

Yardi® Matrix

Atlanta's In For The Long Haul

Multifamily Report Summer 2019

Life-Sciences Jobs Sustain Economic Growth

Developers Focus on Urban Submarkets

Suburban Areas Attract Investors

Market Analysis

Summer 2019

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Rent Growth Remains Consistent

Atlanta's multifamily sector is strong, fueled by positive employment and demographic trends. Occupancy in stabilized properties rose 20 basis points year-over-year through March, signaling that demand for housing remains robust despite a strong supply throughout the second half of the cycle.

Some 60,300 positions were added in the 12 months ending in March, a 2.1% year-over-year increase, 50 basis points above the U.S. rate. The metro's education and health services sector led growth through the interval, having gained 14,800 jobs. Atlanta is poised to become a hub for pharmaceutical and biotech companies moving or expanding in the South. Emory University's \$1.5 billion hospital campus and its plans for the development of a new health innovation district on North Druid Road will only supplement that growth.

The metro's quality of life, coupled with relative affordability compared to coastal markets, as well as its strong potential for rent growth, have sustained Atlanta's multifamily pipeline. Some 1,100 units were delivered through April and more than 22,000 units were underway. Multifamily sales were solid, with roughly \$1.3 billion in assets traded through the year's first four months. Atlanta's recent run of rent growth is likely to endure this year. We anticipate rents will advance 3.5% in 2019.

Recent Atlanta Transactions

Avery at Northwinds



City: Alpharetta, Ga.
Buyer: Pollack Shores
Purchase Price: \$172 MM
Price per Unit: \$215,469

The Bryant at Buckhead Village



City: Atlanta
Buyer: Utah Property Management Associates
Purchase Price: \$117 MM
Price per Unit: \$312,267

Jefferson at Perimeter



City: Dunwoody, Ga.
Buyer: Steadfast Cos.
Purchase Price: \$103 MM
Price per Unit: \$203,968

Rosemont Vinings Ridge

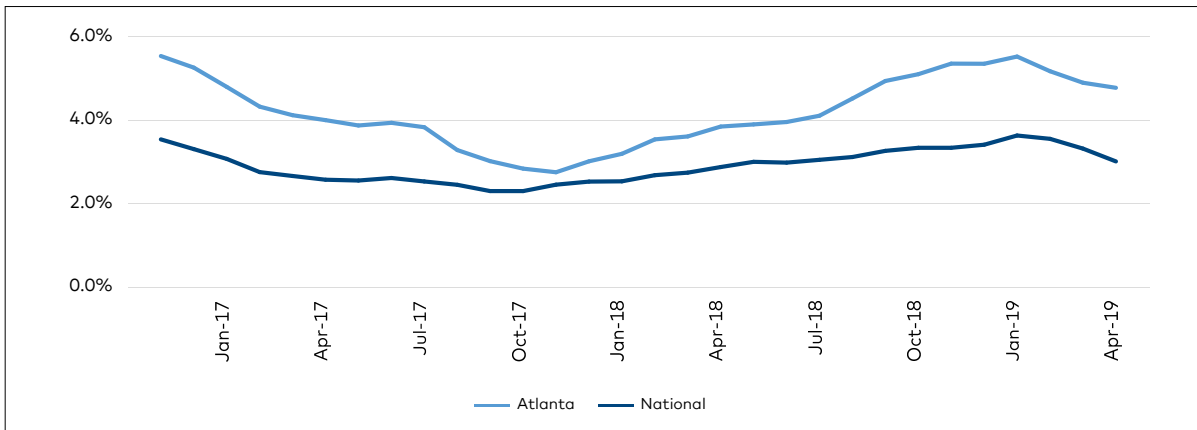


City: Atlanta
Buyer: Buckingham Cos.
Purchase Price: \$88 MM
Price per Unit: \$178,644

