

Market Insights

Greater Atlanta Multifamily 3Q 2021



Construction Activity



7,385

Units under construction

5,171

Units delivered (YTD)

Market Fundamentals



4.6%

Vacancy

-70bps

Year over year change

\$1,467

Asking Rent

+15%

Year over year change

Transaction Activity



\$156,400

Median sales price per unit (YTD)

4.4%

Cap rates (YTD)

Rents Spike as Supply Growth Lags Demand

Highlights

- The Atlanta multifamily market posted strong gains during the third quarter, setting the stage for a healthy close to the year. Absorption has accelerated, driving vacancy lower and pushing rents higher.
- Asking rents in Atlanta spiked by nearly 11 percent, advancing nearly \$150 per month to \$1,467 per month. In the past year, rents have gained 15 percent.
- The investment market continued to gather momentum in the third quarter. Activity picked up and prices rose. Year to date, the median price has surged to \$156,400 per unit, while cap rates have compressed to about 4.4 percent.

Atlanta Multifamily Market Overview

In the third quarter, the Atlanta multifamily market recorded its strongest performance since the start of the pandemic. The pace of rent growth spiked, particularly in some of the region's most densely populated submarkets. Strengthening property fundamentals are the result of heightened renter demand; more than 10,600 units were absorbed during the first three quarters of the year, about 25 percent higher than the market's average full-year total. Apartment development is picking up to meet the increased demand, but it will take at least a few more quarters before supply growth can keep pace with the surge in renter demand.

Atlanta has remained among the most active markets in the country for multifamily sales volume, and with operating fundamentals strengthening, the pace of transactions has gained momentum in recent quarters. After a spike in sales activity in the second quarter, a greater number of properties sold in the third quarter. While many of the properties that are changing hands include fully stabilized assets, a handful of newer assets still going through lease-up have traded. One result of this trend was a significant increase in the activity involving deals of more than \$100 million. The number of sales above this threshold has more than doubled the levels recorded last year.

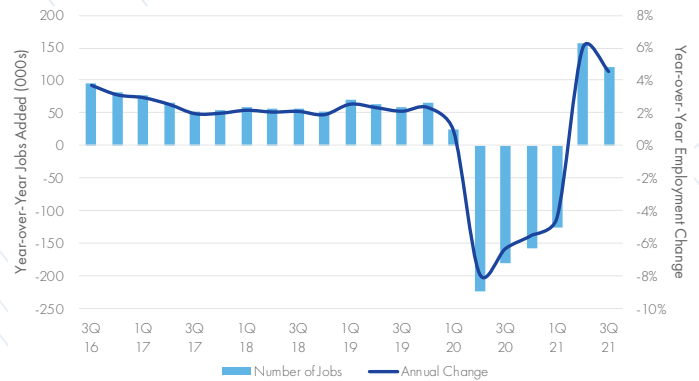
Employment

- Year over year, total employment in Atlanta is up 4.5 percent with a net gain of approximately 121,000 jobs. Although employment levels have not fully recovered from the job losses recorded during the pandemic, jobs are being added back at a rapid pace.
- While the bulk of the job growth in the Atlanta area in recent quarters has been in white-collar, professional industries, there has been recent growth in warehousing, transportation, and manufacturing. More than 15,000 transportation and warehousing positions have been added in the past year, while an additional 6,000 manufacturing jobs have been created.
- Tech giant Cisco recently announced the company will expand its presence in Georgia by opening a new \$41 million, 700-employee office in Midtown Atlanta. Cisco plans to open the office in the summer of 2022. The new jobs will be a mix of engineering, customer experience, and finance roles.
- **Forecast:** Employers are forecast to add 80,000 jobs to the workforce by the end of the year, a total increase of 2.9 percent.



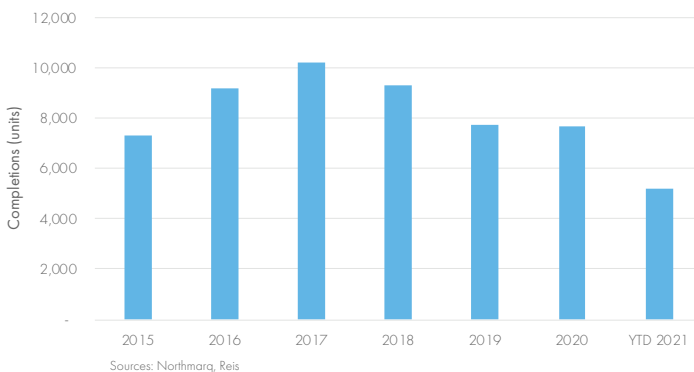
Year over year, total employment in Atlanta is up 4.5 percent.

Employment Overview



Projects totaling nearly 7,400 units are currently under construction.

