YARDI® Matrix

Fever Pitch: Atlanta Demand Heats Up

Multifamily Winter Report 2017

Broad-based Growth Whets Investor Appetite

City Core Brims with New Supply

Rental Rates Reach Record High

Market Analysis

Winter 2017

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Solid Fundamentals Spark Atlanta's Surge

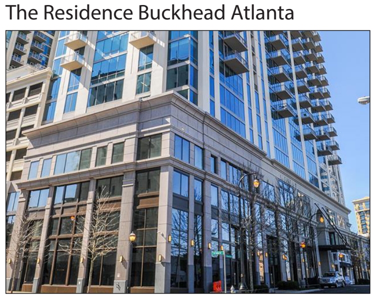
Atlanta's multifamily market benefits from a diversified economy, a healthy development pipeline and high investor demand. The population is growing, due to an influx of young professionals drawn to the 18-hour lifestyle and students that are educated in the city's universities. Strong rent gains and increased demand for housing have created concerns about affordability, congestion and overdevelopment.

Atlanta's favorable tax structure and business relocation costs attract jobs in fields such as health care, media, technology, tourism and film. Traffic congestion has become a major issue, although a recent legislation change will provide an increased and steady source of state funding for a range of transportation improvements, including Georgia's $10 billion roads bill. Infrastructure improvements will play a role in growth going forward.

In order to meet demand, the metro has one of the most active development pipelines in the country, with more than 60,000 units. Most of the upcoming supply is geared toward the high-end part of the spectrum, while demand is strong for both affordable and market-rate units. Rental rates hit a record high of $1,137, trailing the national average, and occupancy rates for stabilized properties are steady at 95%. We expect rent growth to maintain its healthy level: 8.3% in 2017.

Recent Atlanta Transactions

The Residence Buckhead Atlanta



City: Atlanta
Buyer: Simpson Housing
Purchase Price: $137 MM
Price per Unit: $368,919

WestHaven at Vinings

City: Atlanta
Buyer: GoldOller Real Estate Investments
Purchase Price: $91 MM
Price per Unit: $149,180

The Row at Twenty Sixth

City: Atlanta
Buyer: Mesirow Financial
Purchase Price: $86 MM
Price per Unit: $188,742

The Atlantic

City: Atlanta
Buyer: CF Real Estate Services
Purchase Price: $82 MM
Price per Unit: $358,079

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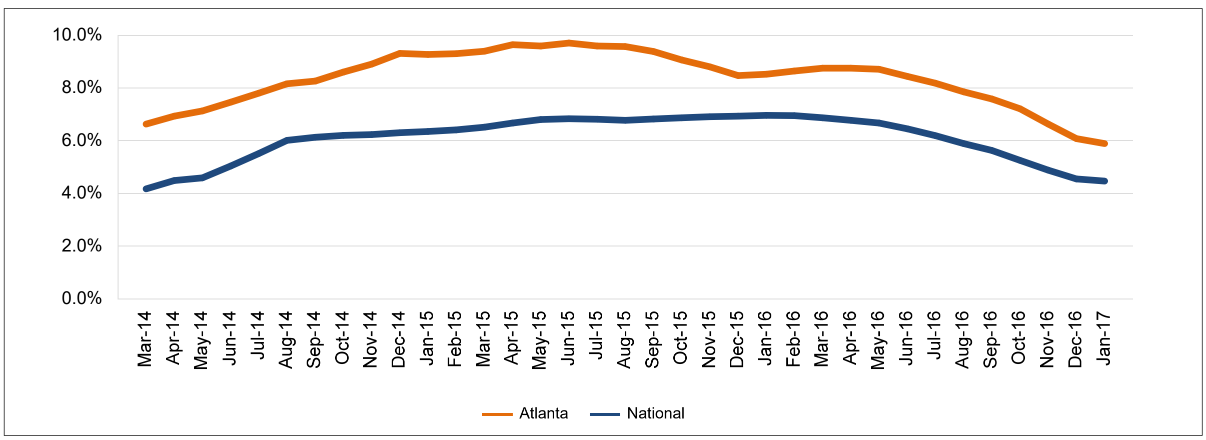
On the cover: Photo by EricStokley/iStockphoto.com

