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 online in 2018.

Main & Main joins Ponce City Market and Krog Street Market as dining-heavy developments that serve as gathering places for their Uptown 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 subsector’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.

Office Sector Embraces Change
Brokers say tenants are consolidating, seeking collaborative spaces across the Southeast.
By Cameren Skelton

Although development activity varies across most major markets 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.

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-term 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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according to the U.S. Department of Agriculture. Fain Hicks, senior director of Cushman & Wakefield’s Atlanta office, says that the preference toward dining out is witnessed not just in the increasing popularity of food halls. Typical shopping center developers are also getting in on the action.

“We see a larger food component for newly delivered centers, and that’s in line with consumer spending on dining out, which has increased every year for the last five years,” says Hicks. This shift has occurred at a time in Atlanta where job growth has outpaced the national average since 2012, according to CoStar. Reid Mason, director of Franklin Street’s Atlanta office, is currently leasing a new development in the Atlanta area on behalf of the landlord. Mason says that quick-service restaurant (QSR) concepts are making up roughly 80 percent of interest in the project, and that some of his other developer clients are targeting chef-driven concepts, which is an about-face from leasing strategies in years past.

“In the past landlords would’ve been hesitant because they don’t have the credit that a national QSR does, but over the past two years, chef-driven restaurants have become the anchors of these retail developments,” says Mason.

“Developers are trading credit for cool,” explains Monetha Cobb, managing director of Franklin Street’s Atlanta office. “Historically, owners wanted a restaurant tenant that they knew were good operators and were going to be in their development for the long haul with less concern being placed on local trends, but we’re seeing changes on that front.”

Avalon, North American Properties’ massive mixed-use destination in the northern suburb of Alpharetta, is showcasing this shift with a slate of restaurants that opened in mid-April in the development’s second phase. The neighborhood includes Kitchen and Craft Bar, District III, Jeni’s Splendid Ice Creams, Rummi’s Kitchen, Mf Sushi and Brine Seafood Shack.

Early next year, Ema Group Restaurants will open South City Kitchen Avalon in a street-level space at The Hotel at Avalon, Autograph Collection. Starbucks Coffee is also slated to open in January within the hotel.

In early April, Faqua Development and the Atlanta Braves opened Phase I of The Battery Atlanta, a mixed-use village connected to the Braves’ new ballpark in Cobb County, SunTrust Park. The Battery is dominated by bar and restaurant concepts, including the first-ever Terrapin Taproom and Fox Brothers BBQ, Wahlburgers, Antico Pizza, Haley-Jau, Cruz Wine Bar, Todd English Tavern and Yardhouse. Coming soon are eateries such as The El Felix, C. Elliot’s, Sweet Pete’s and Goldberg’s Bagel & Deli.

Nick Garzia, director of leasing for the Southeast at Hines, is the leasing director of Atlantic Station, Midtown’s city within a city that features offices towers, a Target, Public, movie theater, shopping, dining and an events lawn. Garzia says that Hines is cognizant of the importance of trying to strike a good balance between retail and dining.

“Collectively food has become the de facto anchor for shopping destinations nationwide,” says Garzia. “We have two new restaurants opening: the first Salata unit in metro Atlanta and Gyu-Kaku, an Asian barbecue chain out of San Diego.”

Food concepts aren’t just targeting the massive projects like Avalon and Atlantic Station. Cobb, who currently serves as the president of the Atlanta chapter of Commercial Real Estate Women (CREW Atlanta), says that more than 80 percent of all retail lease transactions finalized are restaurants, especially in Atlanta’s core submarkets.

“Franklin Street represents multiple concepts, and the competition is in-sane across all levels — full-service, QSR and fast casual — there’s just so much activity,” says Cobb.

Starbucks Coffee is opening a new

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shop just inside the perimeter in Sunny Springs along New Northside Drive and Aker Mill Road, and Spiller Park Coffee just opened a new location at Toco Hill, a shopping center in Atlanta’s Druid Hills neighborhood. Herbert Amos, Southeast vice president of EDENS, which owns Toco Hill, says that the new shop is already driving traffic to the center.

“Spiller Park opened up at Toco Hill, and now people are coming to the center to get coffee who never would’ve visited,” says Amos. “Now they have a reason to come there. North DeKalb County didn’t have a place like this before, and there’s more coming that will reinforce that dynamic.”

In West Midtown, chef Anne Quatrano, a James Beard award winner, opened the new locations for Bacchanalia and Star Provisions this past spring. Quatrano operated the restaurant and market for years in the nearby Westside Provisions District.

Beyond restaurants and eateries, Atlanta has a strong reputation for its craft brewery scene. One of its biggest brewers, Monday Night Brewing, opened a second location along the Atlanta BeltLine’s Westside Trail extension in late September. Brewer Steve Cofield is also opening a brewpub off the BeltLine’s Eastside Trail, and up-and-coming Ponchon will also open a new location in Sandy Springs in the near future.

