



MULTIFAMILY REPORT

Positive Outlook For The Triangle

February 2022

Rent Development Hits Double Digits

Transaction Volume Marks New Record

Unemployment Below Pre-Pandemic Levels

RALEIGH MULTIFAMILY



Another Solid Year Ahead

Benefiting from an influx of remote workers looking for more affordable living options, the Raleigh-Durham multifamily market continued its strong recovery last year. In the last quarter of 2021, the average rent increased to \$1,493—up 0.7%—but remained below the \$1,594 national rate, which rose 0.6%.

The unemployment rate continued to regain ground in the Triangle in 2021, reaching 3.0% as of October 2021, on par with pre-pandemic levels. The picture is likely to further improve as more investors pour capital into the metro's economy. Relatively unscathed by the health crisis, tech companies continue to expand in the Triangle, while a string of life sciences firms are establishing a presence in the area, pulling from the highly educated talent pool that the three major universities in the area provide. Biopharmaceutical company Amgen is building a \$550 million manufacturing facility in Holly Springs, while two developers announced plans to build a 109-acre, \$1 billion bioscience project in one of the metro's fastest-growing submarkets—Morrisville.

Investment activity intensified last year, with transactions totaling \$3.4 billion and setting a new peak. Meanwhile, developers added 5,339 units to the Triangle's stock. On the heels of exceptional growth over the past 18 months, Yardi Matrix expects rents to continue to improve, albeit at a more moderate pace.

Market Analysis | February 2022

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Recent Raleigh Transactions

Regatta at Lake Lynn



City: Raleigh, N.C.
Buyer: Knightvest Capital
Purchase Price: \$80 MM
Price per Unit: \$204,082

Braxton at Brier Creek



City: Raleigh, N.C.
Buyer: Braddock & Logan
Purchase Price: \$80 MM
Price per Unit: \$295,926

Woods Edge



City: Durham, N.C.
Buyer: S2 Residential
Purchase Price: \$60 MM
Price per Unit: \$226,136

Capital Creek at Heritage

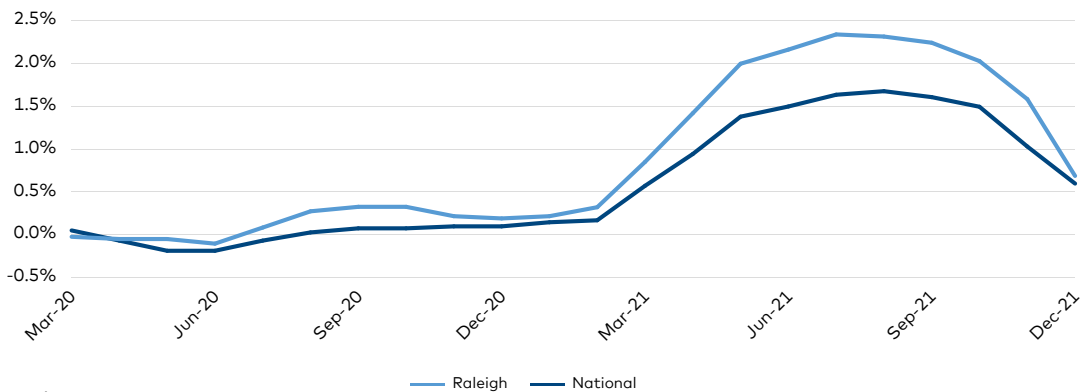


City: Wake Forest, N.C.
Buyer: Kushner Cos.
Purchase Price: \$53 MM
Price per Unit: \$246,336

