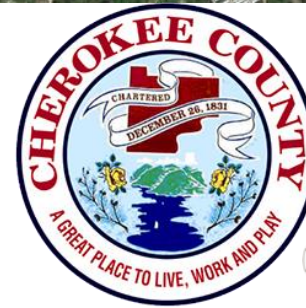


HICKORY FLAT AREA PLAN MARKET ANALYSIS CHEROKEE COUNTY, GEORGIA

Presentation 2: Market Demand Indicators



Prepared for
Cherokee County Department of Planning and Zoning
Final Report: June 2020



MARKET STUDY CONTENTS

Project Overview

The Cherokee County Department of Planning and Zoning (the Department) engaged Bleakly Advisory Group, Inc. (BAG) to prepare a market analysis for Study Area that will become the focus of the Area Plan. **The purpose of BAG's work is to help the County, the City and the public to better understand market trends and pressures that have shaped the Study's Area's recent development, to forecast future growth patterns, and to establish a solid base of information to assist the process of planning for Hickory Flat's future.**

This is one of three presentations that summarize the full report, which can be access from the Department of Planning and Zoning web site.

The first presentation, prepared in October, focused on existing conditions, including the Study Area's demographics, general growth trends, land use and land supply.

This presentation focuses on documenting market supply/demand forces and the Study Area's short-term prospects for new housing and commercial development.

The third and final presentation will discuss long-term growth forecasts for the Study Area, including potential residential and commercial "build out" scenarios and their resulting planning implications. Market-based recommendations to support the Area Plan will also be presented.

Complete Market Study Contents

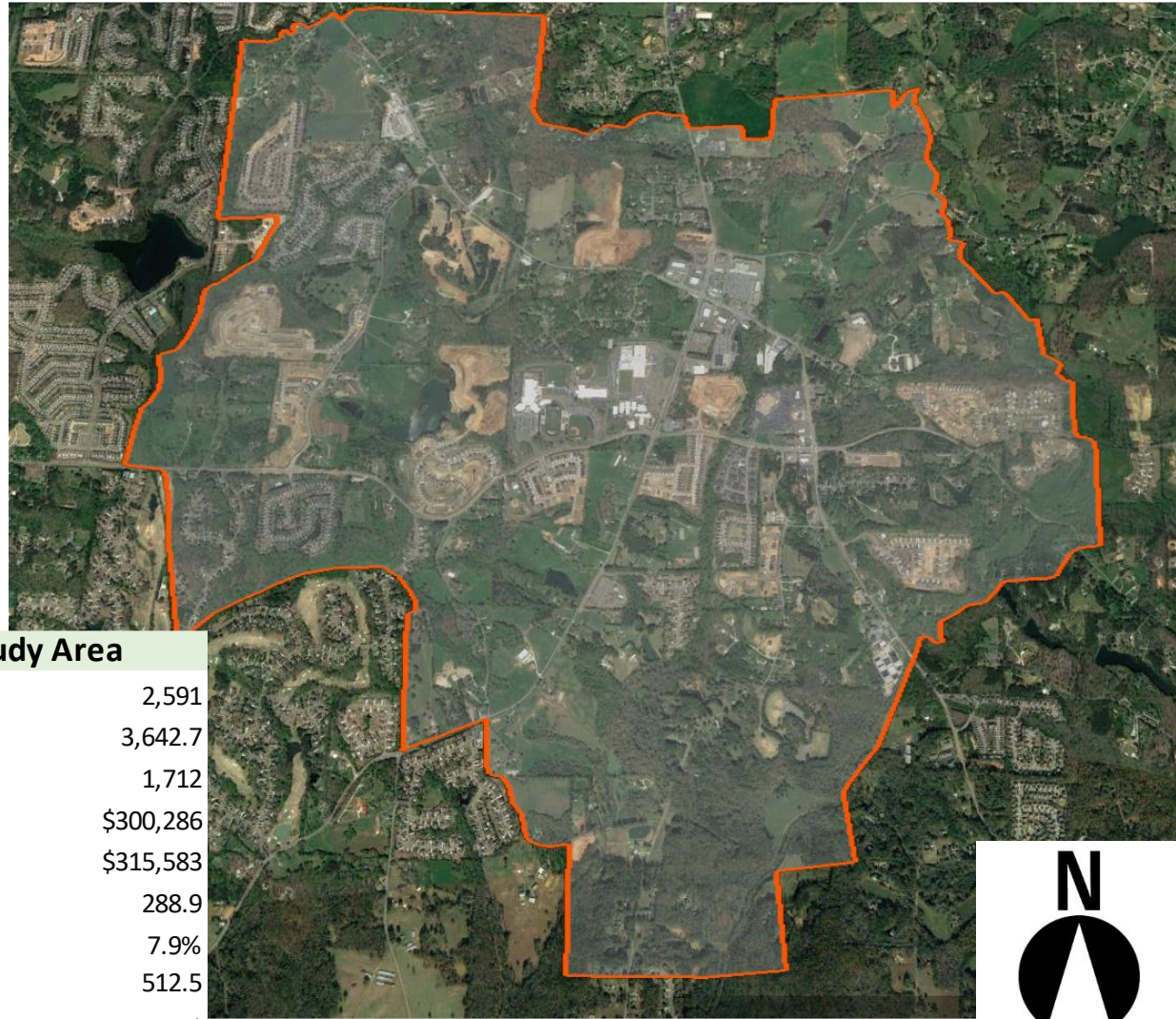
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STUDY AREA CONTEXT

Area Boundaries

- All data is taken from sources that were current as of early 2019



Land Use Snapshot: Hickory Flat Study Area

Number of Tax Parcels	2,591
Total Acreage	3,642.7
Estimated Housing Units (from 2019 tax parcel data)	1,712
Average Full Market Value/Parcel - All Residential	\$300,286
Average Full Market Value - SF Detached Only	\$315,583
Total Tax Exempt Acreage	288.9
Percent Tax Exempt	7.9%
Study Area Acreage in the City of Holly Springs	512.5
Percent of Land Area In the City	14.1%
Total Market Value (including tax exempt parcels)	\$776,303,500
Estimated Taxable Real Estate Digest	\$297,820,320

Source: Cherokee County Property Tax Assessment Records and Bleakly Advisory Group, Inc.



STUDY AREA CONTEXT

Incorporated and Unincorporated Areas

Roughly 512.5 acres within the Study Area (14.1%) and 740 tax parcels are located within the City of Holly Springs. The remaining land area lies in unincorporated Cherokee County.

 **Holly Springs Parcels**
Hickory Flat Study Area

Source: Bleakly Advisory Group based on data from Cherokee County Dept. of Planning & Zoning