Rent Trends

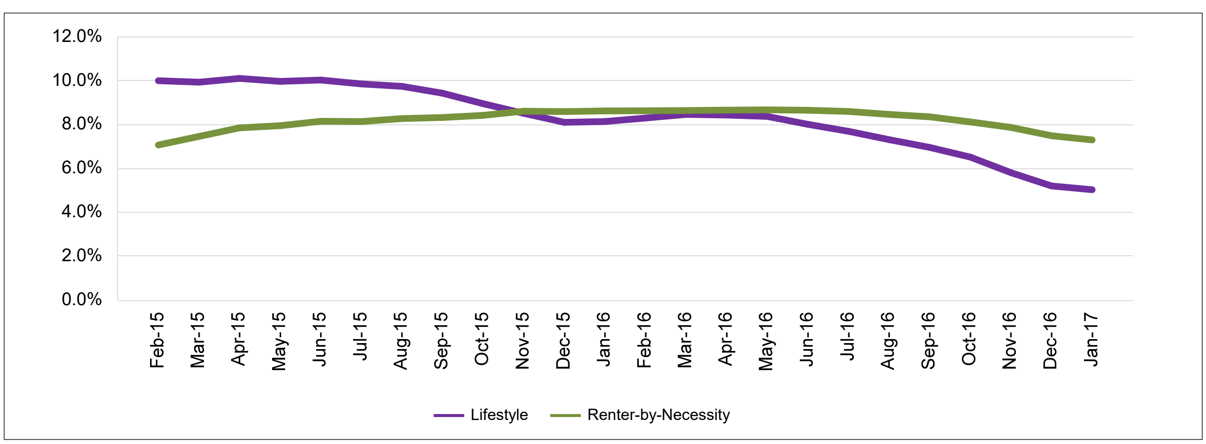
- Atlanta rents increased 5.9% year-over-year through January, outpacing the 4.6% national rate. Although rental rates hit a record high of $1,135, they lagged the $1,219 national average. According to Yardi Matrix data, rent increases have decelerated since reaching 9.7% year-over-year growth in June 2015.
- The Renter-by-Necessity segment reported the hightest increases in rent, rising 7.3% to an average of $928. The Lifestyle segment experienced a 5.0% increase year-over-year, to $1,280. Demand for both segments remains strong due to the metro's diverse economy and broad-based employment growth. Nonetheless, the lack of consistent affordable housing projects continues to propel rent gains among lower-end options.
- Rent growth was strongest in core areas, led by Candler-McAfee/West Belvedere Park (17.4%), Midtown South (13.9%), Decatur (12.8%) and West Riverdale (12.1%). Significant new development in the urban core may cause occupancy to fluctuate, although strong demand should lead to high absorption.
- Job growth in high-paying sectors is expected to foster demand for luxury units and fuel further rent growth. We expect an 8.3% increase in rents in 2017.

Atlanta vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Atlanta Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

