Market Insights

Greater Atlanta Multifamily 3Q 2022

Northmarq

Construction Activity

25,779

Units under construction

8,617

Units delivered (YTD)

Market Fundamentals

4.4%

Vacancy

-20bps | Year over year change

$1,609

Asking Rent

+9.7% | Year over year change

Transaction Activity

$201,700

Median sales price per unit (YTD)

Rapid Hiring Sustains Renter Demand, Sparks New Construction

Highlights

- The third quarter was another period of operational improvement in the Atlanta multifamily market. Renter demand is being fueled by strong expansion in the local labor market.
- Vacancy declined 10 basis points to 4.4 percent in the third quarter. The rate has retreated 10 basis points in each of the three quarters of this year and is currently at a five-year low.
- Rent growth continued in the third quarter. Asking rents reached $1,609 per month, up 9.7 percent year over year.
- Fewer properties changed hands in the third quarter, but prices were stable. Cap rates rose to 4.3 percent on average, after remaining below 4 percent in the first half of the year.

Atlanta Multifamily Market Overview

Operating conditions in the Atlanta multifamily market strengthened during the third quarter, even as the pace of construction accelerated. The local vacancy rate inched lower again, dropping 10 basis points for the third consecutive quarter. The current vacancy rate is at its lowest point in five years. The tightening conditions allowed operators to push rents higher, and the market's average asking rent topped $1,600 per month for the first time. As recently as the middle of last year, market rents were $1,325 per month. The declining vacancy rate and rapid upward trajectory in rents have driven developers to move more projects into the construction pipeline. Multifamily permitting has accelerated to this point in 2022, following three consecutive years of below-trend levels. With construction lending becoming more difficult and many of the traditional equity partners on pause, development starts are likely to dip meaningfully in 2023.

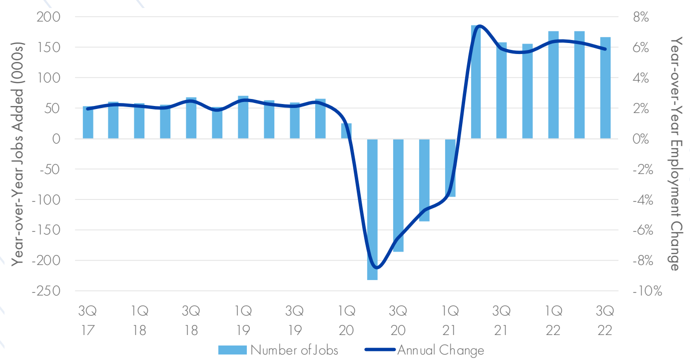
Cap rates rose in response to higher interest rates, but apartment properties in Atlanta continued to trade during the third quarter. The median price during the most recent three-month period was $203,400 per unit, nearly identical to the figure from the first half of the year. Year to date, per-unit prices have surged by nearly 20 percent compared to levels from 2021, which reflects the impact of rising rents on current underwriting. In addition, larger transactions are accounting for a more significant share of total activity. During the third quarter, sales of $75 million or more were nearly one-third of all transactions, up from closer to 20 percent of transactions in the first half of the year. The segment of the market where activity dropped the most was in properties that traded between $20 million and $40 million, which were generally older, Class B and Class C assets.

Employment

- Employers continue to add workers in Atlanta. The local labor market has expanded by 5.9 percent in the past year, adding 167,000 new jobs. The pace of growth has slowed modestly; about 26,000 positions were created in the third quarter, down from more than 31,000 additions in the preceding three months.
- High-wage employment growth has been particularly strong in Atlanta in recent periods. Year over year through the third quarter, local professional and business services employment has spiked by 7.2 percent with an increase of more than 40,000 jobs. The sector accounts for about 20 percent of total employment in Atlanta but has represented nearly 25 percent of the region's new jobs in the past year.
- Global management consulting company McKinsey is growing its employment base in Atlanta. The company plans to nearly double its workforce in the region, adding about 700 net new jobs by 2025 and creating a new Technology and Innovation Hub.
- **Forecast:** Robust employment gains are forecast in Atlanta. This year, employers are on pace to expand payrolls by 4.7 percent with the addition of nearly 135,000 new jobs. Total employment in the Atlanta region is expected to end the year up 5 percent from the pre-COVID peak.

