

Gwinnett County Redevelopment Forum

August 10, 2009

Gregg Logan, Managing Director, RCLCO

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ROBERT CHARLES LESSER & CO. REAL ESTATE ADVISORS

“Its not the strongest that survive, nor the most intelligent, but the ones most responsive to change.”

-Charles Darwin

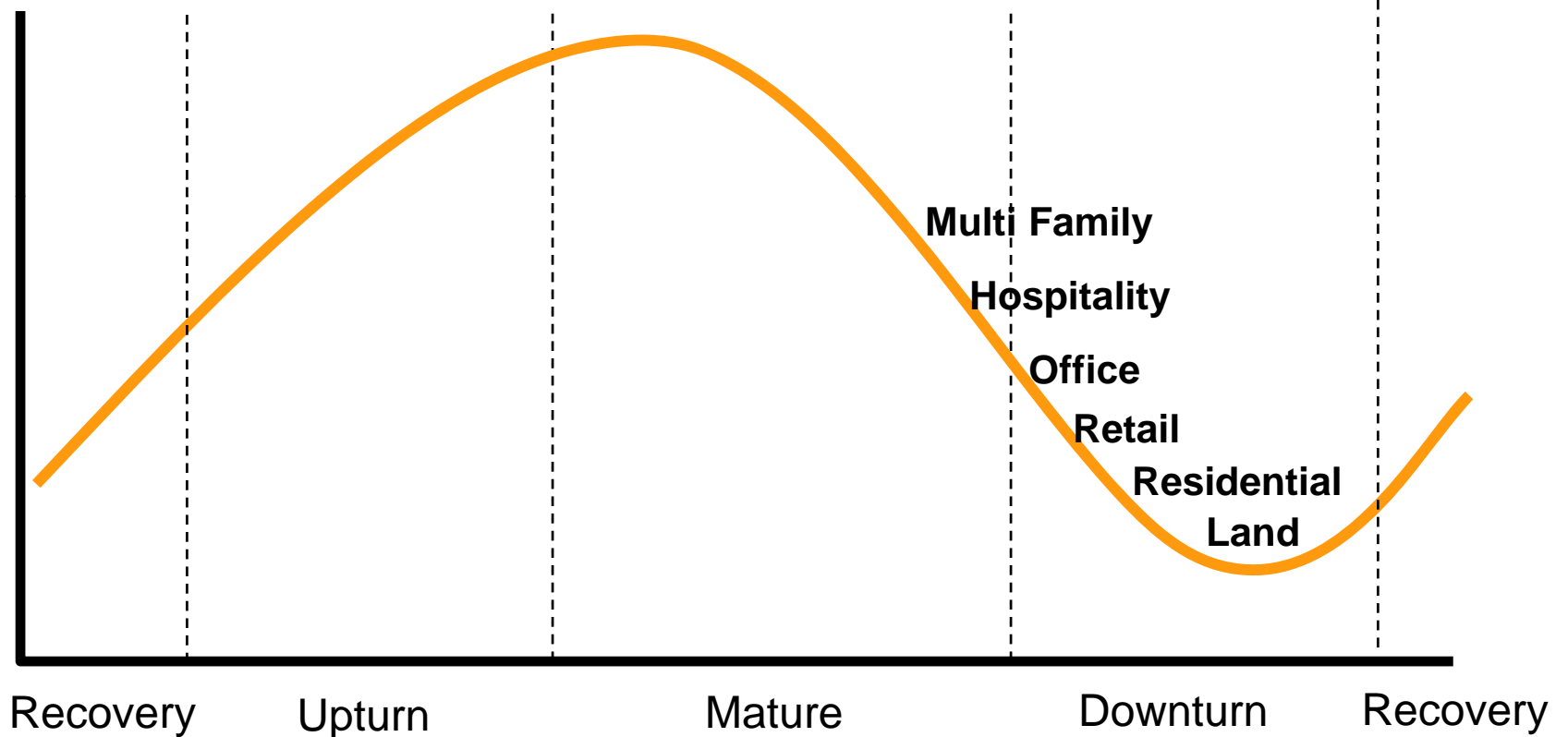
MAJOR TRENDS INFLUENCING REDEVELOPMENT

- ▶ Economic outlook, real estate cycle
- ▶ Trends Specific to Gwinnett County (RCLCO Study 2008)
- ▶ Trends Influencing Regional growth patterns, Cores and Corridors
- ▶ National Demographic and Generational Trends
- ▶ Implications and Recommendations

THE CURRENT SITUATION

WHERE REAL ESTATE IS IN THE CYCLE

Bullish excess paved the way to bearish correction



HAS WASHINGTON HELPED THE REAL ESTATE INDUSTRY?

- ▶ Federal Reserve, Bush administration's unpopular \$700 Billion bailout plan – seems to be working – financial markets stabilizing
- ▶ Obama administration's imperfect stimulus bill, also working
 - Moody's Economy.com: *"it has slowed job losses, and actually saved 500,000 jobs"*
 - Countries that enacted larger programs, US, China and Australia, doing better than those that didn't, e.g. France, Italy, India
- ▶ But...other programs have had only minor impact to residential real estate to date
 - First time homebuyer tax credit
 - Foreclosure prevention program
 - Indirectly, low mortgage rates



REAL ESTATE RECOVERY LIKELY LAGS MARKET

- ▶ **Commercial real estate is going through a correction similar to the housing market**
 - Entered later than residential, driven by recession
- ▶ **Commercial real estate worth about \$6.5 trillion**
 - Values have fallen about 23% from 2007
- ▶ **Financed by \$3.1 trillion in debt**
 - Loan delinquency rates increasing
- ▶ **More commercial real estate bankruptcies likely**
- ▶ **\$530 billion in commercial mortgages due for refinancing 2009 – 2011**
 - **Will there be sufficient credit available for refinancing?**
 - Values depressed due to net operating income losses resulting from recession



RAW LAND DEVELOPMENT MARKET OUTLOOK

REPOSITION AND PREPARE FOR POST 2011 MARKET



Excess of finished lots in existing developments

- ▶ Existing communities struggle to compete with lower demand, competition from distressed deals, builder over-supply
- ▶ **“In progress” land deals must focus on planning & obtaining entitlements for projects coming on line after 2011**
- ▶ Jurisdictions more open to processing entitlements in the near term
 - Economic Development Argument
- ▶ Large land – prepare for the next upturn
- ▶ **Foreclosed deals**
 - Lender evaluation: sell to get off the books or stay in and manage to realize greater value recovery?

FOR-SALE RESIDENTIAL MARKET OUTLOOK

Existing Home Sales Stabilize '10; New Home Sales '11



- ▶ **Slow recovery late 2009 to 2010**
- ▶ **Credit still an issue**
- ▶ **Variations from market to market**
 - **Sales already trending up in some markets**
 - **Includes short sales**
- ▶ **Not all market areas behaving the same**
- ▶ **Differences within Market Areas**
 - **Upscale, close-in often “OK”**
 - **EDGE hurts worse**

FOR-RENT RESIDENTIAL MARKET OUTLOOK

PERFORMANCE OFTEN DEPENDS ON LOCATION



Downturn for RENTALS more moderate

Outlook is better for highly amenitized, well-located properties close to jobs and retail

These will better hold value

Opportunities in infill locations, close to jobs, redevelopment sites

Outlook for commodity apartments – conventional garden apartments farther from jobs and services – not as good



Large number of echo boomers set to graduate college

- ▶ Gen Y graduating college in 2009 and renting
 - More on this later...
- ▶ Demand for well-located lifestyle communities

RETAIL MARKET OUTLOOK

URBAN INFILL BETTER, NEWER SUBURBAN CENTERS CHALLENGED



Downward **DEMAND** trend for newer suburban centers

- ▶ Suburban retail development follows residential
- ▶ Performance is better in under-served close to jobs locations, urban mixed-use, etc. – including redevelopment
 - National retailers have closed underperforming stores
- ▶ Economic malaise hurting restaurants and small retailers
- ▶ Retailer's woes impacting operating incomes, lowering property values
- ▶ Some owners finding themselves over-leveraged and in trouble
 - Example: General Growth bankruptcy

Scenario: **Recovery of residential market first**

- ▶ Retail recovery needs both general economic recovery and residential market recovery first – *rooftops drive demand*

OFFICE MARKET OUTLOOK

DOWNTURN IN COMMERCIAL LATER IN CYCLE THAN RESIDENTIAL



Tenant down-sizing, business failures, reduce demand

- ▶ Greater oversupply in suburban markets
- ▶ Waning demand, shaky capital markets
- ▶ Tenants less optimistic about growth
- ▶ Declines in NOI impacting values
- ▶ “Stand alone anything is dead”
 - As market recovers, tenants seeking amenity rich locations

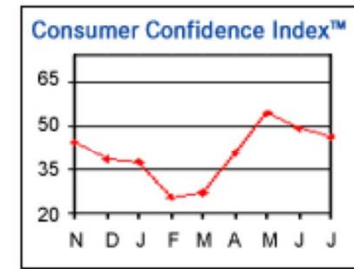
Which buildings will perform better? Increased preference for amenity locations – mixed use - green buildings

- ▶ Green building → from build-to-suit to the spec market
- ▶ Growth in # of LEED-certified/green buildings
- ▶ Mixed-use leasing better, premiums
 - Retail amenities

WHAT WILL CHANGE THE PRESENT OUTLOOK?

