

Atlanta Multifamily

Sales Velocity Gains Momentum to Start 2021

Highlights

- > Apartment properties in Atlanta recorded stable performance during the first quarter, with conditions likely to strengthen in the remainder of the year. Rents inched higher, and a more rapid pace of increases is likely as the local economy gains momentum.
- > After rising throughout 2020, the local vacancy rate held steady at 5.6 percent during the first quarter. Year over year, the rate is up 60 basis points.
- > Rents in Atlanta inched higher in the first quarter and are expected to gain momentum in the coming months. Asking rents ended the first quarter at \$1,290 per month, up 0.3 percent from one year earlier.
- > The investment market got off to a steady start in 2021. Cap rates and prices remained nearly identical to levels recorded last year, while transaction activity in the first quarter was ahead of the pace recorded at the beginning of 2020.

Q1 Snapshot

Atlanta Market



Market Fundamentals

Vacancy	5.6%
- Year Over Year Change	+60 bps
Asking Rent	\$1,290
- Year Over Year Change	+0.3%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$133,000
Cap Rates (Avg YTD)	4.9%



Construction Activity

Units Under Construction	8,737
Units Delivered YTD	1,576

Atlanta Multifamily Market Overview

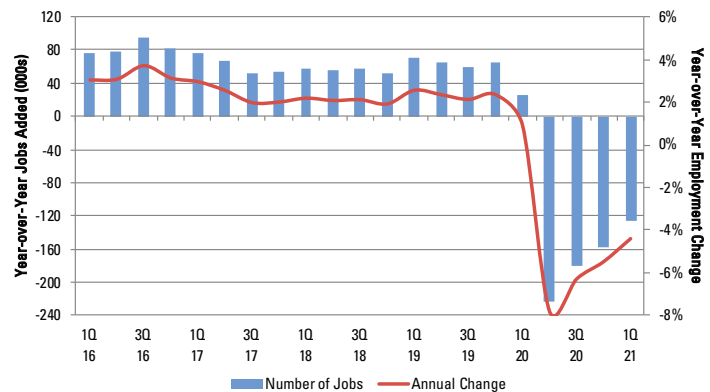
The Atlanta multifamily market recorded mostly steady operating performance during the first quarter. Vacancy leveled off after pushing higher throughout 2020, and rents advanced by a few dollars per month. One driving force in the stabilizing property performance has been a slowing pace of new development. While developers will still deliver nearly 6,500 units in 2021, the number of new units coming online is more closely tracking levels of new renter demand, which is keeping vacancy near current ranges. With new supply growth and renter demand close to equilibrium, rents have begun to inch higher.

Investment activity in Atlanta's multifamily market surged at the end of 2020, and transactions at the start of this year were ahead of the pace recorded at the outset of last year. While the median price in all transactions closely tracked 2020 levels, there has been a fairly wide pricing range. Transactions occurred throughout the Atlanta metro area. Several older properties in DeKalb County sold with prices near \$100,000 per unit, for example, while several newer projects in Gwinnett County sold for closer to \$250,000 per unit. Cap rates averaged a tick under 5 percent to start the year, although several properties changed hands with cap rates between 4 percent and 4.5 percent.

Employment

- > The local employment market is in recovery mode. During the first quarter, employers in Atlanta added nearly 25,000 jobs. Despite the gains at the beginning of 2021, total employment is still down 4.4 percent when compared to the pre-COVID peak from one year ago.
- > One segment of the local labor market that is faring better than most is the education and health services sector. Employment in this sector has expanded by more than 17,000 jobs since the second half of last year, including a gain of 3,400 positions during the first quarter.
- > Atlanta remains one of the top markets in the country for business attraction, particularly among high-wage occupations. Microsoft has plans to add 1,500 new jobs to the labor market beginning this summer.
- > **Forecast:** Job growth in Atlanta is forecast to reach 90,000 jobs in 2021, a 3.3 percent increase to area payrolls.

