

**KROG ST.
PARTNERS**

MARKET REPORT

SOUTHEAST US MULTIFAMILY

Growth, Demand, and Investment Potential



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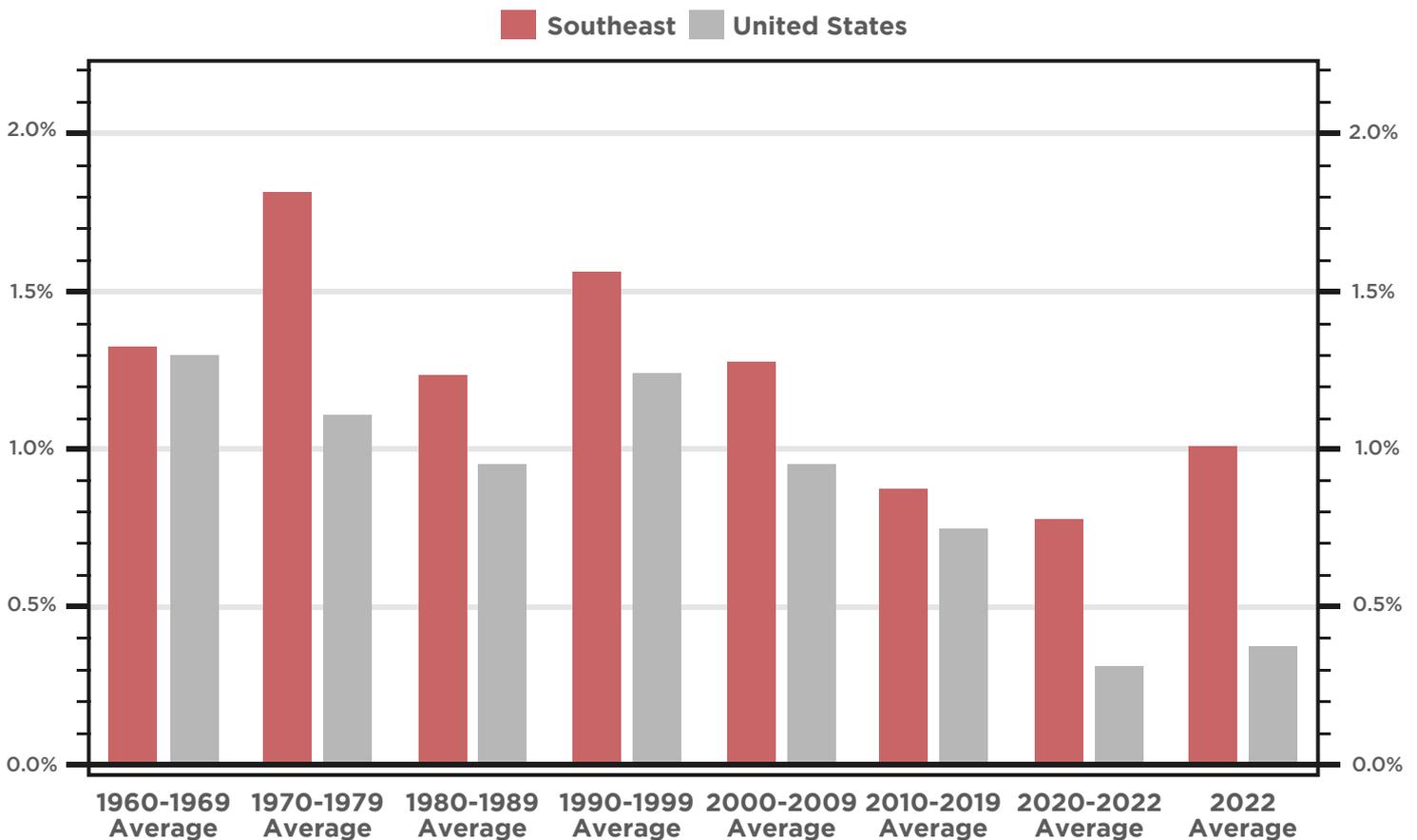
The Southeast has been the national darling for demographic, economic, and commercial real estate growth in recent years, outpacing the country in multiple metrics. The Southeast US multifamily market is one of the most dynamic and fastest-growing in the country. The region is home to a large and growing population, a strong economy, and a favorable regulatory environment. These factors have combined to create a strong demand for multifamily housing, which has led to rising rents and occupancy rates.