Rent Trends

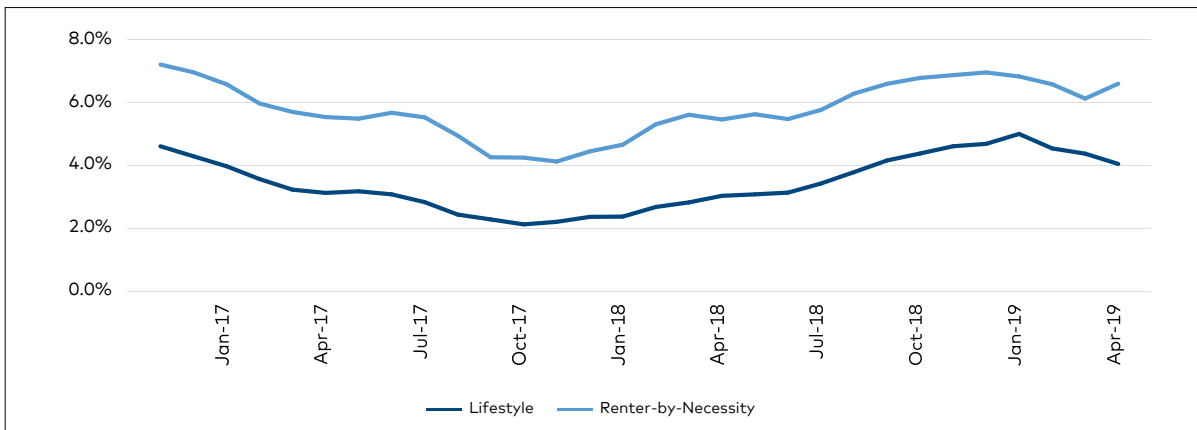
- Rents in the metro rose 4.8% year-over-year through April, 180 basis points higher than the 3.0% national rate of growth through that interval. Rents have increased steadily over the past few years, reaching an overall average of \$1,272, still below the \$1,436 national figure.
- Growth was led by the working-class Renter-by-Necessity segment, with rents rising 6.6%, to an average of \$1,049. Lifestyle rents rose, as well—up 4.0% year-over-year, to an average of \$1,414. With the bulk of supply consisting of upscale stock located in urban submarkets, demand for RBN assets is expected to stay robust, fueling further growth.
- The Midtown submarket was the only one with an average rent above the \$2,000 mark (\$2,030). Forest Park (13.5%) and Cascade Springs (13.5%) had the fastest-growing rents in the metro's inner ring, while Lithonia rents (up 11.7% year-over-year) led all suburban areas for growth.
- With demand for rentals still high, rates are likely to continue their rise. We expect the average rent to rise 3.5% by year's end in Atlanta.

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)

