

WEDNESDAY, JULY 11, 2007

# DAILY REPORT

## COMMERCIAL REAL ESTATE Mixed-use developments



ZACHARY F. PORTER/DAILY REPORT

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Meet Frank Hartley, who lives intown in a MUD community; practices outside the Perimeter.



ZACHARY D. PORTER/DAILY REPORT

Lisa Dowling's on-foot commute from her Atlantic Station condo to her office at Arnall Golden Gregory is about five minutes.

# Multi-use communities appeal to professionals

ATLANTA PROFESSIONALS are fleeing the 'burbs—and endless commutes—for the promise of a live-work-play lifestyle

KAREN DEAN | Special to the Daily Report

**LISA DOWLING STARTS** her day like many busy attorneys. She wakes. She dresses. She eats a quick breakfast and departs for another work day.

But later in the morning, when her Arnall Golden Gregory colleagues disclose their tales of Atlanta's notorious morning traffic congestion, Dowling doesn't have much to share. That could be because her worst commuting complaint was navigating around a wayward shopping cart.

In the eyes of Atlanta's road-weary traffic warriors, Dowling has achieved commuting Nirvana. Her work route is a leisurely stroll from her Atlantic Station condominium to the firm's office, also located in Atlantic Station. Five minutes from door-to-door.

When there's rain, the trip may take as long

as seven minutes. She admits to "rarely" buying gas, hoofing it to shop, dine with friends at restaurants or see the latest movies.

Dowling is among a growing number of professionals flocking to new-urbanist, multi-use communities. Boasting compact designs, in-town conveniences and perks—sometimes even revitalizing blighted pockets of the city—experts agree live-work-play developments like Atlantic Station are here to stay.

## Compact design

A balanced and enjoyable work-life environment—that's the promise of mixed-use developments (MUD). As part of the so-called Smart Growth trend, MUD advocates claim they can successfully manage the housing demands for an increasing population, deal

with shrinking land availability, while helping to protect the environment and reducing traffic and congestion. A tall order for any real estate project.

MUDs typically blend high-rise residential with retail and entertainment options in a pedestrian-friendly environment. Offering high-density infill opportunities, advocates say these projects also provide good financial returns, making them increasingly attractive to developers as well as city leaders.

The developments also appeal to investors. In the cyclical world of real estate, MUDs can provide a partial cushion against economic losses.

"There's a collection of markets, each reacting differently," says Scott Harrington, AICP, an urban land consultant for Milwaukee-based

Vandewalle & Associates. "It may be that the residential market is hot and office is slow, or retail is hot and residential is down. Development also can be phased in over time, so the risk is diversified. For developers, that keeps all the eggs out of one basket, so to speak."

It's also this mix of components that proponents position MUDs to have a longer lifespan than standalone retail projects.

"Once you have a successful project that works, you have one that will be viable for a long period of time," says Gary Farris, a commercial real estate attorney and partner at Burr & Forman in Atlanta. "With so many components, you have lots of people invested in the success, including the government. I don't think you'll see these projects experiencing the decay like other real estate ventures that are suddenly out

of favor. These will have more staying power."

### History repeats

Mixed-use developments aren't a new idea. At the turn of the 20th century, most cities were developed vertically; retail and residential often shared the same building space. European cities are renowned for their café-dotted neighborhoods. So what happened to the early mixed-use trends?

"There are plenty of reasons zoning restrictions began to emerge," says Jeff DuFresne, executive director of the Urban Land Institute's Atlanta chapter. "The evolution of manufacturing facilities, skyscrapers or other buildings that weren't compatible with residential homes are just a few of the many issues."

When the affordability of automobiles in post World War II gave budding homeowners the means to leave the city, the exodus began, with families searching for their own plot of green grass and fresh air. The distance between residential and retail grew wider. Eventually most regions adopted zoning policies dividing development into distinctly separate districts—a trend that has continued into modern times.

With concentrated areas of housing and commercial building so separate, road congestion is inevitable.

"We have suburban counties where more than 70 percent of the individuals who own property in the county work elsewhere," says Dan Reuter, director of land use planning for the Atlanta Regional Commission. "Places like the Perimeter Mall area has more than 100,000 jobs, but less than 20,000 housing units, so there's not much alternative."

