

Atlanta Multifamily

A Spike in Investment Activity to Close 2020

Highlights

- > The Atlanta multifamily market was impacted by another year of steady supply growth as new units continued to come online as the rate of demand growth cooled. Supply and demand conditions are likely to be more closely aligned in 2021.
- > Vacancy ended 2020 at 5.6 percent, an increase of 90 basis points from one year earlier. During the fourth quarter, the rate rose 30 basis points.
- > After ticking lower in the preceding two quarters, rents rose to close the year. Asking rents recorded an annual increase of 0.5 percent in 2020, reaching \$1,283 per month.
- > The investment market continued to rebound at the end of 2020. Transaction activity accelerated, prices rose, and cap rates compressed.

Q4 Snapshot

Atlanta Market



Market Fundamentals

| | |
|-------------------------------|----------------|
| Vacancy | 5.6% |
| - Year Over Year Change | +90 bps |
| Asking Rent | \$1,283 |
| - Year Over Year Change | +0.5% |



Transaction Activity

| | |
|---|------------------|
| Median Sales Price Per Unit (YTD) | \$132,300 |
| Cap Rates (Avg YTD) | 5.0% |



Construction Activity

| | |
|--------------------------------|--------------|
| Units Under Construction | 9,970 |
| Units Delivered YTD | 7,560 |

Atlanta Multifamily Market Overview

Supply growth outpaced new renter demand in the Atlanta multifamily market in 2020, but the local economy is forecast to recover fairly quickly in the year ahead, which should support apartment fundamentals. While every major market recorded net job losses in 2020, the cuts in the Atlanta market were among the least severe in the country, and the pace of recovery has been more rapid in Atlanta than in most other major markets. Apartment vacancy rose in 2020; absorption of rental units was positive but was outpaced by the delivery of new units, particularly in the second half of the year. The number of units under construction has thinned slightly, and permitting slowed significantly in 2020, indicating that new development should ease during the next two to three years.

After a modest level of transaction activity in the first half of 2020, sales of apartment properties in Atlanta spiked in the second half of the year. As sales velocity gained momentum, prices pushed higher and cap rates compressed, reflecting the favorable market outlook. The median price rose approximately 12 percent in 2020, and transactions that closed during the fourth quarter had the highest per-unit prices of the year. Cap rates compressed for the third consecutive year, falling 30 basis points in 2020, with the lowest cap rates for the year recorded in the fourth quarter. While investor demand is expected to remain strong, it is unlikely that cap rate compression will continue, particularly if interest rates push higher.

Employment

- > The Atlanta labor market added more than 43,000 workers during the fourth quarter, following the addition of nearly 80,000 jobs in the third quarter. Area employment is rebounding quickly after losses associated with the coronavirus shutdown earlier in the year.
- > In 2020, total employment in Atlanta contracted by 2.6 percent with the loss of approximately 74,000 jobs. From 2015-2019, area employment growth averaged more than 65,000 net new jobs per year.
- > The Atlanta area's professional and business services sector is forecast to rebound in 2021. At the end of 2020, management company Boston Consulting Group announced plans to add 330 jobs in an expansion to the company's existing office in Downtown Atlanta.
- > **Forecast:** The Atlanta economy is expected to transition into growth mode in 2021 with employers forecast to add approximately 90,000 jobs, a 3.2 percent increase.

Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

The Atlanta labor market added more than 43,000 workers during the fourth quarter

Vacancy

- > After holding steady for nearly all of 2018 and 2019, the vacancy rate crept higher in each quarter in 2020. Vacancy rose 30 basis points in the fourth quarter, following a 20-basis-point increase during the third quarter.
- > Vacancy rose 90 basis points to 5.6 percent in 2020, following a modest decline one year earlier. Net absorption was positive in 2020, totaling nearly 3,800 units, but renter demand did not keep pace with deliveries of new units.
- > Vacancy in Class A buildings rose 30 basis points in the fourth quarter, reaching 6.5 percent. Year over year, Class A vacancy rose 100 basis points. The Atlanta area's large, high-wage employment sectors generally fuel demand for top-tier units. In recent years, Class A vacancy has averaged approximately 4.8 percent.
- > **Forecast:** The local vacancy rate is forecast to decline in 2021 with demand picking up as the economy strengthens. Vacancy is expected to fall 40 basis points in the year ahead, dipping to 5.2 percent.

