Yardi Matrix

MULTIFAMILY REPORT

Raleigh: First Signs of Recovery

Summer 2020

Demographic Expansion Endures

Investment Activity Slows Down

Tech-Focused Workforce Favors Rebound

RALEIGH MULTIFAMILY

Yardi Matrix

Rental Market Improves Slightly

The Raleigh-Durham multifamily market has historically been resilient to downturns. Although stay-at-home orders, significant job losses and tightening bank policies at the onset of the crisis have shaken the metro's economy, the metro showed signs of resilience this summer. Rents inched up 0.2% on a trailing three-month basis through August to $1,223, while the national rate remained flat.

Raleigh's unemployment rate hit 11.5% in May, but that figure had dropped to 8.0% by July, according to preliminary data from the U.S. Bureau of Labor Statistics. All employment sectors contracted in the 12 months ending in June, but small businesses that lost revenue due to COVID-19 were eligible to receive support through Wake County's $5 million Wake Forward program. Moreover, Duke University announced a $100 million investment in Research Triangle Park for an expansion of its school of medicine, in addition to several private sector investments prompted by the pandemic.

Almost $736 million in multifamily properties traded in Raleigh-Durham in the first eight months of 2020. While the Triangle was not immune to coronavirus-related headwinds, the apartment market's performance remained relatively stable. Going forward, Raleigh-Durham is likely to benefit from investors' appetite for less dense metros with strong talent pools.

Market Analysis | Summer 2020

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On the cover: Photo by Mark Howard/iStockphoto.com

Recent Raleigh Transactions

The Manor at Weston

City: Cary, N.C.
Buyer: Eaton Vance Corp.
Purchase Price: $69 MM
Price per Unit: $229,470

The Ashton

City: Raleigh, N.C.
Buyer: Knightvest Capital
Purchase Price: $42 MM
Price per Unit: $168,000

Chandler at University Tower

City: Durham, N.C.
Buyer: Knightvest Capital
Purchase Price: $38 MM
Price per Unit: $204,301

Oakley Square

City: Durham, N.C.
Buyer: Vitus Group
Purchase Price: $11 MM
Price per Unit: $112,500

RENT TRENDS

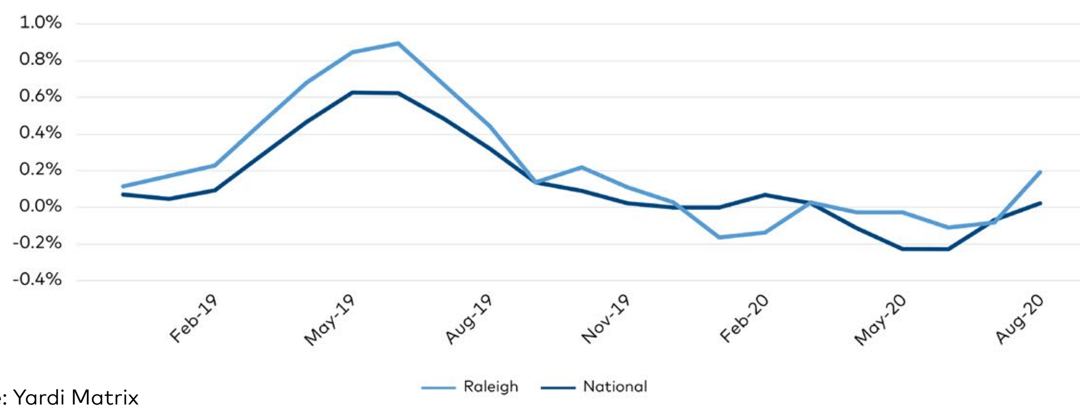
- Rents in Raleigh-Durham rose 0.2% on a trailing three-month basis through August, while national rents remained flat. The average rent clocked in at $1,223, trailing the $1,463 U.S. figure. The working-class Renter-by-Necessity segment led growth, with rates up by 0.4% to $1,054, while Lifestyle rents increased by 0.1% to $1,306.

