

Atlanta Multifamily

Investment Activity Spikes as the Local Economy Bounces Back

Highlights

- > The Atlanta multifamily market improved during the second quarter. The pace of rent growth accelerated, fueled by absorption that is well ahead of last year's pace. Vacancy held steady but should tighten in the second half, while an increasing number of properties changed hands at higher prices.
- > Vacancy has been steady in recent quarters and was 5.6 percent at the midyear point. During the past 12 months, the rate has increased 50 basis points.
- > Rents in Atlanta began to gain momentum in the second quarter, following a few quarters where rents posted only modest gains. Asking rents ended the quarter at \$1,325 per month, up 3.4 percent from one year earlier.
- > The local investment market recorded a sharp rise in activity during the second quarter. Sales velocity surged and prices pushed higher. The median price to this point in 2021 is up to \$144,200 per unit, while cap rates have compressed to 4.6 percent.

Q2 Snapshot

Atlanta Market



Market Fundamentals

Vacancy	5.6%
- Year Over Year Change	+50 bps
Asking Rent	\$1,325
- Year Over Year Change	+3.4%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$144,200
Cap Rates (Avg YTD)	4.6%



Construction Activity

Units Under Construction	6,010
Units Delivered YTD	3,979

Atlanta Multifamily Market Overview

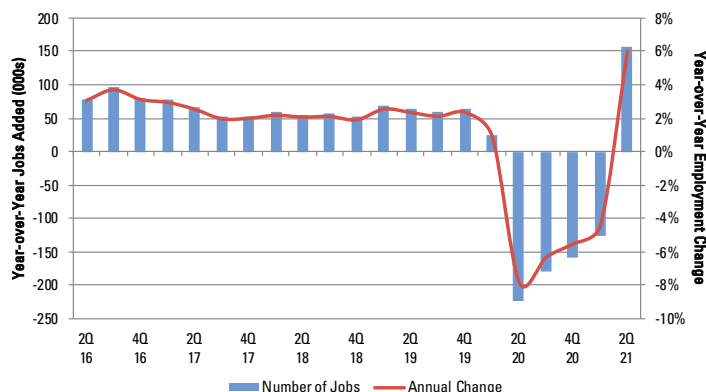
The Atlanta multifamily market recorded modest growth during the second quarter, with rents pushing higher at an accelerating pace and vacancy remaining stable. Rent growth is being fueled by heightened demand for apartment units; absorption during the first half of 2021 was up more than 30 percent when compared to the same period one year earlier. On the supply side, developers have delivered new projects at a fairly steady pace for the past three years. However, the construction pipeline is thinning and permitting for new projects has slowed, which should lead to a cooling rate of new construction in the next few years.

The local investment market strengthened during the second quarter, with sales activity surging, prices rising, and cap rates compressing. Transaction activity gained significant momentum in recent months, with a broad mix of assets changing hands. Several Class A properties built in the past five years sold in Gwinnett County during the second quarter, with these projects generally trading between \$260,000 per unit and \$280,000 per unit. Class B properties accounted for the largest share of transaction activity during the second quarter. Several 1970s- and 1980s-vintage Class B properties traded with very low vacancies; pricing for these assets was generally around \$125,000 per unit to \$170,000 per unit.

Employment

- > The Atlanta labor market has been bouncing back in recent quarters, with employers adding thousands of jobs as the economy reopens. Year over year through the second quarter, total area employment is up 6 percent, with the addition of 157,000 jobs. Employers added more than 40,000 jobs in the second quarter.
- > Atlanta's large corporate business presence is fueling growth in high-wage, white-collar industries. The professional and business services sector has been one of the strongest-performing industries in the market for the past several years, a trend that has been sustained in 2021. In the past year, professional and business employment has increased by 9.2 percent, adding nearly 47,000 jobs.
- > Google recently announced that hundreds of new roles are coming to Atlanta as part of a \$7 billion investment in offices around the country. The company plans to lease five floors in an office building located in the Midtown submarket.
- > **Forecast:** Employers are forecast to add nearly 140,000 jobs to the workforce by the end of the year, a total increase of 5 percent.

