


Market Opportunity Assessment

Downtown Snellville, Georgia

Prepared for the
Snellville Downtown Development Authority
and
City of Snellville

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Executive Summary

The Market Assessment is based on a detailed review of a wide variety of local and regional economic factors, using both quantitative data sources and extensive review of literature and local interviews. The rationale behind the recommendations will be critical to judging their veracity, and the reader is encouraged to review the entire document. However, a brief overview of the results of the analysis includes the following key points:

- *The Downtown Snellville Trade Area continues to exhibit very desirable market characteristics, particularly in terms of the income and spending levels of its residents.*
- *Recent events in the commercial real estate markets have resulted in a massive oversupply of retail and office space in the Metro Atlanta market in general, and in the Snellville Trade Area in particular.*
- *Problems in the banking industry have largely eliminated most types of lending for virtually all new construction types. This crunch will ease for certain types of residential and office products within the next couple of years, but it could be many years before new construction retail space can access inexpensive capital.*
- *Because of these constraints, Downtown Snellville's supporters need to shift to a more incremental approach that focuses on achievable improvements to the most downtown-like buildings and properties, growing a local independent and retail service base, and preparing to capitalize on potential development opportunities resulting from the continuous flow intersection.*
- *The Wisteria Square site may represent a good land-banking opportunity, if it can be acquired inexpensively.*
- *The former Wal-Mart at Snellville Oaks should be redeveloped in partnership with a college or other adult education provider to create a destination for the east side of the Downtown area and support a variety of public uses that would help solidify Downtown Snellville's role as the center of a vibrant community.*
- *As shown on the Downtown Snellville Concept Plan, a prime initial opportunity is for the City to invest in property acquisition and improvement in the Town Center area near City Hall as a means of facilitating redevelopment. Creating a Town Square open space in this area will also facilitate future redevelopment and reinforce the identity of the area as the "heart" of Downtown Snellville, and*

helping facilitate the redevelopment of property for commercial and destination uses may help overcome the cost and financing barriers. Other redevelopment and infrastructure opportunities, particularly in the Phase 1 and Phase 2 areas noted on that Plan, will play key roles in the rejuvenation and strengthening of the Downtown Snellville.

Despite somewhat grim market conditions, Snellville has some exceptional opportunities. A portion of the Downtown Snellville area has the potential to become the core of the walkable downtown-style environment that residents want, and this can be done in an incremental and less costly fashion than if everything had to be constructed from scratch. The fragmentation of retail preferences seen regionally and nationally over recent years creates entrepreneurship opportunities for providers of retail goods and services that may not only create demand for downtown space, but may provide an opportunity to support the creation of the “Town Center” environment that residents desire. And the availability of several key sites gives Snellville a potentially once-in-a-lifetime opportunity to shape its future.

The key question for Snellville is to identify the alternatives that have a potential to do at least one of the following:

- Develop a long-term, self-sustaining economic function,
- Reinforce the quality of life factors necessary to maintain and improve the value of the City’s housing stock, commercial property, and redevelopment potential,
- Are able to either gain market funding, or leverage public financing of some type to help fill the funding “gaps” that are commonly terminating commercial developments today, and
- Are able to make the biggest impact on the long-term future of Downtown Snellville, and Snellville as a whole, making the most efficient possible use of the limited funds available to the City.

If the analysis of Snellville’s market potential is simply limited to the traditional definition of market potential – the ability to justify a commercial loan or an investment – neither Downtown Snellville nor almost any other location in Metro Atlanta would have market feasibility in the current and foreseeable environment. There are simply very few bank loans or investment dollars to be had, and indicators are that this condition is not going to change any time soon.

As a result, however, Snellville has an opportunity to pioneer a new strategy for retrofitting its existing downtown area. The critical question will be finding the resources to help make it happen.

