

# Hotlanta heating back up

By Chris Vanderpool and Nathan Stovall

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Strong construction in Atlanta has sparked some concerns of the market becoming overbuilt once again, but there is optimism that bankers are operating with greater discipline.

Bankers and advisers say recent construction in Atlanta has been more focused on the commercial and multifamily sectors, unlike the massive expansion in residential real estate that preceded the credit crisis. There are a number of large-scale projects in the market from multifamily and office construction to multibillion dollar projects such as new stadiums and surrounding mixed-use development for the NFL's Falcons and Major League Baseball's Braves.

Housing construction has also bounced back, with permits for new, privately-owned housing units in metro

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Atlanta through the first nine months of 2016 rising 24.5% from year-ago levels. That increase follows 15%-plus growth sustained during the same period in 2015, according to U.S. Census Bureau data. Construction employment has rebounded through August 2016 as well, rising 7% from a year earlier and 13% from two years ago, according to the Bureau of Labor Statistics.

Both figures are well off the peak, especially new permit activity, which stands at roughly half the average level witnessed between 2004 and 2006.

Brian Schmitt, president and CEO of SouthCrest Financial Group Inc. and longtime veteran banker in Atlanta, said the credit crisis took many highly levered real estate developers and homebuilders out of the market. He said bankers have learned lessons from the past and noted that nearly two-thirds of the bank charters that existed 10 years ago

## Q3'16 loan growth at top banks and thrifts based in Atlanta MSA

Company name (top-level ticker)	Total assets (\$M)	Total loans and leases*		NPLs/loans (%)	NCOs/avg loans (%)	LLR/loans (%)
		QOQ change (%)	YOY change (%)			
Fidelity Bank (LION)	4,389.8	3.7	26.9	1.19		
Brand Banking Co.	2,400.7	-0.3	10.8	3.25	0.15	0.95
Hamilton State Bank (HMBH)	1,816.2	4.8	10.6	0.86	0.07	1.11
United Bank	1,246.9	4.4	8.2	1.63	-0.48	1.67
Metro City Bank (MCBS)	960.6	24.5	53.4	0.43	-0.01	0.66
SouthCrest Bank NA (SCSG)	541.5	-1.2	-11.2	1.59	0.17	0.97
First Landmark Bank	524.5	4.4	18.1	0.96	0.00	1.22
Piedmont Bank	513.1	6.4	24.3	0.82	0.00	1.00
Georgia Banking Co.	467.4	3.4	47.7	0.78	0.06	0.31
Heritage Bank (CCFH)	425.2	3.8	7.0	0.19	0.06	1.32
Citizens Trust Bank (CZBS)	405.9	0.1	6.8	3.49	0.43	0.94
Quantum National Bank	391.2	1.9	6.0	0.18	-0.01	1.32
First Intercontinental Bank (FIEB)	330.9	5.7	13.2	1.40	1.34	1.82
Pvt. Bank of Buckhead	329.4	7.6	28.0	1.63	0.00	1.14
Community Bank of Pickens County	329.2	1.5	4.5	4.16	1.32	1.24
Gwinnett Community Bank	323.3	-4.1	-16.3	7.82	-0.63	1.82
Citizens Bank of Forsyth County	293.5	2.4	14.2	3.04	-0.73	1.56
Vinings Bank	284.8	-4.0	-0.9	0.70	0.00	1.43
Peoples Bank & Trust	279.6	-5.7	-11.2	3.78	0.23	1.23
NOA Bank	271.4	6.1	30.1	0.67	0.02	1.21
<b>Group median</b>		<b>3.5</b>	<b>10.7</b>	<b>1.30</b>	<b>0.01</b>	<b>1.22</b>

Data compiled Nov. 3, 2016.

Based on regulatory filings as of Sept. 30, 2016.

Analysis limited to currently operating commercial banks, savings banks, and savings and loan associations headquartered in the Atlanta-Sandy Springs-Roswell, Ga., metropolitan statistical area below \$10 billion in assets. Excludes nondepository trusts.

\* Includes loans and leases held for sale.