GROWTH:

Demographic Trends:

Over the last ten years, the population of the United States has experienced a growth of 5.8 percent. In comparison, the Southeastern region of the country, consisting of ten states including Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee, has witnessed a higher growth rate of 8.8 percent during the same period. More than one-third (34 percent) of the nation's population increase has taken place within the Southeast, with a notable influx of 6.2 million individuals contributing to a regional population of nearly 76.8 million by the end of 2022.

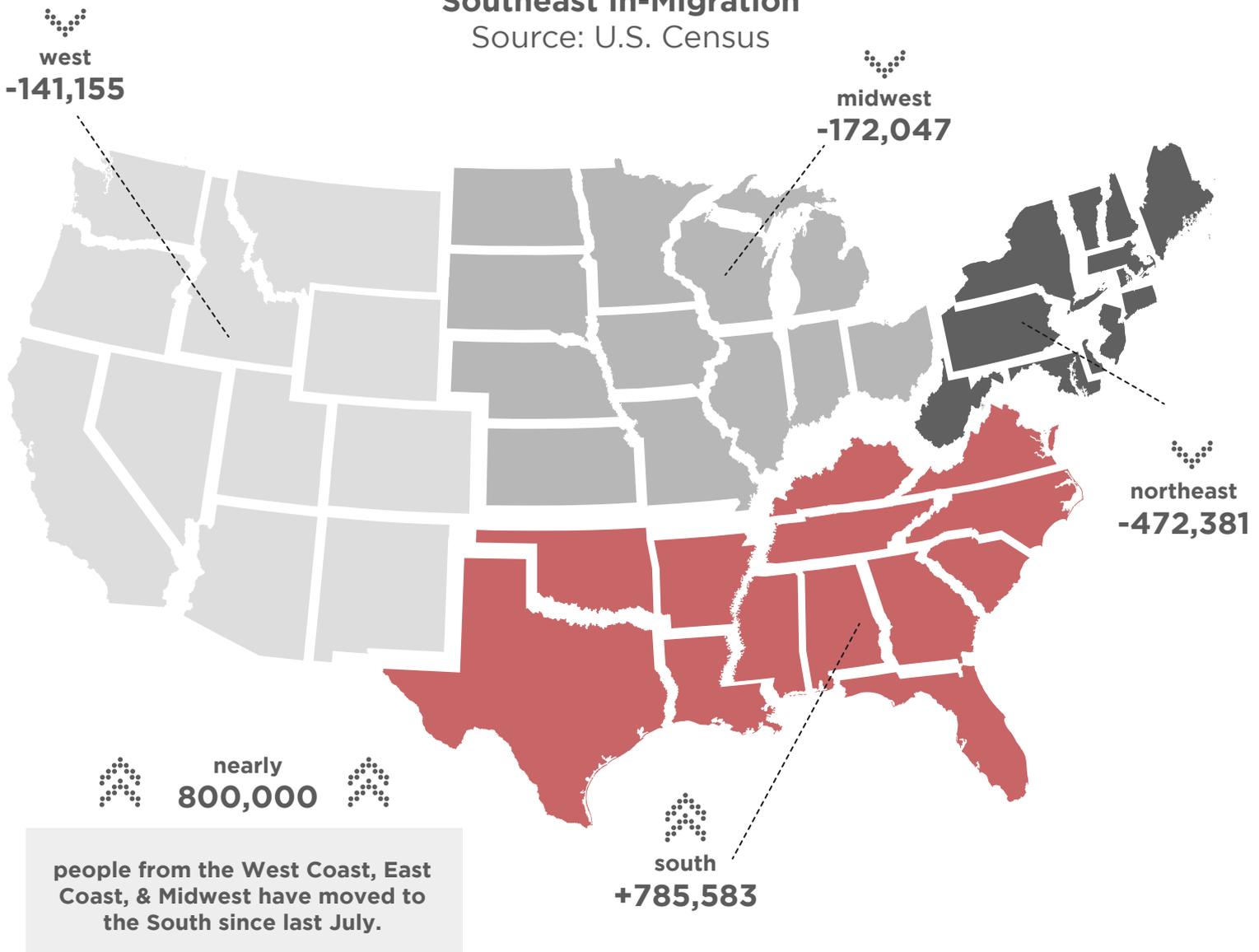


Source: United-States, REAProject.org
Data: Regional Income Division, BEA (4-13-2023)

