

The Triangle Grows In Leaps

June 2022



Rent Growth On Par With US Rate

Unemployment Falls Below 3.0% Mark

Investment Volume Keeps Steady Course

RALEIGH MULTIFAMILY



Solid Economy Backs Rental Market

With demand substantially outpacing supply, the Raleigh-Durham multifamily market continued its growth streak this year. On a three-month basis through April, rents grew 0.8% to an average of \$1,551, but remained well below the \$1,659 national rate, which also rose 0.8%. The Triangle's diverse talent pool and affordable cost of living, compared to other metros in the Southeast, continue to fuel in-migration and lure new businesses.

Raleigh-Durham added 48,300 net positions in the 12 months ending in February, with more than half of them in leisure and hospitality (14,800 jobs) and professional and business services (13,900 jobs). The tech, biotech and life sciences industries are gaining momentum in the metro, driving demand for all types of rentals. Morrisville and Holly Springs are two of the hottest investment areas, with billion-dollar projects under construction in both cities.

An average of 5,837 units were delivered every year between 2017 and 2021, and another 1,659 units came online during the first four months of this year. Construction starts also tripled compared to the first four months of 2021, but high construction costs, inflation and rising interest rates are barriers for developers in building at a pace that would satisfy demand. Meanwhile, multifamily investment hit \$1.1 billion year-to-date through April, indicating solid interest in the metro's rental sector.

Market Analysis | June 2022

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Recent Raleigh Transactions

Foster on the Park



City: Durham, N.C.
Buyer: Stockbridge Capital Group
Purchase Price: \$78 MM
Price per Unit: \$477,439

SoHo



City: Durham, N.C.
Buyer: FriedLam Partners
Purchase Price: \$63 MM
Price per Unit: \$158,375

Midtown Crossing



City: Raleigh, N.C.
Buyer: GVA Real Estate Investments
Purchase Price: \$55 MM
Price per Unit: \$239,474

North Oaks Landing



City: Raleigh, N.C.
Buyer: The Beach Co.
Purchase Price: \$44 MM
Price per Unit: \$220,000

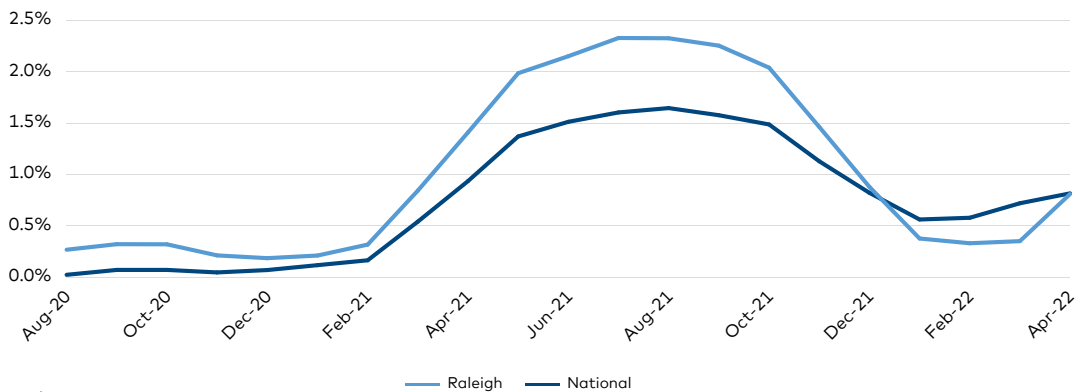
RENT TRENDS

- ▶ The average Raleigh-Durham rate rose 0.8% on a trailing three-month (T3) basis through April, on par with the U.S. rate. On a year-over-year basis, rent growth in Raleigh-Durham moderated but remained high, at 17.9%. Month-over-month, the metro ranked second nationally for rent expansion. April gains were led by metros in the Acela Corridor and the Sun Belt: Boston (2.0%), Raleigh (1.8%), Philadelphia (1.6%), Tampa (1.4%) and New York (1.3%). However, at \$1,551, rents stayed below the \$1,659 national average.
- ▶ There was no difference between quality segments for rent performance on a T3 basis through April. Both working-class Renter-by-Necessity and Lifestyle rates were up 0.8%. The average for upscale units was \$1,659, while RBN rents averaged \$1,311. High demand fueled

by the ongoing in-migration, coupled with the somewhat slow pace of new inventory growth, is bound to continue to support rent increases. Yardi Matrix expects rents to grow 7.0% this year.

