RetailResearch

MARKET OVERVIEW

Marcus & Millichap

Atlanta Metro Area | *Second Quarter 2015*

Corporate Expansion in Atlanta Fuels Northern Perimeter Retail Uptake

Sizable advances in population and employment growth have sparked a resurgence in the retail sector, pushing the recession recovery to new heights. As major corporations such as Mercedes-Benz, Comcast and Wal-Mart join the legions of tech firms expanding in Atlanta, retailers have received the necessary motivation to open new locations. As a result, net absorption more than doubled construction totals despite a more elevated level of development in relation to past years in the current cycle. Retailers and builders are focusing their efforts on employment hubs to the north of the city as high-paying corporate positions flood into the area, causing vacancy to plummet as new projects fail to keep up with rising demand for space. Conditions have improved dramatically over the past year, but 2015 is shaping up to be even stronger as construction cools, allowing for additional retail growth to remove excess supply from the market while the metro inches ever closer toward pre-recession levels of vacancy. These factors will combine to push rents higher this year, breaking trend from the sluggish growth seen in prior years.

Vigorous demand at the institutional and individual investor levels has compressed cap rates over the past year as low interest rates and the thirst for yield headline investment rationale. Individual buyers have increased activity notably over the past year, motivated by tax implications on exchanges, while REITs and syndicate funds dominate the high end of the market. Single-tenant assets in favorable locations with long leases and good credit will sell with cap rates in the 5 percent range, while new power centers will trade with first-year yields in the high-6 to low-7 percent range, depending on the tenancy and lease profile. Cap rates on new two- or three-tenant strip centers have dipped into the mid-7 percent range since the start of the year, drawing increased investor attention. While cap rates have fallen, favorable yield comparisons to other primary markets along with economic and demographic outperformance will support additional capital deployment in the metro.

2015 Annual Retail Forecast

3.1% increase in total employment

Employment: The acceleration in hiring will moderate somewhat this year as the metro adds 80,000 new jobs, a 3.1 percent expansion. In 2014, Atlanta firms added 97,300 new positions.

1.6 million square feet will be completed

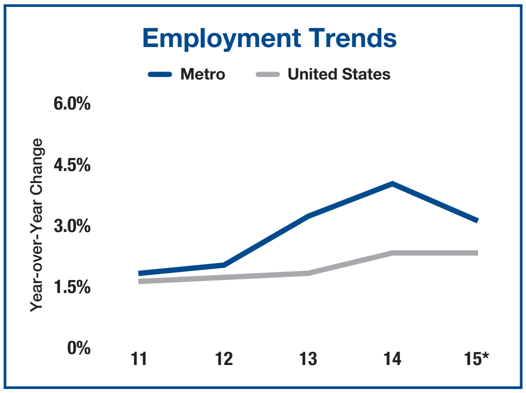
Construction: Developers will complete nearly 1.6 million square feet of retail space this year, consisting mostly of pre-leased single-tenant offerings as builders reduce the pace of completions. In the previous year, more than 1.8 million square feet was delivered, the highest pace in several years.

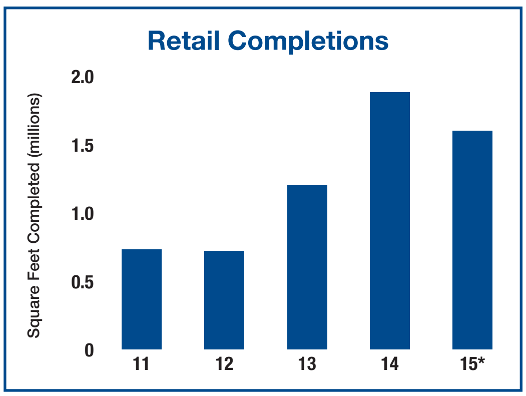
100 basis point decrease in vacancy

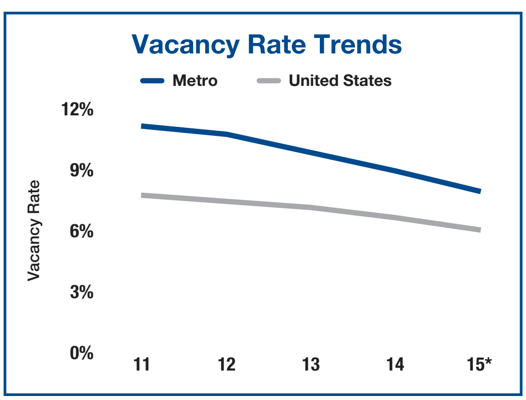
Vacancy: Coupled with lower levels of construction activity, net absorption of nearly 4.5 million square feet will drop vacancy 100 basis points to 7.9 percent this year. In the preceding year, vacancy fell 90 basis points.