▶ "Trust"

- Establish trust and confidence for people and businesses to act "normally"
 - Even most courageous won't jump in until they think it is safe



▶ "Jobs, jobs, jobs"

- 1. Slow job losses – 2. Stop job losses – 3. Create new jobs – 4. Creates demand for real estate
- Stem further deterioration of real estate values
- Stimulate demand for construction of new homes, multifamily units, and commercial space



▶ "Full Recovery of Financial System"

- Available, reasonably priced debt and equity capital
- Availability of mortgage money to refinance loans when they mature in 2009-2013



SIGNS OF LIFE

- ▶ The Labor Department announced Aug 7:
 - Economy lost fewer jobs in July than in any month since financial market collapse
- ▶ Barclays Capital said Aug 7:
 - Global recession over - June was the last month
 - Rebound started in Asia early in the year, now global
 - Recovery is sustainable into 2010
 - Large government policy supports remain in the pipelines
 - Will dampen negative wealth effects burdening consumers



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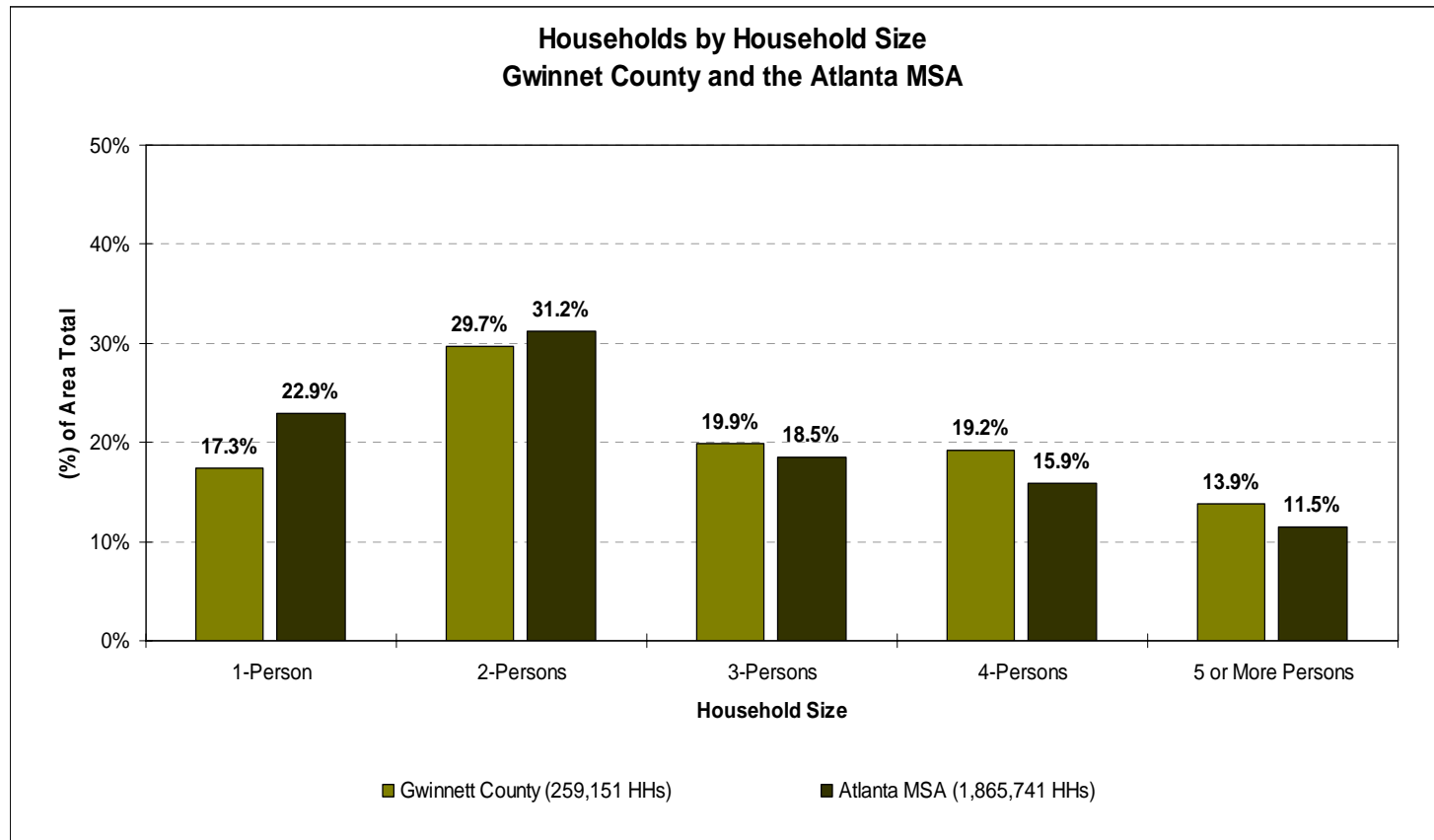
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MAJOR ISSUES / OPPORTUNITIES / TRENDS - GWINNETT

▶ RCLCO 2008 STUDY FOR GWINNETT COUNTY

- Transitioning from industrial to more office-oriented jobs
- Diversifying demographically
 - Racial and ethnic composition
 - Age, household sizes (smaller) of the households it attracts
- Housing: a spectrum of price points but not lifestyle choices
 - 78% Single family detached housing
- A major regional shopping destination for greater I-85 corridor
 - Concerns about amount of retail space in proportion to the population being served
 - Redevelopment opportunities
- Some areas that are struggling to revitalize
- Lacks clearly defined “center” or downtown area
 - Multiple smaller centers emerging as cities reinvest in *their* downtowns

GWINNETT HOUSEHOLDS BY SIZE – 48% <2 METRO ATLANTA HOUSEHOLDS – 54% <2



- ▶ Peak of Gwinnett's growth driven by growth in family households seeking a suburban lifestyle – larger home, larger lot, quality schools, etc.
- ▶ Now growth in families is smaller, and there's significant growth in one- and two-person households and childless couples

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THE FAVORED QUARTER

WHERE GOOD JOBS GO, JOB CORES GROW

- ▶ Pop. and Job growth strongest in “favored quarter” including Gwinnett
- Favored Quarter:
 - Quarter of region with fastest growth, greater infrastructure spending, higher paying jobs



Region's major job cores

FAVORED QUARTER

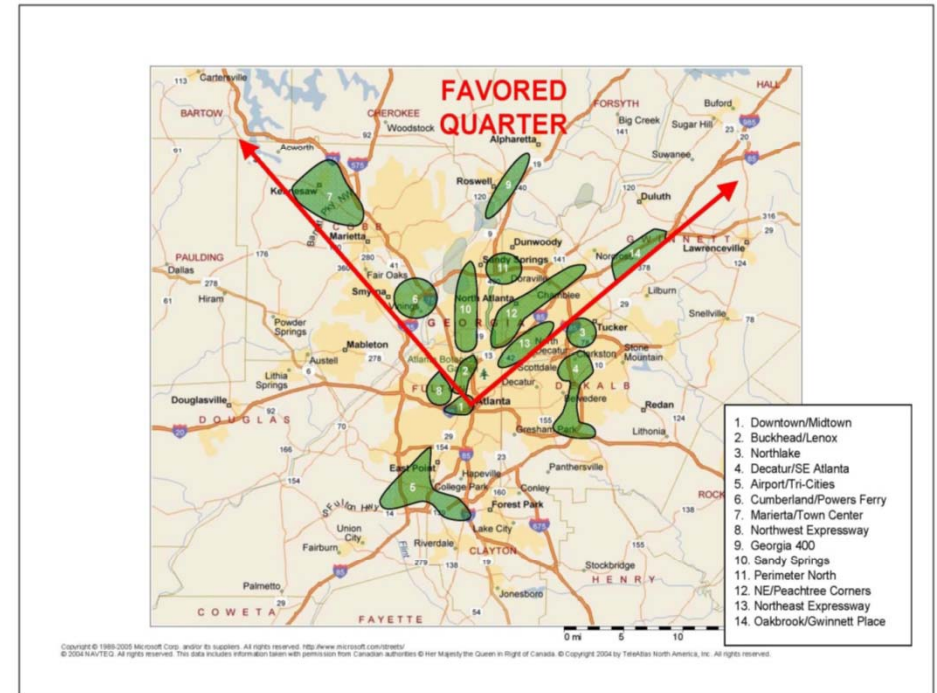
PRIMARY PATH OF GROWTH

- Quarter circle drawn from original downtown
- Major share of new housing
- Majority of new infrastructure spending
- New roads, water/sewer, rail, etc.
- 80% of commercial real estate activity and job growth over the past three decades
- Majority of executive and upper-income
- Driven by configuration of major highway systems
- Originally on the opposite side of region from lower-income and/or minority housing
 - Now increasingly diverse



