NATIVE INTELLIGENCE 2014

NORTON
SINCE 1928

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

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

Change...

As our family firm moves into its 86th year, it's important to remember that the power and initiative a successful firm embodies lies in the vision of its leadership and the leadership's ability to change with the circumstances befalling it.

From a small community based insurance and occasional real estate broker to pioneer neighborhood developer , leading asset manager, mortgage, commercial brokerage, small investment packager, and innovative home services provider, our family has woven one creative generation into another.

When W.L. Norton began selling insurance out of shared offices on the third floor of the Jackson Building in downtown Gainesville, he had no inkling that the foundation he laid would grow to today's strength and reach. When Frank Norton joined his father, fresh out of UGA, to push new insurance products, little did he realize that Norton would someday be licensed and selling insurance nationwide. Today, our business platform spans 19 physical offices , 72 associated businesses with activity across 42 out of 50 states.

Change is creativity, problem solving and client centric thinking, which are the guide points of Norton's corporate and family DNA. Now stewards of this well-oiled machine we are mindful of the legacy behind us and the tremendous opportunities that lie ahead.

Through the open lens of our multi-faceted business, we experience firsthand the curiosity arousing arrogance of some governments, corporations, leaders and politicians. But they are clearly in the minority. Amid the occasional burst of strangeness, entrepreneurs like Norton, continue to boldly innovate, disrupt and create jobs in our region despite fierce political and economic roadblocks. The events, twists and turns of the last five years and the sheer volume of new ideas prove that no matter how hostile the business environment, entrepreneurs will always re-think the normal, zigging when everyone else is zagging.

Once again, we take pride in presenting our "Annual State of Business for Georgia." Norton Native Intelligence™, and while some consider us the Oracle for market trends and dynamics we are simply a microphone of the greatest place to call home.

Frank and Bob

p.s. Thanks to all of you for helping us become what we are today.

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A Conversation Between Brothers...

With over 85 years serving North Georgia, The Norton Agency continues to thrive through a commitment to community and a strong sense of purpose. For business partners and brothers Frank and Bob, that community and purpose was instilled in them at a young age by their father, Frank K. Norton, Sr., mother, Betty, and grandfather, W.L. Norton, Sr. and is being passed on to the next generation.

Leading up to the 2014 Norton Native Intelligence Forecast, both Frank and Bob sat down for a brief interview to share their unique perspective on life, business, and the future of the region in which we live, work and play. From sibling dynamics to lessons learned from their family and picturing Hall County in twenty years, Frank and Bob paint a distinctive picture of the qualities that make The Norton Agency and North Georgia so special.

What Do You Remember About Your Grandfather Who Started the Firm?

Frank: My grandfather was one of the kindest people I ever met. To me, he was the quintessential Southern gentleman. He was a loving father, grandfather and kind to his clients. He really cared about the people he worked with. I remember him being full of energy but quiet and reserved. As a child, I always remembered his office being full of papers as he was always planning for the next project. Working on real estate transactions until the last six months of his life, he truly was always moving forward and working to make the company and community better. Our grandfather created this business , our parents built the infrastructure, and foundation, and it's our challenge to build something sustainable from that.

Bob: One story in particular I think sums up my memory of my grandfather. I was about eight years old and sitting in the lobby of The Norton Agency office at the time. I looked out the window and I noticed this black Lincoln pull up. I watched the driver get out and open up the door for an elderly gentleman sitting in the back. He helped the man into the office and the elderly man asks to speak with my grandfather. The chauffer sat down in the lobby with me and the gentleman went back into my grandfather's office for about an hour. Finally, the gentleman emerged, was helped back into his car, and left.

Curious as to what was going on, I looked at my grandfather, who was at that time in his seventies, and asked him what the man wanted. My grandfather replied that the elderly man, who was probably in his mid-nineties at the time, wanted to talk about some investments for the future. I remember thinking how interesting it was that two old men were so interested in discussing the future and investing for it. Today, I see that same spirit in my own dad who is now eighty-five but continually working and thinking about the future. I think that my grandfather's spirit of never giving up or letting yourself grow old mentally is my fondest memory and one that I hope will serve as a guide for my own life moving forward.

What is the Best Advice Your Parents Ever Gave You?

Bob: To never quit. My parents believed that if you put your mind to whatever it is that you were working towards, you would eventually accomplish it. If you quit along the way, they felt that you had simply given up. I am a firm believer in that you always finish what you start and keep on working, regardless of the setbacks and I have my parents to credit for that.

Frank: Set an example and standard for others. My parents understood that there would be eyes on us in the community and within the company and wanted to be sure we set a good example. To this day, I work to set an example by coming in early, working hard, laughing throughout the day, and leaving late. I have made sure to pass this advice on to my children as it was important for my parents and it's important for me that children have work ethic and set a good example.

What are the Dynamics between You and Your Brother?

Frank: We could not be more different. Honestly, I think he beat the tar out of me when he was thirteen and I was seventeen. After that, I quit messing with him. We have nothing in common in terms of friends and interests, but we have this business. The Norton Agency is the unifying tie between us. Despite being polar opposites, we both are one hundred percent committed to one another. While there are day-to-day skirmishes within the company, believe it or not we have not had an argument since I joined the company in 1986. We are both driving this business forward and he has become more than a brother to me. He has become a partner and a friend. We have helped each other while growing up and, now growing old. We genuinely have fun every day talking about how to improve the company and the communities we serve.

Bob: Up until I graduated from high school, Frank and I had nothing in common. I was an athlete, he was an artist. He was the anti-Bob or I was the anti-Frank, depending on how you looked at it. We then ended up at the same college, in the same fraternity, and with the same circle of friends. At that point I realized that it wasn't the differences that made us brothers but the things we had in common. From that point on and particularly when we began working together, there has never been a rivalry between us. Since we don't have the same interests or point of view, we never butt heads as his skills fill my gaps and vice-versa. I look at Frank as the innovative out of the box thinker while I tend to be more bottom-lined, detail oriented. As a result, our relationship is fundamentally based on collaboration rather than competition and I believe that has been a key factor in helping The Norton Agency continue to succeed.

What do you consider to be the Norton Family Legacy?

Bob: While there has always been a Norton involved in The Norton Agency, to me the Norton legacy is all about the people we work with. There have been a lot of people who have helped to build the Norton legacy. Our philosophy has never been to dictate from the top down but rather build on the knowledge of the collective group of people we are so fortunate to work with. As a company, we all work hard and we work together to overcome the obstacles.

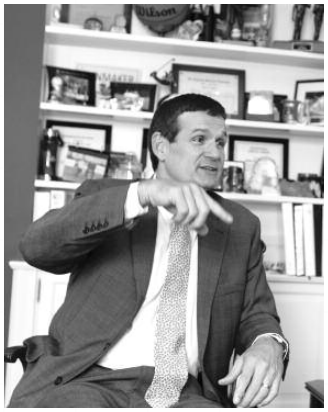
Frank: I think from our family roots in the North Georgia Mountains, we are all about leaving this community a better place than when we found it. My father has that pioneer spirit and pushed this community forward by building the first privately owned golf course, first luxury hotel, and first medical office complex in the area. Ultimately each one of those developments do not really matter unless it contributes to leaving this area a better place than we found it. Whether that is helping companies relocate to the area to provide jobs for the community or making a new family feel welcome and part of the community, for us it all comes down to leaving the North Georgia community a better place during our time here.

What One Word Best Describes Your Life Philosophy?

Bob: Driven. It is hard for me to unplug and I have a hard time getting away. While I play golf and Frank paints, business always creeps into my mind. I grew up at the dinner table talking about work and I think that is just the way I am programmed. Growing up, we talked about work in my family all the time and I think that spirit of always thinking about ways to improve or grow is something that has played a large role in how I approach my life.

Frank: Energy, energy, energy! I am all about energy. Lately, my brother pushed me to get a FitBit step counter. I am all about counting steps these days and making sure I beat him! I love it as it gives me more energy and encourages me to keep moving. I am a high-energy person, a trait I got from my mother. Of course, I am sure that my wife would love to put me on Ritalin to keep me calm as I am always in perpetual motion. As a firm believer that energy and hard work always trumps smarts, I try to hire high-energy people, create a productive environment in which to work, and channel that energy for success.

What Do You Tell Your Children of the Future?



Bob: In all honesty, I really don't talk about the future much with my children as I have tried to set a solid foundation by living today. I used to have a sign in my office that read, "Today is a Good day," and I think that really sums up how I feel about the future. If you do the best you can today and take care of the business at hand, then the future will take care of itself. While I make goals and plans for the future, I never spend much time worrying about the future as I focus my energy on today.

Frank: The future is bright and is what you make it, but you may have to roll up your sleeves, get dirty, and push through whatever obstacles that stand in your way. In my role as a parent, I have tried to give my children four things: a strong work ethic, a sense of right and wrong, a belief in a higher power, and a strong educational foundation. With those four core areas established, no matter what circumstances befall you in life, you will be ok.

What makes North Georgia so Special?

Frank: I think it's the people. Over the past two hundred years, we have had wonderful people settle here with a solid sense of principles and values. They are God fearing, hardworking, progressive folks who become one with the community and the environment. They push this area forward and are the reason we are overcoming much of the recent adversity over the past five years faster and stronger than most other places in the country. People here realize that this area is not going to be helped by Washington or Wall Street and rely on the help of one another to move forward.

Bob: Politically, we are at the epicenter of the state which has created a multitude of opportunities from a business perspective. On top of that, Lake Lanier and the development around it has made us a unique destination for visitors and residents alike. We have maintained our own identity and have not let metro-Atlanta define our community. I think that our unique identity and sense of independent community is what sets North Georgia apart and will continue to contribute to our growth in the future.

How do You Define Community Leadership?