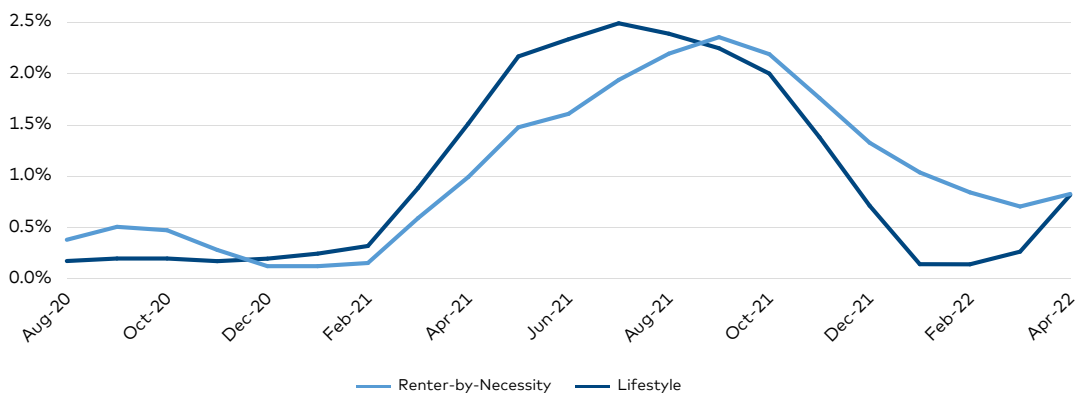
- ▶ The average overall occupancy rate in stabilized assets was up 90 basis points in the 12 months ending in March, hitting 95.9%.
- ▶ Year-over-year through April, rent expansion was the strongest in the Raleigh area, with Downtown Raleigh (28.8% to an average of \$2,040), Apex (24.9% to \$1,631) and South Cary (24.4% to \$1,457) leading the way. In Durham, the most sought-after submarket was Hope Valley (22.6% to \$1,431), followed by Duke University (21.0% to \$1,725).

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

- Employment in the Triangle made a full recovery, with the metro adding 48,300 jobs during the 12 months ending in February. That accounted for a 5.0% year-over-year growth, 30 basis points above the national rate. Meanwhile, preliminary Bureau of Labor Statistics data shows that the unemployment rate dropped below 3.0% in March in both Durham-Chapel Hill and Raleigh-Cary.
- Raleigh-Durham's low cost of business, coupled with its strong talent pool, continues to appeal to tech, biotech and life sciences businesses. Morrisville is set to be home to the largest mixed-use life science destination in the southeast. Trinity Capital Advisors and Starwood Capital Group joined forces to develop Spark LS, a laboratory and biomanufacturing development that will span 109 acres in Research Triangle Park.
- Meanwhile, Holly Springs is another hot area that is rapidly becoming a leading life science hub. Crescent Communities, in partnership with Nuveen Real Estate, acquired 120 acres in the town to develop a 2 million-square-foot biomanufacturing, lab and office facility within The Yield, a \$500 million life science campus under construction. In March, Amgen broke ground on a \$550 million drug substance manufacturing facility, while Fujifilm Diosynth Biotechnologies also chose Holly Springs to build a \$2 billion vaccine plant, reportedly the largest end-to-end pharmaceutical facility in North America.

Raleigh Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	93	9.1%
60	Professional and Business Services	188	18.5%
90	Government	167	16.4%
65	Education and Health Services	162	15.9%
40	Trade, Transportation and Utilities	163	16.0%
30	Manufacturing	67	6.6%
50	Information	31	3.0%
15	Mining, Logging and Construction	54	5.3%
55	Financial Activities	55	5.4%
80	Other Services	37	3.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- In 2021, the Triangle's population grew by 2.0%, while Charlotte's demographic expansion was 1.2%.
- The U.S. population rose only 0.1% last year. Besides declining birth rates and abating international migration, the pandemic exacerbated the historically low growth rate.

