ATLANTA GROWTH STATISTICS
SUMMARY - AS OF Q2 2017

3.2%
ANNUAL JOB GROWTH
(Q2 2016 TO Q2 2017)

5.75M
ATLANTA, GA
MSA POPULATION

480,860
INVENTORY (TOTAL RENTAL UNITS)

95.0%
OCCUPANCY RATE

9%+
POPULATION GROWTH
2010-2016

138,000
MILLENNIALS
MIGRATING TO
ATLANTA 2010-2016

5.8%
Y-O-Y EFFECTIVE
RENT GROWTH

$480M
$ INVESTED IN VENTURE
CAPITAL ENDEAVORS IN
ATLANTA, UP $263M FROM
2016

9.3 JOBS
CREATED FOR EACH
MULTIFAMILY UNIT
PERMITTED

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TRENDS TO WATCH - LATE 2017 INTO 2018

1. DESPITE DECLINES IN TOTAL MULTIFAMILY SALES AT MID-YEAR 2017, PRICING WILL REMAIN ROBUST NATIONALLY: After two years of record-setting volumes and $580 billion nationally in transactions over the last five years, the pace of investment activity has slowed. Multifamily investment sales saw $30.5 billion of activity in the second quarter of 2017. While this figure rebounded in comparison to the $24.8 billion figure recorded for the first quarter, year-to-date volumes are 22.3 percent off the pace of 2016’s record-setting activity. Overall, roughly 4,400 and 4,600 properties sold in the successive years of 2015 and 2016, respectively. Comparatively, only 1,538 properties have sold so far in 2017, highlighting a clear lack of opportunity. A nearly 60 percent decline in high-rise transactions is driving volume declines. In spite of these declines, overall pricing for multifamily continues to appreciate, as shown through Real Capital Analytics’ apartment property price index. The headline multifamily index has increased 8.6 percent year-over-year as of May 2017. Non-major markets are currently driving appreciation, as the six major gateway markets (New York, San Francisco, Washington, DC, Los Angeles, Chicago and Boston) have only appreciated 7.1 percent in the past year. Yields held steady at 5.4% nationally, yet cap rates in tertiary markets have compressed as more investors have moved into these markets in search of greater returns. Overall, the decline in activity through the first six months of the year has placed pressure on pricing on select assets.

• In Atlanta specifically, a lack of multifamily portfolio and entity-level transactions in the first half of 2017 contributed to a slower start to the year. Per Real Capital Analytics, Atlanta has seen 176 total sales transactions as of September 13, 2017, accounting for a total dollar volume of more than $6.7 billion. Looking at the same January to mid-September timeframe in 2016, there were 207 apartment sales, amounting to a total transaction volume of just over $10 billion. This equates to a 15% decrease in the total number of transactions, and a 33% decrease in total dollar volume.

• The above statistics aside, Moran, along with the rest of the multifamily community, expects multifamily sales activity to be stronger during the second half of 2017. New, wood frame wrap assets in the core plus submarkets (specifically the East Side, Midtown West, and Vinings), coupled with value-add garden communities (mostly suburban and in the Perimeter submarket), comprise the bulk of product that has been marketed for sale. Atlanta continues to see very few, true core deals brought to market (the most recent was Oliver McMillan’s Residence Buckhead Atlanta, which sold to Simpson in August 2016).

2. THE ATLANTA APARTMENT MARKET WILL CONTINUE TO THRIVE ON ITS STRONG FUNDAMENTALS: The Atlanta metro area benefits from a well-educated workforce and a strong business community. Job growth, strengthened in part by numerous corporate relocations, has pushed rents to historic levels while new supply satisfies the demand of a higher paying workforce. While there still remains bifurcation between inner-perimeter submarkets and outside the perimeter, economic drivers such as the trend of corporate relocations and vast transportation and manufacturing infrastructure position Atlanta among the top major U.S. metros for rent growth in recent quarters. The Atlanta Metro is home to 15 Fortune 500 companies, most of which are located inside the Perimeter near Downtown, Midtown and Buckhead. Unemployment has fallen from double digits experienced throughout most of 2009, 2010 and 2011, to 4.9% as of October 2016. With low unemployment and renters with more spending power, the demand for multifamily housing near in-town amenities will continue to sustain pressure on market rents in the short-term. Assets that were acquired within the last two or three years have enjoyed better performance and are capitalizing on factors that have created an all-time high in value. The pace of investment sales has been brisk; and pricing continues to rise in step with performance and continued historically low interest rates. Prospective owners now have a buffet of lenders to choose from with attractive loan programs that allow them to afford higher-priced assets. While construction loan financing is tightening due to High Volatility Commercial Real Estate (HVCRE) regulations on the one hand, acquisition financing is plentiful on the other.

