

Atlanta Hits Roadblock

Summer 2020



Development Powers Through

Transaction Activity Moderates

Employment Contracts, Still Above Nation

ATLANTA MULTIFAMILY



Concerns Arise Amid Reopening Phases

Atlanta's robust economy, sustained by a diversified business environment, has hit a COVID-19 roadblock. The multifamily market, which had already registered a slight softening, saw rents slide 0.2%, on a trailing three-month basis through June, to \$1,292. Meanwhile, the occupancy rate in stabilized properties dropped to 93.5% as of May, down 70 basis points from 12 months prior.

Employment growth turned negative for the first time since 2010. All sectors registered year-over-year contractions, with unemployment jumping from 3.2% in January to 12.7% as of April, before improving to 10.3% in May. Between mid-March and mid-July, more than 3 million unemployment claims were filed across the state. The leisure and hospitality sector had shrunk by more than 34% as of April, and professional and business services—Atlanta's second-largest sector—had contracted by 8.8%. The latter, however, showed promise, with several tech companies signing large office leases across the metro.

Atlanta marked cycle highs in 2019 for both transaction volume and deliveries. Deals in the first quarter kept pace, but activity slowed significantly starting in April. Developers remained active, with 3,880 apartments delivered through June and an additional 22,593 units underway. Considering the fallout of the health crisis, we expect Atlanta rents to drop 5.9% this year.

Market Analysis | Summer 2020

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Recent Atlanta Transactions

Avana on Breckinridge



City: Duluth, Ga.
Buyer: Greystar
Purchase Price: \$52 MM
Price per Unit: \$130,000

Ashford 2788



City: Atlanta
Buyer: Quintus Corp.
Purchase Price: \$50 MM
Price per Unit: \$166,667

Aven Chastain



City: Atlanta
Buyer: Olen Properties
Purchase Price: \$45 MM
Price per Unit: \$210,000

City Views at Rosa Burney Park



City: Atlanta
Buyer: Jonathan Rose Cos.
Purchase Price: \$25 MM
Price per Unit: \$138,889

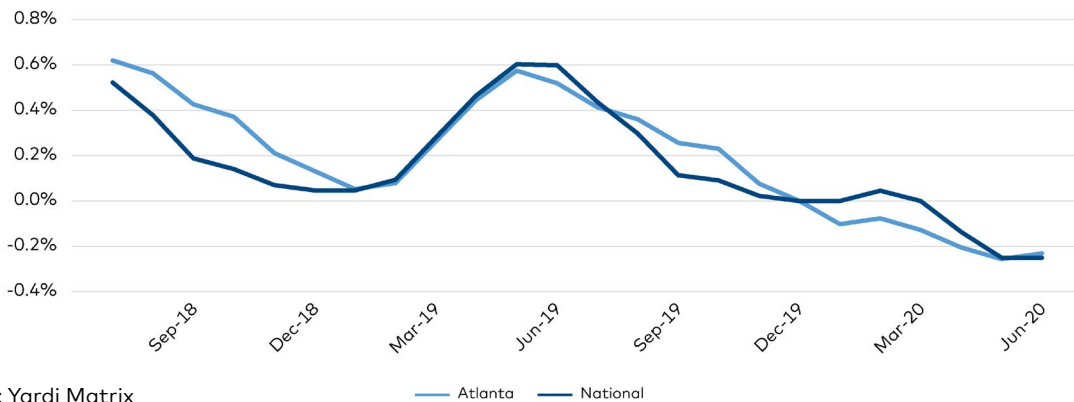
RENT TRENDS

- ▶ Rent expansion in Atlanta entered a softening period a few months before the pandemic hit. In January, rents turned negative for the first time since February 2017. The rate contracted 0.2%, on a trailing three-month (T3) basis through June, to \$1,292, behind the \$1,457 U.S. average. The initial decline, layered on top of seasonal trends, also came in response to the bountiful supply of recent years, which peaked in 2019 with the addition of more than 12,000 units.
- ▶ With most new stock geared toward Lifestyle renters, the supply and demand imbalance across the quality spectrum continued. As a result, working-class Renter-by-Necessity rates rose 0.2% on a T3 basis to \$1,092, while rents in the Lifestyle segment slid 0.4% to \$1,416. Another

consequence of the supply surge coupled with COVID-19's impact was the drop in the occupancy rate in stabilized properties, which slid 70 basis points, in the 12 months ending in May, to 93.5%.

