

CONDO FEVER

Well, not really. But you may be surprised to learn that the stage has been set for the next condominium development cycle, particularly in intown Atlanta. Two questions hang in the air: How is that possible, and when will development resume in earnest?

The last condominium development cycle ran from 1997 to 2007. Approximately 31,000 condominiums were started in intown Atlanta during that period, of which 60 percent were new construction and 40 percent were conversions. Only a fraction (about 10 percent) of these condominiums delivered in the last five years (2008-2012), which allowed demand to finally catch up with supply, in spite of diminished sales.

Available supply of new condominiums is extremely low, except at the high end. As of mid-year 2013, intown Atlanta's unsold inventory totaled a meager 446 units. Sales during the previous 12-month period were 706 units, so the supply-demand ratio is 0.63. Four years ago this figure was 7.75, one simple measure of how much things have changed.

Another key indicator is the resale market. From 2007 to 2011, the average resale price for intown condominiums dropped 42 percent, while sales volume fell 37 percent. In 2012, prices rebounded 21 percent and volume rose 19 percent, signaling a vital inflection point. Several other factors support resumed development:

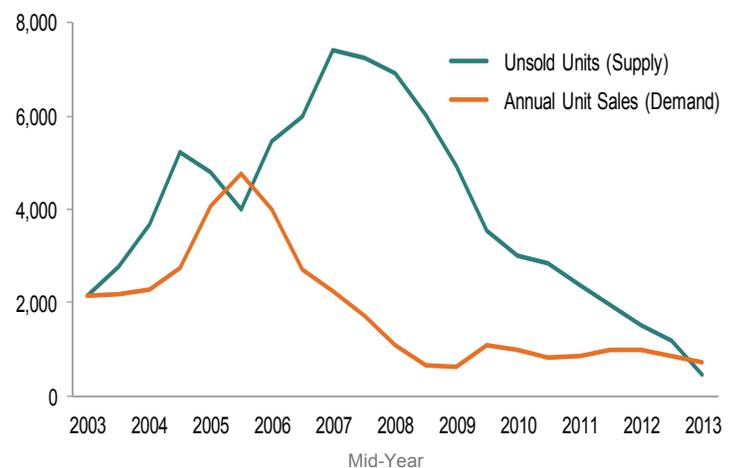
- The economic tradeoff of owning vs. renting is enhanced by elevated rent levels (average rent for a Class-A, two-bedroom apartment is \$1,600) and low interest rates.
- The recent surge in mortgage rates and house prices has spurred home sales, which increases buyer mobility and releases pent-up demand for condominiums.
- Baby boomers and echo boomers are the two largest age cohorts, and also comprise the primary buyers of condominiums.
- Intown Atlanta's desirability continues to improve due to enhanced amenities, green space, cultural offerings, and physical environment.
- Atlanta has enjoyed two consecutive years of solid job

gains, largely in the urban core, and sustained economic growth appears likely.

These demand drivers are offset by financing constraints, the plethora of new apartments, and a reluctance among young people to buy due to concerns about the previous value decline and lack of mobility. The biggest obstacle, however, is the economic gap between prevailing prices and what is required to achieve an acceptable return on investment. Further price appreciation is needed to support the cost of new construction.

The lesson from previous downturns is that condominium conversions will probably launch the next development cycle. New construction is likely to take the form of smaller niche buildings, such as the 21-unit project recently announced in Midtown, at least initially. A few townhome developments have already gotten under way. Condominiums are a small slice of Atlanta's housing scene but are now an established lifestyle choice, and this market is about to heat up again.

Condominium Market Fundamentals

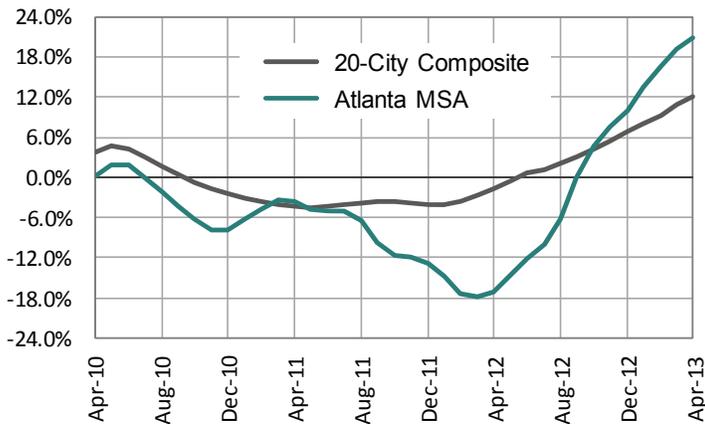


The lines representing supply (unsold new units) and demand (sales in the previous 12 months) of intown Atlanta condominiums have crossed for the first time since year-end 2005, signaling that there is less than one year of supply remaining.

Home Prices Rising Fast

Single-family home prices are rising at an unprecedented rate across metro Atlanta. The S&P/Case-Shiller Home Price Index for the metro area rose 3.8 percent from March to April of this year, the third largest month-over-month (MoM) increase in the index's 23-year history. Additionally, from April 2012 to April 2013, the index shows Atlanta home prices increased 20.8 percent, which is the largest year-over-year (YoY) increase in Atlanta's history. This is compared to a 2.5 percent MoM increase and a 12.1 percent YoY increase in the 20-City Composite Index, which is an aggregate measure of home values in 20 major U.S. metropolitan areas. While Atlanta home prices are still 25.2 percent below their July 2007 peak, they have risen 23.7 percent since their lowest point in March 2012, and are clearly gaining momentum.

S&P/Case-Shiller Home Price Index - YoY % Change



Home prices are also on the rise in intown Atlanta. The average sales price of homes located in Atlanta's core intown neighborhoods, which are mostly encompassed by FMLS Areas 21, 23, and 24, rose 18.8 percent from the first half of 2012 to the first half of 2013, and sales volume rose 13.9 percent over that same period. Astoundingly, from the first half of last year to the first half of this year, the average home price in FMLS Area 24, which includes neighborhoods such as Candler Park, Lake Claire, Edgewood, Kirkwood, and East Atlanta, rose 49.4 percent.

Hollywood of the South

Film and television production has been a boon for Georgia's economy in recent years. In fiscal year 2012, the industry's economic impact totaled \$3.1 billion, according to the Georgia Film, Music, and Digital Entertainment Office. Since 2008, more than 30 companies have expanded or relocated to Georgia, ranging from major sound stages to production support companies. Over 25,000 Georgia residents are now employed in the industry, including 11,000 on a full-time basis.

The emergence of the industry is due in large part to the Georgia Entertainment Industry Investment Act, signed into law in 2005 and updated in 2008. It grants a 20 percent transferable tax credit to production companies that spend a minimum of \$500,000 in the state on qualified production and post-production activities. The Act also provides an additional 10 percent tax credit if a Georgia promotional logo is included in the finished product.

Recent notable films shot in Georgia include:

- Flight
- Parental Guidance
- The Hunger Games: Catching Fire
- Anchorman: The Legend Continues
- The Internship
- Footloose
- Wanderlust
- Trouble with the Curve

Haddow & Company's Mid-Year 2013 Condominium Report for intown Atlanta will be released on July 31st. If you are interested in learning more about this report, please click on the link below:

[Haddow's Condominium Report](#)

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Haddow & Company
Real Estate Consultants

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

Phone - (404) 577-7222

Email - info@haddowandcompany.com