

# Cap rates push higher to close 2022

## CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **27,524**

UNITS DELIVERED **12,756**

## MARKET FUNDAMENTALS



VACANCY RATE **4.5%**

YEAR-OVER-YEAR CHANGE **-20bps**

ASKING RENTS **\$1,586**

YEAR-OVER-YEAR CHANGE **+6.7%**

## TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$202,500**

## HIGHLIGHTS

- The Atlanta multifamily market performed well in 2022, although property fundamentals softened slightly during the fourth quarter. Renter demand was fueled by an expanding local economy; growth is expected to slow in 2023.
- Asking rents advanced 6.7 percent in 2022, although rents declined in the final three months of the year. Asking rents ended the fourth quarter at \$1,586 per month.
- While multifamily properties continued to change hands in recent quarters, annual sales in 2022 declined nearly 40 percent from levels recorded in 2021. The median price was \$202,500 per unit in 2022, up 19 percent from the median price in 2021.

## ATLANTA MULTIFAMILY MARKET OVERVIEW

While elevated supply growth caused property fundamentals to soften a bit during the fourth quarter, operating conditions in the Atlanta multifamily market still gained traction in 2022 and continue to outperform the market's long-term metrics. Multifamily deliveries accelerated in 2022, with approximately 12,800 units coming online for the year. Additional supply growth is on the way, as the number of units in the construction pipeline expands. Despite the recent surge in new development, vacancy remains tight. The rate rose just 10 basis points in the fourth quarter to 4.5 percent.

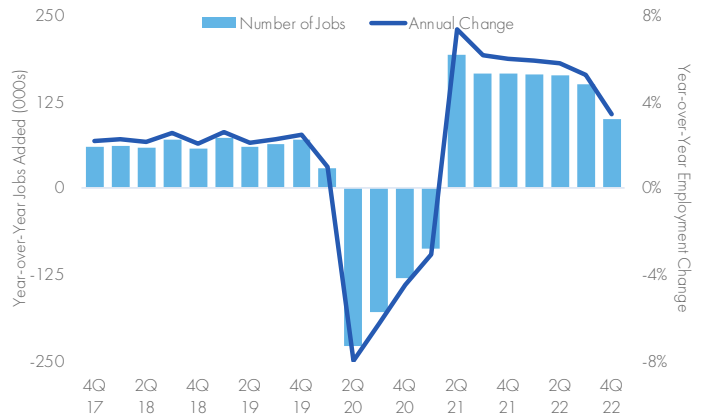
Despite rising capital costs, multifamily properties continued to trade in the fourth quarter albeit at a slower pace than earlier in the year. Sales prices rose in the first six months of 2022 before leveling off in the second half. The median sales price in 2022 was \$202,500 per unit, up 19 percent from the median price in 2021. Properties located in Gwinnett County accounted for the largest share of the transaction mix in the fourth quarter. Rising interest rates continued to drive cap rates higher; cap rates averaged roughly 4.75 percent by the end of the year.

## EMPLOYMENT

- The Atlanta market recorded a year of strong employment growth in 2022. Businesses increased employment levels by 3.4 percent in 2022, creating nearly 100,000 net new jobs.
- The rebound in Atlanta’s leisure and hospitality sector was a driver of overall employment gains in 2022. The sector expanded by 8.6 percent in the past year, adding 23,700 jobs.
- Archer Aviation recently began construction on a new manufacturing facility in Covington, southeast of Atlanta. The 350,000-square-foot facility is scheduled to open in early 2024 and will create roughly 1,000 jobs over the next 10 years. The facility will manufacture electric vertical takeoff and landing aircraft.
- **FORECAST:** After 24 months of rapid job growth, total employment is expected to advance at a more modest pace in 2023. Local employers are forecast to add approximately 35,000 positions in the coming year, a growth rate of 1.2 percent.

Nearly 100,000 net new jobs were created in 2022.

