NORTH GEORGIA
1995 DYNAMICS

The NORTON Agency

The Hometown Advantage

INSURANCE - REAL ESTATE

SINCE 1928

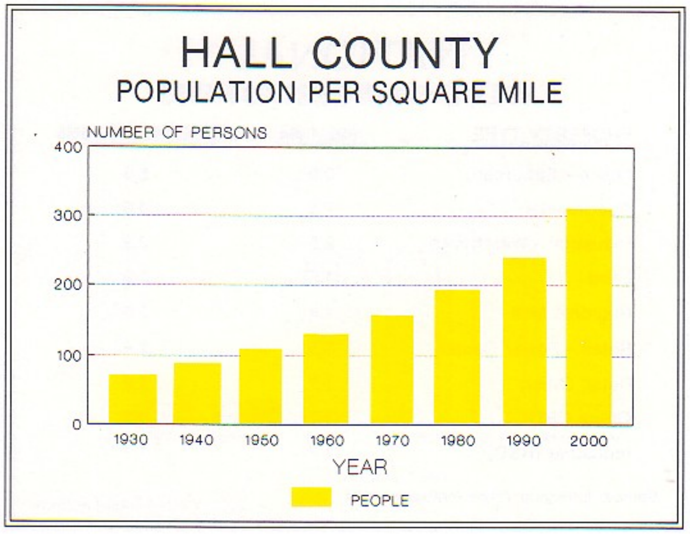
Overview

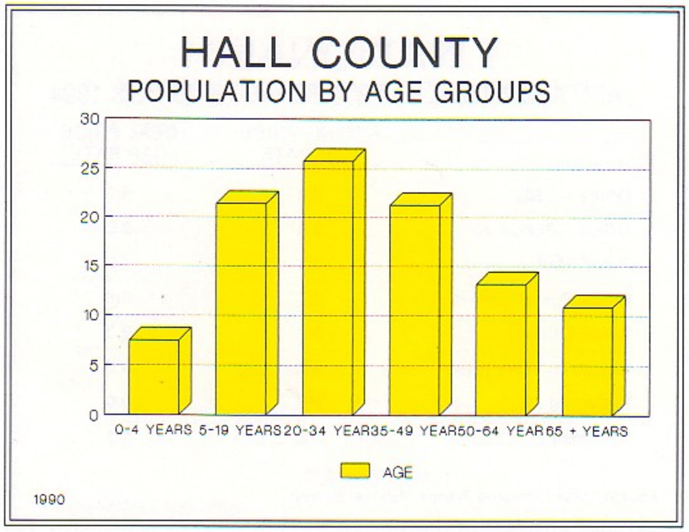
Suddenly, everyone wants a piece of real estate. The asset class so recently left for dead in a flood of foreclosures, bankruptcies and performance failures, has come **alive.** Pools of red ink have been replaced by a steady flow of opportunistic capital chasing attractive yields. As stocks and bonds falter, investors take comfort in the notion that real estate has nowhere to go but **up.**

Capital is once again racing ahead of realty, but while the investing frenzy of five to ten years ago occurred blindly in the face of a deteriorating market, the new investment influx comes as the market is in upward incline. This could point to solid returns for years to come. The Norton Agency continues to preach relative conservative restraint and caution. Herd investing is not smart investing. The **smart money** picks and chooses its opportuni-ties analyzing appropriate market data, investment analysis and growth trends. If you wanted to make a big killing in the real estate markets, you should have been making deals two years ago when properties were viewed as pariah assets. Cap rates are dropping and mortgage spreads are shrinking for all property categories. Owners starved for refinancing only a year ago face a buffet of choices today.

Overall, investors should **expect solid investment performance** through the remainder of the 1990s. We define recovery as the stage in which values begin to increase as the result of improvement in effective rents and movement towards market equilibrium. The economic, technological and demographic forces that influence occupancies, rents and sales, point to a measured convalescence, not a rapid resurgence. Financial institutions must also temper their enthusiasm. Some banks are making construction loans again as if the underwriting excesses of a few years ago never happened. Pressure to put money out at the best available yields in the highly competitive environment, financial institutions are already relaxing the stringent underwriting criteria. The issue of renewed commercial development and incautious lending does make some industry players nervous. "Just say No to speculative development" is passe. New apartments are breaking ground in many markets and are well justified by renter demand. Warehouses could be the next construction boom.

The Norton Agency forecasts continued economic expansion in 1995. We see a possible cyclical economic recession within the next three years as a bump in the road, but no threat to the improving commercial and residential markets. Job growth will fuel the housing growth with interest rate uptakes keeping builders, lenders and brokers SOBER.





VACANCY COMPARSION

1994 YEAR END

MARKET	NATIONAL AVERAGE	ATLANTA AVERAGE	HALL COUNTY
Office	16%	17.5	6.5%
Multi-family	10%	9.2	4.5%
Retail	N/A	N/A	7.0%
Industrial	7.7%	7.8	5.0%

NATIONAL
VALUE CHANGES 1994-1995

PROPERTY TYPE	1993-1994	PREDICTED 1995
Office - Suburban	0.9	5.3
Apartment	7.8	4.0
Industrial - Warehouse	2.5	3.9
Land	(1.5)	2.9
Regional Mall	1.4	2.8
Retail - Power Center	3.5	2.6
Retail Other	1.7	2.2
Office CBD	(3.7)	1.7
Industrial (R&D)	(1.3)	1.1

Source: *Emerging Trend Interviews 1994*

NATIONAL
CAPITALIZATION RATE CHARACTERISTICS 1994

	ASKING PRICE CAP RATE	DEAL PRICE CAP RATE
Office - CBD	9.3	9.7
Office - Suburban	9.0	9.6
Retail Mall	7.3	7.5
Retail Power Center	8.7	8.8
Retail Other	9.1	9.3
Industrial Warehouse	8.6	9.0
Industrial R&D	9.3	9.9
Apartment	8.6	8.3

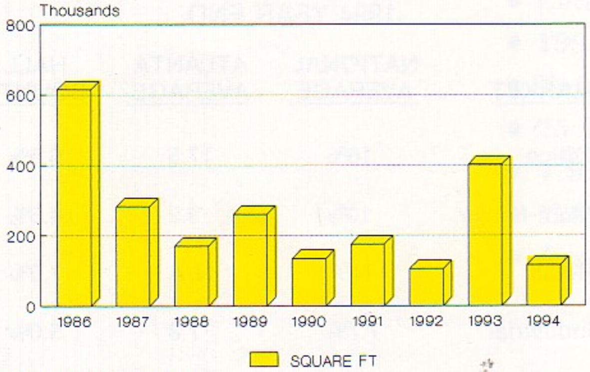
Source: *1994 Emerging Trends National Survey*

Investment Trend Perspective

Opportunistic investment bankers and swashbuckling entrepreneurs were the first into the war torn real estate market, looking to make off with the most salvageable booty. With the prizes all taken, prices are rising, values are beginning to advance, yields are stable at healthy levels and transaction volumes are on the upswing. Most national authorities believe real estate will out pace the financial markets through the remainder of the decade and regain its competitive footing with stocks and bonds for long term performance. No skyrocketing gains but improvement in moderate steps.

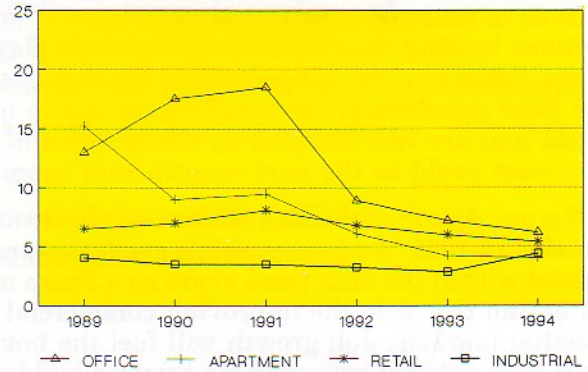
The economy should show modest growth in 1995, while interest rates and inflation continue to edge up. Anticipated longer term interest rate uptakes and inflationary pressure will not short circuit the real estate recovery. The protracted climb to the next cyclical peak has only begun. There's time to make wise, solid real estate investments and ride the markets slowly upward. Look for across the board value rises. Hotels will advance through improved room rates and occupancies. Gains in warehouse, CBD office, apartment and strip retail categories are also expected to outstrip inflation which is assumed at a total of 40% over the next ten years.

