

Bidders Stretch to Win Atlanta Rental Deals

In the red-hot competition for **Atlanta** rental properties, investors are finding they have to act aggressively to push ahead of the pack.

Would-be buyers are offering up-front, nonrefundable deposits to lock in deals. Some are making pre-emptive offers to short-circuit marketing campaigns. And bidding wars are pushing prices up sharply.

The intense competition comes as a strong local economy and rising rents draw deep pools of bidders to **multi-family** listings in Greater **Atlanta**, particularly for value-added suburban properties.

“There’s a tremendous amount of capital, and there is not enough product to match demand,” said Andrew Zelman, executive vice president of investments at **Atlanta**-based Carroll. “It has made the process very competitive.”

As buyers stretch to win deals, they’re making large “hard” deposits earlier in the process. Until recently, an **Atlanta** apartment buyer would typically put up a “soft,” refundable deposit when signing a purchase-and-sale agreement. After the due-diligence period, the buyer would “go hard” by increasing the deposit and making it nonrefundable. Now, the initial deposit typically is nonrefundable.

Shea Campbell, an executive vice president in CBRE’s **Atlanta multi-family** institutional properties group, said that when he started working in the market 12 years ago, it was very rare for a buyer to offer nonrefundable earnest money before conducting due diligence. By the first quarter of this year, it was happening on 27% of deals brokered by his office. That jumped to 67% in the second quarter and today is close to 80%.

Travis Presnell, a director in Cushman & Wakefield’s **multi-family** advisory group, said nonrefundable initial deposits were “one of those things we would occasionally see in 2017. Then in 2018, maybe half the deals we worked on would have nonrefundable earnest money, and now, this year, it’s almost every deal.” He added that some potential buyers try to negotiate access to the property to conduct some due diligence while negotiating the purchase-and-sale agreement, but “what’s happened this year is a lot of sellers won’t agree . . . we basically tell people that it’s just not going to happen.”

Newmark executive managing director Bill Shippen said that in the past, a potential buyer might make a nonrefundable deposit in return for a discount on the sale price. Now, he said, “it’s almost an expectation.”

Market pros say there isn’t a hard-and-fast formula for how much hard money can tip the scales in a potential buyer’s favor. Some bidders will put down as little as \$100,000 while others have gone as high as seven figures.

“We are seeing this dynamic in all high-growth Sunbelt markets,” said Zelman at Carroll. And **Atlanta** is one of the hottest: It ranked third among all U.S. markets in apartment sales last year, with a record \$6.8 billion of deals worth at least \$25 million, according to Real Estate Alert’s Deal Database. This year’s first half matched 2018’s pace, and the average per-unit price climbed 3.5% year-over-year, to \$157,565.

Investor interest is fueled by strong growth trends. Jeanette Rice, head of America's **multi-family** research at CBRE, said **Atlanta** is among the top four markets expected to outperform in 2020, based on rising rents, tight supply, job growth and the strength of its economy (the others are Boston, Austin and Phoenix). She doesn't view it as overheated: "In prior cycles, **Atlanta** used to get out over its skis, but it has been pretty disciplined."

In the third quarter, **Atlanta** ranked 13th among the 56 markets CBRE tracks for rent growth, with a 4.2% year-over-year increase. It ranked 11th for total job growth, gaining 43,000 jobs year-over-year.

"**Atlanta** is a market that really fits our sweet spot," said Daniel Walsh, founder and chief executive of Citymark Capital, a Cleveland private equity fund manager that invests nationwide. "It's got a very healthy, diverse economy marked by strong job growth and as a result people continue to move there and they need a place to live."

Citymark last month acquired two suburban-**Atlanta** apartment properties — the 310-unit Evergreen Park and 244-unit Evergreen Terrace — for \$69.4 million, or \$125,000/unit, via a partnership with Houston-based InterCapital Group. CBRE brokered the sale for Balfour Beatty Communities of Malvern, Pa.

"The fundamentals are fantastic," said Matt Henney, senior director of investments at Greystar Real Estate of Charleston, S.C. "We've seen strong rent growth that justifies the strong buyer interest and sentiment and the relatively aggressive pricing that's out there."

It's common for brokers to host 30-40 tours of a suburban value-added property, get upward of 30 initial offers and end up with 8-10 potential buyers in the "best and final offer" round of bidding. And as bidders jockey to win deals, the gap between initial offers and final prices has grown, said CBRE's Campbell. "Historically you see 1%, maybe 1.5% movement on prices throughout the bidding process," he said. That figure jumped to 4.1% in the first quarter, 5.3% in the second quarter and roughly 6% in the third quarter, Campbell said.

Against that background, pre-emptive offers are growing in popularity. On a hot listing, said Newmark's Shippen, "one-third of those touring the property ask me what it would take to pre-empt the process" and seal a deal before formal bidding opens. "Everyone is trying to side-step the process," he said, "but for someone to pre-empt, they have to make a really compelling offer, above market expectation."

Beyond the numbers, market pros said that in such a competitive environment, relationships and track records matter more than ever.

"We really have to focus on opportunities that have a high probability of success," said Zelman at Carroll, which owns 16 **Atlanta**-area properties totaling 5,000 units. "What we have done this year is prioritize opportunities where we have strong relationships with the seller."

Added Greystar's Henney: "Pricing is very important, but with these deep bidder pools, the pricing is all similar. Reputation carries a lot of weight with us."