Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	28,492
UNITS DELIVERED	2,691

MARKET FUNDAMENTALS

VACANCY RATE	5.1%
YEAR-OVER-YEAR CHANGE	+50bps
ASKING RENTS	$1,567
YEAR-OVER-YEAR CHANGE	+1.3%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$155,000

Atlanta Multifamily
1Q 2023

MARKET INSIGHTS

A mix of Class B and Class C assets sells to start 2023

HIGHLIGHTS

- Despite continued economic growth, softening conditions prevailed in the Atlanta multifamily market during the first quarter. Upticks in vacancy pushed apartment operators to trim rents at the start of the year, following steep gains.
- Local vacancy trended closer to the market's historical norms in recent months after holding steady around cyclical lows in 2022. The rate rose 60 basis points during the first quarter to 5.1 percent. Year over year, area vacancy trended higher by 50 basis points.
- Asking rents fell by 1.2 percent in the first three months of 2023 to $1,567 per month. This marked the second consecutive quarter of modest declines, following several periods of rapid growth. Year over year, rents are up 1.3 percent.
- Sales velocity in the first quarter slowed by approximately 50 percent from levels recorded in the fourth quarter of last year. The median sales price to this point in the year is $155,000 per unit, while cap rates have averaged about 5 percent.

ATLANTA MULTIFAMILY MARKET OVERVIEW

After a historically strong performance in recent years, multifamily property fundamentals in Atlanta softened during the first quarter, as conditions are returning toward the market's long-term trends. Renter demand cooled in recent months, leading to vacancy rising to 5.1 percent. Despite recent increases, current vacancy levels are closely in line with averages that were common from 2018 through the first half of 2021. Rents dipped in the first quarter, following a modest decline at the end of last year, but current rents are minimally higher than one year ago. With nearly 28,500 units currently under construction, new development will play a significant role in performance at the market and submarket level.

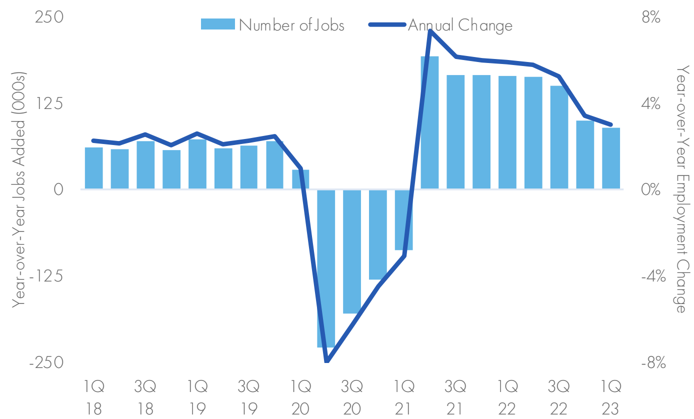
Sales activity in the Atlanta multifamily market continued to cool during the first quarter, mirroring a trend that has been in place since interest rates started on a steep upward trajectory. Transaction volumes were down about 50 percent from the end of 2022 and reached only about 20 percent of the totals from one year earlier. In addition to a more sluggish pace of transactions as a whole, the mix of properties that were selling changed at the start of this year. Class B and Class C properties accounted for nearly all of Atlanta's multifamily sales in the first quarter, after top-tier properties traded at an elevated clip last year. This dragged down per-unit pricing; the median price was just $155,000 per unit in the first quarter.

EMPLOYMENT

- The local labor market posted another strong period of growth at the start of 2023, as area employers expanded payrolls by about 20,000 workers during the first quarter. Year over year, local employment increased by 3 percent with the addition of 88,400 jobs.
- Total employment in Atlanta's education and health services sector continued to climb in recent months, as the industry is approaching three years of consistent employment gains. During the past 12 months, this sector added 26,900 employees; in the past decade, the sector has expanded by an average rate of 3.5 percent per year.
- In the office-using employment industries, the financial activities sector is leading the way in Atlanta. Financial firms expanded payrolls by 4.8 percent in the past year, adding more than 9,000 jobs. Gains in the professional and business services sector have been far more modest, with an increase of fewer than 2,000 net new jobs.
- **FORECAST:** Although employment growth will level off through the end of the year, job additions in Atlanta should outpace most major markets. Area employers are forecast to add 60,000 workers in 2023, an increase totaling nearly 2 percent.

Year over year, local employment increased by 3 percent.

