

# Downtown Atlanta Real Estate Report **NOV09**



## Salute Atlanta's Visionary Builders

**I**n this inaugural issue of the Downtown Atlanta Real Estate Report, it is only appropriate to celebrate the vision and determination of key individuals who have shaped Downtown's development. A civil engineer from Hurtsboro, Alabama, left an early imprint by developing Atlanta's first modern office building and establishing a transit link to the city's first residential suburb. Joel Hurt was a true entrepreneur who had business interests in the insurance, real estate, and banking industries. In 1886, he founded East Atlanta Land Company, which led to the development of the Atlanta and Edgewood Street Railway Company and Inman Park. At the Downtown end of Edgewood Avenue he built the original Equitable Building (current site of SunTrust Tower) in 1892 and the Hurt Building in 1913. He later served on the first City Planning Commission.



Original Equitable Building

Asa G. Candler, who became sole owner of the Coca-Cola Company in 1891, reinvested his profits in real estate ventures. His crowning achievement was the Candler Building, a 17-story building that opened in 1906. Both it and the

Equitable Building were considered far out and remote when built, according to Franklin Garrett's *Atlanta and Environs*. Candler later developed the Druid Hills community on 1,492 acres purchased from Joel Hurt in 1908, and donated a

portion of the property as a site for Emory University in 1914.

John C. Portman, Jr., who hailed from Walhalla, South Carolina, graduated from the Georgia Institute of Technology in 1950. His huge impact on Downtown is evident in the massive AmericasMart complex, Peachtree Center, Westin Peachtree Plaza, Marriott Marquis, Hyatt Regency, and SunTrust Plaza. These developments shifted the nexus of Downtown northward from the Five Points area. When the Hyatt Regency opened in 1967, people came from all over to gasp at its soaring atrium and enjoy the view from the blue-domed Polaris restaurant.

A 1952 graduate of the University of Georgia, Tom Cousins has also had a major hand in shaping Downtown, particularly during the 1970's. He and Portman competed intensely for the location of the Georgia World Congress Center, fully anticipating its impact on the hotel industry. Cousins convinced state authorities to locate this facility near The Omni, a sports arena he had built in 1972 to house the Atlanta Hawks

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**Did You Know?** Downtown Atlanta once had two passenger railroad stations: Terminal Station was built in 1905, demolished in 1971; Union Station was built in 1930, demolished in 1972.

### Notable Trends

- The City of Atlanta's population has increased 29 percent since 2000.
- Economic and housing indicators suggest that the worst of the current economic recession is over.

### The Downtown Atlanta Real Estate Report

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# Office Market Weathers the Storm

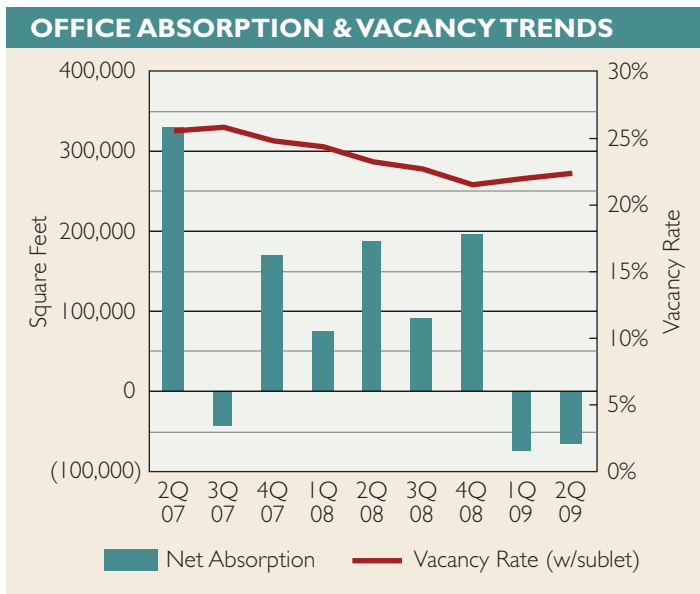
The economic downturn has negatively affected metro Atlanta's office market, and Downtown is no exception. As of mid-year 2009, Class A and Class B office space totaled 16,529,915 square feet, and Downtown's vacancy rate stood at 22.3 percent (including sublet space), according to Jones Lang LaSalle. The average asking rent was \$20.25 per square foot. Negative absorption of approximately 142,030 square feet was recorded in the first six months of the year. A contributing factor was Georgia-Pacific's consolidation, which vacated 90,000 square feet at 55 Park Place.