HALL COUNTY
COMMERCIAL CONSTRUCTION ACTIVITY



NMR DEC31 FIGURES JAN 1995

HALL COUNTY
COMMERCIAL VACANCY LEVELS



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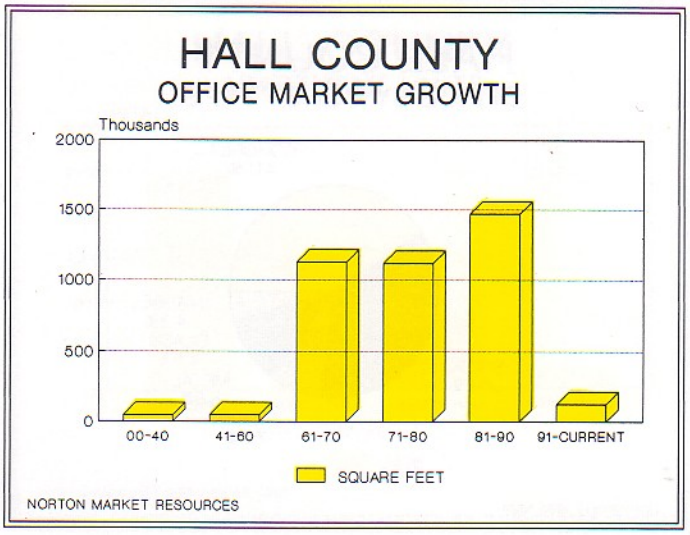
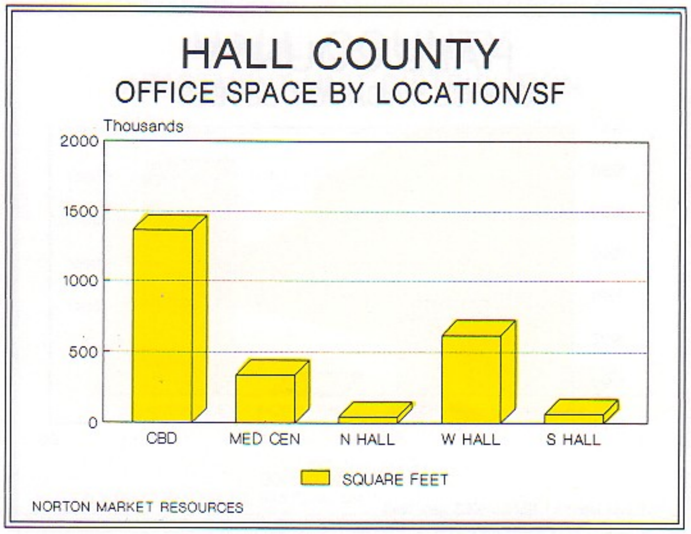
Office Market Perspective



Suburban office growth has slowed, downtown markets are over-saturated. As a rule, the best performing national markets tend to be 24-hour environments with strong residential and retail districts and cultural attractions close to their cores. Quality of life and accessibility are high on tenant's wish lists. The high-tech revolution and corporate downsizing will continue to flatten overall demand curves for office space. Purchase Cap rates are attractive in the 10% and vacancies are dropping into the mid teens for the first time in more than a decade.

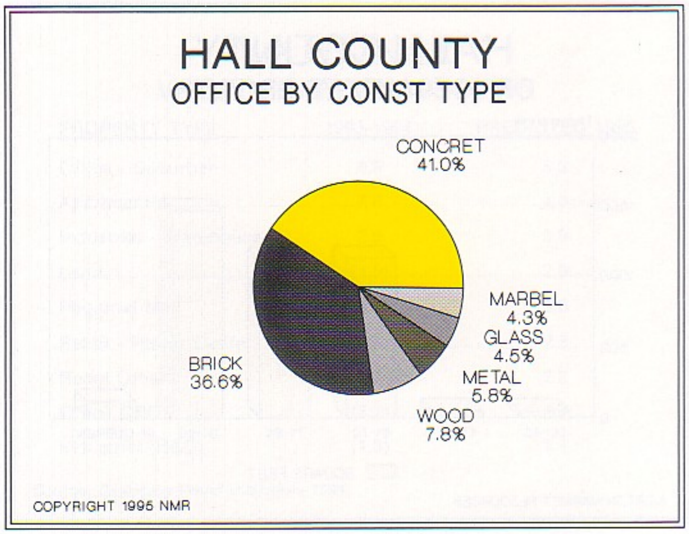
Real rents are rising in many suburban markets, as landlords have been able to discard concessions. Tenants realize that they had better make deals now, before markets tighten further, so 1995 will see major upward pressure on lease rates. With development still not economically feasible for at least 18 months to two years, it's DEFINITELY THE TIME TO BUY.

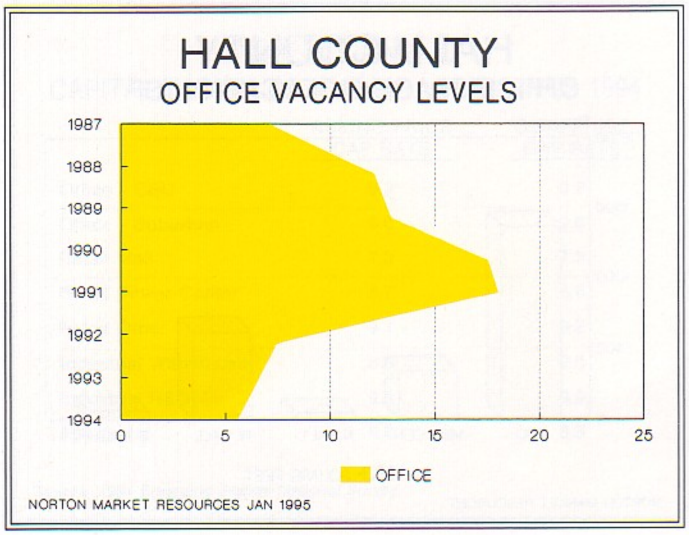


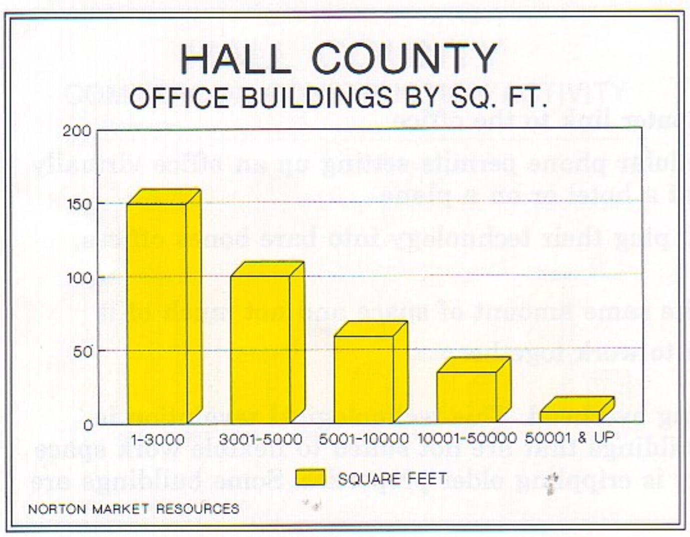
The residential "24-Hour City" component is vital to future office growth. A 24-hour community doesn't role up its sidewalks at 5 P.M. It not only provides prime residential areas for the executive work force, but offers affordable housing for support staffs. Today suburbs are no longer simple bedroom communities. They've become multifaceted cities themselves, with more than 60% of the nation's office space and will grow as more businesses move out of urban cores. Major companies are not only trimming work forces, but taking additional savings by reducing work space for the survivors. **Office formats for the next millennium.**

- **Telecommuting:** Workers stay at home with a computer link to the office
- **Virtual Office:** A portable laptop with fax and cellular phone permits setting up an office virtually anywhere — at home, in the car, at a hotel or on a plane
- **Hoteling:** Workers, typically sales personnel, plug their technology into bare bones offices, reserved like hotel rooms
- **Universal Plan:** CEOs and junior executives, get the same amount of space and not much of it
- **Team Office:** Everyone is thrown into one room to work together

The basic concept is to use less rentable space thus cutting overhead. This technological revolution is advancing the pace of functional obsolescence of older buildings that are not suited to flexible work space and fiber optic retrofitting. The American Disabilities Act is crippling older properties. Some buildings are simply goners.







Office Market Dynamics 1995

Like all product classes, the office market has tightened over the last four years reducing average vacancy from a peak of 22.5% in 1990 to its current level of 6.2%. Increased internal demand coupled with an absence of new construction will further tighten the product line through the balance of the decade. Longterm vacancy rates, even with moderate construction, will hover from 4% to 7%. While both Trust Company and First National have planned towers for their partial use, the earliest delivery could be two years away and at rates well above current rental levels. A speculative building with a corporate non-bank preleased tenant is **quietly** underway, delivery would be 1996 or longer. This building, if built, will have limited effect on vacancy levels and could suffer from rate sensitivity.