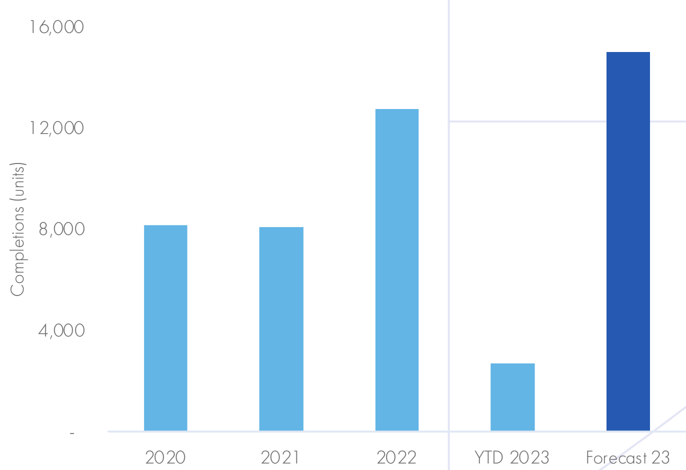
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling roughly 28,500 units are under construction.

DEVELOPMENT TRENDS



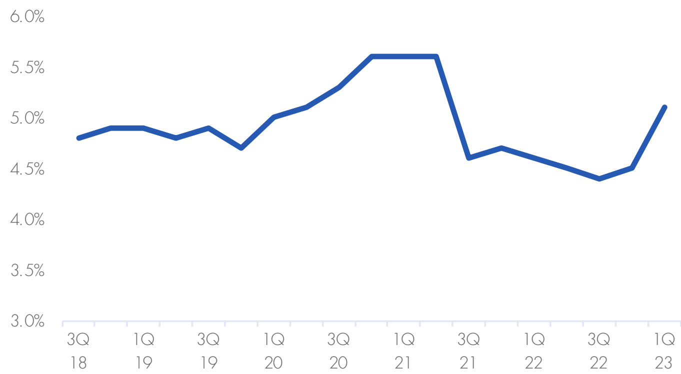
Sources: Northmarq, Reis, CoStar

DEVELOPMENT & PERMITTING

- Apartment completions were more modest at the start of the year, after the pace of multifamily deliveries was elevated throughout 2022. Projects totaling approximately 2,700 units came online during the first quarter, following more than 4,000 units delivered in the final three months of 2022.
- Projects totaling roughly 28,500 units were under construction at the end of the first quarter, considerably higher than levels from one year ago. Some of the most active areas for new development include the North Gwinnett, Outlying Gwinnett County, and Midtown Atlanta submarkets.
- Multifamily permitting is expected to slow in 2023 but began the year faster than forecasted. Permits for more than 4,800 units during the first quarter. Since 2015, developers have pulled permits for approximately 10,000 units per year, with the total topping 20,000 in 2022.
- **FORECAST:** Developers are forecast to deliver new projects totaling 15,000 units in 2023, after nearly 13,000 apartment units were completed last year.

During the past 12 months, vacancy has risen 50 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

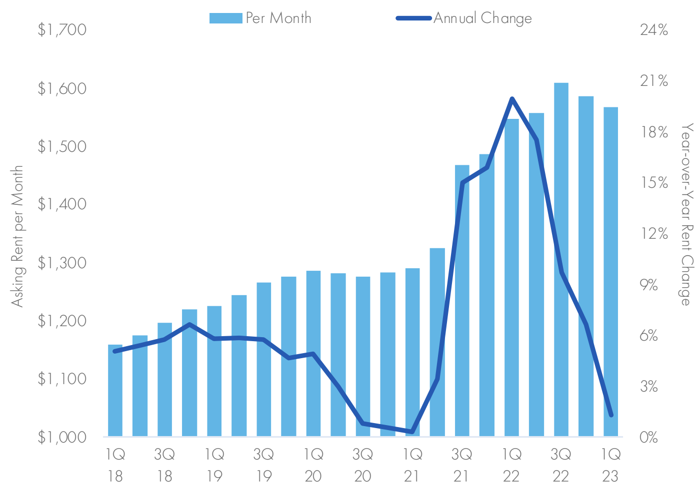
- The vacancy rate rose 60 basis points to 5.1 percent in the first quarter, as supply growth outpaced renter demand. The current rate is similar to the region's recent average; local vacancy has averaged 5 percent during the past three years. During the past 12 months, vacancy has risen 50 basis points.
- The vacancy rate in the North Gwinnett submarket held fairly steady in the past year, despite the area's recent spike in new supply. The rate in this submarket finished the first quarter at 4.6 percent, up just 10 basis points from one year ago. With additional projects under construction, there could be some supply-side pressures in the submarket in the coming quarters.
- Although vacancy rose across all property classes during the past 12 months, increases were more modest in upper-tier units. Year over year, Class A vacancy inched higher by just 10 basis points to 5.4 percent. With the market recording continued employment growth, demand has remained steady for top-tier units.
- **FORECAST:** Area vacancy is expected to inch higher through the end of 2023. The rate is projected to finish 2023 at 5.3 percent, up 80 basis points for the full year. Nearly all of the forecast increase has already occurred.

