

Yardi® Matrix

MULTIFAMILY REPORT

Atlanta Stays Vibrant

Winter 2020



Office Rents Moderate
Construction Surge Continues
Economic Growth Tops Nation

ATLANTA MULTIFAMILY

Yardi® Matrix

Job Growth Keeps Demand Healthy

Atlanta's educational system is a magnet for residents as well as companies in search of talent. The multifamily market is equally attractive, posting sustained demand even after robust apartment deliveries in recent years. New inventory slowed rent growth in 2019, with the average rent rising 3.1% to \$1,310 year-over-year through December—the lowest rate in the past eight quarters. In addition, high deliveries have pushed down the occupancy rate in stabilized properties—down 30 basis points to 94.0% in November.

Employment growth moderated last year, with the expansion rate at 1.9% year-over-year through November, slightly above the national average. All sectors expanded, with education and health services leading with 14,900 new jobs over the 12 months ending in December. One of the top-tier industries in the state—the leisure and hospitality sector—continued to advance, gaining 12,600 jobs in 2019. Professional and business services rounded out the top three with 7,900 jobs. As the fourth fastest-growing market for tech jobs in the U.S., this sector will likely continue to accelerate. Google, Invesco and Norfolk Southern's announced expansions will provide further growth for the industry's job market.

Deliveries posted the second best year of the cycle with 10,733 units coming online in 2019. Transaction volume totaled \$6.3 billion, with investors mainly drawn to value-add plays.

Market Analysis | Winter 2020

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Recent Atlanta Transactions

Hanover Perimeter



City: Atlanta
Buyer: Black Creek Group
Purchase Price: \$117 MM
Price per Unit: \$304,688

Avana Lenox



City: Atlanta
Buyer: Passco Cos.
Purchase Price: \$107 MM
Price per Unit: \$251,773

The Edgewater at Sandy Springs



City: Atlanta
Buyer: Bridge Investment Group
Purchase Price: \$101 MM
Price per Unit: \$133,224