• Foreign investors are still very active in Atlanta, particularly those from Canada, Asia, South America and Israel. Multifamily investors have become accustomed to record-breaking rent growth rates in this cycle and therefore have been more hawkish in early 2017. However, when taking a step back and considering the bigger picture, the percent returns that multifamily investment provides still have an edge over other investment options – fueling the formation of new multifamily funds with targets across the United States.
3. CONTINUED LOW INTEREST RATES ARE PROVIDING TRACTION FOR CAP RATES TO STAY STEADY (AND MAY EVEN DRIFT DOWNWARDLY): While Q4 2016 saw an immediate increase after the election, interest rates throughout 2017 settled back into the high 3’s, akin to previous years. Cap rates will potentially go lower throughout the remainder of 2017 and into 2018, due to more demand for product than there is supply of available properties.

4. CONSTRUCTION COSTS WILL CONTINUE TO RISE: The development community continues to deal with rising construction costs, and damages incurred by Harvey, Irma and Jose (respectively), will further accelerate costs — pushing laborers and dollars to those affected areas. While costs vary widely depending on geography, there is a baseline number agreed upon within the development community. Costs among the five, primary construction types for multifamily product currently break down as follows: High Rise (averaging between $400k and $450k per door), True Mid-Rise / Epicore (averaging $260k to $270k per door), Wood Frame Podium (averaging $215k to $235k per door), Wood Frame Wrap (averaging $190k to $210k per door), and Garden (averaging $160k to $180k per door).

5. SHORT AND LONG TERM, THE HURRICANES WILL HAVE A LASTING IMPACT: Per a September RealPage report, 47,000 vacant units in the Houston area will likely alleviate some of the demand for apartments from residents whose homes or apartments were damaged or destroyed by Hurricane Harvey. Forbes contributor Brad Thomas writes that demand for apartments in Houston will surge post-storm, due to the number of homes and commercial properties that have been irreparably damaged. As Reis notes, the post-Katrina boost for apartment and office properties [in New Orleans] was driven by the shock to supply. Residents scrambled to find a place to live and/or to find office space to work after so many properties were destroyed. The apartment vacancy rate fell more dramatically than the office vacancy rate, and apartment rents rose more robustly as well. This may boost rents considerably, even as much as 10%.

- Looking to Harvey, Irma and Jose’s impact on the East Coast, analysts expect that the overall Atlantic coast market will enjoy a bump in occupancy near term, coupled with longer term in-flow of Florida residents (affected specifically by Irma). Moran also expects that companies based in Atlanta will be highly instrumental in helping with Florida’s re-building, primarily within the Construction and Communication segments.
6. **REITs WILL CONTINUE TO FAVOR NEW DEVELOPMENT:** REITs in most sectors have capital to invest, and multifamily REITs have continued to buy land and entitle new deals instead of paying top dollar for new acquisitions. REIT principals feel that even though apartment rents are growing more slowly than before, the core markets where they are building still have enough renters to fill up new units.

   - As of the second quarter of 2017, the REITs tracked by NAREIT had a development pipeline of $10.7 billion in apartment properties. REITs are continuing to start new apartment projects, even though the sector overall has begun to pull back as construction financing becomes increasingly more difficult to find. The number of new units likely to open in 2018 will decline to 271,842, from 389,723 in 2017, according to an August forecast from Axiometrics.

7. **MERCHANT BUILDERS WILL CHANGE COURSE:** Per Crittenden Research, the trend of merchant development will further diminish. Count on developers to hang onto their buildings for the long term. Companies will beef up their portfolios by holding onto more of their properties. Builders feel the strain of rising costs, less leverage and competition for new sites. As development tapers off, developers will look for a stable way to keep a steady cash flow this late in the cycle while interest rates are still relatively low. Crittenden specifically calls out Fifield, Jefferson Apartment Group, Pollack Shores, Southeast Venture, Timberland Partners, Southern Land Company, Chandler Partners, Reylienn Properties, Wiseman, Holland Partner Group and Oak Properties to develop, stabilize and refinance for the long term more frequently. The larger developers will scale down to a 50-50 split of merchant building and refinancing for 10 years. Companies with a smaller development division will hold onto a larger proportion of their projects. Developers will take out construction loans from national money center lenders and regional banks, and bridge financing will mostly come through debt funds before refinancing through Fannie Mae and Freddie Mac or insurance companies.

