

Cousins Properties eyes 30-story Midtown office tower

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Cousins Properties Inc. has control of a site on West Peachtree Street a block from Technology Square to develop what could be the tallest Midtown office building in almost a decade.

The 30-story tower would rise on slightly less than an acre between 7th and 8th streets, a two-minute walk from the Midtown MARTA station and block east of Tech Square and the new [NCR Corp.](#) headquarters.

Initially named 8th and West Peachtree, it is next to new apartment towers and street-level retail along West Peachtree. Trammell Crow Residential's 22-story redevelopment of the former Drew Eckl & Farnham law building is directly across from the site.

The \$150 million to \$200 million project would redevelop the block that now contains nightclub and bar [The Daiquiri Factory](#).

Pickard Chilton and [HKS Inc.](#) are collaborating on the design of the 450,000- to 500,000-square-foot glass tower.

Cousins identified the site at least six months ago and aims to close on it by the end of this summer, said Colin Connolly, the Atlanta real estate company's president and chief operating officer. It could start construction as soon as January 2019.

"This is a site we believe in for the long term," Connolly said. "And, we are pleased with the early interest from prospects, which come from a wide variety of industries."

In conference calls, Cousins has mentioned to Wall Street analysts it intends to expand its land holdings in walkable, urban neighborhoods that have access to transit, such as Midtown. One reason is the emphasis companies now place on occupying office space within a short walk of transit stations.

Midtown, especially south of 10th street, is also unique because of its proximity to Georgia Tech, which continues to expand.

A decade ago, developers would not have put much consideration into sites along West Peachtree. Instead, Peachtree at 14th street was seen as the true center of Midtown.

Now, Tech Square has become a magnet for new jobs, with more than a dozen corporate research and development centers from companies including NCR, Panasonic and AT&T.

While 14th and Peachtree is still seeing new projects — including the redevelopment of Colony Square — more development has shifted to the West Peachtree corridor, which is now lined with new towers, restaurants and coffee shops.

Being close to those amenities, and within a short walk or bike-ride to MARTA, is what companies want for their employees.

"A decade ago, we did not see this crazy war for talent that we see today," said Matt Mooney, Cousins' managing director in Atlanta.

[Selig Enterprises](#) is one of several developers investing in new projects along West Peachtree. For example, it has 1105 West Peachtree St., part of a high-rise mixed-use development.

Selig Enterprises sees the same changes along West Peachtree that make it more attractive to developers, including new street-level retail and the expansion of Technology Square.

"It's where the opportunities are," said Steve Baile, executive vice president and chief development officer of Selig Development Co.

At 500 feet, Cousins' new tower could be the tallest developed since 12th and Midtown (1075 Peachtree) was completed in 2010.



RENDERING/COUSINS PROPERTIES INC.

At 500 feet, Cousins' new tower (center left) could be the tallest developed since 2010.

But, the pace of office development has been a fraction of what it was 10 years ago. Like Buckhead, Midtown has seen several prime sites scooped up by apartment companies. That, along with a far more constrained lending environment, has limited spec office projects.

Rest assured, we will remain disciplined in our approach to capital allocation. Our ultimate responsibility is to provide long-term value to our shareholders, and it is with this overarching goal that we will make the call when evaluating not only future development projects but all investment decisions for the company."

Those forces are allowing office rents to climb.

In Midtown, rates for the district's premier office space have jumped 12.5 percent year-over-year, according to data from Jones Lang LaSalle Inc.

Cousins CEO Larry Gellerstedt spoke with analysts on a conference call Thursday morning, in which he mentioned the new Midtown tower. Here's a transcript of his comments:

Larry Gellerstedt, Chairman and CEO, Cousins Properties

"The current economic recovery will celebrate its ninth anniversary in just a few weeks, marking the second-longest span of growth and expansion in recorded U.S. history. As the nation approaches this significant milestone, capital markets have begun to experience increased volatility. And for the first time since 2014, the 10-year hovers around 3%, putting pressure on REIT equity prices.

While these macroeconomic factors dominate global headlines, a different story is unfolding in the Sun Belt. Business and consumer confidence remain positive. Office users are growing their footprints, more companies are migrating to the Sun Belt, and new supply remains in check. As a result, well located, Class-A office space is in high demand, and our teams on the ground are as busy as ever.

