Yardi® Matrix

Atlanta's Rise Bears a Price

Multifamily Report Summer 2018

Transactions Stay Elevated

Suburban Areas Power Rent Growth

Affordability Slowly Becomes an Issue

Market Analysis
Summer 2018

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Pricier Than It Used to Be

Continued rent appreciation in Atlanta has made the metro significantly less affordable than its reputation suggests, with the average rent going past the $1,200 mark this year, having gained more than $200 since the summer of 2014. The metro's population has risen at some of the fastest rates in the country, further pushing up housing demand across the quality spectrum. With 25,000 units delivered since the beginning of 2016, occupancy in stabilized assets remained relatively steady, sliding only 90 basis points in the interim.

Atlanta's economy is thriving, with job availability and the city's image as the region's economic anchor driving continued interest in the metro. Some of the strongest demographic trends in the nation support that improvement, pushing the need for more housing while employment growth is performing above the national trend. Atlanta's primary challenge now is moderating the effects of its rampant growth, as traffic congestion and mobility issues are growing concerns for residents and investors alike.

The metro's multifamily pipeline had 18,000 units underway as of June, with another 60,000 in the planning and permitting stages. As a result, rent growth in the built-out Lifestyle segment has shifted down a gear, leading us to expect that overall appreciation will top out at 2.8% for the year.

Recent Atlanta Transactions

Rockledge

City: Marietta, Ga.
Buyer: NexPoint Residential Trust
Purchase Price: $114 MM
Price per Unit: $160,311

Lakeside at Milton Park

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

Rosemont Berkley Lake

City: Duluth, Ga.
Buyer: Investcorp
Purchase Price: $94 MM
Price per Unit: $142,803

Laurel Hills Preserve

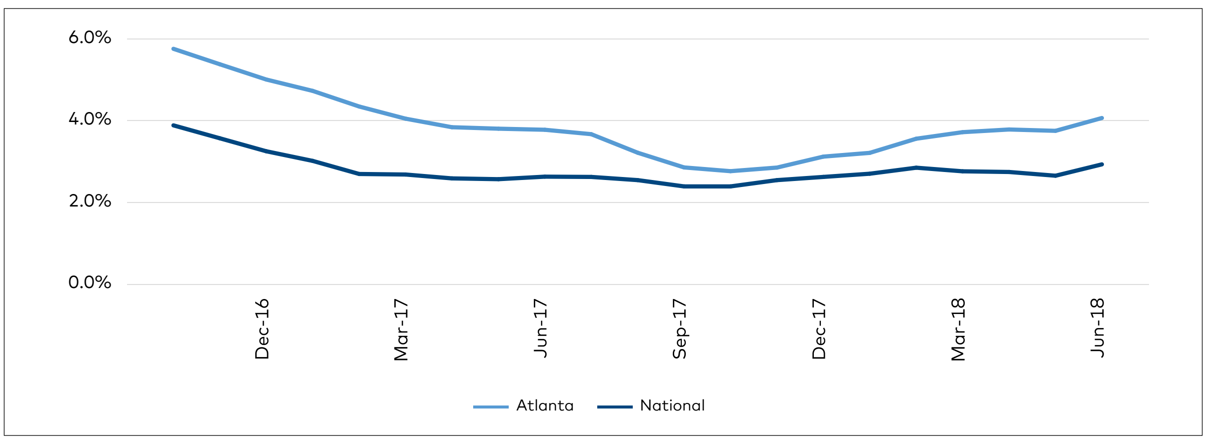
City: Marietta, Ga.
Buyer: Bridge Investment Group Partners
Purchase Price: $87 MM
Price per Unit: $121,078

