

ATLANTA'S OUTLOOK IN UNCERTAIN TIMES

Cobb Association of Realtors

October 21, 2020

I. Introduction

- A. Thanks for invitation to speak
- B. Explain my background and perspective
- C. Introduce three topics and goal

Goal: To describe how Atlanta's economy has responded to the pandemic and recession, and the uneven impact on the real estate market.

II. Atlanta Economic Climate

A. Vital statistics

- 1. 136,200 jobs lost (4.8%) from July 2019 to July 2020
- 2. Unemployment rate up from 3.6% to 8.5%.
- 3. Over half of job losses in two sectors: Leisure & Hospitality (49,400) and Professional & Business Services (31,700).
- 4. GSU Economic Forecasting Center predicts a net job loss of 135,200 jobs for 2020 and 3,800 jobs in 2021.
- 5. U.S. non-agricultural employment was 141.7 million in September 2020, compared to 145.4 million in December 2016 (net loss of 3.7 million jobs during Trump Administration).
- 6. Negative GDP growth of (5.0%) in first quarter and (31.4%) in second quarter.

B. Areas of greatest concern

- 1. Unstable national situation
 - a. Swelling federal debt (\$26.95 trillion) and operating deficit (\$3.1 trillion in 2020).
 - b. Soaring trade deficit – highest level since July 2020
 - c. Political morass
 - d. Federal Reserve exhausting its monetary tools
 - e. China tensions
- 2. Local economy
 - a. Delta has lost \$11.1 billion in last two quarters (airport passenger volume dropped from 7.8 million in February 2020 to 453,262 (94%) in April 2020.
 - b. 29 of 32 citywide conventions have been cancelled during 2020
 - c. Hospitality sector has been devastated
 - d. Manufacturing sector has shed 7.6% of its jobs

C. Good News

1. Strong growth in logistics industry, led by Amazon
2. Significant commitments by Tech companies: Google, Microsoft, Facebook, and Mailchimp.
3. Recent corporate relocations – Deluxe, Papa John's, Milletech Systems
4. Healthcare expansions – Emory, Piedmont, and Children's
5. For-sale housing market is healthy and fired up
6. Atlanta is faring better than some of its peer cities
7. Continued strong population growth and rising in-migration

Conclusion: Lot of near-term uncertainty due to pandemic and recession, but Atlanta appears well positioned long term due to solid economic drivers, a diverse economic base, and because it is an affordable place to live and do business, not to mention the inherent advantages of its location and climate.

III. Real Estate Market Update

A. Office

1. 18.1% occupancy rate at mid-year 2020
2. Net absorption dropped to zero in second quarter
3. Sublease space rising dramatically (over 4.0 million square feet)
4. AT&T has or will vacate 2.8 million square feet
5. 3.8 million square feet of multi-tenant buildings under construction, 39% pre-leased
6. 1.6 million square feet of build-to-suits by companies (Anthem, State Farm, Norfolk Southern, Jones Day) that will vacate substantial rental space
7. Net absorption over the last five years has averaged only 1.35 million square feet, which represents about a 1% growth rate, in spite of a growing economy
8. One of biggest concerns is co-work space, which now accounts for over 2.2 million square feet (SoftBank says the market value of WeWork has plummeted from \$47 billion to \$3 billion)
9. At least one major office development (by New City) recently secured construction financing in spite of market challenges
10. Shift to remote working is very real and has brutal implications for the office market
Ex. Pinterest paid \$89.5 million to buyout a lease in an office tower under construction in San Francisco

B. Industrial

1. Demand has mushroomed due to tremendous growth in e-commerce and consolidation of major distribution centers
2. 11.2% vacancy rate in Distribution Sector at mid-year 2020
3. 10.8 million square feet absorbed in the first half of 2020 versus 8.9 million square feet in all of 2019
4. 17.3 million square feet under construction at mid-year 2020
5. Capitalization rates compressed due to appeal of this asset class