Raleigh vs. National Population

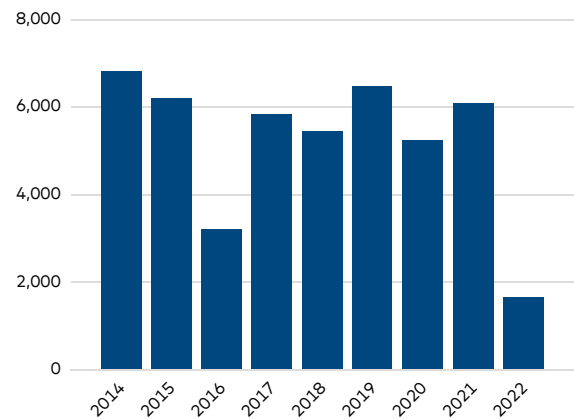
	2018	2019	2020	2021
National	326,838,199	328,329,953	331,501,080	331,893,745
Raleigh Metro	1,362,879	1,392,356	1,420,225	1,448,411

Source: U.S. Census

SUPPLY

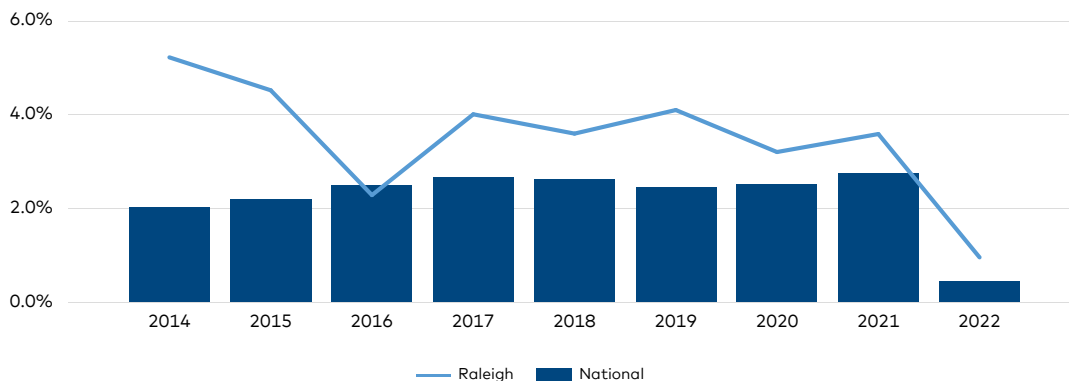
- ▶ Raleigh-Durham had 17,892 units under construction as of April, with the bulk of them aimed at high-income renters. Demand for luxury apartments is fueled by the accelerated immigration and a surge of new jobs in high-wage sectors, mainly driven by tech. Less than 4.0% of the development pipeline or 721 units were in fully affordable projects.
- ▶ Another 89,900 units were in the planning and permitting stages, as developers' confidence in the market's growth prospects stays elevated. Yardi Matrix expects 7,465 units to come online by year-end, which would mark a new record. Deliveries have already surpassed national rates. During the first four months of the year, 1,659 units came online in the Triangle. That accounted for 1.0% of total stock, 50 basis points above the U.S. rate of construction.
- ▶ Construction starts have almost tripled this year—a sign that the market has room for growth—and developers are optimistic about its potential. Between January and April, developers broke ground on 5,520 units across 26 projects, which marked a significant uptick from the 1,934 units across eight projects they had begun work on over the same interval in 2021.
- ▶ As of April, three Raleigh-Durham submarkets had 1,000-plus units under construction—Wake Forest (1,320 units), Fuquay-Varina (1,131 units) and Morrisville (1,031 units).
- ▶ The largest delivery of the first four months of the year was The Villages at Raleigh Beach, a 392-unit luxury community in the Wilders Grove neighborhood, owned by LivCor and managed by Bell Partners.

Raleigh Completions (as of April 2022)



Source: Yardi Matrix

Raleigh vs. National Completions as a Percentage of Total Stock (as of April 2022)



Source: Yardi Matrix

TRANSACTIONS

- ▶ Multifamily investment in Raleigh-Durham had already reached \$1.1 billion as of April, underlining solid interest in the rental market. Over the first four months of 2021, only \$877 million in multifamily properties had changed hands.
- ▶ Investors had a slight preference for Lifestyle properties this year through April, with 12 of the 22 assets that traded being upscale communities. The overall price per unit continued to rise this year, clocking in at \$240,046. In 2021, the per-unit price surpassed the \$200,000 mark for the first time, showcasing consistent price hikes.
- ▶ While a repeat of last year's unprecedented transaction volume of \$5.3 billion is unlikely, investment activity is expected to outpace the Triangle's \$2.6 billion average for the previous three years. Harbor Group International was among the most-active players in the market this year through April, having already invested \$298 million into multifamily assets across the metro.