Magnolia Vinings

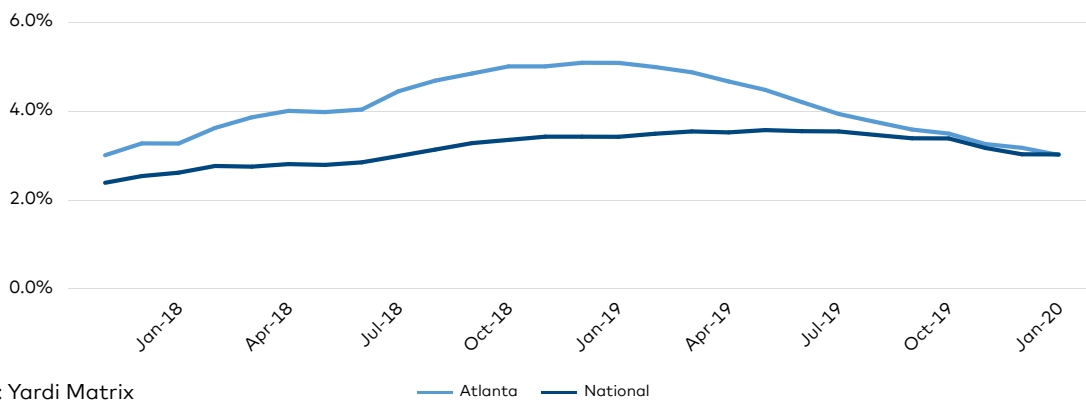


City: Atlanta
Buyer: TA Realty
Purchase Price: \$83 MM
Price per Unit: \$207,500

RENT TRENDS

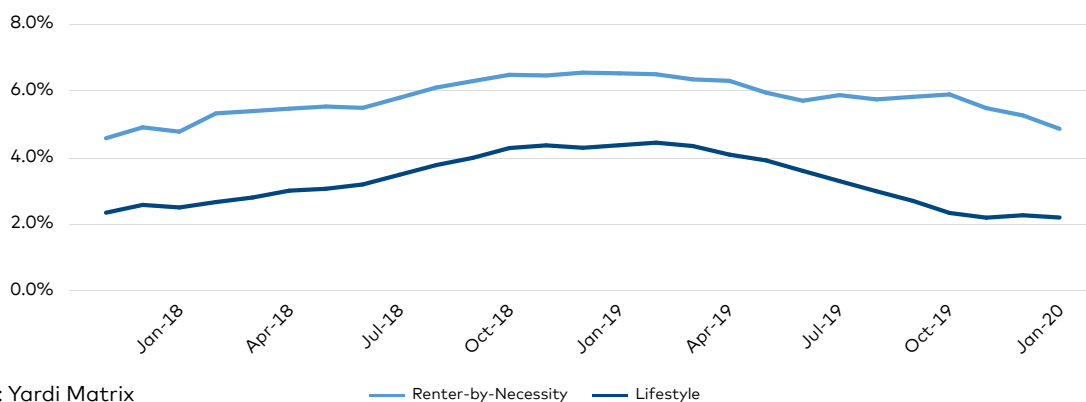
- ▶ Atlanta's rent growth moderated throughout 2019, up 3.1% year-over-year through December, 10 basis points above the national rate. The average rent reached \$1,310, behind the \$1,474 national average.
- ▶ Demand for apartments, bolstered by sustained population growth, remained healthy. Consequently, developers have brought more than 31,000 units online since 2017. Despite limited supply and high demand, the working-class Renter-by-Necessity segment led growth—up 5.2% year-over-year to \$1,077. The substantial new inventory in Lifestyle pushed the segment's average rent up by 2.2% to \$1,453.
- ▶ Nearly all submarkets registered rent growth. However, Midtown South, the second most expensive area in Atlanta, slid 0.7% year-over-year to \$1,966. The most expensive submarket, Midtown, inched up 0.2% to \$2,096. Cumming, one of the metro's most sought-after submarkets, saw rents rise 1.2% to \$1,460. The softening rent growth in the metro's most attractive submarkets could indicate overbuilding. The most affordable space in urban Atlanta was in the far south regions of the metro: Oakland (up 5.9% to \$785) and Forest Park (7.8% to \$845). Chapel Hill (3.9% to \$993) and neighboring Redan (2.5% to \$996) were the most affordable submarkets in suburban Atlanta.

