

Atlanta Multifamily

As Employers Expand Local Payrolls, Renter Demand Remains Elevated

Highlights

- > The Atlanta multifamily market had a steady third quarter. The vacancy rate inched up a modest 10 basis points, but rents rose and sales of apartment properties continued at the market's established pace.
- > Vacancy rose 10 basis points from the second quarter, reaching 4.9 percent at the end of the third quarter. The rate is also up 10 basis points from the same period one year ago.
- > Rents posted healthy gains in the third quarter, reaching \$1,266 per month. Year over year, asking rents have gained 5.8 percent.
- > Year to date, multifamily investment activity has closely tracked levels from one year ago. Nearly an identical number of properties have changed hands, and the median price of \$111,600 per unit is also consistent with the 2018 median. Cap rates have compressed slightly, averaging 5.4 percent.

Atlanta Multifamily Market Overview

The Atlanta multifamily market has posted consistently healthy performance for the past several periods, a trend that continued during the third quarter. Despite a minimal vacancy uptick during the third quarter, the rate has remained in a very tight range for nearly two years. This stability of market conditions, coupled with a steady pace of employment growth, is supporting ongoing rent increases, a trend that is forecast to continue in the coming quarters.

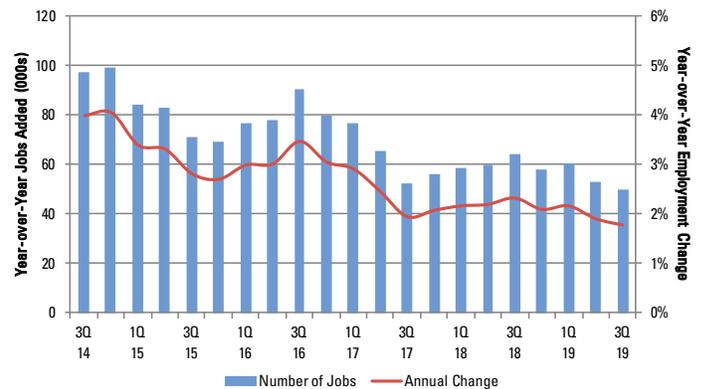
Q3 Snapshot	Atlanta Market
	Market Fundamentals
	Vacancy 4.9%
	- Year Over Year Change +10 bps
	Asking Rent \$1,266
	- Year Over Year Change +5.8%
	Transaction Activity
	Median Sales Price Per Unit (YTD) \$111,600
	Cap Rates (Avg YTD) 5.4%
	Construction Activity
	Units Under Construction 11,913
	Units Delivered YTD 5,974

Investment activity in Atlanta during the third quarter closely tracked trends recorded during the first half of the year. Sales velocity is slightly ahead of the 2018 pace, while per-unit sale prices are nearly identical to prices from 2018. The market is showing clear signs of equilibrium, with a fairly narrow expectations gap between buyers and sellers. Cap rates have compressed a bit in 2019, mirroring interest rate trends; the average cap rate year to date is 5.4 percent.

Employment

- > Atlanta has consistently been one of the top markers for employment growth in recent years, but the pace of additions slowed a bit during the third quarter. Year over year, employers created a net of nearly 50,000 new jobs, a 1.8 percent increase. Last year at this time, employment growth had averaged 2.3 percent.
- > The professional and business services sector continues to lead the way in adding the most new jobs in the Atlanta area. During the past 12 months, 13,900 professional jobs have been added, a 2.7 percent expansion. Growth in the sector has averaged more than 3 percent during the past five years.
- > Employment in the local leisure and hospitality sector has been on the rise in recent quarters. Year over year through the third quarter, the sector expanded 3.9 percent with the addition of 11,600 jobs. This nearly doubled the pace of growth in the sector from one year earlier.
- > **Forecast:** Atlanta is forecast to be one of the leading markets in the nation for total job growth in 2019. Local employers are expected to add approximately 55,000 net new jobs this year, a 2 percent pace of growth.

Employment Overview

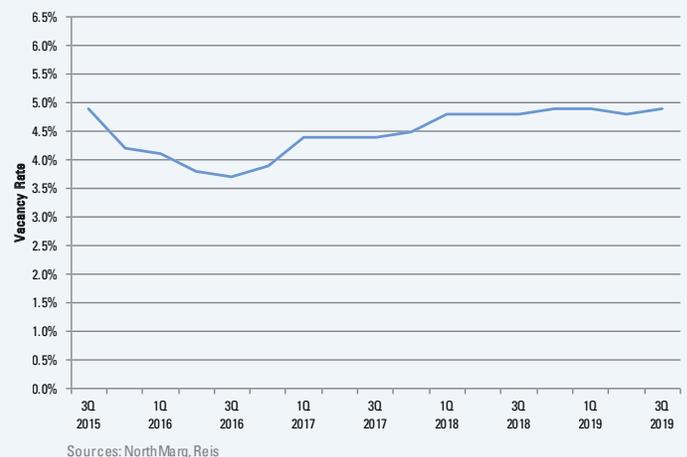


The professional and business services sector has added the most new jobs in the area