Driven by various factors, including the emergence of the "Second Great Migration," the population trend sees younger Americans departing from crowded and increasingly unaffordable Northern and coastal cities like Los Angeles, Chicago, New York, and Philadelphia, and choosing to settle in Southern metro areas instead. As a result, the region is expanding rapidly, with cities such as Nashville and Atlanta witnessing double-digit growth rates over the past decade. This population boom is not limited to large cities alone, as smaller metro areas have experienced even more remarkable growth. Murfreesboro and Franklin in Tennessee have seen their populations surge by 34.6% and 32.8% respectively, making them two of the top ten fastest-growing cities in the country. Additionally, the picturesque Charleston suburb of Mount Pleasant, with its population of under 100,000, has also made it onto the top 10 list with an impressive growth rate of 34.1%.

Southeast In-Migration

Source: U.S. Census



DEMAND:

The Southeastern United States is experiencing a high demand for real estate due to several significant factors. One key driver is the region's affordability, with states like Mississippi, Arkansas, and Alabama offering homes at remarkably low median prices. Mississippi, with a median home price of just \$134,125, ranks as the second-cheapest state to buy a home, surpassed only by West Virginia. Arkansas follows closely with a median home value of \$142,070, and Alabama ranks as the fifth-cheapest state to live in, with a median home price of \$158,809. These prices make housing in the Deep South over 85% more affordable than some of the most expensive cities in the country, such as San Jose.

In addition to affordability, the Southeast boasts attractive property tax rates, ranking second-lowest in the nation after Hawaii. With a median home value in the mid-\$100,000s and a median property tax rate of just over 0.3%, the region offers the lowest real estate tax rates in the entire country in terms of dollar amounts.

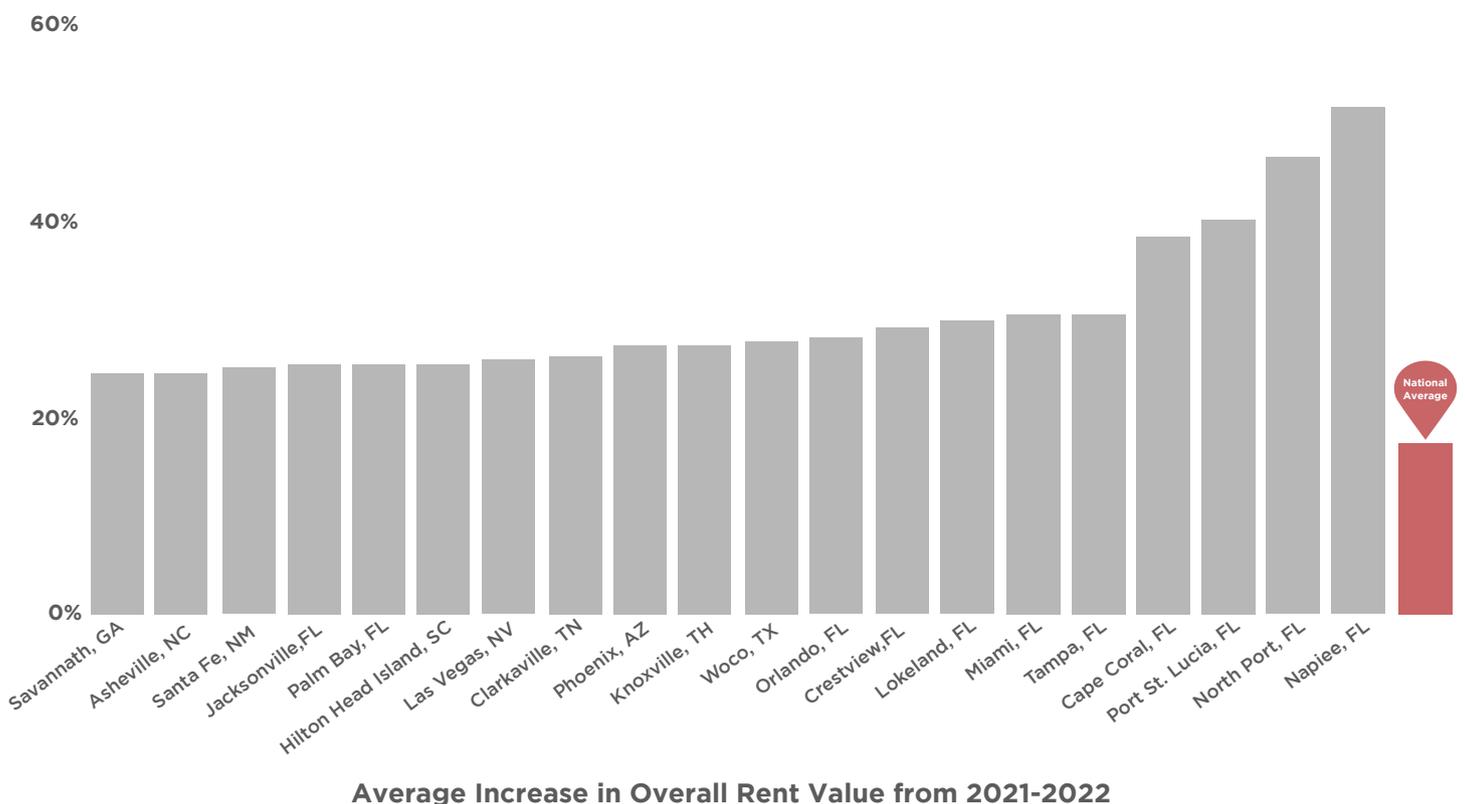
This combination of affordable home prices and low property tax burdens has attracted businesses and individuals to consider relocating to the Southeast. Businesses view the region's affordable real estate acquisition and carrying costs as an opportunity to establish a strong physical presence. Major companies like J.M. Smucker, FedEx, and SiO2 Materials Science have announced significant real estate projects in the area, leading to the creation of high-paying jobs and contributing to the state's rising median income.

