

# Market Insights

Greater Atlanta Multifamily 2Q 2022



## Construction Activity



**17,823**

Units under construction

**3,830**

Units delivered (YTD)

## Market Fundamentals



**4.5%**

Vacancy

**-110 bps**

Year over year change

**\$1,557**

Asking Rent

**+17.5%**

Year over year change

## Transaction Activity



**\$202,500**

Median sales price per unit (YTD)

# Consecutive Vacancy Declines Highlight Market Strength

## Highlights

- Multifamily operating conditions strengthened in Atlanta during the second quarter. Vacancy declined and rents rose, continuing trends that have been in place for the past few quarters. Investors responded to the improving fundamentals by increasing acquisition activity.
- Rents rose in the second quarter, but the rate of increase was slower than in previous periods. Asking rents reached \$1,557 per month at midyear, 17.5 percent higher than one year earlier.
- Sales velocity accelerated in the second quarter, and investment activity is running ahead of the 2021 pace. Cap rates were below 4 percent on average in the second quarter but are expected to trend higher in the second half of 2022.
- Vacancy dipped 10 basis points in the second quarter, reaching 4.5 percent. The rate has tightened in each of the past three quarters and is down 110 basis points year over year.

## Atlanta Multifamily Market Overview

The Atlanta multifamily market posted continued improvement in property fundamentals during the second quarter. Vacancy inched lower for a third consecutive quarter, and the rate is at its lowest figure in nearly five years. Vacancy has tightened during an extended period of fairly steady additions to inventory in recent years. The number of projects that are under construction has been on the rise, and deliveries are likely to gain momentum in the second half of this year and through 2023. This activity should result in a leveling off of the local vacancy rate. Healthy demand levels and tightening conditions have combined to push rents higher by more than \$200 per month in the past year. The pace of rent increases cooled in recent months, and gains in 2022 should more closely track historical rates of growth.

The number of apartment properties changing hands in Atlanta accelerated during the second quarter, and transaction activity to this point in 2022 is ahead of the pace recorded last year. During the first and second quarters, properties across a broad range of the quality spectrum sold, and the impact of several Class C properties in the sales mix was a bit of a drag on recorded transaction pricing. Investors are beginning to show a clearer preference for Class A and Class B properties, and pricing in the second half will likely reflect this change. Cap rates have remained low to this point, but some of the cap rates from the second quarter reflect pricing terms that were agreed to earlier in the year when financing costs were lower.

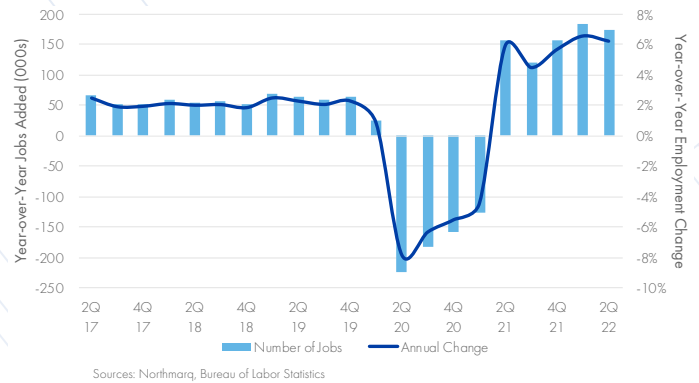
## Employment

- The Atlanta employment market posted healthy gains through the mid-point of 2022 with employers adding nearly 30,000 jobs in the second quarter. Year over year, area employers added approximately 175,000 jobs, an expansion of 6.3 percent.
- Atlanta’s large and dynamic professional and business services sector has outperformed most other industries and fueled growth in the past year. Professional employment in the Atlanta area has expanded by more than 45,000 jobs in the past 12 months, a gain of 8.3 percent.
- Hapag-Lloyd, a German shipping company, is investing \$18 million in its new North American headquarters located in Dunwoody. The new 125,000-square-foot facility is expected to open this summer. The move will consolidate the company’s 500 existing employees while adding an additional 250 new jobs in the region.
- **Forecast:** While job growth has cooled off from levels recorded in 2021, local employers are expected to add workers at a healthy rate through the remainder of the year. The employment market is forecast to add roughly 110,000 employees in 2022, an annual growth rate of 3.8 percent.



