



## MID-YEAR 2016 MARKET COMMENTARY

North Georgia's real estate and economic market is full of mixed messages. First, both Norton's commercial division and its residential division are setting the pace for a "crazy" good year. Commercial "closed" transactions are up 25% year over year and residential is up 7 - 10% both in volume and units in the midst of the lowest home inventory level since the 1970's. New construction still lags behind demand while months of supply hovers in most of North Georgia's micro markets, while the Feds have paralyzed our lending community with stun gun regulations; hence zero traditional spec home construction. The job market is brisk, household formation on pace with the rest of the country and an assemblance of "calm normality" is restorative to the North Georgia psyche.

Yet it still doesn't feel all that great. Customer spending is off, the stock market surges but we really don't feel "rich," interest rates are generationally low but the population in general is not borrowing. Rents are up 7 - 10% per annum and home construction cost is up 40% since 2008. Employment is strong but overtime, bonuses and incentives are absent and raises haven't kept up with inflation nor economic wild card of astronomical health care costs.

We, as an economy, are working more, spending less, and treading water. The big question or conundrum is...."is this the new normal?" The way it is going to be going forward with the election in front of us, Brexit dialog shaking up the world economics and innovative technology like driverless cars and artificial intelligence on the horizon. The human species is slamming straight into CHANGE. Our ability to adapt has been the survival of the human condition. "It's never been like this before and it never will be again."

There are, however, great bright hot spots within the North Georgia economic and demographic landscape at Mid-Year 2016 worth noting.

- Drive up Georgia 400 and up the hill just before the North Georgia Premium Outlets on the right, you will see two massive grading development projects on either side. Two not just one, shopping centers under construction simultaneously, a new Publix and a relocated Super Kroger. Nowhere in the

state of Georgia are there two shopping centers under construction at the same time. Nowhere.... What does that say about the population growth of Dawson County? Some, but it speaks volumes about the growth of North Forsyth and the shopping mecca just across its county line. North Georgia Premium Outlets attracts the hordes and ripples buyers across traditional staple and soft good needs of a wide swath of regional population.

- Kubota on 365/1985 is putting the finishing touches on its new 500,000 SF building on the 150+ acres it bought for expansion just up from their other 1,150,000SF operation. Kubota is Hall County's largest industrial manufacture employing 1,000s indirectly and directly through its local and regional suppliers. The new facility has an initial goal of 560 employees with room to grow by an additional 1,500,000 SF. We as economic statisticians always talk about the impact of poultry processing and healthcare employment and economic impact; falling to recognize Kubota's running a tractor right through the middle of those same stats.
  
- The Jackson County Chamber along with the City of Braselton made a short but "crazy great" announcement in June of this year, Amazon would open a 600,000 SF fulfillment center, creating 500 jobs in Braselton, GA. This fills one of the few (current) industrial space holes, but is indicative of the ocean wave of industrial demand in our region. According to Norton Native Intelligence™ research, there is currently 12.5 million SF of new industrial construction under development or imminent development along I-85 from the Gwinnett/Jackson border to the South Carolina line. This swath of industrial expansion underway is larger in scope and breath than the current industrial expansion in the Savannah ports area (5.5 million) on the Cartersville to Tennessee line along I-75 (5.2 million available sq. feet/ mostly second generation). The fundamental question looming in the industrial community with 12.5 million SF appearing over a 3 to 5-year time period and creating potentially 12 to 25,000 new jobs is, where is the labor going to come from? And more importantly just where are these people going to LIVE? And that's a concern for all of us.
  
- Considering North Georgia's housing stock stands at 4.2 months of supply, 3.5 months are under \$150,000 price. Average people buying average homes are finding historical low choices.

- Multi-family vacancy stands at 5% and Norton, which manages 450 single family homes, has 3 available for rent as of August, 2016. Construction cost has soared 40% since 2008 despite the poor economic climate. Labor is in short supply and material costs continue to escalate.
  
- Codes and government interaction has almost eliminated affordable housing. You can attribute 35-38% of the cost of a \$150,000 property to government regulation or interference.
  
- The Feds have disincentivized all incentives on speculative home construction lending by the historical local and regional lenders.
  
- Local governments are speaking out of both ends, they promote industrial growth, new jobs and employment opportunities but in the same meetings, stall all multi-family and horizontal rezoning.

Back to the original question...WHERE ARE THEY GOING TO LIVE?

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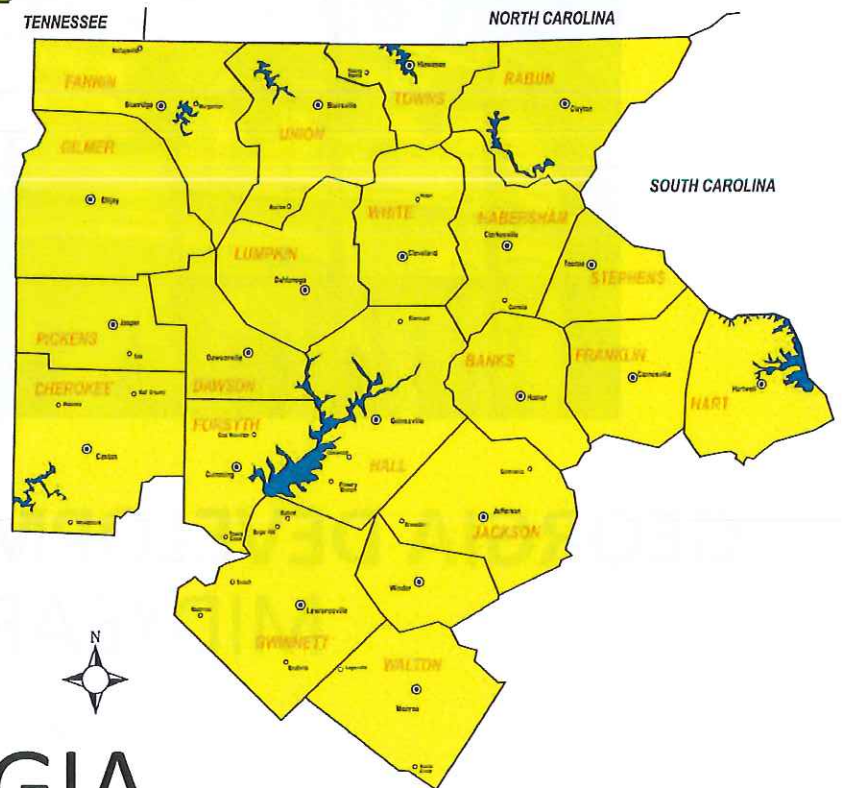


# GEORGIA DEVELOPMENT DYNAMICS MIDYEAR 2016





# GEORGIA



# NORTH GEORGIA



# NORTON



COMMERCIAL MARKET TEMPERATURE

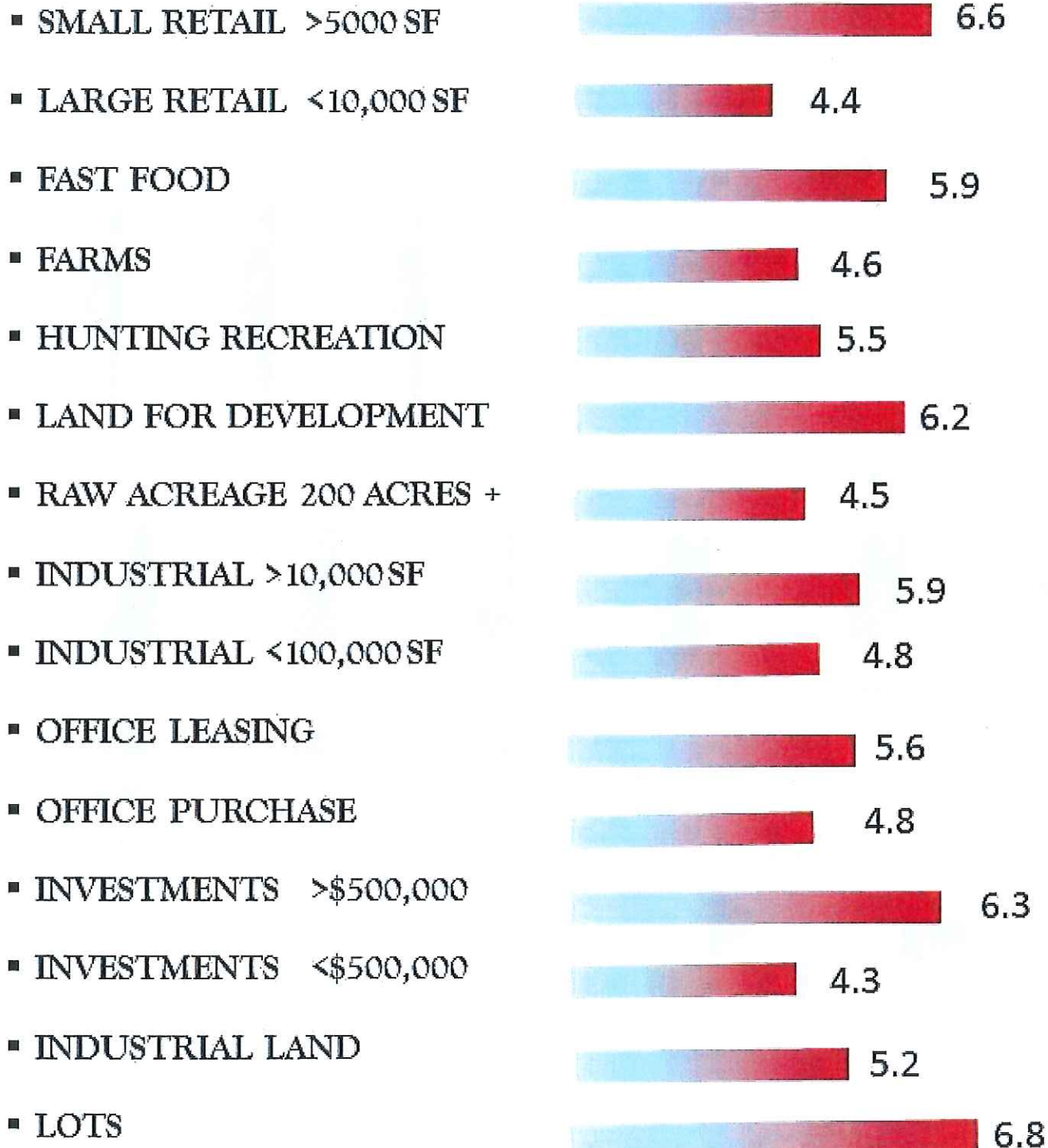
SPRING 2016

COLD

HOT

1

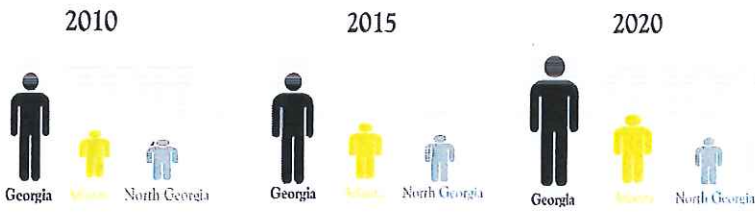
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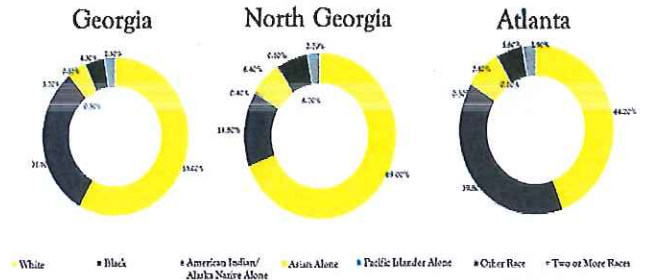
# 2015 GEORGIA NORTH GEORGIA DEMOGRAPHIC

## MAP

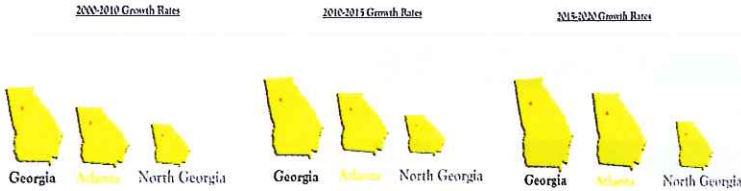
### Population Growth



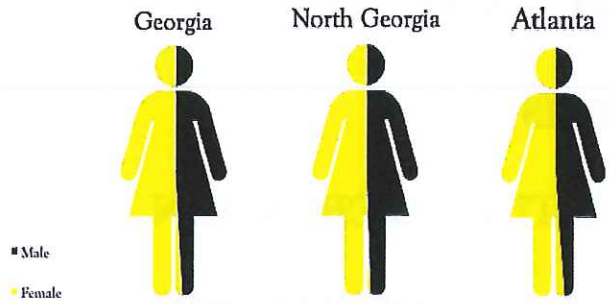
### Racial Makeup



### Growth Rates



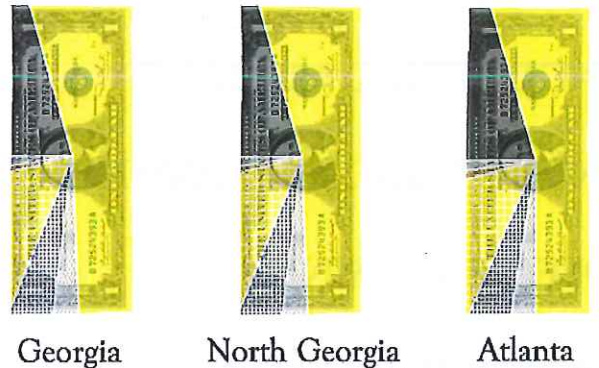
### Population



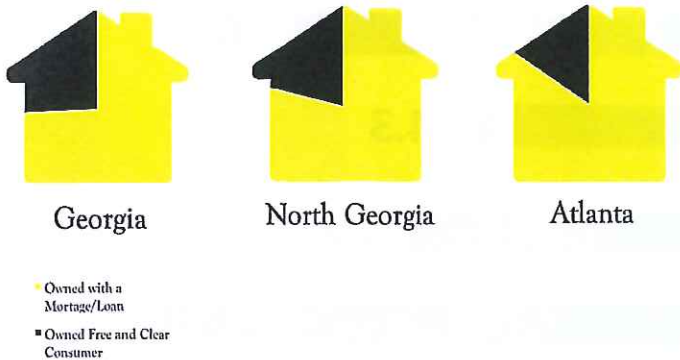
### 2015 Housing Profile



### Consumer Expenditures



### 2015 Housing Ownership



### Income Breakdown 2015



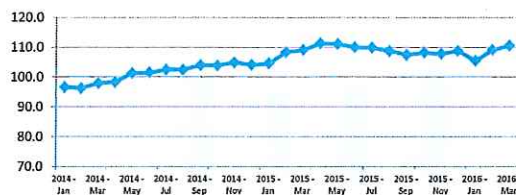


## INFORMATION SOURCES

- NORTON NATIVE INTELLIGENCE™
- US CENSUS
- FIRST MLS
- METROSTUDY'S
- GA MLS
- GA LABOR DEPARTMENT
- SMART NUMBERS
- REALTY TRAC
- CORE LOGIC



