Yardi® Matrix

Atlanta's Bright Prospects

Multifamily Report Winter 2019

Rent Growth Accelerates

Developers Target Urban Core

Transaction Activity Remains Strong

Market Analysis

Winter 2019

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Heavy Demand Powers Through

Solid population growth and a strong economy continued to boost Atlanta's multifamily market last year, with the city ranking third for rent growth among major U.S. metros. The average Atlanta rate was up 5.9% year-over-year, reaching $1,261 in January. And despite a steady pipeline, the occupancy rate in stabilized properties inched up 30 basis points over 12 months to 94.4%, signaling that multifamily demand remains healthy.

Atlanta added 59,400 jobs in the 12 months ending in November 2018 for a 2.1% expansion, on par with the national growth rate. The high-tech industry is gaining more ground in the metro, attracted by the area's business-friendly climate, talent pool and relatively affordable costs compared to major coastal markets. Portman Holdings is developing a 750,000-square-foot project in Midtown's Tech Square, which is set to bring office, data center and R&D space by the time it opens in March, while the Dunwoody mixed-use project proposed by Grubb Properties received the city's green light. Upon completion, the latter is set to include 900 condominiums, 500,000 square feet of office space, retail and townhomes.

Roughly $6 billion in multifamily assets traded in 2018, more than half of them value-add communities. With almost 9,000 units slated to come online this year, we expect Atlanta rents to rise 3.3% in 2019.

Recent Atlanta Transactions

District at Duluth

City: Duluth, Ga.
Buyer: Principal Global Investors
Purchase Price: $83 MM
Price per Unit: $224,324

Silver Oak

City: Clarkston, Ga.
Buyer: TWG Development
Purchase Price: $29 MM
Price per Unit: $72,167

Alexandria Landing

City: Atlanta, Ga.
Buyer: Kazi Property Group
Purchase Price: $20 MM
Price per Unit: $40,600

The Enclave 38FiftyNine

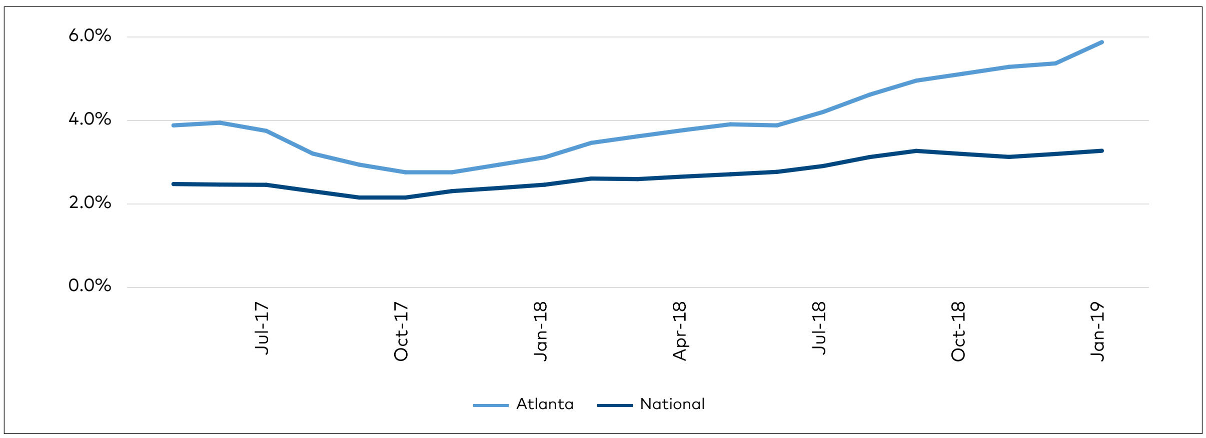
City: Decatur, Ga.
Buyer: Sureste Partners
Purchase Price: $5 MM
Price per Unit: $46,260