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

Rent Trends

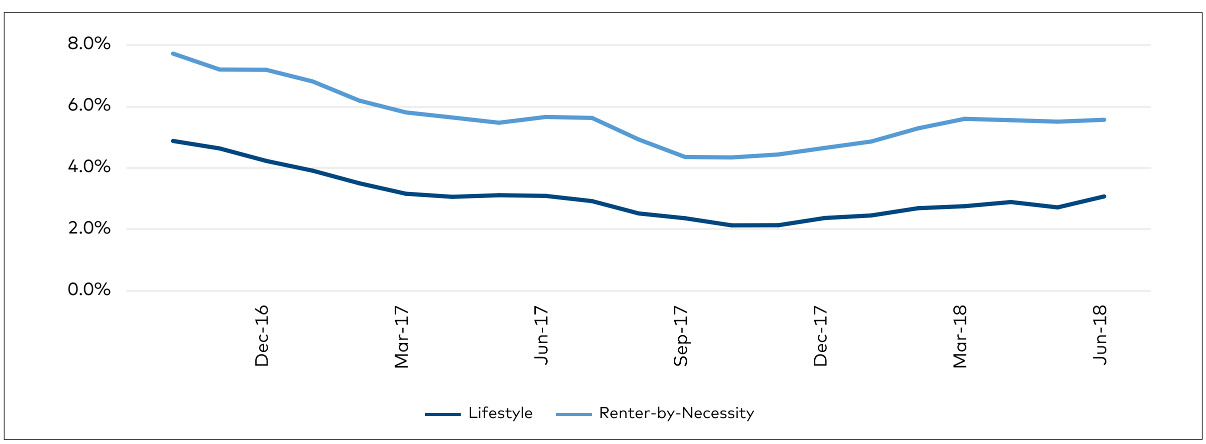
- Atlanta rents were up 4.1% year-over-year in June, 120 basis points above the 2.9% national rate. The average rent was $1,229, still behind the $1,405 U.S. figure. Rents crossed the $1,000 mark in the summer of 2014 and have continued their rise, having appreciated by more than $200 since then.
- Working-class Renter-by-Necessity assets drove appreciation in Atlanta over the past year, with rents rising 5.6% to an average of $1,005. With the vast majority of new supply being added to upscale stock, limited availability of RBN properties is pushing workforce housing demand higher. Lifestyle rents also improved—at 3.1% year-over-year—to an average of $1,374.
- Occupancy numbers are being pushed back to historic averages as a large slate of units has been added to stock in recent years. As developers remain focused on upscale units, occupancy is likely to drop in the segment.
- Growth has overwhelmingly occurred in fringe submarkets from the metro's outer ring. Rents rose at the fastest rates in Mableton/Austell (10.2%), Marietta NE (10.2%), Union City/Fairburn (8.9%), Smyrna/Fair Oaks (8.4%) and Jonesboro/Bonanza (8.1%). Bolstered by rapid improvement in the suburbs, Atlanta rents are expected to continue their rise, reaching 2.8% 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)

