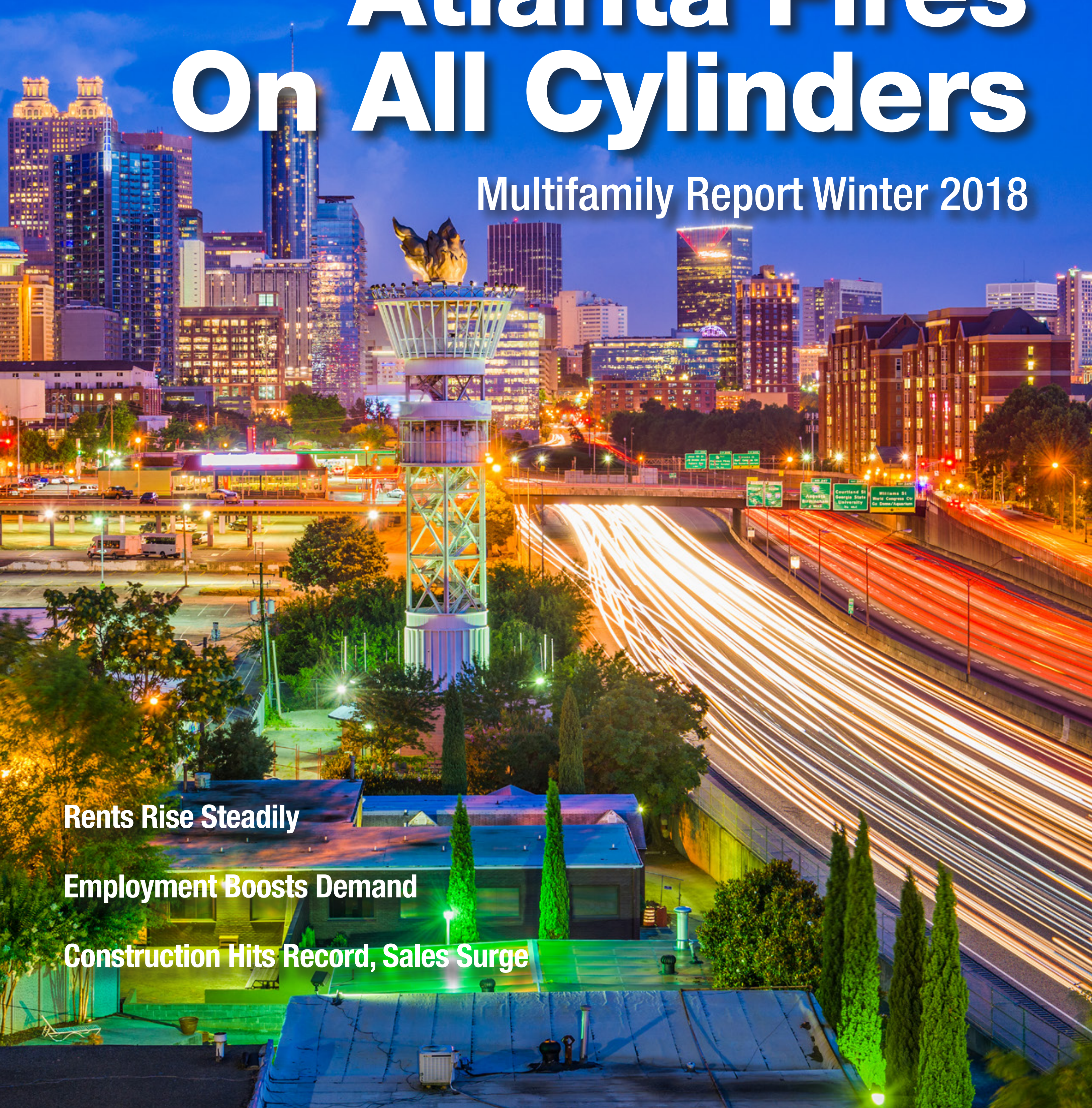
Yardi® Matrix

Atlanta Fires On All Cylinders

Multifamily Report Winter 2018



Rents Rise Steadily

Employment Boosts Demand

Construction Hits Record, Sales Surge

Market Analysis

Winter 2018

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Approaching a Market Peak?

