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AS THE MARKET TURNS

The real estate market is notoriously cyclical. One primary reason is the flow of capital often belies supply-demand fundamentals. This is because the economy drives real estate demand, while capital is the main supply driver. The difference in this cycle is that all property sectors did not respond in lockstep.

The "for sale" housing market peaked in early 2006, a full five years after the commercial sector last turned down. Low interest rates and easy credit fueled production even during the 2001 economic recession, a time when housing starts usually plummet. While commercial development, including apartments, came virtually to a halt, residential construction revved up. The cumulative excesses of the first half of this decade created today's housing glut.

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ATLANTA REAL ESTATE INDICATORS
2002 - 2007

	2002	2003	2004	2005	2006	2007
Housing Permits						
Single-Family:	51,887	55,035	57,316	61,558	53,927	31,120
Multi-Family:	16,476	11,344	16,691	11,303	14,339	13,565
Total:	68,363	66,379	74,007	72,861	68,266	44,685
Apartment Occupancy Rate:	89.4%	89.9%	90.4%	92.2%	91.7%	91.1%
Apartment Starts:	6,922	6,459	6,022	6,276	5,908	10,177
Intown Condominium Sales:	2,144	2,186	2,739	4,747	2,717	1,704
Year-End Unsold Inventory	2,564	2,766	5,217	3,981	5,990	7,252
Office Occupancy Rate:	80.5%	79.6%	81.5%	82.7%	83.5%	83.7%
Office Absorption (Sq.Ft.):	(2,253,370)	1,032,413	4,132,682	3,542,068	4,248,162	3,243,255
Distribution/Warehouse						
Occupancy Rate:	81.8%	81.6%	82.1%	82.7%	83.0%	84.5%
Absorption (Sq.Ft.):	(3,985,729)	(759,831)	7,969,997	10,813,860	13,421,235	8,433,402
Service Center						
Occupancy Rate:	77.9%	76.9%	76.1%	74.6%	83.0%	76.6%
Absorption (Sq.Ft.):	(971,433)	(444,193)	(290,523)	(196,681)	817,639	85,382
Hotel Occupancy Rate:	58.4%	56.7%	60.4%	64.8%	64.9%	63.5%
Hotel Average Daily Room Rate:	$78.55	$75.72	$75.88	$78.53	$88.41	$92.76
Retail Occupancy Rate:	90.6%	90.5%	90.1%	88.1%	87.3%	88.5%

Note: Office absorption is defined as the net change in occupied space. Industrial absorption is defined by King as "the net effect of activity, corrects for lateral movement, renewals, and change in space size." Occupancy figures are for year-end except the hotel occupancy rate (annual average).

Sources: **Housing Permits**: U.S. Census Bureau
Apartment Occupancy Rate: Dale Henson Associates
Office Data: CoStar Group
Industrial Data: King Realty, Inc.
Hotel Data: PKF Consulting
Retail Data: Dorey's Information Services

AS THE MARKET TURNS (CONT.)

Fallout from the housing industry has now infected the economy, negatively impacting demand for office and industrial space. Consumer spending has also dampened, and with it retail sales. In spite of strong corporate profits, companies are growing cautious about capital spending and expansion. Consumers are tapped out on home equity loans and credit card debt, and bombarded with regular accounts of falling house values and job layoffs. Soaring gas prices have added to the malaise.

Abundant capital and low interest rates bailed out the commercial sector of the real estate market in the early 2000s. Buildings with declining income, due to falling occupancy and rental rates, actually increased in value because capitalization rates dropped so low. The capital markets have shifted dramatically since the summer of 2007. Yield requirements are rising, and the flow of money into real estate has been sharply reduced.

Fortunately, the "for sale" housing market is the only property sector seriously out of balance, although the recent surge of intown apartment development could easily get overdone, and the number of office towers on the rise is puzzling. The long overdue credit tightening should restrain supply growth and allow demand to eventually catch up. What happens next depends largely on the economy. A key measure will be GDP growth for the second quarter. If this figure is below one percent for a third consecutive quarter, economic growth will not spur real estate demand anytime soon, and this latest market turn may persist for some time.

RECENT ENGAGEMENTS

W. C. Bradley Co. Real Estate, LLC asked us to evaluate the highest and best use of 23.55 acres in Columbus, Georgia. The property is partially improved with older industrial buildings, some of which are currently vacant. The goal was to determine how to capitalize on the property's location and unique attributes.

Ashley Acres, Inc. owns 142 acres in East Ellijay, Georgia. Our firm was retained to help formulate the optimal development strategy for this property, which is located just east of Georgia 515. Several potential land uses were explored.

The Johnson Development Corp. has formed a partnership to develop the remaining land at Lake Arrowhead, a 8,000-acre residential community in Cherokee County. Our role was to provide input into development planning for key lakefront sites.

Willis-Knighton Health System owns several hospitals in Shreveport, Louisiana. The decision was made to enter the senior housing business as a natural extension of Willis-Knighton's mission and desire to serve the community. We were engaged to explore complimentary land use options for a 305-acre tract that was acquired in southeast Shreveport.

__Haddow & Company__ is a real estate consulting firm that serves the various needs of developers, investors, corporations, lending institutions, and others. The company's services include market and feasibility studies, investment analysis, development planning, disposition counseling, highest and best use studies, marketing strategies, and loan workouts.

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