Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	26,930
UNITS DELIVERED	8,836

MARKET FUNDAMENTALS

VACANCY RATE	5.1%
YEAR-OVER-YEAR CHANGE	+60bps
ASKING RENTS	$1,575
YEAR-OVER-YEAR CHANGE	+1.2%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$153,800

Atlanta Multifamily
2Q 2023

MARKET INSIGHTS

Rents rebound at midyear, further gains likely

HIGHLIGHTS

- The Atlanta multifamily market posted a solid performance during the second quarter, even as the pace of multifamily deliveries accelerated. The vacancy rate held steady, finishing the second quarter at 5.1 percent. Asking rents ticked higher for the first time since the third quarter of 2022.
- The vacancy rate remained at 5.1 percent during the second quarter following two consecutive quarters of increases. Year over year, area vacancy is up 60 basis points.
- Rent growth rebounded in recent months after declines in each of the preceding two quarters. Asking rents ticked higher by 0.5 percent, reaching $1,575 per month. Rents in Atlanta rose 1.2 percent during the past 12 months.
- While sales velocity has been consistent during the first six months of the year, transaction volume to this point in the year is down significantly from levels recorded in the same period of 2022. The median price thus far in 2023 is $153,800 per unit, down 24 percent from the 2022 price.

ATLANTA MULTIFAMILY MARKET OVERVIEW

Multifamily property metrics performed well in recent months in Atlanta, rebounding from softening conditions in the preceding six months. The vacancy rate held steady during the second quarter, following increases to start the year. The current vacancy rate of 5.1 percent closely tracks averages recorded since 2018. With the vacancy rate leveling off, rent growth resumed during the second quarter after falling at the end of 2022 and the start of 2023. Rents inched up 0.5 percent in recent months, with further gains likely. The pace of multifamily supply growth accelerated in the last three months, as projects totaling roughly 6,150 units were delivered. With projects totaling approximately 27,000 units currently under construction, deliveries will continue at an active pace in the coming quarters.

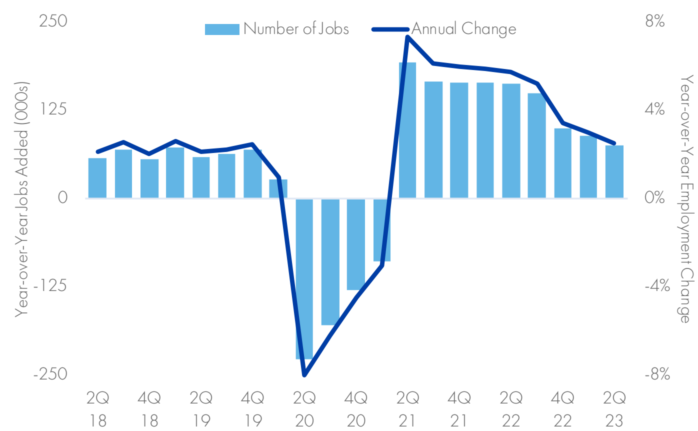
Sales activity in the Atlanta multifamily market has been light when compared to elevated levels from recent years, however, Atlanta remains one of the highest-volume investment markets in the country. Sales velocity was steady during the first half of 2023, with more than a dozen properties trading in each of the first two quarters of the year. Middle-tier assets continue to account for the greatest portion of the transaction mix, tracking a trend that began to emerge last year. Class A properties, which have traditionally accounted for approximately 20 to 25 percent of sales, are coming in at about half that total. Cap rates continued to trend higher in recent months, averaging 5.2 percent during the second quarter, up 20 basis points from last quarter.

EMPLOYMENT

- Year over year, total employment grew by 74,600 positions, an increase of 2.5 percent. During the first half of 2023, area employers added 30,600 workers.
- Atlanta's healthcare and social assistance sector recorded strong gains during the past 12 months. Total employment in this sector expanded by 6.5 percent during the past year, with the addition of 24,800 jobs.
- The leisure and hospitality sector posted rapid gains in recent months. Year over year, employment in this sector has expanded by 7.1 percent with the addition of 21,100 jobs.
- **FORECAST:** The local labor market is projected to add jobs at a steady pace through the end of the year, with second-half employment growth closely tracking levels posted in the first half. Area employers are forecast to hire 60,000 workers in 2023, increasing total employment by 2 percent for the full year.

Year over year, total employment grew by 74,600 positions.

