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Market Overview and Estimated Demand by Land Use for the Georgetown Study Area in Dunwoody, Georgia

Demographic and Economic Trends

Demographic Overview

The Georgetown Study Area consists of a variety of commercial and residential uses. Based on Claritas estimates, the study area has a population of 4,106 residents (1,927 households). These households are primarily located in a number of large-scale multifamily communities, the bulk of which are for-rent developments. The population within the study area grew and at rate of approximately 1.0% annually over the past decade and this rate is expected to continue over the next five years. This rate reflects 'slow development' and is much less than the 3.2% annual growth rate that the study area enjoyed during the 1990's. The stronger rate during that decade is reflective of the strong apartment development cycle that occurred during that time. In recent years, local opposition to additional multifamily development, economic downturns and lack of large redevelopment sites have limited further multifamily development. Even so, the projected rate of growth within Georgetown Study Area is commensurate with Dunwoody as a whole. The City of Dunwoody is expected to experience a modest increase in the number of total households between 2010 and 2015. Household growth in the city is expected to occur at a rate of 1.0% annually. This is less than the expected growth rates in both North Fulton County and the Atlanta MSA which are 1.3% and 2.4% respectively.

The Study Area has an average household size of 2.20 people, which is smaller than the MSA average at 2.78 average, but exactly in line with City of Dunwoody overall at 2.20. The smaller household size makes sense given the large number of elderly households and younger households without children that are located within the City of Dunwoody and the Georgetown Study Area. Nearly 72% of Georgetown households are composed of either 1 or 2 persons while the Atlanta MSA has 53% of households with 1 or 2 persons..

The Georgetown Study Area is slightly more affluent than the Atlanta MSA, but less affluent than the City of Dunwoody. Median Household Income is \$66,102, which is well above the MSA's at \$58,964, but well below the city's at \$87,392. The Study Area's median housing value is \$264,000 compared to \$356,000 in the city and \$170,000 in the MSA. Given that housing is generally more expensive in the Study Area and in the city of Dunwoody than it is in the MSA overall, it is notable that the average age of housing in the Study Area is 1984 while it is 1982 for the Atlanta MSA. As these aging communities (and commercial buildings) extend beyond their useful life, there are significant opportunities for redevelopment, a factor that will be discussed later in this report.

Employment Overview

The Atlanta MSA economy has been one of the hardest hit of any metro area in terms of job losses during the 'great recession'. In total, Atlanta lost nearly 200,000 jobs between 2008 and 2010 and currently has an elevated rate of unemployment that is above 10%. Job losses impacted all industry

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sectors but the construction, manufacturing, and professional & business services were disproportionately affected. The trend of job losses stopped in the second half of 2010 as the recession officially came to a close and moderate hiring resumed. According to the Georgia State University Economic Forecasting Center, the economy of the Atlanta region is projected to see flat job growth in 2010 and a resumption of job growth in line with historic averages in 2011 and 2012 (estimates call for the addition of 44,800 net new jobs in 2011 and 55,500 in 2012). Of the jobs created in 2011, 10,900 (or 24%) are “premium” higher paying jobs that require skilled workers. It is likely that most of the jobs created in the area close to the Study Area will be of this ilk. Job growth, and growth in higher paying jobs in particular, will have a positive effect on the demand for housing in and around the Study Area.

The Georgetown Study Area lacks major employers within its boundaries; however, it is located in close proximity to multiple regional job centers, with Central Perimeter being the most closely related to the subject area. The Central Perimeter, with over 100,000 jobs, is a major regional employment core that represents a cross-section of industry types. This diversity of job types will allow the submarket to recover quickly as the regional economy begins adding jobs in significant fashion in 2011. In particular, the prevalence of health care providers in the “Pill Hill” area as well as a large amount of education jobs represents some industry segments that are expected to grow the fastest over the next five years. Further, the Study Area is in close proximity to both the Buckhead and Cumberland office core, and when combined with Perimeter Center, represents a significant portion of where high-paying job growth is likely to occur.

Over the next 20 years, the Atlanta Regional Commission (ARC) and Moody’s Analytics offer a positive outlook for regional job growth. According to both, Atlanta is expected to remain among the top metropolitan areas in the United States for employment growth. The ten-county area is anticipated to add over one million jobs during the next twenty years. The increasing preference expected for intown and near suburban locations (driven by a combination of demographic and psychographic shifts) will likely mean that areas in and around the Georgetown Study Area will be able to capture a sizable portion of this projected growth. There is potential to capture a larger portion if needed transportation improvements are implemented in order to increase traffic flow and accessibility. New jobs in areas surrounding the Study Area will drive demand for new housing, goods, and services within the Study Area’s boundaries.