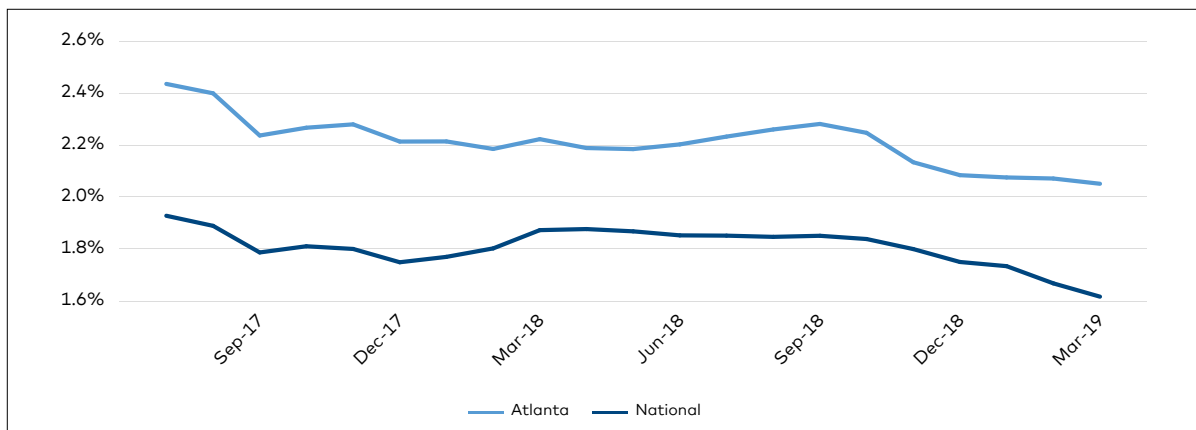


Source: YardiMatrix

Economic Snapshot

- The metro gained 60,300 jobs in the 12 months ending in March, up 2.1% year-over-year, compared to the 1.6% national rate. Sustained employment growth has kept the unemployment rate at 3.8% as of February, and has continued to generate demand for more multifamily product in Atlanta. As a result, the construction sector saw the largest year-over-year increase—adding 7,400 jobs, up 5.9%.
- The education and health services sector led growth in the metro, with the addition of 14,800 jobs, a 4.2% increase. Emory University plans the \$1 billion development of a new health innovation district on North Druid Road, following the acquisition of a 60-acre plot of land where Children's Healthcare of Atlanta is now developing a new hospital campus. The development is set to include office, medical services, a 140-bed hospital, commercial space, a hotel and multifamily units. Atlanta had more than 2,000 bioscience and biomedical graduates between 2016 and 2017, making the metro the 10th largest market for life sciences talent, according to CBRE.
- The leisure and hospitality sector followed closely with the addition of 13,700 positions. Part of the sector's growth is HALL Structured Finance's Reverb by Hard Rock, a 195-key hotel in Castleberry Hill, next to Mercedes-Benz Stadium. The project is part of a larger mixed-use development expected to include apartments and retail space.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	365	12.9%	14,800	4.2%
70	Leisure and Hospitality	307	10.9%	13,700	4.7%
40	Trade, Transportation and Utilities	609	21.6%	13,500	2.3%
60	Professional and Business Services	528	18.7%	10,600	2.0%
15	Mining, Logging and Construction	132	4.7%	7,400	5.9%
90	Government	339	12.0%	2,000	0.6%
55	Financial Activities	174	6.2%	1,300	0.8%
30	Manufacturing	173	6.1%	500	0.3%
80	Other Services	98	3.5%	-1,000	-1.0%
50	Information	95	3.4%	-2,500	-2.6%

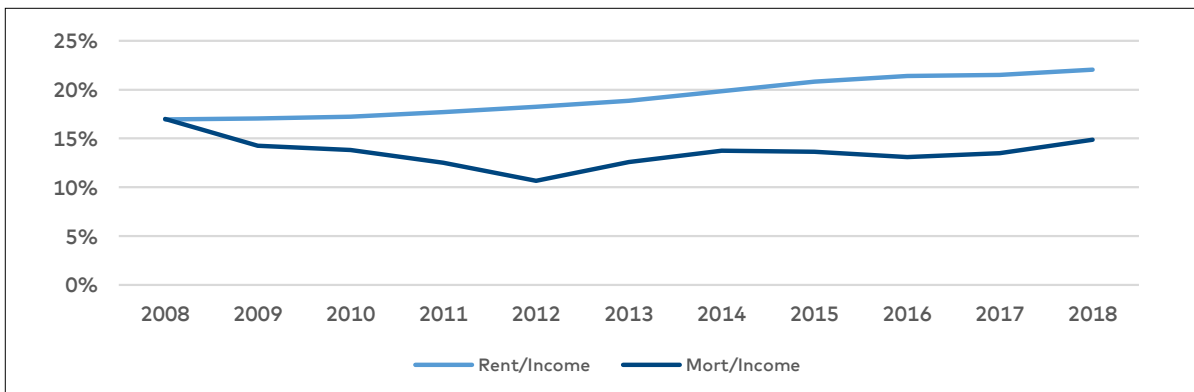
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

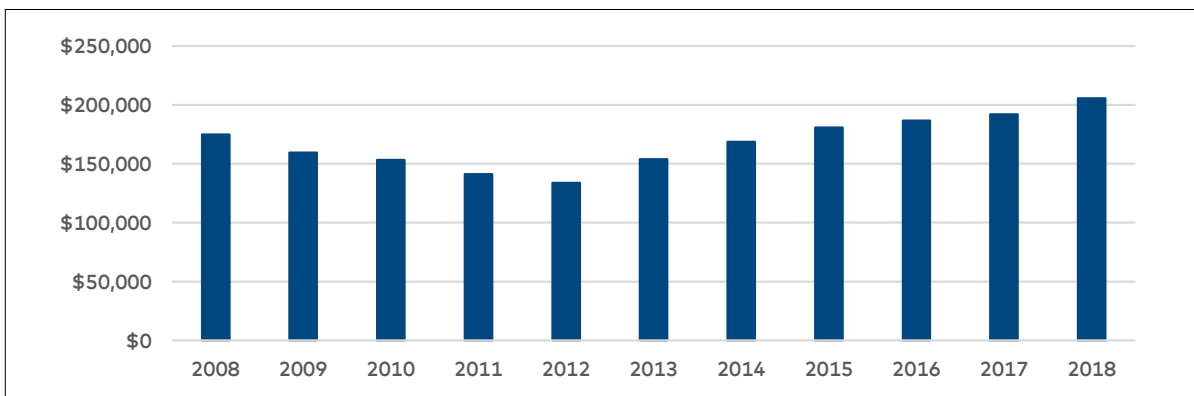
- Although a significant segment of the population is battling cost-of-living issues, Atlanta ranks as one of the most affordable metros, due to its low average rent, especially compared to major coastal markets. While the median home price crossed the \$200,000 mark for the first time in 2018, owning continues to be the more affordable option for Atlantans, accounting for 15% of the median income.
- With year-over-year rent growth in Atlanta (4.8% as of April) outpacing most other major metros, residents now face even more pressure. Rents accounted for 22% of the area's median income. The relative affordability of the market indicates that there are further opportunities for rent growth.

