



Atlanta Retail Market Enters Expansion Territory

Key Takeaways

- Atlanta's retail market has so far experienced a slight slow down in absorption as many prospective tenants set their sights on the large mixed-use developments currently under construction. The 500,000 SF of absorption thus far puts the Atlanta market on pace for 1 million SF of space absorbed during 2016, which would be half of the absorption the metro area experienced over the last three years.
- As a result the vacancy rate, which had fallen on average 1% per year over the last 4 years has only decreased 0.2% so far this year.
- After ending last year on a strong note, average rental rates have continued to rise from bottoming out in 3Q15. The current average quoted rate of \$12.40 is the same as the average rate in the first quarter of 2015. Once large mixed-use projects such as The Battery at SunTrust Park deliver the average rent rate will get another boost upwards.
- The upward tick in rent provides hope that the supply and demand dynamics have reached a suitable point for the nearly 3 million square feet of construction that is taking place. This is the most retail space under construction since 2007.
- Macroeconomic conditions continue to look strong in Atlanta with another 80,000 jobs expected to be added this year, consumer spending driving GDP, and an increasingly bullish housing market.

Atlanta Retail Market

Atlanta's retail market continues to power ahead just at a slower pace than it had been the previous three years. The 516,032 SF of absorption in the first half of the year is only 60% of the space absorbed this time last year. This being so, vacancy still dropped 0.2% due to a limited amount of supply delivering. Also it is important to note, in the last three years, retail absorption has drastically picked up during the second half of the year. In fact, during this same time, second half absorption has combined

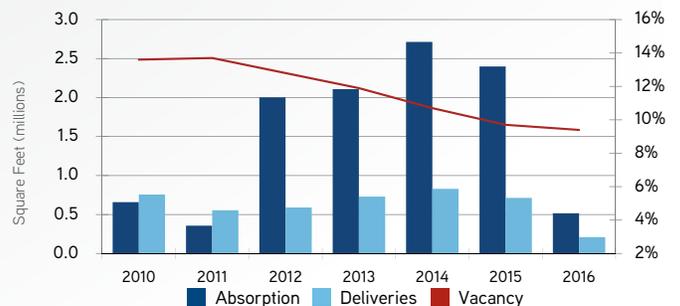
Market Indicators

Relative to prior period

	ATL MY-2016	ATL YE-2016*
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↑	↑
RENTAL RATE	↑	↑
CAP RATES	↑	-

*Projected

Historical Absorption, Deliveries and Vacancy Rates



Summary Statistics

Atlanta Retail Market

Total Square Feet	166,983,484
Vacancy Rate	9.4%
Change From YE-2015	-0.2%
Absorption YTD	516,032
Construction Deliveries YTD	210,097
Under Construction	2,994,844

Asking Rents

Per Square Foot Per Year

Average Quoted	\$12.40/sf nnn
Change From YE-2015	1.3%
Year-Over-Year Change	1.1%

NOTE: Statistical Set Includes Power Ctr, Shopping Ctr, Specialty Ctr; 10,000 SF and up (excludes Malls)
SOURCE: CoStar Property, Colliers Research

to more than twice the absorption of the first half of those same years. This trend should continue again in 2016. Landlords across all asset types should for the most part be content as power centers, shopping centers, specialty centers, general retail, and malls all had positive absorption during the first half of the year. Rental rates continue to increase as the success of new high quality retail has begun to make up for the abundance of old low quality assets that often sit vacant for years. Atlanta delivered an above average (over 7 million SF) amount of retail for 14 straight years from 1995 to 2008. The large amount of overbuilding caused an oversupply that had stopped construction until recently. With market fundamentals looking strong, a couple of rather enormous mixed-use projects are underway with retail playing a predominant role. As these projects deliver, absorption and rental rates will increase further and better reflect the current strength of the market.

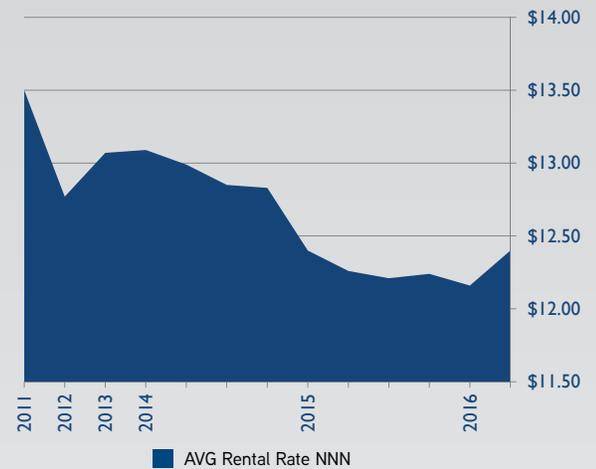
Driving Factors

- Submarkets with the most demand thus far in 2016 include; S. Atlanta, S. Cobb, Ga. 400 Retail and Central Perimeter.
- Grocery stores, unquestionably the king of anchor tenants in Atlanta these days, continue to have a large and adaptable presence. Whole Foods 365, a low-price concept geared towards millennials, is being rolled out on the ground level of multiple multifamily projects. Sprouts has continued to add locations since arriving in the Atlanta market a couple years ago. European grocers Lidl and Aldi have targeted Atlanta as a market for future stores. Lastly, Kroger is doing the opposite of most grocers and increasing the size of their concepts, as shown by their 114,000 square foot store just opened at Glenwood Place.
- Other big box retailers continue to close stores. Some like JC Penney and Sears are merely closing under performing stores, while others like Aeropostale and Sports Authority filed for bankruptcy in the same month. Sports Authority famously announced the closing of all of their stores in May, which included 10 locations in Atlanta. Macy's recently announced that they plan on closing 100 stores. Macy's has 10 locations in Atlanta and has already announced the closing of the North DeKalb Mall location.