RENT TRENDS

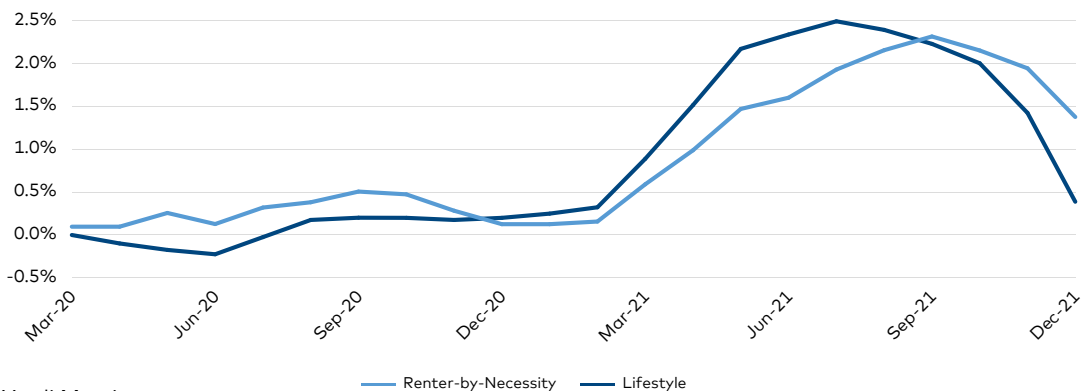
- ▶ Rents in Raleigh-Durham grew by 0.7% in the last quarter of 2021, to \$1,493, while the national average improved by 0.6%, to \$1,594. Triangle rents contracted by 0.7% in December, but one-month changes are too small of a sample to underpin a trend. Between March 2020 and December 2021—rates grew by 20.7%, placing the Triangle in the sixth spot nationally for rent expansion among major metros.
- ▶ Rates were uneven across the quality spectrum. The working-class Renter-by-Necessity segment led growth on a three-month basis through December, with rents up 1.4%, to \$1,270. Meanwhile, figures in the Lifestyle segment grew by only 0.4%, to \$1,595.
- ▶ In recent years, supply additions have been unable to keep pace with increasing demand fueled by in-migration. This has been pushing up both rents and occupancy. In the 12 months ending in November, the occupancy rate in stabilized properties increased to 96.2%, a 160-basis-point improvement.
- ▶ Urban core submarket Oakwood performed the best in 2021. Year-over-year, rents rose by 40.0%, hitting \$1,938, and making Oakwood the most expensive submarket in the metro.
- ▶ Demand is likely to normalize in 2022. Yardi Matrix expects the pace of rent growth to remain healthy but moderate, when compared to the dizzying gains recorded in the past 18 months.

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 added 45,900 jobs during the 12 months ending in October, a 6.1% year-over-year gain and 80 basis points above the U.S. rate.
- ▶ Supported by its solid talent pool and business-friendly climate, the Triangle is a magnet for both residents and investors. As of October, the unemployment rate in the metro was 3.0%—on par with pre-pandemic levels—and preliminary data from the Bureau of Labor Statistics for November shows further improvement. Beside tech giants such as Apple and Google expanding their footprints, the biotech and life sciences industries are also gaining momentum. Biogen intends to invest \$200 million in a new facility as part of its Research Triangle Park campus; Amgen has committed to a \$550 million investment into a manufacturing plant in Holly Springs; and CARsgen Therapeutics plans to spend \$157 million to establish a Durham site that will employ 200 people by 2026.
- ▶ One of the hottest business areas in the metro is Morrisville, a city that has altered its zoning regulations to accommodate a \$1 billion mixed-use life science campus on 109 acres. Starwood Capital Group and Trinity Capital are behind Spark LS, a project that is set to add 1.5 million square feet of lab space, bolstering the metro's status as a life sciences cluster.

Raleigh Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	92	9.2%
60	Professional and Business Services	189	19.0%
40	Trade, Transportation and Utilities	163	16.3%
65	Education and Health Services	154	15.4%
30	Manufacturing	66	6.6%
15	Mining, Logging and Construction	55	5.5%
55	Financial Activities	51	5.1%
90	Government	162	16.2%
50	Information	28	2.8%
80	Other Services	36	3.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Raleigh-Durham is the fastest-growing metro in North Carolina, having gained 29,591 residents in 2020. That marked a 2.1% uptick, more than five times the U.S. average.
- ▶ Meanwhile, Charlotte gained 47,742 residents, up only 1.8%.