This checkered pattern of residential and retail hop-scotches throughout the 18-county metro area. "For decades, we just reacted to zoning requests, while other U.S. cities had a much more deliberate way of trying to have goals for housing," says Reuter. "Georgia didn't have a planning act until 1989, so we've only been doing statewide planning since then. It's been a learning process, but we've gained more familiarity with the methods and are becoming a little more aggressive about how we plan future community growth."

Planning and completing a mixed-use development isn't something taken lightly—to the contrary, it's fraught with challenges. "It's a bit like herding cats," says Farris, who represents several major commercial real estate lenders. "There are many things that have to work together to be successful. Since everything is tied into a finite area, there's a concern that if one component doesn't work out, it will drag down the rest of the project."

Farris was an early player in Atlantic Station's metamorphosis and witnessed the wrangling required along the way. "It took the developer the better part of 10 years to sort through the environmental issues—ground contamination and clean air concerns—and deal with traffic concerns to really get the project moving," he said.

Because of the mixed components in MUDs, developers often take a team approach when tackling the projects. Partnerships allow each developer to utilize their strengths, whether negotiating and constructing the residential or retail areas.

"The right project with the wrong developer is just as bad as the wrong project," says Harrington. "Most developers do one area extremely well, but trying to mix them successfully is more difficult than it sounds."

Then, there's the financing. Lending institu-

## As new multi-use developments make their way through the city, older zoning guidelines are playing catch-up to the unique requirements they present.

tions are becoming friendlier to the concept, as the successful developments gain track records. But the learning curve is steep, and the potential for problems is high. As Jeff Fuqua, president of the development division at The Sembler Co., points out, even something like a small fire in any section of mixed-use devel-

opment raises a complexity of insurance and financial issues: potential loss of retail use, residential damage, etc.

Success also hinges on parking lot design, retail mix, layout, traffic flow and entertainment options, combined with the residential demographics. "The benefit for retail is the ready base of customers in the area," Farris says. "But if the demographics don't work, there will be conflicts. A project can quickly get stigmatized if the retailers fall out or the match wasn't planned out successfully."

For Fuqua mixed-use developments are now his bread and butter. Sembler recently completed Perimeter Place in DeKalb County, a 452,000-square-foot mixed-use complex across from Perimeter Mall, and has another project under way near Brookhaven. Most

of Sembler's current projects are multi-use, says Fuqua. That's a significant shift that has occurred over the past five years.

"They can be done successfully, but the building issues are complicated," he says. "You're combining different types of buildings, which many municipalities don't have the building codes to deal with. You either find ways to deal with that or the potential project becomes too expensive and not feasible to continue."

As new MUDs make their way through the city, the older zoning guidelines of city and county governments are playing catch-up to the unique requirements of these modern developments. But Fuqua says county officials are typically cooperative in working through

See MUDs, page 6

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# MIXED-USE DEVELOPMENT Around Atlanta



## ALLEN PLAZA

Downtown

**Developer:** Barry Real Estate Co.  
**Proposed size:**  
 30 Allen Plaza—12 stories, 260,000 sq. ft.  
 55 Allen Plaza—14 stories, 346,000 sq. ft.  
 W Hotel—10,000 sq. ft. meeting space,  
 237 rooms, 76 residences  
 50 Allen Plaza—34 to 48 stories, estimated  
 600,000 sq. ft. to 1 million sq. ft.  
**Projected budget:** \$1.5 billion  
**Estimated completion date:**  
 Current phase—2008  
**Leasing:** Barry Real Estate Cos.