> The local labor market has expanded by 5.9 percent in the past year.

Employment Overview



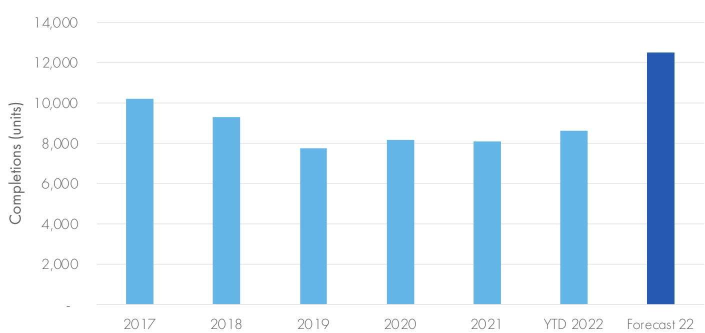
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

- During the third quarter, nearly 4,800 new apartment units were completed. Year to date, projects totaling approximately 8,600 units have come online, slightly higher than the annual total deliveries in each of the past three years.
- The pipeline contains dozens of additional developments that are slated to be delivered in the next few years. At the end of the third quarter, more than 25,000 units were under construction. Multifamily developers have been stepping up construction activity levels during the past several quarters.
- Permitting has accelerated in 2022, following three years of modest activity from 2019-2021. Year to date, permits for nearly 15,000 multifamily units have been pulled.
- **Forecast:** Apartment development is forecast to remain elevated through the final few months of this year and throughout 2023. Projects totaling approximately 12,500 units are on pace to come online in 2022, after deliveries averaged nearly 9,000 units per year from 2016 to 2021.

> Year to date, approximately 8,600 units have come online.

Development Trends



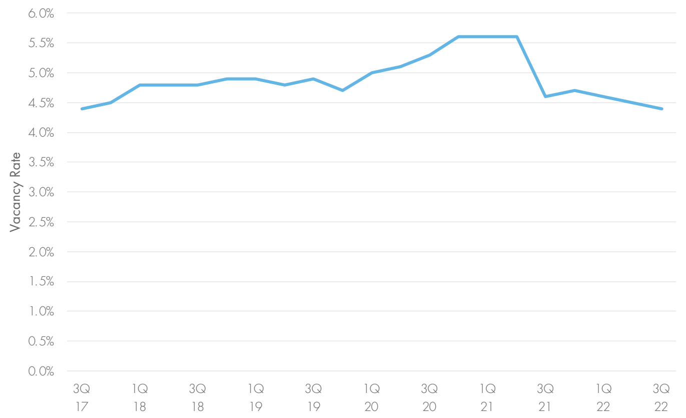
Sources: Northmarq, CoStar, Reis

Vacancy

- Vacancy dropped 10 basis points during the last three months, matching the declines in each of the first two quarters of the year. After holding steady in late 2020 and early 2021, area vacancy has tightened in four of the past five quarters.
- Year over year, vacancy has declined by 20 basis points to 4.4 percent. The rate reached its cyclical peak at 5.6 percent in the first half of 2021. The current vacancy rate is at a five-year low.
- Vacancy in the Class A segment has dropped in recent quarters, fueled by healthy absorption levels. The Class A vacancy rate ended the third quarter at 4.7 percent, down 60 basis points from one year earlier. Since the beginning of 2021, approximately 90 percent of the net absorption recorded in the market has occurred in Class A units.
- **Forecast:** The accelerating pace of deliveries is forecast to push the local vacancy rate slightly higher in the final few months of the year. Area vacancy is expected to end the year at 4.6 percent, 20 basis points higher than the current level, but 10 basis points lower than the year-end 2021 figure.

> Year over year, vacancy has declined by 20 basis points.