Atlanta Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Atlanta Median Home Price



Source: Moody's Analytics

Population

- The metro gained 89,013 residents in 2017, up 1.5% year-over-year, more than double the 0.7% U.S. average.
- Residents are attracted to the metro due to its continued job growth and strong overall economic performance.

Atlanta vs. National Population

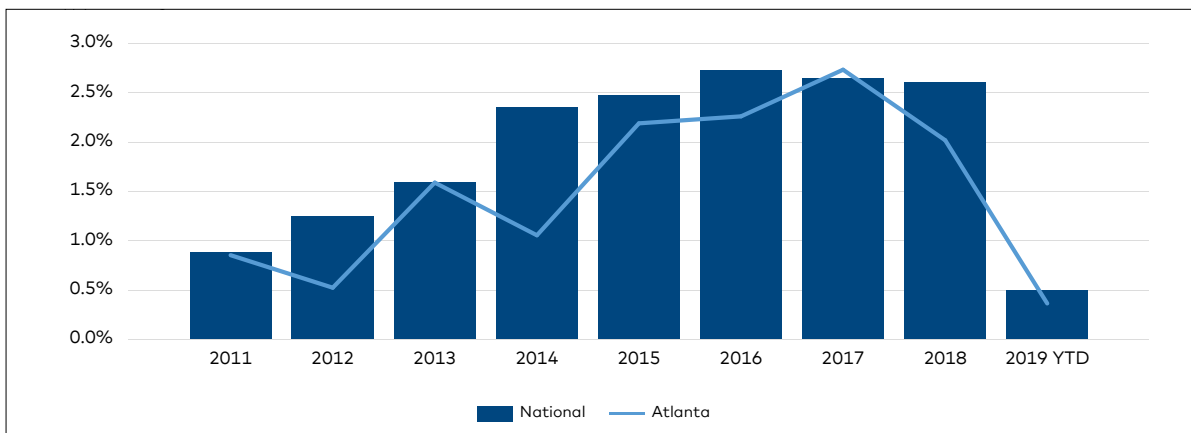
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Atlanta Metro	5,517,034	5,605,117	5,702,331	5,795,723	5,884,736

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

Supply

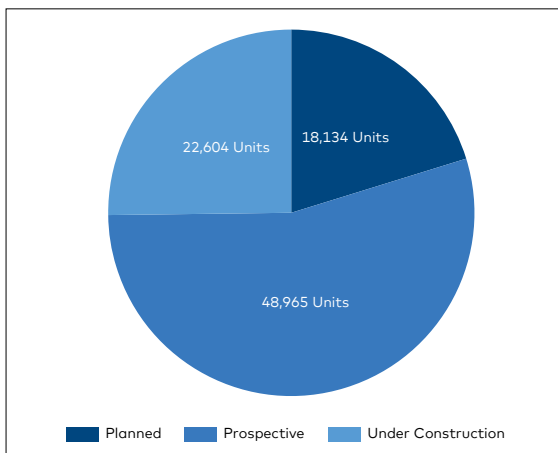
- Developers had 22,604 units under construction in Atlanta as of April. Despite the elevated cost of construction and the scarcity of available labor, construction activity has remained strong, with 1,130 units added year-to-date. Strong demand for rentals and further avenues for rent growth lure developers, as the market continues its solid run. Deliveries have mostly consisted of Class A assets, as building costs continue to push companies to deliver luxury product with high returns.
- Despite substantial completions in the first months of the year, land and construction costs have slowed down the pipeline of new apartments. In 2018, roughly 8,600 units were delivered, a step down from the cycle peak reached in 2017—11,524 units. Although nearly 80% of the units under construction are in urban submarkets, developers are moving their efforts into suburban quadrants. Cumming ranked as the busiest submarket, with 1,154 units under construction. Its largest project, Elan Halcyon, is a mixed-use development that's slated to include 690 units and 11,000 square feet of retail space.
- The average occupancy rate in stabilized properties increased by 20 basis points year-over-year as of March to 94.3%, signaling that rental demand remains strong.

