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Market Overview and Estimated Demand by Land Use for the Dunwoody Village LCI Study Area

Demographic and Economic Trends

Demographic Overview

The Dunwoody Village LCI Study Area consists primarily of commercial uses and is lightly populated. Based on Claritas estimates, the study area has a population of 246 residents (86 households). These households are primarily located in the Ashworth subdivision on the southern portion of the study area, which consists of high-end townhomes and small lot single-family homes. While the Dunwoody Village LCI Study Area reveals an area that is not growing in population, the existing households exhibit affluence and housing values that are greater than both the City of Dunwoody and the Atlanta MSA¹ overall. Population trends within the Study Area reflect the slow or no growth rate that is common in established inner-ring suburb areas where opportunities for new construction on greenfield sites are limited.

Because the Dunwoody Village LCI Study Area has such a small population it is more useful to look at the City of Dunwoody in order to understand the makeup of the existing population and characteristics of future households. 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 explanation for this marked difference lies in the fact that Dunwoody Village is more established than North Fulton and the MSA and has less land available for conventional development on greenfield sites. The Study Area has an average household size of 2.86 people, which is in line with the MSA average at 2.78 average, but is significantly larger than City of Dunwoody at 2.20. This is intuitive given the large number of elderly households and younger households without children that are located within the City of Dunwoody. Nearly 66% of City of Dunwoody households are composed of either 1 or 2 persons. Nineteen percent of total households are under the age of 35, while 39.6% are over the age of 55. This makes the Study Area older the Atlanta MSA, which only has 30.8% of households over 55.

The Dunwoody Village LCI Study Area is generally more affluent than the city, and the Atlanta MSA. Median Household Income is \$108,333, which is well above the city's at \$87,392 and the MSA's at \$58,964. The Study Area's median housing value is \$395,000 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 1975 while it is 1982 for the Atlanta MSA. As these aging

¹ The Atlanta MSA represents a 10-County area consisting of Cherokee, Clayton, Cobb, DeKalb, Douglas, Fayette, Fulton, Gwinnett, Henry and Rockdale Counties.

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communities (and commercial buildings within the Village) 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 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 Dunwoody Village LCI 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 Dunwoody Village LCI 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 Dunwoody Village LCI Study Area consists mainly of low-rise professional business parks (Class C) and office condominiums. The offices housed within these buildings are primarily service-oriented business that cater to the needs of the local population base. Some of the most predominant tenant types are medical and dental offices, small law offices, and various civic/non-profit enterprises. 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. The office market in the area consists of 285,000 square feet of neighborhood and community office space. The office space in the Study Area has an occupancy rate around 80% which is slightly lower than the rate for the metro overall and reflects a large quantity of underutilized space.

Strengths: The Study Area possesses many physical and locational attributes that make it a logical location for neighborhood serving office, but not necessarily for regionally serving office space. The study area offers easy access to both I-285 and GA400 and is proximity to a large agglomeration of high income households. Although traffic congestion is a growing concern, the area's transportation woes are still 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.

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 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

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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.

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 600,000 square feet which equates to approximately 40% of the size of Perimeter Mall. This represents a very large quantity of retail space for a retail district that is neighborhood serving (as opposed to regional serving). Vacancies in Dunwoody Village centers are moderate despite broader difficulties in retail sector. The higher quality retail centers in the area have experienced an uptick in vacancy rates during the downturn, but at occupancy levels of 86% are healthy and are in line with the 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).

Strengths: The Dunwoody Village area has a wide variety of retail destinations and recognition of “place” at Dunwoody Village has long been established. The high level of purchasing power, a result of the area’s affluent households, will be a continual benefit to existing and future retailers at Dunwoody Village. Additionally, high traffic counts along Chamblee Dunwoody Road and Mt. Vernon Road will provide tenants with a very high degree of visibility.

Challenges: While high traffic counts are desirable to retailers, further increases will likely provide diminishing returns. Already, traffic flow patterns and near-constant traffic congestion threaten accessibility and thereby hurt local retail outlets. Additionally, the area’s lack of a continuous and safe pedestrian network inhibits potential customers from walking or biking to retail offerings.

