

Real Estate in the Digital Age

Technological advances, particularly the Internet, have had a big impact on the real estate industry. The pace of change is quickening, so the full measure of this influence is not yet known. In Atlanta, the demolition of Shannon Mall to make way for a huge industrial building is the perfect metaphor for how technology is altering the real estate landscape.

The digital age has lowered office requirements and increased the demand for industrial space, while posing a major challenge to traditional retailing. Consider one simple fact: Metro Atlanta absorbed approximately 2.5 million square feet of office space in each of the last two years, according to Jones Lang LaSalle, compared to six to eight million square feet annually during previous boom periods (i.e., the mid 1980s and late 1990s).

Personal computers and sophisticated phone systems have virtually eliminated clerical support staff. The Internet allows people to work remotely and from home. Many start-up businesses, particularly in the technology sector, seek non-traditional office space. Some companies simply relocate to cities preferred for lifestyle reasons, since they can conduct business electronically. The only major office delivery since 2010 in metro Atlanta was the loft office component of Ponce City Market.

The industrial sector has benefited from the rapid rise of e-commerce. According to the U.S. Census Bureau, e-commerce sales represented only 2.8 percent of total retail sales (excluding food services) in 2000. This percentage soared to 21.8 percent in 2015.

Fulfillment centers for e-commerce businesses are a major demand driver. Data centers to store and process information are another big consumer of industrial space. Older intown warehouses are regularly converted to loft offices. Metro Atlanta recorded its two best years of industrial absorption in 2014 and 2015, according to King Industrial Realty.

The retail market is a different story. E-commerce is changing how people shop. How do traditional retailers compete with lower prices, greater convenience, and the ability to comparison shop from the comfort of home? Mall development dried up several years ago, and several existing malls are struggling. New retail construction in metro Atlanta is dominated by grocery-anchored centers since e-commerce has not yet effectively penetrated this arena.

Teleconferencing has reduced some business travel, but Atlanta's hotel market is thriving. Occupancy and room rates are at record levels, according to CBRE Hotels. The residential sector has also been nominally impacted by the digital age, although the demographic bulge of millennials has certainly fueled apartment demand. Technology has dramatically altered how people shop for housing, particularly websites like Zillow.

Real estate professionals should stay abreast of how technological change is reshaping our industry, because it is very much a work in progress. Today's trends could quickly become yesterday's news. Tech savvy people who can anticipate what's next will gain a competitive advantage.

Grocery Explosion

A booming economy and growing population make metro Atlanta fertile ground for new grocery stores. Grocers that already have a presence are expanding, and new brands are entering the market. Kroger is adding two intown locations and upgrading existing stores to include more organic and natural food options. Whole Foods has eight locations, with stores under construction in Chamblee and Midtown. The company is also introducing a new lower-cost, small store concept (365 by Whole Foods Market).

Other specialty grocers are expanding their local footprints to capture the demand for natural and organic products. Arizona-based Sprouts Farmers Markets now has ten stores, Fresh Market has nine locations, Trader Joe's has six locations, and Earth Fare has three stores. Lucky's Market, a natural food grocer based in Colorado, is reportedly scouting metro Atlanta for sites. Lidl, a German discount grocer, is seeking sites for new stores that would offer an affordable alternative to Kroger and Publix.

The rapid expansion of grocery-store chains is fueling retail development. Fuqua Development has five grocery-anchored centers under construction, and development is under way on new Kroger and Publix stores in Dawson County. The grocery business is the retail category least disrupted by e-commerce, which helps explain the flurry of new development.

Haddow & Company's First Quarter Apartment Report is now available. If you are interested in learning more about this report, please click on the link to the right:

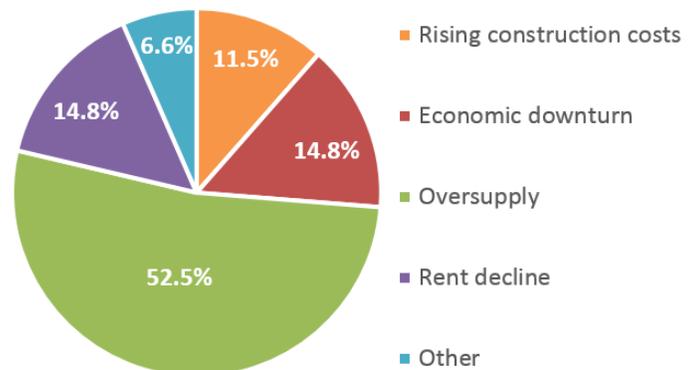
[Haddow's Apartment Report](#)

Multifamily Development Sentiment Survey

In February 2016, Haddow & Company conducted its first development sentiment survey. The 71 respondents included local, regional, and national developers, debt providers, equity providers, and owners of apartment communities. The purpose of the survey was to get direct feedback from market participants on key issues impacting the multifamily market. Some notable findings are presented below:

- 80.3% expect a pullback in availability of debt financing.
- 81.7% anticipate rising construction costs to continue.
- 52.4% plan to sell apartment projects upon stabilization.
- 73.5% are still actively pursuing apartment sites.
- 62.0% think the Buckhead/Brookhaven submarket is at the greatest risk for overbuilding.

What is the biggest threat to the intown apartment market over the next 18 to 24 months?



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

www.haddowandcompany.com



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