- Spurred by an educated workforce, lower population densities and generally more affordable housing options than gateway metros, tech-driven secondary markets were among the best-performing prior to the pandemic and continued to fare well during the COVID-19 economic fallout.

- At the end of August, North Carolina's governor announced a new program would provide $175 million in funding for utility and rental payment assistance for households across the state. Additionally, the North Carolina state legislature passed a $1.1 billion COVID-19 relief package that included extra credit grants for families with children age 17 and younger.

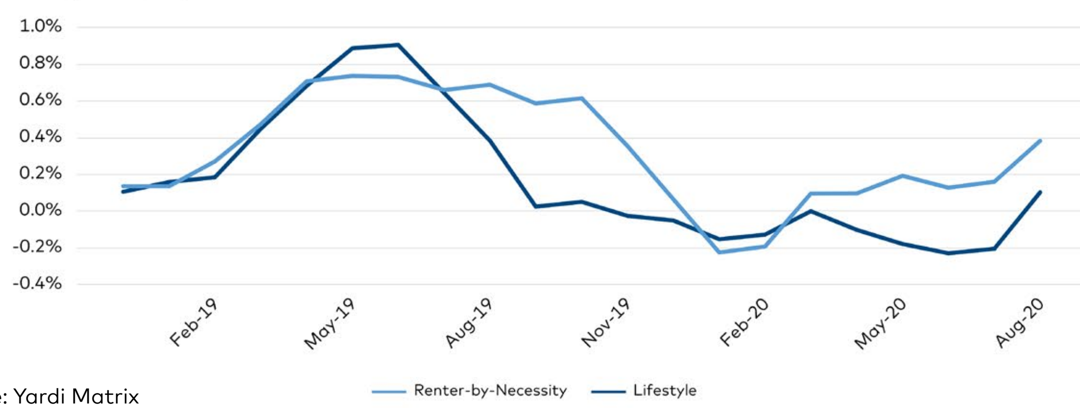
- Roughly a third of the 49 submarkets in Raleigh-Durham saw rents contract year-over-year as of August, with the steepest declines in Apex (-5.6%) and Woodcroft (-3.3%). Urban core submarkets such as Rhamkatte ($1,596), Downtown Durham ($1,556) and Crabtree Valley ($1,456) remained the most expensive areas of the Triangle.

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 kicked off the second quarter with an 11.0% unemployment rate, which, by May, had risen to 11.5% due to the statewide lockdown. The situation in Durham-Chapel Hill was similar, with the unemployment rate reaching 10.6% in May. As of July, the rate hovered around 8.0% in both areas, preliminary BLS data showed.
- The metro has a large footprint in tourism and manufacturing, and these particular sectors have been hit the hardest by the ongoing health crisis. Leisure and hospitality slid by 36.3% year-over-year through June, while manufacturing contracted by 17.2%. Despite this test, the area's research universities and strong tech presence are likely to help the Triangle fare better than other comparable metros. Raleigh-Durham ranked No. 10 among 50 major U.S. and Canadian metros for tech talent, according to a CBRE analysis. The report found the Triangle has more favorable tech hiring conditions for employers compared to the Bay Area, Seattle or Boston.
- Gov. Roy Cooper announced a three-phase plan to reopen North Carolina's economy, with the first phase going into effect on May 8. Coronavirus restrictions have progressively loosened, with the state entering Phase 2.5 in September, which allows gyms, museums and playgrounds to reopen with reduced capacity.

Raleigh Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	51	5.8%
55	Financial Activities	49	5.6%
50	Information	26	2.9%
80	Other Services	36	4.1%
90	Government	155	17.6%
60	Professional and Business Services	163	18.5%
40	Trade, Transportation and Utilities	144	16.3%
30	Manufacturing	54	6.1%
65	Education and Health Services	137	15.5%
70	Leisure and Hospitality	67	7.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Raleigh is the fastest-growing major metro in the Carolinas. Last year, the city gained 28,245 residents for a 2.1% uptick, followed by Charlotte (1.7%) and Durham (1.5%).
- In the decade ending in 2019, Raleigh's population rose 22.3%, while the U.S. growth rate was 6.1%.