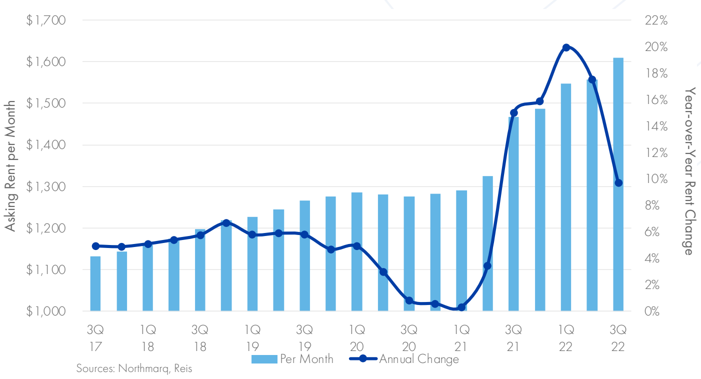
Vacancy Trends



Sources: Northmarq, Reis

> Current rents are 9.7 percent higher than one year ago.

Rent Trends



Sources: Northmarq, Reis

Rents

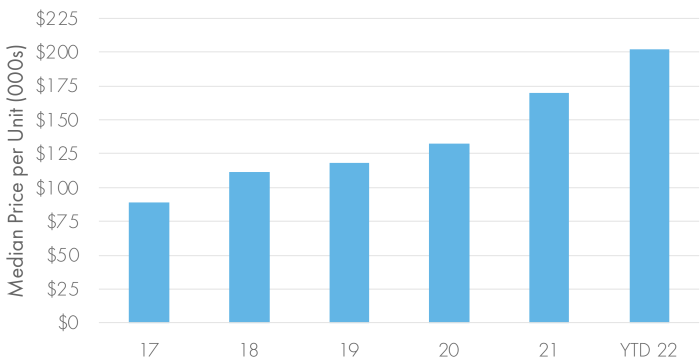
- Average asking rents advanced by more than $50 per month in the third quarter, reaching $1,609 per month. Rents had ticked up just $10 per month during the second quarter.
- Current asking rents are 9.7 percent higher than levels from one year ago. Rent trends have been mixed since mid-2020. The current pace of rent growth is nearly twice as high as the average rate of gain from 2017 to 2019.
- Class A asking rents ended the third quarter at $1,817 per month, up 8.2 percent year over year. Rents in the Class A segment have advanced by more than $120 per month since the beginning of 2022.
- **Forecast:** Rent growth is forecast to reach 9 percent in 2022, although the bulk of the gains has already been posted. Asking rents are expected to end the year at approximately $1,620 per month.

Multifamily Sales

- Sales of multifamily properties slowed by 19 percent from the second quarter to the third quarter as interest rates trended higher throughout the summer. Total sales velocity through the first nine months of this year is 22 percent lower than the pace set in the same period in 2021.
- Prices have remained elevated throughout the year. In transactions that have closed thus far in 2022, the median price is approximately $201,700 per unit, 19 percent higher than the median price in 2021. During the third quarter, the median price was $203,400 per unit.
- Cap rates trended higher in the third quarter, averaging 4.3 percent, after remaining below 4 percent in the first half of the year. A handful of assets with very low vacancy levels sold with cap rates as low as 3.5 percent in recent months, while a few other assets sold with cap rates around 5 percent.

> Thus far in 2022, the median price is approximately $201,700 per unit.

