MARKET REPORT

Multifamily

Atlanta Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

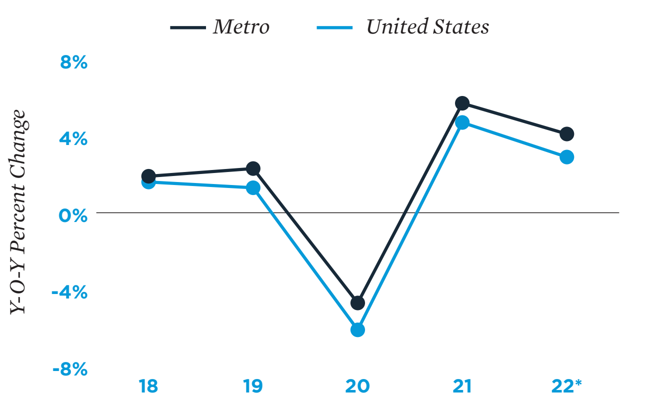
3Q/22

Rent Growth Returns to Sustainable Level; Construction Signals Incoming Supply Wave

Economic trends support vacancy, rent stabilization. Atlanta's multifamily sector is entering a cooling period as supply catches up to the unprecedented demand surge seen during the pandemic. Metrowide, unit availability closed June at 4.3 percent, 130 basis points above the year-end 2021 rate. Double-digit rent growth translated to vacancy decompression across all submarkets during the first half of this year, as availability closes in on the long-term average. Furthermore, rising vacancy across all apartment tiers indicates that this movement is driven by a mix of household consolidation and rapid development activity. Upward-trending availability is expected to end frenetic rent growth, with year-over-year gains in this metric expected to return to the single digits before the end of 2022.

Developers ramp up pace to accommodate swelling population. As of July, the total construction pipeline exceeded 40,000 units to be delivered through 2025. While this schedule should translate to record-breaking annual completion totals within the next two years, Atlanta's rapid population growth indicates the metro is well-poised to receive this incoming supply wave. Net in-migration is expected to continue to provide a robust backstop to renter demand for the forseeable future. Additionally, several major tech firms are planning to establish operations in the area. The entry of these companies is positioned to stoke demand for many of the pipeline's Class A units, as these organizations are likely to recruit from outside the metro when establishing staffs.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

120,000 JOBS *will be created*

EMPLOYMENT:

Job creation is expected to slow after 80,000 positions were added in the first half of the year, though gains here will still end 2022 at a robust 4.1 percent. Growth across diverse employment sectors should support demand across all apartment tiers.

11,000 UNITS *will be completed*

CONSTRUCTION:

Completions rise above the 10,000-unit mark for the third time in six years. Nevertheless, a high number of individuals are expected to relocate to the Greater Atlanta area this year, fueling demand for these new units.

180 BASIS POINT *increase in vacancy*

VACANCY:

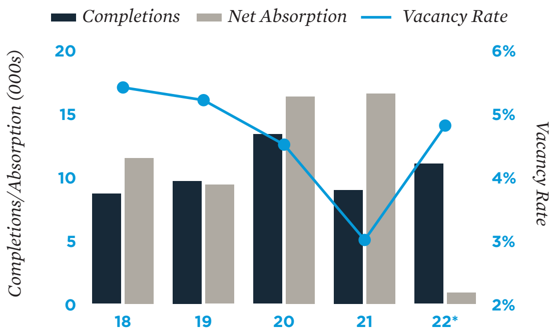
Inflation-driven household consolidation drives the most rapid increase in vacancy observed in the market in 14 years. However, unit availability remains below the norms observed during previous cycles.

5.0% INCREASE *in effective rent*

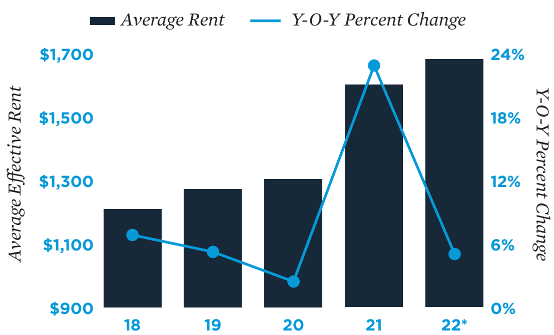
RENT:

A sizable increase in vacancy leads to easing rent growth in the wake of last year's 22.8 percent surge. The average effective rent is projected to end the year at $1,680 per month as the metric marks its second-smallest percentage gain since 2012.

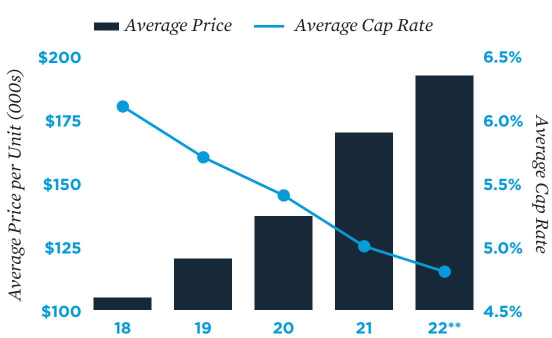
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

7,456 units completed

- Supply chain issues slowed construction in the latter half of 2021, bringing 12-month deliveries below 7,500 units for the first time since 2015.
- Developers followed long-term demographic trends favoring suburban locales, which took on 82 percent of the stock completed during the yearlong span ended in June.

VACANCY

40 basis point increase in vacancy Y-O-Y

- Net absorption turned negative during the second quarter after remaining positive throughout the health crisis, bringing vacancy to 4.3 percent.
- Upper- and mid-tier properties were impacted more acutely during the second quarter, observing vacancy increases of at least 120 basis points each. Class C apartments saw availability rise 80 basis points.

RENT

19.1% increase in the average effective rent Y-O-Y

- Atlanta marked its fifth consecutive quarter of double-digit, year-over-year rent growth at the end of June, bringing the average to $1,675 per month.
- Effective rents at Class A properties maintained year-over-year growth exceeding 20 percent for three quarters in a row, lifting the segment's average to a new high of $2,076 per month.

Investment Highlights

- Robust fundamentals drew investors back to Atlanta during the 12-month period ended in June, with deal flow exceeding the immediate pre-pandemic equivalent by 20 percent. Still, trade velocity appears to be returning to more typical levels, following a record-breaking fourth quarter of 2021. While buyer activity is moderating, the metro's long-term growth prospects should sustain local sales velocity, even in the case of an economic downturn and higher interest rates.
- Class B assets took up a greater share of total transcations over the course of the pandemic than in prior years, a trend that has held through the middle of 2022. As cost-of-living concerns incentivize some renters to transition from upper- to mid-tier rentals, more institutions may seek out opportunities in this sector.
- Buyer enthusiasm has translated to substantial pricing gains. The average price for trades occurring during the 12-month span ended in June was $192,200 per unit, roughly 60 percent ahead of the 2019 equivalent. Rapid price growth has prompted some owners to part with properties after shorter than typical holding periods, with some investors selling assets acquired as late as 2020 for notable returns.