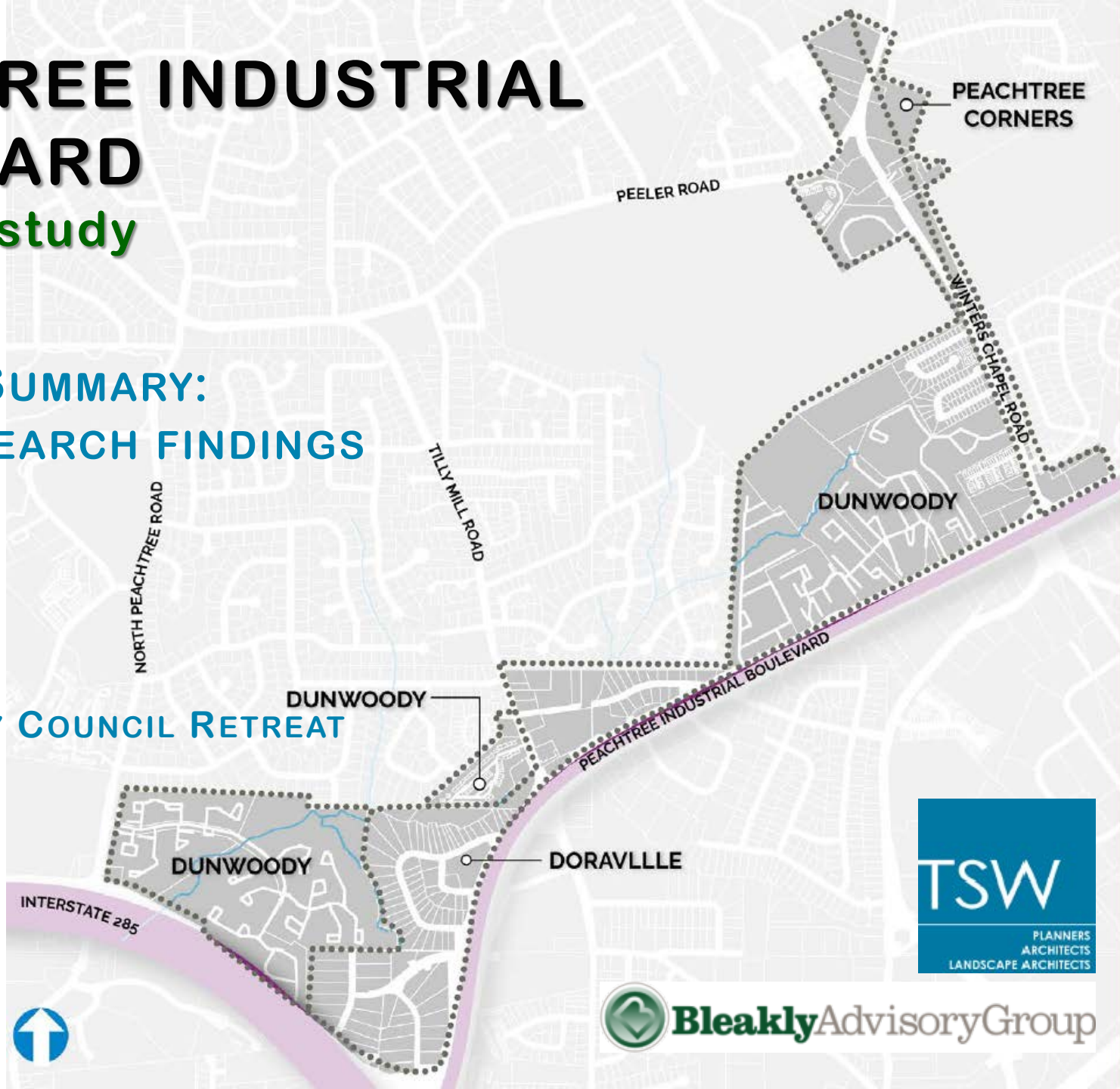


# PEACHTREE INDUSTRIAL BOULEVARD

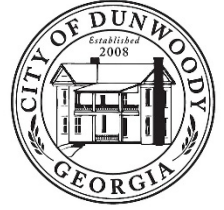
## small area study

### EXECUTIVE SUMMARY: MARKET RESEARCH FINDINGS

DUNWOODY CITY COUNCIL RETREAT  
JUNE 4, 2018



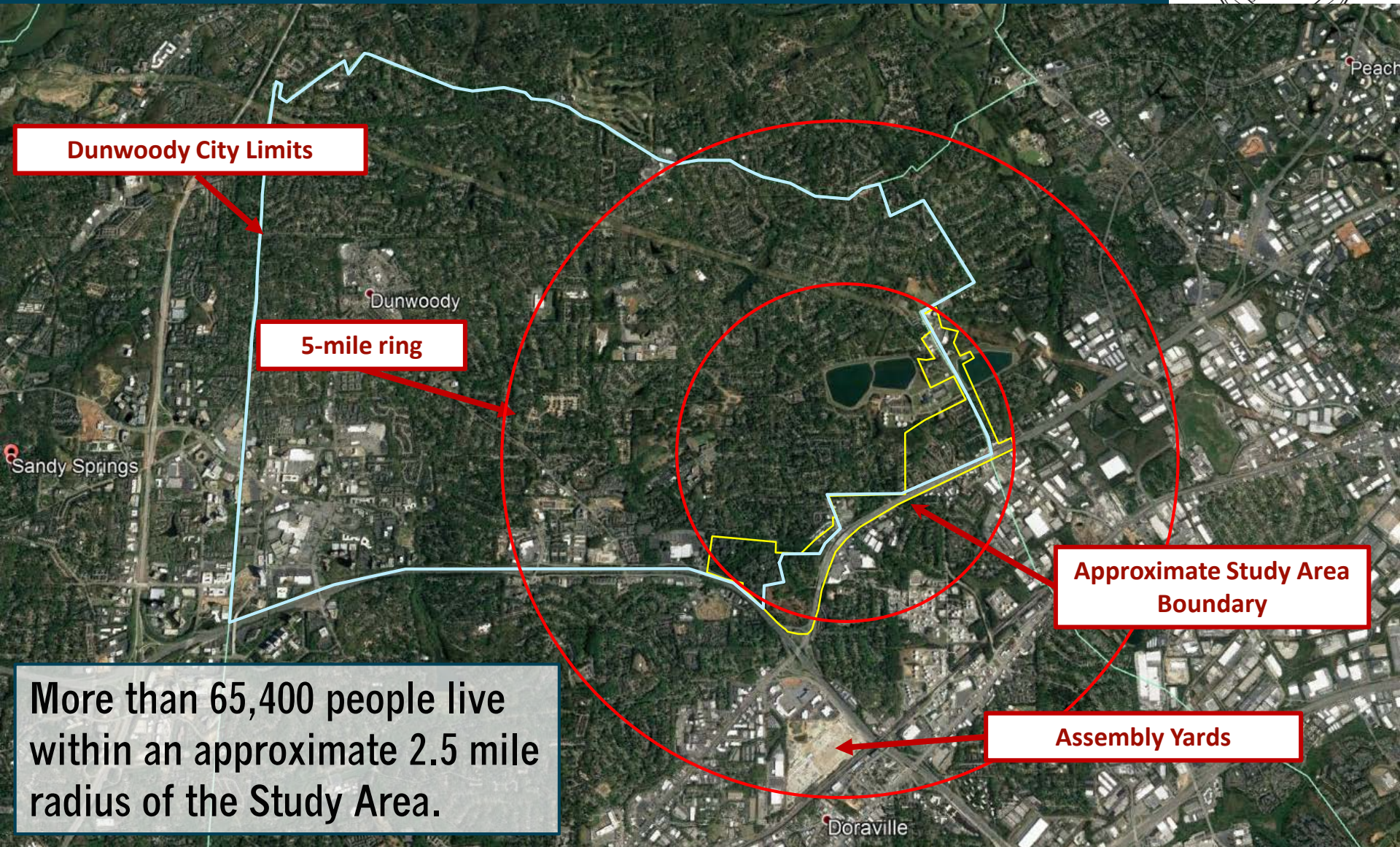
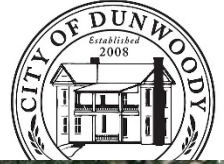
# STUDY SCOPE AND GOALS