Employment Overview

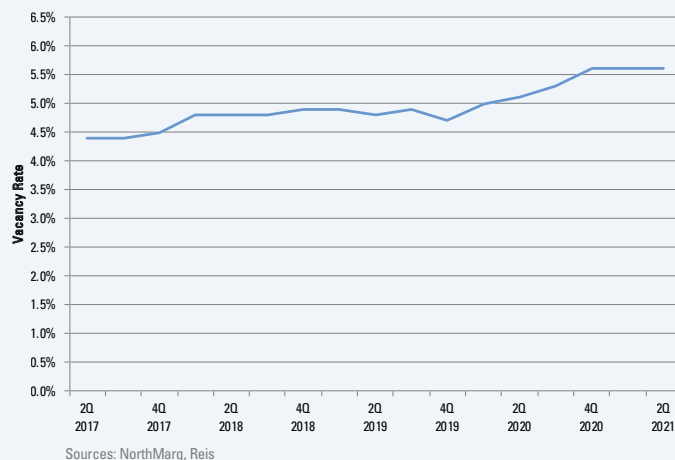


Year over year through the second quarter, total area employment is up 6 percent

Vacancy

- > After increasing in 2020, vacancy has remained steady throughout 2021. Vacancy in Atlanta's multifamily market maintained a 5.6 percent rate for the third consecutive quarter. While the rate has been steady since the beginning of 2021, local vacancy has risen 50 basis points year over year.
- > The combined vacancy rate for Class B and Class C properties in Atlanta ended the second quarter at 3.8 percent, down 30 basis points from one year earlier. Vacancy in Class A units has risen 90 basis points in the past year, reaching 6.8 percent as of the second quarter.
- > Renter demand is on an upswing, supporting the local multifamily market. Net absorption totaled nearly 3,000 units during the first half of the year, up 32 percent from the same period in 2020.
- > **Forecast:** After remaining flat in the first half of 2021, the vacancy rate in Atlanta is projected to drop during the second half of the year. Vacancy is forecast to decline 20 basis points, ending 2021 at 5.4 percent.

Vacancy Trends

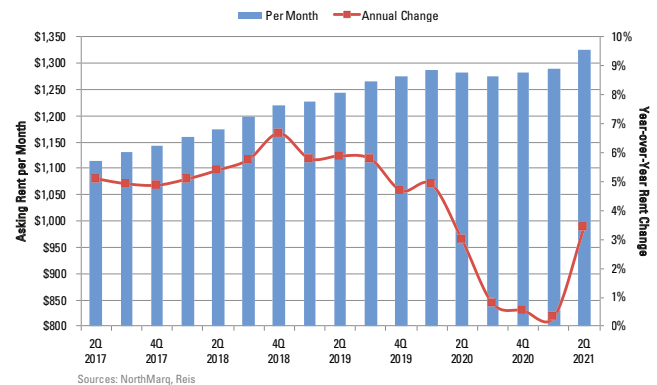


Net absorption totaled nearly 3,000 units during the first half of the year, up 32 percent

Rents

- > Rents rose in Atlanta for the fourth consecutive quarter. The pace of growth was fairly modest in recent periods before accelerating in the second quarter. Asking rents advanced 2.7 percent during the second quarter to \$1,325 per month.
- > Year over year, asking rents are up 3.4 percent with additional gains likely in the second half. Rent growth averaged 5.5 percent per year from 2016 to 2019.
- > The Buckhead area has the highest average rents in the Atlanta metro area. While asking rents in the submarket are lower than levels from one year ago, they did advance 1.6 percent during the second quarter, reaching \$1,820 per month.
- > **Forecast:** Asking rents in Atlanta are forecast to rise to \$1,350 per month by the end of 2021, an annual increase of 5.2 percent.