The Southeast's economy is well-diversified, with sectors such as trade, transportation, utilities, manufacturing, education and health services, and professional and business services playing a vital role in job creation. Alabama, in particular, has a strong employment base in these sectors. With a median weekly wage of \$858, individuals have the means to afford a wide range of accommodations, including the state's median monthly rental price of \$998.

The favorable economic conditions, along with a friendly tax regime, a growing population base, and a thriving property market, position the Southeast as a go-to destination for real estate investors and developers. The region's demand is further bolstered by the presence of numerous headquarters of large corporations, including renowned names like Coca-Cola, Delta Airlines, Home Depot, Lowe's, Duke Energy, Turner Broadcasting, and many more.

Southeast's desirability for real estate stems from its affordability, favorable tax policies, diverse economy, and the presence of major corporations. The region's strong demand for housing, coupled with its appealing economic and financial conditions, makes it an attractive choice for both residents and real estate investors alike.

The 20 Cities with the Greatest Rise in Rent Values (2022)



INVESTMENT POTENTIAL:

● ATLANTA, GEORGIA



Construction: 13,460 units completed

- Supply chain issues eased, leading to a rebound in development over 12 months ending in March.
- The number of finalized doors increased by approximately 65 percent compared to the previous year.
- Builders focused predominantly on suburban areas, with over 80 percent of new stock being developed there.

Vacancy: 350 basis point increase in vacancy Y-O-Y

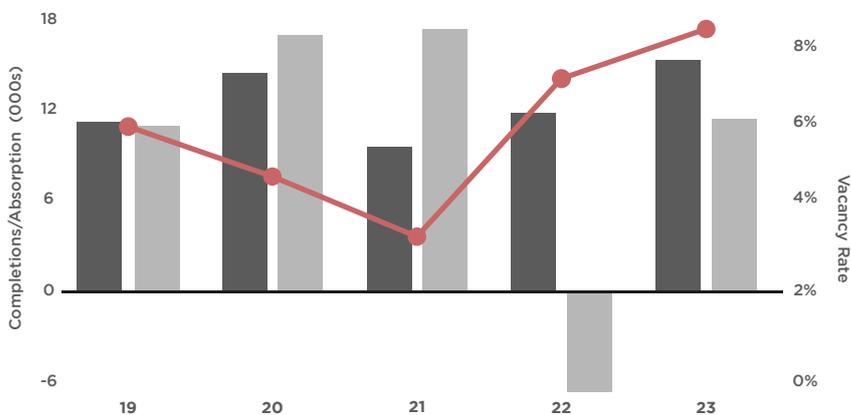
- Availability more than doubled over the trailing year, ending in March, reaching 6.6 percent, the highest level since 2015.
- Vacancy rates increased ~3.5% in all 39 submarkets of Atlanta.
- Areas outside of I-285 (OTP) experienced faster decompression of vacancy compared to heavily urbanized zones.