- Bleakly Advisory Group (BAG) was retained to prepare a market analysis to support planning for the PIB Small Area Study, focusing on the portion of the Study Area that is in the City of Dunwoody
- Market Study Objectives:
  - Address community questions and feedback regarding the viability of developing additional commercial, office or industrial space in the study area
  - Forecast the demand for and achievable pricing of new for-sale and rental housing
  - Address the near-term and long-term financial feasibility of assembling land for redevelopment
  - Consider market impacts that could either be created by, or follow redevelopment of the former Doraville GM Plant.



# MARKET CONTEXT



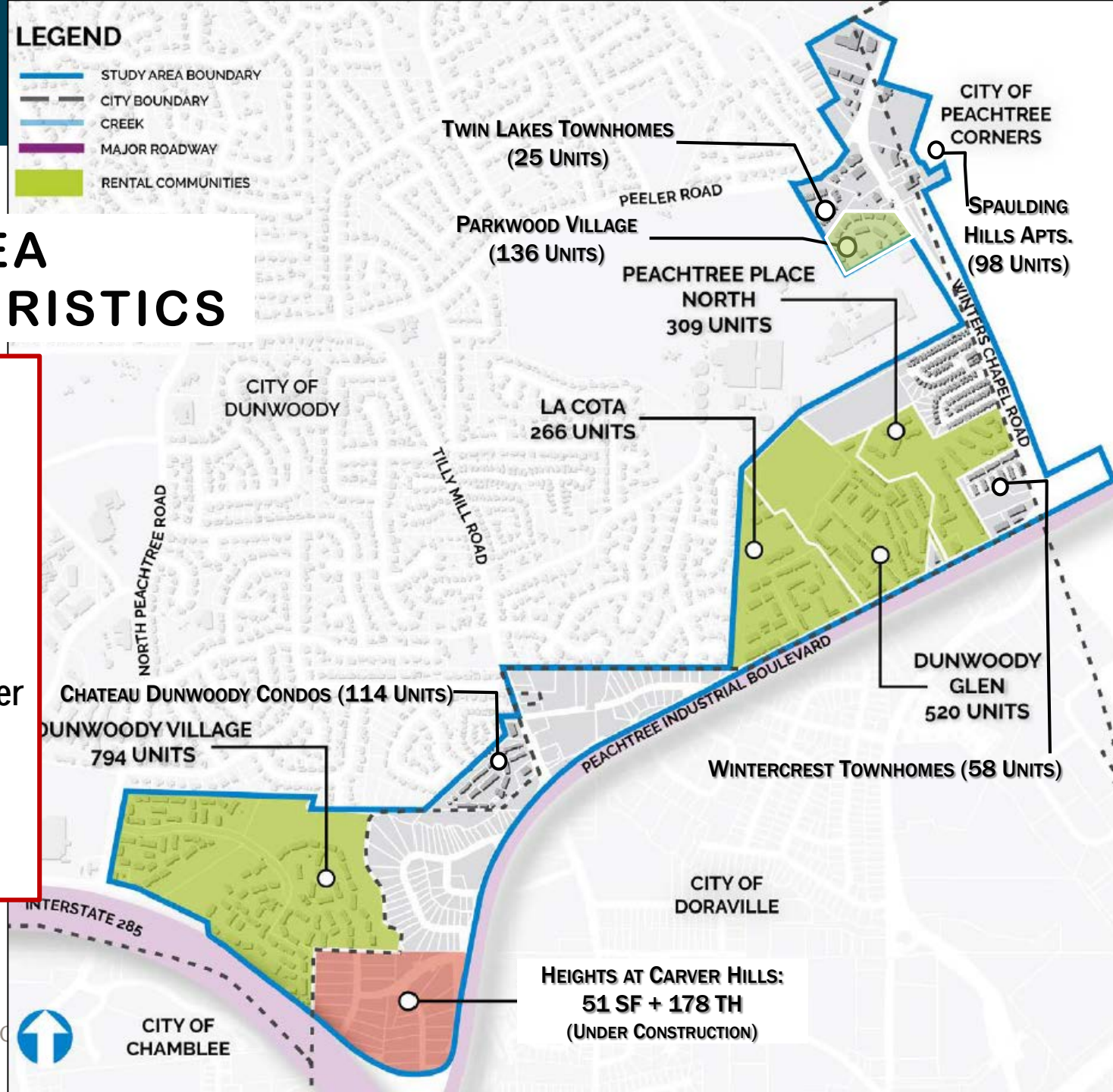


## LEGEND

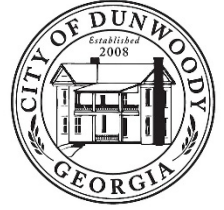
- STUDY AREA BOUNDARY
- CITY BOUNDARY
- CREEK
- MAJOR ROADWAY
- RENTAL COMMUNITIES

# STUDY AREA CHARACTERISTICS

- Estimated 2,025 multi-family apartments
- 350 single-family, townhome and condominium units
- A 229 unit SF/TH development is under construction.
- Only 7.1% of the total acreage is commercial.



