

# Yardi® Matrix

## MULTIFAMILY REPORT

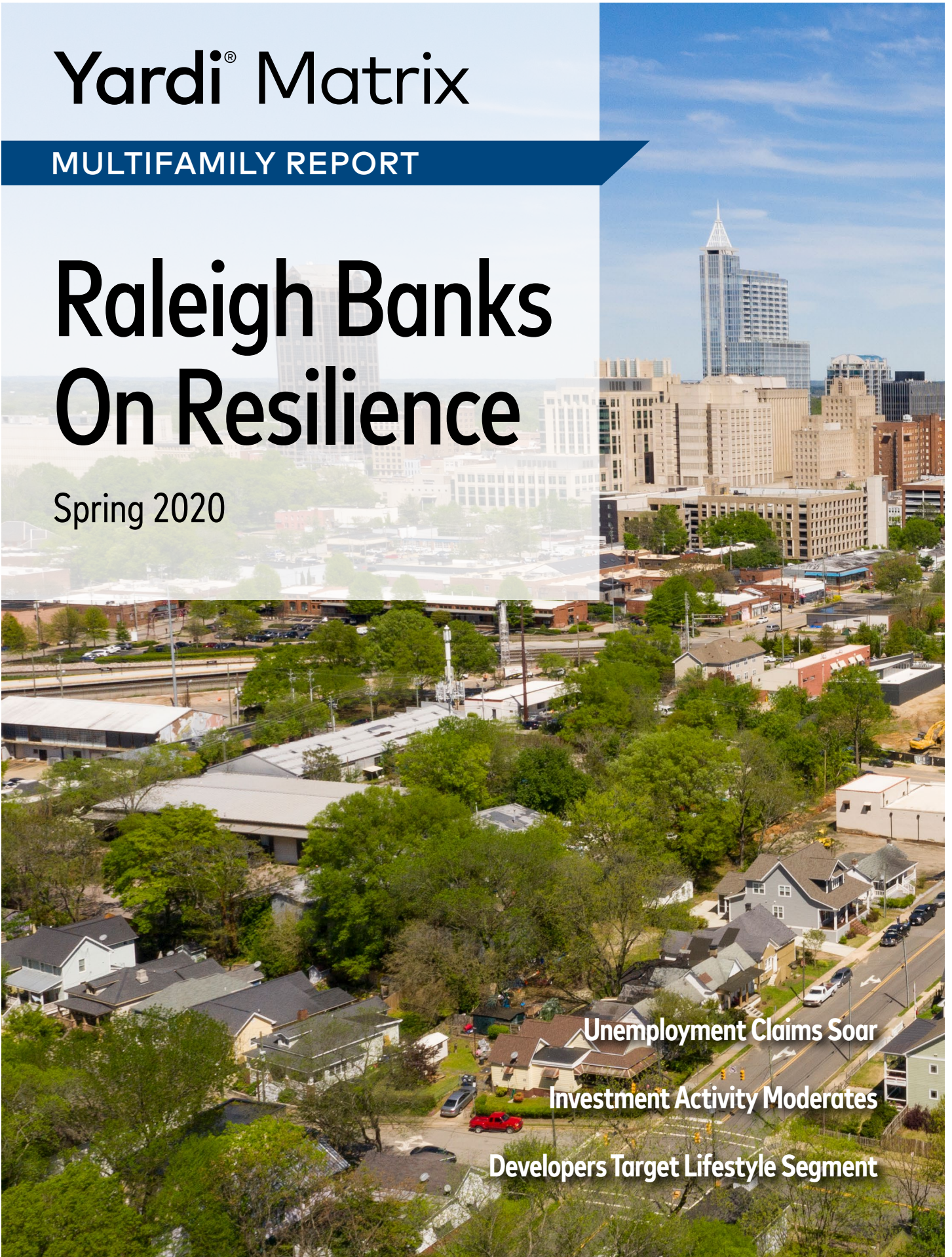
# Raleigh Banks On Resilience

Spring 2020

**Unemployment Claims Soar**

**Investment Activity Moderates**

**Developers Target Lifestyle Segment**



# RALEIGH MULTIFAMILY

Yardi® Matrix

## Rental Market Faces a Challenge

The Triangle kicked off 2020 with strong fundamentals, but what was on track to be another dynamic year has shifted since the outbreak of the COVID-19 crisis. Rents contracted by 10 basis points on a trailing three-month basis as of April, in what was supposed to be the beginning of the prime leasing season.