Frank: You have to be out in front. The pioneers are the guys with the arrows in their backs. You can't be thin skinned and you have to push forward to do great things. I think a great community leader has bold ideas and is not afraid to roll up their sleeves and help implement those ideas. In some cases, you have to dig deep into your time, talent, and resources to make the community stronger.

Bob: I think it is simply becoming involved in what you believe in and going all in. When I was younger, I became involved in the March of Dimes because I felt a real draw to the children. After that, I began coaching my kids in Little League and continued to coach long after they were too old because I genuinely enjoyed making a difference in the lives of the kids I coached. To me, it is all about getting involved in something you genuinely believe in and giving it your full focus and energy to make a difference. Leaders are, in my view, not necessarily the local political figures or the Chamber of Commerce President but people that genuinely put their whole being behind a cause and create a positive change for the good of the community.

Where do You See North Georgia in 20 Years?

Bob: When I think of twenty years' time, my first thought is how little time that truly is. Looking back twenty years ago, a lot has happened but North Georgia has still managed to preserve its special culture and identity. With that in mind, I think that twenty years from now North Georgia will have experienced tremendous economic and infrastructure growth and solidified its position of influence in the state and the region but will still ultimately provide the same sense of community we enjoy today.

Frank: Pretty powerful. We are at the precipice of a power shift in the state. The Governor, the Lieutenant Governor, and the Speaker of the House are all from the North Georgia area. Beyond that, forty percent of all new business in Georgia are locating in this area. There is this inertia that is beginning to form that will create wonderful job opportunities and expand the area's business influence outside of Georgia and into the whole Southeast. North Georgia is fast becoming the place people in the region want to live, work, play, and retire and I believe that will continue to be the case for years to come.

What Role do you see for Small Business in America and in North Georgia?

Frank: Small business has made America. It's the small businesses that run America. Although the media and news focuses on the big corporations, it is the entrepreneurs and small business owners that are working every day to employ more people and expand their reach without the government's assistance. Small business is the future of North Georgia and will continue to be the primary driver of job growth for the region, the state, and the country.

Bob: I recently took a trip to New York City and was surrounded by massive skyscrapers housing many of the world's largest companies. From Times Square to Wall Street, New York is all about big business and the hustle and bustle of corporate America. North Georgia is not New York and I think that is a good thing. It is small businesses and their attention on servicing the individual rather than the shareholders that make our community thrive. It is up to us as entrepreneurs to work together to fulfill the needs of the people without big business or Washington's help. The entrepreneurial spirit is what made America great to begin with and is what will continue to propel us forward.

The Last Five Years Have Been Challenging. What ingredients do you think mark the firm's growth and success?

Bob: Not focusing on the negative. During the last five years, we stuck to what we call the "Chicken Little Theory." When all of the naysayers were looking up and worrying that the sky was falling, we had our nose to the ground and kept plugging along. We were able to find all of the things that were good on the ground level and kept on working. We have stayed true to ourselves and have created opportunities for others to succeed by focusing on doing what we do best.

Frank: We make decisions at the water cooler and turn on a dime. If we want to open an office or buy a company, we can decide that over lunch. If we have adversity, we can make adjustments immediately. Bob and I make decisions on the fly. Sometimes they are wrong but we steady the course over time to power through the marketplace. We have worked hard to make sure our company isn't the Queen Mary so that we can adjust our sail to follow the changing winds of the business landscape.

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2014 Forecast Introduction

It's difficult to describe what we do. Hunters and gatherers of data, minutia, consumer trends, and demographics we are poring over mountains of empirical mumbo jumbo to make sense of the reality of today's market. Recently one of our academic colleges called Norton Native Intelligence™ **Psycho-Economists.** We kind of like and embrace that moniker. First, we are indeed Psycho, **wild** about data and market opportunities even in the midst of economic Armageddon. Second, we love the fundamentals of economics: supply and demand, feast or famine and the inherent qualities that drive manufacturing, service and financial markets. This notion of Psycho-Economics has great appeal. We better define it as understanding the underlying facets of consumer behavior translated into shifts in spending patterns, demand for housing or hoarding of cash in electronic piggy banks. The science of data collection meets the act of data interpretation. Psycho-Economics may not be a real word today but it is clearly what Norton Native Intelligence™ is all about. Delivering a story of reality, truth and opportunity from the raw data collected. Sifting through the collected material and charting a course for new construction, renovating our aging infrastructure, creating new jobs and protecting our natural resources (the reasons we're here).

Norton Native Intelligence™ synthesizes the tens of thousands of micro bits of data obtained through the Psycho-Economic collection process, analysis and interpretation to produce commentary on events past, present, and future.

Opportunities in the Rubble

For 27 years The Norton Agency, its sales force, management and research divisions have been called Optimists. Our philosophy in reality though, is more like

"The glass is neither half full nor half empty rather its only half full because the glass has a crack in it and if fixed it would hold much more."

Rather than be labeled optimists, we would prefer to be called "problem solvers," not opportunists but **market driven capitalists** that foresee the future through dynamics of the present and interpretation of historical trends.

Granted we have seen horrendous market upheaval since 2007, families torn apart by foreclosure or job loss, historic businesses crumble under their own weight of bank debt and overhead. We have also counseled with many ostrich leaders who with the first sign of distress, fire or smoke put their heads in the sand.

But this is capitalistic America, the land of opportunity, where a young bi-racial boy may overcome a dysfunctional household and become President. Where the nerds of Seattle's 1970 public high schools become gazillionairs in the .com and high-tech era, where a Cuban exile lost everything in the mother country but had the opportunity to rebuild it tenfold in America. Where the streets are not paved with gold, but for generation after generation success is at hand for close knit families willing to work hard, roll up their sleeves and create successful businesses.

We take inspiration, CHARGE from the handful of entrepreneurs and investors who have successfully sifted through the ashes of the market, invested strategically (that's with a clear directive) and started to build LEGACY WEALTH. We note one such stratospherically wealthy client with a publicly traded business who told us:

"It's not accumulating assets but creating value that will pass what is accumulated three generations forward."

In the past we have noted significant multi-generational asset stewardship in our region. The Banks Family - Hall, The Mashburn Family - Forsyth, The Noblin Family - Lumpkin, The Dunlap Family - Hall, The Russell Family - Barrow. But it's the power of the new wealth and their deploying their wealth through strong land based investment principles that gets Norton Native Intelligence™ juices flowing.

Those who create wealth through their operational acumen, live conservatively....with a dose of occasional reward...hold capital tight then diversify through strategic and thoughtful investments, land, rental housing, development potential property and investment grade holdings, who will reap the spoils of this investment generation.

- It's buying whole portfolios of distressed assets culling through the junk, selling those assets off and "value add improvements" to the rest.

- Building portfolios of single rental homes purchased at discounts, accelerating mortgages through rental income and riding a wave of appreciation.

But with the upward swing in the market, are all the good buys gone?

Our answer...yes and **no.**

Certainly the low hanging fruit is long gone, purchases at 5 cents on the dollar of "original" investment a long passed mirage as banks, traditional and loss sharing, have stripped and cleared their stressed asset portfolio to the walls. The renewed appreciation in the residential sector is an added plus for their remaining loan portfolio and as the tide rises, the credit worthiness of both borrower and bank improve.

But Norton's commercial and residential brokerage divisions are still seeing **gems** in the midst of smoke and fire. **Every day.** With ears close to the ground, sniper rifles at ready to draft contracts, our brokers are finding assets long overlooked, buried deep in banks excel financial ledgers or assets rented to third parties and long forgotten. We believe that the final clean up is long from over and opportunities in the rubble will surface <u>randomly</u> but <u>consistently</u> over the next 3 years.

- One third of the government induced residential refinance "hard" loans are expected to end up in foreclosure.
- Other banks "pretend and extend" credit policies will end up as short sale foreclosures or bank loss as the original borrowers are too financially exhausted to continue.
- Most sophisticated regional investors flow to the urban cores of America.
- The outer rings of Atlanta are slower to recover as the inner ring catches fire, but it's that outer ring that's Norton's and Norton's investors sweet spot.

The real opportunities are **local** investments in **local** small communities through **local** investors who are more than comfortable with the **local** dynamics. <u>Small Town is Great Opportunity.</u>

The national developers, Pulte, DR Horton, Ashton Woods are targeting specific school zones and passing on anything north of Flowery Branch (Hall), Mill Creek (Gwinnett) and The Vickery School (Forsyth). The national and regional retailers are following theses roof tops with store expansions in-filling with new stores for overlap and dominating their retail sector. The industrial and office job components are following people (potential job applicants) first and government sweetheart deals second.

PT Barnum famously said: "It's not over 'til the Fat Lady sings" and in this market renewal we may just be in the seventh inning stretch, while the Fat Lady is still gorging herself on a buffet of REO, economy weakened owners…be it office, industrial, retail and acreage properties.

What's Wrong with Normal?*

At the close of a calendar year and the beginning of another it's only natural to reflect on what has been… and look forward to what will be…

The Atlanta real estate industry: development, construction, sales and finance has made a slow steady climb out of the abyss but is still a "cat toy" that gets battered back and forth between market highs and lows. For years the national press has used the Atlanta real estate market as the poster child for gluttony, excess, then disaster and despair. While a bright light has emerged on the Atlanta horizon, uncertainty still rules most long-term investment decisions.

2013 brought much more than just improvements in Atlanta, We saw real property sustainability and market resurrection. In fact, almost 55,000 homes traded hands through the FMLS/GAMLS systems by year-end. 2013 saw Realtors fighting hard for inventory which hovered from three to five months and saw home prices escalating 4-5%. The new homes industry, shocked back to life with some sort of celestial defibrillator had single-family starts annualizing at 15,000 units principally across north Atlanta.

But at year-end, once again we hear the "national noise" with regard for Atlanta's future.. Projecting "A sales slowdown from 2013, inventory stagnant, a flooded multi-family market, and flat new home construction."

So what's wrong with normal?

The quick prediction for 2014 is that real estate sales this winter will be slow, spring and summer brisk and fall less so.