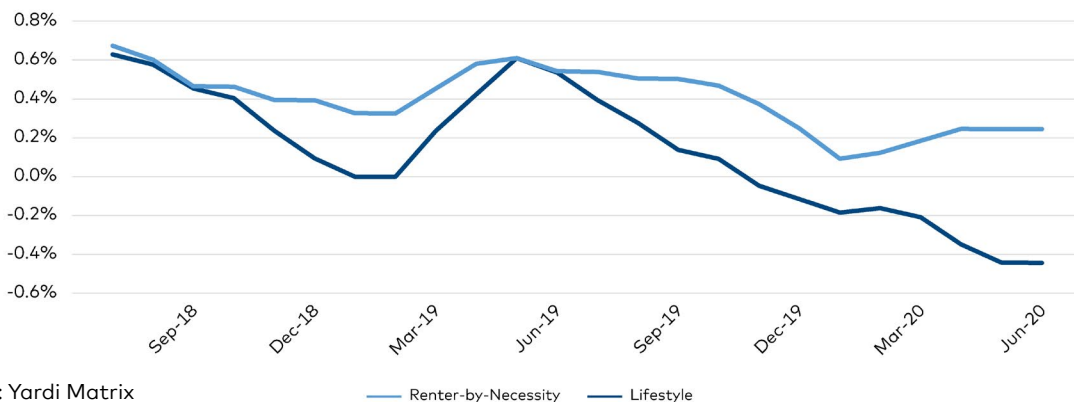
- ▶ In June, six of Atlanta's submarkets—all urban areas—posted rents below the \$1,000 mark. Oakland was the most affordable, with the average rent rising 5.5% year-over-year to \$808. The most sought-after submarkets remained Midtown and Midtown South, marking rent contractions of 4.9% to \$2,014 and 6.9% to \$1,906, respectively. Their counterparts in suburban Atlanta were Acworth/Kennesaw (-0.3% to \$1,501) and Cumming (-2.0% to \$1,438).

Atlanta vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Atlanta Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ At the start of the year, Atlanta's economy was running like a well-oiled machine, served by its robust business environment, education, health care and leisure industries. The 3.2% January unemployment rate mirrored a tight and healthy job market, but the health crisis hit hard, and by April, the rate had risen to 12.7%. May preliminary data showed a slight recovery to 10.3%. More than 3 million unemployment claims were filed across Georgia between mid-March and mid-July.
- ▶ In the 12 months ending in April, job expansion turned negative for the first time since 2010, dropping 2.0% through May. Leisure and hospitality bore the brunt of the impact, shrinking more than 34%. With air travel down 80%, Delta Air Lines warned more than 2,500 pilots of possible furloughs and early retirements. Office-using segments lost 61,000 jobs, but several large leases pointed to a potential rebound. Microsoft leased 523,000 square feet at Atlantic Yards, where it intends to house 1,500 workers next summer, and Google will occupy 470,000 square feet at 1105 West Peachtree.
- ▶ Following April's reopening April, the number of COVID-19 cases surged, which pushed Atlanta's mayor to order a rollback to Phase 1 reopening guidelines. However, the mayor's orders are guidelines only and therefore unenforceable.

Atlanta Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
55	Financial Activities	173	6.7%
15	Mining, Logging and Construction	127	4.9%
50	Information	90	3.5%
90	Government	326	12.6%
80	Other Services	89	3.4%
65	Education and Health Services	353	13.7%
30	Manufacturing	151	5.8%
40	Trade, Transportation and Utilities	572	22.1%
60	Professional and Business Services	497	19.2%
70	Leisure and Hospitality	203	7.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Atlanta gained 230,084 residents between 2016 and 2019, for a 4.0% uptick. While domestic net migration was positive, immigration drove most of the registered growth.
- ▶ In 2019, the metro gained 70,413 new residents—a 1.2% increase that was four times the national rate.

