HADDOW'S REAL NEWS

QUARTERLY MARKET INSIGHTS

FOURTH QUARTER 2011

HOUSING VITAL TO ATLANTA TURNAROUND

A recent news story reported the shuttering of a dozen brick plants across the Southeast and the layoff of 1,200 workers. The housing meltdown was cited as the culprit, only the latest reminder of how crucial a healthy residential sector is to economic prosperity.

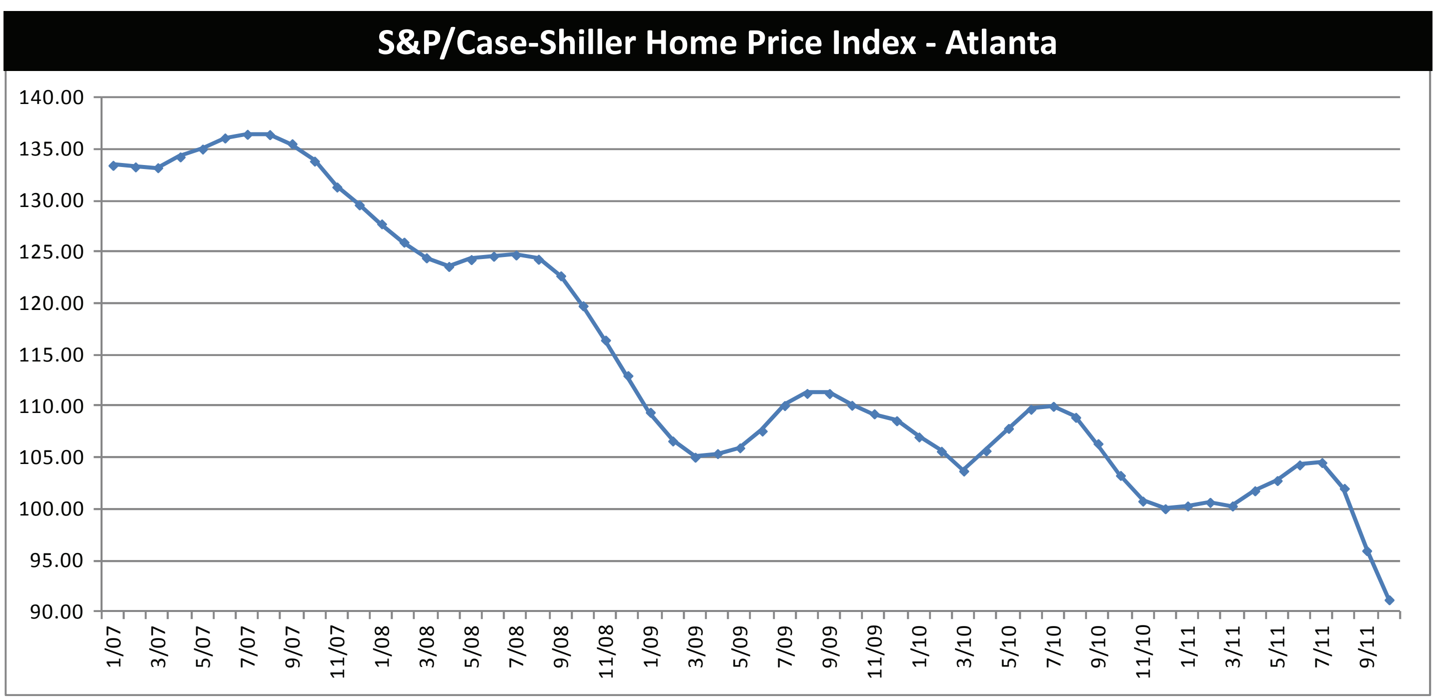
Metro Atlanta is especially challenged because our housing boom was so prolific, having led the nation in starts for several years. From 2000 to 2006, annual residential building permits averaged a whopping 68,906. Based on a typical household size of 2.2 persons, this would require yearly population growth of 150,000 just to stay even. This actually occurred for a short while, but the economic downturn resulted in a net loss of over 200,000 jobs during the last four years in metro Atlanta.

