

THE RETAIL INVESTOR'S REPORT

By Carol Carter

Once upon a time there were downtown shopping districts. Then came strip centers and malls, followed by power centers and big boxes. What's next on the Atlanta retail scene? Plenty, according to experts who watch and work the sector every day.

On the horizon are malls stores without the mall, entrepreneurial retailers and the demise of grocery-anchored centers. Look for more evidence of all three during the next six to 12 months.



Mira Bergen
A Store Is Born

"Mall stores without the mall" is how Mira Bergen, president of A Store Is Born, describes The Avenue at East Cobb, the Cousins Properties Inc. project that's attracting retailers, such as Williams-Sonoma, traditionally found only in malls. Located at the intersection of State Highway 120 and Johnson Ferry roads, the 235,000-square-foot center will be home to 35 stores. Others, in addition to the upscale kitchen store, are Ann Taylor, Pottery Barn and Smith & Hawken.



Ruth Coan
The Shopping Center Group

"That type of specialty-anchored center with some of the limited concepts - Gap, Gap Kids, Abercrombie (& Fitch) - are going to be replicated. You can expect to see efforts to do similar centers throughout the city. A couple of developers have announced interest in developing centers comparable to The Avenue at East Cobb in Gwinnett (County). So, there will be a little bit of a shift from those very large power centers to a little bit more of a specialty center," says Ruth Coan, principal with The Shopping Center Group.

At the old, power center sites, Coan says, "I think you will see black teeth. You'll see vacancies at some of these power centers." What retailers will take over the space? Coan predicts economy-minded retailers - the Fashion Bugs of the world - who are not able to justify in their pro forma the cost of new construction retail. "Some of the fabric stores, some of the craft stores, some of the hobby stores will be more comfortable with that second generation," she says.



Tina C. Howard
Spectrum Realty Advisors

Tina C. Howard, vice president of Spectrum Realty Advisors, sees entrepreneurial owners taking over some of the older centers. This is good, she says, because often they are able to offer better rent deals initially. Where it becomes troublesome is several years out when they continue to raise rates. "Often, these entrepreneurs buy on a pro forma that steps rates up over three years, five years, etc. These guys buy on the assumption rates will go up," Howard says, noting that artificial inflation of rates is not good for the market. "The retailers' expenses go up, and then stores start to go out of business," she says.

Yet another change coming down the pike, according to Coan, is the decline of grocery-anchored centers and the rise of centers anchored by other types of retail. "One of the types that's duking it out right now is the office supply retailer, specifically, Staples (not here yet, but coming), Office Depot and OfficeMax. To assure their foothold, they are expanding more quickly than, perhaps, they might have had they not had competition looming. Each of them is trying to establish their turf before the other gets there," Coan says.

Another big change Coan foresees is the movement of retail out to smaller communities. "What you will see is the same kind of activity or the growth of power centers but in

some of the middle retail markets. An example of that has been the large, new development, really an agglomeration of multiple power centers really strung together in Augusta at the intersection of Bobby Jones (Expressway) and Interstate 20. Knoxville, Memphis and Nashville, are experiencing the growth of the power center that really, at one point, was limited to metropolitan Atlanta-type markets," she says.

Howard has her eye on what she calls infill areas between malls. She cites places such as Dallas Highway, between Town Center and Douglasville, and Peachtree Corners/Duluth, halfway between North Point Mall and Gwinnett Place. The malls are there, Howard says, but plenty of people have to drive 10 miles to reach them, so retailers such as Target and Lowe's are filling the space in between malls.

Here's how these retail experts weigh in on key market indicators. Coan sees retail demand going down in the six-month and the 12-month time frames. Howard sees demand down over the six months then up again after that. Bergen gives a thumbs up all the way around.

"I don't see a topping out in the demand at all. I see retail space being at a premium. It's definitely a landlord's market," Bergen says.

Coan doesn't see supply as moving up or down. She merely sees it changing, with the movement of second generation retailers into older power centers.

Howard says if the last year is any indication, then supply is dwindling and probably will continue to do so.

Bergen thinks supply is moving up. She notes that retailers are going to have to be creative in what to do with big box spaces left empty by yesterday's category killers.

On leasing rates, Coan says she sees no softening. "First of all, land costs seem to be holding and, as a result, the cost of development, the cost of materials, are justifying, from a cost basis, a rent that will be similar to the rents of today. So, there's not a softening at this time. Rather than seeing a softening, I think what you may see is just fewer developments."

