

Atlanta Multifamily

Supply and Demand Lag Levels From Recent Years

Highlights

- > The Atlanta multifamily market softened slightly during the first half of 2020 with vacancy inching higher even as completions lagged levels from recent years.
- > Vacancy ended the second quarter at 5.1 percent, rising 40 basis points during the first half of the year. The local vacancy rate had been relatively flat for most of 2018 and 2019.
- > Rents are higher than one year ago but inched lower during the second quarter. Asking rents ended the second quarter at \$1,281 per month.
- > Sales of multifamily properties slowed in the first half of 2020 but did not stall altogether. Activity levels were down approximately 50 percent from one year earlier. The median price was \$103,100 per unit, while cap rates compressed to approximately 5.1 percent.

Atlanta Multifamily Market Overview

The Atlanta apartment market softened during the first half of the year with the vacancy rate ticking higher even as the pace of deliveries slowed. These trends mirrored conditions recorded in many of the high-growth markets along the Sunbelt. While the local labor market is forecast to regain some momentum in the second half of the year, there will likely also be an uptick in the pace of new apartment construction, pushing the overall vacancy rate higher, particularly in the Class A segment.

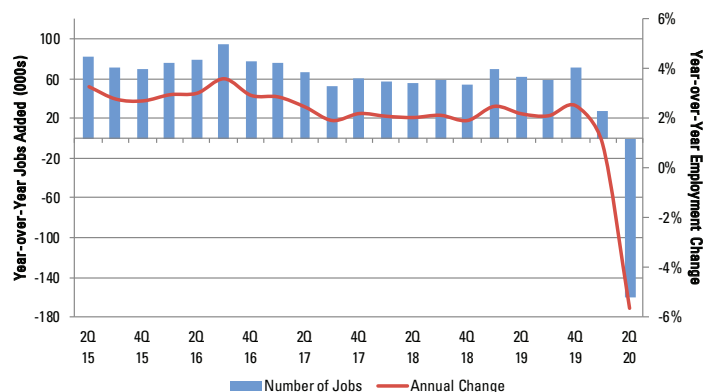
Q2 Snapshot	Atlanta Market
Market Fundamentals	
Vacancy	5.1%
- Year Over Year Change	+30 bps
Asking Rent	\$1,281
- Year Over Year Change	+3.0%
Transaction Activity	
Median Sales Price Per Unit (YTD)	\$103,100
Cap Rates (Avg YTD)	5.1%
Construction Activity	
Units Under Construction	12,912
Units Delivered YTD	2,540

After several consecutive years of significant multifamily sales activity, the Atlanta investment market cooled during the first half of the year. The coronavirus outbreak slowed sales velocity throughout the country, particularly in larger markets such as Atlanta, where institutions play a significant role in transaction activity. To this point in 2020, Class C buildings have accounted for nearly half of the property sales in Atlanta, dragging down the median price. While per-unit prices have dipped due to the mix of properties changing hands, cap rates have compressed slightly, averaging 5.1 percent.

Employment

- > Like all major markets, Atlanta recorded steep job losses during the economic shutdown. Year over year through the second quarter, employment in Atlanta contracted by 5.6 percent with the loss of 160,000 jobs. The Atlanta market added an average of 66,000 jobs per year from 2015-2019.
- > Employers have hired back 40 percent of the positions that were cut during the shutdown. Job losses from February through April totaled 337,000 positions. In May and June, nearly 135,000 jobs were added back to the local economy.
- > While the local labor market is still taking time to bounce back, the Atlanta economy should continue to attract new and expanding companies. During the second quarter, Microsoft announced a plan to build a new facility focused on artificial intelligence and cloud services in West Midtown. The project is slated to open in mid-2021 and should bring 1,500 new jobs to the area.
- > **Forecast:** Employers in Atlanta have generally been expanding in recent years, and the market should add back the bulk of positions that were cut during the COVID-19 shutdown. For 2020, job total job losses are forecast to be approximately 1.5 percent to 2.0 percent.

Employment Overview



Employers have hired back 40 percent of the positions that were cut during the shutdown

Vacancy

- > After dipping late last year and reaching an eight-quarter low, the local multifamily vacancy rate has crept higher thus far in 2020. During the first half of the year, vacancy has increased 40 basis points, ending the second quarter at 5.1 percent.
- > Year over year, vacancy is up 30 basis points. Vacancy has remained in a fairly tight range since the beginning of 2018, averaging 4.9 percent.
- > Average vacancy in the Class A segment of the market was 5.7 percent in the second quarter, up 30 basis points year over year. In the lower tiers, average vacancy rates are closer to 4 percent.
- > **Forecast:** Vacancy in Atlanta is forecast to rise in the second half of the year, reaching 5.5 percent. This would represent an increase of 80 basis points for the full year.