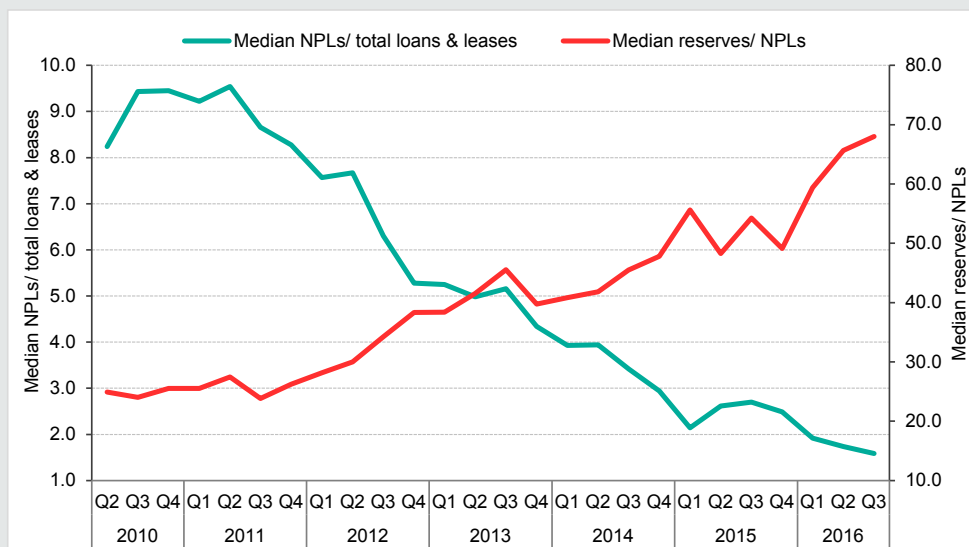
QOQ = quarter-over-quarter; YOY = year-over-year

NPLs = nonperforming loans; NCOs = net-charge-offs; LLR = loan loss reserves

Source: SNL Financial, an offering of S&P Global Market Intelligence

## Credit quality continues to improve (%)

Banks and thrifts based in Atlanta MSA



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Based on regulatory filings as of Sept. 30, 2016.

Analysis limited to commercial banks, savings banks, and savings and loan associations headquartered in the Atlanta-Sandy Springs-Roswell, Ga., metropolitan statistical area below \$10 billion in assets. Excludes nondepository trusts.

Total loans and leases include those held for sale.

NPLs = nonperforming loans

Source: SNL Financial, an offering of S&P Global Market Intelligence

have since disappeared through failures and outright acquisitions, often by out-of-state banks.

"Bankers are different than they used to be," Schmitt said in an interview. "This last one has stuck with all of us. The wounds were deep. We look at credits differently."

Schmitt is among the bankers in metro Atlanta looking to capitalize on the market's strong recovery. The banker, who led Atlanta-based Piedmont Bancshares Inc. until it sold to PrivateBancorp Inc. for nearly 4x tangible book value in December 2006, recently took over the top spot at

## Demographic projections for Atlanta MSA

Demographics	Atlanta MSA			U.S.		
	2017	2022 proj.	CAGR (%)	2017	2022 proj.	CAGR (%)
Population (millions)	5.8	6.2	1.30	325.1	337.4	0.74
Median age	37	38	0.70	38	39	0.52
Per capita income (\$)	32,096	34,828	1.65	31,459	34,068	1.61
Median household income (\$)	60,749	65,140	1.41	57,462	61,642	1.41
<b>Households by income</b>	<b>(000)</b>		<b>(%)</b>	<b>(000)</b>		<b>(%)</b>
Income <\$25K	423	417	-0.26	27,029	26,028	-0.75
Income \$25K-\$49K	490	492	0.07	28,252	27,995	-0.18
Income \$50K-\$99K	652	688	1.11	36,351	37,245	0.49
Income \$100K-\$199K	441	509	2.88	24,033	27,118	2.44
Income >\$200K	153	202	5.70	7,692	9,862	5.10
<b>Population by age</b>	<b>(000)</b>		<b>(%)</b>	<b>(000)</b>		<b>(%)</b>
Population age 0-14	1,195	1,192	-0.05	61,229	61,508	0.09
Population age 15-34	1,600	1,688	1.08	88,188	89,413	0.28
Population age 35-54	1,662	1,683	0.26	83,580	83,822	0.06
Population age 55-69	953	1,109	3.09	58,791	63,942	1.69
Population age 70+	435	563	5.30	33,351	38,708	3.02

Data compiled Nov. 3, 2016.

Represents the metropolitan statistical area of Atlanta-Sandy Springs-Roswell, Ga.

Demographic data represents 2017 and 2022 projections provided by Nielsen Pop Facts.

CAGR = compound annual growth rate from 2017 to 2022

Sources: SNL Financial, an offering of S&P Global Market Intelligence; Nielsen Pop Facts