The metro gained 16,800 jobs in the 12 months ending in March—a 1.8% uptick and 40 basis points above the U.S. rate. The early effects of the health crisis, however, began to unfold in the last two weeks of the first quarter. Retail, leisure and hospitality were immediately hit by social distancing measures and unemployment claims across the state had skyrocketed by May. GE Aviation, the Sheraton Imperial Hotel and Convention Center in Durham, and Cinemark Raleigh Grande were some of the many employers laying off or furloughing thousands of workers. On a positive note, most nonessential businesses were allowed to partially reopen on May 8 as part of the first phase to ease COVID-19 restrictions.

Almost \$480 million in assets traded in the Triangle in the first four months of 2020, a slight slowdown from last year. While the overall economic effects of COVID-19 are yet to be quantified, the market has been resilient through other crises. However, with significant completions in the past six years and the current downturn still unfolding, we expect the metro's average rent to drop in 2020.

## Market Analysis | Spring 2020

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On the cover: Photo by ChrisBoswell/iStockphoto.com

### Recent Raleigh Transactions

#### Lodge at Croasdaile Farm



City: Durham, N.C.  
Buyer: Hercules Real Estate  
Services  
Purchase Price: \$66 MM  
Price per Unit: \$205,938

#### Independence Park



City: Durham, N.C.  
Buyer: Magma Equities  
Purchase Price: \$50 MM  
Price per Unit: \$160,337

#### Hudson 5401



City: Raleigh, N.C.  
Buyer: Hudson Capital Properties  
Purchase Price: \$33 MM  
Price per Unit: \$169,823

#### Overlook at Simms Creek

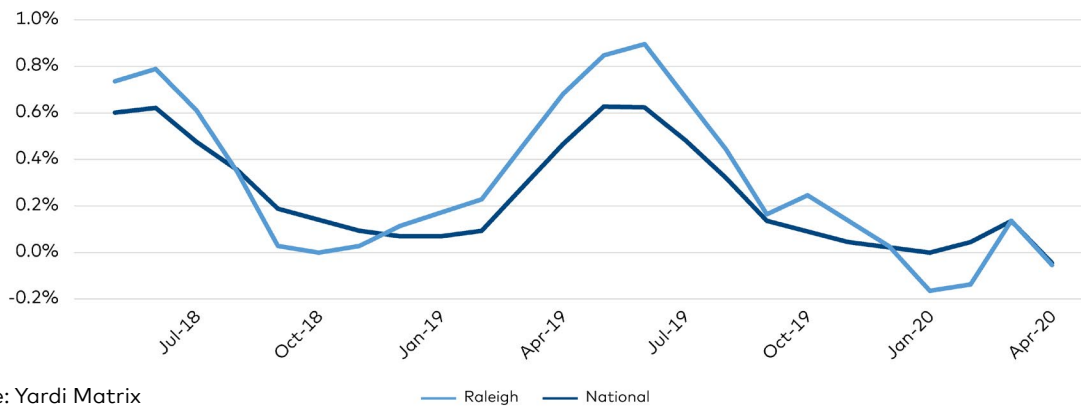


City: Raleigh, N.C.  
Buyer: Starwood Capital Group  
Purchase Price: \$31 MM  
Price per Unit: \$117,530

