



MULTIFAMILY REPORT

Raleigh's Road To A Comeback

Summer 2021

Investment Activity Rebounds

Apartment Demand Gains Ground

Employment Market Outperforms Nation



RALEIGH MULTIFAMILY



In-Migration Supports Rent Growth, Economy

The Triangle area continued to showcase strength in the past 18 months, backed by its relative affordability and diversified economy. Multifamily fundamentals were strong at the beginning of 2021, despite significant levels of new supply added in the past few years. Rents rose 0.3% on a trailing three-month basis through April, to an average of \$1,253, but remained \$164 below the national figure.

Raleigh-Durham's employment pool contracted by 35,100 positions in the 12 months ending in February—down 3.6%—but transportation, information and professional and business services resisted economic pressure and gained 13,400 jobs combined. Preliminary Bureau of Labor Statistics data showed the unemployment rate hovered around 3.8% in both cities as of March, with the impact of COVID-19 lockdowns slowly declining as businesses reopen, expand or initiate their footprint in the Triangle. Lured by a highly educated workforce, tech giant Apple announced plans to build a \$1 billion campus in Wake County, while Google wants to establish an engineering hub in Durham.

By April, developers had completed 2,628 units for this year, accounting for more than half of last year's total deliveries. With the region's strong fundamentals increasingly attracting developers and investors favoring less-dense metros with strong talent pools, Yardi Matrix expects rents to rise 3.8% by year-end.

Market Analysis | Summer 2021

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Recent Raleigh Transactions

Allister North Hills



City: Raleigh, N.C.
Buyer: TA Realty
Purchase Price: \$120 MM
Price per Unit: \$276,498

605 West End



City: Durham, N.C.
Buyer: Exeter Property Group
Purchase Price: \$77 MM
Price per Unit: \$226,471

Avana on Broad



City: Durham, N.C.
Buyer: Greystar
Purchase Price: \$65 MM
Price per Unit: \$201,563

View at Legacy Oaks

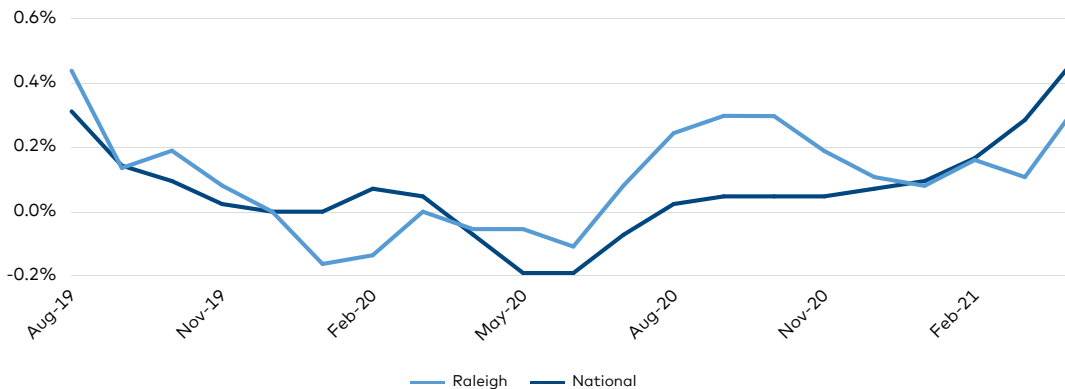


City: Knightdale, N.C.
Buyer: The Preiss Co.
Purchase Price: \$64 MM
Price per Unit: \$209,868