Raleigh vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Raleigh Metro	1,303,845	1,334,342	1,362,540	1,390,785

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

SUPPLY

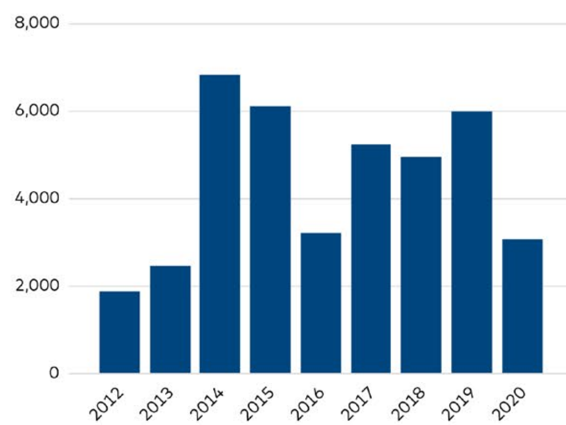
- Raleigh-Durham had 8,533 rental units underway as of August, almost half of which were initially slated to come online by year-end. The bulk of the upcoming inventory is geared toward the Lifestyle segment, which is likely to continue to feel the impact of the coronavirus crisis, considering the current economic context is fueling demand for product at the opposite end of the quality spectrum.

- Developers brought 3,069 units online in the first eight months of the year, accounting for 1.9% of total stock and equating roughly half of last year's 6,010-unit cycle peak. Despite supply-chain disruptions and strict measures to keep construction workers safe, multifamily projects slowly advanced during the health crisis as developers adapted to the new conditions.

- As of August, roughly a quarter of the multifamily pipeline was clustered in two submarkets: Morrisville (1,213 units underway) and Chapel Hill (816 units underway). All properties under construction in these areas cater to the upscale segment.

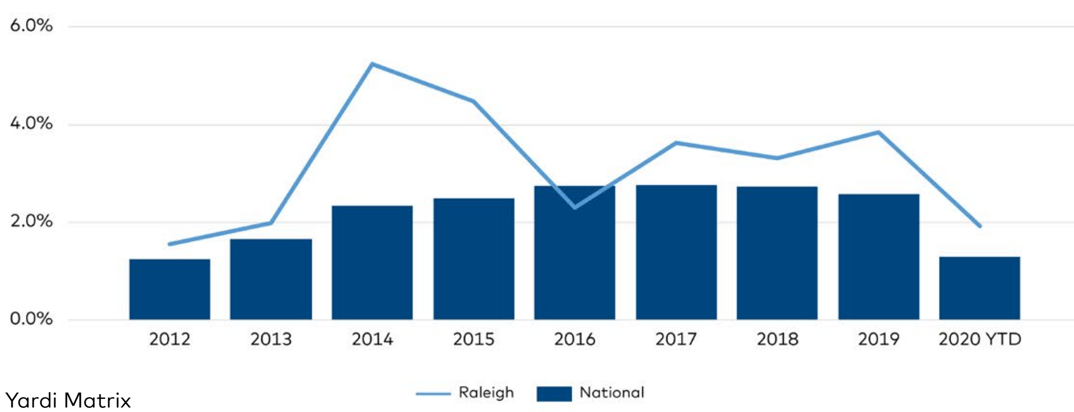
- The largest project under construction was Wood Partners' seven-building Alta Davis. The 403-unit development in Durham will be close to Research Triangle Park, Imperial Center Business Park and Perimeter Park—three of the largest employment hubs in the Carolinas. First Citizens Bank provided the developer with $45.2 million in construction financing.

