

TRENDS TO WATCH IN 2024

As the new year unfolds, Atlanta's real estate market has lost steam after years of torrid growth. However, some of the best real estate opportunities arise during periods of turbulence. Five key trends to monitor this year are discussed below.

Is Downtown Atlanta Finally Poised for a Resurgence?

A major storyline in 2023 was Newport RE's withdrawal from its South DWNTN project, which at first appeared a major setback for Downtown. Fortunately, local tech entrepreneurs David Cummings and Jon Birdsong scooped up most of the property portfolio with the vision of creating a vibrant neighborhood anchored by technology startups. Tangible progress is evident at Centennial Yards, where CIM Group is under construction on a hotel and apartment tower. Underground Atlanta and 34 Peachtree, both owned by Lalani Ventures, offer intriguing opportunities to create more buzz in Downtown.

What is the Future of Obsolete Office Product?

Office market fundamentals continue to weaken, creating a dilemma for owners of obsolete buildings. Conversion of office buildings to housing has been widely discussed, but it is typically cost prohibitive. One conversion that may start this year is Two Peachtree, the one million-square-foot office tower in Downtown that was acquired by Invest Atlanta. A Request for Proposals has been issued to private developers who would convert the building into a mix of affordable and market-rate housing. In many cases, particularly in the suburbs, demolishing struggling office buildings and redeveloping with new construction may prove more economically feasible than conversion to alternative uses.

Will the Data Center Land Rush Continue?

Demand for data center development is surging, largely due to the rise of Artificial Intelligence and high-performance computing. With local governments in northern Virginia clamping down on data center development, metro Atlanta has been a major beneficiary, and this trend shows no signs of slowing. Furthermore, these facilities are being constructed in outlying locations where operators are paying a huge premium for land. One of the biggest impediments to data center development may be the burden placed on the State's energy supply.

Will BeltLine Transit Receive Funding?

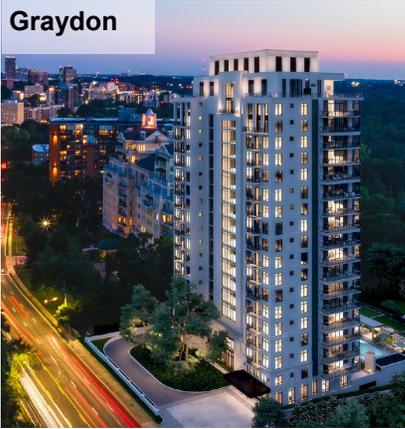
One of the most hotly debated issues in the City of Atlanta is whether to add light rail along the BeltLine as originally envisioned. The BeltLine is a tremendous public amenity that has been a catalyst for real estate development. Light rail is estimated to cost more than \$3 billion to build, raising several questions: 1) Is this a wise use of public funds in light of other transportation priorities?; 2) Would light rail in the BeltLine's right-of-way be detrimental or accretive for commercial real estate development?; and 3) Would light rail spoil the unique pedestrian experience?

Can Life Sciences Gain Momentum in 2024?

Efforts are underway to further establish metro Atlanta as a hub for life sciences research and innovation. The first building at Science Square, located adjacent to Georgia Tech's campus, will open this year. Rowen, the massive land development in Gwinnett County with a planned life sciences component, is reportedly receiving interest from several companies. Metro Atlanta and the State of Georgia have made great strides in diversifying the local economy, and life sciences is an important part of the equation.

KOLTER'S LUXURY CONDOMINIUM SUCCESS

Graydon



Intown Atlanta experienced a major wave of condominium and townhome development from 2000 to 2008, when over 25,000 units delivered to the market. Since then, roughly 9,000 units have been built or converted, the bulk of which are townhomes. The condominium fallout from the Great Recession left scars that many developers and lenders do not wish to revisit. Furthermore, construction costs have risen dramatically, which has made it challenging for developers to build reasonably-priced condominiums. Most groups that have undertaken condominium development since 2009 have built smaller projects, pushed prices to luxury levels, and started construction on a speculative basis with few presales.

Florida-based Kolter Urban entered Atlanta in 2019, buying land along Peachtree Road that would later become Graydon Buckhead, a 21-story tower containing 45 luxury condominiums. The community sold out in October and achieved an impressive average price of \$2.7 million per home, or \$947 per square foot, and an average sales velocity of 2.3 homes per month.



The Dillon

Encouraged by the success of Graydon, Kolter acquired another site on Peachtree Road where it broke ground on The Dillon, a 144-unit tower with an average home price of \$1.8 million, or \$860 per square foot. Kolter has experienced stellar presales activity at The Dillon, with over half of the homes under contract and an anticipated delivery date of December 2024.

While condominium development activity is modest compared to 20 years ago, Kolter's recent success suggests there is pent-up demand for stand-alone luxury communities. Kolter began construction on both towers without a construction loan or significant presales, a bold bet that has proven successful so far.

ADAPTIVE REUSE OF A 1960s OFFICE BUILDING

In 2011, Oxford Industries wanted help exploring alternatives for its corporate headquarters in downtown Atlanta. The company occupied an office building on Piedmont Avenue built in the late 1960s, and was considering a move to more modern office space. Haddow & Company was retained to examine the merits of reinvesting and remaining in the current building versus relocation. The decision was ultimately made to relocate, and our firm assisted with the disposition of the corporate headquarters building.

The building's small size (68,000 square feet) made it a challenging proposition for office investors, so special-purpose users and adaptive reuse developers were targeted. In November 2013, a local investor acquired the building with the notion of converting it to a boutique hotel, but he never moved forward with the conversion. Two years later, he donated the building to serve as the new home of Cristo Rey Atlanta Jesuit High School, which was seeking a campus with an intown location proximate to a MARTA train station, due to its mission of serving low-income students. The building was adapted to fit the school's needs, and a new gymnasium was built atop the existing parking deck. Cristo Rey now enrolls over 500 students in its high school and is a great asset to downtown Atlanta.

View from Downtown Connector



New gymnasium atop parking deck

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