## RENT TRENDS

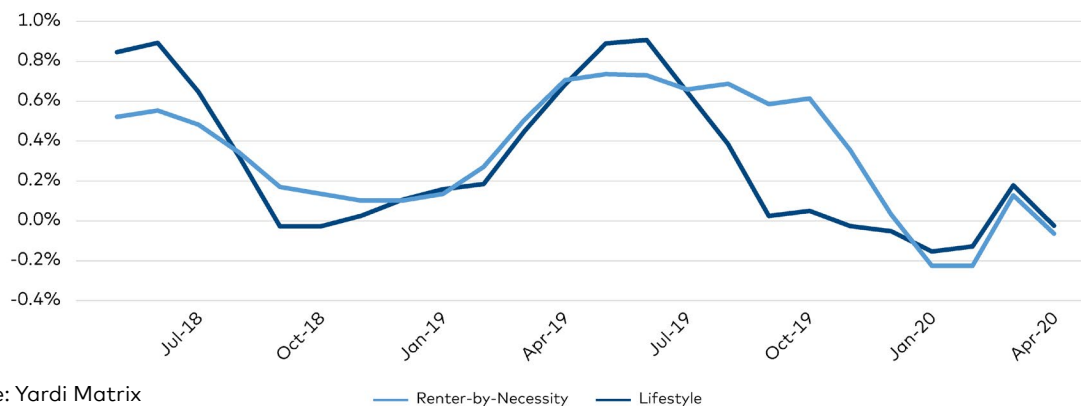
- ▶ Raleigh-Durham rents were down 0.1% on a trailing three-month basis through April, mostly due to the ripple effects of shelter-in-place orders and social distancing measures enacted statewide at the end of March. The average rent was \$1,214, \$251 below the national figure. Despite strong rent growth over the past decade, the Triangle has preserved a significant affordability advantage over larger tech-driven metros such as Seattle, Boston or Washington, D.C.
- ▶ Rent growth in the upscale Lifestyle segment was flat on a trailing three-month basis, while rates in the working-class Renter-by-Necessity segment decreased 0.1% to an average of \$1,034. Urban core submarkets such as Hinton (7.5% to \$1,400), Hope Valley (7.1% to \$1,117) and Downtown Raleigh (6.6% to \$1,222) led rent growth in the 12 months ending in April, while Rhamkatte (\$1,614) and Ridgewood (\$1,463) remained among the most expensive areas.
- ▶ Despite soaring unemployment claims, most residents paid their April rents, but second- and third-quarter payments will prove challenging in the current economic context. Amid elevated supply volumes and a dwindling economy, near-term rent performance is expected to deteriorate across asset classes. Recently delivered properties that are in the lease-up phase are already offering rent concessions. Yardi Matrix expects Raleigh-Durham rents to contract 2.6% this year.

**Raleigh vs. National Rent Growth (Trailing 3 Months)**



Source: Yardi Matrix

**Raleigh Rent Growth by Asset Class (Trailing 3 Months)**



Source: Yardi Matrix

## ECONOMIC SNAPSHOT

- ▶ Raleigh-Durham gained 16,800 jobs year-over-year through March, up 1.8% and 40 basis points above the U.S. rate. Professional and business services (17.5%) and government (17.4%) accounted for the largest shares of the workforce. Employment growth slowed down in the fourth quarter of 2018—in part due to disruptions caused by Hurricane Florence—picked up toward the end of 2019 and went on a decelerating path again in March, when the coronavirus outbreak began to tighten its grip on the U.S. economy.
- ▶ More than 1.1 million North Carolinians filed for unemployment claims in the eight weeks ending on May 10. Preliminary data from the Bureau of

Labor Statistics show that the unemployment rate in the state was 4.4% as of March, up from 3.6% a month prior. Several hotels, restaurants and even GE Aviation, which has hundreds of workers at its facility in Durham, resorted to furloughs and layoffs.

- ▶ Despite widespread disruptions, Durham's economy is well-positioned to rebound quickly due to low population density and educational attainment, according to a recent Moody's Analytics report. The analysts looked at 100 metro areas in the country and highlighted Durham at the top to recover, along with San Jose, Calif.; Austin, Texas; Seattle and Minneapolis.