HIGHEST PAYING JOBS LOCATE IN “CORES”

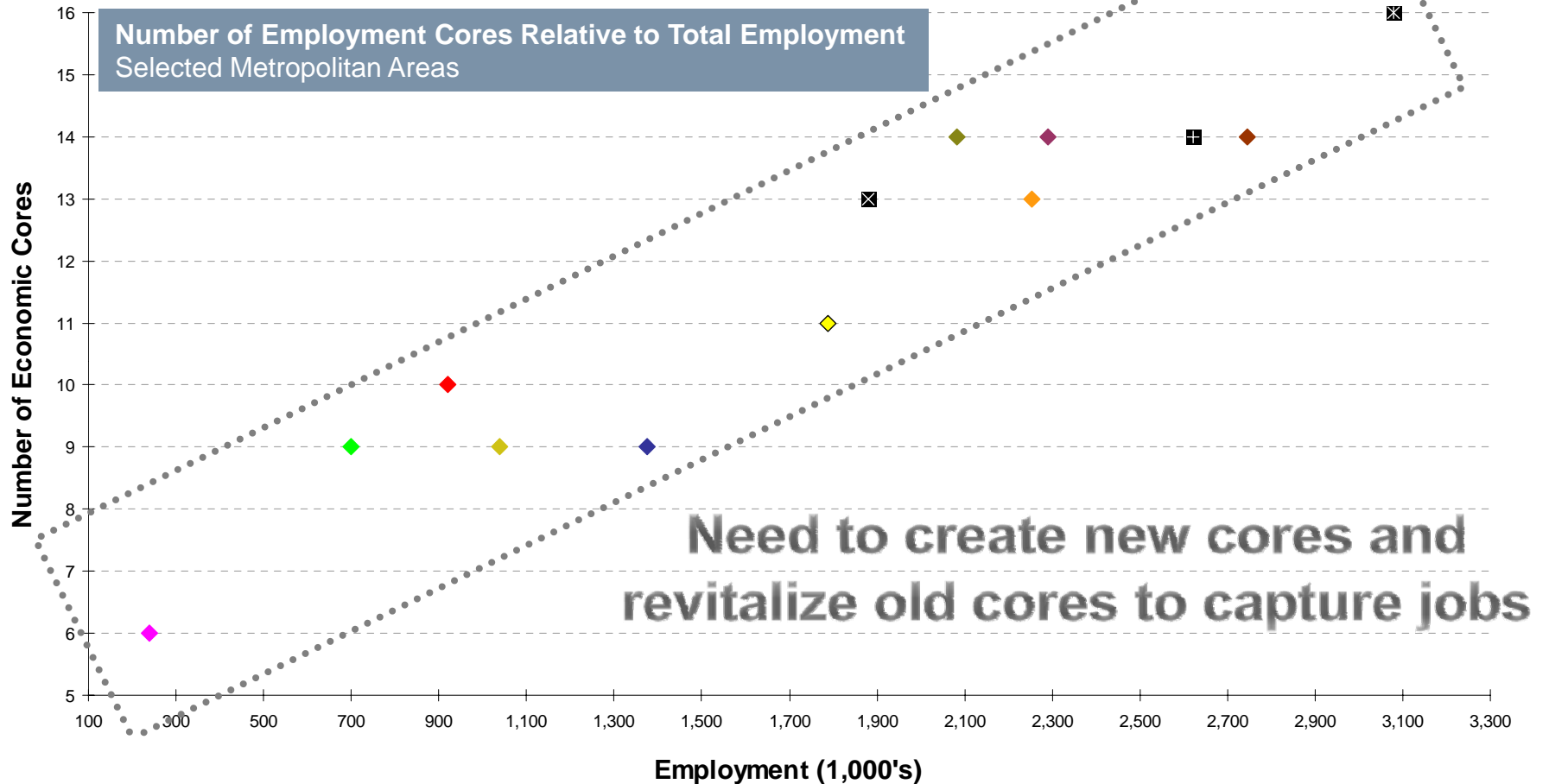
- ▶ Cores locate in favored quarter along major transportation infrastructure
 - **Office space cores:**
 - Favored quarter, close to executive housing, near Interstate or Beltway
 - **Industrial cores:**
 - Along major transportation arteries, less expensive land, business friendly environment
 - **Retail cores:**
 - Population driven; transportation access;
 - Don't always evolve into high-quality job cores w/out other critical ingredients



Region's major job cores

CORRELATION BETWEEN NUMBER OF JOBS AND NUMBER OF JOB CORES IN REGIONS

THIS WILL IMPACT GWINNETTS JOB GROWTH



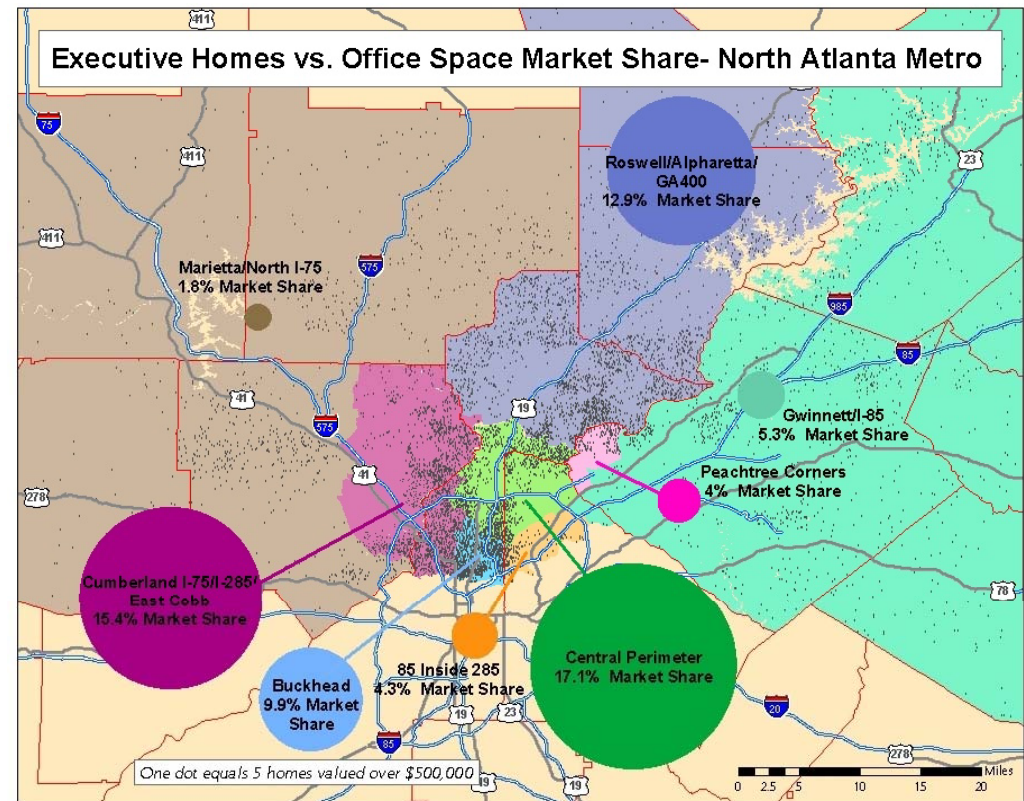
- ◆ Denver
- ◆ Philadelphia
- ◆ Cincinnati
- ◆ Detroit
- ◆ Houston
- ◆ Nashville
- ◆ Atlanta
- ◆ Chattanooga
- ◆ Raleigh-Durham
- ◆ Minneapolis-St. Paul
- ◆ Salt Lake City
- ◆ Central Florida 2005
- Central Florida 2020
- ⊠ Central Florida 2030

SOURCE: RCLCO

30% to 40% of JOBS LOCATE IN CORES

HIGHEST PAYING JOBS IN CORES

- ▶ Largest office employment oriented cores:
 - Downtown, Midtown, Buckhead, Central Perimeter, Cumberland
- ▶ Compete with newer cores
 - GA 400 North, Town Center on I-75 and Gwinnett Place Mall, Sugarloaf areas, Gwinnett
- ▶ FUTURE GROWTH:
 - Existing Cores - Redevelopment
 - Emerging Cores – newer employment cores that will shape future growth and development patterns
 - Likely – areas that don't have a lot of jobs today but could become a core
 - Where should they be?
 - Character?



