

# Atlanta Retail Is Bouncing Back In A Big Way

The metro's retail sector is moving forward in the fourth quarter with positive momentum on the investment sales and development fronts.

John Nelson

Shopping and dining in Atlanta looks vastly different than this time last year due to the COVID-19 outbreak, but owners, developers, investors and retailers alike remain optimistic about the metro area's prospects.

Many local retail professionals say barring another outbreak or a second black swan event, the worst of the recession is in the rearview mirror and the Atlanta market is currently on a positive trajectory, though the market is experiencing negative absorption from over-leveraged national retailers shuttering stores, as well as local and regional operators that are struggling to regain their footing.

"Atlanta is one of the top retail markets in the country and is in a retail uptrend," says Kyle Stonis, managing principal of the Investment Properties Group at SRS Real Estate Partners. Stonis cites migration into the city, job opportunities from Atlanta's diversified employment base and the ability for wealth creation as draws for retail investors and developers with footprints in Atlanta.

"This is a cyclical blip on the radar for Atlanta retail, as well as Southeast retail," adds Fred Victor, vice president of investment sales and capital markets at Transwestern. "While the unfortunate demise of certain retailers has come to fruition over recent months, retail is here to stay and will adjust."

Employment is down 6.22 percent in the past 12 months overall for the metro Atlanta area, which is better than the nationwide figure of negative 8.25 percent, according to research from Co-Star Group. Additionally, the U.S. gross domestic product (GDP) grew at an an-

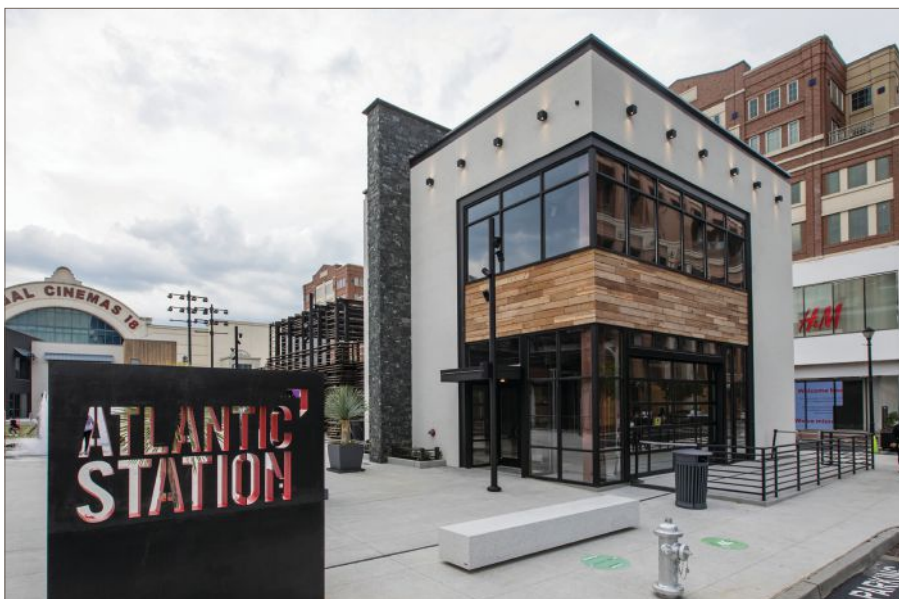


Photo courtesy of Rafemanan

Atlantic Station opened 15 years ago. The mixed-use development is undergoing an overhaul to reconfigure its layout, including a new central green space, new jewelbox restaurants and 96,000 square feet of new retail space.

nualized rate of 33.1 percent in the third quarter, a positive indicator for the national economy.

National and global companies such as Papa John's Pizza, Deluxe Corp., Norfolk Southern, Microsoft, Google and Facebook are relocating or expanding in Atlanta. And blue-collar workers are also being hired in droves by the likes of Amazon, HelloFresh, Purple Mattress and Goodyear, among others.

On the flip side, Atlanta's pillar companies such as Delta Airlines and Coca-Cola are laying off thousands of employees in the wake of the pandemic.

