Yardi® Matrix

All Eyes on Raleigh-Durham

Multifamily Report Summer 2017

Job Market Soars

Incoming Supply Wave Looms

Per-Unit Price Surpasses National Average

Market Analysis
Summer 2017

Contacts
Paul Fiorilla
Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern
Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author
Robert Demeter
Senior Associate Editor

Solid Fundamentals Round Triangle's Edges

Raleigh-Durham, a life science hub and educational hotspot, has a booming rental market. Local universities are producing highly educated workers, and the metro's low cost of living draws young professionals from across the nation. Furthermore, many local university graduates prefer to remain in the area and work in the Research Triangle's expanding technology and biotechnology industries.

Raleigh-Durham added roughly 27,000 jobs in the 12 months ending in June 2017. Professional and business services (10,800 jobs) and education and health services (5,900) led employment gains, followed by hospitality (3,100) and government (1,800). Employment will continue to grow, as Credit Suisse recently signed a lease at the 1.8 million-square-foot Parmer RTP research park in Raleigh, where it plans to add 1,200 new jobs. Information Technology juggernaut Infosys also announced 2,000 new jobs in Wake County.

Population growth and steady rent gains—2.8% year-over-year as of July—are luring multifamily investors and developers to the Triangle. Roughly $760 million in multifamily properties traded in 2017 through July, and more than 29,700 units are in the metro's development pipeline. The overall performance of the market is strong: Demand is outstripping supply, but with more than 5,000 units scheduled for completion by year-end, that trend is likely to moderate. As a result, Yardi Matrix forecasts a 3.0% rent growth in 2017.

Recent Raleigh Transactions

Lux at Central Park

City: Chapel Hill, N.C.
Buyer: Scion Group
Purchase Price: $68 MM
Price per Unit: $347,938

The Edison Lofts

City: Raleigh, N.C.
Buyer: Continental Realty
Purchase Price: $61 MM
Price per Unit: $273,543

The Marq at Weston

City: Cary, N.C.
Buyer: CWS Capital Partners
Purchase Price: $60 MM
Price per Unit: $200,000

Apartments at Stonehenge

City: Raleigh, N.C.
Buyer: Magnolia Capital
Purchase Price: $57 MM
Price per Unit: $125,498

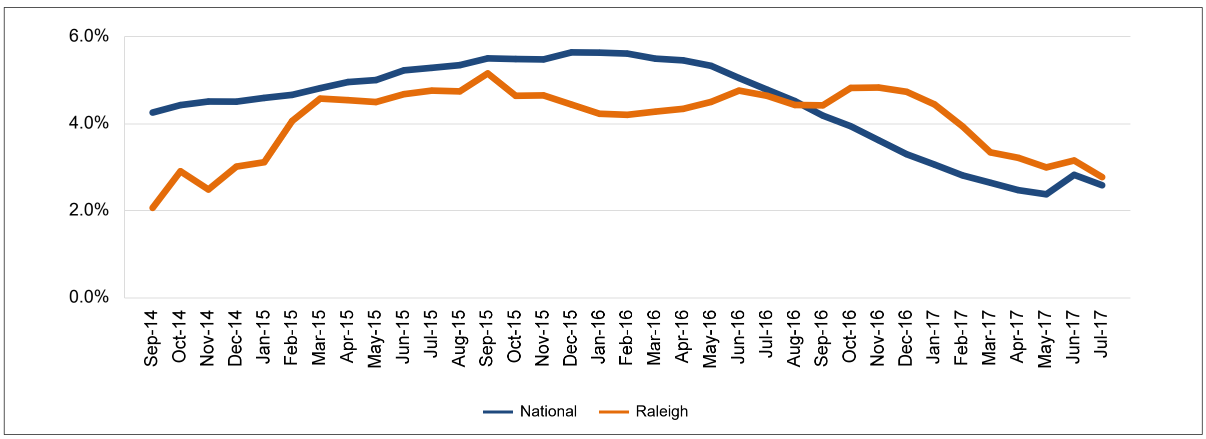
To Subscribe
Hollie Zepke
Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

