

North Atlanta's New

# Real Estate Report

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NORTH ATLANTA'S

## Business POST

THE BUSINESS POST

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## Soft commercial real estate market different this time

The commercial real estate market is without a doubt soft and it is a tenants market right now. It's true; there are deals out there that include extremely discounted rent, substantial free rent, excess tenant improvement allowances, phone systems, furniture and so on. According to Keith Pierce of Dorey's Market analysis group, "the market right now is indeed in worse shape than in the last downturn, particularly in the office market." The Metro Atlanta Office Vacancy Rate is 18.8 percent and the North Fulton Office Sub-market (Roswell/Alpharetta) Vacancy Rate is 22.8 percent. The Metro Atlanta Industrial Vacancy Rate is 15.2 percent with the North Fulton Industrial Sub-market (N. Central/400 Corridor) Vacancy Rate is 15.6 percent. The Metro Retail Vacancy Rate: 9.9 percent with the North Fulton Sub-market Retail Vacancy Rate: 7.3 percent.

But before you rush out to call your brokers to instruct them to make new long term lease commitments so you can capital-

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ize on the market conditions, you need to understand some things. This time the commercial real estate market is soft for different reasons than the soft market of the late 80's and early 90's. This time it is driven by tenants' excess space not the landlords. In the late 80's the landlords over built and demand stopped, resulting in the high vacancy rates. This time the tenants are the ones are stuck with too much space due to corporate downsizing and causing the vacancy. While leasing activity for landlords is very

slow, many have refinanced and are ready to weather the storm at hand.

The best deals are subleases. Subleases are leases from the tenants (sublessors) who have the leases with the landlords. The sublessors are just trying to recoup some rent for the pace they are not using. A search on Dorey's First CLS located over 150 sublease properties in the GA-400 corridor. No one knows for sure, but it's likely that WorldCom will dump a lot of sublease space on the market soon some of the other larger subleases included Etrade's 200,000 square foot building at Windward Plaza, 200,000 square feet at Windward Concourse, 2 Nortel Networks spaces on Windward Parkway of 145,000 and 100,000 square feet each, Siebel Systems space at Northwinds with almost 70,000 square feet and Regus's couple of floors at NorthPoint Center East to name a few. There are countless spaces between 1000 and 5000 square feet and over 20 over 20,000 square feet.



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The highly discounted sublease deals are driving some landlords with large blocks of un-leased space to get in the game of highly discounting their space just to compete. But not all landlords are playing that game. The landlords that are not stuck with larger blocks of un-leased space are actually contemplating decisions that include just sitting on the vacant space until the market picks up.

"If tenants and tenant rep brokers believe that this is going to be another real estate debacle like the 80's and early 90's they will find that the bargains are not necessarily across the board, but in specific buildings. Much more equity was required this time around and interest rates are very low. Partially leased buildings in this cycle in many cases are able to cash flow therefore covering

debt service. In most cases the owner doesn't have to sell" said Chuck Moody, director National Business Development for Opus South Corporation.

Glenn Aspinwall, Vice President of Colonial Properties Trust, the developers of Mansell Overlook said "Even though the market reporters are showing flat absorption for 2002, new deals are being done across the sub-market. I believe a smaller fall-out will continue in 2003 with the continued new requirements taking the lead for moderate positive absorption. As example, we have had 5 recent client expansions with 3 others in the works. We need a couple quarters of positive absorption to take the pressure of the effective reduction of rental rates."

Make no mistake the market is soft. Until job growth returns there will be great deals to be had from the abundance of subleases in the market. This time it different in that the landlords that own the buildings that are leased but vacant are still getting paid... vacant or not!