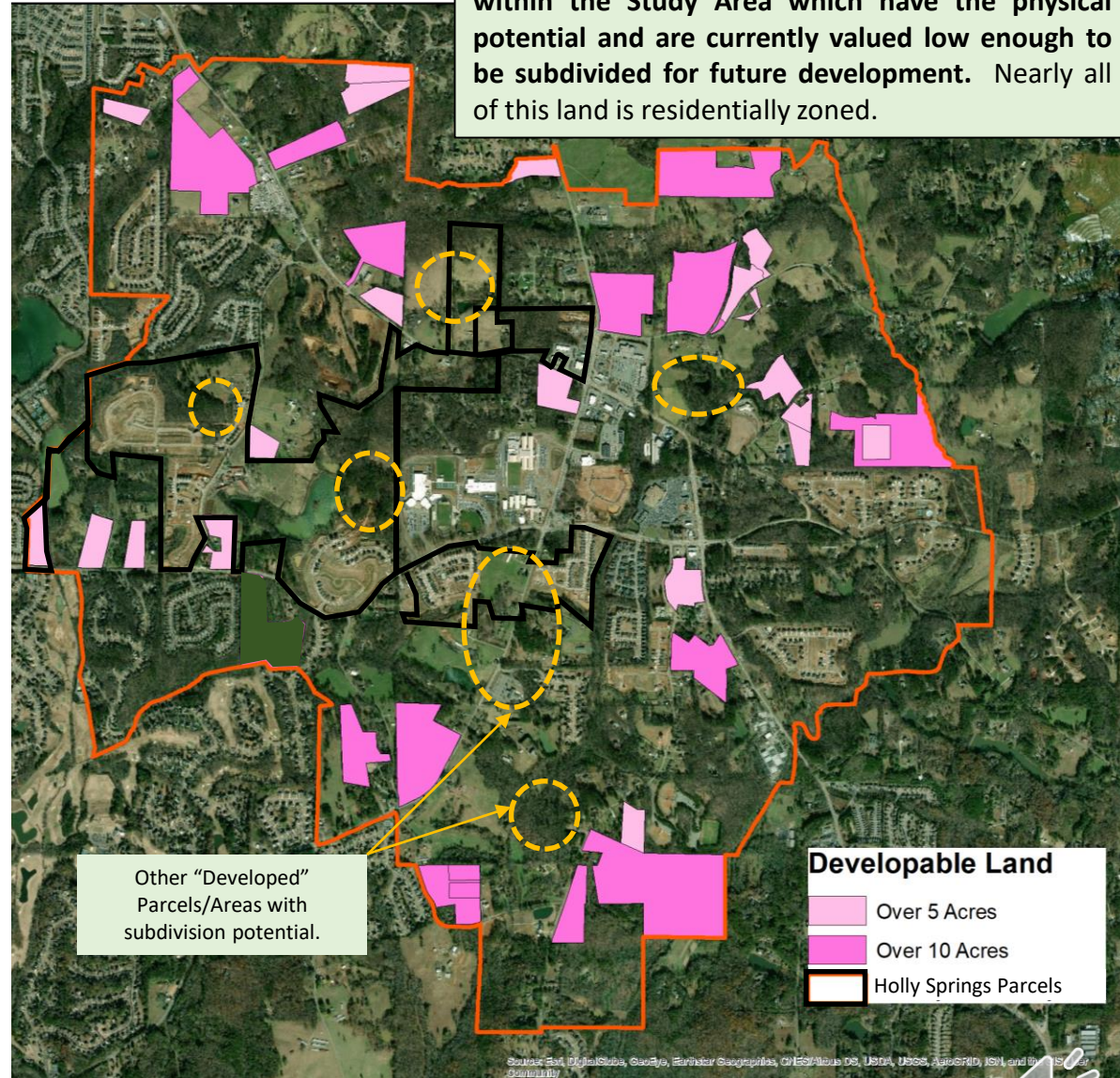
Available Land Supply

DEVELOPABLE RESIDENTIAL LAND

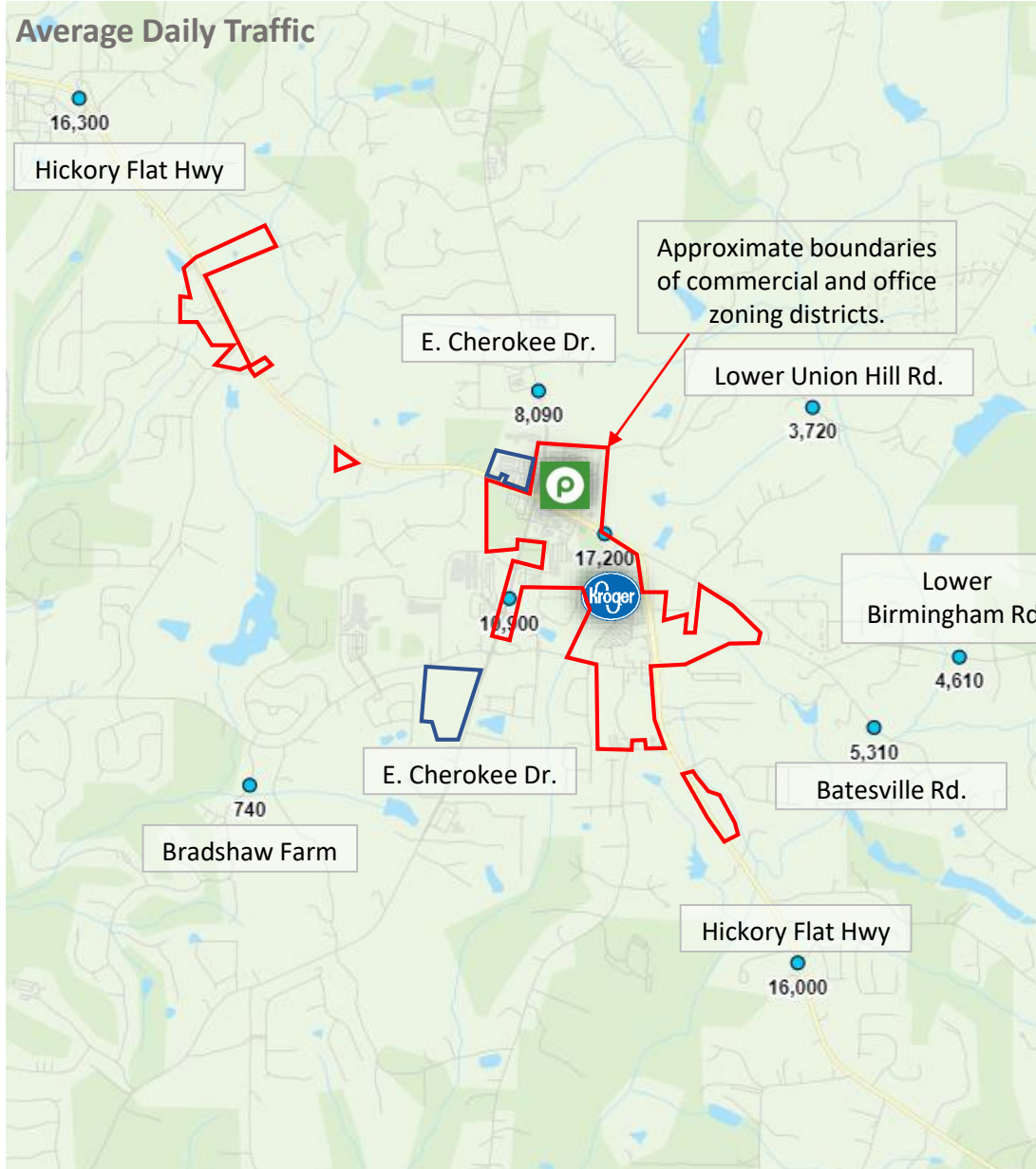
Potential Future Development Sites

- This map examines the “undeveloped” acres within the Study Area by isolating those that are both a minimum of 5 acres in size and the assessed value of building improvements is between \$0 and \$10,000.
 - This sample excludes government owned park land, private tax exempt and association-owned common areas.
- The depicted (shaded) parcels total **472 undeveloped acres**, including 341 acres in parcels larger than 10 acres and 131 acres in parcels sized between 5 and 10 acres. Most of these larger parcels are in the unincorporated County.
- However, potential future development sites are not limited to currently undeveloped land. **BAG identified another 35 developed parcels of 10 acres or larger where the total full market value of the real estate averages less than \$34,000 per acre. These parcels exceed 688 acres.** (General locations of these other parcels are identified by the dashed circles.) A major portion of this acreage is in Holly Springs.
- Several of the properties within/near the circled areas “with subdivision potential” are owned by LLC’s. We understand that some are already under development or have been permitted since the assessment records for this analysis were extracted in early 2019.

Our analysis of tax parcel data identified **1,160 acres within the Study Area which have the physical potential and are currently valued low enough to be subdivided for future development.** Nearly all of this land is residentially zoned.



NONRESIDENTIAL DEVELOPMENT POTENTIAL



- This map on the shows average Highway traffic in relation to existing commercial zones.
- **Without changing existing zoning the portion of the Study Area in the unincorporated County has the physical capacity to accommodate another 154,000 SF in scattered undeveloped parcels, plus whatever expansion potential may be associated with existing buildings.**
- **Commercial zones within Holly Springs could physically accommodate another 100,000 SF using conservative assumptions.**
- Longer term there may be potential to expand the commercial node along the north side Hickory Flat Highway, east of the existing Hickory Flat Village Shopping Center, if allowed by future rezoning.