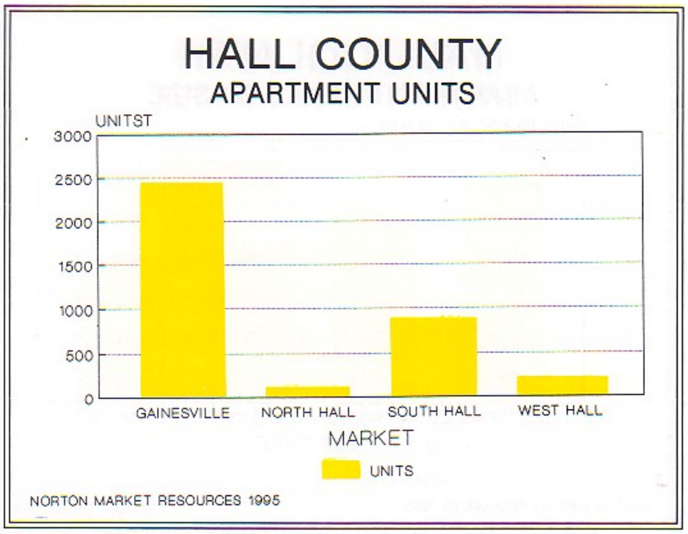
The strongest demand remains 2000-3000 square feet, high visibility locations and at rates $12.00 or under. The largest vacancy is a full floor sublease in Wachovia Center. The bulk of the remaining vacancy is in B and C class space quality or inferior locations. It will take some time to overcome the psychological rate plateau of $12.00, but we project rates will move up and significantly, hitting $15.00 per square foot in 1996. Demand/supply conditions will rush this forward with tenants signing longer term leases to control their occupancy costs.

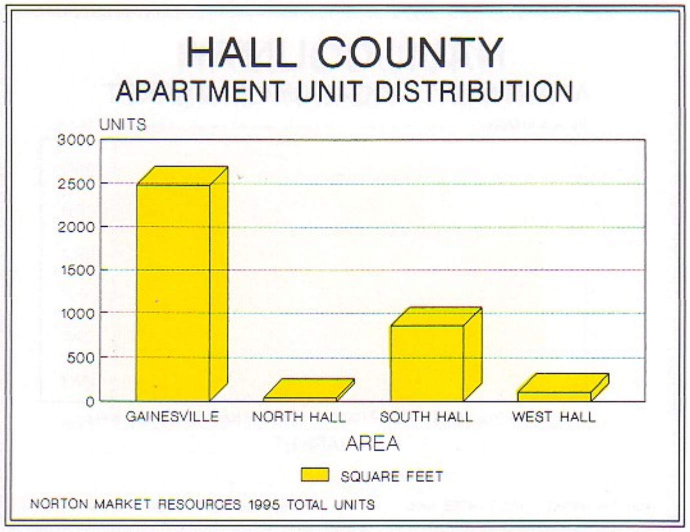
Six sales and two major Green Street leases have absorbed that market's overhanging vacancy. With only six undeveloped structures remaining on Green Street, tenant cost will increase tenants' costs for those locations. An offshoot of this trend will certainly be the development of the Green Street feeder markets for office growth: Boulevard, Forrest, North Avenue, Candler Street and eventually Ridgewood. As new space is developed, current "A" class space has the potential to become "B" class space and "B" become "C" class. American Disability Act issues affect the bulk of Gainesville's small office market as many solutions are cost prohibitive. Land in the major office markets is in equal short supply. With higher employee densities, parking and land becomes an issue. While there is limited demand for office space out of the Central Business district, we see a service oriented market developing along Mundy Mill Road and a user destination market growing on McEver Extension.

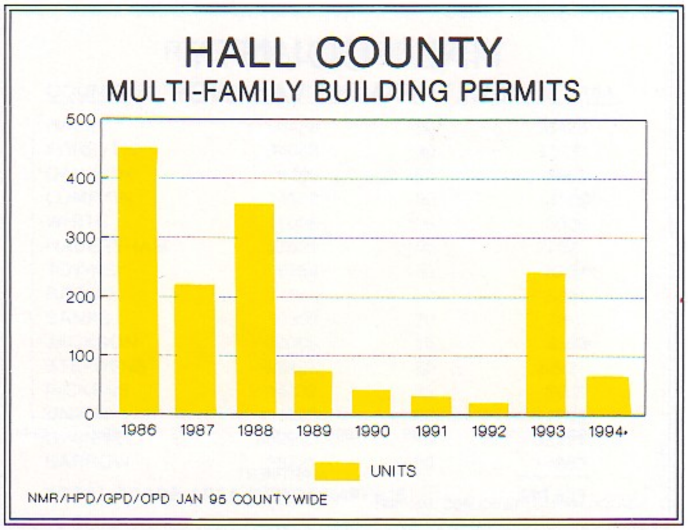
Multi-Family Market Perspective

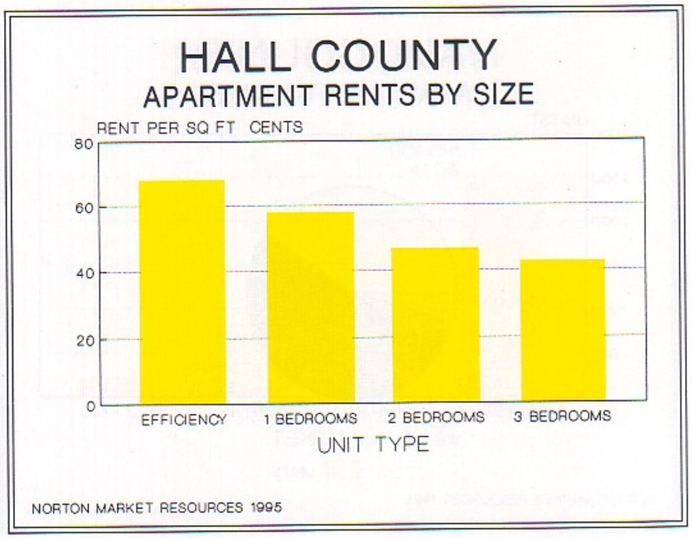
The Multi-family market continues to show its strength in all areas of the nation. Over the past two years, institutional and individual investors (led by REITs) flushed out all of the bargain resale units and prices are rising above the level of replacement cost. It's actually a great time to be selling Multi-family, since some buyers get caught up in market euphoria. Development is beginning in many areas, and it wouldn't take too many new units to push a few markets out of balance. Total Multi-family starts for the three years from 1991 through 1993 virtually equalled the average per year for the 1980s. Only 133,000 units were built in the entire country during 1993. Recent construction has not kept up with the units lost to demolition, so inventory has actually been declining. Vacancy levels in 1994 have hovered around 10% as rental rates typically increased 2% to 5% in one year. Starts in 1994 will reach 200,000 and may exceed that pace in 1995.

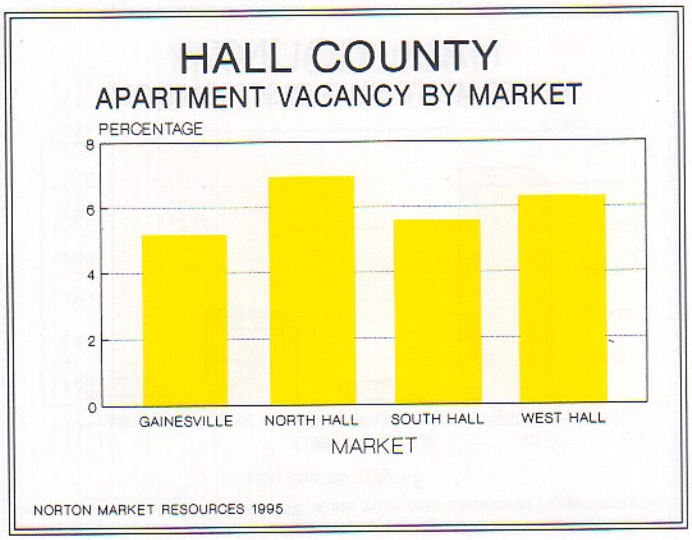
DEMOGRAPHIC SHIFTS — particularly increases among immigrant populations and poorer nontraditional households point to rising demand for Multi-family housing at lower price points. The big questions hanging over apartments is not whether new construction is justified; at issue is whether banks and other lenders will be conservative enough in their underwriting to weed out projects that are liable to over saturate markets. Typical projects feature townhouse construction, attached garages and high level interior finish. Two bedroom units remain popular especially those with dens that can be used as office space. Developers must, however, shift to more affordable product as home buying opportunities continue to dilute the apartment market and the lower-income renter category expands. Affordable housing remains a critical issue in the U.S. — one that could provide solid investment opportunities for knowledgeable investors.