RENT TRENDS

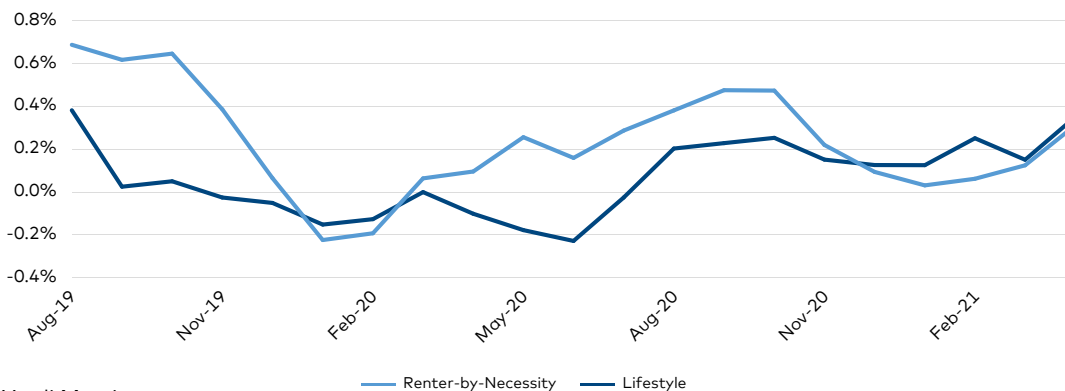
- ▶ Rent growth in Raleigh-Durham has stayed positive for the tenth-consecutive month, with rates rising 0.3% on a trailing three-month (T3) basis through April, 20 basis points below the U.S. figure. The average rent clocked in at \$1,253, below the nation's \$1,417.
- ▶ The relatively affordable housing market attracted residents from costlier cities, which resulted in high rental demand across all property asset classes. The Lifestyle segment led gains, with rates up by 0.4% to \$1,339. Meanwhile, prices in the working-class Renter-by-Necessity segment increased by 0.3% to an average of \$1,075. Overall, rents endured despite economic difficulties. Year-over-year, rates improved by 2.4% in the Triangle, while the U.S. average rose by only 1.6%.
- ▶ Urban core submarket Rhamkette remained the most expensive area of the Triangle, despite rents contracting by 0.6% in the 12 months ending in April to an average of \$1,607. Rates also dropped in other core areas such as Hinton (-2.4% to \$1,352) and Oakwood (-0.6% to \$1,438).
- ▶ With Raleigh-Durham losing 35,100 jobs in the 12 months ending in February, many residents applied for federal aid to pay their rents and utility bills. Wake County and the city of Raleigh set aside roughly \$33 million for local renters who have lost their income due to the pandemic. The House Wake! COVID-19 Financial Assistance Program also provided monetary support to landlords and utility companies.

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 ended the first quarter of the year with a 3.9% unemployment rate, according to preliminary BLS data. The rate has been gradually improving after peaking at 12.2% in May 2020. Durham-Chapel Hill had a similar path, with the jobless rate decreasing to 3.8% in March, from 11.1% in May 2020.
- ▶ With a high percentage of its workforce in recession-resilient industries such as technology and life sciences, the Raleigh-Durham economy fared better than other comparable metros, with several large companies expanding or establishing a presence in the area. Japanese drug manufacturer Fujifilm Diosynth intends to invest \$1.5 billion in a new facility in Holly Springs, Amazon will add two new delivery stations by the end of the year, and Eli Lilly is investing up to \$474 million in a pharmaceutical plant in Durham County.
- ▶ Tech companies Google and Apple announced plans to establish major campuses in the Triangle. Google intends to create a cloud engineering hub in Durham, bringing more than 1,000 new jobs to the area, while Apple will spend roughly \$1 billion on a new campus in Wake County, adding 3,000 new jobs in machine learning, artificial intelligence and software engineering. All these developments are likely to support renter demand for years to come.

Raleigh Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	180	18.9%
40	Trade, Transportation and Utilities	158	16.6%
50	Information	28	2.9%
15	Mining, Logging and Construction	51	5.4%
30	Manufacturing	63	6.6%
55	Financial Activities	49	5.1%
80	Other Services	36	3.8%
65	Education and Health Services	151	15.8%
90	Government	159	16.7%
70	Leisure and Hospitality	77	8.1%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Raleigh gained 28,245 residents in 2019 for a 2.1% improvement, seven times the national growth rate.
- ▶ Initial state-level results of the 2020 census show North Carolina's population rose 9.5% between 2010 and 2020, the sixth-largest increase among U.S. states.