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



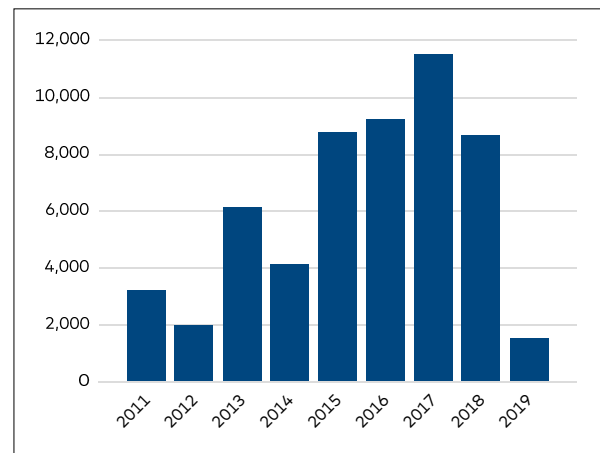
Source: YardiMatrix

Development Pipeline (as of April 2019)



Source: YardiMatrix

Atlanta Completions (as of April 2019)

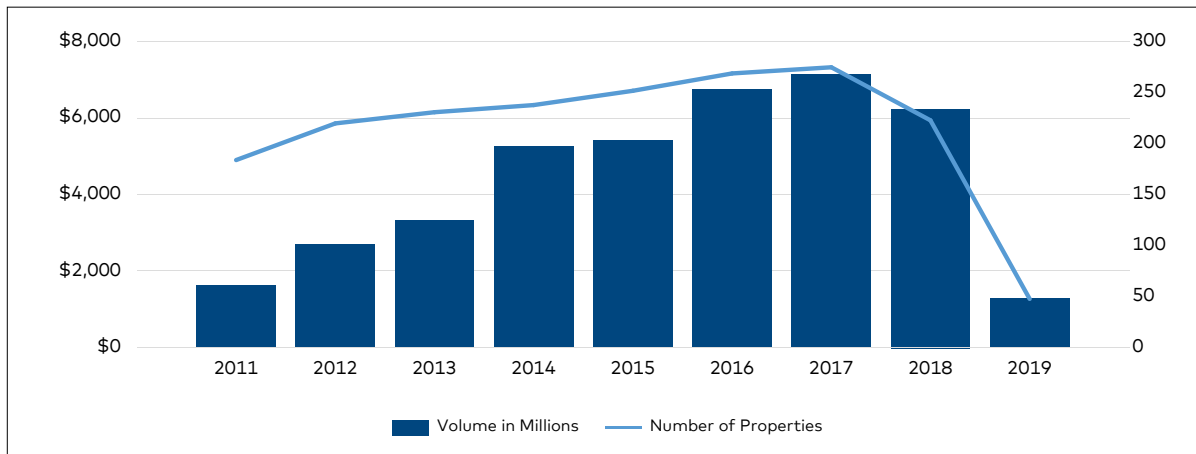


Source: YardiMatrix

Transactions

- In the year's first four months, multifamily investment activity was solid, totaling \$1.3 billion. As all properties that traded in 2019 through April were working-class, value-add assets, the average per-unit price in Atlanta has dipped by \$10,000, to \$107,717.
- Acquisition yields for stabilized Class A properties now track in the 4.3% to 5% range, largely in line with other major secondary markets. The recent uptick in value-add deals in the metro has compressed yields, as Class B/C assets are by far the popular residential play in Atlanta.
- Atlanta's urban submarkets led growth, with the combined transaction volume totaling roughly \$2.7 billion, while suburban Duluth/Norcross (\$505 million) was the most sought-after submarket for multifamily investment activity in the 12 months ending in April.

