HADDOW'S REAL NEWS

QUARTERLY MARKET INSIGHTS

THIRD QUARTER 2009

TIMING LOCATION TIMING

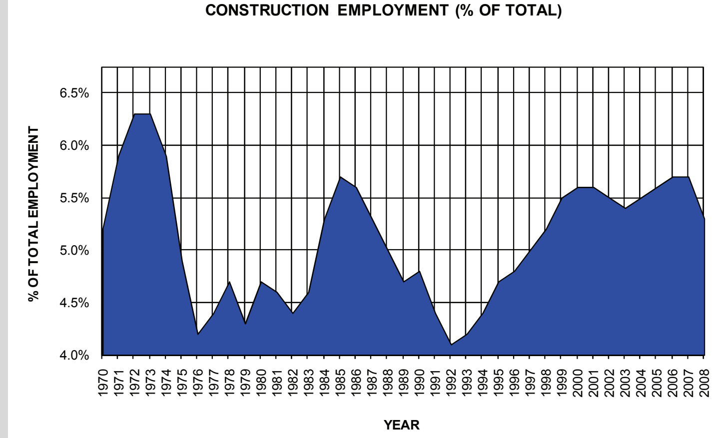
The old real estate maxim, Location Location Location, is so familiar even those outside the industry take it as gospel. It's time to dispel the myth. Location is certainly a key ingredient of any real estate venture, but a great site does not guarantee success. Timing is far more important, and deserves at least equal recognition in a true accounting of how to profit from investing in real estate.

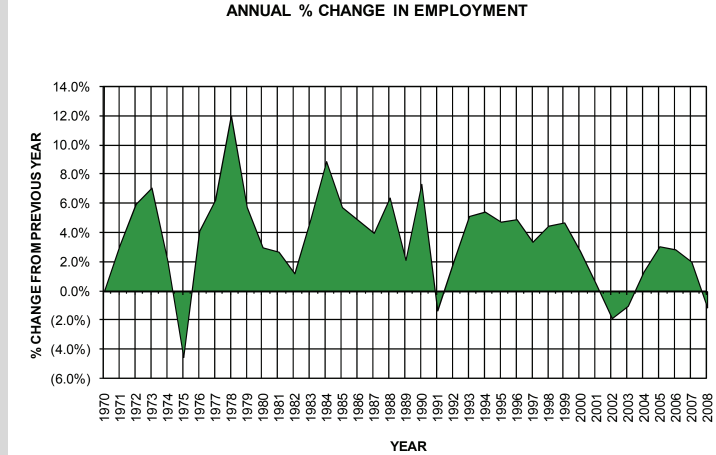
The point at which investment or development occurs is crucial in establishing cost basis, while disposition timing can greatly influence sale proceeds. The Prado in Sandy Springs offers a great illustration. This mixed-use development, built in the early 1970s, was acquired by a real estate investor in 1985 for $14.5 million. A sharp downturn in the real estate market led to the property's foreclosure and subsequent sale for $4.1 million in December, 1992. The Prado was sold for redevelopment in late 2006 at a price of $23.8 million. This enormous value increase was partly due to the property's location, but the real cause was a dramatic change in economic and market conditions, as well as the flow of capital.

Just consider what has happened to residential land prices during the current downturn. Properties acquired at the housing market's peak in 2005 and 2006 have nosedived in value. The locations did not change. Values inflated by easy credit and overzealous expectations are now deflated by the banking crisis, oversupply, and economic slump.

The accompanying graphs provide key indicators of metro Atlanta's real estate cycles. The top graph is simply the ratio of construction employment to total employment, while the lower graph is the annual percentage change in total employment. Real estate peaks and troughs are reflected by the rise and fall of construction employment in percentage terms. High points in 1972 and 1985 were followed by sharp contractions that led to low points in 1976 and 1992. When the real estate market peaked again in 2000, the subsequent correction was very modest, in spite of a protracted job slump in the early 2000s. Continued development, particularly in the for-sale housing sector, led to the excesses that caused the residential market's collapse and helped trigger the current economic recession.

KEY INDICATORS - ATLANTA REAL ESTATE CYCLES





Note: The Atlanta MSA was expanded to 28 counties in 2004. Employment data since 1990 have been revised to reflect this change. The employment growth rate for 1990 is based on the former definition of the Atlanta MSA to reflect a consistent time series.

Source: U.S. Bureau of Labor Statistics

The Georgia State University Economic Forecasting Center recently predicted a 5.5 percent loss in employment for the Atlanta MSA in 2009, with the ratio of construction employment to total employment falling to 4.5 percent. This could mark the low point in this down cycle, but continued erosion in the construction sector might lead to a further drop in 2010. Let's hope the recovery mimics the 1990s, when a quick rebound in job growth spurred solid gains in construction activity.

Real estate is a cyclical business, which highlights the importance of timing. Now is a great opportunity to consider investing because the market is at or near a cyclical low. Wise acquisitions will yield terrific results if disposition decisions are properly timed. The economy, capital markets, and supply-demand fundamentals all play a part in determining investment returns. Location is definitely important, but it is mostly about timing.

