



The Gulch – A Precipitous Cleft in the Fabric of Downtown

An Advisory Opinion Prepared by JLL

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Vibrant downtowns are the engines of great cities. They are the cultural, economic and social centers that fuel the growth and continued prosperity of metropolitan areas. “Without a strong and inclusive central heart,” noted urban philosopher Jane Jacobs, “a city tends to become a collection of interests isolated from one another. It falters at producing something greater, socially, culturally and economically, than the sum of its separated parts.”

The Current Situation

Like many American cities, Atlanta’s downtown core has seen a resurgence in recent years. Here, revitalization of older buildings into a mix of uses along with the construction of landmark projects such as Mercedes-Benz Stadium and a new museum campus anchored by the World of Coca-Cola, the College Football Hall of Fame and the Center for Civil and Human Rights has generated renewed activity downtown. Newport’s purchase of over 45 buildings in the southern portion of downtown, the WRS redevelopment of Underground, and the redevelopment of the former Turner Field site into a mix of sports facilities, student housing, and retail have also generated activity in Atlanta’s core.

The result of this momentum is an Atlanta urban core that is becoming more attractive not just for tourists and office workers, but for residents. This is driving an unmistakable densification of Atlanta, including in downtown. Last year the City of Atlanta added more than 10,000 residents, moving the total population to more than 460,000 within the city limits, nearly 10 percent higher than in 2010.

Yet there remains a hole of sorts in the fabric of downtown Atlanta. Despite many attempts by business and governmental officials, a more than 40-acre site sits undeveloped between Mercedes-Benz Stadium, Centennial Olympic Park, Castleberry Hill and south downtown. This site – known for years as “the Gulch” – remains highly underutilized, with its primary use a collection of parking lots and rail lines at ground level. The area around it has been built up over the years so that the street grid surrounding the site is at some points 40 feet above ground level. The challenges associated with this grade change and the tremendous costs (est. \$700 million) of the infrastructure required to bring the site up to the street level have resulted in the Gulch remaining a hole in the heart of downtown Atlanta for over 70 years.

Los Angeles-based developer CIM has proposed a project to develop the Gulch into a mix of uses. These uses would complement the surrounding area’s amenities and attractions, providing a walkable district in an area that is currently pedestrian unfriendly. Thousands of jobs would be added downtown, both during construction and once the project is created. Several million square feet of office space will be developed along with 3,000 residential units, with 20% of such units allocated to affordable housing. CIM has committed to maintain this percentage of affordable

housing for 99 years, highlighting CIM's devotion to this project as most developers typically commit to only 15% affordable housing for 15 years. Hotels to house the 15.7 million annual visitors the existing downtown attractions bring to Atlanta would be built, and new destination entertainment/retail venues would support these visitors and residents alike. The project is massive in scale, but such scale is required to deliver a successful project for the City of Atlanta.

The Proposed Deal

After reviewing publicly available information on the Project, JLL understands that the proposed incentive package does not require cash outlays by the City of Atlanta, the State of Georgia, or any other public entity. Instead, the bond structure outlined to pay for the infrastructure mentioned above will be reimbursed through increased tax proceeds produced by the development. No existing tax revenues or city budget funds will be utilized. This creates a strong alignment among the City of Atlanta, its residents, and the developer, as CIM must build a successful tax-generating environment to recoup a portion of project costs from the taxes the project generates. Moreover, CIM has proposed to guarantee the bonds rather than the City, further removing risk from the City. Conversely, if there was no investment in the Gulch, there would continue to be no opportunity to increase tax revenues for the City as the property lies underutilized. Simply put, this is a very good deal for the City of Atlanta.

CIM's investment philosophy is to create or enhance value by considering the community as a whole, not just on an asset or project-specific basis. As part of the proposal, CIM has agreed to an estimated \$59 million in community-wide improvements outside of the project. Not only is this a significant capital investment in the City of Atlanta, but up to \$125 million of Tax Allocation District Bond proceeds will become available to be invested within the Empowerment Zone Communities on Westside projects. Further, the project will have a "halo" effect that will positively impact all of downtown. The nearly 3 million annual visitors to the Georgia World Congress Center campus will benefit from significantly improved walkability and many more hotel and entertainment options. The result will be an overall more appealing, walkable urban environment that will attract even more investment and build "a sense of place" and provide authenticity in an area of downtown that needs a bold move to reverse decades of uncertainty. This "halo" effect increases property values, creates jobs and attracts additional visitors not only to the Gulch, but in the surrounding areas, too. In addition, the potential for a multimodal passenger terminal will not be stifled and is in alignment with the proposed project as it bookended by two MARTA stations and has been designed as a Transit Oriented Development (TOD).