Which existing or emerging cores will capture job growth?

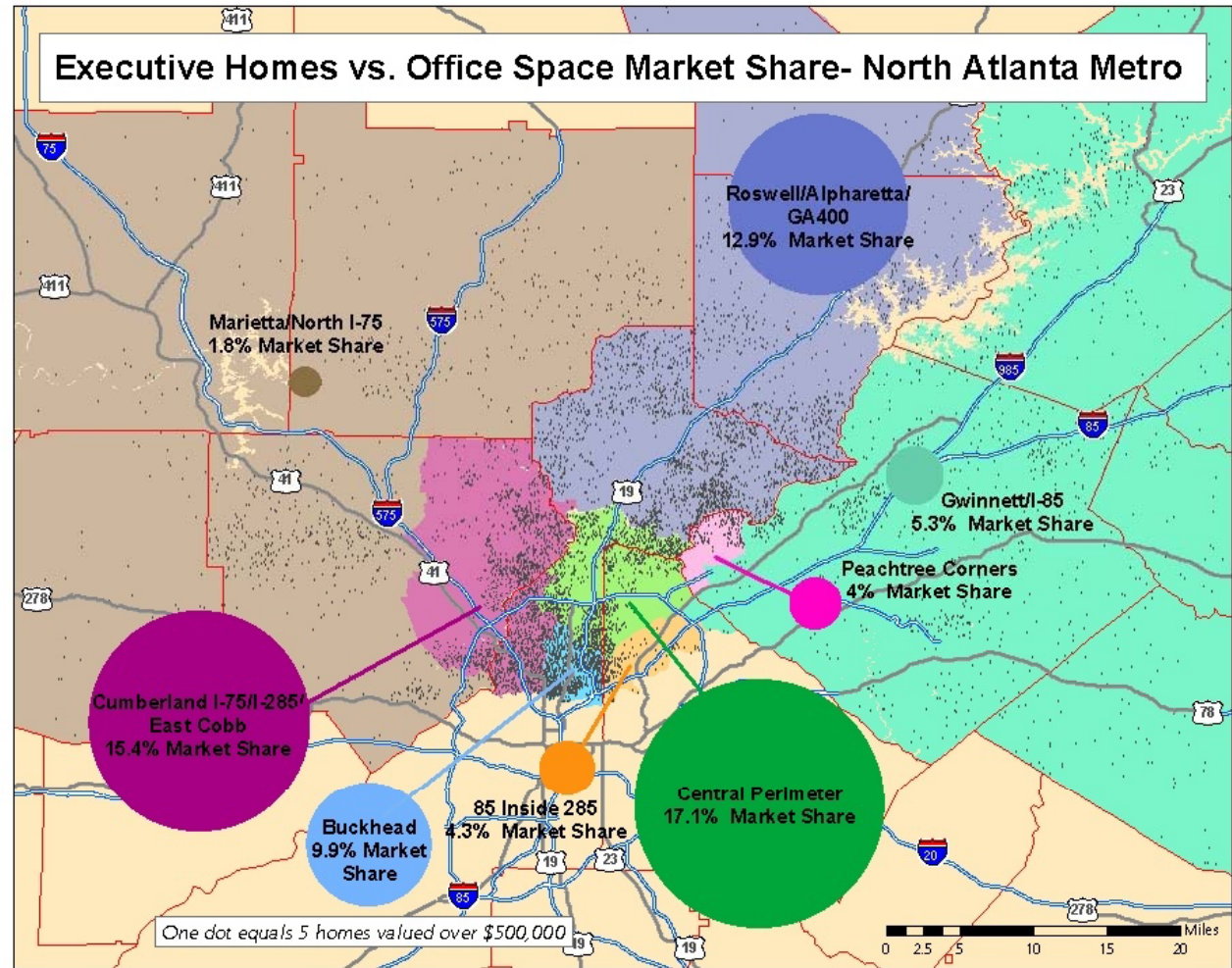
OFFICE SPACE GROWTH NEAR EXECUTIVE HOUSING

Gwinnett's distribution, manufacturing, and retail services oriented economy shifting

Over 40% of metro employment is Managerial/ Professional

Gwinnett could increase office employment as jobs follow executive housing growth

Redevelopment opportunities in existing cores – like Perimeter, Cumberland are doing



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GENERATIONS IMPACT DEMAND FOR REAL ESTATE

Generation	Born	2008 Age	2007 % of Nation	2007 Pop.
Eisenhowers	Before 1946	62+	17%	51M
Baby Boomers	1946 – 1964	43 – 62	27%	<u>78M</u>
Gen X	1965 – 1980	27 – 43	18%	52M
Gen Y (Millenials)	1981 – 1999	8 – 27	27%	<u>80M</u>
Gen Z (?)	2000 and After	0 – 8	10%	30M

SOURCE: Claritas, National Center for Health Statistics

LIFE STAGE INFLUENCES HOUSING CHOICE

GEN Y MOVES TO HOME OWNERSHIP IN NEAR FUTURE

Year	Student Housing	Single & Roommate Rental	Rent as Couple / 1 st Home	Young Family Own	Mature Family Own	Empty Nester Downsize Own	Retiree Senior Housing
2008	Gen Y	Gen Y	Gen X	Gen X	Baby B	Baby B	Eisen Baby B
2010	Gen Y	Gen Y	Gen Y	Gen X Gen Y	Baby B Gen X	Baby B	Eisen Baby B
2015	Gen Y	Gen Y	Gen Y	Gen Y	Gen X	Baby B Gen X	Eisen Baby B
2020	Gen Z	Gen Y	Gen Y	Gen Y	Gen X Gen Y	Gen X Baby B	Baby B

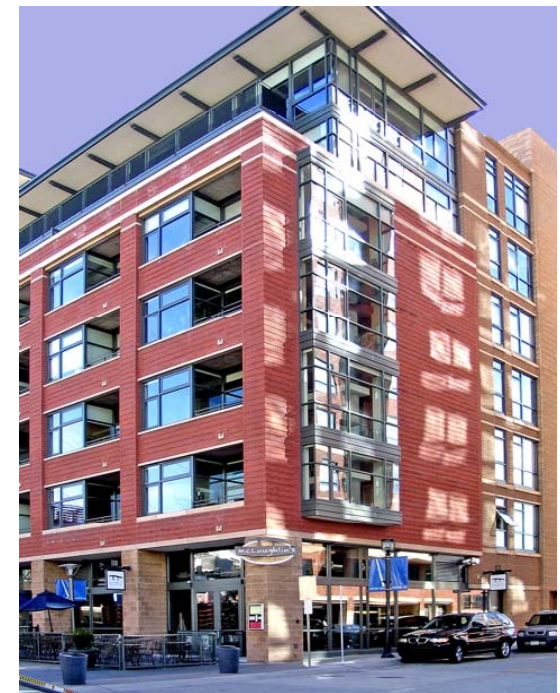
LIFESTAGE INFLUENCES HOUSING CHOICE

▶ Growing market for “walkable, efficient, convenient, green”

- Aging Boomers
- Gen X/Gen Y increasing home ownership rates
- More married couples without kids
- More people living alone
- More single parents

