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Third & Urban to redevelop SweetWater Design District

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Two young Atlanta developers want to take a pocket of intown industrial buildings by Interstate 85 and convert it to a hip community of media and technology companies and chef-driven restaurants — the latest adaptive reuse project for a city best-known for its glass office towers.

Third & Urban, with capital partner J.P. Morgan Asset Management, is buying warehouses along Armour and Ottley drives, an area referred to as the Sweetwater Design District. Atlanta's largest craft brewery, Sweetwater Brewing Co., is the centerpiece of that district.

Third & Urban formed last year after its principals, Pierce Lancaster and Hank Farmer, left Atlanta developer Jamestown. It was Jamestown's redevelopment of the city's former Sears, Roebuck & Co. building on Ponce de Leon Avenue that struck a chord with creative class companies and proved, as CEO Matt Bronfman recently said, "The Atlanta market would embrace something radically different."

Third & Urban believes the same thing.

Atlanta's inventory of alternative, or loft office space, is under-supplied, according to Jones Lang LaSalle Inc. (JLL). It now includes about 2 million square feet and often appeals to the so-called TAMI sector, or technology, advertising, media and information companies. Asking rents for loft office space jumped by almost 21 percent in just three years, according to another real estate services firm, Cushman & Wakefield.

Lancaster and Farmer, both barely in their 30s, feel the same way about office space as many other young professionals — they want alternatives to working in glass towers.

Third & Urban has acquired multiple buildings in the Sweetwater Design District, including 120, 165, 225 and 255 Ottley Drive, and it's in talks to buy even more. When it's finished it could own up to 300,000 square feet and put more than \$75 million into renovations and build-out. It would become the largest building owner in the district.

Its plans include converting the warehouses into loft offices, bringing in a coffee shop, and trying to land at least two chef-driven restaurants. It also wants to add a music venue, and it wouldn't be surprising if Smith's Olde Bar — which may have to relocate from its longtime home on Piedmont Avenue — takes a hard look at the project.

The district lies between several affluent intown neighborhoods, and all of it may one day be connected to the Atlanta Beltline. Residential developers are also making inquiries about sites in the Sweetwater Design District.

Third & Urban's first office building could be finished by February, and it continues to work on creating the surrounding amenities. It named JLL's Jeff Bellamy, Brooke Dewey and Liz Koteles as its leasing team.

"We can redevelop a series of buildings that creates an identity, that builds a community," Lancaster said.

Third & Urban is calling its project Armour Yards.

The project might share some of the characteristics of similar projects in several West Coast cities, including Seattle, Portland and San Francisco. It may also echo the vibe of The Reserve, once an empty former U.S. Postal Service distribution center in western Los Angeles that became a hub of those TAMI-sector companies.

Real estate funds controlled by Invesco Ltd. paid about \$300 million for development, or about \$800 per square foot.

"L.A. has been building ground-up, creative loft office space for two cycles," Farmer said. "All the well-located warehouses have been converted, and developers are now looking at projects out on the fringe of the city."

Third & Urban did not identify its capital partner on Armour Yards, but J.P. Morgan is apparently teaming up with the developers, according to Databank Inc., a firm that tracks real estate deals across Atlanta. Kurt Unger, of real estate services firm Lee & Associates, helped broker the transactions.

J.P. Morgan is known for investing in Atlanta's more traditional office properties, such as Cousins Properties Inc.'s Terminus project in Buckhead. But, it also sees the strong demand office tenants are showing for converted warehouse spaces. Armour Yards is already seeing interest from tenants still in typical office towers, Farmer said.

Third & Urban and J.P. Morgan deserve credit for seeing the trends, said Randy Beavers, a broker with Cushman & Wakefield. "I think that area they are developing has been kind of under-appreciated as an opportunity," he said. "It took someone with the right lens to see it."