On the cover: Photo by Susanne Neumann/iStockphoto.com

Rent Trends

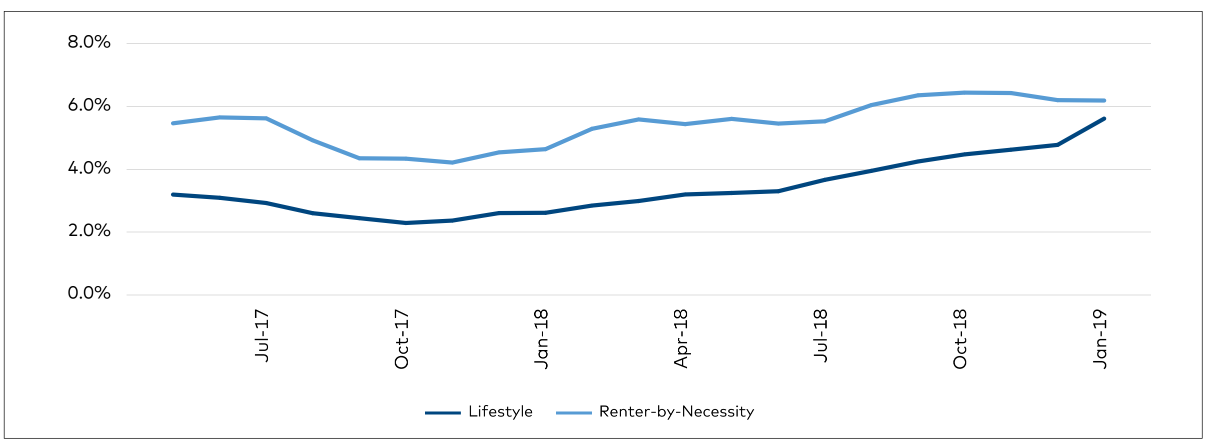
- Atlanta rents increased 5.9% year-over-year through January, well above the 3.3% U.S. rate. Sustained by solid job growth and strong levels of in-migration, the metro ranked third among major U.S. metros for rent appreciation, after Las Vegas (7.9%) and Phoenix (6.5%). The average Atlanta rent reached $1,261, remaining below the $1,420 national figure.
- Rents in the working-class Renter-by-Necessity segment led growth, up 6.2% to $1,029. Meanwhile, Lifestyle rates increased 5.6%, to $1,410. With developers mostly focused on upscale projects and the economy generating jobs at a rapid pace across several sectors, lower-income residents already burdened by the lack of affordable housing are bound to be further affected by market dynamics.
- Rent growth was spotty, with the average rate contracting in four submarkets and remaining virtually flat across several others. The most significant hikes were seen in neighboring Rhyne (8.7% to $1,269) and Smyrna/Fair Oaks (9.7% to $1,106). Urban submarkets such as Midtown ($2,005), Haynes Manor/Peachtree Hills ($1,867) and Midtown South ($1,844) commanded the highest rents as of January.
- Factoring in the metro's rapidly expanding economy, solid demographic expansion and steady but relatively moderate pipeline, we expect rents in Atlanta to rise 3.3% in 2019.

