

## Riding the Wave

A long dry spell partly explains the gathering steam in Atlanta's real estate market. Similar interludes in the late 1970s and early 1990s preceded dramatic economic expansions and building booms. This new development cycle has a solid foundation supported by favorable supply-demand factors.

Let's start with the economy. After losing 183,500 jobs from 2008 to 2010, metro Atlanta's employment picture slowly started to brighten. Current employment exceeds pre-recession levels, and continued strong job gains are forecast for the next two years. The unemployment rate is now a sanguine 6.5 percent. Even housing permits have risen greatly since bottoming at a meager 6,533 units in 2009.

What is driving Atlanta's surging economy? First, the U.S. economy is in expansion mode following a severe contraction. More than five years have passed since the official end (June 2009) of the last recession. One important driver is the wealth effect created by a sharply rising stock market and recovery in house prices. The Dow Jones Industrial Average, which dropped to 6,900 in March 2009, topped 18,000 in recent weeks. House prices have also bounced back after a steep drop, helping restore a greater sense of financial wellbeing. Since consumer spending accounts for 70 percent of the nation's GDP, this renewed confidence is vital to economic growth.

The apartment boom, particularly intown, is the most visible evidence of renewed development activity, but every property sector is gaining momentum. The first major speculative office tower (Three Alliance Center) in many years was started in 2014, and recent announcements by Mercedes-Benz USA, State Farm, and NCR to build new corporate campuses create further buzz. Ponce City Market leased over 400,000 square feet of office space prior to opening in late 2014. Even rents reportedly grew last year, a rare occurrence in Atlanta's office sector.

Industrial development has rebounded even more due to very strong absorption the last three years, especially in 2014. Atlanta has recently attracted huge commitments from some high-profile names like Kroger and Proctor & Gamble. Continued consolidation of distribution functions favors Atlanta as the hub of the Southeast, and the growth of online merchandizing has spurred demand for fulfillment centers. Widening of the Panama Canal and improvements under way at the Port of Savannah help ensure sustained growth.

Retail development has been sluggish due to excess supply and factors that have undermined demand, but three major mixed-use developments opened in 2014 that have substantial retail components: Buckhead Atlanta, Ponce City Market, and Avalon. Fuqua Development has several new developments in the works, and upscale grocers such as Sprouts and EarthFare have recently entered the market.

The hotel sector enjoyed one of its best years in 2014. Room and occupancy rates both recorded strong gains. New development and repositioning of older hotels is clearly gaining momentum. With occupancy levels in excess of 75 percent in some submarkets, the stage is set for hotel expansion.

Housing suffered the most severe setback during the recent unpleasantness. One statistic stands out: metro Atlanta housing permits in 2009 were equivalent to 11.7 percent of the average annual level during the previous five years. Single-family development is building gradually, and developers are actively acquiring land for new subdivisions. Apartment development has exploded, but occupancy rates are still quite strong and rents are rising. Even condominium development is poised for a rebound.

In short, Atlanta is back. The local economy has become more diversified and is enjoying a cyclical upturn. The real estate market is playing catch up due to very limited supply growth in recent years. Land prices are soaring, and investment properties are selling at record prices. Good market fundamentals prevail. As we ride this wave, let's strive to postpone the excesses that inevitably follow.

## Recent Engagements

Haddow & Company is asked to address a wide variety of real estate issues. In 2014, our firm worked on its usual broad array of assignments, involving a diverse mix of property types and clients. A few recent engagements are described below.

### Apartment Feasibility Study - Winston-Salem, NC

A developer was considering building a new apartment community in downtown Winston-Salem. We were asked to address questions regarding the target market, depth of demand, and achievable rents. Due to a lack of comparable product in the local market, a major focus of our research was an analysis of recent multifamily development trends in similar downtowns.

### Highest and Best Use Analysis - Atlanta, GA

A local developer controls a prime site in the heart of Buckhead. We were hired to determine the property's highest and best use and to translate these findings into a development strategy. Given the site's high-profile location, a number of markets were explored, including hotel, residential, office, and retail.

### Disposition Counseling - Atlanta, GA

We helped three clients complete property sales in 2014. In each case, the disposition was a follow-up to an initial consulting assignment. A site in Alpharetta was sold for a townhome development, and a tract in Cobb County was purchased by a single-family developer. The other disposition involved the sale of a former industrial site in Avondale Estates to an apartment developer.

Haddow & Company's Year-End 2014 Condominium Report will be released on January 30th. If you are interested in learning more about this report, please click on the link below:

[Haddow's Condominium Report](#)



Please follow us on LinkedIn, where we will share our thoughts on various aspects of the real estate market.

## Haddow & Company's New View



After more than 25 years in the historic Hurt Building, Haddow & Company, with the outstanding help of DTZ's Dale Lewis, has found a new home in One Midtown Plaza. Just blocks from many of Atlanta's notable upcoming developments, the new space offers an excellent vantage point to watch all of the action in Midtown. The other major milestone was a change to our logo (see below).

If you would like to discuss the latest market trends, explore how we can assist with your real estate needs, or just want to enjoy a great view of Midtown, please give us a call.

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)



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