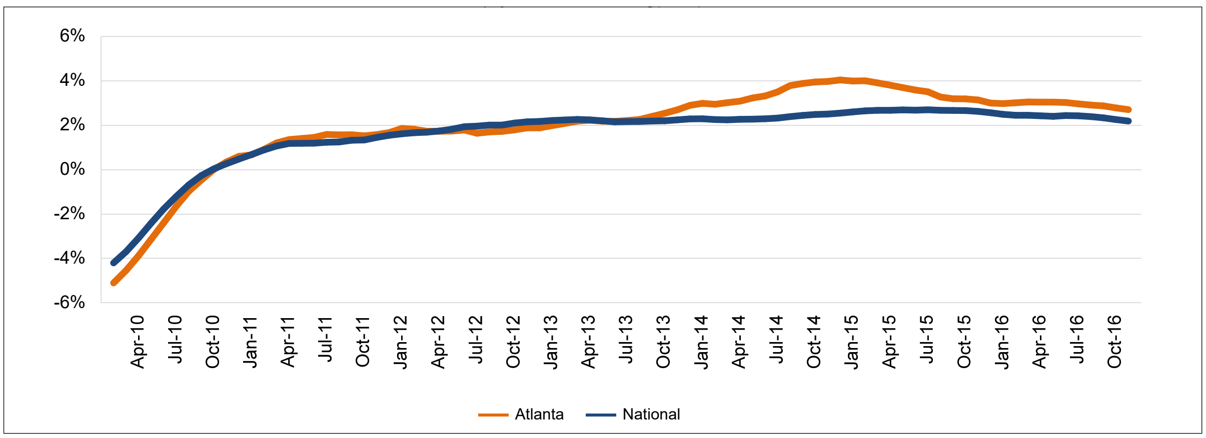


Source: YardiMatrix

Economic Snapshot

- The metro added 68,200 jobs in the 12 months ending in November, representing a 2.7% increase year-over-year—60 basis points above the 2.1% national average.
- Atlanta uses its lower-than-average corporate tax burdens and business relocation costs to lure businesses from other parts of the country. Moreover, the Metro Atlanta Chamber of Commerce provides free professional site selection services to foreign organizations entering the U.S. Through expansion and relocation, the professional and business services sector led employment gains, with 20,700 new hires.
- Captivated by the presence of the Centers for Disease Control and Prevention, health-care companies are deepening their footprint in Atlanta. Health insurance company Anthem is planning an information technology hub in Midtown Atlanta, slated to create around 1,800 information technology-related jobs, and Piedmont Hospital has embarked on a $600 million expansion plan. The health-care sector added 10,500 jobs during the past year.
- Atlanta saw approximately 1 million square feet of office completions in 2016. Absorption remained strong, while vacancy continued to decline, resulting in rent gains of as much as 30% in the most sought-after submarkets.

Atlanta vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Atlanta Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
60	Professional and Business Services	510	18.8%	20,700	4.2%
65	Education and Health Services	334	12.3%	10,500	3.2%
70	Leisure and Hospitality	287	10.6%	9,500	3.4%
40	Trade, Transportation and Utilities	610	22.5%	9,200	1.5%
15	Mining, Logging and Construction	119	4.4%	6,500	5.8%
90	Government	335	12.4%	5,600	1.7%
55	Financial Activities	170	6.3%	5,400	3.3%
30	Manufacturing	163	6.0%	1,700	1.1%
50	Information	89	3.3%	1,400	1.6%
80	Other Services	96	3.5%	-2,300	-2.3%

Sources: YardiMatrix, Bureau of Labor Statistics

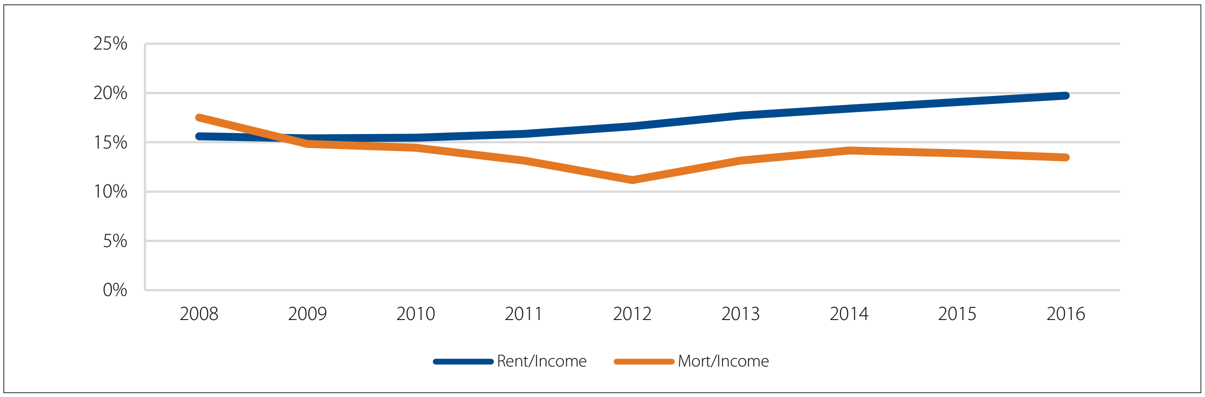
Demographics

Affordability

- Atlanta continues to maintain its position as a relatively affordable market—although housing is growing more expensive and the median home value has reached $191,000. Nonetheless, owning remains more affordable than renting, with the average mortgage payment comprising 13% of the city's median income and rent making up 20%.