Raleigh Completions (as of August 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

TRANSACTIONS

- After last year's cycle peak—when $2.9 billion in multifamily assets changed hands—transaction volume in Raleigh plummeted to $736 million during the first eight months of the year. That amounted to a little over half of the roughly $1.4 billion that traded through the same interval in 2019. With 14 of the 18 communities that sold this year catering to high-income residents, the per-unit price rose to $175,721 and surpassed the national average ($163,833) for the first time in six years.

- North Carolina's strong demographics and friendly business environment have been attracting record investment over the past few years, but the health crisis has inhibited capital for a while. Some buyers refrained from closing deals, hoping the crisis would fuel a drop in pricing, yet the pause in deal-making was short-lived. However, uncertainties around the economic outlook and the gap between buyer and seller expectations, are likely to continue to hinder multifamily investment for at least the remainder of the year.

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

Source: Yardi Matrix

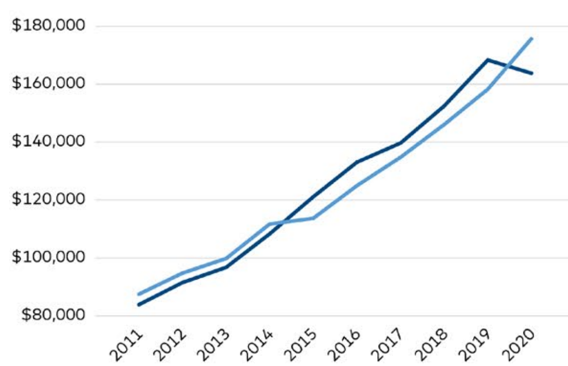
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Glen Forest	428
Duke University	199
Morrisville	185
Laurel Hills	179
Garner	132
Hope Valley	92
Millbrook	78

Source: Yardi Matrix

[1] From September 2019 to August 2020

Raleigh vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

Brought to you by: MULTI-HOUSING NEWS

Why the Triangle's Multifamily Market Is Less Vulnerable to COVID-19

By Evelyn Jozsa

Although Raleigh-Durham is not entirely immune to the pandemic's impacts, the metro's multifamily sector appears to be stable and well-positioned for a quick rebound. Daniel Eller, president & CEO of Chapel Hill-based Eller Capital Partners, discusses the effects of the coronavirus outbreak and provides insights on how the overall state of Raleigh-Durham's economy might impact the metro's multifamily sector.

How has the global health crisis affected Raleigh-Durham so far?

Raleigh-Durham has been significantly impacted by long-term, government-mandated business closures that have led to a tremendous increase in unemployment. As a result, many restaurants and retail businesses will not survive, and business owners and employees will suffer. This crisis has likely permanently accelerated the shift from brick-and-mortar stores to online retail, and the recovery time frame from an employment standpoint will be more protracted than many people initially hoped.

How has the pandemic impacted Raleigh-Durham's multifamily sector in particular?

So far, multifamily assets in the Raleigh-Durham market have performed relatively well. The newer, higher-rent communities in the marketplace have virtually no delinquency concerns and even communities that are older, with lower rental rates, have performed much better than many in the industry anticipated.

What makes Raleigh-Durham's multifamily market less vulnerable to economic disruptions?

The Raleigh-Durham market is extremely resilient with great diversity of employment, including major universities and healthcare systems, Research Triangle Park, state government and many other strong industry sectors. The market continues to experience a rapid pace of growth. This trend is likely to accelerate due to the existing strong job creation in the Raleigh-Durham area as well as changing personal preferences that may result from COVID-19.

