%	2.2%	2.9%
CPI Growth	2.5%	2.8%	3.2%
Consumer Spending Growth	1.5%	2.8%	3.1%
Retail Sales	3.1%	4.1%	6.1%
REGIONAL			
Household Income (median)	\$66,493	\$64,396	\$61,752
Population (ths.)	5,361.4	5,251.1	5,138.2
Unemployment	4.6%	4.3%	4.5%

Source: Moody's | Economy.com

KEY LEASING TRANSACTIONS

PROPERTY	TENANT	SQUARE FEET
Woodstock Place	Furniture Express	126,249
Wesley Chapel Crossing Shopping Center	Amazing Adventures	91,124
Henry Marketplace	Ashley Furniture	50,000
Horizon Village	Publix	47,955

KEY INVESTMENT TRANSACTIONS

PROPERTY	BUYER	SQUARE FEET
Inland Real Estate Portfolio	Developers Diversified JV TIAA	6,145,817
North Point Mall	General Growth Properties	1,370,000
Discover Mills	Simon Property Group	1,205,000
Perimeter Village	Weingarten Realty	387,755

RETAIL ASKING RENTS* – 2007

LOCATION	RENT SQ.FT/YR	% GROWTH (PA COMPOUND)		SHORT TERM TREND
		5-YEAR	1-YEAR	
CBD/Midtown/ Buckhead	\$24.55	13.8%	2.9%	Up
Cumberland/E. Cobb	\$18.48	12.5%	2.5%	Up
Forest Park/Clayton	\$13.08	15.0%	2.2%	Stable
Kennesaw/NW Cobb	\$17.97	21.5%	3.2%	Stable
Lithonia/Stone Mtn.	\$13.59	10.2%	3.1%	Up
NE/East Atlanta	\$18.90	20.7%	2.1%	Stable
Peachtree Corners/ Norcross	\$17.94	15.7%	3.0%	Stable
Sandy Springs/ N Fulton	\$19.96	7.0%	2.1%	Up
S. Atlanta/Airport	\$11.16	19.6%	3.9%	Stable
W Atlanta/Austell	\$15.02	16.2%	2.7%	Stable
Liiburn/I-78	\$15.44	12.9%	3.9%	Up
Peachtree/Fayette	\$20.59	22.8%	2.2%	Stable

*Community/Neighborhood Centers; Source: REIS

RETAIL MARKET OVERVIEW

Atlanta's retail market continued to report positive growth trends in 2007 as overall market fundamentals remained strong. Accelerated population growth and expected growth in retail sales drove healthy construction activity. Though new development resulted in increases in available retail space, vacancy rates were stable and rental rates continued to increase.

While ongoing residential development attracted mixed-use projects with large retail components to the suburbs, the urban core remained the focal point for in-fill adaptive reuse projects in 2007. As of third quarter 2007, 2.4 million square feet (msf) were under construction with an additional 2.4 msf planned in the construction pipeline. Atlanta has multiple redevelopment projects proposed and underway within the urban core as the residential population within the city continues to grow.

These projects include: Allen Plaza, a nine-block mixed-use development adjacent to the World of Coke and Centennial Olympic Park in Atlanta's CBD; Ben Carter's The Streets of Buckhead, which will transform the former bar and entertainment district in Buckhead Village into a mixture of high-end retail stores, residences, hotels and offices; and, the ongoing Midtown Mile redevelopment, which includes plans for more than 1.0 msf of retail space along fourteen contiguous blocks. The goal of these projects is to create destination shopping for expanding daytime and residential populations within Atlanta's urban core.

Continued development activity resulted in a 20 basis point increase in overall vacancy in 2007 to 8.2%. As landlords of existing buildings face increased competition from new development, rent growth is beginning to slow and concessions have increased in recent quarters. Asking rates are expected to increase 2.1% in 2007, down from a 2.4% expansion in 2006.

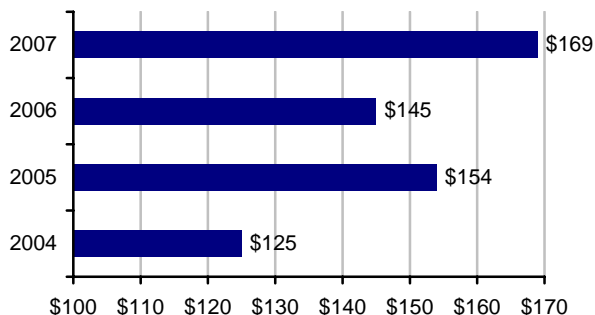
Retail investment activity remained at near-peak levels in 2007, fueled by above-average cap rates and favorable market conditions. Investment activity over the last twelve months was dominated by institutional acquisitions of REIT assets. The average investment sales price increased nearly \$15.00 per square foot (psf) over the last twelve months to \$169.0 psf.

OUTLOOK

With economic growth expected to slow in 2008, Atlanta's retail market is unlikely to match its performance in recent years. However, Atlanta's population growth and expected modest economic expansion will continue to drive demand for retail space in the coming year.

Developers are expected to maintain significant levels of construction activity in 2008 to keep pace with Atlanta's economic growth. Expectations are for demand to meet this new supply and maintain stable vacancy rates over the next twelve months. As vacancy again stabilizes, owners will attempt to achieve income growth through increases in rental rates.

INVESTMENT SALES PRICE (\$PSF)



Source: Real Capital Analytics

NOTABLE TRANSACTIONS



Left: New York steakhouse BLT Steak will open its first location in the Southeast at the W Atlanta Downtown Hotel and Residences at Allen Plaza in December 2008. Right: The Streets of Buckhead, Ben Carter's \$1.2 billion redevelopment project, secured leases from several notable restaurants and luxury retailers, including Hermès and Bottega Veneta.



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