# SUMMARY CONCLUSIONS/IMPLICATIONS



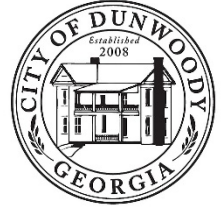
- Current and future market demand for owner and rental housing and to a lesser extent, retail and office development within the Dunwoody market is strong
- Rapid job growth and constrained supply have caused vacancy rates to decline, and commercial/apartment rents and home prices to increase
- Development constraints impacting the Study Area are largely financial rather than demand driven, due to two main factors:
  - [1] Site availability is limited and the cost of assembling and preparing development sites is high, requiring higher density, values (or both) to be financially feasible
  - [2] The Study Area is located on the eastern edge of the market, where existing values are not as high as the City of Dunwoody average, and new construction is less likely to command equivalent price premiums
- Some combination of public subsidy/participation and/or increased density is likely to be needed to achieve redevelopment in the Study Area in the near term



## SUMMARY FINDINGS:

- EXISTING CONDITIONS
- LAND USE
- FISCAL
- DEMOGRAPHICS

# EXISTING LAND USE AND VALUES

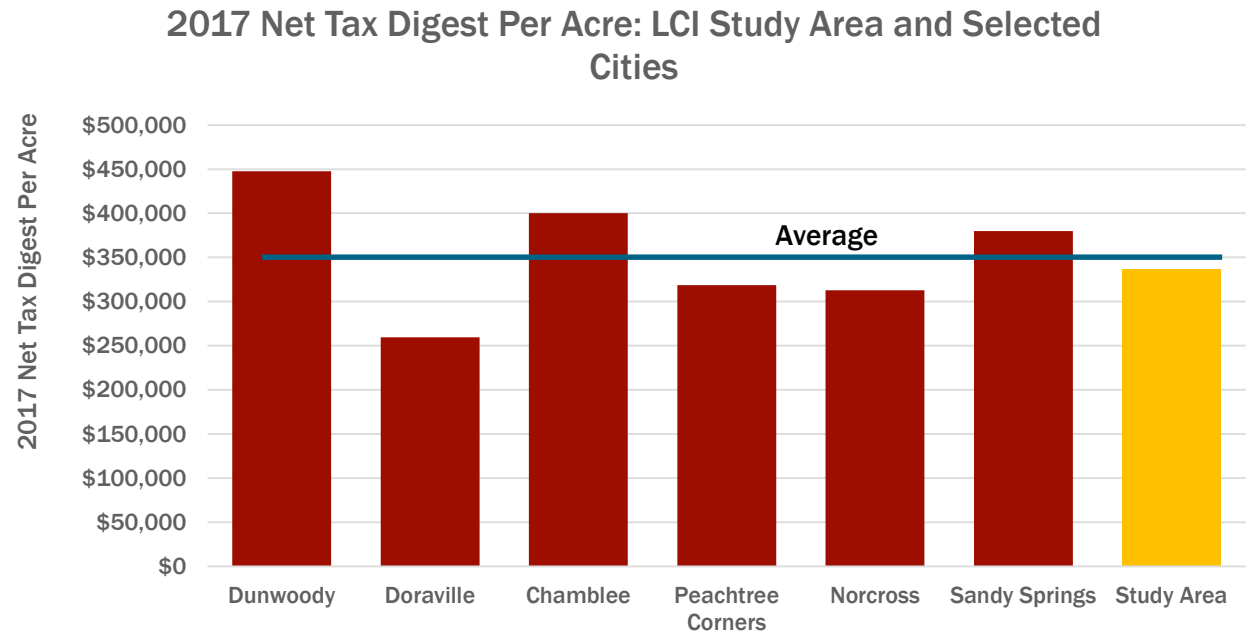


- The LCI Study Area contains 641 ac.
  - 46% of the total land area is exempt property
  - 113 acres in Gwinnett County
- 2017 average digest value of all taxable property = \$104 M (\$337,100/ac)
  - This total excludes 36.5 acres under construction (the Heights at Carver Hills)
- Residential property values (taxable FMV) in the Study Area are modest
  - \$204,000/SF detached home
  - \$178,100/townhome unit
  - \$116,800/condominium
- Only 46 acres are commercial
  - Values for developed commercial parcels \$625,000 per acre
- 40 parcels and 33.1 acres (excluding land under construction) are vacant
  - Most undeveloped land consists of vacant lots in older subdivisions – mostly in Doraville
- Dunwoody apartments occupy 29% of the total land area (188.1 acres) - 64% of the taxable value
  - More than 2,000 units developed between 1971 and 1982
  - Average of 1,180 SF/unit
  - Density averages 10.8 units/acre
  - The taxable full value of apartments exceeds \$169.3 million, roughly \$900,000 per acre, \$83,600 per unit and \$75.40 per building SF
  - The Study area also includes 198 condominiums and townhomes - many are managed as rental units.

# EXISTING LAND USE



- Dunwoody's net tax digest in 2017 exceeded \$2.7 billion, averaging nearly \$450,000 per taxable acre – one of the highest concentrations of value per acre among Atlanta's suburbs



*Source: Georgia Department of Revenue*

- 28% higher than the average of surrounding communities

- At \$337,100/taxable acre the Study Area's tax digest is only slightly below the average of surrounding communities[1]