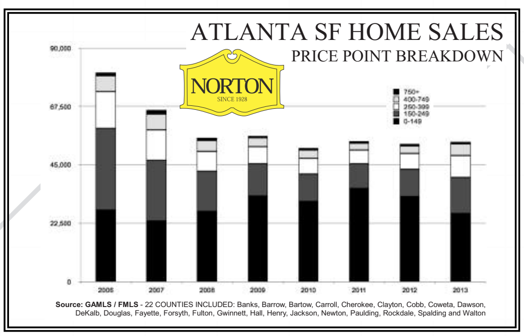
Metro Atlanta real estate professionals understand that residential real estate has a social cycle, a clear seasonality of home purchasing. Appreciation only happens April to July and in August everyone in Georgia (and America) goes on vacation (literally or mentally). Small upticks occur in the housing market in the back-to-school months of September and October, then again in November, December and January buying takes a holiday. We predict this pattern will repeat itself over and over. Regardless of how much stimulus or market hype is pushed on the populous, this social cycle won't vary in degree.

So, what we will and will not see in 2014…

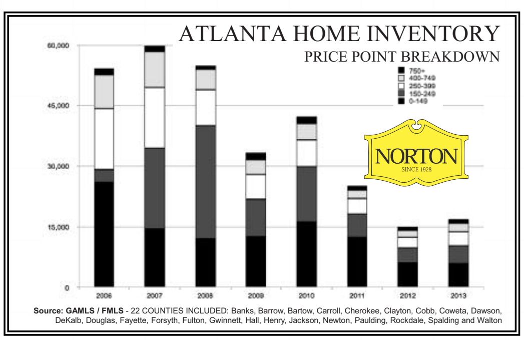
We **will not** see a surge in New Foreclosures. This wave has largely passed and the shadow inventory is disappearing as home appreciation returns to most markets.

We **will not** see an energy fueled construction boom until regulators relax lending guidelines, but our starts will tip over 20,000 per year.

We **will** see home-ownership rates around 64% and Atlanta home appreciation to range 4-5% per year for several years forward. A healthy rate of appreciation helping homeowners and stabilizing free falling county tax bases. Overall inventory will stay a modest four to five months of supply.



Atlanta has traded 50-55,000 homes through Realtors since 2008, that's the normal demand and it is not affected by aggressive lending initiatives of prior years. 55,000 Sustainable • Reality • **Normal.**



Normal is good, healthy, and powerful for Atlanta's real estate market. 2014 will be **normal.** And there is nothing wrong with being **normal.**

* Originally printed as an editorial by Frank Norton, Jr.
Atlanta Journal-Constitution
January 2014

Keeping Perspective

Even after the last five years of walking in the blistering sun across the hot coals of Armageddon, mouth parched, thirsty for renters, buyers and financial infusion/transfusion, some developers and investors still don't get it. In a recent rezoning for a PUD along upper 365/I-985 an "out of town" developer presented his vision for a high-density commercial single and multi-family development with 2 and 3 story apartments. They were quoted

"this project is just like those built in Atlanta."

Chris Braswell, local business man and member of the Hall Planning Board, said one of the most sane statements we have heard in some time and resonated across a decade of excess and financial debauchery,

" Sir, this isn't Atlanta."

Chris, we think you are right on target. No, it isn't Atlanta. It's Hall County with rolling farms, clusters of commercial and industrial development but rolling valleys and ridges, not urban density in character. People live in Hall, move to Hall or Habersham or Jackson or Barrow for that matter because we are NOT Atlanta.

The lessons of the past eight years should be burned indelibly in the minds of each and every North Georgian. Look around and see the hubris of past Georgians dreams, of long bankrupt developers and investors who believed in their own press releases and bought their own bullshit. Pipe farms of failed small subdivision lots, rolling hills of clear-cut lost forests, lots and lots of lots, vacant pipe farms and stagnant pipe dreams. They crafted, hatched and fueled the premise of "high density" to build phantom profit pro-formas but not a shred of reality to what the populous...the buying public might want. In fact, during this period countless development proforma were **densified** to increase yields and justify aggressive lending scenarios. Very few occasions were real estate professionals like The Norton Agency ever asked would **these** small lot homes sell? and at **these** prices? in **these** outlying locations? Lessons include:

- The concept of live, work, play community that make sense in urban high traffic locations, but have no place in Ducktown, Jasper, Clermont or Maysville.
- Projects have too much density. Space, wide open space drives the ex-urban markets.
- Mass grading sites and clear cutting development saves money but slaughters trees, flora and fauna. People who live out here like trees, flora, and fauna, not some "Stepford wife" reforested, replanted version of the same.
- Construction design and materials trickle up to higher home cost and trickle down to slow or even halt residential sales. Planning and zoning requirements for four sided brick has its place in certain Atlanta markets, but not price sensitive ones like Dawson, Jackson, Cherokee, Lumpkin, Barrow, Banks or South Hall.

So as not to sound hypocritical we (Norton) at times were caught up in the tidal wave of growth for **growth's sake** not growth for **human** sake. And mindful today we are still 100% for growth throughout North Georgia but growth with respect for our land, our trees and terrain. Growth with a hard dose of good old fashioned southern REALITY. We want to provide our children and our children's children jobs and opportunity here versus some long distance city. But we want to preserve and protect the souls of our communities, preserve our heritage and keep North Georgia real, not some Disneyesque developer's interpretation of the same.

We must heed the lessons of our past, remember indelibly the excesses of our development gluttony and temper our enthusiasm for the glittery shiny appeal of anything NEW. Markets, marketers, investors, developers, realtors and lenders must keep their perspective firmly anchored in reality, not boosterism on steroids. Reality of slow measured growth, reality of rational consumer needs, reality of tempered housing lending and **The Reality that this is not Atlanta.**

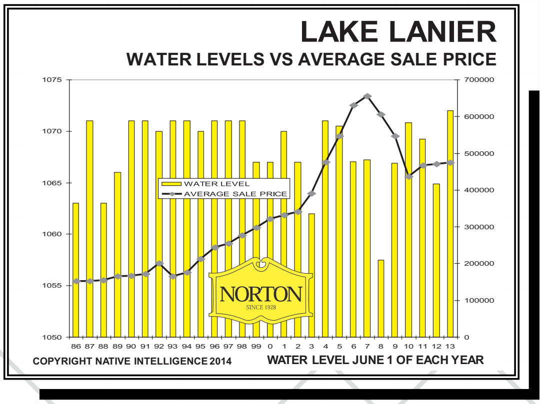
The Next Gold Rush

The next Gold Rush at least in the South will be **liquid.**

That's right, **water,** nature's abundant resource, is soon to be the economic swing vote for industry relocation, job growth, tax base stability and a major population determiner.

Water…liquid gold, clean, abundant and accessible.

We have been in a death fight for water since Governor Joe Frank Harris first created a regional water advisory group (Norton was on the original advisory committee) to help sort out economic interests of the Chattahoochee/Flint River Basin. If there are any non-believers that water means economic vitality out there they just need to look at the sales activity of homes on Lake Lanier versus water levels, and see how those two are forever intertwined:



With the current Alabama • Florida • Georgia water war in and out of court and the issue batting back and forth like a Wimbledon tennis match, there clearly will be no winners, except perhaps the phalanx of lawyers and consultants. So this is a gold rush. Which State can plan the most reservoirs, build the larger watershed, capture rainwater, storm water, recharge water, every ounce of H_2O, even harvesting the morning dew.

It's also about **Power.** In ancient times kings gained or lost power with the size of their treasury, booty or crown jewels. **Water,** the real liquid gold is no different and in fact may be even more vital because without gold you're broke. Without water you're dust. Without water nations can be conquered and governments toppled.

Right now China is building dams on every river that eventually empties into their neighboring countries, South Vietnam, Burma, India, Nepal, Bhutan, North & South Korea and Thailand. China has over 80,000 reservoirs and dams completed or under construction that stand over 30 meters, 98 feet and is the world's leader in new reservoirs. With one swift political move it is asserted that they could shift the geo-political power of the entire continent by restricting water flow.

And while the headwaters of many of the region's waterways originate in Georgia's mountains, we are not asserting shutting down the rivers, but certainly we should use original water source as leverage.

In a previous forecast Norton Native Intelligence™ proposed that our Governor call out the National Guard, storm Buford Dam, shut the water flow and tell Alabama,

"Come and get it!"

This is war and we need to fully understand that a frontal assault on Georgia's water is a declaration of economic and populist war. Without sustainable (and naturally) renewable water, our cities' industry and commerce would come to a dusty stop.

The State legislature and Governors office have developed a long range plan but Norton Native Intelligence™ is concerned that it's not fast enough. The pressure valve toward immediate action has been eased with the current economic pause but the next up cycle will be fast and furious, well over that of the previous boom cycle. Atlanta is now 6.2 million people, not 3.5 million. Georgia's industrial and job base is double and the positive vibes, facts for continued Metro Atlanta business migration are too compelling to ignore. Georgia is on the precipice of a powerful economic business wave and water holds the key to the kingdom.

Ideas Norton has supported for 27 years:

- Work in parallel to create and implement quickly the network of regional reservoirs both South of Atlanta and throughout the North Georgia mountains. Let's call this GVA, Georgia Valley Authority (pardon TVA)...Cool, clean water, natural vistas and recreation, lying in wait until we need it.
- Conservation - Reward development and redevelopment; business and personal, for substantial water conservation initiatives through Georgia Tax Credits.
- Digging Lake Lanier deeper. It makes too much sense to dig out the 15-20% of Lanier's storage capacity filled with 50 years of silt in an existing EPA approved reservoir versus waiting 10-15 years for government permission for a new reservoir. This restores 61-92 billion gallons of storage capacity. The by-product of digging it deeper is it puts thousands of grading contractors back to work and cranks up both idle machinery and the economy.
- And once dug deeper then raise the pool 2 feet. The extra 2 feet equates to another 28 billions of gallons of liquid refreshment or the equivalent of another 20 future reservoirs built decades away in Middle Georgia.