### Raleigh Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	172	17.5%
65	Education and Health Services	156	15.9%
55	Financial Activities	51	5.2%
15	Mining, Logging and Construction	52	5.3%
90	Government	171	17.4%
40	Trade, Transportation and Utilities	151	15.4%
80	Other Services	38	3.9%
70	Leisure and Hospitality	101	10.3%
50	Information	28	2.9%
30	Manufacturing	63	6.4%

Sources: Yardi Matrix, Bureau of Labor Statistics

### Population

- ▶ In 2018, Raleigh gained 28,198 residents—up 2.1%, while Durham added 8,921 residents, for a 1.6% uptick.
- ▶ With a population increase of 16.1% from 2010 to 2018, Raleigh is one of the fastest-growing cities in the country, according to a report from the city's Department of Planning.

### Raleigh vs. National Population

	2015	2016	2017	2018
National	320,742,673	323,071,342	325,147,121	327,167,434
Raleigh Metro	1,271,196	1,303,845	1,334,342	1,362,540

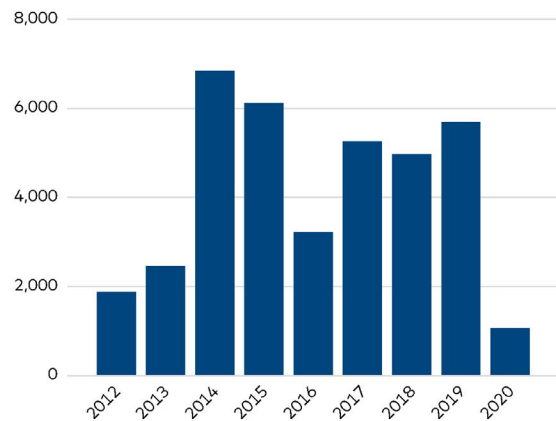
Sources: U.S. Census, Moody's Analytics

## SUPPLY

- ▶ Raleigh-Durham added 1,066 units year-to-date through April, following the completion of 5,706 units last year—the metro’s third-best year in multifamily deliveries in the last decade. Despite the Triangle’s robust six-year average of 5,358 units completed every year since 2014, rent increases remained stable. However, the 2020 economic context has generated steep declines in rent gains, with rates expected to return to positive growth next year.
- ▶ Construction was deemed an essential business that can operate during the health crisis. However, supply chain disruptions caused by the COVID-19 pandemic and strict measures to keep workers safe have made it difficult for projects to advance across the state.
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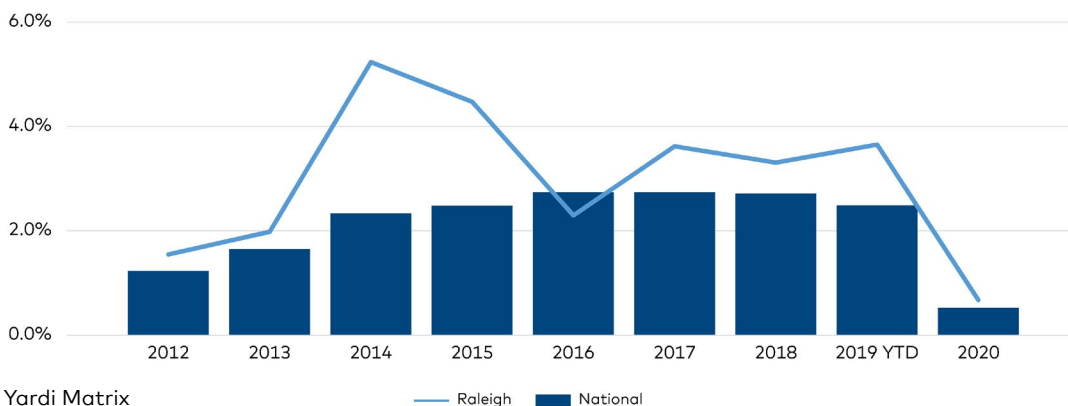
- ▶ The highest concentration of development was in urban submarkets that provide easy access to downtown areas and employment hubs. Peace, Kane Realty’s 445-unit luxury development in Oakwood, was the largest project underway as of April. Peace is part of Smoky Hollow, a three-phase revitalization project at the northern entrance of downtown Raleigh.