Introduction

The purpose of this market assessment, as defined by the Downtown Development Authority (DDA) and the City of Snellville (City), is to provide the City and the DDA with an understanding of the opportunities available within the near future to improve or facilitate the improvement of key sites within the Downtown area. Targeted issues, as identified by the City and DDA, include the following:

- **Market opportunities for the downtown area.**
- **Potential for redevelopment of the former Wal-Mart site at the Snellville Oaks property for one of a variety of public or quasi-public uses.**
- **Potential for the development of the vacant property on Wisteria Drive north of the City Hall for private residential or mixed uses.**

This analysis is being conducted during one of the most challenging periods for development in 75 years. Between the impacts of the residential mortgage crisis, the threat of extensive commercial mortgage defaults, the impact of these and other factors on community banks, and continued broad-based anxiety over job growth and employment stability, commercial development and redevelopment in most of the United States has slowed to a trickle since 2007. In the Metro Atlanta region, where residential and commercial development outpaced much of the country during the early 2000s (and where at least six community banks have collapsed since 2007), finding the funding necessary for commercial development or redevelopment has become critically difficult. For these reasons, development proposals that would have been relatively easy to kick-start five years ago are now finding it exceptionally difficult to gather the leverage necessary to allow profitable development.

At the same time, the downtown Snellville area finds itself within one of the major commercial market centers within the region, a situation that creates an additional set of challenges. Although most of the United States is currently oversupplied with retail space, the Metro Atlanta region, again, appears to be one of the hardest-hit by this trend. Given the amount of retail space available within the Snellville Trade Area, and given the intense pressures on retailers and the commercial real estate market, it appears likely that the amount of available retail space in the trade area will increase in the foreseeable future – and that much of that space will be newer and in a more desirable location closer to the heart of the current retail center of activity along Route 124 than the space in Downtown Snellville.

Despite these grim conditions, however, Snellville does have some exceptional opportunities. A portion of the Downtown Snellville area has the potential to become the core of the walkable downtown-style environment that residents want, and this can be done in an incremental and less costly fashion than if everything had to be constructed from scratch. The reconstruction of the U.S. Route 78/ State Route 124

intersection as a continuous flow intersection will have profound impacts on access to existing developments at the intersection, and this impact is likely to force them into seeking redevelopment strategies sooner than might otherwise be the case. Additionally, the local growth of the health care industry and growing demand for educational alternatives have the potential to both generate customers and demand for redevelopment that the commercial sectors may not be able to generate in the near future. The fragmentation of retail preferences seen regionally and nationally over recent years creates entrepreneurship opportunities for providers of retail goods and services that may not only create demand for downtown space, but may provide an opportunity to support the creation of the “Town Center” environment that residents desire. And the availability of several key sites gives Snellville a potentially once-in-a-lifetime opportunity to shape its future.

The critical question facing Snellville, then, may not be “market potential,” in the traditional sense of being able to provide sufficient return on investment to justify a commercial loan or an equity investment. Snellville presents a potential for return on investment, but the commercial construction sector does not currently have the capacity to act on the level of return that Downtown Snellville could probably generate. Current and foreseeable tight standards for lending are likely to make it nearly impossible for a Downtown Snellville development to occur without substantial public sector subsidy.

The key question for Snellville, instead, may be to identify the alternatives that have a potential to do at least one of the following:

- Develop a long-term, self-sustaining economic function,
- Reinforce the quality of life factors necessary to maintain and improve the value of the City’s housing stock, commercial property, and redevelopment potential,
- Are able to either gain market funding, or leverage public financing of some type to help fill the funding “gaps” that are commonly terminating commercial developments today, and
- Are able to make the biggest impact on the long-term future of Downtown Snellville, and Snellville as a whole, making the most efficient possible use of the limited funds available to the City.

If the analysis of Snellville’s market potential is simply limited to the traditional definition of market potential – the ability to justify a commercial loan or an investment – neither Downtown Snellville nor almost any other location in Metro Atlanta would have market feasibility in the current and foreseeable environment. There are simply very few bank loans or investment dollars to be had, and indicators are that this condition is not going to change any time soon. In that respect, Snellville faces a profoundly different challenge from that which faced Suwanee or Duluth or other regional communities that experienced downtown-style redevelopment in the early

2000s. It appears that an economic watershed has been crossed, particularly in Greater Atlanta, and regional analysts and indicators almost universally indicate that previous conditions are not expected to come back within the foreseeable future. As a result, however, Snellville has an opportunity to pioneer a new strategy for retrofitting its existing downtown area. The critical question will be finding the resources to help make it happen.

