

## Griffin Realty Advisors Real Estate Update

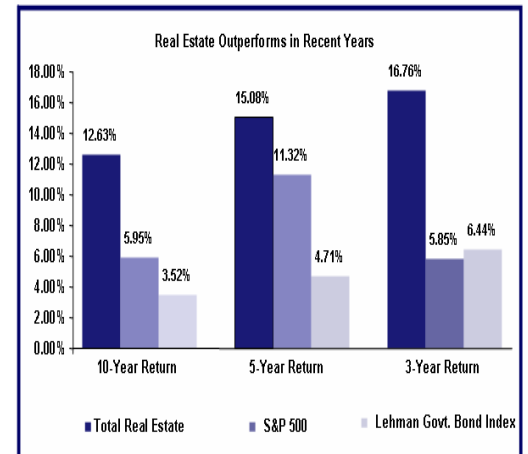


For real estate investors, 2008 has brought about a period of adjustment on various fronts. The credit crisis is having a profound impact on the capital markets. Not only has the amount of available credit been limited, the lending requirements have become far more stringent placing significant restrictions on investors versatility and ability to acquire assets. This has resulted in the re-pricing of real estate assets and, with relatively low levels of new transaction volume, it is very difficult to determine where pricing will settle. To date, cap rates have increased 75-100 basis points and most analysts are projecting an additional 25-50 basis point increase. According to RREEF Research, pricing is expected to bottom out within the next 18 months. While core real estate assets may become more attractive because of risk concerns, **value add assets will continue to be promising for investors with substantial equity due to this sector experiencing more dramatic pricing adjustments brought about by the increased difficulty in obtaining leverage.**

The good news is that, unlike the residential real estate market where a fundamental imbalance of supply and demand has led to the decline of home values, the relatively healthy state of the commercial real estate market is expected to limit the negative impact of the pricing correction. In fact, the real estate market is expected to perform throughout this period of slow or no economic growth.

According to Torto Wheaton, vacancy rates across all major property types are expected to move upward over the next few years with the peak vacancy level expected in 2009. Moreover, there is strong momentum for market rents to continue growing throughout 2008 and 2009, albeit at slower pace.

It is also important to keep in mind that alternatives to commercial real estate such as mortgage backed securities, debt investments and stocks remain volatile. Furthermore, total returns in the U.S. real estate market have far surpassed the stock and bond markets over the recent years.



But not all real estate is equal. The outlook varies among the 4 main real estate sectors. From a value-add perspective, most analysts agree that the apartment sector is leading the pack in strength and growth potential. The office sector follows and retail lags behind. The industrial sector is a strong and viable sector but is usually better suited to meet investor's core asset requirements.

### Griffin Realty Advisors

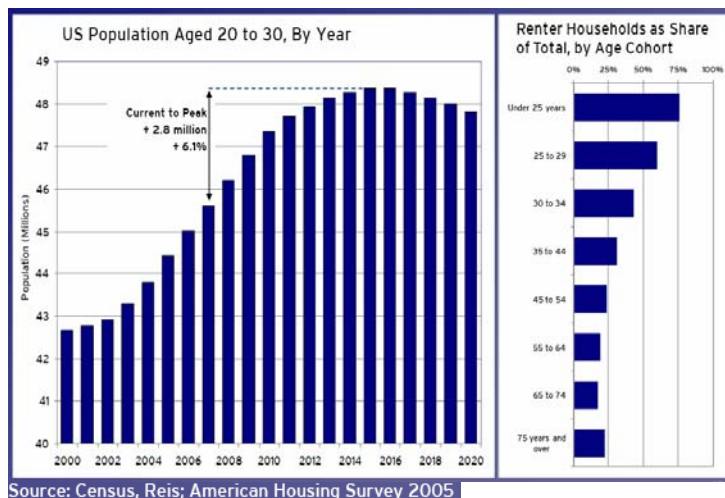
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## Sector Analysis



**Multi-Family:** In many markets, the multi-family sector is likely to benefit from current market conditions. As foreclosure rates increase and mortgage underwriting tightens, fewer households will have access to homeownership going forward. Demographic shifts are also favoring the apartment sector. Over the next 10 years, 70 million echo boomers (*individuals born between 1980 & 2001*) will be exiting college and join the renter pool. In the past year, the number of renter households increased by 1.1 million and is expected to grow by 3 million over the next few years.



