



MULTIFAMILY REPORT

The Triangle: Back to Growth Mode

Fall 2021

In-Migration Fuels Demand for Units

Deliveries Slated for New Peak

Investment Surges Past 2020 Volume

RALEIGH MULTIFAMILY



In-Migration, Low Supply Push Rents to New Highs

The first three quarters of 2021 pointed toward a strong recovery for the Raleigh-Durham multifamily market. The region's rapidly expanding population continues to fuel solid fundamentals, with no signs of rental demand softening in the near term, due in part to low inventory in the for-sale market. In September, rents improved by 3.0% on a trailing three-month basis to \$1,484, but they remained below the \$1,558 national figure.

At 3.9% as of July, unemployment is nearing pre-pandemic levels. The Triangle was a magnet for businesses prior to the health crisis, and the region has not lost its appeal. Apple, Google and Amazon have all announced expansions into the area that are set to create thousands of new jobs in the next few years. Amazon alone is planning to bring more than 6,000 jobs to North Carolina, including at its distribution center in Garner. To support expected growth in car traffic, a \$360 million design-build corridor upgrade of a 13-mile stretch of Interstate 40 is underway.

Investment hit \$2.4 billion in the first nine months of 2021, already surpassing last year's \$2.2 billion transaction volume. Developers completed 4,575 units year-to-date through September, and an average of 5,652 units were delivered each year since 2017. However, demand continues to heavily outpace supply, prompting Yardi Matrix to expect rents to increase by an unprecedented 20.0% in 2021.

Market Analysis | Fall 2021

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Recent Raleigh Transactions

The Edition on Oberlin



City: Raleigh, N.C.
Buyer: The Preiss Co.
Purchase Price: \$71 MM
Price per Unit: \$349,754

The Pointe at Chapel Hill



City: Chapel Hill, N.C.
Buyer: Knightvest Capital
Purchase Price: \$69 MM
Price per Unit: \$288,542

Huntington



City: Morrisville, N.C.
Buyer: Blackfin Real Estate Investors
Purchase Price: \$40 MM
Price per Unit: \$186,792

Chapel View

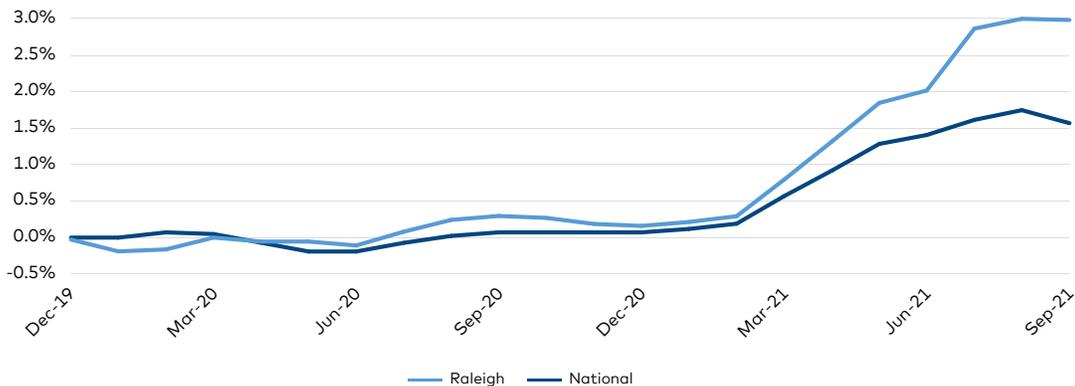


City: Chapel Hill, N.C.
Buyer: Gindi Equities
Purchase Price: \$34 MM
Price per Unit: \$152,679