Despite the net job losses the past 12 months, Jack Halpern, chairman and CEO of Halpern Enterprises Inc., says that the market has enough demand generators in place that will support its retail

rebound.

"Atlanta's job growth, quality of life and relatively low cost of living will continue to attract new residents from around the country and around the globe," says Halpern. "The city is an increasingly desirable choice for corporate headquarters relocations, and its colleges and universities attract thousands of new students from around the country each year, as well as keep many of the region's own high school graduates close to home."

Tim Todaro, senior leasing associate for the Midwest and Southeast at U.S. Properties Group, says that his firm remains bullish on Atlanta in the long-term from an investment perspective. He says the fact that Atlanta is a top-tier Sunbelt market in a business-friendly state like Georgia has paid dividends for the city's retail base.

“Georgia opened sooner than most states, which helped local and regional tenants,” says Todaro in reference to Georgia Gov. Brian Kemp’s decision in late April to begin the reopening process for the state’s businesses.

Nicole Horne, vice president of transactions at InvenTrust Properties, also says her firm is high on the Atlanta market as the company’s properties in the metro area are performing well despite the many headwinds facing brick and mortar retail.

“Atlanta continues to be a key market in our portfolio,” says Horne. “Throughout this pandemic, the Atlanta market and our Atlanta portfolio have been especially resilient.”

## INVESTMENT SALES REBOUND

Retail investment sales in metro Atlanta totaled \$450 million in the third quarter, a bounce back from the \$231 million figure in the second quarter, according to CoStar. However, the amount remains below the \$591 million closed in the third quarter of 2019.

“In my nearly 30 years of years covering



Hugh Howell Marketplace is one of two Publix-anchored shopping centers that Branch Properties is developing in metro Atlanta. The property will be located in Tucker, Georgia.

retail sales for CBRE, I have never seen such a sudden halt to activity – inclusive of the Great Financial Crisis,” says Christopher Decouflé, executive vice president of CBRE Capital Markets and member of the firm’s Institutional Properties and Na-

tional Retail Partners teams. “At the same time, I have never seen so much capital available to acquire retail centers as soon as clarity returns to retail operations.”

Fain Hicks, managing director ofushman & Wakefield, says the rebounding sales figure is a direct result of reopenings in metro Atlanta buoying the market.

“The occurrence of broad reopenings in the third quarter, along with the continuation of surging store sales for grocery and necessity uses, as well as the increasing availability of financing, is generating an encouraging increase of retail investment sale volumes,” says Hicks. “This upward trajectory is expected to continue as long as tenants have the ability to remain open and operating at full capacity.”

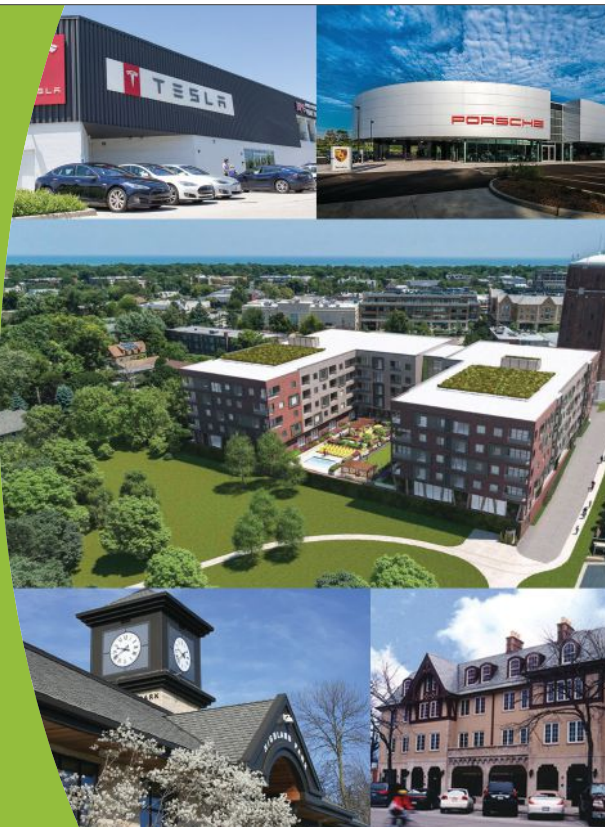
Investors and lenders alike are looking first and foremost at the performance of the tenants. After several months of operating under these retailers’ belts, underwriters now have a better feel of what they can expect going forward.