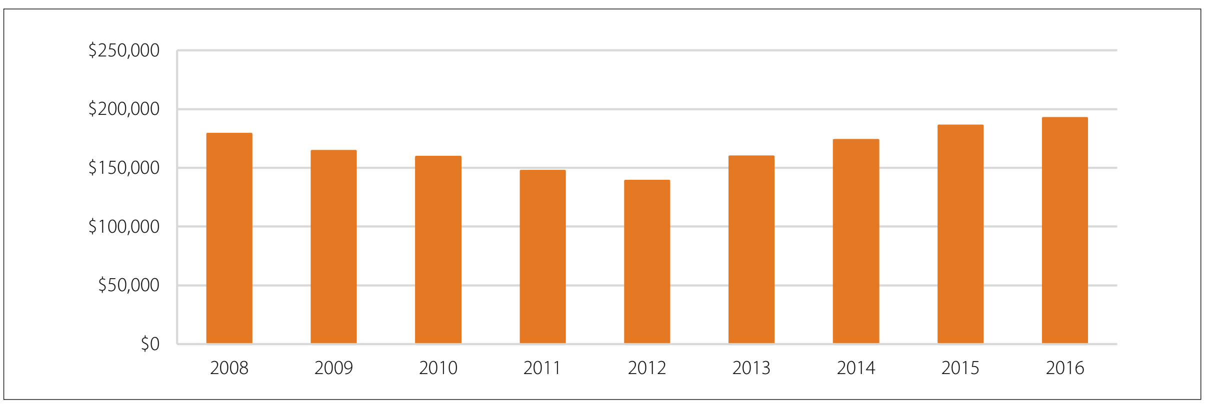
- Since 2005, a number of organizations—including the Atlanta BeltLine Planning Area (ABI), Atlanta Housing Authority and more—delivered 2,000 affordable units. As of fall 2016, there were an additional 250 units in various stages of development. Over the next three years, ABI has committed to investing $15 million to $20 million to support an additional 425 to 600 units.

Atlanta Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Atlanta Median Home Price



Source: Moody's Analytics

Population

- From 2011 to 2015, Atlanta's population grew by 6.3%, more than double the 3.1% national growth rate.

- The metro expanded by 1.7% in 2015, 80 basis points in excess of the U.S. average.

Atlanta vs. National Population

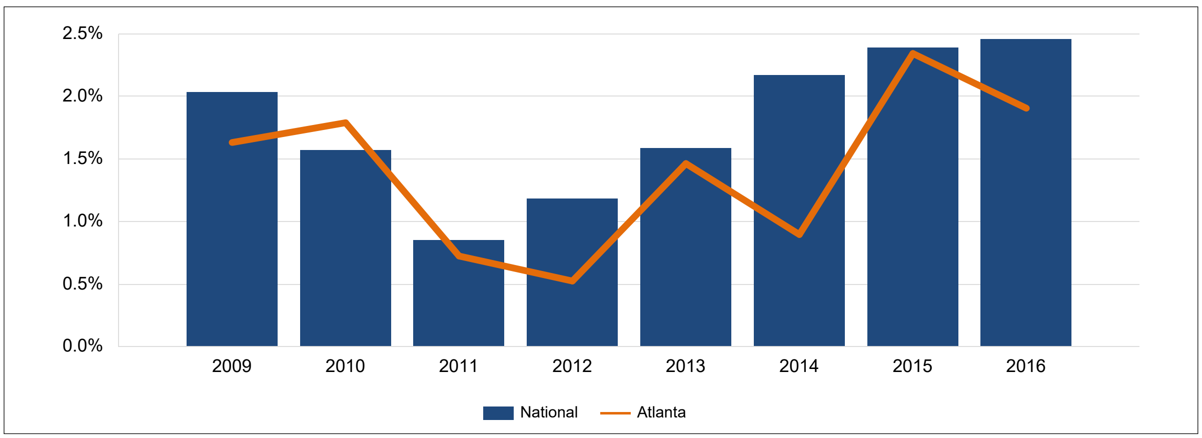
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Atlanta-Sandy Springs-Roswell, Ga., Metropolitan Statistical Area	5,374,179	5,455,324	5,523,527	5,615,364	5,710,795

