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## Experts: Booming Midtown can still use more offices

*Two of the projects being developed have no tenants, but developers aren't worried*

By Aisha I. Jefferson, Staff Reporter

**REAL ESTATE EXPERTS** have a positive outlook on the 3.5 million square feet of office space projected to enter the Midtown market in the next three years, believing there's enough demand to prevent oversupply.

Ben Raney, director of special projects for Barry Real Estate Cos., said he thinks that the market in Midtown is strong.

"I give the market a good solid B to B+ in activity and vibrancy with enough activity in 2009, 2010 and 2011 to make the prospect of new tenants maybe an A," Raney said. "There's enough use for office space. ... People are feeding into the urban markets (downtown and Midtown) like they didn't use to."

The largest of eight office projects scheduled in the area is 12th & Midtown One, a 40-story, 725,000-square-foot Class A office tower to go at the southeast corner of 12th and Peachtree streets. The building will boast 8.3 percent more space than one of Midtown's newest structures, the silver-winged 1180 Peachtree, home of King & Spalding.

Daniel Corp. teamed with Selig Enterprises and the Canyon-Johnson Urban Fund for the development, which is part of 12th & Midtown, a 2.5 million-square-foot, multiphase mixed-use project spanning three city blocks.

The 12th & Midtown One building does not have any anchor tenants signed, but Steve Baile, a vice president of Atlanta operations with Daniel Corp., sounded confident the building will not sit empty.

After a three-to-four year oversupply in office space, largely caused by joblessness and a sluggish economy, he said, "We're seeing Atlanta get back to the average job growth.

"I think we'll see the office market respond accordingly."

Baile said the office building will cost between \$200 million to \$210 million to construct.

Office space at 12th & Midtown One will have a gross rate, which includes taxes and operating expenses, of \$36 per square foot, said Doug Guedry, who is handling leasing for the office tower. The average rental rate for class A office space in Midtown is at \$27.45 per square feet, according to Dorey Market Analysis Group.

Although 12th & Midtown One will be built as a speculative office project, Daniel Corp. is talking with prospective tenants, including law firms and financial institutions, said Guedry.

Two factors have prompted the building to start immediately, said Baile: fears of escalating construction costs and timing the completion with the end dates for current leases of prospective tenants.

A "majority of prospects we're looking at [have end lease dates that] fall within a 12-month window after we deliver," said Baile.

The building is scheduled to open by the end of summer 2009.

Another speculative office project is set to go up a few blocks away. MetLife's Real Estate Investments in Atlanta and Hanover Development are planning a 27-story, 517,000-square-foot office building at 17th and Spring streets.

The group also will compete for the same tenants 12th & Midtown One is targeting, said Paul Folger, an associate director

with MetLife's Real Estate Investments in Atlanta.

"We're bullish about the market and we anticipate having a tenant signed up at the start of construction," said Folger, adding the building will cost \$160 million to construct. "If activity is as high as we expect, we will be breaking ground."

Folger wouldn't elaborate on what MetLife would do if the market didn't meet its expectations. Based on discussions with brokers and prospective tenants, Folger said there is a strong demand for his office product to come online.

"If we continue at this pace, we will have a tenant lined up by the time we break ground," said Folger, who believes the supply and demand is strong enough for both speculative office properties.

Folger wouldn't release the rental rates for the MetLife project.

MetLife's office tower is part of Metropolitan Center, a multiphased mixed-use development that also is expected to deliver 297 apartment units and 40,000 square feet of retail on 3 acres bordering 17th, 16th, Spring and West Peachtree streets. It is slated to be finished by spring 2009. No definite plans have been solidified for the second phase, which sits on 3.13 acres, but it will be constructed as a mixed-use component, Folger said.

Raney said he would be "very surprised" if the MetLife and the Daniel Corp. projects break ground without a tenant signed.

"A spec building at this point in time in my view doesn't make sense ... There is vacant space in the market and other developers are competing in the market for the same tenants," Raney said.

But he added that both projects are in prime locations and probably won't have a problem leasing up.

Economist Roger C. Tutterow agreed that Midtown is one of the area's hottest markets, but "given that Atlanta has some vacancy rates, I would be nervous about bringing too much property on speculative properties."

There currently is 1.3 million square feet of office space in Midtown marketed as available, according to Lanie Rea, a market analyst for Dorey.

It is possible "with market conditions like they are, it is possible to have overbuilding," said Rea. Although Atlanta's overall vacancy rate is about 20 percent, at the end of 2006, the vacancy rate for Midtown had dropped 3.7 percent from 18.5 percent at the close of 2005 to about 14.8 percent, according to Dorey.

"Usually that signals an increase in demand," Rea said, adding that a lot of factors influence vacancy rates.

Rea said Midtown's absorption rate, which subtracts the number of tenants moving out of a space from the number of tenants moving into a space, has been fluctuating over the past six years. Last year was an "extremely good year for Midtown," with 875,000 square feet of positive absorption compared to only 150,000 square feet of positive absorption a year earlier.

Tutterow said the newest, latest, greatest office buildings won't have trouble leasing up because potential tenants will look at the amenities offered and the ability to build out a new space.

"Vacancies aren't necessarily in new office development as much as it's realized in the buildings that are vacated," Tutterow said.

As far as the forthcoming projects influencing rental rates, Raney said he doesn't see a drop in rental rates. "I see just the opposite," Raney said, pointing again to the demand he sees for office space in Midtown.

Folger said his company is projecting rental rates and demand for office space to continue to rise.

"Midtown and Buckhead are the two markets I think will feel the best rental increase and I think downtown will see an impact as well because of the Midtown and Buckhead growth," said Daniel Corp.'s Baile.

*Staff Reporter Aisha I. Jefferson can be reached at [ajeffer@alm.com](mailto:ajeffer@alm.com).*

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