**Raleigh Completions (as of April 2020)**



Source: Yardi Matrix

**Raleigh vs. National Completions as a Percentage of Total Stock (as of April 2020)**

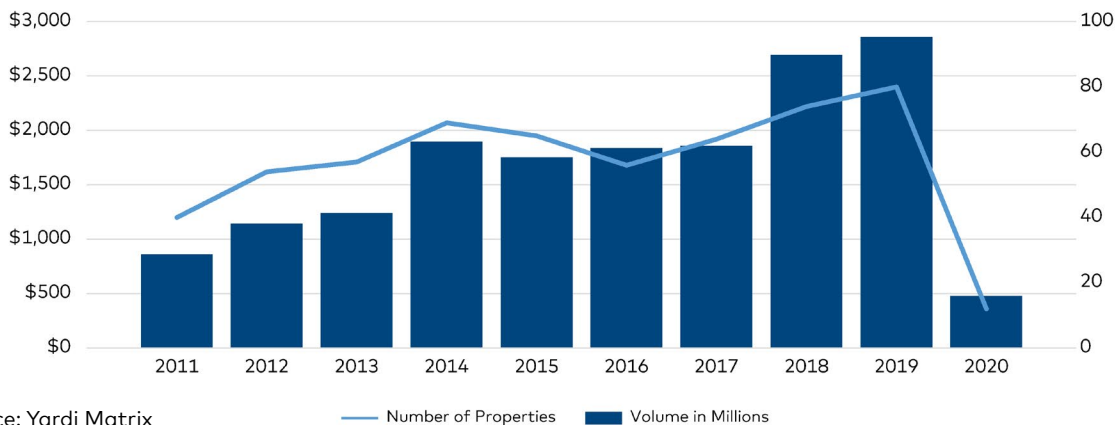


Source: Yardi Matrix

## TRANSACTIONS

- ▶ Following last year's cycle peak, when \$2.9 billion in multifamily properties traded across the Triangle, the first four months of 2020 totaled almost \$480 million in sales, with 12 assets changing hands. Ten of these properties were in the Lifestyle segment, and the average price per unit rose to \$163,423, surpassing the \$162,169 national average for the first time since 2014.
- ▶ Overall investment activity shifted down a gear this year not only due to uncertainties inflicted by the coronavirus crisis, but also because of a cyberattack in March at the Durham County Register of Deeds office. According to a local realtors association, the inability to record deals and perform title searches generated a 20% drop in closed sales across the county, compared to the same period in 2019.
- ▶ In the 12 months ending in April, Glen Forest, Morrisville and Laurel Hill accounted for a third of the \$2.8 billion total investment volume.

### Raleigh Sales Volume and Number of Properties Sold (as of April 2020)



Source: Yardi Matrix

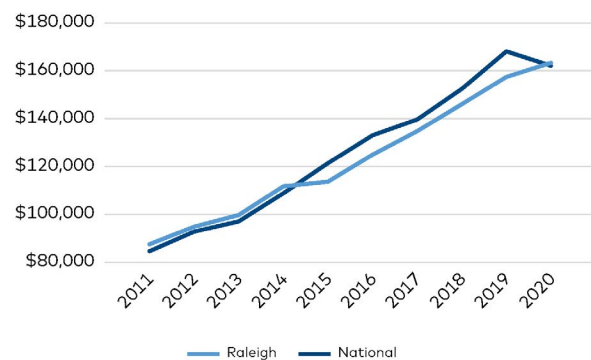
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Glen Forest	416
Morrisville	389
Laurel Hills	231
Millbrook	140
Garner	132
Carrboro	126
Duke University	112

Source: Yardi Matrix

<sup>1</sup> From May 2019 to April 2020

### Raleigh vs. National Sales Price per Unit



Source: Yardi Matrix



## What Makes Raleigh-Durham a Compelling Investment Market?

By Adina Marcut

Healthy job additions and strong demographics attracted multifamily investors to Raleigh-Durham. Owning and managing more than 40,000 units across the U.S., TruAmerica entered the market at the end of last year by acquiring a \$108 million three-property portfolio. Co-Chief Investment Officer Matthew Ferrari talks about the company's acquisition plans for this year in Raleigh-Durham and ways to overcome current challenges.