Liquid gold, Texas Tea, **"is Georgia's power...don't let it flow through our fingertips."**

The Conundrum of the Rich

New York City, in a historic landslide, Democrat Bill deBlasio won the Mayoral race that may blow ill wind across America. His winning campaign was built around a rich vs poor "Two Cities Storyline". In his election night victory speech, he described income inequality as "that feeling of a few doing very well while so many slip further behind" and further defined it as "the defining challenge of our time." Which is the same mantra President Obama has been espousing since mid-summer 2012.

The word **rich** and the word **poor** have both been relegated to the four letter dirty word category. It's not the aim of Norton Native Intelligence™ to point out the social difference only to discuss and debate the broader trend and its implications on North Georgia's future. The widening gap is in fact a function of the national populations reaction to the economic collapse and actions of one segment to get their house....Financial picture on solid footings.

- Sometimes referred to by marketers as the "mass affluent". The "new rich" make up roughly 25 million U.S. households and account for nearly 40% of total U.S. consumer spending.
- While paychecks shrank for most Americans after the 2007-2008 recession,

the rich held steady or edged higher. in 2012, the top 20 percent of U.S. households took home a record 51 percent of the nation's income. The median income of this group is more than $150,000.

- Once concentrated in the old-money enclaves of the Northeast, the new rich are now spread across the U.S., mostly in bigger cities and their suburbs. They include Washington, D.C.; Boston, Los Angeles, New York, San Francisco and Seattle. By race, whites are three times more likely to reach affluence than nonwhites.

- The new Rich's influence will only grow as middle-class families below them struggle. The Federal Reserve said that the nation's wealth rose 2.6 percent from July through September to $77.2 trillion, a record high, boosted in part by a surging stock market. But the gains haven't been equally distributed; the wealthiest 10 percent of U.S. households own about 80 percent of stocks.

- While most people are still reeling from the financial crisis, the world's wealth has risen to those at the top. A recent report found there were 2,170 billionaires worldwide, three times as many than five years ago. To many of them, real estate, furniture, and art seems a safer place to spend their money than the financial system.

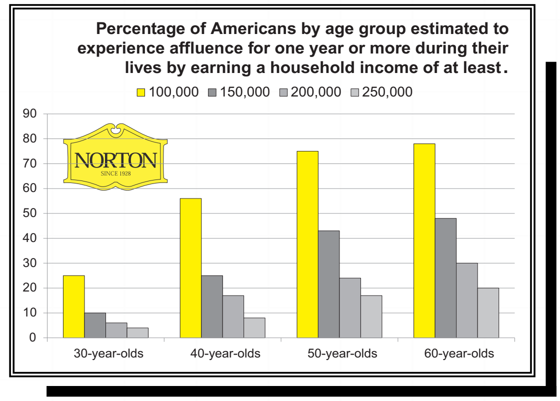
- The new research suggests that affluent Americans are more numerous than government data depict, encompassing 21 percent of working-age adults for at least a year by the time they turn 60. That proportion has more than doubled since 1979.

- The wealthiest 1% of U.S. households are saving 30 percent of their take home pay, triple what they were saving in 2008 according to American Express and Harrison Group Research.

An associated press analysis of households (2013) shows that families continue to spend cautiously and have pulled hundreds of billions of dollars out of stocks, cut borrowing for the first time in decades and poured money into savings and bonds that offer abysmal interest payments, often lower than inflation.

"It doesn't take very much to destroy confidence but it takes an awful lot to build it back. The attitude toward risk has been permanently reset."

Hoarding in the middle and upper income brackets is now the new normal. A flight to safety...real estate, bonds, burying it in the backyard is unprecedented since the end of World War II. The implications share huge shunning debt and spending less can be good for one family's finances when hundreds of millions do it worldwide together it can starve the global economy. Households' in the six biggest developed countries



added 3.3 trillion or 15 percent to their cash holding in the five years after the crisis. A historically fast savings rate.

Shunning Debt. Household debt surged at an unprecedented rate in the five years before the financial meltdown. In the U.S. it soared more than 50% per adult. Then Armageddon and people slammed the breaks on borrowing debt. Debt per adult, fell 2% in the years after 2007. People chose to shed debt even as some lenders slashed rates on loans to record lows.

Spending Slump. Cutting debt and saving more may be good for the long term but consumer spending is critically important because it account for more than 60% of GND.

Retreat from stocks: A move toward safety drove people to dump stocks even as prices rocket and put money into bonds. Lehman collapse changed everything. It's safety, safety, safety. Americans pulled the most money out, over five years. 521 Billion from stocks and mutual funds or 9 percent of their holdings were liquidated.

Real Property Assets: Awaken to astute investors who learned about real values could see, touch and visualize their land, house or commercial investment. Safety plus touchy feely comfort that it's always going to be there.

So how does this trend affect North Georgia and the wealthy's role in stimulating our economy.

- **Wealth will go stealth,** no longer hiking up their sleeves in a business photo to show off their Rolex diamond presidential watches, they are searching for invisibility, living in private compounds, behind gates, with addresses only on the mail box. They drive black suburbans with slightly tinted windows during the day, leaving the Porsche, LandRover Evoke or Bentley in the garage until night or date night. They still are perfecting "the art of privilege" but with much less conspicuous over the top spending.

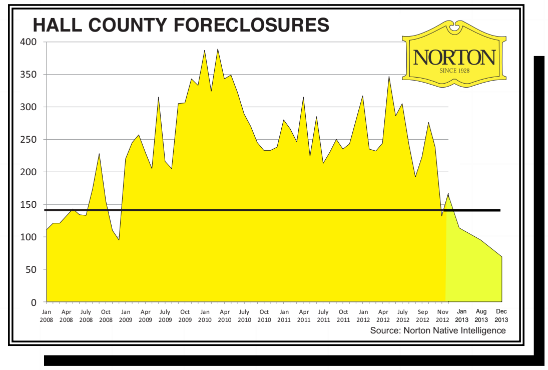
- Brace the economy for the greatest transfer of wealth in history over the next 30 years as the greatest generations 1930-1955 pass on their wealth **post death** but the baby boom wealth 1950-1970 accelerate their estate planning and program giving **pre death.**

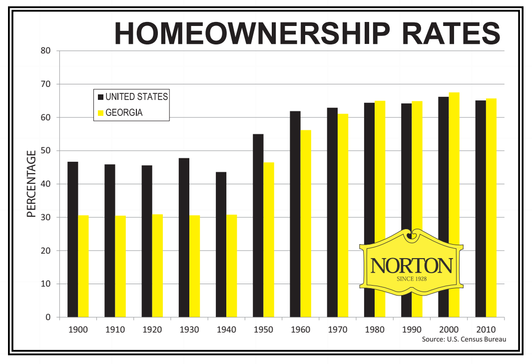
- The tax man cometh so tax planning advice and various mechanisms of protections will be in hot demand. Expect taxes, fees and "government whatever" to accelerate 15-25% over the next 20 years so passing family businesses from one generation to another will become increasingly challenging.

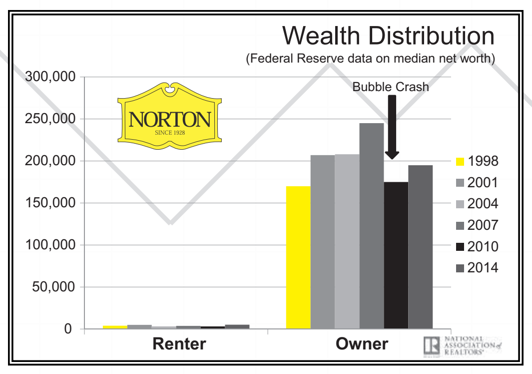
- Homes become nests for comfort and fortresses for protection. Comfort features include living-kitchens, bedroom suites and outdoor spaces are interlinked with safe rooms, security surveillance and gun rooms.

In the early days of wealth emerging in North Georgia, 1940-1960 you were either "chicken rich" or "chicken poor" relating to the wild swings of feed and grain commodity prices and the retail price of Winn Dixie frozen chicken. When rich, we drove finned, chromed, land yachts only to drive bald tires, beat up Ford pickups when the market collapsed.

As divided America continues to fracture, we see more and more middle and upper middle successful American's seek out a **cloak of invisibility.**







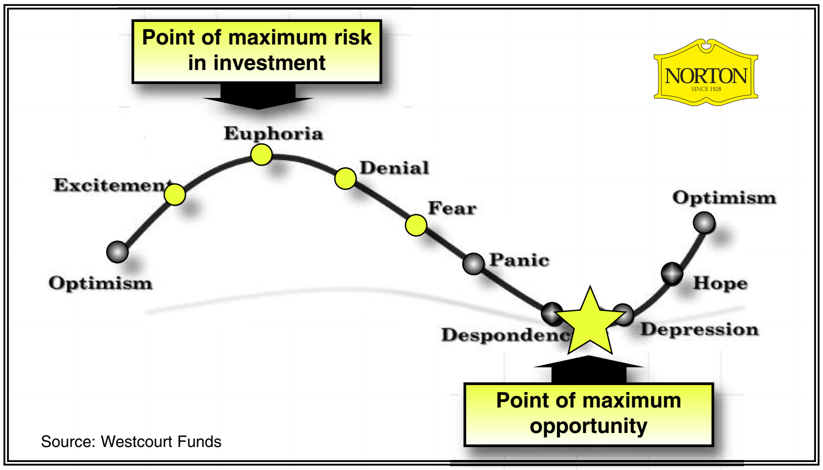
Executive Bookmark Reading List 2013-2014

The editors of Norton Native Intelligence™ are voracious readers in their quest for their lifelong learning. While we take and read close to 20 local and regional newspapers it's the "Deep Think" of new ideas that gets our brain juice flowing. Some of the books on our current reading list that have influenced our conversations and writing include:

David and Goliath	Malcom Gladwell
The New Geography of Jobs	Enrico Moretti
On Looking, Eleven Walks with Expert Eyes	Alexandra Horowitz
The End of the Suburbs	Leigh Gallagher
Contagious	Johan Berger
The Happiness Advantage	Shawn Achor
Drunk Tank Pink	Adam Alter
Great by Choice	Jim Collins & Morten Hansen
Leadership Isn't for Cowards	Mike Staver

What Next?