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

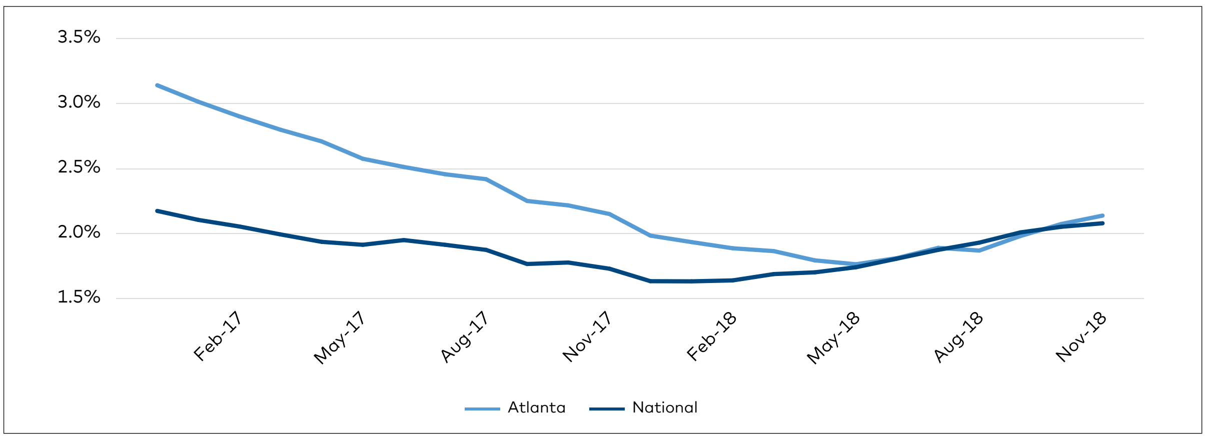
Economic Snapshot

- Atlanta added 59,400 positions in the 12 months ending in November for a 2.1% expansion, on par with the national rate. After growth steadily decelerated between September 2016 and mid-2018, the rate softly rebounded to the 2.0% mark during the second half of last year. The metro's unemployment rate ended 2018 at 3.7%, 20 basis points below the national figure.

- Professional and business services led growth, adding 17,600 jobs and highlighting the metro's attractiveness for businesses choosing Atlanta for both expansions and relocations. Coda at Techsquare, a new 750,000-square-foot project Portman Holdings is developing in Midtown's Tech Square, is set to bring office, data center and R&D space upon completion in March. Meanwhile, the Dunwoody mixed-use project proposed by Grubb Properties received the green light, with plans calling for 900 condominiums in four towers, 500,000 square feet of office space, as well as 12,000 square feet of retail and several townhomes.

- The Invest Atlanta Board of Directors approved plans for the 27-acre Gulch development, a mixed-use project estimated to cost $5 billion. The mini-city proposed by CIM Group calls for at least nine skyscrapers of 225 feet or higher encompassing 9 million square feet of office space, 1,000 residences, 1,500 hotel guestrooms, retail space and private roads.

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	522	18.4%	17,600	3.5%
40	Trade, Transportation and Utilities	636	22.5%	16,500	2.7%
70	Leisure and Hospitality	303	10.7%	12,100	4.2%
65	Education and Health Services	360	12.7%	11,900	3.4%
15	Mining, Logging and Construction	137	4.8%	9,100	7.1%
30	Manufacturing	169	6.0%	500	0.3%
90	Government	340	12.0%	-1,500	-0.4%
55	Financial Activities	169	6.0%	-1,700	-1.0%
80	Other Services	97	3.4%	-2,000	-2.0%
50	Information	97	3.4%	-3,100	-3.1%

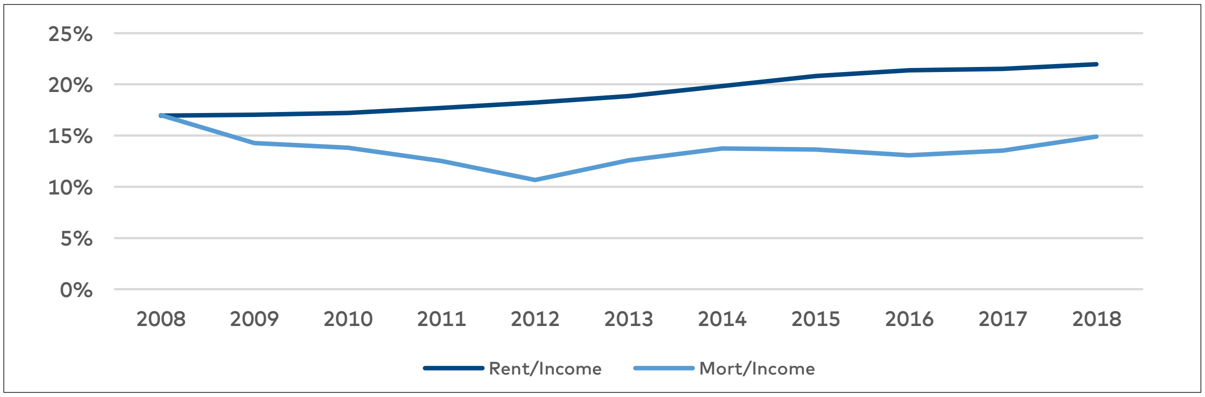
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