- Claims of an increasing local consumer demand for downtown-type amenities appear to be at least partially corroborated by the level of interest generated by the first year of the Snellville Farmer's market. According to interviews, this new event generated 800 to 2,000 visitors on multiple weekends during the past summer and autumn. Although farmer's market attendance does not generally play into commercial site selection decisions, this level of attendance does appear to indicate both the visibility of the Downtown Snellville location and a surprisingly high level of demand for public market-type opportunities within this area. It is likely that the attendees primarily came from within the 10-minute drive time radius, although this cannot be corroborated without surveying attendees.

Market Assessment Conclusions

The information presented above, as well as additional supplemental information provided in Appendix A of this document, confirm that the Downtown Snellville Trade area has good demographic potential for most types of retail goods and services. The number of households within the drive time areas falls well within range considered necessary to support most kinds of retail, and incomes, although not the highest in the region, are well above MSA and national averages. Additionally, both spending potential and psychographics indicate spending patterns that would typically be appealing to a wide variety of consumer goods and service providers. Although both the 5- and 20- minute drive time radii have good demographics and spending potential, the 10-minute trade area appears to be stronger across most measures of prosperity.

However, the reader should keep a few additional issues in mind:

- Despite the strong spending data, the volume of existing commercial space within the trade area, and particularly within the 10- and 20-minute drive time trade areas, exceeds the trade area's spending capacity. As in virtually all metropolitan markets in the United States at present, there are very few untapped market segments; most commercial activity in the past 10 years has been initiated on the assumption that a new commercial pursuit could siphon off part of the existing market share from other providers already in that market. In most cases, this assumption was based on price competition, capitalizing on consumer preferences, or establishing dominance in a niche within a broader retail category (for example, exotic ethnic restaurants within the broad category of restaurants). A high Spending Potential Index indicates a high willingness to spend on a given category, but it is also likely to indicate that ample opportunities to spend that money already exist. This certainly seems to be the case in the Snellville area, where the recent development of commercial space along State Route 124 was a response to the same demographic and spending potential.
- It is not clear at this time whether current and projected macroeconomic trends, including employment insecurity and loss of residential property value, may change consumer's spending characteristics. Data for recent quarters has indicated a near-universal pullback in spending, in the Metro Atlanta area as well as elsewhere, and there is anecdotal evidence to indicate that this trend may reflect a long-term shift in

economic priorities, rather than a response to short-term pressures. However, there does not appear to be enough evidence in any direction to be able to claim either conclusion with confidence. It is also possible that these trends may be fragmented, rather than uniform, and that spending patterns in one geographic area or one income segment may go a much different direction than in others. If this is the case, it is possible that the relatively affluent segments of Downtown Snellville's trade area may continue accustomed purchasing patterns with relatively little change.

- The presence of potential customers is only part of the development and redevelopment equation, especially in an environment where a large number of retail competitors, and a large amount of available space, exists. The next section will explore some of the challenges that private sector development or redevelopment efforts face in the current and foreseeable future environment.

Development and Redevelopment Factors: Competition, Funding, Leverage and Investment

As the previous section indicates, the Downtown Snellville trade area's demographics and overall purchasing characteristics fit a profile that is highly desirable to many types of commercial businesses. However, that in itself is not adequate to create the downtown transformation that Snellville has envisioned, particularly in the current and foreseeable future economic environment. This section will present an unfortunately sobering overview of the factors that will impact (and, it appears, largely impede) purely market-driven commercial and residential development and redevelopment of the types that Snellville stakeholders have envisioned for the Downtown Snellville area. This is not to say that development and redevelopment cannot or should not occur in Downtown Snellville, but it is to say that targeted and pragmatic public support will probably be necessary to overcome some of these barriers.

Commercial Real Estate Regional Outlook

As noted in the previous section, most retail markets are extensively overbuilt at the present time, and the Greater Atlanta market as a whole appears to be a particularly strong example of this trend. As noted in the second quarter 2010 issue of *EconSouth*,

At the root of the retail space glut... is a fundamental imbalance of supply and demand, experts said.... "We built an awful lot of retail space in the past three years, and now half of it is unleased," said K.C. Conway, subject matter expert in the Atlanta Fed's Center for Real Estate Analytics.