1.9% increase in asking rents

Rents: Asking rents will rise 1.9 percent this year to $13.70 as robust population growth and a pickup in retail sales encourage retailers to open new locations. In the same period last year, rents fell 0.1 percent.







* Forecast

Economy

- Atlanta employers added 5,800 positions in the first quarter. More than 82,600 jobs have been created in the past 12 months as economic growth in the metro remains well above the national average.

- Employment expansion was led by the trade, transportation and utilities sector, which added more than 22,000 positions. The leisure and hospitality and professional and business services sectors also outperformed, injecting 15,100 and 15,400 jobs, respectively.

- In March, Gwinnett County Public Schools announced plans to hire as many as 800 teachers for the 2015-2016 school year, highlighting the vigorous demand for public-service jobs as the metro rapidly expands.

- **Outlook:** After adding 97,300 positions in 2014, the pace of growth will moderate slightly this year as more than 80,000 jobs are created, a 3.1 percent increase year over year.

Construction

- During the past 12 months, developers added 1.6 million square feet to the market, an increase of just 0.5 percent to inventory despite the highest pace of development since 2009.

- Builders completed 95,300 square feet in the first quarter as construction activity slowed dramatically. Finished stock brought online in the first quarter was led by a Dollar General in the North Cobb submarket.

- One of the largest projects underway in the metro is the Glenwood Place Shopping Center. This 195,000-square-foot development will be anchored by Kroger and located in the Grant Park neighborhood of Atlanta.

- **Outlook:** While more than 13 million square feet is in the planning pipeline, construction activity will slow modestly this year as builders complete 1.6 million square feet of retail space, primarily in the form of pre-leased single-tenant offerings in Alpharetta, Atlanta, Decatur, Sandy Springs and Woodstock.

Vacancy

- Vigorous development of retail space held vacancy levels steady despite robust absorption, ending the first quarter at 8.9 percent. Over the past 12 months, vacancy has fallen 70 basis points.

- The Central Perimeter and Georgia 400 submarkets greatly outperformed the metro with vacancy falling 120 basis points and 220 basis points, respectively. Net absorption in both submarkets was well above construction levels, supporting further tightening in the market.

- In the past 12 months, more than 3.4 million square feet of retail space was absorbed, more than doubling the pace of new construction. Nearly a third of the space absorption came from the Georgia 400 submarket as retailers scooped up available space in Alpharetta and Roswell.

- **Outlook:** The Atlanta retail market will strengthen considerably this year as subdued levels of development allows net absorption to reach 4.5 million square feet. As a result, vacancy will descend 100 basis points to end the year at 7.9 percent.

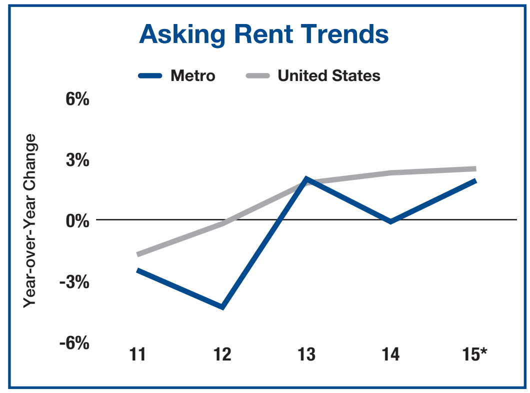
Rents

- Asking rents have been under pressure in the past year, falling 1.4 percent to $13.33 per square foot, as the completion of 1.6 million square feet in the same time period weighed on demand.

- While metro rent growth remained relatively flat over the past year, the Central Atlanta and Buckhead submarkets showed sizable improvement. Rents in these submarkets rose 6.8 percent and 7.3 percent year over year.

- Buckhead posted asking rents over the past year that were nearly double the metro average at $27.67 per square foot as the submarket benefits from its prime location and clientele.

- **Outlook:** Asking rents in Atlanta will continue to stabilize this year as the metro absorbs nearly 4.5 million square feet, allowing rents to advance 1.9 percent year over year to $13.70.



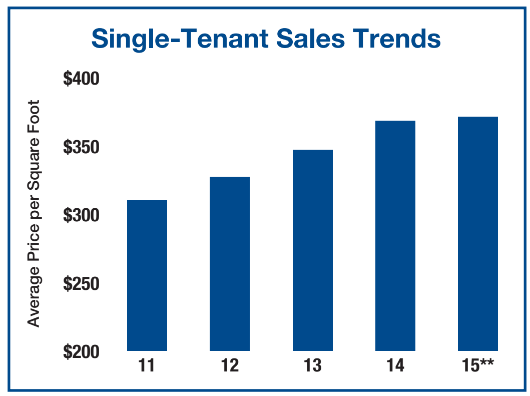
Single-Tenant Sales Trends**

- In the last fiscal year, single-tenant transaction velocity rose 24 percent. Transaction volume increased throughout the year, recording the highest amount of sales in December.