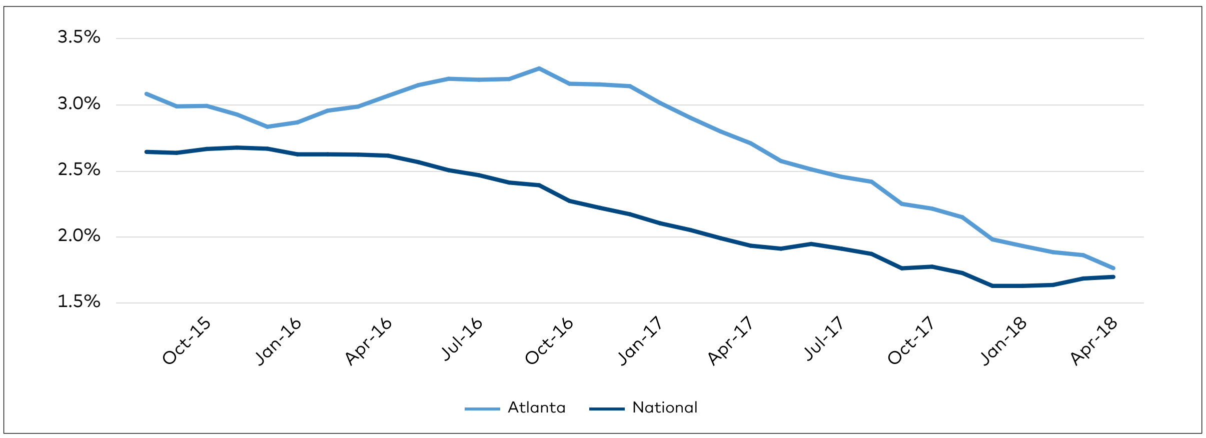


Source: YardiMatrix

Economic Snapshot

- Atlanta added 41,300 jobs in the 12 months ending in April for a 1.8% year-over-year employment growth rate, 10 basis points above the U.S. average.
- Trade, transportation and utilities drove growth by adding 15,300 jobs, further cementing the sector's position as Atlanta's economic cornerstone. Jobs in the sector account for 22.3% of the metro's employed population. Considering the city's growing congestion issues, further expansion is expected in the sector, as local authorities face the need to improve both infrastructure and administration to be able to cope. With expectations that a centralized City Department of Transportation should be created, and the planned expansion of the Metropolitan Atlanta Rapid Transit Authority (MARTA) into Gwinnett County moving ahead to voters in 2019, the sector will most likely hold its place as the area's main economic driver.
- Atlanta's multifamily development boom is closely mirrored by its office pipeline. Roughly 5.1 million square feet of office space was underway as of July—98.5% is expected to be Class A. Transactions are also high, bolstered by a large swath of deals closed for value-add opportunities, with the bulk of investment sales being completed for lower-rate assets in suburban areas.

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	%
40	Trade, Transportation and Utilities	613	22.3%	15,300	2.6%
65	Education and Health Services	353	12.8%	13,200	3.9%
70	Leisure and Hospitality	299	10.9%	9,300	3.2%
15	Mining, Logging and Construction	128	4.6%	6,900	5.7%
90	Government	337	12.2%	4,400	1.3%
30	Manufacturing	168	6.1%	1,600	1.0%
80	Other Services	100	3.6%	800	0.8%
55	Financial Activities	170	6.2%	700	0.4%
60	Professional and Business Services	494	17.9%	-2,500	-0.5%
50	Information	91	3.3%	-8,400	-8.5%

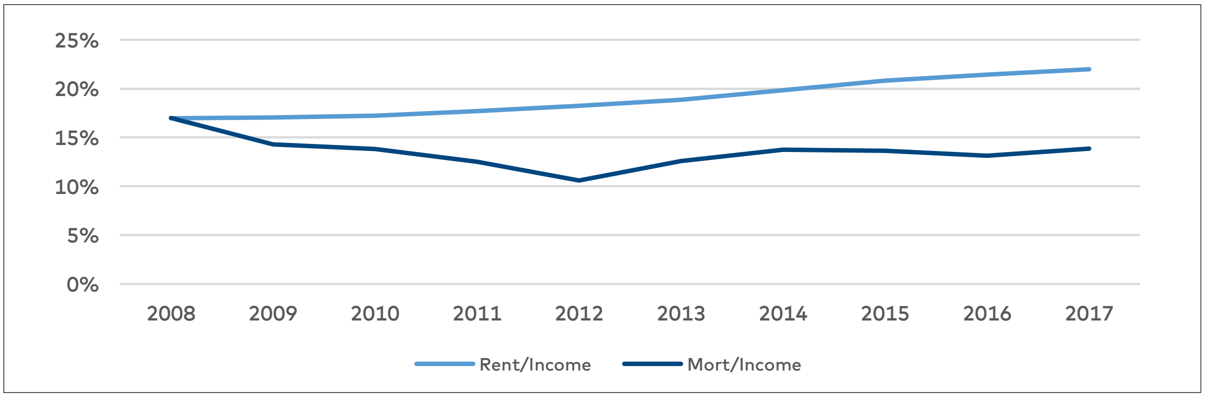
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

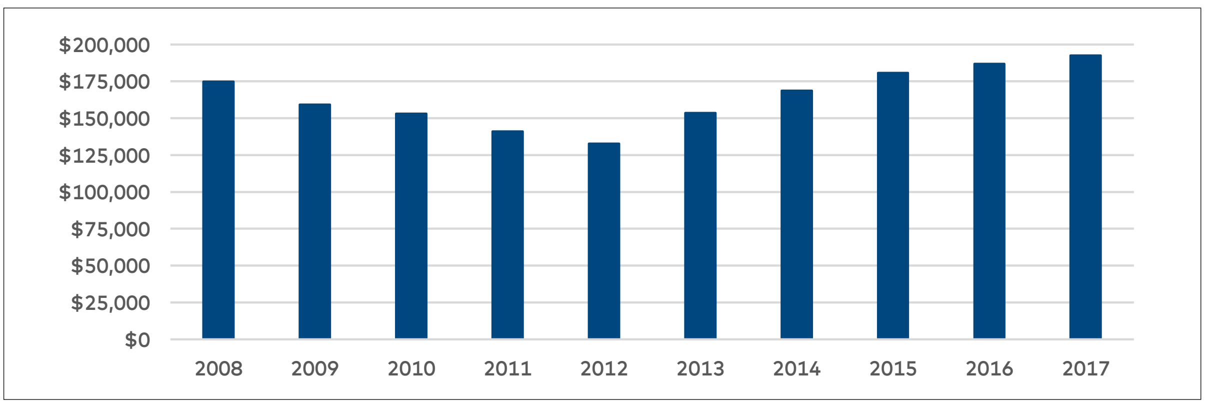
- Atlanta's median home price rose throughout the second half of the cycle, reaching $192,487 in 2017. This accounts for a 45% appreciation from the current expansion's low point—$132,811 in 2012. Rents have also consistently improved through that interval, becoming by far the costlier option in the metro. Despite accounting for the same percentage of incomes at the beginning of the cycle, renting now encompasses 22%, while the average mortgage payment accounts for 14%.
- Although Atlanta is historically one of the more affordable large cities in the U.S., its expansion came with a price. Costs have risen considerably, leading to roughly average affordability rates among metros.