Throughout 2017, Atlanta has shown solid market fundamentals and rapid economic growth. Its healthy multifamily market is underpinned by strong population and job growth, a substantial development pipeline and record transactions. The metro is one of the fastest growing in the nation, with its 18-hour lifestyle and favorable business climate attracting young talent, as well as national and international capital, while keeping rental demand at elevated levels.

Although the metro's economy continues to be driven by trade, transportation and utilities (6,300 new jobs), professional and business services outperformed other sectors by adding more jobs than most of them combined—30,500 new positions in the 12 months ending in September. Atlanta's development boom shows no signs of slowing down, with more than 70 projects under construction or planned in Midtown and Buckhead alone. One of the most prominent was recently finalized—the $1.5 billion Mercedes-Benz Stadium, the new home of the Atlanta Falcons. The arena received an estimated $600 million in public funding.

Multifamily investments and deliveries are showing signs of peaking by year-end, as roughly 8,700 units came online, 250 units short of what the market delivered in 2016, and $4.7 billion in multifamily assets traded as of October, $2 billion less than the full 12 months of 2016. Rents rose 2.9% to $1,187 through that interval, and we expect rents to rise by 3.6% in 2017.

Recent Atlanta Transaction

Gables Emory Point

City: Atlanta
Buyer: LivCor
Purchase Price: $199 MM
Price per Unit: $265,333

Rockledge

City: Marietta
Buyer: Highland Capital Management
Purchase Price: $114 MM
Price per Unit: $160,311

Lakeside at Milton Park

City: Alpharetta
Buyer: Olen Properties
Purchase Price: $98 MM
Price per Unit: $213,124

Avia at North Springs

City: Atlanta
Buyer: Harbor Group International
Purchase Price: $93 MM
Price per Unit: $176,121

To Subscribe

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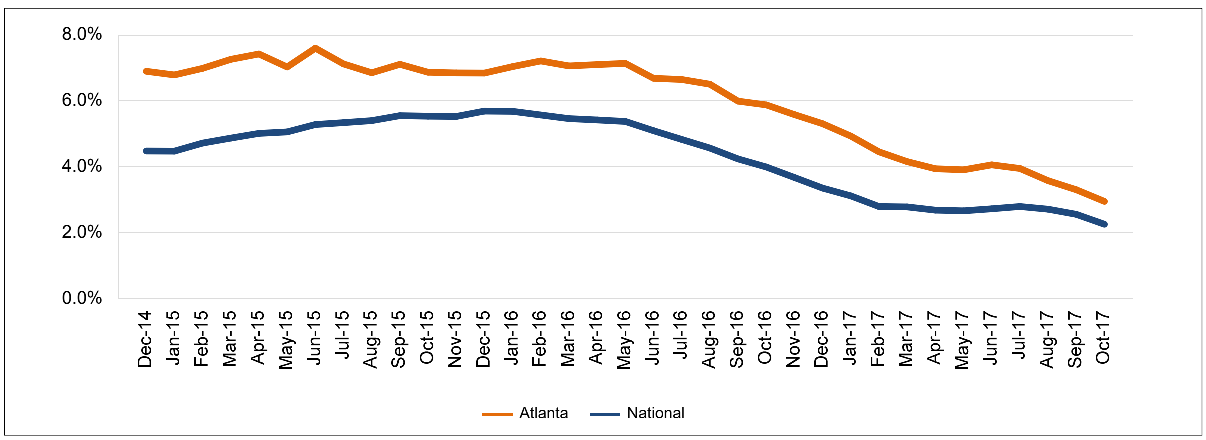
On the cover: Photo by Sean Pavone Photo/iStockphoto.com

