



Sales Volume Still Strong in Atlanta

Bolstered by a highly diversified economy—already fully recovered from the pandemic drought and rapidly expanding at a pace of just over 90,000 new jobs annually—and fueled by a large influx of affluent new residents from gateway cities seeking relative value and taking advantage of remote-work flexibility, the Atlanta housing market has seen strong sales activity likely only hampered to date by supply-side challenges. As mortgage rates rise above 5% as a result of the Fed's effort to curb inflation, can this thriving market persist, or will affordability challenges begin to materially change the environment? There's no clear answer.

Despite limited inventory, sales volume has remained strong in the metro at around 21,000 units over the past year, and, given the supply-demand imbalance, prices have continued to escalate. While these heightened prices largely remain not only attainable, but also attractive for the stampede of in-migrants from the West and Northeast, they have begun to challenge the budgets, sentiments, and intentions of value-conscious residents. With today's lending climate, limited options, and reduced purchasing power, many prospective buyers are either deciding to wait, holding on to their low mortgage rates, or they are beginning to make necessary trade-off decisions surrounding location and home type.

Average base home price has now risen above \$500,000 and is more pronounced in core areas and northern suburbs, with Fulton County seeing the highest tag at around \$701,000. Still, this pricing remains a deep discount compared with origin cities of transplants and even a relative value when compared with other Sun Belt destinations like Nashville, Tennessee. As a result, out-of-state residents keep coming in bulk, landing in the most expensive locations and exacerbating appreciation. Meanwhile, in-market buyers from entry-level to move-up and even those who

are downsizing are facing challenges qualifying or are economizing by design or necessity. While core counties still lead in overall sales volume and migration data in the market is lagging, it is evident that sought-after in-town and inner suburban neighborhoods are becoming saturated, characterized by dwindling new and resale product. The result is a clear radiating effect as outlying areas emerge as the new development destinations for those who are priced out or opting out.

Retail-rich, amenity-filled exurbs to the north with strong school systems, though experiencing notable price appreciation of their own, continue to function as highly compelling value alternatives to inner suburbs with similar features and lifestyle appeal. Additionally, as secondary employment cores like Alpharetta thrive and telework options persist, these areas represent reasonable commuting setups. Forsyth County now tops the third-highest average home price but is likely to surpass No. 2 Cobb this year, and Cherokee County nearly eclipsed 2,000 sales, trailing only Fulton and Gwinnett counties.

The Southside (below Interstate 20) exists as a bastion of affordability, but it lacks continuity and offers a mixed bag from a quality-of-life perspective. Fayette County is the only Southside area with average prices nearing the \$500,000 metrowide average; most see average prices well below \$400,000. The expansion of large corporate anchors like Microsoft, Google, and Visa into evolving parts of downtown should enhance the appeal of Southside cities as bedroom communities. Regionally, removed locations in all directions that are still well-connected via a major interstate arterial and afford space, comfort, and recreational opportunities have also become increasingly attractive. Though still exhibiting modest volumes next to leading counties, only Fayette, Spalding, Bartow, and Pickens counties saw positive year-over-year change in sales.

Atlanta home buyers are demonstrating a clear willingness to economize from a product perspective, with small lot and attached home sales representing an increasing share of new-home sales. For single-family detached product, only those on lots under 40 feet experienced positive sales growth over previous years. Though down somewhat in the first quarter of 2022, in 2021 attached product grew to account for 24% of total new-home sales. These sales are occurring in a broad array of locations regionally and not just in more traditionally dense environments. Of the 10 top-selling active projects in the Atlanta metro area, half feature attached product and all are situated well outside of the city's perimeter highway Interstate 285. Potential homeowners may also consider resales and rental options; however, existing home listings have continued to drop precipitously, and rents are escalating rapidly.

While the new climate has clear implications for the Atlanta market, it appears to be resulting in more of a shift than a slide as fundamentals remain sound. With starts holding relatively steady, residential permits up nearly 14%, and more inventory on the way, the next questions will surround pricing volatility and whether regionally the collective home price dust settles or the market becomes increasingly stratified. Either scenario will require creativity on the part of the development and builder community, and maybe offer a welcome breath for consumers.—ANDREW WILSON, PRINCIPAL AT ZONDA ADVISORY

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