On the cover: Photo by Davel5957/iStockphoto.com

Rent Trends

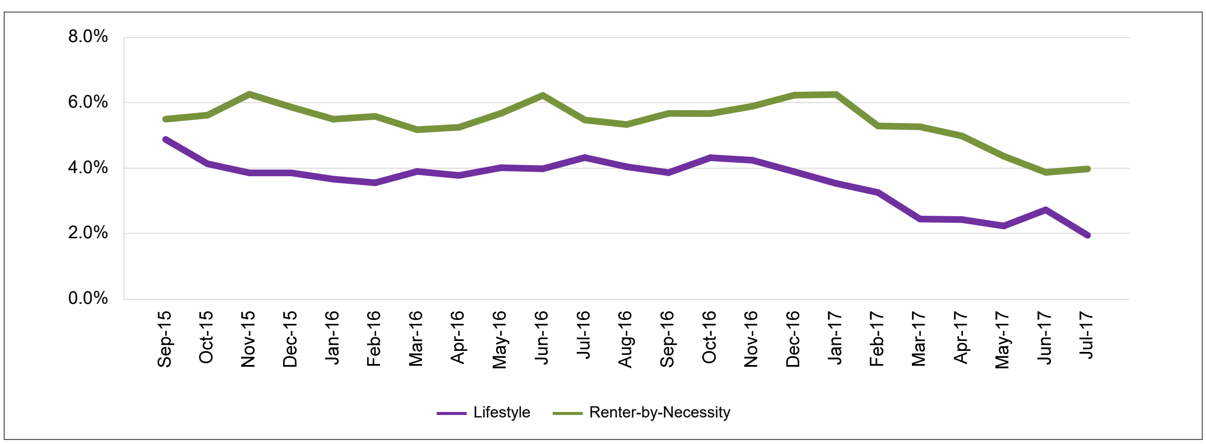
- Rents in Raleigh-Durham were up 2.8% year-over-year as of July 2017, 20 basis points above the national average growth rate. Rental rates reached $1,113, less than the $1,340 U.S. average. Growth has steadily decelerated after peaking at 4.8% in October 2016, as two years of record apartment completions have caught up with demand. As of July, occupancy in stabilized properties was 95.6%.
- Gains were led by the working-class Renter-by-Necessity segment, which rose by 4.0% to $942 in the 12 months ending in July, while Lifestyle rents increased 1.9% to $1,206. As demand for both market rate and affordable assets increases and the metro continues to add luxury developments, the Renter-by-Necessity sector will continue to surge: currently, only 20% of the 9,800 multifamily units under construction are aimed at residents making average or below average wages.
- Submarkets with the highest rent spikes were Smithfield (9.8%), Silver City (8.5%), Oakwood (8%), Duke University (7.2%) and Huckleberry Springs (7.1%). The Oxford submarket (-6.7%) registered the largest drop.
- Demand should remain elevated, while new supply should continue to moderate rent growth. As a result, we expect a 3.0% increase in rents in 2017.