## Atlanta MSA deposit market share

Rank	Company (ticker)	City, state	Active branches <sup>1</sup>		Total deposits		MSA market share	
			City, state	YOY change	2016 (\$B)	YOY change (%)	2016 (%)	YOY change (bps)
1	Wells Fargo & Co. (WFC)	San Francisco, CA	193	-3	19.17	7.0	21.24	41
2	Bank of America Corp. (BAC)	Charlotte, NC	134	-5	15.46	6.6	17.13	27
3	SunTrust Banks Inc. (STI)	Atlanta, GA	163	-3	10.09	4.7	11.18	-3
4	BB&T Corp. (BBT)	Winston-Salem, NC	87	-3	5.82	0.3	6.45	-30
5	Synovus Financial Corp. (SNV)	Columbus, GA	43	-1	4.57	6.6	5.06	7
6	Regions Financial Corp. (RF)	Birmingham, AL	68	-3	3.29	-9.2	3.65	-56
7	JPMorgan Chase & Co. (JPM)	New York, NY	82	-1	3.15	20.2	3.49	45
8	Fidelity Southern Corp. (LION)	Atlanta, GA	46	9	2.93	24.8	3.24	51
9	Bank of the Ozarks Inc. (OZRK)	Little Rock, AR	41	28	2.56	673.8	2.84	246
10	United Community Banks Inc. (UCBI)	Blairsville, GA	36	0	2.32	4.2	2.57	-2
11	PNC Financial Services Group Inc. (PNC)	Pittsburgh, PA	68	-1	2.17	3.0	2.41	-4
12	Hamilton State Bancshares Inc. (HMBH)	Hoschton, GA	24	2	1.32	10.4	1.46	7
13	State Bank Financial Corp. (STBZ)	Atlanta, GA	7	0	1.14	2.8	1.27	-2
14	Brand Group Holdings Inc.	Lawrenceville, GA	7	1	1.06	0.3	1.17	-6
15	United Bank Corp.	Barnesville, GA	14	1	0.90	8.0	1.00	3
16	Renasant Corp. (RNST)	Tupelo, MS	18	6	0.89	89.7	0.99	44
17	Fifth Third Bancorp (FITB)	Cincinnati, OH	29	0	0.88	-0.9	0.97	-6
18	IBERIABANK Corp. (IBKC)	Lafayette, LA	8	-1	0.85	-7.9	0.94	-13
19	First Citizens BancShares Inc. (FCNCA)	Raleigh, NC	14	-5	0.69	-7.1	0.76	-10
20	East West Bancorp Inc. (EWBC)	Pasadena, CA	3	-1	0.67	71.3	0.74	29
<b>MSA total</b>			<b>1,263</b>	<b>-33</b>	<b>90.23</b>	<b>4.9</b>	<b>-</b>	<b>-</b>

Data compiled Nov. 3, 2016.

Analysis limited to the metropolitan statistical area of Atlanta-Sandy Springs-Roswell, Ga.

Branch data is based on FDIC Summary of Deposits as of June 30, 2016, and is pro forma for openings, closings, mergers and acquisitions as of Nov. 3, 2016.

<sup>1</sup> Excludes nonretail branches, as defined by SNL Financial. The criteria used to determine an institution's "nonretail" status includes bank charter type, brokered deposits, credit card loans and the institution's broad market participation for banking services as per SNL's determination.

Institutions that do not fit these criteria may still be considered "retail" if the company offers a full range of banking services.

Deposits are capped at \$500 million at each branch.

Analysis is at the holding company level and excludes credit unions.

Source: SNL Financial, an offering of S&P Global Market Intelligence

SouthCrest and is repositioning the bank to use its excess capital and low-cost funding from rural markets to take market share.

A few out-of-state acquirers such as Bank of the Ozarks Inc., IBERIABANK Corp. and Renasant Corp. have grown in metro Atlanta through deals, but have added to those transactions organically. IBERIABANK CFO Anthony Restel, for instance, noted on a recent earnings call that Atlanta was one of its leading markets for loan growth.

In the third quarter, banks based in the Atlanta MSA reported median loan growth of 3.4% from the linked quarter and 10.6% from a year ago. Meanwhile, the banking industry reported median loan growth of 1.6% from the prior quarter and 6.3% from a year earlier.

Many banks in Atlanta grew at a faster clip than the industry leading up to the Great Recession, but excessive

lending concentrations and a reliance on noncore funding produced more bank failures than any other MSA. While few observers are sounding alarms, there have been some concerns more recently expressed about overbuilding in the multifamily segment.

Community bankers say they are not financing larger multifamily projects, noting that those deals are supported by institutional money. The backers of those multifamily deals, however, note that supply has not outstripped demand.

Mid-America Apartment Communities Inc., a multifamily REIT that recently announced plans to acquire Atlanta-based Post Properties Inc., noted on a recent earnings call that job growth remains strong in Atlanta and predicted that supply in 2017 should be similar to the levels seen in 2016.

D. Keith Oden, president of Camden Property Trust, another multifamily REIT with exposure to the Atlanta MSA, noted on a recent earnings call that multifamily total employment growth to construction deliveries in Atlanta still equated to the historical standard of 5 to 1.

The supply picture appears even more positive in Atlanta's office market, where the overall vacancy rate fell to the lowest level in 15 years, according to CBRE.

There is some hope that developers and banks in Atlanta will not repeat the mistakes of the past, in part because of heightened regulatory scrutiny. Regulators have sounded

warnings over banks' CRE concentrations, reminding institutions of guidance first issued in 2006.

Bankers say that guidance carries more weight today, and several institutions with higher CRE exposures have backed away from the asset class.

Schmitt, the SouthCrest chief executive, said the guidance was not heavily followed back in 2006, but now the regulatory pendulum is in the middle, keeping a reasonable level of caution in the market.

"If we had it in the middle in the first place, we wouldn't have nearly the problems that we had," Schmitt said