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SATISFYING A GROWING APPETITE

Restaurants, other food-related concepts are taking off in Atlanta as consumer spending habits evolve.

By John Nelson

North American Properties is planning to add another food hall to Atlanta's retail landscape at Colony Square, a large-scale adaptive reuse development at 14th and Peachtree streets in Midtown Atlanta.

The dining venue will be dubbed Main & Main and include 12 to 15 eateries, in addition to separate vendors and an outdoor beer garden. The first phase of development for the 28,000-square-foot food hall will come on line in 2018.

Main & Main joins Ponce City Market and Krog Street Market as dining-heavy developments that serve as gathering places for their intown neighborhoods — Old Fourth Ward

for Ponce City and Inman Park for Krog Street. Bar Mercado, a Spanish tapas concept, opened its doors in mid-September at Krog Street, a week after Paces Properties put the food hall up for sale.

The pending trade will be a tangible snapshot of how investors view food halls in 2017. For now, it's evident that developers like Paces and North American are bullish on the sector's eclectic nature, as they exemplify how consumers are now deciding to spend their money.

In 2016, consumer spending on dining eclipsed consumer spending for groceries for the first time ever,

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A 28,000-square-foot food hall will open at Colony Square in Midtown Atlanta in 2018. Known as Main & Main, the project will feature 12 to 15 restaurant vendors.

OFFICE SECTOR EMBRACES CHANGE

Brokers say tenants are consolidating, seeking collaborative spaces across the Southeast.

By Camren Skelton

Although development activity varies across most major metros of the Southeast, overall the region's office sector is approaching the fourth quarter on a positive note, a fact underscored by the continued uptick of employment in professional and business services.

According to the Bureau of Labor Statistics, employment in these office-using sectors continued to trend upward in August, adding 40,000 new jobs and representing roughly one-quarter of the 156,000 jobs added over the month.

Rental rates are at all-time highs and absorption is positive in most markets, with many tenants attracted to properties that offer collaborative environments and open spaces. As tenants consolidate office space, brokers are faced with the challenge of finding buildings that can accommodate the higher parking requirement for their clients. Because of this, walkability and convenient access to public transportation are topping tenants' wish lists.

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LANDLORDS ARE CALLING THE SHOTS

Industrial brokers are navigating landlord-favorable conditions, such as rent hikes and lease renewals.

By John Nelson

As the industrial real estate sector continues on its upward trajectory, brokers are educating their clients on the shifting nature of the asset class. Long-time tenants approaching the end of their lease terms are experiencing sticker shock as asking rental rates have accelerated in recent years.

National rental rates have grown 7.3 percent year-over-year as of the second quarter, according to CoStar Group. In Atlanta, rent growth has skyrocketed after several years of consistent absorption and new construction.

"Atlanta's Fulton Industrial submarket has nearly 100 million square feet of inventory, and from 1986 to 2000 all the rental rates started with a 1," says Dave Watson, senior managing director of Newmark Grubb Knight Frank's (NGKF) Atlanta office. "From 2000 to 2016, most of the rental rates started with a 2. Now in the last 18 months, a lot of rates start with a 3."

The uptick in rental rates is nationwide, as 39 of the top 41 industrial

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LANDLORDS ARE CALLING THE SHOTS

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markets are experiencing quarter-over-quarter rent growth, according to Avison Young. Landlords are able to push rents thanks to a historically great run of absorption, which Marcus & Millichap forecasts will compress the national vacancy rate to 5.3 percent.

Brokers are finding that their industrial tenants are reevaluating their real estate model as a result of the changing real estate dynamics.

"Current landlords bought their buildings because they expect to be able to push rates, so the tenant needs to be aware that they will do so with or without them as tenants," says Rick Spiller, partner at Wilson Hull & Neal, an industrial real estate brokerage firm in Atlanta. Spiller currently serves as the president of the Georgia chapter of the Society of Industrial and Office Realtors (SIOR).

Brokers on both sides of the table during lease negotiations are also noticing that because of the high volume of trades in the industrial sector in recent years, the relationship between landlords and tenants isn't as deep.

With the increase in negotiating leverage and a lack of shared history, landlords are offering fewer concessions and tenant improvement allowances in their lease transactions. Hi Lewis, senior vice president of The Chas. Hawkins Co. Inc./CORFAC International, says that he's seeing that scenario play out in his home market of Middle Tennessee.

"Middle Tennessee's industrial market is absolutely a landlord's market — landlords are able to push rents and TI allowances are minimal," says Lewis. "Landlords are able to hold their ground during negotiations due to the high demand for space."

New Orleans is also favorable for landlords due to the limited amount of construction in recent years. The cloistered market doesn't have one industry that is significantly outperforming the others, so landlord-favorable conditions are expected to persist in the coming years.

"The market is tight," says Randall Walker, principal broker of The Industrial Group LLC and former international president of SIOR. "There's not a lot available in any single category, and the available space usually has some issues, whether it's too expensive or functionally obsolete."