Raleigh vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

Raleigh Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

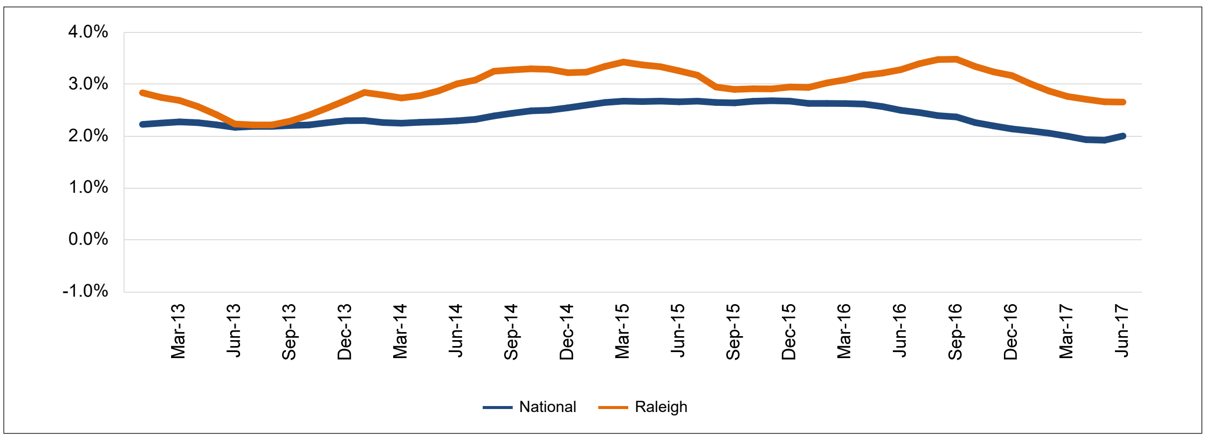


Source: YardiMatrix

Economic Snapshot

- The Raleigh-Durham metro added more than 27,000 jobs in the 12 months ending in June, a 2.7% increase, 60 basis points above the national average growth rate.
- As a result of the region's emerging life sciences cluster, professional and business services and the health-care and education sector jointly added 16,700 jobs year-over-year. Roughly 70% of more than 900 North Carolina life science and biotech firms are located within the Research Triangle, including biopharmaceutics giant Argos Therapeutics, Fujifilm Diosynth Biotechnologies and UNC Rex Healthcare. The research hub is anchored by Tier 1 universities—North Carolina State University, Duke University and the University of North Carolina-Chapel Hill—that cater to more than 25,000 graduates each year, adding to the area's large talent pool.
- Office development is robust, as Durham Innovation District has broken ground on two office buildings at its planned 1.7 million-square-foot project, while construction wrapped at the Midtown Plaza and Forty540 office parks. In the second quarter, more than 700,000 square feet of new space came online. Average vacancy was about 11%, while asking prices stood at $21 per square foot, exceeding $30 in the downtown submarkets.
- Numerous grants and incentives—including The City Council setting aside $100,000 in its budget to target small businesses—aim to continue to bolster investment and growth in the area.

Raleigh vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Raleigh Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
70	Leisure and Hospitality	226	11.4%	15,000	7.1%
65	Education and Health Services	298	15.0%	11,900	4.2%
60	Professional and Business Services	342	17.2%	10,100	3.0%
55	Financial Activities	181	9.1%	7,600	4.4%
40	Trade, Transportation and Utilities	388	19.5%	6,000	1.6%
90	Government	217	10.9%	5,300	2.5%
15	Mining, Logging and Construction	113	5.7%	4,000	3.7%
30	Manufacturing	123	6.2%	2,500	2.1%
50	Information	35	1.8%	-1,300	-3.6%
80	Other Services	61	3.1%	-3,100	-4.8%

Sources: YardiMatrix, Bureau of Labor Statistics

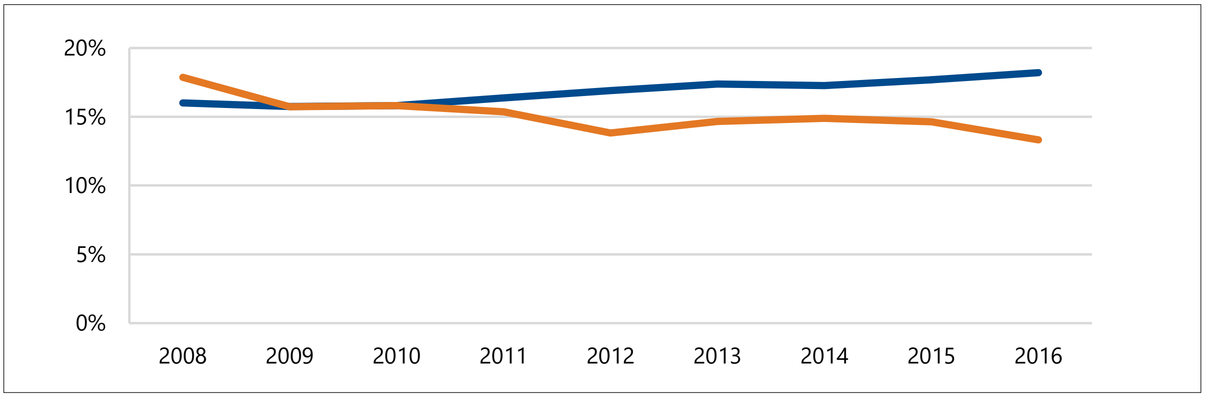
Demographics

Affordability

- For the first time in seven years, the median home price dropped in Raleigh-Durham. In 2016, the median home value was roughly $196,300, $6,000 less than in 2015. Owning continued to be more affordable than renting, as the average mortgage accounted for 13% of the median income, while renting stood at 18%.

