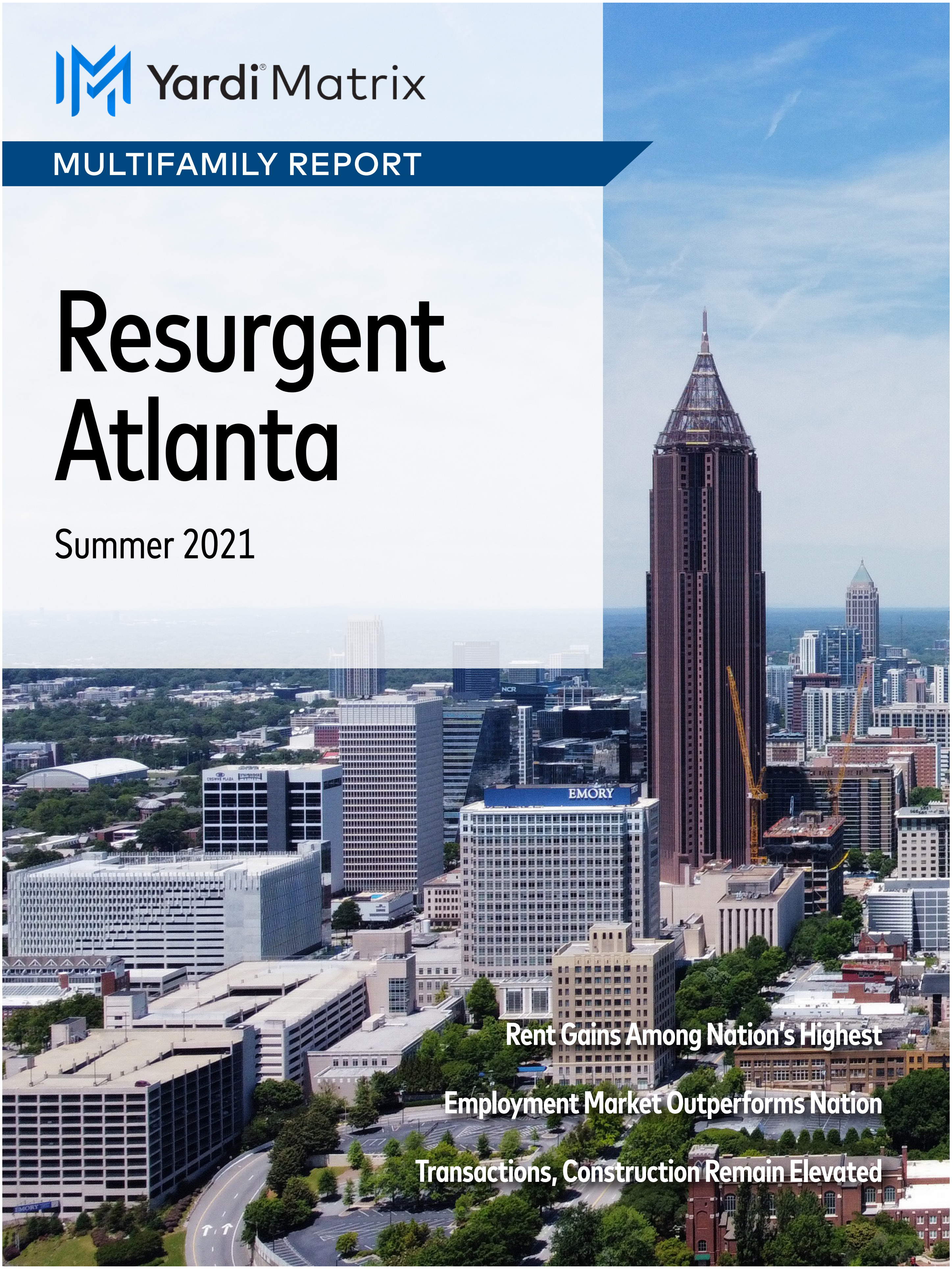
Yardi Matrix

MULTIFAMILY REPORT

Resurgent Atlanta

Summer 2021



Rent Gains Among Nation's Highest

Employment Market Outperforms Nation

Transactions, Construction Remain Elevated

ATLANTA MULTIFAMILY

Yardi Matrix

Elevated Demand Unmatched by Supply

Atlanta's growing allure among tech firms and an already well-established presence in the distribution sector have benefited multifamily fundamentals since the onset of the health crisis. Demand has outpaced the substantial inventory expansion and rents rose 1.9% on a trailing three-month basis through June to $1,484, closing the gap on the $1,482 national average. Lifestyle units in suburban areas are especially in high demand, reflected in the segment's occupancy rate in stabilized properties, which climbed 1.9% to 96.1% in the 12 months ending in May.