Rents: 3.2% increase in the average effective rent Y-O-Y

- Despite a recent softening in average rent, there is still positive annual momentum, pushing the metric to \$1,684 per month.
- Class C properties experienced the most rapid growth in effective rents over the 12 months ending in March, being the only segment to maintain a double-digit percentage gain in this measure.

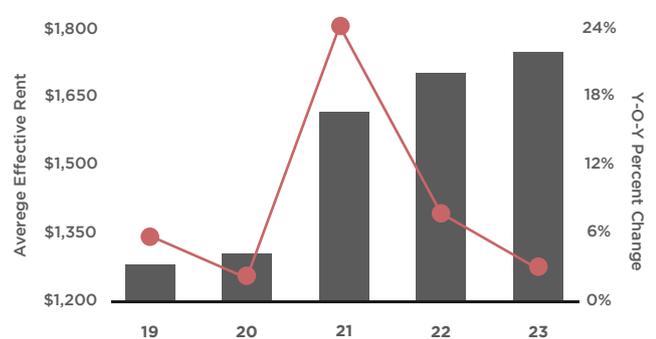
Supply and Demand

■ Completions ■ Net Absorption ■ Vacancy Rate



Rent Trends

■ Average Rent ■ Y-O-Y Percent Change



● TAMPA/ ST.PETERSBURG, FLORIDA



Construction:

- Developers experienced unprecedented growth in the metro's apartment inventory, increasing it by 3.2 percent over the 12 months ending in March. This surge represents the fastest rate of expansion in over two decades.
- Central Tampa witnessed the completion of nearly 2,000 units in the past year, contributing to an impressive 8.6 percent growth in local inventory. This achievement positions Central Tampa as the fourth-leading Central Business District (CBD) in terms of construction pace among major cities.

Vacancy:

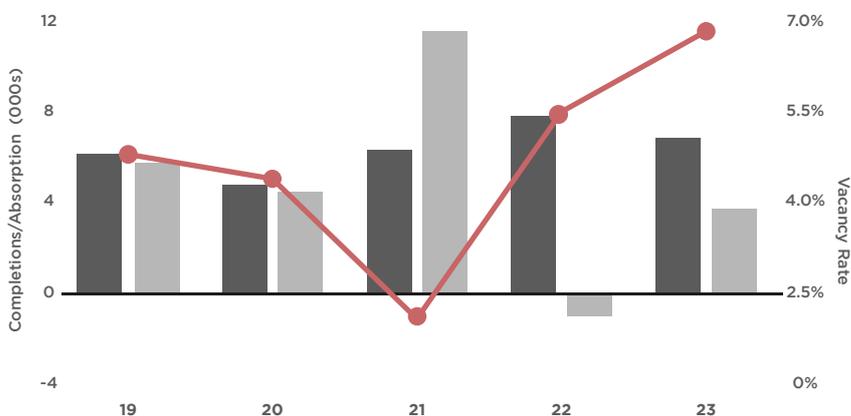
- The combination of negative net absorption and significant expansion in available properties resulted in the largest increase in vacancy rates since 2007, raising the metro-wide vacancy rate to 5.6 percent as of March.
- In North Pinellas County, vacancy rates reached a metro-low of 4.5 percent, and the presence of a limited pipeline suggests the potential for maintaining similar conditions in the future.

Rents:

- Despite a slight decrease since September, the average effective rent in March was still higher than any previous metric before 2022, standing at \$1,823 per month.
- In March Class A and Class C rents reached new peak levels at \$2,391 and \$1,408 per month, respectively. Conversely, the average effective rent for Class B properties has decreased to \$1,760 per month after reaching a record high in September 2022.