Atlanta vs. National Population

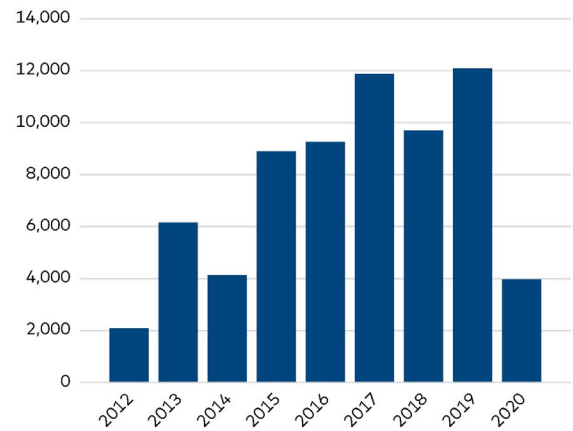
	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Atlanta Metro	5,790,280	5,874,249	5,949,951	6,020,364

Sources: U.S. Census, Moody's Analytics

SUPPLY

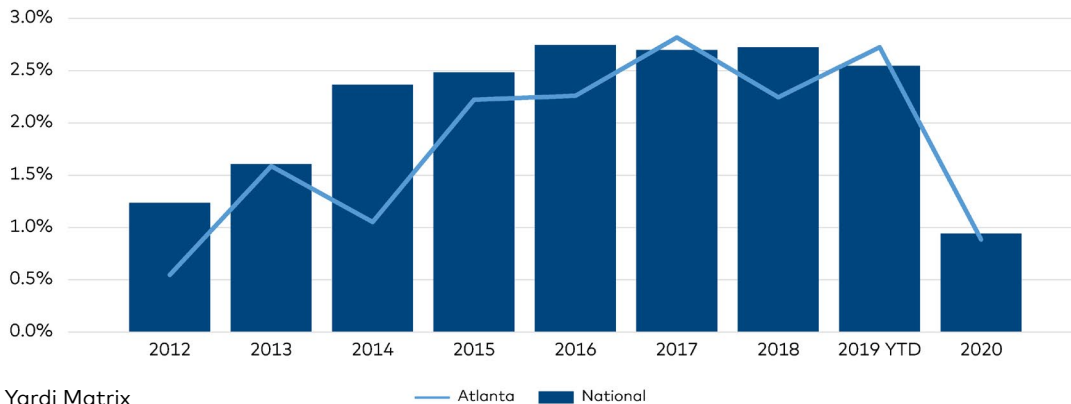
- ▶ Following last year's cycle peak, when more than 12,000 units came online, Atlanta's deliveries moderated. In the first half of 2020, the inventory expanded by 3,880 units, or 1.0% of total stock, registering above the 0.1% national rate.
- ▶ Even though deliveries softened in the wake of the pandemic, the metro's pipeline has fared better than those of other major metros. Atlanta had 22,593 units underway as of June, and more than 13,000 units were slated for completion by year-end. Disruptions brought by the health crisis were expected to slow down projects. Since 2015, a total of 55,735 units came online across the metro.
- ▶ Activity was most intense across urban Atlanta, and because construction was deemed essential following the COVID-19 outbreak, developers continued the construction boom of recent years. In fact, they broke ground on a slightly higher number of units in the first half of 2020 compared to the same period in 2019. Last year, developers started construction on 2,604 units in nine communities between January and June, while during the same period this year, groundbreaking was completed for 2,739 units in 10 projects.
- ▶ Overall, in June, urban Atlanta had more than 8,600 units underway—Midtown West/Centennial Place and Grant Park/East Atlanta/Panthersville ranked as the busiest, with 3,656 and 1,456 units underway, respectively. In the suburbs, more than 4,300 units were under construction, and development was most intense in Lawrenceville (1,483 units) and Suwanee/Buford (1,086 units).