Rent Trends

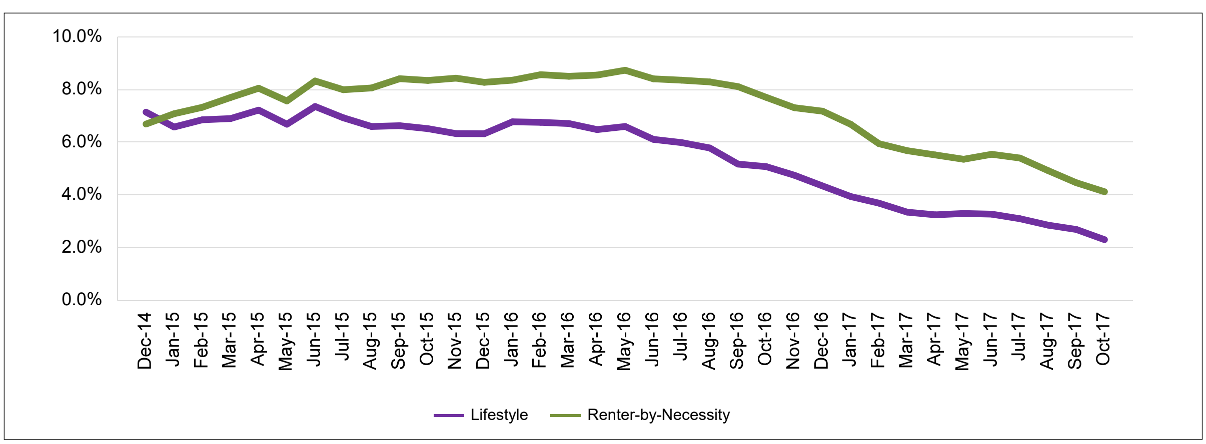
- Atlanta rents increased 2.9% year-over-year through October, outpacing the national rate of 2.3%. Rent has steadily increased in recent years, but at $1,187, it remains well below the national average of $1,314. Gains, however, continue to decline, following national trends.
- Rent growth was led by the working-class Renter-by-Necessity segment, up 4.1% year-over-year to $961, while Lifestyle rents increased 2.3% to $1,336. Demand remains elevated for both segments, due to Atlanta's broad-based employment growth and diverse economy. Being less expensive than other major metros, Atlanta is equipped to withstand future rent increases, as only lower-paid residents in need of affordable housing are affected by the current rent hikes.
- Rents grew fastest in submarkets from the city's outer ring, including Tucker/Stone Mountain (up 10.6% year-over-year), Cliftondale (up 9.4%) and Redan (7.5%). No areas have seen contractions in the 12 months ending in October.
- Population and employment gains are bound to sustain future demand, although the oversaturated supply will slightly impact rent increase in some degree. Yardi Matrix expects a 3.6% rent growth for the year.

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)

