

Memorandum

To: Clients, Friends, Family & Associates of ProActive Advisory
From: Mark Wyssbrod, Managing Member
Date: June 22, 2015
Re: North Metro-Atlanta Real Estate Update

In this memorandum you will receive information about the following:

- The local Federal Reserve Bank's view
- Metro-Atlanta commercial real estate update

This information was noted at the Georgia Society of CPAs annual real estate conference on June 19, 2015. Please contact me should you have any questions. Real estate can provide real excitement to growth in Atlanta!

The Local Fed's View

Brian Bailey, Senior Financial Policy Analyst for Federal Reserve Bank of Atlanta was the first speaker at the conference. Mr. Bailey disclosed the views he was sharing were his personal view and not that of the Federal Reserves. The information he shared offered insights.

Job growth is bouncing back in metro-Atlanta led by construction up 6.1% and followed by leisure 5.2%, trade 4.8% and financial 4.2%. Companies are having a difficult time finding, hiring and retaining high skilled, creative solution positions. There is a little concern that the national economy is losing higher paying jobs related to the oil service and manufacturing sectors and replacing them with lower paying, remedial service sector jobs (a concern I had in my March 2015 economic update).

Opportunity: This is the time to begin asking for significant raises if you are one of the few highly skilled, solution oriented employees. If no raise is given, it may be time to find a new employer who will give you a higher salary with a signing bonus. Eventually employers have to pay for the increased compensation costs, expect future price increases for most goods and services.

Vacancy rates continue to decline quickly. The current vacancy rates are: multi-family 4.8%, warehouse 10.1%, retail 11.5% and office 13.9%. There is some concern with how the internet will affect warehouse space. Additionally, there is a new trend in retail space with non-traditional renters (i.e. a dentist or insurance agent in retail space). Retail space may be a challenging arena where creative solutions are warranted as the US far exceeds retail space per capita (US 23.8 square feet, Canada 14.7 square feet followed by Australia 9.9 square feet).

Bank attitudes are warming up especially for multi-family projects. However, banks still have poor attitudes towards non-farm, non-residential as well as construction and development projects. This attitude is thawing and may turn more positive very quick.

Atlanta has one of the highest growing rental rates in the country. This is simply due to demand being greater than supply at the current time. Rental rates are expected to continue to climb higher.

Foreign investors are more interested in Atlanta now than in past years due to being priced out of first tier cities (i.e. New York, San Francisco), new growth, the Beltline project, congestion is slowly being addressed and expansion of mass transportation.

Commercial Real Estate Update

Eric Vayle, Kay Younglove, Ryan Harchar and David Tennery of JLL addressed the conference and shared a steady and optimistic view points.

First, the commercial real estate market is hot and will only get hotter over the next few years. Landlords are either well aware of this or will soon be. The highest lease rate in Atlanta is the Sovereign Building at \$38 per square foot.

Opportunity: The time to lock in lower lease prices is today! If you are looking at moving locations you will want a two year planning period, which is longer than the traditional one year.

CAP rates are beginning to be replaced by other metrics to review returns and to make purchase decisions. One such metric is the unlevered yields rate.

The new Braves stadium will be an amazing technology hub which will have something to do 365 days a year. For the Braves the decision was easy: Atlanta did not believe they had to negotiate and 80% of the Brave fans are within a 10 mile radius (vs. 20% at the current location).

Major construction at I-285 and Georgia 400 will start in 2017 and be completed in 2019. This is a major victory and will make Perimeter one of the strongest commercial property areas in Metro-Atlanta. This intersection was escalated to the importance of the port expansion. This helped fast track the decision making process.

On a side note, the North Fulton cities which have commercial properties (Alpharetta, Johns Creek, Milton, Roswell and Sandy Springs) are all set to begin construction on city centers during the next 2 years.

The Perimeter market is solid in the last year rents have increased 20%. Buckhead remains the strongest market in the metro-Atlanta area.

Conclusion

The metro-Atlanta market feels and is hot! Perhaps you feel that we are in or forming the next bubble due to the quick price increases. According to several of the speakers I talked with, the current price increases only get us back to the long-term historic trend. The metro-Atlanta market is no longer speculative. Solid growth seems to be in our future with exciting projects underway such as the Mercedes campus in Sandy Springs, Porsche at the airport, North Fulton city centers, the new Brave's Stadium and the Atlanta Beltline combined with the infrastructure improvements to roads and the expansion of mass transit. The local real estate markets should be steady to very impressive through 2019.