

Atlanta Multifamily

Employers Expanding Payrolls at a Rapid Pace

Highlights

- > The Atlanta multifamily market had a strong year in 2019, and conditions were on an upswing in the fourth quarter. Renter demand is elevated, and developers are building new units to meet the demand in the market.
- > Vacancy dipped 20 basis points in 2019, ending the year at 4.7 percent. While vacancy has been mostly stable in recent periods, this was the first year since 2016 where the vacancy rate improved.
- > Asking rents rose 4.7 percent in 2019, ending the year at \$1,276 per month. This marked a more modest pace of growth than has been recorded in recent years but is also an indication of the pace of expansion that is most likely in 2020.
- > The fourth quarter was a period where transaction volume closely tracked levels from the preceding quarter, but prices rose and cap rates compressed. For the year, the median price reached \$118,000 per unit, while cap rates averaged 5.3 percent. During the fourth quarter, cap rates averaged just 5 percent, setting the starting point for 2020.

Atlanta Multifamily Market Overview

Renter demand is propelling the Atlanta apartment market. The region recorded strong employment growth in 2019, adding more than 65,000 net new jobs—a sizeable increase from 2017 and 2018 levels—which has been a consistent source of demand growth. Multifamily developers have been active and completions are forecast to accelerate in 2020, but vacancy has remained in a tight range in recent quarters and should be fairly consistent for much of the year ahead as well. Rent growth averaged 4.7 percent in 2019, although the pace cooled slightly at the end of the year.

Q4 Snapshot

Atlanta Market



Market Fundamentals

| | |
|-------------------------------|----------------|
| Vacancy | 4.7% |
| - Year Over Year Change | -20 bps |
| Asking Rent | \$1,276 |
| - Year Over Year Change | +4.7% |



Transaction Activity

| | |
|---|------------------|
| Median Sales Price Per Unit (YTD) | \$118,000 |
| Cap Rates (Avg YTD) | 5.3% |



Construction Activity

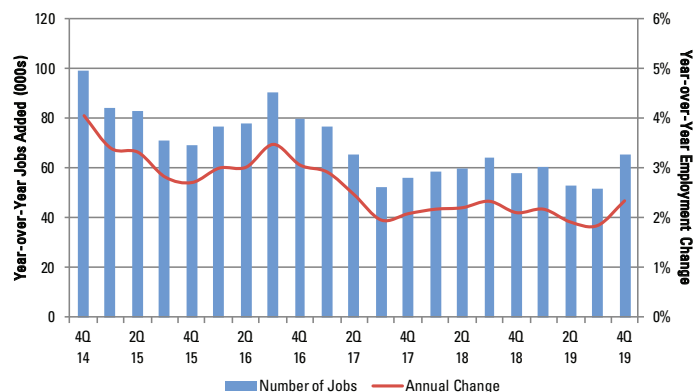
| | |
|--------------------------------|---------------|
| Units Under Construction | 11,934 |
| Units Delivered YTD | 6,604 |

The investment climate for multifamily properties in Atlanta was healthy throughout 2019, and conditions strengthened at the end of the year. Transaction activity was considerably higher in the second half than during the first half. With activity elevated, prices rose and cap rates compressed in the fourth quarter, setting the stage for what is expected to be an additional year of healthy investor sentiment in 2020. Cap rates averaged 5.3 percent in 2019 but dipped to 5 percent in the fourth quarter, which is likely where rates will begin 2020.

Employment

- > The Atlanta market recorded strong employment growth in 2019, with the greatest gains recorded in the second half of the year. In 2019, employers added 65,700 new jobs, a 2.3 percent expansion to local payrolls. This marked the fastest year of growth in the market since 2016.
- > Gains in the education and health services sector are being fueled by the Atlanta area's ongoing population growth. The education and health services sector added approximately 15,000 new jobs in 2019, an expansion totaling 4.9 percent.
- > During the fourth quarter, technology giant Google broke ground on the company's new offices in Midtown Atlanta. The company has not announced how many jobs will be added when the new facility opens in 2022.
- > **Forecast:** Employment growth in Atlanta in 2020 is forecast to total 1.9 percent as approximately 55,000 new jobs are created.

Employment Overview



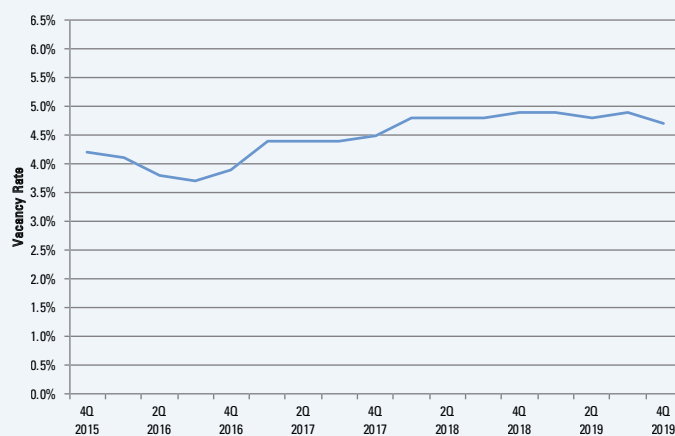
Sources: NorthMarq, Bureau of Labor Statistics