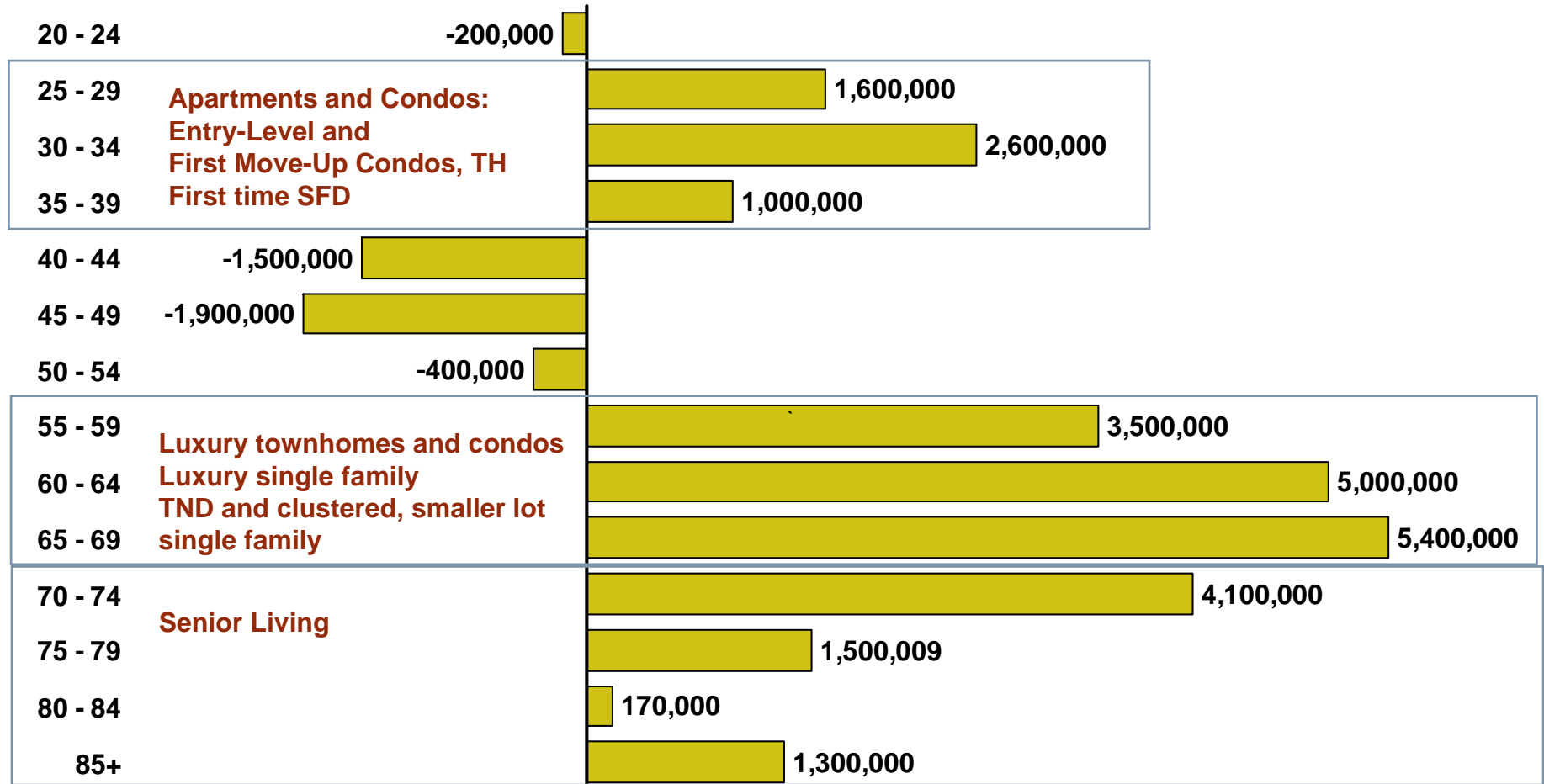
▶ Young consumers (Gen X, Y)

- Entering age where homeownership rates higher
- More want urban, walkable, but...
 - Emphasis on environments, not just dwelling unit
 - Greater sense of place
 - More accepting of density
 - Seeking better design



DEMOGRAPHIC SHIFTS AND HOUSING DEMAND

Projected Total Population Growth Rate by Age 2008–2018

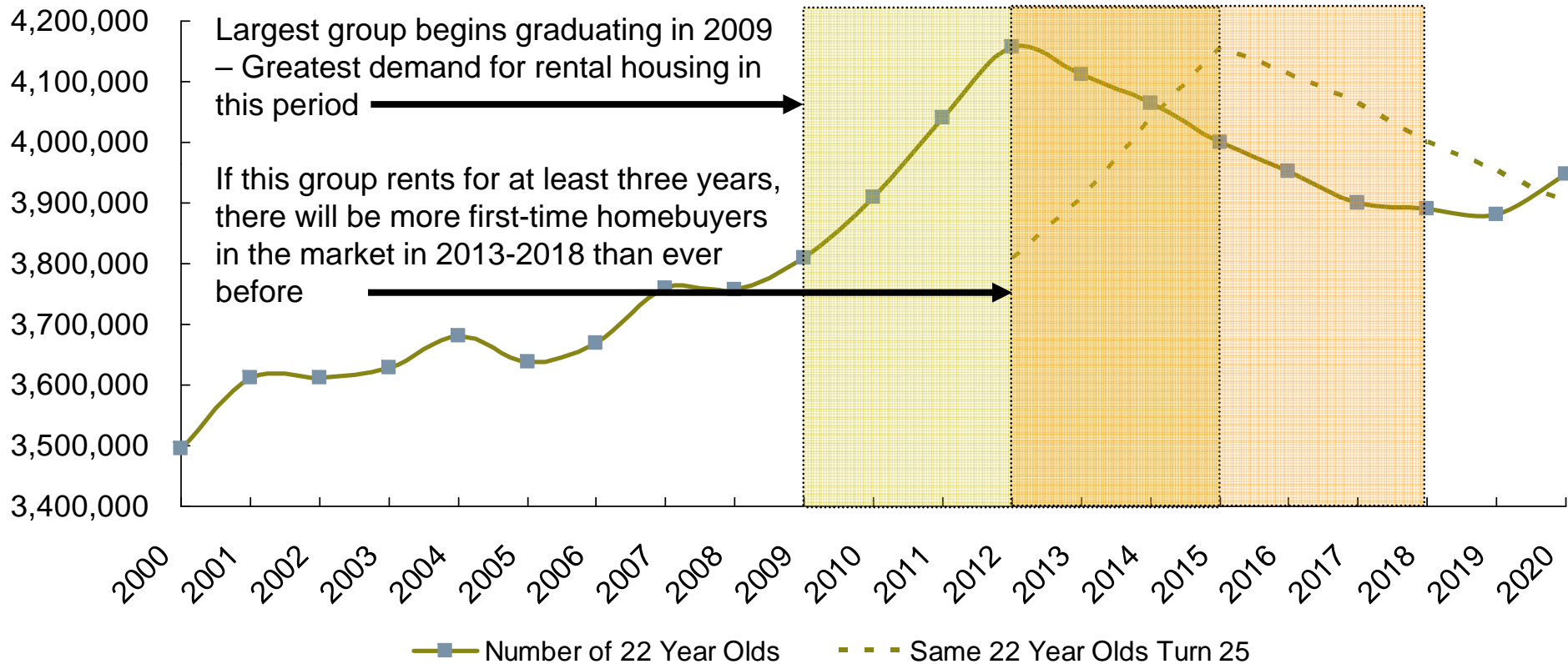


SOURCE: U.S. Census Bureau

GEN Y WILL HITS RENTAL MARKET 2009/10; FOR-SALE IN 2012/13

RCLCO Consumer Research shows:

- ▶ 41% of Generation Y plan to rent for at least three years
- ▶ 77% of Generation Y want to live in an Urban Core