Atlanta Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Atlanta Median Home Price



Source: Moody's Analytics

Population

- Metro Atlanta added 89,000 residents in 2017, a population growth rate of 1.5%, more than double the U.S. rate.
- With 367,702 residents added since 2013, Atlanta is one of the fastest-growing metros in the nation.

Atlanta vs. National Population

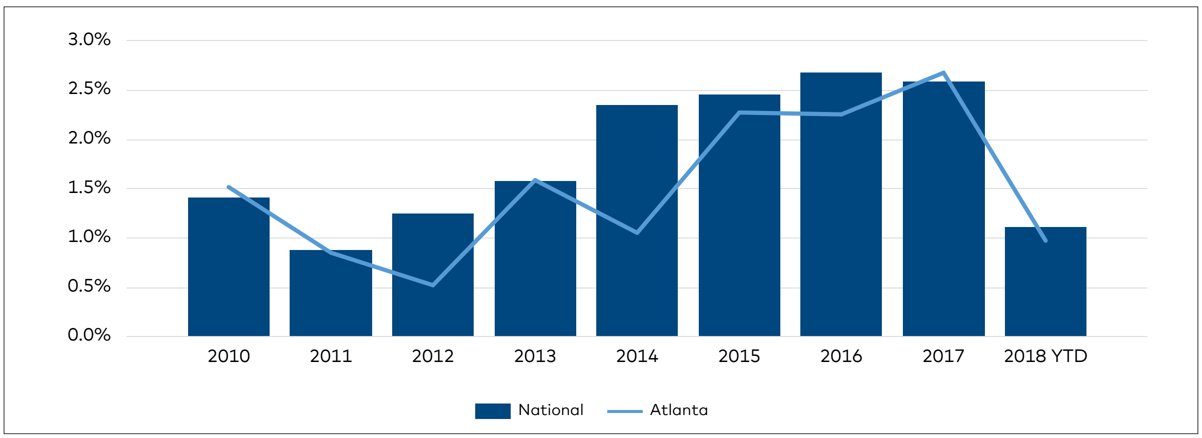
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Atlanta Metro	5,517,034	5,605,117	5,702,331	5,795,723	5,884,736

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

Supply

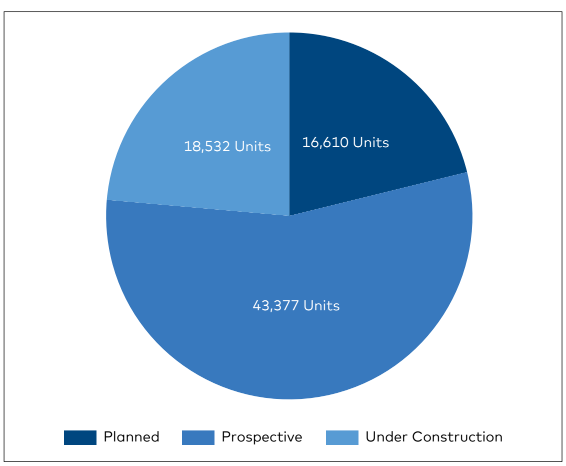
- Roughly 4,100 units came online in Atlanta in 2018 through June. Deliveries were nearly in line with the national rate, pointing to another year of solid inventory expansion. We expect the total unit haul for 2018 to reach 10,000, pushing deliveries past this threshold for the second time this cycle.
- Atlanta had 18,500 units underway as of June, while another 60,000 units were in the planning and permitting stages. Development in the metro has stayed elevated since 2015, with roughly 34,000 units coming online during the last three-and-a-half years.
- Occupancy in stabilized properties slid 60 basis points to 94.0% year-over-year through April, as accelerated development is exerting further dilution. This trend is largely in line with the national arc, with the rate slowly coming down to its historic average.
- Development was strongest in the urban perimeter as of June, led by submarkets such as Midtown West/Centennial Place (2,506 units underway), Sandy Springs/Dunwoody (2,363 units), Buckhead Village (1,527 units) and Chandler-McAfee/West Belvedere Park (1,153 units).