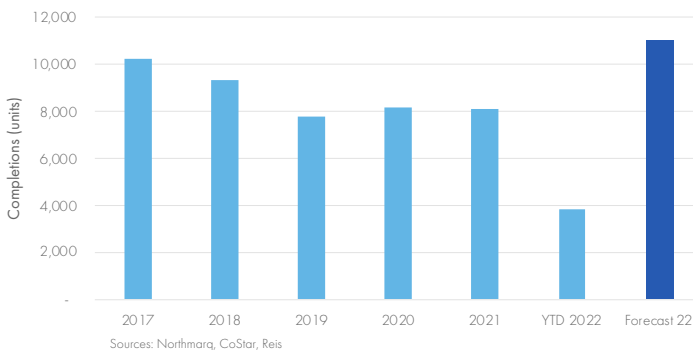
Year over year, area employers added approximately 175,000 jobs.

### Employment Overview



Projects totaling more than 17,800 units are under construction.

### Development Trends



## Development and Permitting

- The pace of deliveries accelerated during the second quarter as developers brought nearly 2,200 units online, following the completion of approximately 1,700 units in the first quarter. Apartment construction has been fairly consistent for the past several years; since 2015, deliveries have averaged approximately 8,600 units per year.
- Multifamily developers remain active in Atlanta. Projects totaling more than 17,800 units are under construction, with new developments scheduled to come online at a rapid pace for the next few years.
- Developers pulled permits for more than 7,300 multifamily units during the first half of 2022; this total includes the issuance of about 3,500 multifamily permits in the second quarter. Multifamily permitting totals in the first half nearly matched the full-year total for 2021.
- **Forecast:** The pace of deliveries is expected to accelerate as projects totaling approximately 11,000 units are on pace to deliver this year. This follows the completion of more than 8,000 new apartment units in 2021.

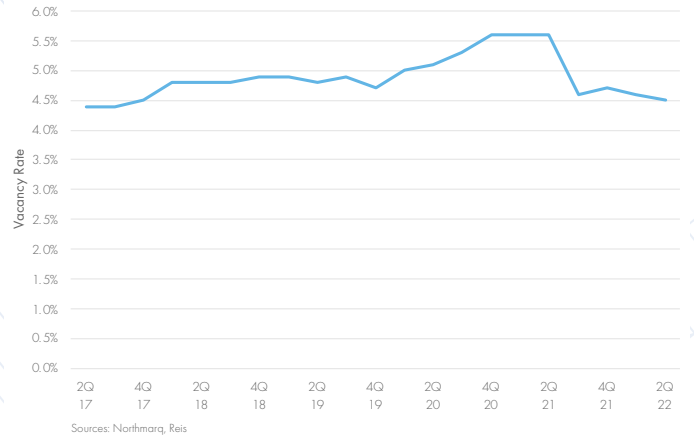
## Vacancy

- The local vacancy rate tightened 10 basis points in recent months, marking the third consecutive quarter of improvement. Multifamily vacancy in Atlanta ended the second quarter at 4.5 percent.
- Year over year, the local vacancy rate has dropped 110 basis points. Supply and demand are often closely aligned in Atlanta, and the vacancy rate has historically ranged between 4 percent and 5 percent. The rate rose in 2020 and during the first half of last year but has returned closer to its long-term average in recent quarters.
- The declining vacancy rate has been most pronounced in Class A properties. Vacancy in the Class A segment ticked below 5 percent for the first time in five years during the second quarter, reaching 4.8 percent. The rate has tightened by 210 basis points in the past 12 months.
- **Forecast:** Vacancy is forecast to end this year at 4.7 percent, matching the year-end 2021 figure. The rate has declined to this point in the year but will likely inch higher in the second half as the pace of new development accelerates.