Howard says rental rates will go up on new centers. New properties drive the rates up, she says, and that inevitably draws older centers along with it. She predicts leasing activity will continue to be strong.

Bergen, too, sees rates going up, with landlords offering less to tenants. "In the areas where people really want to go, there's not enough good space," she says. Bergen sees leasing activity continuing on the upswing.

Regarding specific areas around town, all acknowledge that Douglasville is hot because of the new mall going up there and ditto for the Mall of Georgia area on Interstate 85 North. Beyond those two obvious areas, Bergen says Forsyth County and Gainesville are heating up.

Coan notes that the once-hot Perimeter Mall area is cooling off simply because there's a limited amount of land available for the same kind of growth momentum.

She does point out there is some space left in the Perimeter area, specifically adjacent to Costco, where she says there will be a retail development.



Gwynn F. Ross
Urban Retail Properties

Gwynn F. Ross, senior leasing representative for Urban Retail Properties, admits her view is limited to the area around Galleria Specialty Mall where she works, but sees the Cumberland Mall area continuing hot in leasing, supply and demand in the foreseeable future.

"A lot of absorption is still going on. Smyrna's undergoing a big retail redevelopment in its main street area, and there are a lot of businesses still moving into our market. The amount of construction going on with office towers is great for retail because they have retail needs," Ross says. ■

Retail Market Wisdom

Name Company	SUPPLY		DEMAND	
	6 months out	12 months out	6 months out	12 months out
Ruth Coan The Shopping Center Group	↔ even	↔ even	↓ down	↓ down
Mira Bergen A Store Is Born	↑ up	↑ up	↑ up	↑ up
Tina C. Howard Spectrum Realty Advisors	↓ down	↓ down	↓ down	↑ up

Retail Market - Summer 1998					
Retail Submarkets	Existing Sq. Ft.	Total Available Space	Percent Vacant	Sq. Ft. Under Construction	Number of Centers
Area A - Central Business District	1,128,021	123,043	11%	0	28
Area B - Midtown	1,744,659	392,196	22%	0	46
Area C - Buckhead	6,691,869	45,466	7%	460,430	108
Area D - Sandy Springs	6,209,770	330,251	5%	71,473	71
Area E - West Atlanta	1,322,617	185,450	14%	7,000	19
Area F - South Atlanta/Airport	2,804,038	321,547	11%	0	38
Area G - East Atlanta	4,317,474	910,033	21%	0	59
Area H - Northeast Atlanta	513,005	446,853	9%	0	54
Area I - Peachtree Corners/Norcross	9,637,686	763,487	7%	359,218	124
Area J - North Fulton	7,507,798	349,118	5%	375,760	82
Area K - Cumberland/East Cobb	11,373,673	1,018,674	9%	16,000	158
Area L - Austell/Fulton Industrial	2,786,663	372,491	13%	196,944	38
Area M - I-85 South	2,145,118	184,067	13%	0	29
Area N - Forest Park/Jonesboro/Clayton County	6,786,425	675,074	10%	265,000	86
Area O - Stockbridge/McDonough/Henry County	846,120	91,153	11%	81,450	13
Area P - Lithonia/Conyers/I-20	4,663,780	309,856	7%	121,392	59
Area Q - Stone Mountain/Snellville	6,634,727	892,837	13%	1,015,178	108
Area R - Northeast Gwinnett County	4,574,049	199,047	6%	2,217,200	63
Area S - Kennesaw/Northwest Cobb	6,855,537	715,752	10%	208,703	73
Area T - Cartersville/Bartow County	1,114,849	53,526	5%	0	10
Area U - Forsyth County/GA 400 North	1,534,702	219,340	14%	6,000	13
Area V - Gainesville/Hall County	1,826,799	111,711	6%	0	19
Area W - Cherokee County	2,062,132	58,212	6%	0	25
Area X - Douglasville/Douglas County	1,755,038	65,840	4%	1,663,527	31
Area Y - Fayetteville/Fayette County	2,562,983	84,263	3%	12,000	20
Area Z - Griffin/Spalding County	1,134,537	115,616	10%	0	10
Area AA - Dallas/Spaulding County	830,649	53,591	11%	0	10
Area BB - Newnan/Coweta County	1,355,442	55,816	4%	0	11
METRO ATLANTA TOTALS	102,720,160	9,144,310	N/A	6,101,318	1405

Source: DOREY RESEARCH, 6000 Lake Forrest Dr., Suite 500, Atlanta, GA 30328 • 404/257-1962