Atlanta vs. National Completions as a Percentage of Total Stock (as of June 2018)



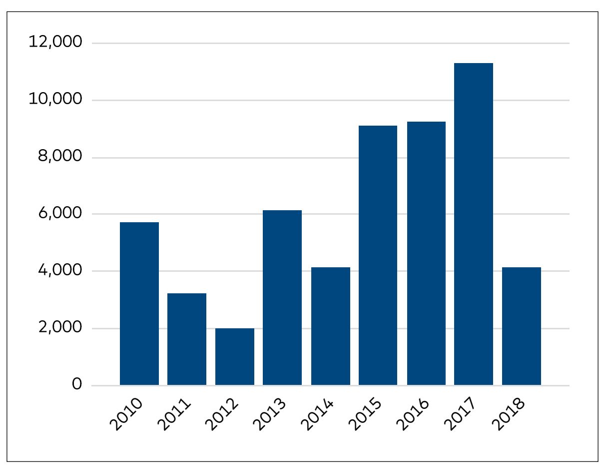
Source: YardiMatrix

Development Pipeline (as of June 2018)



Source: YardiMatrix

Atlanta Completions (as of June 2018)

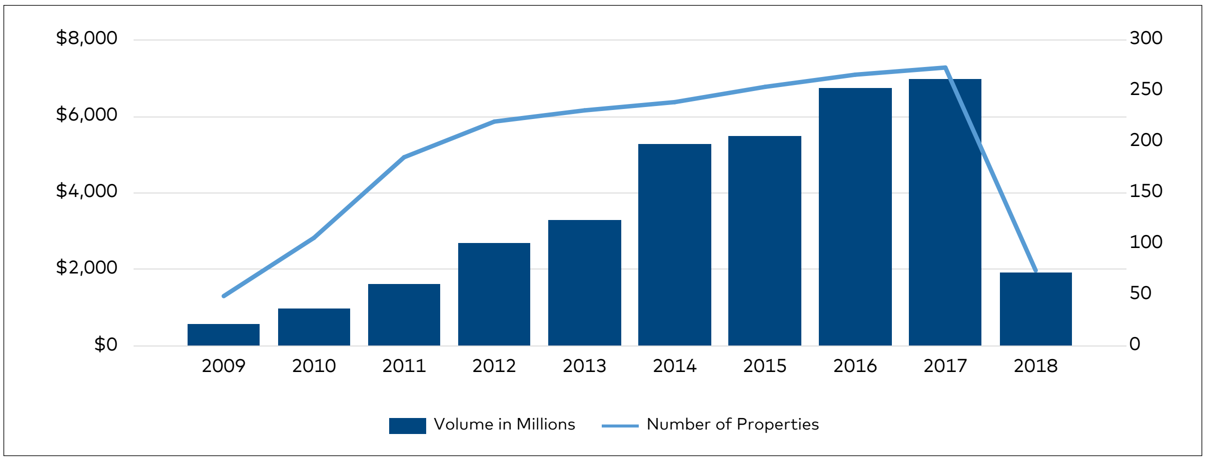


Source: YardiMatrix

Transactions

- Investment sales continued to be high in Atlanta, with $1.9 billion in multifamily assets trading during the first half of 2018. Although well below 2017 levels—when sales volume hit roughly $7 billion—investor appetite remains strong, as 74 transactions were completed during this year's first two quarters.
- Per-unit prices hit $109,160 in 2018 through June, almost twice the average price recorded in 2010. As per-unit prices for Lifestyle properties soar to double the rate of those in the Renter-by-Necessity segment—$148,921 and $73,018, respectively—value-add opportunities are likely to account for more of the transaction activity going forward. With acquisition yields for Class A assets compressing to gateway market levels, Atlanta's workforce properties are likely to become even more sought after as investment activity grows more tepid.