Employment Overview



Job growth in Atlanta is forecast to reach 90,000 jobs in 2021

Vacancy

- > After rising in all four quarters of 2020, the local vacancy rate leveled off at the start of 2021. Vacancy ended the first quarter at 5.6 percent, identical to the rate at the end of last year.
- > While vacancy held steady at 5.6 percent in the beginning of 2021, the rate is still up 60 basis points year over year. Vacancy first ticked up to 5 percent in the first quarter of last year, after remaining between 4.4 percent and 4.9 percent from 2017 through 2019.
- > As the economy stabilizes, renter demand for units should begin to track earlier levels. During the first quarter, net absorption topped 1,000 units, nearly identical to the same time period one year ago.
- > **Forecast:** The second half of this year should be a strong period for economic growth, while inventory expansion is on pace to be fairly modest. The vacancy rate in Atlanta is forecast to drop 30 basis points to 5.3 percent by year end.

Vacancy Trends

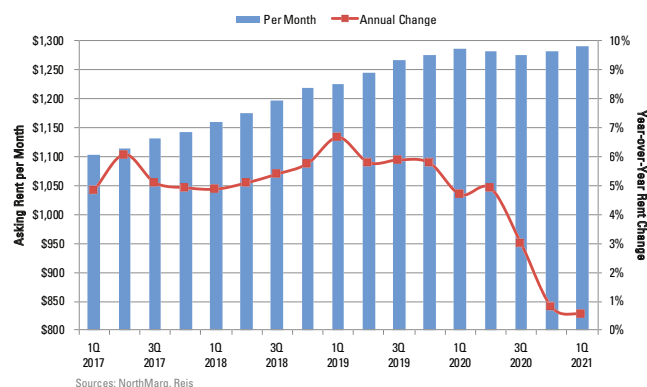


Net absorption was positive in the first quarter, totaling more than 1,000 units

Rents

- > Rents rose for the third consecutive quarter to begin 2021. Asking rents advanced 0.5 percent in the first quarter, matching the quarterly increase that occurred in the final few months of 2020.
- > Year over year, asking rents in Atlanta are up just 0.3 percent at \$1,290 per month. Rent growth averaged 5.5 percent per year from 2017 to 2019, but rents were essentially flat in 2020.
- > Rents in Class A properties fell by 0.3 percent year over year but will likely start posting annual increases beginning in the second quarter, as economic growth gains momentum. Current Class A asking rents are \$1,470 per month.
- > **Forecast:** The pace of rent increases should strengthen as the economy returns to full strength. Asking rents are forecast to grow 3.3 percent to \$1,325 per month to end 2021.

Rent Trends



The pace of rent increases should strengthen as the economy returns to full strength

Development and Permitting

- > After more than 2,200 units were delivered during the first quarter of last year, the pace of apartment development slowed at the beginning of 2021. Developers completed projects totaling fewer than 1,600 units in the first quarter, down 30 percent from one year ago.
- > Projects totaling more than 8,700 units were under construction in the first quarter of 2021, approximately 12 percent lower than at the end of last year. The pace of new development is forecast to slow in 2021 and 2022.
- > Multifamily permitting activity slowed by nearly 50 percent from 2019 to 2020, and further cooling was recorded during the first quarter of this year. Permits for approximately 360 multifamily units were issued during the first quarter, down nearly 75 percent from the same period in 2020.
- > **Forecast:** Deliveries of apartments in the Atlanta area are forecast to record an annual decline for the fourth consecutive year. Area developers are expected to complete approximately 6,500 units in 2021, down 15 percent from 2020 levels.

Development Trends



Projects totaling more than 8,700 units were under construction in the first quarter of 2021

Multifamily Sales

- > Sales velocity surged in the second half of last year, as investors moved off of the sidelines and resumed acquisition activity. Transaction activity is off to a strong start to 2021; sales during the first quarter were up approximately 30 percent from the same period in 2020.
- > After several years of increases, pricing has been mostly steady to this point in 2021. The median price in the first quarter was approximately \$133,000 per unit, nearly identical to the median price in 2020.
- > Cap rates averaged 4.9 percent during the first quarter, unchanged from the average cap rate in 2020. Cap rates could begin to compress if rent growth resumes as expected.