## National Pending Sales Index – Good Signs (Seasonally Adjusted)



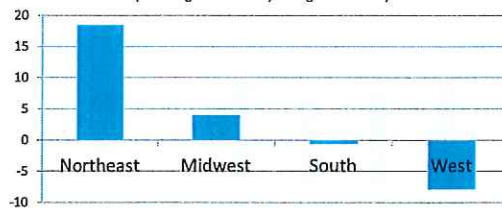
Source: NAR



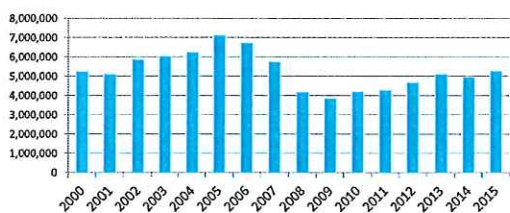
## NATIONAL DATA

## Regional Pending Contracts

(% change from one year ago to March)

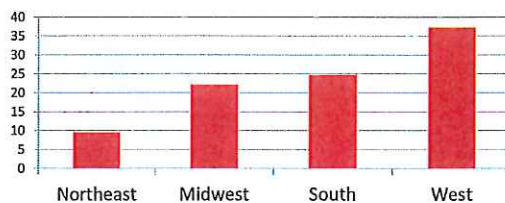


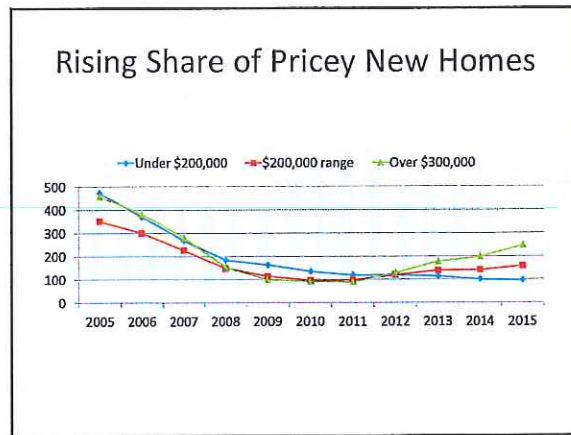
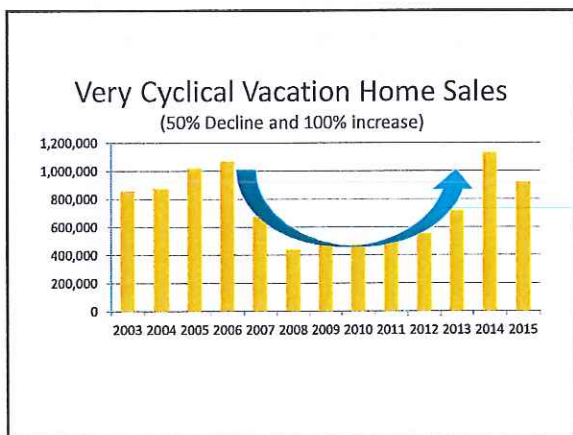
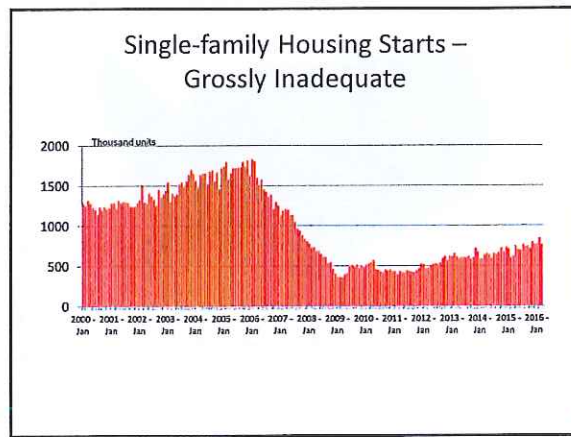
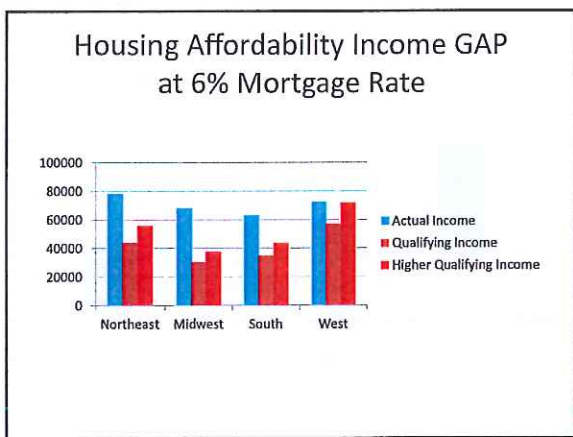
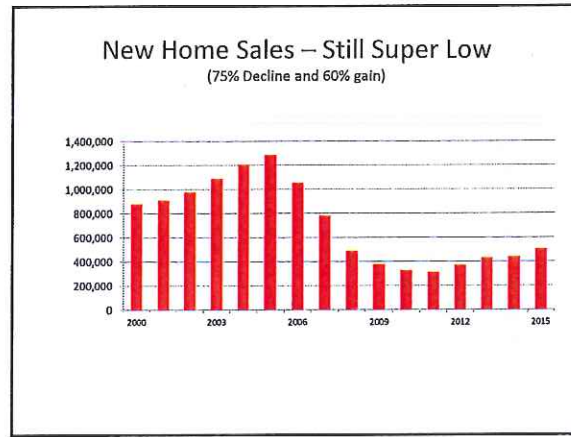
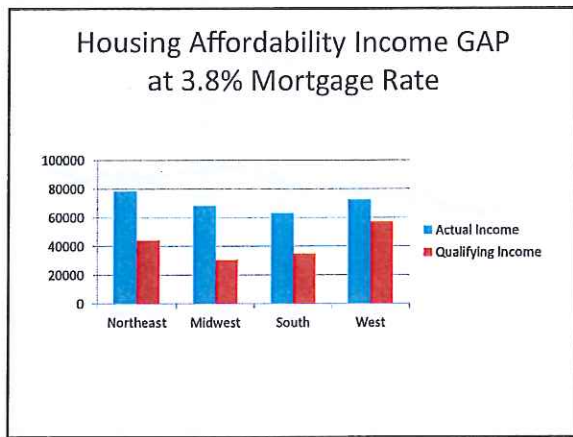
## Existing Home Sales – Moderate Recovery

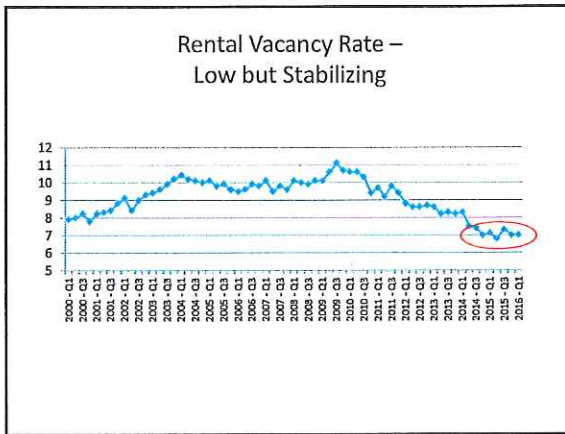
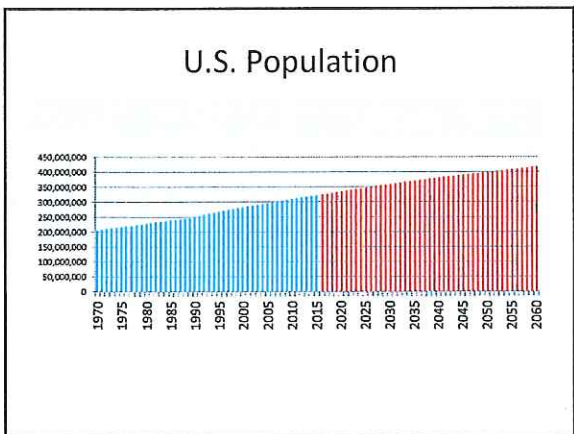
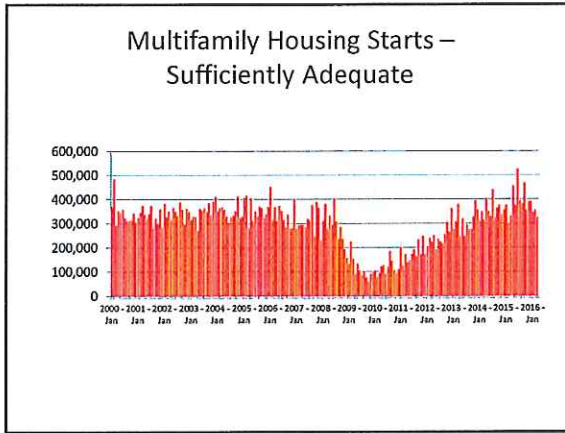
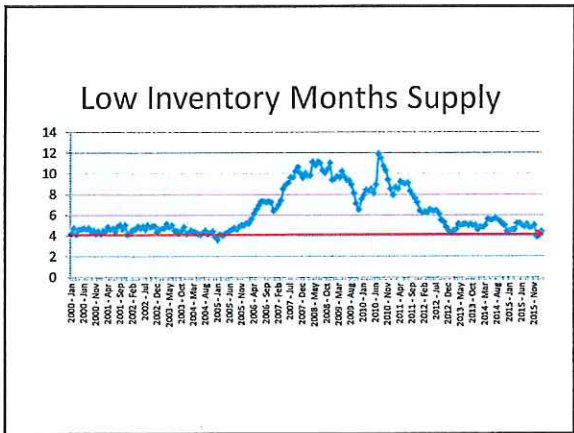
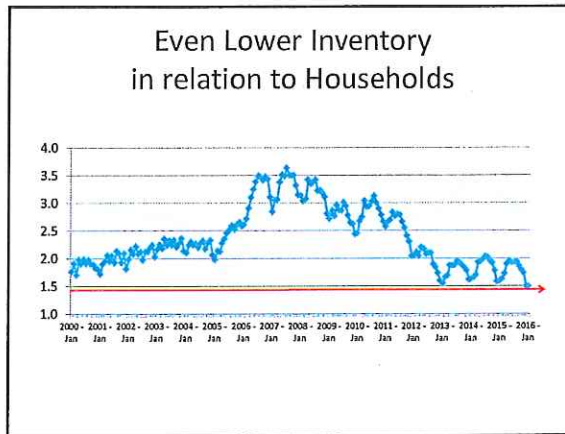
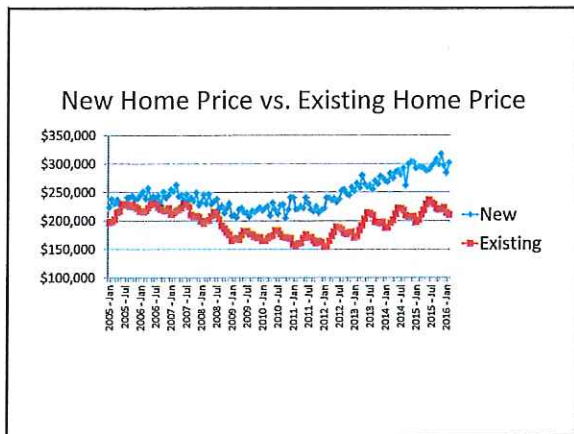


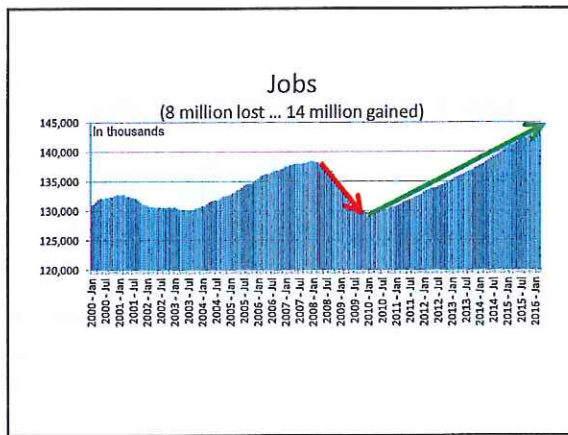
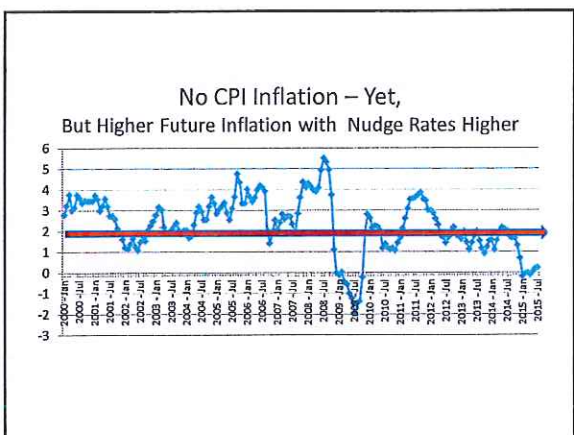
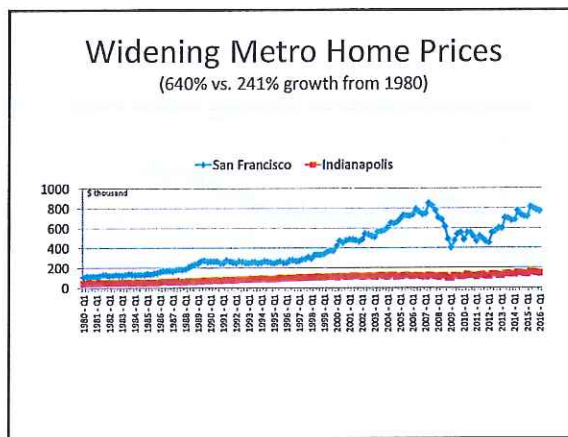
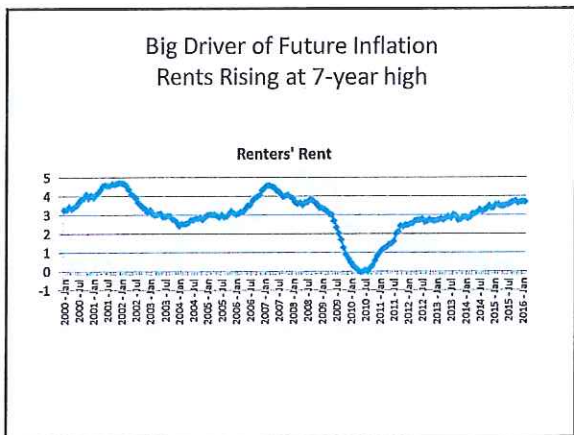
## Regional Median Price Change

(3-year price change from 2012 to 2015)









### Relief on Rent?

- If higher rent then higher inflation and higher mortgage rates
- If lower rent than lower inflation and steady mortgage rates