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



Source: Yardi Matrix

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

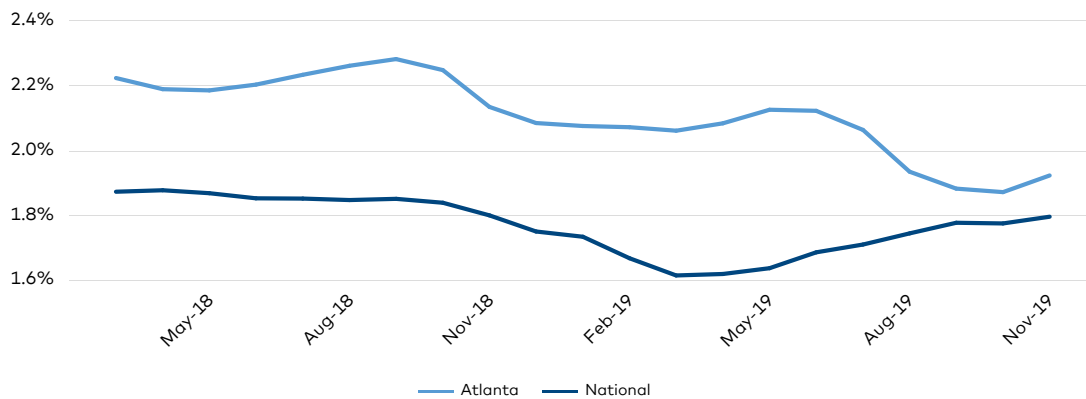


Source: Yardi Matrix

ECONOMIC SNAPSHOT

- ▶ Atlanta gained 61,200 jobs in the 12 months ending in November, up 1.9% year-over-year and 10 basis points above the national rate. Although growth slowed in the third quarter of 2019, the unemployment rate in October stood at 2.9%, well below the 3.6% national figure.
- ▶ The state capital has long been an educational powerhouse, sustained by schools such as Georgia Tech, Emory University, Clark Atlanta University, Spelman College and Morehouse College. It's no surprise, then, that education and health services led growth, adding 14,900 jobs year-over-year through November. The talent coming from these institutions has been a magnet for tech giants in search of a well-educated workforce. This has placed professional and business services within the top three best-performing sectors in the metro, adding 7,900 jobs during the same period.
- ▶ Midtown Atlanta remained in the top spot for technology companies: Google has leased 135,000 square feet of space in a mixed-use project slated for completion in 2022, while Microsoft is reportedly in the market for 300,000 square feet that could house more than 1,000 employees. Norfolk Southern will open its new headquarters in 2021, which will require 850 new employees.

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



Sources: Yardi Matrix, 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 | 375 | 13.0% | 14,900 | 4.1% |
| 70 | Leisure and Hospitality | 311 | 10.8% | 12,600 | 4.2% |
| 60 | Professional and Business Services | 546 | 18.9% | 7,900 | 1.5% |
| 40 | Trade, Transportation and Utilities | 624 | 21.6% | 7,400 | 1.2% |
| 15 | Mining, Logging and Construction | 136 | 4.7% | 5,700 | 4.4% |
| 90 | Government | 345 | 11.9% | 5,500 | 1.6% |
| 50 | Information | 102 | 3.5% | 3,200 | 3.2% |
| 30 | Manufacturing | 175 | 6.1% | 2,600 | 1.5% |
| 80 | Other Services | 98 | 3.4% | 800 | 0.8% |
| 55 | Financial Activities | 175 | 6.1% | 600 | 0.3% |

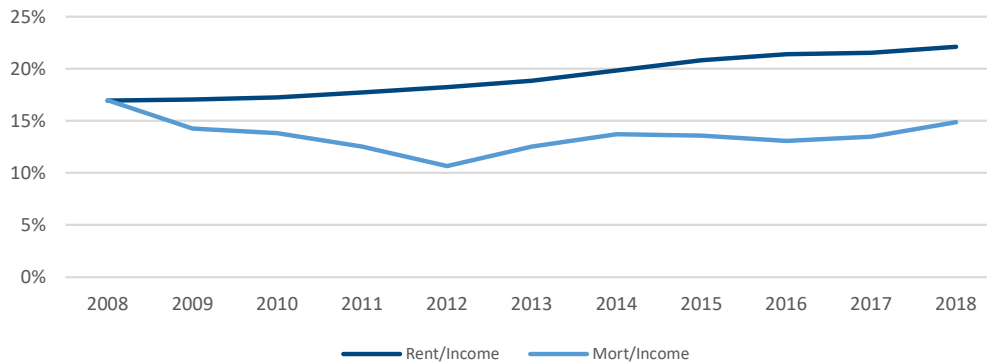
Sources: Yardi Matrix, Bureau of Labor Statistics