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

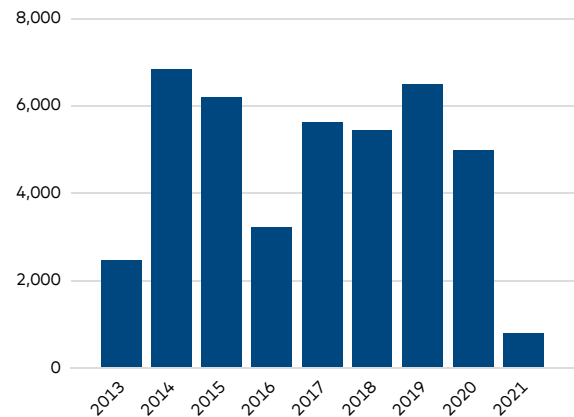
SUPPLY

- ▶ Raleigh-Durham had 9,775 units under construction at the end of April, with the bulk of them catering to the Lifestyle segment. Some 70,000 other apartments were in the planning and permitting stages, a sign that developers are bullish on the market's prospects. According to the city of Raleigh, more than 70% of the city's land is zoned for residential use. Coupled with the strong population growth and the business-friendly environment, this is likely to support the metro's economic rebound.
- ▶ Developers brought 2,628 units online in the first four months of the year, accounting for 1.6% of total stock and equating to more than half of last year's total deliveries.
- ▶ Raleigh remained a preferred destination for residents fleeing high-cost gateway markets, which has kept occupancy high despite more than 22,600 units coming online between 2017 and 2020. The overall occupancy rate in stabilized properties rose to 94.5% in March, marking a 20-basis-point year-over-year increase.
- ▶ Morrisville, a submarket adjacent to the Research Triangle, is leading development activity with 1,574 units underway. Both develop-

ers and investors have been favoring this submarket due to its proximity to large employers such as Microsoft, IBM and top universities.

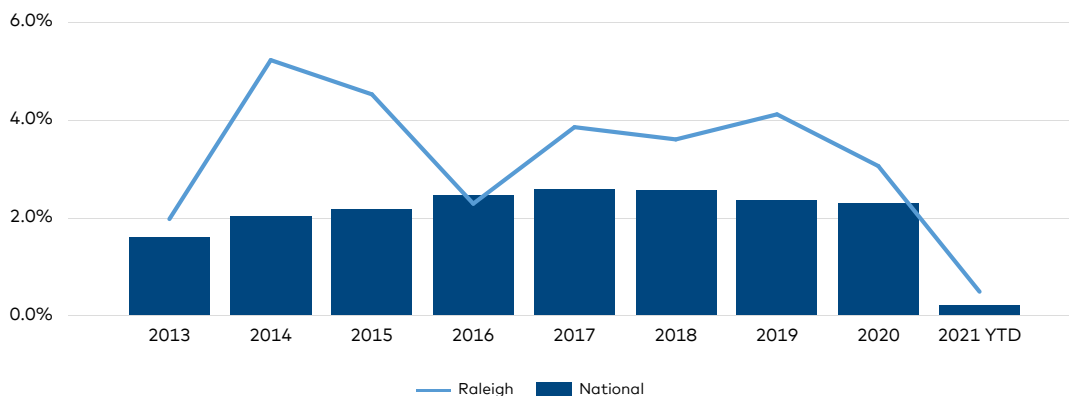
- ▶ The largest project underway as of April was Lennar Multifamily Communities' 465-unit Durham Gateway in Hope Valley. The six-story community, built within an Opportunity Zone, is scheduled to be delivered by the end of 2023.

Raleigh Completions (as of April 2021)



Source: Yardi Matrix

Raleigh vs. National Completions as a Percentage of Total Stock (as of April 2021)

