HADDOW'S REAL NEWS
QUARTERLY MARKET INSIGHTS
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# THE DIFFERENCE IN THIS CYCLE

How much longer will this real estate cycle last? The honest answer is nobody knows, but important clues emerge from a comparison of today's economic and market conditions with those that preceded the last downturn.

**The Economy**

A brief economic recession in 2001, which was exacerbated by the 9/11 tragedy, set the stage for the last economic cycle. While the housing sector rebounded strongly due to subprime lenders, the federal mandate to increase home ownership, and low interest rates, the economic expansion was uneven. Metro Atlanta saw a surge in construction jobs and the finance sector, but job growth during the early 2000s was muted. Employment grew by only 108,600 from 2000 to 2006, an annual increase below one percent. Remarkably, 7.9 residents were added for every new job during this six-year span, while per capita income grew a meager 1.3 percent yearly.

Now consider a few stats from 2010 to 2016: 1) annual job growth rate of 2.7 percent; 2) population to employment growth ratio of 1.3; and 3) per capita income gain of 4.2 percent per year. Atlanta is in the midst of a broad-based expansion that shows few signs of letting up. Most importantly, the real estate sector is not the driving force. Construction employment currently represents 4.4 percent of total jobs, well below the previous peak of 5.8 percent in 2006.

**Market Fundamentals**

The contrast is even more striking in real estate terms. Office and industrial rent growth was essentially zero from 2000 to 2006. Absorption was very modest. The hotel sector also struggled with static room rates and occupancy in the 65 percent range. Housing was on fire. During the seven-year period starting in 2000, single-family housing permits totaled a whopping 53,965 units annually. Multifamily development was more restrained, but still registered 14,940 units per year.

Fast forward to today. For the first time in memory, office and industrial rents have moved up dramatically, recording almost a 20 percent increase in the last five years. Office absorption has remained low by historic standards, but industrial absorption has gone through the roof, averaging 15 million square feet for the last five years. Hotel occupancy is now well above 70 percent, and the average daily room rate is up 23 percent since 2012. Housing production has been relatively subdued in spite of perceived overbuilding of apartments. Single-family permits averaged only 13,760 units annually from 2010 to 2016 metrowide, while the multifamily sector recorded only 7,304 permits annually.

In short, this real estate cycle has been fueled by Atlanta's surging economy. Increased occupancy, rents, and absorption signal robust demand, while development has been fairly restrained. The banks have exercised an unusual degree of self-control. Alternate capital sources have surfaced but have not opened the money spigot. There is no disconnect between the capital markets and real estate fundamentals, like has occurred in the past, which bodes well for continued good times.

## ATLANTA'S LOGISTICS INDUSTRY

Atlanta's growing status as a global logistics hub is spurring real estate demand. The local industrial market is on a phenomenal run, recording positive net absorption of 11.5 million square feet in the first half of 2017, following positive absorption 19.4 million square feet in 2016 and 15.9 million square feet in 2015, according to King Industrial Realty, Inc. Development of massive e-commerce fulfillment centers for companies that desire proximity to the metro area's population base and transportation network is fueling the record absorption figures.

Perhaps less obvious is the impact that the logistics industry is having on office demand. Coyote Logistics, a UPS subsidiary that helps companies move goods, recently leased 50,000 square feet at Armour Yards. Amazon also leased 25,000 square feet at Atlantic Station to build a transportation technology center. These examples underscore that Atlanta's logistics advantage is not only physical assets but is also intellectual capital. The region is home to 17 corporate innovation centers focused on supply chain technology, as well as 20 Fortune 1,000 companies with a supply chain focus. Logistics providers employ more than 150,000 people, according to the Metro Atlanta Chamber, and this growing industry is having a positive impact on the local real estate market.

## IMPRESSIVE START FOR THE BATTERY ATLANTA

In November 2013, the Braves announced they were leaving downtown Atlanta to move to Cobb County. While many people greeted the move with skepticism, the finished product has been widely embraced by Braves fans and the local community. SunTrust Park is an impressive facility, but the real difference maker has been The Battery Atlanta. Fans now enjoy the many food and beverage establishments hours before and after the game. With the addition of the Roxy Theatre, which can hold 4,000 people and is scheduled to host 50 ticketed events a year, and a creative central greenspace that features a bandstand, The Battery Atlanta has become a year-round restaurant and entertainment destination.

**By the Numbers - The Battery Atlanta**

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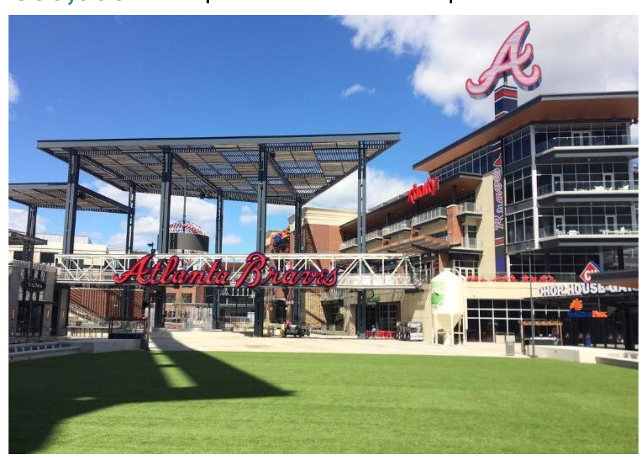
|---|---|
| 531 | Apartments ($1.94/Sq. Ft. Average Rent) |
| 260 | Hotel Rooms (Omni Hotel) |
| 15+ | Bars and Restaurants |
| 300,000+ | Square Feet of Office Space |

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