

Atlanta Multifamily

Sales Activity Regained Momentum in the Third Quarter

Highlights

- > Operating conditions for Atlanta multifamily properties cooled slightly during the third quarter, but steady additions to the local labor market should provide stability in the market going forward.
- > Vacancy ended the third quarter at 5.3 percent, 40 basis points higher than one year ago. The rate has trended higher in recent quarters as renter demand for units has been positive but not as active as in 2019.
- > Rents have recorded modest declines in each of the past two quarters, reaching \$1,276 per month as of September. Despite the recent dips, current asking rents are up 0.8 percent year over year.
- > The investment market bounced back in the third quarter with sales velocity gaining momentum and prices pushing higher. The median price year to date is approximately \$116,400 per unit, while cap rates have averaged 5.1 percent.

Q3 Snapshot

Atlanta Market



Market Fundamentals

Vacancy	5.3%
- Year Over Year Change	+40 bps
Asking Rent	\$1,276
- Year Over Year Change	+0.8%



Transaction Activity

Median Sales Price Per Unit (YTD)	\$116,400
Cap Rates (Avg YTD)	5.1%



Construction Activity

Units Under Construction	11,260
Units Delivered YTD	4,504

Atlanta Multifamily Market Overview

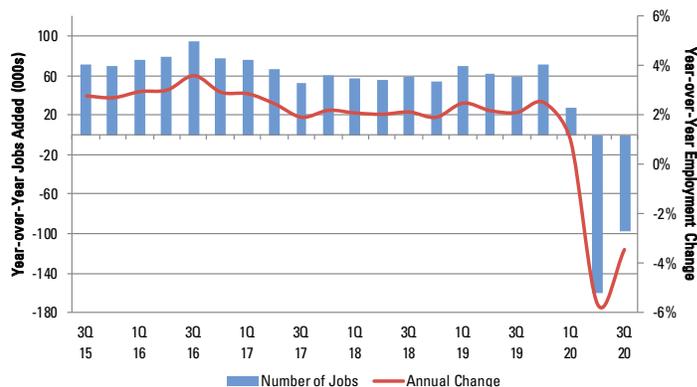
The Atlanta multifamily market has recorded modest softening in recent quarters, but current property performance is not dramatically different from conditions one year ago. Market vacancies have ticked higher during recent quarters, but renter demand for units has remained positive and the pace of new development has slowed after peaking a few years ago. Rental rates, which were advancing by 5 percent or more in recent years, have leveled off and even crept a few dollars per month lower in each of the past two quarters.

Investment activity in Atlanta surged during the third quarter with sales velocity outpacing levels from both the first and the second quarters. With activity accelerating, prices also pushed higher; the median price in the quarter approached \$130,000 per unit. One driver of higher prices during the third quarter was the increase in the number of Class A properties that changed hands. Sales of Class A buildings accounted for approximately one-fourth of total transactions during the third quarter; the median price in sales of Class A buildings was nearly \$217,000 per unit.

Employment

- > The Atlanta employment market posted a consistently healthy pace of job additions during the third quarter. Approximately 25,000 jobs were added back in each month, and employers expanded payrolls by nearly 78,000 positions during the quarter.
- > While the market has been adding back workers since May, current employment levels still lag the peak. Year over year through the third quarter, total area employment was down 3.4 percent, with net losses of approximately 98,000 jobs.
- > Atlanta continues to attract business expansions and relocations. During the third quarter, Papa John's announced plans to make metro Atlanta the company's global headquarters beginning in 2021. The move is expected to bring an additional 200 jobs to the area. In another move, Zillow announced it would make Atlanta the company's Southeastern hub, which will also bring 200 new jobs to the area.
- > **Forecast:** Total employment in the Atlanta metro area is forecast to decline by approximately 2.6 percent in 2020 with net job losses totaling approximately 75,000 workers. At the current rate of job gains, total employment should rebound to its pre-COVID peak in the first half of 2021.

