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Is Atlanta Hot Again?

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Hotlanta. We know that the capital of Georgia (which is also our hometown) has not been called by that nickname during our entire lifetime, but it sure seems like it. If memory serves, the town gained that reputation first during the 1970s, as Underground Atlanta became the place to be and the town boomed with new construction. Then came the years when the Atlanta Braves became a dominant national sports team, and Ted and Jane and Elton lived here, and Buckhead boomed with high-end retail and trendy new restaurants. Construction was hot and the weather was hot and the vibe was hot—at least for quite a while.

Fast forward to the late 2000s and things were—well, not so hot. Atlanta has historically been a town prone to booms and busts, mostly based on an excess of real estate construction (of either the office tower or the residential variety), but the city has generally rebounded after a few years of quiescence. The Big Bust of 2008-2010 may have been the definitive one, as many Atlanta-area community banks failed, the city's large banks bled bad real estate loans and in some cases came under new ownership, unemployment skyrocketed, and Atlanta's boom years seemed to be definitively over.

So here we stand in 2016—and where is Atlanta, exactly? That is the question that we have asked as we have visited with banks both in Atlanta and throughout the region, and the picture that has resulted is one that is both much more nuanced and more complex than we had anticipated. Atlanta's recovery has been by all accounts a fitful one that has been marked by recovery in some neighborhoods but not in others and in some, but not all, economic sectors. And perhaps that's to be expected when the Atlanta that we remember from our childhood—the big but fairly homogeneous Southern town—has morphed into a regional behemoth encompassing 39 counties and 5.5 million-plus people, sprawling roughly 50 miles in any direction.

When I asked one local banker to discuss the state of the Atlanta banking market, his question to me was: “Which market are we talking about?” That question encapsulates the overarching reality of the Atlanta banking ecosystem—many different banking markets exist here and banking success (or not) depends upon being in the growth areas with the right products at the right time. Right now, the place to be is the “northern crescent” of Atlanta, which encompasses the area of Cobb County where the new Atlanta Braves stadium (a.k.a., SunTrust Park) is being built, as well as the northern reaches of Fulton County and the Route 400 Corridor, where growth (and traffic congestion) seemingly never, ever end.

The excitement (and the controversy) surrounding the construction of the new home of the Braves reminded us of one reality of the Atlanta economy—a fair amount of economic growth here has historically depended upon the expansion and success of the city’s sports teams, and thus we may be in for a bit of a sports boom-let over the next few years. Not only is the new baseball stadium expected to generate new construction (and new jobs) in Cobb County, but the Super Bowl will be coming to the ATL in 2019, to be played in another new sports venue in downtown, the Mercedes-Benz Stadium, currently going up next to the old Georgia Dome. This amazing-looking retractable roof stadium is forecast to generate 4,500 new construction jobs and \$160 million in personal income by its completion (in time for the 2017 NFL season, we’re told) and will once again cement Atlanta’s reputation (putatively claimed by Charlotte, NC, and the Carolina Panthers) as the sports capital of the South. (Our slightly contrarian thought—more winning teams would help...)

While sports have historically been a generator of economic activity in Atlanta during our lifetime, there is a new element of activity and growth that we believe holds equal promise to the potential of professional sports. The Atlanta BeltLine—a series of hiking trails, bike paths, parks, remediated brownfields, affordable housing, and more—follows the 22 mile-long path of an old (and historic, we’re reminded) railroad corridor, and has become arguably the hottest rehabilitation effort in the Southeast.

With the hiking trails, bike paths and renovated old downtown homes have come lots of young professionals and the retail venues to feed and clothe them, most notably the Ponce City Market in Atlanta’s historic Old Fourth Ward (an in-town neighborhood that was in serious need of redevelopment and rejuvenation.) Located in a huge old brick building once occupied by Sears Roebuck, the Market houses a huge food hall, retail shops, apartments and offices, all within a short walk of the BeltLine and other rebounding downtown neighborhoods. Our view—with young professionals and renovated brick loft buildings, can technology startups and a vibrant visual and performing arts scene be far behind? (The answer would be “No”...)

