HADDOW'S REAL NEWS

QUARTERLY MARKET INSIGHTS

THIRD QUARTER 2014

Cycle Theory

Why is real estate such a cyclical industry? What causes cycles? How do we gauge where the market stands in cyclical terms? What are the early warning signs of an overheated market? These are questions of utmost importance to anyone in the real estate business, particularly developers and investors.

The real estate industry is highly cyclical for two fundamental reasons. Demand is closely linked to the economy, which is inherently cyclical. The second factor is the flow of money. Real estate market behavior is highly influenced by capital. When money flows too freely, it produces a temporary high followed by sudden discomfort.

Other factors that contribute to real estate cycles are tax law changes, government policies, demographic change, and technological shifts. Repeal of the Glass-Steagall Act in 1999 was a clear precursor to the financial meltdown of the last decade. Federal government policies promoting increased home ownership contributed greatly to residential overbuilding and the mortgage crisis. Demographic and technological changes reshape real estate demand, and hence can upset the market's tenuous equilibrium. A simple truth is that no one really knows when enough is enough. We have a tendency to build until it breaks, ignoring warning signs that appear, partly due to the inability to quantify pending doom.

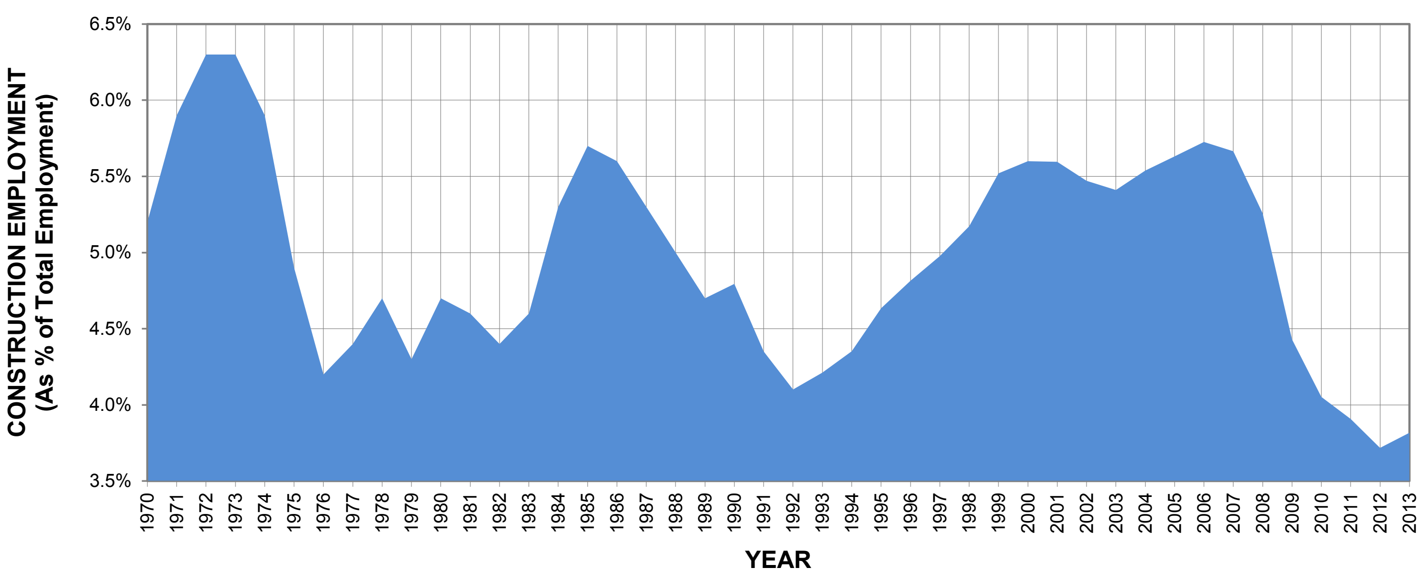
The graph below provides an effective tool to gauge real estate cycles. It simply captures the relationship between construction employment and total employment over time. History has shown that when construction jobs grow disproportionately relative to the overall economy, this typically leads to trouble. In other words, when construction activity starts to drive economic growth instead of responding to needs generated by economic expansion, a correction is in the offing. For instance, the real estate surge of the early 1970s resulted in a colossal bust in 1975.

A clear correlation exists between downturns in the economy and real estate market corrections. One notable exception was in the early 2000s, following the 2001 economic recession, when metro Atlanta's loss of jobs in 2002 and 2003 did not result in a construction slowdown. This was due to easy and inexpensive money, as well as lax loan underwriting. The delayed correction that commenced in 2007 led to a protracted and painful downturn.