Development Trends



Development and Permitting

- The pace of deliveries accelerated during the third quarter, bringing the total number of units delivered this year to nearly 5,200.
- Projects totaling nearly 7,400 units are currently under construction throughout the Atlanta metro area, up 23 percent from one year ago. While new developments will be delivered across several submarkets in the next 12 to 24 months, Midtown Atlanta is expected to receive the most new units. Nearly 1,450 units are under construction in Midtown.
- Developers have pulled permits for approximately 4,000 multifamily units year to date, an increase of 43 percent when compared to the first three quarters of 2020.
- **Forecast:** Developers are on pace to deliver projects totaling approximately 5,800 units in 2021, after nearly 7,700 units came online in 2020. Permitting has picked up recently, suggesting that the pace of completions will increase in 2022 and 2023.

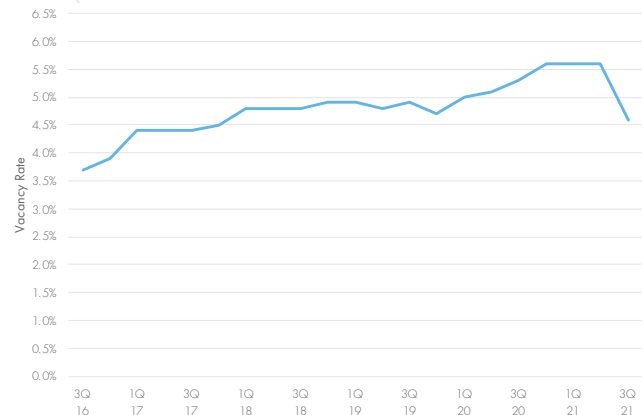
Vacancy

- A surge in absorption drove vacancy lower during the third quarter. After remaining fairly stable for nearly a year, vacancy in Atlanta dropped 100 basis points in the third quarter, reaching 4.6 percent. Year over year, vacancy has improved by 70 basis points.
- Vacancies among Class A properties dropped 80 basis points to 5.4 percent during the third quarter. Vacancies among Class B and Class C properties combined dropped by 30 basis points to 3.5 percent, a five-year low.
- Net absorption accelerated in recent months, reflecting a rise in renter demand. More than 5,600 units were absorbed during the third quarter, an increase of 68 percent from the second quarter. Year over year, net absorption is up 78 percent.
- **Forecast:** The surge in renter demand should continue to push vacancy rates lower through the rest of the year. The rate is forecast to end the year at 4.4 percent, a calendar year decline of 120 basis points.



Year over year, net absorption is up 78 percent.

Vacancy Trends

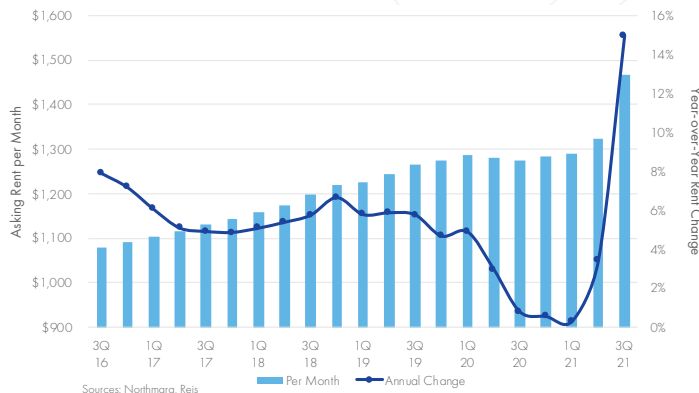


Sources: Northmarq, Reis



Asking rents spiked by nearly 11 percent during the third quarter.

Rent Trends



Sources: Northmarq, Reis

Rents

- After pushing higher during the second quarter, the pace of rent growth accelerated in the third quarter. Asking rents spiked by nearly 11 percent during the third quarter, reaching \$1,467 per month.
- Rents have trended higher for the past several quarters, particularly as operators increase rents during tenant trade-outs. Year over year, asking rents are up 15 percent. This reflects a significant upswing; from 2017 through the end of last year, annual rent growth averaged less than 5 percent.
- Asking rents in Class A units ended the third quarter averaging \$1,677 per month, 14.3 percent higher than one year ago. In submarkets with large concentrations of Class A properties, including Buckhead and Midtown, average Class A asking rents range from \$2,100 per month to \$2,200 per month.
- **Forecast:** Asking rents in Atlanta are forecast to rise nearly 19 percent in 2021, ending the year at approximately \$1,525 per month.

Multifamily Sales

- Transaction activity has gained momentum in recent months. The number of properties sold in the third quarter increased by nearly 10 percent, building on gains recorded earlier in the year. Sales through the first nine months of this year have nearly doubled the total activity levels from the corresponding period in 2020.
- Investment sales volume has rebounded and will outpace levels recorded in previous years. In 2018 and 2019, the Atlanta market averaged about 200 transactions per year, totaling more than \$7 billion annually. After a bit of a decline in 2020, this year, the Atlanta market is on pace to record about 240 transactions totaling nearly \$12 billion.
- Elevated investor demand has resulted in a competitive multifamily market, causing prices to push higher. The median price through the third quarter was \$156,400 per unit, up 18 percent from the median price in 2020.
- Cap rates have compressed in 2021, pushed lower by improving property fundamentals and strengthening investor demand. Year to date, cap rates have averaged 4.4 percent, and the lowest cap rates have been recorded in the second half of 2021.



