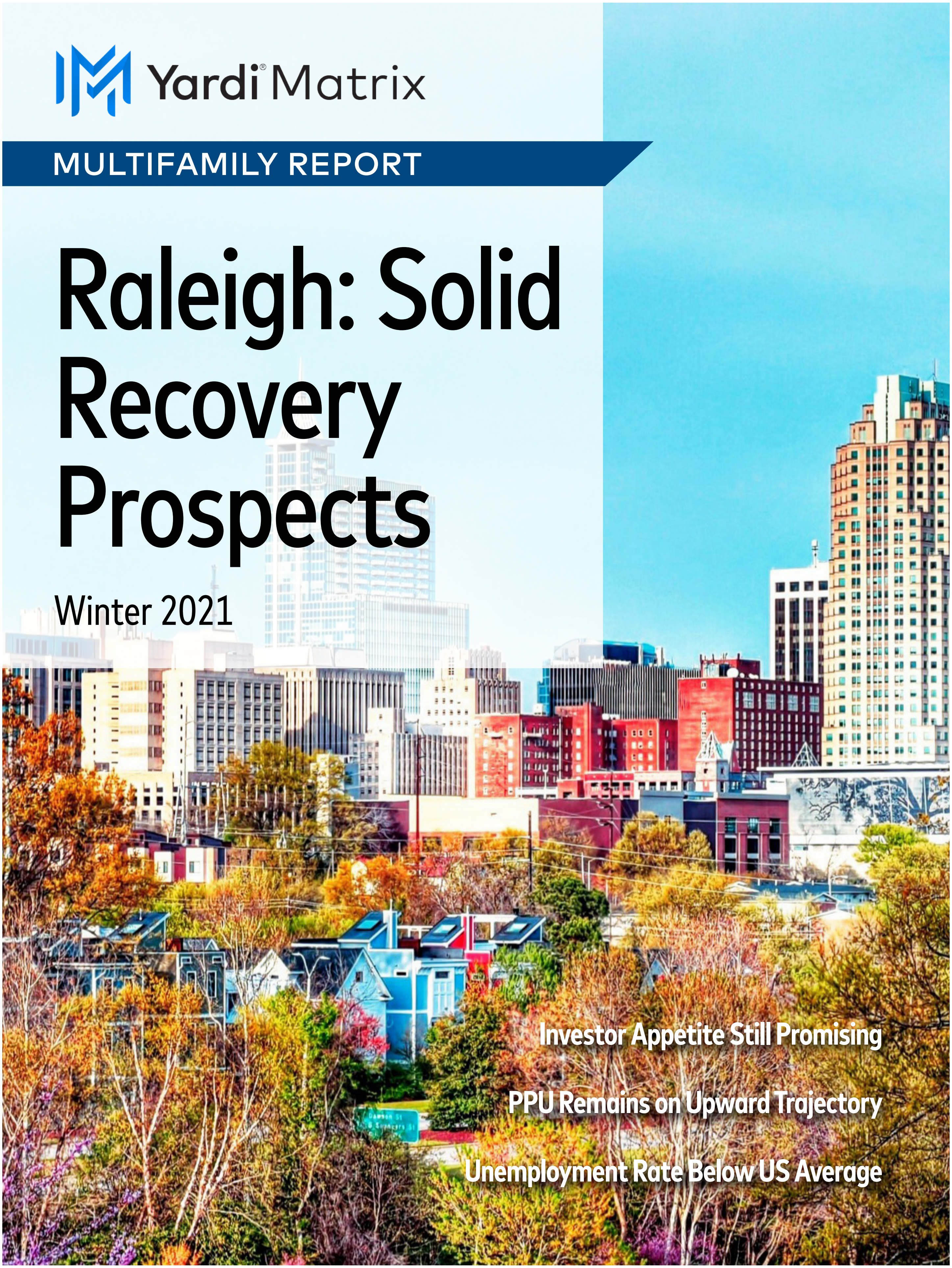
MULTIFAMILY REPORT

Raleigh: Solid Recovery Prospects

Winter 2021



Investor Appetite Still Promising

PPU Remains on Upward Trajectory

Unemployment Rate Below US Average

RALEIGH MULTIFAMILY

Yardi Matrix

Strong Fundamentals Alleviate 2020 Tremors

Despite inherent economic difficulties generated by the health crisis, the Raleigh-Durham multifamily market performed relatively well in 2020 and is positioned for a solid performance this year. Overall rents were down 0.2% on a trailing three-month basis through December, to an average of $1,226, while at the national level, rents contracted by 0.1%.