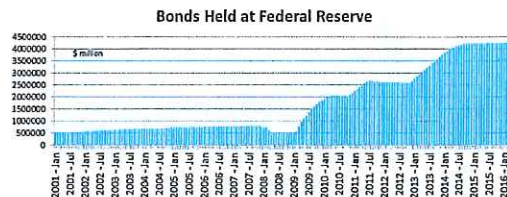
### Top and Bottom States for Jobs

The Best	% Gain in 12 months	The Worst	% Gain in 12 months
Idaho	3.8	Wyoming	0.2
Utah	3.5	Oklahoma	0.1
Nevada	3.4	Louisiana	-0.4
Florida	3.0	West Virginia	-1.8
Washington	3.0	North Dakota	-2.0
California	2.9		
South Carolina	2.9		
Oregon	2.7		
Arizona	2.3		

### State Level Employment



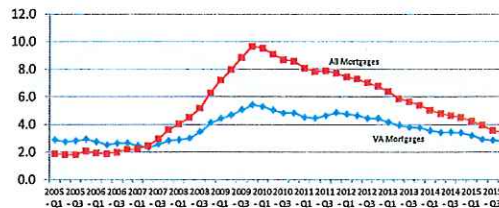
### Quantitative Easing



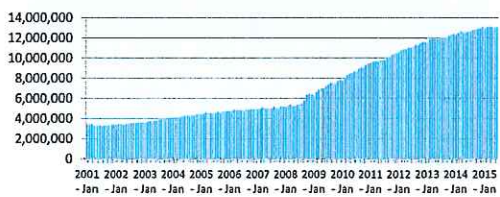
### Home Buyer Traffic



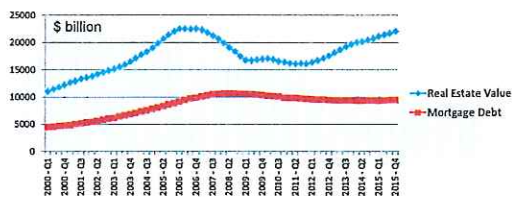
### Borrowers Not Defaulting – Especially Veterans (Serious Delinquency Rate)

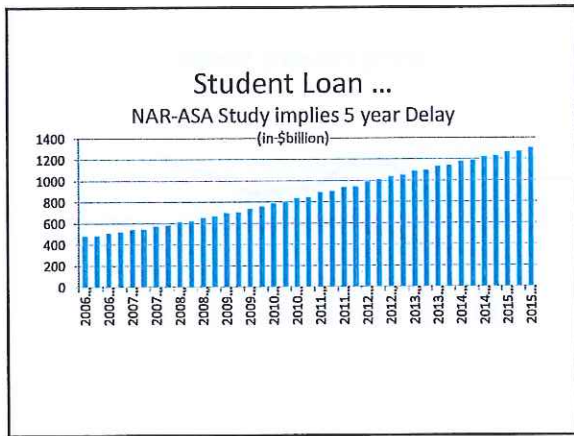
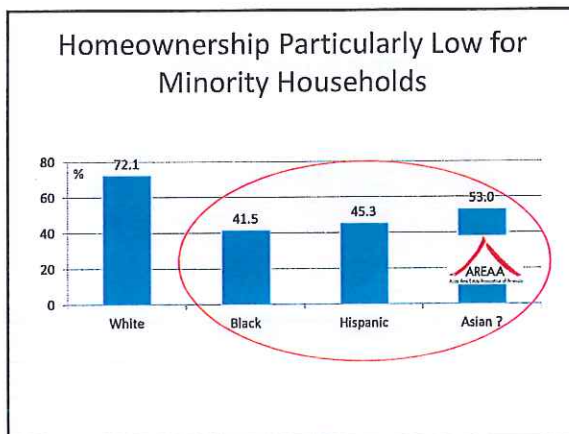
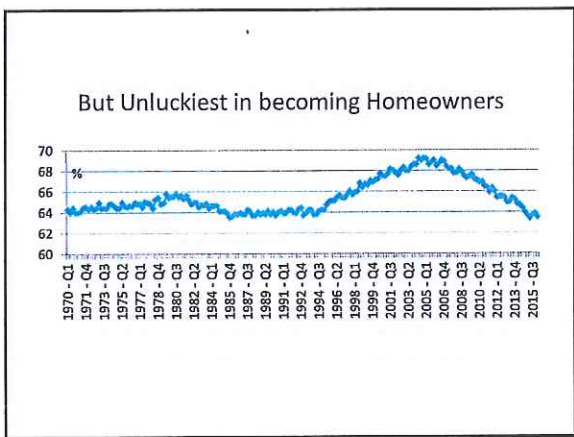
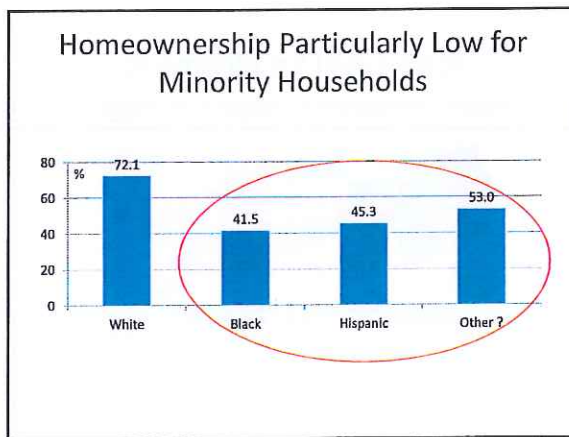
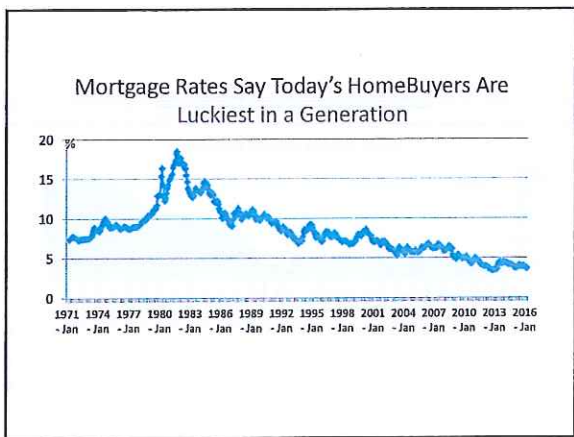


### Federal Debt ... Cumulative (\$ million; debt held by public excluding intra-governmental holdings)



### Rising Housing Wealth





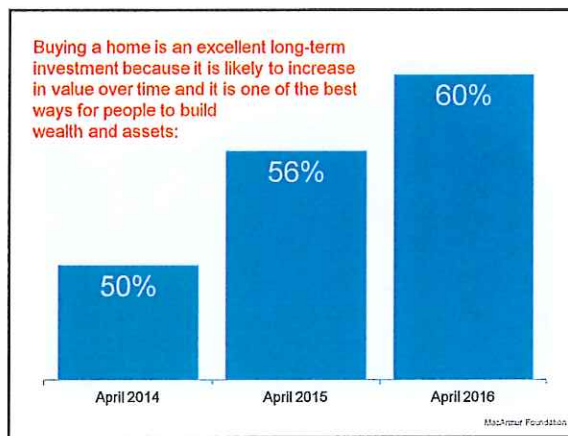
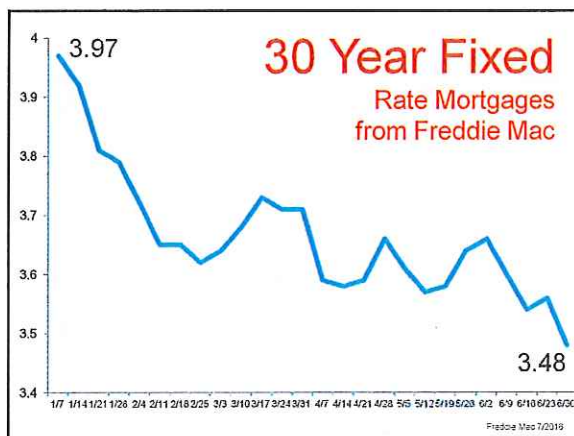
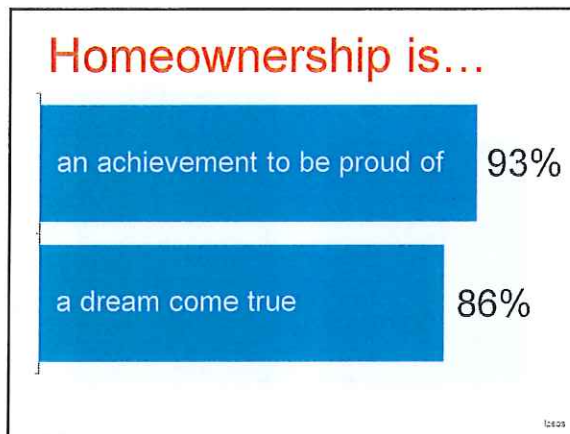
### Economic Forecast

	2014	2015	2016 Forecast	2017 Forecast
GDP Growth	2.6%	2.1%	1.6%	2.2%
Job Growth	+3.0 million	+2.6 million	+1.6 million	+2.2 million
CPI Inflation	1.6%	0.3%	1.7%	3.0%
10-year Treasury	2.6%	2.1%	2.1%	2.8%

### HOUSING FORECAST

	2014	2015	2016 Forecast	2017 Forecast
New Home Sales	437,000	500,000	540,000	600,000
Existing Home Sales	4.9 million	5.3 million	5.4 million	5.5 million
Median Price Growth	+ 5.7%	+ 6.8%	+4.5%	3.2%
30-year Rate	4.2%	3.9%	3.9%	4.6%

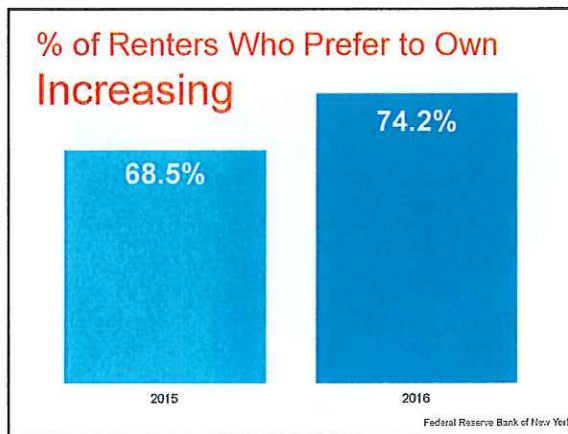


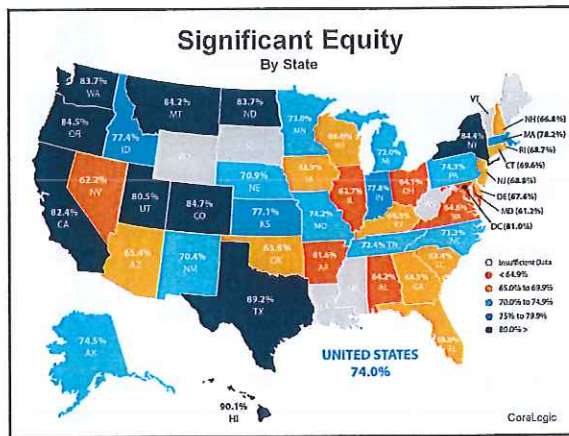
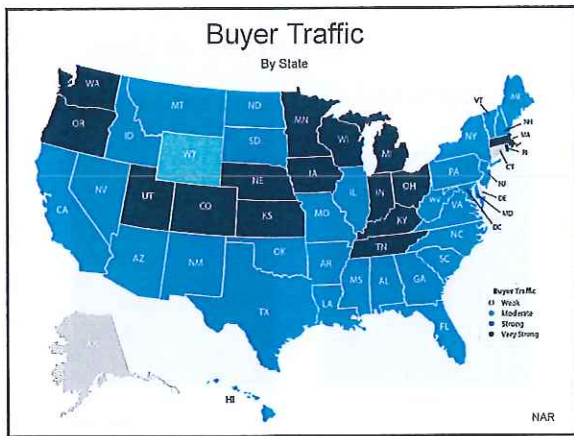
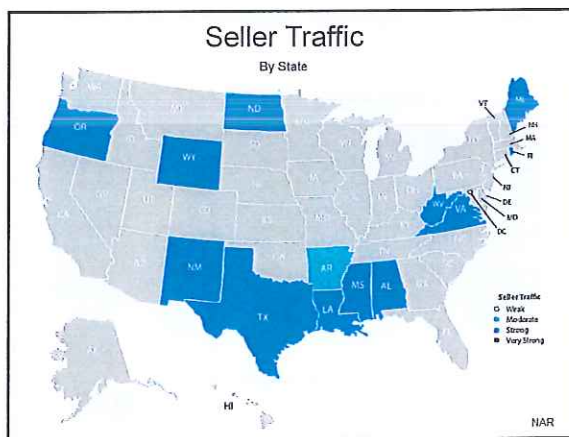
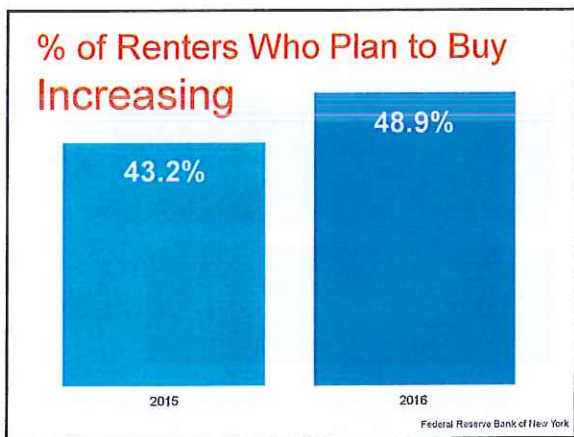