[1] Calculations exclude tax exempt property

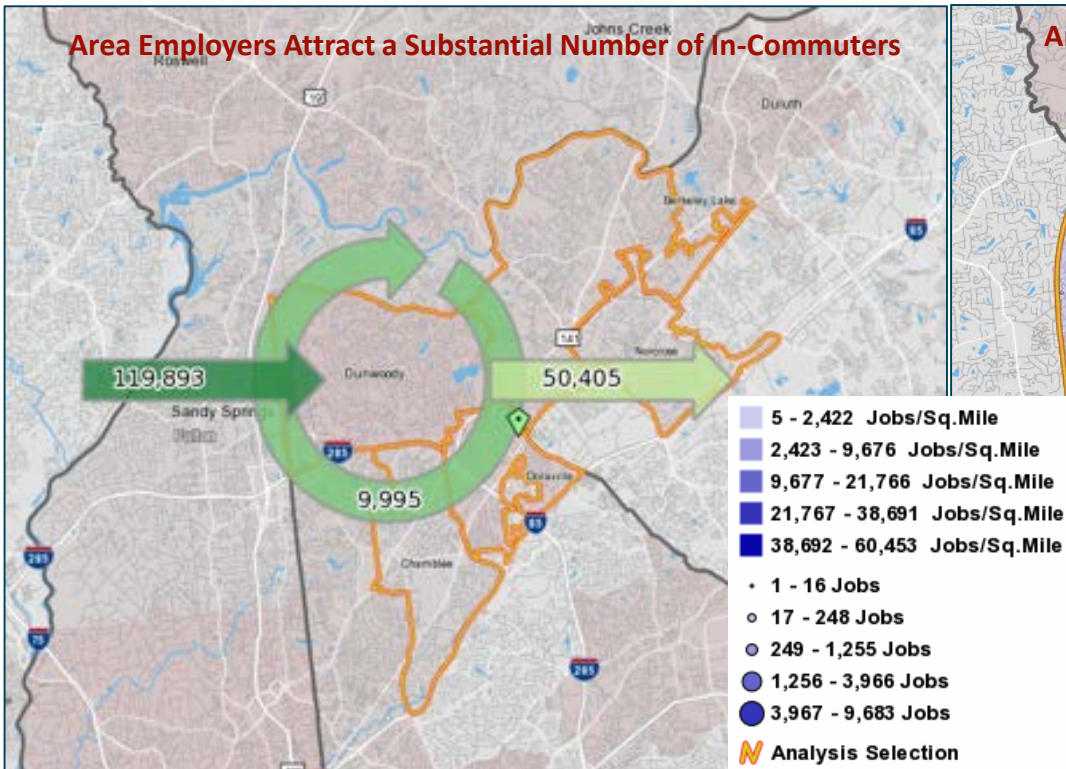


# EMPLOYMENT & COMMUTING PATTERNS

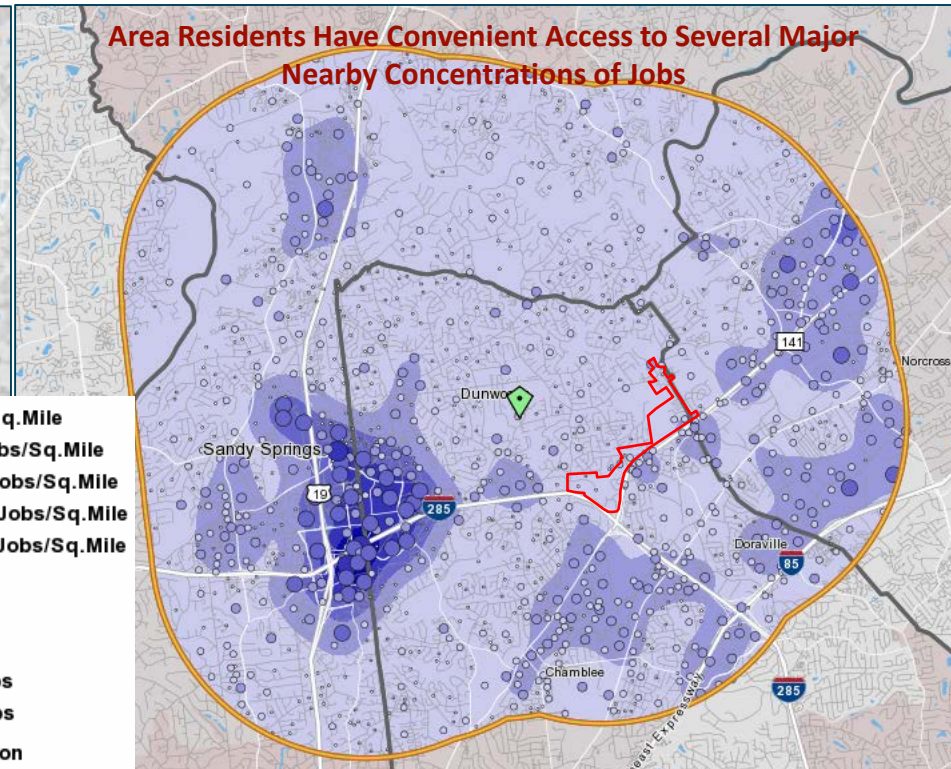


- The I-285/GA 400 corridor is a regional employment center - with **129,000 jobs**
  - VERY high job/total population ratio - nearly 0.8:1
  - Jobs concentrated in high wage industries and occupations
- Dunwoody has the largest concentration of jobs in Dekalb County - **18% of the County total** in 2015
  - ARC projects the area will add another **34,900 jobs by 2040** averaging 1,400 per year
- Almost 92% of local jobs filled by nearly 120,000 in-commuters in 2015 – only 17% of area residents worked locally
- Job & commuting patterns suggest **STRONG** unmet housing demand

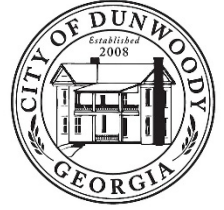
Area Employers Attract a Substantial Number of In-Commuters



Area Residents Have Convenient Access to Several Major Nearby Concentrations of Jobs



# DEMOGRAPHIC CHARACTERISTICS

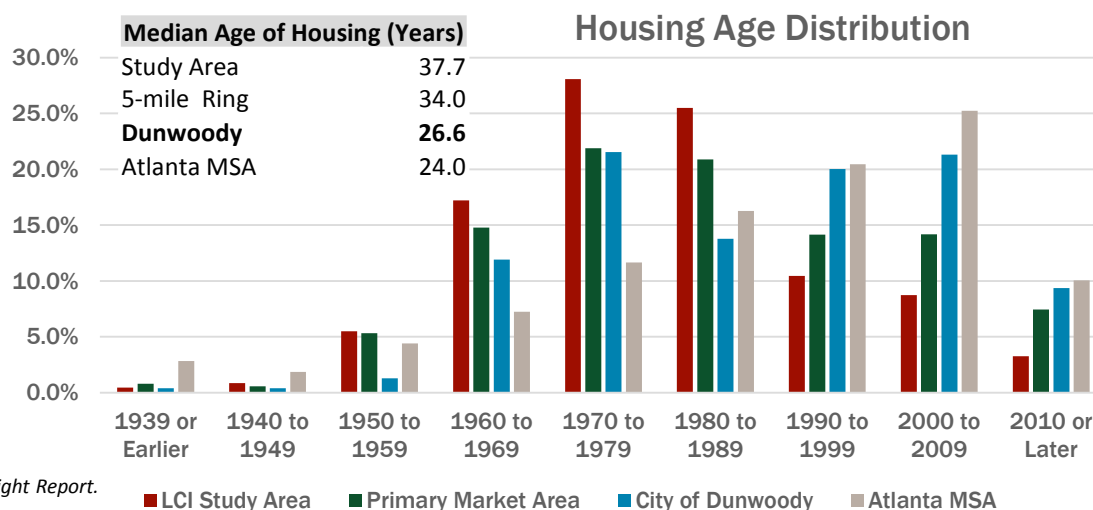
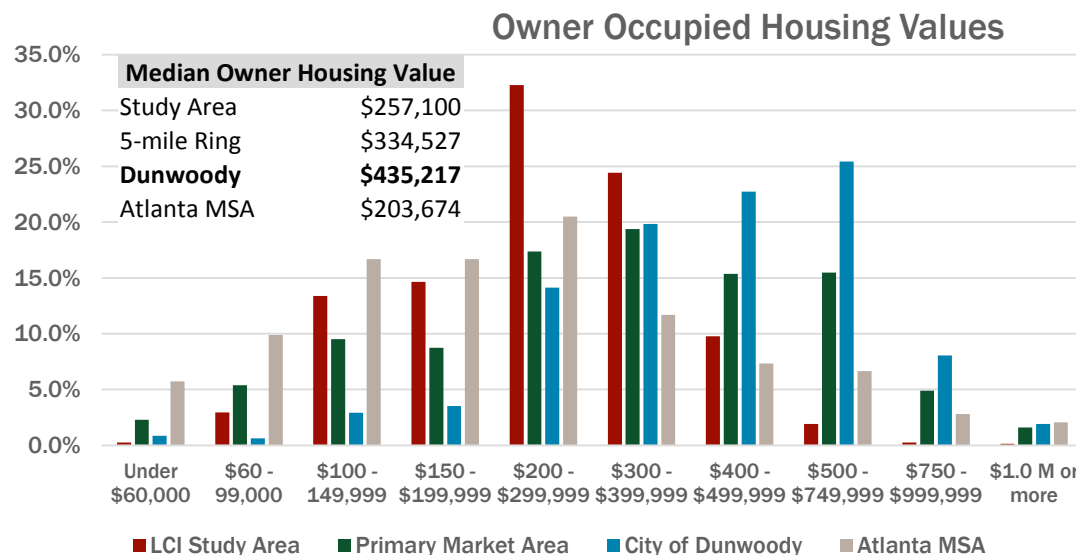


