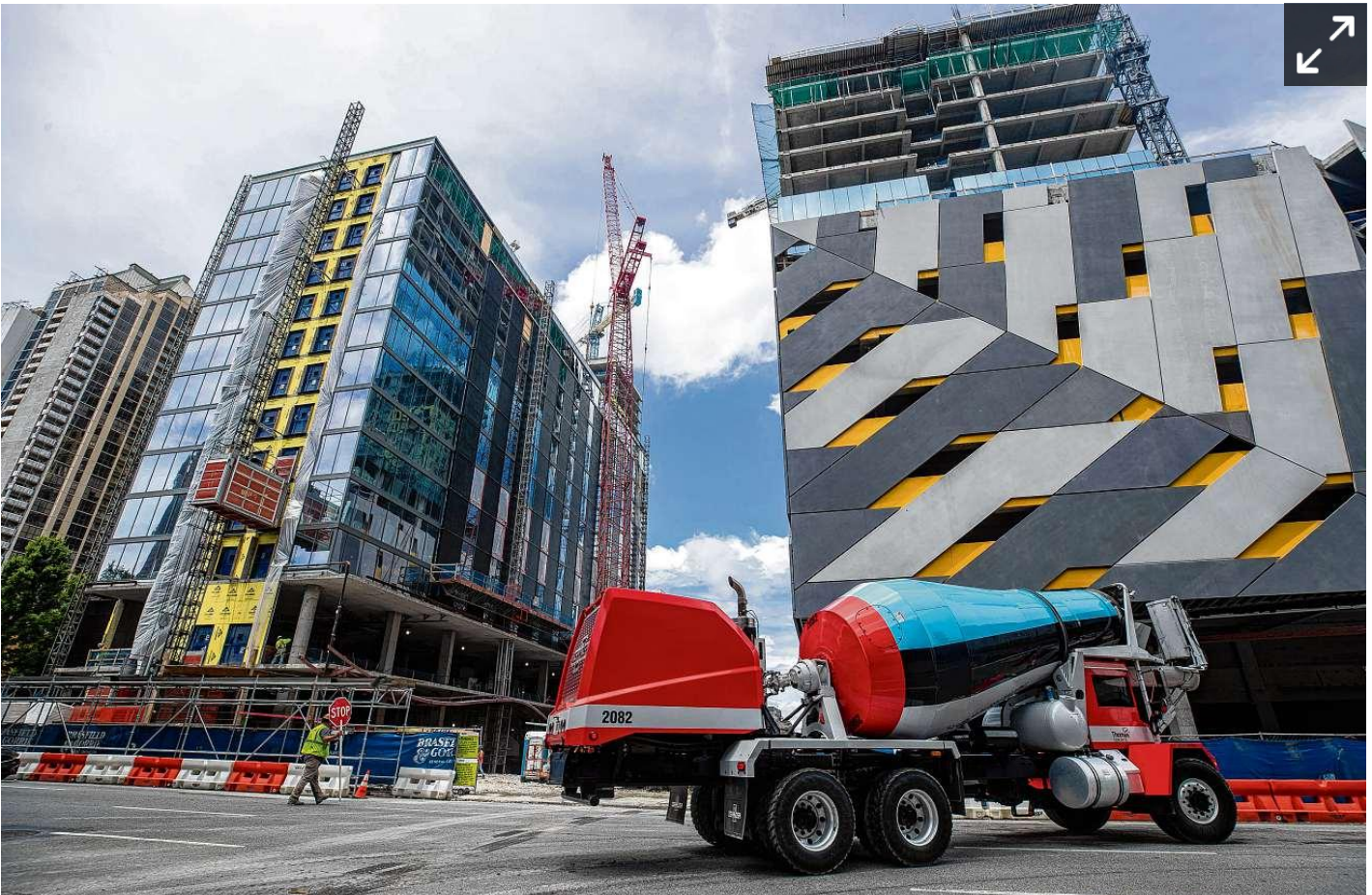


Development bounces back — unlike after Great Recession

Commercial real estate doesn't appear hobbled by pandemic as it was more than a decade ago.