## TRUMP TOWERS ATLANTA

15th and West Peachtree streets

**Developer:** Wood Partners LLC, Dezer Properties  
 Inc. and Donald Trump  
**Proposed size:** 48 stories, 363 condos, 10,700 sq. ft. retail  
**Projected budget:** \$260 million  
**Estimated completion date:** Spring 2010  
**Leasing:** Wood Partners



## 12TH & MIDTOWN

1080 Peachtree St.

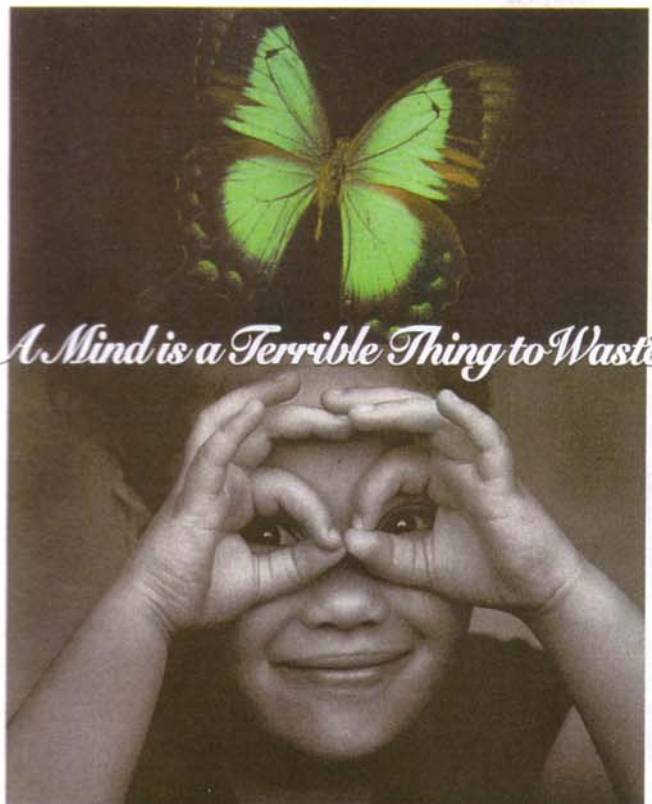
**Developers:** Daniel Corp., Selig Enterprises,  
 Canyon-Johnson Urban Fund  
**Proposed size:** 2.5 million sq. ft., 1.2 million  
 sq. ft. office space, 500 hotel rooms, 600  
 residences, 150,000 sq. ft. retail space  
**Projected budget:** \$1.1 billion  
**Projected completion:**  
 Phase I—Fall 2008  
 Phases II & III—2008-2009  
**Leasing:** Daniel Corp.



## TERMINUS

Peachtree Street and Peachtree

**Developer:** Cousins Properties  
**Proposed size:** 9.9 acres  
**Proposed budget:** \$660 million  
**Terminus 100:**  
 27 stories, 584,000 sq. ft. office  
 60,000 sq. ft. retail/parking  
 Completion date: April 2007  
**Terminus 200:**  
 25 stories, 565,000 sq. ft. office  
**Terminus 10:**  
 32 stories, 142 condominiums  
**Estimated completion date:** mid-2008  
**Leasing:** Cousins Properties



*A Mind is a Terrible Thing to Waste*



## BROOKHAVEN VILLAGE

Peachtree Road near Cross Keys Drive

**Developer:** The Sembler Co.  
**Proposed size:** 1,200 residential units—apartments/condos, townhouses  
 600,000 sq. ft. retail, 5-story, 150,000 sq. ft. office tower  
 50-acre site  
**Projected budget:** \$400 million  
**Projected completion:** Spring 2009  
**Leasing:** The Sembler Co.



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# DEVELOPMENTS in Atlanta



## TERMINUS

at the intersection of Peachtree Street and Piedmont Road

Developer: Regent Properties  
Site: 9 acres  
Budget: \$660 million

Phase I: 1,000,000 sq. ft. office  
Phase II: 1,000,000 sq. ft. parking  
Estimated completion date: April 2007

Phase III: 1,000,000 sq. ft. office

Phase IV: 1,000,000 sq. ft. condominiums  
Estimated completion date: mid-2009  
Leasing: Regent Properties



## 3630 PEACHTREE ROAD

Buckhead

**Developer:** Pope & Land Enterprises, Inc., Duke Realty Corp., Post Properties, Inc., Novare Group  
**Proposed Size:** 925,000 sq. ft. (as announced), 34-story tower—425,000 sq. ft. office, 17 stories of condominiums, 14,000 sq. ft. retail  
Phase II—29-story tower 275,000 residential  
**Projected Budget:** \$300 million  
**Estimated Completion Date:** Phase I—2009