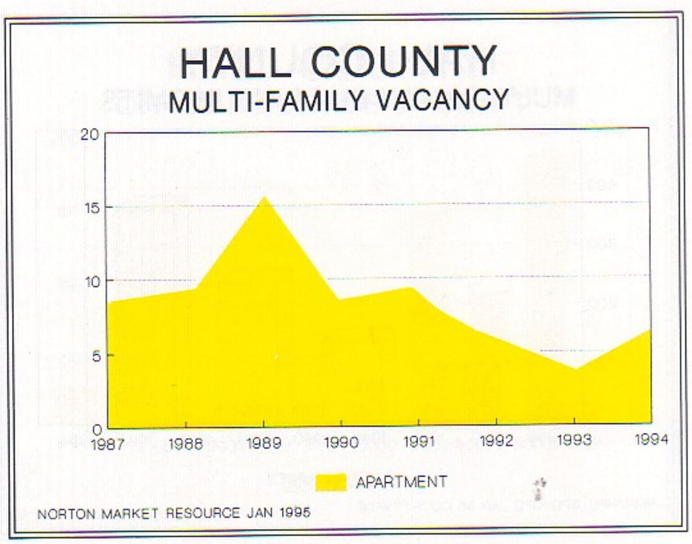












Multi-Family Market Dynamics 1995

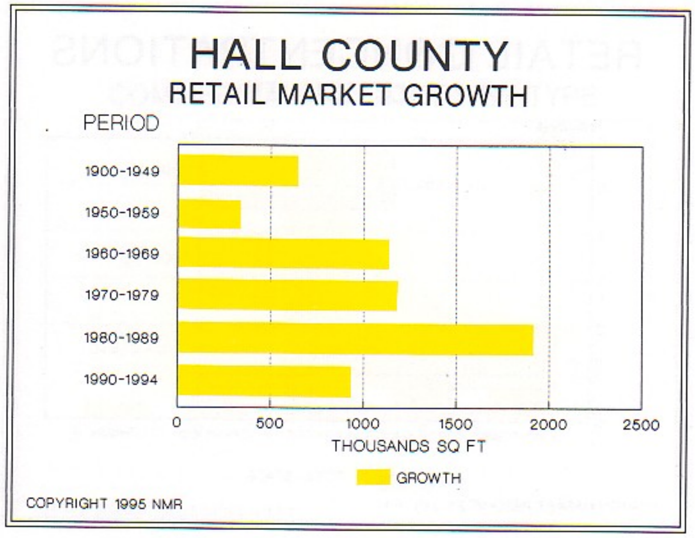
The Multi-family market is out performing the other sectors as rates are rising 10%-20% (over an 18 month period) and vacancy dips below 4% at times. 1994 also saw a record number of units trading hands (240) as owners capitalize on higher pricing and financing ability. A pent up demand for units will not be easily satisfied by the projects currently underway. Summit on Limestone is an apartment pioneer expanding in a non-traditional market. Despite its prefab construction, and $700/month rents, the complex will lease by default. The market opportunity lies in quality development, larger units, well located new complexes meeting the newer demographic profiles. Waiting lists will remain a market factor for the next several years. Our research indicates a pent up demand of 700 to 800 units with close-in and Oakwood, the primary location choices. In a recent survey of 200 apartment seekers, 80% wanted 2 bedroom units under $475.00 in price. An increase in demand for flats vs. townhouses is seen.

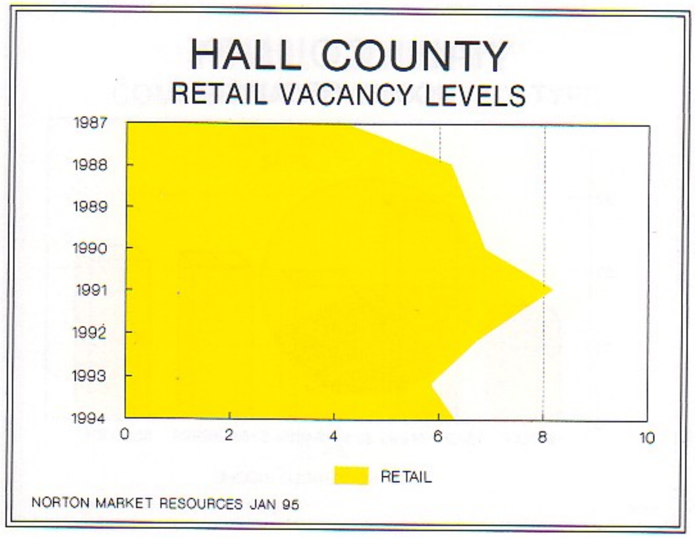
With all of this market strength, there is a potential for an overbuilt situation in 1996, not 1995, fueled by out of town developers who might not fully understand the market dynamics. Successful complexes must provide VALUE for the money. Rents will soar as vacancy hovers between 3% and 5% depending on construction. Apartment development in Oakwood is limited by sewer availability, its demand is fueled by industrial expansion and Gwinnett migration. In the longterm could develop into Hall's largest Multi-family market.

Retail Market Perspective

Today's retail choices are confusing enough for shoppers. For retailers and mall owners, the kaleidoscopic landscape is turning merchandising on its head. The days of mass marketing are over in America. Distribution channels are fragmenting. Profit margins are tight. Expense control is a labor issue. Secure shopping environments are essential. People have less time for shopping and crave convenience. Moreover, consumers' real household incomes have essentially stagnated for the past quarter century and show no signs of a significant rise. In the future, population increases will be concentrated in lower-income households, not the middle and upper income groups that have formed the backbone of mall sales. Simply put, the U.S. retail market has matured, and store growth and mall investment gains must come at the expense of the competition. "Dog eat dog" rules as never before.

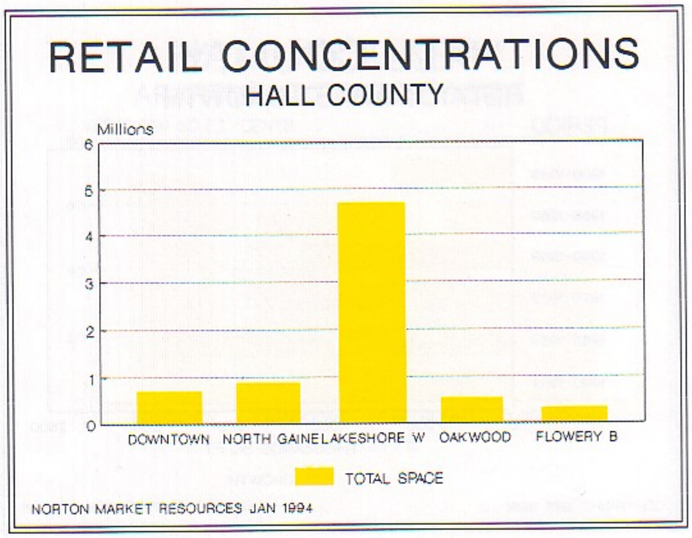
Discounters face similar problems. Department stores frequently meet them on pricing, while their ability to grow into new areas is limited by competition and mature markets. Between them, WalMart, K-Mart and Target have 75% of the discount market and they're maxed out. K-Mart struggles with identity and the long predicted discounter shakeout is underway. To remain successful, retailers need to understand the demand for micro-merchandising particularly the minority and immigrant groups that will account for 75% of population growth over the next 25 years. Stores and goods must be tailored to the tastes and styles of their communities. Homogenized same stores are out. TARGETED CONSUMER MIX IS IN.





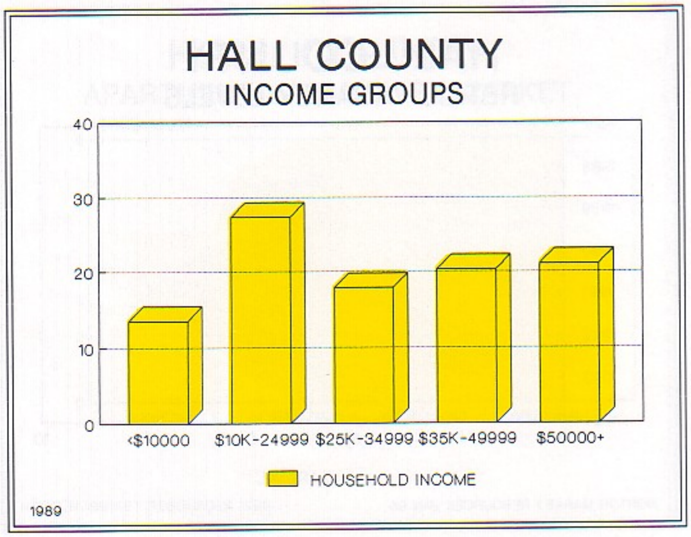
REGIONAL TRADE AREA

COUNTY	POPULATION	%	TRADE AREA
HALL	95428	100	95428
FORSYTH	44083	40	17633
DAWSON	9429	60	5657
LUMPKIN	14573	90	13115
WHITE	13006	100	13006
HABERSHAM	27621	100	27621
TOWNS	6754	100	6754
RABUN	11648	50	5824
BANKS	10308	70	7216
JACKSON	30005	15	4500
STEPHENS	23257	90	20931
PICKENS	14432	25	3608
UNION	11993	100	11993
GWINNETT	352910	10	35291
BARROW	29721	50	14860
TOTAL TRADE AREA DEMOGRAPHICS			**283,433**

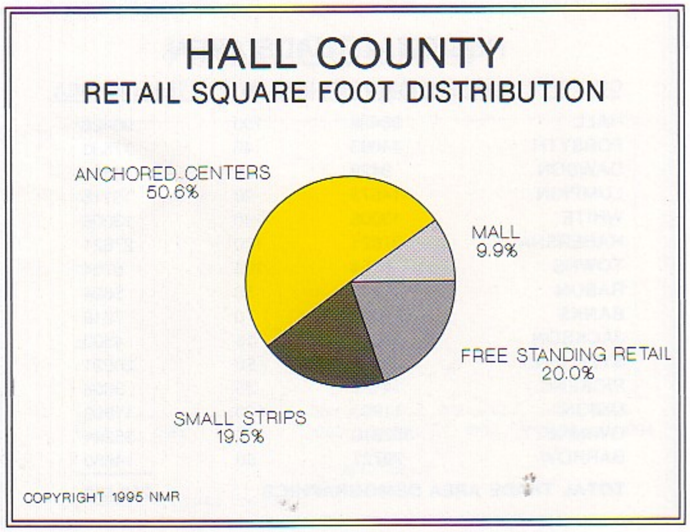


Retail Market Dynamics 1995

Hall County's retail explosion is just the start of a longer term shift from an industrial manufacturing economy to an economy based on COMMERCE. Last year, we predicted a pending retail shakeout, admittedly we now think we were wrong. Retail expansion will continue almost unabated through the year 2000. Hall County, specifically a two mile radius around Lakeshore Mall, is becoming North Georgia's retail MECCA. Tremendous potential. We have reached the second plateau of retail activity, above the small town merchandizing mentality and below an Urban Center.