Savvy industrial landlords are seeing opportunities to backfill their spaces with either tenants within the development that are looking to expand or with outside users. For existing tenants, this can pose a problem if they didn't initially negotiate renewal options into their lease deal.

"If you don't have a renewal option built into the lease, you're in jeopardy because landlords are looking to ap-



Dave Watson,
Senior Managing
Director,
Newmark Grubb Knight
Frank



Randall Walker,
Principal Broker,
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Rick Spiller,
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Senior Vice President,
The Chas. Hawkins Co./
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Sky Groden,
Executive Vice President
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JLL

pease their anchor tenants that may or may not want into expand into your space when the lease expires," says Spiller. "A few years back, tenants didn't see the point of these renewal options since they were for market rental rates as opposed to fixed rates, but now they're seeing the point."

Top Performer

E-commerce remains the most active segment of the industrial real estate sector in terms of leasing velocity, and it shows no sign of slowing down as online retail sales grew by 16.2 percent from second-quarter 2016 to second-quarter 2017, according to the U.S. Department of Commerce. While still less than 10 percent of total retail sales, e-commerce is closing in as the overall retail sales only grew by 4.2 percent year-over-year.

Retailers are looking to situate within both smaller infill locations for their last-mile facilities and in big box distribution centers located in outer submarkets with great interstate connectivity.

"These e-commerce users are trying to keep pace with Amazon's two-day delivery method by placing product close to large population bases," says Lisa Pittman, director of Cushman & Wakefield's Atlanta office and leader of the firm's Logistics & Industrial Services Group.

What's coming on line now in the region is basically a who's who of top online and bricks-and-mortar retailers. In metro Atlanta alone, recent deals include Wayfair, Amazon, Uline, Tory Burch and Williams-Sonoma Inc.

"NGKF just did 1 million square feet with ASOS, an e-commerce company out of Europe that has no bricks and mortar stores. It does all its business online, and it's doing so much business in the United States that it needs a distribution center here," says Watson. "ASOS looked at South Carolina, Georgia and Pennsylvania and they chose Atlanta."

In other markets, the development activity is centered more around manufacturing than distribution. Samsung is constructing a \$380 million home appliance manufacturing plant in Newberry, South Carolina; Liberty Property Trust is developing a 154,400-square-foot facility for STIHL Southeast in Orlando; and LG Electronics is developing a 1 million-square-foot, \$250 million plant in Clarksville, Tennessee, for the production of its line of washing machines.

Clarksville is also the site of Hankook's \$800 million, 1.5 million-square-foot tire manufacturing plant, one of several automotive developments underway in the region.

"The Southeast has become the new auto hub for manufacturers, which provides for relocation opportunities," says Lewis. "In Middle Tennessee we've seen a lot business from up north in Ohio, Michigan and New York that find the Southeast attractive."

(For more about the automotive industry's impact on commercial real estate around the Southeast, see "Southeast Auto Industry Booms" on page 36.)

Industrial brokers around the Southeast are noting the larger footprints in the development pipeline.

"Overall we're seeing larger industrial requirements in the greater South Florida marketplace from a square footage standpoint than we ever have historically," says Sky Groden, executive vice president and national director of JLL's Miami office.

Challenges Facing Brokers

Labor is a key issue facing the industrial real estate sector going forward. Landlords are seeing employment in industrial-using sectors such as manufacturing and warehousing increase (36,000 of the 156,000 jobs added in August were in manufacturing, according to the Bureau of Labor Statistics), but not at nearly the clip needed for all the big box distribution

and manufacturing facilities in the pipeline.

Cushman & Wakefield's Pittman says that her tenant clients are performing labor analysis as part of their site selection process in order to access the desired employee profile. Pittman says that landlords are also proactive in their approach.

"On the owner's side, they're trying to get out ahead of it by doing a competitive location analysis that shows their warehouse's location as more favorable to their [competition]," says Pittman.

Amazon hosted a massive job fair in August, giving job offers on the spot in hopes to fill 50,000 positions for their fulfillment centers nationwide. Its Braselton neighbor Uline is also taking an interesting approach to attract talent.

"Uline has a billboard along I-85 about a mile west of the plant," says Spiller. "Companies that 10 years ago had to turn people away from applying to work are now renting out billboards to advertise the jobs they're looking to fill."

As most all industrial markets in the Southeast are tightening, brokers are finding it harder and harder to locate sites for their developer clients or available space to lease for their tenant clients.

"If you're representing the user, it's hard to find something and when you do there's minimal selection," says Walker, talking about New Orleans. "Often you can't find exactly what they're seeking so they have to compromise."

JLL's Groden says his tenant clients keep things in perspective, as the real estate decisions ultimately are only a cog in the machine of their business model.

"At the end of the day, what our clients spend on real estate is only a fraction of their freight, labor and inventory costs," says Groden. "Those tend to be a much higher concern." ■

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