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

Supply

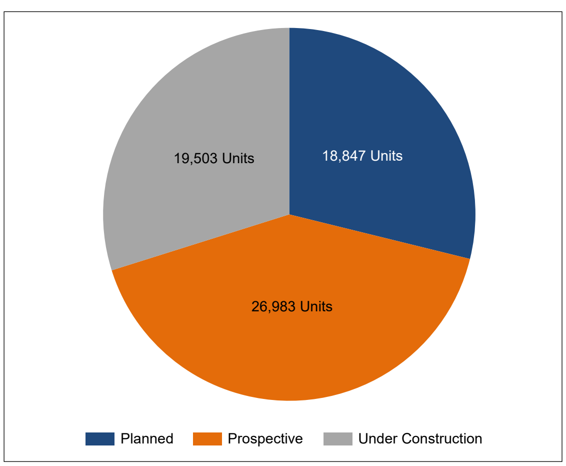
- Construction activity remains strong in Atlanta. Some 7,800 units came online during 2016—a 1.9% increase in stock, trailing the 2.5% national average. Completions have somewhat stabilized, as compared to 2015's cyclical high, when more than 9,400 new units hit the market.
- Roughly 19,500 apartment units are under construction, and Yardi Matrix forecasts more than 11,000 apartments coming online in 2017. The housing stock will continue its healthy extension in coming years, while absorption is expected to keep pace with solid gains in population and employment. Occupancy rates for stabilized properties rested at 95.0% during the last two months of 2016.
- Most oncoming supply is concentrated in core submarkets near downtown. New projects in these areas are predominantly upscale developments, with rents significantly above average. However, the consistent increase of high-paying jobs should enable these new deliveries to be absorbed at a favorable rate.
- Midtown South (2,005 units), Midtown West/Centennial Place (1,591), Sandy Springs/Dunwoody (1,393) and Buckhead Village (1,259) were the most active submarkets. The largest project to come online in 2017 will be The Battery Atlanta, a 541-unit luxury community in the Marietta SE submarket developed by Pollack Shores.

Atlanta vs. National Completions as a Percentage of Total Stock (as of January 2017)



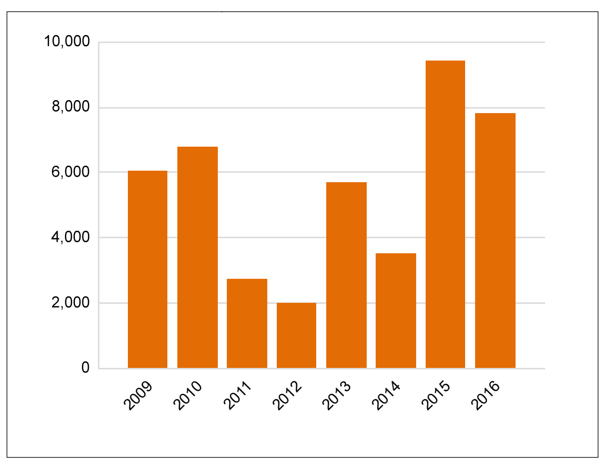
Source: YardiMatrix

Development Pipeline (as of January 2017)



Source: YardiMatrix

Atlanta Completions (as of January 2017)