Stonis says that liquidity understandably dried out quickly in the second quarter for retail acquisitions, but investment

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groups are now coming off the sidelines.

“Over the last quarter we have seen a number of buyers get pretty active on making offers,” says Stonis. “I would still say it’s pulled back but activity has picked up in the third and fourth quarter.”

For U.S. shopping center transactions during the pandemic that exceed \$10 million, 90 percent of the buyers are privately based, according to data from Real Capital Analytics and Marcus & Millichap Research. That trend was in place prior to the pandemic but was accelerated by the uncertainty facing the retail sector.

What still is being worked out in the investment community is determining pricing for Atlanta’s retail properties, and value is in the eye of the beholder.

There is a bid-ask spread between what buyers are willing to pay and what sellers are willing to take in metro Atlanta. Brad Shoemaker, director of acquisitions and finance at Mimms Enterprises, says that buyers are seeking discounts and that sellers are holding on to pre-COVID-19



Newk's Eatery has reengineered its prototype from 4,000- to 5,000-square-foot units to 3,300-square-foot with a more open kitchen, less inside dining, a more contemporary look, larger patios and a drive thru. Newk's Eatery has 13 locations in metro Atlanta.

values, and for good reason.

“After talking to their tenants and everyone is still performing and they don’t feel like they’re losing any tenants, as a seller they feel like their value is still in place,” says Shoemaker. “Sellers are cautiously optimistic, but there is a 10 to 15

percent reduction in values compared to pre-COVID-19.”

Shoemaker, Victor and others say that though the pandemic is stretching into its eighth full month in the United States, it’s still too early to tell its full impact on pricing. Don McMinn, senior vice president

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Photo courtesy of Scott White



Regal Cinemas decided in early October to temporarily close all of its 536 U.S. theaters until movie studios begin releasing new movies. The Regal Atlantic Station, which is one of Georgia's top performing movie theaters, remains temporarily closed as of this writing, but its renovations are still underway.

of Marcus & Millichap's Taylor McMinn Retail Group, says that cap rates are holding stable for grocery-anchored and small retail strip centers and are even compressing for single-tenant net lease properties.

"Cap rates for net-leased retail are compressing due to an influx of 1031 capital flooding the market because concerns about the potential tax law changes with the upcoming election," says McMinn.

Taylor McMinn Retail Group recently brokered the sale of a CVS-leased property in Lilburn, a suburb of Atlanta in Gwinnett County. McMinn says the store had

seven offers the first week and sold for list price.

Atlanta reported one of the highest average cap rates among major metros, at about 7.7 percent in the third quarter, compared to the national average of 7.2 percent, according to CoStar. Among its peer Sunbelt markets, Atlanta also posts one of the highest average cap rates, coming in above markets such as Dallas-Fort Worth, Houston and Nashville.

Among categories that are catching the eyes of investors, sources say that grocery-anchored are going to be hard to

beat. They've proven to excel during times of crises, which is about as much certainty as any investor could hope for.

Recent grocery-anchored trades in metro Atlanta include Phillips Edison & Co. buying a Kroger-anchored center in Canton for \$18.6 million; Branch Properties buying the Publix-anchored Five Forks Corner center in Lilburn from DLC Management; and a \$3.8 million sale Colliers International brokered for Indian Creek Crossing, a Food Depot-anchored center in Stone Mountain that a local private investment group purchased from DLC Management.

Taylor McMinn is also confident that the Kroger-anchored center the team is marketing in Conyers will trade quickly.