We have been researching and writing Forecasts for over 32 years now, first for a National Real Estate Company focused in the early 1980's on metro Atlanta, though a population of 2,233,000 at the time. And for the last 27 years for North Georgia. We have seen cycles up, down and sideways... feast, gluttony and scorched earth economic starvation.



But the single most asked question today is simply... **"What Next"?**

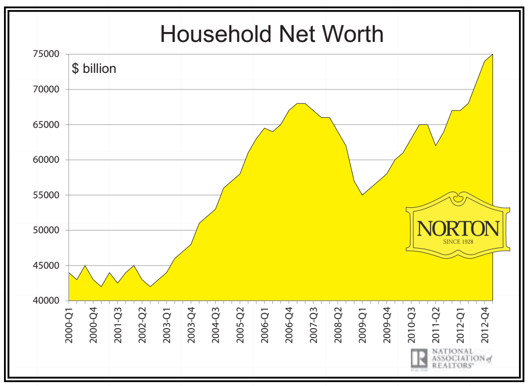
If we are in a housing recovery, will it last one, two, three or ten years? If we are not in a housing rebound then just what are we in? When will we feel better? When will we be calmer about our condition and when will life return like we know it...or ideally wish it to be? Winston Churchill may have said it best;

> *"This is not the end, it is not even the beginning of the end, but it is perhaps the end of the beginning."*

WHAT NEXT?

The question still looms even in the most astute business mind and well healed investor. **Before...** that is pre economic torn 2008, Americans collected cash, real estate, stocks, bonds, securities, 401k's, IRA's....pennies in **three** distinct baskets. The **first** was a kid's or grandkid's education fund (basket) because we believe that education is important and giving our children a firm foundation imperative. The second basket held by American's was for retirement, nest eggs to live comfortably beyond productive working years; paying off your house, have income to supplement Social Security and healthcare expense and planning to live the remainder of our lives relatively financially secure, without worry. The last and third basket was unadulterated FUN. That loaded basket helped us take exotic vacations, world cruises, buy new cars every 50,000 miles, load up on designer goods, second and third vacation homes and gorge ourselves on a myriad of other decadent indulgences.

Then came the Fall of 2008. We as Americans had ignored "the canary in the mines signals" of California, Nevada, and Arizona real estate crashing in 2007, our own Georgia's new construction slow down and the looming adjustable mortgage reset bubble. The stock market crashed, banks, big banks collapsed. AIG, Fannie Mae, Freddie Mac, General Motors, and Chrysler had to be bailed out with swimming pools, no oceans of federal money. The GIANT wakeup call to America came in October 2008 and again at year end 2008. At this time, our IRA, 401k summary statements showed a massive retreat of our personal and small business net worth. On top of that bad news, newspapers were filled with page after page of foreclosures and negative article upon article about the cataclysmic collapse of value of our stock, bonds, homes or other assets. These chroniclers of doom told of the impending loss of our homes to foreclosure, loss of Americas jobs to the awakening giant of China, and our personal portfolio of assets sliding over the cliff.



Beginning in 2009, shell shocked but alive, we dusted ourselves off, looked at the surrounding rubble of what had been and resolved to fix our lives moving forward. As bright agile Americans, we rapidly reallocated our baskets shifting money to prop up kid's education funds, working longer so that the retirement basket might be replenished and we saw the FUN basket simply evaporate. We told ourselves that we could put off retirement, work longer, we could also have fun later, this was crisis mode in the U.S.A. Pay off debt, eliminate credit cards, delay purchases, drive our cars to 150k or 200k miles and **enforce** discipline across all age groups, family units and businesses.

Symptomatically, we Americans had gone into cardiac arrest, only to be slowly resuscitated and pulled out of the abyss over time. It's been a slow climb and still not over yet for many Americans Employment is still millions of workers off its 2006 peak, home values have rebounded slightly, consumer confidence is up but not completely stable and looming political and Obamacare issues contribute to a general malaise and rampant **uncertainty about the future.**

Now in 2013, we saw some light; sprouting shoots of positive movement. With the uptick of the Bond and Stock market our baskets are not quite full but abundantly better. Only now, we as Americans have our lives and financial resources separated into FOUR baskets, not three; one for education, one for retirement, one for fun, but we have added a basket that did not exist in 2008. Norton Native Intelligence™ calls this basket **"What if"?** We as Americans were caught off guard by the economic calamity and we have vowed never to let that happen again. Few if any had "contingency" reserves for loss of work, loss of overtime and the credit crunch when borrowing halted for small business. And this **"what if"** basket is fundamental to Norton Native Intelligence™'s answer to the question...

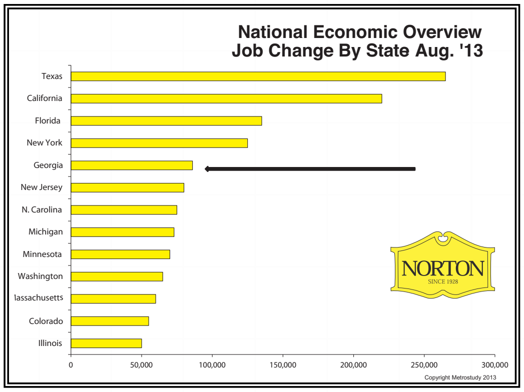
WHAT NEXT?

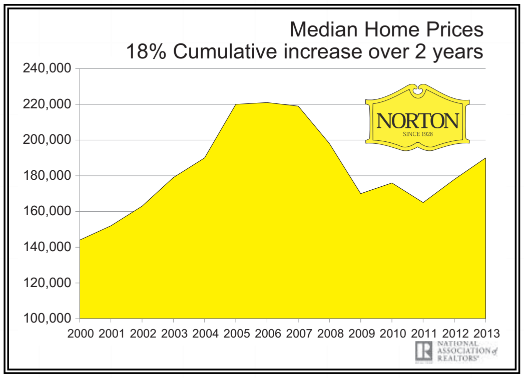
We have moved to a more rational economy, become more of a conservative people. Our spending habits have been altered, our **"want list"** has been greatly reduced and supplanted with a family or business **"need list". We pause** before purchases (family or business) calculate return on investment (ROI), we hoard cash and deploy it carefully and creatively. We have pledged to family and friends to never have all our eggs in one basket, one asset class or one geography. We are wiser and stronger. We like once lost birds have returned to our nests (homes), not "bunkering in" but improving, redecorating and redoing the kitchen, creating family gathering nesting spots inside and out. Our businesses today run leaner, with less employees and more productivity. We are working harder than ever before, but fun is returning. We are still in a state of evolution, but our adaptation to this new day has made us resilient and more determined than ever before, to succeed and plow through any obstacle in our path.

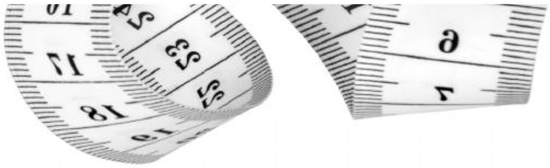
In high school in the early 1970's I was forced by my English teacher to read Alvin Toffler's **Future Shock**..Too new a book for Cliff Notes at the time, the book left a lasting impression on me. Toffler's main point was that the world was going through transformational change from industrial to post industrial or technological civilization and associated economics. Decades later the book holds true including Toffler's principle that this rate of change in accelerating. In other words, if you think the world is transforming fast now, just wait, soon it speeds up. **Future Shock** foretold the events of this past two decades, our irrationalities and our lost priorities, today it points ever mindful to the SPEED of change. In the Residential Real Estate market we have seen the pendulum swing swiftly from a massive morning hangover of inventory toward a severe product and price point housing shortage. We have seen home **value depreciation** swing to **home value appreciation** in a matter of seconds (months). **The velocity of change is dizzying.**

The key to success forward, is to become laser focused on your objectives, understand the fundamentals of the markets we find ourselves in and target opportunities and obstacles in our path.

Train your lasers on stun and power through the market.







Small Spaces, **Big Numbers**

983 square feet
Average American home in 1950

2,480 square feet
Average American home in 2011 (an increase of nearly 150 percent).

400
square feet or less

The Size of spaces that fall into the tiny home category

1% of Americans live in micro-homes

15% the amount of space a garage takes up in the average house

$20,000 - $30,000
Cost of average micro-home

10%
the percentage appliances account for in the increaces of house size since 1950

$178,600
U.S. median home price

$205,187
Cost of average U.S. Home

$237,700
U.S. median price of new homes as of October 2012

"In small towns Banks are the economic lifeline."

"Ninety five percent of the world wish they had America's economic problems."

"The biggest threat to our Nation is the wasting of our greatest resource....Young People."

"The middle of nowhere is half way to somewhere."

"You can't box with a crazy kangaroo."

"That what don't kill you makes you stronger."

"We are in the midst of a LOST generation of new homes construction."

"The real estate market is a cat toy that gets battered back and forth between the market highs and lows."

"Democracy is not a spectator sport."

"Real estate is a geo by geo determination."

"Some people have gotten used to not working."

"Banks are always the last player in a game of musical chairs."

"Paper or mapped lots are gaining value."

"As much as 50% of America may be credit disabled or have some credit imperfection."

"I personally believe the juice is worth the squeeze."