The metro outperformed the nation both for unemployment—which clocked in at 4.0% in May—and total jobs, which posted a 1.0% contraction in the 12 months ending in May, below the 1.9% U.S. figure. All sectors gained positions, led by leisure and hospitality, which expanded by nearly 27.0%, or 54,000 jobs. Professional and business services is poised for sustained growth, thanks to planned company expansions including Microsoft, Google and Airbnb.

Developers delivered 7,493 units in the first half of the year and had another 20,213 under construction. Meanwhile, transaction activity nearly reached $3.8 billion and the price per unit marked a 20.0% increase, to $159,209.

Market Analysis | Summer 2021

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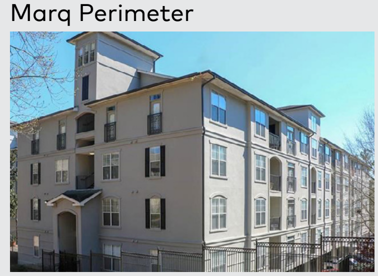
Recent Atlanta Transactions

The Venue at Big Creek

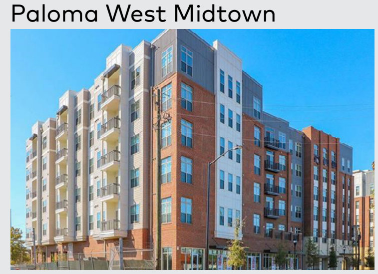
City: Alpharetta, Ga.
Buyer: Eaton Vance Investment Managers
Purchase Price: $100 MM
Price per Unit: $269,624

Marq Perimeter



City: Atlanta
Buyer: CWS Capital Partners
Purchase Price: $99 MM
Price per Unit: $237,380

Paloma West Midtown



City: Atlanta
Buyer: CapitaLand
Purchase Price: $94 MM
Price per Unit: $511,913

Circa and Ecco

City: Atlanta
Buyer: Investcorp
Purchase Price: $87 MM
Price per Unit: $143,092

RENT TRENDS

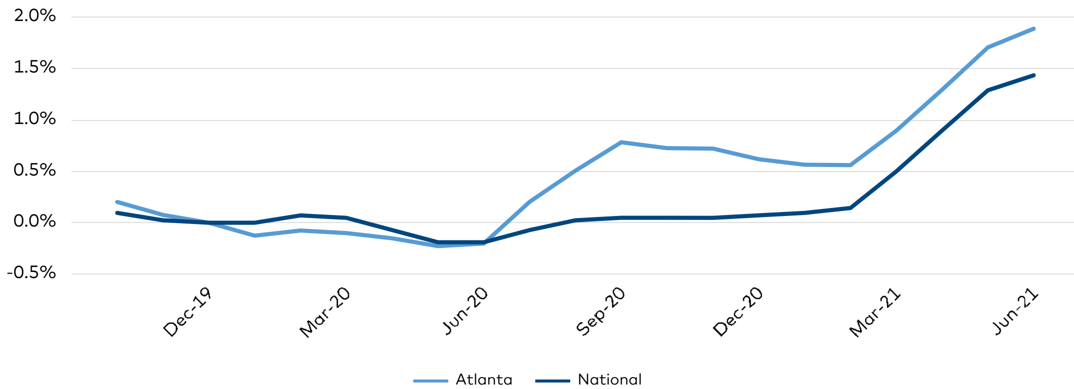
- Atlanta rents rose 1.9% on a trailing-three (T3) month basis through June to $1,484. This appreciation—which was 50 basis points above the U.S. rate—closed the gap between the metro average and the national figure ($1,482). Despite a robust inventory expansion, Atlanta rents were up 13.3% on a year-over-year basis, ranking fifth among major U.S. metros.

- Lifestyle units led rent growth, with rates up 2.1% on a T3 basis through June, to $1,634. Meanwhile, working-class Renter-by-Necessity rents climbed 1.5%, to $1,211.

