

VALUE CREATION

Some might argue that value, like beauty, is in the eye of the beholder. When it comes to real estate investment and development, there is no debate. Value creation is the primary goal, but there are many ways to get there.

The capital markets can drive a property's value upward independent of its location or physical features. For instance, a drop in capitalization rates (required yield) will enhance return on investment, even when all else remains constant. Savvy investors use shifts in the financing climate to their advantage.

Rezoning is another way to create value. Essential ingredients are increased building density and a marketable land use. Prevalent today is suburban land being rezoned for multifamily housing.

Mixed-use developments with innovative design have demonstrated a great capacity for value creation. Projects like Avalon and Halcyon have achieved above-market rents and excellent market acceptance by offering an appealing, synergistic environment.

The ability to anticipate change, either in neighborhoods or consumer preferences, can result in seismic value gains. Atlanta's Westside is an excellent case study. Early investors who recognized the redevelopment opportunities in this formerly neglected area have reaped great rewards.

Reinvestment in an older property that enjoys a superior location, but has not achieved its full potential, can also bear fruit. The redo of Colony Square is an excellent example in Midtown Atlanta. Recycling intown warehouses for residential, office, and commercial uses has enriched our community while yielding real economic benefit.

Timing is the secret sauce of value creation. Entry and exit must be properly timed with respect to real estate cycles, the capital markets, and specific property factors. Even high-quality developments can struggle in a poor market, and the recent escalation in interest rates has negatively impacted property values and new construction activity.

The risk/return tradeoff of real estate investing has great allure. Outsized gains are possible, but uncontrollable variables can spoil the outcome. A knack for creating value can be instinctual, born of luck, or based on a well-conceived strategy. The fact that it can be achieved through many different means is part of the fun.

OLD FOURTH WARD - DEVELOPMENT HOT SPOT

The Old Fourth Ward is one of the most attractive places to live and work in Atlanta, featuring some of the city's most exciting architecture. The BeltLine's Eastside Trail, Historic Fourth Ward Park, and Ponce City Market are the major anchors in the neighborhood.

- ❖ Quoted gross rents in newly constructed office buildings are approaching \$70 per square foot, establishing a new highwater mark for the city. With nearly 1.1 million square feet of office buildings delivered since 2007, 540,000 square feet under construction, and two proposed buildings by Cousins Properties/New City and Portman Holdings, the area has essentially established itself as its own office submarket.
- ❖ Over 3,300 apartments have been built in the Old Fourth Ward since 2007. Despite the wave of deliveries, these communities have remained well occupied and command some of the highest rents in the city.
- ❖ Two condominium developments - The Leon on Ponce and The Roycraft - will deliver later this year. Both communities are listing units in excess of \$600 per square foot, a sharp increase from past developments built in the area.
- ❖ A 75-room boutique hotel is under construction in New City's Fourth Ward development, which will further test the area's appeal for a luxury hotel.



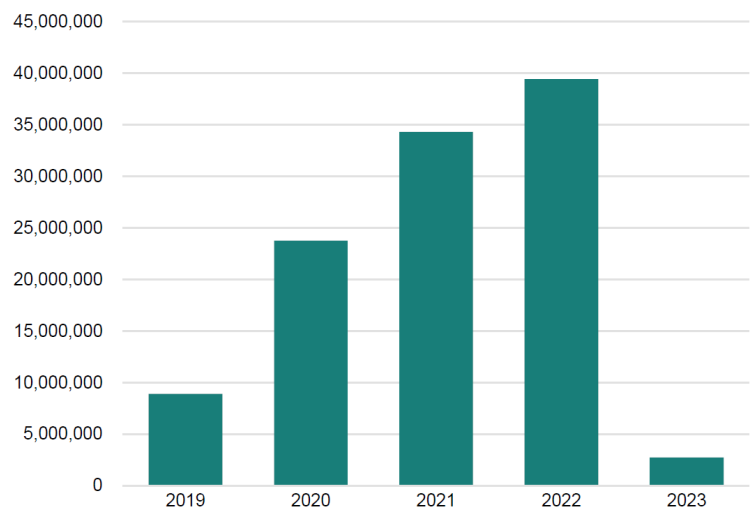
INDUSTRIAL MARKET BEGINS TO COOL

Atlanta's industrial sector has been the darling of the commercial real estate market in recent years, eclipsing net absorption records each year since the pandemic. As a result, the amount of speculative development reached new heights. However, net absorption has recently slowed dramatically as companies have begun to rein in their spending due to a questionable near-term economic outlook and softening in consumer spending.

- ❖ Through the first half of the year, net absorption amounted to only 2.7 million square feet, according to King Industrial Realty. By comparison, the market absorbed an annual average of 32.5 million square feet over the last three years.
- ❖ Nearly 14 million square feet of space has delivered this year, and another 33.2 million square feet is under construction.

The red hot industrial market was bound to cool at some point, but leasing activity will hopefully rebound from a slow first half, particularly given the volume of new construction.

ANNUAL NET ABSORPTION (SQUARE FEET)



Note: Data for 2023 are cumulative as of second quarter.

Source: King Industrial Realty

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