Employment Overview



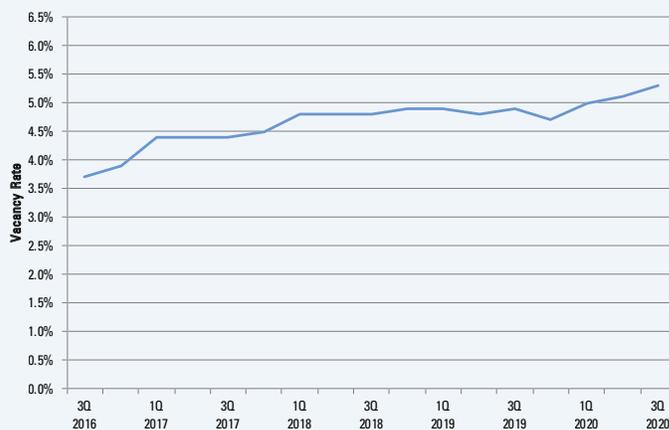
Sources: NorthMarq, Bureau of Labor Statistics

The Atlanta employment market posted a consistently healthy pace of job additions during the third quarter

Vacancy

- > Vacancy has continued to inch higher in each quarter in 2020, although increases have been minimal. After ticking up 10 basis points during the second quarter, the rate rose an additional 20 basis points in the third quarter to 5.3 percent.
- > Year over year through the third quarter, vacancy has risen 40 basis points. After recording annual vacancy declines throughout most quarters of 2019, vacancy has been higher than year-earlier levels in each of the three quarters of this year.
- > The vacancy rate in Class A units has been rising, reaching 6.2 percent in the third quarter. Vacancy in Class A properties is up 70 basis points year over year. The rate in Class B and Class C units has been far more stable, averaging in the low-4-percent range since the second half of 2018.
- > **Forecast:** The local vacancy rate is forecast to end the year at 5.6 percent, 90 basis points higher than at the end of 2019.

Vacancy Trends



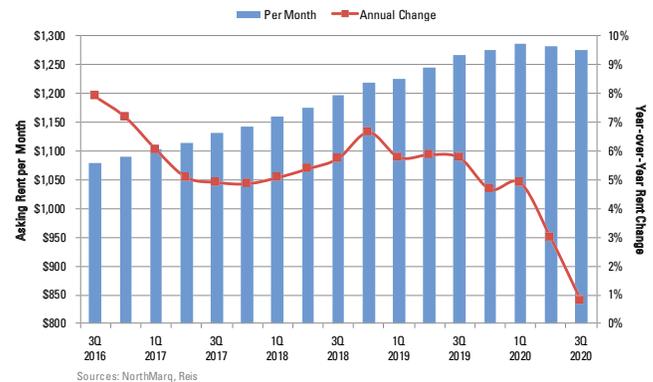
Sources: NorthMarq, Reis

Year over year, vacancy has risen 40 basis points to 5.3 percent

Rents

- > Rents have ticked lower in each of the past two quarters, following an extended run of rapid gains. In the third quarter, asking rents dipped 0.4 percent to \$1,276 per month.
- > Despite the recent declines, rents are still a few dollars higher than one year ago. Year over year through the third quarter, asking rents have edged up 0.8 percent.
- > The average Class A asking rent ended the third quarter at \$1,458 per month, nearly identical to the figure one year ago. The combined Class B and Class C average rent has remained above \$1,000 per month for the past three quarters.
- > **Forecast:** Asking rents are forecast to record a modest decline in 2020. The dip is forecast to total 0.5 percent with asking rents likely to end the year at approximately \$1,270 per month.

Rent Trends

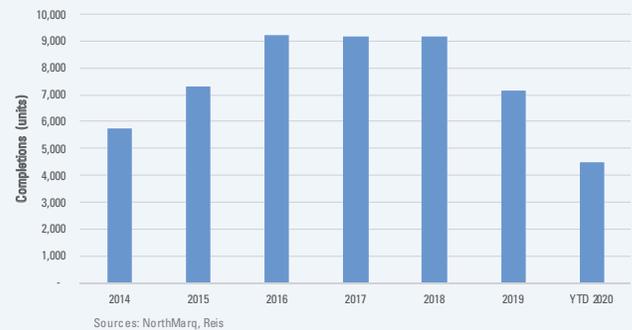


Year over year through the third quarter, asking rents have edged up 0.8 percent

Development and Permitting

- > Developers have delivered approximately 4,500 apartment units to the Atlanta metro area through the first nine months of this year, down more than 30 percent from the same period in 2019. Annual apartment deliveries have averaged 8,400 units per year since 2015.
- > Projects totaling nearly 11,300 units are currently under construction. The number of units under construction is down from the peak but nearly identical to the total from one year ago. New developments are expected to continue to come online during the next 18-24 months, but with permitting slowing, completions could slow beginning in 2022.
- > After multifamily permitting dipped below 500 units in the second quarter, the figure rose to approximately 750 permits during the third quarter. Year to date, developers have pulled permits for nearly 2,700 units, down 45 percent from the total during the same period in 2019.
- > **Forecast:** Total deliveries are forecast to reach approximately 6,500 units in 2020, following the completion of nearly 7,200 units in 2019. This would mark the lowest single year of new deliveries since 2014.