DEMOGRAPHICS

Affordability

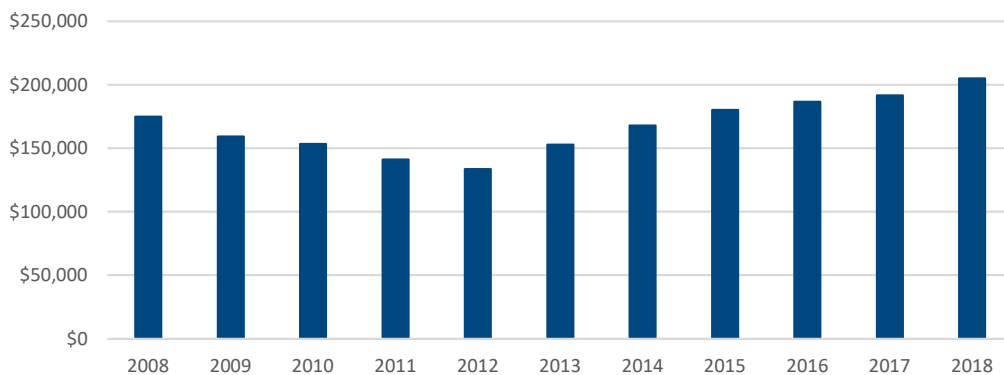
- ▶ The median home price in Atlanta rose to a cycle peak of \$204,865 in 2018, up 7.0% year-over-year and 33.7% above the 2010 level. Last year, the average rent accounted for 22% of the area median income, while the average mortgage payment made up 15%.
- ▶ Although the metro is still affordable compared to coastal markets, Atlanta's rapid population growth and rising cost of living pose a challenge to city leaders and residents alike. In 2018, 497 units in three fully affordable properties were delivered, all in urban Atlanta. In January 2020, 1,124 units in eight fully affordable communities were underway in the metro, with a quarter of those in suburban Atlanta.

Atlanta Rent vs. Own Affordability as a Percentage of Income



Sources: Yardi Matrix, Moody's Analytics

Atlanta Median Home Price



Source: Moody's Analytics

Population

- ▶ Atlanta gained 75,702 new residents in 2018, up 1.3% year-over-year and more than double the 0.6% national average.
- ▶ The metro ranked fourth among the fastest-growing metros in the country, posting a slight deceleration compared to 2017's 1.5% expansion.

Atlanta vs. National Population

| | 2015 | 2016 | 2017 | 2018 |
|---------------|-------------|-------------|-------------|-------------|
| National | 320,742,673 | 323,071,342 | 325,147,121 | 327,167,434 |
| Atlanta Metro | 5,688,284 | 5,790,280 | 5,874,249 | 5,949,951 |

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

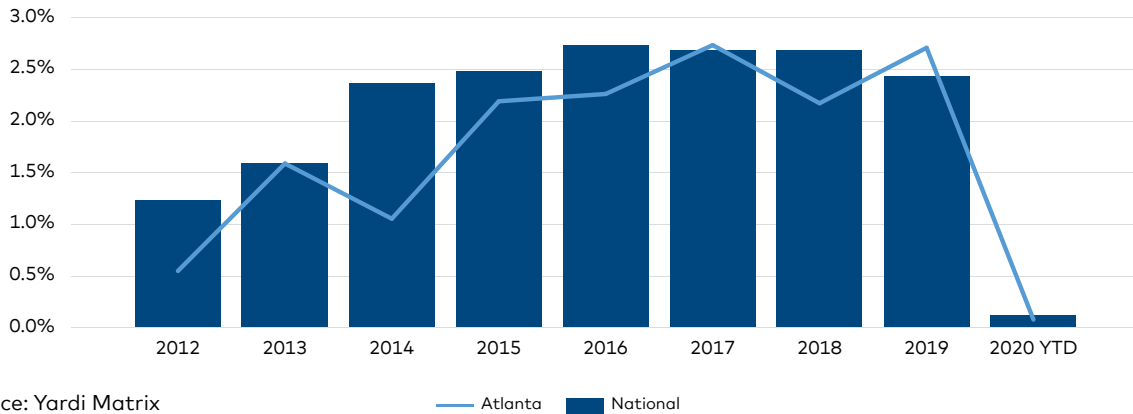
SUPPLY

- ▶ Atlanta marked its second-best year in apartment deliveries in 2019, with 10,733 units added to the rental inventory. This figure accounted for 2.5% of total stock, 20 basis points above the national average. Developers have been focused on projects targeting the Lifestyle renter. This stems from the high cost of construction and the metro's economy, which attracts a constant influx of tech companies and high-paying jobs. As in previous years, developers have been most active in the urban areas, where they delivered 8,645 units.
- ▶ The metro had 18,577 units under construction as of January 2020, while another 82,164 units were in the planning and permitting stages. In

