HADDOW'S REAL NEWS
QUARTERLY MARKET INSIGHTS
FIRST QUARTER 2013

Atlanta Rising

Atlanta was given up for dead. After decades of exceptional population and job growth, metro Atlanta's economy imploded in 2008. The city was slow to recover, largely because an overheated housing market left the community particularly vulnerable (annual average of 69,975 residential permits from 2002 to 2006). Rejection of the T-SPLOST referendum was widely viewed as the last nail in the coffin.

The truth is that Atlanta's economy and real estate market evidence clear signs of recovery, and positive momentum has accelerated in recent months. The following are a few measures of how Atlanta is rising.

Population Growth – The U.S. Census Bureau estimates that metro Atlanta, which now consists of 29 counties, added 171,103 residents between 2010 and 2012. This equates to an annual average of 85,552, or a 1.6 percent annual growth rate, which is below previous boomlets but very respectable.

Employment Gains – The Atlanta MSA shed 183,500 jobs from 2008 to 2010, causing many to eulogize. During the past two years, metro Atlanta has gained 79,400 jobs, an annual growth rate of 1.7 percent. This increase has been achieved despite the continued loss of construction jobs.

Core Strengths in Emerging Industries – Healthcare IT, supply chain management, payments processing, mobile devices, and internet security are among the fastest-growing industries in Atlanta. This has spurred job growth but also broadened the city's economic base.

Housing Rebound – Two primary measures of housing activity are permits and pricing. Housing permits increased 65 percent in 2012, albeit from a greatly reduced base. The S&P/Case-Shiller Home Price Index recorded a 9.9 percent increase in 2012, following a 12.8 percent drop in 2011.

Office Awakening – The Atlanta office market absorbed 3.19 million square feet in 2012, according to Jones Lang LaSalle, following four years of negative or minimal absorption. Buckhead's vacancy rate has dropped 10 percentage points in two years to 16.3 percent, in spite of widespread fear that this submarket was woefully overbuilt.

Lodging Indicators Up – The hotel sector is still plagued by low occupancy and modest room rates, but the numbers are improving. Occupancy for 2012 was 61.0 percent, according to PKF Consulting, up from 59.3 percent in 2011. The average daily room rate rose 4.0 percent to $82.04.

Industrial Absorption – King Industrial Realty reports that industrial absorption was 5.62 million square feet in 2012, following four years of negative absorption. Jones Lang LaSalle pegs the 2012 figure at 6.1 million square feet. Vacancies remain high and speculative development is still modest, but the industrial market has clearly turned the corner.

Intown Housing Surge – Even the condominium market is on the mend. At year-end 2012, the ratio of unsold units in intown Atlanta to sales during the previous 12 months was 1.39, its lowest level since 2005. The condominium resale market experienced significant improvement in sales volume and price. Apartment development abounds, with 4,420 units under construction and another 4,702 units proposed in intown Atlanta.

Retail Rumblings – Challenges still remain in the retail sector, particularly in filling vacant anchor tenant spaces, but at least three major developments are under way: Avalon, Ponce City Market, and Buckhead Atlanta. Two more organic grocers (Earth Fare and Sprouts) plan to enter the market, and retail employment has rebounded during the past two years after a steady decline.

Investment Sales – Capital has definitely returned to the Atlanta market. The dollar volume of investment property sales in 2012 was up dramatically compared to 2011, according to Real Capital Analytics. Reduced capitalization rates, particularly for apartments, reflect growing investor enthusiasm.

In summary, Atlanta's rebound has not been as quick or robust as hoped, but it is still very real. A gradual, broad-based recovery is arguably preferable. The relationship between population and job growth is far healthier (ratio of 2 to 1) than what occurred in the last decade, and the fact that development activity is more in sync with market fundamentals is another strength. The real estate sector's continued improvement will add further economic momentum. Atlanta may not return to the stellar growth rates of prior boomlets, but that is not all bad.

Georgia Commercial Bank Performance

(dollar figures in millions) *Source: FDIC*	4th Quarter 2007	4th Quarter 2008	4th Quarter 2009	4th Quarter 2010	4th Quarter 2011	4th Quarter 2012	% Change (2011-2012)
Number of Institutions	352	334	306	268	242	228	(5.8%)
Net Income (Y-T-D)	$2,955	$106	($3,438)	($1,890)	$537	$2,252	319.4%
Other Real Estate Owned (REO)	$857	$2,201	$3,120	$3,486	$2,772	$2,202	(20.6%)
Noncurrent Loans & Leases as a % of Total Loans & Leases	1.7%	4.1%	6.3%	5.4%	4.6%	2.6%	(42.5%)
Total Equity Capital as a % of Total Assets	11.3%	10.5%	10.7%	10.9%	11.4%	12.2%	7.3%

The health of Georgia's financial institutions continued to improve in 2012. Profits were up $1.7 billion compared to 2011, and the number of bank failures slowed dramatically. Additionally, REO assets on the books of Georgia banks have declined 36.8 percent since 2010.

Intown Atlanta Apartment Market

Haddow's Apartment Report: Intown Atlanta examines rent and occupancy rate trends for Class A apartments built since 2000 in six intown Atlanta submarkets. The development pipeline is also monitored, as well as land and building sales. Our First Quarter 2013 report was released on April 1, and includes a special topic on development and operating costs for mid-rise apartments.

First Quarter 2013 highlights include the following:

- The average rent per square foot ($1.37) was up 4.6 percent from one year ago, but showed no increase from Third Quarter 2013.
- The average occupancy rate (94.7 percent) decreased 0.8 percent during the past year, dropping from 95.5 in First Quarter 2012.
- The Buckhead/Brookhaven submarket achieves the highest average rent per square foot ($1.48), while Downtown garners the lowest ($1.23).
- The average rent per square foot for three-bedroom units ($1.41) increased 11.9 percent from one year ago and is now equal to that of one-bedroom units.
- Sixteen projects, containing a total of 4,420 units, are currently under construction in intown Atlanta. Projects located in the Buckhead/Brookhaven submarket account for 1,976 of the units.
- There are 20 proposed projects (4,702 units) in the development pipeline, with several additional sites still in play.
- Fifteen Class A projects sold in 2012, averaging $159,705 per unit, or $159 per rentable square foot.

If you are interested in learning more about this report, please click on the link below:

Haddow's Apartment Report

If you have questions or would like more information, please contact us.

Phone - (404) 577-7222
Email - info@haddowandcompany.com