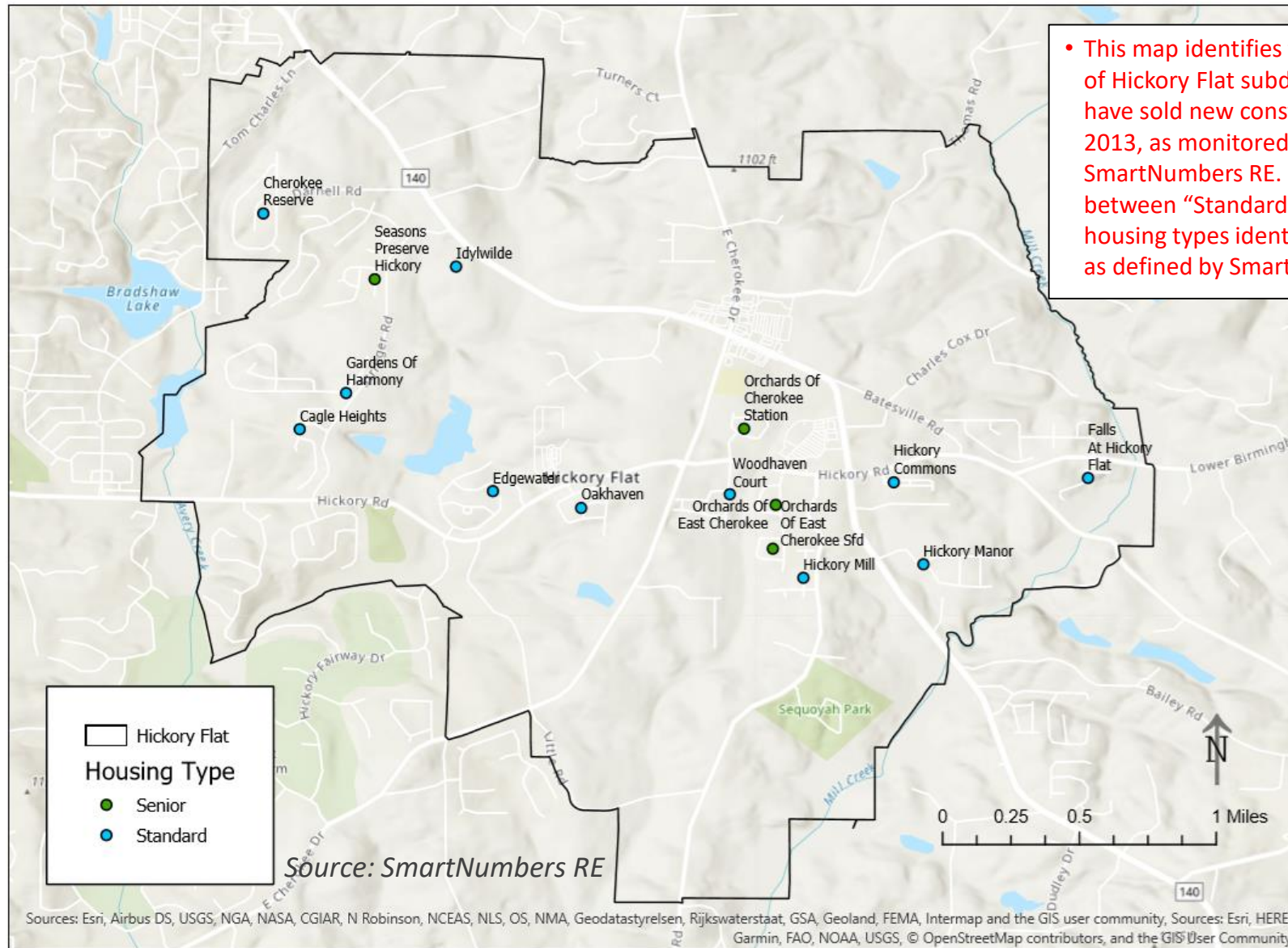
Source: Georgia Dept. of Transportation

Housing Market Indicators



LOCATIONS OF NEWEST “ACTIVE” SUBDIVISIONS

Hickory Flat Subdivisions

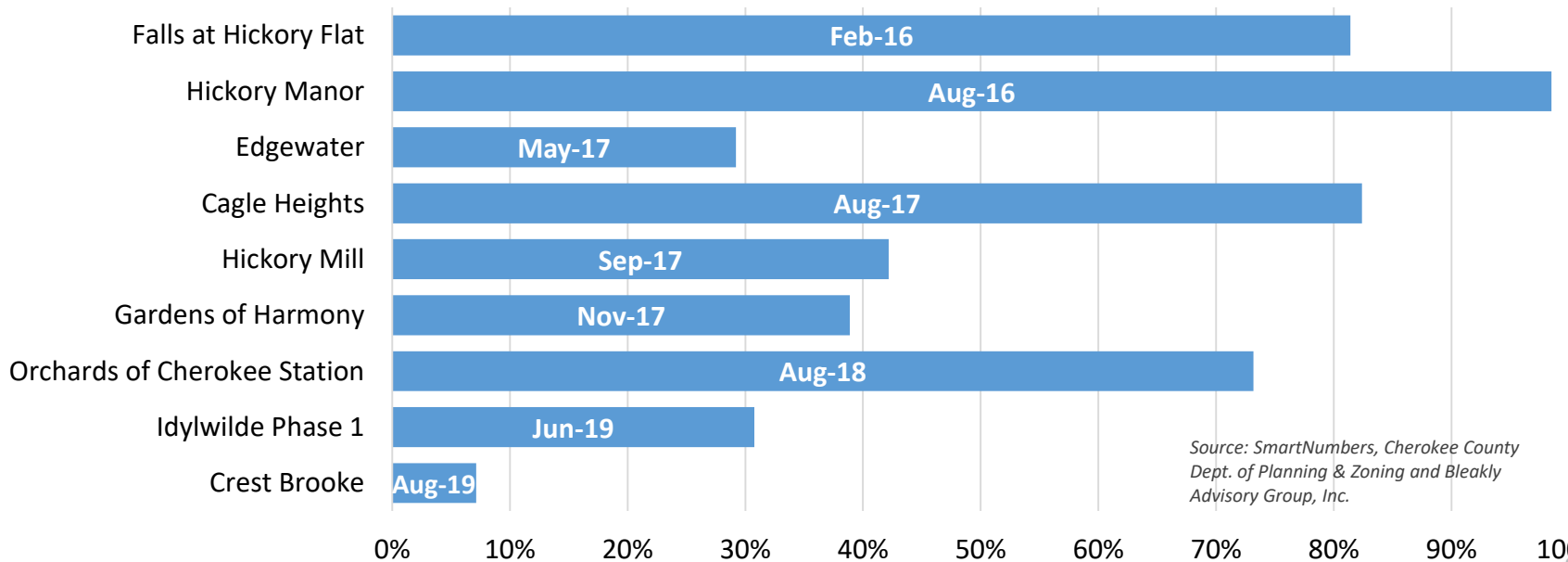


RESIDENTIAL NEW CONSTRUCTION

Sales Pace: Subdivisions Under Construction

- There are nine subdivisions within Hickory Flat that were under construction at the time the study was prepared. Two began home sales in 2016, four in 2017, just one in 2018, and two in 2019.
- Falls at Hickory Flat, which began selling homes in February 2016, has had the highest number of closings at 149 amongst active subdivisions in the study area.
- Hickory Manor, which began selling homes in August 2016, is nearly built out with just one more unit left to be completed and closed on (note: secondary data source is 2 months behind).
- Orchards of Cherokee Station and Idylwilde have sold approximately four units a month, the fastest pace among active subdivisions within Hickory Flat.

Subdivisions Under Construction - % Complete & Beginning Selling Period



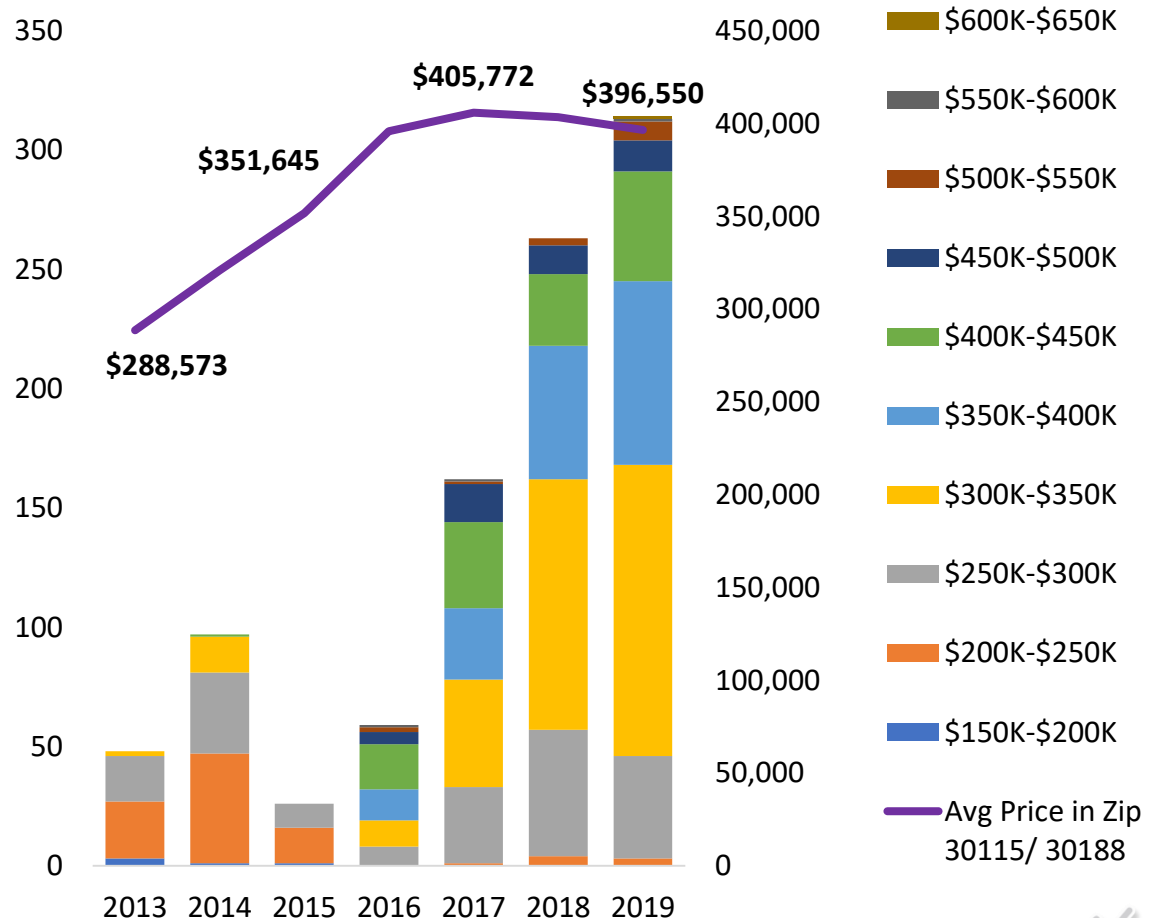
Source: SmartNumbers, Cherokee County Dept. of Planning & Zoning and Bleakly Advisory Group, Inc.