- Stronger demand for Lifestyle units is mirrored by the occupancy rate in stabilized properties—for the segment, the rate rose 160 basis points in the 12 months ending in May, to 95.3%. Meanwhile, occupancy in the RBN segment increased 80 basis points, to 95.2%. Occupancy in suburban Atlanta clocked in at 95.8%, following a 140 basis point year-over-year increase, while for urban units it stood at 94.7% in May, up 100 basis points year-over-year. In urban Atlanta, demand remained stronger for units in the RBN segment, while Lifestyle units were relatively more sought-after in the suburbs.

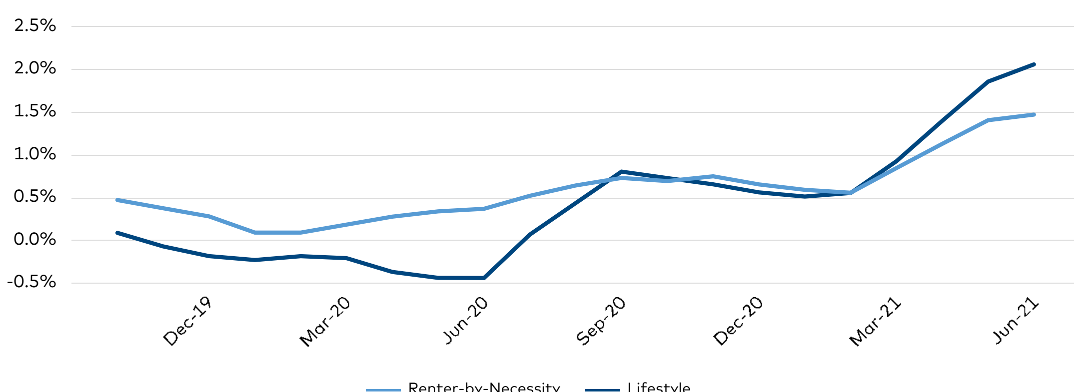
- Of the 64 submarkets tracked by Yardi Matrix, just two posted rents below the $1,000 mark, both close to the metro's urban core. Moreover, four submarkets posted rents above the $2,000 threshold. Midtown remained the most expensive submarket, following a 10.3% increase to $2,246.

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

- Metro Atlanta's unemployment rate was 4.0% as of May, outperforming the national average by 180 basis points.

- Thanks to its diverse economy, Atlanta's employment market posted a contraction rate of just 1.0% in the 12 months ending in May, topping the -1.9% U.S. rate. All sectors added jobs; leisure and hospitality expanded by 26.9%, or 54,000 positions. Meanwhile, although Hartsfield-Jackson Atlanta International Airport fell to the second spot among the world's busiest airports in 2020—after 22 consecutive years in the top spot—the contraction is expected to be temporary.

- Atlanta's largest sectors—trade, transportation and utilities and professional and business services—added 68,800 jobs combined in the 12 months ending in May. Both are poised for sustained recovery. The reopening of retail stores will likely act as a boost for the trade sector, while the professional and business sector is set to add jobs, fueled by planned company expansions. In Midtown, Microsoft announced 1,500 new high-tech jobs at Atlantic Yards, and Google will occupy 500,000-square-foot in a new tower. In addition, Airbnb resumed plans to open a new technology hub this year.

Atlanta Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
70	Leisure and Hospitality	255	9.3%
60	Professional and Business Services	540	19.6%
40	Trade, Transportation and Utilities	582	21.2%
65	Education and Health Services	369	13.4%
50	Information	101	3.7%
30	Manufacturing	168	6.1%
80	Other Services	96	3.5%
55	Financial Activities	179	6.5%
15	Mining, Logging and Construction	130	4.7%
90	Government	328	11.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Atlanta gained 67,398 residents in 2020, for a 1.1% expansion, nearly three-times the 0.4% national rate.

- Population growth is strongly boosted by the metro's three biggest universities, which fuel the tech sector as well as the area's rapidly growing film production environment.

