MARKET REPORT

Multifamily

Atlanta Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

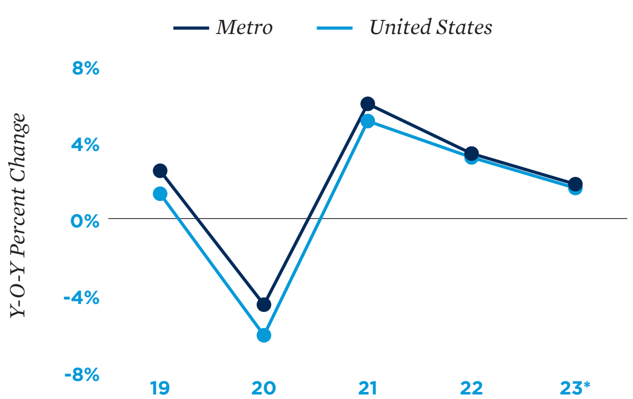
3Q/23

Corporate Expansions, Rising Incomes and a Growing Youth Population Buoy Renter Demand

In-migration creates long-term tailwinds. Across 2022 and 2023, Atlanta will gain roughly 140,600 new residents on net through in-migration, the largest two-year gain noted since the same span ending in 2007. Population growth is aided by continued corporate investments, such as Duckshin Housing building a $15 million facility in Athens-Clarke County, and John Deere Electric Powertrain LLC proposing an electric battery module facility in Forsyth. The addition of well-paying jobs has led to a rise in the median household income, which will surpass $82,000 per year by December. This has contributed to the vacancy rate in the Class A segment, which was at 6.6 percent in June, ending up below the Class B and C rates of 6.9 and 7.4 percent, respectively. A record-high delivery slate could loosen this unusual dynamic this year, but the softer pace of rent growth in top-tier properties against elevated homeownership barriers may encourage renters in this segment to stay put.

The growing renter pool warrants new supply. As of August, over 42,000 units were underway with delivery dates stretching into 2026. This hefty construction slate will hinder vacancy compression in the coming years, but renter demand has generally remained strong, particularly for top-tier space. While vacancy will be elevated and a 13-year streak of rent growth will end in 2023, the metro is likely to see an expanding renter pool. The age 20- to 34-year-old cohort — a group that is predisposed to renting — is expected to grow by nearly 41,300 residents locally through 2027.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

55,000 JOBS
will be created

EMPLOYMENT:

In the first seven months of 2023, over 29,000 positions were added in Atlanta. Hiring velocity should remain steady through the later months of the year, allowing total employment to expand by 1.8 percent in 2023.

16,000 UNITS
will be completed

CONSTRUCTION:

Deliveries will reach their highest level since at least 2000 as inventory surges by 2.8 percent. Completions are well dispersed throughout the metro, and only five submarkets expect over 1,000 new units this year.

130 BASIS POINT
increase in vacancy

VACANCY:

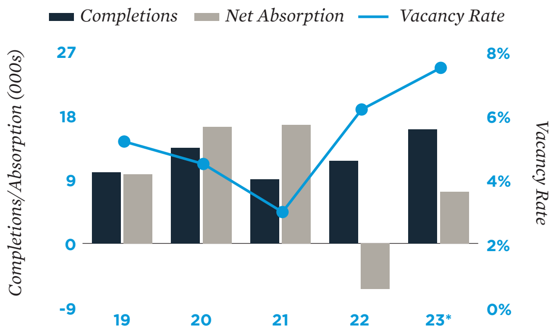
Net absorption will be positive as nearly 7,300 units are taken off the market, but the metric falls below new stock. Supply pressure will push up vacancy in Atlanta, lifting the rate to 7.5 percent by year-end.

0.2% DECREASE
in effective rent

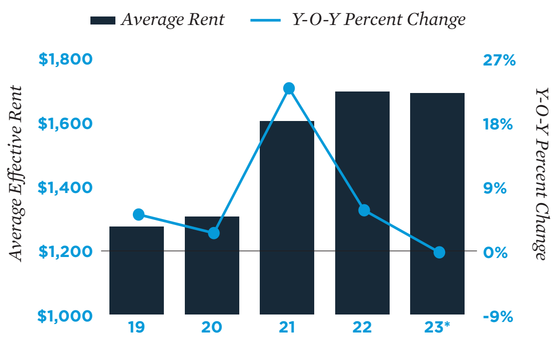
RENT:

Increasing competition from new supply will hinder rent growth. As a result of new stock, owners may opt to increase concession usage. The average effective rent will tick down to $1,690 per month.

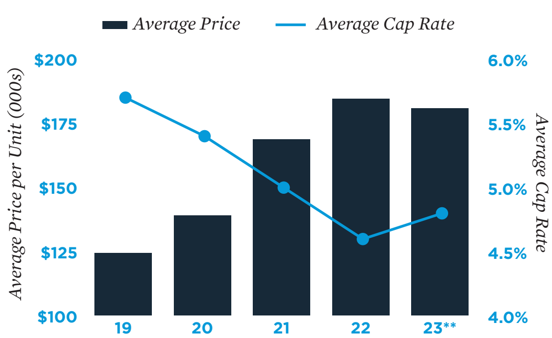
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2023 - 12-Month Period

CONSTRUCTION
16,715 units completed

- During the trailing 12 months ended in June, inventory expanded by 3.0 percent, the fastest pace of growth in over two decades.
- The CBD welcomed roughly 3,160 new units during the yearlong span, increasing urban stock by 4.9 percent. Outside of the CBD, far-out Atlanta suburbs received the greatest volume of new supply.

VACANCY
280 basis point increase in vacancy Y-O-Y

- Net absorption in the trailing four quarters was just barely positive, and well-below the period's completion total. Consequently, vacancy rose to 7.0 percent, the metric's highest level since early 2014.
- Suburban and urban vacancy were equal, exiting the second quarter at 7.0 percent. Class A properties had the lowest rate among tiers at 6.6 percent.

RENT
0.8% increase in the average effective rent Y-O-Y

- The average effective rent advanced slowly year-over-year in June. This metric reached $1,892 per month, just below the 2022 year-end rate.
- Rent growth in the CBD was slightly stronger. During the trailing 12 months, urban properties logged a 1.2 percent increase to $2,081 per month. Suburban apartments saw a 0.8 percent rise to $1,625 per month.

Investment Highlights

- The second quarter of 2023 witnessed the fewest number of trades in any three-month period since 2011, excluding 2020. The challenging lending environment has heavily contributed to this slowdown, in addition to moderating per-unit price increases. In the trailing 12 months ended in June, the average sale price was $180,500 per unit, a slight decrease from the 2022 mean, and was paired with an average cap rate of 4.8 percent.
- Buyers in the $15 million-plus price tranche were relatively active in the first seven months of the year. Assets in Cumberland-Galleria, Fayette County, North Gwinnett County and Outlying Gwinnett County were sought out by institutional investors willing to pay a premium for top-tier spaces. Many of these assets were built in the late 1900s or early- to mid-2000s, and were acquired by out-of-market capital sources.
- Bulk and portfolio sales were prevalent in the first half of 2023. These sales predominantly involved out-of-market institutional investors looking to either diversify their existing portfolio, or to establish a footprint in Atlanta. Assets in Outlying Gwinnett County, South Atlanta, Fayette County and Southeast DeKalb were most commonly sought out.