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Summary of Real Estate Market Trends

In order to measure the development opportunity for each potential land use, it is necessary to look at the Study Area through a market context and to evaluate its unique strengths and challenges based on various characteristics pertaining to its location and physical landscape. Gaining a solid understanding of the current market fundamentals in the area provides for a more informed analysis of likely future market demand.

Office Market Overview

The Georgetown Study Area consists mainly of low-rise professional business parks (Class C). The offices housed within these buildings are primarily service-oriented business that cater to the needs of the local population base and as well as satellite medical office space surrounding the former Emory Dunwoody Medical Center. The predominant tenant types in the service-oriented buildings are medical and dental offices, small law offices, and engineering/design firms, in addition to a variety of small-scale corporate office suites. The buildings housing these offices tend to have been built in either the 1970s or 1980s and lack many of the amenities and layouts required by today's typical Class A tenants. Additionally much of the space built out for medical office uses is vacant due to the closing of the Emory Dunwoody Medical Center. Overall, office market in the study area consists of nearly 1 million square feet of neighborhood and community office space. The office space in the Study Area has an occupancy rate around 66% which is well below than the rate for the metro overall (at 82%) and reflects a large quantity (over 300,000 square feet) of underutilized space.

Strengths: The Study Area possesses many physical and locational attributes that make it a logical location for neighborhood serving office, but and possibly for regionally serving office space. The study area offers easy access to both I-285 and is proximity to a large agglomeration of high income households. Although traffic congestion is a concern to monitor, the area's transportation challenges are much less severe than the areas immediate adjacent to the Perimeter Mall. The proximity to the Perimeter Center office core, which is the largest agglomeration of corporate office space in the Southeast, means that the Study Area is unlikely to attract large Class A users, but instead it will appeal to smaller tenants, such as service-oriented tenants, that have been priced out of these markets but still demand a location in the immediate area. This type of demand is likely to increase as the average rental rates in the markets continue to climb. Additionally, the parcels within the study area that are directly visible from and accessible to I-285 could potentially attract a some regional serving office users seeking a price alternative to Perimeter Center. If regional-serving office development occurs, it will likely be over the long-term and not within the next development cycle.

Challenges: The main challenge for the Study Area is the high quantity of underutilized space and the lack of newer, higher quality spaces to attract tenants that demand it. While it is possible that the existing Class C buildings can backfill this available space it is more likely that some of these

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developments will be replaced by higher quality mixed-use projects as employment growth returns over the next five years.

Anticipated Demand: Given the market and locational characteristics of the Study Area, most demand will likely emanate from the local-serving office market. Modest household growth and the replacement of space lost to new development will drive the demand in this segment. The redevelopment of existing office sites will likely attract many of the existing office users into new space but will probably not result in a net addition of new office users. Tenants fitting into this category will likely be smaller space users with the majority requiring under 2,500 square feet. Based on typical ratios of population to service-oriented employment, and translating that supportable employment into office space, the Study Area can support additional demand for approximately 3,000 square feet annually, once vacant high-quality space has been backfilled. This demand is likely to begin in five years and will likely be met as part of a mixed-use development. Additionally, the study area may support some midrise regionally-serving office space opportunities in the 7-10 year time horizon. Such a development is likely to be for a build-to suit or institutional tenant (as opposed to a speculative office play) and could be on the order of 100,000 square feet.

Retail Market Overview

The Study Area is composed of a variety of neighborhood-serving, grocery-anchored strip centers and stand-alone buildings (many of which are located on shopping center outparcels). Several of these centers are aging, or under-utilized but on the whole the retail land uses are performing well and serve as a local alternative to the mall and big box retailers located at nearby Perimeter Center. Overall the study area has approximately 220,000 square feet which equates to approximately 15% of the size of Perimeter Mall. This represents a fairly conventional quantity of retail space for a retail district that is neighborhood serving (as opposed to regional serving). Vacancies in Georgetown area are slightly elevated and typical of broader difficulties in the Atlanta metro retail sector. Occupancy levels of 83% are average and just slightly below the 86% average for Metro Atlanta. Rents in the low \$20 per square foot range are very strong compared to the Atlanta region overall, and top performing tenants pay as much as \$29 per square foot (on a triple net basis). The largest center is the Georgetown Shopping Center which is anchored by a Kroger grocery store and makes up 130,000 square, or more than half of the retail in the study area. According to local sources, the shopping center owner is planning a renovation of the Kroger, which should please many local residents who complain that the store is in need of updating.