These setbacks follow a stellar 2008 in which Downtown posted net absorption of roughly 544,026 square feet, the strongest performance of any metro Atlanta office submarket. The purchase of 191 Peachtree Tower by Cousins Properties was a major catalyst. The building was only 51 percent leased and 20 percent occupied when it was purchased in 2006. Today, it is 75 percent leased and

boasts an impressive tenant roster, many of whom relocated from other submarkets. In addition to Cousins moving its corporate headquarters from the suburbs to 191 Peachtree, Cooper Carry moved from Buckhead and Winter Construction migrated from Midtown. Allen Plaza, an exciting mixed-use development on the north end of Downtown, has also enjoyed success, attracting such high-profile tenants as Ernst & Young LLP, Southern Company, and Cushman & Wakefield.

Despite a challenging economic environment, recent strides have been made in the Downtown office market. The Nuclear Regulatory Commission recently signed a lease for 102,436 square feet in Peachtree Center's Marquis II. SunTrust decided to maintain a strong presence in Downtown after evaluating opportunities in other submarkets. The bank will occupy 252,822 square feet in Peachtree Center's Marquis II, starting in 2011. Eola Capital, an Orlando-based company, recently made a major investment in Downtown by purchasing Peachtree Center, which is comprised of six buildings totaling 2.4 million square feet.

Several factors suggest the Downtown office market will regain positive momentum once the economy rebounds: 1) no buildings are under construction; 2) rental rates are attractive compared to Buckhead and Midtown; 3) several prominent Atlanta companies have made long-term commitments to the area; 4) superb MARTA and interstate highway access; and 5) strong population growth in the urban core.



Source: Jones Lang LaSalle.



One Ninety One Peachtree Tower



SunTrust Plaza

## RECENT LEASING ACTIVITY

Tenant	Property	Square Feet
SunTrust	Peachtree Center - Marquis II	252,822
Deloitte & Touche	191 Peachtree	123,964
Nuclear Regulatory Commission	Peachtree Center - Marquis II	102,436
Parker Hudson Rainer & Dobbs	Peachtree Center - Marquis II	55,000
Ogletree Deakins	191 Peachtree	26,255
Winter Construction Company	191 Peachtree	24,983
Eyewonder	Peachtree Center - Int'l Tower	24,213
Elsevier	Peachtree Center - Marquis I	20,298
S.L King & Associates	270 Peachtree	13,924
Behavioral Health Link	260 Peachtree	12,341

Sources: Colliers Cauble, CoStar Group, and Jones Lang LaSalle.

# Hotels Respond to a Challenging Economy

Cutbacks in corporate and leisure travel have taken a steep toll on Downtown hotels. The average occupancy rate for the first half of 2009 was 53.9 percent, down from 60.2 percent in 2008, according to PKF Consulting. The average daily rate dropped slightly from \$142.36 in 2008 to \$141.17 during the first half of 2009, while revenue per available room (RevPAR) declined from \$85.65 to \$76.11. The Georgia World Congress Center and the Georgia Dome, two major sources of room demand, reported that event attendance in 2008 was down 16.4 percent from 2007. This trend will likely continue in 2009. However, the City of Atlanta's hotel market is expected to improve in 2010. A recent edition of The TAP Report, prepared for the Atlanta Convention & Visitors Bureau, shows that the number of definite room nights booked for 2010 (through August) is well above 2009 levels for the same period, which should benefit Downtown.

Long-term prospects are more encouraging. A critical mass of attractions is forming around Centennial Olympic Park, making Downtown the region's prime tourist destination. Another growing demand source is Downtown's resurgent office market, which has attracted a number of high-profile companies in recent years.

The Hotel Indigo, a 155-room boutique hotel, is the only facility currently under construction in Downtown. Several hotels are planned, but soft market conditions and a lack of financing have delayed development. One noteworthy project is the Toyoko Inn, a proposed 861-room hotel at the corner of Forsyth and Luckie streets. The facility will have small rooms and reportedly cater to business travelers. Although new construction activity is limited, several major hotels completed significant renovations in the past year, including the Marriott Marquis, Hilton, and the Ritz-Carlton. Construction of a new pedestrian sky bridge linking the Marriott Marquis and the Hyatt Regency will start soon. This project follows the recent opening of a sky bridge connecting the Hilton and Marriott Marquis. The three hotels will be able to jointly market their guest rooms and meeting space for large conventions.