6. Amazon now occupies 13.2 million square feet in metro Atlanta in 19 facilities – all since 2015
7. Home depot, Walmart and others are adding distribution capacity, largely due to strong growth in online sales

C. Retail

1. Retail sector has been decimated by double whammy of e-commerce and virus.
2. 29 national retailers have filed for bankruptcy protection through mid-August 2020, including J.C. Penney, Brooks Brothers, and Neiman Marcus.
3. Landlords trying to re-purpose shopping centers, including Simon who is working with Amazon to convert vacant department stores to last-mile distribution centers
4. Brookfield Asset Management, a major mall owner, has launched a \$5 billion rescue fund to acquire failing retailers to keep them as tenants ex. Forever 21
5. Rent collection and loan defaults are major issues

D. Hotel

1. Hospitality industry has been devastated.
2. Atlanta's hotel occupancy rate for the first half of 2020 was 42.9%, down from 70.5% during 2019. Further slippage is expected.
3. Convention and meeting business is dead and will be slow to rebound.
4. Delinquent hotel loans have gone through the roof.
5. 17% of hotels in the U.S. have closed since March, and some remain so.
6. Still a number of hotels in the works, including a 256-room Ritz Carlton in Buckhead.

E. Residential

1. Single-family housing market has strong fundamentals due to modest supply growth, low interest rates (2.81%), pent-up demand, and aging of the Millennial generation.
2. Single-family housing permits in metro Atlanta averaged only 17,391 units annually from 2010 to 2019, down from 42,626 annually during the previous 10 years (59.2% drop).
3. A big surge in new house sales occurred from July to September 2020 at rising prices, as well as a hot resale market
4. Apartment market starting to show a little softness (cite stats) after a sustained run, particularly intown. Nevertheless, new apartment towers are still securing construction financing and the development pipeline is full.
5. Apartment developers have largely shifted their attention to the suburbs.
6. Condominium market still flat but holding steady, but townhomes have captured increased market share.
7. One interesting trend is the redevelopment of struggling golf courses with residential development (Northwood and Heritage).

Overall Market Assessment: Pandemic and recession have impacted the real estate market unevenly. A few sectors are going strong while others have suffered major setbacks. Biggest concern is that the economy has contracted at a time when office and

apartment development has been robust. An abundance of capital could also be problematic at a time when a cyclical market correction is under way.

IV. Cobb County Observations

- A. Annual population growth rate during the last 20 years has been 1.2%, compared to 3.1% in the 1990s and 4.2% in the 1980s.
- B. Housing production has shifted dramatically from single-family homes to multifamily housing in the last 10 years. From 2000 to 2009, 79.7% of permits were for single-family homes, compared to 52.9% from 2010 to 2019. In real numbers, that translates to 1,372 single-family homes per year versus 3,660 annually from 2000 to 2009.
- C. Apartment development has largely been concentrated in the two major employment nodes (Cumberland/Galleria and Town Center). Over 10,000 units have been added since 2000, and another 2,380 units are under construction.
- D. A significant increase in house resale volume and price occurred from July to September 2020. Volume during this three-month period (3,824 resales) exceeded the first six months (3,795 resales) and the average price was 6.1% higher.
- E. Suburban counties like Cobb should benefit from the anticipated shift from the urban core.

V. Outlook

- A. Cyclical market correction was overdue (following a 128-month economic expansion) and has been exacerbated by the pandemic.
- B. Fiscal and monetary stimulus has been used to rev up the economy in recent years but is now less impactful.
- C. Economic fallout from the pandemic has not run its course yet.
- D. Major job losses will take some time to restore.
- E. Uncertainty about COVID – 19 clouds the air.
- F. Key things to watch:
 - 1. Second stimulus bill
 - 2. The pace of job recovery
 - 3. Second wave of virus
 - 4. Vaccine development and distribution
 - 5. Political climate
 - 6. Office, retail, and hotel markets

Overall Conclusion: Caution and restraint are the order of the day for the development industry, except for the industrial and single-family housing sectors. Near-term economic conditions will be challenging, although Atlanta's long-term outlook is favorable.