



### **NEW MIDTOWN TOWER AMONG CITY'S LARGEST**

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Atlanta Business Chronicle – Friday, July 20, 2007

by Lisa R. Schoolcraft

Construction has begun on the largest office tower to be built in Midtown in nearly two decades.

Atlanta-based Selig Enterprises Inc. and Birmingham, Ala.-based Daniel Corp. are starting a 34-story, 725,000-square-foot office tower at 1075 Peachtree St., bounded roughly by 11th, Peachtree, 12th and Juniper streets, said Steven Baile, vice president of Daniel's Atlanta office.

The unnamed office tower is the second phase of Selig/Daniel's \$2.5 billion 12th & Midtown, a four-phase mixed-use development that begins at 12th and Peachtree streets. 12th & Midtown includes 1.2 million square feet of office space, more than 500 hotel rooms, more than 600 residences and up to 150,000 square feet of multilevel retail space.

The office tower will be roughly half the cost of the overall \$600 million second phase, which also includes about 40,000 square feet of retail space, he said. Another 20,000 square feet of ground-level retail space will be added to the office tower, Baile said.

The tower, being built on 2.9 acres with investment from MetLife Inc., will be the largest office tower by square footage built in Midtown since the 38-story, 774,000-square-foot Promenade II was built in 1991, according to Randy Berger, senior market analyst for Dorey Market Analysis Group. One Atlantic Center, at 50 stories and 1.1 million square feet, was built in 1987. 1180 Peachtree, at 41 stories and 650,000 square feet, was built in 2006.

If built today, the Selig/Daniel tower would be the ninth-largest office tower in Atlanta based on square footage.

Baile is banking on demand for space in the new Midtown tower when it is completed in the fourth quarter of 2009.

Nearly 1.6 million square feet of office leases will turn over, or "roll," within the 18 months of the delivery date, he said.

"There's a little bit of an abundance of lease roll in 2008 to 2010, so the timing may not be bad for a new office building," said Frank Farrell, senior vice president for Ackerman & Co.



About 11 million square feet of office leases throughout all of metro Atlanta will expire each year from 2008 to 2010, he said. That compares with only 2 million square feet expiring in 2007.

But many tower owners will be competing for those tenants, said Frank Mann, senior director at Cushman & Wakefield of Georgia Inc.

Jamestown Properties bought 999 Peachtree, Hines Interests L.P. bought One Atlantic Center and BentleyForbes bought the Bank of America Plaza, to name a few, he said.

"Those are big-time landlords who want to make a statement in the market," Mann said. Almost all of them are working on their amenity base, whether it is parking or retail to lure new tenants.

There may be a lot of leasing activity about to hit the market, but there's also a lot of competition for it, Mann said.

"There are seven to nine major owners, national players, of really prestigious assets hoping to capture the next substantive deals -- over 50,000 square feet -- which creates momentum that this [tower] is the place to be."

The challenge won't only come from Midtown office towers, he said. Downtown is gaining ground.

Atlanta-based Cousins Properties Inc. (NYSE: CUZ) moved its headquarters to the One Ninety One Peachtree Tower downtown and is pursuing many Midtown tenants, he said. Barry Real Estate Companies Inc.'s Ivan Allen Plaza downtown is also wooing tenants.

"There's a blend here," Mann said. "There's not as strong a distinction between Midtown and downtown."

Barry's Ivan Allen Plaza is on the north side of downtown, with space starting to fill in, he said. "Downtown is not as remote a place as it was five years ago."

Atlanta's Midtown office market has been very strong until the second quarter, said Dorey's Berger.

"This past quarter it had negative absorption, mostly because AT&T consolidated its space at the Campanile Building," he said.



Much of Midtown's success in the past five years has been at the downtown office market's expense, Farrell said. "Whether that trend continues remains to be seen."

Downtown has shown signs of strength lately, with Cousins' move and Cushman & Wakefield moving into Ivan Allen Plaza, he said.

"Midtown is still a very pedestrian-friendly environment," Farrell said. "It has a strong housing market, arts and entertainment district. Midtown will do very well for the long run, but will not have the relative advantage it had over downtown."

Midtown office rents are also among the highest of any submarket, Berger said, at \$26.03 per square foot on average.

But Midtown also has 1 million square feet of office space under construction, including the Selig/Daniel tower and the second office tower at Atlantic Station at 201 17th St., which has 350,000 square feet, he said.

The new Selig/Daniel tower will likely charge rents somewhere between \$32 per square foot and \$34 per square foot, Baile said.

Farrell believes there is likely a demand for space in a new building, but with a rental rate in the mid-\$30s, it "might have some trouble" with occupancy.

Midtown's vacancy rate is 18.2 percent, a little bit higher than Buckhead's office vacancy of 16.6 percent, but lower than the overall Atlanta market at 19.6 percent, Berger said. Downtown's office market has a 26 percent office vacancy.

"Vacancy has been going down since 2006, which was the best year as far as market data in a long time," Berger said. Occupancy has been a little slower in 2007, in part because 1180 Peachtree came on the market in 2006, he said.

12th & Midtown began in August 2006 with 1010 Midtown, a \$159 million, 35-story, 443-unit condominium project on 2 acres at Peachtree Street bounded by 11th and 12th streets and Crescent Avenue. The project, which is also being funded by Earvin "Magic" Johnson's Canyon-Johnson Urban Fund L.P., also includes 38,000 square feet of retail space, more than half of which will front Peachtree.

Phase 2 is the office tower and some of the retail space.



# DANIEL

CORPORATION

Phase 3, at 1125 Peachtree St., is office and/or hotel space with up to 85,000 square feet of retail space, Baile said. Selig and Daniel closed on the land for the second and third phases June 28, paying roughly \$60 million to the Michael C. Carlos estate, according to deed records with Fulton County. Reid Hailey of Hailey Realty Co. and Baile helped broker the parcels.

Phase 4, adjacent to phase 1 across Crescent Avenue and across 11th Street from the Federal Reserve Bank of Atlanta, will likely have up to 80,000 square feet of retail space, as well as condo and apartment units, he said.