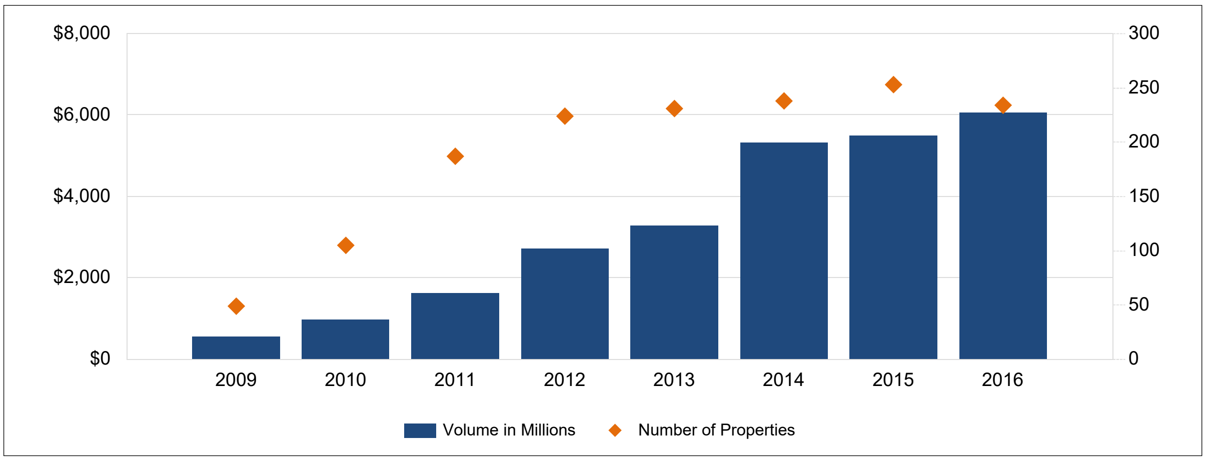


Source: YardiMatrix

Transactions

- Transaction volume rose to $6 billion in 2016, representing a high in the cycle. As a leading secondary market, Atlanta appeals to investors enticed by consistent growth and in search of a large regional center outside the overheated core coastal markets.
- As property values increased, the per-unit price reached a cyclical high of $96,734, despite being well below the $136,418 national average. Acquisition yields for stabilized Class A properties ranged from 4.5 to 5%, while yields for B and C class assets fluctuated between 5 and 7%.
- Investor appetite was strongest in Buckhead ($458 million), Lawrenceville ($326 million) and Marietta Southeast ($306 million). The Residence Buckhead Atlanta ranked as the largest multifamily transaction in 2016, purchased by Simpson Housing for $137 million, or $368,919 per unit.

Atlanta Sales Volume and Number of Properties Sold (as of January 2017)



Source: YardiMatrix

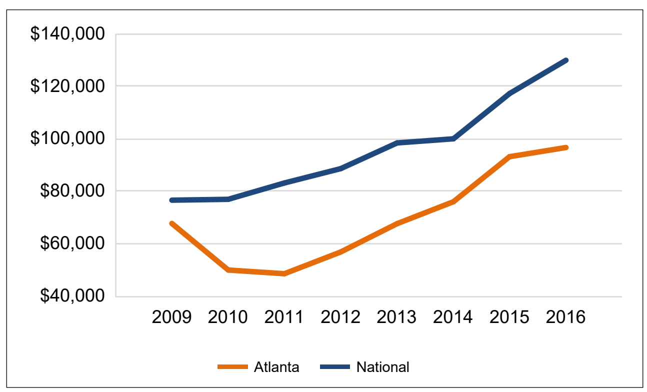
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Buckhead	458
Lawrenceville	326
Marietta Southeast	306
Sandy Springs/Dunwoody	298
Sandy Springs North	296
Duluth/Norcross	281
Lilburn	272
Roswell/Alpharetta	260