Investment Trends



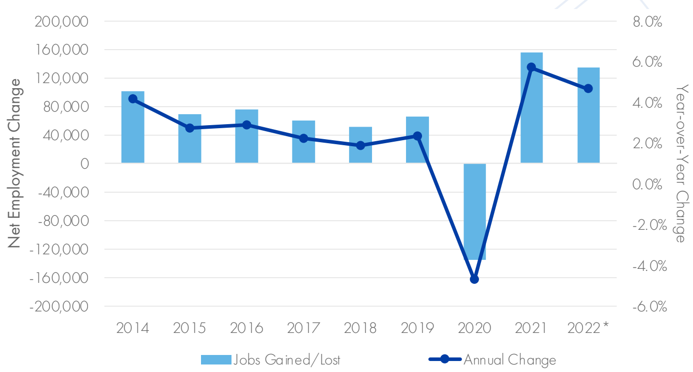
Sources: NorthMarq, CoStar

Looking Ahead

After several years of elevated net absorption, renter demand is forecast to remain healthy in 2023, supported by a rapid pace of employment growth. Gains will likely be concentrated in the region's large, high-wage professional and financial sectors, supporting demand for Class A units in prime submarkets. On the supply side, developers have been moving projects through the pipeline in recent quarters, and the latest permitting figures suggest additional supply growth is likely in 2024 and 2025. The current capital environment may cause some developments to be delayed or cancelled. While projects are under construction throughout the region, the greatest activity is concentrated in areas with some of the strongest demographics and population density, including the Midtown Atlanta and Cumberland/Galleria submarkets.

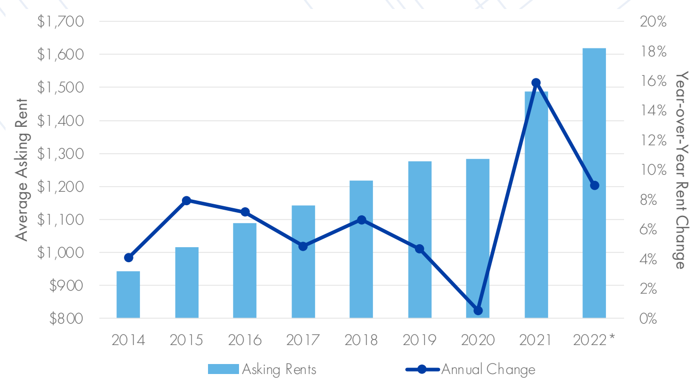
Atlanta is on pace to be one of the top markets in the country for multifamily investment activity in 2022, although the number of properties that sell this year will lag levels recorded in 2021. Cap rates have begun to push higher and will likely level off in the coming quarters, particularly if there is a pause from the rapid interest rate hikes that have occurred throughout much of this year. Investors will be attracted to the market's continued growth, and the number of new projects that are entering the market will create acquisition opportunities as they are delivered and successfully leased-up. Because of the consistent volume of transactions that are likely to occur, buyers and sellers should be able to close the expectations gap more quickly than in some other markets where fewer deals occur.

Employment Forecast



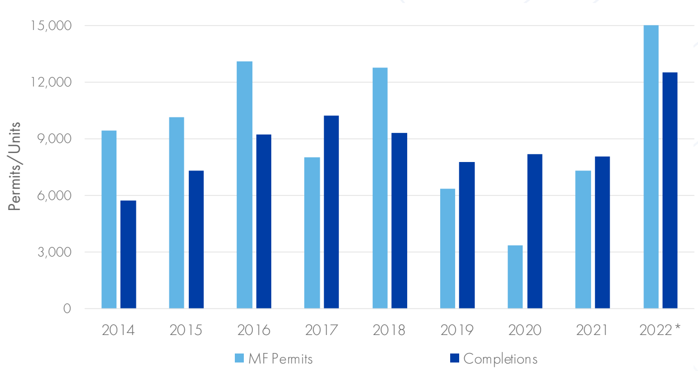
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



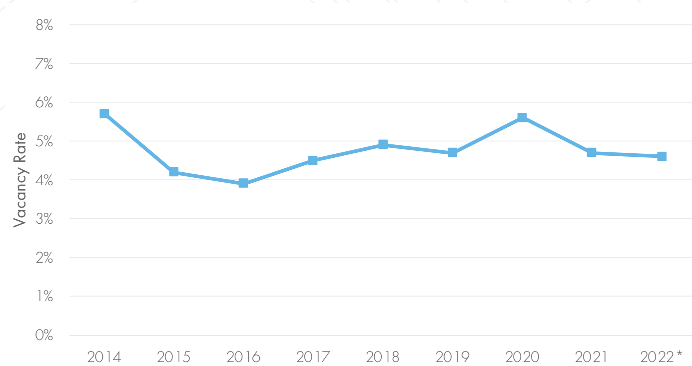
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis

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