The consumer profile and trade area is expanding. A shortage of retail space — small space is developing. We see more big box retailers like WalMart, K-Mart. Belk's lease of the mall Roses store, not only helped their market growth, but strategically kept a competitor out of their turf. Rates will again increase 10-15% in 1995 pushing the local Mom and Pops out of the traditional inline centers toward the infill non-anchored strip centers. Secondary markets are improving. Blue Ridge's and Northlake's ethnic marketing are the micro-marketing niche of the future. To be successful, owners must target market or demolish. Sherwood Plaza as a TRUE retail center is dead. Despite pressure from city and neighborhoods, basic consumer patterns and growth demographics won't alter its retail revival. There is, however, tremendous opportunity for the owners changing the use.

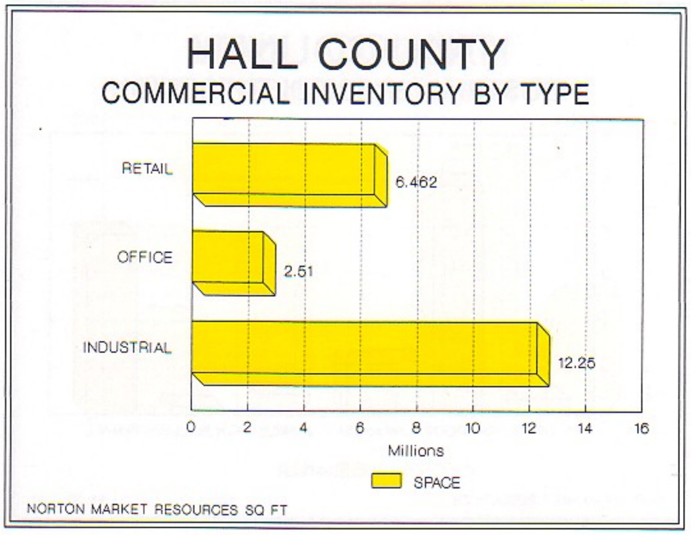


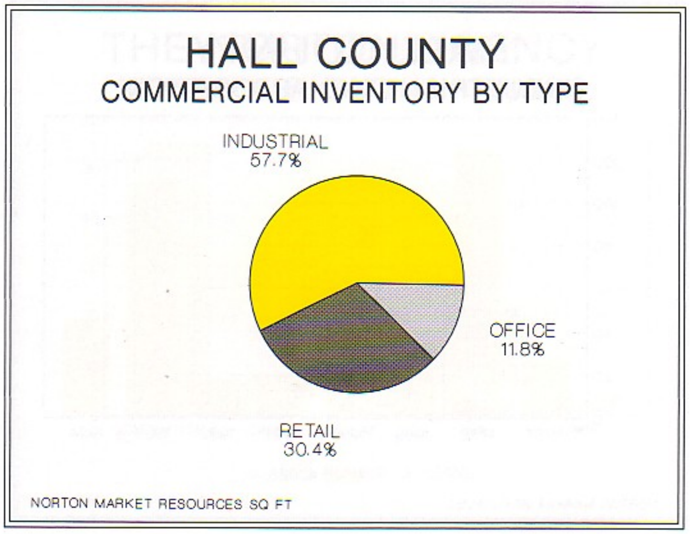
A new Outlet Mall may happen on upper GA 400, but will have little short term affect on Hall retail shopping patterns. The momentum on sewer hook ups could hurt Oakwood and may have long term affects on its growth dynamics, years beyond any lifting. Retailers can be a fickle group and bypass markets if the timing is not appropriate or are turned away. If given the chance, Oakwood has the greatest potential to become Hall County's second retail hub. Prime locations in all areas must open up for us to progress. Land owned by old timers will turn as taxes rise, forcing some sales. We project some minor retail shakeup, primarily in the food store category. WalMart and K-Mart are showing strong food sales affecting J&J, A&P, Bi-Lo, Winn Dixie and Food Lion; someone will lose. Publix over-anticipated announcement, may happen in late 1995 or early 1996, most likely north of town.

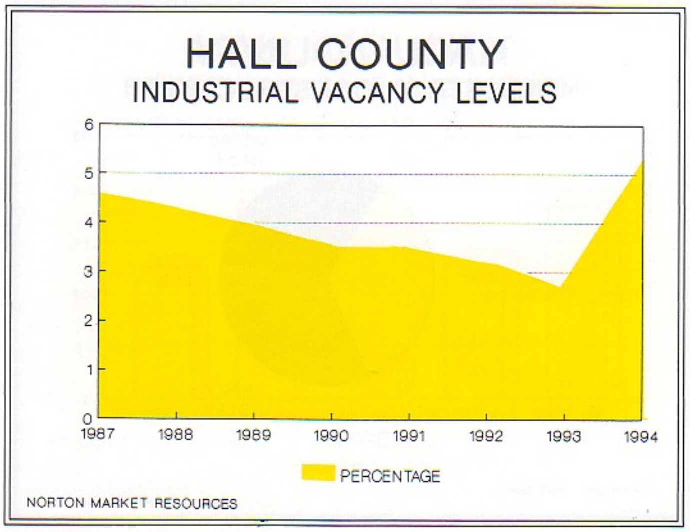
Industrial Market Perspective

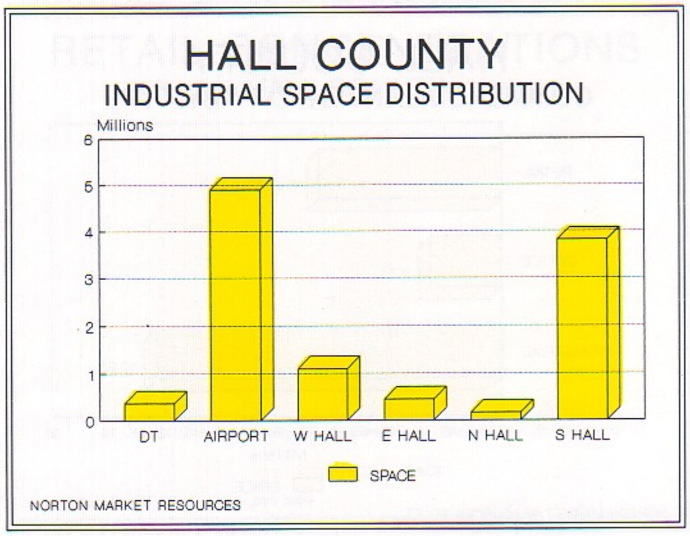
Industrials are a traditional investor's favorite because they provide more stability and less risk than other property types. Vacancy has never gotten out of control. Nationwide, it rose steadily from a 1980 low of 3.5% to a 1992 peak of 9.0% and has recently trended down to below 8%. Rents are climbing in most markets and are predicted to rise swiftly. Tenants and users all want the same thing, 24 foot clear and tilt up loading docks. Obsolescence could be the largest issue facing existing warehouse owners. Existing properties with lower ceilings, inflexible layouts, antiquated loading docks, and narrow turning radiuses are vulnerable. New plants with state-of-the-art JIT (just in time) distribution systems are what big suppliers demand. Thicker concrete floors for heavier shipments, super flat surfaces for lift trucks and layouts for simultaneous loading and unloading are the industry's future.

