

NATIVE INTELLIGENCE



THE NORTON AGENCY

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NORTON

SINCE 1928




Frank K. Norton, Jr.
 CEO/Chairman
 The Norton Agency




Robert V. Norton
 President
 The Norton Agency
 CEO/COO
 Norton Insurance

Change...

Powerful change is underfoot. The November elections are over and the **course of tomorrow** has been set. Regardless of which edge of America you found yourself on... uncertainty has been lifted. We concur with the vision of others. On July 4, 2012, Howard Schultz, CEO of Starbucks took out full page ads in newspapers across the country telling the readers that the election was not about which party would win but about **America Winning**.

"The promise of America is the freedom to dream and the opportunity to create a better life – not just for ourselves but for each other – and that defines our great nation."

The same goes for North Atlanta and North Georgia. Hope has driven energy and creativity thus pulling our economy and its populous out of the muck and mud that **is** (Pre 2007) to a different but bright future **THAT WILL BE... BEYOND**. We as a community, from Martin to Tate, from Suwanee to Talking Rock have weathered the pelting storm, picked ourselves up and implemented powerful change...Our evolution from a gluttonous economy to one more balanced, self reliant and stable.

With this 26th annual forecast, Norton and Norton Native Intelligence™ embraces Powerful Change, Transformational actions of our business leadership, bold decisive action of local investors, political mavericks pressing for the agenda of people... not their own.

Norton, after 85 years, is much more than a diversified insurance/real estate firm; we are genetically engineered to power through adversity; we embody what's good about our region: strong community commitment, creative work ethic, fresh ideas. Our tenacious corporate mantra is to **challenge** those around us to rise up and power forward. Norton has the Power to Perform and harnesses that talent every day, for North Atlanta, North Georgia and points beyond.



*In the spirit of this prolonged market evolution the editors of Norton Native Intelligence™ felt that it was time for our written Forecast and public event to evolve as well. This year we have dropped our David Letterman Top Ten Trend format and present to our readers what we hope is insightful, “real-time” market commentary. We then have compiled a narrative of significant macro and micro trends our extensive research and talented brokers have uncovered throughout the year, we call that **RADAR 2013**. Sit, read, enjoy and...we hope DEEP THINK about our region’s past, present, future and the opportunities in between.*

OUR POWERFUL MOUNTAINS

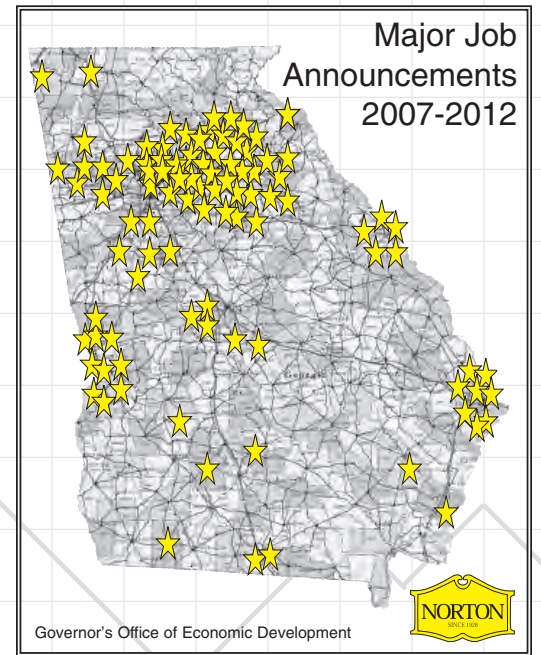
Since the first half of 2007 when we first felt the early tremors of recession and ultimately an economic volcanic eruption, Norton Native Intelligence™, like Indians listening to the approaching hoofbeats, has had its ears tightly to the ground.

Our eyes have been blearily propped wide open with our senses alert and heightened. We’ve chronicled the fits and starts, and at times have watched promising green shoots emerge only to simply wither and die. Norton’s staff has poured over an Appalachian mountain of data, spoken in the course of time to thousands of leaders, experts and just ordinary folks. Norton’s roots run Stone Mountain deep, offices from one end of the state to the other, listing coverage in 53 counties and spilling over into four surrounding states. We have conducted polls, surveys and samplings, all in an effort to quantify, qualify and query the movements in our mountain markets. Our 2013 observation and hypothesis come from a deep base of real-time experience, the comparison of similar national markets and empirical data.

What Native Intelligence™ has sensed for some time is being supported and played out in the hard data. The Mountain Half of Georgia, **our Half**, is **out** performing, **out** reaching the other half and at the same time most other southeastern markets. We can’t compare ourselves with other Nations’ Markets just yet, but this we do know.

Business movement is headed our way.

Norton Native Intelligence™ has tracked major Georgia industrial office and business growth since 2007. A scatter diagram plotting them crudely on a Georgia map graphically tells the real story of Georgia’s resurgence. Some 101 total announcements (50 employees plus) have occurred with



a disproportional share clearly in Northeast Atlanta and up the GA 400, I-85, I-985 and GA 316 corridors. The direction of growth is profoundly obvious. While we recognize that there has been significant growth in the Columbus/WestPoint/ Kia area and along the Georgia coast driven by port expansion, it’s the mountain wedge that reigns supreme – 42% of all expansions and new industry (50 employees plus) have set their sights and their sites on North Georgia. (It is important to note the tidal wave of industrial expansion and relocations predate hometown mountain boy Nathan Deal’s election as Governor.) The multiphasic qualities of I-85 accessibility, pre-2007



available buildings and sites, abundant well-educated labor supply, affordable multiple price point housing choices and aggressive home-folk recruiters have lured the small, the medium and the large.

Working in tandem, Clarke and Oconee snagged Caterpillar. Jackson's industrial machine landed Carters, Tiger Direct, Bed, Bath and Beyond. and son of Toyota #2; Newton (not quite in North Georgia but clearly our direction, captured Baxter Pharmaceuticals, Forsyth brought in Green Technology, IUS Technology, and Hall County snagged ZF Wind, Kings Hawaiian Bakery and ProCare RX.

North Georgia, Northeast Atlanta are all business all the time; driving the affected communities right over the smoldering embers of the recession, through the smoke and fog, into a next generation economy, one based on basic human needs, food, transportation, medical health and consumables.

FORECLOSURES

Foreclosures in North Georgia are **waning**. Norton Native Intelligence's™ tracking of raw foreclosure numbers shows a peak of foreclosures in 2010 (Hall 340 per month) a decline of 20% in 2011 and another decline of 15% in 2012. Will Foreclosures stop? Not hardly, but they will continue to edge down in 2013 and 2014. It's built into the inherent economic pattern of the foreclosures cycle.

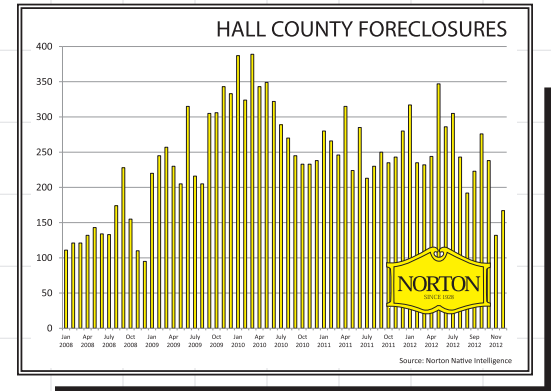
FORECLOSURE CYCLE

2007 – 2009	Builder developer foreclosures
2008 – 2010	Job loss foreclosure, unemployment
2010 – 2012	Job reduction foreclosure; underemployment, loss of overtime & bonuses tighten household budget and ability to pay pre-2007 housing commitments.