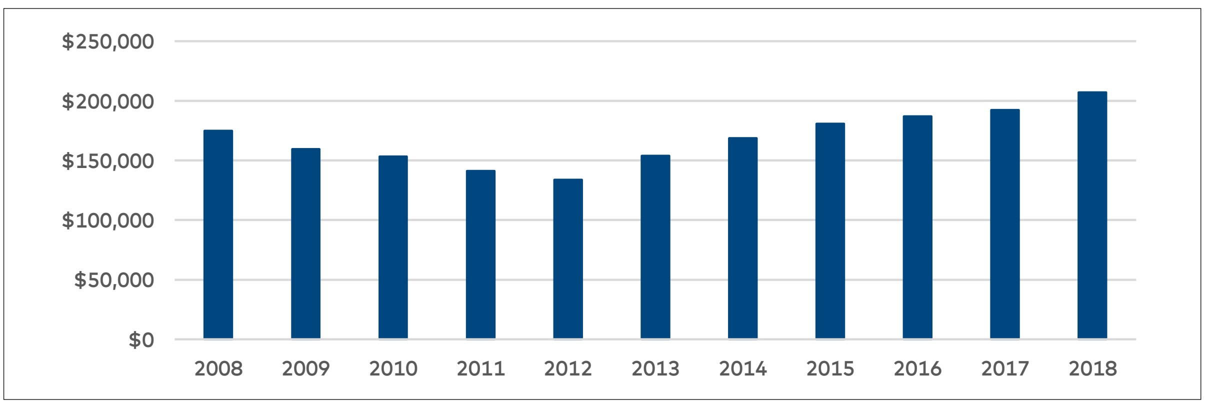
- Atlanta's housing affordability has been a lure to professionals and investors across the nation. This, coupled with a mismatch between supply and demand, has pushed the median home value up 7.7% in 2018 and 54.8% since the 2012 trough. Owning remained much more affordable last year, with the average mortgage payment accounting for 15% of the area's median income. Meanwhile, the average rent equated to 22%.
- In 2018, 756 units in eight fully affordable properties came online: 507 in urban Atlanta and 249 in the suburbs. The metro had 1,109 apartments in nine affordable projects underway as of January.

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 added 89,013 residents in 2017, a 1.5% uptick and more than double the national rate.
- The metro gained a total of 581,409 residents between 2010 and 2017, an 11% expansion.

Atlanta vs. National Population

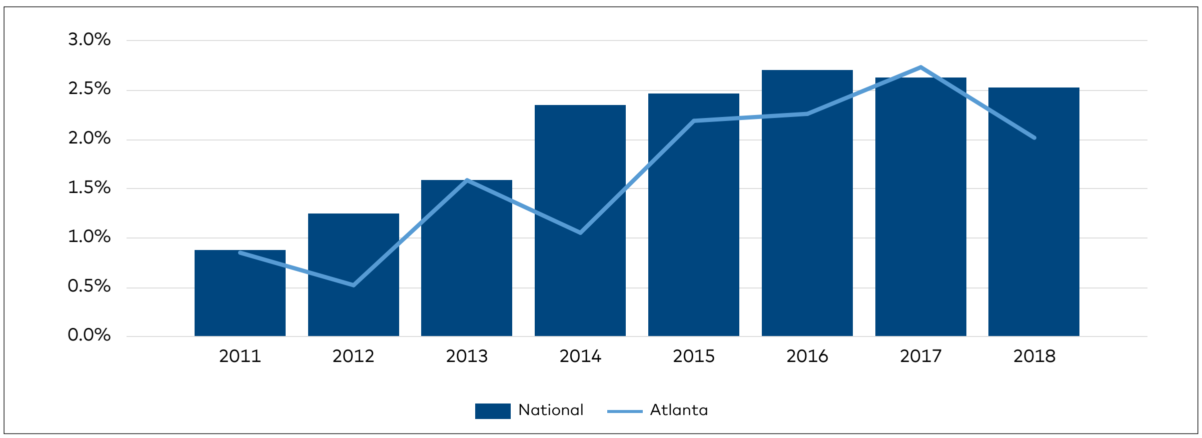
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Atlanta Metro	5,517,034	5,605,117	5,702,331	5,795,723	5,884,736