RESIDENTIAL NEW CONSTRUCTION

Pricing Trends

- This graph depicts both the total volume and the price distribution of new home sales in Hickory Flat from 2013 through 2019.
 - More than 970 new homes, patio homes and townhomes have been built/sold since January of 2013, including more than 700 sold in the past 3 years at an average of 270 units per year.
- The number of new homes priced/sold below \$250,000 has nearly disappeared since 2013, while the number of home sales priced above \$350,000 has dramatically increased.
- The average pricing of new home construction have moved to the \$400,000 range.
- Based on total sales trends over the past 3 years, the Study Area's supply of 650 vacant lots would have been significantly reduced during 2019.
- The remaining balance represents less than a two-year supply if sales continue at a similar pace to the past three years.

**New Construction Single-family Homes Sales by Price
(Including Senior-focused)**



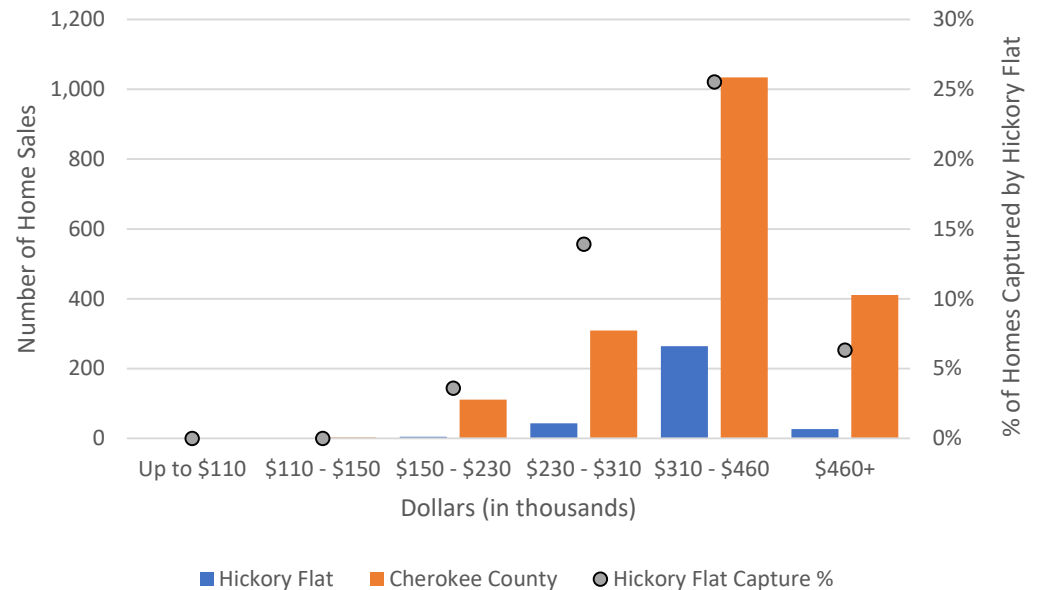
Source: Bleakly Advisory Group, based on data from SmartNumbers RE data

RESIDENTIAL NEW CONSTRUCTION

Hickory Flat Market Capture Rates by Price Point

- This graphic distributes 2019 new home sales in Hickory Flat and Cherokee County and calculates the Study Area's capture rate of construction in varying price bands.
- While the Study Area currently contains less than 2% of the County's population and land area, Hickory Flat captured 18% of the 1,870 new homes sold throughout Cherokee County in 2019. That disproportionately high local capture rate has been consistent post-Recession.
- Builders have been particularly active in a price band between \$310,000 and \$460,000, which accounted for 55% of total County new home sales in 2019. Hickory Flat captured 26% of Cherokee County's **total** sales in that price range.
- As also shown, there was very little new home sales priced below \$230,000 anywhere in Cherokee County in 2019. Hickory Flat's capture rate of homes in the \$230-310,000 range also reflects the lack of product priced in that range.
- The much smaller (6%) local capture rate of limited County home sales priced above \$460,000 may indicate that most local developments under construction are either not oriented to that market, or there are more competitive locations for those products elsewhere in the County.

2019 New Home Sales by Price Range

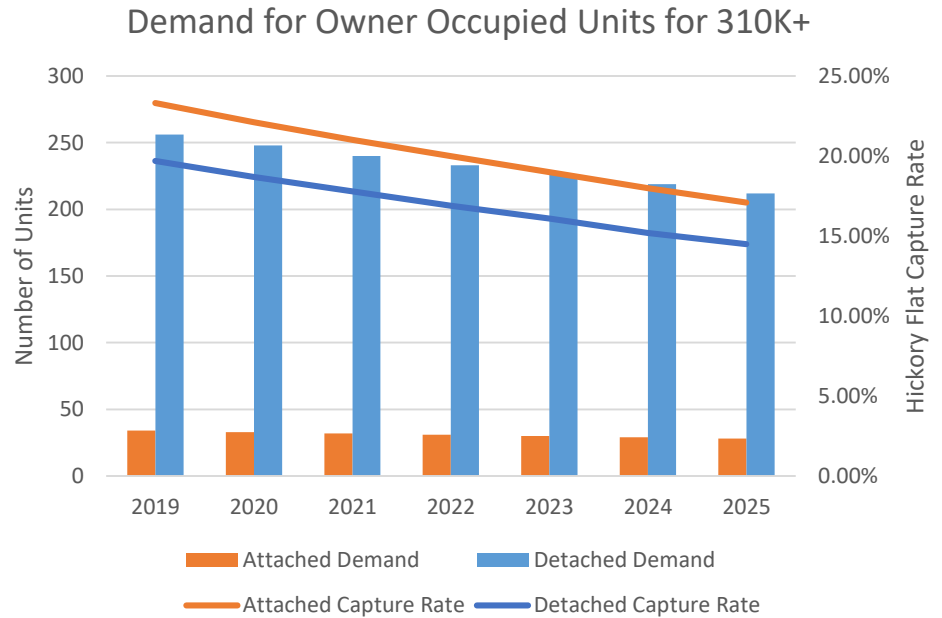


2019 New Home Sales	Hickory Flat	Cherokee County	Hickory Flat Capture %
Up to \$110,000	0	0	0%
\$110,000 - \$150,000	0	2	0%
\$150,000 - \$230,000	4	111	4%
\$230,000 - \$310,000	43	309	14%
\$310,000 - \$460,000	264	1034	26%
\$460,000 and Up	26	411	6%

RESIDENTIAL NEW CONSTRUCTION

Short-term Unit Demand and Capture Rate Forecasts

- This slide provides a short-term (to 2025) capture rate and demand forecast for attached and detached new construction in Hickory Flat, **based on a county-wide assessment of demographic demand and supply competition over the forecast period.**
- This analysis assumes that the Study Area will supply little/no product priced below \$310,000 due to rising land and construction costs.
- **The forecast anticipates that Hickory Flat’s capture rate of owner-occupied housing priced above \$310,000 will marginally decline in the future.** The most significant factor contributing to declining local demand is the presence of other municipalities and geographies siphoning demand from Hickory Flat by offering similar product types.
- Three unincorporated geographies specifically supply similar housing types, that are competing with Hickory Flat demand currently and will likely continue to do so in the future.
- West of Woodstock, East of Canton, and SW of Hickory Flat (between Hickory Flat and Woodstock) capture 32% of Cherokee County’s total owner-occupied housing above \$310,000.

