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REGIONAL FOCUS: SOUTHEAST

S.E. Mixes It Up

THE COMMERCIAL SEGMENT IS ONE OF THE STRONGEST MARKETS IN THE SOUTHEAST. DEVELOPERS SEE STRENGTH IN RETAIL AND MIXED-USE PROPERTIES. **By Brooke Knudson**

The Southeast United States attracts a broad demographic with its thriving centers of commerce, entertainment venues and prime real estate. As many regional developers realize, real potential exists in developing mixed-use properties that combine what many refer to as “live, work and play” into an urban setting.

“All the essentials of life and vibrancy are [in mixed-use] so there isn’t a reliance on one factor of the economy to make it work,” says Steve Baile, senior vice president at Daniel Corp. Headquartered in Birmingham, Ala., the company specializes in commercial Class-A office, residential and large, mixed-use developments. “We’re actually kind of in a boom era right now, with trends toward mixed-use development,” he notes.

Daniel Corp. is involved in both urban and suburban mixed-used properties, which Baile says “appeal to a broad scope of buyers.” The live-work-play combination that defines such developments suits Atlanta and Florida, which tend to attract a wide demographic, from young professionals to retired empty nesters. According to Baile, the company currently has \$4 billion in mixed-use development.

“Certain submarkets are more volatile than others,” he says. “One of the things we’re doing as a corporate initiative is to stick to markets with strong fundamentals.

“Everybody knew there was potential in mixed-use, but as we started to do more urban developments and understand all the components that make it successful ... we really saw potential,” Baile notes.

Along with Atlanta-based Selig Enterprises, Daniel Corp. is in the process of developing the urban retail district known as 12th & Midtown at Atlanta’s Midtown Mile. The 2.5-million-

Craig Sher, CEO, Sembler Co.



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square-foot mixed-use, \$2 billion development is located along a one-mile stretch of property in the city that combines millions of square feet of office space, thousands of square feet of condominiums and apartments and a hotel. Under the five-year joint venture between the two companies, Selig will handle the retail development, while Daniel specializes in the office, hotel and multifamily components. By 2010, the development is poised to become one of the premier mixed-use corridors in the Southeast.

By the Numbers

According to Raleigh, N.C.-based FMI Corp., the South-Atlantic region has sustained positive and substantial growth in the nonresidential market, while residential has remained in a slump.

The second-quarter of 2006 exhibited the first instance of negative growth in the past decade with a three-percent decrease in total dollars spent in residential construction. This downturn worsened in the second quarter of 2007 with money spent on new single-family residential construction decreasing by more than \$15 billion (representing a 14 percent decrease from the second quarter of 2006).

According to FMI Corp. Construction Economist Heather Jones, “Commercial (retail), office and educational are the strongest segments in the South-Atlantic region.”

In the second quarter of 2007, FMI Corp. estimated that more than \$20.8 billion was spent in constructing commercial projects, including retail developments. This represented a 10 percent increase in the amount spent on commercial projects over the same quarter in 2006. This growth is consistent with the second-quarter growth trends in the commercial sector over the previous four years, which experienced, on average, double-digit growth in the amount of

construction put in place during that timeframe.

Retail Remains Strong

Retail development continues to be a strong source of revenue for The Sembler Co. of St. Petersburg, Fla., which also has offices in Atlanta, Boca Raton, Fla., Herndon, Va., and Puerto Rico. The company estimates it has nearly 10 million square feet under development, most of which is urban, mixed-use centers.

In late March, Sembler officially opened the Legacy Place, a 469,000-square-foot mixed-use development located on 25,000 acres in Palm Beach Gardens, Fla. As the company explains, the site is surrounded by a booming residential market, which the development aims to attract through anchor and small-box tenants, local retailers and restaurants.

With less opportunity available in the residential sector in the Southeast, developers are seeing competition increase in urban and retail development. "Our bigger competitors are [doing] what we're doing – moving into mixed-use, putting a toe in the water with residential, etc.," says CEO Craig Sher.

For many Southeast owners, adjusting to an influx in competition means diversifying product when new markets emerge. "Tenant occupancy has been good since we're flexible in our product type," Baile notes. "We don't put square pegs in round holes. If the market isn't there, we don't get married to one product type; we follow strong fundamentals and adhere to market trends."

Sembler also has adjusted to the shifts in the market. Sher says the company's success stems from "developing a portfolio that exemplifies a jack-of-all-trades retail developer. By not maintaining ourselves as a niche player, Sembler has been able to reinvent itself and shift with the ever-changing market needs."

Building Out of Necessity

Other issues such as the rising cost of raw land have had a "huge impact on development" regionally, Baile says. "It creates some circumstances that a lot of developers haven't dealt with before," he continues. "In some cases, mixed-use development is becoming a necessity." As he explains, some developers are finding they need to build more on one site to increase equity and find financing for projects. "Land costs and construction prices stayed flat for a long time, up until the early part of the decade," he states. "In the last three or four years, we've started to play catch-up."

The "new urbanism" concept, as some refer to it, is gaining strength regionally as communities begin to favor multi-use buildings and housing near commercial service areas in urban settings. "I think we're seeing higher prices for urban land because of this revitalization of the downtown area and that's what is driving premiums," Baile notes.

One of the strengths of the Southeast market, as Baile notes, is



Daniel Corp. & Selig Enterprises' 12th & Midtown development in Atlanta.



its ability to attract businesses and *Fortune* 500 companies. In Atlanta, for example, Baile says this attraction has led to job growth, which has in turn fueled the need for more Class-A office space and mixed-use properties. When compared to other hot markets such as Boston, New York City and Washington, D.C., Atlanta provides the desired business opportunities, entertainment and residential needs, but at a lower price.

A Combined Effort

The relationship between the developer and municipalities continues to be a collaborative one. "In the last few years, planners have been overwhelmed with the swell of residential projects, making their work volume increase," Sher says. "As activity decreases, we hope they become a bit more flexible. I think they understand that development and construction is an important revenue source."

Baile agrees, noting that municipalities have been progressive, accommodating and "motivated in generating this new urbanism." ■