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



Source: YardiMatrix

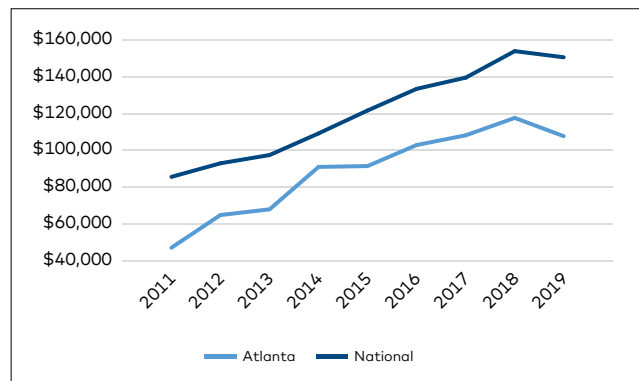
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Duluth/Norcross	506
Roswell/Alpharetta	488
Marietta SE	429
Sandy Springs/Dunwoody	280
West Chamblee	250
Jonesboro/Bonanza	234
North Vinings	231
Sandy Springs N	203

Source: YardiMatrix

¹ From May 2018 to April 2019

Atlanta vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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TruAmerica, Blackstone Buy Portfolio for \$97M

For their second deal since forming a joint venture last year, the partners have acquired a 368-unit community in central Las Vegas for \$58 million, along with a 240-unit asset west of Atlanta.



Atlanta Multifamily Portfolio Trades For \$105M

In separate transactions, McDowell Properties and Vukota Capital Management each purchased portions of the portfolio in Newnan, Ga., from RADCO Residential.



Greystar, Banyan Street Plan \$125M Atlanta Project

The partners have closed on construction financing and scored air rights for Ascent Peachtree, a 345-unit multifamily development slated to break ground next month.



TruAmerica Adds 448 Units to Atlanta Portfolio

The company acquired a Class B community in the suburb of Lawrenceville in the area's third transaction of the year. So far, the deals have expanded TruAmerica's local footprint by 1,150 units.



Liquid Capital, Wilson Investment Add 646 Units

The partners acquired the 74-building luxury community in Doraville for \$63.5 million, boosting their multifamily portfolio in the booming metropolitan market.



Walker & Dunlop Completes \$47M In Financing

The transaction enabled Starlight U.S. Multi-Family to acquire the 282-unit Westside Heights apartment community in West Midtown.



In the Spotlight: Atlanta's Rising Construction Costs

By Adina Marcut

Rising construction costs are one of the main challenges for the multifamily sector across all U.S. metros, and companies in the business are striving to find innovative solutions to cope with the situation.

Tom Underwood, operations director at Hoar Construction, addresses the company's strategy to overcome the pressing issue. He also touches on what drives demand in the Atlanta multifamily market—where the firm has several projects underway—and the impact of the Metropolitan Atlanta Rapid Transit Authority's expansion plan.

How has the multifamily construction landscape changed in Atlanta over the past several years?

The current cycle has been defined by a distinctly urban flavor of development. Projects rise in and around the urban core and include mid-rise and high-rise buildings. There are smaller units in general, with an emphasis on amenities and shared space.

What are the market's main challenges, and how do you overcome them?

Rising construction costs are the main challenge, including materials and labor. We're promoting training and development, so we can access the right talent and keep filling positions across the country. We are also focused on getting involved with developments earlier, so we can help advise design teams and owners on actual cost, as well as lock in certain material costs with suppliers in the event of market fluctuations.

What can you tell us about demand for multifamily units in Atlanta?



Atlanta's population is growing exponentially, at approximately 1.7 percent since 2015, compared to the 0.4 percent national average. The key demographic moving to Atlanta is young professionals between 18 and 34, which is also the prime renter cohort. This impressive growth is the fuel for additional multifamily development.

Tell us more about the opportunities Atlanta offers when it comes to multifamily projects.