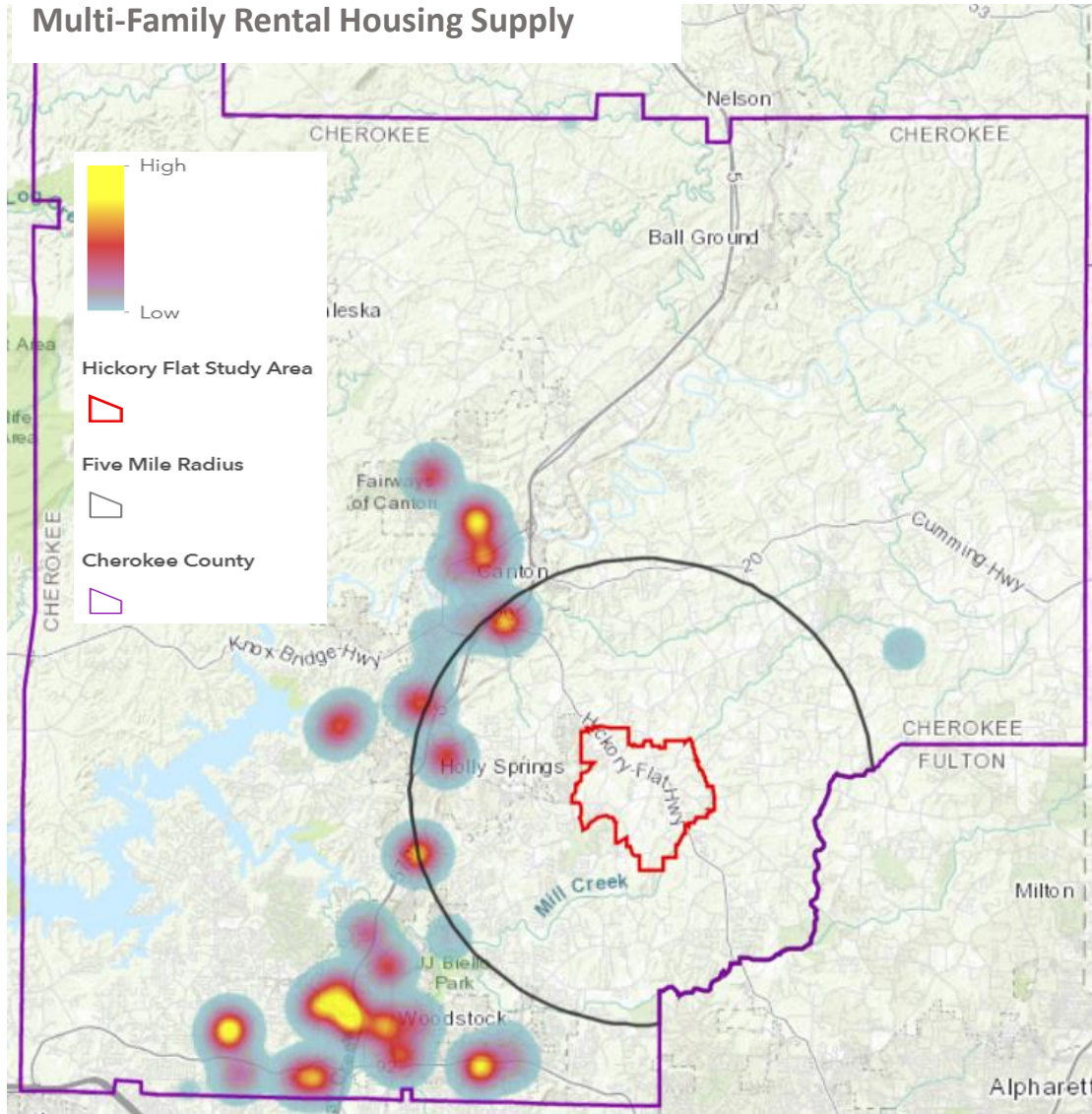


Hickory Flat Demand for Owner Occupied Units Above \$310,000							
Capture Rate	2019	2020	2021	2022	2023	2024	2025
Attached	23.3%	22.1%	21.0%	20.0%	19.0%	18.0%	17.1%
Detached	19.7%	18.7%	17.8%	16.9%	16.1%	15.2%	14.5%
Unit Demand							
Attached	34	33	32	31	30	29	28
Detached	256	248	240	233	226	219	212

Projected 2020-25 Demand is strong enough to support nearly 1,600 additional housing units in Hickory Flat (a near 80% increase) by 2025.

RESIDENTIAL DEMAND DRIVERS

Multi-Family Rental Housing Supply



Source: Spotlight, ARC GIS Database, ESRI

- Multi-Family housing supply in Cherokee County is predominantly rental and concentrated in locations that are accessible to I-575 and/or Highway 92 in Woodstock, Canton and Holly Springs.
- In addition to highway accessible locations, multi-family developers are gravitating to established town centers, offering walkable, lifestyle-oriented products to professionals, empty-nester/active adults and seniors.
- **The Study Area currently contains no multi-family supply.** Few existing rental options are available within a 5-mile radius, but an increasing inventory is being produced within 5 to 7 miles toward I-575 and SR 92.
- In the short term, lack of highway access makes Hickory Flat a “secondary” location for multi-family rental housing. Over the longer-term, opportunities should emerge to accommodate the changing housing needs of the County’s rapidly growing empty nester and senior population with more active adult rentals, for-sale condos in multi-family buildings and independent/assisted living facilities.

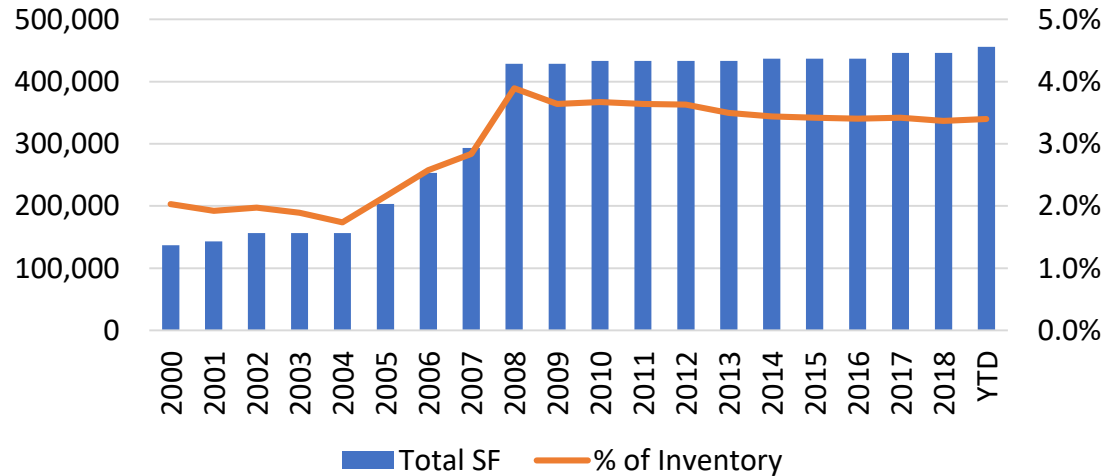
Commercial, Office and Industrial Market Indicators

COMMERCIAL SUPPLY CHARACTERISTICS

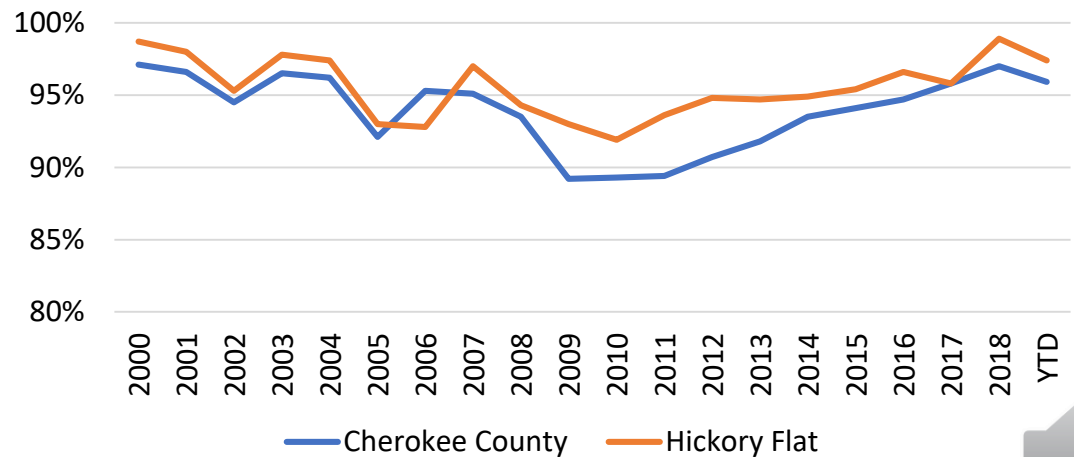
Inventory and Occupancy

- CoStar tracks commercial real estate market conditions in the region's office, industrial and retail markets. CoStar monitors data on roughly 400,000 SF of retail space Hickory Flat, which contains 3% of the County's total retail inventory.
- CoStar's long-term trend data shows that Study Area and **County wide retail occupancy rates have increased steadily since 2009-2010, recovering from the last recession.**
- **The retail vacancy in Hickory Flat is currently estimated at only 2.6%, lower than Cherokee County (4.1%) and less than half the retail vacancy rate for the Metro-Atlanta Region (>6%).**
- **Average retail rents in the study area declined between 2007 and 2013 but have since risen by 32.6% over the past 5 years.**
- The combination of rising rents and very low vacancy and rapid housing development suggest the presence of unmet demand for additional retail development.