Employers added 65,700 new jobs in 2019, a 2.3 percent expansion

Vacancy

- > Apartment vacancy dipped 20 basis points from the third quarter to the fourth quarter, with the rate retreating to 4.7 percent. Vacancy has remained in a range between 4.5 percent and 4.9 percent since the end of 2017.
- > Vacancy improved 20 basis points in 2019. This marked the first calendar-year vacancy decline since 2016.
- > The vacancy rate in local Class A apartments tightened somewhat at the end of the year. Class A vacancy fell 20 basis points during the fourth quarter, ending the year at 5.1 percent. The current rate is also 20 basis points lower than one year ago.
- > **Forecast:** The local vacancy rate is forecast to rise 30 basis points to 5 percent in 2020. Renter demand is expected to remain quite strong, but deliveries of new units will reach a cyclical high, pushing the vacancy rate higher.

Vacancy Trends



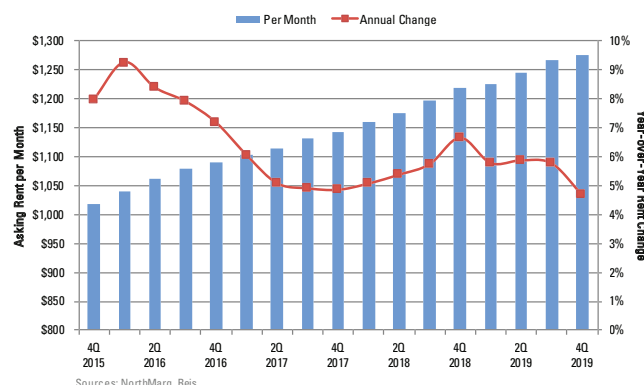
Sources: NorthMarq, Reis

Vacancy has remained in a range between 4.5 percent and 4.9 percent since the end of 2017

Rents

- > After spiking in the middle two quarters of the year, the pace of rent growth cooled a bit at the end of the year. Asking rents rose 0.8 percent in the fourth quarter.
- > Local apartment rents have been expanding at an above-average pace in recent years. In 2019, asking rents rose 4.7 percent, ending the year at \$1,276 per month. Rent growth has averaged 5.4 percent per year since 2017.
- > The combined average asking rent in the Atlanta area's Class B and Class C properties topped \$1,000 per month during the fourth quarter. The average asking rents in Class B and Class C buildings ended 2019 at \$1,006 per month, 4.5 percent higher than one year earlier.
- > **Forecast:** Asking rents in Atlanta are expected to advance 4.5 percent in 2020, ending the year at approximately \$1,330 per month.

Rent Trends

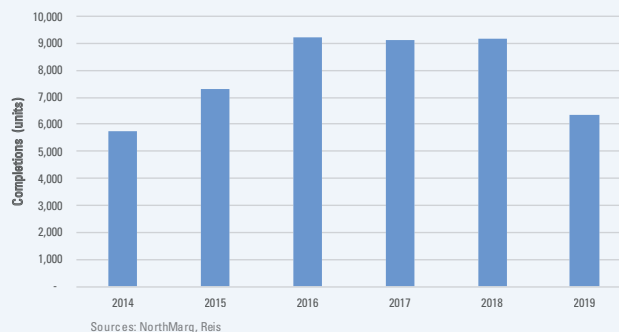


In 2019, asking rents rose 4.7 percent, ending the year at \$1,276 per month

Development and Permitting

- > Developers delivered approximately 6,600 new apartment units in 2019, after bringing more than 9,000 units online in 2018.
- > Apartment construction is expected to gain momentum in the year ahead. Projects totaling nearly 12,000 units were under construction at the end of 2019.
- > Multifamily permitting slowed in 2019, with developers pulling permits for approximately 6,400 units. This was roughly half of the total from 2018, and the lowest annual total since 2012. Permitting for single-family housing has been quite consistent for the past three years.
- > **Forecast:** After a slowdown in deliveries in 2019, construction activity is forecast to accelerate in 2020. Developers are expected to deliver approximately 10,000 apartment units, including nearly 2,300 units in the Buckhead submarket.

Development Trends

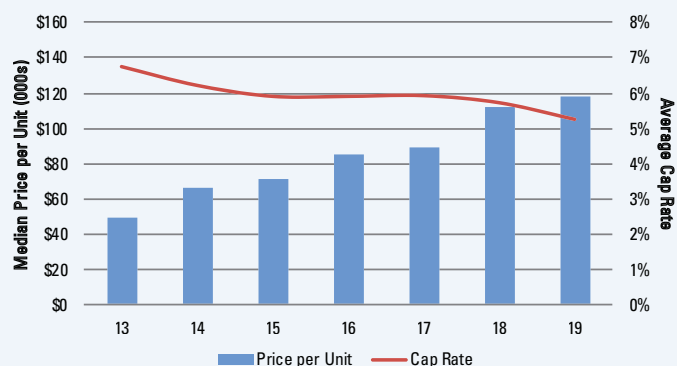


Projects totaling nearly 12,000 units were under construction at the end of 2019

Multifamily Sales

- > Multifamily sales activity was steady from the third quarter to the fourth quarter, with nearly an identical number of properties changing hands. During the second half of the year, sales velocity rose 26 percent from the first half. The number of sales in 2019 was up approximately 5 percent compared to 2018 levels.
- > Prices rose at the end of the year; the median price during the fourth quarter was \$125,300 per unit. For the full year, the median price was \$118,000 per unit, up 6 percent from the 2018 median price.
- > With prices rising, cap rates compressed during the fourth quarter, averaging approximately 5 percent in deals closed in the final three months of the year. The average cap rate for the year was 5.3 percent, down 50 basis points from the average in 2018.