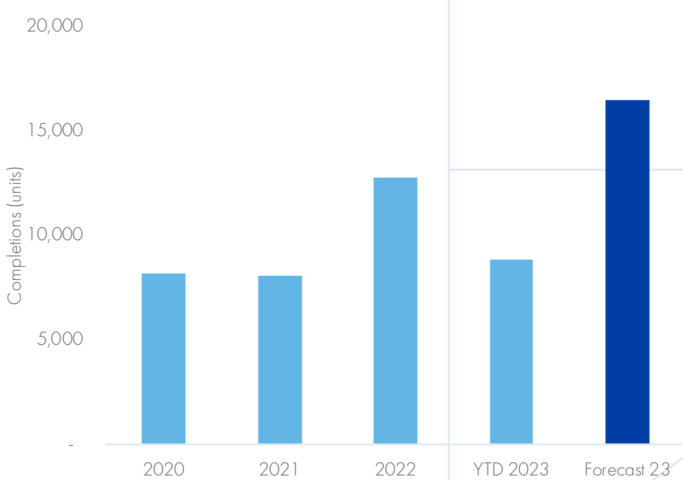
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling approximately 6,150 units were delivered during the second quarter.

DEVELOPMENT TRENDS



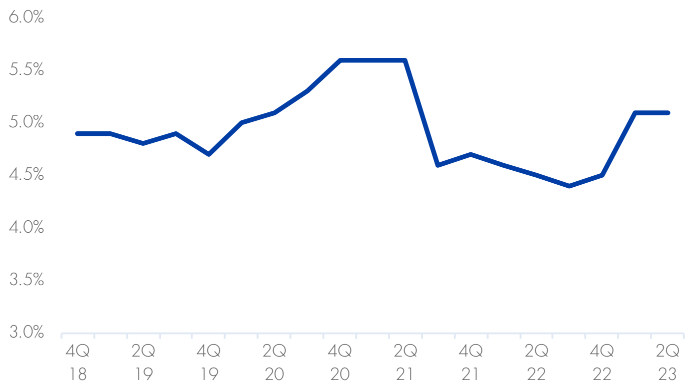
Sources: Northmarq, Reis, CoStar

DEVELOPMENT & PERMITTING

- Developers accelerated the pace of multifamily completions in recent months, as projects totaling approximately 6,150 units were delivered during the second quarter. More than 8,800 units have come online to this point in 2023, up from the 3,800 units that were completed in the first half of last year.
- Projects totaling nearly 27,000 units were under construction at the mid-point of 2023, up 50 percent from one year ago. While multifamily development is active throughout much of Atlanta, one-third of the development pipeline is located in Fulton County, with projects ongoing in the Midtown, Eastside, and Downtown Atlanta submarkets.
- Permitting slowed in recent months. Developers pulled permits for roughly 3,850 multifamily units during the second quarter, down 21 percent from levels posted in the preceding quarter.
- **FORECAST:** Construction in the second half will slow modestly, but 2023 will be an active year for inventory growth. Developers are forecast to complete projects totaling roughly 16,500 units this year, up from an average of 9,100 units delivered annually since 2015. Starts in 2024 are trending towards the lowest level seen since 2009 as developers struggle to find capital to get projects off the ground.

Year over year, area vacancy rose 60 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

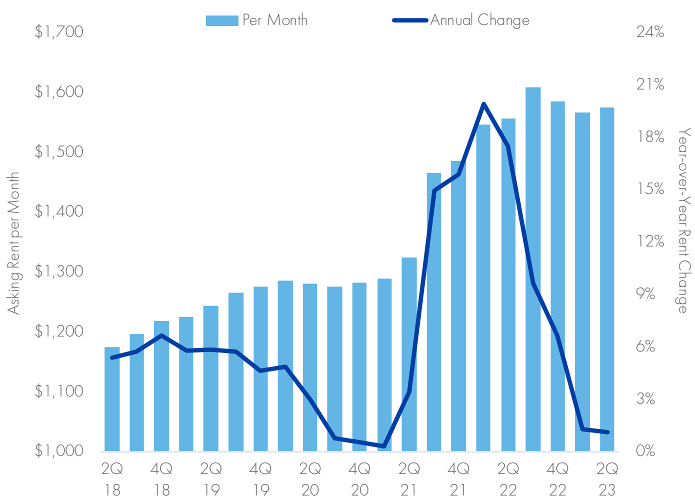
- The vacancy rate held steady in recent months, finishing the second quarter at 5.1 percent. Net absorption in the Atlanta region rebounded during the last three months, after a slow start to the year. Year over year, area vacancy rose 60 basis points.
- While vacancy trended higher across most of Atlanta's submarkets during the past 12 months, the rate in the Central I-75 West submarket improved during the past year. Located northwest of Downtown Atlanta, the vacancy rate in this submarket is 110 basis points lower than it was one year ago, closing the second quarter at 6.6 percent.
- Vacancy in Class A units has trended higher in the past year, but has remained below its recent peak. The average Class A vacancy rate reached 5.6 percent in the second quarter, 80 basis points higher than one year ago. Class A vacancy hit a high of 7 percent in 2021.
- **FORECAST:** Vacancy is projected to inch higher during the second half of the year, finishing 2023 at 5.3 percent. Area vacancy averaged 4.9 percent from 2018 to 2022.