## 3344 PEACHTREE

Peachtree Road at Tower Place

**Developer:** Regent Partners LLC  
**Proposed size:** 50 stories, 82 condos, 490,000 sq. ft., office/retail  
**Projected budget:** \$240 million  
**Projected completion date:** commercial—April 2008; residential—July 2008  
**Leasing:** Regent Partners LLC



## LINDBERGH CITY CENTER

Buckhead

**Developer:** Carter & Associates  
**Proposed size:** 230,000 sq. ft. office, 208,000 sq. ft. retail, 22,600 sq. ft. residential, 190-room hotel, 421 apartments/condos, 47-acre site  
**Projected budget:** \$500 million  
**Estimated completion date:** Current phase—2008  
**Leasing:** Carter & Associates



## PROSPECT PARK

Ga. 400 and Old Milton Parkway

**Developer:** Thomas Enterprises Inc.  
**Proposed size:** 500,000 sq. ft. office, 750,000 sq. ft. retail, 143-room boutique hotel  
464 residential units, 85-acre development site  
**Projected budget:** \$700 million  
**Estimated completion date:** Spring 2008  
**Leasing:** Forum Development Group

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ZACHARY D. PORTER/DAILY REPORT

Burr & Forman's Gary Farris predicts MUD communities will survive when other residential trends fade.

MUDs, from page 3  
any regulation roadblocks. "In places like DeKalb and Fulton, where many of these have been built, they'll work with you to figure out how to get it done by variances or whatever else is needed. It's an evolving process."

### The right timing

In Atlanta, Midtown has been a particularly popular location for mixed-use construction. The noise of jackhammers rat-tat-tat daily and

won't be stopping anytime soon.

The Daniel Corp., Selig Enterprises, Inc. and the Canyon-Johnson Urban Fund are building 12th & Midtown, a \$1.1 billion mixed-use project covering three blocks at Peachtree and 12th Street.

Brookhaven Village, a \$400 million project of the The Sembler Co., is under construction on a 50-acre site once occupied by Peachtree Gardens Apartments.

Construction is scheduled to begin in

August on Trump Towers Atlanta, a joint venture between Atlanta-based Wood Partners LLC, New York-based Dezer Properties Inc. and Donald Trump. The \$260 million development on 15th at West Peachtree streets is slated to include 10,000 square feet of retail and 365 condo units in a 48-story tower.

But no matter how great a development plan is, the economy is the Great Unknown of a project's success. "Let's just say there's a long way from project announcement and rendering to reality," says Andrew Lechter, executive vice president in that Atlanta office of Studley Inc., a national commercial real estate firm. "Real estate development has a very long cycle, so the challenge is to forecast when things are going to come out best. Timing is everything."

For the millions of square feet of new office and retail coming into the market, occupancy is everything. Whether absorption will keep up with construction remains to be seen. For mixed-use projects, snagging a large anchor tenant in retail or office units is the first step toward viability.

Large tenants demanding more than one floor of space are greatly outnumbered by minor tenants. Roughly 80 percent of Atlanta office tenants rent less than 10,000 square feet, according to Lechter. Of that number, 65 percent occupy spaces of less than 5,000 square feet. "There are still major tenants out there that a new building may be lucky enough to draw in, but the majority of tenants are much smaller. It's going to take a lot of those tenants to fill the office spaces," he said.

Of course, an abundance of empty space isn't necessarily a bad thing, depending on your viewpoint. "For a tenant, having a landlord concerned about filing up space is actu-

**Location of a mixed-use project is critical to success, but developable in-town properties are rare. Some developers are taking risks on brownfield sites.**

ally a good thing," says Lechter. "The more construction and building keeps going on, the more choices and opportunities will be available to potential tenants."

### Taking chances

Finding the best site for a mixed-use project is fundamental to success. Developable in-town properties, however, are rare.

Some developers are looking outside normal paths and taking a chance on brownfield sites—properties that potentially contain environmental contamination, such as abandoned gas stations or former manufacturing plants.