In 2009, developers finished more retail space in Atlanta than in any other metro area in the country, according to F.W. Dodge. As the supply of space has mushroomed, Atlanta's retail vacancy rate has risen each year since 2004. It reached 15.5 percent in the fourth quarter of 2009, according to data compiled by the Atlanta Fed's Center for Real Estate Analytics. (Another measure, by the real estate firm CB Richard Ellis, put the vacancy rate as high as 25 percent at the end of 2009.)²

Although accurate total vacancies for a specific trade area are difficult to identify without a site-by-site survey that is frequently updated, if we apply the percentages above to the amount of space within the trade area, we can at least roughly estimate the volume of competing retail space available. According to ESRI Business Analyst data, there is a total of 19,766,532 gross leaseable square feet (GLA) of retail space currently existing in major shopping centers within the 20-minute Trade Area discussed in the previous section. This equates to approximately 2,000 store spaces of varying sizes as they are currently configured. The full report is attached as Appendix B.

² *EconSouth*, Second Quarter 2010. P.20. Federal Reserve Board of Atlanta. NOTE: the proportion in the first paragraph refers to recently-constructed space, and the proportion cited in the second paragraph refers to the total of all retail space within the Metro Atlanta area.

If we apply the most conservative available estimate of current retail vacancy in the Metro Atlanta region (the fourth quarter 2009 estimate of 15.5%, as generated by the Federal Reserve Board of Atlanta and quoted above), we can estimate that three million GLA of retail space is currently available within the 20-minute Trade Area. Moreover, the total GLA cited above includes only "Major Shopping Centers," and does not include the thousands of square feet of retail space along routes 78 and 124 and elsewhere that consist of small multi-storefront buildings and stand-alone structures of any size. A visual scan of a selection of these properties indicates that they appear to be experiencing significant vacancy rates as well.

High vacancy rates outside of but near the Downtown Snellville area can have significant impacts on Downtown Snellville's ability to compete for retail, restaurants and service providers. Major shopping centers tend to be served by dedicated brokerage professionals, who are often authorized to offer incentives such as reduced lease rates or tenant finishing assistance (which lessens the tenant's cost burden). If a property is newer or has undergone relatively recent improvements and is still carrying a commercial real estate loan, then the pressure to rent the space, even at a reduced rate, is particularly strong. Small property owners, such as those that make up much of Downtown Snellville, may be at a particular disadvantage in this environment, both because they lack the professional assistance and because newer, presumably more desirable properties are now competing with them for the tenants that were previously leasing older spaces. There is a significant likelihood that this trend could exacerbate the levels of disinvestment that are evident in some of the older properties.

As a result, it seems fair to conclude that the amount of retail space that is currently competing for retail tenants is of a magnitude that creates significant barriers to recruiting retail, particularly the franchise-type, general goods and services businesses that the Downtown Snellville area has historically provided. And this situation is not expected to improve quickly: current estimates range from five to eight years before the current surplus of retail space is absorbed.

Historically, retail real estate expectations have been based on an assumption of typical real estate cycle of about seven years – that is, an expectation that retail property occupants will change about every seven years. This trend is reflected in the development of the 124 corridor, where a large number of Downtown Snellville's original retailers moved following the end of their leases on property near Route 78. Until recently, this cycle was expected to continue indefinitely, with leading-edge retailers moving to larger sites in greenfield locations and second-tier retailers occupying the vacated space. However, the constriction of the retail economy and the oversupply of space, as noted above, coupled with the constraints on loans discussed below, has at least temporarily put an end to this cycle. It is not certain at this point (and appears somewhat unlikely) that the cycle will resume in the same manner in the foreseeable future in Snellville. In addition to the retail economy issues, interviews with commercial real estate brokers indicates a reluctance to pursue new construction any closer to Loganville than it is at present. The reason for this stems from how basic retail establishments measure growth: since both Snellville and Lawrenceville are considered separate markets, it is more desirable for retailers to have two separate stores serving the two submarkets than to have one store attempting to serve both.

Office Real Estate Regional Outlook

Although offices would typically consume a relatively small part of a downtown setting's total commercial space, office uses are often beneficial in terms of generating pedestrian traffic and local demand for goods and services. Here again, however, the current and foreseeable real estate environment for the office category as a whole is dominated by high volumes of available property and slack demand. Within the Greater Atlanta market, total vacancy estimates currently range around 22%. Within the submarkets that impact the Downtown Snellville Trade Area, office vacancy rates currently range from 19% to 26%³. Vacancies in the low 20% range are recorded for Class A, B and C properties.

