

Memorandum

To: Clients, Associates & Friends of Pro@ctive Advisory
From: Mark L. Wyssbrod, CPA
Date: July 14, 2014
Re: Metro-Atlanta real estate update

In this memorandum, you will receive information about the following:

- Basic and non-basic sectors
- Metro-Atlanta real estate

An old saying in real estate is you do not make your money on the sale of real estate, but on the purchase. This is the time to increase discipline and scrutiny in real estate transactions as well as to have patience.

The information from this memorandum is from my involvement in putting on, as well as attending the Georgia Society of CPAs Real Estate Conference.

Basic and non-basic sectors

The metro-Atlanta economy has stabilized and is expanding once again. For decades Atlanta growth came relatively easy. As a result, many expected a quick and vigorous recovery. These expectations have led many to being frustrated in the area's economic slowness. The area's slower recovery is due to our economy's offer of more "non-basic" than "basic" sectors; our industrial mix; and our resources, tax, and regulations mix.

The basic sector includes companies who serve local businesses and households outside the region. When a company serves outside the regions it becomes an exporter of a good and/or service. Exporting goods and services provide a competitive advantage as the company is sought after. Exporting companies also create additional jobs (i.e. transportation). Nonbasic companies are those who serve locally as well as government and household consumption. The local economy includes utilities, wholesale trade, professional and technical services and transportation and warehousing.

The economy will continue to remain stable and real estate has benefited during the past two years.

Metro-Atlanta real estate update

The metro-Atlanta closings have increased each year since 2010. A rotation occurred in 2013 from closings existing re-sales to new homes. This could be a signal the foreclosures have slowed significantly; population growth has pressured inventories; and optimism has returned.

In 2013 the average sale price of resales had an incredible run from ~\$150,000 in January to a peak of ~\$220,000 in July. This phenomenal increase occurred in six months. However, this increase began to price out first-time home buyers. In 1998 the first time home buyer's average price was \$140,000; if you add a 3% annual increase the price in 2013 would be \$217,000. The first-time home buyer is currently priced out of the market due to the significant gains. Prices will have to stabilize for the next 12-24 month or decline to increase the participation of first-time home buyers. First time home purchasers are already skittish due to seeing their or a friend's parents go through a foreclosure.

On a side note, the aforementioned six month peak was matched in 2008 by a complete collapse of the metro-Atlanta real estate market; from a peak of ~\$210,000 in July 2008 to \$150,000 by November 2008. This might indicate real estate valuations are not as stable as many would like to believe. Additionally, this would indicate the window of opportunity to purchase real estate during the tough is limited and is more compounded by changes in qualifications to borrow.

In many sub-markets the premium of a new home versus a re-sale is 15% to 20%. School districts in sub-markets do make a significant difference. Home prices above \$400,000 have minimal transactions.

Has the opportunity to purchase wisely disappeared with the lot price reversal, the speculative home come back, a low inventory on the market and a growing demand? I have visited a few new home subdivisions in the North Fulton area. My observations are the arrogance of the home builder (or their representative) is back to a pre-collapse period high and the purchaser has minimal to no control in the process. The seller is dictating the terms. This allows me to conclude metro-Atlanta home prices appear to have peaked in the short-term. The price may increase minimally, but metro-Atlanta's market seems to be directly correlated to inflation.

The big winners are the individuals not purchasing or selling, but providing the services involved. With transactions stable to increasing real estate agents, mortgage brokers, closing attorneys, home inspectors and others involved should have a stellar year.

Conclusion

Have patience when purchasing a home and be aware of seasonal peaks. As a seller, do not be shy of pricing aggressively, but do not become foolish or greedy. Remember, you purchase a home to live in, to provide shelter and to raise a family. A return should be a secondary consideration. If you are an investor and are looking for a significant return, build cash and have patience for the next pullback or collapse. Remember there are other ways to make profits in real estate, you do not have to own property directly.

Please contact me for more information or to discuss in more detail.

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