

Section 7. Economic Overview

August 29, 2005

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Executive Summary

The purpose of this analysis is to test the economic development and real estate assumptions from the Atlanta BeltLine Feasibility Study to confirm their validity for this Redevelopment Plan phase. These assumptions are input into the Fiscal Analysis. To test these assumptions, interviews were held with local development and brokerage community members and third party market research was collected.

The Phase I TAD Feasibility Analysis included a market study completed in Spring 2005. Current market conditions (as of July 2005) are similar to conditions at the time of the first report. Demographic and economic trends remain in place. Market share and capture rate assumptions from the Phase I study still hold true. Therefore, it is our opinion that these assumptions remain valid as input into the fiscal analysis for this phase.

Updated Analysis

The local Atlanta economy continues to offer mixed signals, just as the national picture does. Atlanta's diverse service-based economy continues to be solid in both employment as well as population growth. The city and its surrounding communities continue to attract relocation for significant employers (2004 corporate re-locations included Newell Rubbermaid, Inc., Rayovac Corporation, Nissan North America, Inc. and Novelis).

While few see the return of the growth evident in the 1990s, prospects for employment growth in the Atlanta area continue to look promising after three years of slow down. Increasing employment prospects drive the consumption of all types of real estate: office and commercial space see an increase in demand, housing of all types and tenures see an increase in demand, which leads to increase in retail use demand.

A fair amount of this growth is being captured within the city proper. For the first time in a many decades the city of Atlanta is seeing growth in population. Several major projects planned and being delivered will continue to drive Atlanta's growth, these include:

- 138-acre Atlantic Station development in Midtown – 12 million SF of retail, office, residential and hotel space with 11 acres of public parks
- \$200 million Georgia Aquarium is scheduled for opening in Fall 2005
- \$130 million expansion of the High Museum of Art and Woodruff Arts Center
- 2,000-seat State-of-the-art Symphony Center to open in 2008
- 6.9-acre expansion of Georgia State University

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Beyond the Atlanta market, systemic issues affect development. This includes the national economy, political climate, international and national credit issues. Generally, conditions in Atlanta reflect the larger national economy as it stumbles to recovery from the 2002 slow down. We will now consider separate markets and any changes that may have occurred since the Market Analysis conducted for the TAD Feasibility Study.

Residential Market

Since home construction and renovation is an important part of Atlanta's economy we will quickly review market conditions at the end of August.

There has been, over the summer, considerable discussion concerning the ability of the markets to continue to support growing real estate prices or even sustain existing price levels. Even though the Federal Reserve has continued to raise prime rates, the effect on the mortgage market has been minimal. Short term rates have risen a little but longer term rates have remained low. Mortgage rates for real estate investment continue to be very low compared to historic rates.

Despite hand-wringing over recent gains in prices for homes, apartment complexes and condos, we see that prospects are still good for well-located and designed projects. Development activity is especially strong in the in-town submarket. As oil prices continue to rise, the prospect of an alternative to single car transportation modes becomes more viable, making higher residential densities and proximity to employment centers and shopping more desirable; all of which bolster the residential development prospects of the BeltLine project area.

The demographic drivers indicated in the TAD Feasibility analysis hold true. Household formation continues to expand as one-, two-person and non-family households, which is the dominant household type in in-town Atlanta, increase. These are typically more "location-flexible" than traditional family households with children who have greater space needs, are typically more auto dependent and focused on schools.¹ Thus we will see the study area continue to capture a significant portion of these non-family households as they demand alternatives to traditional suburban housing.

In addition to demographic trends, other factors are influencing intown housing demand.

- Employment growth – while not achieving the employment growth of the 1990s, the current employment picture is still stable in Atlanta area

¹ See Feasibility Study Residential Market Analysis

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- Traffic congestion – as congestion continues to increase renters and buyers are increasingly seeking housing proximate to employment and entertainment options.
- Shifting attitudes – buyers and renters are increasingly seeking more convenient and urban lifestyle
- Supply influences demand – As more residential is developed, the more established intown neighborhoods will further support retails and services, making the neighborhoods even more appealing to a broader cross-section of the market

The major threat to intown housing is affordability. As land values continue to escalate within the city, housing units are also becoming more expensive. Current prices for multi-family for-sale housing in intown neighborhoods range from \$220 to \$250 per square foot. In Midtown, luxury high-rise condos have sold for as high as \$300 psf.²

Over the past two years, there has also been a surge in apartment complex sales volume, with 2003 transaction value exceeding 2003 by more than 50%.³ There has also been a corresponding rise in the prices of apartment complexes in the area. Some of this rise in price is due to the potential of converting these apartments into condominiums. This led a couple of developers interviewed to express concern about the possibility of over building in the entry level condo market. However, as of this date, sales of one- and two –bedroom condos continue to be brisk.

The single-family intown market also continues to be strong because supply is restricted. There are few large pieces of land so the production of new single family homes is constrained especially when compared to suburban Atlanta production house building. Again, the sale of single family homes in the intown market continues to be steady.

Retail Market

We found that the retail analysis in the Phase I report also continues to hold true. As significant new residential development is introduced into the study area, more retail will be supportable. Some parts of the study area are currently underserved for retail, particularly the southwest. New big developments in the intown market (the new Atlantic Station development) were already assumed in the analysis for the Feasibility Study, therefore their impact has already been accounted for and will not change the assumptions for this phase.

² From conversation with active Atlanta broker and appraiser

³ Cushman & Wakefield, Mutifamily Overview, Atlanta, Georgia Spring 2005

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Office Market

Finally for the office market, again there is no significant change in the environment from the TAD Feasibility analysis. As with retail, as more residential development is introduced into the study area, office development that serves that residential base will be increasingly viable. This would include professional and personal service offices as well as other uses like daycare centers.

As the BeltLine is developed, a new transit option within the city increases the upside potential for significant mixed-use office development. The location, timing and level of opportunity for this type of space will vary significantly depending upon alignment decisions, technology of transit and whether or not new MARTA stations are introduced.

However, significant Class A multi-story office development will probably not be supportable in the next 10 to 15 years, as reported in the TAD Feasibility analysis, because supply outpaces demand. Current vacancy in the Class A office inventory still exceeds 20%. There is, conservatively, three years of existing inventory before reaching 15% vacancy in the intown markets overall and more than six years of inventory to reach 10% vacancy.

There are five Class A buildings underway in metro Atlanta's urban core totaling more than two million square feet. If you include these and other planned towers, it will take approximately 10 to 12 years of supply to reach 10% vacancy.

So, as reported in the TAD Feasibility analysis, office growth is coming out of the doldrums, with increased absorption but planned new product will lead to continued high vacancy rates in traditional Class A office space. There will be opportunities for higher demand in the local serving office sector, especially mixed-use project