We've been actively working in Atlanta since 2007 and in Georgia since the 1980s. Through the past few years, we have seen a steady

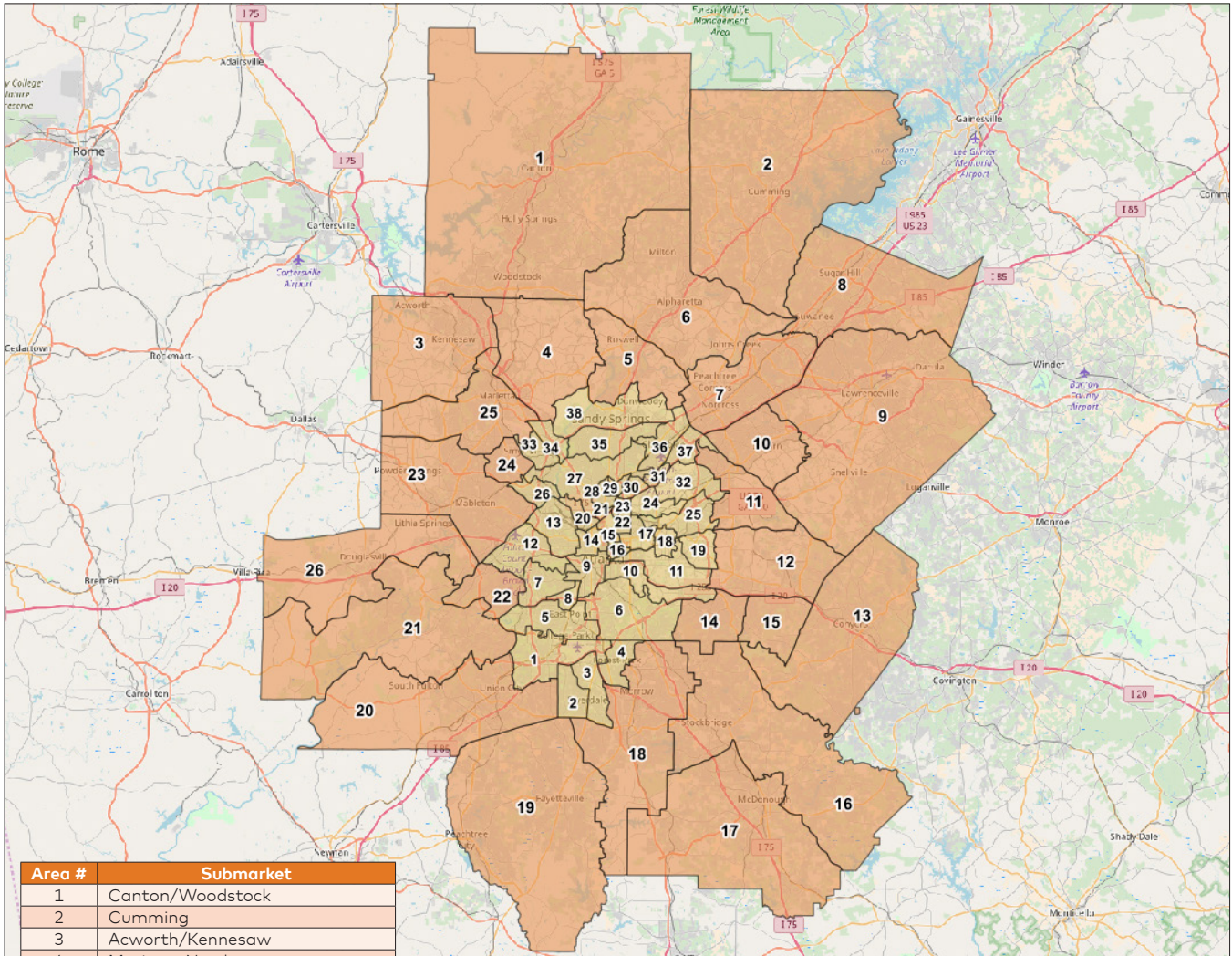
increase in work, with repeat clients such as North American Properties, Hines and Apple, all part of our work at the \$600 million retail and mixed-use destination Avalon, and that led us to make the decision to expand our permanent footprint here.

The multifamily opportunities are wide-ranging in Atlanta, regarding both price point and geographic location in the market. When compared to other large markets, Atlanta has not been overbuilding in the multifamily segment, which has helped keep vacancy rates low and rent growth elevated on a relative basis.

How do you expect MARTA's expansion project to influence the market in the years ahead?

The expansion of MARTA, along with the increasing prevalence of ride-hailing services such as Lyft and Uber and the abundance of rent-to-ride options like e-scooters, ZipCars and bikes means fewer parking requirements for multifamily developers, as their residents will rely less and less on personal vehicles.

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	Coyers/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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