- The Study Area is comprised primarily of renters, with a younger age distribution, larger households, more families with children, lower household incomes, a much higher percentage of Hispanics, and higher poverty rate than the City as a whole.
- The 65,000 people surrounding the Study Area are more comparable demographically to the Atlanta Region than to the City of Dunwoody, which has an above average distribution of baby boomers and elderly, as well as households earning well above \$100,000.
- The area is projected to continue population growth, increasing by another 5% - adding 285 households annually over the next 5 years.
- With nearly 4,000 residential units proposed for Assembly Yards in Doraville, that forecast is likely to be exceeded. The Assembly will need (and is expected) to draw demand from a larger regional market area in order to be successful.

# EXISTING HOUSING CHARACTERISTICS

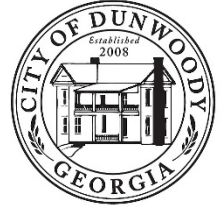


- The estimated 2017 median home value in Dunwoody (\$435,200) is more than double the Metro Atlanta medians, while homes in both the LCI Study Area and 5-mile ring are also more expensive than the Region
- More than 35% of Dunwoody's owner-occupied housing is valued above \$500,000 (compared to 11.5% in the Region), while less than 8% is valued below \$200,000 (compared to 49% in the Region)
- The high cost of existing housing suggests an opportunity to introduce higher valued SF detached and townhome products in the area



Source: Envirionics Analytics/Spotlight Report.





## SUMMARY FINDINGS:

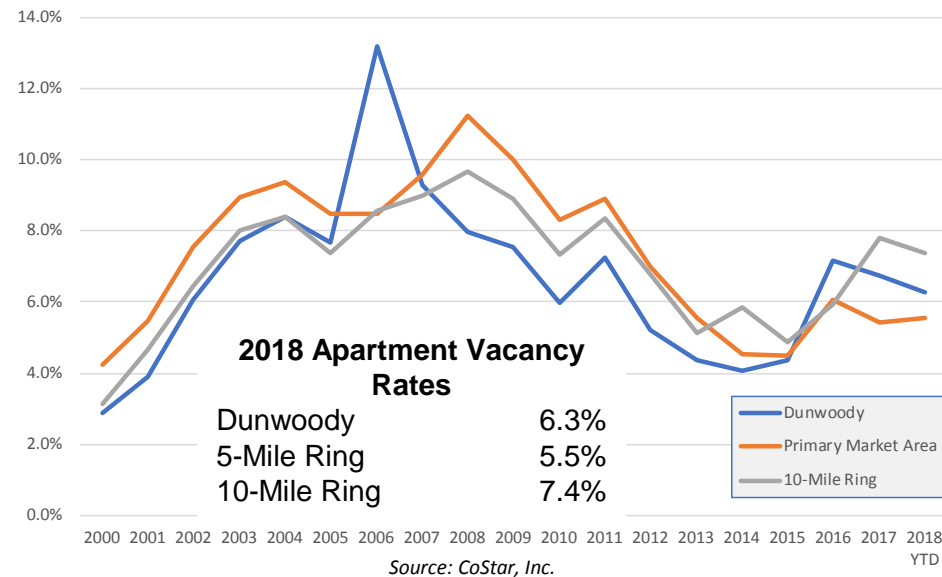
- APARTMENT MARKET
- FOR SALE RESIDENTIAL MARKET
- RETAIL & OFFICE MARKETS

# APARTMENT MARKET

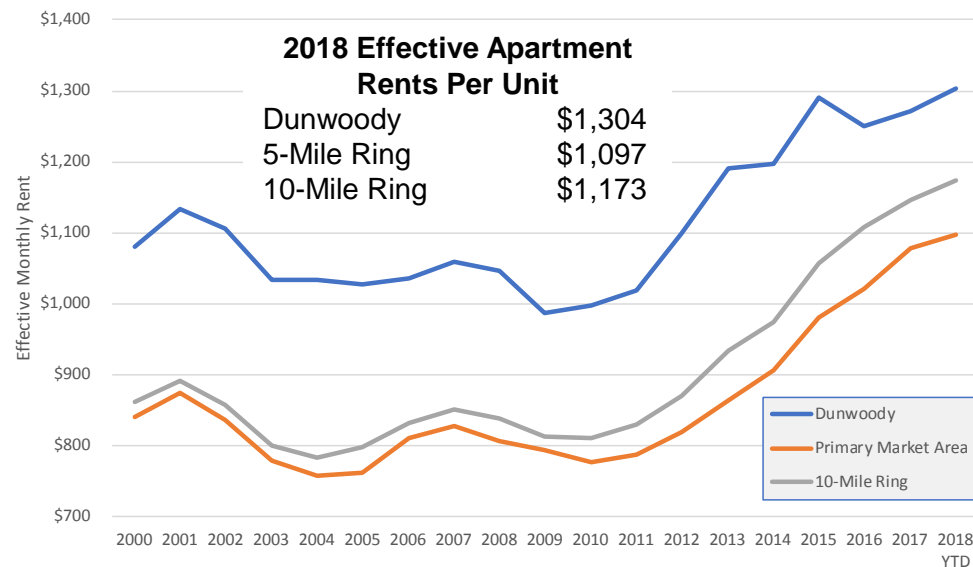
## ■ BAG examined apartment supply trends for 200 nearby projects

- Dunwoody's managed apartment inventory has not increased since 2006 - half the City's apartment inventory located in the LCI study area
- Dunwoody rents are 10% higher than the surrounding market
- Apartment supply has expanded regionally-adding 9,800 units (a 28% increase) since 2000
- Existing vacancy rates are in the 6% range
- Rents Citywide increasing 4%/yr since 2010
- Despite the 40+ year average age of LCI Study Area units, rents are higher than the average of more than 15,000 units in the surrounding area and are similar to the larger region
- Monthly rents range from \$800 to \$1,546 and average \$1,260/month for 2,025 total units, while rents per SF range from \$0.89 to \$1.38 and average \$1.10/SF
- Existing conditions suggest that most area apartment complexes are operating at potentially high (and increasing) profitability

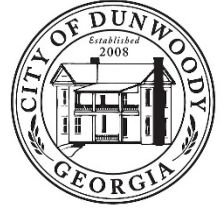
Change in Apartment Vacancy Rates: 2000 to Present