### Mortgage Rate Projections

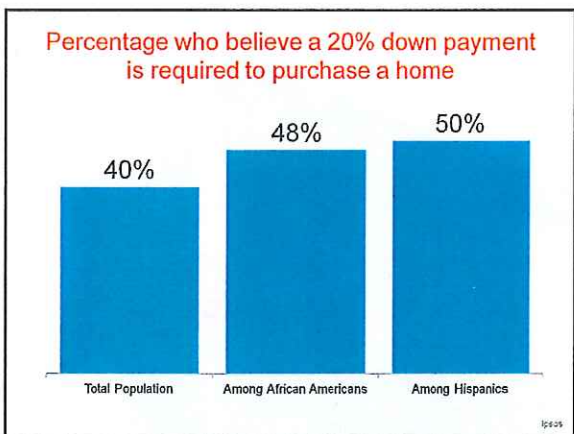
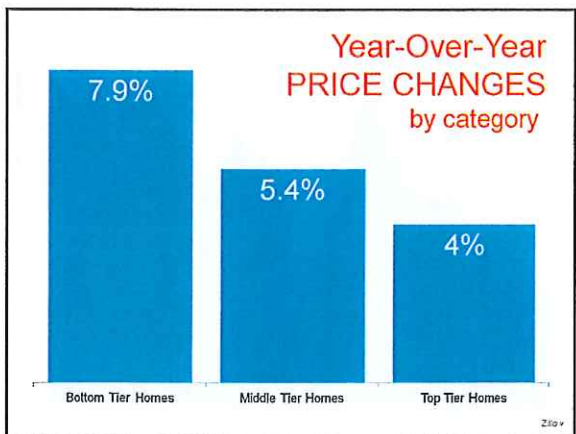
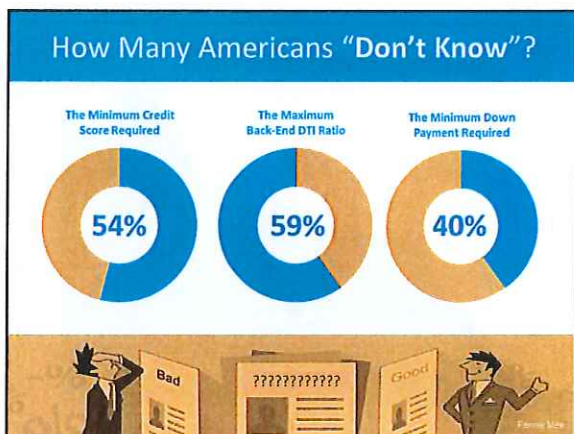
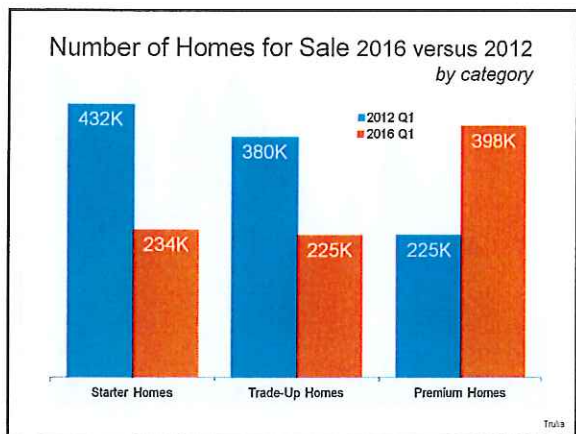
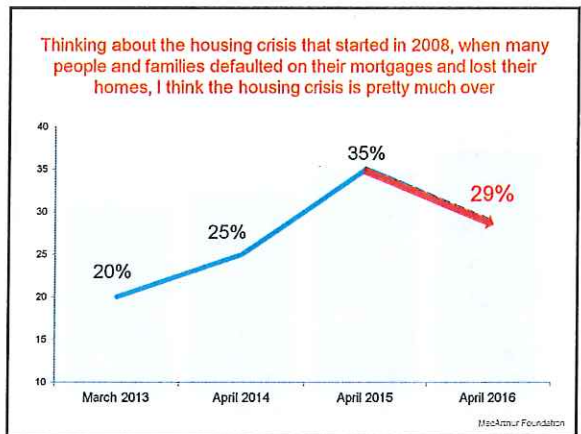
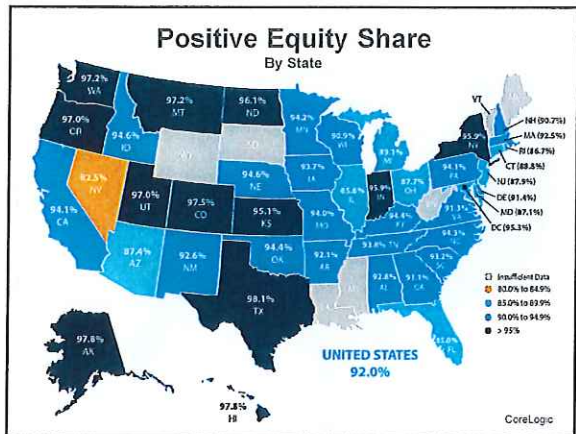
Quarter	Fannie Mae	Freddie Mac	MBA	NAR	Average of All Four
2016 4Q	3.7	4.1	4.1	4.1	4.00
2017 1Q	3.6	4.2	4.2	4.3	4.08
2017 2Q	3.8	4.4	4.4	4.5	4.28
2017 3Q	3.8	4.6	4.7	N/A	4.37

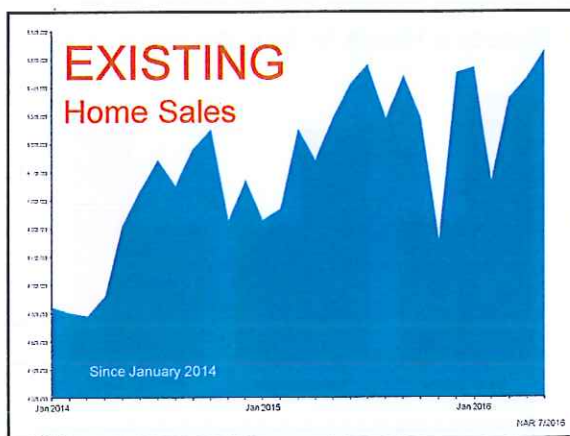
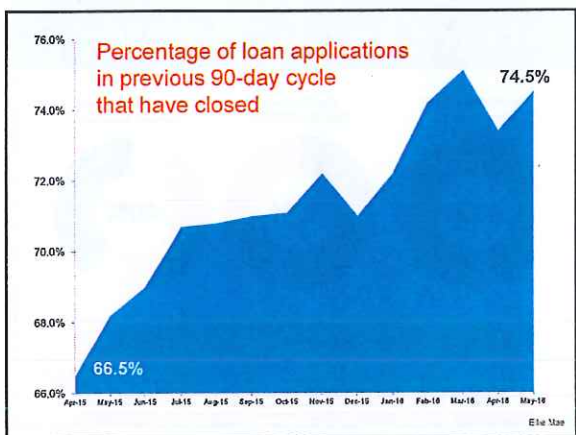
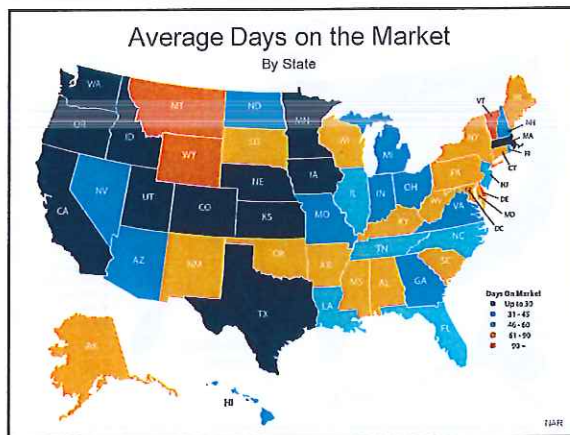
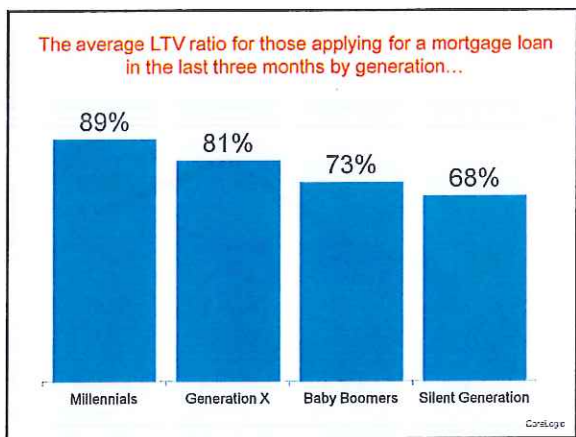
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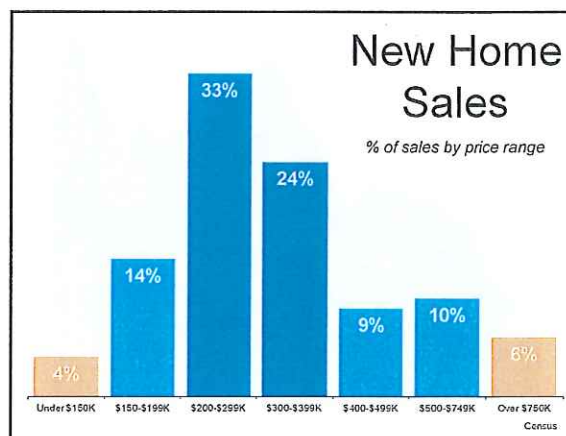
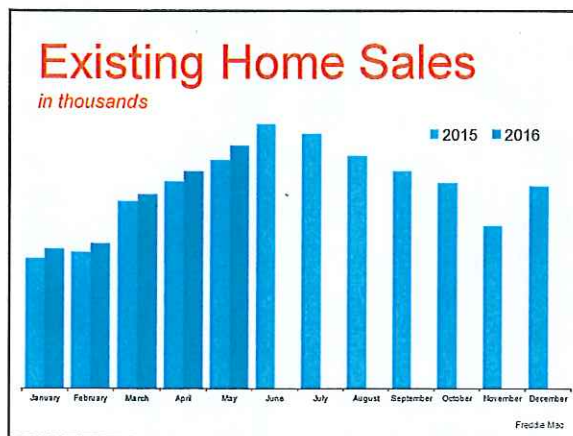
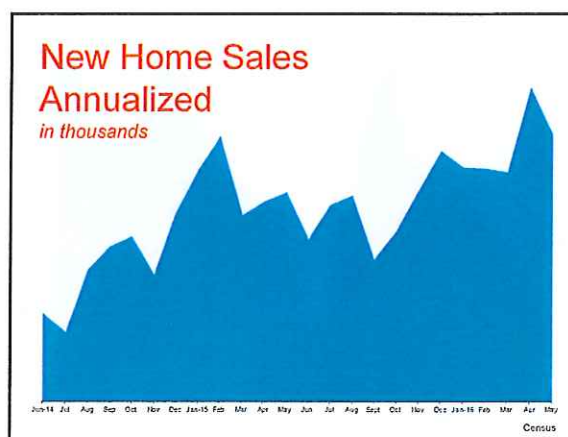
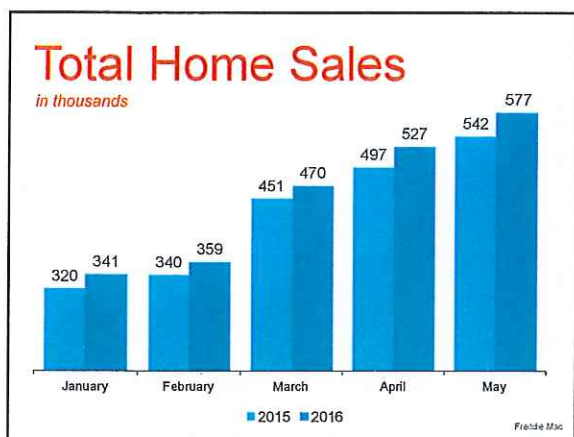
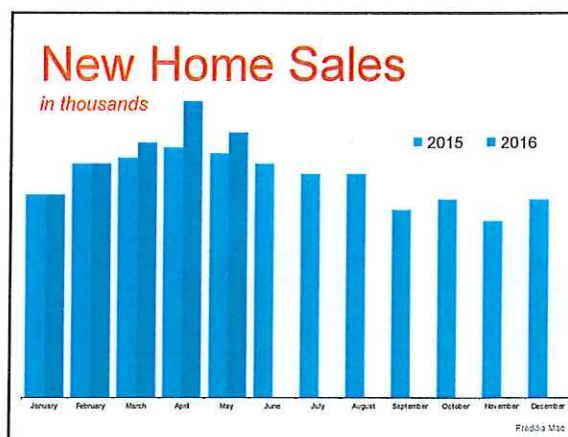
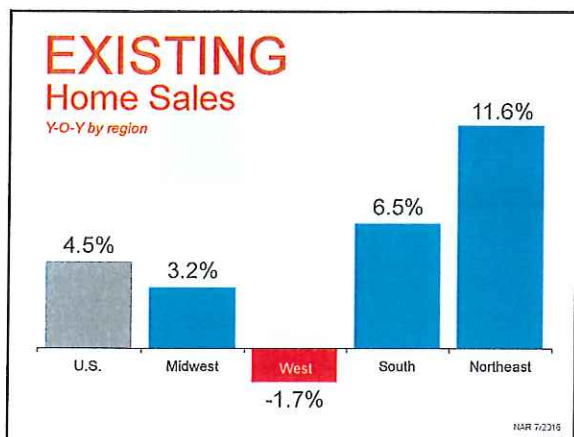


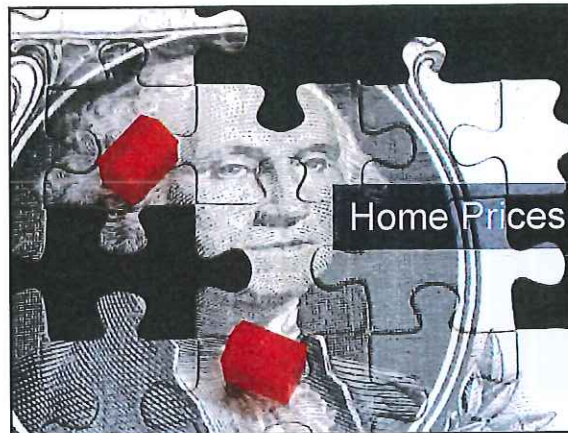
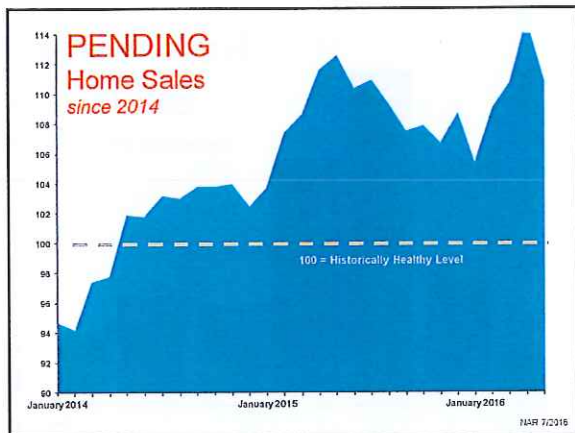
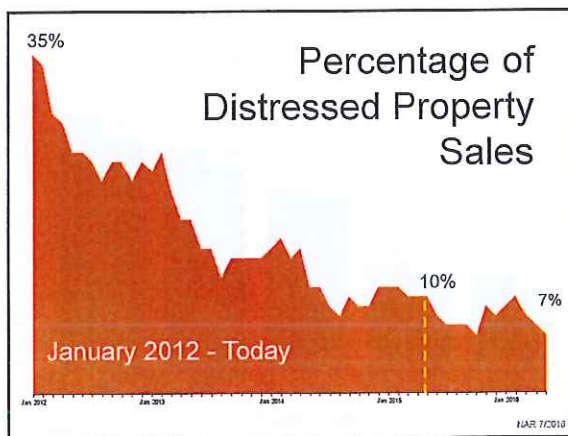
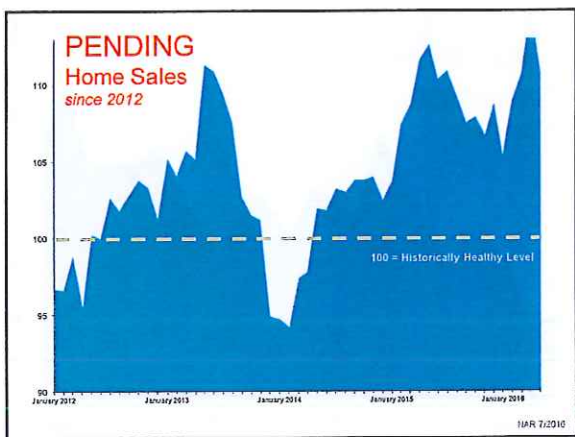
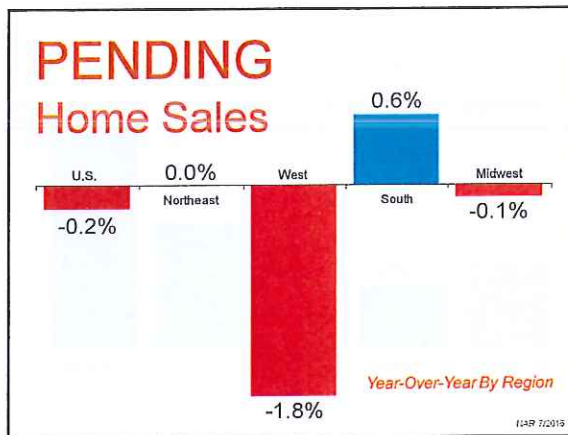


