



## **Atlanta's Rental Rebound**

*Midtown to get 330-unit Apartment Tower at 77 12th Street*

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by Maura Webber Sadovi

Developers are set to break ground next month on an \$82 million glass tower in Atlanta's stylish Midtown area in the latest sign that the apartment recovery is breathing some life into the country's troubled construction sector.

The planned 330-unit tower, at 77 12th St., also is the next phase in a massive Atlanta development that was put on hold by the economic downturn.

A venture of Selig Enterprises Inc. and Daniel Corp. broke ground about five years ago on the \$2 billion mixed-use project, named 12th & Midtown, which was slated to include nine towers on about 17 acres. But the project stalled after the construction of three towers containing Loews Atlanta Hotel, office space, condominiums and retail stores. The 425 new condominiums remain just half sold and its 725,000 square feet of office space is 65% leased.

Meanwhile, apartment rentals in the area are in short supply. The vacancy rate in Midtown fell to 7.2% in the third quarter from 11.4% in the year-earlier period, according to real-estate research firm Reis Inc. Selig and Daniel put unsold condos on the rental market, and executives said some of them now have a waiting list.

"Atlanta got caught up in the condo boom, but there's a shortage of market-rate apartments," says Steve Baile, senior vice president of Birmingham, Ala.-based Daniel. "We thought it was time to test the market."

Buoyed by consumers who can't afford down payments on houses or condos, the apartment sector began to rebound early last year and has emerged since then as one of the brightest spots in the real estate recovery nationwide.

Effective U.S. third-quarter apartment rents, which include landlord discounts, stood at \$1,004 a month, up from \$981 in the year earlier, while vacancies fell to 5.6% from 7.1%, according to Reis. Developers are taking notice. While new apartment construction will fall to its lowest level in years in 2011, Reis forecasts 88,839 new units to be added next year, a 0.9% increase in the total supply.

Lenders are even getting comfortable providing construction financing for rental apartment projects. In Midtown Atlanta, a subsidiary of Northwestern Mutual Life Insurance Co. has provided a \$53 million construction loan and \$26.1 million in equity to finance 77 12th St. Daniel and Selig also are putting in \$2.9 million of equity.

Last year, Northwestern started an initiative to increase its investments in new apartments. The company was drawn to the Atlanta project because it is located in an established area and is one of the first new apartment complexes to get under

way in this cycle, positioning it to benefit from pent-up demand, according to Thomas Zale, managing director of real estate equities for Northwestern Mutual.

There are other advantages to building now. The construction industry's unemployment rate of 13.7% in October was well above the national rate of 8.5%, said the Associated General Contractors of America, meaning more competitive pricing on some projects. Mr. Baile estimates the Atlanta tower will cost about 10% to 15% less to construct than it would have at the market's peak.

Elsewhere in Atlanta, many owners are still struggling. Homes in the metro area have lost one-third of their value since 2008, according to the National Association of Realtors. The Buckhead office market to the north of Midtown has a vacancy rate of nearly 25%, partly due to a recent wave of speculative development.

The new rental-apartment project comes at a time that landlords and businesses in Atlanta are hoping to see a continued renaissance in the Midtown area. Home to the Federal Reserve Bank of Atlanta and the apartment where author Margaret Mitchell wrote much of "Gone with the Wind," the neighborhood is changing from a district with office towers that emptied out at night to an arts-oriented community where people live and work.

Since 1997, 11,400 new residential units, most of them condominiums, have been built, according to Kevin Green, president of the Midtown Alliance. "What we don't have that much of is quality rental," says Mr. Green. "That's a welcome change."

The developers of 77 12th St. are planning to rent apartments starting at \$1,500 a month for one-bedroom units, with such amenities as granite kitchens and a salt-water pool. They believe that by bringing new residents to the area, the project also will boost more demand for office space, restaurants and stores in the larger development.

The developers, who initially hoped to complete the entire project in 10 years, now predict it will take 15 to 20 years to finish.

"Critical mass is important," Mr. Baile says.