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

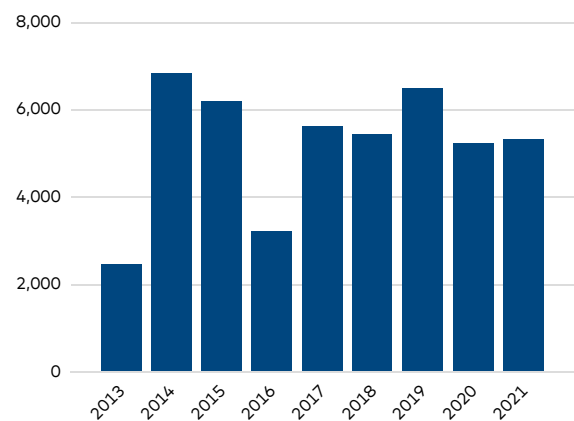
SUPPLY

- ▶ The Triangle had 12,627 units under construction at the end of last year, with the bulk in upscale projects. Another 86,925 units were in the planning and permitting stages, reflecting developers' optimism for the area's continued growth prospects.
- ▶ Developers added 5,339 units to the metro's stock in 2021, slightly above the previous year's 5,259 new apartments, but below the 5,866-unit average of the three years ending in 2019.
- ▶ Renter demand is expected to remain high in the near future, so multifamily construction will most likely accelerate. Developers have started work on 7,634 units across 32 properties in 2021, almost double the 4,096 units across 16 projects they broke ground on in 2020.
- ▶ With 1,002 units underway, Wake Forest is the most sought-after submarket. The area's economic development is ramping up as several large investments are underway or planned. Through a joint-land development agreement, the Wake Forest Business & Industry Partnership and private landowners are developing nearly 200 acres into a mixed-use technology park, while the 150-acre South Forest Industrial

Park is undergoing a massive expansion. All these investments are likely to continue to support multifamily demand in the area.

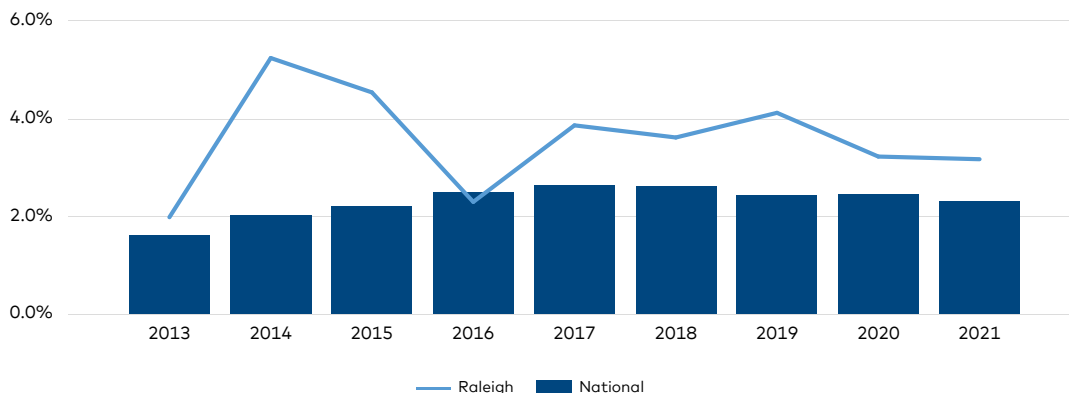
- ▶ The first phase of The Halle Co.'s Olde Towne project in downtown Raleigh was the largest development under construction as of December. The 450-unit project was funded by Manufacturers and Traders Trust Co. with a \$39 million loan. Completion is set for 2023.

Raleigh Completions (as of December 2021)



