

THE MARKET CORRECTION THAT NEVER CAME

In early 2020 there was a growing sense that the economy and real estate market were headed for a correction. The U.S. economy had already surpassed the record for the longest expansion (over 10 years), and real estate development had been in high gear for eight years. Then came COVID-19, triggering the shortest recession in U.S. history (February-April 2020). The real estate market hardly skipped a beat, despite the upheaval and turmoil caused by the pandemic.

Just consider a few economic and real estate measures: 1) metro Atlanta's current unemployment rate is a meager 3.2%; 2) 112,900 jobs were added to the local economy in 2021; 3) the State of Georgia enjoyed a \$2.2 billion surplus for the fiscal year ended June 30, 2021, with the spread anticipated to widen this year; 4) Atlanta's industrial market had record absorption and construction in 2021, gaining further momentum in the first quarter of this year; 5) house prices soared over 20% in 2021; 6) rents for Class A apartments in intown Atlanta rose 19.4% during the past 12 months; and 7) the average price of seven land sales transactions in Midtown was \$430 per square foot during 2021, compared to an average of \$230 per square foot in 2018.

The only real estate sector seriously off-balance is the office market, which is reeling in large part due to the newfound popularity of remote working. Negative office absorption, high vacancy, and abundant sublet space reflect the challenges faced. The overbuilding that has accompanied previous real estate downturns is hardly evident. Housing availability is constrained by limited inventory, high multifamily occupancy, and a growing investor appetite for single-family homes. Industrial developers cannot keep up with demand. Even the hotel market weathered the shock of the pandemic and has registered a rebound in occupancy. Property values are way up, transaction volume has risen exponentially, new developers and investors are flooding the market, and capital providers view Atlanta quite favorably.

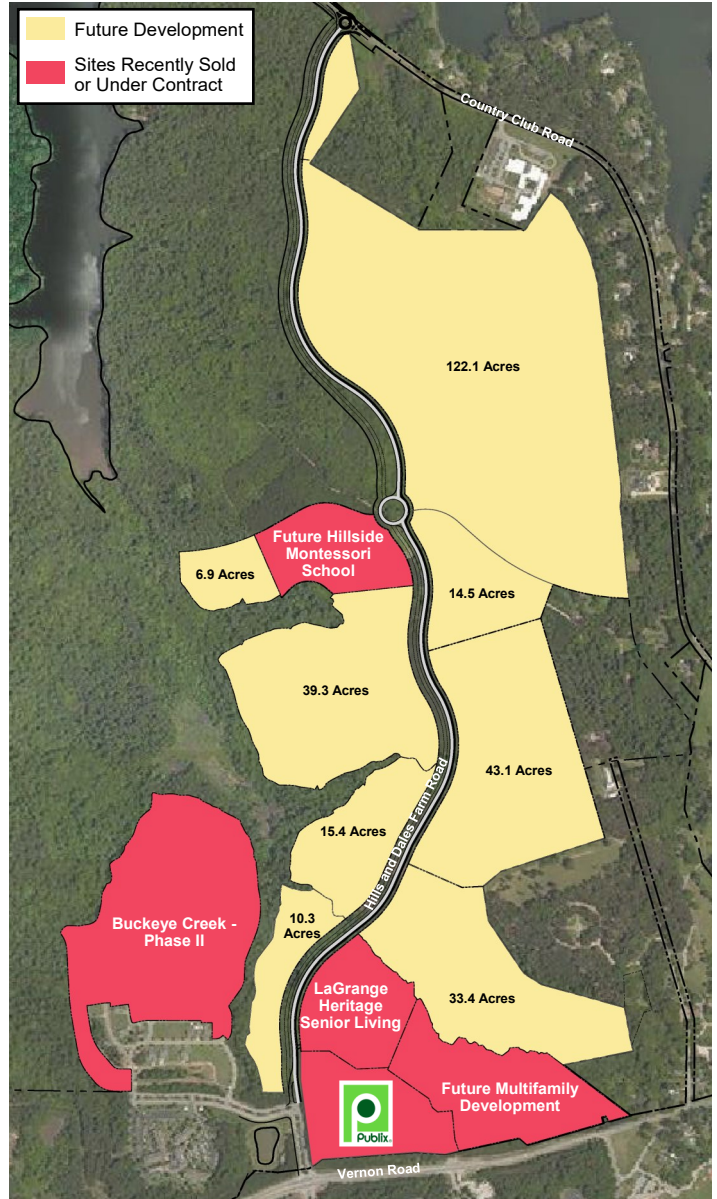
So what might spoil this rosy picture? The biggest threat is a downturn in the national economy. Several reasons for concern exist: 1) inflation is at its highest level in 40 years; 2) interest rates are rising rapidly; 3) the enormous U.S. fiscal and monetary stimulus used to counter the pandemic's ill effects has largely run its course; 4) the brevity of the 2020 recession seems out of proportion with the long economic expansion that preceded it; 5) the Russia-Ukraine War has created disruption in gas prices and supply chains, casting a pall over the economic health of Europe and increasing the odds of a recession; and 6) U.S. Gross Domestic Product decreased at an annual rate of 1.4% in the first quarter of 2022. Let's not forget that COVID-19 is still with us, and the political quagmire in Washington does not instill confidence.

This is a great time for Atlanta, but our economy is inextricably linked with the rest of the world. Hopefully, we will not have an economic shock akin to the 1973 Arab Embargo or the 2007 Financial Crisis. As they say in New Orleans, "Laissez les bons temps rouler" (Let the good times roll), but nothing lasts forever.

CLIENT'S CORNER

A family trust owns over 350 acres located west of downtown LaGrange, Georgia. In 2016, our firm was hired to prepare a highest and best use analysis/investment strategy aimed at monetizing portions of the property, while balancing a desire for quality development that will benefit the community. At the time, the city was building a new road through the property, which opened in 2019. Since completing the investment strategy, we have marketed selected tracts for sale and served as an ongoing advisor to the trust. Some recent property highlights include:

- ❖ A Publix-anchored neighborhood shopping center is under construction at the corner of Vernon Road and Hills and Dales Farm Road.
- ❖ A national apartment developer has a site under contract adjacent to Publix to develop apartments, which are sorely needed in the community.
- ❖ LaGrange Heritage, a senior living community with 100 independent and assisted living units, opened in 2021.
- ❖ The second phase of Buckeye Creek (56.5 acres) is under contract to a single-family developer.
- ❖ A site was donated to Hillside Montessori of LaGrange where a K-8 school will be built.
- ❖ Our firm also assisted the trust with the sale of 212 acres of industrial land to the Georgia Ports Authority. This property is located on the east side of LaGrange, between Interstates 85 and 185.



ECONOMIC & REAL ESTATE INDICATORS - ATLANTA MSA

Economic Indicators

Annual Employment Change (2020)	(149,100)
Annual Employment Change (2021)	112,900
Projected Employment Growth (2022)	103,800

Real Estate Indicators

S&P/Case-Shiller Home Price Index (Percent change from 2020-2021)	21.9%
Annual Office Absorption (Sq. Ft.) (2021)	(2,911,746)
Annual Industrial Absorption (Sq. Ft.) (2021)	34,309,062

Sources: Employment/Unemployment: U.S. Bureau of Labor Statistics & Georgia State University Economic Forecasting Center; Residential: S&P/Case-Shiller; Office: JLL; Industrial: King Industrial Realty, Inc.

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

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

Phone - (404) 577-7222

Email - Lhaddow@haddowandcompany.com