Midtown Union, seen here in June, is expected to open in fall 2022. The 8.5-acre site at the corner of Spring Street and 17th Street will include offices for investment manager Invesco, 355 residential units, 32,000 square feet of retail space and a Kimpton hotel.
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Centennial Yards.
COURTESY OF DBOX



The former GM factory site in Doraville.
COURTESY



The High Street project in Dunwoody.
COURTESY

Commuters driving along I-285 for years have seen only a huge, empty field at the long-shuttered General Motors plant in Doraville. That may change soon.

Plenty of ideas have been tossed around on how to use the property during the past decade — a new Atlanta Falcons stadium at one point, or a bigger version of Atlantic Station, among others.

Now it seems set to become a movie lot, plus a lot more. New owner Gray Television obtained building permits in June for the mostly empty 128 acres. Construction of multistory movie studios is slated to start in August, part of a development plan that includes new townhomes, a hotel, corporate offices, restaurants and stores.

In downtown Atlanta, a \$5 billion, 50-acre development with towering lofts, offices and a brewery where a Southern Railway freight depot once stood is kicking into gear. Long known as the Gulch and rebranded as Centennial Yards, CIM Group applied for a permit in May to rehabilitate a sewer line, demolish a ramp and build a utility access shaft. In June the city gave the green light to begin building a pedestrian bridge.

CIM released new drawings this month that show how pedestrians will be able to cross a street from Mercedes-Benz Stadium and State Farm Arena to Centennial Yards, rather than navigating a sunken maze of viaducts, parking lots and train tracks.

A bit more than a decade ago, the Great Recession crippled lenders, cratered real estate prices and stalled some developments for years in metro Atlanta. Thousands of construction jobs evaporated, many developers went bust and local tax revenue shrank.

The pandemic, by contrast, might prove no more than a hiccup for commercial real estate. Some of the area's biggest projects paused for breath and are recalibrating. But many are moving forward, fueled by historically low interest rates, investors flush with cash and momentum from deals clinched before COVID-19 arrived.

The future of office buildings — and how many workers will return to them — represents a big wild card. Office construction starts plunged in recent months, but many existing projects have proceeded through the pandemic, and there was more office space under construction this spring than in 2019.

These days, wherever you look, you don't have to look far to see a construction crane.

Nellie Shipley Sullivan, a commercial real estate attorney at Womble Bond Dickinson in Atlanta, won't be surprised if more projects are announced this year.

"I still see lots of development going on," she said. "People still need 'places' to go, to work, to gather, to be entertained."

In April 2019, the city of Atlanta issued nearly 1,800 commercial and multifamily building permits. That number was roughly halved in April 2020, but recovered to just over 1,000 by April 2021. Suburbs also are rebounding, with Alpharetta issuing 60 building permits in April, up from 11 in April 2020.

"You don't go to the trouble to submit the paperwork if you're not ready to begin construction," said Richard Branch, chief economist at Dodge Data & Analytics, a New Jersey-based data provider for the construction industry.

Developers need to borrow to finance projects that often take years to complete, and right now "there's a lot of cash out there," said Lance Patterson, CEO of Atlanta's Patterson Real Estate Advisory Group, which arranges big project financing.

The U.S. benchmark interest rate has stayed below 0.1% the past 12 months, compared with around 5% about 15 years ago and 15% in the early 1980s.

Last month, exchange-traded funds focused on real estate had one of their largest inflows since 2014, according to Bloomberg.

One reason investors are comfortable ponying up money: The delinquency rate on commercial real estate loans from U.S. banks barely edged up to 1.13% last December before dropping back to 1.02% in March — far below nearly 9% in 2010 after the Great Recession, according to the Federal Reserve System.

In metro Atlanta, high demand for residential projects has helped offset a slower recovery among office and retail developments as many people continue to work from home and order goods online during the pandemic.

The area's population has grown by more than 400,000 since 2015, according to the Census Bureau, but fewer than 60,000 apartment units were added during that time. Apartment rents and home prices have surged since last year amid the shortage, and developers are racing to catch up and cash in.

