

WHAT'S NEXT FOR ATLANTA?

A new year is a time to reflect and anticipate what's next. Atlanta continues to enjoy a solid economic expansion, increasing population growth, and a favorable real estate market. An old-fashioned analysis of strengths and weaknesses helps gauge the future.

Strengths

- ~ Net job gain of 500,000 since 2010.
- ~ Healthy relationship between population and job growth (ratio of 1.3 since 2010), unlike during the previous decade (ratio of 4.6 from 2000 to 2007).
- ~ Real estate development has not been a dominant economic driver, like in past cycles, with this expansion much more broad-based.
- ~ Positive momentum in relocations and expansions of technology companies, particularly in FinTech, HealthCare IT, Internet Security, and Internet of Things.
- ~ Higher education institutions are growing in enrollment and contract research.
- ~ Significant population of well-educated 25 to 34 year-olds.
- ~ Real estate sectors are flashing good vital signs, with the capital markets relatively in check.
- ~ In-migration has rebounded, accounting for 60 percent of population growth, after falling below 40 percent during and just after the recession.
- ~ Spotlight of the Super Bowl and College Football Championship in successive years.
- ~ Continued strong growth in the TV/movie industry.

Weaknesses

Concerns center around the nation's governance and economic outlook more than local factors. Corporate and federal government debt have risen to astounding levels. We are long in the economic cycle at 114 months, just six months short of the record. Consumer confidence has waned in recent months, partly due to the stock market's volatility and underperformance in 2018. The Inverted Yield Curve, which has been a consistent precursor of past recessions, is flashing warning signs as the yield on two-year treasury bonds climbs very close to 10-year yields. Margin debt has soared since 2009, which is particularly dangerous if the stock market stumbles.

The greatest local concern is political leadership at the city and state levels. The bribery scandal associated with the previous mayor's administration casts an ominous shadow. The new governor does not have the best rapport with the TV/movie industry. Construction employment has grown at twice the rate of total job growth over the last four years, an early warning sign of potential trouble. Significant blocks of office space are being freed up by corporate downsizing, as well as relocations to owner-occupied facilities, at a time when speculative office development is on the rise. Another potential vulnerability in the office sector is the dramatic proliferation of co-work space, particularly given the recent news about WeWork.

In short, the good clearly outweighs the bad, but caution is in the air.

SHORT-TERM RENTALS: LONG-TERM IMPACT?

The rising popularity of short-term rentals is blurring the lines between the apartment and hotel sectors. Several companies are offering services to help apartment owners capitalize on this growing trend and boost revenue. A few of these groups include:



Started in 2014, *Pillow* is fully integrated with Airbnb. The company works with apartment owners to manage short-term rentals by providing background checks and other services. Pillow provides an open platform where residents can place their units in a short-term rental pool. Apartment owners benefit by being able to monitor who is staying at the property and to collect a portion of the rental revenue. Only one intown Atlanta apartment community is currently utilizing Pillow.

STAY ALFRED

Founded in 2012, *Stay Alfred* operates short-term rentals in prime urban markets and has a presence in Atlanta. The company, which targets business and leisure travelers, has an average guest age of 44. Stay Alfred typically master-leases a block of apartment units, which are rented through the company's website.



Lyric, launched in 2017, provides high-end, short-term rental units in apartment buildings. The company prefers to master-lease anywhere from 10 to 60 units in a project. Lyric often helps owners accelerate the lease-up process by preleasing a significant block of units while a community is under construction. Lyric does not yet have a presence in Atlanta, but is looking to enter the market.

RECENT ENGAGEMENTS

- ❖ Our firm was part of a multi-disciplinary team commissioned by the **City of Dothan, Alabama**, to prepare a revitalization plan for the Highway 84 East corridor, which runs from downtown to the city limits. The plan focused on transportation, land use, and economic development. Our role was to provide an analysis of local economic and real estate market conditions in order to identify realistic development opportunities. An emphasis was placed on the downtown area and strategies that could be employed to attract new investment.
- ❖ **Jones Lang LaSalle (JLL)** was serving as a real estate advisor to the new owner of LakePoint, a sports facility in Bartow County with significant undeveloped acreage. We were retained to determine if there was demand for new apartments on the property. Several factors were considered, including: 1) the performance of existing apartments; 2) the number of units under construction and proposed that would pose competition; and 3) demand drivers such as commuting patterns, employment trends, and the synergies with the existing sports facilities.
- ❖ **TriBridg Residential** was planning to acquire Ivy Hall, a 110-unit apartment community in Midtown Atlanta, and convert it to condominiums. We were asked to provide an analysis of the investment opportunity, particularly the achievable sale prices if the units were marketed as condominiums.