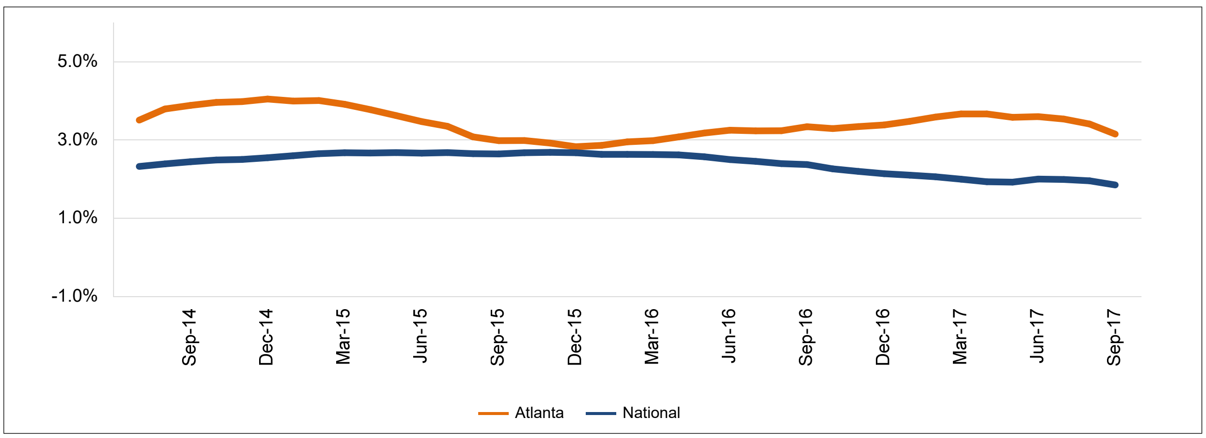


Source: YardiMatrix

Economic Snapshot

- Atlanta added 68,300 jobs in the 12 months ending in September 2017, up 3.2% and well above the 1.9% national rate.
- Growth was led by professional and business services. The sector will continue to expand, as Atlanta has more than 3 million square feet of office space under construction. Coda and NCR Corporate Headquarters are the two largest office developments under construction, both in Tech Square, totaling more than 750,000 square feet of space. According to Colliers, no significant change occurred in office occupancy in the third quarter, as occupancy and vacancy balanced each other out. Expansions by Delta Dental and Industrious were countered by space consolidations and contractions by Sprint and WellStar.
- Education and health care added 8,900 jobs. This sector is also bound to expand, as the entire area south of Interstate 85 was recently annexed by Brookhaven to make way for a master-planned, 45-acre mixed-use campus focused on health care. The first building that broke ground was a $1 billion children's hospital.
- Every sector registered gains, except manufacturing, which contracted by 1,100 jobs. A strong dollar and trading adversities will continue to have a negative impact on both Georgia's and the nation's manufacturing sector going forward.

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	525	19.1%	30,500	6.2%
65	Education and Health Services	346	12.6%	8,900	2.6%
70	Leisure and Hospitality	296	10.8%	7,600	2.6%
40	Trade, Transportation and Utilities	596	21.6%	6,300	1.1%
55	Financial Activities	173	6.3%	5,000	3.0%
50	Information	99	3.6%	4,000	4.2%
90	Government	335	12.2%	3,800	1.1%
80	Other Services	100	3.6%	1,900	1.9%
15	Mining, Logging and Construction	122	4.4%	1,400	1.2%
30	Manufacturing	161	5.8%	-1,100	-0.7%

Sources: YardiMatrix, Bureau of Labor Statistics

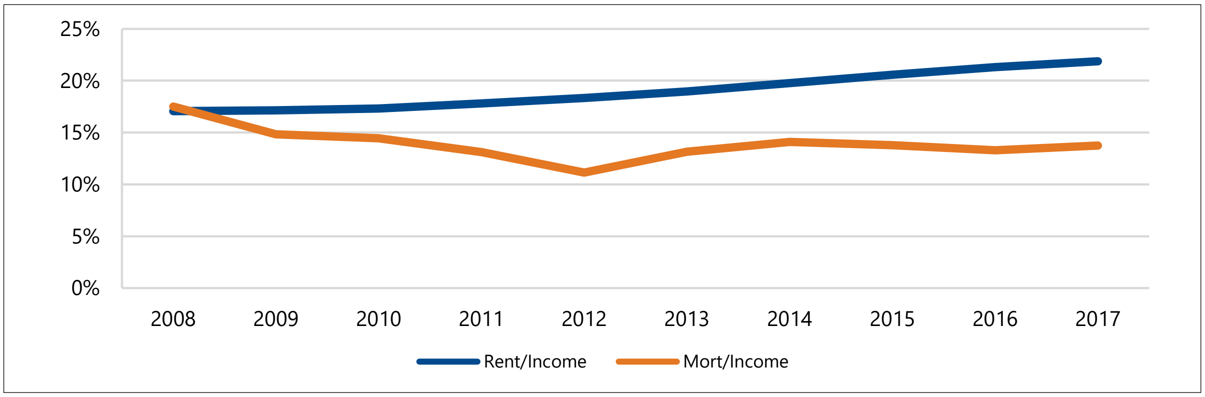
Demographics

Affordability

- Affordability issues are worsening in Atlanta. The median home value hit a cycle high of $191,268 in 2017, with the average mortgage accounting for 14% of the city's median income, while the average rent equated to 22%.