Although the Triangle has been impacted by the loss of 53,800 jobs during the 12 months ending in November, the area's economy has made some important strides. Unemployment rates have significantly improved since the onset of the pandemic, with construction and professional and business services resisting economic pressure. Backed by strong demand coming from e-commerce, the industrial market continued to grow, with the I-40 corridor among the most active areas. Merritt Properties began work on a 452,000-square-foot light industrial/flex project. Additionally, the market is set to benefit from a growing life sciences presence. ApiJect Systems chose the Research Triangle Park to build a 1 million-square-foot vaccine production facility using a $590 million loan.

In 2020, some $1.9 billion in assets traded and developers started work on 3,315 units. Due to a steady in-migration rate, demand for rentals in the Raleigh-Durham housing market is set to soar. Yardi Matrix expects rents in the Triangle to increase by 3.2% in 2021.

Market Analysis | Winter 2021

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Recent Raleigh Transactions

The Dillon

City: Raleigh, N.C.
Buyer: MetLife Real Estate Investment
Purchase Price: $85 MM
Price per Unit: $313,653

Mariners Crossing

City: Raleigh, N.C.
Buyer: Related Cos.
Purchase Price: $55 MM
Price per Unit: $178,105

Carrington at Perimeter Park

City: Morrisville, N.C.
Buyer: Bluerock Real Estate
Purchase Price: $52 MM
Price per Unit: $195,489

The Reserve at Cary Park

City: Cary, N.C.
Buyer: The Connor Group
Purchase Price: $49 MM
Price per Unit: $206,000

RENT TRENDS

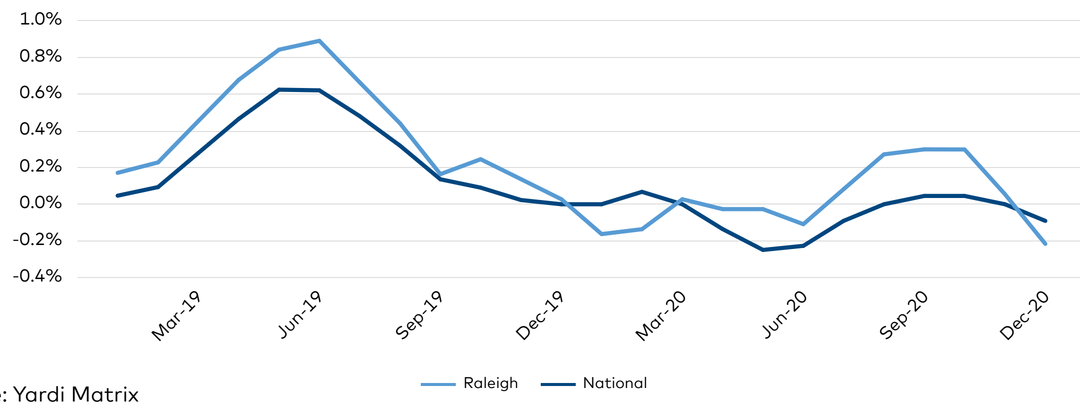
- Raleigh-Durham rents were down 0.2% on a trailing three-month (T3) basis through December, while the national rate also contracted, by 0.1%. The metro's average stood at $1,226, below the nation's $1,462. Overall, rents endured despite economic difficulties. Year-over-year, rent gains in the Triangle remained flat, while the U.S. average contracted by 0.8%.

- Performance remained uneven across the quality spectrum. Rates in the working-class Renter-by-Necessity segment were up 0.1%, on a T3 basis, to $1,066, while rents in the Lifestyle segment contracted by 0.3% to $1,303.

- North Carolina is set to receive an estimated $700 million from the latest federal relief package, which includes payments to residents who have fallen behind on rent. The bill also sets aside funding for vaccine distribution, schools, hospitals and direct payments to individuals. Roughly 42,000 eligible applications were received in the state's previous program—which provided utility and rental assistance to tenants facing financial hardship due to the health crisis.