Downtown has 12,294 hotel rooms in 32

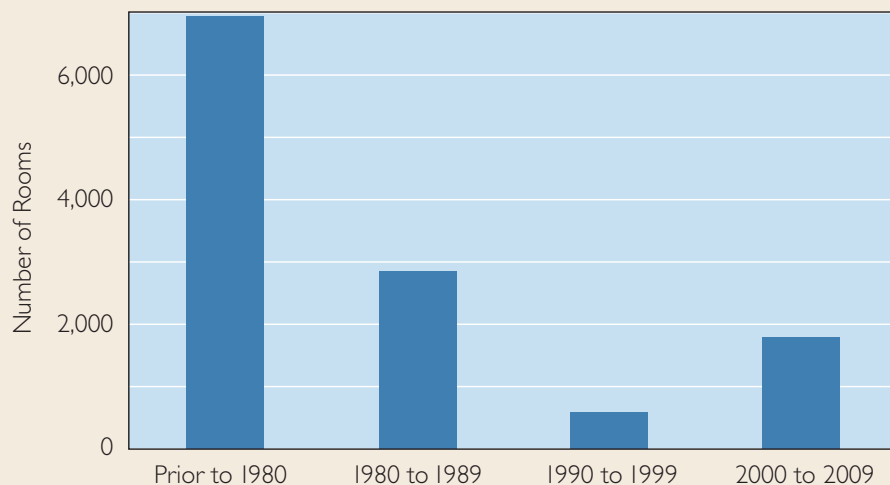
facilities, and five convention hotels account for roughly half of the room inventory. More than 80 percent of the rooms were delivered prior to 1990, and no major hotel (250+ rooms), other than the Embassy Suites and the Omni expansion, has been built since 1985. However, 818 rooms have been added in smaller facilities since 2006. A 242-room Hilton Garden Inn was completed in 2008 across from Centennial Olympic Park, and a W Hotel (237 rooms) opened in 2009 at the Allen Plaza mixed-use development. A growing market segment is boutique hotels. In addition to the Hotel Indigo under construction, The Ellis (127 rooms) and The Glenn Hotel (110 rooms) recently opened in historic buildings that were previously vacant.

The hotel industry is facing a challenging economy. Downtown Atlanta hotels are suffering, but the area's visitor attractions, as well as its popularity with meeting planners, will help foster a recovery when the economy improves.



The Ellis Hotel

## HOTEL DELIVERIES BY YEAR



## OCCUPANCY AND ROOM RATE TRENDS

Year	Occupancy Rate	Average Daily Rate	RevPAR
2004	58.5%	\$120.74	\$70.57
2005	63.2%	\$123.27	\$77.92
2006	64.9%	\$134.87	\$87.51
2007	64.8%	\$141.66	\$91.76
2008	60.2%	\$142.36	\$85.65
Jan. - June, 2009	53.9%	\$141.17	\$76.11

Source: PKF Consulting



# Retail Buzz Growing Downtown

**D**owntown's retail sector has mostly endured attrition over the years, starting with the closing of Rich's department store in 1991. A wave of new restaurant openings, particularly notable names like Il Mulino and Legal Seafood, has created a recent buzz. Some longtime stalwarts, however, have closed their doors, including The City Grill and Dailey's. While the trend in restaurant activity is clearly positive, retail shops are waning. Nowhere is this more evident than the changing store composition in the Peachtree Center Retail Mall and Underground, the two largest concentrations of retail space in Downtown.

A bright spot is the rebirth of 200 Peachtree, formerly Davison's and then Macy's. The lower levels of this historic building have been vacant for years. A local group plans to reopen the building to the public in February, 2010. An event facility and gallery space will share the first level with two restaurants (Meehan's Public House and Sweet Georgia's Juke Joint). The

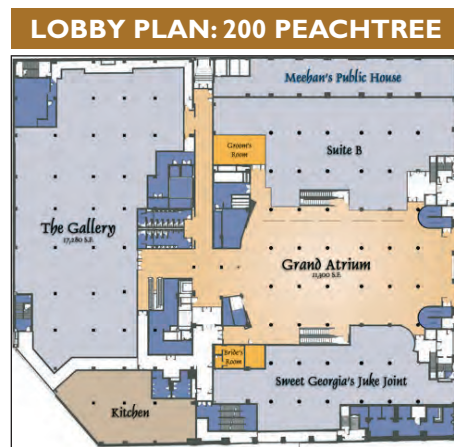
mezzanine level will provide additional function space. Activation of this space will add vibrancy to the Peachtree Street corridor.

The City of Atlanta has entered into a public-private partnership with General Growth Properties to improve the quality and appearance of street vending in Downtown. Phase I is currently under way, which includes 20 new kiosks. By the end of 2011, Downtown is slated to have 100 attractive kiosks lining the streets.