Investment Trends



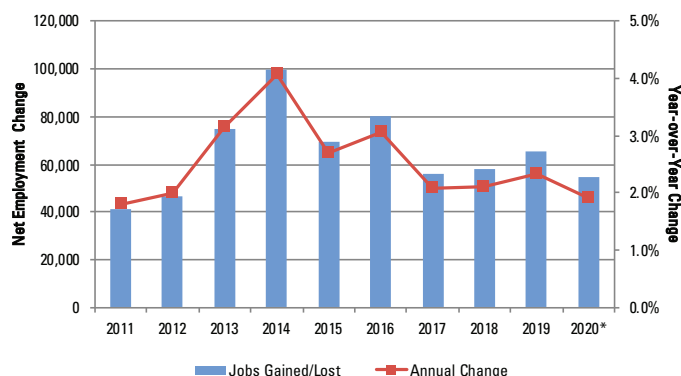
Cap rates compressed during the fourth quarter

Looking Ahead

The Atlanta multifamily market is positioned for an active year in 2020. Supply growth is forecast to gain momentum after the pace of deliveries eased up a bit in 2019, but demand growth is also expected to remain strong, fueled by the area's rapid employment expansion. While employment gains in 2019 slowed nationally, growth in the Atlanta metro area accelerated, and another strong year is forecast for 2020. These conditions are expected to support rent growth, particularly as newer, more expensive units are introduced to the market's most popular submarkets.

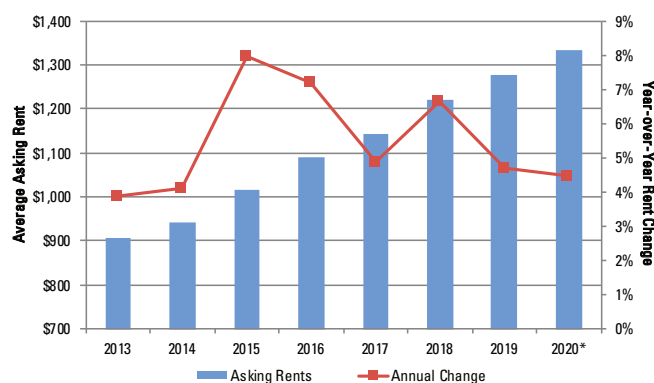
The momentum recorded in the second half of 2019 is forecast to carry over into 2020 and investors are likely to remain active in Atlanta in the year ahead. Sales activity accelerated slightly from 2018 to 2019, but the bulk of the transactions occurred in the second half of the year. In the closing months, prices rose and cap rates compressed, signaling the overall health in the market and the positive investor sentiment. Cap rates averaged approximately 5 percent during the fourth quarter, and it is unlikely that rates will deviate dramatically from that figure in the first half of 2020.

Employment Forecast



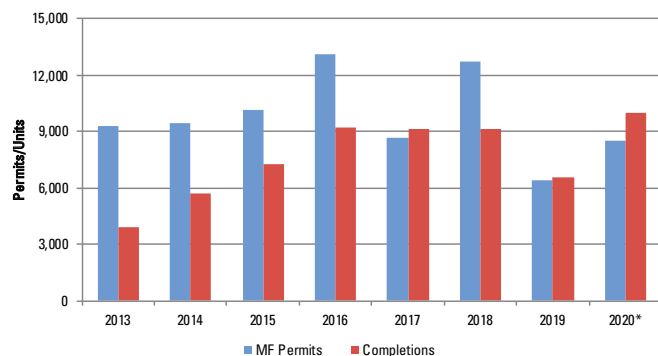
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



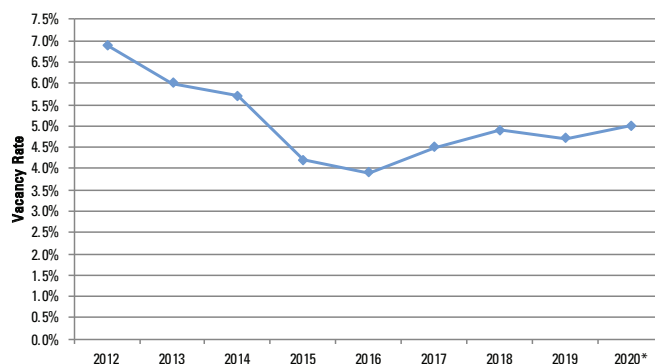
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



* Year End Forecast
Sources: NorthMarq, Census Bureau, Reis

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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