- Along with the pickup in velocity, the average price paid per square foot also moved up 6 percent to $368 as investors focused on high-quality offerings with nationally recognized tenants across fast food, pharmacy and grocery. Well-located Walgreens and CVS assets traded at more than $450 per square foot due to their lease profile.

- Average cap rates declined 30 basis points to 7.3 percent over the past year as investors bid up available properties. New construction, when listed, trade in the 6 percent range.

- **Outlook:** Buyers will remain active in the metro as excellent demographics continue to support additional influxes of capital from coastal market where cap rates are more than 200 basis points lower. The Buckhead, Central Perimeter and Georgia 400 submarkets will receive special attention from bidders.



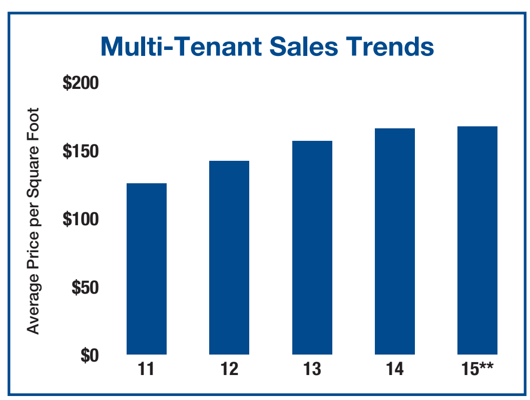
Multi-Tenant Sales Trends**

- Trading in Atlanta's multi-tenant retail sector expanded over the past year, with transaction volume rising 6 percent. Sales activity was widespread, but has been especially pronounced in Atlanta, Duluth and Marietta as investors position themselves in the northern portion of the metro.

- Over the last year, the average price paid per square foot rose 6 percent to $165 as improving operations spurred buyers to bid more aggressively. Investors attempting to exchange properties were especially active during this time frame.

- Cap rates dipped an average of 40 basis points in the last calendar year, ending just below 8 percent. Well-located properties are trading much lower, however, with grocery-anchored centers trading in the mid-5 percent range.

- **Outlook:** Motivated by encouraging trends in employment, retail sales and population growth, investors will remain active in the metro, showing elevated interest in submarkets north of the city along Interstate 285.



* Forecast
** Trailing 12 months through first quarter
Sources: CoStar Group, Inc.; Real Capital Analytics

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Capital Markets

By WILLIAM E. HUGHES, Senior Vice President, Marcus & Millichap Capital Corporation

- The Fed recently indicated that it may raise its short-term lending benchmark as early as June, though September is the most likely target as the central bank awaits further tightening in the labor market and stronger wage growth. Against the prospect of an inevitable rise in interest rates, investors remain highly motivated to purchase retail assets and debt providers continue to compete for market share while also maintaining underwriting discipline.

- Loan-to-value ratios generally range from 60 percent to 75 percent, depending on asset age and quality, location, tenant mix, and tenant credit rating. Multi-tenant assets with strong anchors and a stable mix of national in-line tenants remain preferred. Debt-service ratios range from 1.25x to 1.35x and debt yields of 8 to 9 percent. Financing for bridge loans for stabilized assets typically carry a 65 to 70 percent LTV and spreads range 250 basis points to 425 basis points over LIBOR. Repositioned assets are underwritten at 80 percent of cost with a spread between 300 basis points to 475 basis points over LIBOR.

- Lending rates remain low for performing assets in primary markets. All-in rates for five-year retail loans typically start in the mid- to high-3 percent range, while seven- and 10-year loans price between 3.7 percent and 4.4 percent. Loans up to 20 years range from 4.8 percent to 5.85 percent.

- CMBS lenders participated in slightly more than 50 percent of loans in the tertiary markets, and national banks funded 25 percent. Banks, both national and regional/local, have increased their market share in all markets.

Local Highlights

- After sitting vacant for five years, plans have begun to emerge surrounding the old Doraville GM Plant. Renderings call for a city-within-a-city concept, containing apartments, office buildings and mixed-use projects. The first phase will contain a film and TV studio called Third Rail Studios.

- The Atlanta Braves' proposed mixed-use development in Cobb County has signed its first tenant; Comcast agreed to anchor a multi-story office building beside the stadium. The company intends to make the location its southeast regional headquarters.

- In February, Mercedes-Benz USA announced its intention to relocate its headquarters from New Jersey to Sandy Springs. As a result, the company will hire as many as 1,000 corporate jobs at the historic Glenridge Hall site where its facility will be located.

- Technology firms continue to prosper in Atlanta, with Cisco Systems recently announcing plans to add 150 employees, while fintech startup Riskalyze is adding 60 workers in the metro.

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