Atlanta Sales Volume and Number of Properties Sold (as of June 2018)



Source: YardiMatrix

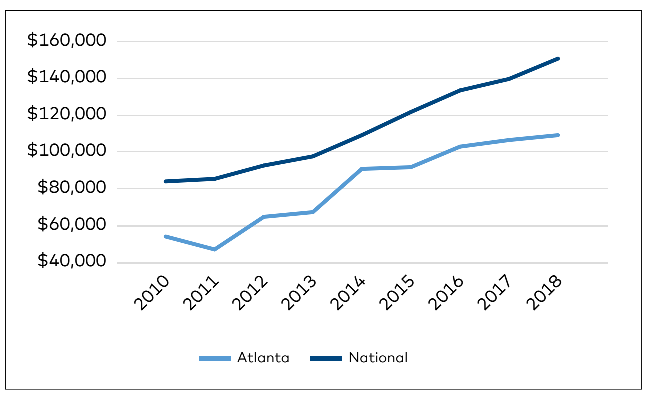
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Lawrenceville	387
Duluth/Norcross	317
Lilburn	302
Sandy Springs/Dunwoody	262
Roswell/Alpharetta	240
Marietta SW	218
Sandy Springs N	210
North Vinings	189

Source: YardiMatrix

[1] From July 2017 to June 2018

Atlanta vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

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LMC Breaks Ground On Atlanta M-U Community

The 21-story Gentry will comprise 290 units and 6,000 square feet of street-level retail. First move-ins are scheduled to begin in mid-2020.

HFF Expands Atlanta Multifamily Investment Team

Bo Moore joins the firm as a senior director, building on previous experience with ARA Newmark and Carter & Associates.

Capital One Secures $23M for Atlanta Area Apartments

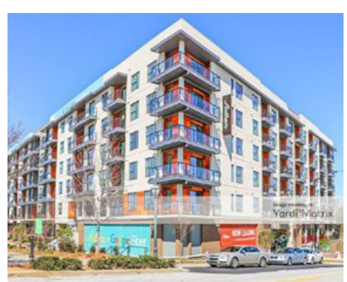
The company structured a $22.6 million Fannie Mae fixed-rate loan for The Parc at 1875, a 352-unit community in College Park, Ga.

Atlantic | Pacific Cos. Expands GA Footprint

The Pointe at Preston Ridge in Alpharetta marks the firm's 21st acquisition within the metro, bringing its total to nearly 5,500 units.

Greystone Provides $21M for GA Property

Totaling a combined 388 units, the Woodglen and Forest Pointe communities provide a mix of one- and two-bedroom units. Carter Multifamily purchased Forest Pointe earlier this year.



NAP Trades New Atlanta Luxury Community

The 244-unit Anthem on Ashley opened earlier this year and includes 6,000 square feet of on-site restaurant and retail space.

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Executive Insight

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What Attracts Investors to the Southeast

Boston-based West Shore LLC has built a $750 million multifamily portfolio in the two years that have passed since the company was founded. Most of its properties are in southeastern markets, but West Shore is considering expansion to other areas as well as consolidating its presence in states with favorable tax conditions. Lee Rosenthal, president of the company, discusses the organization's investment strategy and what modern renters look for in a community with Senior Writer Alexandra Pacurar.

How do you see the U.S. multifamily market today? What are the main trends in the business?

The multifamily market is thriving across the country. A strong economy, continued revitalization of midsize cities and their surrounding close-in suburbs, as well as the ongoing growth and demographic trends in all of our markets indicate a continued upswing. In midsize cities that have growing high-skill jobs and employment, we are seeing great opportunities to provide the kind of rental housing that attracts and serves these workers.

So far, West Shore has invested in the Southern and Southeastern markets. What can you tell us about the particularities of these regions when it comes to trends and challenges in the multifamily sector?

We have had great success with the assets we have acquired in Florida, the Carolinas, Texas, Tennessee, Kentucky and Georgia. We are likely to acquire additional assets in other fast-growing areas that have strong

job growth and favorable demographic and tax conditions. Most of the new opportunities we are evaluating right now are in similar markets in the Southeast and the Southwest. These growth markets are increasingly attractive to renters, including young individuals and couples, as well as retirees looking for better weather in a comfortable setting with upgraded amenities. We've also seen a lot of interest from empty nesters that want to stay near their friends and communities as they downsize.