Atlanta Completions (as of June 2020)



Source: Yardi Matrix

Atlanta vs. National Completions as a Percentage of Total Stock (as of June 2020)



Source: Yardi Matrix

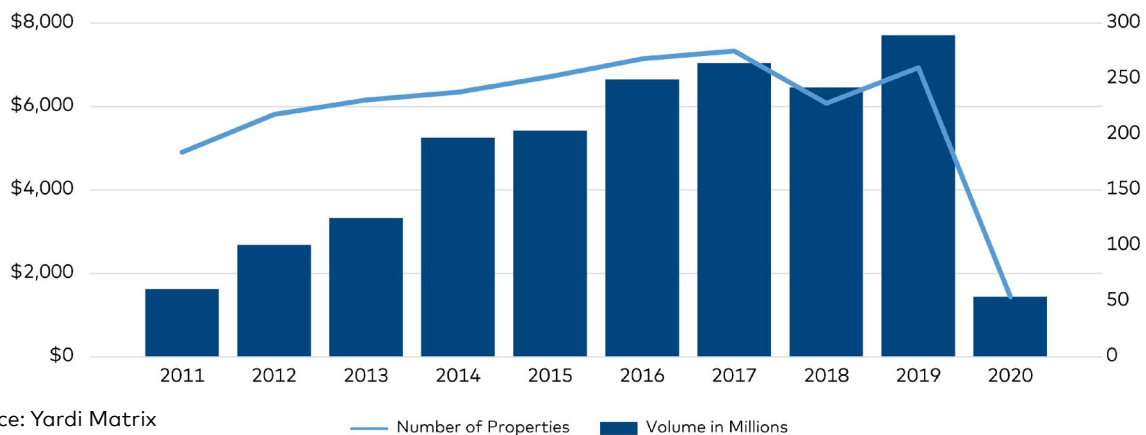
TRANSACTIONS

- ▶ Last year marked Atlanta's cycle peak for transaction volume, with \$7.7 billion in multifamily assets trading. This year started on a high note, with the first quarter adding up to nearly \$1.3 billion in sales, but activity has moderated considerably since April, following the debut of the COVID-19 outbreak. During the second quarter, just \$237 million in assets traded.
- ▶ In 2020 through June, some \$1.5 billion in multifamily properties changed hands in Atlanta. Of

that, \$869 million traded in the suburbs. Volume was split across the quality spectrum, with 29 of the 54 traded assets catering to the Lifestyle segment. The per-unit price rose 7.2% to \$129,010.

- ▶ So far, the largest sale of the year has been Bluerock Real Estate's acquisition of the 2019-completed The Falls at Forsyth, a 356-unit suburban asset in Cumming. Preferred Apartment Communities sold it for \$83 million, or \$231,742 per unit.

Atlanta Sales Volume and Number of Properties Sold (as of June 2020)



Source: Yardi Matrix

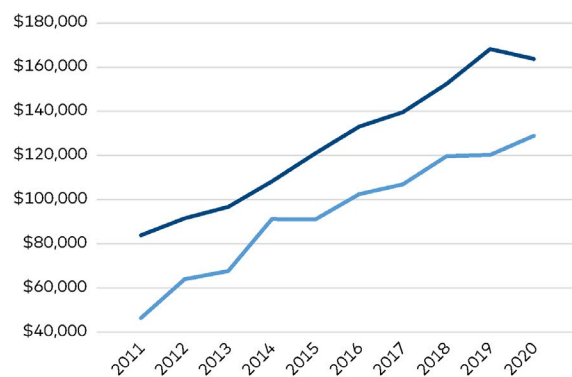
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Sandy Springs N	341
Sandy Springs/Dunwoody	306
Duluth/Norcross	300
North Buckhead	278
Lawrenceville	262
Buckhead	262
Marietta NE	258

Source: Yardi Matrix

¹ From July 2019 to June 2020

Atlanta vs. National Sales Price per Unit



Source: Yardi Matrix

Top 5 Atlanta Submarkets for Construction Activity

By Razvan Cimpean

Development activity in Atlanta has been picking up steam over the past two years, with more than 11,500 units completed in 2019, up 14.4 percent from the previous year, according to Yardi Matrix data. This year, pre-pandemic forecasts anticipated that deliveries would further increase, to more than 16,000 apartments. As of May, a total of 22,466 units were underway in Atlanta, with 14,035 originally scheduled for completion in 2020, based on Yardi Matrix data.