"Institutional investor and private equity demand for grocery-anchored retail has accelerated," says Jesse Shannon, chief investment officer at Branch Properties.

"Grocers are reporting approximately 10 to 20 percent increases in sales since April, while others, such as indoor malls, power centers and high-street retail have fallen behind."

That's not to say that power centers aren't trading. In addition to a freestanding Target and Taco Bell outparcel in Decatur that sold for nearly \$20 million, Victor recently brokered the sale of North Logan Commons. CIM Group sold the 175,969-square-foot shopping center in Loganville to Big V Group, and Victor said the deal had some kinks to say the least.

"It was a planned 60-day transaction that turned into 90 days and included three contract extensions, a price adjustment and two lenders," says Victor. "Perseverance was key in this transaction and both buyer and seller were committed to getting the deal done."

Looking ahead to the rest of 2020 and into 2021, retail investment professionals are confident that distressed assets and smaller properties are going to be the most off-traded category because of how many opportunities will be coming down the pike.

"There has to be distressed properties coming," says Todaro of U.S. Properties Group. "I've received a bevy of calls over the past 10 days from brokers doing broker opinions of value for box retailers."



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As far as the buyer pool for those assets, Victor says private investors paying in cash will be at the front of the line.

“Cash buyers are going to be positioned nicely for lender- and servicer-controlled opportunities, which we expect to be ubiquitous in the first two quarters of 2021,” says Victor.

## WHAT DO LENDERS THINK?

From a risk profile, when compared to other real estate sectors such as industrial, life sciences and apartments, retail professionals concede that retail is at the bottom of the stack slightly above hotels. Though it dried up mightily in the second quarter, liquidity is starting to return on the capital markets side for retail acquisitions.

“We’ve looked at some retail acquisition loans and they’re slowly trickling back into the market,” says Leo Wiener, president of Ackerman & Co.’s retail division. “Our philosophy is take what we can get now and see where we stand in a couple years in regards to refinancing or selling. We may have a low interest rate environment, but we still have a risk environment that’s not conducive for getting lenders back to where they were.”

Pricing for shopping centers remain in flux, and retail professionals say that underwriting requirements from debt sources is a direct contributor. Stonis says that pre-COVID-19, borrowers could command loans 70 to 75 percent leverage, but now that’s down to 50 to 60 percent depending on the lender.

“Everyone is requiring more equity in the deals,” says Stonis. “Lenders are very concerned with tenant loss, especially with the bankruptcies that could come up.”

“Investors are having to put more equity into deals to make the numbers work, so pricing has to come down,” adds Shoemaker. “Lenders are willing to take more risk for grocery-anchored centers or properties with essential tenants.”

Halpern adds that now more than ever lenders are looking at the creditworthiness of the tenant base and at the reputation and performance of the borrower.

Zach Taylor, first vice president of



Selig Enterprises recently opened Dr. Scofflaw, the second location for West Midtown staple Scofflaw Brewing. The indoor/microbrewery is one of the anchors for The Works.

Taylor McMinn Retail Group, says that all retail categories are not created equal and there are not enough deals to tell if there’s been a philosophical change from lenders in regard to financing retail acquisitions.

“The attractiveness and availability of debt is totally dependent on the nuances of the particular deal,” he says.

Taylor says lenders are quoting non-recourse debt with interest rates in the upper 2s with 10 years of interest-only payments for a Kroger-anchored center his team is marketing. On the flip side, he says centers without essential retailers are commanding partial recourse loans with much lower leverage and a higher interest rate.

## A NEW LEASE ON LIFE

With more shuttered stores and restaurants closing up shop for good, Atlanta’s retail market is softening in the short-term. The metro area posted a negative net absorption of 544,000 square feet the past 12 months, according to CoStar. The biggest store to go dark recently was a 183,000-square-foot JC Penney at Northlake Mall in DeKalb County. The mall location is one of seven Georgia JC Penney stores that closed after the retailer declared bankruptcy.

The negative absorption has caused the metro’s vacancy rate to tick up 50

basis points the past 12 months to 5.5 percent as of the third quarter, which is roughly where the market sat in third-quarter 2018.