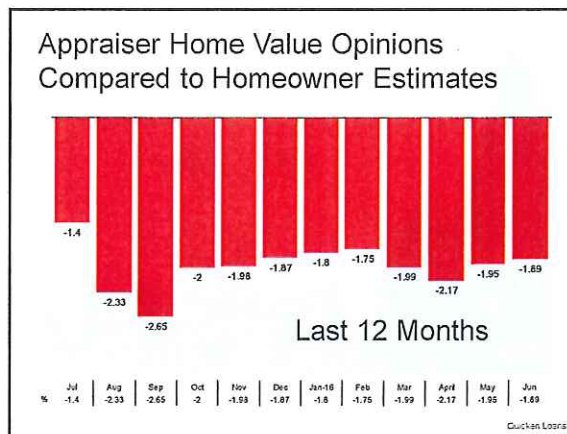
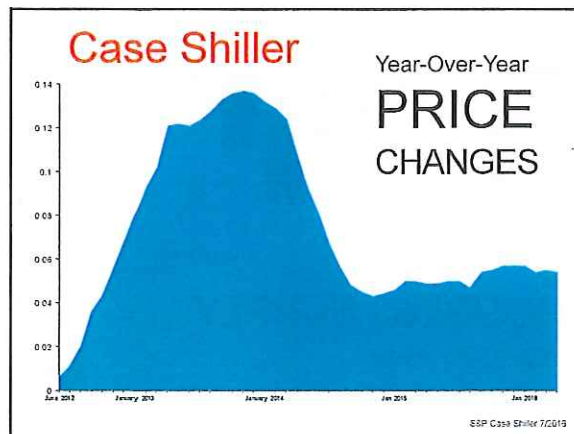
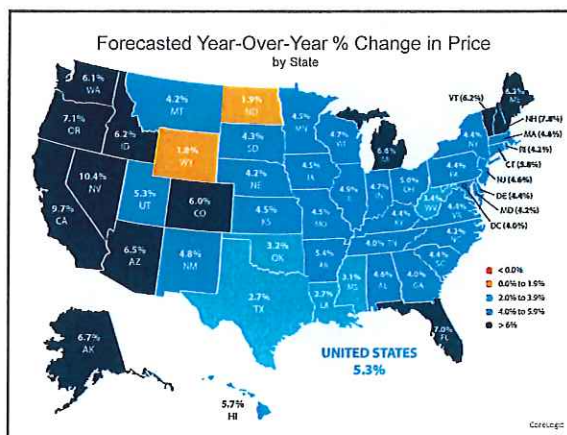
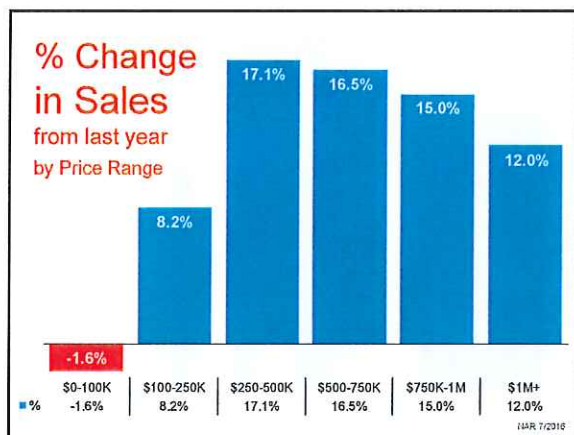
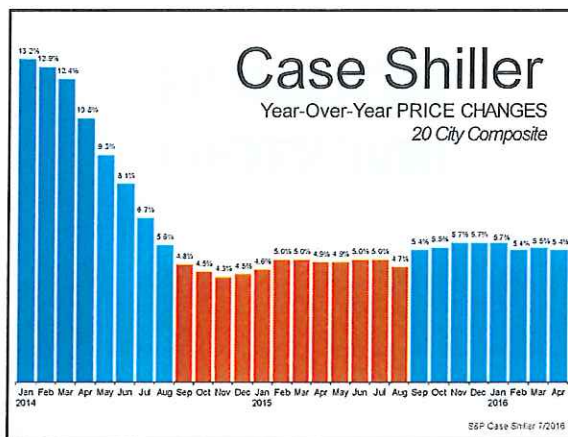
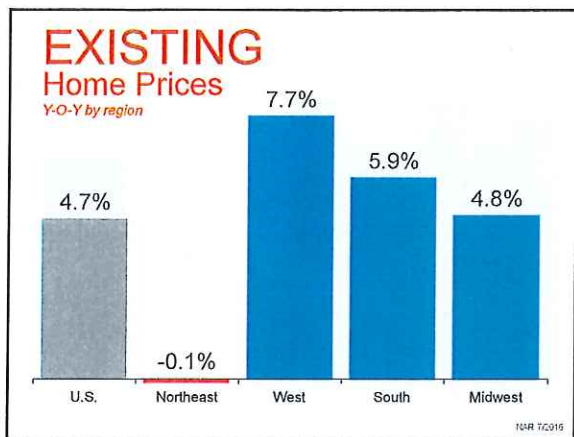




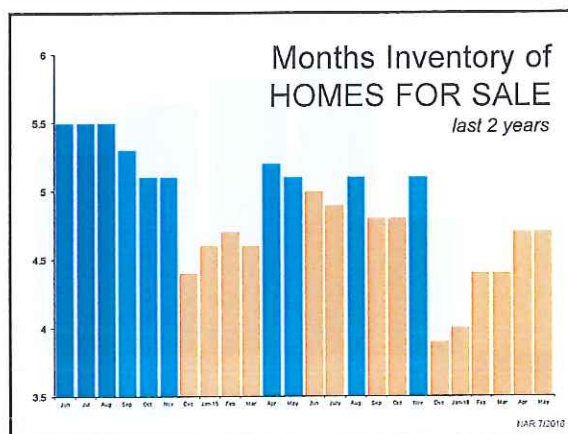
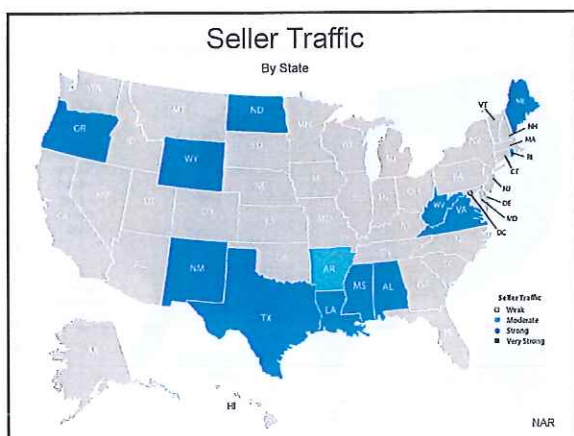
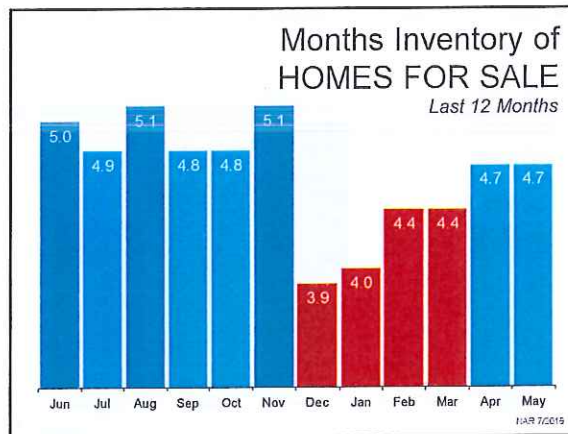


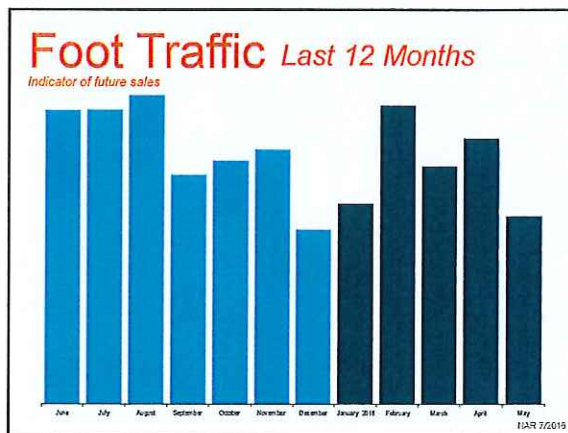
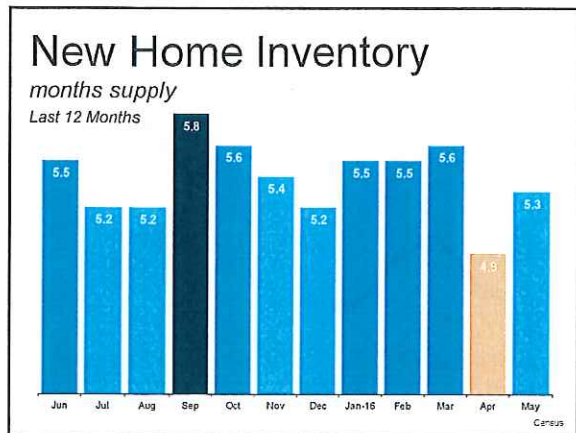
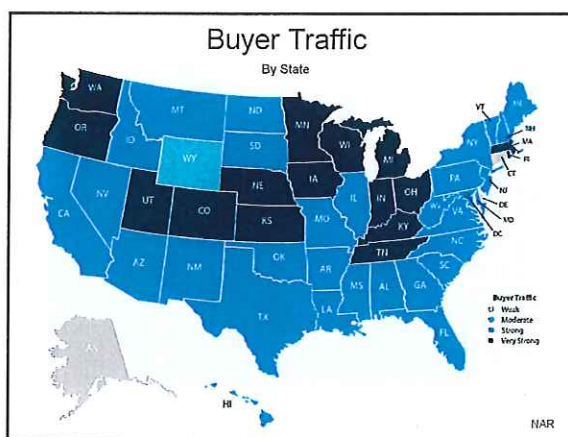
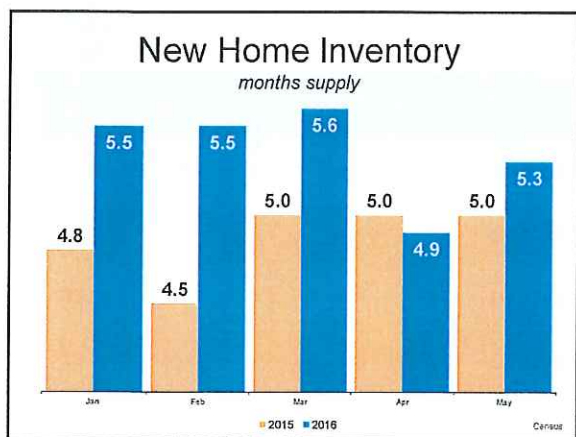
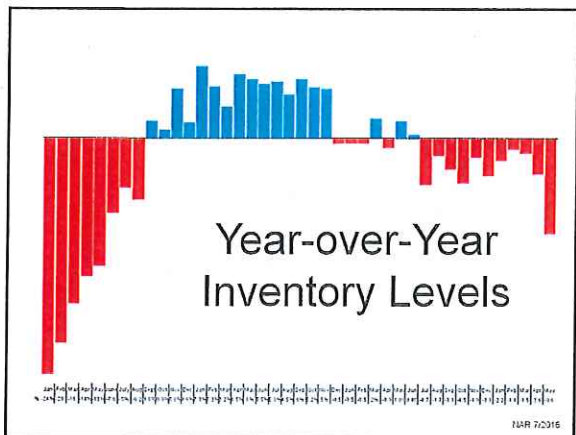


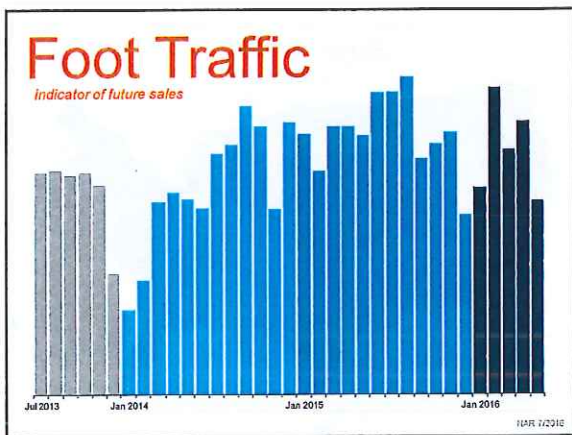
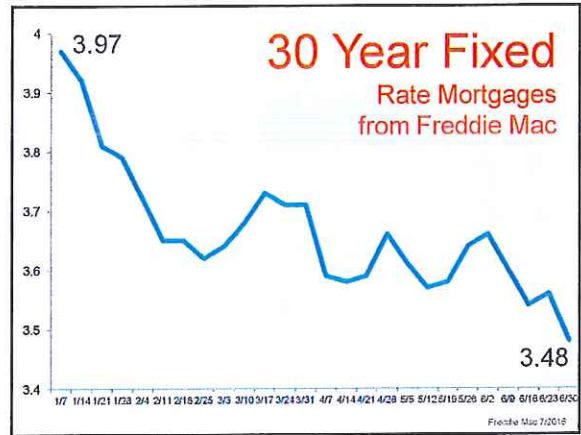
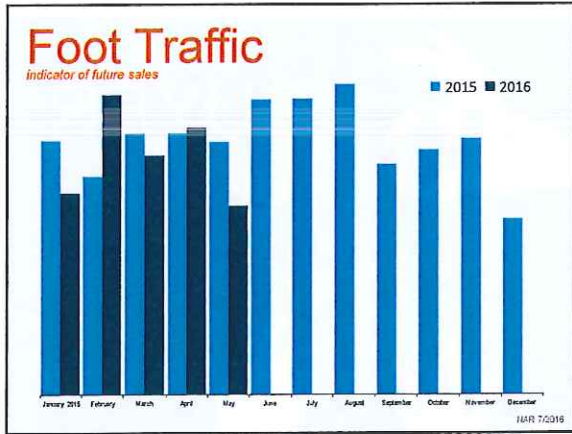