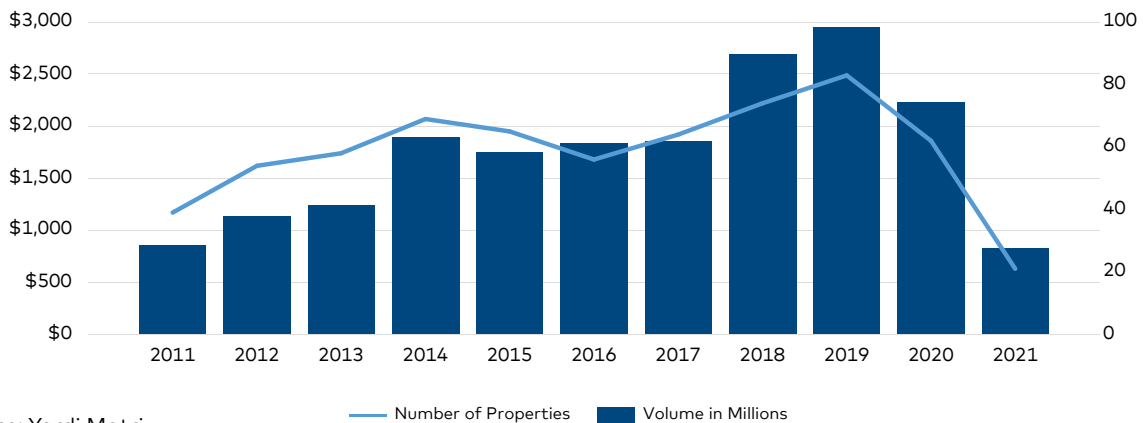


Source: Yardi Matrix

TRANSACTIONS

- ▶ Transaction volume in Raleigh hit \$831 million in the first four months of the year. That's nearly double the investment volume recorded during the same interval in 2020—\$487 million—when the initial effects of the health crisis emerged, temporarily inhibiting investment activity.
- ▶ With 12 of the 21 communities that traded this year through April catering to the Lifestyle segment, the price per unit rose to \$185,099, \$12,736 more than the U.S. average.
- ▶ Morrisville accounted for almost one-fifth of the \$2.6 billion multifamily investment volume in the 12 months ending in April. The submarket is close to Research Triangle Park, Raleigh-Durham International Airport and top-rated universities, making it a magnet for investment. However, the largest transaction of the past year closed inside the Raleigh Beltline, where TA Realty paid \$120 million for the 434-unit Allister North Hills in Anderson Heights.

Raleigh Sales Volume and Number of Properties Sold (as of April 2021)



Source: Yardi Matrix

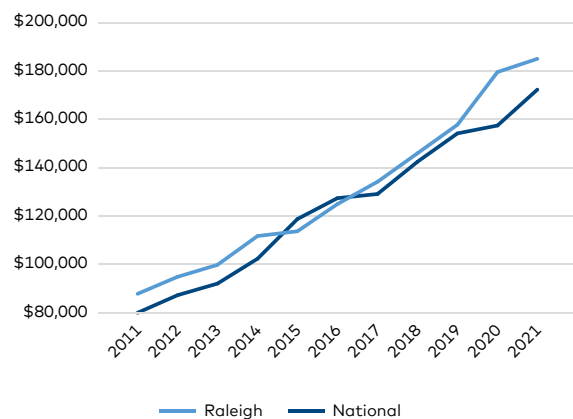
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Morrisville	496
Crabtree Valley	172
Duke University	164
Glen Forest	162
Downtown Raleigh	148
Laurel Hills	147
Anderson Heights	120

Source: Yardi Matrix

¹ From May 2020 to April 2021

Raleigh vs. National Sales Price per Unit



Source: Yardi Matrix

Top Southeast Markets for Multifamily Construction

By Corina Stef

The Southeast managed to stay afloat during the pandemic thanks to, among other factors, lower living costs, which have attracted large numbers of movers since the onset of the pandemic. According to Yardi Matrix data, more than 73,000 units were under construction in the region as of April, representing 5.8 percent of total stock. Some 43,000 units are scheduled for completion by year-end.