Development Trends



Projects totaling nearly 11,300 units are currently under construction

Multifamily Sales

- > Sales of apartment properties accelerated during the third quarter. Transaction velocity during the third quarter topped activity levels from both the first and second quarters. Despite the recent surge in property sales, year-to-date sales velocity is down nearly 40 percent when compared with the same period in 2019.
- > Prices rose as activity picked up in the third quarter. The median price in transactions during the third quarter was nearly \$128,000 per unit, bringing the median price for all of 2020 up to \$116,400 per unit. During the first half of this year, the median price was closer to \$103,000 per unit.
- > Cap rates in 2020 are down 20 basis points from levels recorded in 2019. Year to date, cap rates have averaged approximately 5.1 percent. In sales of Class A properties, cap rates are averaging 4.75 percent.

Investment Trends



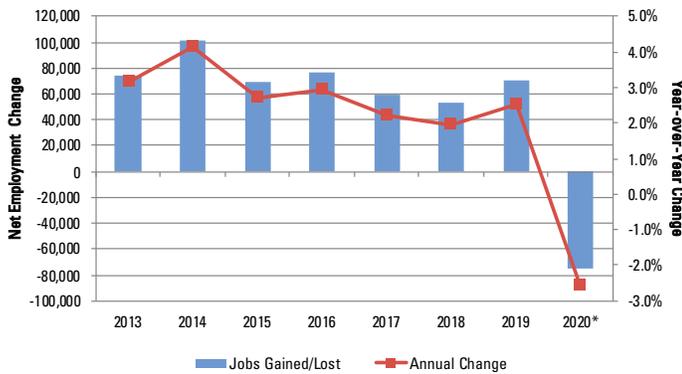
The median price in transactions during the third quarter was nearly \$128,000 per unit

Looking Ahead

The Atlanta economy is steadily adding back workers, which should support the absorption of area apartment properties. Local labor conditions are rebounding faster than most other markets of similar size as businesses in the area continue to expand. This trend is likely to continue, with area economic development activity ahead of the pace established in 2019. As the local economy steadies, apartment vacancy should level off, and rents will likely return to an upward trajectory in 2021.

The local investment market returned to form in the third quarter, and preliminary indications suggest activity will accelerate at the end of 2020. While there was a great deal of uncertainty swirling about a few quarters ago, the outlook is much clearer now. Property fundamentals have largely remained steady, and rent collections are closely tracking levels from recent years. Borrowing costs have declined, sparking additional investment activity and keeping cap rates low, trends that should persist into 2021.

Employment Forecast



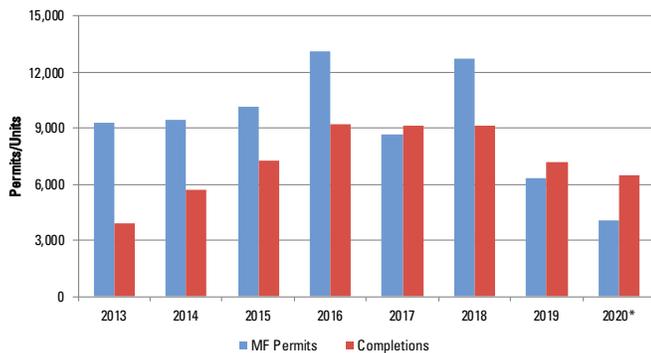
* Year End Forecast
Sources: NorthMarq, Bureau of Labor Statistics

Rent Forecast



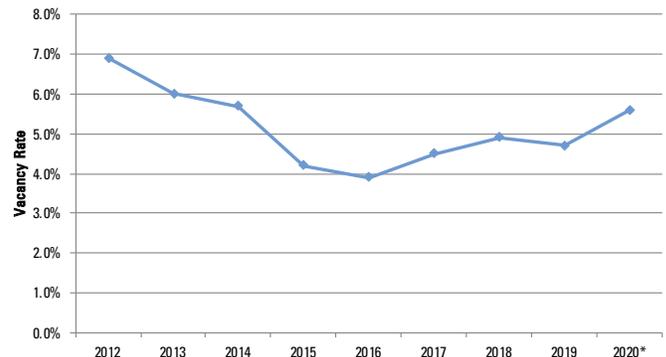
* Year End Forecast
Sources: NorthMarq, Reis

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: NorthMarq, Reis

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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