urban Atlanta, more than 12,000 units were underway; Grant Park/East Atlanta/Panthersville and Midtown West/Centennial Place ranked as the busiest submarkets with 1,568 and 1,328 units under construction, respectively. In the suburban region, development was most intense in Duluth/Norcross (1,077 units), Lawrenceville (925 units) and Canton/Woodstock (910 units).

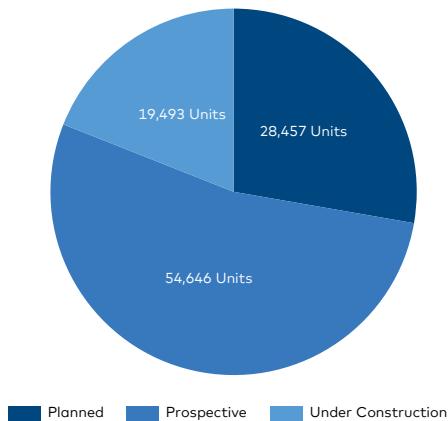
- ▶ The high number of completions and the current robust development pipeline could continue to moderate rent growth in the metro. For now, demand is healthy, with the occupancy rate in stabilized properties inching down 40 basis points year-over-year through November to 94.0%.

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



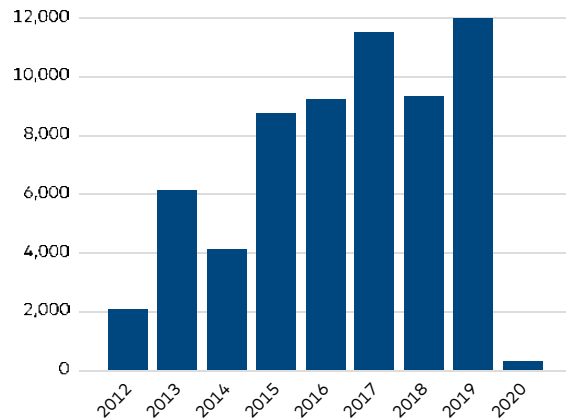
Source: Yardi Matrix

Development Pipeline (as of December 2019)



Source: Yardi Matrix

Atlanta Completions (as of December 2019)