Another positive trend is the growing

array of visitor attractions. Downtown's major sports facilities are now complemented by the Georgia Aquarium, World of Coca-Cola, Children's Museum, and National Museum of Patriotism. Three new attractions are planned: Center for Civil and Human Rights, College Football Hall of Fame, and National Health Museum. The timetable for completing these facilities hinges on fundraising efforts, but the sponsors are confident. The cluster of these diverse attractions in the vicinity of Centennial Olympic Park is a powerful draw for visitors and residents alike, which certainly benefits the retail sector.

Downtown Atlanta has failed to catch the imagination of developers who have built urban retail/entertainment complexes in many cities across the country. A disconnect exists between supply and demand. Downtown retail activity is very disjointed and lacks depth. The growth in visitor attractions and housing, coupled with a stable office population and steady convention trade, suggest an emerging opportunity.



## ATTENDANCE FOR DOWNTOWN ATTRACTIONS

Venue (Year Built)	2008 Attendance
Georgia Dome (1992)	1,527,504
Philips Arena (1999)	2,000,000
Georgia World Congress Center (1976)	2,591,334
AmericasMart (1961)	580,000
Centennial Olympic Park (1996)	3,000,000
CNN Studio Tour (1987)	325,000
Georgia Aquarium (2005)	2,200,000
World of Coca-Cola (2007)	1,100,000
Imagine It! Children's Museum (2003)	202,000

Source: Central Atlanta Progress

# Downtown Adds to Its Housing Stock

The housing market's woes have been well chronicled. Downtown Atlanta has not suffered from overbuilding but has felt the brunt of a severe demand contraction. Renaissance Walk at Sweet Auburn, a 159-unit condominium development, is the most recent casualty, in spite of a successful pre-sales effort. Its lenders recently initiated foreclosure proceedings after rejecting a series of restructuring proposals from the developer, The Integral Group. Castleberry Point also lost several contracts when the market collapsed.

These difficulties tend to obscure the positive news in Downtown housing. This submarket has absorbed an annual average of 250 condominium units since 2000. The unsold inventory of 598 units, as of mid-year 2009, was the lowest among the four intown submarkets. Apartment occupancy is also stronger than the overall Atlanta market, according to the *Atlanta Apartment Market Tracker*. The Central submarket had a 90.9 percent occupancy rate as of mid-year 2009, compared to 88.0 percent for the total market. Monthly rental rates are also higher, averaging \$0.92 per square foot versus \$0.79 per square foot overall.

Three new apartment complexes will open in 2009, adding 1,005 units to the Downtown market. Pencil Factory Flats & Shops has leased 25 units monthly since opening on May 1, indicating a favorable market response. Other apartments are planned, but prevailing market conditions and a difficult financing climate have delayed these developments. Orinda Corporation recently acquired the vacant 222 Mitchell Street building, formerly the operations center of Citizens & Southern National Bank. The company plans to convert the structure into 210 apartment units and 70,000 square feet of commercial space, starting in early 2010. The owner of Fulton Supply in Castleberry Hill has also contemplated conversion of this historic building into apartments.

Georgia State University's commitment to on-campus housing is helping to foster a residential living environment in Downtown. Almost 2,800 dormitory beds have been built since 2002 in three residential facilities, and another 145 beds are currently under way that will provide the university's first residential experience for fraternities and sororities. Better yet,