8. **ATLANTA COULD WIN THE AMAZON HQ2 BID:** Atlanta is a top contender for Amazon’s second headquarters - and will likely be among Amazon’s top five considerations - per New Jersey-based The Boyd Company. Boyd is a site selection consulting agency and has helped a number of companies evaluate headquarters locations. A big lure for corporations to Atlanta (and Georgia overall), are both government’s solid credit ratings and its balance of liabilities with pension programs. Boyd states that companies are looking more critically at factors like a city’s credit rating and property taxes when evaluating potential headquarters or major corporate presence locations. Georgia has a AAA credit rating among the three big ratings agencies and Atlanta’s credit rating had been upgraded last year to one of the highest.

   - Property taxes also are a big consideration, especially as they affect employees’ cost of living. Boyd noted how when Mercedes-Benz U.S. moved its headquarters from New Jersey to Atlanta, the average executive property tax bill shrunk from $22K per year to $5K per year. Amazon has put a priority on transit in its RFP, saying potential sites must have some direct access to transit. Atlanta’s main transit system, MARTA, has emphasized transit-oriented development at its stations in recent years. But it remains to be seen if that will be enough to lure Amazon.
THE U.S. RENTAL MARKET

Per a July 2017 NMHC article on national apartment demand (U.S. Needs 4.6M New Apartments by 2030), the country has a prescient need for more apartments - today and well into the future. The article goes on to state several key stats:

- There are nearly 39 million people currently living in apartments, and the apartment industry is quickly exceeding capacity;
- In the past five years, an average of one million new renter households were formed every year, which is a record amount; and,
- It will take building an average of at least 325,000 new apartment homes every year to meet demand; yet, on average, just 244,000 apartments were delivered from 2012 through 2016.

NMHC posits that the increased demand for apartments is due in large part to:

- **Delayed house purchases.** Life events such as marriage and children are the biggest drivers of home ownership. In 1960, 44 percent of all households in the U.S. were married couples with children. Today, it’s less than one in five (19 percent), and this trend is expected to continue.
- **The aging population.** People ages 65-plus will account for a large part of population growth going forward across all states. The research shows older renters are helping to drive future apartment demand, particularly in the northeast, where renters ages 55-plus will account for more than 30 percent of rental households.
- **Immigration.** International immigration is assumed to account for approximately half (51 percent) of all new population growth in the U.S., with higher growth expected in the nation’s border states. This population increase will contribute to the rising demand for apartments. Research has shown that immigrants have a higher propensity to rent and typically rent for longer periods of time.

“We’re experiencing fundamental shifts in our housing dynamics, as more people are moving away from buying houses and choosing apartments instead. More than 75 million people between 18 and 34 years old are entering the housing market, primarily as renters,” said Dr. Norm Miller, Principle at Hoyt Advisory Services and Professor of Real Estate at the University of San Diego. “But renting is not just for the younger generations anymore. Increasingly, Baby Boomers and other empty nesters are trading single-family houses for the convenience of rental apartments. In fact, more than half of the net increase in renter households over the past decade came from the 45-plus demographic.”

The article goes on to specify that the major apartment hubs like Atlanta, will continue to require the most new apartment product to satisfy the extremely high demand over the next 13 years.

**METRO ATLANTA GROWTH PREDICTIONS (from Hoyt Advisory Services Study commissioned by NAA and NMHC):**

**THE ATLANTA RENTAL MARKET (DETAIL)**

Metro Atlanta Economy / Supply: Backing up the NMHC article and the chart above, MPF Research (per its Q2 2017 report), boasts that Atlanta’s $300 billion+ economy (and home of 16 Fortune 500 companies), continues to impress as the market further diversifies and expands. Atlanta’s economy expanded at an estimated average of 4.0% per year in the five year period ending Q2 2017. The pace of economic growth was even stronger (4.7%) in the past three years, with employment growth averaging 3.5% annually during that 36-month period. As of the year-ending April 2017, Atlanta’s employment base had grown by 3.3% (or 90,500 workers). Perimeter is the largest employment hub, followed by Downtown/Midtown, Buckhead, and Cumberland/Vinings.
Permits for 9,828 multifamily units were issued in the 12 months ending in July 2017, down -3,212 units from the prior year's sum. In terms of total residential housing, 34,026 units were permitted in the 12 months ending July 2017, a decrease of -2,095 units from the prior year's total. The most remarkable statistic is the number of jobs gained compared to residential permits issued. In 2016, Atlanta created 3.5 jobs for every 1 residential permit, and 9.3 jobs for each multifamily unit permitted.