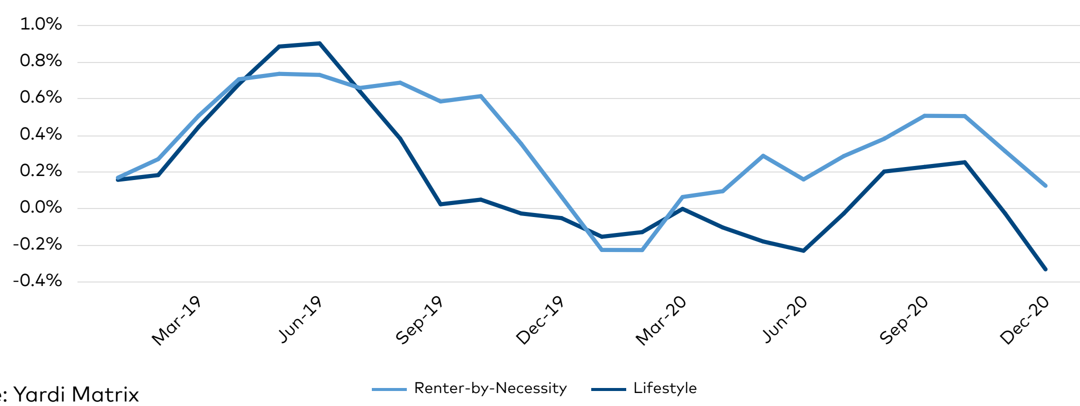
- Job losses in service industries have forced many people to relocate to lower-cost metros. Additionally, the increased flexibility to work from home has also contributed to an exodus out of gateway markets. These trends are expected to continue and are poised to benefit the Triangle area. Yardi Matrix expects the average Raleigh-Durham rent to increase 3.2% in 2021.

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

- As of November 2020, the unemployment rate in Raleigh was 5.3%, according to preliminary BLS data. This marked a strong improvement from last year's peak of 11.5%, recorded in May. The situation in Durham-Chapel Hill was comparable, with the unemployment rate reaching 10.6% in May, only to decrease to 5.2% as of November.

- All but two sectors lost jobs in the 12 months ending in November. Professional and business services, along with mining, logging and construction, added a total of 5,800 positions. The health crisis has accelerated e-commerce trends, creating an unmet demand for industrial and logistics space. In Wake Forest, Merritt Properties broke ground on a 74-acre business park, set to include 452,000 square feet of industrial space. The market also continues to benefit from a growing pharmaceutical and life sciences presence. Medical technology company ApiJect Systems announced that the U.S. International Development Finance Corp. approved a $590 million loan for the construction of a vaccine production "gigafactory" in Research Triangle Park.

- Although North Carolina progressively loosened restrictions starting last summer, state authorities had to reverse their decisions as virus cases escalated statewide toward the end of 2020.

Raleigh Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
60	Professional and Business Services	176	18.9%
15	Mining, Logging and Construction	53	5.7%
55	Financial Activities	50	5.4%
50	Information	26	2.8%
40	Trade, Transportation and Utilities	154	16.5%
80	Other Services	36	3.9%
90	Government	165	17.7%
30	Manufacturing	54	5.8%
65	Education and Health Services	143	15.3%
70	Leisure and Hospitality	75	8.0%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro gained 253,404 residents in the past decade, for an 18.4% increase, more than three times the national rate.

- In 2020, many cities across the Sun Belt, including Raleigh, experienced an influx of new residents fleeing densely populated gateway metros.

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

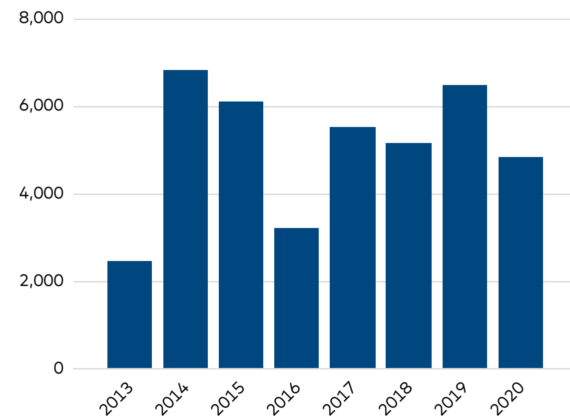
- Raleigh-Durham had 8,054 units under construction at the end of last year, with the bulk of them geared toward high-income earners. Almost three-quarters of units underway are expected to come online by year-end.