Hickory Flat – Inventory & Market Share (SF)



Occupancy Rates Comparison

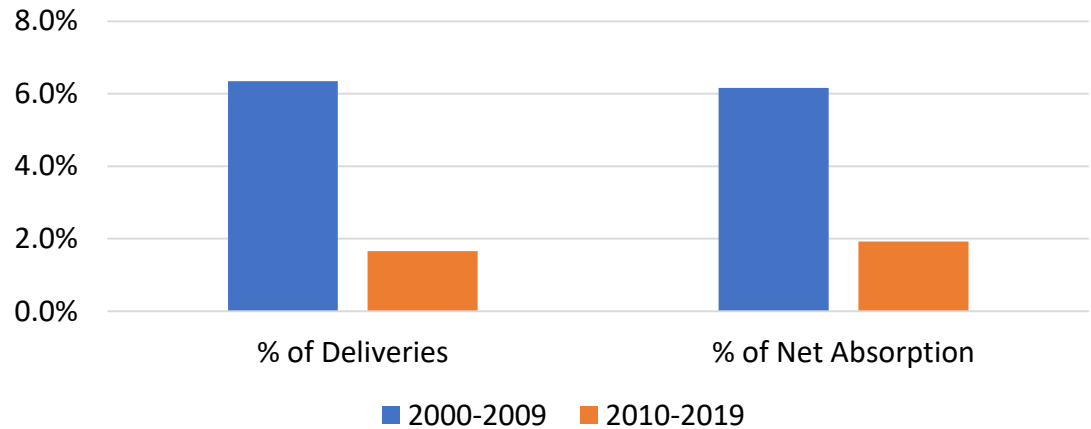


COMMERCIAL SUPPLY CHARACTERISTICS

Deliveries & Net Absorption

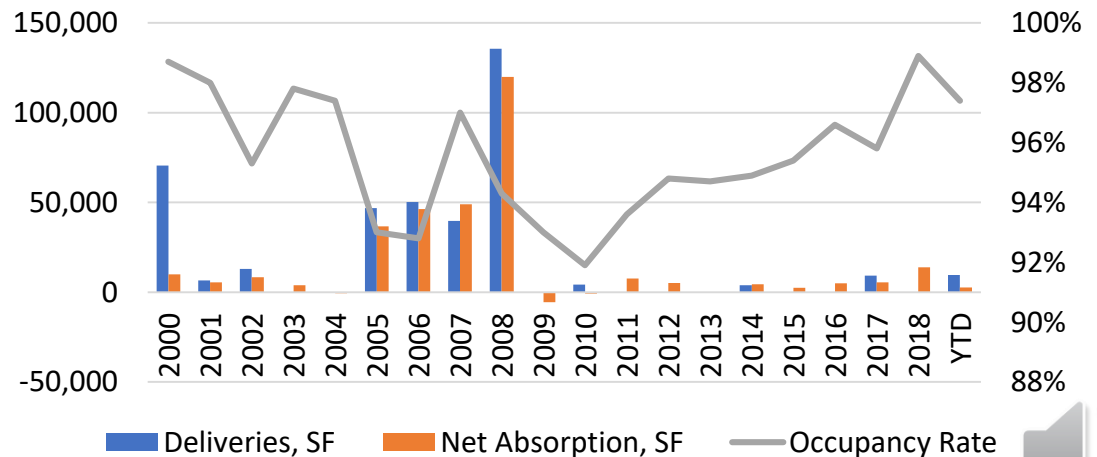
- Following a period of substantial retail development between 2005 and 2008, very little new retail construction has occurred in Hickory Flat since that time.
 - Hickory Flat has accounted for less than 2% of all new retail development within Cherokee County over the past decade.
 - Roughly 9,500 sq. ft. of new retail space was delivered in Hickory Flat in 2019 – the largest total square footage since 2008.
- BAG’s analysis of commercial development patterns from property tax assessment records indicates that most of the new commercial construction since 2010 has consisted of office, institutional (nursing homes), restaurant and “other” types of commercial buildings.

Hickory Flat Share of Cherokee County Deliveries & Absorption



Source: Bleakly Advisory Group, based on data from CoStar

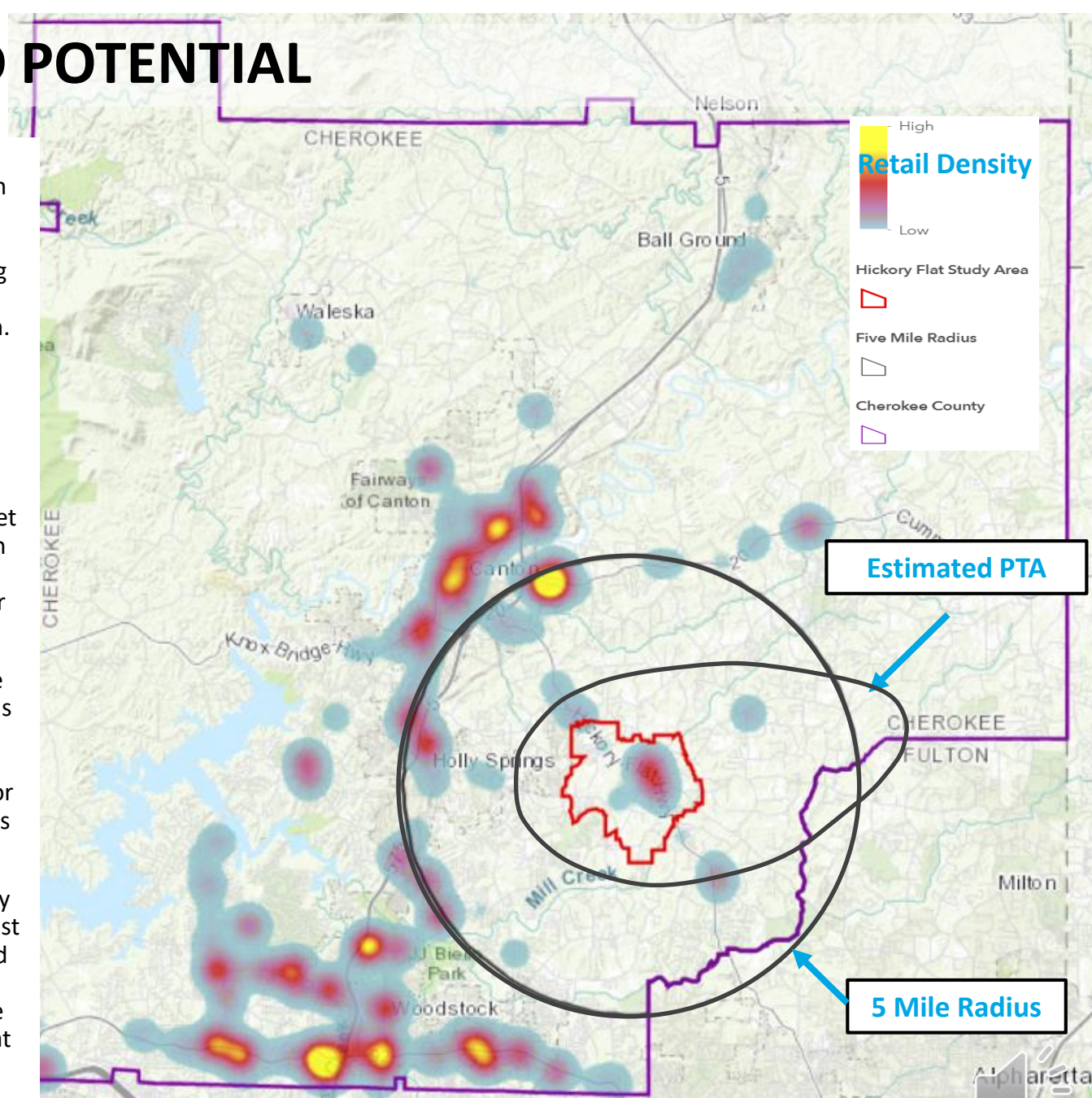
Hickory Flat - Deliveries & Absorption (SF)



RETAIL DEMAND POTENTIAL

Retail Trade Area Boundaries

- The Primary Trade Area (PTA) or geographic customer base, is the main demand driver for retail sales within a commercial area. PTA's are used to estimate total annual retail purchasing power of the population that is most accessible to a given business location. BAG estimates the approximate boundaries of the Hickory Flat PTA on this map.
- The PTA boundaries split the distance between Hickory Flat and competing nodes that provide similar supermarket and convenience retail offerings, given that consumers typically choose to shop locations that are closest to their homes.
- Distance is marginally adjusted for the overall size of competitive locations, as shoppers may choose to travel longer distances in exchange for better perceived quality, value or selection, or access to a wider variety of store types or restaurants.
- BAG estimates that the PTA for Hickory Flat extends roughly 3 miles to the west and south and possibly slightly beyond 5 miles to the east/northeast where there is less existing competition. The PTA's population is roughly double that of the Study Area.