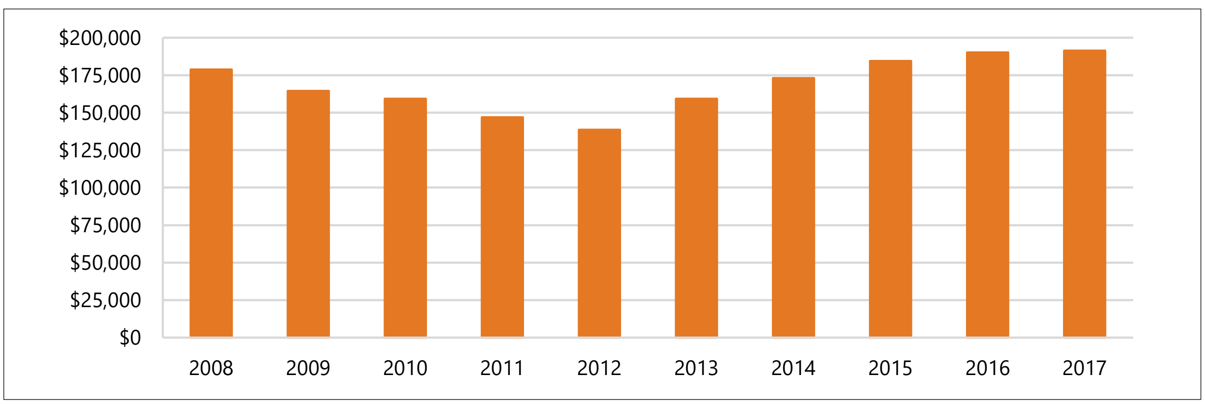
- The redevelopment of the 22-mile Beltline railway—which will include housing, parks, efforts toward sustainability, transit, health and urban revitalization—is the city's biggest attempt to tackle the low-cost housing issue. The city required that the project provide 5,300 affordable units by the time the revamp would be completed in 2030; as of 2015, barely 785 units were delivered. The majority of the public funds has not been accessed, and some of the already built affordable units have already been converted.

Atlanta Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Atlanta Median Home Price



Source: Moody's Analytics

Population

- Atlanta's population increased by 1.6% in 2016, more than double the 0.7% national growth rate.

- The metro added 90,650 residents last year and 487,771 since 2012.

Atlanta vs. National Population

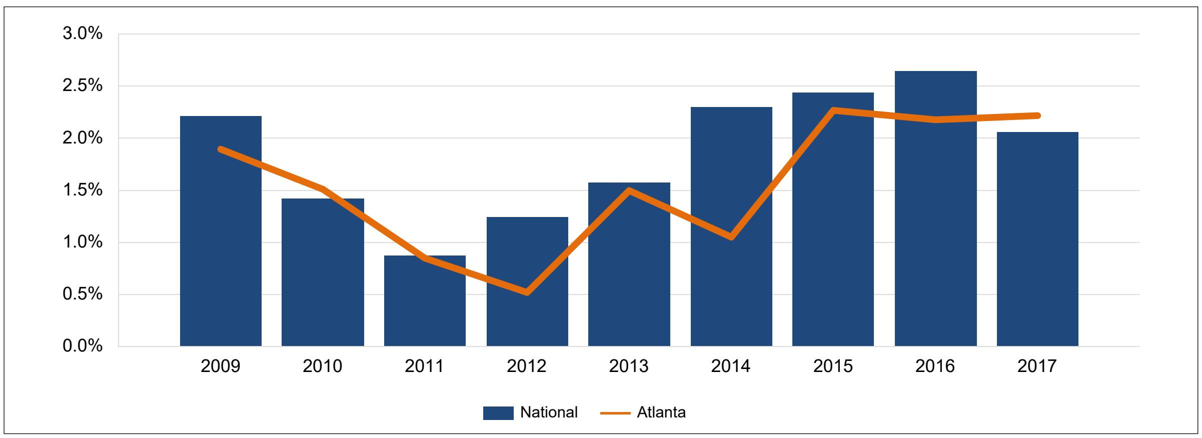
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Atlanta Metro	5,452,145	5,517,230	5,605,765	5,699,050	5,789,700