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

Supply

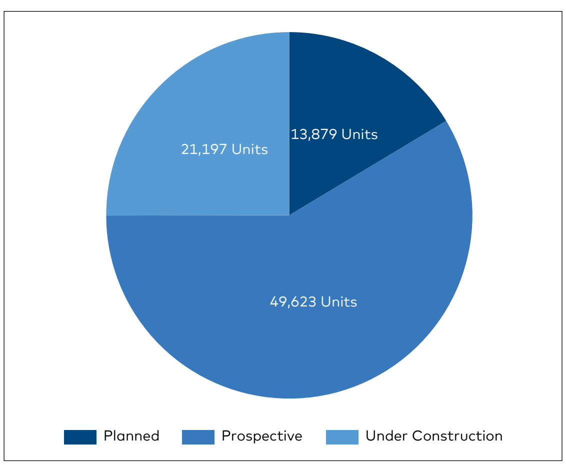
- Atlanta deliveries decreased in 2018, with 9,117 units across 39 properties coming online, the vast majority of them Class A. Of these, 7,202 units are in urban submarkets and 1,915 are in the suburbs. In 2017, a cycle high of 11,524 units were delivered.
- The development pipeline had 21,197 units under construction as of January and an additional 63,500 units in the planning and permitting stages. Despite consistent deliveries, the occupancy rate in stabilized properties inched up 30 basis points year-over-year to 94.4%, signaling that rental demand remained healthy. We expect 8,970 units to come online in Atlanta in 2019.
- Construction activity is more intense in urban Atlanta, where the top six submarkets total 8,552 units underway, led by Midtown West/Centennial Place (1,991 units). However, the largest project under construction as of January was in suburban Cumming—the 690-unit Elan Halcyon, a Roca Point Partners project, slated for completion this March. Last year's three largest deliveries were all in the Midtown West/Centennial Place submarket: MAA's partially affordable, 438-unit Post Centennial Park; Mill Creek Residential Trust's 435-unit Modera Midtown; and Related Group's 390-unit Icon Midtown.

Atlanta vs. National Completions as a Percentage of Total Stock (as of January 2019)



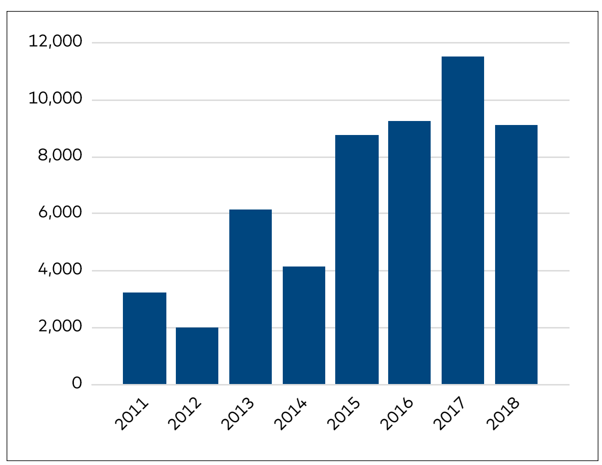
Source: YardiMatrix

Development Pipeline (as of January 2019)



Source: YardiMatrix

Atlanta Completions (as of January 2019)

