HADDOW'S REAL NEWS

QUARTERLY MARKET INSIGHTS

THIRD QUARTER 2020

WINNERS AND LOSERS

The onset of COVID-19 and the national recession triggered a sharp downturn in metro Atlanta. The local economy is on pace to shed 135,000 jobs in 2020, and the unemployment rate was 8.5% as of July. Virtually every industry has been impacted, but especially the Leisure and Hospitality sector, where more than one third of job losses have occurred. While the broader economy is experiencing significant pain, the impact on the local real estate market has been uneven. Some sectors are flourishing, others are languishing, and for some it is too early to tell. Key trends are highlighted below:

Winners

The ***industrial market*** continues to benefit from the shift to online shopping, which has spurred demand for warehouse and distribution space. According to King Industrial Realty, the market recorded 10.8 million square feet of net absorption in the first half of this year, compared to the annual total of 8.9 million square feet in 2019. Amazon accounts for a large share of absorption activity as the company is rapidly expanding its distribution network. A staggering 17.3 million square feet were under construction at mid-year 2020.

The ***single-family housing market*** is booming due to low interest rates, demographic shifts, and changing preferences about where people want to live. The latest residential sales data from the U.S. Census Bureau highlight the strong demand. In August, sales of new single-family homes in the U.S. occurred at a seasonally adjusted annual rate of approximately 1.0 million, up 43.2% from August 2019. The South region accounted for over 60% of these sales, and metro Atlanta has certainly benefited.

Losers

The pandemic has accelerated the decline of ***brick-and-mortar retail****,* which was already on shaky ground. Based on a report by BDO, 29 retailers have filed for bankruptcy this year through mid-August, including J.C. Penney, Brooks Brothers, and Neiman Marcus. Even retailers that have not filed for bankruptcy, such as Macy's, Bed Bath & Beyond, and Gap, have announced widespread store closures. Locally, most mall owners have started to repurpose these assets with residential, office, and other uses.

The ***hospitality sector*** has been hardest hit, particularly large convention hotels. According to CBRE Hotels, the occupancy rate in metro Atlanta was 42.9% during the first half of 2020, down from 70.5% in the first half of 2019. The convention business has flatlined since March, with the cancellation of 29 of 32 planned city-wide events. A full recovery in this industry will not occur until a vaccine is available.

Undetermined

Office market fundamentals have held steady, but there are warning signs, including slowing absorption, an increase in sublease space, and the tenuous nature of co-working operators, which occupy significant space in metro Atlanta. An obvious concern is future demand for office space given the work-from-home model adopted by many companies. Furthermore, 3.8 million square feet of speculative space was under construction at mid-year, raising questions about the ability to absorb this space in a struggling economy.

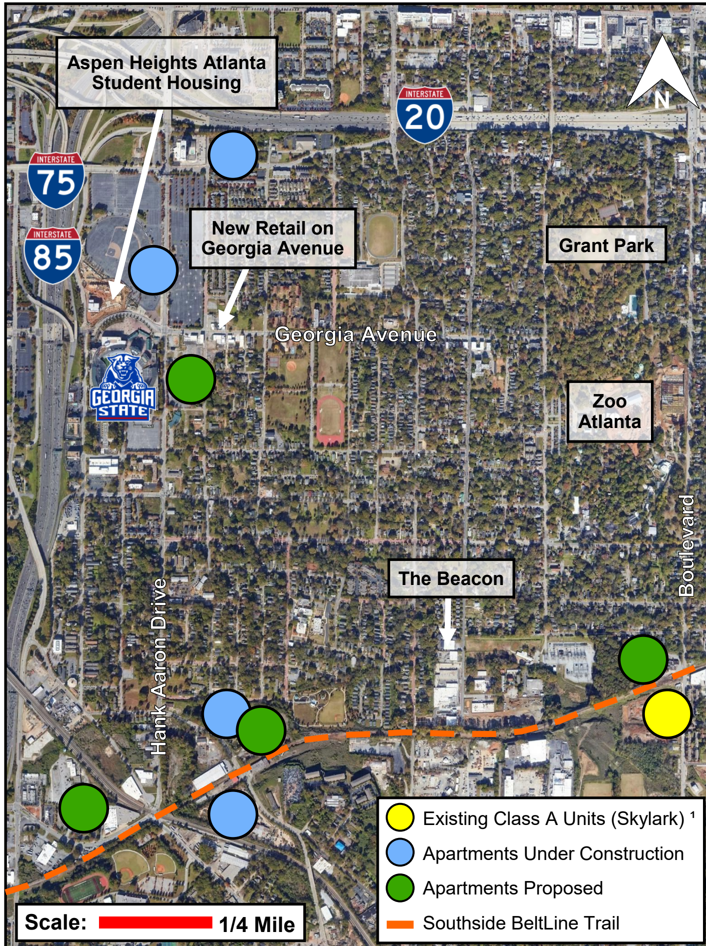
The ***apartment sector*** is a mixed bag. The occupancy rate of Class A apartments in the urban core was a healthy 96.3% in third quarter, but same-store rents declined 5.4% for the 12-month period ending September 2020. Leasing velocity has slowed, and concessions are more prevalent. Suburban apartments are faring better because less product has been built in recent years, rents are more affordable, and consumer preferences are shifting away from high-density living. Expiration of the federal eviction ban at the end of the year could result in an uptick in the vacancy rate.