Atlanta vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Atlanta Metro	5,874,249	5,949,951	6,020,364	6,087,762

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

SUPPLY

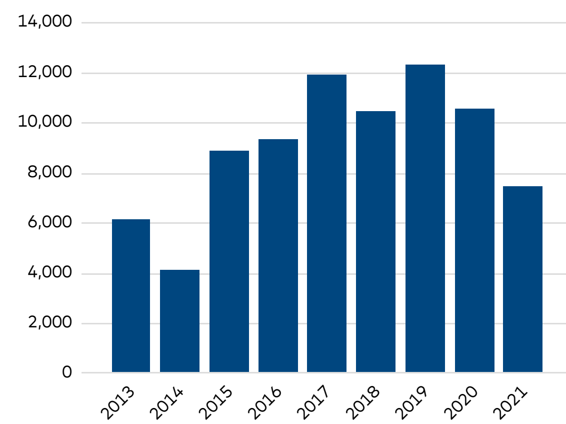
- Atlanta's robust housing demand has kept developers busy in recent years: Since 2017, the multifamily inventory has grown by 53,000 units. The trend persisted in 2021, with 7,493 units delivered in the first half of the year, 1.6% of total stock and 70 basis points above the U.S. rate. Of these, 4,272 units came online in the urban core and 3,221 units across the suburb. The bulk of deliveries—6,941 units—targeted high-income renters, with only 552 units in the Renter-by-Necessity segment.

- Going into the third quarter, the construction pipeline comprised 20,213 units underway and another 118,000 units in the planning and permitting stages. Development remained most intense in urban areas, with 14,465 units under construction, while suburban submarkets had just 6,448 units underway as of late June.

- The pipeline composition further favors the Lifestyle renter, with upscale projects accounting for the bulk of units underway. The Renter-by-Necessity pipeline totaled 1,148 units in the suburbs—100 units in two market-rate properties and 1,048 units in five fully affordable communities. Meanwhile, in the urban core, there were just 1,426 RBN units underway in seven market-rate properties and 1,228 units in eight fully affordable communities.

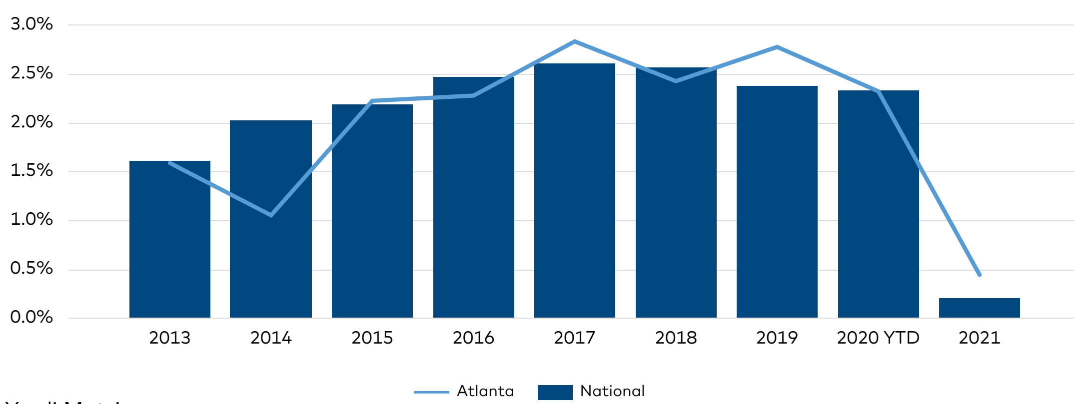
- The top five submarkets accounted for more than one-third of units underway going into July, with West End/Fairlie Poplar/Underground (2,116 apartments under construction) and Midtown West/Centennial Place in the lead (1,700 units).

Atlanta Completions (as of June 2021)



Source: Yardi Matrix

Atlanta vs. National Completions as a Percentage of Total Stock (as of June 2021)