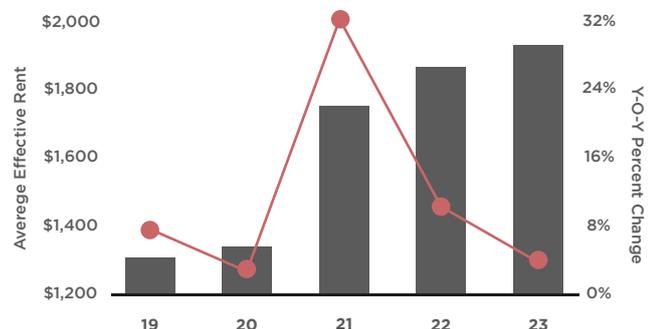
Supply and Demand

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Rent Trends

■ Average Rent ■ Y-O-Y Percent Change



● NASHVILLE, TENNESSEE



Construction:

- During the initial quarter of 2023, an impressive number of nearly 3,600 units were added by developers, marking the highest quarterly total ever recorded.
- This substantial increase contributed to a 6.0 percent growth in the metropolitan area's housing inventory over the previous year, concluding in March.
- As of April, there are approximately 21,000 units currently under construction, with approximately one-third of them scheduled for completion after this year.

Vacancy:

- Over the past year, supply additions exceeded demand, more than doubling the supply compared to demand.
- This increase in supply helped counteract the 300-basis-point decline in availability observed in the previous 12 months.
- As a result, vacancy rates in the metro area rose to 5.5 percent in March.
- In April, several areas, including Murfreesboro-Smyrna, North Nashville, Sumner County, and Hermitage-Mount Juliet-Lebanon, had vacancy rates below the metro mean.

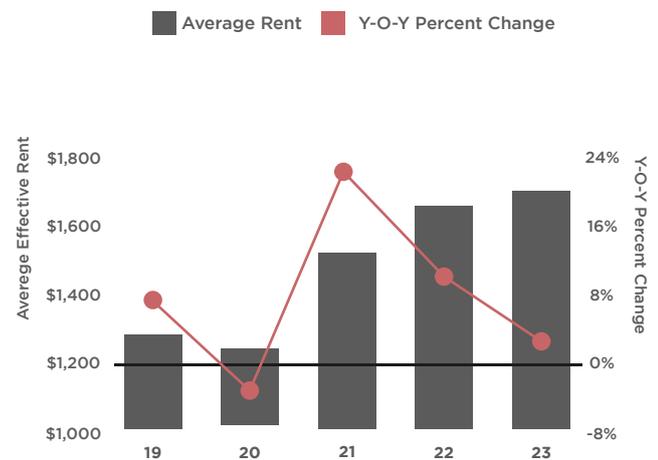
Rents:

- In March, the average rent in Nashville reached \$1,638 per month, even with significant increases in vacancy rates across different property classes and submarkets.
- Submarkets with vacancy rates below the metro mean experienced an average rent increase of nearly 6 percent over the past year.
- Despite the rent increase, most of these areas still have some of the lowest effective rental rates in the metropolitan area.

Supply and Demand



Rent Trends



● CHARLOTTE, NORTH CAROLINA



Construction:

- The rate of stock expansion shortly is expected to surpass the 4.2 percent growth rate observed in the previous 12 months. As of April, there were over 34,000 units under construction.
- The area with the highest ongoing development is Southwest Charlotte, where approximately 7,100 units are currently being constructed.
- North Charlotte is a close second, with just over 6,000 units pending completion.