After falling each of the past two years, construction of multifamily developments and detached homes in metro Atlanta is projected to rise 20% this year, according to consultant Cumming Construction Management.

Many local developers have rearranged the mix of projects to include more residential by reducing or eliminating office, retail and hotels, said Abe Schear, a commercial real estate attorney at Arnall Golden Gregory in Atlanta.

In December, the developer of a site across from Perimeter Mall in Dunwoody shifted plans from an 11-story, 160-room hotel to a mixed-use complex with senior housing.

Still, many office projects are moving forward as more employers plan to bring white-collar workers back to their cubicles in the coming months.

Meanwhile, Atlanta has continued to attract corporate headquarter relocations like Papa John's pizza, while Microsoft, Airbnb and other tech companies have announced new hubs or expansions here in recent months.

"Not all big U.S. cities fared well, but those in the Sun Belt did," Sullivan said.

New office construction starts in metro Atlanta dropped from just more than 3 million square feet in June 2019 to less than half a million last month, according to real estate data provider CoStar.

But a bit more than 2 million square feet of new office space had been completed in metro Atlanta this year through June, more than in all of 2019 or 2020, according to brokerage firm Avison Young.

Landlords have steadily raised office rent since 2016, and the pandemic did

not slow them down. That's a sign landlords believe the work-from-home trend won't last forever, said Keith Pierce, research director at brokerage firm Transwestern. The average price in metro Atlanta increased about 10% between March 2019 and this March.

Meanwhile, three big intown mixed-use developments that started construction before the pandemic have stayed on track. Midtown Union, 1105 West Peachtree and Fourth Ward benefited from their locations in the affluent Midtown neighborhood or proximity to the Beltline walking trail. All three also had secured anchor tenants.

"If you're able to land those big tenants early, that allows you to break ground," said Ladson Haddow, managing partner at real estate consulting firm Haddow & Co. in Atlanta.

Midtown Union is expected to open in fall 2022. The 8.5-acre site at the corner of Spring Street and 17th Street will include offices for investment manager Invesco, 355 residential units, 32,000 square feet of retail space and a Kimpton hotel.

A few blocks south, the 1105 West Peachtree development is scheduled to open later this year. The project's 31-story office tower, which features a striking design of diagonal steel beams on its exterior, leased space to Google and the law firm Smith, Gambrell & Russell. Other buildings will include retail space, 64 residential units and an Epicurean hotel.

Fourth Ward's developers began work on an underground parking structure last September. Later, they leased about 300,000 square feet of office space to Mailchimp. In June, they broke ground on an 18-story apartment building.

At least one other mixed-use development, the \$250 million Echo Street West project on the Westside, began construction last year during the pandemic.

The 19-acre site will include 300,000 square feet of offices, 300 residential units, and 50,000 square feet of retail space.

One of the biggest mixed-use projects announced early in the pandemic is a three-tower development on the former site of the H.M. Patterson & Sons-Spring Hill Chapel next to the Downtown Connector. The funeral home has closed, but its white-brick building from 1928 will be part of the development.

Not every project has remained on course. Revel Gwinnett, a mix of proposed new offices, apartments and retail on a 118-acre site next to Gas South Arena in Duluth, has stopped and its lead developer dropped out in January 2020.

Revel's plans included too much retail space, according to Haddow.

Brick-and-mortar stores already were losing ground to e-commerce, and the pandemic forced many retailers to file for bankruptcy.

But even retail construction has rebounded in recent months. Total square feet under construction in metro Atlanta dropped from 1.8 million in March 2019 to 1.5 million in March 2020, but rose to 2.3 million in March this year, according to CoStar.

Atlanta needs more of that type of growth, Schear said, because much of the region's economic health is based on commercial real estate. That includes the people who live, work and shop in commercial developments, and the people who build them.

"Our economy sank significantly" during the Great Recession, he said.

"We take for granted that we have tens of thousands employed in construction, commercial and residential real estate."

Newsroom data specialist Jennifer Peebles contributed to this report.