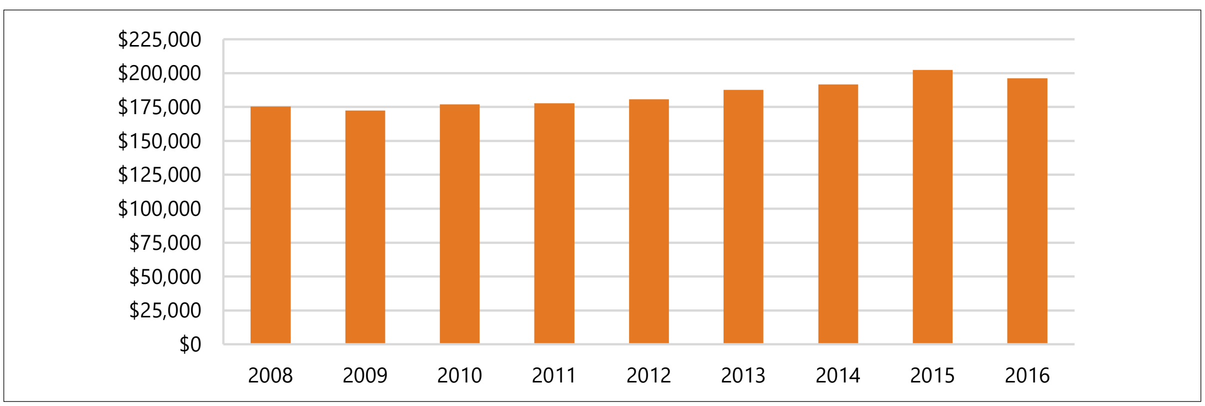
- The Raleigh City Council approved a new goal in June to add up to 5,700 low-cost housing units over the course of 10 years, about 570 units each year. The council plans to fund the initiative with the Penny for Housing tax program implemented last year, which aims to collect $5.7 million in property taxes exclusively for affordable housing. The city reportedly plans to provide roughly $80,000 to $100,000 for each unit.

Raleigh Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Raleigh Median Home Price



Source: Moody's Analytics

Population

- Raleigh' population rose by 2.5% in 2016, well above the 0.7% national average.

- The metro added 31,500 residents in the past year and 114,000 since 2012, becoming one of the fastest-growing regions in the U.S.

Raleigh vs. National Population

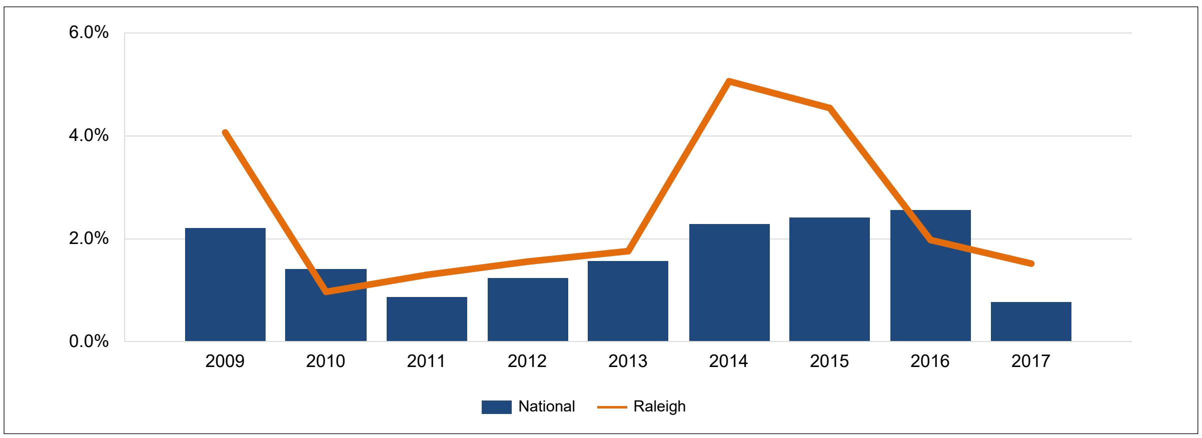
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Raleigh Metro	1,188,670	1,213,875	1,241,724	1,271,381	1,302,946