“Atlanta will become more of a occupant’s market, but I would caution calling it an unbalanced tenant’s market,” says Emil Gullia, executive vice president and principal at Retail Specialists. Gullia says in the event of bankruptcies and store closures that there are no true winners because both the owners and occupants are harmed in the process.

“We need each other to climb out of this,” says Gullia.

As far as active categories that are attempting to expand in Atlanta, Monetha Cobb, senior vice president of Franklin Street, says that some service-based retail categories and restaurants are seizing opportunities left and right.

“In the past six months, one area where we’ve seen substantial activity is health-care retail, including in urgent care and physical therapy facilities, and even veterinary clinics,” says Cobb. “In addition, we are seeing a lot of activity in single-tenant outparcel types of uses, such as oil change businesses and fast food concepts, as well as food concepts that have traditionally been deemed more ‘to-go.’ We’re also still seeing a lot of the more traditional



Branch Properties is underway on Perimeter Marketplace, a Publix-anchored shopping center in Dunwoody, Georgia. The property is slated to open in early fall 2021.

junior box retailers taking advantage of the influx of larger box availability due to bankruptcies.”

Even though leasing isn't outgaining vacancies the past 12 months, Horne of InvenTrust says that her firm's portfolio is fielding a lot of leasing inquiries.

“Medical, pet supplies, restaurants and fitness uses of all sizes, if well-capitalized, are categories that may open stores in early to mid-2021, as there are great second-generation spaces available in our portfolio,” says Horne.

Vacancies of inline and end cap space are providing an opportunity for some retail categories to get into space that they may not have considered before the pandemic, whether it's the demographics of the area, the other tenants in the shopping center or the actual design or layout of the real estate.

Gullia, who represents Jackson, Mississippi-based Newk's Eatery and also serves as chief development officer for pet food retailer Hollywood Feed, says that items like parking, curbside pick-up, expanded kitchens, patios and drive thrus are now top of mind for the retailers he represents.

“We will also see accelerated consumer expectations for technology and mobile apps,” says Gullia. “Dry box retail stores are going to push for larger designs to allow more of an open design, and that's go-

ing to cost more and in many cases, yield less in sales. The pandemic is going to reshape a lot of retailers and restaurants that have evolved and adapted.”

## NEW PROJECTS

Retailers and restaurants are looking at existing real estate in earnest to expand. However, Wiener of Ackerman says that shopping centers and mixed-use developments underway are seeing leasing velocity despite the uncertainty in the market.

“We've seen a lot of interest in developments that are delivering next year or pushing into 2022,” says Wiener. “If you have good real estate and good design and great leasing agents, then you're seeing activity.”

Along with MDH Partners, Wiener's firm Ackerman & Co. is developing Lee + White, an \$85 million mixed-use development situated on 23 acres in Atlanta's West End neighborhood along the Atlanta BeltLine. The co-developers are converting an existing industrial campus into a property with loft and creative offices, apartments and a 17,000-square-foot food and retail “collective.”

“Food halls with the outdoor space that we deliver will provide the perfect environment for what our customers are looking for,” says Wiener. “Equally as important, a lot of restaurateurs don't want

to take on the responsibility of the overhead of a full-service restaurant.”

Wiener says his firm has all its ducks in a row as far as financing and permitting and has signed four letters of intent with restaurants that view this part of Atlanta as underserved from a restaurant perspective. He says the development team is close to putting shovels in the ground, starting with the creative office building.

“We're hoping to start by year-end,” says Wiener.

More food halls are coming to Atlanta's intown submarkets. In the heart of Midtown, North American Properties plans to open a 42,000-square-foot food hall at Colony Square in spring 2021. New Orleans-based Politan Group will operate the indoor/outdoor food hall, dubbed Politan Row. Portman Holdings also opened the new Collective food hall nearby at the 21-story Coda at Tech Square near Georgia Tech in March.