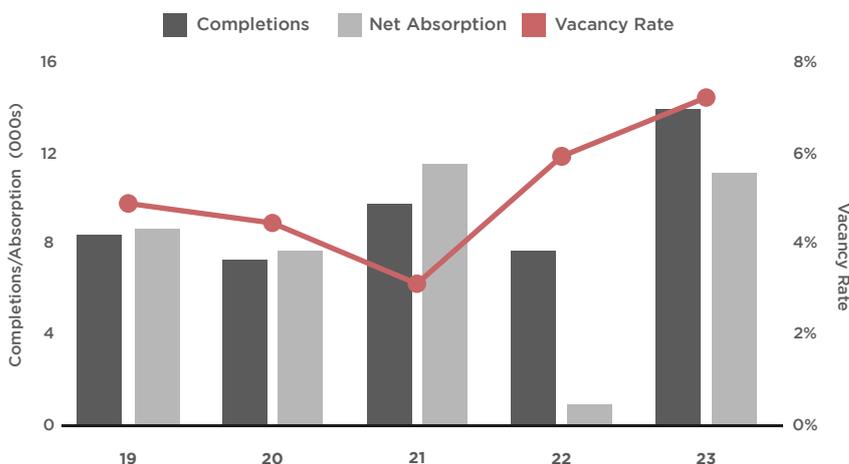
Vacancy:

- Over the past 12 months, the number of units delivered exceeded the net absorption by a ratio of approximately six to one in Charlotte.
- This significant disparity led to the largest year-over-year change in vacancy rates in Charlotte since at least 2003, resulting in an availability rate of 6.1 percent in March.
- The vacancy rate in UNC Charlotte is expected to increase further from the local rate of 7.0 percent, as it is anticipated to see a record volume of completions in 2023.

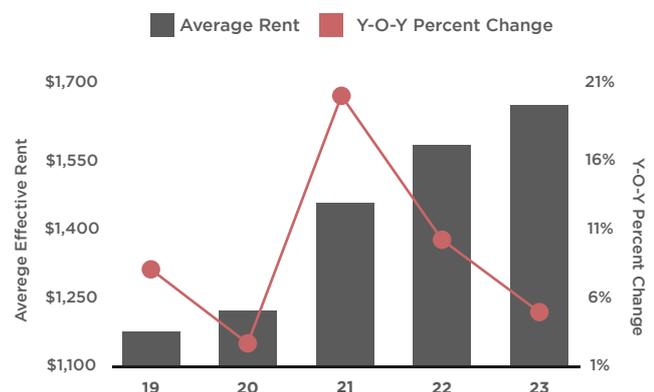
Rents:

- Although rents have generally declined since September, the mean effective rate in March reached \$1,582 per month, surpassing any recorded rate before 2022.
- Myers Park experienced a rent growth rate of 9.2 percent over the past year and is expected to maintain strong momentum. With less than 450 rentals scheduled for delivery this year, the demand for existing units is likely to increase in the area.

Supply and Demand



Rent Trends



BOTTOM LINE:

In conclusion, the Southeast region of the United States is attracting attention from investors nationwide and beyond, thanks to its promising long-term growth potential across various markets and property types. The area's high quality of living, strong fundamentals, and favorable demographics, including millennial and empty-nester renters, continue to drive demand without any signs of slowing down.

Furthermore, major players in the industry are eyeing investment opportunities in the Southeast, exemplified by Amazon's recent addition of warehouse facilities and job creation in Atlanta and the Triangle. Both cities are also being considered for Amazon's second headquarters and a potential new Apple campus, further highlighting their significance.

With a diverse economy and increasing interest from domestic and international buyers, the multifamily outlook for the Southeast remains robust and promising for the foreseeable future.

ABOUT KROG STREET PARTNERS:

Krog Street Partners is an Atlanta, GA-based real estate investment firm dedicated to delivering reliable investment returns and capital growth through the prudent acquisition, renovation, and disposition of value-add multifamily properties across the Southeastern U.S. Krog Street Partners targets primary and secondary markets with diversified economies, stable or growing populations and solid average median incomes. Krog Street Partners and its Principals have successfully developed, acquired, and overseen the management of over 3,000 multifamily units and collectively possess more than 50 years of commercial real estate industry experience.

MEET THE PRINCIPALS:



Mohi Monem: [in](#)

Mohi is responsible for and leads all operations, capital markets, and investment-related activities. Previously, he served as a Managing Partner at Arcis Real Estate Capital, a real estate investment firm where he sourced, executed, and managed capital investment in real estate with a market capitalization of \$350 million.



Jason Munson: [in](#)

Jason is responsible for operational matters and leads all capital projects and asset management-related activities. He has previously served as a Principal for New Life Development Group where he developed, managed, and subsequently successfully disposed of 1,300 multifamily units in multiple projects.



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