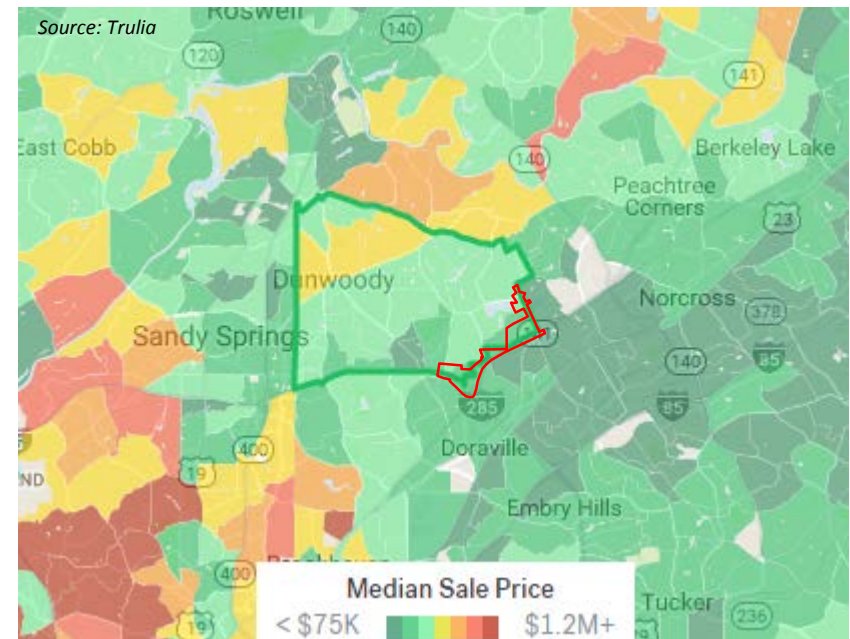
Change in Effective Apartment Rents: 2000 to Present



# SUMMARY FINDINGS: FOR-SALE MARKET



- New housing construction in DeKalb County remains less than a third of pre-recession levels and the County's capture rate of regional development is half of what it was prior to 2008
- Dunwoody and Doraville have experienced relatively little new home construction since the Recession ended and until very recently, virtually all has been SF detached
- Sale prices for new homes in the area have increased dramatically since 2012:
  - The average new single-family home price is now approaching \$900,000 – increasing at 9% annual rate
  - The average new townhome price now exceeds \$500,000 – increasing at a rate of 14.7% per year, with TH's accounting for 66% of total area sales in 2017 and 2018
- Lack of new construction has also impacted existing home resale values
  - Median sales price for all sold property in Dunwoody over the past year is over \$470,000
  - Median list price per SF in Dunwoody is currently \$197, compared to \$120 for the Metro-Atlanta region
  - Current listings and recent sales prices for nearby existing homes are lower than Dunwoody City-wide averages
  - Findings suggest that new for-sale housing in the LCI Study Area would need to be conservatively priced





# DEMAND ANALYSIS: RESIDENTIAL PRODUCTS



- Given the area's job growth, rapidly rising existing home values and apartment rents - new construction is being constrained more by limited site availability and high costs rather than lack of demand
- Market demand should not be a constraint to the development of new housing in the LCI Study Area, particularly rental housing
- Residential products will have a marketing advantage by offering a Dunwoody address and proximity to the Assembly
- Assumptions
  - Price points for new for-sale and rental housing will be more in line with newer products in Doraville and Norcross, than other new housing in Dunwoody, which is affordable to only a small segment of households in the region
  - Most new housing in the LCI Study Area would need to be positioned to not directly compete with future products that may be offered at the Assembly

Demand Matrix Residential	TSW Land Use Program	Annual Demand [1]		Initial Price Range [2]		Sales Period Years [3]
		Low	High	Low	High	
Single Family Detached	206	30	40	\$575,000	\$675,000	4.9
Townhomes	228	40	60	\$475,000	\$550,000	3.8
For-Sale Flats/Condominiums	90	10	20	\$275,000	\$375,000	5.0
Multi-Family - Market Rate Rentals	1,100	80	130	\$1,150	\$1,750	8.7
MF - Age Restricted/Assisted Living, etc.	216	20	40	\$1,500	\$2,500	6.0
<b>Total:</b>	<b>1,840</b>	<b>180</b>	<b>290</b>			<b>7.1</b>

## NOTES:

[1] Estimated share of market area housing demand (450 to 650 units/year) that could be captured by new projects within the LCI Study Area.

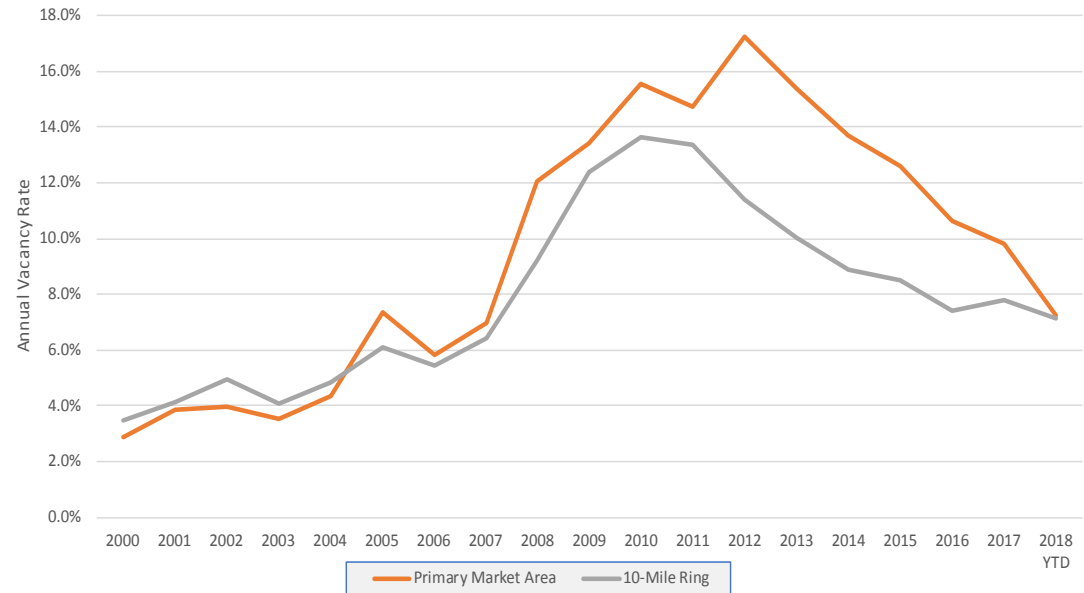
[2] Pricing for multi family products are expressed as monthly rents.

[3] Estimated marketing period (in years) required from delivery of first units to completion of the TSW program.

