

2021 NAIOP Georgia School Challenge – Case Study

Harry Plimpton is an Atlanta office developer trying to figure out his next move. The coronavirus pandemic helped trigger a national economic downturn, and the office sector has been severely impacted. A pronounced shift to remote working has dampened office demand and caused many companies to rethink future space needs.

Plimpton has read with interest about Portman Holdings entering the industrial arena. He also receives quarterly reports from King Industrial Realty that indicate a thriving industrial sector in Atlanta. What really caught his eye was a recent story about a Chicago office developer (Dayton Street Partners) who has launched its first project in metro Atlanta, known as Rock Hill Distribution Center.

The surge in online sales resulting from the pandemic has driven up the need for e-commerce facilities of all types. Multiple sources are projecting that online retail sales will reach \$1.5 trillion by 2025, which will create additional demand for an estimated one billion square feet of industrial warehouse space. One particular product is cold storage warehouses, where demand well exceeds current supply. The entire supply chain of e-commerce intrigues Plimpton, particularly the potential for last mile facilities in densely populated areas. Exponential growth in cloud storage has also expanded the need for data centers.

Plimpton decides to pursue an industrial development in Atlanta. Many questions exist: 1) what submarket(s) offers the best opportunities; 2) what type of product to build; 3) who is the target market; 4) should he pursue multiple sites in different submarkets or a single opportunity; 5) what do the development economics look like; 6) how available is equity and debt capital; 7) should he take a portfolio builder's approach or that of a merchant developer; 8) is there a danger of overbuilding in Atlanta; 9) what is Atlanta's near-term economic outlook; and 10) what is a reasonable expectation for rental and absorption rates, as well as return on investment.

Plimpton has \$150,000 of capital to cover pursuit costs, but he will have to raise equity and likely debt for a development. He needs your help formulating a plan of attack. Your role is to thoroughly evaluate the Atlanta industrial market so that you can offer expert guidance on the following: 1) site(s) selection and estimated acquisition costs; 2) formulation of a development plan and preliminary budget; 3) estimate of achievable rent and lease-up velocity; 4) advice on specific product features and potential tenants; and 5) recommendations on optimal capital stack, ownership philosophy, and scale of investment. Your findings should be summarized in a concise written report accompanied by supporting data.