HADDOW'S REAL NEWS

CONTINUED

THIRD QUARTER 2020

SOUTHSIDE RENAISSANCE



¹ Class A inventory includes projects built in the last 15 years (since 2005).

Source: Haddow & Company

A surge in new investment is occurring in the Summerhill, Peoplestown, and Grant Park neighborhoods. These areas were overlooked early in this development cycle, but Georgia State University's (GSU) expansion and the opening of the Atlanta BeltLine's Southside Trail have been catalysts for development. Carter and its partners built 37,000 square feet of retail and restaurant space along Georgia Avenue that opened in 2019. The Beacon, a 110,000-square-foot neighborhood retail development, opened in Grant Park in 2018.

Apartment developers are flocking to these neighborhoods. Two apartment communities are under construction and one is proposed near GSU's stadium in the Summerhill neighborhood. Along the Southside Trail, one project (Skylark) has delivered, while an additional 544 units are under construction and 714 units are proposed. Developers are attracted to this corridor due to lower land costs and the availability of large sites, which allow for surface parking. All of these developments are providing affordable housing (251 total units), which is required in the BeltLine overlay district.

BY THE NUMBERS: APARTMENT MARKET			
Existing Class A Units	319	**Average Rent ²**	$1,638
Units Under Construction	1,095	**Average Unit Size (Sq. Ft.) ²**	876
Units Proposed	1,029	**Average Rent Per Sq. Ft. ²**	$1.87

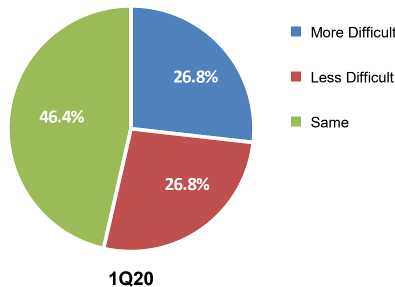
² These figures reflect both existing and pipeline apartments.

2020 MULTIFAMILY MARKET SENTIMENT SURVEY - INTOWN ATLANTA

Haddow & Company conducted two sentiment surveys on the state of the intown Atlanta multifamily market: one during first quarter prior to any signs of the pandemic, and one during third quarter. Key findings are discussed below:

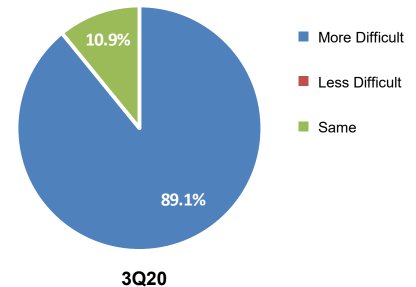
- Pre-pandemic, 60.0% of respondents were willing to underwrite a deal with less than 6.5% return on cost, compared to 51.1% in third quarter.
- Almost 90% of third quarter respondents said it is more difficult to secure debt financing than it was prior to the pandemic.
- Demand has weakened for future intown apartment development with just 57.8% of third quarter respondents actively pursuing new sites, compared to 75.0% in first quarter.

For new development, is it more or less difficult to secure debt financing than it was 12 months ago?



1Q20

For new development, is it more or less difficult to secure debt financing since the pandemic began?



3Q20

The First Quarter 2020 survey had 56 respondents, while the Third Quarter 2020 survey had 46 respondents. The respondents are a mix of apartment developers, debt providers, and owners of existing communities.

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

www.haddowandcompany.com

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

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