As the graph indicates, we are in the early stage of an up cycle. Atlanta's economy is prospering, and employment forecasts for the next two years are very strong, which suggests a favorable climate for development and investment. Nonetheless, another down cycle is inevitable. The thing to watch for is when capital drives the real estate market instead of the economy. Symptoms include the following: abundance of capital, sharp escalation in land prices, swelled ranks of developers, careless loan underwriting, overbuilding, and capitalization rates that do not reflect real estate risk.

We are now enjoying a great market that should continue for some time. Let's not forget the cyclical nature of our industry, and hopefully do a better job of heeding the warning signs when enough is enough.

Atlanta Real Estate Cycles



Source: U.S. Bureau of Labor Statistics

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CONTINUED

THIRD QUARTER 2014

Two Years Later

The commercial real estate market is starting to fire on all cylinders. A few trends are noted below:

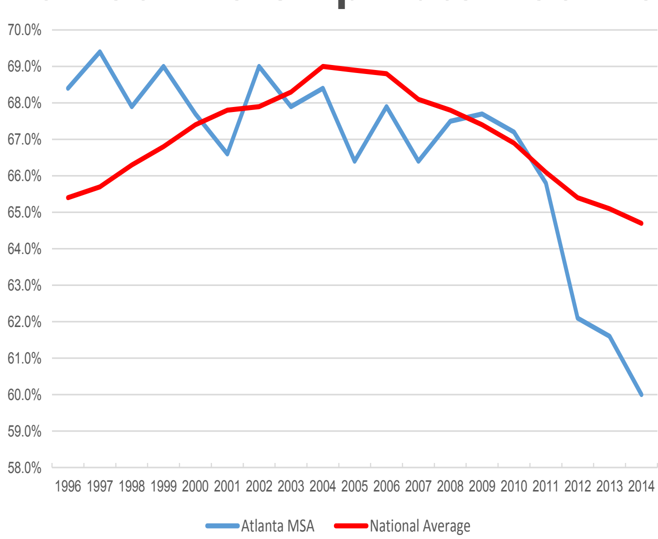
- Tishman Speyer recently broke ground on Three Alliance Center, the first newly constructed speculative office tower since Phipps Tower was delivered in 2010.
- Three significant mixed-use developments (Avalon, Buckhead Atlanta, and Ponce City Market) will open over the coming months.
- Atlanta was just ranked number one in hotel occupancy growth for the top 25 U.S. markets, according to STR, Inc. Year-to-date 2014 occupancy through August is now at 70.1 percent for metro Atlanta hotels.
- The intown Atlanta apartment market is surging, with the average rent per square foot rising nearly 11 percent in the last 12 months and an average occupancy rate of 97.8 percent

	Mid-Year 2012	Mid-Year 2014
Metro Atlanta Office Market		
Net Absorption (Previous 24 Months)	(140,886)	4,615,806
Average Quoted Rent Per Sq. Ft.	$20.07	$20.36
Vacancy Rate	22.7%	20.0%
Metro Atlanta Hotel Market		
Average Room Rate	$81.71	$86.69
Occupancy Rate	62.1%	65.8%
Metro Atlanta Industrial Market		
Net Absorption (Previous 24 Months)	9,814,021	18,125,082
Average Quoted Rent Per Sq. Ft.	$3.09	$3.17
Vacancy Rate	17.7%	14.2%
Intown Atlanta Apartment Market *		
Units Under Construction	2,661	7,374
Units Proposed	5,975	12,863
Average Monthly Rent Per Sq. Ft.	$1.37	$1.63
Occupancy Rate	96.9%	97.8%
Intown Atlanta Condominium Market		
Number of New Unsold Units	1,520	578
Deliveries in Previous 12 Months	147	487
Number of Resales (YTD)	1,253	1,525
Average Price of Resales (YTD)	$157,954	$233,998

* Apartment data are as of Third Quarter for the respective years.

Sources: Jones Lang LaSalle, PKF Consulting, and Haddow & Company

Homeownership Rate Decline



Note: Figures for 2014 are as of Second Quarter.

Source: U.S. Census Bureau

Metro Atlanta's homeownership rate dropped to 60 percent as of Second Quarter 2014. This rate is significantly lower than the national average of 64.7 percent, and is a sharp decline from 2010 when the Atlanta MSA's homeownership rate was 67.2 percent. The current rate is partially explained by the foreclosure crisis, which was more acute here than in many metropolitan areas. Households that lost homes are still not in a financial position to purchase, or have decided against ownership. A second explanation is structural shifts in the housing market. People are waiting longer to get married, thus delaying home purchases. A certain segment of the population, particularly Millennials, prefers to rent rather than own. Many baby boomers are also downsizing and electing to rent rather than reinvest in housing. As the economy improves and households regain their financial footing, metro Atlanta's homeownership rate should increase, but how much is open to debate.

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

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