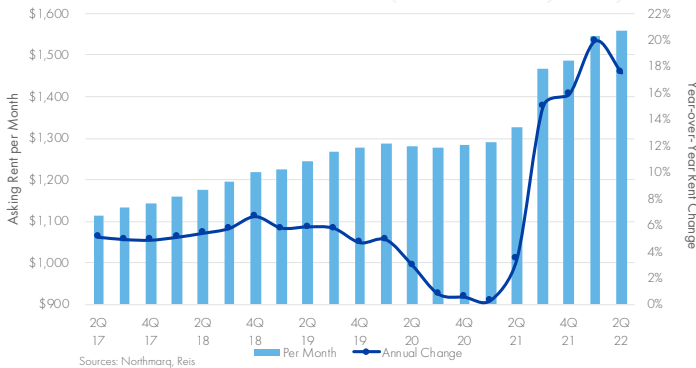
Vacancy ended the second quarter at 4.5 percent.

### Vacancy Trends



Asking rents are up 17.5 percent year over year.

### Rent Trends



## Rents

- After a strong start to the year, rent growth slowed in recent months. Asking rents inched up less than 1 percent in the second quarter, reaching \$1,557 per month.
- Despite a slowdown in the pace of growth during the most recent three-month period, asking rents are up 17.5 percent year over year. Rents have increased by more than \$230 per month on average compared to levels from one year earlier.
- All submarkets in the Atlanta multifamily market have posted steep rent increases, but some of the most robust gains are being achieved in the DeKalb area. Asking rents in this area have increased by 18 percent in the past year, rising to \$1,533 per month.
- **Forecast:** While rent growth slowed in recent months, further increases are expected in the coming quarters. Asking rents are forecast to advance 7.3 percent in 2022, approaching \$1,600 per month.

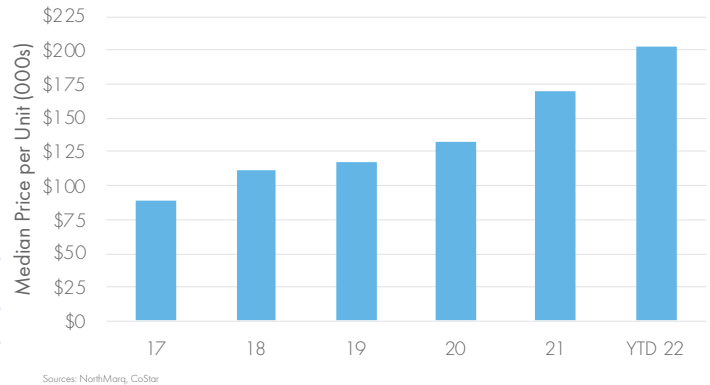
## Multifamily Sales

- Investment activity during the second quarter closely tracked levels from earlier in the year. Sales velocity was up 8 percent during the past three months. The number of transactions that closed in the first half of this year was down 14 percent from the pace recorded during the first half of 2021.
- The median price of transactions that closed in the first half of this year was approximately \$202,500 per unit, nearly 20 percent higher than the median price in 2021. Investors have acquired a broad mix of assets with nearly an equal number of Class A, Class B, and Class C properties changing hands.
- After trending higher in the first quarter, cap rates recently compressed among multifamily transactions in Atlanta. During the second quarter, the average cap rate in the region was 3.6 percent, 60 basis points lower than the figure recorded in the beginning of the year. Some of the cap rate compression can be explained by value-add strategies, as investors are acquiring assets based on future NOI and not in-place revenues.



The median price in the first half was approximately \$202,500 per unit.