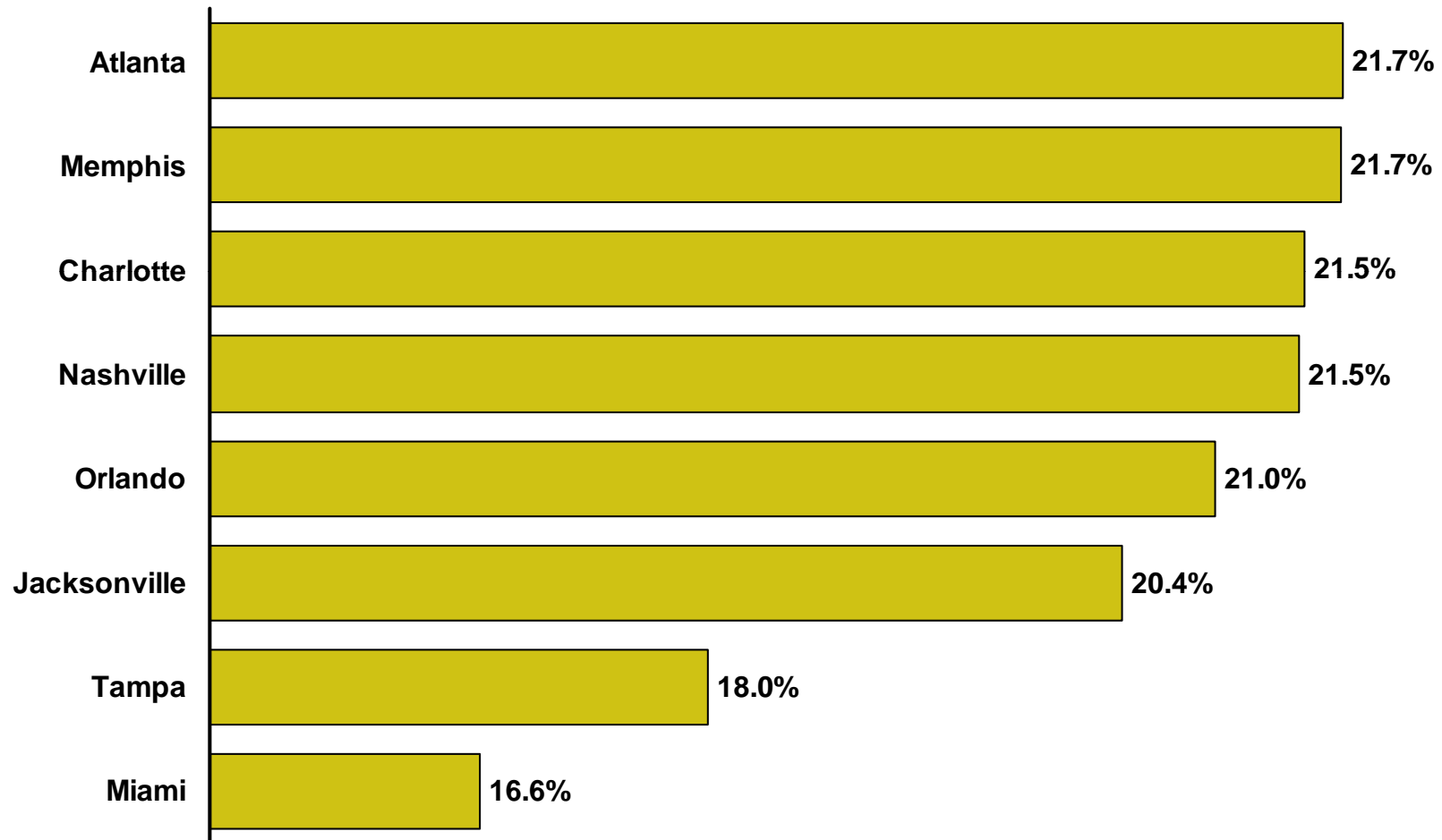


NOTE: Number of 22-year olds is based upon birth rate and does not factor in death rates and migration.

SOURCE: U.S. Centers for Disease Control and Prevention

GEN Y – HIGH CONCENTRATION IN METRO AREA CONSTITUTE ~ ONE IN FIVE HOUSEHOLDS BY 2012

% of all Households Under 35 in 2012

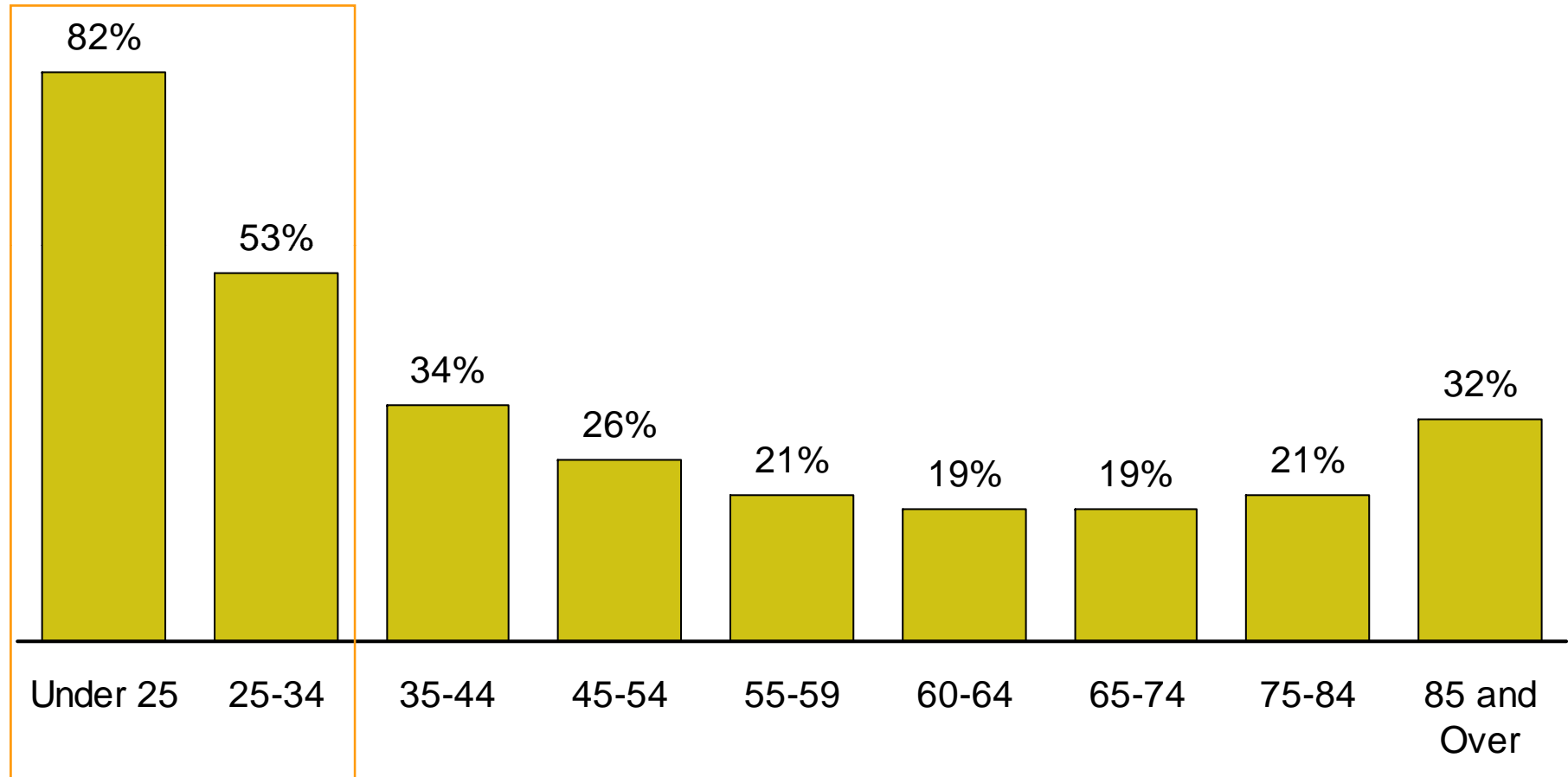


SOURCE: Claritas, Inc.