Brownfield sites were once real estate hot potatoes that few wanted to handle. Risks were high, since purchasers automatically became saddled with liability exposure under the law for contamination, whether known or unknown at the time of purchase. Too dicey for most, so many of these properties sat vacant for years, adding to the community blight.

The potential liability of new owners was finally addressed when legislation passed exempting owners from future action as long as certain steps were taken, including the immediate reporting of any contamination found and voluntarily entering a clean-up program.

With protections now in place, brownfield

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sites are now getting a second development wind. The Environmental Protection Agency (EPA) has also made grants and public funds available to developers who revitalize these sites.

"Local government officials are always looking for ways to encourage high-end growth and establish a solid tax base," says Jeff DuFresne. "In these cases, mixed-use projects can turn a non-revenue generating property into one that's attractive to investors and will bring in corporate tenants."

In Atlanta, certain tax-allocation districts (TADs) have been designated, providing developers with government funds to help transform areas of broken sidewalks and boarded up buildings into flourishing residential and business properties. Six TADs have currently been designated in various locations within the city limits.

Atlantic Station, built on the former site of the Atlantic Steel Co., is an example of a successful brownfield development built under a TAD. The success of that project should be a lesson to others, says DuFresne.

"It's important to keep an open mind when looking at opportunities," he says. "These sites may be more difficult to deal with up front, but they result in an economically viable community that has a very positive impact on the surrounding area."

#### New attitudes

Mixed-use may be coming to the suburbs, but old habits die hard for many homeowners. The age-old tradition of owning a plot of land still has appeal.

"Once you've had your yard in suburbia,

See **MUDs**, page 8

#### Side note



Frank Hartley

properties. The proximity of developments to MARTA, cultural venues and dining offers a round-the-clock lifestyle for those who want it.

It was this urban energy that attracted Frank Hartley to The Plaza Midtown, a mixed-development located on Peachtree Road at 12th Street. For the attorney with Thompson & Sweeny in Lawrenceville, his home is the base for a reverse commute lifestyle as he drives daily to his Gwinnett County office.

Hartley lived previously in Sandy Springs but soon realized he wasn't spending much time there. "I do most of my entertaining and socializing in the Midtown area," he says. "So when I thought about where to purchase a home, I'd decided to do my driving during the week rather than the weekends."

When Hartley parks his vehicle on Friday, he usually doesn't touch it again until Monday. With the number of amenities and cultural offerings around him, he said there's no reason to leave. By walking or using MARTA, he regularly attends concerts, movies or art exhibits located in the city's finest venues.

But perhaps his favorite benefit is living above a Publix grocery store. "There's not very much in my refrigerator," he confesses. "But when you have a giant, 30,000 square foot refrigerator underneath you, there's not much purpose in buying food that just sits there."

—Karen Dean, Special to the Daily Report

#### Changing lifestyles

IF "LOCATION, LOCATION" WAS THE MANTRA for 20th century housing, the new rallying cry is "mileage, mileage." More consumers are taking into account the time and distance factor when choosing homes. Surveys show that consumers now count transportation expenses as one of their largest monthly expenses. The rising cost of gas and oil make commuting choices a matter of budget, not just convenience.

Even five years ago, homebuyers surveyed by the National Association of Realtors consistently rated transportation issues as a major consideration when home shopping.

But the real driving force behind the popularity of a mixed-use lifestyle seems to be the changing demographics.

Generation Y—those born between 1979 and 1994—now number nearly 73 million and are second only in size to the baby boomer generation. They are a culturally mixed and diverse group; 38 percent are non-white. With a preferred taste for entertainment, shopping and a lively social environment, they find the urban life has much greater appeal.

They also begin buying homes at a younger age. According to the National Association of Realtors, 15 percent of first-time homebuyers in 2005 were under the age of 25.

Even baby boomers are leaving white picket fences behind. Empty nesters make up a large portion of downsizing buyers who now will consider multi-family developments. As the nearly 76 million boomers see their children grow and leave home, the itch to shed their burdens and enjoy life grows stronger. This doesn't appear to be a generation content to garden or watch television waiting for the grandchildren visit.