- Developers added 4,834 units to the metro's stock in 2020, below the previous year's 6,511 new apartments. Deliveries primarily favored the Lifestyle segment, comprising 85% of new stock. Since 2013, an average of 5,128 units have been added to the inventory each year. Fueled by a growing population and relative affordability compared to gateway cities—which also appeals to remote workers—multifamily demand is bound to remain healthy.

- Developers started work on 3,315 units across 14 properties in 2020, with construction deemed essential under Gov. Roy Cooper's stay-at-home order. However, construction starts were 27% below the figure recorded in the previous year, and the impacts of the pandemic are accumulating for many developers, so project timelines and additional construction starts are likely to fall behind schedule.

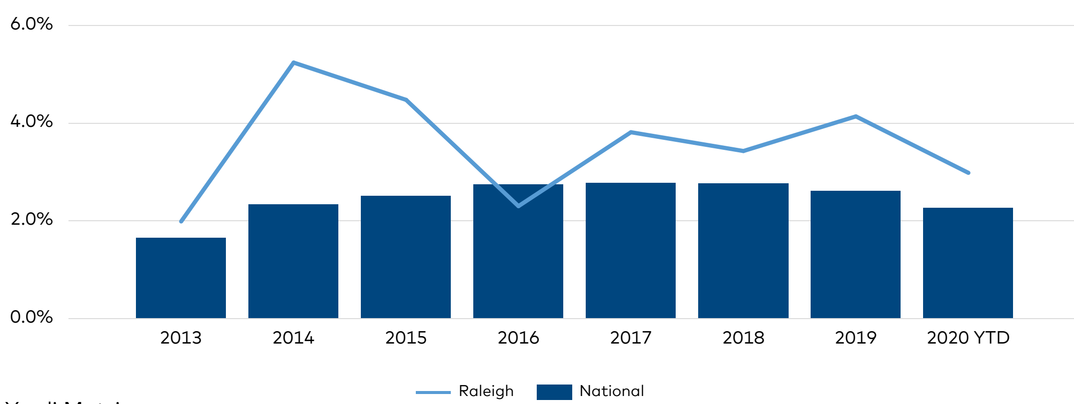
- Morrisville and the Research Triangle led development at the end of 2020, accounting for a third of the total pipeline. Wood Partners' 403-unit Alta Davis in Morrisville is among the largest projects under construction in the metro. Scheduled for completion in late 2021, the seven-building community is set to include coworking space, which is a sought-after alternative in the post-pandemic work environment.

Raleigh Completions (as of December 2020)