Vacancy

- > Apartment vacancy inched up 10 basis points from the second quarter to the third quarter, reaching 4.9 percent. Aside from a few quarterly rises and falls, vacancy in the Atlanta area has been very steady since the beginning of 2018.
- > Year over year, vacancy in local apartment properties is up 10 basis points. The pace of deliveries of new units has been very steady in recent years, and supply and demand have been closely aligned, adding stability to the local vacancy rate.
- > The Atlanta area has a large inventory of Class A apartments, and vacancy in the higher-end units ended the third quarter at 5.3 percent, 10 basis points higher than one year earlier.
- > **Forecast:** After holding steady for much of the year, vacancy in Atlanta is expected to inch higher at the end of this year, as deliveries gain momentum. The rate is forecast to end 2019 at 5.1 percent, up 20 basis points from the end of 2018.

Vacancy Trends

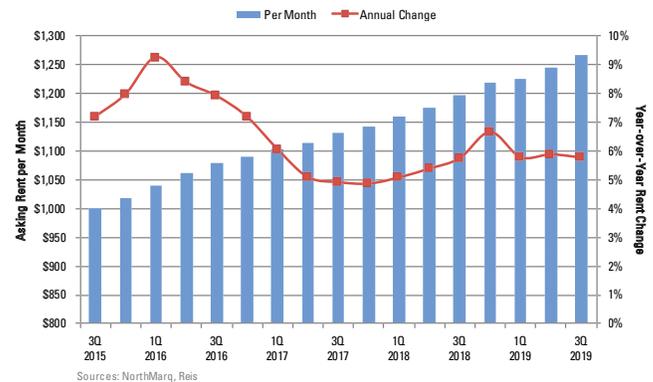


Despite new construction, the vacancy rate has remained fairly flat for the past two years

Rents

- > Rent growth accelerated in the third quarter, rising 1.8 percent, reaching \$1,266 per month. Since the beginning of 2015, asking rents have posted quarterly increases of at least 1 percent in all but one quarter.
- > Year over year through the third quarter, asking rents have risen 5.8 percent, matching the annual pace of gains recorded in the first and second quarters. Annual rent growth has averaged 6.3 percent since the beginning of 2015.
- > Rents in Class A units have advanced 5.7 percent in the past 12 months, rising to \$1,456 per month in the third quarter. Class A asking rents are forecast to top \$1,500 per month in mid-2020.
- > **Forecast:** Rents are forecast to rise 5 percent in 2019, ending the year at approximately \$1,280 per month.

Rent Trends

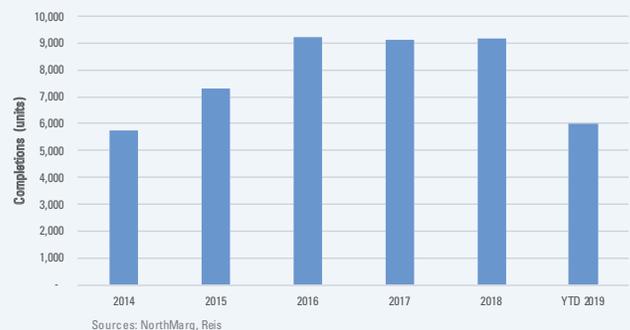


Year over year through the third quarter, asking rents have risen 5.8 percent

Development and Permitting

- > After slowing during the second quarter, deliveries gained momentum during the third quarter, a trend that is expected to repeat in the final three months of the year. Nearly 1,900 units were delivered in the third quarter, and approximately 6,000 units have come online year to date.
- > Apartment projects totaling nearly 12,000 units are currently under construction, with approximately 2,500 of these units forecast to be delivered in the fourth quarter of this year.
- > While apartment development in the Atlanta market has been very active in recent years, the pace will likely ease beginning in 2021. Multifamily permitting has slowed in each of the three quarters of this year. Year to date permits for approximately 5,200 units have been pulled, down nearly 40 percent when compared to the same period in 2018.
- > **Forecast:** Apartment construction is on track to slow a bit in 2019, with approximately 8,500 units forecast to be delivered. In each of the past three years, area developers have completed more than 9,000 units.