BANKS STABILIZE

At the start of 2012, a published article in the Atlanta Journal Constitution talked about the SORRY state of Georgia banking. How with more than 300 banks in Georgia, our state led the nation in bank FDIC takeovers. The article continued by predicting Georgia would boldly do so again in 2012. Admittedly the go-go 2000's did create a rampant surge in DeNova bank formation, one it seemed built on every street corner, and Georgia did go through a catastrophic downsize, consolidation and cannibalization of the banking industry.

What the AJC writer did not, could not predict, was the **BOTTOM**. Bank financial stability: driving Georgia economic business **certainty** replaced economic business **uncertainty** so pervasive at the past years' turn. In 2012 only 10 banks were seized by the regulators, a 55%



percent reduction from the year prior in Georgia.

2012 – 10	2008 – 5
2011 – 22	2007 – 1
2010 – 21	2006 – 0
2009 – 25	2005 – 0

In 2012 over 45 banks were predicted to be on Georgia's troubled list and while most likely a fair number remain profitable, or at least "BREAK EVEN" balance sheets have returned to Georgia banking. Lending is nowhere near the pre-2007 levels: At least most bankers are actually now out of their bunkers and using the word LENDING in their vocabulary once again, if not actually loaning money. Yes, remember that crispy green stuff they once gave out freely with a bonus toaster? Today, despite a massive regulatory climate, lending has a heartbeat and business is cautiously taking advantage of owner-occupied financing and limited acquisition and inventory loans. The documentation is monumental, the process laborious and bank boards still leery, but the vaults are now cracking back open.

THAT POWERFUL MOUNTAIN SPIRIT is alive and working. Over the last 18 months, Norton Native Intelligence™ has watched numerous cases of the power of local initiatives overcoming adversity in order to make transformational changes in community direction.

■ POWERFUL INVESTMENTS

A band of eight investors spearheaded the purchase of the Sky Valley Club from the foreclosed hands of a regional bank after at least four other failed attempts. These eight Sky Valley residents set the business financial foundation and course enabling the community of Sky Valley to lift itself out of an abyss and buy the community's **heart** back from the dark side of a bank vault. Once in motion, over 100 investors (they were oversubscribed) all residents were able to forego bank financing and contributed to the purchase price. A town, a city center owned and run by a bank's general ledger, became overnight a recharged citizenry. CANNOT!.....Became CAN DO! Insuring the destiny of Sky Valley.

■ POWERFUL PEOPLE

Tapping into Federal stimulus shovel-ready grants, the political leadership in a handful of Northeast Georgia counties has completed a gigantic internet pipeline. Doing what the federal government could not do with the Keystone pipeline between the U.S. and Canada, Dawson, Lumpkin, White and Rabun leaders seized the opportunity to build a direct link between rural Appalachia and the World Wide Web becoming, without a doubt, the most significant government construction project since the construction of I-85. This opens fresh virgin territory, ripe for the development industry (cottage and Mega) and strong residential immigration. We compare the technology results to the 1988 decision to merge and create multiple seamless area codes dropping long distance charges for the largest regional LATA in the nation. The North Georgia Network (NGN) creates a powerful digital road system, a fiber optic technology link to a future of connectivity and incubates a major job engine.

Norton is connecting its new insurance service and data center in Dawson to speeds 20 times faster than we can achieve in it's other offices. Broadband speeds as fast as anywhere in the world. RIGHT HERE.

■ POWERFUL MEDICINE

In December of 2012 after ten years of planning and preparation, Northeast Georgia Health Systems broke ground (actually a ground blessing) on a new 100 bed comprehensive hospital in the quad-county region surrounding Braselton, Hall, Barrow, Gwinnett and Jackson. The first new hospital built in Georgia in over 20 years. Opening in 2015, it represents a major financial and manpower commitment to this region of North Georgia. A companion office facility opened in 2010 with its twin medical office structure planned for 2014. NGHS commitment to healthcare is a powerful statement in the midst of an ever-changing healthcare environment. What's more significant is the system owns 119 acres to accomodate future growth.

■ POWERFUL HOUSING

The pockets of residential growth in target school districts of South Forsyth have solidified and are forming tentacles of builder and developer interest in adjacent micro markets. Big Boy developers, D.R.



Map graphic by North Georgia Network

Horton, Pulte and Ashton Woods have wiped clean available lot development and recharging the lot purchase price point. South Forsyth lot prices now average \$67,000. This is even driving a micro development boon for value priced, undeveloped land for NEW horizontal development.

THESE ARE POWERFUL MOUNTAINS

Sometimes we as citizens of North Georgia don't see the forest for the trees. Powerful people, powerful politics, powerful business, powerful connection, powerful resources, powerful quality of life, powerful spirit, powerful dynamics. Our region is intertwined with a collective spirit, a collective wisdom and collective resolve. Our powerful mountains may not be on the world stage but self-reliance is driving its independence. People forward.... upward. We are bootstrapping our communities' foundation for our own future. Quietly we persevere. Just watch where we will go.

NATIONAL TRENDS

\$191,500*

MEDIAN LIST PRICE
of U.S. Homes for Sale



+0.78%

INCREASE IN MEDIAN LIST PRICE
over 2011



1,803,347

TOTAL U.S. HOMES FOR SALE INVENTORY



-17.77%

DECREASE IN TOTAL U.S. HOMES
for sale inventory

A GAME PLAN FOR THE NEXT FOUR YEARS

The epiphany came the day after the November election. The Norton Agency Commercial Group held its monthly sales roundtable the day following the election and, of course, the topic of discussion was the election victories and defeats... the past and the future... ideas Forward...ideas Backward.

The big question on the mind of everyone is WHAT NOW? How are we going to work through four more years under the same administration? How are we going to pull out of the country's (region's) economic mess? What do **we** (Norton) do now?

After a vitriolic diatribe (crying, whaling, gnashing and moaning) from just about all of our commercial sales force (I think 20 plus were in attendance), Matt McCord, one of our Commercial Group Partners, paused a moment, and said it best,

"What are we going to do differently today vs. yesterday? NOTHING absolutely NOTHING. The fact is, we're moving more real estate than we have in 5 years; we are seeing more activity than in the last three. We have evolved and NOTHING, NOTHING CHANGES!"

These words resonated in along the walls of the room and in the ears of those in attendance. The room was at first silent, pondering those powerful words then expressions changed from despair to enlightenment.