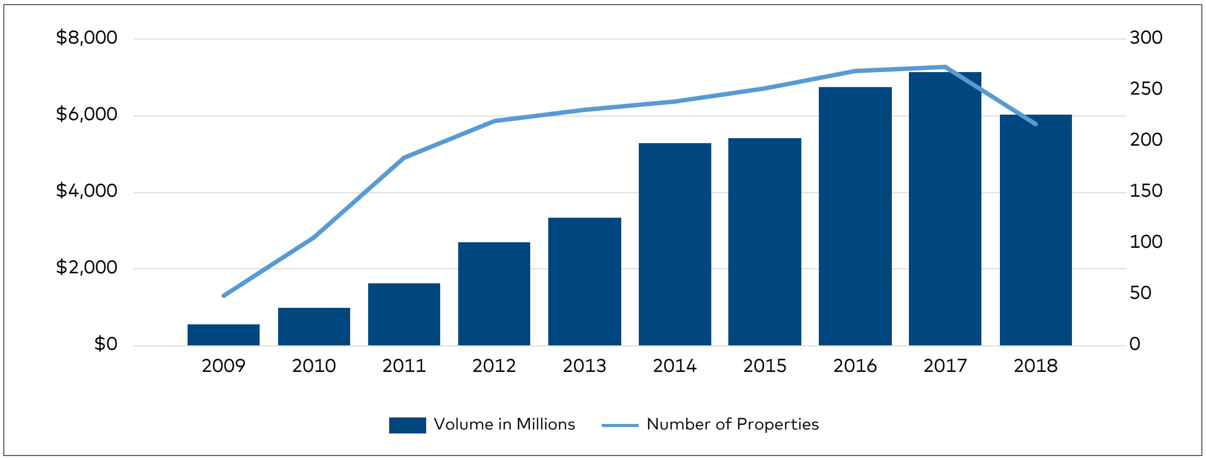


Source: YardiMatrix

Transactions

- Investment sales in Atlanta totaled $6 billion in 2018, down 15.6% from the 2017 cycle high. Of the 217 multifamily properties that changed hands in the metro last year, more than half were value-add assets, highlighting lingering investor interest in the RBN segment.
- The average Atlanta unit traded for $118,266 last year, up 9.1% over 2017 but still below the $154,634 U.S. figure. The top three submarkets for transaction volume last year totaled nearly $1.4 billion: Duluth/Norcross ($491 million), Roswell/Alpharetta ($459 million) and Marietta SE ($429 million).
- The largest multifamily transaction of 2018 in Atlanta was the sale of Avery at Northwinds, an 800-unit community in Alpharetta. AMLI Residential sold the 1997-built suburban property to Pollack Shores for $172 million, or $215,469 per unit.

Atlanta Sales Volume and Number of Properties Sold (as of January 2019)



Source: YardiMatrix

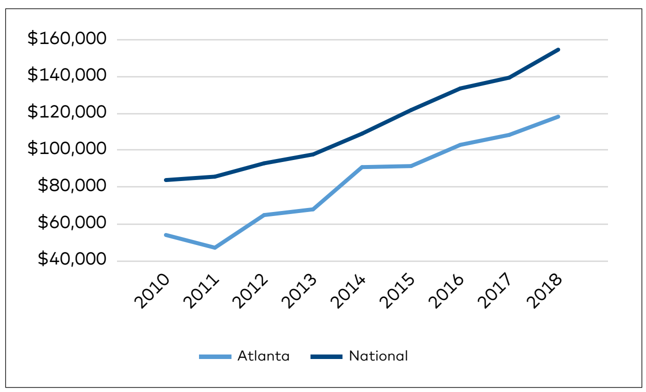
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Duluth/Norcross	491
Roswell/Alpharetta	459
Marietta SE	429
Sandy Springs North	260
West Chamblee	250
Cumming	216
Lawrenceville	215
Sandy Springs/Dunwoody	189

Source: YardiMatrix

[1] From January 2018 to December 2018

Atlanta vs. National Sales Price per Unit



Source: YardiMatrix

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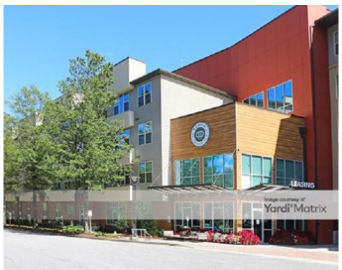
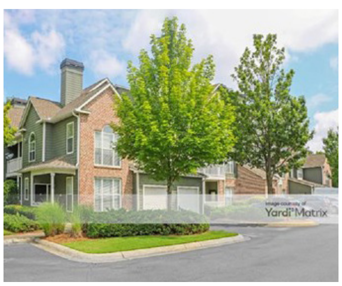


Cortland Adds 319-Unit Community To Atlanta Portfolio

The company increased its multifamily footprint in the city to more than 11,000 apartments with the acquisition of Domain at Phipps, a Class A rental property in the Buckhead neighborhood.