Source: Yardi Matrix

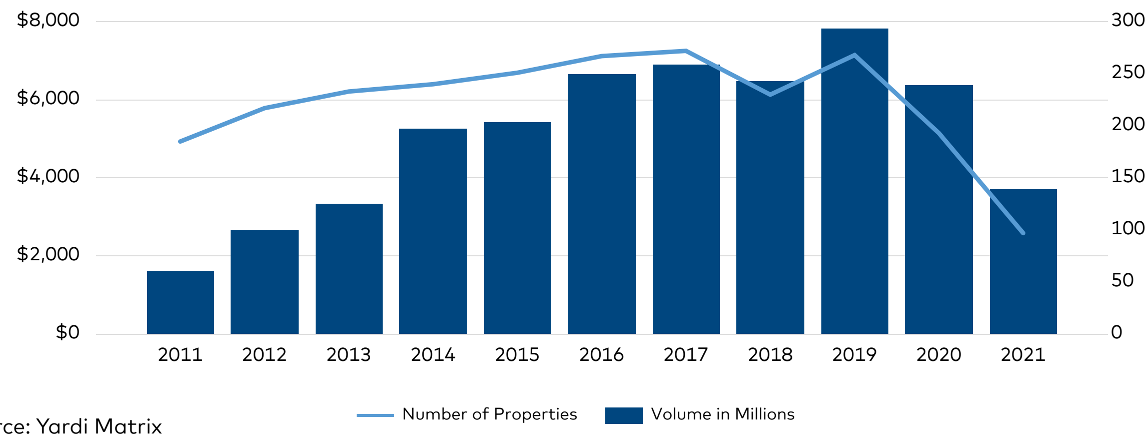
TRANSACTIONS

- Transaction activity picked up steam in the second part of 2020 and the trend carried on in 2021, as well: During the first half of the year, nearly $3.8 billion in multifamily assets traded in Atlanta. This is more than double the volume recorded in the metro during the same period last year and above the $3.2 billion recorded during 2019's first six months.

- Unlike development, which is more concentrated in urban submarkets, investment is more active in the suburbs. The transaction volume across suburban Atlanta reached nearly $2.4 billion for the first two quarters, while the figure for urban assets totaled $1.3 billion.

- Of the 99 properties that traded in 2021 through June, 56 were Renter-by-Necessity assets. Even so, the price per unit rose by 20.0%, to $159,209. However, the metro's average per-unit price remained below the $172,960 national rate.

Atlanta Sales Volume and Number of Properties Sold (as of June 2021)



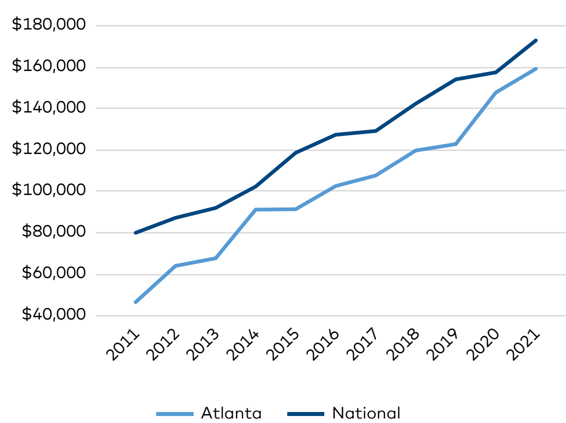
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Duluth/Norcross	693
Sandy Springs North	617
Sandy Springs/Dunwoody	480
Lawrenceville	405
Roswell/Alpharetta	393
Marietta SE	367
Marietta SW	351

Source: Yardi Matrix
[1] From July 2020 to June 2021

Atlanta vs. National Sales Price per Unit



Source: Yardi Matrix

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MULTI-HOUSING NEWS

How Grubb Properties' Essential Housing Is Filling the Gap

By Timea-Erika Papp

Committed to bridging the gap between affordable and luxury housing, Grubb Properties is addressing the U.S. housing shortage by taking a different approach, which they call essential housing. The company's Link Apartments brand is focused on intelligent design and provides working professionals a lower-cost housing option. CEO Clay Grubb shares investment and development strategies, and explains why Atlanta is among his firm's markets of focus.

How have you adjusted your investment and development strategy to 2020 challenges?

As a company, we prepare for Black Swan events during the good times, so we have the bandwidth, balance sheet and capability to play offense when those events occur. While we couldn't have and didn't foresee the pandemic, this preparation served us well. The pandemic demonstrated the dire need for housing that is more affordable to people in the workforce, which we call essential housing. We recognized that, on top of the current housing shortage, low interest rates would cause demand and prices to spike even further. Anticipating that an increase in new starts would follow, we quickly locked in construction contracts for our development projects, including our pipeline of projects in the Southeast.

Which are some of the markets you chose to focus on more in light of the pandemic?

Some of these markets are the most cost-burdened cities in the

country, making them a great target for our Link Apartments product. Thus, we are expanding to some of these resilient gateway markets because of the generational buying opportunity. At the same time, we maintained our investment and development pipeline in resilient markets such as Charlotte and Atlanta that are seeing strong population growth and continued demand for housing.

What else is motivating Grubb Properties to invest in Charlotte and Atlanta?