Investment Trends



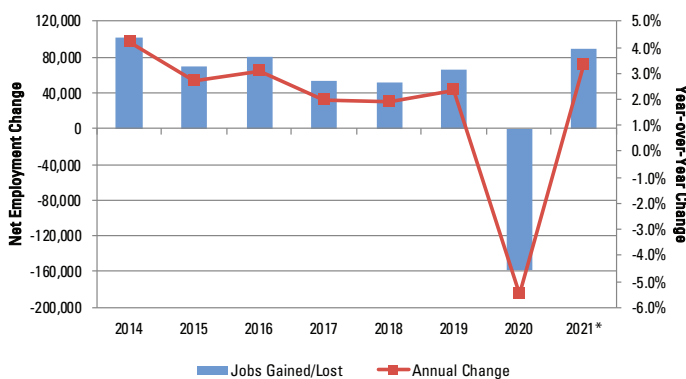
The median price in the first quarter was approximately \$133,000 per unit

Looking Ahead

The Atlanta multifamily market is expected to benefit from two primary forces this year: an accelerating pace of employment growth and a slowing pace of new construction. Employers are well on their way to bringing back workers, and continued gains are forecast for the remainder of the year. In addition to replacing workers that were laid off during the COVID-19 period, the Atlanta employment market will benefit from the area's ongoing ability to attract businesses looking to relocate. On the supply side, deliveries of new apartments are forecast to reach their lowest annual level since 2014, resulting in a modest vacancy decline and healthy pace of rent growth.

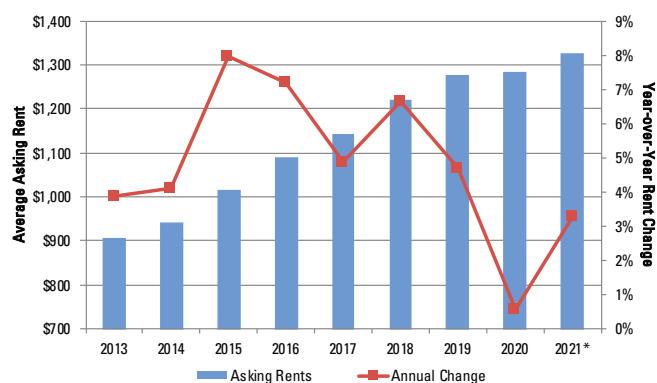
In 2020, investment activity in Atlanta's multifamily properties was among the highest-volume markets in the country, and sales velocity to this point in 2021 is ahead of last year's pace. Transaction volume through the remainder of this year should be significant, particularly as properties show tightening vacancies and owners implement organic rent increases. Cap rates have been consistently low since the middle of last year, averaging just under 5 percent. With the operational outlook for area properties improving and investor demand elevated, cap rates will likely remain near current levels through the remainder of the year.

Employment Forecast



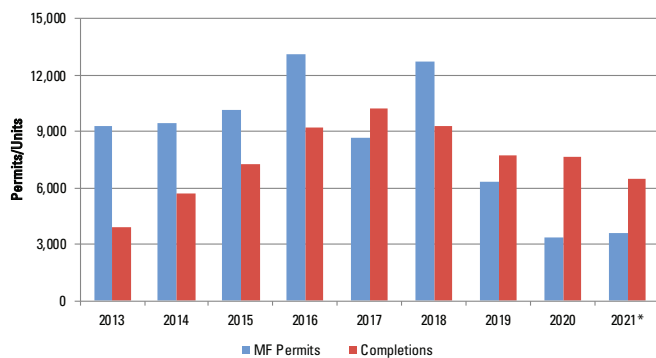
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



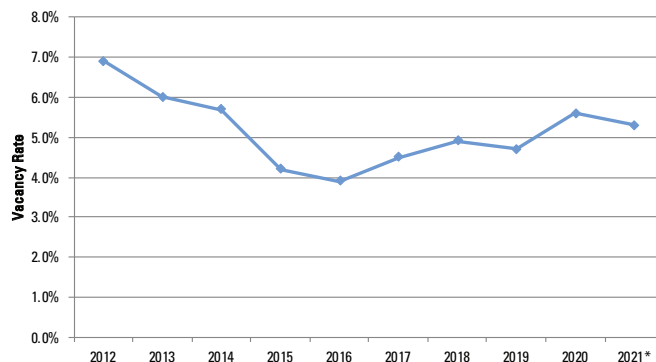
* Year End Forecast
Sources: NorthMarq, Reis

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
jnettles@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.

