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MARKETS

New Life for an Old Industrial Property – in Atlanta

Jamestown Properties Tries Its Formula for New York's Chelsea Market Down South

By **MAX TAVES**

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The former Sears, Roebuck & Co facility that Jamestown Properties is converting into a mixed-use destination in Atlanta.
JAMESTOWN PROPERTIES

No one would argue that New York and Atlanta are very different markets. With low vacancy rates and high rent, New York has one of the strongest commercial-real-estate markets in the country. Atlanta, with high vacancies and lackluster rent growth, is one of the weakest among major cities.

Yet Jamestown Properties is testing its luck down South by applying a formula that it has successfully honed in New York, Boston, San Francisco and elsewhere: converting massive industrial buildings into fashionable properties filled with boutique shops, gourmet food outlets and office tenants willing to pay a pretty penny.

Jamestown owns New York's popular Chelsea Market, a retail and office property that was converted from a former Nabisco factory famous for creating the Oreo cookie. Since its retail space launched in 1997, Chelsea Market has attracted trendy food shops; media companies, including the Food Network; and Internet firms, such as Google .

In Atlanta, after three years of construction, Jamestown in August opened the first of a multiphase rollout of Ponce City Market, a former Sears, Roebuck & Co. distribution and retail center that is being transformed into a mixed-use complex to include retail space, restaurants, apartments and offices.

The complex's nine-story main building has 1.1 million square feet of leasable space and is the largest still-standing brick building in the Southeastern U.S., according to Jamestown, which purchased the four-building property from the City of Atlanta in 2011 for \$27 million.

In a city where new, modern glass office buildings abound, Atlanta's Ponce City Market has old-world brick, high ceilings and open-office plans that are viewed as distinctive. That charm is attracting some high-profile tenants, including architecture firm SLAM Collaborative, Watertown, Mass.-based health-technology firm AthenaHealth and a growing number of other technology firms.

In Atlanta, "there's nothing like it," says Sonny Molloy, a vice president at Marcus & Millichap.

It is perhaps too early to call the project a success, but in the first and largest building that opened in August, 50% of the 259 loft-style residences have been leased, 69% of the 300,000 square feet of retail space is rented and 75% of its office space has been leased, according to Jamestown, while two adjacent smaller buildings are set to open in the second half of next year. Jamestown estimates its total investment in the project will be \$300 million.

SLAM, the architecture firm, relocated last month from a warehouse district near the city's Emory University to 6,451 square feet of loft-style office space at Ponce City Market. SLAM will pay more per square foot in its new digs, but, pointing to the original brick walls and exposed concrete columns and floors, Sidney Ward, a principal there,

says the higher rent is worth it. “The workplace environment is more aligned with what our clients are trying to do,” he says. Plus, being next to the BeltLine, Atlanta’s greenway that will eventually reach 22 miles, can help recruit employees, he says.

AthenaHealth relocated in September, from 30,000 square feet in a traditional shiny glass office complex in Alpharetta, an Atlanta suburb, to 45,000 square feet at Ponce.

“We’ve got this kind of gritty corporate culture and if you look at our other headquarters in Boston, it’s an old arsenal that was used to store weapons in the Civil War,” says David Harvey, a vice president of product strategy. “It’s an old industrial building...We felt that way about [Ponce].” Athena, he says, has reserved a total of 145,000 square feet in the building and plans to build out another 35,000 square feet next year.

By appealing to technology, creative and research-driven companies, Jamestown is targeting the fastest-growing and cash-rich employers in the city. And once these types of companies sign on, upscale retailers, restaurants and services often follow.

Technology-oriented education company General Assembly was among Ponce’s first tenants and early next year, two more tech firms—consumer-data firm Cardlytics and email-marketing service MailChimp—will collectively occupy more 200,000 square feet.

“We’ve focused on technology and media, which have been important growth sectors versus a law firm or a sales company,” says Michael Philips, Jamestown’s president who led its development of Ponce and Chelsea Market. Food also is a “huge focus,” he says. Reprising a key ingredient at Chelsea Market, Jamestown is aiming to lure food-lovers with a massive food hall, comprised of nationally recognized chef-owned restaurants and boutique specialty food stores.

So far, Jamestown reports it is achieving office rents ranging from \$25 to \$30 a square foot and retail rents between \$35 to \$50 a foot—far above what typical office and retail spaces go for in most of the city, but in line with premium buildings in its most pricey northern pockets, like Buckhead, according to Marcus & Millichap’s Mr. Molloy.

The average square foot of office space in Atlanta leased for \$18.79, while the average square foot of retail went for \$12.91, according to real-estate data firm CoStar Group’s latest report in November.

Maintaining such lofty rates in a city with a 14.1% office vacancy rate in September could pose a challenge. The city ranks near the bottom of 50 major markets in office-

vacancy performance.

Jeff Myers, a senior economist at CoStar Group, notes that Atlanta has many new buildings in the pipeline, many of which could offer attractive incentives that prompt tenants to jump ship. “There will be new construction down the line in the midtown area and that increases competition and places downward pressure on rents.”

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