Vacancy Trends

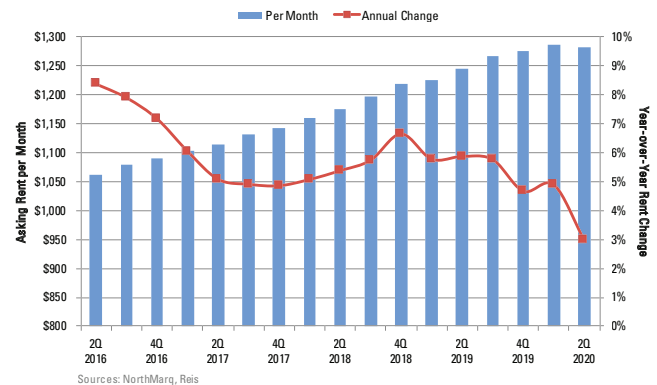


Vacancy has remained in a fairly tight range since the beginning of 2015, averaging 4.9 percent

Rents

- > Rents expanded at a steady pace in the first quarter before contracting slightly during the second quarter. Asking rents inched 0.4 percent lower in the second quarter but are a few dollars higher per month than at the beginning of the year.
- > Despite the modest drop in the second quarter, rents have still posted year-over-year gains. Compared to one year ago, current asking rents of \$1,281 per month are up 3 percent.
- > Growth at the top end of the price spectrum has been more restrained than in Class B buildings. Class A asking rents have advanced just 1.7 percent in the past year, reaching \$1,464 per month as of the second quarter.
- > **Forecast:** While there will likely be some additional contraction in the second half, asking rents in Atlanta should end 2020 fairly close to levels from the beginning of the year. The annual decline in rents is expected to total less than 1 percent, with asking rents likely to end the year at approximately \$1,270 per month.

Rent Trends

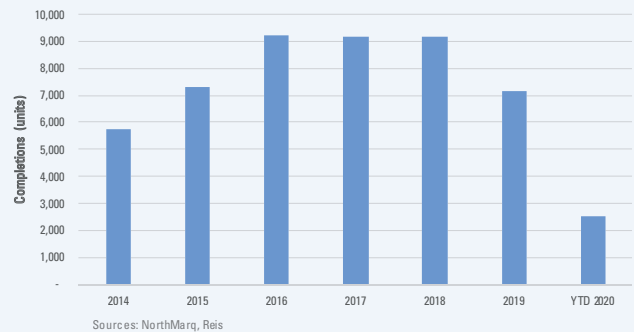


Compared to one year ago, current asking rents are up 3 percent

Development and Permitting

- > Developers have delivered an average of 2,100 new units to the market per quarter since the beginning of 2015, but the pace slowed in the first half of this year as supply chains became constricted amid the COVID-19 shutdown. New projects totaling approximately 2,500 units were delivered in the first half of 2020, including fewer than 700 units in the second quarter.
- > The current development pipeline includes approximately 50 projects under construction, totaling nearly 13,000 units. More than 5,000 units are under construction in Fulton County, including 2,100 units under way in Buckhead. An additional 2,400 units are under construction in Gwinnett County with the Duluth submarket leading the area in new development.
- > Multifamily permitting slowed in 2019, and current levels are trailing last year's pace. During the first half of 2020, fewer than 2,000 multifamily permits were issued, nearly half of the total permits pulled during the same period one year earlier.
- > **Forecast:** While some new construction projects will likely be delayed, developers are forecast to deliver approximately 7,500 units in 2020, similar to levels of inventory growth in 2019.