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

Supply

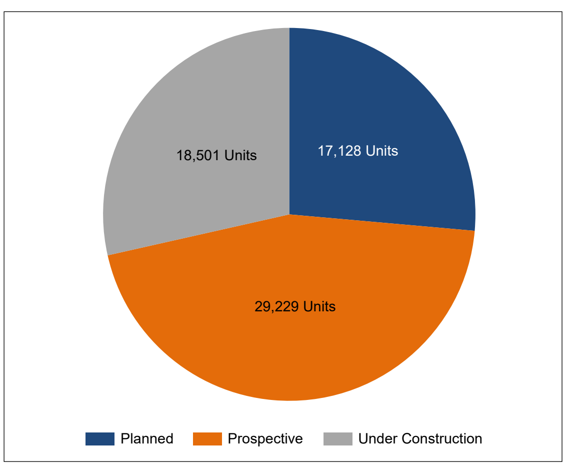
- Apartment deliveries are building up to a cycle high this year, as approximately 8,700 multifamily units came online as of October, 250 units short of what the market delivered in 2016. As deliveries are peaking, supply is steadily outpacing demand.
- Roughly 18,500 units were under construction and more than 46,000 were in the planning and permitting stages. Developers are primarily targeting infill locations in Midtown and Buckhead, where new stock mostly consists of mid-rise communities and a handful of high-rises. Secondary areas are seeing less activity, as the metro's northern submarkets—including Alpharetta and Vinings—are the highest barrier-to-entry areas.
- The bulk of upcoming inventory is in Lifestyle units, but a steady rate of high-paying technology and health-care jobs will ensure a steady absorption. As of September 2017, occupancy rates in stabilized properties stood at 94.9%.
- The largest project due by year-end 2017 is the 353-unit Hanover Buckhead Village luxury tower in the Haynes Manor/Peachtree Hills submarket. Built by The Hanover Co., the mixed-use development will feature ground-floor retail and a rooftop pool. Pre-leasing started in November.

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



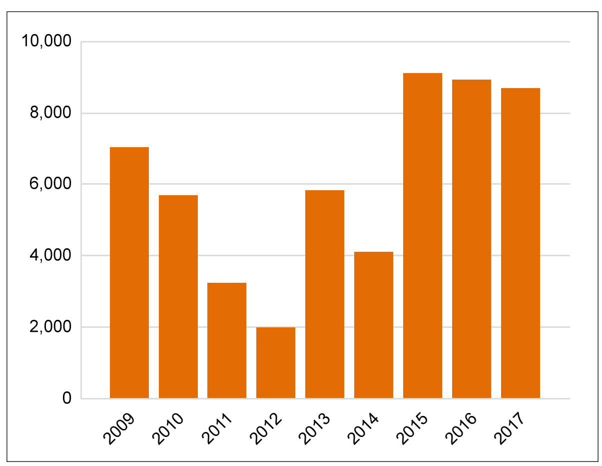
Source: YardiMatrix

Development Pipeline (as of October 2017)



Source: YardiMatrix

Atlanta Completions (as of October 2017)