Development Trends



Apartment projects totaling nearly 12,000 units are currently under construction

Multifamily Sales

- > Multifamily investment activity has been stable in recent quarters. Sales velocity rose 5 percent from the second quarter to the third quarter; the number of transactions during the first three quarters of this year is up approximately 2 percent when compared to the same period in 2018.
- > With transaction activity steady, pricing has also held within a tight range. The median price in transactions thus far in 2019 is approximately \$111,600 per unit, nearly identical to the median price in 2018.
- > Cap rates have averaged approximately 5.4 percent year to date, 30 basis points lower than the average in 2018. Class A properties are trading at a premium; Class A cap rates have averaged approximately 4.7 percent to this point in 2019.

Investment Trends



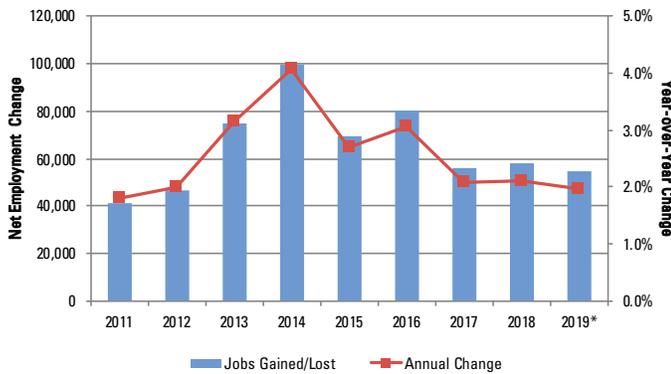
Sales velocity rose 5 percent during the third quarter

Looking Ahead

The Atlanta multifamily market is expected to close 2019 in a strong position, fueled by a local economy that continues to expand. This year is expected to mark the seventh consecutive year where area employers will add at least 50,000 net new jobs, making Atlanta one of a small handful of markets to achieve that feat. This pace of employment is likely to continue into 2020, fueling renter demand for apartments. On the supply side, the pace of deliveries is expected to slow a bit in 2020 and 2021, which should allow for vacancy to tighten.

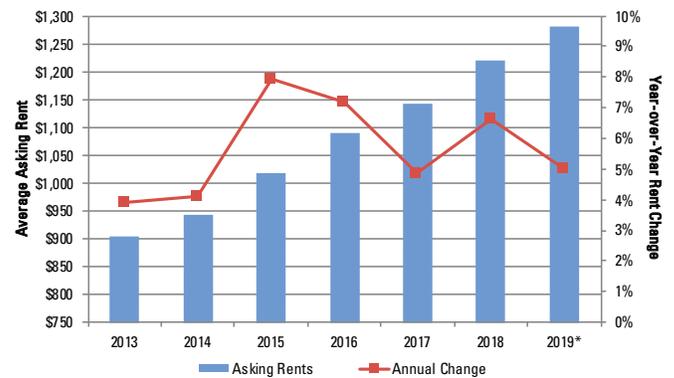
With market fundamentals favorable and likely to improve in the next 12-24 months, sales velocity is forecast to remain fairly active for the remainder of this year and through 2020. The pace of transactions has been largely consistent for the past several years, and activity to this point in 2019 is nearly identical to the preceding year. With a steady flow of properties changing hands across submarkets and classes, market pricing and cap rates appear to have settled into their current ranges, which should support additional activity going forward.

Employment Forecast



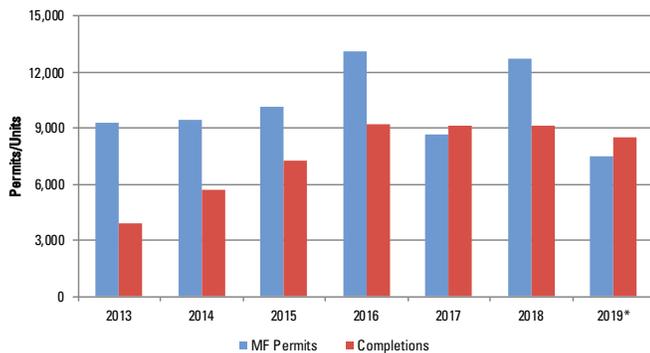
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



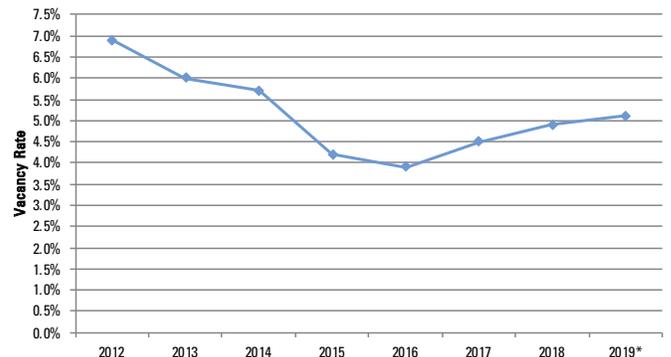
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

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