### Investment Trends

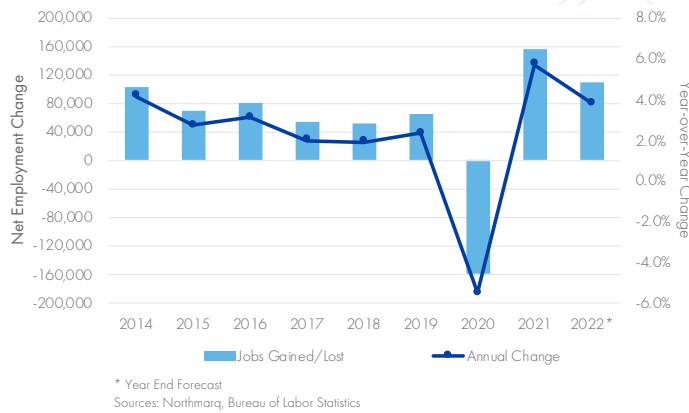


## Looking Ahead

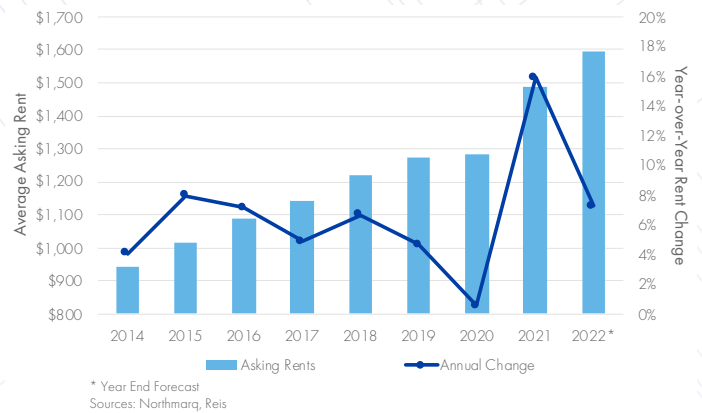
The Atlanta multifamily market is forecast to post gains in the second half of this year, but the significant improvement that has been recorded during the past 12 to 18 months is likely to prove to be unsustainable. The local vacancy rate has tightened by more than 100 basis points since the middle of last year but is forecast to inch higher in the coming months as the pace of deliveries ramps up and employers throttle back a little after a rapid pace of hiring. Rents should continue to trend higher, and gains in 2022 will likely track at about half of the rate of growth achieved during a record-setting 2021. For the full year, rents are forecast to advance by more than 7 percent, similar to gains recorded from 2015 to 2019.

Multifamily properties are expected to continue to trade in the Atlanta area in the second half of this year, as investors will be drawn to the market's strong growth profile. Transaction activity early in the third quarter presented some indications of the new investment landscape. Several properties changed hands in July with investors favoring Class A and Class B assets. With buyers generally being a bit more selective, there could be a decline in the total number of transactions, and the properties that do sell will largely be at the higher end of the quality spectrum. Cap rates in Atlanta have generally remained low to this point but are expected to trend higher in the second half of this year, as investors adjust to the changes in the lending environment.

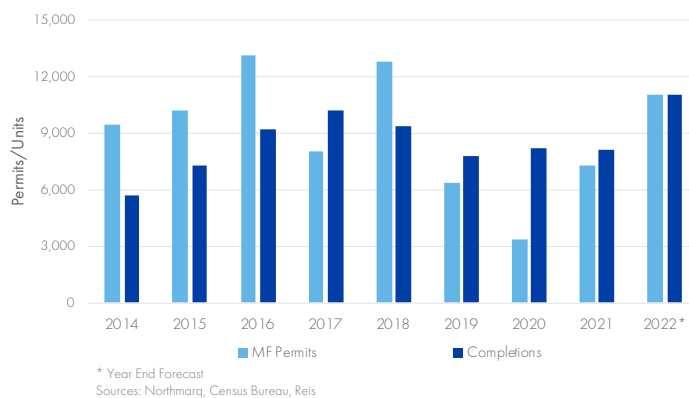
### Employment Forecast



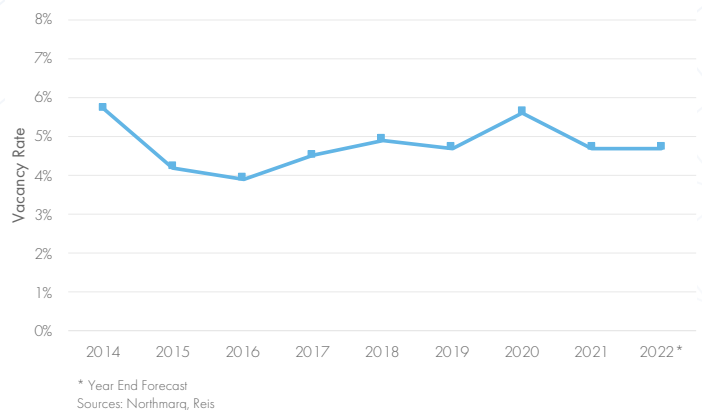
### Rent Forecast



### Construction & Permitting Forecast



### Vacancy Forecast





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## About Northmarq

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