

### *A TIME FOR CAUTION*

Deep in the development cycle is an opportune time to check for signs of excess and aberrant behavior. If history is any guide, and it most certainly is, when the market transitions from demand driven to capital driven, trouble is around the corner.

The WeWork implosion is the most visible evidence of capital run amuck. Unbridled business expansion, fueled by venture capital, was intended to scale up the company for an initial public offering. One of the many negative consequences is the false positive sent to several markets due to extravagant leasing activity at inflated rental rates.

The current volume of speculative office development in Atlanta is partly a byproduct. At mid-year 2019, 13 major multi-tenant office buildings (totaling 3.65 million square feet) were under construction, even though marketwide net office absorption was a modest 2.64 million square feet over the previous 2.5 year period.

Real estate investment trusts (REITs) have been the quiet font of money cascading into the industry. Several equity REITs formed in this development cycle have quickly ramped up to considerable size. A local example is Preferred Apartment Communities, which was launched by the late John Williams in 2011. Its total assets have swelled to \$5.0 billion, prompting a diversification in investments that include a construction loan on a speculative office building.

Foreign investors have been most visible in this cycle. Two Chinese groups are currently developing luxury condominiums in intown Atlanta. An Australian firm has been a very active land investor. A Russian group is developing an office park in Henry County. And there are countless others.

Out-of-town developers have long been attracted to Atlanta, but when the inflow continues unabated, problems can ensue. Toll Brothers of Pennsylvania has been a particularly active apartment developer, and CA Residential of Chicago has recently acquired two intown multifamily sites at unprecedented prices.

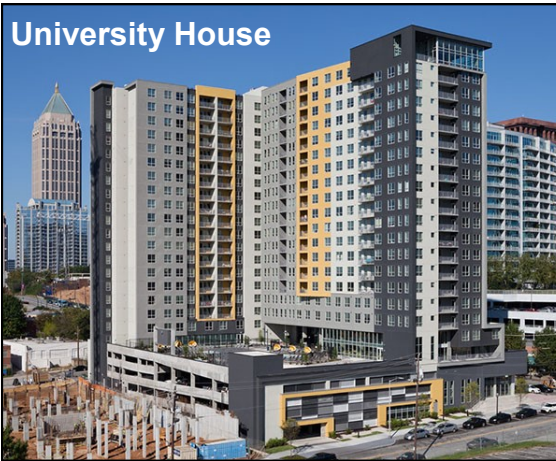
Private equity firms have financed construction loans on two multifamily developments in Midtown, and the Blackstone Group recently announced a \$340 million construction loan for the 1105 West Peachtree development. These firms are flush with money and aggressively looking to deploy it. Property acquisitions are one thing, but their entry in the construction loan arena is noteworthy.

The recent announcement that Newport US RE, a German investment group that has assembled most of six city blocks in South Downtown, faces a December expiration date on a \$49.5 million acquisition loan with a private equity firm in Connecticut should send at least a ripple through the market.

Atlanta's economy is thriving and recently recorded its lowest unemployment rate (2.9 percent) since 2000. Technology companies are expanding rapidly, with Microsoft, Facebook, and Google now considering major office leases in Midtown. Growing evidence of excess capital and ill-advised developments are nonetheless a concern. The political circus at the national level and a weakening global economy have raised the level of uncertainty. Caution is the watchword.

### STUDENT HOUSING: A SHADOW MARKET

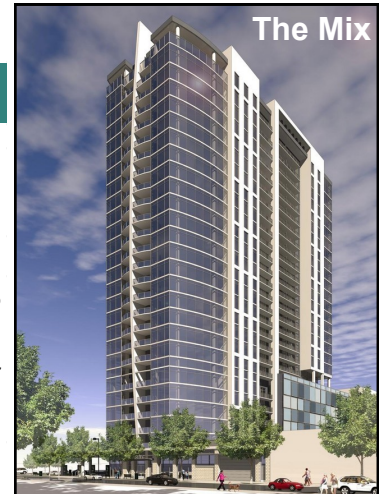
An overlooked competitive factor for Class A apartment owners in intown Atlanta is purpose-built student housing. In recent years, several developments have sprouted up in Midtown and Downtown that cater to students at Georgia State and Georgia Tech. This new generation of purpose-built student housing is typically delivered in high-rise buildings close to campus that have lavish amenity packages. Some features that distinguish purpose-built student housing from conventional apartments include: 1) rents that are quoted on a per bed basis; 2) individual leases are signed; 3) utilities are included in the rent; and 4) units are usually furnished.



University House

#### Key Facts

- 890 units (2,332 beds) have been built in Downtown since 2012.
- In Midtown, a total of 734 units (2,098 units) have delivered since 2012, and 856 units (2,250 beds) are under construction.



The Mix

### CLIENT'S CORNER

Haddow & Company was engaged by Central Atlanta Progress (CAP) and Sweet Auburn Works to prepare a real estate market study for the Sweet Auburn Study Area (Sweet Auburn). This effort was part of the real estate pre-development and technical assistance services that are being provided to area property owners. Several owners are currently evaluating the market and financial feasibility of development projects, and are applying for funding through the Eastside Tax Allocation District. The purpose of this report was to provide an in-depth analysis of economic and real estate conditions that will assist property owners with this process.

In addition to market analysis, this report addresses several broader issues impacting Sweet Auburn and offers conclusions and recommendations regarding actions that can be taken to improve the neighborhood's future prospects. The study methodology relied heavily on interviews with key property owners, real estate professionals, and other stakeholders.



Sweet Auburn Curb Market



Former Top Hat Club

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

[www.haddowandcompany.com](http://www.haddowandcompany.com)



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

Phone - (404) 577-7222

Email - [Lhaddow@haddowandcompany.com](mailto:Lhaddow@haddowandcompany.com)