RENTS

- Following two consecutive quarters of declines, asking rents advanced 0.5 percent in the last three months to $1,575 per month. The market has recorded a 1.2 percent increase during the past 12 months.
- Asking rents rose throughout much of the Atlanta region in recent periods, with the Decatur/Avondale area posting the steepest increases during the past 12 months. Year over year, apartment rents in this submarket rose 4.8 percent, reaching $1,677 per month.
- Class A properties posted modest gains in recent months after upper-tier rents recorded monthly gains of more than $330 from 2020 to 2022. Year over year, average rents for high-end units advanced 0.8 percent, reaching $1,792 per month.
- **FORECAST:** Apartment rents in Atlanta are expected to trend higher through the end of the year. Asking rents are forecast to rise 1.8 percent for the full year, closing 2023 at $1,615 per month.

Apartment rents in Atlanta rose 1.2 percent during the past 12 months.

RENT TRENDS



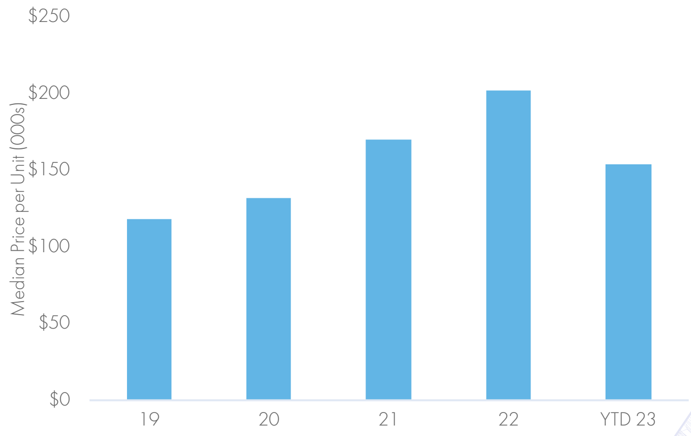
Sources: Northmarq, Reis

MULTIFAMILY SALES

- Sales velocity held steady at modest levels from the first quarter to the second quarter. Transaction volume has been limited to this point in 2023 after properties traded at a rapid clip in 2022. Total sales in the first half of 2023 are down 72 percent from levels posted in the same period last year.
- The median sales price in the first six months of 2023 was $153,800 per unit, down 24 percent from the median price last year. While sales velocity for Class A properties picked up in recent months, upper-tier units are trading far less frequently in 2023 than in 2022. The median sales price in the top tier to this point in 2023 is $290,000 per unit.
- Class B assets have traded at a steady clip thus far in 2023, accounting for nearly half of the sales in the first half. From 2020 to 2022, Class B properties accounted for roughly 40 percent of the transaction mix.
- Cap rates continued to rise in recent months, reaching 5.2 percent during the second quarter. Cap rates averaged roughly 5 percent in the first three months of the year.

The median sales price in the top tier to this point in 2023 is $290,000 per unit.

