HADDOW'S REAL NEWS

QUARTERLY MARKET INSIGHTS

THIRD QUARTER 2012

FIVE YEARS LATER

The Great Recession began nearly five years ago in December 2007, officially ending 18 months later. The lingering effects still grip economic activity, thus impacting the real estate market. Only one measure has almost fully recovered. The Dow Jones Industrial Average fell from a peak of 14,165 to a nadir of 6,547 on March 9, 2009, rebounding to 13,610 on October 5, 2012. Let's take a look at how Atlanta's economy and real estate market have fared.

Atlanta Economy

Employment remains well below 2007 levels, despite modest job growth in 2011. The unemployment rate is well above the U.S. average, and the number of housing permits issued last year was only 11.7 percent of the 2004 peak. Peer cities such as Houston and Dallas have far outpaced Atlanta in recent job growth. The Atlanta MSA (28-county metro area) did add an estimated 90,345 residents in 2011, according to the U.S. Census Bureau. Another strength is the increased volume of business relocations and expansions, which has been obscured by shrinkage in the construction, manufacturing, and finance sectors. Emerging industry clusters include Internet Security, Supply Chain Management, Healthcare IT, and Payment Processing.

Office Market

A vacancy rate above 20 percent, declining rents, and weak absorption have plagued the office market. Most businesses are still not willing to expand, and several other factors have undermined demand for office space, most notably technology. Absorption turned positive after two years in the red, with the urban submarkets leading the way, but the net change in occupied space since 2007 has been negligible. Speculative development is dead, with the exception of reclaimed space in the old Sears building, now known as Ponce City Market.

Industrial Market

After a dramatic rise, vacancy rates are starting to fall in the industrial market. Absorption hit a real dry patch from 2008 to 2010, but has rebounded nicely during the last 18 months. The manufacturing sector actually expanded in 2011 after several years of decline. Modest speculative development has resumed and some major build-to-suits are under way. Two important demand drivers are online sales and data centers.

Retail Market

Vacancy has soared and rents have declined, while development has essentially ground to a halt. Several shopping centers have traded hands as investors sense a buying opportunity. New investors have stepped up to take over ambitious projects such as Atlantic Station and Streets of Buckhead (renamed Buckhead Atlanta), and a major retail component is planned at Ponce City Market. The only major new development is an outlet center in Woodstock.

Hotel Market

Atlanta's hospitality industry registered a strong first half of 2012 after several years of struggles. Revenue per available room (RevPAR) rose 6.2 percent compared to the first half of 2011. A dual-branded hotel is under construction on 10th Street, and plans have been announced for a Marriott at Gwinnett County's convention center. Several hotels have recently been acquired and upgraded, most notably the former Wyndham Hotel in Midtown, soon to become a Hyatt.

Residential Market

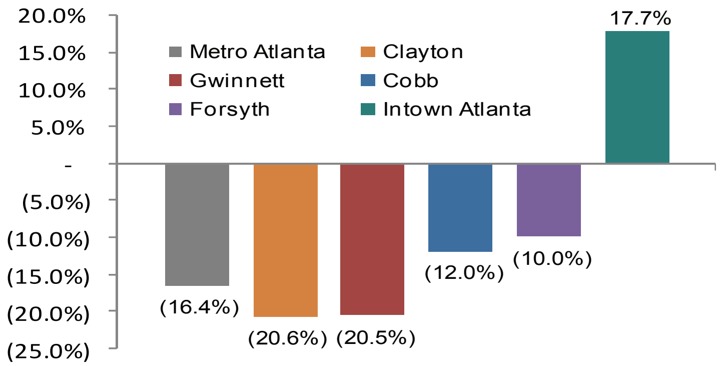
The apartment sector is the shining star, particularly in intown Atlanta. Occupancy rates are high, rents are rising, and significant new development is under way. Condominiums are on the rebound. The resale market is finally strengthening, and the inventory of new unsold units has diminished greatly. Single-family housing still struggles with depressed prices and weak demand, except intown, but the dramatic slowdown in new starts has reduced the inventory of new homes to very low levels.

In short, a lot of pain has been inflicted during the past five years and the side effects still remain, but things are getting better. Like the aftermath of a stomach virus, you are glad the worst is over and left to wonder when you will return to full strength.

Atlanta: Intown vs. Metro

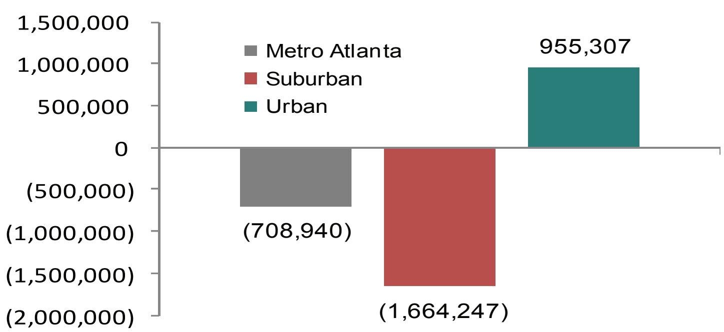
It is no secret that the Atlanta MSA is lagging behind its peer cities in terms of economic recovery. What is less well known is how much better intown Atlanta is performing compared to the region as a whole. Two indicators that clearly illustrate this fact are home prices and office absorption.

Single-Family Home Prices Since 2009



The median single-family home price in metro Atlanta has declined 16.4% since 2009, according to the National Association of Realtors. However, FMLS data show that the average single-family home price in intown Atlanta (click here for area map) has increased 17.7% during that same period.

Office Absorption Since 2009



The suburban office submarkets saw a combined 1,664,247 square feet of negative absorption from 2009 to mid-2012, according to Jones Lang LaSalle. Over that same period, the three urban submarkets (Downtown, Midtown, and Buckhead) experienced 955,307 square feet of positive absorption.

Apartments on the Rise

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 Third Quarter 2012 report was released on October 1, and includes a special section on the financing status of new developments.

Third Quarter 2012 highlights include the following:

- The average rent jumped 4.6 percent in the past six months, rising from $1.31 per square foot in the first quarter to $1.37 per square foot in the third quarter.
- The average occupancy rate increased from 95.5 to 96.9 percent, or 1.4 percentage points.
- The Buckhead/Brookhaven submarket achieves the highest average rent per square foot ($1.53), while Downtown garners the lowest ($1.24).
- Nine projects (2,661 units) are currently under construction. Four of the projects, which account for 1,097 units, are located in the Buckhead/Brookhaven submarket.
- There are 23 proposed projects (5,975 units) in the development pipeline, while several additional sites are in play.
- Ten Class A projects have sold thus far in 2012, averaging $157,203 per unit, or $158 per rentable square foot.

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

Haddow's Apartment Report

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

www.haddowandcompany.com

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