Source: YardiMatrix

[1] From December 2016 to January 2017

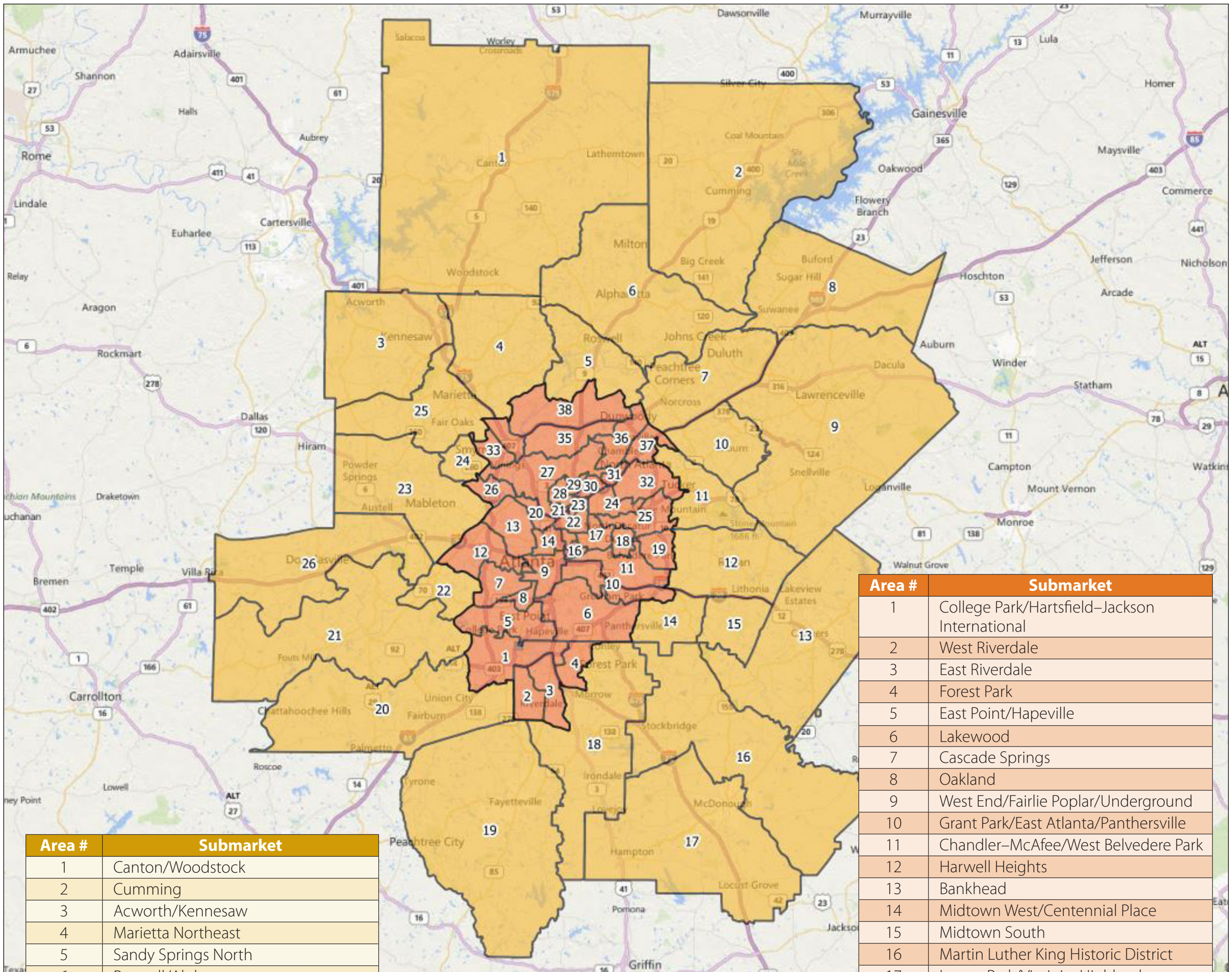
Atlanta vs. National Sales Price per Unit



Source: YardiMatrix

Photo by ferrantraite/iStockphoto.com

Atlanta Submarkets



Area #	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 #	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–Highland
18	Decatur
19	Avondale Estates/East Belvedere Park
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 may 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 may 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, may 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.