INVESTMENT TRENDS



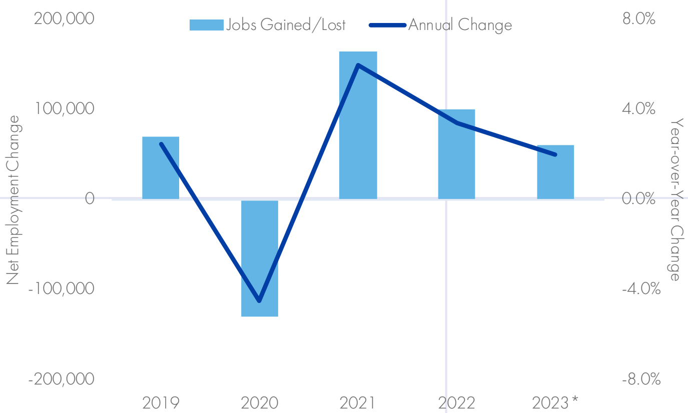
Sources: Northmarq, CoStar

LOOKING AHEAD

The Atlanta multifamily market is projected to finish the year on solid footing, as property fundamentals return closer to the region's long-term ranges despite elevated levels of new supply. Developers are forecast to deliver projects totaling 16,500 units in 2023, after annual averages of 9,100 units since 2015. Continued gains in the local labor market will likely mitigate future vacancy increases, a trend that began to emerge in the second quarter as net absorption rebounded. Asking rents are expected to rise at a modest pace for the full year, following rapid gains in 2021 and 2022.

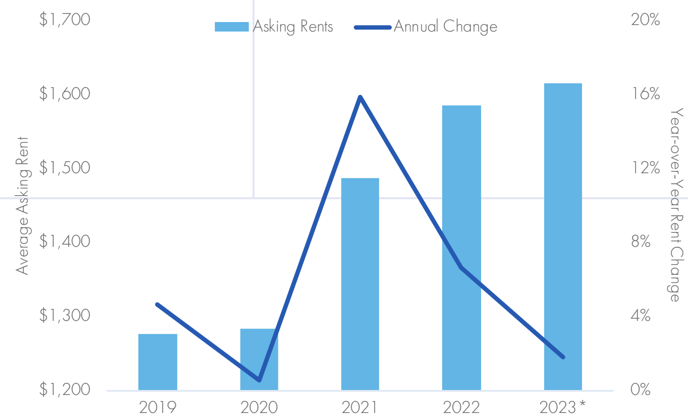
While transaction volume will likely remain limited in the coming periods, the Atlanta multifamily investment market should generate enough transaction volume to help promote price discovery going into 2024. Middle-tier assets are expected to continue making up the largest share of the transaction mix, with Class C assets also trading among area investors. Upper-tier units should begin to trade more frequently through the end of 2023 and into next year, as Atlanta's incoming supply is successfully leased-up. Cap rates are projected to trend up to the high-5 percent range by the end of the year.

EMPLOYMENT FORECAST



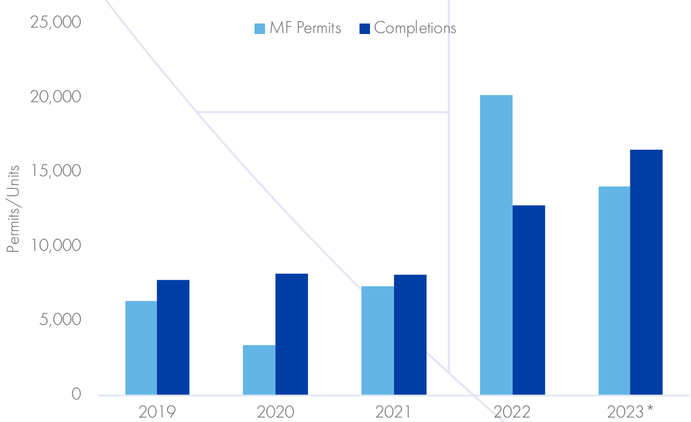
** Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



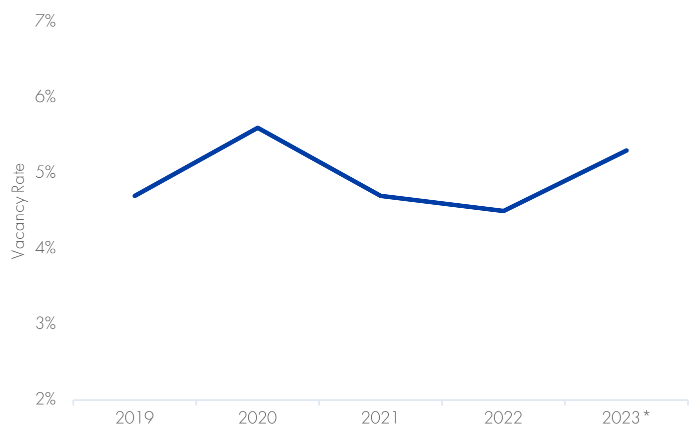
** Year End Forecast*
Sources: Northmarq, Reis

CONSTRUCTION & PERMITTING FORECAST



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

VACANCY FORECAST



** Year End Forecast*
Sources: Northmarq, Reis

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