

The Case for Market Analysis

The real estate industry still does not recognize the value of market analysis. This remains true in spite of cyclical upheavals and countless failed developments. Cash is still king, and the reality is that the availability of capital is what drives real estate development, not necessarily market needs. The flow of money often responds efficiently to real opportunities, but excesses inevitably occur and go undetected in the ensuing fervor. Why can market analysis help, and how is it best done, are topics worthy of discussion.

WHY

There are essentially five compelling reasons why real estate market analysis is important:

- Provides a more informed basis for decision-making.
- Reduces risk by eliminating some unknowns.
- Balances emotion (gut instinct) with facts and objectivity.
- Helps define the appropriate product to build.
- Ensures a full understanding of the project's competitive market position.

In short, a careful study of competitive market conditions can eliminate surprises and help craft a development plan attuned to real demand. It is an essential vehicle to monitor changes in market conditions. By paying attention to trends in new construction, proposed developments, vacancy rates, absorption, land prices, rents, and active developers, it is possible to anticipate market corrections, even if the exact timing remains a mystery.

Part of the problem is that some developers prefer to ignore the cautionary signs if they have a project well in the works, and even capital sources are known to put on blinders. This is what happened in 2007 when condominium starts in in-town Atlanta reached a record level, largely due to non-recourse funding from an overzealous out-of-town bank, despite documented evidence of a growing supply-demand imbalance.

HOW

The market analysis process begins with the local economy because real estate demand is driven by economic growth and demographic changes. The next step is to thoroughly

know the property and its environs, which should result in a good knowledge of strengths and weaknesses. The third step is to examine key supply and demand variables. On the supply side, this means a survey of existing competition, compiling data on properties under construction, and identifying proposed developments. The demand analysis is largely shaped by the property type. For instance, an apartment study would examine population growth, demographic composition, lease-up velocity of new developments, vacancy rates, nearby employment trends, and annual absorption of new apartments. The final step is to apply what has been learned about the economy, property, and market to the proposed development.

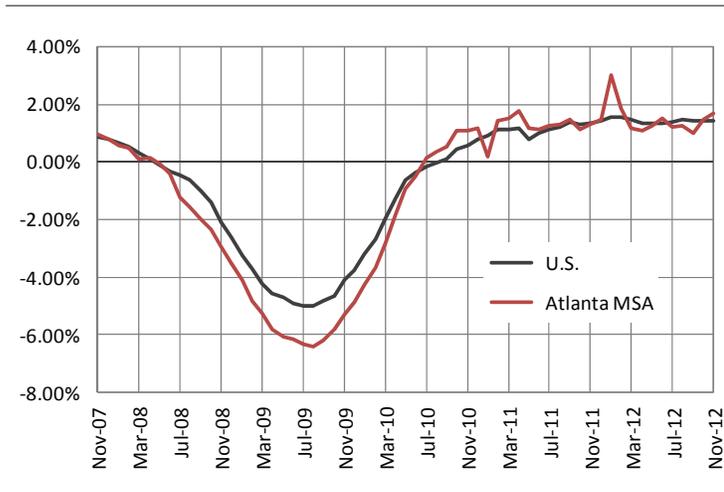
The most vital aspect of market analysis is primary research. Relying on someone else's data is no way to learn the market, and attempts to model the market using statistical data inevitably fail due to a multitude of unpredictable variables. The goal is to grasp the market's nuances through vigorous field work and extensive interviews with important players, so that an informed judgment can be made. Anecdotal data can play a surprising role, sometimes signaling an alert when market statistics still paint a rosy picture. This occurred in 2006 when absurd residential lending practices, including zero down payments, suggested a false and unsustainable demand.

Real estate professionals should pay greater attention to market dynamics because they are in constant flux. Tunnel vision can easily take hold, leading to ill-advised decisions. Ultimately, the market rules. We would all be better served by a greater awareness of its vagaries.

Employment Trends

Total seasonally adjusted nonfarm employment for the Atlanta MSA stood at 2,354,000 in November 2012, an increase of 39,500, or 1.71%, from November 2011. This compares to a year-over-year increase of 1.43% for the same time period at the national level.

Nonfarm Employment, Year-Over-Year % Change



The graph above shows the year-over-year percent change in monthly nonfarm employment for both Atlanta and the U.S. over the previous five years. November 2012, which is the most recent data available for the MSA, marked the 28th consecutive month that Atlanta experienced a positive year-over-year change in employment. However, the graph also shows that on a percent basis Atlanta had a deeper jobs hole to climb out of than the nation as a whole. So while Atlanta's job growth since July 2010 has slightly outpaced the national rate, it hasn't been enough to bring our unemployment rate (8.0%) below the U.S. average (7.8%).

Recent Engagements

Haddow & Company is asked to address a wide variety of real estate issues. In 2012, our firm worked on its usual broad array of assignments, involving a diverse mix of property types, clients, and issues. Three recent engagements are highlighted below.

Revitalization Plan - Auburn, Alabama

Opelika Road, a major artery that connects downtown Auburn to the city limits, has experienced a gradual decline over the past several decades. Businesses have left, property values have slumped, and the corridor's physical appearance has deteriorated. We were part of a planning team led by Design Workshop that worked with the City of Auburn to formulate a redevelopment strategy. Our role was to evaluate local real estate trends and identify realistic development opportunities that will help reverse the corridor's current stagnation.

Strategy for Distressed Bank Asset

A bank took ownership of 5.4 acres in Alpharetta that was originally conceived as an office condominium development. The site is partially improved with infrastructure, and there were questions regarding the property's best use and most effective marketing approach. We were retained to offer a fresh perspective on the property and market, and to help formulate the optimal disposition strategy.

Timber Portfolio Disposition Strategy

A Timberland Investment Management Organization (TIMO) manages 55,000 acres in North Georgia and wanted an objective analysis of the current investment climate with respect to large land portfolios. We were engaged to investigate the market and conduct interviews with brokers, land investors, and timberland owners. Case studies were also prepared on recent transactions to better understand pricing trends, buyer motivations, and other factors impacting pricing.

Haddow & Company's Year-End 2012 Condominium Report will be released on January 31st. If you are interested in learning more about this report, please click on the link below:

[Haddow's Condominium Report](#)

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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