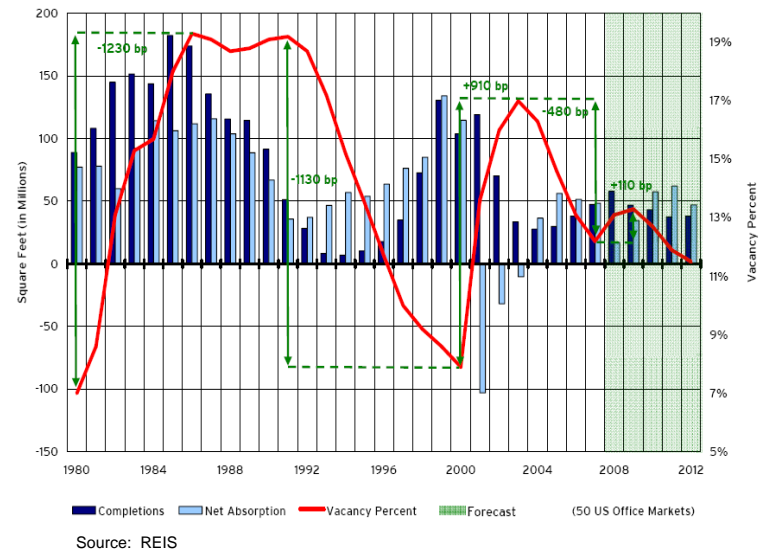
Depending on the market, this upside may be partially or completely offset by increased competition from shadow rents resulting from the overbuilt housing and failed condo conversion markets. Vacancy rates are hovering around 5.8% and are expected to remain fairly constant over the next 12-18 months. Rental rate growth should continue although at a slower rate of 4% (*down slightly from 4.5% in 2007*). Keep in mind that effective rents may see a little more deterioration if owners are required to increase concessions in order to compete with shadow rents.

**Office:** The office market has experienced robust rental rate growth and low vacancy rates over the past few years but activity began slowing in 2007, a trend which is expected to persist over the next 12-24 months. **Effective rents are expected to grow 3%-4% in 2008, a velocity that should continue to meet or outpace inflation.**

Overall vacancy was 12.6% at the end of 2007 and has increased slightly in the first quarter of 2008 as demand has quickly downshifted in the face of the economic slump, job losses and the credit crunch.

Also, for the first time in 5 years, demand is expected to fall below new supply. While some believe vacancy rates could increase by as much as 150 basis points others are projecting (*as demonstrated in the graph below*) the increase will be far less. But most concur that the increase in vacancy rates will peak in 2009.

Office Supply and Demand Trends: 1980-2012



**Retail:** The slowdown of economic growth and the downturn of the housing market are weighing heavily on retailers resulting in store closures and a slowdown of expansion plans.

Retail completions have outpaced net absorption in recent months but the good news is retail development has slowed due to the decline in demand and approximately two-thirds of the space scheduled for completion in the near term is pre-leased. This is softening the impact that the closures and expansion slow downs will have on vacancy rates. Overall vacancy increased 90 basis points to 9.7% in 2007 and is expected to rise to approximately 10.2% in 2008.

Effective rents are expected to increase 2% in 2008. This increase is 23% below previously anticipated asking rents because rent concessions are now expected to increase significantly.

**Industrial:** The pullback in both consumer and business spending, coupled with the ongoing housing market slump is having an impact on the industrial sector. In the first quarter of 2008, vacancy rates increased slightly but growing demand for exports and the declining dollar value are helping this sector hold its ground and keep vacancy rates under 10% and effective rents increasing between 2%-3% in 2008.