Whatever the age, finding cultural and social activities is easy for residents of Atlanta mixed-use properties.

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it's often difficult to make the transition back into high-rise apartment or condo living, says Gary Farris. "There's a real change of attitude needed."

Providing information to foster that attitude change is a primary goal of the Urban Land Institute (ULI). The 70-year-old organization based in Washington, advocates for smart growth and redevelopment.

ULI's mission is to present ideas and opportunities to demonstrate ways to incorporate new life into old neighborhoods.

But make no mistake—ULI isn't a developers club. They may be a significant part of the membership, but ULI doesn't hesitate to bite the hand that feeds. "We're often asked by developers to do a feasibility study on

## While there may be a need for new housing options, bringing MUDs to areas outside the Perimeter poses unique challenges. Call it the not-in-my-backyard syndrome.

potential projects," says Jeff DuFresne. "And there've been plenty of times we've told them their plan isn't the right thing. They get mad, but it's not about the project for us. It's about what's right for that community."

Educating citizens and government officials about the most efficient use of property is critical. By providing information and assistance,

the Urban Land Institute helps facilitate communication to further the goals of both community and developer and find common ground.

### Urbanizing the 'burbs

Clearly, there's an advantage to in-town mixed-use developments. But what about the suburbs? With land chocked full of megamalls, single-family residential homes and apartment units, it's easy to question the need for more large development.

Mixed-use advocates point out that these projects bring to the suburbs something previous development took away. "When you build these types of environments, you are actually recreating what has already been destroyed," says Sembler Co.'s Fuqua. "Each time one of

these projects is built, it becomes the missing town center. People come to spend their free time shopping and dining. The developments become an attractive and strong community focal point."

They may also address the changing needs of suburban homeowners. Downsizing families may want to reduce the size of their home, but are reluctant to sever their roots.

"There's a really high demand for alternative housing the suburbs," says Fuqua. "People are tired of the upkeep of a large home, but still want to stay near their friends and other community ties. Then there's also the issue of age, which may limit their desire to do a lot of driving."

While there may be a need for new housing options, bringing mixed-use development to areas outside of the Perimeter poses unique challenges. Call it the "not-in-my-backyard" syndrome. "Most people don't even want to hear the words 'high density,'" Fuqua says. "It brings a very negative connotation, so you have an uphill climb before you even get started."

But in government circles, he says, that position seems to be softening. "When you present the right project and the right people are listening, things will start to happen. It helps that they can now see some of these developments already in existence. It becomes easier to comprehend and the advantages become clearer."

Outer Perimeter areas like DeKalb and Cobb counties currently have mixed-use developments under way. In Alpharetta, the \$700 million Prospect Place will bring mixed-use to an 85-acre site. In late 2005, Gwinnett County adopted zoning regulations to allow for high-rise residential. According to county planning officials, several projects have already been approved and may soon break ground.

### Here to stay

The trend toward mixed-use developments is clearly growing stronger. According to Joseph Viscuso, a professor in the land development program at Widener University in Pennsylvania, this is only the start. "There have been studies showing the demand will be high for these developments through 2025," he says. "But for now, any cries of 'too much too soon' are wrong. When a developer spends \$200 million on a project, there are no doubt plenty of market studies and demographic info to back up the need. It's all supply-and-demand economics."

This shift to mixed-use development has come so quickly that not much data exists on it. Several leading retail and office industry organizations have recently commissioned studies which should give definitive information on the favorable, or unfavorable, results of mixed-use developments.

For Atlanta, a definite answer to sprawl can't come too soon. The Atlanta Regional Commission predicts Atlanta's population will be nearly 9 million in 2030, more than the total current state population.

But from where he sits, ARC land use director Reuter feels the city is on the right path. "It's a complex issue, but I think we're in a renaissance in the metro area," he says. "Looking back several years ago, mixed-use properties made up only a small portion of the developments. Now the majority of large retail projects include some type of mixed use. As long as we continue to focus on the big picture, we can keep the momentum moving forward. In the end, that will be the real challenge." ☐



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