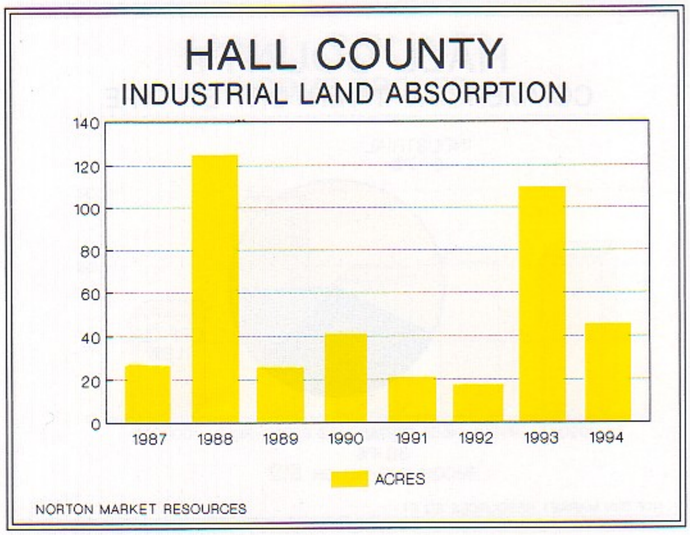
The growing size of trucks has become critically important to a warehouse's prospects . . . trucks are expected to become longer and wider, NSTB is projected to relax laws, making the way for nine foot wide haulers and more 24 wheelers. Newer tire designs mean lower truck beds for greater cubic capacity. Wholesalers and retailers are becoming more competitive and efficient locations are needed to give them the edge, businesses are tapping technologies that speed the delivery of staples and perishables. Shorter product life cycles mean that manufacturers must streamline and shorten supply lines, eliminating some or all intermediate storage space. Point of sales data and computer tracking make this possible. Warehousing is best positioned if they have considerable flexibility in modifying layouts to suit the rapidly changing needs of tenants.

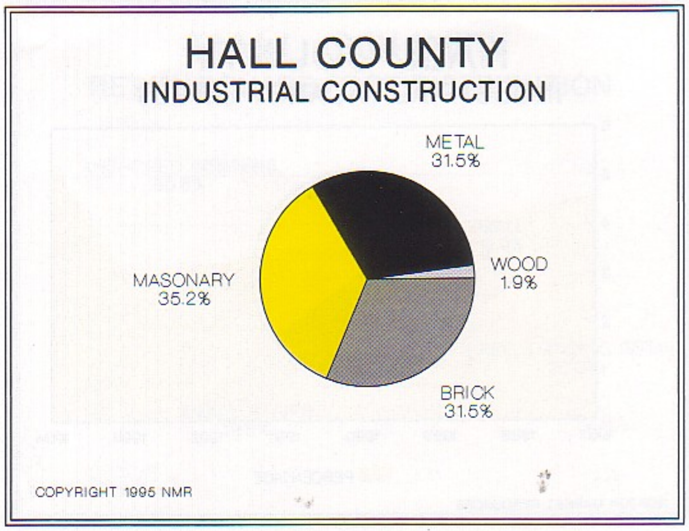












Industrial Market Dynamics 1995

Hall County's success as an industrial market is also Hall County's failure. Our efforts to recruit new industry, create a strong labor pool, a healthy pro business economy and diversity in quality of life, have worked TOO WELL. Now that vacancy is below 4%, with no large buildings available and governmental indecision over recruiting incentives, we are missing great opportunities for quality business migration and expansion. We are not only missing the large industries, but smaller 8 to 10,000 square feet industrial tenants/owners are going to Hall's surrounding counties. The larger space will eventually take care of itself. The loss of the smaller secondary space hurts. Jackson County is the largest recipient of our lost tax base.

The industrial market is desperate for speculative construction. The big box space will soon be solved. Opportunities abound for space 5,000 to 15,000 square feet in controlled environments at affordable prices. We see rates increase from $2.50 per square foot to $3.00 per square foot, then $3.75 per square foot over the next seven years. Our shrinking labor pool hurts manufacturing. We must counter with heavy storage company recruiting and expand our market through labor recruiting, job migration out of North Carolina and Tennessee. If we can provide the sites and labor pool, we will see more Atlanta and North Atlanta industrial migration (i.e. Ace, Whitehead Tool and Die) as firms skip over Gwinnett County in their move out.

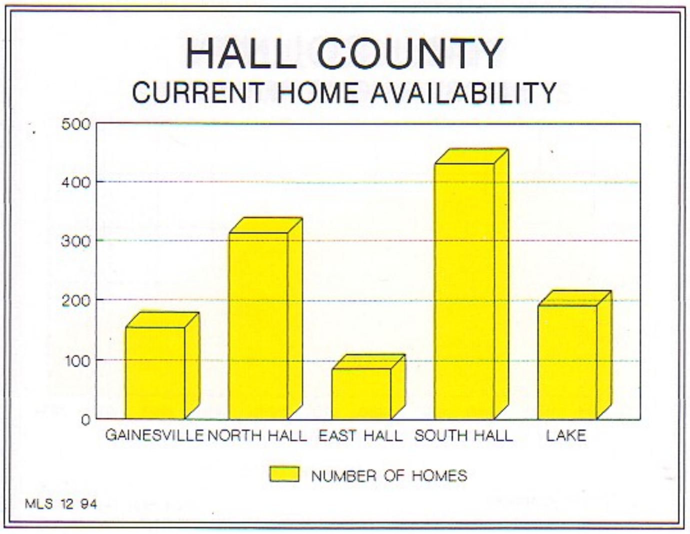
The city's commitment to a new industrial park is applauded, yet governmental administrative control is limiting industrial growth. Water and sewer permits are all but eliminating the food sector expansion. Zoning and planning decisions are adding untold cost to all projects making communities on our borders even more attractive. The bright news is that water and sewer expansion in South Hall could open over 75,000 acres of rolling land to some form of industrial, commercial or residential development usurping Gainesville's dominant role as the community's economic engine. We project more industry announcements with emphasis on the area Airport and South. Lots of clean companies, large boxes, but lite water users. The community's opportunity is for high tax payers and low labor demand companies like the printing company on which we faltered.

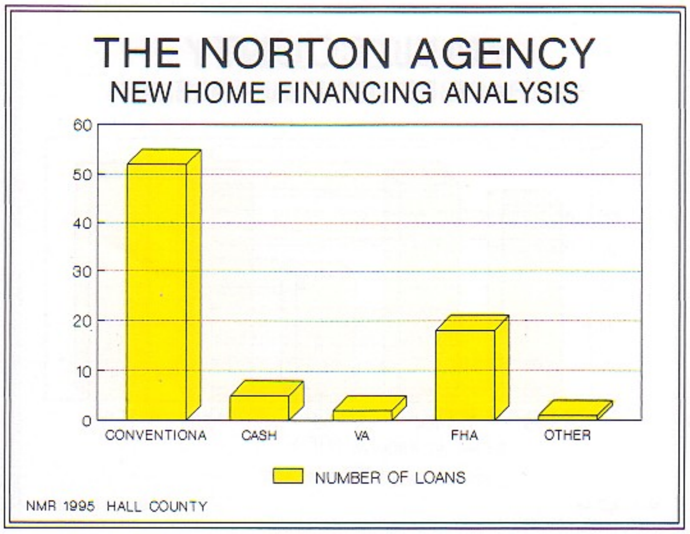
Residential Housing Market Perspective

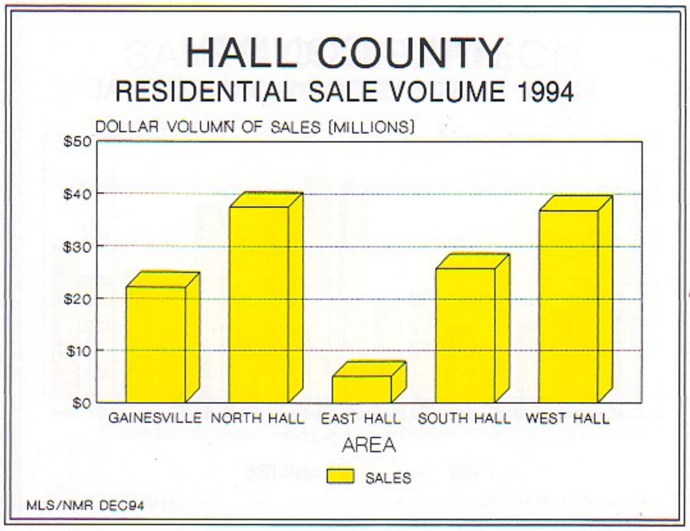
Economic and job growth have helped pull the residential market out of the doldrums over the last two years. This momentum will slow, however, as a result of governmental monetary policy. Long-term rates have moved up by about as much as short-term rates since the beginning of 1994, but should finish 1994 and in 1995 with relatively little increase. As the yield curves flatten, the long-term mortgage rates should remain around 9% of the forecast horizon.