The median price through the third quarter was \$156,400 per unit.

Investment Trends

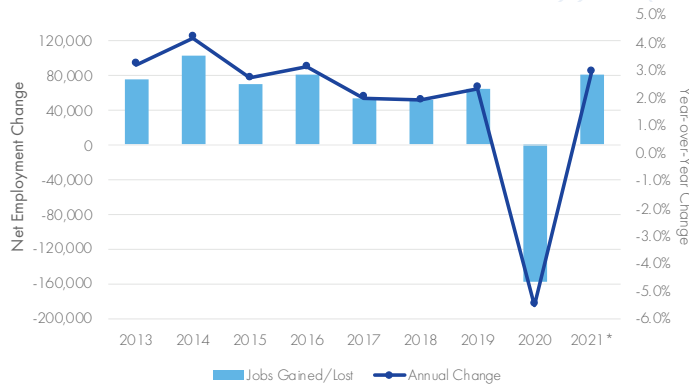


Looking Ahead

The Atlanta multifamily market is forecast to record additional improvement in the next few quarters. Renter demand for units has been particularly high in recent years, peaking during the third quarter of this year. The underlying apartment demand drivers of employment gains and population growth are forecast to remain in place well into 2022, which should fuel the local rental market. Population growth in the Atlanta area is forecast to top 60,000 new residents in the next year. While developers are moving more rental projects into and through the construction pipeline, the pace of new inventory growth is not expected to match heightened demand until the second half of next year, setting the stage for additional market improvement in the near term.

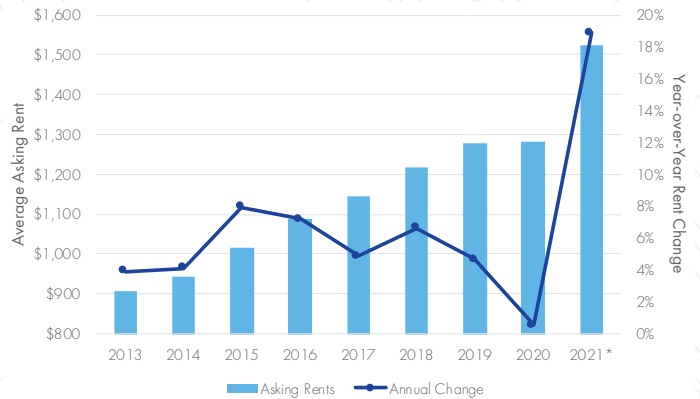
Atlanta is on pace to be one of the top markets in the country for multifamily transaction volume again this year, and that trend is likely to persist in 2022 as well. The uncertainty that lingered over the market last year has lifted, and sales of apartment properties have surged in recent quarters. Additional activity is likely going forward, particularly if the recent pace of rent growth is sustained for a few more quarters. Longer term, the increase in new development that is scheduled to occur in the next 24 months should ultimately lead to additional property sales of new Class A complexes.

Employment Forecast



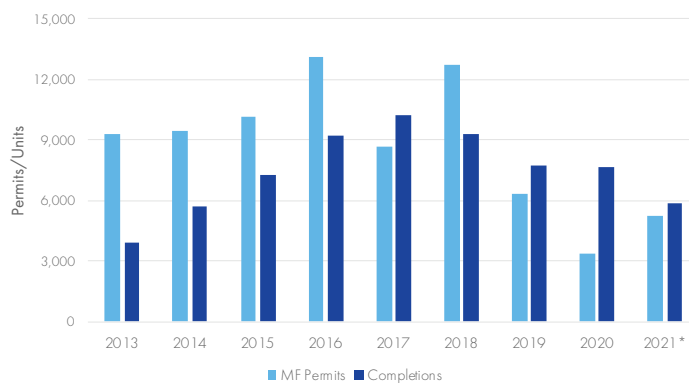
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



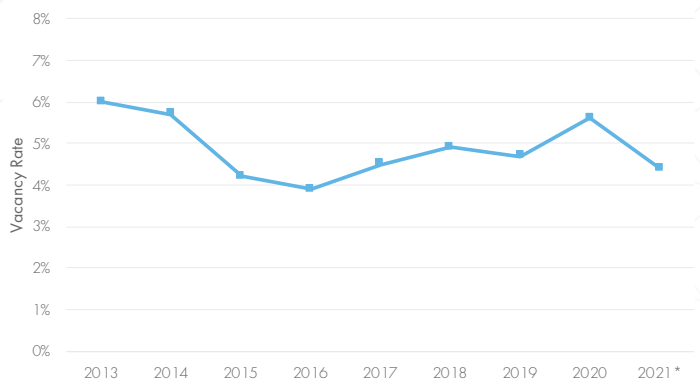
* Year End Forecast
Sources: Northmarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, Reis



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