RENT TRENDS

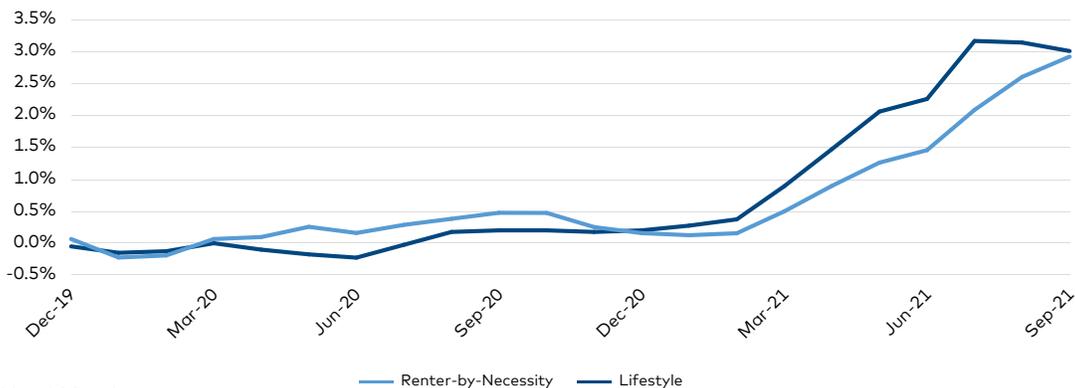
- ▶ Rent growth in Raleigh-Durham began to swiftly accelerate in the spring. On a trailing three-month (T3) basis through September, rates marked a 3.0% increase to an average of \$1,484. Meanwhile, U.S. rents improved by only 1.6% to \$1,558. Year-over-year through September, rents in the Triangle were up a whopping 19.3%.
- ▶ Rent performance was almost even across the quality spectrum. Rates in the working-class Renter-by-Necessity segment were up 2.9% to \$1,232, while rents in the Lifestyle segment improved by 3.0% to an average of \$1,602.
- ▶ The region's long-term supply shortage, coupled with in-migration from more expensive coastal areas, has been supporting demand, pushing up both rents and occupancy. Overall, occupancy in stabilized properties grew to 95.7% in the 12 months ending in August, with the rate for up-scale assets hitting 95.9%, an all-time high.
- ▶ All but three of the metro's 51 submarkets posted double-digit rent growth in the 12 months ending in September. Suburban submarkets such as Feltonville (29.8%), Colony Park (26.1%) and Apex (25.9%) were some of the most sought after.
- ▶ For the short term, our forecast for the whole of 2021 remains uncommonly high, at 20.0%, but the pace should slow to some extent early next 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

- ▶ The Triangle added 64,800 jobs during the 12 months ending in July, up 4.2% year-over-year and 170 basis points above the national rate. The gains reflect the quick recovery that followed the initial shock of the pandemic.
- ▶ Buoyed by its educated workforce and dynamic real estate market, along with company additions and expansions across the largest research park in the country, the metro's economy is rapidly accelerating once more. Unemployment stood at 3.9% in July in both Raleigh-Cary and Durham-Chapel Hill, according to BLS data, with leisure and hospitality (19,500 jobs) and professional and business services (14,200 jobs) regaining the most positions.
- ▶ The metro's economy is bound to continue improving. At least three giants announced significant investments across the metro. Apple intends to spend \$1 billion in North Carolina over the next decade, including \$552 million on an East Coast campus in Research Triangle Park. This would add roughly 3,000 jobs over five years. Google announced plans to create a cloud engineering hub in Durham, bringing more than 1,000 jobs to the area, while Fujifilm Diosynth Biotechnologies recently chose Holly Springs for its next cell culture facility, a \$2 billion investment that would add 725 jobs by 2028.

Raleigh Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	93	9.6%
60	Professional and Business Services	185	19.0%
40	Trade, Transportation and Utilities	162	16.6%
90	Government	147	15.1%
15	Mining, Logging and Construction	55	5.7%
30	Manufacturing	66	6.8%
65	Education and Health Services	150	15.4%
55	Financial Activities	51	5.2%
50	Information	28	2.9%
80	Other Services	36	3.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ The metro gained 29,591 residents in 2020, for a 2.1% uptick, significantly above the 0.4% U.S. rate and 30 basis points above Charlotte.
- ▶ Raleigh-Durham is among the most popular destinations for both Millennials and Gen Z, which has kept the job and housing markets strong.

