

In Atlanta, Office Spotlight Shifts to Midtown

Atlanta's Midtown district, overshadowed for years by the prestigious Buckhead neighborhood, is emerging as the city's hottest office submarket.

Historically a bastion for staid law firms and financial companies, Midtown is transforming into a hip technology hub, anchored by **Georgia Institute of Technology**, while robust residential development is attracting millennials seeking a "live-work-play" environment.

The resulting surge in occupancy rates and rents is spurring investor interest and driving up valuations to rival those in Buckhead, long the city's gold standard.

Similar urban revitalization has breathed new life into downtown districts around the nation — but the changes in Atlanta have been particularly striking. The city has long had a suburban, car-centric culture, with streets that clear out when the workday is done.

"Atlanta has had a lot of suburban sprawl in the past," said **Craig Van Pelt**, a director of research at **JLL**. "But now, employers are looking for talent and the younger talent wants to be in Midtown. There is a drive toward walkability, and Midtown offers that experience. It is something that has been absent in Atlanta. It feels like a sea change."

He added: "If you are going to look at where the center of gravity is, that has shifted south toward Midtown."

Two recent Midtown deals have seen per-foot prices crack the city's all-time top 10. This month, bids for the 503,000-square-foot **Regions Plaza** came in around \$348/sf, or \$175 million. That would provide an initial annual yield of 5.5% for the 24-story Class-A building, where **Regions Bank** occupies 23% of the space. The owner, a partnership between **Siguler Guff** of New York and **Crocker Partners** of Boca Raton, Fla., listed the property with **Eastdil Secured** in April, after striking a lease deal with software firm **SalesLoft**, which is moving its headquarters from Buckhead.

Also this month, **Lionstone Investment** of Houston paid Los Angeles-based **CBRE Global Investors** \$336/sf, or \$182 million, for BB&T Tower, a 542,000-sf Class-A building in Midtown's Atlantic Station neighborhood. The capitalization rate was in the vicinity of 6%.

Last year's top Atlanta-area deal on a per-foot basis was also in



Midtown: **Union Investment** of Germany, advised by **Metzler Real Estate** of Seattle, acquired the 421,000-sf building at 10 10th Street for \$150.5 million, or \$357/sf. Eastdil brokered both trades.

Will Yowell, a **CBRE** vice chairman, said he expects per-foot prices in Midtown, along with Buckhead, to "blow through the \$400 level very quickly" and perhaps even approach an unprecedented \$500 before this cycle is done. That's due to rising rents: Yowell said newer buildings are commanding record rents, in the high-\$40/sf range.

Midtown's Class-A average asking rent has surged by 20% since early 2015, according to JLL, and now stands at \$32.42/sf. It's closing the gap with top-ranked Buckhead's \$34.43/sf. Meanwhile,

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average occupancy for Midtown's 13.9 million sf of Class-A space has skyrocketed 12.5 percentage points since its cyclical low in 2010, reaching 88.9% at the end of the first quarter. It now edges out the 87.9% average for Buckhead's 14.5 million sf of Class-A space.

"Buckhead is still very strong," said Yowell. "But it has more-established firms — financial services, real estate, insurance brokerage, etc. — whereas Midtown is attracting the millennial-focused employers right now. And the investors will follow where the tenants want to go."

Some 70% of Atlanta's tech jobs are now in Midtown, according to Eastdil. Georgia Tech, which already serves as a magnet for technology companies, will be the anchor tenant in Coda, a \$375 million mixed-use complex that Atlanta-based **Portman Holdings** plans to complete in 2019. The 750,000-sf property is designed for collaboration between the university and private firms.

Companies such as **Equifax**, **Honeywell** and **NCR** have announced expansions in Midtown that will create 3,300 jobs by 2020, according to **Green Street Advisors**. The research firm ranks both Midtown and Buckhead among the top 17% of submarkets nationally for potential rent growth.

Greater Atlanta's population of 5.8 million is growing rapidly — JLL forecasts it will reach 8 million by 2040. Millennials in particular are attracted by a cost of living that gives them much more spending power than in cities such as San Francisco and New York. And many of them are moving into Midtown: Some 2,500 apartment units have been added in the submarket since 2010, and another 3,000 are under construction.

Jonathan Kalikow, president of New York-based **Gamma Real Estate**, said Atlanta's growth will allow both Midtown and Buckhead to thrive in the investment-sales arena.

"Buckhead is a very stable market with high-quality tenants," he said. "You know what you are getting. You are paying for rents and prices to increase over time. Even if you are paying a tight cap rate, you are in Buckhead." He added: "In Midtown, you are paying for this growth and excitement that has never been there before."

Gamma made an early bet on Midtown's transformation. In 2015, it paid \$10 million for a row of buildings with 100,000 sf

of office space and 15 apartments, across from Emory University Hospital Midtown. The office space was 22% leased at the time. Gamma is conducting a \$5 million renovation and has already lifted occupancy to 70%.

One of the catalysts for Midtown's transformation was a play by **Jamestown Properties** of Atlanta. In 2011, it paid the **City of Atlanta** \$27 million for an old Sears distribution center. Using its success with Chelsea Market in New York as a model, the firm transformed the 2.1 million-sf brick structure into a mix of offices, shops, restaurants and residences. Office rents are approaching \$50/sf, according to market pros — the highest in the city's history.

Others major investors have made big bets on the submarket.

Last year, San Francisco-based **Shorenstein Properties** bought the 1.3 million-sf Bank of America Plaza from special servicer **CWC Capital** for \$220 million, or just \$171/sf. The property was only 45% leased at the time. Shorenstein is pumping \$10 million to \$15 million into a renovation it plans to complete early next year. It has already signed new or renewed leases for 400,000 sf, lifting occupancy by roughly 10%.

The 55-story tower, the tallest in the Southeast U.S., was once the quintessential Midtown property. It featured an imposing but underutilized lobby, heavy with brass finishes, and was dominated by law firms and its namesake tenant, **Bank of America**. A **BentleyForbes** partnership paid a then-record \$420.8 million, or \$327/sf, for the building in 2006. Then the downturn hit. BofA dramatically reduced its space and a major law firm moved out. BentleyForbes lost the property to foreclosure in 2014.

Shorenstein's plan is to diversify the rent roll by attracting more technology and other "creative" tenants. It's remaking the lobby into a place where tenants can congregate for meetings and grab a cup of coffee or something to eat. A lower floor has been turned into "tech lofts," with units as small as 4,000 sf.

Matthew Knisely, a managing director at Shorenstein, said the firm hopes to "create an ecosystem that is attractive to all types of tenants." He said the property is poised to capitalize on the neighborhood's rising rents and valuations driven by companies seeking an "in-town experience" for their workers. "We love the location of this building and believe it is truly in the path of progress," he said. ♦