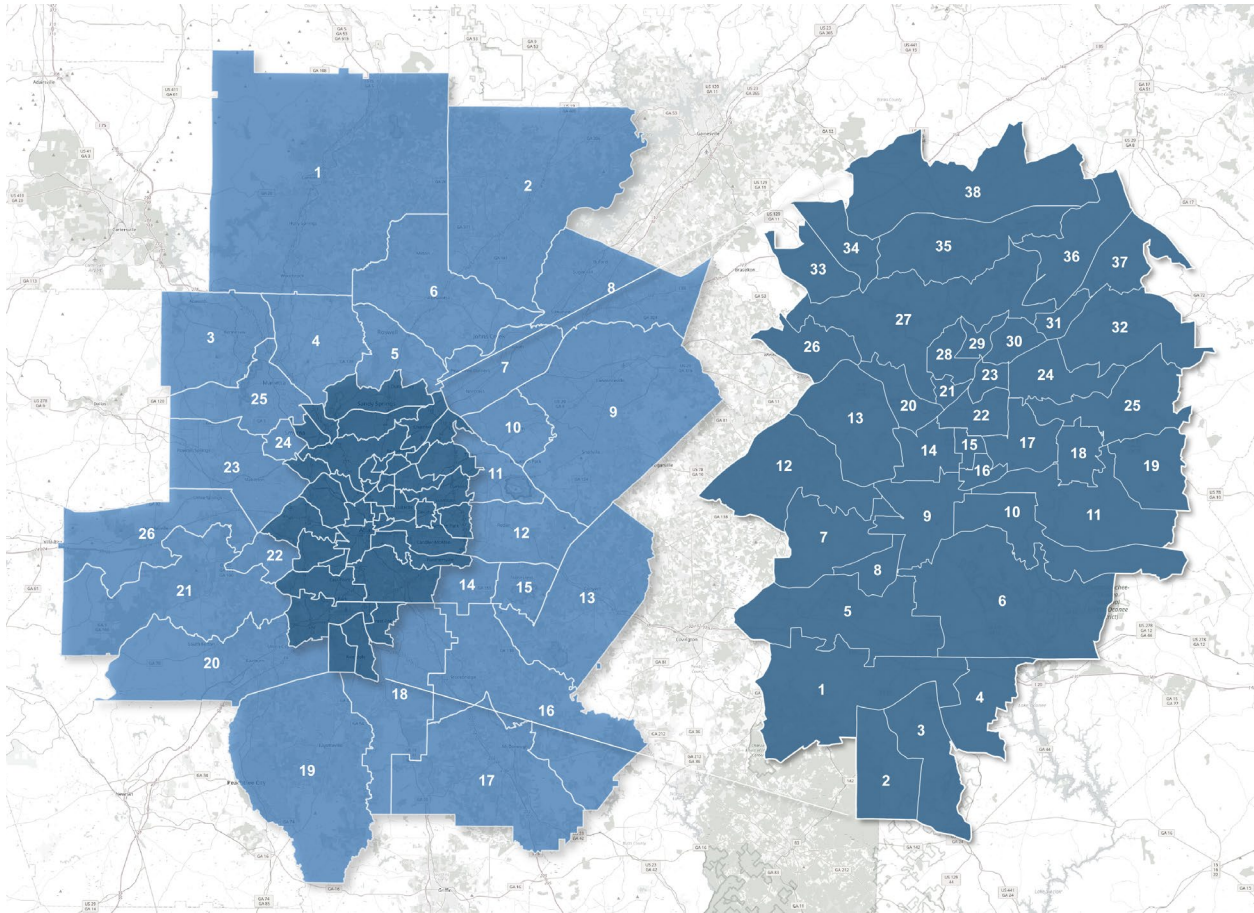
Rank	Submarket	Units Under Construction	Percentage of Stock	Percentage Change
1	Haynes Manor/Peachtree Hills	932	42.3%	1.6%
2	Midtown West/Centennial Place	3,833	39.1%	1.1%
3	Grant Park/East Atlanta/Panthersville	1,456	30.5%	1.0%
4	Decatur	382	19.7%	0.7%
5	Suwanee/ Buford	1,086	17.9%	0.7%

MIDTOWN WEST/CENTENNIAL PLACE

Benefiting from its proximity to downtown and a series of high-profile employers in the area, the submarket's construction activity has boomed over the past two years. In 2018 and 2019, nine projects totaling more than 2,700 units came online, exceeding combined deliveries in the previous eight years. What's more, development was going strong before the pandemic, with 3,833 apartments underway, equal to 39.1 percent of the submarket's existing stock. Five projects encompassing 1,526 apartments were slated for completion by year's end, but the outbreak is expected to impact deliveries.



