

HADDOW'S REAL NEWS

QUARTERLY MARKET INSIGHTS

SECOND QUARTER 2017

A NEW YORK MOMENT

A recent two-day trip to New York City was inspiring and uplifting. One is instantly energized by the pace and rhythm of pedestrian and vehicular traffic. The sights abound, inspiring you to walk and explore until your feet hurt.



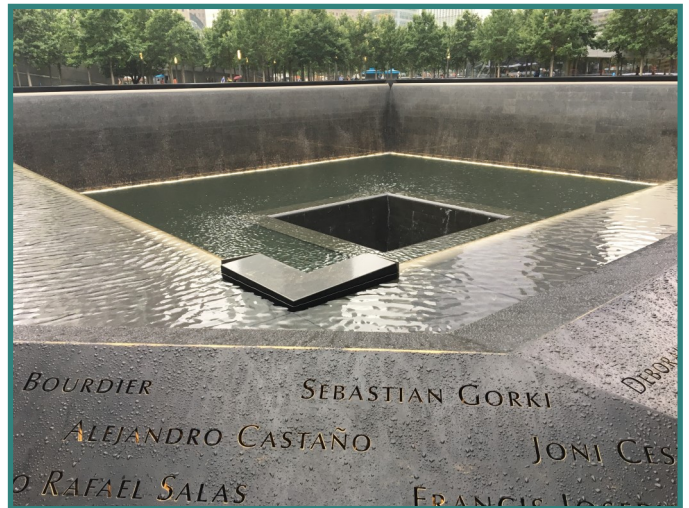
96-Story Condominium (104 Units) Built in 2015

A tremendous building boom is underway in Manhattan, as well as nearby boroughs such as Queens. Residential towers are rising everywhere, some with very striking architecture. Numerous office buildings are also under construction. Re-purposing of historic structures has enormous momentum. Boarded-up,



World Trade Center Transportation Hub

abandoned buildings are rare. Some vacant storefronts exist, reflective of today's retail disruption.



National September 11 Memorial

The National September 11 Memorial is extremely well done. Central Park on Saturday morning was awash with people, pets and strollers. Times Square was what you would expect, yet surprisingly crowded on a weekday.



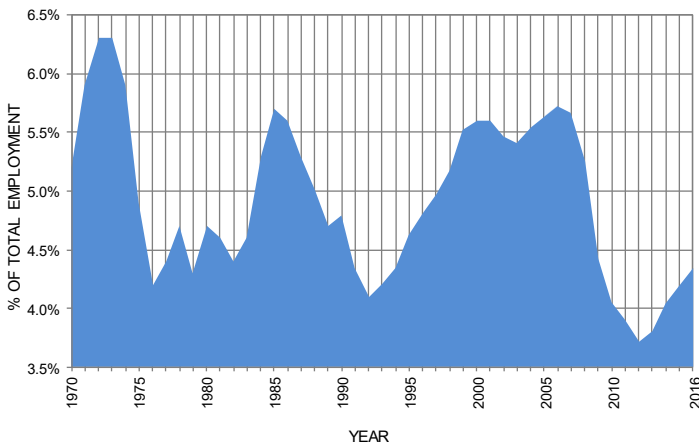
Times Square

Our last time in New York was in March 2002, just months after the horrible tragedy that stunned the city. This moment offered a stark and beautiful contrast.

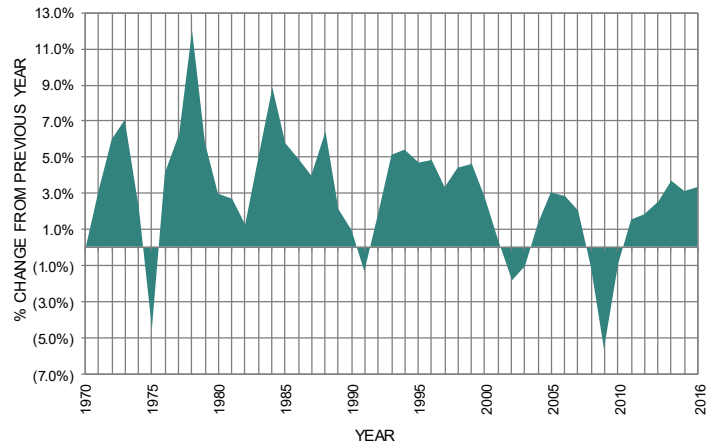
ATLANTA REAL ESTATE CYCLES

Real estate is a highly cyclical industry, and it is often difficult to tell when the market is becoming overheated. One tool to track real estate cycles is the accompanying graphs: the left graph is the ratio of construction employment to total employment, while the right graph is the annual percent change in total employment. Historically, a spike in construction jobs as a percentage of total jobs usually signals that a correction is on the horizon. One exception was the early 2000s when the real estate market peaked and the subsequent correction was very modest, in spite of overall job losses. When the market did correct the housing sector collapsed, and the national recession ensued. At year-end 2016, the ratio of construction employment to total employment was a healthy 4.3 percent, which suggests that this cycle has not reached its peak.

CONSTRUCTION EMPLOYMENT (% OF TOTAL)



ANNUAL % CHANGE IN EMPLOYMENT



Note: The Atlanta MSA was expanded to 29 counties in 2013. Employment data since 1990 have been revised to reflect this change. The employment growth rate for 1990 is based on the former definition of the Atlanta MSA to reflect a consistent time series.

OBSTACLES TO CONDOMINIUM DEVELOPMENT

Our firm is often asked the same question: “When will condominium development come back in a meaningful way?” Since 2010, the intown Atlanta condominium market has largely been dominated by townhomes and a handful of luxury condominiums. The lack of new construction can be explained by five main factors:

Construction Costs: Construction costs have risen significantly since the current real estate cycle began in 2012. This has resulted in residential apartment towers costing as much as \$400 per square foot to build, or even higher with condominium finishes. Any developer interested in building a new condominium tower must push prices north of \$600 per square foot in order to make a deal work.

Financing Constraints: The lending community (both debt and equity) is still wary of condominiums. Presale requirements of at least 30 percent are standard in virtually all proposed condominium projects. Developers are turning to fewer units, targeting the luxury market in order to reach the presales levels and avoid end-user FHA financing.

Lack of Conversion Candidates: Multifamily developers have opted to build apartments instead of condominiums because they have been easier to finance, carry less risk, and have been very profitable. High rents and low cap rates have made condominium conversion less attractive. Furthermore, the scale of these projects (250+ units) results in a small pool of potential conversion candidates.

Renters-by-Choice: Whether the trend is a blip or a long-term shift, developers and investors have bought the notion that Millennials are a “renter-by-choice” generation. As Millennials begin to form families, it will be interesting to see if this trend continues.

Construction Liability: Many developers have opted not to pursue condominium development due to potential lawsuits by HOAs over construction defects.

To monitor key economic and housing indicators, please visit our website. As always, your thoughts and feedback are encouraged.

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