Thanks to new legislation, breweries and distilleries in Georgia can now sell directly to consumers as of Sept. 1, so the consumer dollars will be tracked as retail sales, even though most of these companies technically operate out of light industrial spaces.

“Light industrial appeals to brewers, Sweetwater kicked off that trend in Atlanta,” says Jason Eden, managing broker of development at Crosstown Realty.

South of town, Baker & Lasutter has a new slate of national chain restaurants opening at South Point in McDonough. Jim Baker, president of the Atlanta-based development firm, says that restaurants do particularly well in the center.

“Taco Mac opened about four months ago at South Point and it’s the No. 1 location in Taco Mac’s entire portfolio,” says Baker. “Freddy’s Frozen Custard & Steakburgers opened at South Point and it also is the chain’s No. 1 location. Everything that opens in our development does so well because there’s so little competition around; our draw in some cases is 15 to 20 miles. Not many center-city-in-town can say the same thing.”

South Point will soon add a new Jim ‘N Nick’s barbecue restaurant and Buffalo Wild Wings.

Grocers Footing the Bill

Although consumers are starting to spend more of their discretionary income on restaurants, grocers are still aggressively seeking sites and signing on as anchors of new projects across the metro Atlanta area. EDENS views the grocery sector as vital to its continued success.

“For EDENS, grocery is still active. It’s really our bread and butter, and has been for our whole history,” says Amos. “Over 90 percent of our portfolio is grocery-anchored.”

EDENS recently delivered Moorees Mill Shopping Center, a Publix-anchored project in Atlanta’s West Midtown district. Ames says the developer was attracted to the density in that corridor, which will soon include Selig Enterprises’ Works at Chattahoochee. The $1 billion development will be a 10-year project that will include a variety of uses, including 50,000 square feet of retail space.
The neighborhood has been supporting the Moores Mill center, and Publix has been very pleased with the store,” says Ames. “In the four months it has been open, there has been so much activity generated in that West Midtown corridor as a result of the project getting to where it is today. There have been new residential units in the development pipeline over here, as well as additional retail.

The discount grocery store is actively seeking sites in the market, led by German chains Aldi and Lidl. Both are seeking to own corner sites for their small-format stores. Aldi has had a presence in Atlanta for decades, while Lidl is now tying up sites throughout the metro area.

“Aldi has been flying under the radar, while Lidl’s been overtaking it,” says Bill Brown, president of Halpern Enterprises, an Atlanta-based developer. “Lidl is coming to town, they’ve selected 20 sites in metro Atlanta that are in varying stages of predevelopment.”

Lidl is under contract to buy a site from Halpern Enterprises. The grocer has made it through the zoning phases and it’s under contract to close in the spring of 2018. Lidl announced over the summer its plan to open a $100 million regional headquarters and distribution center in Cartersville to support its expansion in Atlanta.

“Lidl has been making noise, Aldi has been methodically expanding for years,” says Brown.

Aldi has shown nimbleness in its expansion in the metro area. While preparing to own sites for its standalone stores, the grocer is also backfilling vacant inline space left behind by big box retailers. Aldi is backfilling Sports Authority’s vacant space in Buckhead and Kennesaw and then subleasing a portion of it out.

“That’s a sign of an aggressively expanding retailer,” says Franklin Street’s Colh. “Very few retailers want to be a landlord, so that’s an indicator...
of how little box inventory there is for
grocery in certain markets.”

Some grocers are investing in re-
developing their existing locations as op-
poised to new stores. Two of Kroger’s
mainstay locations — off Ponce de
Leon Boulevard in Old Fourth Ward
and the “Disco Kroger” off Piedmont
Road in Buckhead — will soon be re-
developed. Kroger maintains a strong
presence throughout metro Atlanta,
but for now the grocer is holding back
on its expansion efforts in the area.

“Kroger pulled back a few months ago,
but we expect it to come back
early next year to a more traditional
expansion mode,” says Brown.

Like restaurants, grocers are viewed
favorably by landlords due to the fact
that most sign 20-year leases versus 10
years that a lot of retailers sign. The
grocery segment has long been asso-
ciated as resistant to e-commerce,
but this year marked an interesting turn
of events as the largest e-commerce user,
Amazon, purchased one of the sector’s
brightest stars, Whole Foods Market,
in a $13.4 billion deal.

Emil Guillen, executive vice president
and chief of Retail Specialties, ex-
pects individual Whole Foods stores
to be case studies for how retailers can
effectively target the surrounding de-
mosphic, and ultimately the acquisi-
tion showed Amazon’s faith in physical
stores.

“The fact that Amazon bought
Whole Foods Market is a testament
that e-commerce needs bricks and
mortar,” says Guillen.

Michael Bul, founder of Atlanta-
based Bull Realty, agrees that ultimate-
ly Amazon’s foray into grocery is good
for real estate.

“Amazon buying Whole Foods is a
huge deal,” adds Bull. “More and
more e-commerce users are going
to want real estate for their last
mile capabilities with pick up and de-

delivery stations. That will continue to
help retail real estate.”