Source: Yardi Matrix

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

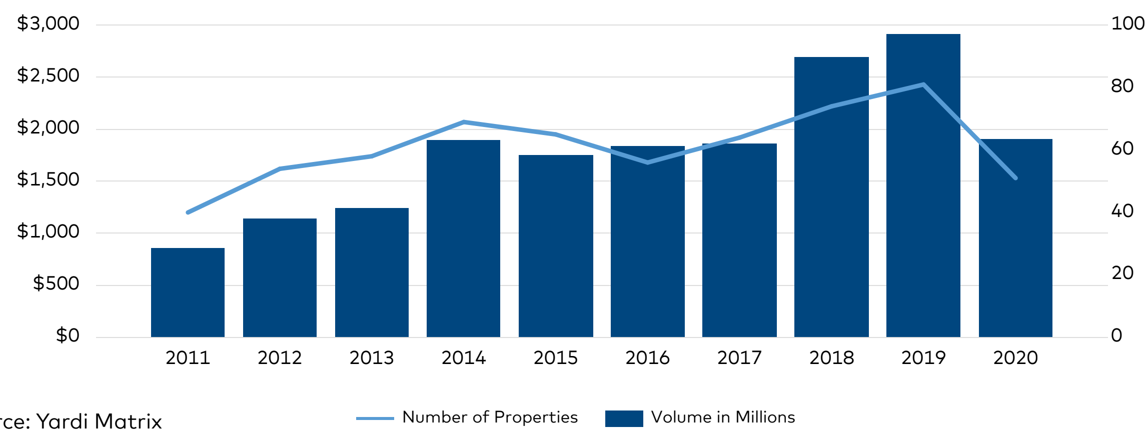


Source: Yardi Matrix

TRANSACTIONS

- Some $1.9 billion in assets traded in 2020 across the Triangle, marking a 37% year-over-year decline. However, the metro is well-positioned for a post-pandemic recovery, with the Urban Land Institute naming Raleigh the top market in the U.S. for real estate prospects in 2021.
- Last year, sales averaged $177,029 per unit. While only 4.1% above the national average, it represented an 11.3% year-over-year uptick. Investors favored Lifestyle assets, with two-thirds of the properties that changed hands last year catering to high-income residents.
- Morrisville and Glen Forest were the most sought after, with the two submarkets accounting for roughly a quarter of the total investment volume. Eaton Vance Investment Managers and Related Cos. were among the most active buyers in the market. However, Cortland's $87.2 million acquisition of the 342-unit Cortland Bull City marked the largest deal of 2020.

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



Source: Yardi Matrix

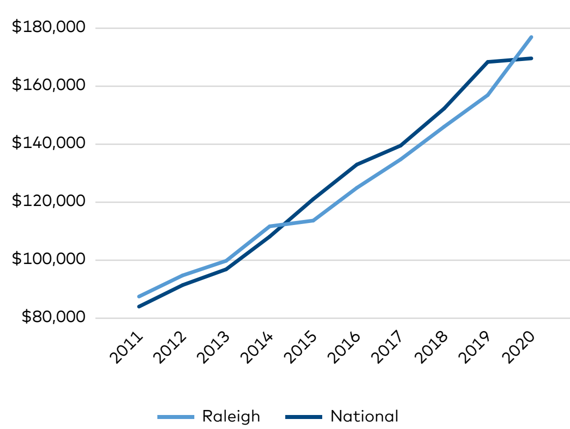
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Morrisville	281
Glen Forest	243
Downtown Raleigh	155
Duke University	134
North Cary	125
Laurel Hills	105
Colony Park	80

Source: Yardi Matrix

[1] From January 2020 to December 2020

Raleigh vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

Brought to you by: MULTI-HOUSING NEWS

How the Quest for Low Population Density Is Benefiting the Sun Belt

By Laura Calugar

The economic volatility resulting from the ongoing pandemic is accelerating suburban growth, with low-density areas experiencing a large uptick in demand. Several secondary markets, such as Raleigh-Durham, are seeing increased interest from multifamily investors. Cushman & Wakefield's Tai Cohen and Robert Stickel reveal why the Sun Belt region is among the most sought after, especially for those coming from the Northeast and the Midwest.

What is attracting investors to the Sun Belt?

Cohen: A significant amount of capital is flooding into the Sun Belt region. It's still going to the primary markets first like Atlanta and Dallas-Fort Worth, and then to secondary markets like Nashville, Tenn., and Raleigh, N.C. International investors are comfortable with cities with major airports and employment drivers. When those investors get priced out of the major markets, they start to look at the high-growth tertiary markets like Greenville, S.C., and Chattanooga, Tenn., which have slightly less competition and high yields.

How have Sun Belt multifamily investors responded to the COVID-19 crisis?

Cohen: There was certainly a pause in transactions between March and May, while owners assessed their current portfolios and COVID-19's impact on resident job loss and bad debt. Once they felt comfortable again, everyone flooded back

Tai Cohen *(left)* and Robert Stickel *(right)*

in, especially into the Sun Belt. Now investors are underwriting the same as they were before COVID-19.

What Sun Belt markets do you consider to be more likely to recover first?

Stickel: Atlanta, Charlotte and Raleigh-Durham, N.C., are three markets in the Sun Belt region that will likely recover first.