RETAIL DEMAND POTENTIAL

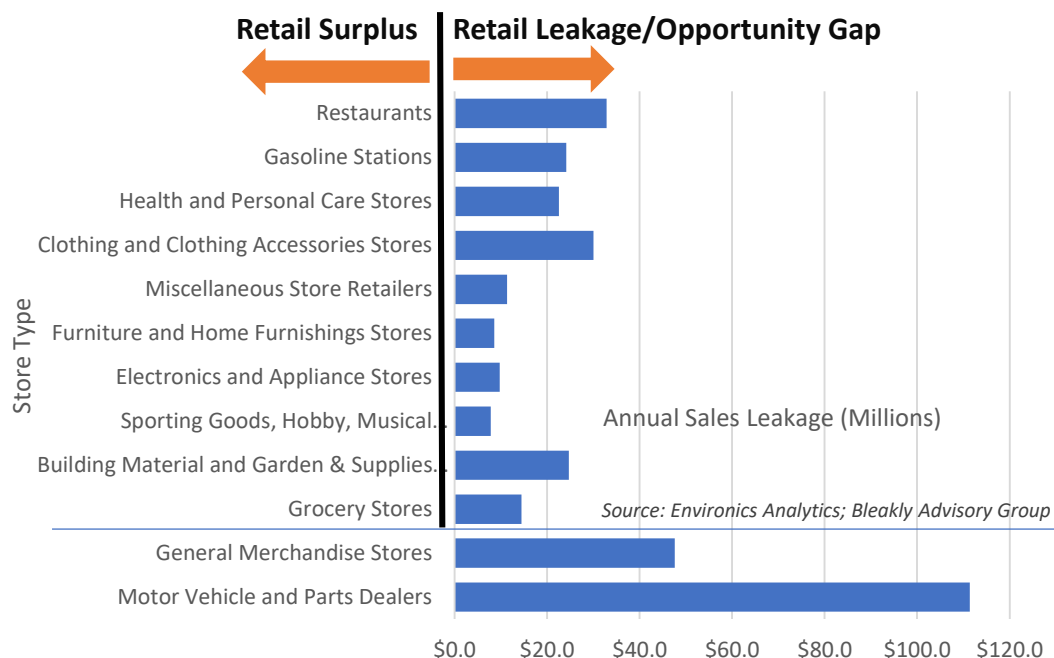
Retail Opportunity Gap

- The information at right summarizes the difference between demand and supply for retail sales by store type in the Study Area.
- The opportunity to capture unmet retail demand inside a specific area, known as retail sales leakage, occurs when there is more retail spending (demand) by households who reside in that area than actual retail sales (supply) generated by stores located in that same area.
- As shown, the population within the PTA, which is larger than the Study Area, currently generates substantially more retail demand (sales leakage) for all retail store types, than currently exist within Hickory Flat. Excluding automotive dealerships and general merchandise stores, the remaining gap is approximately \$185 million, which is potentially sufficient to support another 450,000+ SF. This is understandable given the availability of multiple accessible shopping destinations located within 6 to 12 miles of the Study Area. Also, Hickory Flat lacks the presence of general merchandise store anchors that are necessary to support many other store types.
- Even with two existing grocery stores the PTA is still “leaking” grocery store sales, although not enough to support a third 60,000+ SF supermarket in the near term. There also appears to be support for additional dining.
- **With 30 to 45 acres of remaining undeveloped commercially-zoned land in the unincorporated County, the Study Area could physically accommodate another 154,000 SF on vacant parcels, plus limited potential to expand existing buildings. Assembling a single site large enough to site another grocery anchor would not be possible without rezoning. However, a 17.5-acre commercial zone in the City of Holly Springs could support another 100,000 SF and is potentially large enough to support a third anchored shopping center.**

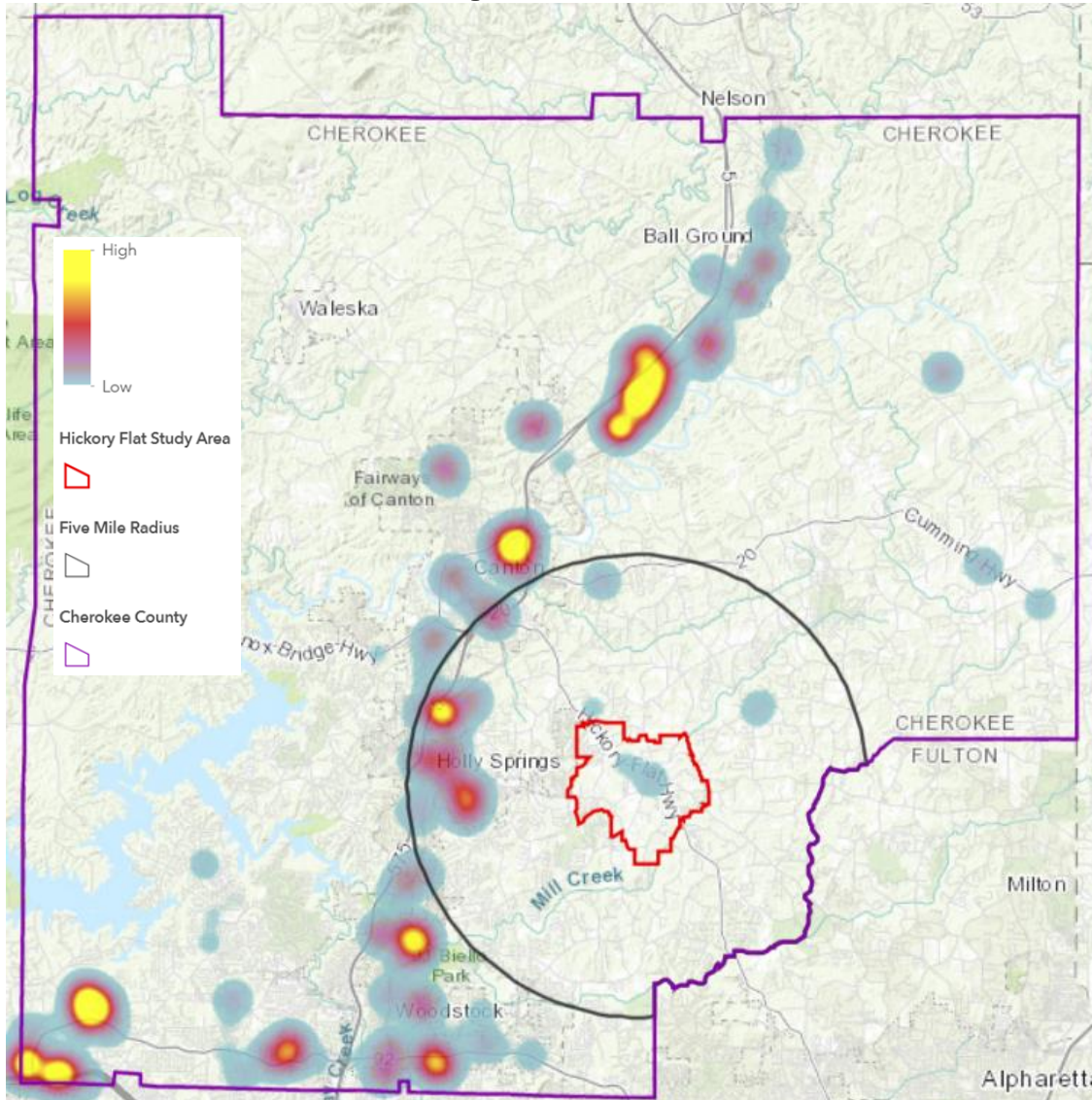
Overall Retail Leakage Analysis

Demand	Total Retail Spending by Primary Trade Area Households	\$582.4 Million
(Less) Supply	Total Retail Sales in the Primary Trade Area	(\$237.0 Million)
= Net Leakage	Spending by Trade Area Residents Outside the Trade Area	= \$345 Million

Retail Leakage by Retail Category (In Millions)