*According to Yardi Matrix data, TruAmerica owns more than 800 units in Raleigh-Durham area. What investment opportunities does this area offer?*

Correct. The Raleigh-Durham MSA is a dynamic market with strong schools and great access to job centers, such as the Research Triangle with its nationally recognized medical centers and renowned universities. While we have identified a number of submarkets to invest within the MSA, currently our portfolio totals 830 apartment homes located in Northwest Raleigh. Like many of the submarkets within the MSA, Northwest Raleigh has high barriers to entry that make it difficult to develop needed rental housing. Combining these submarket qualities with one of the lowest rent-to-income percentages in the nation makes Raleigh-Durham a compelling market to invest in.

*Do you plan on expanding your Raleigh-Durham footprint?*

We definitely plan to expand our portfolio in Raleigh-Durham. Our



current assets have performed very well since acquisition, and, in fact, have exceeded our expectations, even during this crisis. We believe Raleigh-Durham will continue to provide strong long-term risk-adjusted returns for our investors. As we have done in our other targeted markets throughout the U.S., our plan is to gain scale in the Raleigh-Durham MSA.

*Raleigh-Durham was part of the nation's dynamic tech markets. What can you tell us about the market's status today?*

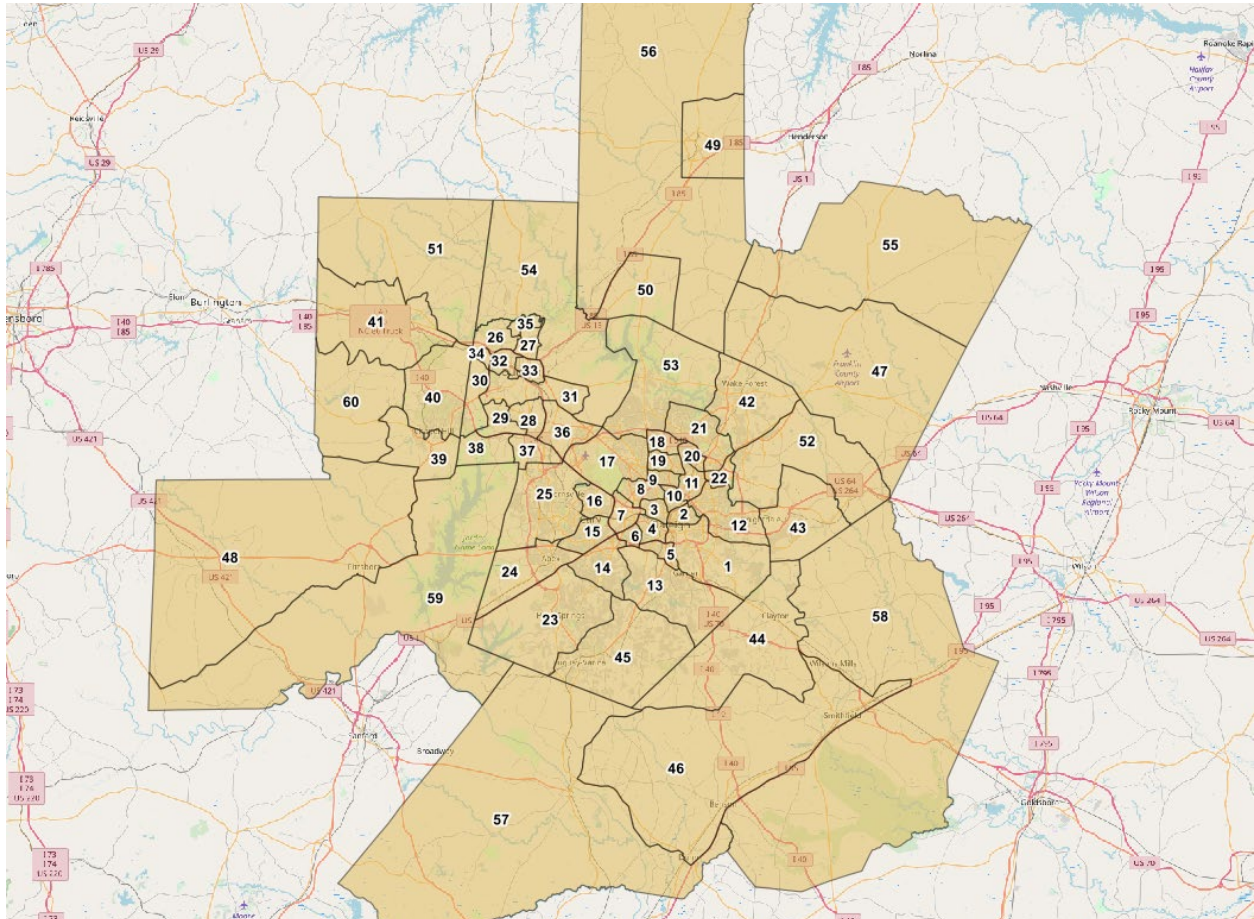
We believe that this dynamic is still the case and will be after COVID-19. The Research Triangle Park provides plenty of tech and