# RETAIL MARKET SNAPSHOT

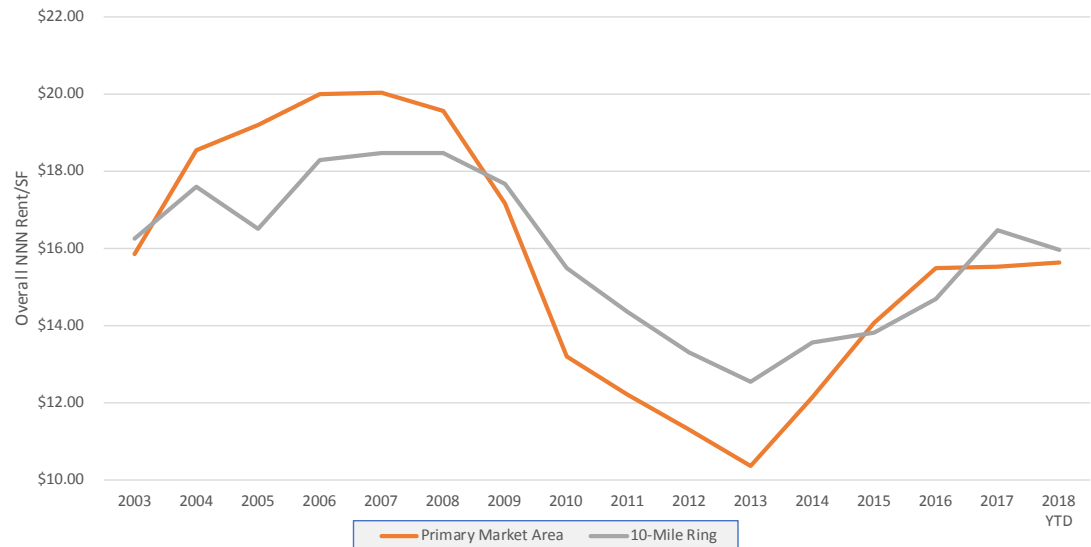
- According to CoStar, Supply additions have slowed to 100,000 SF annually since 2010
- Although trending downward, vacancy rates remain above and market rents are still below pre-Recession levels

Change in Retail Vacancy Rates: 2000 to Present

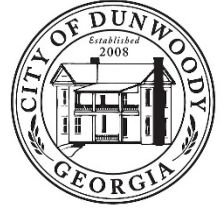


Source: CoStar, Inc.

Change in NNN Retail Rents Per SF:

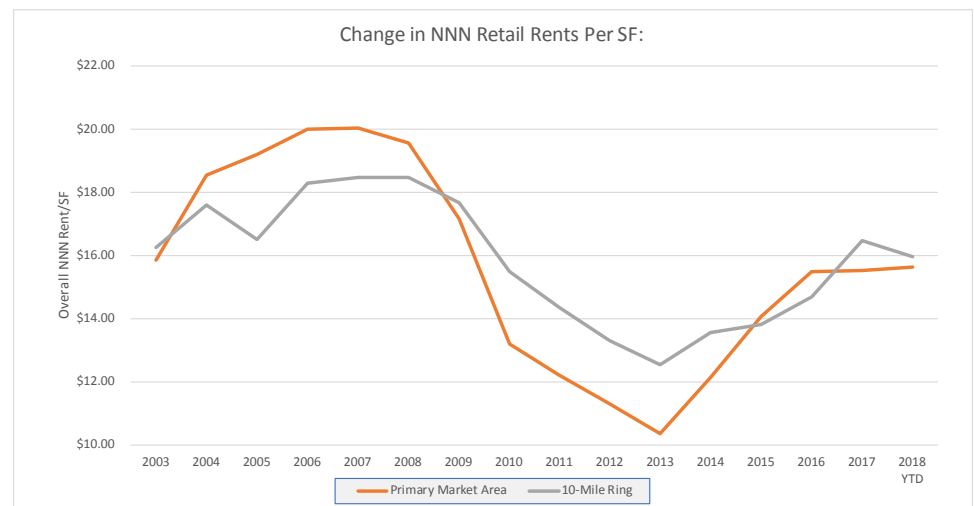


# SUMMARY FINDINGS: RETAIL OPPORTUNITY



- An inventory of more than 20 million SF of retail space already exists within a radius extending north and south of the I-285 corridor from roughly Georgia 400 to I-85
- Supply additions (for rent) have slowed since 2010, enabling rents and vacancy rates to recover from the Recession
- NNN retail rents are clustered at just below \$16.00/SF and vacancy rates near 7%
- At \$16/SF rents, assembling Study Area parcels for retail redevelopment would not be financially feasible due to high site assembly costs

- Although surrounding populations appear to be underserved, access and visibility constraints, plus high land costs, suggest that the Study Area would not be a strong retail location. Retail uses are more likely to succeed if integrated as a modest component within a mixed-use development (to lower land costs), and oriented to serve nearby neighborhoods.



Retail Snapshot	5-Mile Ring	10-Mile Ring
Existing Buildings	442	1,236
Existing SF	6,308,864	20,416,746
NNN Rent Per SF	\$15.64	\$15.96
Vacancy Rate	7.3%	7.2%

Source: CoStar, Inc.

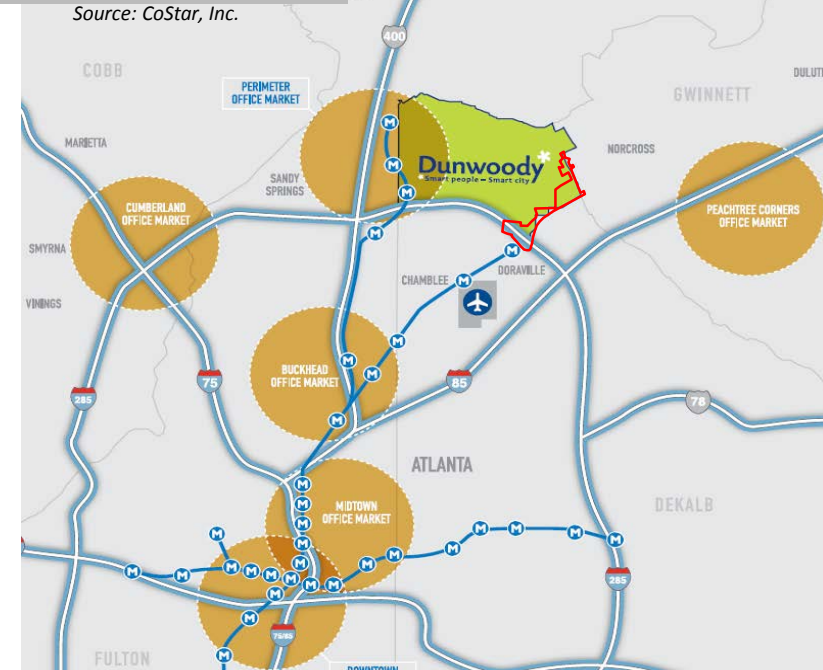


# OFFICE MARKET SNAPSHOT



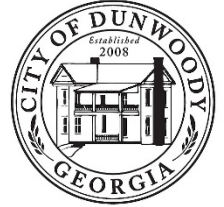
Office Snapshot: 2018	Perimeter Center	Norcross / Peachtree Corners	Cumberland/ Galleria	GA 400 N.Fulton/Forsyth
Existing Buildings	687	460	753	1,837
Existing SF	34.5 million	10.4 million	15.9 million	37.0 million
Base Rent Per SF (Includes Sublet)	\$26.84	\$15.90	\$23.48	\$21.34
Total Available Vacancy (% of Total Inventory)	18.9%	25.6%	13.8%	14.6%

- The 4 suburban office sub-markets nearest to Dunwoody contain 112.4 million SF of leasable office space.
- Total office occupancy in these markets (combined) has increased by more than 14.6 million SF (812,000 SF/Year) since 2000
- The LCI Study Area is located at the eastern edge of the Perimeter Center office submarket - also extending into Norcross/Peachtree Corners
- Average NNN office rents in the Norcross/ Peachtree Corners submarket are 41% lower and office vacancy is 36% higher than Perimeter Center



As an office location the Study Area is more comparable to properties in Norcross and Peachtree Corners, where densities and rents are not sufficient to support high site development costs.

