

## ▶ MARKET HIGHLIGHT: ATLANTA

### INVESTORS ARE 'SWARMING' ATLANTA'S MULTIFAMILY MARKET, DRIVING PRICING UP



**Faron Thompson**  
Regional Managing  
Director of Debt &  
Equity,  
NorthMarq

Atlanta is a hot spot for investing in multifamily assets as the market emerges from the COVID-19 pandemic. The apartment market's fundamentals, including occupancy and rent growth, have held up considerably well, making the market extremely attractive to buyers.

Because the Atlanta market has an abundance of capital looking to be deployed, prices are being driven up significantly and cap rates driven down. Multifamily has outperformed many other commercial real estate sectors during the pandemic, considered a "hot-ticket asset class" by investors, which leads to new capital swarming the Atlanta apartment market.

Many multifamily properties are now routinely trading at a sub-4 percent cap rate, indicative of the vast amount of available capital and the

confidence that investors have in the product type.

However, rather than clearing the market and searching for as many prospective buyers as they can, sellers are looking at a smaller subset of dominant, well-known investors that they know will deliver and get the transaction done. They are seeking six to 12 well-recognized, established players that can execute a deal at top prices. It is an extremely competitive process, and all buyers know they have to swing high on pricing.

Oftentimes, no one broker is selected for these listings, but brokers may be asked for names of several prominent players and become somewhat of a "match-making" service. The transaction may still go through a round or two of price adjustments, but the market is convinced that everyone recognizes if they are purchasing today, they have to pay top dollar. That trend is leading to a record number of off-market deals trading.

#### Full price for pre-stab product

Playing out in Atlanta and nationally, more investors seeking a leg-up are willing to pay full price for pre-stabilized new construction. Typically,



Sweetwater Springs is one of the newest build-to-rent (BFR) to come to the metro Atlanta area. Parkland Communities developed the 58-home project in Lawrenceville.

buyers wait until a project is complete and fully stabilized. Now, some investors are acquiring newly constructed properties at perhaps only 40 percent leased; however, these assets are trading at the full price as if they were stabilized.

The buyers are confident in the market and willing to take the lease-up risk because they need to get money deployed. The next frontier may be large, institutional investors agreeing to pay a price for to-be-built deals that have not even broken ground yet.

#### Bridge lending heats up

While government-sponsored agencies Freddie Mac and Fannie Mae typically dominate the multifamily landscape, so far in 2021, bridge lenders have been the biggest source of acquisition debt. It is remarkable how inexpensively they are lending as we are getting bridge financing quotes at sub-3 percent.

Bridge money comes from several sources including debt funds, mortgage REITs, life insurance companies and some banks. A bridge loan is short-term financing that bridges the gap between a current need for financing and a long-term solution. Oftentimes, these deals include a near-term improvement like value-add, finishing a lease-up or a burning-off-concessions strategy.

Meanwhile, life companies expanded their arsenal of tools, including the bridge loan product line to capture more business.

#### COVID-19's impact

Atlanta's large professional and business services sector is strong. Since it is not an industrial/manufacturing region, Atlanta did not experience the economic shutdown that some markets experienced during COVID-19. Atlanta's labor market added over 43,000 employees in fourth-quarter 2020. New jobs signal to investors that there will be new multifamily renters.

While Buckhead historically has been the market's crown jewel, Midtown is shining with its robust live-work-play environment and new tech jobs. Midtown has a significant amount

of new multifamily construction and is expected to fare relatively well. Both Buckhead and Midtown experienced some net migration out during COVID-19, but Midtown is rebounding quickly due to its strong job market and lifestyle desirability.

#### Build-to-rent is growing

Atlanta is experiencing considerable interest in the build-to-rent housing market. Demand for this product is being driven, in part, by millennials starting families, choosing suburban life and desiring something larger than an apartment. They may lack a down payment or choose the flexibility of renting. Young singles and baby boomers are also fueling the trend.

Much of the build-to-rent product is under construction. By year-end, Atlanta will see some sales transactions completed in this space.

NorthMarq recently arranged construction financing for two built-to-rent townhome communities: the 58-unit Sweetwater Springs developed by Parkland Communities in Lawrenceville and the 100-unit Brighton Townhomes in Woodstock. In both cases, we had strong lender interest in this new product type and were able to secure new construction loans that offered strong pricing and no recourse for the developers.

#### Outlook

Atlanta's investment market will only become hotter. The abundant available equity and financing options from Freddie Mac and Fannie Mae will spur further activity.

While these agencies started 2021 on a relatively conservative note, they are now stretching their credit box and bringing back value-add products designed to finance properties that are not fully stabilized. That puts more capital in the marketplace.

The agencies recently cut their spreads approximately 25 basis points. And the Treasuries are coming back down, which makes for many compelling story lines. The flow of liquidity does not appear to be slowing any time soon. If anything, it is increasing.

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