

Metro Atlanta retail space demand could plummet, impact 'catastrophic'

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The coronavirus pandemic may push retail vacancy across metro Atlanta to at least 40%, creating an unprecedented challenge for mall owners and other landlords.

The grim outlook, from a report released April 20 by Atlanta consulting firm Bleakly Advisory Group, looks at how the coronavirus, the respiratory illness it causes, COVID-19, and the widespread economic shutdown may cause a "long and lasting impact" on retail and commercial real estate.

The report also comes as Gov. Brian Kemp begins to reopen the state's economy, including restaurants and theaters as early as April 27. State and municipal governments face mounting pressure from the deployment of unemployment benefits and the loss of critical sales tax revenues. In Georgia, some municipal governments are preparing for up to 30% reductions.

Reshaping the retail landscape

"In terms of the demand for retail space, COVID's impact could be catastrophic," Bleakly Advisory Group said. In the short-term, the outlook said, "it will reshape the retail landscape."

Prior to the pandemic, roughly 5% of metro Atlanta's 357 million square feet retail was vacant. Retail sales across metro Atlanta may fall by up to \$32 billion, causing demand for retail space to drop by 126.5 million square feet. Vacancy could soar to an astonishing 40% to 45%.

Even trophy mall properties won't be immune. Neiman Marcus, an anchor tenant at many U.S. malls including Lenox Square in Buckhead, is preparing to seek bankruptcy protection, multiple media outlets reported.

Geoff Koski, president with Bleakly Advisory Group, said "We only have a handful of malls in the metro Atlanta region that are doing well at this point. For the B and C mall properties that were already in trouble, this accelerates concern for them."

Across Atlanta, retail landlords are scrambling to absorb rent reductions and keep tenants in place. There are mixed responses. Some tenants reached out early in the crisis and offered a payment plan, according to landlords Atlanta Business Chronicle spoke to this week. Other tenants went silent, didn't make April payments and haven't made contact since.

Stephanie Friese Aron, an attorney with Chamberlain Hrdlicka, said most of her clients who are landlords have collected up to 90% of April rents.

"We need to see what May looks like," she said. "We need to see the impact on retail tenants as stay in place orders are lifted. Many believe May will be more telling than April."

Landlords want to see tenants seeking rent relief doing as much as they can to get assistance from the Paycheck Protection Program and Economic Injury Disaster Loans, she said. "There is recognition that landlords and tenants, along with lenders, are all 'partners' in this economic catastrophe, and need to work together to get through this," she said.

Georgia government, cities, under mounting pressures

The possible impact on state and city governments is just as concerning, Koski said. The state could lose \$1 billion in sales taxes, or roughly 17% of what they typically collect, according to Bleakly Advisory. Counties could see \$538 million less in



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local sales tax revenue.

In the city of Atlanta, sales and hotel-motel taxes make up 20% of budget revenue. That total may be cut by over half, Bleakly Advisory's Koski said.

"How do you fill that hole?" he said. "We're hearing from other municipal clients they are preparing for 30% reductions in revenue."

Koski said, "If we find ourselves in the fall still struggling to open back up, these numbers could be even worse."

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