The reality is just that, **nothing changes** except for our disappointment or anticipation for change. Great recession-surviving businesses like The Norton Agency have learned to adapt to the new capital markets, the lending underwriting climate and the consumer self-imposed austerity. We had to "Adapt or end up like a dinosaur stuck in a mud pit." The tight political tension between parties might remain but the election moves America off center, releasing the pause button. Health care reform is now a reality, unemployment will remain high but stable, and our Nation's energy policy is pro alternative fuels-anti coal, and we are resolved to see high gas prices at the pump. We are moving (right or wrong) to a government centric dependant populous vs. an independent one. **All is not nice but it is reality and the human species adapts.**

There are estimates that some 11 trillion dollars are socked away in corporations and personal accounts sitting paralyzed on the side lines.

Middle income families are sitting on a precipice waiting for what comes next but silently paying down their consumer debt and reloading their rainy day fund. Hoarding is in...conspicuous consumption out. Most corporations and the general population have postponed major capital purchases until the absolute need arises.

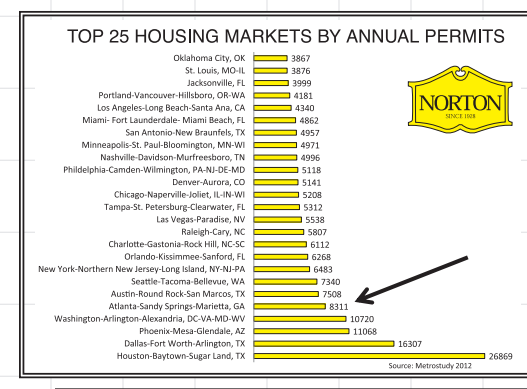
"The washer won't start even after kick starting in the last four years; the family car dies never to be resurrected or lightning strikes the T.V."

Uncertainty has prevailed for the last three or four years, anticipating another market correction, double dip, wave of layoffs, rising taxes, surging government debt, imbalance of trade goods and a **fiscal cliff**. But, despite all the political government, personal or financial chaos, **AMERICA IS MOVING ON!**

Despite what much of the mainstream median might lead you to believe, America is still viewed by business industry and earth's citizens worldwide as the Number One safe haven!

"You are what you are because of the places you go, the books you read and the people you meet."

Recently Native Intelligence™ had the opportunity to speak and attend an international real estate conference in Lisbon, Portugal. An eye-opening powerful experience, rubbing shoulders with the top real estate executives from four continents, this four day conclave



organized by the leading American real estate consultant **Real Trends™** was created to establish an open forum between competitive industry leaders worldwide.

The experience was provocative and at the same time calming to this one American Real Estate Entrepreneur (Norton).

SOME OBSERVATIONS

After 800 plus years of European business history, countless political governmental and kingdom upheavals, high taxation, socialized medicine, devaluing currency; **life and business success** still thrived. The world and our industry became a much smaller place because of this travel and business conversations and much simpler economy. America, despite its periodic flashes of quickness and relatively short life span (200 years), is still the world's leading economy, primary source of innovation and inspiration and the safest haven to secure one's future.

Business, **smart business** maneuvers.

- Personal high income tax surcharges are applied to the French; the French renounced their citizenship and moved to Belgium.
- Threats of nationalizing Spanish banks appear in the newspaper; Spanish businesses move their money to Switzerland.
- Russians buy million dollar second, third, fourth, ninth homes in Nice, France; Cascais, Portugal; flats in London and New York; homes in Miami and California as **HEDGES**, future liquid bank accounts against potential collapsing freedom in their mother country.
- The Chinese buy million dollar plus homes in San Francisco and small business investments in their four year old's name to insure them a future place in American colleges (Immigration Rule EB-5.)
- And in Europe almost all businesses have resorted to keeping two sets of books, one for the government and one for the private eyes of their banker.

Business leaders worldwide are creative, tenacious and driven to become successful and remain successful despite the obstacles, hurdles, taxation or government regulations placed before them. Universally we see that these war-torn, strife-laden business leaders from Turkey to Prague, to Kiev, to London had a **game plan**. A clear vision...with options to veer left or veer right...when confronted with another perceived industry killer.

Our European wake-up call, coupled with the simple conversation in our Commercial Group the day after the election, has put in focus the

need for a clear **game plan** to face these challenging times.

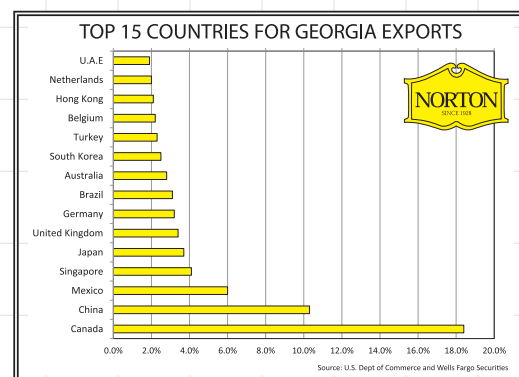
GAME PLAN FOR THE NEXT FOUR YEARS

Humans, as a species, on a very basic level, need only a few things to survive: **Sustenance, Food and Water, Shelter** and a Sense of **Security**. Moving up the hierarchy of need, you might add Wellness and Transportation. When you drill down to North Georgia's economy, you realize that the engines of our economy provide just that.

Norton for example, is in the Shelter (homes, apartments, condos, farms) and Security (insurance, investment, finance) business. Our friends in the banking industry provide security and stability. Our community agribusiness is knee deep in food production, distribution and consumption. **Sustenance**.

Even North Georgia's newest industries, King's Hawaiian (food), ZF Wind (energy for shelter security) and Toyota (transportation) fit precisely in the hierarchy of those civilized human needs. No frills...no excess...human needs, consumption and sustenance.

Norton Native Intelligence™, marshalling its resources and deep thought, has crafted a **Game Plan** for the next four years, a **Game Plan** for challenging times, a **Game Plan** for opportunity, a **Game Plan** for North Georgia.



1 Simply hoard cash/ buy strategic... think long term.

In the new society with lenders on the sidelines, cash and the availability of cash is paramount. But sitting still on **ALL** of one's cash is also ill-advised. Countless strategic buys crop up every week. Business, shrewd business, deploys capital in challenging times, in powerful ways. They know that in life and in business investments it is a marathon not a sprint.

2 Contain overhead, force spending discipline and spend wisely.

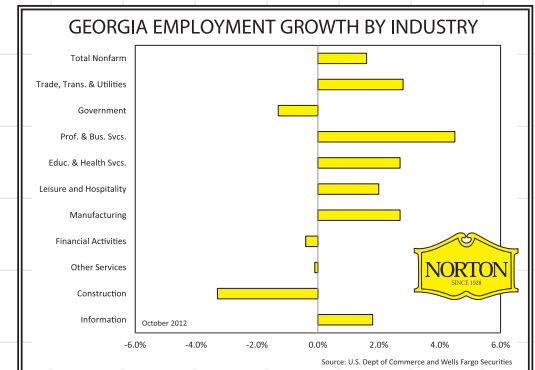
Whether in a small business or at home, if we are to accomplish Step One, we must push the productivity of our existing staff, delay wants and only spend for need. Renew loans today (not yesterday) at today's historically low interest rates. Rates are going to go up regardless of what happens. It's time to extend loans as far out as possible for both business and personal.