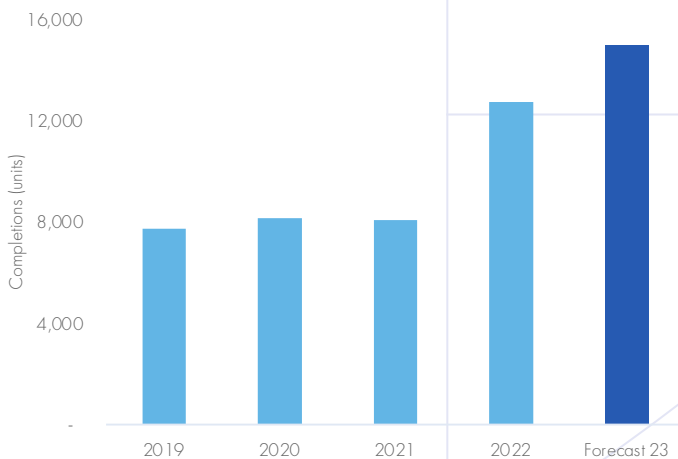
### EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Projects totaling approximately 27,500 units are under construction.

### DEVELOPMENT TRENDS



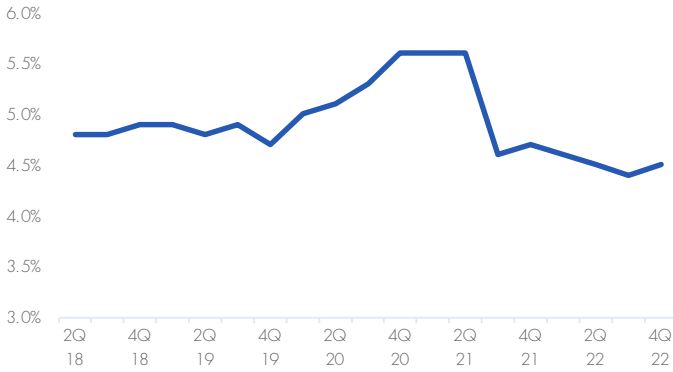
Sources: Northmarq, Reis CoStar

### DEVELOPMENT & PERMITTING

- Developers completed more than 4,100 new apartments during the fourth quarter, bringing the total for the full year to nearly 12,800 units. Prior to 2022, deliveries in the region had been averaging nearly 9,000 units per year.
- Projects moved into the construction pipeline throughout 2022 as developers tried to meet renter demand. At the end of the year, projects totaling approximately 27,500 units were under construction. Half of the market’s ongoing projects are located in the North Gwinnett and Outlying Gwinnett County submarkets.
- In 2022, developers pulled permits for approximately 20,000 units. This total represents a cyclical high, and permitting will likely slow considerably over the next few years. While permitting levels were elevated in the past year, a more challenging capital environment will likely cause permitted projects to be delayed.
- **FORECAST:** With vacancy below the market’s long-term trend, and population growth continuing to support demand for rental housing, deliveries will remain elevated in the near term. Developers are forecast to complete approximately 15,000 rental units in 2023.

For the full year, vacancy retreated 20 basis points.

VACANCY TRENDS



Sources: Northmarq, REIS

VACANCY

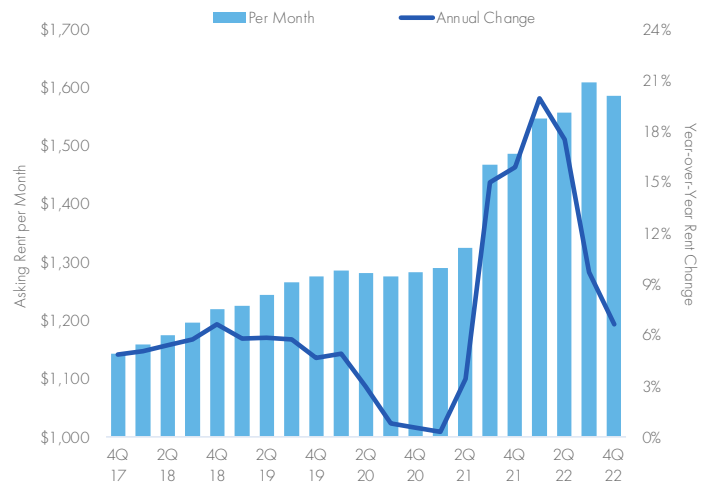
- After reaching a five-year-low in the previous period, vacancy inched up 10 basis points during the fourth quarter, finishing the year at 4.5 percent. For the full year, the rate retreated 20 basis points.
- Some of the tightest operating conditions are being recorded in the I-20 East submarket after the rate fell 80 basis points in 2022 to 2.2 percent. The I-20 East submarket is less than 10 miles west of Covington, which is poised for substantial economic growth in the coming years.
- Despite an increase in new construction, vacancy rates in Class A properties declined during 2022, fueled by healthy levels of absorption. Average vacancy in the top tier retreated 60 basis points in 2022 to 4.6 percent.
- **FORECAST:** With developers forecast to record another year of elevated deliveries, the vacancy rate is expected to continue to push higher in the coming quarters. Local vacancy is projected to rise 50 basis points in 2023, reaching 5 percent.

