INVESTMENT FORECAST

Retail

Atlanta

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Atlanta Retail Fully Recovers from Health Crisis; Strong Performance Anticipated Again in 2022

Demographic tailwinds propel retail market. Atlanta's retail scene has already recovered from the impact of the health crisis as sufficient stimulus and an influx in population boosted local businesses' prospects. Most of the metro's recent store closures were likely inevitable and the timeline was accelerated due to the pandemic; many other retailers, however, stepped in to fill the void. Some big-box space will be repurposed in the coming year, with industrial conversion playing a sizable role. Last mile distribution will be a favorite redesignation as online sales in the metro stay strong. Meanwhile, construction accelerates this year as several neighborhood and community centers are completed. Little impact from the increase in stock is anticipated, due to high pre-leasing levels. Nearly 80 percent of all the retail space coming out of the ground at the beginning of the year had leasing commitments. The anchored centers, largely in areas with an increase of rooftops, will attract in-line tenants quickly. Statewide, new business applications are up approximately 100 percent from pre-COVID-19 levels.

Investors chase yields in northern neighborhoods. The rapid increase in households in Atlanta, which soared by more than 42,000 last year and will repeat that performance in 2022, is attracting both retailers and buyers. Investors from the Northeast and California are bringing capital into the area, often outbidding local buyers. The expectations gap generated by the global heath crisis has created a disconnect between out-of-state buyers and sellers. Heavy discounting failed to emerge despite the early prognosis for retailers. Single-tenant properties in Atlanta remain in strong demand and trade at an average first-year return in the low-6 percent range, the lowest level in approximately 20 years. Buyers focused on multi-tenant assets can find deals at an average cap rate in the mid-7 percent area, a station it has held since 2019. As the Fed plans to raise rates this year, the low side of yields have likely been achieved.

2022 Market Forecast

Employment up 3.1% — Payrolls grow strongly this year as 89,000 spots are created, down from 130,000 jobs in 2021.

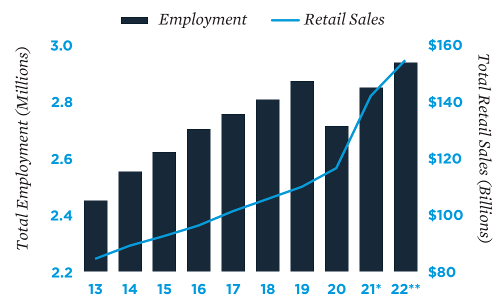
Construction 3,100,000 sq. ft. — Builders expand inventory 1 percent in 2022 as the pace of development increases. Most of the space has existing tenant agreements in place and will not disrupt operations.

Vacancy down 30 bps — Availability continues to tighten this year as the rate declines to 4.8 percent. Last year, vacancy dipped 70 basis points, erasing all pandemic-related losses.

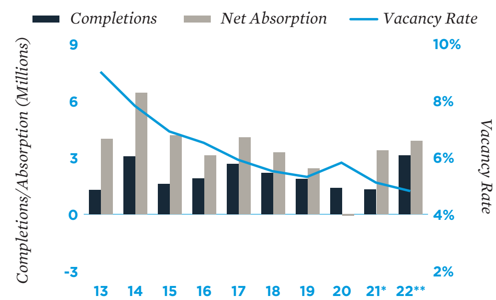
Rent up 2.9% — The pace of rent gains returns to sustainable levels in 2022 as the average asking rate climbs to $16.82 per square foot. In 2021, marketed rent jumped 6.8 percent.

Investment — Out-of-state investors will be attracted to the considerable demographic advantages in the Atlanta metro as they focus on neighborhoods with elevated household growth in suburbs.

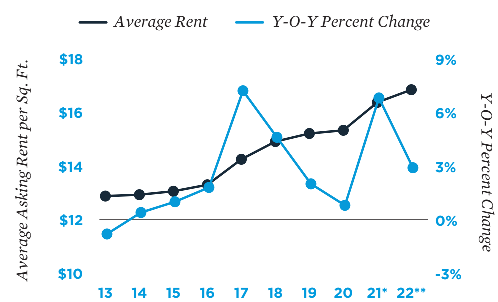
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.