An economy fueled by rapid population growth is most vulnerable when the engine stops and the accumulated housing supply obviates the need for new construction. During the last three years, annual residential permits have averaged approximately 7,600 in metro Atlanta, a mere fraction of previous production. A saturated market with weak demand has dire consequences: 1) construction employment has shrunk by 57,800 jobs since the peak in October, 2006; 2) house prices have slumped 33 percent since topping out in mid-2007 (see graph below); 3) ancillary businesses have been destroyed or greatly diminished; 4) local governments have experienced sharp reductions in tax base; and 5) the financial well being of most people has been severely dented.

The ripple effect of an overheated housing sector gone cold can hardly be overstated, which is why an economic rebound is so integrally tied to the residential market's recovery. Not only are jobs lost, households become less mobile and curtail spending.

In spite of the continued drop in house prices, some encouraging signs exist. The inventory of new single-family houses for sale has been whittled down from 33,370 at year-end 2007 to 7,599 at the end of September, 2011, according to Metrostudy. House foreclosures declined sharply through the first 11 months of 2011, compared to 2010 and 2009, per a report by Data Intelligence Corp. Even the intown condominium market, a favorite symbol of construction excess, now has the lowest supply of new unsold units since 1999. Most importantly, job losses were far fewer in 2011, the unemployment rate has dropped, and real prospects for job growth prevail in 2012.

Conditions are ripe for an improved housing market. Extremely low interest rates, reduced prices, and motivated sellers will ultimately unleash the pent-up demand that has been stymied by loss of confidence and a fragile economy. A clear bottom in house prices, coupled with renewed job growth, are the preconditions. These appear close at hand, but expect more of a whimper than a roar when things turn.



Continued, Page 2

HADDOW'S REAL NEWS

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TECHNOLOGY AND REAL ESTATE

Innovations in technology have impacted virtually every sector of the real estate market and will continue to shape our industry. A few implications are cited below, but the real question is what's next.

- The face of ***retailing*** has changed due to the Internet and the increasing popularity of online shopping, which has reduced demand for retail space and negatively impacted store sales. Companies that have felt the brunt of this trend include Borders, Blockbuster, and Circuit City. The retail segments least impacted are ones that cater to basic consumer goods, such as grocery stores and drug stores.

- Demand for ***office space*** has been reduced with advances in technology. Telecommuting allows employees to work from home and to share workspace. Employees can also take advantage of technology to do more tasks themselves, thus reducing the need for support staff. On the positive side, technology has spurred the creation of entire new industries, such as internet security companies and data centers, which occupy significant office space in Atlanta.

- The ***hotel industry*** is experiencing some fallout as virtual meetings become more common and fewer business trips are required. Internet sites like Expedia and Hotwire have revolutionized the process of booking hotel rooms by allowing consumers to comparison shop, thus placing downward pressure on room rates.

- Technology has impacted the ***industrial sector*** by making manufacturers more efficient. Better inventory management systems and "just-in-time" production systems have reduced the need for warehouse space.

- New technologies have altered the dynamics in the ***residential market***. Potential homebuyers have access to more information due to the rise of websites like Zillow. Innovative software such as Rainmaker LRO (lease rent options) enables apartment owners to establish optimal rents to minimize vacancy loss and maximize revenue .

UPDATE ON GEORGIA BANKS

GEORGIA COMMERCIAL BANK PERFORMANCE COMPARISON

(dollar figures in millions)	3Q 2007	3Q 2008	3Q 2009	3Q 2010	3Q 2011	% Change (2010-2011)
Number of Institutions	330	319	295	256	230	(10.2%)
Net Income (Y-T-D)	$2,542	$1,172	($2,603)	($1,593)	$384	124.1%
Total Assets	$274,876	$276,673	$268,945	$266,182	$258,255	(3.0%)
Total Deposits	$196,863	$203,501	$207,053	$209,641	$205,812	(1.8%)
Other Real Estate Owned	$609	$1,859	$2,730	$3,403	$2,816	(17.2%)
Percent of Unprofitable Institutions	11.82%	41.07%	62.37%	52.34%	41.30%	(21.1%)
Noncurrent Loans & Leases as a % of Total Loans & Leases	1.18%	3.53%	6.01%	5.95%	5.00%	(16.0%)
Nonperforming Assets as a % of Total Assets	1.11%	3.39%	5.33%	5.48%	4.58%	(16.4%)
Total Equity Capital as a % of Total Assets	11.46%	11.24%	10.85%	10.96%	11.67%	6.5%

Source: FDIC

The Year-End 2011 Intown Atlanta Condominium Report will be available on January 27, 2012. For more information, please visit www.haddowandcompany.com.

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