Anticipated Demand: Support for retail in the Dunwoody Village LCI Study Area emanates primarily from households living within a 3-mile radius of the study area. Additional demand sources include drive-through traffic, and nearby office workers. 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 5,000 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

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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 mid-priced restaurants, a variety of boutiques, and home furnishings offerings.

For-Sale Residential Market Overview

The Study Area has experienced limited construction of for-sale housing product due to land constraints in the area. As was stated earlier, this is a more mature area with a lack of greenfield development sites. It is difficult to assemble large land parcels that are best suited for residential development. There have, however, been a small number of infill projects recently completed. These include high-end townhomes and new single-family detached homes in small-scale subdivisions. The best example of such a project is the Ashworth development located on the southern portion of the Dunwoody Village study area. Ashworth offers a variety of both townhome and small lot single-family product with townhomes typically priced in the mid to high \$300,000's and single-family homes priced in the mid \$400,000's. Townhomes are offered in three- and four-bedroom formats, while single-family homes typically have four bedrooms.

Strengths: Residents in this area benefit from regional access via I-285 and GA400. Not only does the Dunwoody Village Study area offer a wide variety of neighborhood serving retail (including two grocery stores, two pharmacies, and a variety of banks, restaurants, and service providers), but it is also within two miles of the Perimeter Mall. Proximity to a variety of retail offerings, both within and outside the Study Area, will be attractive to future homeowners. The high number of established and diverse neighborhoods makes this a natural location for further residential development. Furthermore, this area's natural surroundings are very conducive to residential development. This includes substantial tree covering, subtle topography, and numerous streams and naturally green areas.

Challenges: High traffic volumes along Chamblee Dunwoody Road and Mt. Vernon Road will further inhibit accessibility to the study area. Residents are very resistant to any changes that will increase local traffic and as such, service improvements are recommended as part of any substantial level of new development. Additionally, the lack of greenfield development sites poses a challenge as redevelopment of parcels with existing structures tends to be substantially more expensive and/or require higher intensities than currently desired by neighborhood residents in order to be feasible.

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 purchasers of for-sale residential in the

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Study Area will primarily be empty-nesters and pre-retirees seeking housing that will allow them “move-down” from large single-family homes in the immediate area and to “age in place.” A secondary market audience is likely to consist of young professionals but the ability to attract this market segment will be highly dependent on the format and the price point of the product offered. At the densities that neighborhood residents are currently asking for, townhomes would likely be priced at \$400,000 and up, a price band and corresponding unit size that is typically more attractive to mature households than young professionals.

In determining the depth of demand for for-sale housing in Dunwoody Village, RCLCO looked at demographic data, age by income data, household turnover rates, as well as demonstrated homesales in the zip codes immediately surrounding the Dunwoody Village 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 12-24 attached homes priced from \$250,000 and up. The ability to deliver product at the \$250,000 will depend on the local community’s willingness to accept densities north of 12 units per acre. At the anticipated densities closer to 10 units per acre, we expect that townhome units would be priced closer to the \$400,000 range.

Rental Apartment Market Overview

The apartment market with the Dunwoody Village LCI Study Area represents a dichotomy of product offerings. First, there exists an abundance of older, conventional, garden style product that commands low monthly rents. These are dilapidated properties that are past their useable life. This group of apartments are typically Class C or D structures and have average rents in the \$800 per month range. The other half of the market includes newer mid-rise product (most built in the 1990s) that are able to fetch strong monthly rents. These communities are considered Class A and B structures and are achieving average rents north of \$1,000 per month. 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 Dunwoody Village Study Area due to fierce resident resistance to additional rental product.

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Strengths: Rental residential benefits from many of the same locational attributes as for-sale residential. These are regional access via I-285 and GA400, 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 surrounding the Dunwoody Village Study Area. This exposure is important in attracting would be tenants to for-lease residential communities.

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 Dunwoody Village LCI 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.