Greater Atlanta's office vacancy is currently estimated to be among the highest in the nation. More than 30 million square feet of commercial space are estimated to be vacant, and some analysts are indicating that it may take three years to significantly impact current vacancy rates.⁴ Factors in addition to speculative office building, such as relocation of corporate headquarters out of the Greater Atlanta area, have also increased vacancy rates.

As with the retail space supply, the volume of available office space places any Snellville office product into an intensely competitive environment, one that is likely to impact rent expectations and demand on an overall basis. It is notable, however, that the two Class A office spaces in the Downtown Snellville vicinity are fully occupied with medical offices.

Residential Real Estate Regional Outlook

Current residential real estate impacts are far better known to the general public than retail and office issues, and need relatively little explanation here. There is, however, some national and regional evidence to indicate that the multifamily residential real estate market is likely to begin development again in the near future; a number of investment advisors nationally are advising investment in these properties as a strong income opportunity. Again, this advice is being offered for the Atlanta area as well, although it is not clear whether declining prices and increasing vacancies in the single family real estate sector may dampen this demand. As one update on the Atlanta market has noted:

Apartment owners are experiencing rising demand amid falling home ownership rates, but face new competition from houses and condos, which have been added to the available rental inventories or are priced well below market. High foreclosure rates of single-family homes have created a larger shadow market (made up of unsold homes that owners have put on the rental market) that is significantly impacting multifamily market performance.⁵

³ Office Trends Report—Third Quarter 2010/ Atlanta, GA. Grubb & Ellis Company.

⁴ "Atlanta Awash in Empty Offices Struggles to Recover From Binge," John Helyar. Bloomberg News, September 14, <http://www.bloomberg.com/news/2010-09-14/atlanta-awash-in-empty-offices-struggles-to-recover-from-building-binge.html>

⁵ "Atlanta Multi Housing and Land." Grubb & Ellis, 3rd Quarter 2010.

At present, the multifamily construction market also appears to be primarily stymied by the real estate financing issues that are impacting all markets, as will be discussed below.

One segment that is commonly believed to have significant future development potential is housing products oriented to seniors, particularly graduated assisted-living type facilities designed to accommodate the changing range of independence and assistance that seniors may need over time. National and regional sources indicate broad demand for these properties that is only expected to increase with time as a result of the aging Baby Boomer population. Interestingly, the definition of these properties seems to have shifted from “55+ active living” developments to the graduated assisted living model. Discussion of active communities for seniors seems to have largely disappeared from real estate analysis; it is not clear whether this trend stems from difficulties in the single family resale market or from health industry interest in the graduated assisted living property type.

Downtown Snellville’s trade area certainly seems to have strong demographic potential for senior housing demand. As noted in the previous section, one of the primary psychographic groups represented in the Downtown Snellville Trade Area is characterized by older married couples who own their homes and have significant assets -- an ideal market for senior housing. A more detailed dive into the demographic characteristics of the senior and near-senior population indicates a few key aspects of this population:

- The proportion of the population aged 50+ within the 20-minute Trade Area is projected to grow at nearly double the rate of the population as a whole between 2010 and 2015.
- Median household income for this age group is expected to grow slightly faster than that for the population as a whole. For the 10-minute drive time area, household income is projected to do even better, increasing at an annual 3.75% rate, versus the larger area’s 2.69% rate.

Given very low rates of existing homes sales in Metro Atlanta and elsewhere, it appears likely that general demand for assisted living and “active living” settings has been at least temporarily undermined by the single family housing market. Within the Downtown Snellville Trade Area, interviews indicate at least four senior living or active living proposals within the past two years; however, all of these appear to have been delayed or terminated due to the owners’ or developer’s inability to find adequate funding.

Historically, the overwhelming majority of seniors nationally have stayed close to where they lived during their working life, and current market conditions appear likely to force an even lower level of relocation, since seniors face increased difficulties in selling their homes and since the value of that investment is likely to have declined since 2006. While it is possible that changing demographics could provoke some to leave the Snellville area, it appears more likely that the decreased liquidity of real estate will limit seniors’ opportunities to leave the area for greener pastures.