RENTAL HOUSING PROPENSITY BY AGE

UNDER 25 OVERWHELMINGLY RENT; UNDER 35 MOSTLY

% Renters by Age of Householder
United States, 2006



SOURCE: U.S. Census Bureau

MORE GEN Y'ers WILL PAY FOR WALKABLE, MIXED-USE AREAS

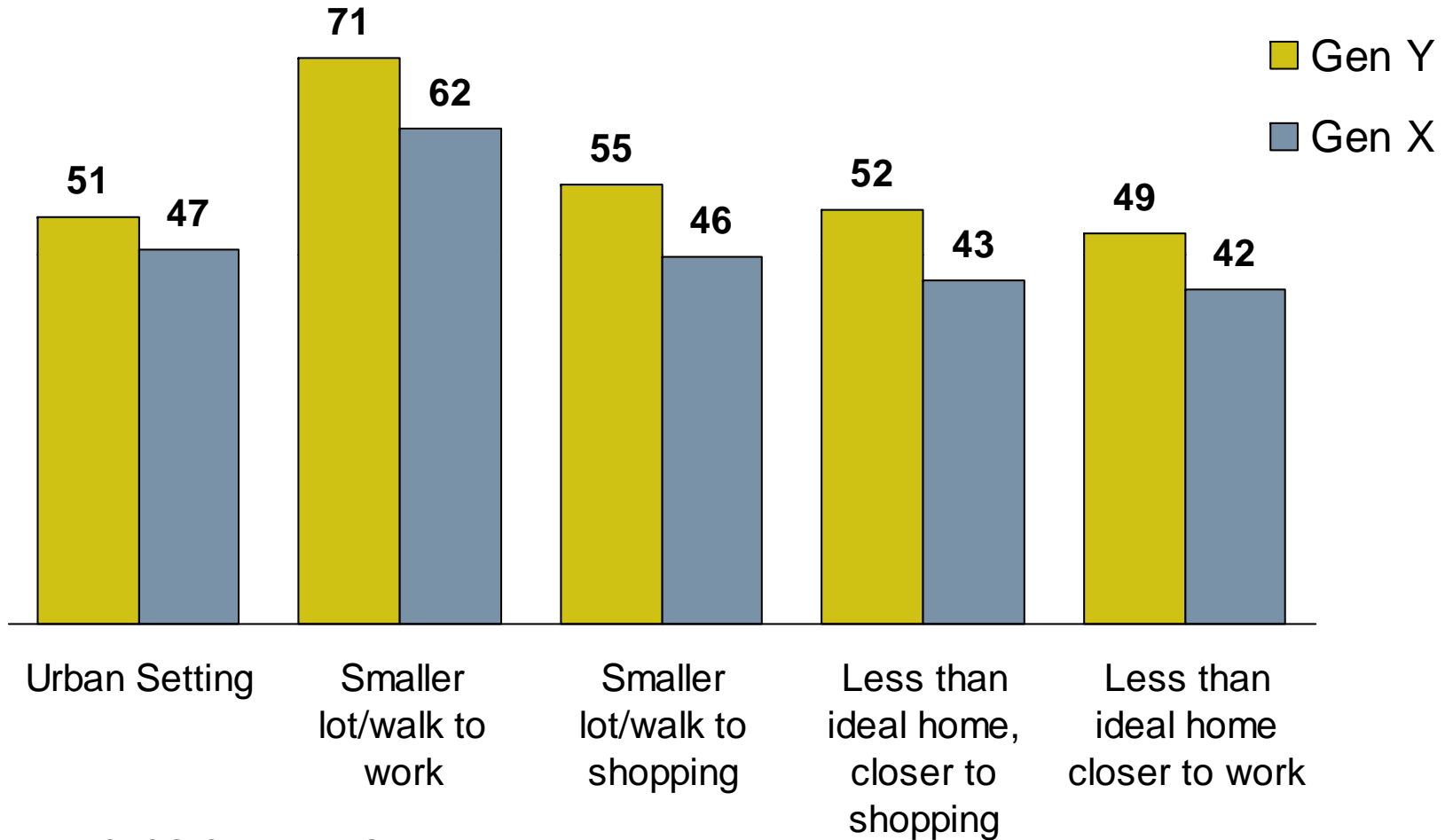


- ▶ **Desire for convenience, connectivity, healthy work-life balance**
- ▶ **1/3 will pay more** for housing walkable to shops, work, and entertainment
- ▶ **2/3** say that living in a walkable community is very important to their location decision
- ▶ **1/2** would trade lot size for proximity to shopping or to work
- ▶ Gen Y families with children – **1/3** willing to trade lot size and “ideal” homes for walkable, diverse communities
- ▶ Source: RCLCO Consumer Survey

GENERATIONAL TRADE-OFFS – GEN Y VS. X

EMPHASIS ON CONVENIENCE AND LIFESTYLE NOT HOME SIZE

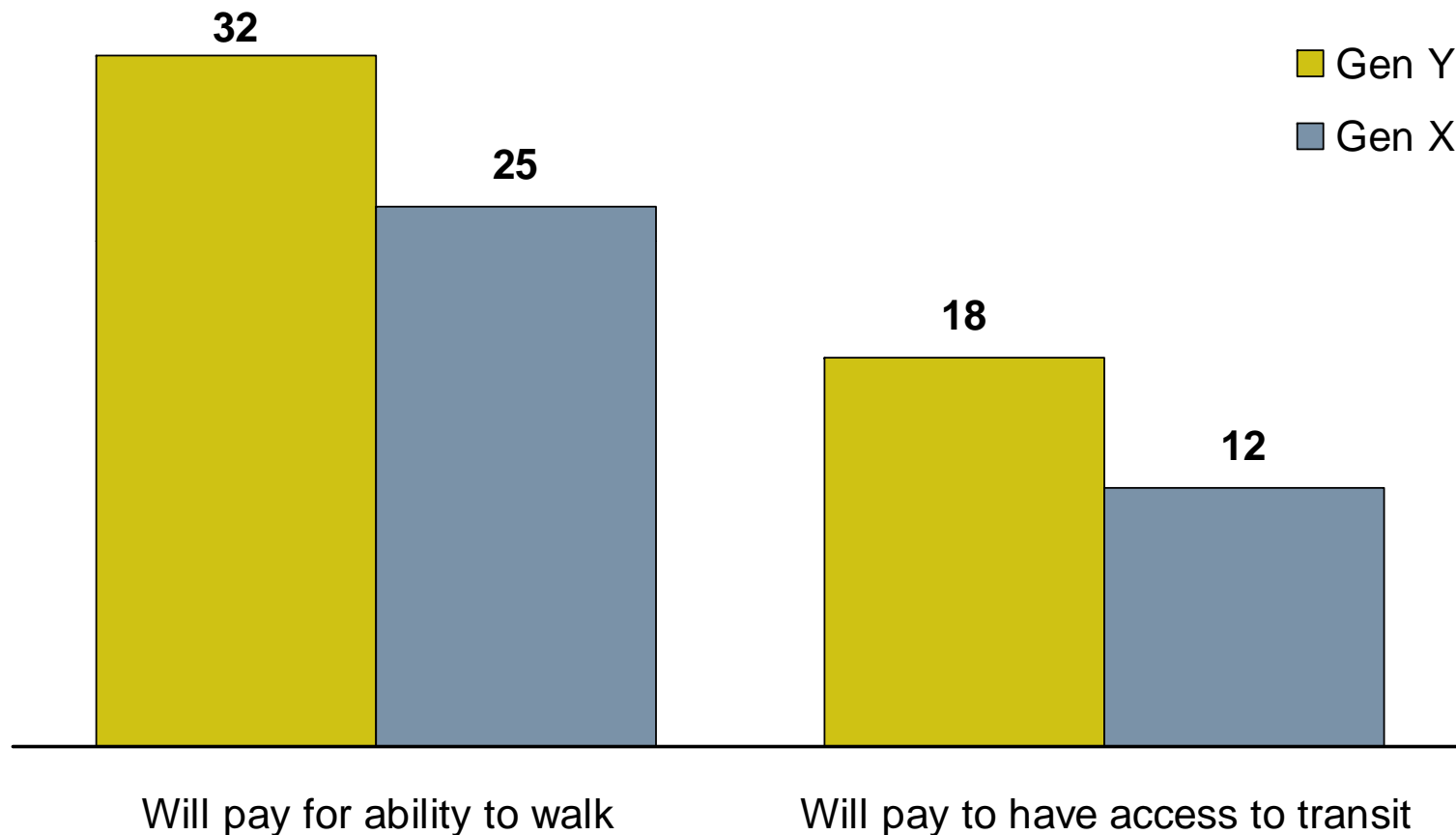
Generational Tradeoffs (%)



Source: RCLCO Consumer Survey

MORE GEN Y'ers MORE WILLING TO PAY FOR WALKABILITY and TRANSIT

Willingness to Pay Premium for Walkability and Transit (%)



Source: RCLCO Consumer Survey

GEN Y'S: LIFESTYLE, LOCATION, WORK-LIFE BALANCE



- ▶ Work-life balance a Gen Y value
- ▶ About 50% of Gen Y choose smaller home if they can walk to work
 - Shorter commutes and more 'me time'
 - Work blends more with other parts of their lives than other generations
 - Work from home
 - Put kids in employer's day care
 - Want portable careers

SOURCE: Franciscan Skemp Health Care and Gundersen Lutheran Medical Center

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IMPLICATIONS OF GEN Y FOR REAL ESTATE



- ▶ **Demand for variety of housing, retail, entertainment in:**
 - **Urban areas**
 - **Suburban activity centers**
 - **New town centers**
- ▶ **Premium for diversity, walkability, proximity to shopping, jobs**
- ▶ **Renters represent a steady stream of demand**
- ▶ **Gen Y will impact homeownership in 2012 forward**
 - Product -- smaller and affordable
 - Focus on design over size
 - **Suburbs – where “urban pulse points” are accessible**
 - Walkable areas, new and existing town centers – urbanizing suburban commercial nodes
 - Master-planned communities with greater variety of product, connectivity

OVER-SUPPLY OF DRIVABLE SUBURBAN NEIGHBORHOODS UNDER-SUPPLY OF WALKABLE URBAN NEIGHBORHOODS

Community A – 55%

- ▶ Single Family homes, large lots
- ▶ No sidewalks
- ▶ Drive to shopping and schools within a few miles
- ▶ Longer commute / jobs farther
- ▶ Public transportation distant or unavailable



Community B – 45%

- ▶ Mix of Single Family and other housing
- ▶ Sidewalks
- ▶ Shopping and schools are close, walkable
- ▶ Shorter commute / jobs closer
- ▶ Public transportation is available



Source: National Association of Realtors, 2004 Survey

WHAT ABOUT MARKET FOR “GREEN” ?