Fogelman JV Buys Atlanta Apartments For $45M

The 334-unit garden-style community last changed hands in August 2016, when Mesa Capital Partners sold the asset for more than $29 million.

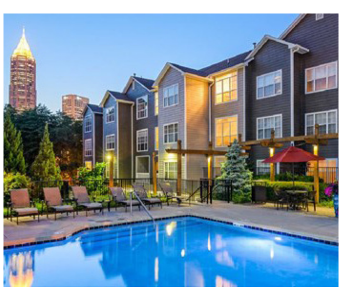


Suburban Atlanta Community Changes Hands

Bell Partners has expanded its multifamily portfolio in Georgia to nine assets, following the acquisition of a 24-building property in Kennesaw.

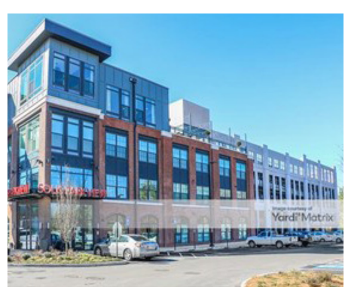
Suburban Atlanta Property Receives $20M in Financing

Pembrook Capital Management closed on the loan package, which will help preserve the affordability of all 294 units at Shannon Lake Apartments.



TruAmerica Expands In Georgia

The company has teamed up with Tokyu Land US Corp. to acquire two Atlanta communities in separate transactions totaling $127.4 million.



Terwilliger Pappas Sells Atlanta Asset For $75M

The 303-unit luxury community welcomed its first residents in 2018. The developer financed construction of the property with more than $40 million from Synovus Bank.

Executive Insight

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MULTI-HOUSING **NEWS**

Fine-Tuning Multifamily Management for 2019

By Jeff Hamann

As rising construction costs begin to give developers pause nationwide, and as older assets continue to demand ever-higher sales prices, multifamily investors are in the process of re-evaluating their investment strategies for the coming years. Bell Partners has more than 50,000 units under management across the country, including more than 3,100 in the Atlanta metro area, where the firm also set up a regional office. CEO Jon Bell shares his insights on new market opportunities, how technology is transforming the business and potential challenges in the year ahead.

Tell me about a recent Bell Partners acquisition and how it is indicative of the current trends.

In 2018, we had a balanced year of acquisitions and dispositions. We sold roughly $1 billion in apartment communities and also purchased roughly $1 billion in apartments. Recently, renovation properties have often been priced beyond perfection, but we've found value in some transitioning locations where gentrification is occurring rapidly and where we can lean on our local operations, asset management and investment teams to identify attractive up-and-coming areas. One example would be an asset we purchased in 2018 in the uptown area of Oakland.

What are some challenges in multifamily investment you expect to see in 2019?

We don't expect much turbulence in multifamily investment in 2019. Our internal business intelligence group led by Jay Denton is projecting steady operating performance across

our portfolio, a trend that will likely command continued strong capital interest from foreign and domestic equity and debt providers. If interest rates rise considerably, there could be volatility further down the road, but this can also present opportunities for savvy, well-capitalized buyers.

How can an investor best maximize their returns on value-add acquisitions?