Raleigh Sales Volume and Number of Properties Sold (as of April 2022)



Source: Yardi Matrix

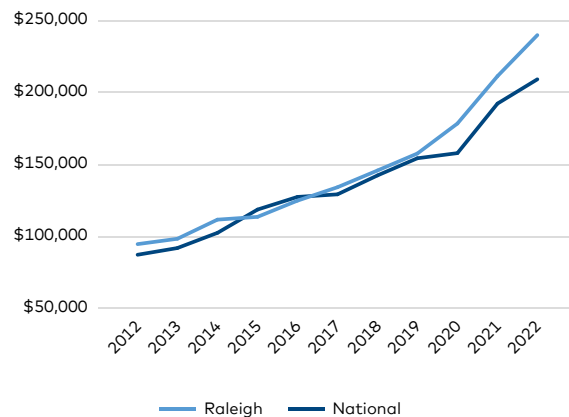
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Morrisville	668
Downtown Durham	406
Lynn	321
Wynnewood	297
Chapel Hill	282
Neuse Crossroads	278
Glen Forest	264

Source: Yardi Matrix

¹ From May 2021 to April 2022

Raleigh vs. National Sales Price per Unit



Source: Yardi Matrix

Top 10 Multifamily Markets by Sales Volume in 2021

By Anca Gagiuc

The multifamily market had an exceptional year in 2021, exhibiting healthy fundamentals across the board. Behind the market's unpredicted expansion was demand, with the pandemic highlighting not just the essential feature of the multifamily market but also its resilient nature. Although in 2021 the retail, office and hospitality industries showed some signs of recovery, they still struggled, leading to a shift in investment toward multifamily.

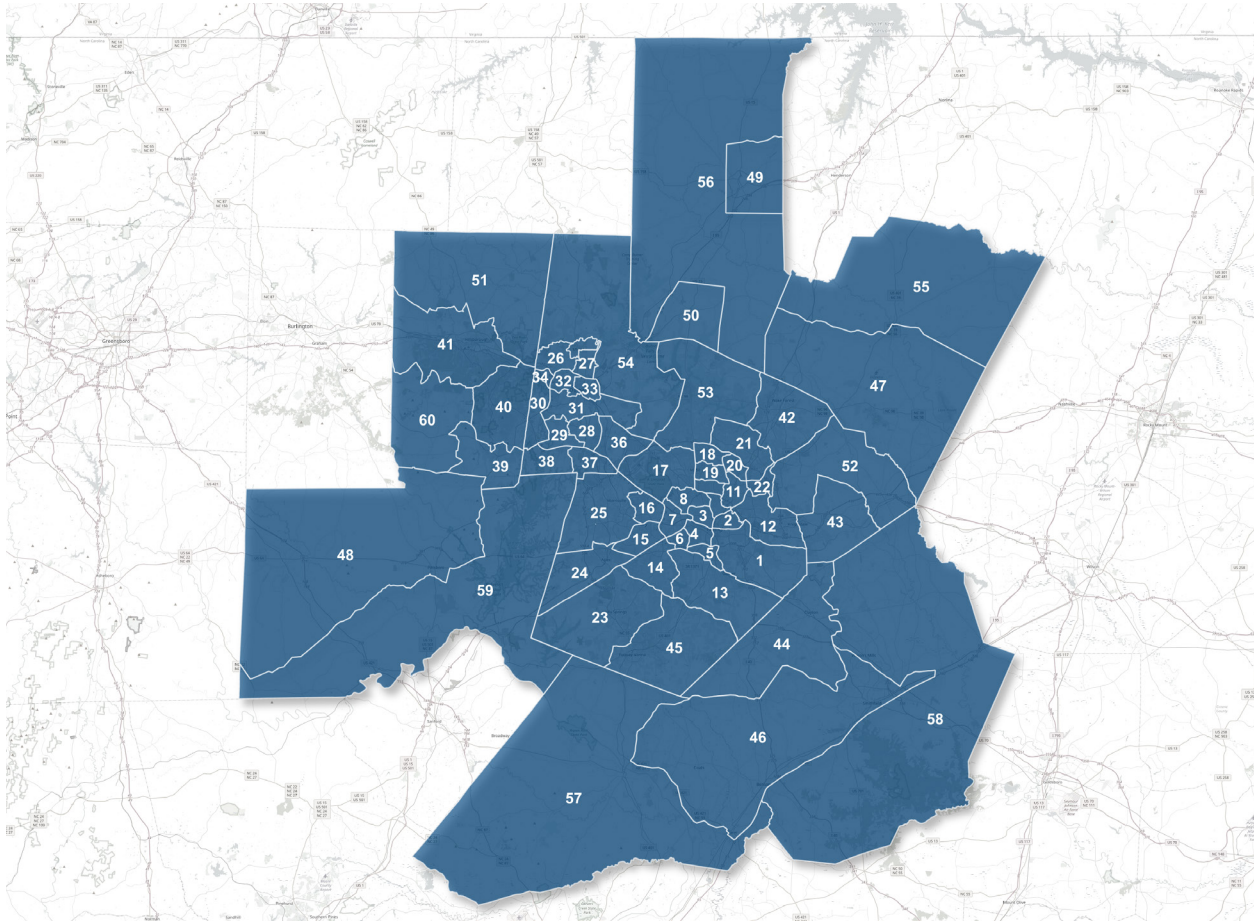
Metro	Sales Volume 2021	Properties Sold 2021	Units Sold 2021	Average Sale Price Per Unit 2021
Dallas – Ft. Worth	\$14,638,381,314	551	140,640	\$171,005.13
Atlanta	\$14,462,137,683	325	83,765	\$192,369.38
Phoenix	\$14,412,674,811	270	56,789	\$258,166.74
Houston	\$11,059,042,386	426	115,011	\$146,827.43
Denver	\$9,771,559,229	143	32,630	\$322,238.47
Miami	\$9,310,892,009	201	45,806	\$254,904.37
Washington, D.C.	\$7,283,430,008	111	33,241	\$267,832.24
Orlando	\$5,736,315,365	128	33,434	\$215,675.28
Tampa	\$5,397,235,455	139	31,320	\$197,556.20
Raleigh	\$5,143,848,320	99	24,845	\$215,070.80