Source: Yardi Matrix

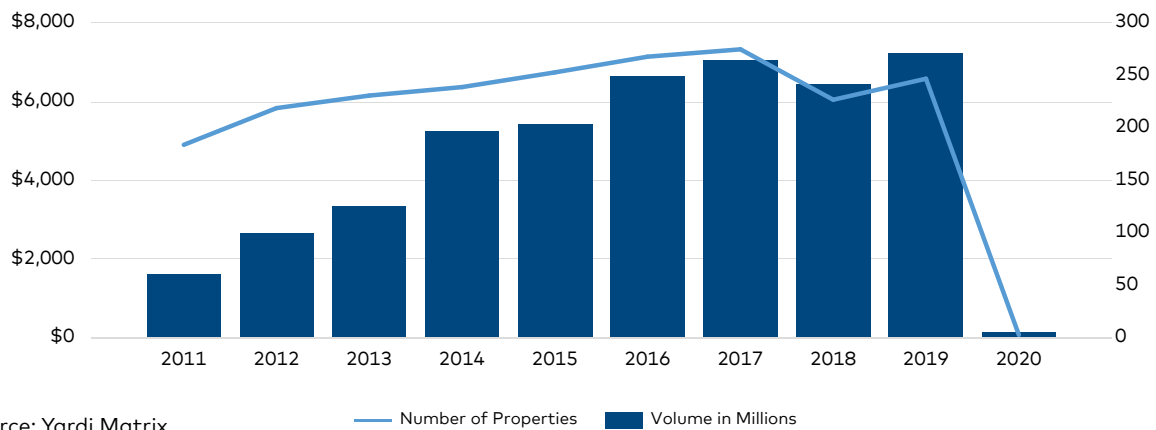
TRANSACTIONS

➤ More than \$6.3 billion in multifamily assets traded in Atlanta in 2019, marking one of the strongest years of the cycle for sales volume. Investor interest was equally split between urban and suburban Atlanta, with both regions posting nearly equal spreads. Investor preference tilted in favor of value-add plays: Of the 219 properties that changed ownership, nearly two-thirds were value-add assets. This strategy has affected the average price per unit, which

marked a 2.6% year-over-year decrease to \$117,807, well below the \$166,589 national average. However, Atlanta's per-unit price is 150% higher than it was in 2011.

➤ The metro's largest sale was Black Creek Group's acquisition of the 384-unit Hanover Perimeter for \$117 million. LivCor was one of the most active buyers in the market in 2019—the company paid a combined \$252 million for five assets.

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



Source: Yardi Matrix

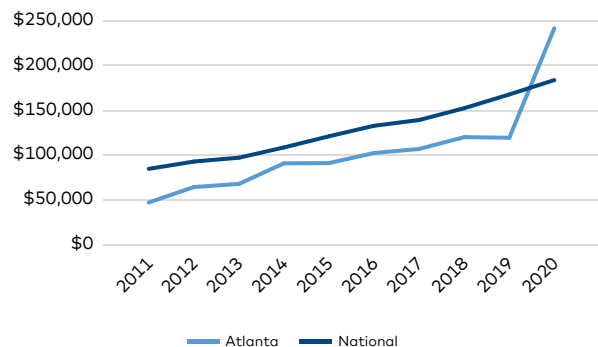
Top Submarkets for Transaction Volume¹

| Submarket | Volume (\$MM) |
|------------------------|---------------|
| Sandy Springs/Dunwoody | 477 |
| Duluth/Norcross | 360 |
| Lilburn | 308 |
| Buckhead | 258 |
| Marietta SE | 211 |
| Jonesboro/Bonanza | 203 |
| East Chamblee | 197 |

Source: Yardi Matrix

¹ From January 2019 to December 2019

Atlanta vs. National Sales Price per Unit



Source: Yardi Matrix



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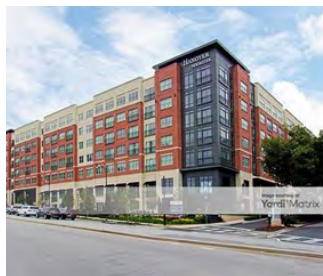
Hunt Cos., Oakwood Break Ground On Mixed-Use Project

The \$166 million Herndon Square is being developed across five phases on a former public-housing site.



Castle Lanterra Sells Revamped Asset For \$45M

The company acquired the 322-unit Landing Square community in December 2016 for \$32 million.



Black Creek Group Shells Out \$117M

The Class A property, built in 2018, marks the company's third multifamily acquisition this year.



Pennrose Opens Mixed-Income Development

Situated within the Warner Robins Master Plan Development in Macon, Gateway Pointe I will feature 90 apartments.