Raleigh vs. National Population

	2017	2018	2019	2020
National	325,147,121	327,167,434	328,239,523	329,484,123
Raleigh Metro	1,334,342	1,362,540	1,390,785	1,420,376

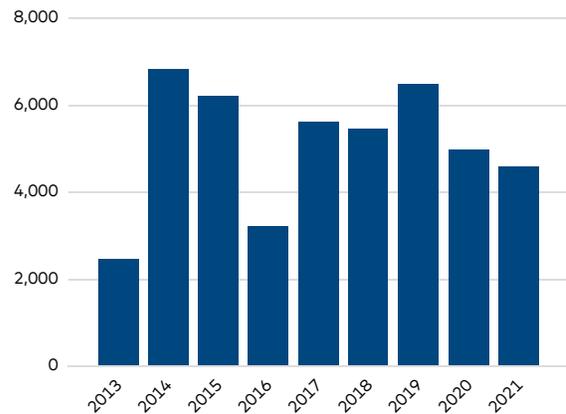
Sources: U.S. Census, Moody's Analytics

SUPPLY

- ▶ The Raleigh-Durham metro had 10,490 units under construction as of September, with the bulk of them targeting high-income renters. More than 87,000 units were in the planning or permitting stages, pointing toward continued optimism among developers.
- ▶ Over the first three quarters of the year, 4,574 units were delivered across the metro. Yardi Matrix expects a total of 7,960 units to come online by year-end, which would mark a new decade high, surpassing the 6,847 units completed in 2014. The Triangle's rapidly expanding population continues to generate solid demand, with no signs of short-term softening.
- ▶ Construction starts have doubled, another signal that developers are bullish on the market's prospects. Between January and September 2020, developers broke ground on 2,516 units across 10 projects, but over the same interval in 2021, starts jumped to 5,299 units across 22 projects.
- ▶ As of September, two suburban submarkets—Feltonville (724 units under construction) and Wake Forest (723 units)—were the most sought-after areas. With an increasing

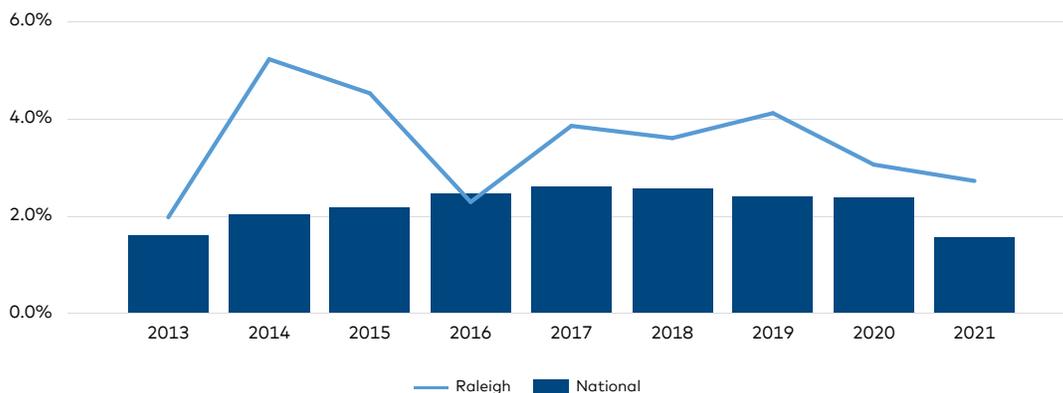
number of people looking to rent where there's more space and less density, developers are quickly adjusting and adding more inventory to suburban areas. However, downtown Raleigh remained active, with 705 units underway, including the largest project in the metro: Olde Towne, a 450-unit community developed by The Halle Cos.

Raleigh Completions (as of September 2021)