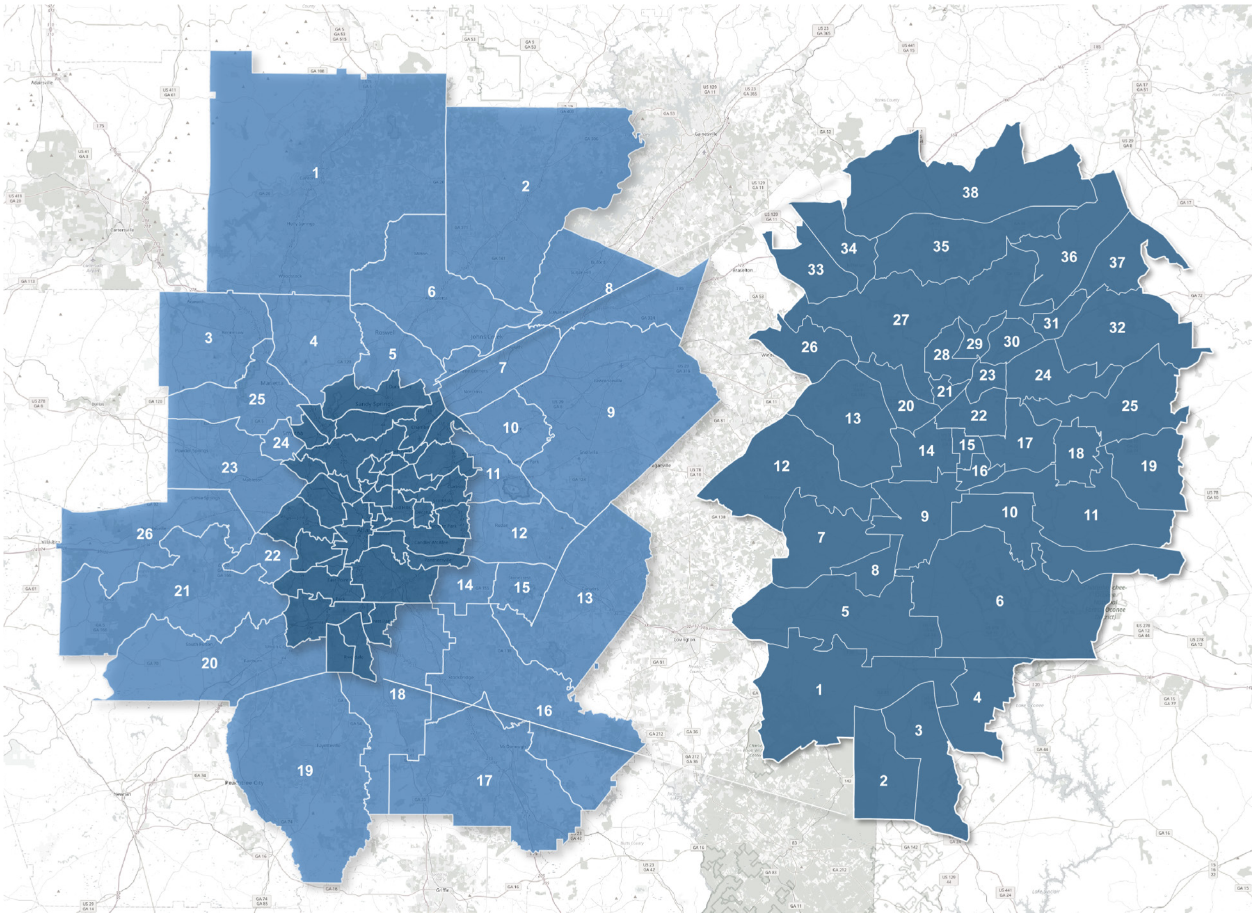
We notice the diversification of their local economies and job markets. And we appreciate the investments they're making in alternative transportation, such as bike trails and light-rail systems.

Earlier this year, Grubb Properties revealed plans for a mixed-use development in Smyrna, Ga. Was the office building conversion a decision spurred by the pandemic or was that the initial plan?

Acquiring office buildings with extra land devoted to parking has long been one of our creative strategies for multifamily development and we had it in mind when we acquired the Smyrna properties. By doing so, we essentially purchase developable land for free, transforming parking lots that sit empty for half the day into active, 24-hour communities.

We believe our Smyrna development will bring much-needed essential housing and connectivity to an area of Smyrna that is growing and seeing change, especially following the opening of The Battery, a 2 million-square-foot mixed-use development at the intersection of interstates 75 and 285.

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 December 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 December 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, December 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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.