Development Trends

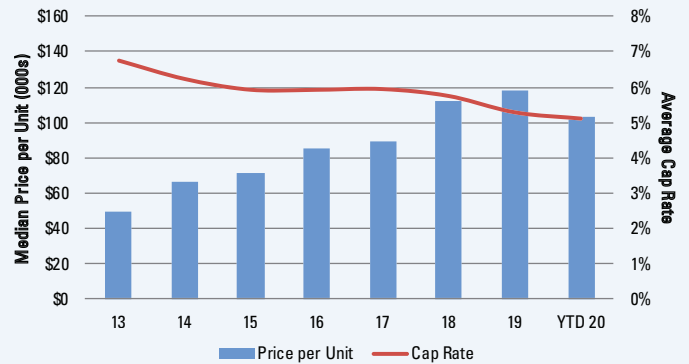


The development pipeline includes approximately 50 projects under construction, totaling nearly 13,000 units

Multifamily Sales

- > Sales of multifamily properties slowed approximately 45 percent from the first half of 2019 to the first half of this year. Activity slowed by nearly 50 percent from the first quarter to the second quarter in 2020.
- > Sales activity this year has been concentrated in Class B and Class C assets, which has acted as a drag on pricing. The median price during the first half of 2020 was \$103,100 per unit, 13 percent lower than the median price in 2019.
- > During the first half of the year, cap rates averaged approximately 5.1 percent, down 20 basis points from 2019's recorded average. With financing rates falling in the first half, cap rates followed a similar trajectory.

Investment Trends



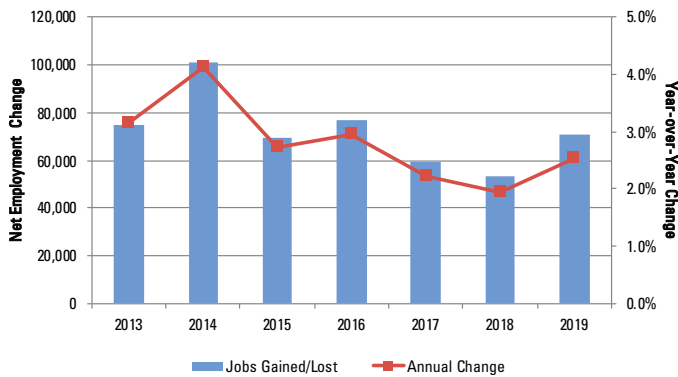
The median price during the first half of the year was \$103,100 per unit

Looking Ahead

The Atlanta economy is expected to transition back into growth mode in the coming quarters, which should support the local multifamily market. While many major employers throughout the country have trimmed payrolls during the pandemic, two of Atlanta's largest employers are thriving in the current economy. Home Depot and UPS have both recorded sharp increases in business during the shutdown. Other Atlanta-based companies, including Delta Air Lines and Coca Cola have been hard hit and are expected to record additional job cuts in the second half of 2020.

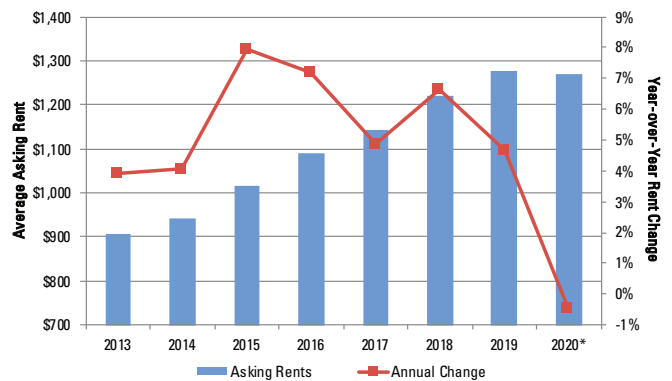
During the second half of this year, the deliveries of new apartment communities are likely to outpace demand, causing the local vacancy rate to creep higher. Deliveries gained momentum beginning in 2015, but the pace of inventory expansion in recent years has closely tracked demand growth. This year, there will likely be a short-term supply/demand imbalance. While the immediate outlook calls for some volatility, the market will likely return to equilibrium beginning in 2021.

Employment Forecast



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

Rent Forecast



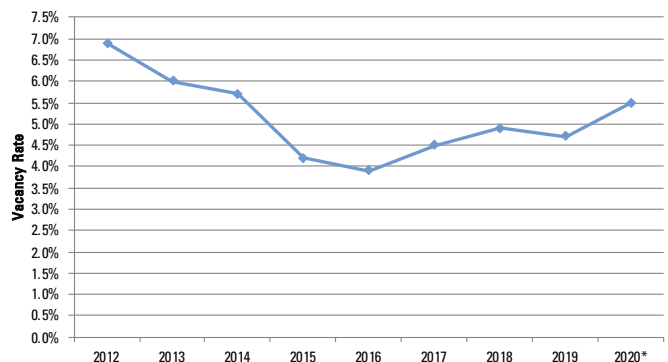
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

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