3 Recognize REALITY.

The foreclosures and bank clean-up will continue **throughout** the next four years as waves of bank contraction and business and personal reconstruction continues. **Reality...it's not over.** We may be at bottom for some sectors...home prices may not drop further. Land may be as low as it will ever go, but the painful market contraction and evolution is not complete. The great recession in history books 50 years from now may be called Depression #2. But the reality is that in the midst of the smoke and rubble are incredible lifetime buying opportunities, lifetime business expansions, lifetime merger opportunities. Clear heads and sound minds will **slay dragons** in this market.

4 Plan for taxes.

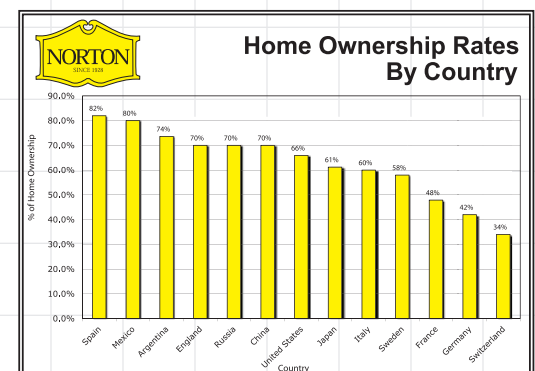
Yes, taxes are going to go up. Income Taxes, Sales Taxes, Government Fees, Obama Health Care Taxes and Inheritance Taxes are on the rise regardless of the political wind. The government grizzly bear is out of **hibernation** and is **hungry**. As capital gains rates change, investors will tweak their investment model to overcome that change. Seek professional estate planning advice, passing family wealth earlier and



more often; as rates on corporations drop, subchapter S may convert. Seek talented advisors to best conserve and deploy: reassess and re-evaluate every year. The shifting sands of taxes will prevent a firm foundation.

5 Consider shelter... Your shelter.

The shelter for your business, be it home office, industrial, retail or civic. The first point; everyone needs shelter and American new house formation, America's organic growth, will continue irrespective of a stagnant or robust economy and regardless of a solid immigration policy. People need a roof over their heads. So if the American homeownership rate currently at 65% drops to 53%, **100% of the population still needs a home**, thus a boon for rental housing. If the



mortgage deduction dries up, individual buying may slow down or drop but 100% still need housing.

The home ownership rate in Germany is 42%. That means 58% rent and there is limited German government housing. Private capital has stepped in and capitalized on this investment opportunity.

Consider shelter for your business. Firm up long term leases, stabilize your occupancy cost, expand while hungry landlords with empty space seek credit-worthy tenants, capitalize on traditional banking's current search for "owner occupant" real estate loans or investigate attractive small business SBA financing.

6 Become a LENDER.

With flat money market interest rates and few investment alternatives, private individual lending is on the rise. Consider secured loans to your children or grandchildren for home purchase. Loans to your own business vs. traditional lending or even capital purchases financed over time, like phone systems or building improvements, charging even below market rates, 3 or 4 or 5%, puts revenue back in your pocket and cuts out underwriting fees, appraisals and the prospects of future loan calls and those yields certainly beat current money market or CD rates. Private lending, with the banks in hibernation, is profitable, secure and imperative to get the economy stoked once again.

7 Seek wise counsel.

In an ever changing economy, ever shifting sands of business, running a business in a vacuum today is suicide. Read, watch and listen to similar businesses, regional leaders and form networks for wise counsel and advice. Absorb new information, but pace your growth, your contraction, or your quickness for change. Norton Native Intelligence™, a trusted source for the region, is only one of hundreds of guide books one must read, monitor and then thoughtfully apply to individual situations.

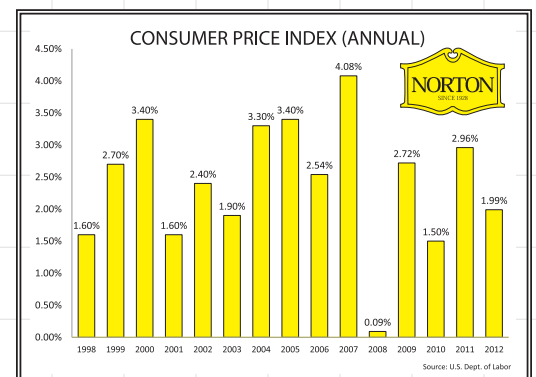
8 Promote wellness, fitness in your person and your finances.

Obama Care will be tweaked, pulled and pushed, but is the law (tax) of the land. It will be chaos in its implementation delayed to most likely

2015 or 2016, not the current full implementation target of 2014. The health care exchange idea was rejected by all but 18 states. Health care coverage will be cumbersome and expensive so wellness of the body is utmost important and wellness of one's own financials will allow some of the population to sidestep the regulator mess and pay for private care, private treatment or sidestep the massive waiting lines that are predicted. Private surgery hospitals Orthopaedic, Heart and Cancer are already under construction in Costa Rica and the Bahamas. More are on the way. Alternative medicine, holistic, rehabilitative, chiropractic and others will be a boon for some segments of the population. Some small business will right size their labor force to avoid full coverage, bonus or up-charge salaries to cover health care costs vs. paying fines and premiums. With healthcare at 12% of GNP, we as a nation have to get it under control as business views and adapts to wellness will be transformational.

9 Think local.

WE are but a small boat in the midst of a sea of turmoil. Think local with a watchful eye on the storms in Washington and Wall Street and keep these three legs of the stool in proper perspective. **Shop local** stimulates a life cycle



of Local Employment, Local Profits, Local Capital, Local Energy, which will help sustain all Local businesses. Keeping the home fires burning with local shop purchases over internet, local patronage of hometown business and services lifts the tide for all boats. It is said a local dollar spent turns seven fold, a dollar spent outside...is lost forever.

