

Atlanta Office's New Spec Discipline

July 26, 2017 | Jarred Schenke, Bisnow Atlanta

Any other time in Atlanta's real estate history, De Little said he could have built a 125K SF office building in Central Perimeter and without a tenant committed to the space.



Today, his vision for the building remains only a rendering, even though more than 2M SF of office deals are floating around the market, looking for a new home.

“Even for a 100% pre-leased building, [getting construction financing] is still a challenge,” said Little, managing principal at Greenstone Properties. “And without significant pre-leasing or 100% build-to-suit, you just can't get it financed.”

Greenstone, in a joint venture with Parkside Partners, is proposing North Station, the five-story office building across Peachtree-Dunwoody Road from the North Springs MARTA station. Greenstone is not the only firm with plans for office projects in Metro Atlanta. Numerous developers are forwarding plans to reach Atlanta's skyline with new office projects.



But some experts say, at least at this moment in Atlanta's real estate cycle, those plans are easier said than done.

“I think you're going to continue to see developers trying to do some things,” Patterson Real Estate Advisory Group founder Lance Patterson said. “But most likely [office development] will remain very limited.”

The big change for Atlanta is capital has been disciplined compared to prior local development cycles. Before the last recession, Buckhead saw five office towers come up, and the [Urban Land Institute called it a bloodbath](#) at the time.

“Capital remembers all the stupid things they did before,” Patterson said. “I’m extremely confident it will not happen again.”

Atlanta's office market has rebounded strongly from a weak opening of 2017. Some 616K SF was gobbled up by companies during the second quarter, including by names like **RaceTrac**, **Bennett Thrasher and Holder Construction**. It was the most space absorbed in the market since the end of 2015, **according to Colliers International**.

That momentum, where expansions are outpacing contractions so far, should position Atlanta office landlords to see another year of positive absorption, Colliers said. This strength has led to an increase in rents throughout Metro Atlanta, a 6.7% jump from 2016 to \$22.68/SF on average, according to **Marcus & Millichap**.

Rents for Class-A space are surpassing \$30/SF in many of Atlanta's hottest submarkets, such as Midtown and Buckhead. Even in Central Perimeter, rents are nearing \$30/SF, according to Colliers.

But it has been this restraint by capital and debt markets, passed on to office developers, that has helped Atlanta's office market see rents rise to record numbers.

“That's a tiny amount [of office development] compared to history,” Patterson said. “Without pre-leasing, it's going to remain very hard.”



A big stumbling block for developers is rents. While growing, in many submarkets, there is a difference between what the average tenant is willing to pay for rent and what a developer needs to make to justify new construction.

In the submarkets where that delta is negligible, some developers have moved forward. In others, it is a struggle to pencil out new development without a tenant signed on to pay the rental rate premium, Patterson said.

Greenstone is pursuing the development of Parkway 400, a four-building, 750K SF office park in Alpharetta. Little said the group has

seen some traction from prospects, including talks with E*Trade, which is eyeing a possible build-to-suit development of up to 100K SF.

The challenge is to get a tenant to pay rents above the market average. Rents in North Fulton County average a little more than \$25/SF for Class-A space. New construction requires rents in the mid-\$30/SF range, Little said.

Pope & Land Enterprises Vice President Jennifer Koontz said many office tenants are getting over their sticker shock from the run-up of rents in recent quarters. And that may open the gates for more office development.

“People have gotten over this sheer fact that rents have increased \$6,” Koontz said. “We thought that was going to be a big issue, and that's not a big issue.”

Construction Activity (100,000 SF+)			
Project	Submarket	Size (SF)	Delivery Date
Coda - 771 Spring Street	Midtown	760,000	First Quarter 2019
State Farm Phase II	Central Perimeter	670,000	Second Quarter 2019
HC2 Headquarters - Phased I	Midtown	450,000	First Quarter 2018
725 Ponce de Leon Ave.	Midtown	430,000	First Quarter 2019
4004 Perimeter Summit	Central Perimeter	355,250	Fourth Quarter 2017
One Bankart Center	Northwest Atlanta	260,000	Fourth Quarter 2017
MacCobb HQ - Abernathy Rd.	Central Perimeter	225,000	Second Quarter 2018
Encore Center	Northwest Atlanta	222,000	First Quarter 2018
3600 Overton	Northwest Atlanta	172,500	Third Quarter 2017
Stockyards Atlanta	Midtown	123,000	Third Quarter 2017
3 Edison	North Fulton	107,643	Third Quarter 2017

Some office development is already taking shape in Metro Atlanta. Most recently, Tishman Speyer delivered its trophy 500K SF Three Alliance Center in Buckhead on spec. Since starting construction, the firm has **snagged a number of high-profile leases**, including Global Payments, CBRE and Aon.

Other notable spec developments is Seven Oaks Co.'s 355K SF 4004 Perimeter Summit, Portman Holdings' 760K SF Coda in Midtown and New City's 430K SF 725 Ponce, the redevelopment of a Kroger shopping center in Midtown across from Ponce City Market. Most other office developments this cycle have come with heavy pre-leasing or were specifically built with a tenant in mind.

The wish list of office development is long, with numerous developers floating a pipeline of more than 5M SF that could reshape Atlanta's skyline, according to Colliers research. Some of those developers have even made waves about going spec, including **Hines Interests at Atlantic Station** and Portman Holdings' **two-tower project in Midtown**.

“While several speculative projects are in the pre-leasing phase, developers and their capital sources have been very disciplined in responding to the steady demand in the overall office market,” KDC Real Estate Development & Investments Regional Vice President Alex Chambers said.

But this cycle has been dominated by build-to-suit projects because the companies “get the exact locations and corporate environments they need to attract and retain their targeted workforces,” he said.

KDC is developing three office buildings in Central Perimeter for State Farm, called Park Center. KDC is hoping for a fourth tower there, one that would be used by a company other than State Farm, Chambers said.

This measured development may also help extend the length of this cycle. Demand is still there as companies continue to grow and more jobs are being established in the metro area. That is keeping vacancy rates low, limiting the number of office blocks companies can lease.

“If you asked me a year ago, I would have said two years” would be left before the market slowed down, Koontz said. “If you ask me today, I’ll say two years. I am cautiously optimistic that we’re not near the end. It’s just different than any other market we’ve ever seen.”

Hear more from Koontz, Little and Chambers at *Bisnow's Future of Cumberland and Perimeter* event, 7:30 a.m., Thursday, Aug. 10, at the Hyatt Regency Atlanta Perimeter at Villa Christina.

See Also: [Hines Reveals Partner In Two Planned Atlantic Station Office Buildings](#)

Related Topics: [Colliers](#), [Tishman Speyer](#), [North Station](#), [Atlantic Station](#), [Buckhead](#), [Pope & Land Enterprises](#), [Patterson Real Estate Advisory Group](#), [Lance Patterson](#), [Central Perimeter](#), [Alpharetta](#), [Marcus & Millichap](#), [Three Alliance Center](#), [Portman Holdings](#), [Hines Interests](#), [New City](#), [Greenstone Properties](#), [Parkside Partners](#), [Jennifer Koontz](#), [North Fulton County](#), [De Little](#), [Coda](#), [725 Ponce](#), [Future of Perimeter and Cumberland](#)