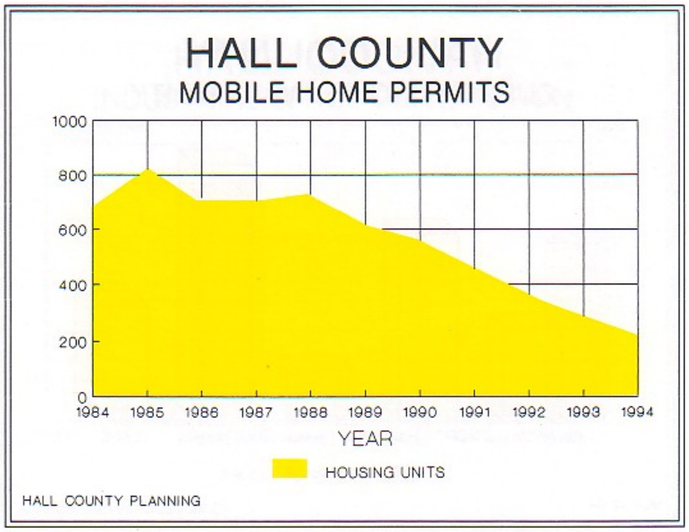
Sales and starts of single family homes have moved down since late 1993 as interest rates have risen. The decline has been quite muted so far, as **adjustable rate mortgages** have provided a safety valve for many buyers. The interest rate impact should intensify, however, as rates move slightly higher and the yield curve flattens. The anticipated downswing in housing activity should not be aggravated by a return of the credit crunch that plagued the housing production finance markets during the 1989 to 1992 period.

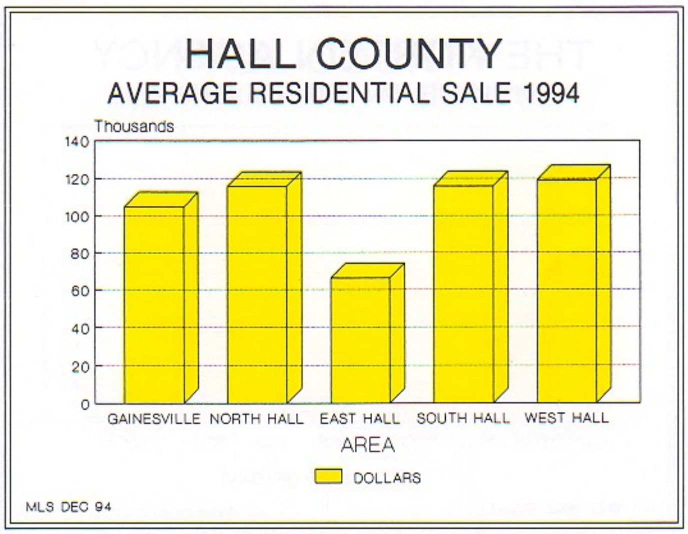
Overall, young households have been losing ground as a result of demographic and labor market developments. As a result of this income pattern, home ownership among young households dropped in the 1980s. For instance, between 1982 and 1992, ownership for households with a head age 30 to 34 fell from 56.9 to 50.5%. Young people are staying at home longer, and young households are more likely to rent than they were ten years ago. The increasing disparity of income distribution have a tougher time keeping up with house cost. The balance of the 1990s will be successful for those who focus on **affordable** housing solutions.

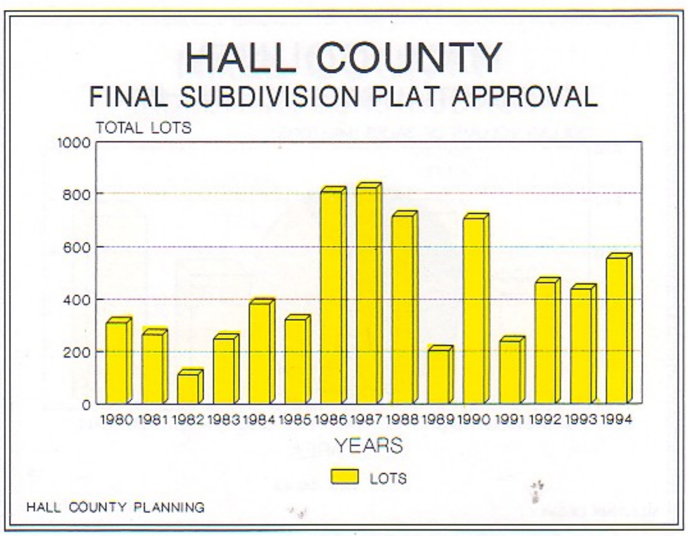












Residential Market Dynamics 1995

"Subdivisions like we have never seen before" was the key phrase we used in last year's report. This year's phrase is *"More of the same."* The development, pre-development and planning pot hasn't exploded yet, but it's boiling fast. We project that every other house sold five years from today will be a new or next to new home . . . and 70% of those will be south of Chicopee Woods. This will place a strain on our support services, schools, fire and police protection and some roads. Fifteen years from now our residential growth will be like some areas of Gwinnett. Prices are rising, pushed upward by rising land costs, governmental influences on land planning and development costs, construction material costs and labor shortages. The average home sold in 1990 in South Hall was $89,000. The year end average 1994 was $118,951, a 25% increase vs. only a 14% increase in the CPI index.

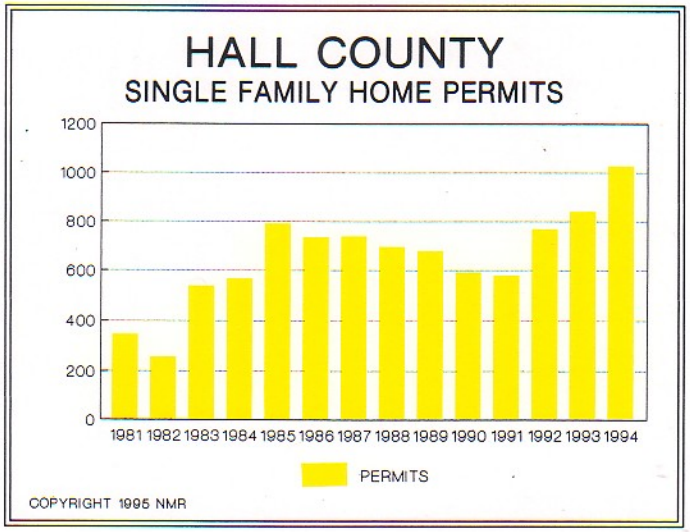
Three distinct residential markets are being defined:

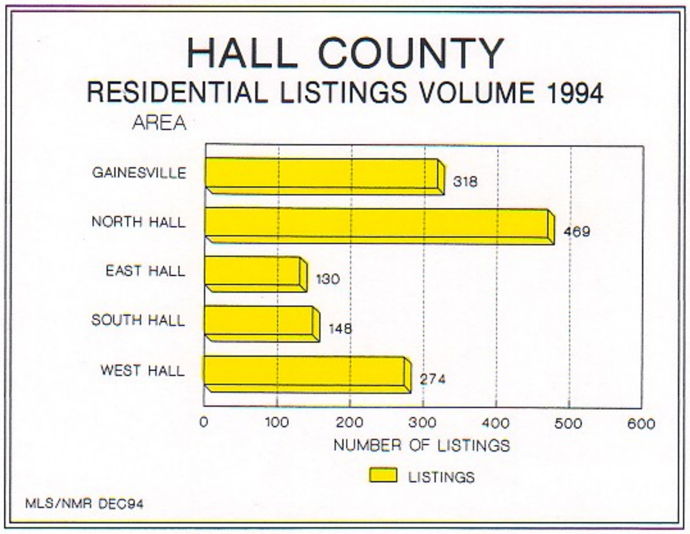
South Hall:	Migrant residents from somewhere else with Atlanta orientation
Lake Dwellers:	Retirement/pre-retirement owners with appreciation for recreation and solitude
North Gainesville:	Gainesville oriented business or worker class

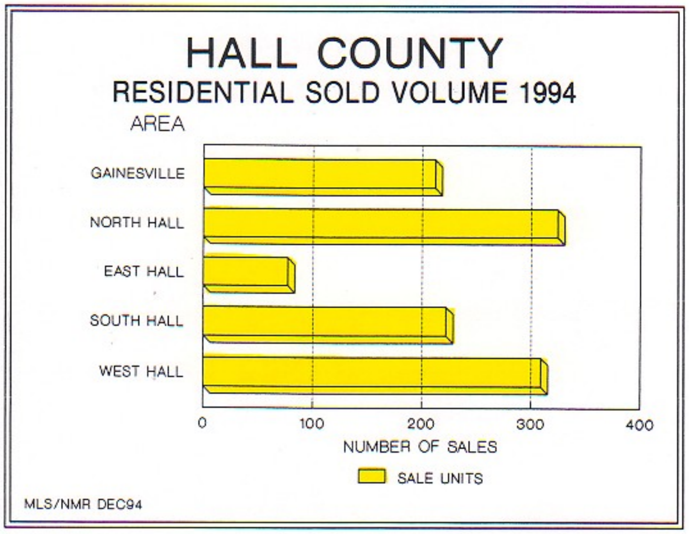
The basic facts conclude that the lake market will again see appreciation of 8-10% per year during the next 10 years as scarcity factor drives the commodity price higher. The North Gainesville market will grow a bit slower than South at the same rate the Gainesville industry, business and commerce grows. An executive layoff or medical reduction would have disasterous affects on the market. Look for larger lots, 2/3 — 1 acre plus, more subdivision amenities and strong protective covenants. The middle class buyer looks for location — protection and value, and in that order.