RADAR

NEWS · FINDS · OPINIONS · TRENDS · 2013-2014

For years Norton Native Intelligence™ has followed various interviews, conversations, surveys and stacks and stacks of collateral research into a story of the economic condition, the "State of the Union" for our region. Today Norton, through its various listings covers 67 counties in four states and now has operational interest from Habersham to Fernandina, Cordele to Dalton and Birmingham to Anderson. Our extended radar and associate research now encompasses a statewide business view and regional impact for this New South. **Radar** is our 21st century way to present a host of micro trends on our radar, a written Pintrest of those thoughts and ideas that have caught our eye. Some of these are bursts of brilliant new thoughts, others are perhaps "canaries' in the mine" for potential trouble as we move forward.

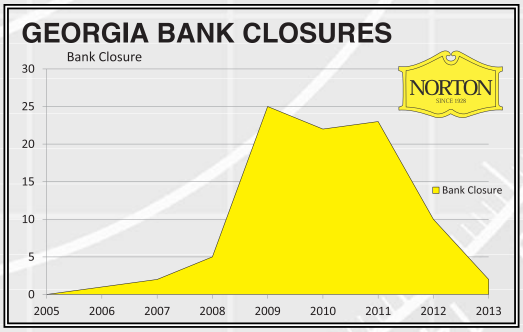
The expansion of Georgia's ports over the last fifteen years and the proposal of deepening of Savannah's channel feels foreign, of little import to the business centers in Atlanta and the Georgia Mountain regions. **Not so.** It is true that the expansion of the ports have a seismic affect on the 100 or so miles around each Brunswick, Augusta, Savannah, Charleston and Jacksonville. That swath will see logistic trucking centers, maintenance facilities and heavy transportation shipping oriented manufacturing, but in fact the entire region has been affected by the decentralization of the Texas and New Orleans ports and the vibrancy of manufacturing trying to efficiently distribute goods and service across both Americas. With projections that Georgia Ports Authority could increase 10 fold **or more** means the major **roads through** Georgia become America's lifeblood. Arteries stimulating economic activity all along the passages. We project the ports will accelerate an exodus of northeast U.S. manufacturing and continues the expansion of European manufacturing over the next 20 years, all tied to direct result of Georgia's port initiative.

States with Fast Job Growth

	State	Job Growth Rate
1	North Dakota	3.2%
2	Utah	2.7%
3	Idaho	2.5%
4	Texas	2.4%
5	Colorado	2.3%
6	Minnesota	2.3%
7	Georgia	2.1%
8	Washington	2.1%
9	Arizona	2.0%
10	New Jersey	2.0%

Foreclosure Vampires are those creditors who have been living, sucking on the bank "for free" for years. Although isolated in the grand scheme of things they give the creditor who did pony up and work through their problems a **bad name** when the word foreclosure is painting across the market with a wide brush.

Expect further **Georgia Bank consolidation** in the next five years. Bottom line is that bank directors of the remaining good banks and bank directors of the nearly walking dead banks are suffering from **director fatigue**...constant eternal criticism by regulatory authorities, new regulations upon new regulations stifling the urgency to lend...or the interest in lending at all. These banks with definable market share and strong community relationships will seek bigger brother partnerships to prop up some **as semblances** of stock value (not full return) and stop the continued request for additional capital to meet ever changing federal requirements.



Dynamic banking organisms created or re-capitalized to take advantage of the FDIC's Georgia bank scorch the earth shutdown policy are now having difficulty expanding their footprint for growth. C&S, Hamilton State Bank, State Bank and Trust, Certus, Bank of the Ozarks, CBT/South Carolina all have the appetite for more growth and will seek out traditional bank merger to link the strand of disconnected pearls they have acquired since 2007.

Studies show that well over a third of **renters** used to own a home and more than half hope to in the future.

Single Family Rental has emerged as a strong, solid asset class like office, retail, industrial land and multifamily. The original premise was the large Wall Street investment funds would come in and quickly go out 5 to 7 years out. Funds were buying homes in areas at prices above what **homeowners** might buy but now that have flipped. Homeowners are paying much more, driving up prices and property appreciation in most National markets.

The country and Georgia has been **under** building for 7 years, yet **household formation** is continuing at a steady pace. This quantified is a 50% reduction of Supply vs. Traditional demand. It could take 8 to 12 years of accelerated building to re-balance the system...catch up.

When the **homeownership rate slipped** from 69% to 63%, one million people entered the home rental market.

Biggest Obstacle to Homeownership

	All adults	18-34 year-olds only
Saving enough for a down payment	55%	58%
Not having a stable job	36%	43%
Having a poor credit history	35%	33%
Qualifying for a mortgage	32%	29%
Unable to pay off existing debt	26%	30%
Rising home prices	22%	23%
Rising mortgage rates	15%	18%
Limited inventory	5%	5%

Source: NAR

In the third quarter, **investment in home improvements** was $178 billion, while construction spending on new single family (SF) houses and townhouses was $172 billion, each about one percent of GDP. Similarly, in Q1 spending on home improvements was $161 billion, slightly above the $157 billion spent building new SF structures. Normally new SF construction spending is double spending on improvements! Worse, to date in 2013, new SF construction spending is flat.

According to Harvard University's Joint Center for Housing Studies, the **number of minority households** will grow by 8.7 million over the next 10 years, accounting for seven out of 10 new households by 2023.

During the same period **National Single Family Rental Home Aggregators** came into the market and bought 125,000 homes, mom and pop investors bought 1.2 million homes. It's still very much a local driven small investor opportunity.

The difficult challenge of this economy when you have a **foreclosure family renting homes** down the street in the same school zone is that you have to retrain them that you **must pay** rent vs. living in a house for free.

Foreclosure buys at the courthouses of Georgia are now selling at a 27% discount **off** market value versus 47% discount at the peak of distress.

The **World Governments** endless money printing presses are fueling an investment conundrum with no place to put it. Stocks and bonds are reaching new highs. This will transcend to real estate. Federal Reserve economists recently projected 200 to 300% property appreciation 10 to 20 years away. World economic and political conditions will force money toward safe havens...spell that U.S.A.

No one watches the **unemployment rate.** The labor rate or total U.S. employment is now the primary bellwether for economic strength. They have played with the unemployment rate for so long no one believes them anymore.

The **FDIC Director of Strategic Assets** has gone on record December 2013 saying there will be no "fire sale" of Loss Sharing Assets. As their partnerships transition, the remaining assets will be folded into the Loss Sharing Bank's Lending Portfolio.

When a **consumer** selects a home but can't get the targeted interest rate, they employ "The Power of Substitution". **Home buying for 75% of America is all about the payment.** So they either put more money down in equity if they have it, they substitute a cheaper home or they change the loan type from a fixed to an Adjustable Rate Mortgage.

Census 2011	
Owner-occupied	*74,264,435 (64.6%)*
Renter-occupied	*40,727,290 (35.4%)*

Census 2007	
Owner-occupied	*75,515,104 (67.25%)*
Renter-occupied	*36,862,873 (32.8%)*

Source: US Census

Since early 2010, **cap rates** across all income-producing property types have declined to historically low levels. This rate compression has been most pronounced in multifamily and credit-tenant, net-leased properties, where rates have dipped below 4 percent. Cap rates compression has been slower to occur for industrial real estate, although that's changing quickly as investors rotate out of multifamily and recognize the significance of e-commerce growth and the Panama Canal expansion, both of which are reshaping America's supply chain.

U.S. home values will increase by 3 percent in 2013, home values rose rapidly (roughly 5 percent nationwide and more than 20 percent in some local markets) and while these gains were beneficial at the time to pull home values up from unnaturally low levels, they were also unsustainable. Many metros saw appreciation well above historic norms, sometimes 4 or 5 times their historic appreciation levels. In 2014 we expect, home value gains will be tempted significantly because of higher mortgage rates, more expensive home prices, and more supply created by fewer underwater homeowners and limited new construction.

Mortgage rates could reach 5 percent by the end of 2014, we believe that as the economy continues to improve, the Federal Reserve will start to taper their quantitative easing efforts, which, in turn, will cause mortgage rates to rise. We expect that they will exceed 5 percent for the first time since early 2010 by late 2014. Because affordability is still high in most areas relative to historical norms, rising rates won't derail the housing recovery. However, some areas will be impacted by rising mortgage rates more so than other areas, as some markets are http://www.zillow.com/blog/research/2013/10/04/zillow-q2-2013-affordability-and-interest-rates very close to their historical affordability levels and will soon become unaffordable.

It will be easier for **borrowers to get a mortgage** in 2014 despite higher mortgage rates, actually getting a loan will become easier next year. With less demand for refinancing, lenders will have to make up lost business by competing for new buyers and hopefully loosening their lending standards.

Homeownership rates will fall to their lowest point in nearly two decades homeownership rates have been falling for some time now, and we expect this decline to continue as foreclosures continue to displace homeowners and rental demand continues to be high.

Slowing sales have had three causes at their root: Sticker shock caused by significant price increases in the spring (much more significant in the West and South than in the North and East), Rising mortgage rates in June Economic fright caused by our leaders in Washington in September and October.

Total Residential Units Closed in Metro Atlanta (22 Counties) Year over Year as of September, 2013

New SFD	**9,645**	Up 44%
New Townhome	**1,527**	Up 3%
New Condos	**801**	Down 21%
Resale SFD	**84,633**	Up 1% (23% REO)
Resale condo/townhome	**9,016**	Up 3%
Grand Total	**105,538**	Residential closing Y over Y

Source: Metrostudy 2012

Move-up buyers, Affluent homeowners are a much higher percentage of activity than usual today. The more affordable locations in an area are generally weaker than the best neighborhoods, even though the price gap between good and bad locations may be near an all-time high. The median income household, which is usually the heart of the housing market, continues to struggle.

In a number of markets, **foreign buyers** are playing a significant role in price appreciation. We are tracking exchange rates (which have been very favorable for many countries), foreign economic growth, and direct airline traffic for signs that this will continue.