**METRO ATLANTA DEMOGRAPHICS:** Atlanta's population increased 7.8% from 2010 to 2015, topping the U.S. population growth during the same period of 3.9%. The fastest-growing age cohort was the 55+ segment (growing by a solid 26.1%). The crucial 20-to-34-year-old cohort grew by 6.4% from 2010 to 2015. The median age in Atlanta was 36 in 2015, younger than the U.S. median age of 37.8.

**METRO ATLANTA SUPPLY:** While apartment deliveries remain elevated in Atlanta, completions have also remained manageable and concentrated in the highest supply submarkets (primarily central Midtown, central Buckhead, West Midtown, The Eastside, and the Sandy Springs city center corridor). Total apartment inventory grew at an average annual rate of 1.7% over the past three years, as annual completions ranged from roughly 5,000 units to 11,600 units. During the year-ending Q2 2017, a total of 11,626 units were added, (with 558 units removed) equating to an annual net expansion rate of 2.4%. An additional 16,500 units are expected to be completed by year-ending Q2 2018. These units will equate to a 3.4% increase of the existing base.

We will discuss development pipeline more thoroughly in subsequent pages, but most of the northern submarkets are seeing major slowdowns in new permitting, or, as is the case with Sandy Springs, have been implementing higher barriers to entry for new multifamily product.

**METRO ATLANTA DEMAND:** As bolstered by the 9.3 jobs to every one apartment unit ratio highlighted above, Atlanta clearly continues to readily absorb new apartment supply, with annual absorption hitting between 8,300 and 12,700 units for the past 15 quarters. At the year-ending second quarter 2017, Atlanta posted demand for 11,606 units, dovetailing almost exactly in-line with the supply number (11,626 units) for the same period. Demand remains strong in the highest-supply submarkets.

**METRO ATLANTA RENTS:** Annual rent growth levels in the Atlanta metro remain well above historical norms, averaging between 5.5% and 8% growth over the past 13 quarters.

The Atlanta metro showed a 5.8% rent increase in the year ending June 2017, a number that was significantly higher than the overall South region's rent growth of 2.8% and the nation's overall growth of 3.6%.
SEAN P. HENRY - MANAGING PARTNER - SOUTHEAST REGION

Sean is responsible for managing all marketing assignments and client relationships in the Southeastern Region. Sean and his team are based in Atlanta and will cover assignments from the Carolinas to Florida. Sean has a strong record of accomplishment in the commercial real estate industry dating back to 1990. His background includes appraisal, acquisitions, dispositions and brokerage. As an acquisitions officer for both Lend Lease and General Investment and Development Company, Sean was responsible for sourcing, negotiating, managing due diligence and ultimately closing $1.5 Billion in multifamily acquisitions in 20 states.

Prior to joining Moran & Company, Sean was a multifamily broker for ARA for 10 years. During his tenure at ARA, Sean successfully closed $6 Billion in multifamily transactions with many of the top public and private pension plans, REITs, private capital and commingled discretionary funds. For the past 20 years, Sean has been focused exclusively on the multifamily transaction business. Sean graduated from Georgia Southern University in 1990 with a B.B.A. in Finance. He has been an active participant in the Urban Land Institute (ULI) and the National Multi Housing Council (NMHC).

CURTIS W. WALKER - PARTNER - SOUTHEAST REGION

Curtis Walker is a Partner in the Southeast office and is responsible for brokerage activities in that region’s major MSA’s, including Atlanta, Charlotte, Raleigh, Nashville, Charleston, Birmingham, Mobile, Orlando, Tampa and Jacksonville.

Prior to joining the Moran team, Curtis was in charge of all acquisition activities for the Eastern Region of Wood Partners, where he directed the acquisition of approximately $750 million of multifamily investments. Prior to joining Wood Partners, he was the Senior Vice President of Trammell Crow Company, handling the development of multifamily in the Southeastern region. Over his 24 years of multifamily experience, Curtis has been involved with more than $4 billion in transactions including 40,000+ multifamily units. Curtis graduated from University of North Texas in 1980 with a B.B.A. He is an active participant in the National Multi Housing Council (NMHC) and Apartment Life.