RENTS

- After trending higher for eight consecutive quarters, local apartment rents ticked lower in the final few months of 2022. Asking rents fell 1.4 percent during the fourth quarter, finishing 2022 at \$1,586 per month.
- Despite the recent decline, local rents advanced by 6.7 percent during the past 12 months. The recent gains are more in line with the long-term trend in the region. Atlanta has been a high-growth market, and during the past decade, rent growth has averaged about 4.5 percent per year.
- The strongest rent increases in 2022 occurred in Class B and Class C properties. Average asking rents for Class B and Class C units advanced 7.9 percent in the past year, reaching \$1,282 per month.
- **FORECAST:** After the average rent increased by more than \$300 per month since 2020, rent gains are expected to be more modest in the coming periods. Local rents are forecast to rise roughly 2.8 percent in 2023, reaching \$1,630 per month.

Rents advanced by 6.7 percent during the past 12 months.

RENT TRENDS



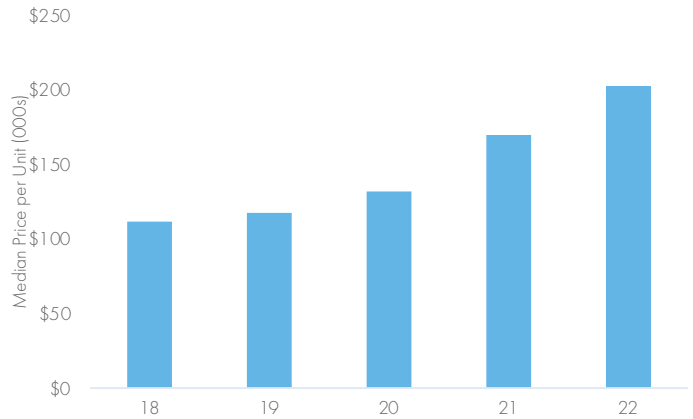
Sources: Northmarq, Reis

## MULTIFAMILY SALES

- Following a strong first half of the year, sales activity continued to fall in recent months, as the number of transactions declined more than 20 percent from the third quarter to the fourth quarter. Additionally, deal volume dropped nearly 40 percent from 2021 to 2022. Transaction counts in 2022 were similar to average levels recorded from 2018 through 2020.
- Despite fewer properties trading in recent quarters, pricing remains elevated. The median price in 2022 was \$202,500 per unit, up 19 percent from the median price in 2021. Sales activity gained momentum in rapidly expanding Gwinnett County during the fourth quarter.
- Cap rates continued to push higher in the final months of 2022 and averaged approximately 4.75 percent in the fourth quarter, about 25 basis points lower than the national average. Cap rates averaged around 4 percent during the same period one year ago.

*The median price in 2022 was \$202,500 per unit.*

## INVESTMENT TRENDS



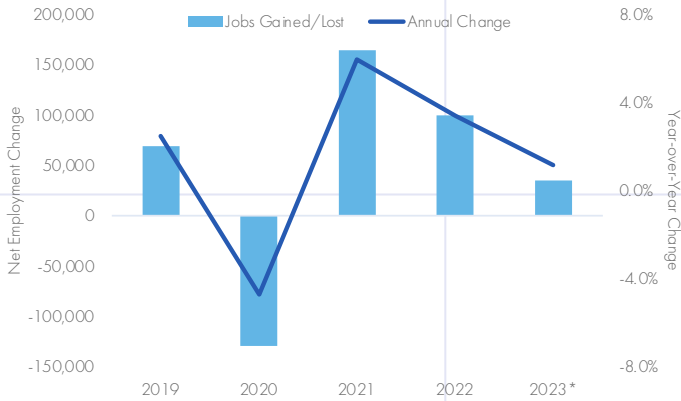
Sources: Northmarq, CoStar

## LOOKING AHEAD

After two consecutive years of rapid improvement, operating conditions in the Atlanta multifamily market could soften somewhat in 2023. To date, demand growth has been sufficient to keep pace with new supply, but the year ahead should record both accelerating inventory additions and a more modest pace of economic expansion. Approximately 15,000 units are scheduled to come online in the next 12 months; while this total represents an accelerating pace of growth, the Atlanta market routinely has years of construction that approach or exceed 10,000 units delivered. Still, the vacancy rate is expected to finish 2023 at around 5 percent, after remaining below this level for nearly all of the past seven years.