# HOUSING INVENTORY



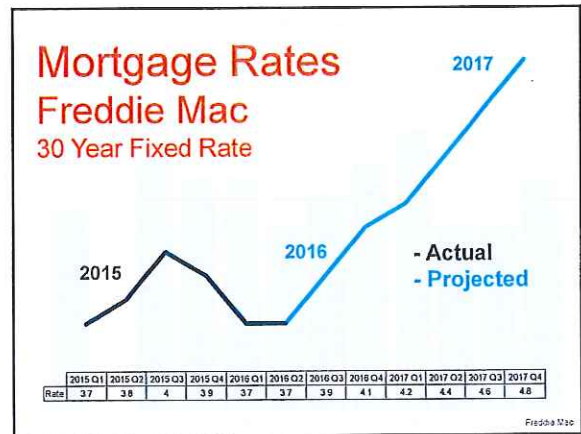




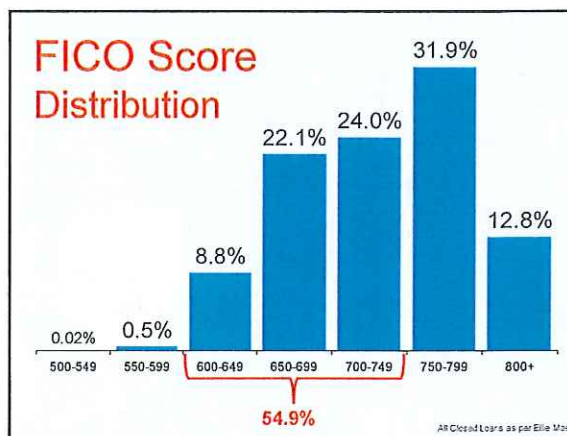
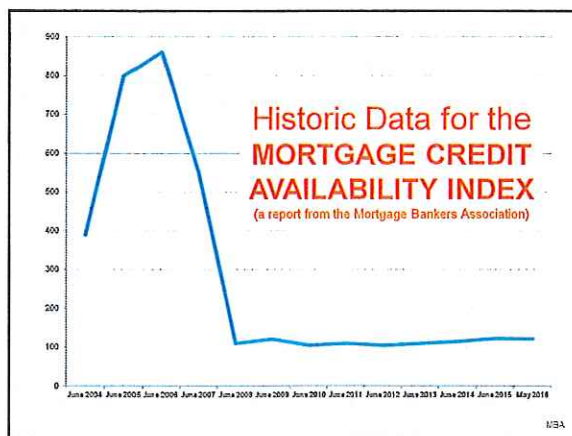
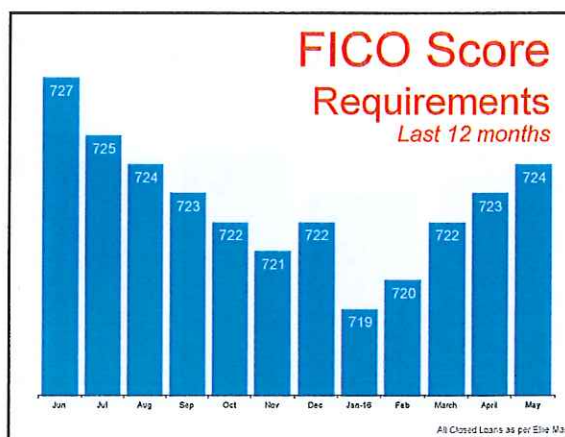
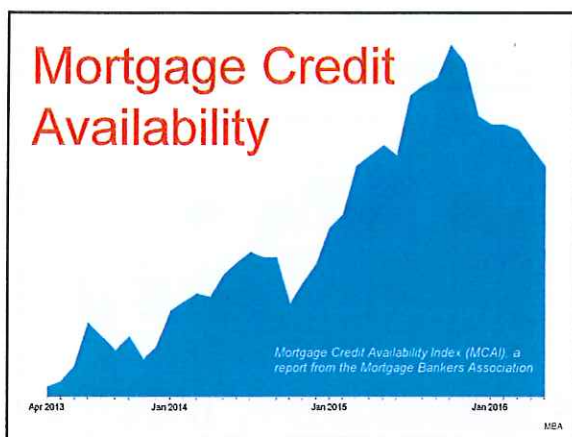
### Mortgage Rate Projections

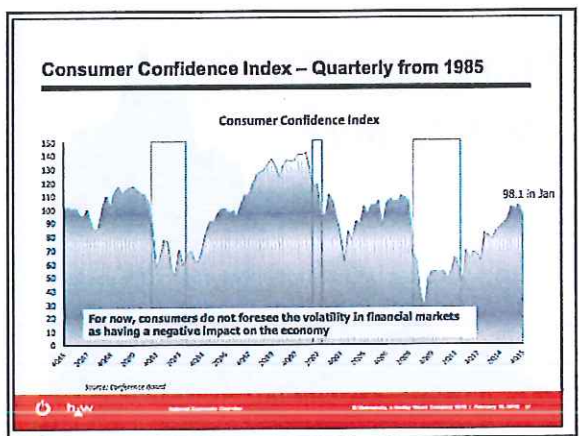
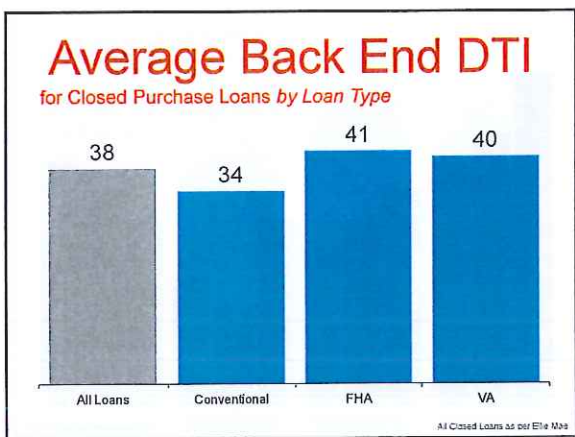
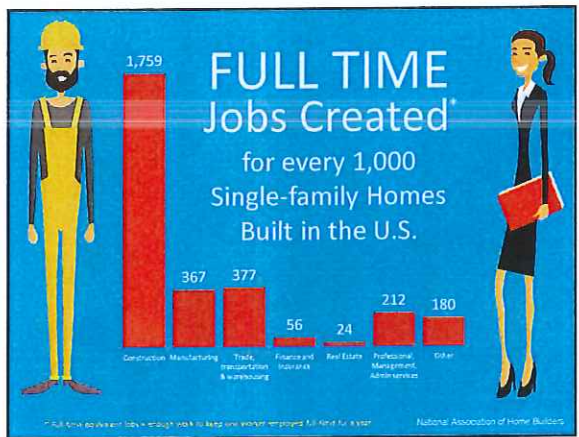
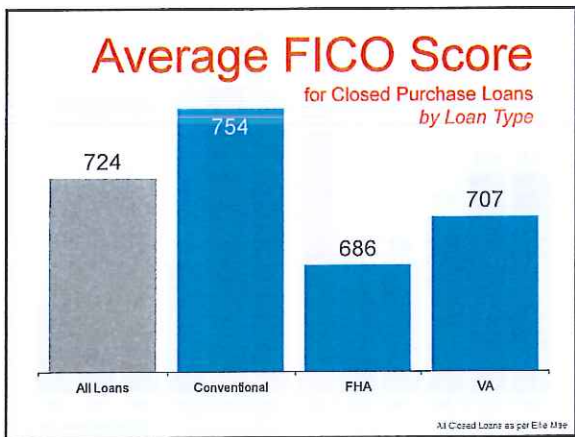
Quarter	Fannie Mae	Freddie Mac	MBA	NAR	Average of All Four
2016 4Q	3.7	4.1	4.1	4.1	4.0
2017 1Q	3.6	4.2	4.2	4.3	4.08
2017 2Q	3.8	4.4	4.4	4.5	4.28
2017 3Q	3.8	4.6	4.7	N/A	4.37

MAR 7/2016



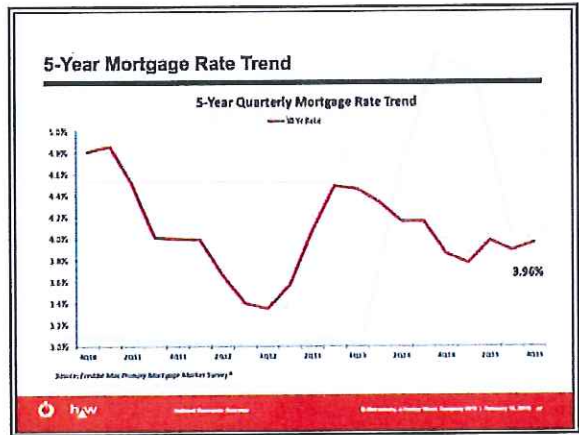


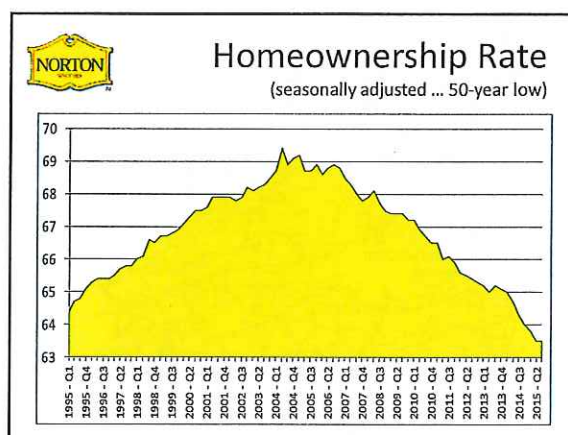
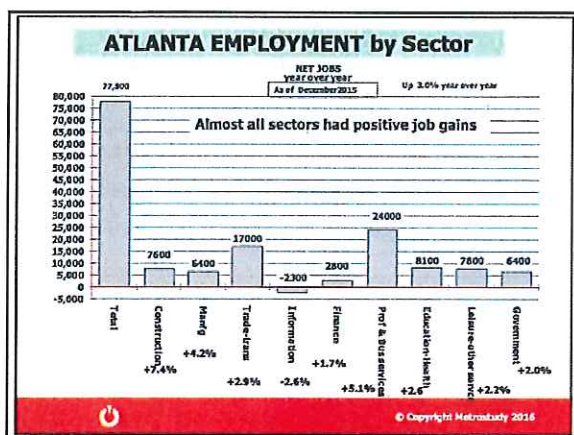
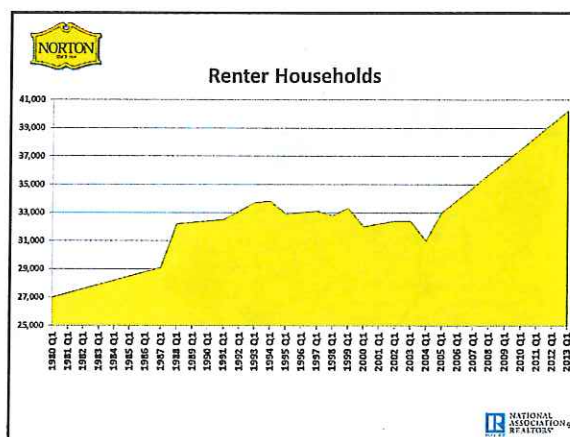
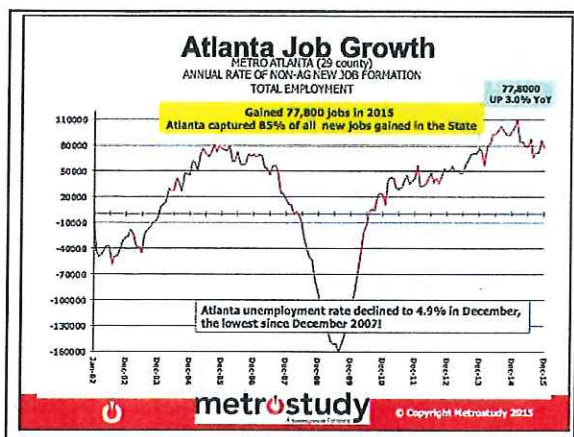




### Fannie Mae Requirements

- Minimum % Down Payment Required: **3%**
- Minimum Credit Score Required: **620**
- Maximum Back-End DTI Ratio: **45%**  
\*up to 45% with compensating factors



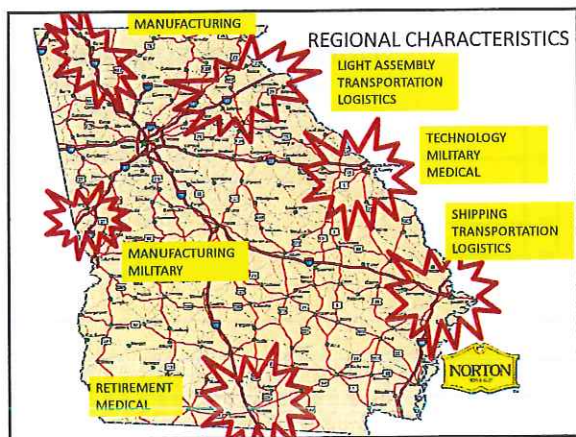
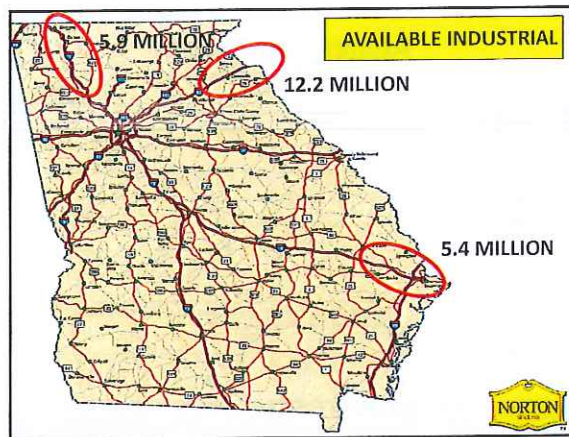
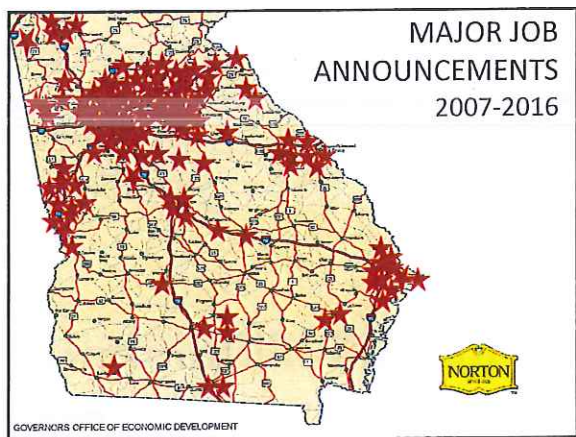