Source: Yardi Matrix

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



Source: Yardi Matrix

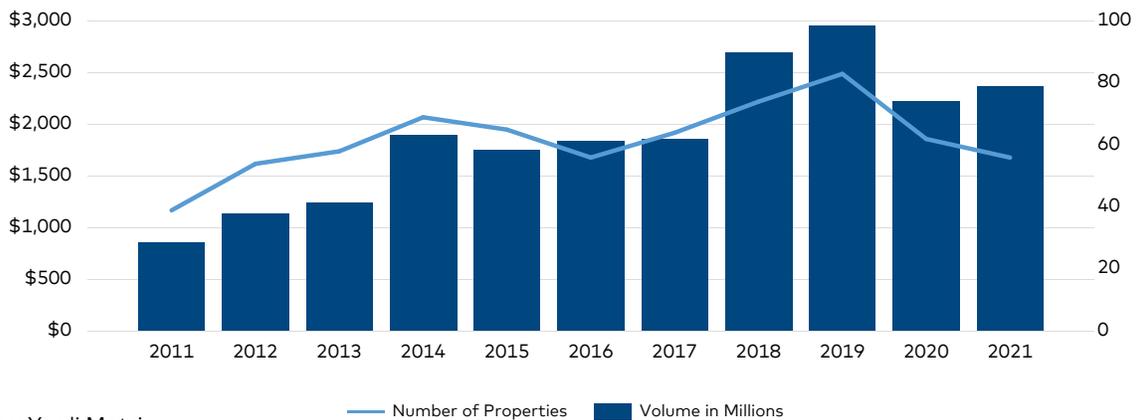
TRANSACTIONS

- ▶ Raleigh-Durham multifamily transactions hit \$2.4 billion year-to-date through September, already surpassing the total \$2.2 billion closed in 2020. The average per-unit price was \$186,241, slightly above the national figure. Investor interest tilted toward upscale properties—32 of the 56 deals that closed during the first three quarters of 2021 were for Lifestyle assets.
- ▶ Migration toward Sun Belt metros has been playing out for a good few years, but acceler-

ated quickly during the pandemic. With more people and businesses moving to the Triangle, the Raleigh metro area's real estate market continues to experience heightened activity.

- ▶ Accounting for almost a fifth of the \$3.4 billion total transaction volume in the 12 months ending in September, Morrisville was the most sought-after submarket. The largest deal was Westbrook Partners' \$79 million acquisition of the 298-unit Bainbridge Aviation Crossing.

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



Source: Yardi Matrix

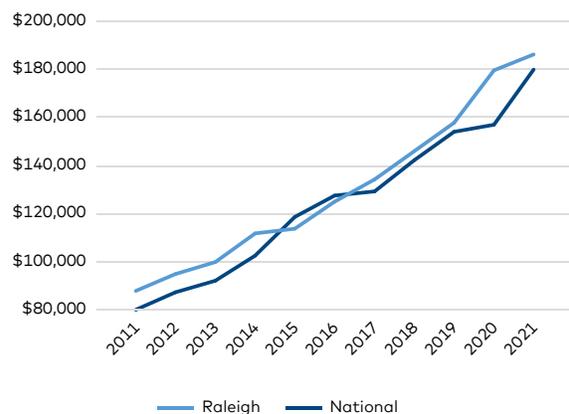
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Morrisville	634
Crabtree Valley	172
Neuse Crossroads	152
Downtown Raleigh	145
Lynn	139
Feltonville	126
Anderson Heights	120