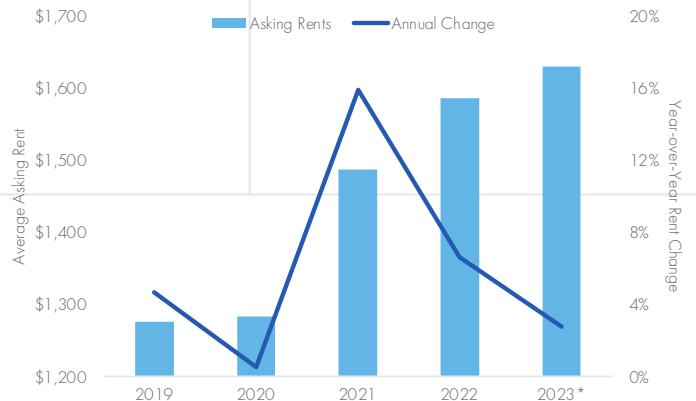
Atlanta should remain one of the top multifamily investment markets in the country in the year ahead. While sales velocity will likely continue slowing at the start of 2023, investors may still find opportunities throughout the region. The number of deals should begin picking up in the second half of the year as buyers and sellers adjust expectations to the new capital environment. After rising roughly 75 basis points in 2022, cap rates are projected to continue ticking higher in the next 12 months. Cap rates are expected to average 5 percent or higher in 2023, somewhat lower than the projection for the nation as a whole. Overall, the region's strong property fundamentals and significant supply growth will continue to attract both in-state and out-of-state investors.

### EMPLOYMENT FORECAST



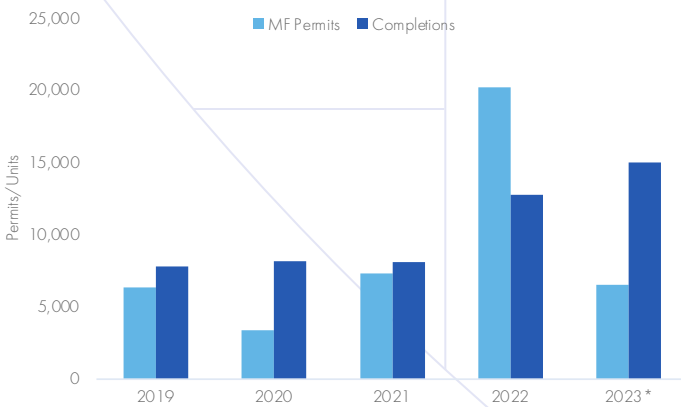
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

### RENT FORECAST



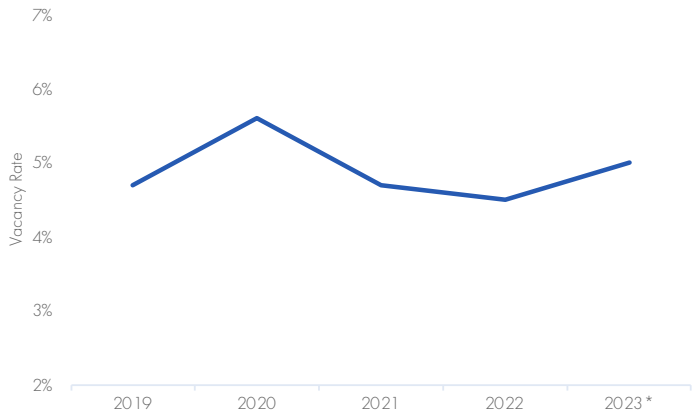
\* Year End Forecast  
Sources: Northmarq, Reis

### CONSTRUCTION & PERMITTING FORECAST



\* Year End Forecast  
Sources: Northmarq, Census Bureau, Reis, CoStar

### VACANCY FORECAST



\* Year End Forecast  
Sources: Northmarq, Reis





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