Source: Yardi Matrix

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

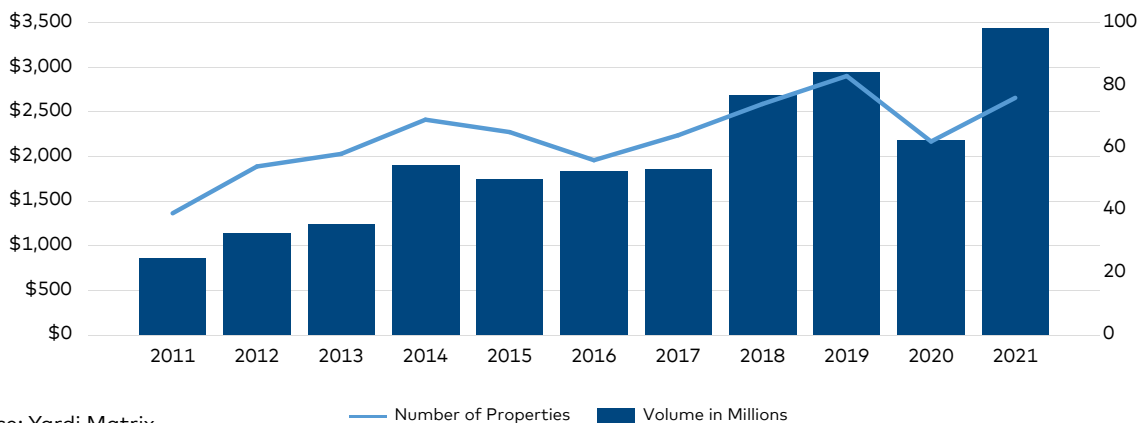


Source: Yardi Matrix

TRANSACTIONS

- ▶ Nearly \$3.4 billion in multifamily assets traded in Raleigh-Durham in 2021, a new peak. The record follows three solid years for investment activity, which averaged \$2.6 billion per year. The strong in-migration and rapid growth in high-wage industries such as tech have been luring in a deep pool of buyers interested in investing into a market that provides long-term opportunities.
- ▶ Property values continued to rise in 2021, with the per-unit price increasing by 10.2% year-over-year to a new high: \$196,783.
- ▶ Morrisville—a submarket located near top universities and close to the largest research park in the country—was the most sought-after last year, with transaction volume surpassing \$444 million. Starlight Investments and TA Realty were among the most active investors in Raleigh in 2021, having spent about \$200 million each across several assets.

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



Source: Yardi Matrix

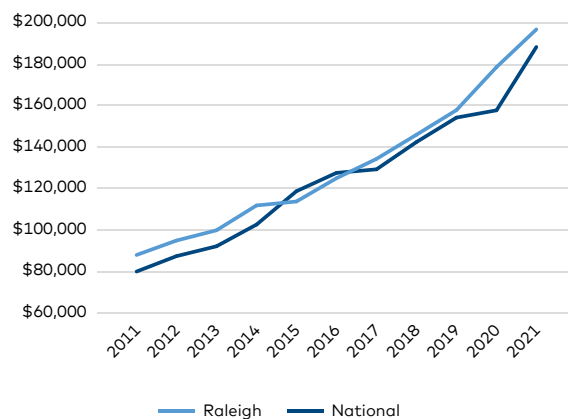
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Morrisville	444
Research Triangle	202
Lynn	198
Chapel Hill	189
Colony Park	156
Neuse Crossroads	152
Carrboro	138

Source: Yardi Matrix

¹ From January 2021 to December 2021

Raleigh vs. National Sales Price per Unit



Source: Yardi Matrix

Top 5 Multifamily Projects in Raleigh-Durham

By Anca Gagiuc

Raleigh-Durham's multifamily market recovered well throughout 2021, propped up by robust demographic trends, proving popular with Millennials and Gen Z residents. This has bolstered demand for rentals and development was solid across the map, with construction starts having doubled in the January to September 2021 interval compared to the same time frame last year.