Development and Redevelopment Funding Outlook

As most readers probably know, real estate financing has become extraordinarily difficult in the past two years – in most parts of the nation, and particularly in Metro Atlanta. One of the most telling indicators has been a complete halt in 2010 to new commercial developments in the Metro market area – the first in 25 years. At the same time, Georgia has witnessed the failure of at least six regional and community banks, most as a result of being overleveraged in troubled residential and commercial mortgages.

Prior to 2007, most evidence indicates that commercial construction loans were being made on relatively easy terms that underestimated the risks, particularly in new development in glutted markets or untested real estate products. Again, national trends were particularly acutely experienced in Metro Atlanta, where, as discussed previously, commercial construction of many types (as well as single family home construction) largely outstripped demand.

Since 2007, qualification requirements for commercial loans have tightened in much the same manner as they have for personal loans, and stricter bank regulations designed to prevent a repeat crisis mean that some banks cannot extend loans at all because their current outstanding loan portfolio exceeds new requirements that are based on the amount of capital the bank has in its possession. These factors have placed a significant damper on the commercial loan market. Additionally, most banks continue to struggle with massive portfolios of troubled loans, including millions of dollars' worth of commercial construction loans that are scheduled to come due between 2011 and 2013 -- a situation that puts their existing capital further at risk. Commercial real estate developers and owners with outstanding debt, meanwhile, are documented to be largely focusing their financing efforts to try to obtain more favorable terms on outstanding debt, rather than trying to start new projects. Current limits on availability of bank loans and decreased sales and profitability are also impacting small businesses, as the risk-adverse lending environment has increased interest rates, cut loan amounts, or eliminated eligibility entirely for small business owners.

At this point, it is not clear when the commercial real estate loan market will become more favorable to commercial development and redevelopment. Some analysts are indicating a five- to eight- year time frame before increases in consumer demand will justify new commercial development, although actual demand will vary widely by location. As indicated by the information in this section, Metro Atlanta is generally viewed as being one of the markets that has been most negatively impacted by the economic downturn, a status that derives from both the explosion in commercial construction that Metro Atlanta experienced prior to 2007, and the loss of population, jobs and economic base since that time. Combined with the apparent sea change that has resulted from troubled loans and new regulations, and compounded by the particularly acute situation faced by the Metro Atlanta banking industry, it appears fair to assume that commercial loans, and as a result commercial development,⁶ will not be available in the foreseeable future with anything near the ease that was experienced in the early 2000s.

⁶ The reader should be aware that almost all real estate developers rely either in whole or in large part on loaned funds to build new developments. Very few developers invest substantial portions of their own capital, and in many cases the developer may function more as a broker and project

One of the interesting elements of Downtown Snellville's existing environment is that most of the existing buildings appear likely to be largely or completely paid for, since most of these buildings are older than a typical commercial construction loan. At present, this can present barriers to property improvements or redevelopment, since the owner's costs of property ownership are minimal. For these owners, improving the property to attract slightly higher rents may not seem like a worthwhile investment, especially due to the efforts and risks associated with commercial loans. However, the high vacancy rates in regional commercial real estate discussed previously could increase redevelopment pressure on these properties, since potential tenants may be more likely to find comparably-priced space in newer buildings. It is likely, however, that many of these property owners can withstand a substantial decline in income before their financial risk-reward balance shifts in favor of reinvestment or sale.

Conclusions

Snellville has not chosen the easiest time in history to try to revitalize its downtown area. National and regional factors that may not have directly impacted Downtown Snellville have substantially remade the larger environment within which the Downtown Snellville area must find building occupants and property improvement funds. The construction boom of the early to mid 2000s appears to have come to an abrupt halt, and the consensus of most economic analysts is that the easy funding and speculation in new retail, office and residential space that drove the development of many of the region's "new downtowns" is not likely to be available again in the foreseeable future. As we will show in the last section of this Market Assessment, this does not mean that nothing can happen to improve Downtown Snellville. It does mean, however, that improving Downtown Snellville will require different strategies to reach similar goals than have proven successful in the past.

manager than an investor or part-owner. With the exception of a very small number of businesses that can finance their own building needs, most commercial development cannot occur without commercial loans.