ATLANTA SUBMARKETS



Area No.	Submarket
1	Canton/Woodstock
2	Cumming
3	Acworth/Kennesaw
4	Marietta Northeast
5	Sandy Springs North
6	Roswell/Alpharetta
7	Duluth/Norcross
8	Suwanee/Buford
9	Lawrenceville
10	Lilburn
11	Tucker/Stone Mountain
12	Redan
13	Conyers/North Rockdale/ South Rockdale
14	Chapel Hill
15	Lithonia
16	Stockbridge
17	McDonough
18	Jonesboro/Bonanza
19	Peachtree/Fayetteville
20	Union City/Fairburn
21	Cliftondale
22	Sandtown
23	Mableton/Austell
24	Smyrna/Fair Oaks
25	Marietta Southwest
26	Douglasville

Area No.	Submarket
1	College Park/Hartsfield-Jackson International
2	West Riverdale
3	East Riverdale
4	Forest Park
5	East Point/Hapeville
6	Lakewood
7	Cascade Springs
8	Oakland
9	West End/Fairlie Poplar/Underground
10	Grant Park/East Atlanta/Panthersville
11	Chandler-McAfee/West Belvedere Park
12	Harwell Heights
13	Bankhead
14	Midtown West/Centennial Place
15	Midtown South
16	Martin Luther King Historic District
17	Inman Park/Virginia Highlands
18	Decatur
19	Avondale Estates/East Belvedere Park

Area No.	Submarket
20	Atlantic Station
21	South Buckhead
22	Midtown
23	Lindbergh
24	North Druid Hills
25	North Decatur/Clarkston/Scottdale
26	Rhyne
27	Buckhead
28	Haynes Manor/Peachtree Hills
29	Buckhead Village
30	Lenox
31	Brookhaven
32	Northlake
33	North Vinings
34	Marietta Southeast
35	North Buckhead
36	West Chamblee
37	East Chamblee
38	Sandy Springs/Dunwoody

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;*
- *Students, who also June span a range of income capability, extending from affluent to barely getting by;*
- *Lower-middle-income ("gray-collar") households, composed of office workers, policemen, firemen, technical workers, teachers, etc.;*
- *Blue-collar households, which June barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;*
- *Subsidized households, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, June extend to middle-income households in some high-cost markets, such as New York City;*
- *Military households, subject to frequency of relocation.*

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

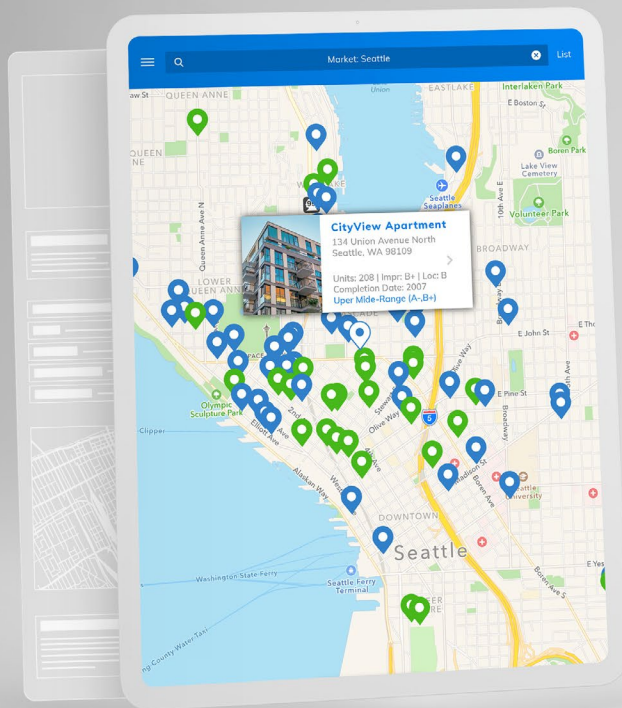
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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