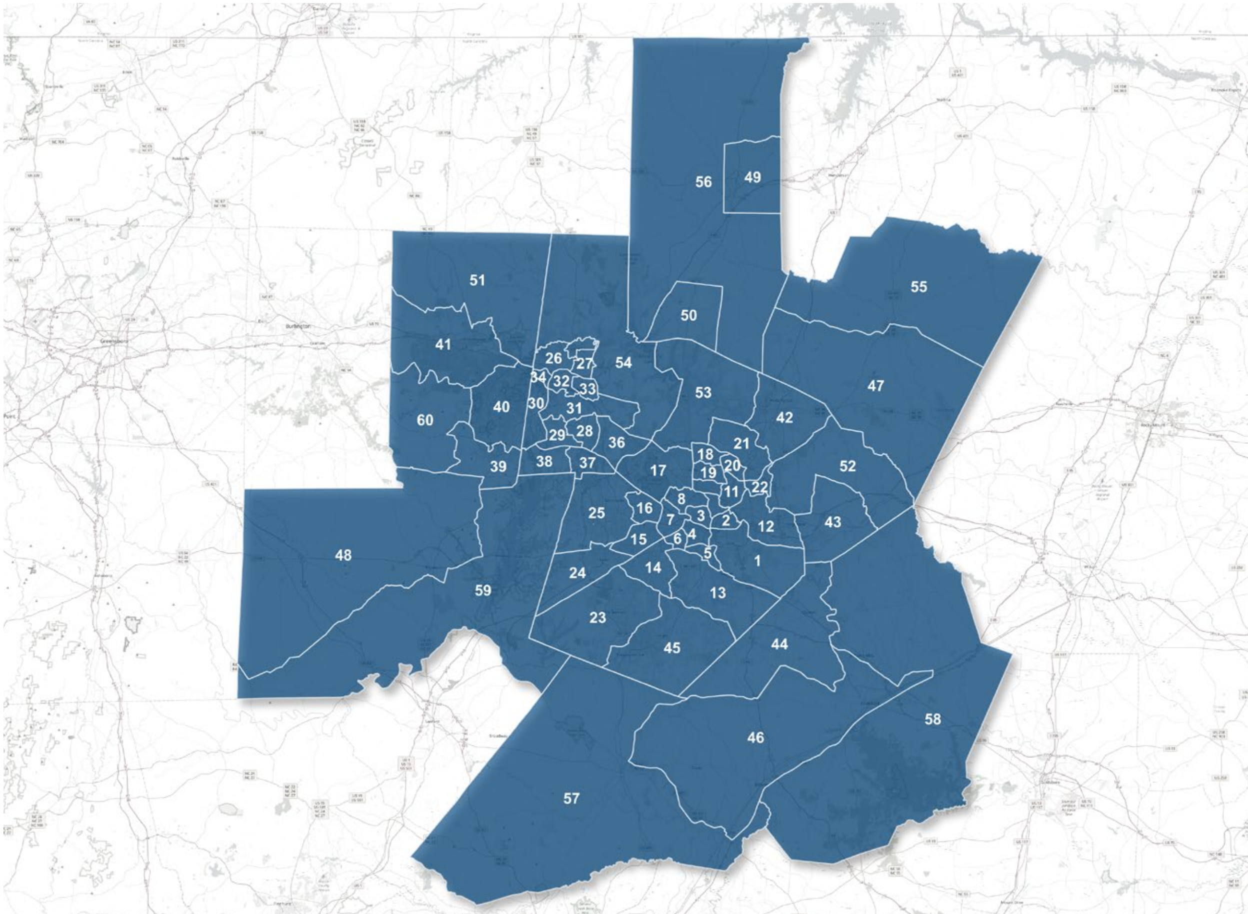
When do you expect Raleigh-Durham's economy to bounce back, and how will the recovery unfold?

Parts of the market will bounce back immediately—or already have—but the restaurant and retail sectors will experience a much slower recovery. I do not expect to see a full recovery of the restaurant industry until 2022. Many of the current restaurants in the market will be unable to reopen and it will take time for a new restaurant concept to open in the same space, but it will happen.

I believe that nonessential retail has been changed forever and will never recover to what it was pre-COVID-19. The best retail locations will likely survive and return to normal, but retail in many other locations could eventually be vacated and repurposed with a different use.

(Read the complete interview on 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 August 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 August 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, August 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 or call Ron Brock, Jr., at 480-663-1149 x2404.

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