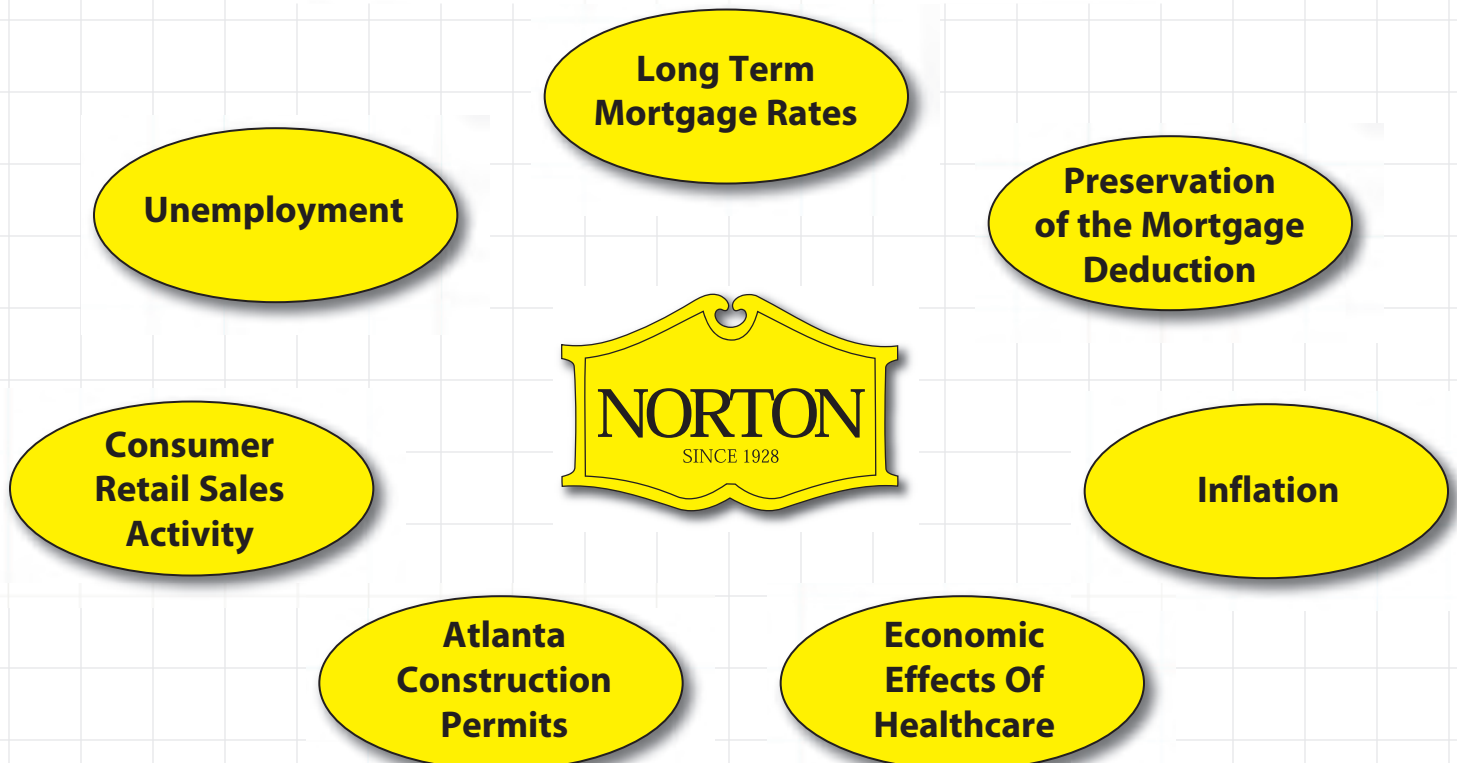
10 Vision Long Term.

Four years is swift, a blink of an eye in the span of most lives and businesses. Vision your person, your family, your business, your career, beyond four years... ten... twenty...or thirty. Great businesses have rolling three year plans but have clear visions for the long term. A **strong game plan** has just that...short, mid and long term benchmarks for productivity, growth, capital formation and perpetuation. Vision, clear vision is centered on control. What can you control within your power, within your reach or in your hands? Yes, it is important to watch what is happening in the state or nation but never lose sight of your ball.

SO WHAT ARE YOU GOING TO DO THE NEXT FOUR YEARS DIFFERENT FROM THE LAST FOUR?

If you survived intact, unscathed, you are amongst the fortunate few. More likely you have evolved your views on life, person, family and business. Borrowing and investment have forever changed, but we are here, we have made it and life is different but not so bad. Traditional business activity is returning, the roller coaster is stabilizing its twists and turns, families are growing and North Georgia is once again alive, thriving. **Prospects forward are powerful.**

ISSUES TO WATCH



POSITIVE SIGNALS OF RECOVERY



79% OF U.S. HOMEOWNERS SAY THEIR HOME IS THE BEST INVESTMENT THEY EVER MADE.

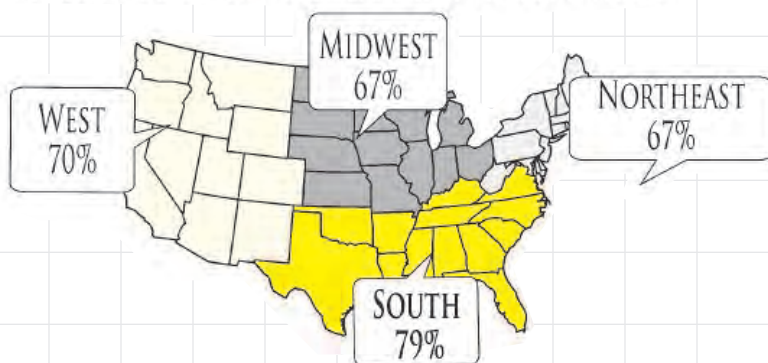


20% OF US HOMEOWNERS SAY THEY FEEL TRAPPED IN THEIR "UNDERWATER" HOME.

14% SAY THEY WOULD WALK AWAY FROM THEIR HOME IN A HEARTBEAT IF THEY COULD.

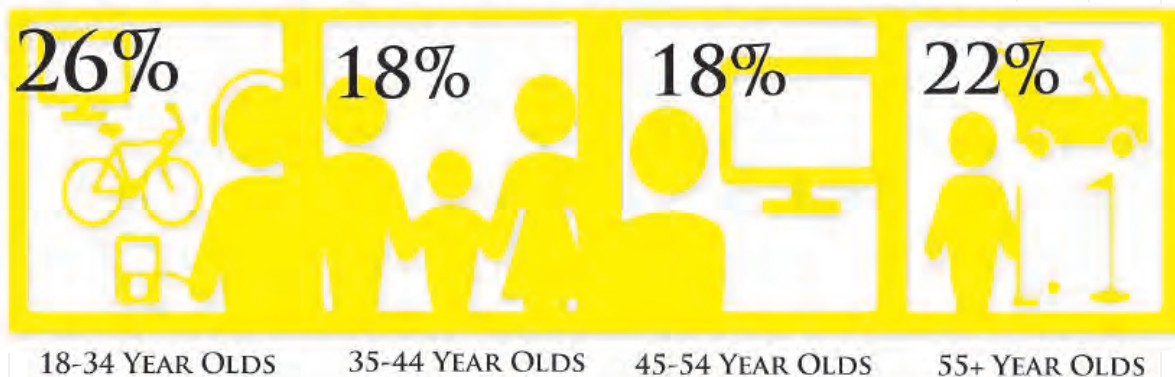


PERCENTAGE OF RENTERS PLANNING TO BUY A HOME



70%
OF AMERICANS VIEW
HOMEOWNERSHIP
AS THEIR PERSONAL
AMERICAN DREAM

PERCENTAGE OF AMERICANS WHOSE VIEW OF HOMEOWNERSHIP BECAME MORE POSITIVE OVER THE PAST SIX MONTHS



RADAR



News • FiNd s • OpiNiONs • Tr eNd s • 2013

For years Norton Native Intelligence™ has powered various conversations, surveys and stacks of research into what we have referred to as Native Intelligence Top Ten Trends and, unfortunately, each year a number of strong significant trends have ended up on the cutting room floor. This year we have reformatted this publication to cover significant community issues and to present a host of Micro Trends on our radar which affect our region or specific real estate product types. Some of these trends we see as momentary, others Leading Edge and Long Term.

Business bouncing back, this summer, ZF Industries moved a 50,000 square foot operation out of Mexico to Oakwood, Georgia citing quality control and labor issues. Perhaps cheap labor is not worth the trouble after all.

