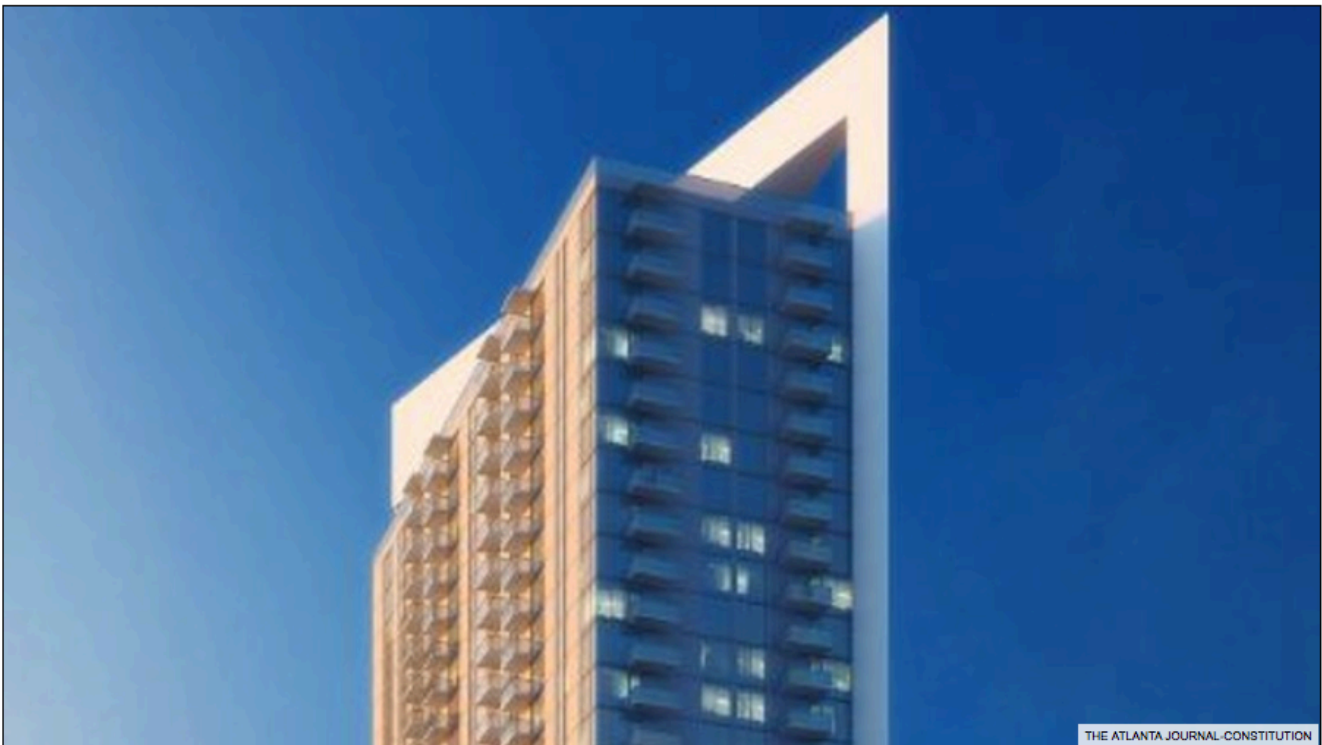


Buckhead high-rise a bet Atlanta's rental market still has room to run

BUSINESS

By J. Scott Trubey - The Atlanta Journal-Constitution



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The distinctive crown to Related Group's planned 35-story apartment tower in Buckhead. The building is designed by Smallwood, Reynolds, Stewart, Stewart.
Source: Related Group and Smallwood, Reynolds, Stewart, Stewart

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A Miami developer is gearing up to break ground on its second major luxury apartment tower in Buckhead, a bet there's still plenty of demand for high-end rentals.

Steve Patterson, the president and CEO of Related Group's development arm, said he expects to start construction in mid-February on the 35-story high-rise near Lenox Square. The tower is the latest in a wave of luxury apartment development that has added tens of thousands of units to the region during the economic recovery.

The \$140 million building will rise on a tract at Peachtree and Stratford roads near the Maggiano's Little Italy restaurant. Patterson said the company will soon finalize its financing for the 362-unit tower. Prudential is the equity partner in the project.


Atlanta's apartment boom has been driven by job growth, downsizing baby boomers and millennials who have tended to rent rather than buy.

There have been concerns about overbuilding, particularly in the luxury segment, with lenders pumping the brakes on development loans and developers taking pause in some saturated Atlanta neighborhoods.


Still, Patterson said the fundamentals driving Atlanta's economy and the growth in the rental market are sound.

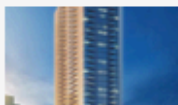
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"All of this residential is happening because of the demand," Patterson said.

Rents continue to climb metrowide, albeit at a slower pace, and vacancy rates have dipped as new projects open.

Rents rose 7 percent in the 12 months ended in September, according to a report from real estate services firm Marcus & Millichap. Vacancy stood at 4.2 percent.

The market, Patterson said, isn't overbuilding.

"They pay me to worry. I worry about it a lot," he said. "But in this business it's a little like driving an oil tanker. You have to make decisions far in advance. You can't turn on a dime."

The Buckhead tower, likely to carry the Apogee brand, follows Related's Apogee Midtown project at 14th and West Peachtree streets. The Midtown tower, which includes a Whole Foods grocery store, will begin pre-leasing in August with an anticipated opening in November.

Related plans an early 2019 completion for the Buckhead tower, which will include space for a high-end restaurant, retailers and office tenants.

The two towers will be closely watched. Most of the apartment development in the Atlanta area in recent years has consisted of mid-rise buildings. Construction costs are growing and high-rise buildings demand top-of-the-market rents.

In Midtown, about 4,000 apartment units are under construction, with 3,000 in high-rise buildings, according to real estate consulting firm Haddow & Co. Another 1,800 units have been proposed. Some 3,600 units are under construction in Buckhead, with another 3,700 proposed.

"In past six months or so the pace of announcements of new developments has slowed dramatically. We view that as a positive," said Ladson Haddow, vice president at Haddow & Co. The slow down in announcements will help moderate new supply.

Haddow said new apartment communities in intown Atlanta neighborhoods have performed well, and are enjoying some rent growth and obtaining high occupancy rates.

"You look at those metrics and you can't point to any warning signs, but if you look at what is coming on line the lending community is being cautious," he said.

High-rises likely need to reach monthly rents topping \$2.50 per square foot — or \$2,500 a month for a 1,000-square-foot unit — given rising costs of construction and other factors, Haddow said.

A second phase in Buckhead is also planned and could be a hotel, condos or apartments, but the decision on that project will come later, Patterson said.

The two towers are Related's first developments in Atlanta, though a multi-tower project in Buckhead by Related was scuttled during the recession.