In West Midtown, Selig Enterprises is preparing to open a food hall at The Works known as Chattahoochee Food Works. Celebrity chef Andrew Zimmern and partner Robert Montwaide, creator of New York City's Gansevoort Market, are curating the 31-vendor food hall.

Mindy Selig, vice president of Selig and a leasing associate at the firm, says Selig recently welcomed Dr. Scofflaw, the second iteration of local favorite Scofflaw Brewing. The indoor/outdoor microbrewery is one of the anchors of The Works, which features a one-acre park known as The Camp and a linear park called The Spur.

“The Works was already in the process of providing ample outdoor areas for our guests before the pandemic started,” says Selig. “According to global design firm Gensler, The Works is one of the most open-air mixed-use developments in Atlanta.”

Open and operating concepts at The Works include Adelina Social Goods, a paper goods and party supplies boutique, and fitness concept Stellar Bodies.

“We also plan to celebrate the openings of Basik Spaces, BOBO Intriguing Objects, Les Mains Nail Bar, Fox Bros. Bar-B-Q and The Waffle Experience,” says Selig.

Other mixed-use developments in West Midtown that have opened in recent months include Eden Rock Real Estate





In West Midtown, Selig Enterprises is preparing to open a food hall at The Works known as Chattahoochee Food Works.



The Works features a one-acre park known as The Camp. Providing open spaces like The Camp is critical for mixed-use developments in the new era of social distancing.

Parnter's Westside Village and the new and improved Atlantic Station. Starr Cumming, retail director in charge of specialty leasing at Hines, says her firm has added 96,000 square feet of retail space at Atlantic Station, which debuted 15 years ago.

"We have added a flagship Forever 21, Nike and Bowlero, and we recently celebrated the opening of Atlantic Green, which is our expanded park with an LED jumbotron, a new concierge booth and three jewelbox restaurants flanking the

park," says Cumming.

Also coming to the development this year is Hobnob Neighborhood Tavern. Atlantic Station houses one of the top performing movie theaters in Georgia, Regal Atlantic Station. The movie theater was one of Regal's 536 locations that have been temporarily closed since early October.

"Though Regal Atlantic Station is temporarily closed, the renovation of the theater continues," says Cumming. "We are

eager for the theater to reopen its doors with its modernized look and brand new movies soon, but we respect Regal's decision-making process."

Grocers are continuing their expansion in the Atlanta area. Branch Properties is breaking ground on two Publix-anchored shopping centers — Hugh Howell Marketplace in Tucker and Perimeter Marketplace in Dunwoody.

"Branch is focused on delivering valuable assets that can weather the economic uncertainty," says Shannon of Branch Properties. Both developments are slated to open in early fall 2021.

Other grocers expanding in the region include smaller format concepts such as Lidl, Aldi, Sprouts Farmers Market and Greenwise Market, which is owned by Publix Super Markets Inc.

In the northeast Atlanta suburbs in Gwinnett County, local family office Ariston Group LLC is building Ariston, a 16-acre mixed-use development adjacent to the Mall of Georgia in Buford. Atlanta-based RaCo Real Estate is advising the developer on the project, which will feature a hotel, apartments, green space and retail space, which SRS Real Estate Partners is marketing.

"We're in preleasing mode for the retail space," says Ralph Conti, principal and managing member of RaCo. "The merchandise mix will largely be made up of food. We'll also have an upscale spa and some other service-related users. Surprisingly there's a good amount of interest from a lot of the food players, so we'll see what happens."

The project will be situated near another mixed-use development underway, Fuqua Development's The Exchange at Gwinnett. The property will be anchored by a Topgolf, Andretti Indoor Karting and Gaming, Sprouts and a food hall, as well as a prototype store for Rooms-to-Go.

Conti says projects like Ariston and Exchange will provide the open space that retailers and restaurants are seeking in the new era of retail, as well as the density and demand drivers that will set those users up to succeed in the long run.

"There will always be brick-and-mortar retail, it will never go away," says Conti. "It's transformative and it'll work through the ups and downs of the cycles of this business." **SCB**