# ESTIMATED SITE ACQUISITION COSTS: APARTMENTS



- Apartment complexes occupy more than 188 acres in the LCI Study Area. BAG estimated potential costs to acquire and demolish these properties for redevelopment, based on current market conditions. Calculations are summarized as follows:
  - According to Costar, the 5 existing Study Area properties contain 2,023 units and an estimated 2.3 million SF of buildings -average density of less than 11 units per acre
  - Combined, these properties generate a net estimated annual income of nearly \$26.2 million after deducting vacancy and collection losses
  - Net operating income (NOI) is estimated to exceed \$13.2 million after expenses
  - The current market value of this inventory is estimated to range from \$63,200 to \$112,000 per unit and total \$191 million –\$95,000/unit
- Total site assembly/demo costs are estimated at \$208 million--average of **\$1.1 million/AC - \$102,800/unit**
  - Assembly costs for individual properties range from \$11.9 to \$97.0 million and from \$850,000 to more than \$1.3 million per acre

Line Item	All Projects
Units	2,023
Est. Gross SF Buildings	2,335,975
Net Annual Income	\$ 26,176,505
Operating Expenses	\$12,912,118
Net Operating Income	\$13,264,387
NOI Per Unit	\$6,557
Blended CAP Rate	6.9%
Estimated Market Value/Unit	\$94,449
Total Project Value	\$191,070,630
Buyer Transaction Costs @ 1.5%	\$2,866,059
Demolition Cost @/SF \$6.00	\$14,015,850
Total Land Cost	\$207,952,539
Acres	188.25
Average Cost/Acre	<b>\$1,104,662</b>

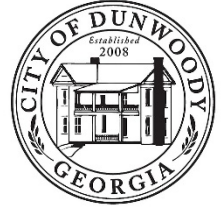
# REPLACEMENT LAND USES

- At current values, most alternative land uses are **do not** return enough land value to recover the \$1.1 million/ac cost to acquire/demo operating apartment sites
  - Single family homes at \$607,000/acre are not feasible – even at high home values/unit
  - At \$945,000/acre townhomes are nearly break even
  - Replacement apartments must be higher density than garden walk-ups – and achieve premium rents
  - Land values for typical strip-retail development likely to be lower than residential uses
  - Land value for multi-story office is break-even but current market demand conditions are unfavorable
- Permitting higher density and/or making public contributions of \$200,000 to \$500,000/acre may be needed to write down land costs enough to make redevelopment financially feasible – in the near term

SF Detached			
Average Units/AC			6
Average Sale Price/Unit			\$675,000
Raw Land Value/Unit @	15%		\$101,250
Land Value/AC			<b>\$607,500</b>
Townhomes			
Average Units/AC			12
Average Sale Price/Unit			\$525,000
Land Value/Unit @	15%		\$78,750
Land Value/AC			<b>\$945,000</b>
Garden Apartments			
Average Units/AC			35
End Value/Unit			\$190,000
Land Value/Unit @	13%		\$23,750
Land Value/AC			<b>\$831,300</b>
Retail			
FAR	0.3		15,000
End Value/AC	\$165.00		\$2,475,000
Land Value/AC @	18%		<b>\$445,500</b>
Suburban Office (3 - 4 Story)			
FAR	0.9		40,000
End Value/AC	\$185.00		\$7,400,000
Land Value/AC @	14%		<b>\$1,036,000</b>

*Source: BAG. Land values are estimated and can vary by +/- 15% depending on site suitability, site development costs, and related factors.*

# CONCLUSIONS



- Higher density mixed-use supports land values in excess of \$1.1 million/AC - but may also require structured parking
- The City and/or its development authority could assist in writing down site assembly costs in some form
- Establishing a Tax Allocation District, issuing development bonds to write down land costs, public construction of parking decks or a similar mechanism would be need to be considered in order to close financing gaps

## Mixed - Use

Commercial FAR	0.5	21,800
End Value/AC	\$150.00	\$3,270,000
Land Value/AC @	10%	\$327,000
Multi-fam above retail - avg units/AC		35
End Value/Unit		\$200,000
Land Value/Unit @	15%	\$30,000
Land Value/AC		\$1,050,000
<b>Total Value/AC</b>		<b>\$1,377,000</b>



# DEVELOPMENT ECONOMICS



## Development Program

							Sq. Ft.
Multi-Story Retail/Office	5.0	ac @	0.75	FAR			163,350
Townhomes	4.0	ac @	12	/AC	2,600	SF/ea	124,800
Apartment Over Retail	6.0	ac @	300	Units @	920	SF/Unit	276,000
Parking & Other	5.0	ac	Plus Circulation/Amenity Building @ 12%				33,120
Total Site:	20.0	ac	TOTAL SF BUILDINGS:				597,270

- This example shows the economics of mixed-use on a 20 acre site with \$22.0 million land cost

## Parking Requirements

Restaurant/Retail/Office @	4 spaces/	1,000	SF x	124,800	499
Apartments @	1.5 /Unit x	300	Units		450
Total Parking Requirement					949
Surface Parked Spaces					350
Deck Spaces					632

- Nearly 600,000 SF of buildings required

## Development Cost

Land	\$1,100,000	/AC	\$22,000,000
Buildings & Site	\$175.00	/SF	\$104,522,250
Parking	\$21,000	/Space	\$13,268,520
<b>Total Development Cost</b>			<b>\$139,790,770</b>

- \$140 million development cost returns a minimal profit

## Value

Apartments	\$4,668,300	NOI	Cap Rate	6.0%	\$77,805,000
TH	\$93,600	Profit/Unit	48		\$4,492,800
Office/Retail	\$3,576,712	NOI	Cap Rate	6.0%	\$59,611,860
<b>Total Revenues</b>					<b>\$141,909,660</b>

- Minimum \$6.2 million cost reduction/public contribution needed to be feasible

## Profit/(Loss)

Minimum Profit to Achieve	6.0% Return on Cost	\$8,387,446
<b>Minimum Subsidy Required</b>	<b>\$313,428 /AC</b>	<b>\$6,268,556</b>