Source: Yardi Matrix

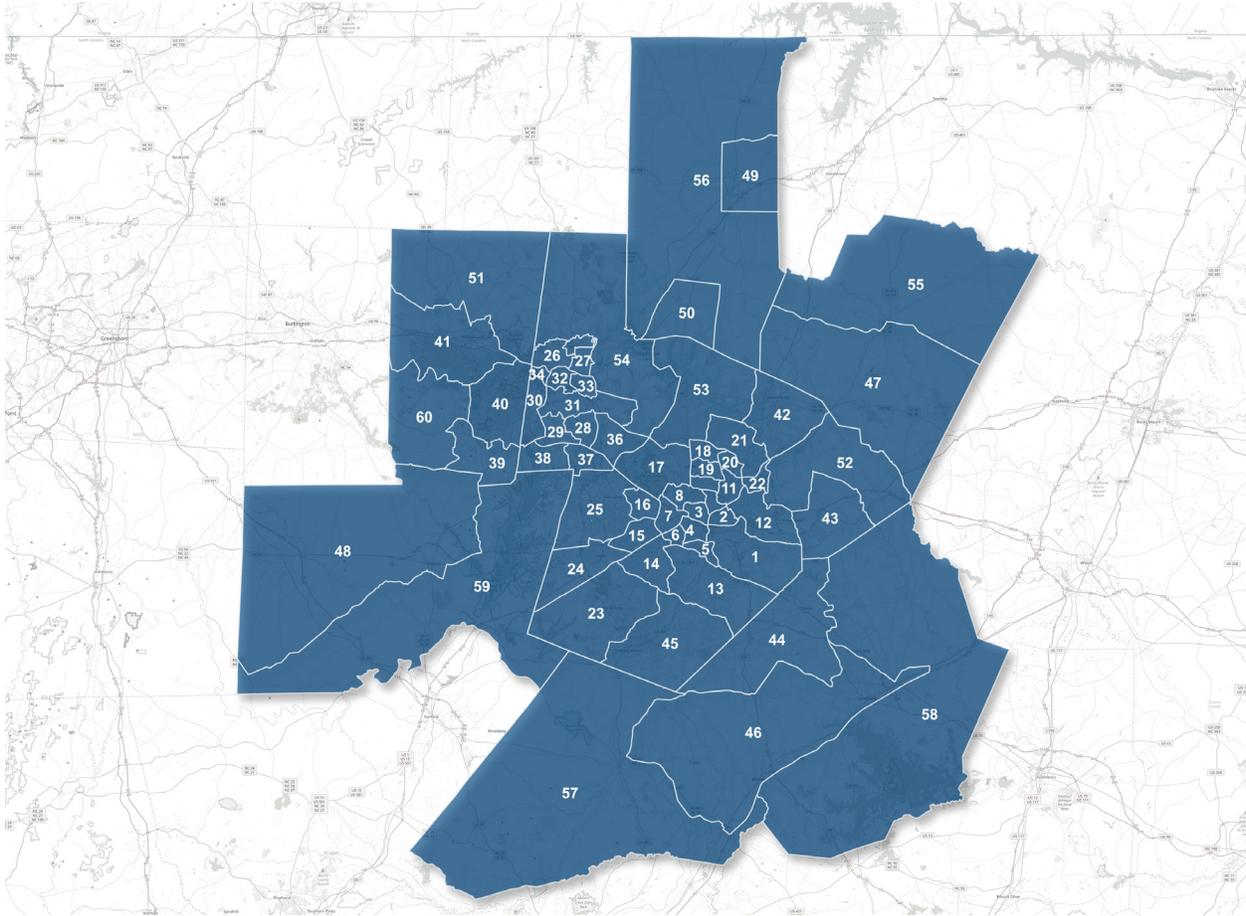
¹ From October 2020 to September 2021

Raleigh vs. National Sales Price per Unit



Source: Yardi Matrix

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.

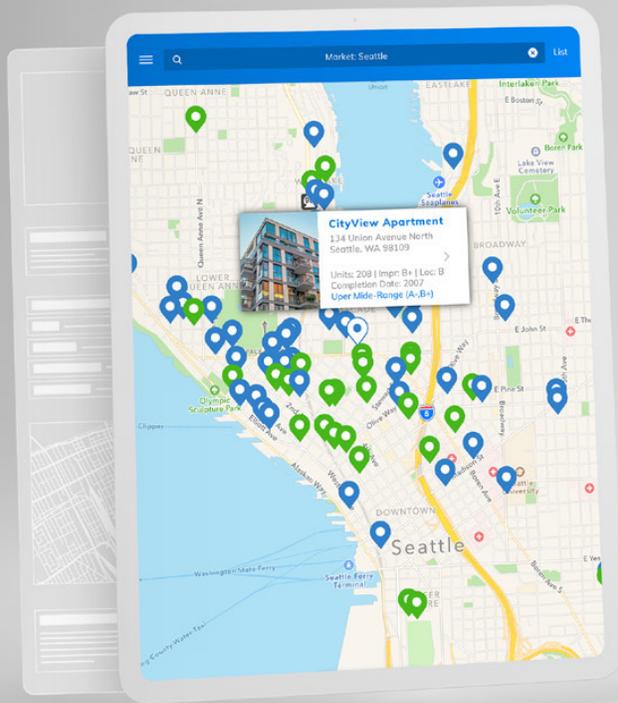
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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