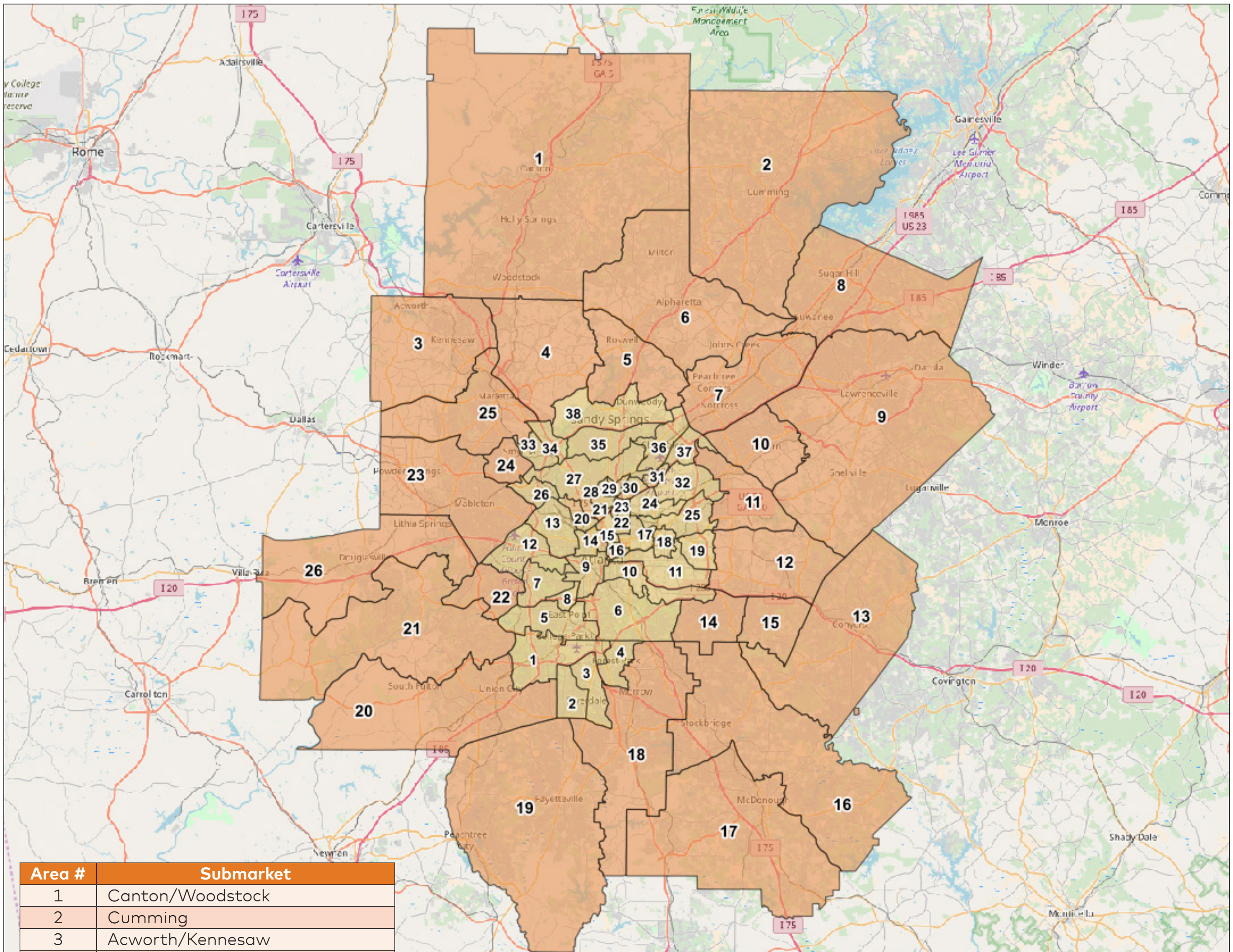
What other markets are you considering for a portfolio expansion and why?

In addition to the markets where we currently own, in which we expect to expand our footprint in a meaningful way, we are actively considering investing in other markets with significant job growth, positive demographic trends and favorable tax conditions.

What are your predictions regarding the multifamily sector going forward?

The pool of Millennials and empty nesters is growing in our markets. Interest rates may be going up somewhat, but they remain at historic lows. In any event, history shows that rent growth will outpace interest rate increases and any inflation. As our growing portfolio and our operating results continue to show, our strategy for multifamily investment will continue to provide predictable, sustainable cash flow along with very significant upside for our investors.

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 BelvederePark
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

Area #	Submarket
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.

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Market Data & Analysis

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