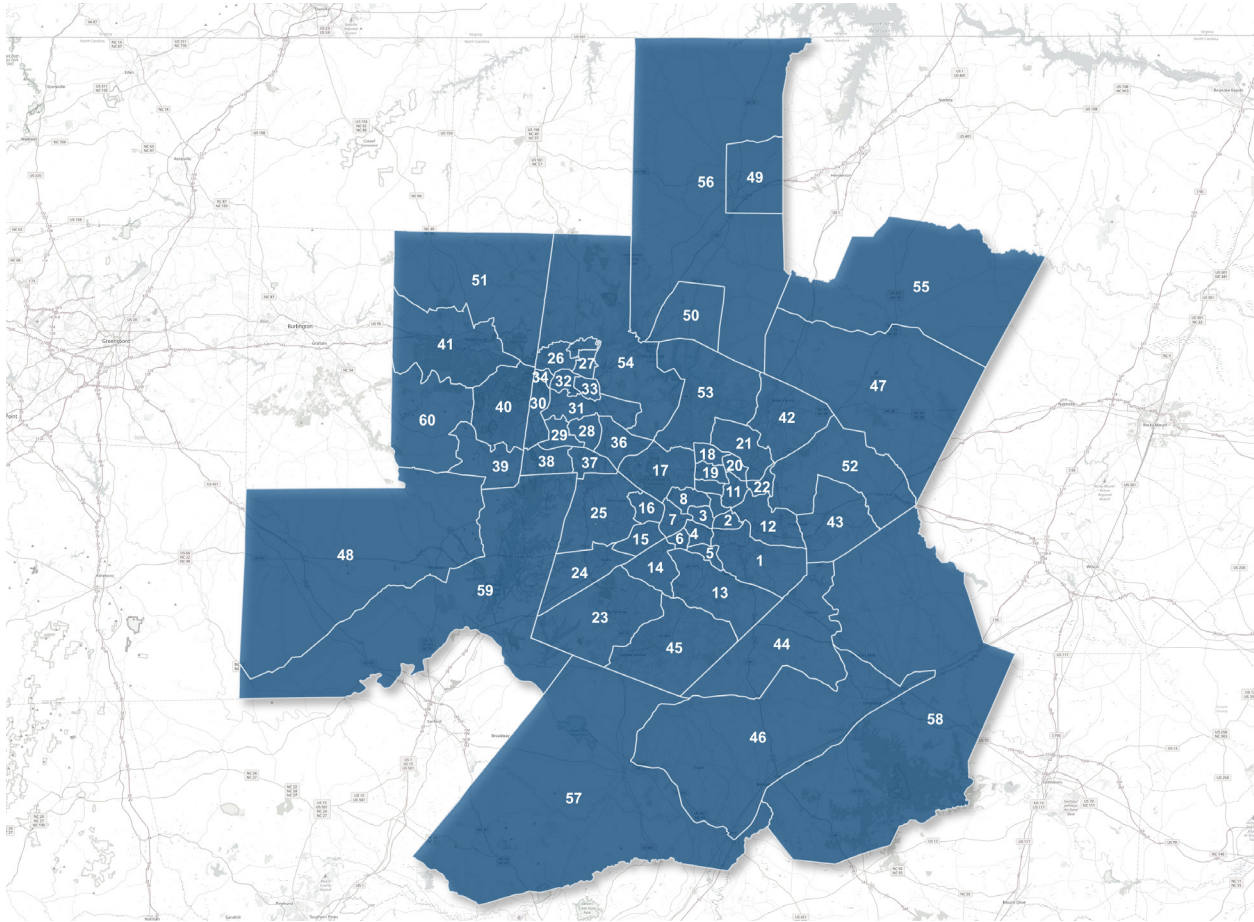
Rank	Market	Units Underway	Projects
1	Atlanta	19,455	77
2	Charlotte	15,571	70
3	Carolina Triangle	8,736	35
4	Greenville	5,673	25
5	Charleston	4,936	20

CAROLINA TRIANGLE, N.C.

The market had 8,736 units across 35 properties under construction, equal to 5.3 percent of total stock. More than half of those are expected to be delivered by year-end, with development activity concentrated in the Morrisville submarket, where more than 1,500 units were underway. Wood Partners was the most-active developer in the market—the Charlotte-based company was working on three communities totaling more than 900 units as of April.



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.

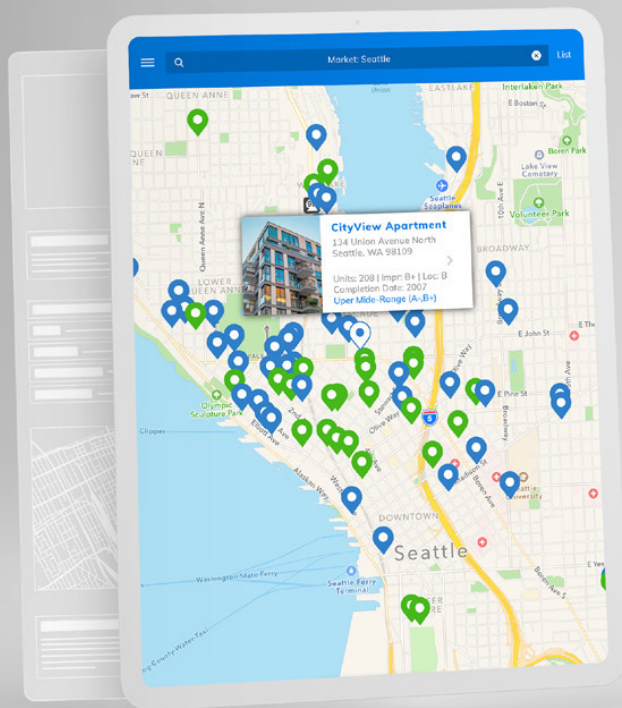
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.



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