It's apparent that Two Economies are emerging; (reported and non-reported). Prevalent in other counties, the concept of cash trading outside the public domain could become the main economic force as government taxes tick up. Once the hallmark of mafia money laundering, convenience store operators and day labor, off the books services, barter and trade are emerging in legal, professional and a number of other mainstream businesses.

Vacant lots in some Metro Atlanta counties are a blank canvas for creative economic imagination.

Holding/ Hoarding is in vogue. At year end upwards of 11 trillion dollars lay dormant in corporate and general public portfolios. Free spending is in hibernation...excessive indulgence but a distant memory.

It's still ok to be **rich in America** but the flashy bling of "rich" has been subdued. We are at a point in our history when beating up the rich is in vogue. We all recognize we have serious economic issues, but the truth is that Americans don't hate the rich as much as they want to **become** rich and want the ability to make that happen, a level playing field with a degree of social mobility.

The new homes business is a growth business. New home construction will double and home prices will rise. We can debate

the timing but we cannot find any credible argument against this logic.

Georgia's Energy Tax Exemption is a major positive check-mark in recent state economic expansion. In the state-to-state war for new industry, the tax abatement for industrial energy has been a major factor in the success of Georgia attracting Caterpillar, Toyota, Baxter and others. A preemptive strike by Forsyth County and others to add it back locally is short sighted and could kill its golden goose recruitment.

Lupold. A major supplier of hydraulics for Caterpillar (Athens) located a 30 person manufacturing plant in Gainesville (Norton relocation). The principal reason "they wanted to be close but not too close to Mother Ship Caterpillar." Yet "far enough away from the major employment zone which create a scorched earth for all the available competitive labor supply."

Seeds of a long-term housing shortage have been planted. The 2012 market was much improved with home sales and prices trending upward. But the inventory of existing homes is at its lowest level in seven years, while new construction inventory has hit a **50** year low mark. The new home construction industry is decimated, losing 70-80% of all small and medium contractors. The lending industry, primarily small regional banks once the primary lending force for the industry, is in a **FED** induced suspended animation, flash frozen waiting for a sign of government regulatory spring thaw. Distressed home listings will continue to fall because fewer borrowers are now seriously delinquent. New home construction reports are up but only fractionally.

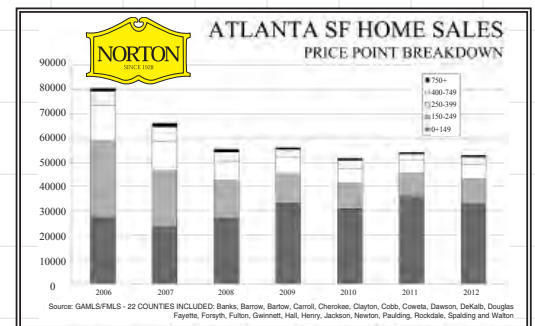
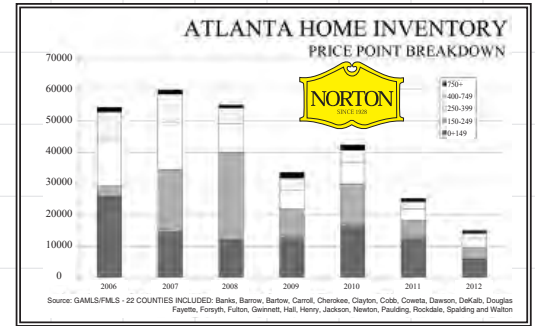
Without a serious capital and lending infusion, 2013 to 2015 will see the seeds of **shortage sprout** in many regional markets. Already Forsyth, Cobb, Cherokee and certain Gwinnett markets have tightened, followed soon by the rest of Gwinnett, South Hall, Newton, North Fulton and Barrow. Norton Native Intelligence™ sees this as a deep, long-term issue with price increases of any remaining inventory. The by-product of a tightened market.

Blue Migration to Red States from major industry is one by-product of the Southern Republican transformation... escaping aging manufacturing infrastructure, high utility costs (coal), unionized labor, lack of affordable housing, high taxes and cold weather climate effects. We see an accelerated Southern Shermanistic March to the Sea for industrial expansion over the next ten years.

The **ACTIVE ADULT MARKET ROCKS**. The top selling developments in the 22 county Metro Atlanta region are active adult – Sun City Peachtree (Del Webb), Villages of Deaton's Creek (Del Webb) and Cresswind at Lake Lanier (The Kolter Group.) With a healthy aging baby boom segment, the largest Southeastern concentration is Gwinnett County, in the midst of the North Georgia region. With our heightened sense of a four season recreational lifestyle and an abundant world class medical component, we are **ground zero** for the active adult market. We are seeing new entries, outside developers as well as organic growth, seeking stale developments positioned for recharge. It is a major powerful growth segment and a major factor toward new housing permit recovery. Active adult units contributed a significant purchase of the total new home permits filed in Atlanta (22 counties) in 2012. More to come as we seek to live life to the fullest and grow old gracefully, albeit in a small home.

The Federal administration must create **A HOUSING PLAN** with housing accounting for 30-35% of GNP. It's imperative to have a well-defined housing plan if we are to ever get the economy rolling again. It is much more than preserving the home interest deduction and keeping interest rates solid and low. We need to recharge the populous psyche toward positive home ownership, its **shelter**, a sense of **a place of belonging**, **a home** not a piggy bank, then while raising a family over time it becomes through equity, our estate, our retirement vehicle.

Our Northern belt of counties, Jackson, Hall, Dawson, North Forsyth, Lumpkin, Clarke, Barrow and Habersham will be devoid of national **builder** Big Boy Builders (D.R. Horton, Pulte, and



Ashton Woods) and will dominate the Atlanta core landscape. The **end of the earth** for them is Mill Creek (Gwinnett), Flowery Branch and Vickery in Forsyth.

New Wendy's, Bojangles, Dunkin' Donut, Captain D's, **value priced fast food**, marches through the wake of economic collapse, cropping up in all points of the North Georgia region. Quick food, family atmosphere, hot food at a great price is now the weekly family **adventure out**.

Forecast Summary
Business \$ Volume rises by double-digits in 2012 & 2014

	2011 History	2012 Forecast	2013 Forecast	2014 Forecast
GDP Growth	+1.8%	+2.1%	+2.5%	+3.1%
Existing Home Sales	4.26 million	4.64 million	5.05 million	5.3 million
New Home Sales	301,000	368,000	575,000	650,000
Housing Starts	612,000	776,000	1,128,000	1,300,000
Existing Home Price				
Fed Funds Rate	\$166,100	0.1%	0.1%	0.1%
30-year Mortgage	4.7%	3.7%	4.0%	4.6%

■ We will witness **creative gifting** in the years ahead. Down payments for homes for children, grandchildren, infant education, trusts and gifts of appreciated real estate. North Georgia Community Foundation has just created such a vehicle to facilitate real estate transfer. They call it the Property Fund and it is designed to assist in converting appreciated real estate to a long-term charitable gifting strategy.

