HADDOW'S REAL NEWS

QUARTERLY MARKET INSIGHTS

THIRD QUARTER 2016

THE BEAT GOES ON

The current economic cycle is in its eighth year. Apartment development has been off the charts. Prices for both improved properties and land have soared. Investment capital is abundant. These conditions usually suggest a real estate market on the precipice.

Thankfully, this is not the case in Atlanta. Demand driven by real economic growth, the banking industry's surprising discipline, and slack supply growth due to the previous slowdown help explain the continued good health of our real estate market.

Atlanta was late to rebound from the last set-back but has enjoyed a market-driven recovery. Consider the following:

- The Atlanta MSA's population grew by 254,323 persons from 2012 to 2015, an average yearly increase of 1.5 percent. Employment expanded even faster, with 231,300 jobs added, or 3.2 percent annually. The most impressive part has been an almost 1 to 1 relationship between population and job growth.
- Economic diversification, long an Atlanta strength, has gotten even better due to strong gains in the following industries: TV/ Film Production, Education & Health Services, Professional & Business Services, and Leisure & Hospitality.
- The technology sector has exploded, making Atlanta a recognized leader in Internet Security, Healthcare IT, FinTech, Payments Processing, Mobile Devices, and Software Development.
- A significant wave of corporate relocations and expansions has occurred, including recent announcements by Honeywell, Anthem, and GE Digital.
- The housing sector has risen from the abyss, with 20,000 residential permits issued during the first half of 2016 and prices have fully recovered.

Robust development activity is now evident across the board, occupancy and rental rates are rising, absorption is much improved, and capitalization rates have been driven to low levels. Good times usually lead to excess, so we should remain alert for warning signs that capital is flowing too freely or the economy is turning. A few concerns are worth noting:

- U.S. real estate investment trusts (REITs) tripled in market capitalization from 2007 to 2015, according to NAREIT.
- Cautious bank underwriting has caused private equity firms to embrace construction lending, removing a governor on the market.
- U.S. Gross Domestic Product (GDP) growth was anemic during the first half of 2016, but the 2.9 percent increase in the third quarter is encouraging.
- Atlanta experienced a surge in apartment starts during the first half of 2016 as peer cities were starting to throttle back.
- Foreign capital is cascading into town, which can lead to ill-advised investments.
- Net migration has accounted for only half of metro Atlanta's population growth since 2010, compared to 65 percent during the previous decade, although this should rebound with an improved economy.

These are minor clouds on an otherwise bright horizon. This boom has a solid foundation, so it should last a while. Let's enjoy the ride but remember its prelude.

ECONOMIC INDICATORS - METRO ATLANTA

	2012	2015
Population	5,456,472	5,710,795
Non-Agricultural Employment	2,353,600	2,584,900
Unemployment Rate	8.8%	5.6%
Housing Permits	14,356	30,011
Single-Family	9,146	19,885
Multifamily	5,210	10,126

HARBINGER FOR ATLANTA?

According to a recent study by MPF Research, apartment rents have started to fall in major cities such as New York, San Francisco, and Houston. These markets have been impacted by a flood of new supply and slowing job growth. The slippage has been most pronounced in urban cores, where rents skyrocketed at the start of this cycle but have recently turned negative.

So what do these trends suggest for Atlanta? Rents at Class A developments in intown Atlanta have also spiked, increasing approximately 30 percent since 2012. Same-store rents were still rising as of Third Quarter 2016, but at a slower pace than earlier in the cycle. Concessions are common at developments in lease-up, and the market will only become more competitive over the next 12 months with 7,084 units slated to deliver.

Strong employment growth in the urban core is fueling apartment demand. But if job growth tapers off when intown Atlanta becomes inundated with new supply, rents may get squeezed. The good news is that fewer new developments are being announced, which will provide some breathing room. However, rent declines in other major markets serve as a fresh reminder of the cyclical nature of the real estate industry.

Haddow & Company's Third Quarter 2016 Apartment Report is now available. If you are interested in learning more about this report, please click on the link to the right:

Haddow's Apartment Report

LOFTY ASPIRATIONS

Office development has been slow to bounce back following the 2007 – 2009 recession. The loft office component of Ponce City Market (550,000 square feet) is the only significant delivery in the past six years. It was very well-received, experiencing strong demand from technology and other creative companies attracted to the building's industrial feel, BeltLine location, and mixture of uses.

Developers of a new wave of loft office projects are betting that the success of Ponce City Market was not an anomaly but indicative of a broader shift in workplace preferences. As of August 2016, five loft office developments, totaling 525,000 square feet, were underway in Atlanta (see chart). Loft office space is not a new trend in Atlanta, but it was once an affordable alternative to Class A buildings. However, rents in this new generation of projects are generally competitive with traditional office towers and range from $26 to $34 per square foot.

The flurry of loft office development raises the question of how deep the demand is for this product. It is too early to tell, but strong job growth in the technology sector and the leasing momentum at Stockyards Atlanta and Armour Yards are encouraging signs.

Loft Office Developments Under Construction

Name	Size (Sq. Ft.)	Percent Preleased
2700 Apple Valley	70,000	0%
Armour Yards	185,000	45%
Defoor Hills	80,000	0%
Stockyards Atlanta	130,000	75%
The Willoughby	60,000	25%
Total/Wtd. Average	**525,000**	**37%**

Note: Data as of August 2016.

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

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Haddow & Company
Real Estate Consultants

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

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