RENTS

- Asking rents in Atlanta dipped for the second consecutive quarter. Apartment rents fell by 1.2 percent in the last three months to $1,567 per month. Recent declines have offset some of the earlier gains; year over year, local rents increased by 1.3 percent.
- While rents declined at the market level to start 2023, not all parts of the market recorded drops. Approximately one-third of the region's submarkets posted quarterly increases at the start of the year, with some of the largest gains recorded in North Gwinnett County and North DeKalb County. Annual rent gains in these submarkets averaged 3.4 percent.
- Rents in the Midtown submarket spiked by more than 22 percent from 2020 to 2022 but recorded some of the sharpest declines at the start of this year. Asking rents in Midtown retreated 6.9 percent in the first quarter, resetting at $2,142 per month.
- **FORECAST:** Asking rents are projected to tick higher in the coming quarters after dipping in recent periods. Local rents are forecast to rise roughly 2 percent in 2023, closing the year at $1,620 per month.

Local rents are forecast to rise roughly 2 percent in 2023.

RENT TRENDS



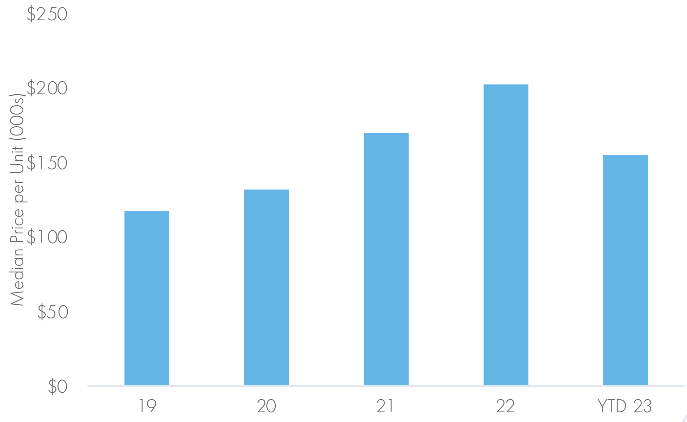
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Sales activity in the Atlanta multifamily market continued to cool in the early months of 2023. Transaction volume in the first quarter was down roughly 50 percent from levels posted in the final three months of 2022.
- The median sales price during the first quarter was $155,000 per unit, down 23 percent from the median price in 2022. Class C properties accounted for one-third of the total transactions during the first quarter.
- There were distinct pricing differences based on property class during the first quarter. Newer, Class A properties traded for more than $300,000 per unit, Class B properties generally sold for around $150,000 to $200,000 per unit, while older, Class C assets generally ranged between $130,000 to $155,000 per unit.
- Cap rates continued to trend higher during the opening months of 2023, with cap rates averaging approximately 5 percent in the first quarter. Cap rates are up roughly 25 basis points from the end of last year.

Cap rates averaged approximately 5 percent in the first quarter.