Retail Development

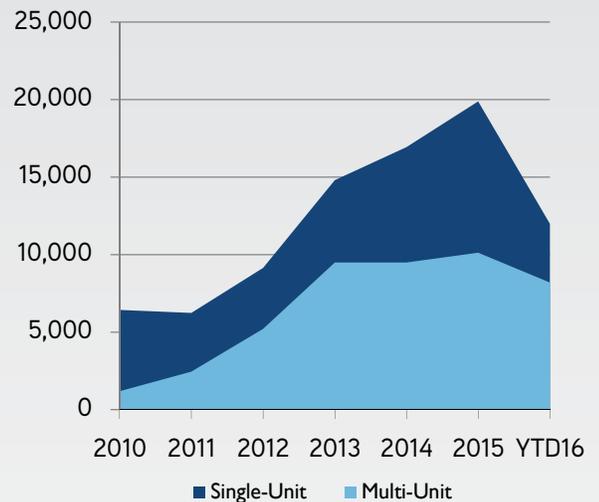
- The amount of retail under construction has continued to increase to now nearly 3 million SF. A majority of the projects are from big name Atlanta developers who are building large mixed-use projects in the northern suburbs.
- Fuqua accounts for about a third of the construction. Their projects include The Battery at SunTrust Park, Peachtree Corners Town Center, and the Kennesaw Marketplace.
- North American Properties began phase 2 of Avalon which will soon have a huge mixed-use rival in the area thanks to Roca Point Partners and The Georgetown Company's Halcyon, a \$370 million project that broke ground this year.
- North American Properties has begun work on one buzz worthy ITP project with their renovation of Colony Square.

Atlanta Retail Rental Rates Overall Market (per sq. ft. NNN)



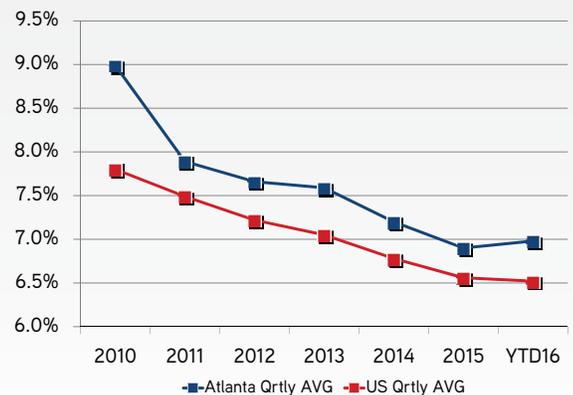
Source: CoStar Property

Atlanta-MSA | Annual Housing Permits



Source: U.S. Census Bureau

Atlanta Retail | Investment Cap Rates



Source: Real Capital Analytics

UPDATE - Recent Transactions in the Market

Notable Leasing Activity

TENANT	PROPERTY	SUBMARKET	LANDLORD	SIZE (SF)	TYPE
Kroger	Dawson Marketplace	Georgia 400 Retail	Dev. Authority of Dawson	123,000	Lifestyle Center Lease
Cabela's	2153 Jodeco Road	South Atlanta	RCP Companies	72,000	Retail Lease
Academy Sports	Haynes Bridge Road	Georgia 400 Retail	Cousins Properties	63,000	Retail Lease
Austell Farmers Mkt.	3565 Austell Road	South Cobb Retail	YHDR LLC	57,903	Neighborhood Lease
Hobby Lobby	Georgia 400 Hwy	Georgia 400 Retail	Blanchard Real Estate	55,000	Lifestyle Center Lease

Notable Sales Activity

PROPERTY	SUBMARKET	SALES DATE	SALE PRICE	SIZE (SF)	PRICE / SF	BUYER
Avalon Phase I & II	Georgia 400 Retail	7/25/2016	\$500,000,000	1,100,000	\$454.54	PGIM Real Estate
Bartow Marketplace	Northwest Atlanta	4/8/2016	\$34,800,000	375,067	\$92.78	Phillips Edison Grocery Center
130 Peachtree E. Shopping	South Metro.	5/23/2016	\$24,350,000	183,292	\$132.85	Publix Supermarkets Inc.
Northlake Mall	Dekalb Retail	1/29/2016	\$24,000,000	576,549	\$41.63	ATR Corinth Partners
218 Peachtree Street	Downtown	1/12/2016	\$20,000,000	34,000	\$588.24	Coro Realty Advisors

Source: CoStar Property

Investment Sales Activity

- › Retail investment volume is at \$448 million YTD according to Real Capital Analytics. This means that Atlanta's sales volume is down 50% year over year.
- › Atlanta's bullish market the last three years, with prices continuously increasing, has led to a lack of quality available offerings remaining. This is also the reason cap rates have remained relatively steady.
- › Investor confidence going forward remains high as buyers still outnumber sellers and market dynamics continue to be strong.



FOR MORE INFORMATION

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