Boomerang buyers. There are several million more single-family rental homes than there were several years ago. Many of these tenants are paying more in rent than they would in mortgage and property taxes if they became homeowners. How many of them can and will return to homeownership will be a key determinant of the housing market.

The Home-Buying Process Gets Less Frenzied. Home buyers in 2014 might kick themselves for not buying in 2013 or 2012, when Mortgage rates and prices were lower, but they'll take some comfort in the fact that the process won't be as frenzied. There will be more inventory on the market next year, partly due to new construction, but primarily because higher prices will encourage more homeowners to sell - including those who are no longer underwater. Also, buyers looking for a home for themselves will face less competition from investors who are scaling back their home purchases. Finally, mortgages should be easier to get because higher rates have slashed refinancing activity and pushed some banks to ramp up their purchase lending. Moreover, the new mortgage rules coming into effect in 2014 will give banks better clarity about the legal and financial risks they face with different types of mortgages, hopefully making them more willing to lend. All in all, more inventory, less competition from investors, and more mortgage credit should all make the buying process less frenzied than in 2013 - for those that can afford to buy.

Despite the market down turn continued healthy demand for **retail space** is driving strong occupancy increases for many of Georgia's anchored shopping centers, some landlords are even showing rent increases. While we still are not seeing the formation of mom and pop business, most of the new leases are coming from National, Regional or Franchise operators. Many retailers have realized they probably over-reacted in terms of closures in 2010 and now these National users are scrambling for space and positioning. A good example is Starbucks. Eighteen months ago forecasters predicted "they're done, they're closing stores" and they have too many stores. Now Starbucks is opening lots of new locations or re-opening stores that they had previously closed.

Fastest Growing Fast-Casual Chains
Ranked by unit increase 2011-2012

Rank/Chain Name	2011 Unit Increase	2012 U.S. Units	% Change
1. Jimmy John's Gourmet Sandwich Shop	231	1,560	17.4%
2. Chipotle Mexican Grill	174	1,399	14.2
3. Panera Bread	163	1,343	11.0
4. Five Guys Burgers and Fries	142	1,060	15.5
5. Panda Express	133	1,533	9.5
6. Firehouse Subs	92	569	19.3
7. Dickey's Barbecue Pit	82	285	40.4
8. Which Wich	80	235	51.6
9. Jersey Mike's Subs	77	584	15.2
10. Einstein Bros. Bagels	59	685	9.4
Total	**1,233**	**985**	**14.8%**

A record 21.6 million of the **boomerang generation** are refusing to flee the coop. According to a **Pew Research Center** study 36 percent of young adults ages 18-31 are living with their parents. That's the highest percentage in four decades. Researchers cited rising unemployment and college enrollment as a basis for the trend, as well as millennials refusal to marry and remain single. Unemployed millennials are obviously the most likely to live at home. Since the last time Pew collected information in 2007, unemployment has gone up seven percent. However, the study had good news for those incurring college loans in spite of the shaky economy. Degrees are worth it since college-educated adults were much less likely to live at home after graduation. Parents are the hardest hit by the trend, since most didn't plan for the financial possibility of having to care for their children after age 18 or college. It already costs about $300,000 to raise a child to age 17, and an added $160,000 if they decide to go to college. But there is a chance that this trend won't go away if the economy turns around. The amount of millennials living at home is so significant that researchers couldn't explain it away with just unemployment statistics. There indeed may be less stigma among young adults about living at home. Even when the economy fully recovers, the tendency may be to live at home longer.

Consumer optimism is climbing back. In Trulia's latest survey, 74% of Americans said that homeownership was part of achieving their personal American Dream - the highest level since January 2010. Even among young adults (18-24 year olds), many of whom struggled through the recession and are still living with their parents, 73% said homeownership was part of achieving their personal American Dream, up from 65% in August 2011. Rising prices over the past two years have been great news for homeowners, especially for those who had been underwater, and the real estate industry has benefited from both higher prices and more sales volume.

For buyers. Lead with a credible offer. We have moved to a time of multiple bids and low-balling isn't the way to go. The reality is that sellers don't have to come back to you with a counter if they've got better bids. No one wants to overpay either. Even in markets that are starting to experience bidding wars, final sales prices are still typically about 1% below asking. It's important to use your agents (like Norton's) local knowledge and go in with a respectable bid.

For Sellers. if you like your home and are not in a rush to sell, you have great flexibility. Rising home equity will make it easier for you to borrow against the property to help pay for deferred maintenance or home renovations you've been considering for years. Those will likewise add value when you ultimately put your home on the market.

Home inventory is at the lowest level since the 1970's and dropping every day. Without a massive uptick in new home construction, Norton Native IntelligenceI™ projects North Georgia's single-family home inventory will drop below 4% and homes under $150,000 could move toward **non-existent.** Prices will inch up quarter by quarter but have a long climb up to **the bloated 2006 values.**

Those **homeowners listing prices** coming back on the market at 2005-2006 listing prices will be very disappointed. Today's homebuyer is looking for **value,** lots of house, lots of property and in near perfect condition! 2000 or 2001 prices are typically the 2013 target.

We're telling our **Home Buyers** to expect to fall in love with a home, make an offer. **Loose it.** Fall in love with another house, make an offer. **Loose it.** Fall in love with a third maybe, even a fourth before striking pay dirt. Multiple offers are common place for homes under a $250,000 and in some cases, more and more frequent, bidding escalates and the home sells 5 to 15% above asking price. A changing market for everyone.

Permits

	Total 2012 Permits	Total 2013 Permits*
Metro Atlanta	8324	13956
Cobb	1251	1525
Gwinnett	1242	2570
Forsyth	1333	2275
Hall	301	480
Cherokee	765	1201
DeKalb	242	295

(Select Counties - SourceMetrostudy) **Year end estimates NNI*

Private Lending is now no longer **private.** High net worth individuals are actively seeking lending opportunities of all equity ranges and product types. With Money Market rates in the cellar along with CD's.... 6% or higher private interest rate loans are compelling especially with added incentives of balance equity to debt ratio's, percentage of net profits and participation of ownership. Those investors with cash **properly deployed** will be able to capitalize on the banking slow engines for at least a half a decade forward.

Retail.....is heating up. Value priced food, restaurant, automotive, gas, dry goods and discount chains are heating up their site search. They are blueprinting the next anticipated growth cycle and are capitalizing on lower site costs and competitive bricks and mortar expense.

Lots..... Over the past several years, builders have gotten comfortable paying below market value for finished lots. Finished lot prices were as low as 5% - 6% of home values in some areas. Builders and developers wrote down lot costs and were able to dispose of them at less than the cost to develop. REO supply grew, and it seemed most builders were taking down lots from banks, not developers. Even though communities were struggling to generate sales, the holding cost of lots was relatively low.

As activity has **jumped** over the past several quarters, builders are scrambling to control lots that they previously were scared to put on their books. Developers and investors who have held out through the downturn are finally being rewarded for their patience. Developers in many markets are now getting 20% to 23% of finished home price from builders for lots in A and B locations. This may be hard to stomach for those who have become accustomed to paying $15,000 to $20,000 for lots in recent years, and are now forced to pay over $30,000 for a lot in the same community.

Over the next year, most **builders' focus** will continue to shift from generating sales to securing land positions. Homebuilders will offer fewer incentives and options to gain market share, and focus more on controlling lots in the top submarkets. Sales manager may have been the hardest working bunch through the downturn, but that role may now be shifting to the acquisition and developments teams. The days of calling an asset manager and signing a contract to buy lots are coming to an end. It's back to intensive research and due diligence, and taking a piece of dirt for LOI to finished lot.

Millennial struggles during the recession have heavily influenced the urban multi-family market. Their incomes started lower than their predecessors and grew slower. Already the most likely cohort to be renters, the tightened housing, and mortgage market has forced more into apartments for longer than historical norms. This generation desire more input into the kinds of rentals they wish to reside and the variety of new and innovative rental units are our welcomed result. From the community-oriented wraps down to the micro-apartments, clever developers have been able to carve out a niche to meet the need while making a name for themselves. When looking to keep millenials on a fixed monthly payment near the urban core they desire, micro square footage rise as the only true variable.

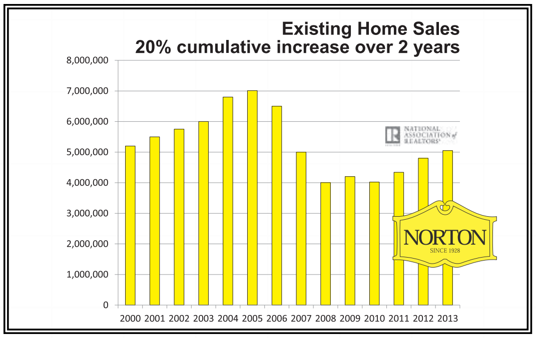
According to research from American Express Publishing and Harrison Group, the savings rate of the wealthiest 1 percent soared to 37 percent in the second quarter. That's up from 34 percent in the second quarter of 2012 – and more than three times their savings rate in 2007.

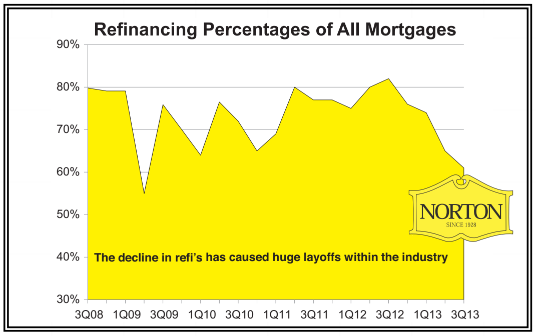
A separate study from Bank of America recently found that 56 percent of millionaires have a "substantial" amount of cash. Only 16 percent of them plan to invest that cash in the next couple of months. And only 40 percent plan to invest it over the next two years.