INVESTMENT TRENDS



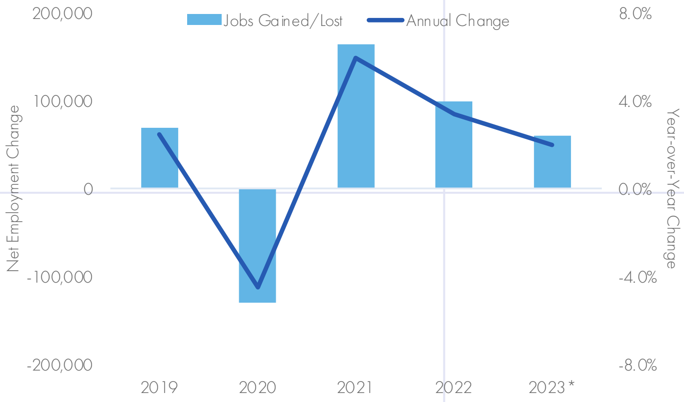
Sources: Northmarq, CoStar

LOOKING AHEAD

Multifamily property performance metrics in Atlanta will likely conclude 2023 closely tracking levels recorded during the first quarter. Developers are delivering projects at a fairly steady pace, and renter demand is positive. However, demand is unlikely to match the number of new units that will be added to the inventory. This follows a period of two consecutive years of steady improvement; vacancies tightened in both 2021 and 2022, and the cumulative rent increases in that time exceeded $300 per month on average. The remainder of this year is expected to result in a return to the prevailing vacancy rates from prior years, while rents settle in at new, higher levels. This year will likely be the cyclical peak for deliveries, with the pace of multifamily construction expected to slow through the next several quarters.

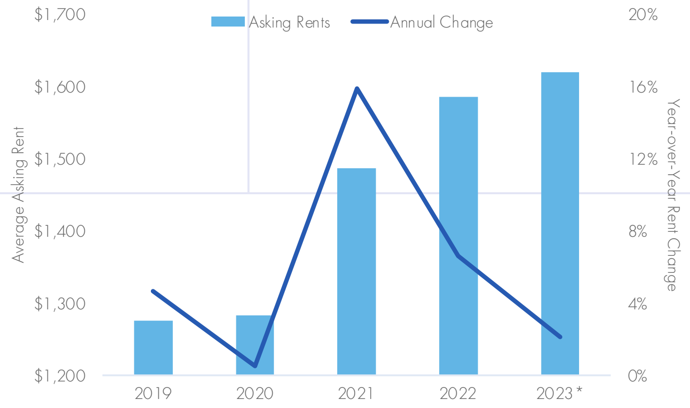
Atlanta is routinely one of the top markets in the country for multifamily investment activity, and as such, the local market often tracks the prevailing trends at the national level. In 2023, that has resulted in a limited number of apartment properties changing hands, although activity could gain momentum by the end of the year as interest rates stabilize, and buyers and sellers become comfortable with price and yield expectations in the higher-rate environment. Traditional high-volume markets such as Atlanta should resume transactions earlier in the cycle and will benefit from price discovery as the pace of sales velocity gains momentum. To this point, recent transactions have largely consisted of Class B and Class C properties, but the scheduled delivery of several new properties should result in an accelerating volume of sales among the top tier in the next 12 to 24 months.

EMPLOYMENT FORECAST



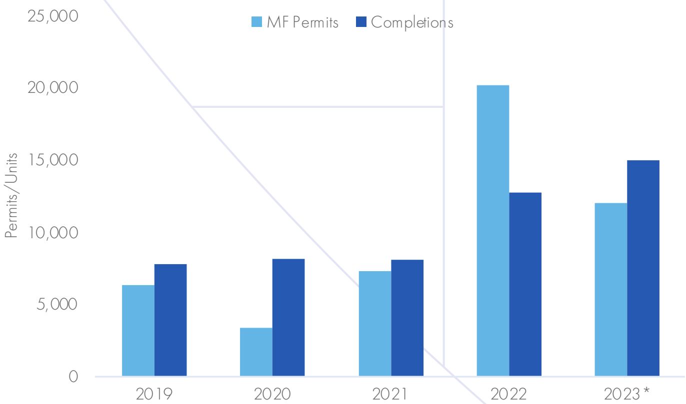
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



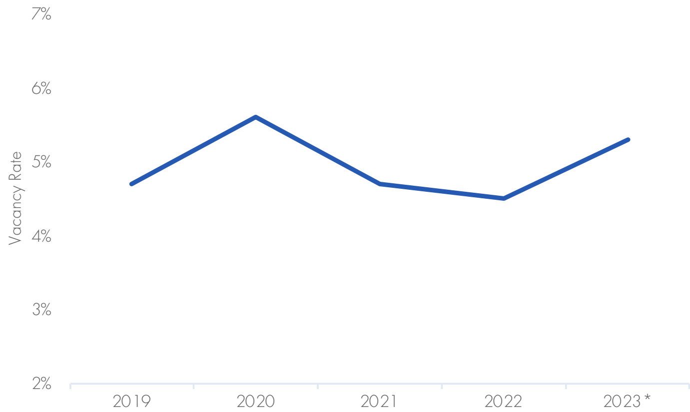
* Year End Forecast
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, Reis

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