Rent Trends

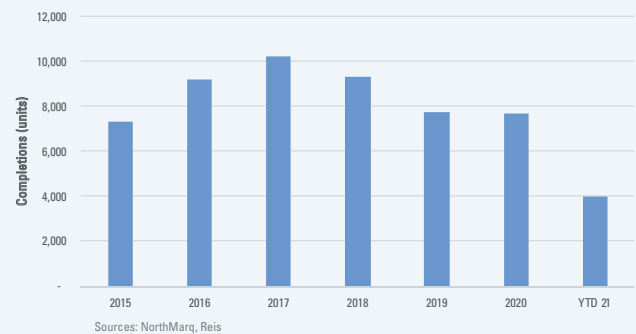


Asking rents advanced 2.7 percent during the second quarter to \$1,325 per month

Development and Permitting

- > The pace of apartment deliveries during the first half of this year closely tracked levels recorded during the same period in 2020. Developers completed nearly 4,000 units during the first half, up from 3,850 units during the first half of last year.
- > While the pace of deliveries has been fairly consistent in recent periods, the development pipeline has thinned. Projects totaling approximately 6,000 units were under construction in Atlanta at the end of the second quarter, down 30 percent from the first quarter. More than one-third of the projects are underway in the Midtown submarket.
- > During the first half of 2021, developers pulled permits for approximately 1,700 multifamily units, a decrease of 15 percent when compared to the first half of 2020. Permitting in the market was elevated from 2015 to 2018 but has slowed in subsequent years.
- > **Forecast:** Developers are on pace to deliver projects totaling approximately 7,200 units in 2021, similar to completion levels from the past two years. Permitting is slowing, suggesting that the pace of completions will likely drop off in 2022 and 2023.

Development Trends

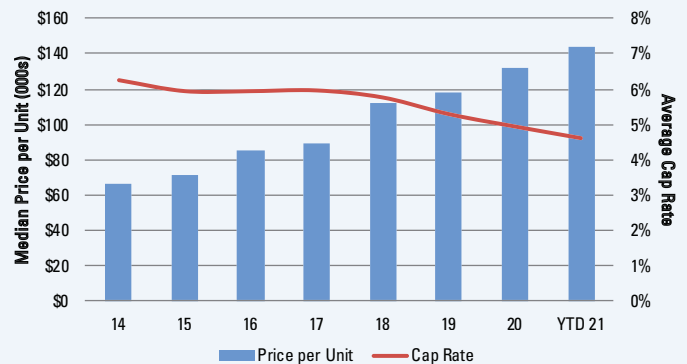


Developers completed nearly 4,000 units during the first half

Multifamily Sales

- > Multifamily transaction activity is on the rise in Atlanta; sales velocity rose nearly 50 percent from the first quarter to the second quarter, and activity levels have doubled the pace recorded in the first half of 2020. The increase in transaction activity has been quite pronounced at the top end of the market. In sales of properties topping \$100 million, the number of sales during the first half of this year matched the total for all of 2020.
- > With activity accelerating, prices are on the rise. The median price through the first half of this year was approximately \$144,200 per unit, up nearly 10 percent from the median price in 2020.
- > Cap rates averaged 4.6 percent during the first half of this year, 30 basis points lower than in 2020. Cap rates could continue to compress as the pace of rent growth gains momentum.

Investment Trends



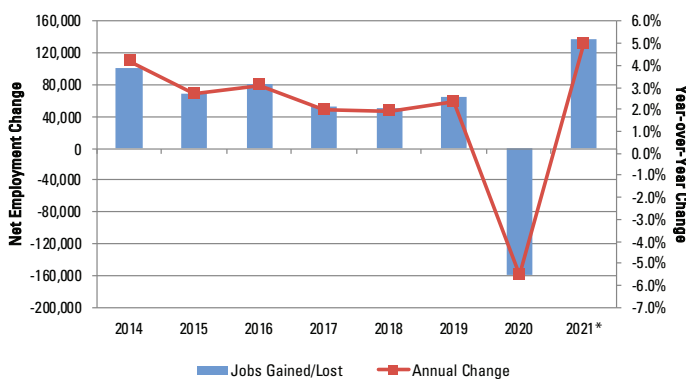
The median price through the first half of this year was approximately \$144,200 per unit

Looking Ahead

The Atlanta multifamily market is forecast to record steady improvement in the second half of this year and is positioned for even stronger performance in 2022. Vacancies should creep lower in the coming quarters, but more significant tightening will likely take shape as the pace of deliveries cools beginning in the first half of next year. The pace of rent growth is accelerating and should continue to gain momentum as the local labor market tops pre-COVID levels and vacancy ticks below 5 percent; both of these results are forecast to occur in 2022. Rents are forecast to advance by more than 5 percent this year, with more rapid increases likely in the following year.