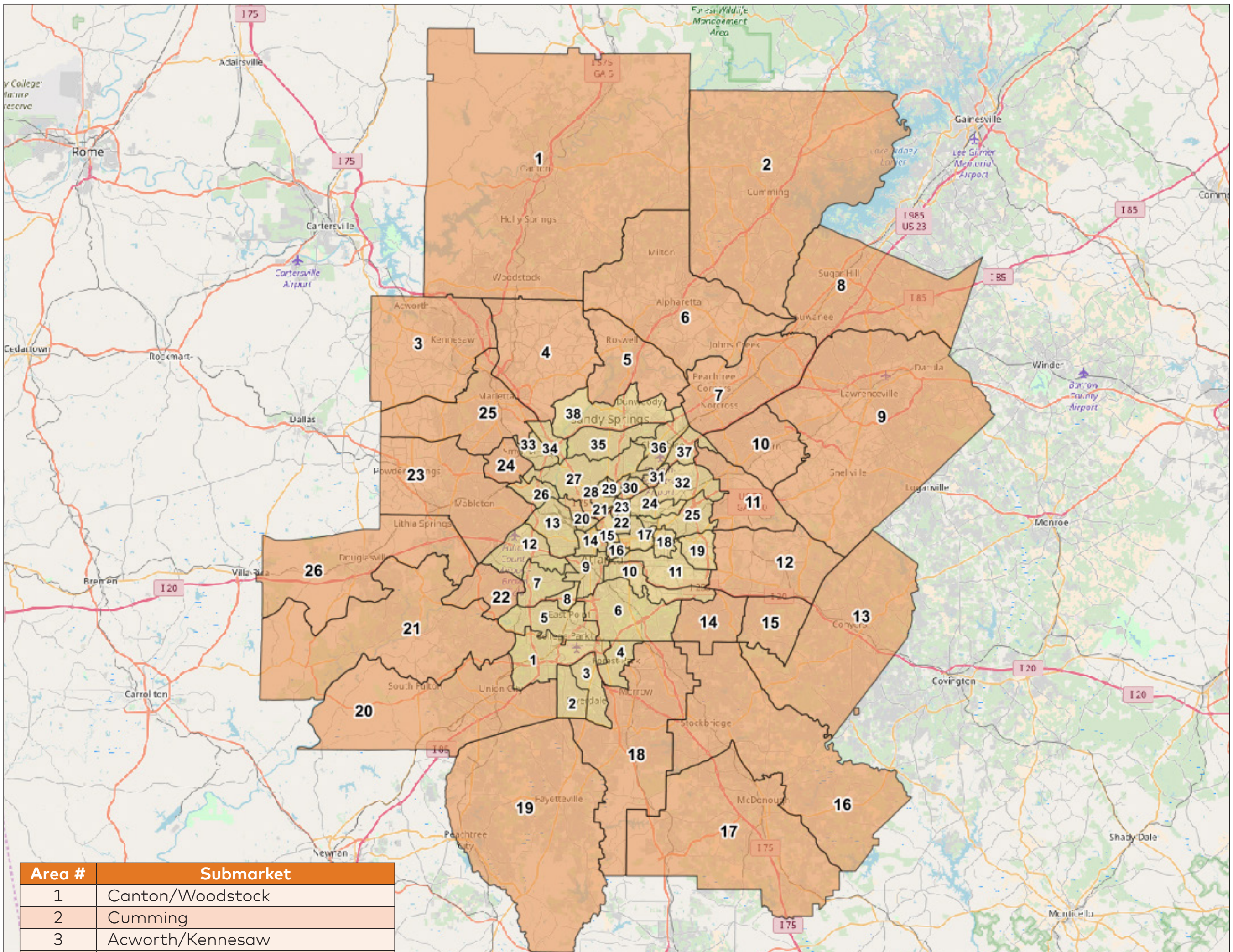
There is no question that the opportunity still remains to raise rents with value-add renovations. However, the issue is what a buyer must pay to access these investment opportunities.

While we are still finding attractive renovation properties to purchase, they are hard to come by, as we often don't feel the seller's sale price expectations compensate us for the risk associated with older properties.

What role does technology play in property management across your portfolio, and what implications does this have for the coming year?

From property software to marketing and reputation management, technology continues to play a critical role in property management. We've focused on maintaining and enhancing our existing systems but also look for new technology to help our associates and residents have the best possible experience at our communities. The way we find and lease to prospects is changing. As a result, we are investing heavily in our business intelligence group to better understand our consumers and their preferences. We have also expanded our marketing group to include a heavy focus on social and digital marketing.

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.

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