■ There's a **Wal-Mart** march across our region focused squarely on average people with average jobs (credit) buying average goods and services wherever they are made. When seemingly the darkest cloud has fallen on the Georgia Commercial sectors, Wal-Mart opens up stores in Habersham, Forsyth, Cherokee and Gwinnett. New stores are planned for Jackson (their first), Cherokee, Gwinnett, Hall and Fannin. The pro Wal-Mart argument for most small communities is revenue and job impact. Who can blame community leadership with the carrot of 250-500 employees, annual inventory tax and property tax and ANNUAL splost sales tax revenue (that's each year folks) exceeding \$3,500,000? While **nobody** wants one, everybody wants one. We need to get over the denial of **average**. It is wonderful to tout our millionaire's housing row along Lake Lanier, the scattered gentleman farms cascading across North Forsyth, Dawson, Hall and Habersham but let's face reality. We are the Wal-Mart America. While lots of money is exported back to Bentonville, revenue...real American hardback tax revenue and salary multipliers stays **local**.

■ There is a desperate search on, amongst city and counties for **Revenue Enhancement**. Deaf, blind and dumb toward shrinking local government or their own version of entitlements (job security, flush retirement plans, and full insurance coverage) these institutions are doing everything in their power to search out revenue and capital for expansion – sewer/water/land. They want to continue to build their kingdoms on the backs of its citizenry. Beer and wine, liquor by the drink referendums; increased garbage collection with a decrease in service, adjusting permit fees; energy surtaxes; anything for a dollar or two or three. The failure of the T-Splost initiatives should (but were not convinced) send shivers in the hearts and minds of politicians. It is time to wake up...and join 2013...**Austerity is in, government gluttony out.**

■ **Credit Unions** do not fall under the guidelines of Dodd Frank Financial guidelines and reform. They are also exempt from federal income tax providing loans 30 to 40 basis points under market. Watch Credit Unions grow. They could replace America's small time bankers.

FORECLOSURES IN METRO ATLANTA
REO Activity By Year

Year	REO Properties Acquired™	REO Properties Sold	Net	Median REO Tran Value
2005	5,622	4,577	1,045	\$ 110,000
2006	11,680	7,343	4,337	\$ 120,000
2007	19,742	14,394	5,348	\$ 110,513
2008	24,130	21,877	2,253	\$ 94,500
2009	23,645	27,031	-3,386	\$ 76,000
2010	26,396	24,347	2,049	\$ 78,000
2011	37,407	37,459	-52	\$ 66,000
2012 (10/12)	27,873	27,987	-114	\$ 65,200
Current Total REO Properties:		39,445		
Annual REO Sales (10/11-9/30/12)		37,211		\$ 65,000
REO Sales Monthly Rate:		3,100.92		
REO Property Months of Supply:		12.72		

Source: Metrostudy 2012

■ **Three Main Givens** after the election.
The fear of Armageddon total collapse is largely gone.

Unemployment will not be solved by either party.

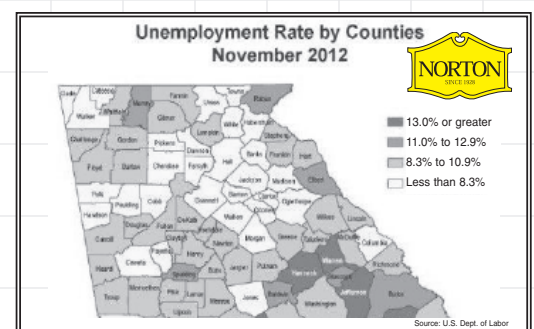
And with or without consumption, we have excess capacity of almost everything in the world.

■ **The rich**, if taxes go up will figure out some way around. They will move their money or themselves. The rich did not get rich by being stupid, at least those who earned their richness.

■ The UK passed a surcharge on high income earners. A new tax rate of 50% took effect two years ago expecting to raise a billion pounds in extra revenue each month.

So how did it work out?

Tax revenue dropped by more than 500 million.



■ We are seeing a **shift** from an American **homeowner** mentality to an American **rental** one. That shifts the real estate industry from first time buyers to small medium investors. Not bad...just different.

■ Thanks to the National Association of Realtors extensive research we know for a fact that **owning a home is still a priority** for most Americans. It is still the number one priority for family stability, connectivity and long-term asset accumulation.

■ The election proved it was more about social issues than economic ones. Liquor by the drink, marriage and college tuition for immigrants (Maryland) and marijuana votes confirm what was already clear from the polls, that public opinion is relaxing on these (if not all) social issues.

■ The **second home buyer** has come out of a long winter nap and tipping into higher and higher price points. The smart money is searching Lake Lanier for stellar properties up to \$600,000. Clean water, clear views and killer prices.

■ The **housing market may be back** but the appraisal industry is still living in the dark ages. Intimidated by federal regulators, appraisals for all property, residential new or resale, commercial or investment are stuck. Norton Native Intelligence™ has contended for the better part of eight decades that it is value... real value, that someone will pay for it. **NO MORE NO LESS**. How can a newly- built home on an undervalued building lot be worth 10 to 15 percent less than its own construction cost? In many ways new home community buyers are lining up with the lending industry falling all over themselves to make loans, yet the appraisal industry is stuck in the DARK AGES. The

1st year interest

Mortgage amount expense	NORTON					
	15%	20%	25%	35%	40%	45%
\$100,000	\$3,968	\$595	\$794	\$992	\$1,389	\$1,587
\$200,000	\$7,935	\$1,190	\$1,587	\$1,984	\$2,777	\$3,174
\$300,000	\$11,903	\$1,785	\$2,381	\$2,976	\$4,166	\$4,761
\$400,000	\$15,871	\$2,381	\$3,174	\$3,968	\$5,555	\$6,348
\$500,000	\$19,839	\$2,976	\$3,968	\$4,960	\$6,944	\$7,936
\$600,000	\$23,807	\$3,571	\$4,761	\$5,952	\$8,332	\$9,523
\$700,000	\$27,775	\$4,166	\$5,555	\$6,994	\$9,721	\$11,120

appraisal industry is impotent and the Fed delusional. It's our opinion, shared by a number of national economists, that **FIX THE APPRAISALS AND YOU FIX THE ECONOMY**. Real value returns to the family home, the growing business, reality returns to Bank portfolios and Community Tax Base. **FIX THE APPRAISALS AND YOU FIX THE ECONOMY**.

■ **There is a perception** that all sellers are in pain. That, unfortunately for vulture buyer types, is not the case. They love and care for their home. These are the forgotten people in this market correction. Traditional seller's divorce, estate, life style, downsizing, have been financially squeezed by the national doomsday media, regulatory pressure on appraisals, lending and the foreclosure dialog. The days of buying home and commercial properties for 10 cents on the dollar were for the most part urban legend.

www.nortonintelligence.com

Norton's Annual Forecast features our interpretations, thoughts and commentary on North Georgia's market conditions. Dovetailed with this effort, Norton has built a vault of back up Regional community data. Accessible to the public, Norton friends and especially our clients. The portal is

www.nortonintelligence.com

Norton Native Intelligence™ staff has spent thousands of hours building and maintaining a robust platform of historical and current community data at your fingertips in order to educate and power our clients forward through the storm of economic business and regional change. We invite you to explore further.

"It's a crazy industry, always has been, the more you think you know it, the more it changes. The new model is keeping your finger on the pulse and having enough flexibility to change right along with it – and fast."