And of course, when one discusses Atlanta, one must also speak of the place that identifies the city in the minds of the world’s traveling populace—Hartsfield-Jackson Airport, a place that is either regarded as Nirvana (to those of us who previously had to fly out of Newark) or as the Third Circle of Hell (to flyers who have to make tight connections on different concourses.) The fact remains that the size and reach of Hartsfield-Jackson makes a huge amount of difference to the companies that have relocated their headquarters to Atlanta—especially to international companies like Porsche—and the opening of the new International Terminal (a.k.a., Concourse F) in 2012 marked a huge step forward in the modernization of the airport and the ease of transport for international customers. There was a unanimity of opinion among our contacts that further expansion and modernization will be coming in the next few years and that the airport’s payroll of \$2.4 billion annually will likely grow substantially as a result.

That's a good thing, because Atlanta's significant remaining negative is the continued poor shape of the counties that constitute south Atlanta—that is, those counties south of the I-285 Perimeter. South Fulton and Clayton counties were particularly hard hit in the subprime debacle of 2008, and Clayton County—where the lingering impact is a 6.3% unemployment rate (versus 4.8% for the Atlanta area as a whole)—remains the most-stressed county in the metro area. One in three homes in Clayton County is occupied by a renter—versus one in five in Atlanta metro—and the school system and other public institutions there are burdened by the transient nature of life in the area.

And thus to the biggest challenge facing Atlanta—the transportation infrastructure and the need to lessen congestion on the region's roadways and allow those on the south of town who need jobs to get to where the jobs are, which is often the northern part of the city. Transit seems to be at the top of the agendas of all the various business people with whom we spoke, but we sadly found few who believed that the present stasis is soon to end. The major reason for the decades-old impasse seems to be an isolationist bent on the part of many of the suburban areas and a desire to control who can come into their communities, as well as a continued reluctance on the part of the political leaders in the area to ask taxpayers to fund the many billions that would be required to build such an area-wide system. We're not optimistic that this reality will soon change and that ATL's true economic potential will be realized.

What about the banks? The banking scene is dramatically different in Atlanta now than when it was prior to the financial crisis, and that is an unreservedly good thing. Of the roughly 87 bank failures that occurred in Georgia since the crisis, we counted roughly 30 that could be considered to be within the Atlanta SMSA, and in almost every instance (there were a few cases of outright banking fraud) the issue was an over-reliance on residential construction loans funded by wholesale deposits. Coupled with a 60% decline in commercial and residential land values (peak to trough) and the nation's third-largest crop of newly chartered banks in the years 2000-2007, we can only look back and wonder how nobody seemed to see what was coming. (Except the guys in "The Big Short", of course...)

Metro Atlanta Depository Institutions, \$100mm - \$1B in Assets

Period	# of Instns	<u>ADC Loans/Loans</u>		<u>Brokered Deps/Deps</u>	
		Median	# > 20%	Median	# > 10%
1Q 2006	84	38.9%	82.1%	9.3%	44.0%
1Q 2016	32	11.0%	9.4%	0.0%	6.3%

Source: SNL Financial

As of last June 30 (according to the FDIC annual deposit survey), Atlanta's Top 10 largest deposit market shares were held by (in order):

1. SunTrust (STI)
2. Bank of America (BAC)
3. Wells Fargo (WFC)
4. BB&T (BBT)
5. Synovus (SNV)
6. Regions Bank (RF)
7. RBC Bank NA
8. J.P. Morgan Chase (JPM)
9. PNC Financial (PNC)
10. Fidelity Southern (LION)

(The RBC Bank NA franchise was not sold to PNC but was retained to serve Canadians who winter in Florida.) Even beyond that Top 10, we are hard pressed to find one name that strikes us as a wild and crazy organization—mainly because those do not exist anymore—and the removal of the bad actors (including one very large one) on the banking scene has given Atlanta its most stable banking market since the 1960s. That is not to say that the banking market is staid—indeed, it remains one of the most competitive in the nation—but it is also not one that we believe will fuel the booms and busts that have been a long part of the city's history.

Yes, Atlanta still has its issues—lack of transit, an underwhelming political regime, urban poverty, etc.—but we must say that given the alternatives, we'd still rather be here than in any of the nation's high-tax and bad weather metropolitan areas. We expect that a lot of our fellow Americans will reach that same conclusion in the coming years, and the Atlanta area will be one of the major beneficiaries of the continued trend of businesses and people coming to places where life is nicer and the people like their lives more. So—is Atlanta hot again? To this returning native, it looks “hot-ish”, and that implies a longer-lasting and more pleasant result.

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