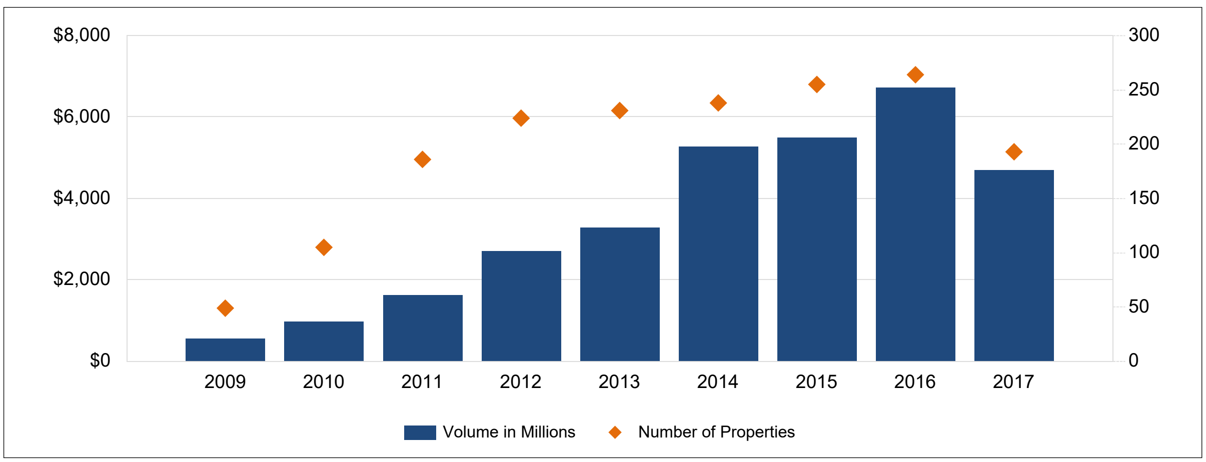


Source: YardiMatrix

Transactions

- Atlanta is poised to cap off another strong year for multifamily investment, as roughly $4.7 billion in assets traded as of October 2017. Last year, more than $6.7 billion in properties changed hands.
- The average price per unit fell by $1,000 this year to $101,497, well below the $135,621 national average. Consistent growth and returns drive the market, as both local, national and international buyers are seeking investment opportunities in the region. Acquisition yields for stabilized Class A properties range between 4.7% and 6.2%, while yields for Class B and C assets are between 5.5% and 7.5%.
- Over the past 12 months, Sandy Springs/Dunwoody was the busiest submarket and LivCor's $199 million purchase of the 750-unit Gables Emory Point was the largest transaction. Sold by Gables Residential, the luxury asset is located in North Decatur/Clarkston/Scottdale and was 94.8% occupied as of September.

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



Source: YardiMatrix

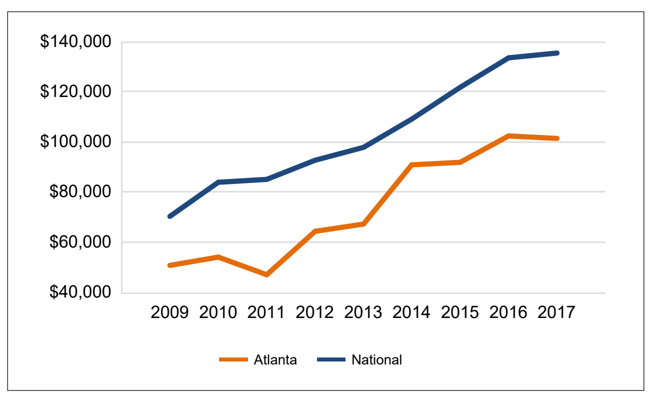
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Sandy Springs/Dunwoody	617
Lilburn	376
North Vinings	297
North Decatur/Clarkston/Scottdale	292
Roswell/Alpharetta	238
Lawrenceville	217
Buckhead	216
Sandy Springs North	213