life sciences jobs, many of which are focused on finding a cure for COVID-19. We also expect companies will continue to look towards less dense, lower cost of living areas for relocations and expansions and talent to follow as they emigrate from dense urban areas. One such example during the coronavirus crisis is Bandwidth, a Raleigh-based communications software service company. In April, it announced a 1,200-job expansion.

Of course, how soon the market will be back to where it was depends on the length of the health crisis, which will impact apartment operations fundamentals in the short and medium term, which is no different than other multifamily markets in the U.S.

*(Read the complete interview on [multihousingnews.com](https://multihousingnews.com).)*

# RALEIGH SUBMARKETS



Area No.	Submarket
1	Downtown Raleigh
2	Oakwood
3	Ridgewood
4	Hinton
5	Rhamkatte
6	Wynnewood
7	Westover
8	Laurel Hills
9	Crabtree Valley
10	Anderson Heights
11	Millbrook
12	Wilders Grove
13	Garner
14	Piney Plains
15	South Cary
16	North Cary
17	Glen Forest
18	Six Forks
19	Lynn
20	Wakeview

Area No.	Submarket
21	Neuse Crossroads
22	New Hope
23	Feltonville
24	Apex
25	Morrisville
26	Huckleberry Springs
27	Mill Grove
28	Keene
29	Woodcroft
30	Colony Park
31	Hope Valley
32	Duke University
33	Downtown Durham
34	American Village
35	River Forest
36	Research Triangle
37	Lowes Grove
38	Southport
39	Carrboro
40	Chapel Hill

Area No.	Submarket
41	Hillsborough
42	Wake Forest
43	Wendell
44	Clayton
45	Fuquay-Varina
46	Smithfield
47	Louisburg
48	Silver City
49	Oxford
50	Creedmoor
51	North Orange County
52	Northeast Wake County
53	Northwest Wake County
54	Outlying Durham County
55	Outlying Franklin County
56	Outlying Granville County
57	Outlying Harnett County
58	Outlying Johnston County
59	Southern Chatham County
60	Southwest Orange County



## DEFINITIONS

**Lifestyle households (renters by choice)** have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

**Renter-by-Necessity households** span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;*
- *Students, who also may span a range of income capability, extending from affluent to barely getting by;*
- *Lower-middle-income ("gray-collar") households, composed of office workers, policemen, firemen, technical workers, teachers, etc.;*
- *Blue-collar households, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;*
- *Subsidized households, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;*
- *Military households, subject to frequency of relocation.*

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit [www.yardimatrix.com](http://www.yardimatrix.com) or call Ron Brock, Jr., at 480-663-1149 x2404.

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