Raleigh

The Triangle posted some of the country's strongest rental fundamentals in 2021, which investors found extremely attractive, and consequently, they poured more than \$5.1 billion into 99 multifamily deals (24,845 units), more than double 2020's volume of \$2.2 billion (62 properties, or 12,797 units) and well above 2019's \$2.9 billion total (83 properties, or 19,507 units). Investor involvement in the market grew from just \$322 million in the first quarter, to \$858 million in the second one, to \$1.7 billion in Q3, ending the year with \$2.2 billion in the fourth quarter.



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 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 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, 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.

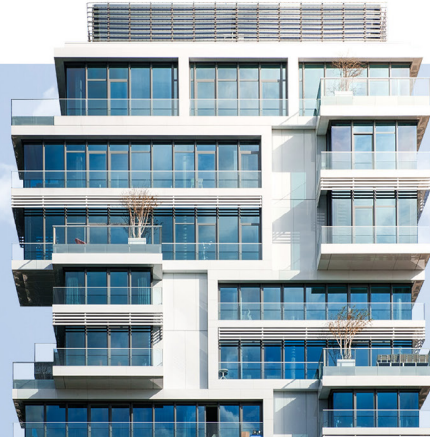
The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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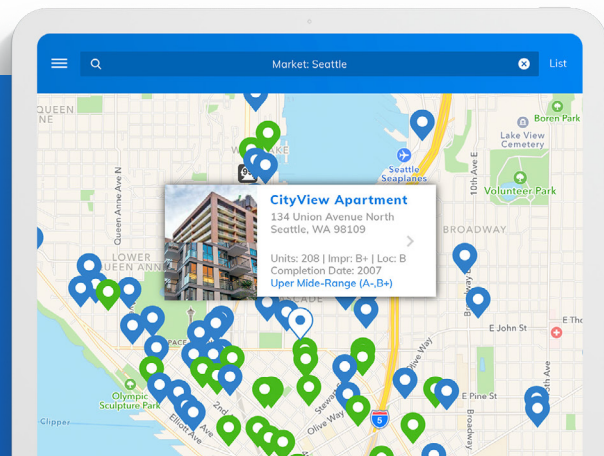
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with the industry's
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- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
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