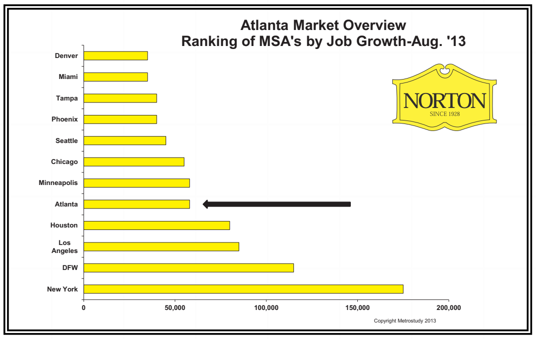
When Norton Associates were asked to project the future of real estate three years out, 2017, their predictions included more cash required to purchase any real estate, continued inventory shortages in all price ranges under $750,000, limited new construction and a start of the slow sell off of the rental home aggregate stockpile.

Buyers today are facing the reality of a new market. They are not quite as obsessed with finding "the deal of the century", but want to stretch their purchase dollar wherever possible. They are showing less willingness to wait and buying something to flip or renovate to better suit their needs.

The success of Village of Deaton's Creek and Cresswind are indicative of the strength of the active adult market and outward migratory patterns of Gwinnettians.







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Comments on the real estate market when asked about the North Georgia market, our sales staff said...

Residential

- We see multiple offers/back up offers.
- Financing tough, private money and cash rule.
- Parents are paying anything to get the kid out of the house.
- Fannie Mae is sitting on 10 to 20 offers before they select a buyer and sign a contract.
- The biggest buyer segments are young folks and those over 55 wanting to downsize.
- Down payments are rising.
- Prepping your home for sale means more than cleaning out closets. It's flat screen TV's/surround sound, outdoor spaces, new countertops.
- Keeping your home ready to sell at any time is important.
- Housing trends include active adult, steam showers, smart houses, living kitchens, master domains (living+bed+spa+study).
- Limited construction means spotty. Mundy Mill, Cresswind, Deaton's Creek, Sterling on the Lake, **and that's it.**
- Rentals becoming a huge part of the housing markey. Investor rentals and parent rentals.
- Second time home buyers have entered the market.
- Appraisers are slowly coming back into the game... 6-9 months behind the rest of us.
- We are showing less because there are **fewer** choices. We see some buyer movement NOW to avoid anticipated interest rate hikes.
- Potential homebuyers must fall in love with one home after another until they get one under contract.
- Sellers - more optimistic
holding firm/waiting
no sense of today's reality
- Buyers - vulture mentality
preparing to buy cash - no loans
desperation
no sense of today's reality

Commercial

- Obamacare is the number one issue on the small buusinessman (woman) mind today.
- Industry relocation's look for multiple price point housing alternatives. Apartment, mobile home, work force housing, executive, management housing within a 40 mile drive radius.
- Regionally we have 85-110 million square feet of quality industrial commercial space.
- For a blueprint of a successful small town square, visit Dahlonega, Clarkesville, and Gainesville.
- Personal care/medical services/medical care are the hottest product class and drive tenants.
- Private acreage playgrounds are in vogue...hunting tracts, gentlemen farms, recreational play grounds, 4 wheel dirt tracks.
- Two grocery business plan extremes in the market: super sizing Kroger, Publix, Whole Foods, and micro markets, Wal-Mart Marketplace, Piggly Wiggly.
- Banks are winding down the REO trash removal.
- Seeing an increase of recreational leisure, retail uses, travel ball, cheerleading, gymnastic, zumba, indoor soccer, personal training, and fitness gyms on steroids.
- Lots of lots selling in school zone hot spots.
- The drug store footprint or better known as the CVS/Walgreens march across the south is essentially in place.
- Products to watch. Liquor stores, title pawn, pawn, fast food, limited service restaurants, gas, car lube/parts.
- EB5 immigration program has morphed to buying America to get a green card. Institutionalization of immigration buys has created limited liability investment pools for American want-a-be's.
- We see continued bank officer and back office layoffs and the remaining banks on the road final clean up, right sizing of their footprint and outsourcing whatever possible to contain potential overhead.
- Personal care homes are positioning in markets with strong hospital connectivity. We are all growing older.

2014 Information Sources

- Norton Native Intelligence™
- US Census
- First MLS
- GAMLS
- Metrostudy's
- Realty Trac
- North Georgia College and State University
- National Association of Realtors
- University of Georgia Selig Center
- Georgia State University for Economic Forecasting Center
- The Beasley Report
- Case-Shiller Index

"The market has rebounded...even Detroit has stabilized. That market price average is up 40%, from $10,000 to $14,000."

"Residents who tasted home ownership however brief prior to foreclosure, want to rent homes and not step back into apartments."

"1/3 of all government HARP loan modifications will still default."

"We are witness to the fastest housing economic turnaround in history, moving from a severe buyers market to a severe sellers market almost overnight."

"THE CRAZY MONEY HAS EVAPORATED."

"Look farther than you can see, people without vision....perish." Proverbs.

"Second place is just the first loser."

"Markets can get efficient in a great hurry."

"Still a lot of diamonds in the rough out there...opportunities for great buys and great appreciation."

"With a projected 2.5 to 2.8% national growth rate for years. The right spot is holding hard assets."

"There is no such thing as a National housing market. Reporters and economists look for 1 number but don't get it right....it's all Local."

"Walking into a house after buying it at a foreclosure auction, it could be Christmas or it could be Halloween."

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

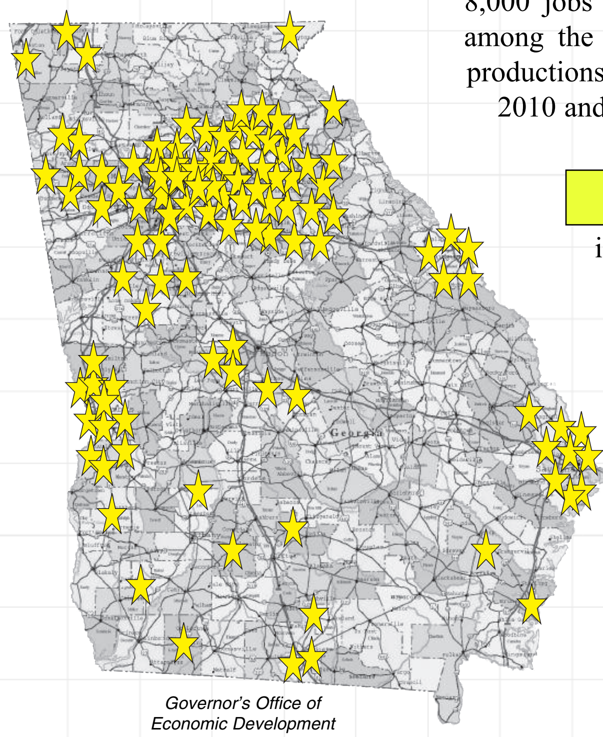
Norton Native Intelligence™ staff has spent thousands of hours building and maintaining a robust platform of historical and current community data at your fingertips in order to educate and power our clients forward through the storm of economic business and regional change. We invite you to explore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

Ranking Matters

Georgia ranks fourth in high tech employment with 166,500 workers, is fifth in internet and telecommunications sectors, fifth in software and 10th in engineering service employment according to Tech America's cyber stats report.

Georgia exported a record 36.1 billion worth of goods in 2012. A 24.8 percent increase in the past 10 years nearly 150 percent growth (source, International Trade Administration, U.S. Department of Commerce).

Major Job Announcements 2007-2013



Governor's Office of Economic Development

Georgia is the most educated state in the southeast. Ranked the sixth youngest median age in the nation with nearly 30 percent of its residents age 25 or older having a Bachelor's Degree (sources, American Community Survey, U.S. Census Bureau).

Georgia ranks among the Top 10 states with the most Fortune 500 headquarters. Georgia ranks eight among states with the most Fortune 500 headquarters in the nation, with 16 leading companies. Atlanta ranks third among cities with the most Fortune 500 headquarters.

Domestic and international net migration continues to be strong, as Georgia ranked among the top 10 states to attract most newcomers between 2011 and 2012. Net migration will remain strong over the next few years with the addition of 98,300 newcomers projected by 2014.

New home construction rebounds in 2014 with the number of single-family permits returning close to pre-recession numbers seen before 2008.

The Kia plant and its suppliers continue to have a positive impact on Georgia. Kia (Kia Motors manufacturing of Georgia - KMMG) and its suppliers have brought nearly 8,000 jobs to Georgia. Georgia ranks first among the fastest-growing states in vehicle productions with 78 percent growth between 2010 and 2011.

Notable expansions and location in 2012 and 2013 include expansions from Kia (1,000 jobs), Athenahealth (500 jobs), AT&T (1,000 jobs), Engineered Floors (2,000+), Koch Foods (750), and Airwatch (800), and new locations from Caterpillar (1,400), Baxter International (1,500), Mando (1,060 jobs - two locations), GM IT Innovation Center (1,000) and EY Global IT (400). In total, Georgia was expected to add 71,000 jobs in 2013.

Georgia's gross state product (GSP) is projected to grow 13.7 percent from 2013 to 2017.

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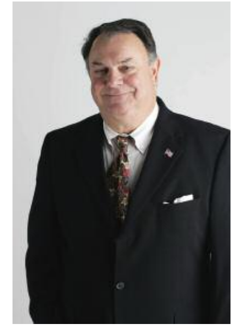
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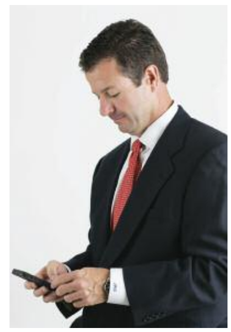
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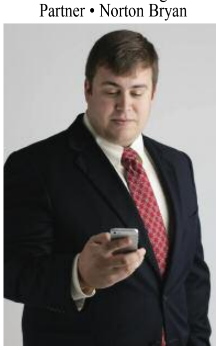
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