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THE MIDTOWN STORY

Midtown Atlanta is a case study in the importance of timing. Take Lars Gulstedt, for example, a Swedish investor who launched an ambitious 29-acre land assemblage in 1990 that required three years to complete. Unfortunately, he did not sense the market downturn that began in 1989, and ultimately saw his holdings revert to lenders and former owners. The largest tract (7.3 acres) in his assemblage was the First Baptist Church property, which resold in 1999 for $52 per square foot, or 33 percent below Gulstedt's average assemblage cost of $78 per square foot.

Land prices have grown dramatically over the last 25 years as Midtown has evolved from a former hangout for hippies and prostitutes into Atlanta's most vibrant urban district, but values have not risen uniformly over time. Land prices increased sharply during the 1980s development boom, but stagnated during most of the 1990s. Only in 1999 did significant land sales occur, and prices began to show an upward trajectory. The prevailing price range was $50 to $90 per square foot until 2006 when land values suddenly exploded. A significant number of transactions occurred from 2006 to 2008, with the weighted average price topping out at $215.65 per square foot in 2007, including one sale at $308.47 per square foot.

Lower land prices and far less sales volume will occur the next few years due to the current malaise. This market correction is a fresh reminder of why timing matters.

CHRONOLOGY OF KEY EVENTS

1984 - IBM kicks off a developer frenzy by announcing its plans to consolidate office operations in Midtown.

1985 - High Museum of Art moves to its current location.

1990-1992 - Lars Gulstedt, a Swedish investor, assembles 29 acres, including the historic Biltmore Hotel.

1992 - Piedmont Park Conservancy raises nearly $20 million in private funds to complete the first half of the Master Plan restoration.

1995 - Blueprint Midtown is launched, a community-based planning process designed to stimulate and control new development.

1997 - Jacoby Development, Inc. purchases the former Atlantic Steel property and forms a joint venture with AIG Global Real Estate Corporation to remediate and redevelop this 138-acre brownfield.

2001 - Federal Reserve Bank of Atlanta opens at 1000 Peachtree Street.

2002 - Metropolis is completed and sells extremely well, establishing Midtown as a residential high-rise location.

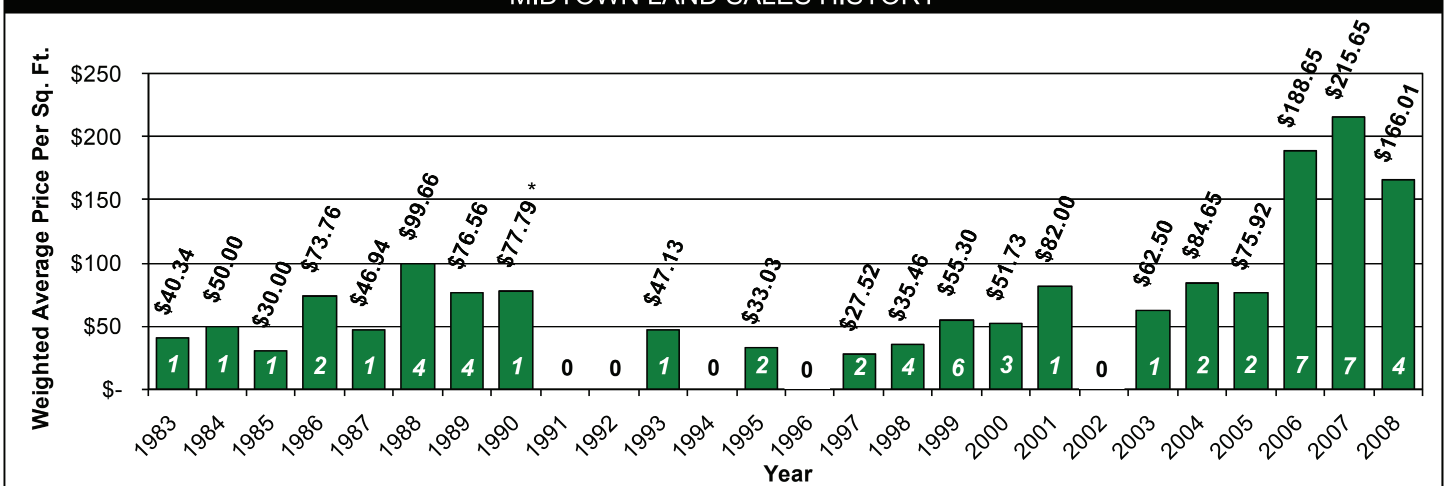
2003 - Centergy, a mixed-use development, is completed, enabling Georgia Tech to expand across the Downtown Connector.

2004 - The commercial portion of Atlantic Station opens.

2005 - The first office building in Atlantic Station opens - 171 17th Street.

2006 - GE Pension Fund purchases the recently completed 1180 Peachtree building for $407 per square foot, a record price for Atlanta.

MIDTOWN LAND SALES HISTORY



* This land sale actually involved multiple transactions from 1990 to 1992 by Lars Gulstedt.

Note: The numbers in the bars indicate the number of sales that occurred in that year. These 57 commercial and multi-family residential land sales do not include every transaction, but they are very representative of price and volume trends during this period.

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