"The real estate depression has hardened the US economy."

"Americans don't care what the press says or what government does. Americans are moving on with their lives."

"Consider that the American experience is long term."

"In the US... 70% of the economic activity is consumer expenditures... in China, it's 30%."

"Highest investment rewards today are investments in real estate. The beauty is that it is long term not flip and trade."

"If you take the mortgage deduction out of the home buying process, there will be a bloodletting of value."

"Investing in human capital and spending less than you make, will build wealth over the long term horizon."

"Both P.O.O.R. and R.I.C.H. are 4 letter words in our society."

"Our politics may be fragmented and broken but we are still united as Americans, we are free to go to the polls, exercise our voice and agree or disagree without persecution. This is the real America"

"The feds are holding down... talking down interest rates. As the world's largest borrowing of short and long term funds, it behooves America's federal bankers to keep rates low. For every interest point rise, America comes closer to bankruptcy."

"With the new business announcements and solidifying existing Hall, Gainesville business sectors, the region is now matched with the employment levels pre-recession."

"Access to capital drives everything, drives recovery."

"The Georgia economy is growing jobs and increasing out-put despite stagnant homes and financial sector train wrecks." — Dr. Roger Tutterow

"Waiting for normal. Yet we have not seen a shift from a business supported economy to a population consumer economy."

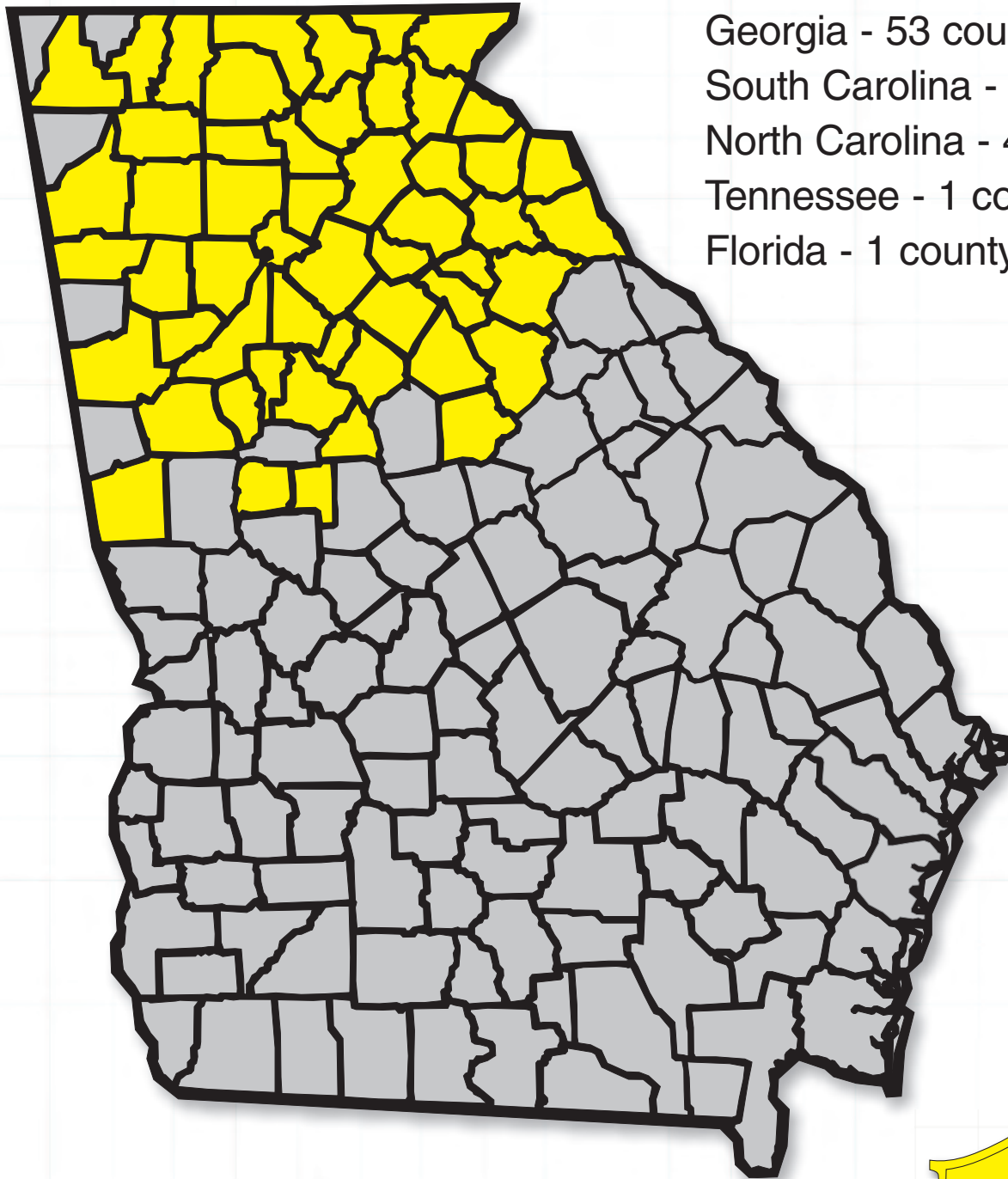
"Corporate America is sitting on huge cash reserves and has largely renegotiated their long term debt creating operating leverage and maneuverability."

"Socialism is fine until you run out of other people's money."
— Margaret Thatcher

"People who succeed in life live their passion each and every day."

"God bless America, the land of the free, home of the brave and the witness of human opportunity."

NORTON LISTING MARKET COVERAGE



Georgia - 53 counties
South Carolina - 4 counties
North Carolina - 4 counties
Tennessee - 1 county
Florida - 1 county



12.01.12

NORTON COMMERCIAL NETWORK



FRANK NORTON, JR.
CEO Chairman



BOB NORTON
President



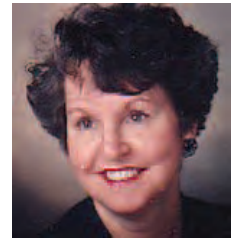
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Associate Vice President
NRG Partner



WILL COBB
Vice President, Partner



JOHN DREW
Asset Vice President
Partner Facility Management



BRENDA DUCKETT
Associate Vice President



JEAN FERRIS
Vice President, Partner



JANE FLEMING
Associate Vice President



ANDY FOX
Commercial Acreage Sales



DOUG GARRISON
Vice President
Commercial Group



TRICIA RUTH
Senior Vice President
of Asset Management



DARLENE HANSON
Leasing Specialist



BETTY HOWARD
Vice President, Partner



TOMMY HOWARD
President Residential Growth
General Manager



EDDIE HUGHES
Senior Vice President
Development



GINA JOHNSON
Associate Vice President
Associate Broker



JR JOHNSON
Commercial Sales Associate



DOYLE KIRK
NRG Partner
White County



RON LEWALLEN
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STEPHEN LOVETT
Commercial Land and
Lot Specialist



ROBERT MURILLO
Director of Logistics
Asset Management



MATT MCCORD
Vice President, Partner



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WADE RHODES
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NRG Partner



WESLEY WILLIAMS
Commercial Sales Associate

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