DEMAND BASED ON BENEFITS, NOT FEATURES



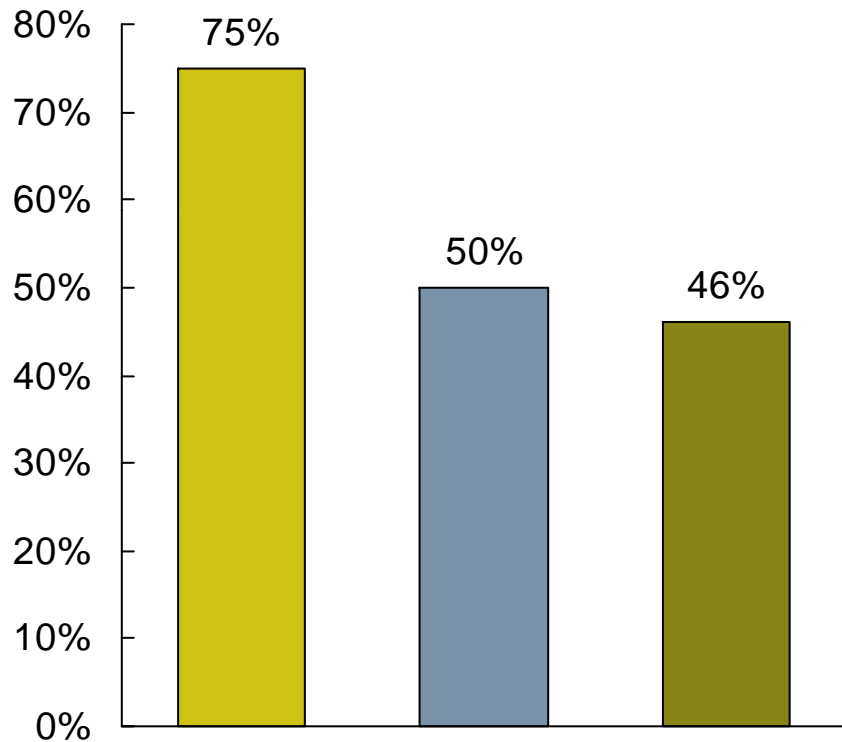
Green homes are better
for “the environment”

Green homes save energy
(and have lower utility bills)

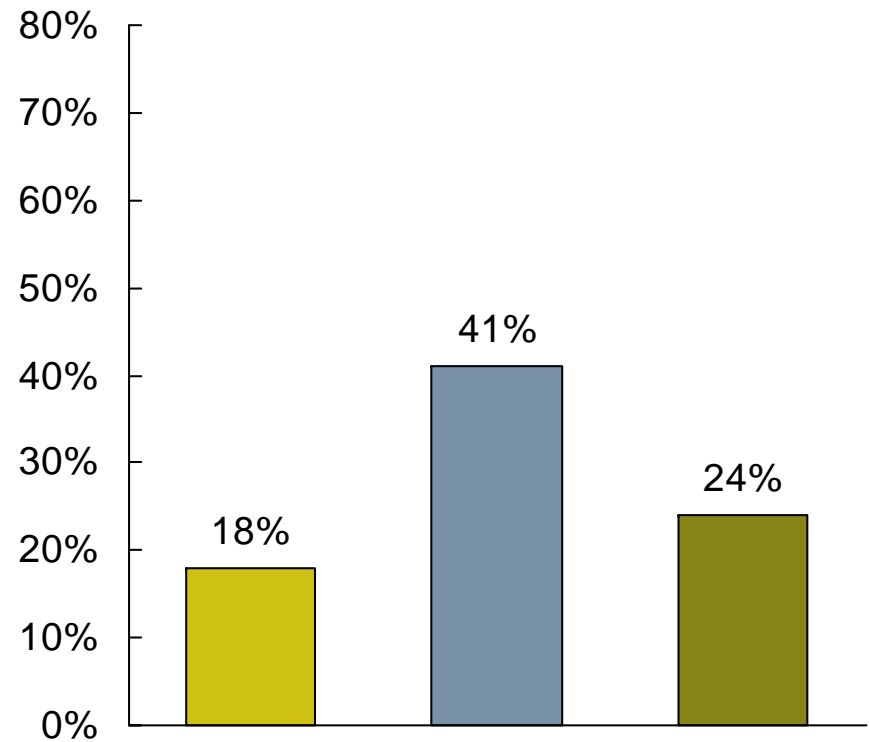
Living in a green home is
better for my health and
that of my family

WILL BUYERS PAY EXTRA FOR “GREEN” FEATURES? YES, IF THERE IS A RETURN ON THEIR INVESTMENT or HEALTH


If their investment pays them back over time, buyers are willing to spend more money on their home if....




If their investment may not pay them back over time, buyers are willing to spend more money on their home if....



 If It Saves Energy

 If It Provides Health Benefits

 If It's Good for the Environment

ITS NOT JUST THE GEN Y'S

AGING BOOMER INFLUENCES

- ▶ Many aging boomers are looking for something different than conventional subdivision design
 - More suburbanites seeking urban locations or “safe urbanism” closer-in
 - Most don't relocate, but want “urban amenities” in suburban locale
- ▶ Walkable communities with urban amenities, culture, education
 - Village or Town Center is the new Golf Course for many
 - “Third places”
 - Amenities for convenience, healthy living, and staying engaged



LOCATION IS MORE IMPORTANT THAN EVER WITHIN METRO AREAS, DEMAND IS SHIFTING



Chronicle/Mike Kepka



- ▶ **High demand locations will be:**
 - Proximate to major employment cores
 - Adjacent to local-serving retail and convenient to regional retail and entertainment
 - Walkable and transit-accessible
- ▶ **Focus on product alone won't sell like the mid-2000s**
 - Finishes, amenities, and views may not compensate for marginal locations moving forward
 - For-sale projects in marginal locations - risky
 - Lasting appeal and enduring value will be an important purchase motivato

TO ATTRACT JOBS, SUPPLY KEY INGREDIENTS

- ▶ Key ingredients to attracting office using jobs:
 - Environments to attract high-skilled employees that employers want
 - Variety of housing lifestyle choices, excellent education system, and a high quality of life
 - Transportation mode diversity
 - ❖ Determines supportable land use densities
- Office tenants want location – close to
 - Executive Housing
 - Current and Potential Employees
 - Customers and Clients
 - Restaurants and Retail
 - Transportation options



LONG RANGE IMPACT OF RISING FUEL COSTS

LOCATION CHOICE, REAL ESTATE BUDGET



Effect on location preferences

- ▶ Convenient to jobs and shopping and transit-accessible locations will be increasingly desirable
- ▶ Bedroom community locations at risk
- ▶ Well located smaller units in greater demand to meet tighter housing budgets

Effect on housing affordability

- ▶ Typical household budget:
 - 29% Housing
 - 14% Transportation
 - 4% Gasoline
 - 11% Food and beverage
 - 6% Food at home (groceries)
- ▶ Increases in gas and grocery prices will eat into housing budget

OPPORTUNITIES

CAPITALIZING ON THE TRENDS

- ▶ **Capitalize on the undersupply of walkable “urban” neighborhoods, town centers, village centers, job cores**
- ▶ **Higher density housing “in” and “close to” job cores**
- ▶ **Reinventing older retail areas**
 - **Make them mixed use, walkable**
- ▶ **Location-Driven “Urban” Rental Housing**
 - Reduced unit sizes, amenity rich
 - Higher rent per sq.ft.; lower absolute rents
 - Broader market appeal
 - Capitalizes on location premium
- ▶ **Smaller Scale Infill Clustered SFD, TH’s**
 - Gen X having kids, nearly as urban as Gen Y
 - Balance need for more living area with desire to maintain urban lifestyle



REDEVELOPING CORES AREAS AND TOWN CENTERS

MEET MARKET DEMAND FOR WALKABLE URBANITY

- ▶ **Embrace the Idea of Community** – Change the land use from aging stand-alone retail or office into a *vibrant place*
- ▶ **Focal Points and Gathering Spaces are Critical** - “Urban” gathering places create focal points and “third places” for residents and employees
- ▶ **Diversify the Product Mix** - Diversified mix of uses creates an important synergy for employment that can’t be realized in single use environments
- ▶ **Provide Links to Housing On and Off Site** – Invite residential in, and provide a strong network of pedestrian linkages to surrounding neighborhoods
- ▶ **Layer in Density** - Integrating multifamily residential units into the core area provides a constant customer base for shops, restaurants, entertainment venues and local businesses

Source: Urban Land Institute



REDEVELOPING CORES AREAS AND TOWN CENTERS

VISION AND STRATEGY

- ▶ The most successful projects are Public/Private Partnerships
- ▶ Developers: **“We should have asked the [City, County] for more”**
- ▶ Redevelopment in cores and centers and corridors needs all transportation modes, not just cars
- ▶ The transportation network determines the development pattern
- ▶ Multi-modal transportation infrastructure encourages private investment in mixed-use development
 - Need a transportation vision for redevelopment
 - Helps ensure public and private sector pursue compatible strategies, reinforcing the vision
 - Public investments in transit can increase property values, generate jobs, and increase tax revenues

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- ▶ Valuation Services
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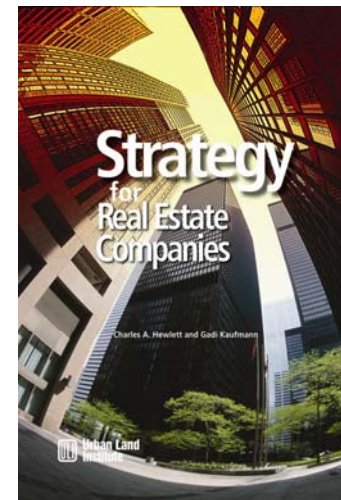
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