Praxis Capital Expands Footprint With \$41M Buy

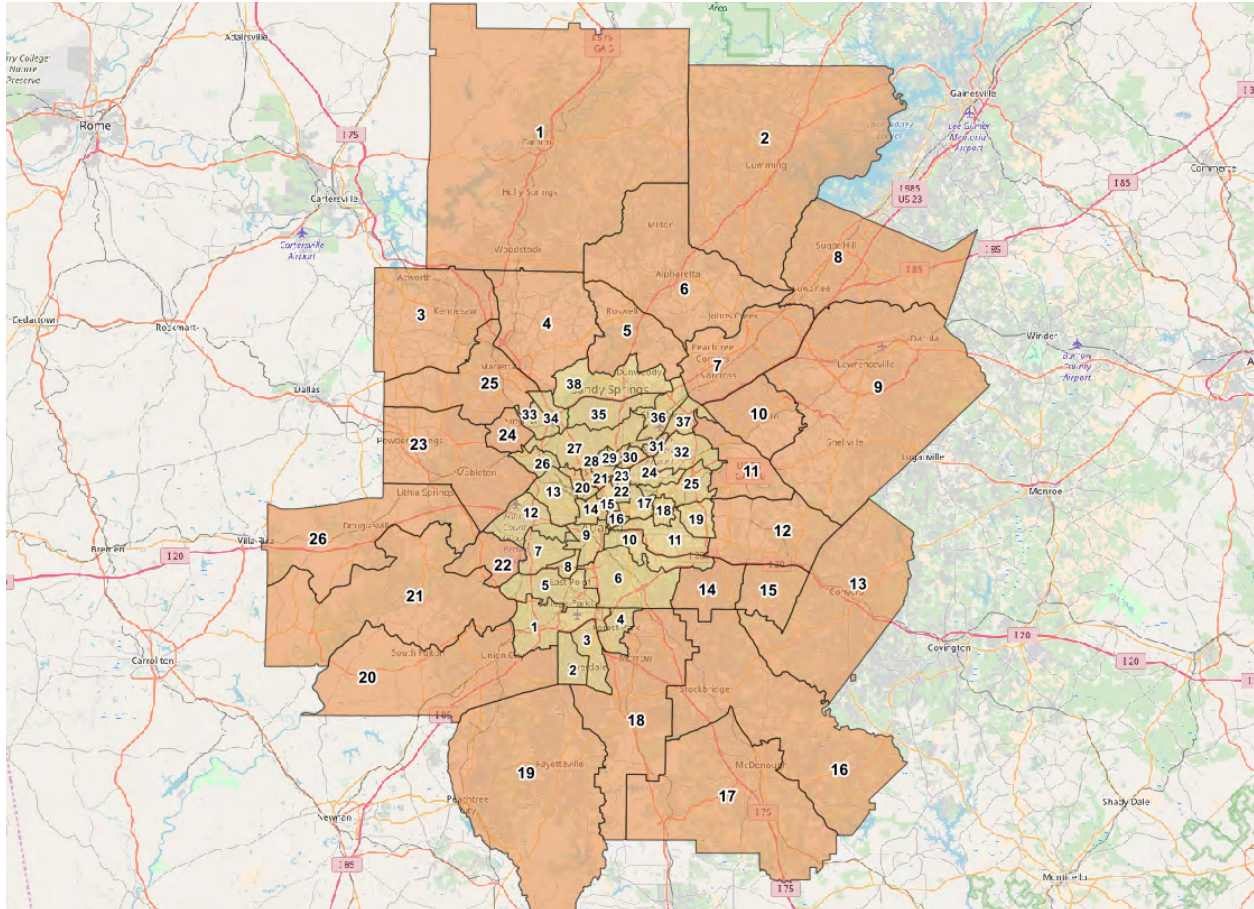
With help from Berkadia, the company acquired two garden-style communities totaling 420 units.



StreetLights Residential Opens 355-Unit Multifamily Community

The developer partnered with Westdale to build the luxury community, The Alastair at Aria Village.

ATLANTA SUBMARKETS



| Area No. | 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 No. | 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 Highlands |
| 18 | Decatur |
| 19 | Avondale Estates/East Belvedere Park |

| Area No. | Submarket |
|----------|-----------------------------------|
| 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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