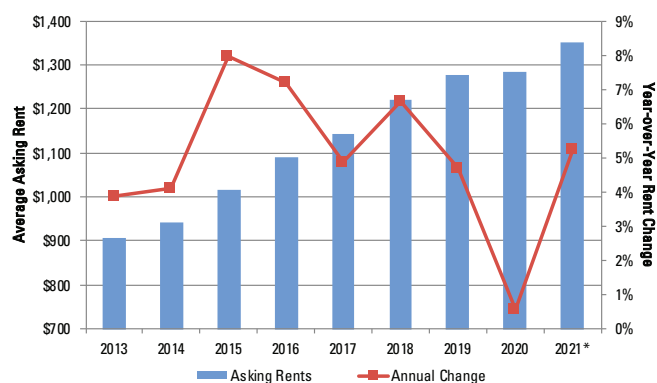
The investment environment for Atlanta multifamily properties is likely to remain active and competitive over the next several quarters, as operating fundamentals strengthen, and financing remains available and affordable. Multifamily cap rates in most high-growth markets have been compressing, and rates in Atlanta could easily trend lower in the coming quarters, particularly if the pace of rent growth is sustained. Newer assets have been trading at an accelerating pace in recent years, a trend that should continue as leasing momentum builds over the next few quarters.

Employment Forecast



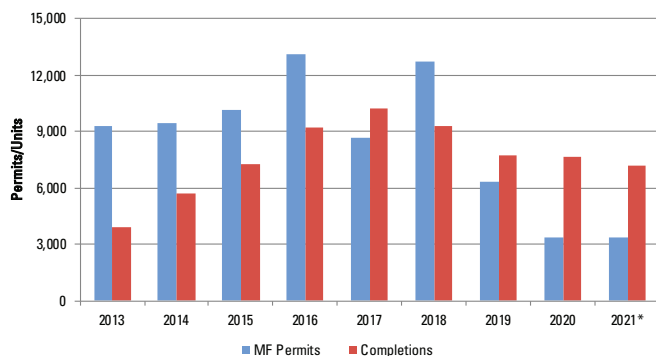
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



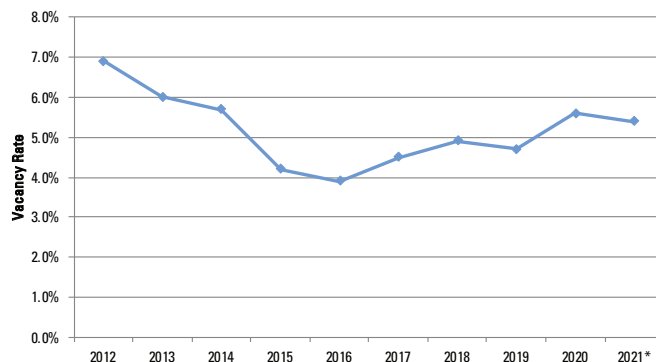
* Year End Forecast
Sources: NorthMarq, Reis

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 more than \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our nearly 600 people.

For more information, contact:

Jason Nettles

MANAGING DIRECTOR – INVESTMENT SALES
678.954.4676
jnettl@northmarq.com

Megan Thompson

SENIOR VICE PRESIDENT – INVESTMENT SALES
678.954.4677
mthompson@northmarq.com

Faron Thompson

REGIONAL MANAGING DIRECTOR - DEBT & EQUITY
678.954.4674
fthompson@northmarq.com

Randy Wolfe

SVP, MANAGING DIRECTOR – DEBT & EQUITY
678.954.4664
rwolfe@northmarq.com

Trevor Koskovich

PRESIDENT – INVESTMENT SALES
T 602.952.4040
tkoskovich@northmarq.com

Pete O'Neil

DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

Copyright © 2021 NorthMarq Multifamily, LLC.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