Vacancy Trends



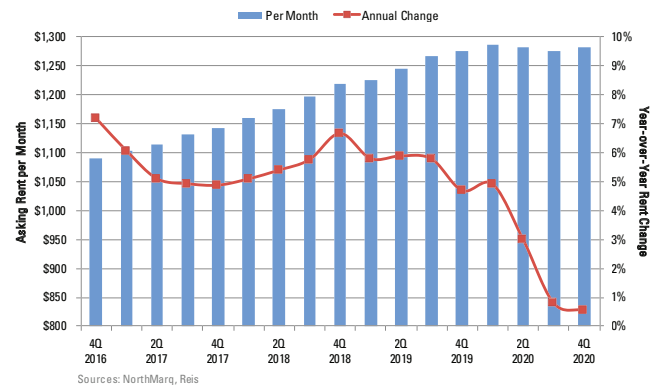
Sources: NorthMarq, Reis

Net absorption was positive in 2020, totaling nearly 3,800 units

Rents

- > Rents ticked higher at the end of the year, following two quarters of modest declines in the middle of 2020. Asking rents ended the fourth quarter at \$1,283 per month.
- > Market asking rents inched up 0.5 percent in 2020. Rent growth averaged more than 5 percent per year since 2013, and gains are forecast to resume beginning in 2021.
- > Rents in Class A properties gained a few dollars in the fourth quarter. Class A asking rents ended the year at \$1,462 per month, nearly identical to the figure one year ago.
- > **Forecast:** Rent growth is forecast to regain momentum in 2021. Asking rents are expected to advance roughly 3.5 percent in the year ahead.

Rent Trends

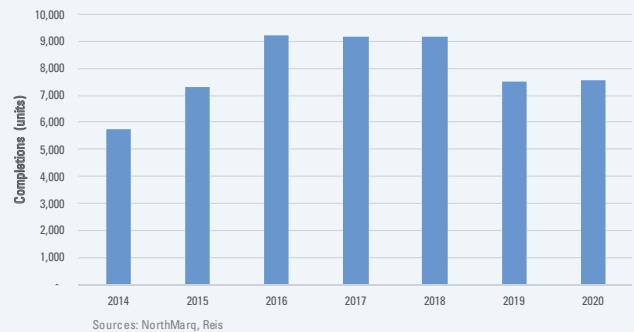


Asking rents ended the fourth quarter at \$1,283 per month

Development and Permitting

- > Construction activity accelerated during the second half of 2020. For the year, more than 7,500 units were delivered, nearly identical to the level of completions in 2019.
- > Projects totaling nearly 10,000 units were under construction at the end of 2020, 17 percent lower than the figure from one year earlier. The development pipeline has thinned as new projects have been delivered, which should ease supply-side pressures going forward.
- > Multifamily permitting fell by approximately 50 percent from 2019 to 2020 with developers pulling permits for approximately 3,300 units. During the fourth quarter, permits for fewer than 600 multifamily permits were issued. From 2015 to 2019, permitting averaged more than 10,000 units per year.
- > **Forecast:** After more than 7,500 apartment units were delivered in 2020, construction is forecast to slow in 2021 with developers expected to complete approximately 6,000 units.

Development Trends

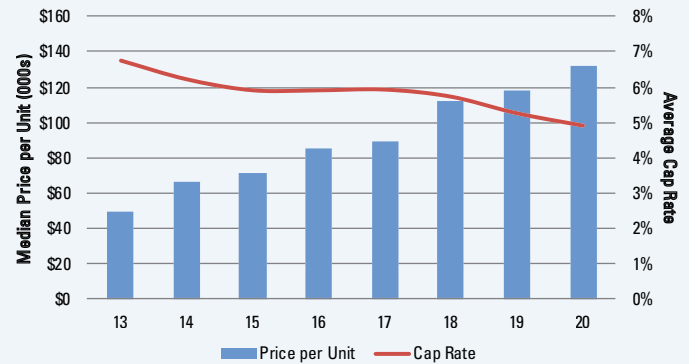


Projects totaling nearly 10,000 units were under construction at the end of 2020

Multifamily Sales

- > Investment activity in Atlanta surged at the end of the year. Sales of apartment properties spiked 53 percent from the third quarter to the fourth quarter, and nearly half of the annual dollar volume closed during the final three months of the year. Total transaction activity in 2020 was down approximately 25 percent from 2019 levels, but sales velocity in the second half was nearly identical to levels recorded during the second half of 2019.
- > As activity gained momentum, prices pushed higher. The median price in 2020 was \$132,300 per unit, up 12 percent from the median price in 2019. During the fourth quarter, price growth spiked; the median price in deals that closed in the final three months of the year was \$151,800 per unit.
- > Cap rates compressed in 2020, averaging approximately 5 percent. Cap rates declined 30 basis points for the year, after falling nearly 50 basis points in 2019. During the fourth quarter, cap rates fell to approximately 4.75 percent.