Other Expanding Uses

Atlanta is in the midst of a market

correction for its retail sector. Histori-
cally Atlanta adds 300,000 square feet
more to its supply than is absorbed in a
given year, according to CoStar. In
the last five years, that trend has flipped
to where demand has outpaced deliver-
ies by 2.6 million square feet, an aver-
age of 520,000 square feet per year.

Earlier this year the Atlanta market
experienced a wave of store closures
as retail mainstays including Sears,
Macy’s, hhgregg, Sports Authority
and others shuttered locations across
the nation. Landlords in Atlanta for
the most part have been successful in
backfilling these vacancies, but in
some submarkets it’s been more dif-
cult.

Pierce Mayson, principal of SRS Real
Estate Partners’ Investment Properties
Group, says that the neighborhood
surrounding the struggling Gwinnett
Place Mall in Duluth is one such ex-
ample.

“Big box tenants have left those ar-
eas and therefore vacancies remain in
many of the area’s centers. There are
ever enough retailers going into that
submarket to backfill all of the avail-
able space,” says Mayson. “I don’t see
that changing anytime soon, because
second- and third-generation retailers
like Ollie’s Bargain Outlet are already
in the market and have backfilled those
spaces like Linens-N-Things over the
past few years. In-town, those vacan-
cies are getting filled, but submarkets
like Gwinnett are still stagnant from a
retail perspective.”

RGÇ Ventures, a value-add shop-
ing center owner based in Atlanta,
has fared well in backfilling those
vacancies in their portfolio. The most
active lessees of those spaces are the
discount apparel retailers such as T.J.
Maxx, Marshalls and Ross Dress for
Less, according to Mark Worley, presi-
dent and chief operating officer of
RGÇ Ventures.

“These concepts are internet-resis-
tant and popular with millennials,”
says Worley.

RGÇ recently bought Turner Hill
Marketplace in Lithonia from DDR
Corp. The center included a vacancy
left behind by Best Buy, as well as a
Bed Bath & Beyond and Toys “R” Us,
which also recently filed for Chap-
ter 11 bankruptcy. RGC was quick to
backfill the dark Best Buy.
"We knew there was a Burlington deal to be made in the Best Buy box so we signed them, and at the same time we extended Bed Bath & Beyond," says Wertley.

Kevin Beringer, director of leasing and property management at Ziff Properties Inc., says that it's not always easy to backfill vacancies because the square footage doesn't match up with the tenants looking to expand.

"It's been tough to backfill those vacant spaces because they're so large," says Beringer. "They needed to be split up so more than one retailer can backfill, or landlords have pursued alternative uses."

Fitness and entertainment concepts are also looking at those vacancies, and landlords are more than willing to bet on those uses as they bring repeat traffic and provide experiences for their customers.

"Studio Movie Grill took a Sports Authority, as theaters are very active and are looking at all backfill opportunities everywhere," says Spencer Bomar, principal of retail advisory services at Aronson Young's Atlanta office.

Another active apparel retailer in metro Atlanta is H&M, a fast-fashion company that has successfully weathered the rise of e-commerce.

"H&M has found the intersection of style and value," says Gazzia, who helped negotiate H&M's expansion at Atlantic Station. "They've been on trend for a long time, they've become the go-to place for fashion basics."

H&M is increasing its footprint at Atlantic Station from 26,000 square feet to nearly 40,000 square feet. The retailer will continue to provide clothing for the entire family, but the new store will include home decor.

"H&M is putting its best foot forward, this will be its flagship store in the Southeast," says Gazzia.

Odishan Properties recently signed HM to lease space at The Shoppes of Webb Gin, an open-air shopping center in Snellville. The retailer opened its 19,000-square-foot location in Gwinnett County over the summer.

In addition to traditional retail, landlords are looking at experiential uses in their developments. Eden of Cross-Town Realty recently helped bring the experiential retailer Bad Axe Throwing, an axe-throwing destination similar to Topgolf or a bowling alley, to a light industrial space in West Midtown. Eden says the concept should prove to be a popular spot in town, similar to its locations in Canada and other U.S. cities like Chicago.

"Bad Axe appeals to millennials and other groups, as well as corporate events and the bachelor and bachelorette party scene," says Eden. "People would rather spend money on experiences than things, which seems like overall it's a healthy and positive trend. Groups are also looking for new things to do, so they go to escape rooms or now axe throwing, which allows groups the opportunity to do something different."

Retailers and developers will continue to look for opportunities in Atlanta as the market has been one of the fastest growing major U.S. cities this year in terms of employment. The metro added 85,000 jobs in 2017 alone through the end of July, according to the Bureau of Labor Statistics.

"Atlanta is a strong market and has several engines that are propelling it forward, both economically and socially," says Aronson Young's Bomar. "It's extremely attractive to millennials on several fronts. Our convention culture, as well as sporting events, also brings a lot of velocity into the city.

We're well connected — all roads lead to Atlanta. Our diversity of offerings will keep us relevant."