### Top MSAs in U.S. – Ranked by Annual SF Permits as of Dec 2015

Rank	MSA	Permits (SF) Annual	Annual Permit Change	Estimate Population
1	Houston-The Woodlands-Sugar Land, TX	36,825	-1,248	6,577,340.00
2	Dallas-Fort Worth-Arlington, TX	27,997	5,371	7,125,239.00
3	Atlanta-Sandy Springs-Roswell, GA	19,660	2,875	5,736,343.00
4	Phoenix-Mesa-Scottsdale, AZ	16,768	5,027	4,606,379
5	Washington-Arlington-Alexandria, DC-VA-MD-WV	12,479	-464	6,145,027.00
6	Orlando-Kissimmee-Sanford, FL	12,193	2,230	2,369,635
7	Charlotte-Concord-Gastonia, NC-SC	11,560	455	2,436,709
8	Austin-Round Rock, TX	11,514	-47	2,006,327.00
9	Nashville-Davidson--Murfreesboro--Franklin, TN	10,710	1,680	1,840,320
10	New York-Newark-Jersey City, NY-NJ-PA	10,331	-580	20,257,610.00
11	Denver-Aurora-Lakewood, CO	9,385	1,417	2,830,748
12	Tampa-St. Petersburg-Clearwater, FL	8,935	1,616	2,979,822
13	Seattle-Tacoma-Bellevue, WA	8,631	72	3,737,408.00
14	Los Angeles-Long Beach-Anaheim, CA	8,572	688	13,433,332.00
15	Raleigh, NC	8,394	680	1,274,181
16	Las Vegas-Henderson-Paradise, NV	7,760	993	2,119,834
17	Chicago-Naperville-Elgin, IL-IN-WI	7,591	-136	9,581,253.00
18	Riverside-San Bernardino-Ontario, CA	7,277	521	4,507,242
19	Jacksonville, FL	7,197	889	1,450,789
20	Portland-Vancouver-Hillsboro, OR-WA	7,113	1,776	2,387,287

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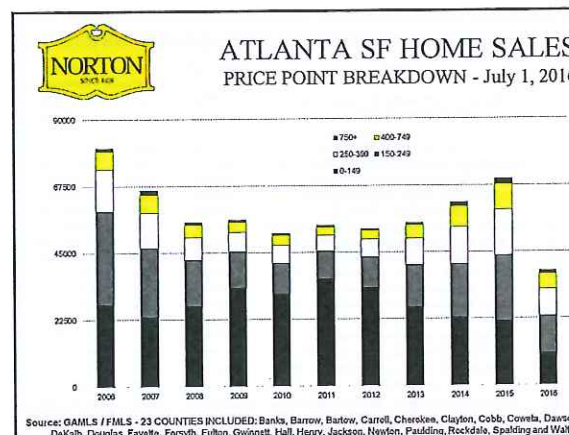
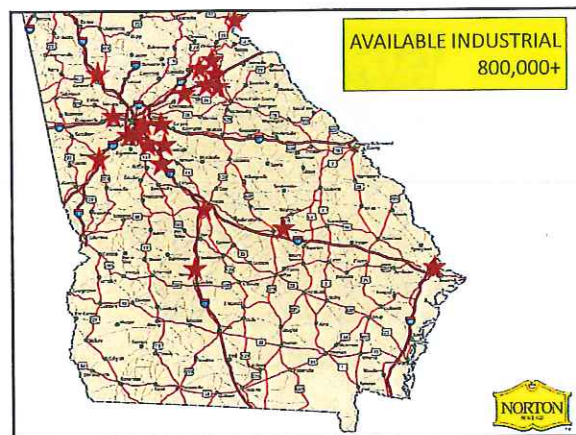


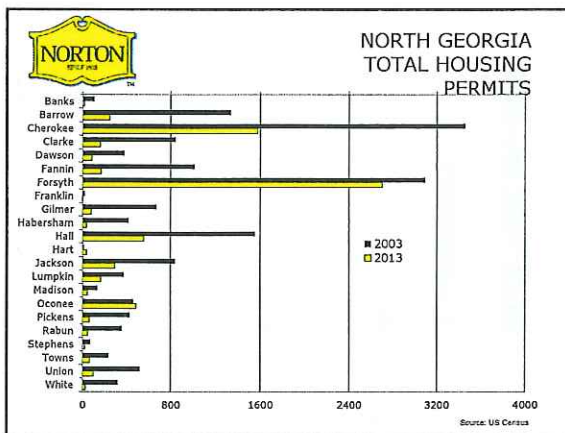
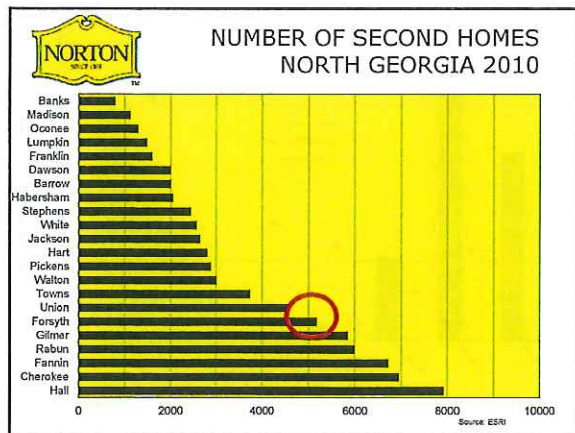
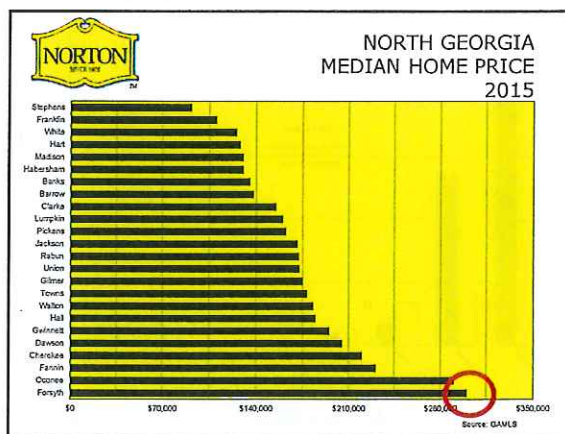
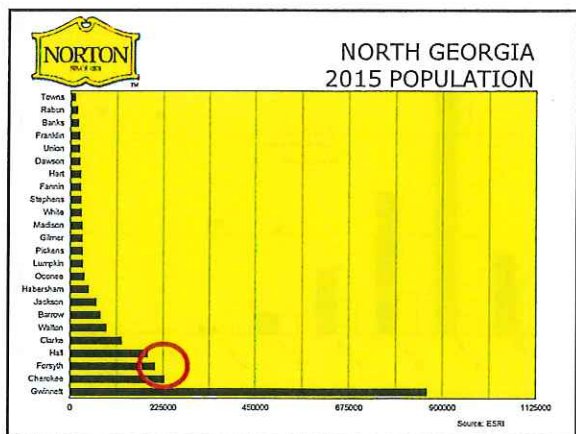
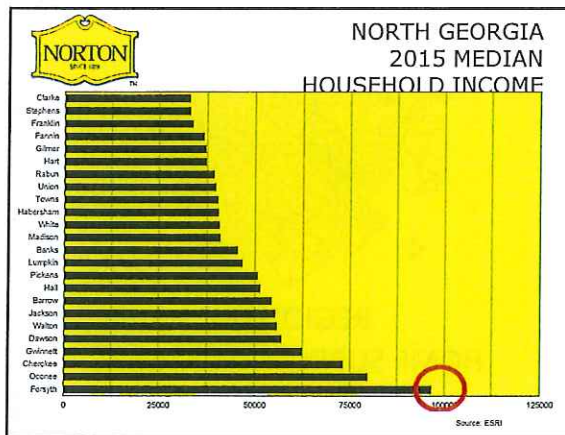
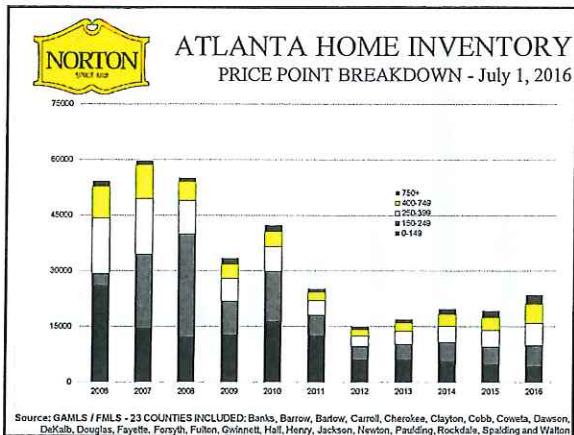
### MARKET COMPARISON

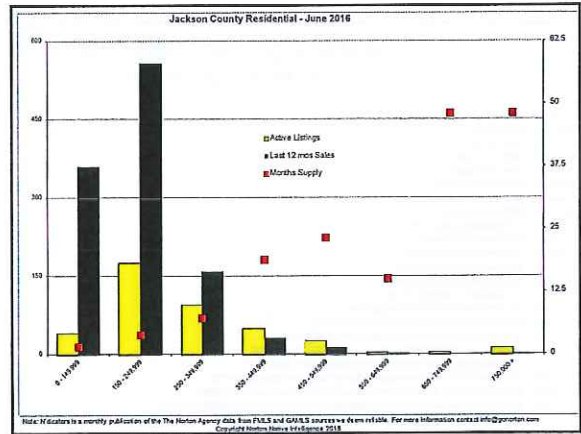
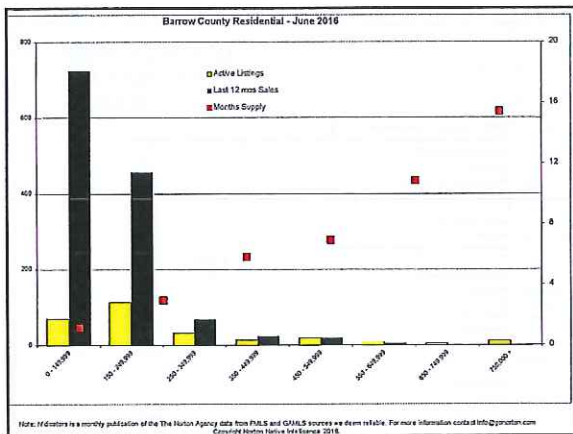
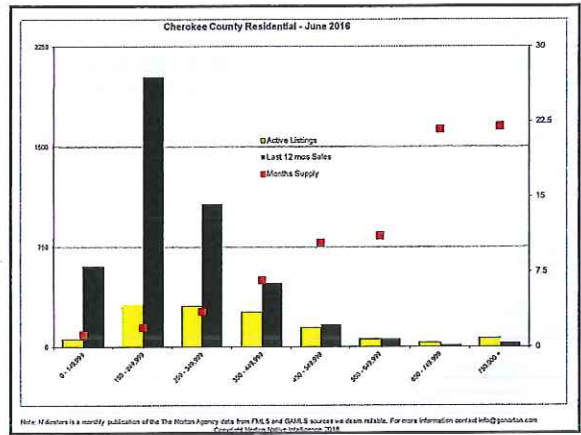
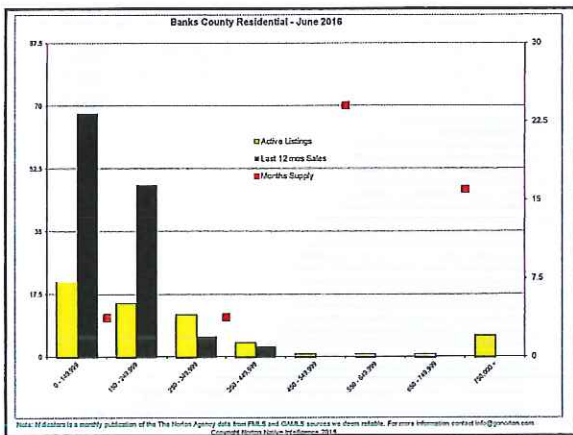
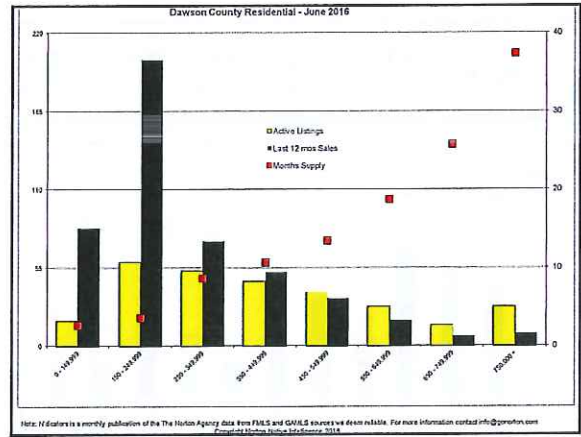
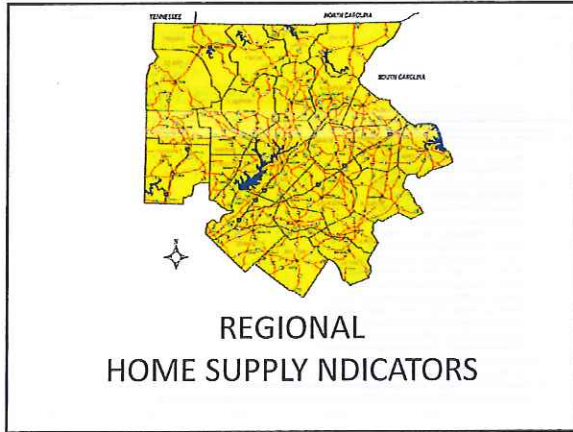
	JULY 2006	JULY 2016
• SF HOME SUPPLY	• 8.9 MONTHS	• 4.2 MONTHS
• SF PERMITS	• 55,000	• 18680
• LOT SUPPLY	• 125,000	• 122,199
• JOB GROWTH	• 75,000	• 65,000
• INTEREST RATE	• 6.7%	• 4.11%
• MONTHLY REO	• 1250	• 780
• TOP 10 BUILDER	• 19%	• 40%