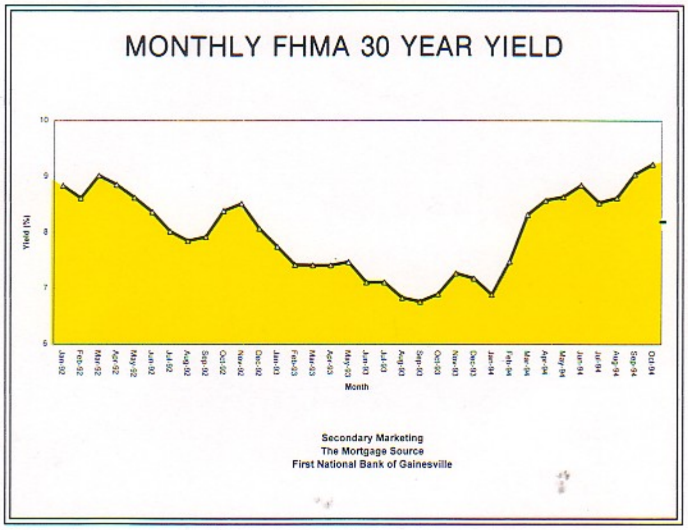
The downsizing of Hall County's real estate industry is over. With the recent sale of Northeast Georgia, Norton becomes the only local non-franchized business. Look for other Atlanta firms to study Hall

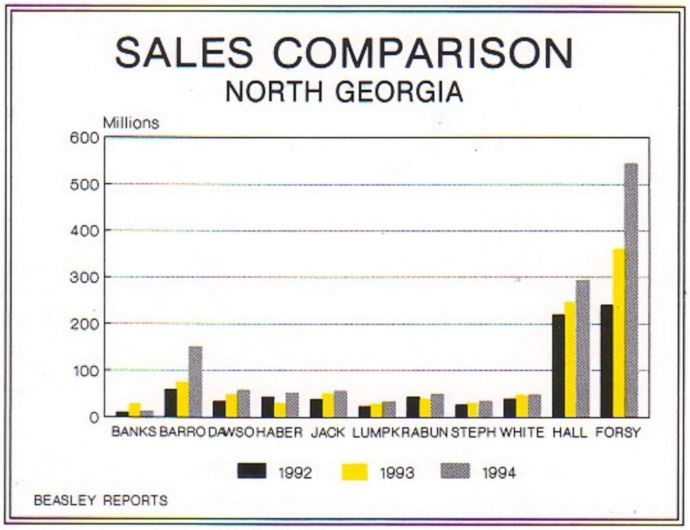
County branching, and an influx of Gwinnett builders and developers becoming players in our market. With the hottest selling price range under $100,000, correlated with increase costs across the board, the buyers are being squeezed out of our market. Affordable housing is our greatest community weakness and restrictions on mobile homes have dropped that industry to new permitting lows. While it would be wonderful to have all $150,000 home subdivisions, the market would not support it.



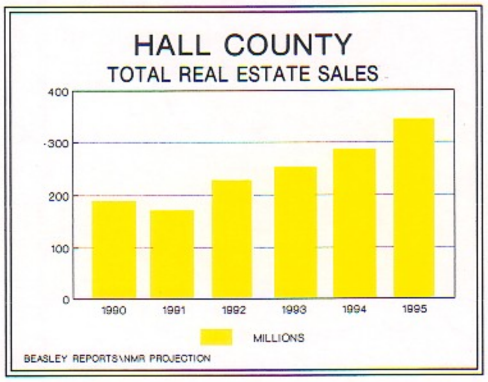


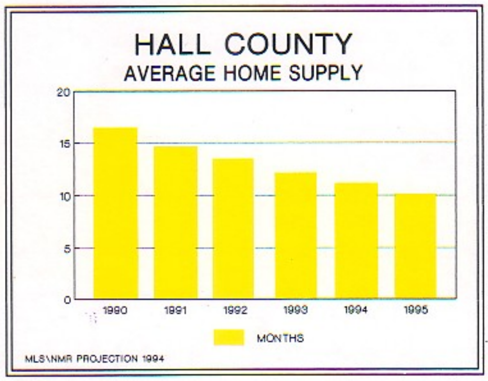


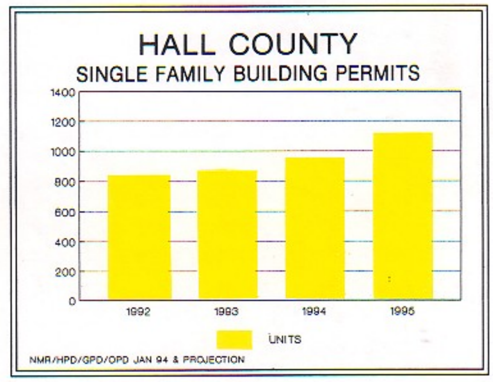


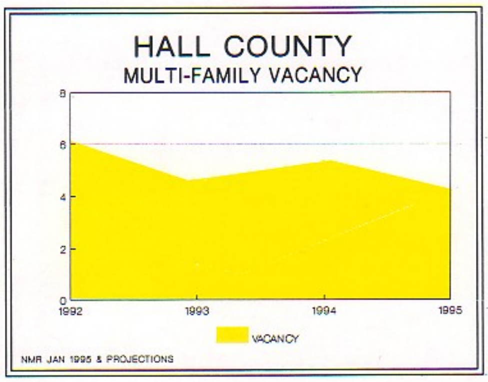


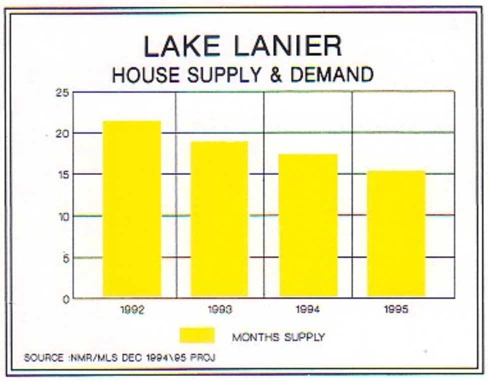
Norton Business Forecasts 1995

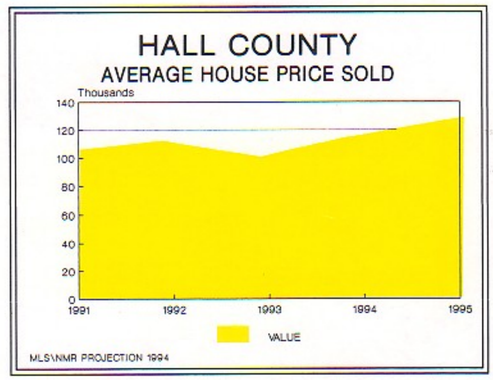


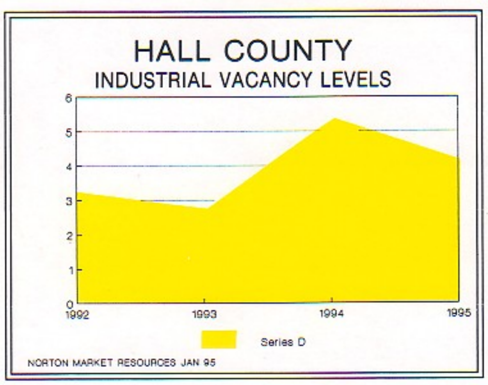


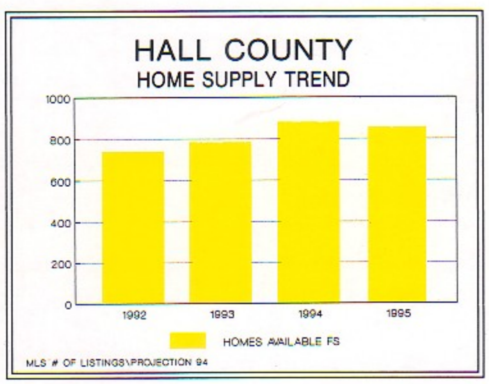


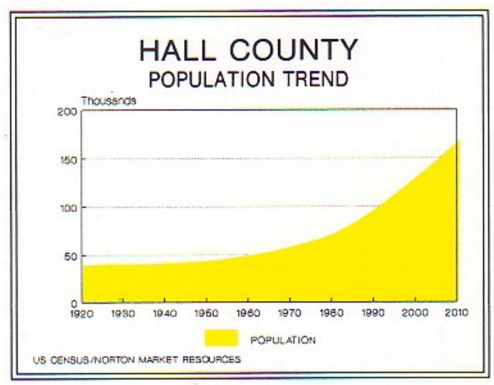












The NORTON Agency

The Hometown Advantage

INSURANCE - REAL ESTATE

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This information has been prepared by Norton Market Resources for the sole expressed use by clients of The Norton Agency.
For more information contact Frank K. Norton, Jr. 404-532-0022.