Investment Trends



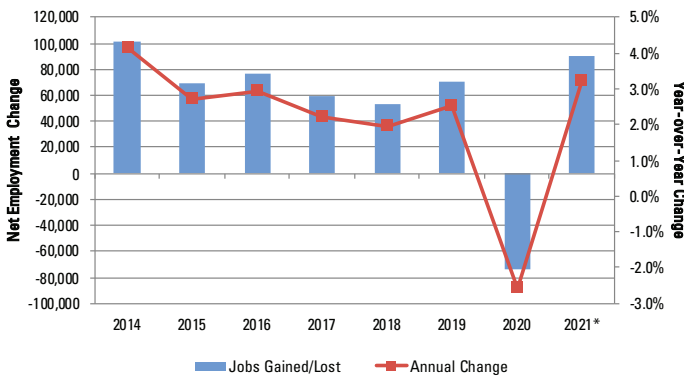
During the fourth quarter, cap rates fell to approximately 4.75 percent

Looking Ahead

The Atlanta multifamily market is forecast to recover in 2021, following a supply-demand imbalance in 2020. Atlanta has routinely been one of the markets that has posted the strongest pace of job growth during expansions, and while all major markets recorded losses in 2020, employment in Georgia was more stable than in nearly every other state in the U.S. The Atlanta multifamily market should move closer to equilibrium in 2021 with demand scheduled to gain momentum and new supply growth on pace to decline. Apartment completions are forecast to reach their lowest point since 2014 this year, allowing for a modest vacancy improvement and a return of rent growth.

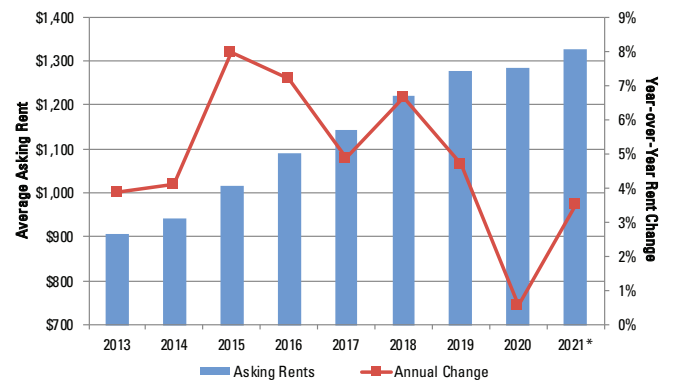
The momentum that was present in the Atlanta multifamily investment market at the end of 2020 is expected to carry over into 2021. Investors are responding to the region's continued success in attracting new and expanding businesses, as well as steady population gains. As the local economy gains momentum in 2021, sales of multifamily properties are expected to remain active. Cap rates have generally trended lower in response to elevated demand. A rise in financing rates could stall the pace of cap rate compression, even as market sentiment strengthens.

Employment Forecast



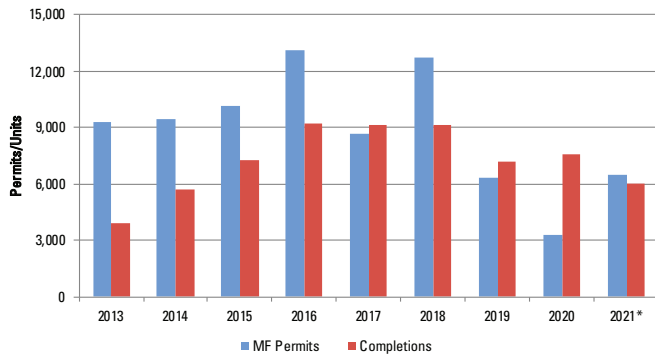
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



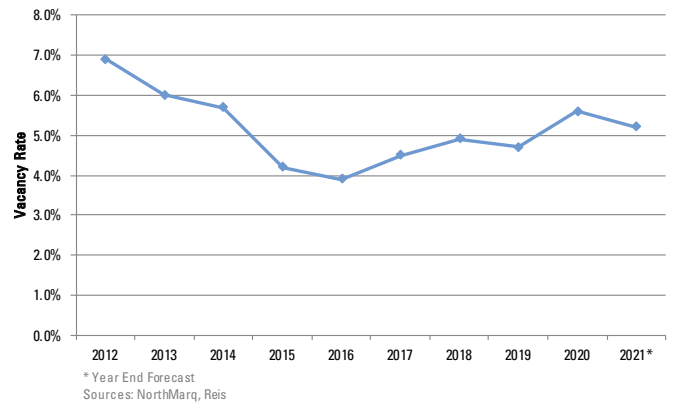
* Year End Forecast
Sources: NorthMarq, Reis

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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