To highlight, let me walk you through our first quarter results. Overall, the company delivered a clean \$0.15 of FFO per share during the quarter, while posting both positive leasing rent roll-ups and same-property NOI results to start the year. In addition, the team executed 330,000 square feet of leases in the first quarter, including several key renewals. This solid effort on the leasing front reduced our near-term expiration exposure, which is now 11.3% through 2019. More importantly, it further upgraded our rent roll with average in-place rents across the portfolio now 6% higher compared to this time last year.

While these are terrific numbers for any quarter, I want to specifically highlight the consistency of these strong results during this cycle. For the 16th consecutive quarter, Cousins has achieved positive cash rent roll-ups with eight of these quarters posting double-digit growth. Even more impressive is our same-property performance with 25 straight quarters of positive cash NOI growth. Certainly we've enjoyed the extended tailwinds present in our markets, but the credit for this impressive run belongs to our team – a team that has performed quarter after quarter, executing on our consistent and straightforward strategy.

With that backdrop, I'm optimistic about the balance of the year for Cousins. As we head into the 10th year of economic recovery, we see no indication of weakening fundamentals in our core markets. Our portfolio and balance sheet are well-positioned, and our team and platform are proven and stable. Equally important, we have actionable growth opportunities in front of us. First, as I mentioned earlier, we have experienced robust rent growth in our markets which has propelled average in-place rents across our operating portfolio. Despite this healthy growth year after year, our current in-place rents remain on average 8-10% below current market rents with above average mark to markets at many of our Atlanta assets with attractive vacancy.

In addition to the opportunities embedded in our operating portfolio, we've established a steady avenue for growth with our development pipeline. To start, we've already created substantial value this cycle, delivering \$788 million in new developments. This includes projects like Colorado Tower which we delivered in 2015 at 100% leased. Additional highlights include our latest deliveries. In Atlanta at 8000 Avalon, post-quarter activity has taken the project to 98% leased, and over at Carolina Square in Chapel Hill, apartment rents on our first round of expirations have rolled up double digits. In January, we celebrated the opening of 864 Spring Street, the first phase of NCR's World Headquarters, which we anticipate will receive LEED Platinum certification in the coming weeks.

Today, Cousins has another 860,000 square feet of office under construction, of which 96% is leased, as well as 42,000 square feet of retail and 330 apartment units. Over the next 8 months, we plan to deliver a significant portion with the opening of 858 Spring Street, the second phase of NCR's World Headquarters in Atlanta and the opening of Dimensional Place, the east coast headquarters for Dimensional Fund Advisors in Charlotte. As for the balance of our pipeline, 120 West Trinity, our mixed-use project with Amlis in Atlanta's Decatur submarket is well underway with delivery slated for early 2020. We also anticipate breaking ground on 300 Colorado, our 100% leased office tower in downtown Austin, sometime in the fourth quarter. Colin will provide more details on the progress we've made here in his remarks.

When stabilized our recent deliveries and current pipeline are positioned to provide significant contributions to both NAV and FFO in the coming years. These projects are well-leased and fully-funded with the cash available on our balance sheet. This enviable position gives us the confidence to continue to play offense, and with Sun Belt fundamentals showing no signs of slowing, I'm even more encouraged by our path for additional growth. Let me walk you through what we've got lined up.

Today, we control five terrific development sites in some of the most desirable submarkets in the Sun Belt. In Midtown Atlanta, we are under contract to buy a site at 8th and West Peachtree Street, which is attractively located less than two blocks from Marta, Tech Square and NCR's headquarters. Next, we're under contract to

purchase a fantastic site in Tempe located adjacent to our current portfolio and on the front steps of Arizona State University. Surveying the land inventory in our supplement, you will find we also own a site in Uptown Dallas adjacent to mass transit, the second and last office pad at Avalon in Atlanta, and a site at Corporate Center in Tampa where our buildings are over 97% leased.

In totality, our land bank once developed could include approximately 1.6 million of Class-A office. I'm pleased to report we have a solid pipeline of interest for each location, including existing customers and potential new prospects from a wide variety of industries. And with pre-development now underway, we anticipate each site will be shovel ready by the end of the year. Therefore, I'm highly encouraged in our ability to begin one or more of these opportunities in the next 12 months."

Douglas Sams
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