Source: YardiMatrix

[1] From November 2016 to October 2017

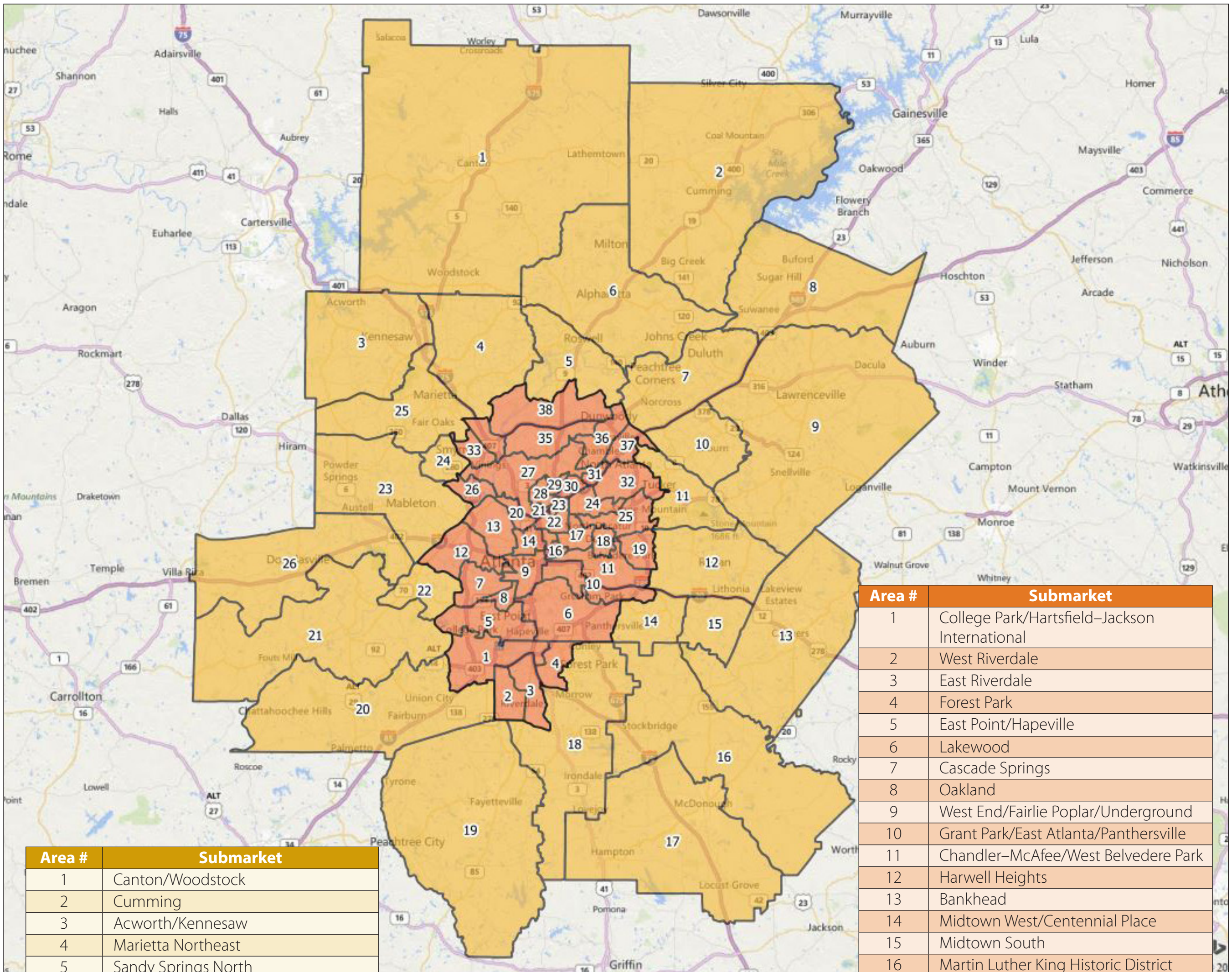
Atlanta vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Sean Pavone Photo/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.