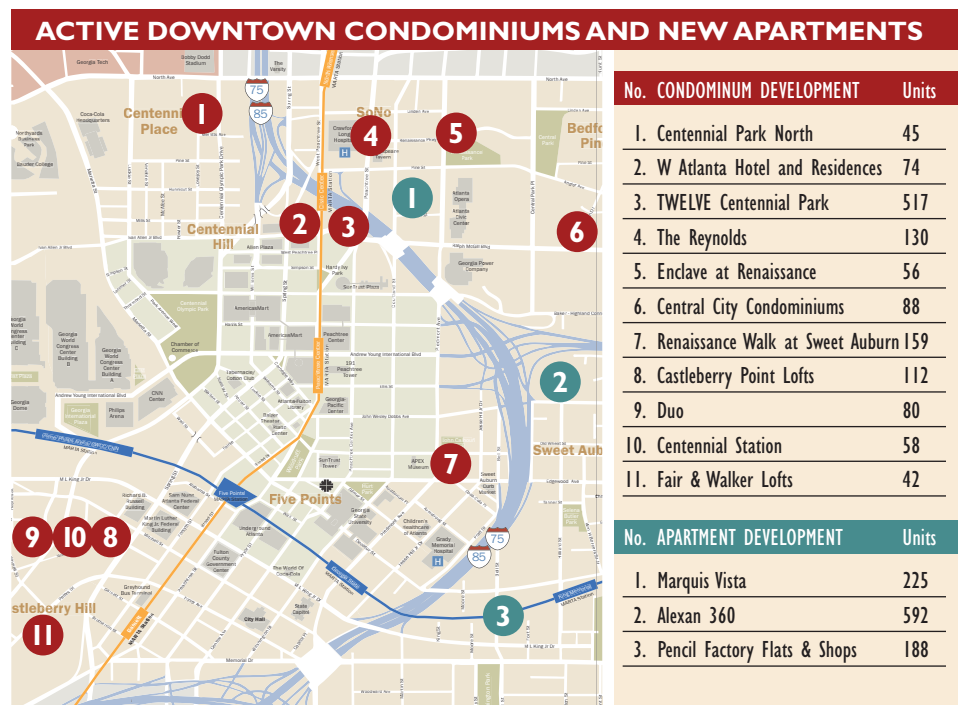
Georgia State has a stated goal of providing on-campus housing for 20 percent of its students. Since enrollment is projected to reach 36,000 by 2015, that means another 4,275 people living in Downtown.

Downtown has made progress but still lacks a critical mass of housing. Most

conventional residential development has occurred on the periphery, with only a handful of smaller office building conversions in the Five Points area. Downtown will hopefully draw the attention recently enjoyed by Midtown when the next development cycle commences.



Pencil Factory Flats & Shops





## Atlanta's Visionary Builders

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and Atlanta Flames. Next door, he built the Omni International complex, now known as CNN Center, which once had an ice skating rink and indoor amusement park. Years later, Cousins was part of the development team responsible for 191 Peachtree Tower. His firm repurchased the building in 2006 and moved its offices there.

A city planner and academician has been Downtown's most recent champion. Dr. Carl V. Patton came to Atlanta in 1992 to assume the presidency of Georgia State University. He recognized that the university had to become part of Downtown to grow and flourish, rather than simply an isolated enclave. He immediately embraced the idea of moving the School of Music to the abandoned Rialto Theater, thereby launching a campus expansion throughout the Five Points area. According to a recent report, Georgia State University now owns 7.1 million square feet of space in Downtown, including the SunTrust Tower



Rialto Center for the Arts, Georgia State University

and Citizens Trust Building. Woodruff Park has increasingly become the university's central quadrangle, and the enlightened decision to add on-campus housing is

helping to populate Downtown.

These leaders and others have shaped the Downtown that we know today. Who will be next?

## Atlanta Development Chronology

**1837** • City is established as the terminal point for the Western and Atlantic Railroad. Originally known as Terminus.

**1840s** • Two other railroads (Central of Georgia and Georgia Railroad) are built that make Atlanta a railroad hub and establish the foundation for a commercial center.

**1867-1881** • The Atlanta University Center institutions are established on the west side of town, providing higher education opportunities for African Americans.

**1892** • First modern office building (Equitable) is completed by East Atlanta Land Company, designed by Burnham and Root of Chicago.

**1898** • First skyscrapers are built in downtown Atlanta (Flatiron and Grant

buildings), followed in short order by the Candler Building (1906), Healey Building (1913), and Hurt Building (1913).

**1920s** • Building boom produces notable Atlanta landmarks such as The Biltmore (1924) and Fox Theatre (1929). The last major building constructed in the boom period was the William Oliver Building (1930), which was followed by a long development drought.

**1954** • Fulton National Bank Building (55 Marietta Street) is completed, Atlanta's first major development since 1930.

**1969** • Original Underground Atlanta opens.

**1972** • Land assembled for development of Woodruff Park.

**1976** • Georgia World Congress Center opens.

**1989** • Underground Atlanta re-opens.

**1990-1992** • Three office towers, each containing more than 1 million square feet, are completed (SunTrust Plaza, 191 Peachtree Tower; and Bank of America Plaza).

**1996** • Summer Olympics held in Atlanta, leading to the development of Centennial Olympic Park.

**2002** • Georgia State University opens its first on-campus housing (University Lofts).

**2005** • Georgia Aquarium opens.

**2007** • The second office tower is completed in Allen Plaza, a mixed-use development that encompasses several city blocks.

**Note:** Franklin Garrett's Atlanta and Environs contributed greatly to this chronology.