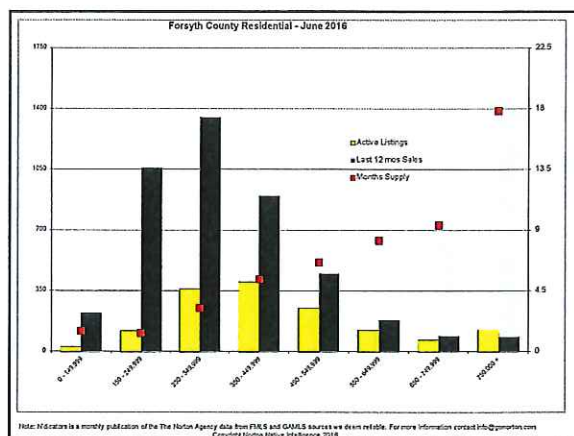
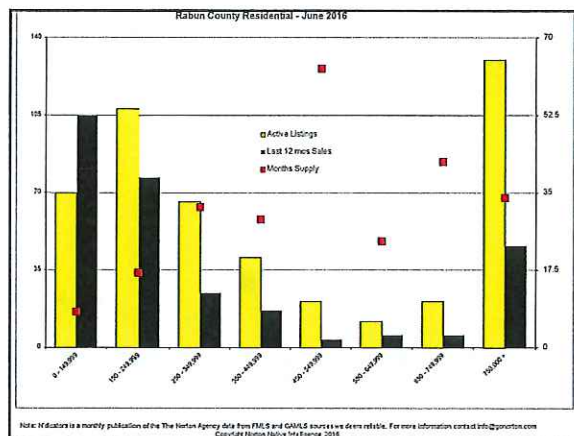
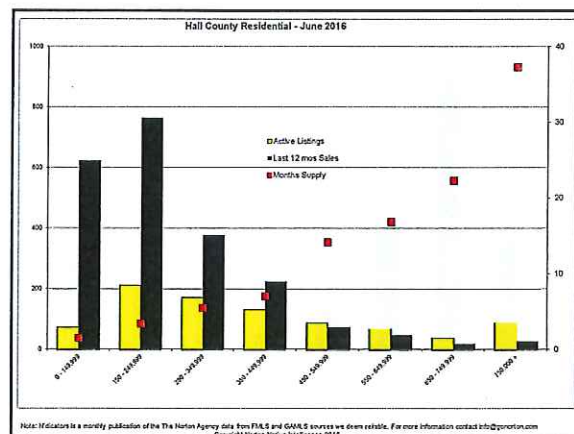
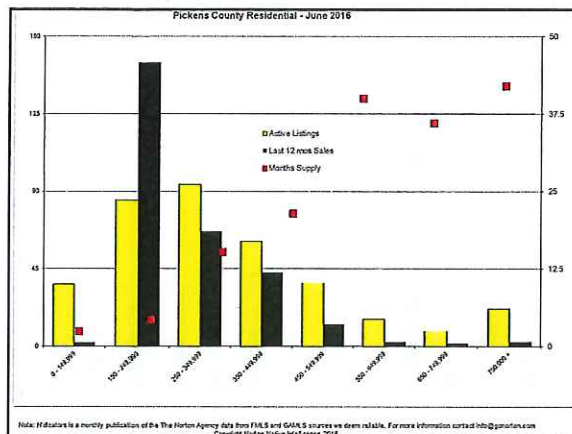
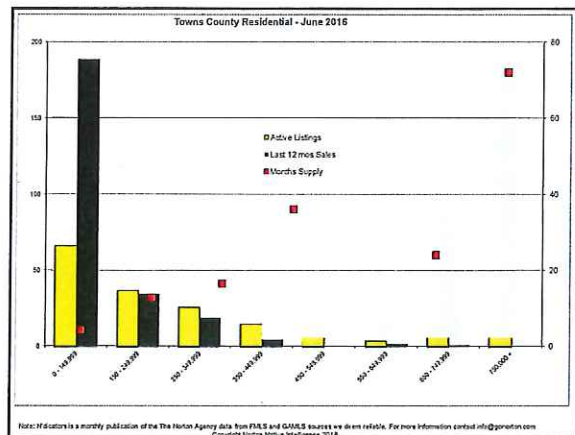
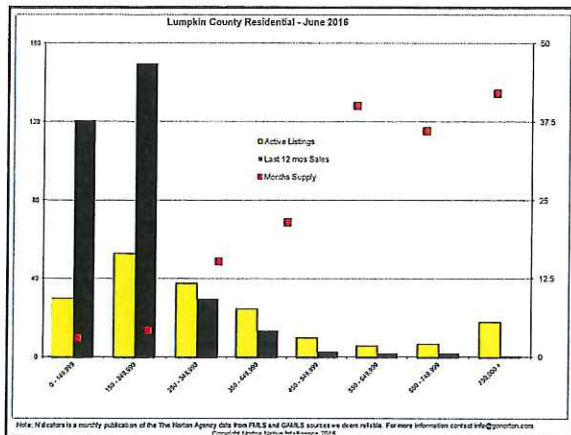
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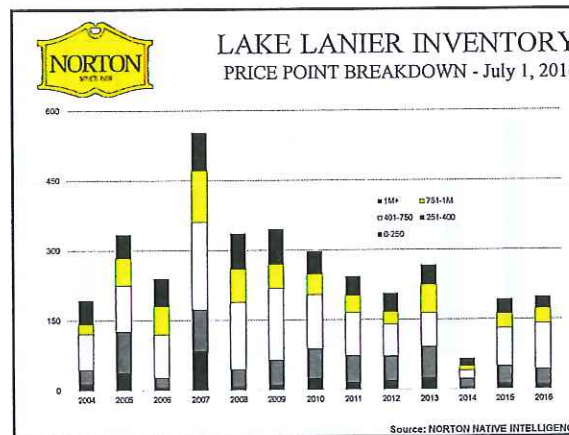
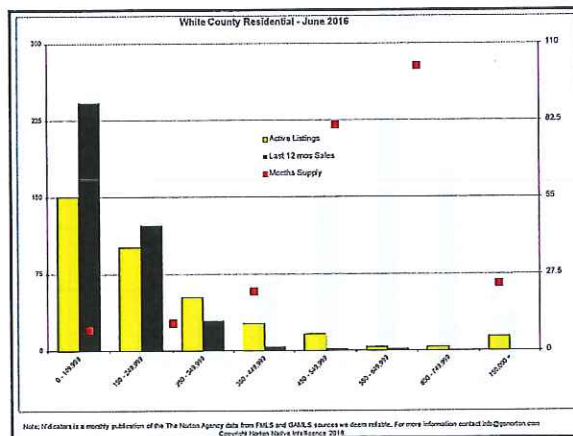
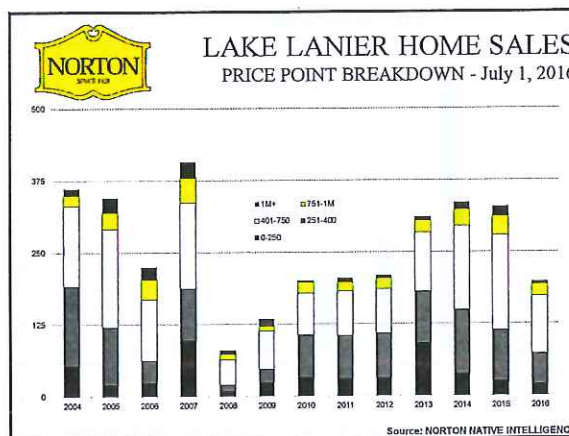
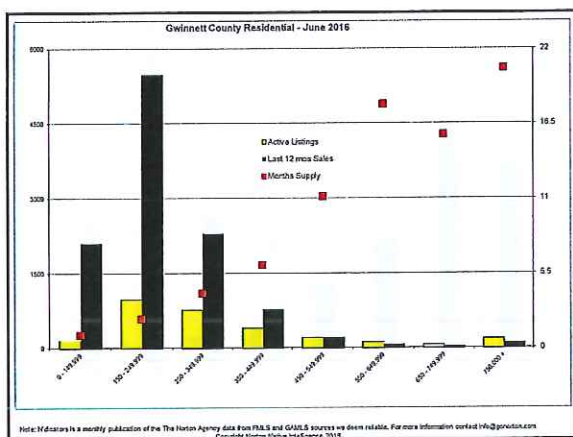
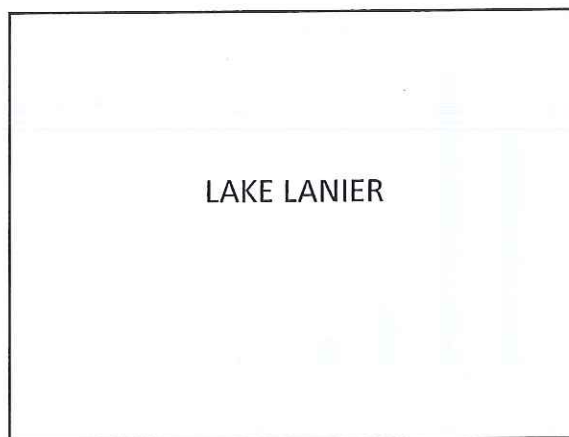
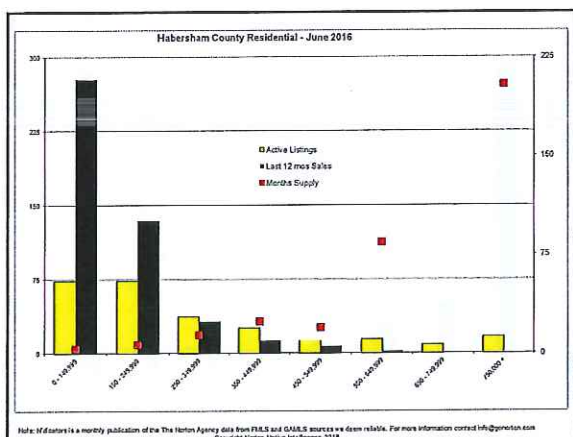
**NORTON**



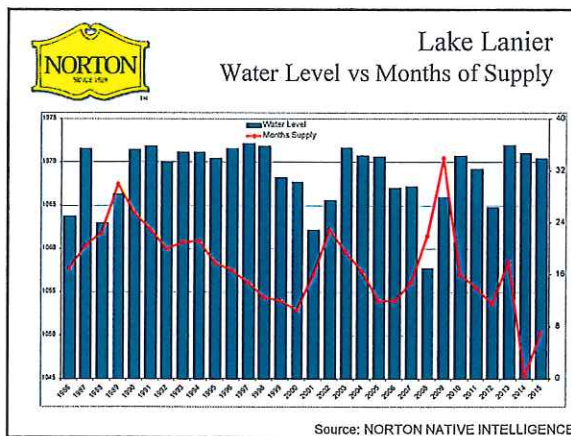
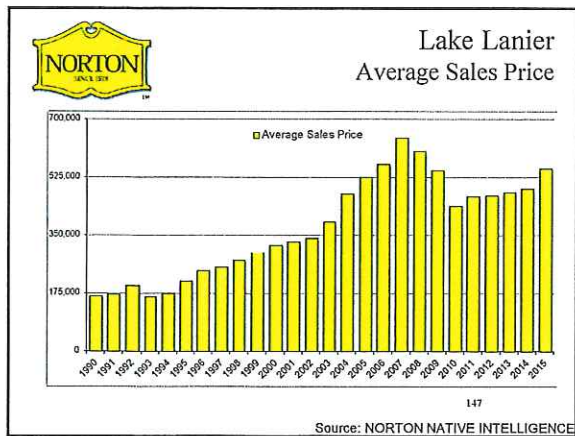
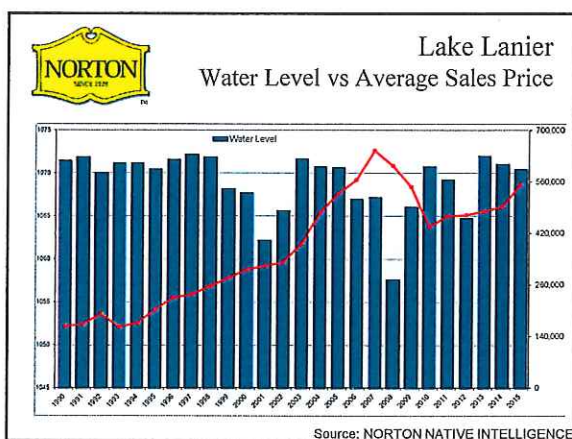
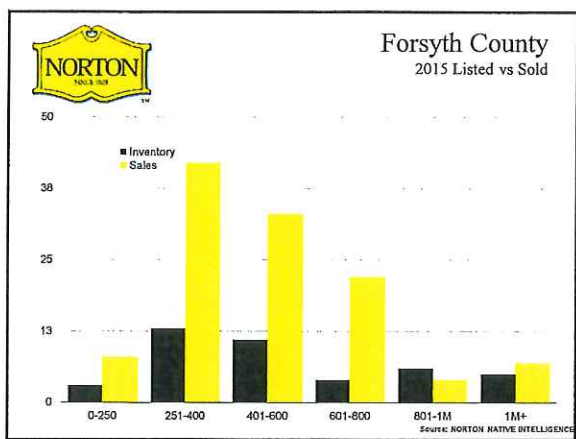
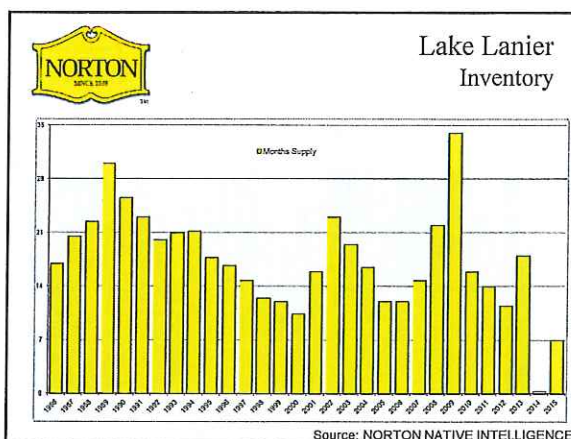
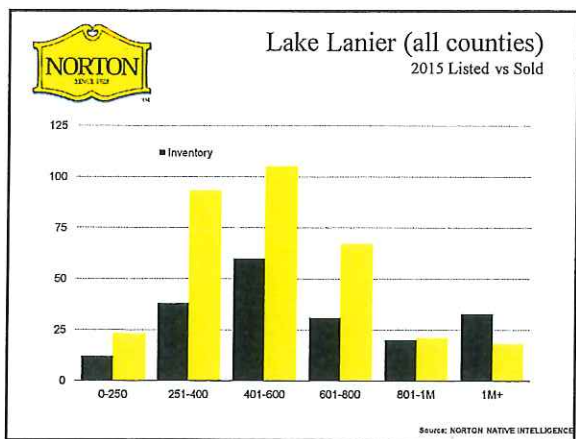






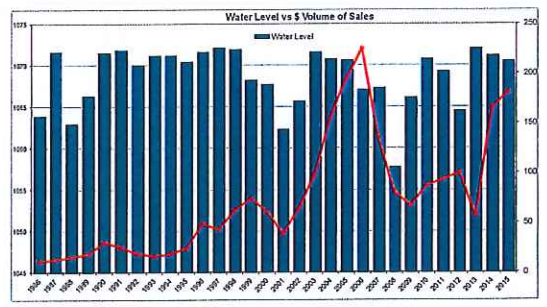








### Lake Lanier Water Level vs \$ Volume of Sales



Source: NORTON NATIVE INTELLIGENCE