INDUSTRIAL/FLEX MARKET CHARACTERISTICS

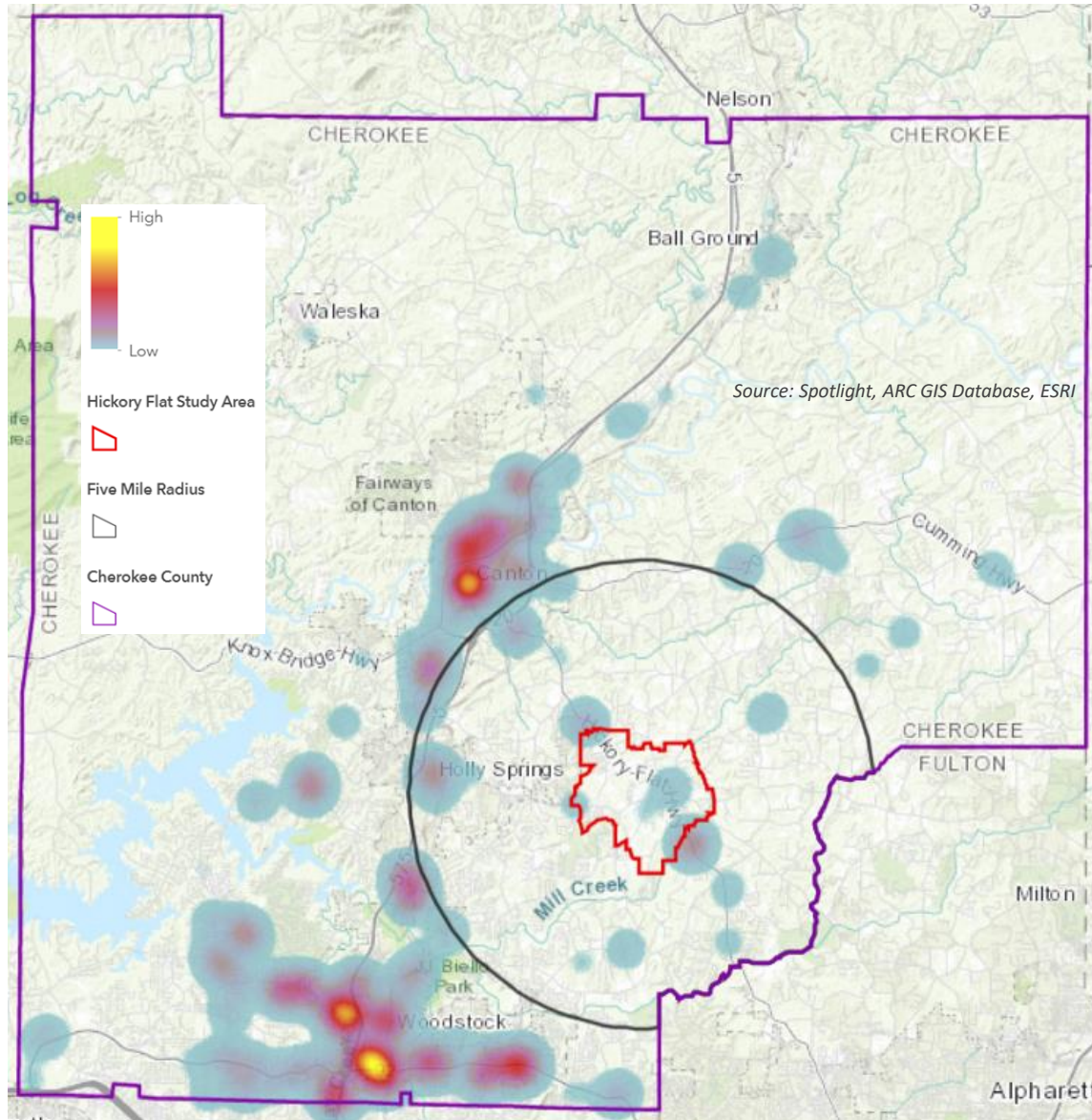


Source: Spotlight, ARC GIS Database, ESRI

Industrial/Flex Space Inventory

- Industrial/flex designated properties (i.e. distribution, manufacturing, warehousing, and showroom facilities) cluster along major corridors such as state highways and interstates including I-575 and I-75. As shown on this map, **very little flex space exists in Cherokee County in locations that are beyond 2 miles of either I-575 or I-75.**
- BAG found a very limited inventory of roughly 16,000 SF existing building space classified in tax assessment records as either warehousing or light manufacturing along SR 140 in Hickory Flat. These are relatively low-valued out buildings. **The Study Area essentially has no existing industrial or flex buildings that would be large enough to be tracked by CoStar or suitable for lease to significantly sized employers.**
- Given the Study Area's rising land values and lack of direct highway access, there is little financial incentive to develop flex space when other land uses return much higher land values.

OFFICE MARKET CHARACTERISTICS



Office Space

- Office space is scattered throughout Cherokee County but is concentration in pockets near the cities of Woodstock, Canton and Holly Springs. Several small office nodes exist along Hickory Flat Highway between Canton and Roswell.
- As a result of two large Northside Hospital and Wellstar campuses, a substantial amount of medical office space has been recently developed in Cherokee County. The County has had less recent success in developing suburban office parks to attract significant employment in professional and business services. **Most existing general office buildings in Cherokee County lease to small tenants or house single-user owner occupied businesses.**
- **BAG identified only 60,600 SF of existing office space in Hickory Flat.** This includes professional and medical offices, banks and a veterinary. With increasing population density and a declining inventory of larger commercial sites, Hickory Flat could continue to attract more small office development in the future. **The undeveloped commercial zone on East Cherokee Dr. in Holly Springs could be a suitable site for one or more larger office buildings.**

SUMMARY CONCLUSIONS

Area Context

- The Study Area contains It is estimated to contain 1.7% of the County's total land area and a similar percentage of its current population. More than 512 acres and 14% of this total acreage is in the City of Holly Springs.

Residential (for Sale) Market Indicators

- Our analysis of tax parcel data identified **1,160 acres within the Study Area which have the physical potential and are currently valued low enough to be subdivided for future development.** Nearly all of this land is residentially zoned.
- Like Cherokee County as a whole, the price of new home construction in Hickory Flat has been increasing rapidly, with **the price of all new homes sold (excluding townhomes) averaging nearly \$400,000 in 2018 and 2019.** Virtually no new construction is now being developed at price points below \$230,000.
- Of nearly 1,870 total new home sales in Cherokee County during 2019, a disproportionate 18% were sold in Hickory Flat. **Among new homes priced between \$310,000 and \$460,000, which accounted for 55% of total County-wide sales, the percentage of those sales located in Hickory Flat (also referred to as the "capture rate") increased to 26% - a factor of more than 10 times the area's share of total County population.**
- By comparison, the Study Area's percentage share or capture rate of County-wide home sales priced either below \$300,000 or above \$460,000 were only 4% and 6%, respectively.

- BAG's analysis of short term (5-year) housing demand concludes that **Hickory Flat's share (or capture rate) of County-wide new home sales moving forward should decline marginally over the next five years, due to the continued rising cost of new housing limiting the number of income qualified buyers, plus the increasing supply of competitive products targeting similar demographics, that are being developed elsewhere in Cherokee County.**
- However, even assuming reduced capture rates, annual Study Area **demand still falls in the range of 240 to 290 units per year** (attached and detached), potentially supporting a net increase of 1,560 units over existing levels by 2025.
- **Meeting this demand would require creating another 1,200 lots and developing 500 acres at the average density of 2.5 units per acre by 2025.**

Multi-Family Rental Market Indicators

- In the short term, lack of highway access makes **Hickory Flat a secondary location for market rate multi-family rental housing.** Cherokee County has also recently experienced an influx of new upscale rental developments along the I-575 Corridor, as well as "walkable" rental communities developed in Downtown Woodstock and Canton. Short term, we do not see demand for comparable multi-family housing in Hickory Flat.

CONCLUSIONS SUMMARY

Commercial Market Indicators

- Hickory Flat appears to be the largest commercial node in Cherokee County that lies beyond 3 miles of either I-575 or SR 92. Local retail offerings thus tend to be limited to supermarkets, drug stores, restaurants, hardware and garden supplies, personal services and other convenience goods. **Locally based shopping centers appear to be experiencing strong sales, as evidenced by unusually high occupancy rates and rising commercial rents.**
- If built out to a similar density to existing commercial land uses, we estimate that **undeveloped commercially zoned land within the Study Area could physically accommodate 154,000 SF of additional building space in the County and roughly 100,000 SF in Holly Springs.**
- BAG's analysis of the "retail opportunity gap" in Hickory Flat indicates that current resident demand (sales leakage) exceeds existing supply in all major store categories, including grocery stores. **Excluding automotive and general merchandise, the existing population living in and near Hickory Flat make enough annual retail purchases to support an additional 450,000 SF of space, doubling the existing supply.** If short-term demand for additional housing delivers another 1,500 units by 2025, **Hickory Flat could potentially support a third supermarket anchored shopping center by the latter half of this decade.** However, unless additional land is made available through rezoning, there are no existing undeveloped commercial parcels large enough to accommodate another shopping center or supermarket.

Office Market Indicators

- Outside of the health care sector, Cherokee County has had limited success in developing office parks or recruiting larger employers who occupy office buildings. **Hickory Flat is not a prime location for larger-scale office or flex development.**
- Compared to retail the amount of existing office space in Hickory Flat is very limited, totaling less than 61,000 SF. Demand for small-scale service-oriented general and medical office space should be quite strong. Construction of new office space may be constrained by a limited availability of commercial zoned sites for office development.

Industrial/Flex Space Market Indicators

- There is a very limited inventory of roughly 16,000 SF existing building space classified in tax assessment records as either warehousing or light manufacturing along SR 140 in Hickory Flat. These are relatively low-valued out buildings. **The Study Area essentially has no existing industrial or flex buildings that would be suitable for lease to significantly sized employers.** Given the Study Area's rising land values and lack of direct highway access, there is little financial incentive to develop flex space when other land uses return much higher land values.

Bleakly Advisory Group, Inc. is an Atlanta, Georgia based real estate and economic development consulting firm.

- Founded in 2001
- 10-member professional team

Our practice covers six areas in both public and private sectors:

- Market Analysis
- Real Estate Economics
- Development Consulting
- Financial Analysis
- Incentives & Public Finance
- Housing Analysis



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