CIM is one of few well-capitalized developers that has experience with similar large-scale projects throughout the country, including in Los Angeles, Chicago, Boston, Denver, Miami, the Bay Area and New York. In Washington, DC, CIM completed a redevelopment in the District's Central Business District after it was selected to develop CityVista, a mixed-use project in the burgeoning NoMa area. In conjunction with the construction of a new mixed-use development, CIM purchased several office buildings in the area near Union Station – a transportation hub – completing the transformation from an underutilized area to a successful mix of offices, residence, retail and entertainment options.

The Need for Public Financing

Projects on the scale of the proposed Gulch development do not occur without some incentive. The vast majority of similar large-scale redevelopment projects would not have been built without some public financing mechanisms. For example, Denver's urban landscape was transformed with the redevelopment of the 4,700-acre former Stapleton Airport in downtown Denver, financed largely through TIF subsidies. At the time, the Stapleton redevelopment was described as the largest urban infill project in the nation. Perhaps one of the largest projects in recent history, the TIF-aided, multi-billion-dollar redevelopment of Hudson Yards in New York City will create 13-million square feet of retail, hotel, office and residential space and parkland over a 28-acre working rail yard, including 30 active train tracks.

Georgia finances large scale projects in part through tax allocation districts (TADs). TADs have existed in Georgia since the 1985 passage of the Georgia Redevelopment Powers Act. In fact, tax increment financing structures (TIFs) or TADs have been used nationally since the early 1950s and exist in almost every state. These public financing methods have been used successfully for redevelopment, infrastructure and other community projects for blighted properties. Atlanta's use of TADs has succeeded despite the Great Recession's impact to development activity. A 2016 report by Georgia State University stated that Atlanta's TAD program has been "quite successful," with one of the city's most well-known TADs, Atlantic Station, gaining a nearly 75-fold increase in assessed value - from \$7 million to \$538 million. For the Gulch project, this method of financing is the best means of obtaining a mixed-use development with significant office space in downtown Atlanta.

JLL endorses Gulch development proposal

The development of the Gulch will connect areas of downtown that have been partitioned for decades, rejoining Mercedes-Benz Stadium, the newly renovated State Farm Arena, CNN Center, Centennial Olympic Park, the Georgia World Congress Center, Underground Atlanta, Five Points MARTA station and Downtown proper. Paraphrasing Jane Jacobs, our downtown will no longer be a collection of interests isolated from one another. Instead, it will be a more cohesive and walkable community. Urban areas with good walkability have been shown to increase individual and collective social capital, which has been linked to better community health, decreased crime rates and even increased economic activity.

There is no panacea for successful cities. Cities are complex organisms, yet they require thoughtful investment from the public and private sectors. Often these are small, individual projects on a building-by-building scale. There are inherent risks into making this kind of investment into a single large-scale project, including the timing of the current real estate cycle and the continued health of the current economy. Yet sometimes we are forced to "think big." These projects may make some people apprehensive due to the dollars invested and the potential impact on our city. But as Daniel Burnham, the creator of the original plan for the City of Chicago, once said, "[m]ake no little plans." This is a time for Atlanta to make big plans without a big impact to the finances of the City of Atlanta. JLL strongly believes the project should proceed.

About JLL

JLL is an international real estate services firm, with over 70,000 employees in more than 80 countries across the globe. JLL has experience managing large scale projects, including the development of SunTrust Park and the Battery development in Atlanta, Hudson Yards in New York, and the redevelopment of Ground Zero at the World Trade Center.

(Disclaimer: JLL has not been retained by, nor paid by any of the governmental entities, developer or other professionals involved in the project, and has no vested interest in the project. We have reviewed many, but not all documents related to the Gulch financing. However, we believe we have reviewed all documents that clearly detail the financing structure.)