# Griffin Realty Advisors Real Estate Update

## Property News



The buying opportunities being generated in commercial real estate are currently due to the distressed capital markets which is very different from the distressed real estate markets experienced in the early 1990's. Opportunities are two-fold. First, as debt matures many owners will be unable to refinance in today's troubled credit environment, requiring owners to sell assets at a discount. Second, the inability to obtain new debt or debt refinancing will compel owners to bring in new equity partners or structure mezzanine debt. This re-pricing of capital has improved yields and reduced risk for current investors. **Griffin Realty Advisors has already taken advantage of current market re-pricing by partnering in two deals that had capital structure issues.**



In November of 2007, Griffin Realty Advisors partnered with Lane Company in the acquisition of a 384 unit apartment complex in Marietta, Georgia. Not only are the general fundamentals strong for the apartment sector but River Heights is the only rental community located in an area that historically has not allowed the development of multi-family units. It is also located in one of the best school districts in the state of Georgia.

Griffin's strategy is to spend approximately \$8 million renovating the property over a 24-month period and increase rental rates and occupancy as a result. The interior of the units are being updated to include new appliances, cabinets, carpeting, molding and painting. The

exterior siding, roofing, stairways, parking lots, driveways and pool area are also being updated. Finally, the clubhouse and leasing center will also get a face lift. These improvements will enhance the quality of the project and provide the opportunity to increase average rents from .92 cents/SF to \$1.15/SF.

Currently, the project is on time and on budget. The exterior roof replacement and repairs have been completed and paving, siding, stairway, pool and landscape updates are well underway. Interior renovations are ongoing with sixty (60) units taken down thirty-five (35) of which have been completed. To date, nineteen (19) units have been leased and overall proforma leasing rates are being achieved.



In December of 2007, Griffin Realty Advisors partnered with Carter Associates to complete the development of an eight (8) story, 257,000 SF medical office building in the Buckhead community of Atlanta, GA. The project is a \$73,000,000 2 phase development with the first phase scheduled for completion in September of 2008. Griffin is currently only involved in phase I but has preferential options to participate in phase II.

A major factor in Griffin Realty Advisors' decision to participate in the development of Piedmont West was the fact that the medical office market has several recession proof traits and growth opportunities. Medical office buildings are better positioned to weather soft economic conditions due to the recession-resistant, non-cyclical nature of the demand for healthcare services. Couple this with the fact that the 65 and

over age group is expected to grow by 36% between 2010 and 2020 and the number of physician office visits are increasing, it is reasonable to assume demand for outpatient medical office space will remain strong. In addition, the amount of space in the construction pipeline has declined for three consecutive quarters, suggesting that the average vacancy rate of 10.4% (*below the overall office market vacancy rate of 12.6%*) will continue to move downward. Medical office buildings also have several advantages over traditional office buildings including higher occupancy (*89.6% at the end of 2007*), longer lease terms (*usually 10 years vs. 5 years*) and lower lease turnover.

The specific market conditions surrounding Piedmont West also make it a compelling project. Piedmont Hospital, a prominent medical facility in the Atlanta area has reached maximum capacity on its current campus and is in grave need of expansion options. Piedmont West is located less than 2 miles from the hospital campus and will provide overflow capacity. At the onset of the partnership, 90,000 SF (*35% of the building*) was pre-leased to Piedmont Healthcare Systems for a term of 15 years. As part of the lease agreement, the tenant has committed to invest an additional \$20 million in tenant improvements.

To date, the project continues to be on time and on budget. On the leasing front, Piedmont Healthcare Systems has agreed to take down an additional 6.4% or 16,819 SF of space. In addition there are 3 leases comprising 15,200 SF with executed LOIs and in the negotiation phase. Finally, there are additional prospects totaling over 100,000 SF being evaluated at this time.