Strengths: The Georgetown area can be characterized as having a high quantity of multifamily residential communities from a small geographic area. This residential density creates a 'built-in' market for neighborhood serving retail, especially for retail categories such as grocery, restaurant and convenience goods. Additionally, high traffic counts along Chamblee Dunwoody Road and adjacency to I-285 provide tenants with a very high degree of visibility, a critical factor for successful retail.

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Challenges: The primary challenge for retail within the Georgetown area is the overwhelming quantity of competitive retail at Perimeter Mall and Dunwoody Village. Perimeter mall offers over 1.5 million square feet of regional serving retail (in addition to several regional serving power centers, while Dunwoody Village offers 600,000 square feet of retail, most of it locally serving. While our analysis indicates that there is some unmet retail demand in select categories within a 2-mile trade area (home and garden, grocery, specialty food, liquor stores, health and personal care, sporting goods/gifts, and bar/taverns), the challenge is to attract tenants to this location when there is so much competitive retail within 2 miles (or in the case of grocery, most of the major tenants are already represented at Dunwoody Village or Georgetown).

Anticipated Demand: Support for retail in the Georgetown Study Area emanates primarily from households living within a 2-mile radius of the study area. Additional demand sources include drive-through traffic, nearby office workers, and Georgia Perimeter College students. These secondary demand sources will be integral in supporting any regional retail developed in the area.

Demand for additional local-serving retail space was determined by looking at consumer expenditure data for both the Study Area and its broader trade area and translating that into a supportable amount of square footage. Based on this analysis, the net demand for neighborhood-serving retail will be approximately 4,000 square feet of new space per year, but will not start until approximately 2015. Due to the current challenges associated with the retail market both nationally and locally, RCLCO does not anticipate net new demand occurring until high-quality vacant spaces have been backfilled and prospective tenants resume expansion plans as their business improves in line with the broader economy. However, there is definite potential for a new, well-executed retail offering as part of a redevelopment plan in a high quality mixed-use setting. Such a redevelopment would likely involve existing tenants relocating into the new space and would not necessarily result in net new retail space, but would result in a higher quality retail environment, with improved sense of place, better connectivity and walkable, and potential a different mix of tenants. Specifically, our analysis reveals unmet demand for a variety of retail categories including home and garden, grocery, specialty food, liquor stores, health and personal care, sporting goods/gifts, and bar/taverns. While statistical demand exists for these retail categories, the reality is that a wide variety of competition exists only two mile away (Perimeter Center and Dunwoody Village) and so the challenge is to find tenants that do not already have a location at Dunwoody Village or Perimeter. In many cases this will rule out national tenants (especially in the grocery and pharmacy categories) but will not exclude more locally grown tenants or those that are not already represented in the local market.

For-Sale Residential Market Overview

The Study Area has a limited selection of for-sale housing options, as the vast majority of housing consists of rental apartment developments of a variety of vintages. There are, however, a few examples of infill multifamily for-sale projects that have been completed over the last decade. The two main examples are the Madison Square condominiums on Cotillon Drive and the Sterling of

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Dunwoody townhomes on Peachford Road. Madison Square offers a variety of two- and three-bedroom condominiums with resales currently priced from \$120,000 to \$170,000. The units are essentially apartment quality (many with upgraded kitchens) but the community does offer a wide variety of amenities including pool, fitness center, garden, and club room. Sterling of Dunwoody offers condominiums in one-, two-, and three-bedroom formats, and townhome units with three- and four-bedroom layouts. Homes range from the mid \$100,000's to low \$300,000's. At the moment the development is stalled (with the last phase of construction only partially finished) with some 'developer' condo units still remaining for sale, though, the townhome units have sold out. Sterling of Dunwoody also offers a variety of community amenities including a swimming pool, fitness center, club room and covered parking.

Strengths: Residents in this area benefit from excellent regional access with a location immediately adjacent to I-285. The Georgetown Study Area does offer a limited variety of neighborhood serving retail (including the Kroger grocery store, Starbucks, and a range of restaurants and services), but many residents indicate that they drive to Dunwoody Village for many of their daily retail needs and to Perimeter Center for clothing, home goods, and big ticket purchases. Proximity to a huge variety of retail within two miles will certainly be attractive to future homeowners. Additionally, the wide range of affordably priced housing options will be attractive to households seeking convenience and proximity to major job costs without a high cost of housing.