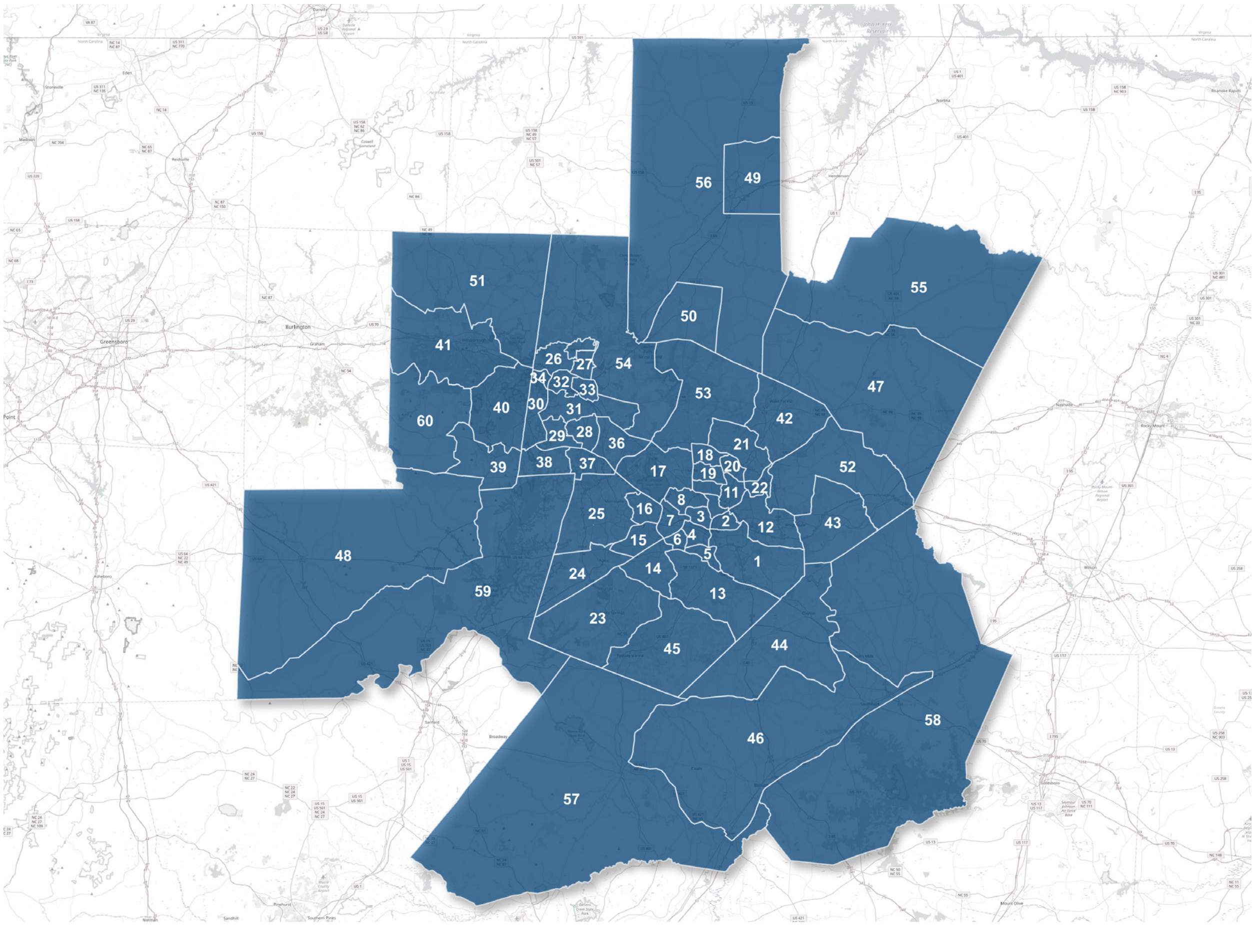
Atlanta is a major hub and starting point for new investments in the Sun Belt region. When people come in from other regions, they often start in Atlanta. Charlotte has strong ties to banking and financial services, and in-migration was already occurring before the pandemic. Raleigh-Durham has an emphasis on research and life sciences, so we continue to see strong growth, and more population and rent growth also. Aside from these three major markets, there are several secondary markets that are also experiencing good leasing and collection stats, along with increased investment sales activity.

How do you expect the region's multifamily market to perform in 2021?

Stickel: Aside from biased optimism, I believe there are several good reasons the region will perform very favorably in 2021. We anticipate seeing increased capital flow from other regions of the country, while also other sectors within real estate.

(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 December 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 December 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, December 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.