JOEL K. SASSER – DIRECTOR – SOUTHEAST REGION

Joel joined Moran & Company as a Director in the Southeast office in June 2013, where he is assisting with the expansion of Moran’s brokerage operations in this important region of the country. Joel’s extensive real estate experience encompasses more than $3 billion in the development, construction and disposition of class ‘A’ multifamily projects throughout the Southeast and Texas. In his previous role with The Worthing Companies, Joel was responsible for the origination of new developments, market and financial analysis, and other development-related activities including pre-construction, design specification, zoning, entitlement procurement and pre-construction marketing.

His specific areas of market expertise include Atlanta, Raleigh-Durham, Houston, Austin, Nashville and Charleston. Prior to his role as Development Director, Joel was the Regional Operations Manager for Worthing, responsible for procuring new fee management assignments and overseeing due diligence and property takeovers. Joel is a 1999 graduate of the University of North Carolina at Chapel Hill, with a B.A. in Journalism and Mass Communication. Joel is a Certified Commercial Investment Member (CCIM).
MORAN & CO. NATIONAL RESOURCES

The partners at Moran & Company are a unique set of very skilled real estate professionals, each of whom has worked at the highest levels of the principal side of the multifamily industry. This group’s collective experience in disposition, capitalization and advisory services provides a deep understanding of the needs of both sellers and buyers of core-quality real estate. The multifamily industry recognizes Moran & Company’s unparalleled client advocacy and wisdom, and frequently calls upon Moran & Company for industry leadership.

The National Multifamily Housing Council and Mortgage Bankers Association rely upon Tom Moran to frequently testify before Congress on behalf of the NMHC PAC, and to represent the interests of the entire multifamily industry. Mary Ann King is a former Chairman of the NMHC and current Urban Land Institute Trustee. Additional Moran & Company partners are also represented on not one, but three ULI leadership councils. These industry leadership roles provide all of the partners at Moran & Company with direct access to the top decision-makers in the multifamily space.

THOMAS F. MORAN - MANAGING PARTNER

Thomas F. Moran is Moran & Company’s Managing Partner. He assists in structuring all joint venture and pre-sale opportunities marketed by Moran & Company as well as in the client contact for all major assignments. Tom received a BS from Marquette University in 1959 and a law degree from Georgetown University in 1962. Between 1963 and 1969, he worked for Arthur Andersen in Chicago as a member of the tax staff. From 1967-1969, he served as a tax manager. In 1969, Tom left Arthur Andersen to work for Walston & Company as an investment banker. There he worked in the Corporate Finance area specializing in the analysis of oil and gas, cattle feeding, and real estate. In 1971, Tom left Walston & Company to form his own firm, Moran & Company.

Tom received his C.P.A. from the State of Illinois in 1967 and passed the Illinois Bar in 1962. He sits on the Executive Board of the National Multifamily Housing Council. He is a member of the Illinois Bar Association and the American Institute of Certified Public Accountants. He is a licensed broker in Illinois, California, Kansas, Minnesota, Tennessee, Texas, and Georgia.

MARY ANN KING - MANAGING PARTNER - WEST COAST REGION

Mary Ann King is President of Moran & Company and is based in Moran & Company’s West Coast office. Mary Ann received a BA in Urban Studies in 1975 from Middlebury College in Middlebury, Vermont. She received a Masters Degree in City and Regional Planning with a specialization in Housing Development from Harvard University in Cambridge, Massachusetts in 1977 and a Masters of Management (MBA) with a major in Finance from Northwestern University in Evanston, Illinois in 1981. From 1977-1983, she worked in the Real Estate Department of Continental Bank. She was made an officer in 1979, an AVP in 1981 and a VP in 1983. From 1982-1983, she had responsibility for managing a team of lenders involved in underwriting condominium conversion loans nationwide.

In 1983, Mary Ann joined Moran & Company in Chicago as its Vice President of Acquisitions and Finance. From 1983-1993, she was responsible for identifying and financing joint venture development opportunities for Moran & Company’s investor clientele. In 1994, in response to demand from Moran & Company’s institutional clientele, Ms. King, became licensed as a broker and sold the first property ever listed by Moran & Company’s newly formed brokerage division. Mary Ann was instrumental in managing the underwriting and developing the collateral materials that have given Moran & Company its unsurpassed reputation in the sale of institutional quality apartment properties nationwide. Mary Ann is the Vice Chairman of the National Multi Housing Council and a member of its Executive Committee. She is also the Vice Chair at large for the Urban Land Institute’s blue Multifamily Council.
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