Challenges: High traffic volumes along Chamblee Dunwoody Road can be a nuisance for residents within the study area but in general accessibility to I-285 and traffic flow within the study area is acceptable. The main challenge for the area is to improve the aesthetics and sense of place through signage, streetscaping and high quality redevelopment. The area does have a few 'unsightly' parcels that are vacant or underperforming and in need of redevelopment. The challenge is to find uses for these sites that are market supportable as the community has voiced a strong resistance to further apartment development, which has been the dominate land use form within the study area over the last development cycle. The addition of more park space and walking and biking trails would also add to the attractive of the area.

Anticipated Demand: Based on demographics and the current overhang of available supply in the local for-sale residential market, demand for new development is not likely to begin for three to five years. Initially when demand returns, RCLCO expects that the Study Area will appeal to a broad cross-section of market audiences including young professionals through retirees. RCLCO expects that market audiences will be value-oriented and that new product will likely range in the high \$100,000's to mid \$300,000's for the next wave of development. The addition of a wider range of for-sale offerings within the Georgetown area including more townhomes, as well as age-targeted product would help to enhance the market draw at this location.

In determining the depth of demand for for-sale housing in Georgetown, RCLCO looked at demographic data, age by income data, household turnover rates, as well as demonstrated

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homesales in the zip codes immediately surrounding the Georgetown area. RCLCO has determined a range of expected home sales for the Study Area once demand for new product recovers in approximately three to five years.

One and two-person households are a critical driver of demand for new housing, particularly for somewhat “niche” or higher density attached products such as townhomes, lofts, and condominiums. Demographic shifts such as the aging of the Baby Boomers and the entrance of Gen-Y into the housing market will continue to generate demand for such products. Based on both these psychographic trends and local market realities, once demand resumes, we believe there to be annual market support for 26-34 attached homes priced from \$150,000 and up. The ability to deliver product at the \$150,000 level will depend on the local community’s willingness to accept densities in line with developments from the previous cycle. Any reduction in ‘acceptable’ densities will eliminate the band of demand at the \$150,000 level and will reduce the overall level of demand. For example, the estimated annual demand at prices over \$200,000 is 18-22 homes per year.

Rental Apartment Market Overview

There are approximately 2,400 existing apartment units within the Georgetown Study Area, representing a high unit count relative to its geographic area. The apartment market within the Georgetown Study Area represents a dichotomy of product offerings. First, there exists an abundance of older, conventional, garden style product that commands low monthly rents. This group of apartments are typically Class C structures and have average rents in the \$800-\$1,000 per month range for a two-bedroom unit. The other half of the market includes newer mid-rise product (most built in the 1990s and 2000’s) that are able to fetch strong monthly rents. These communities are considered Class A and B structures and are achieving average monthly rents in \$900-\$1,000 range for one-bedrooms and \$1,200-\$1,500 range for two-bedrooms. Overall the apartment market has been strengthening across Metro Atlanta (and in the Dunwoody) submarket as it has been the beneficiary of several macro trends including a flight from homeownership (due to foreclosure or fear of dropping prices), a generational wave of Echo-Boomers moving into their prime renting years, and a lack of new supply as credit markets tightened during the recession and made it very difficult to finance new apartment development. Even though the apartment sector is strong, it is unlikely that any new rental product will be developed within the Georgetown Study Area due to fierce resident resistance to additional rental product.

Strengths: Rental residential benefits from many of the same locational attributes as for-sale residential. These are regional access via I-285, and proximity to nearby regional office cores and a variety of retail offerings. Rental residential could further benefit from the high level of potential visibility along the major arterials running through the Georgetown Study Area. This exposure is important in attracting would be tenants to for-lease residential communities.

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Challenges: The primary (and possibly insurmountable challenge) for rental communities is the fierce resistance by local residents to additional apartment communities. The resistance appears largely to be due to the poor perception of current rental communities (of which there are many) and the belief that these type of communities place disproportionate stress on the already overburdened public school system.

Anticipated Demand: New apartments within the Georgetown Study Area would likely be supported by young singles and couples, including those working in and around Central Perimeter. Based on demand generated from household growth of singles and couples in the greater area and propensities to rent versus buy, the Study Area could likely support 90 units annually starting in 2011. Included in this is the potential to develop rental apartment units above retail providing a relatively unique niche in the market. Achievable rents for these new units would likely be between \$800 and \$1500 per month. While local resistance to apartment development may preclude this type of development from occurring, it is important to note that approximately one-third of the demand comes from households ages 55 and up. Strong demand within this mature age means that an age-targeted senior community would likely be market supportable if such a development was feasible in terms of community acceptance.