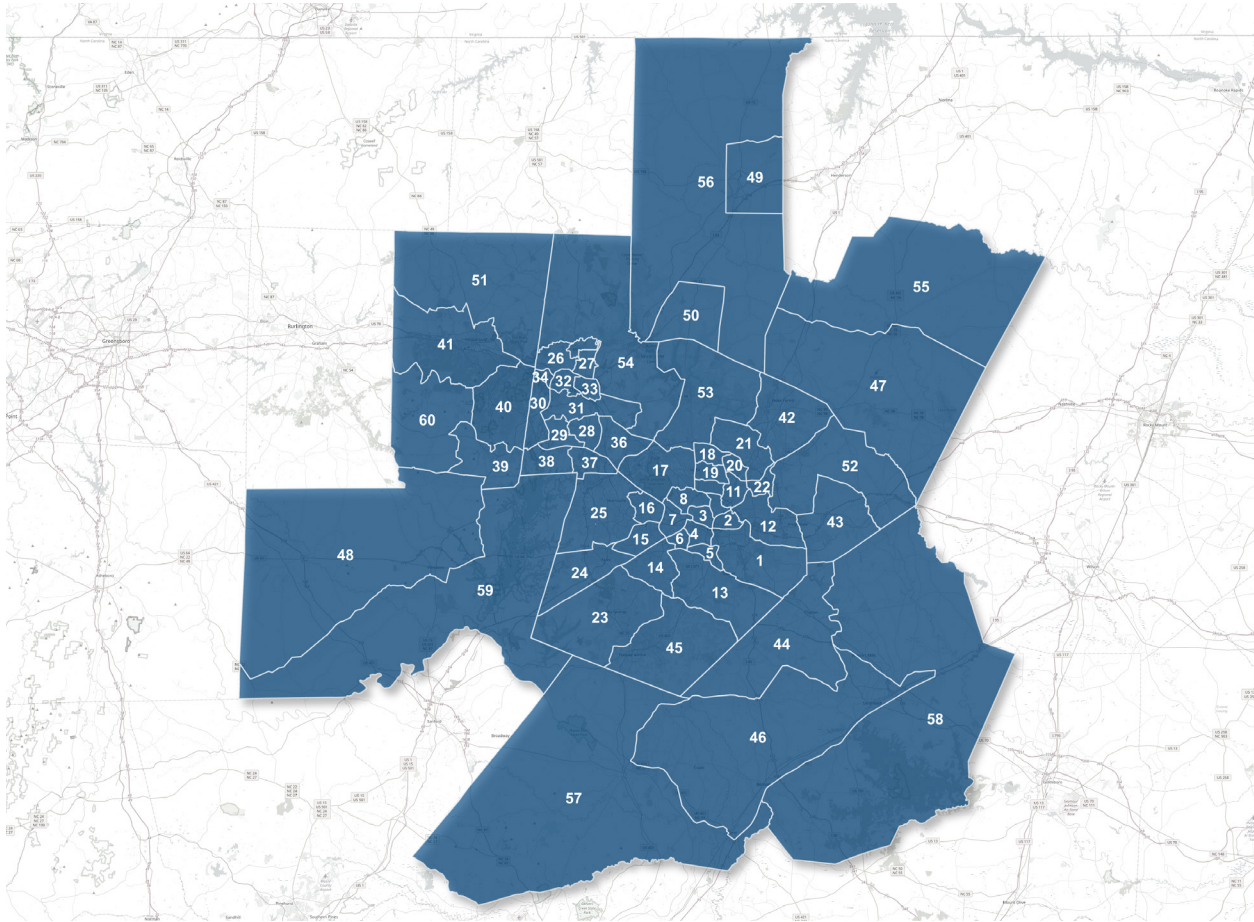
Rank	Property Name	City	Owner	No. of Units
1	Olde Towne	Raleigh	The Halle Companies	450
2	Park	Chapel Hill	Woodfield Investments	414
3	LC Brier Creek	Morrisville	Lifestyle Communities	408
4	Alta Davis	Morrisville	Wood Partners	403
5	Walter Tower	Raleigh	Kane Realty Corporation	376

Alta Davis, Morrisville, N.C.

Wood Partners broke ground on Alta Davis in July 2020, with completion estimated for the third quarter of 2022. The luxury development features 25,000 square feet of retail space and 403 apartments across seven four-story buildings on a 21-acre lot. First-Citizens Bank and Trust Co. contributed to the construction of the project with a \$45.2 million loan, according to 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.

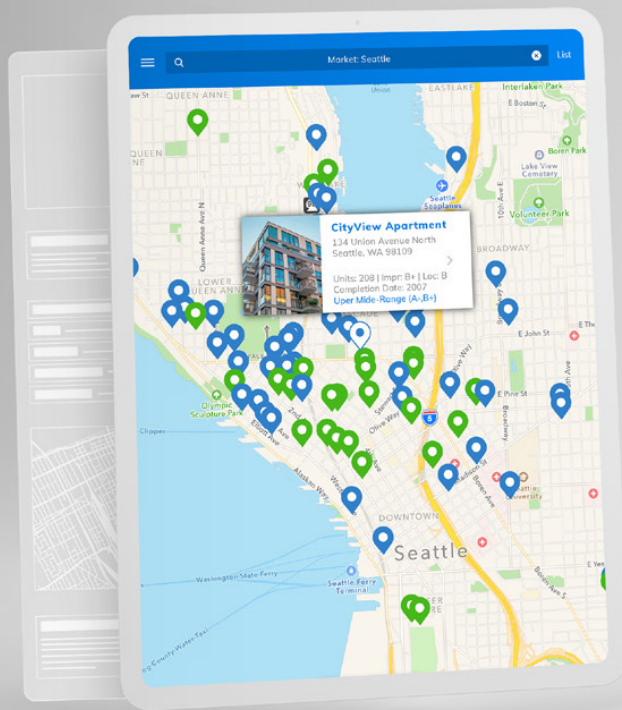
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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