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

Supply

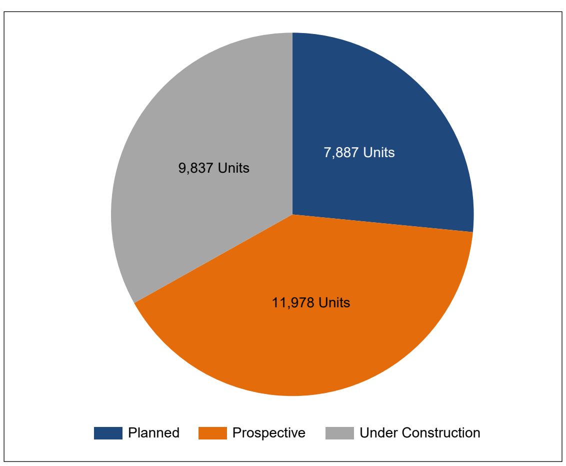
- Following record deliveries in 2014 and 2015, in which more than 6,000 units came online each year, completions have slowed down substantially. As of July, roughly 1,600 multifamily units came online in 2017, and we expect about 4,000 units to be completed by year-end.
- More than 9,800 units were under construction as of July, out of a total of nearly 30,000 units in different stages of development. Some 7,800 units were in the planning phase.
- The bulk of properties that are now underway will add units in the upscale segment, in areas located along major thoroughfares. Developers are working on units in Crabtree Valley (1,022 units under construction), Westover (1,019 units), Lowest Grove (856) and Laurel Hills (723). Downtown Raleigh has 707 units underway, while downtown Durham only has 117 units under construction.
- The largest project underway is Raleigh-based EYC Cos.' 533-unit Crabtree North—which is part of a mixed-use development that will combine residential, retail and dining—located in Crabtree Valley, the city's most active submarket. The community is slated for completion in the spring of 2018.

Raleigh vs. National Completions as a Percentage of Total Stock (as of July 2017)



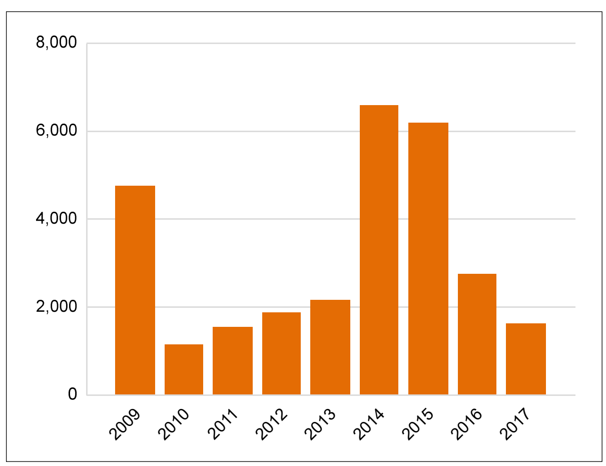
Source: YardiMatrix

Development Pipeline (as of July 2017)



Source: YardiMatrix

Raleigh Completions (as of July 2017)

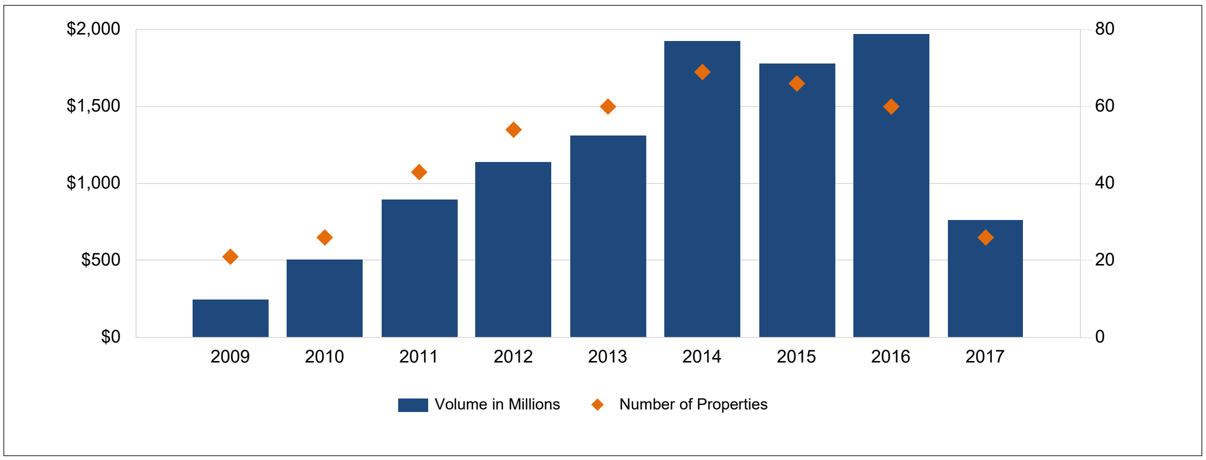


Source: YardiMatrix

Transactions

- Roughly $760 million worth of multifamily properties traded through July. Investment sales are on track to come in slightly below last year's cycle high of $2 billion. After two years of robust rent growth and improved cash flows, owners may be less willing to sell.
- Some buyers are seeking value-add assets with higher acquisition yields as opposed to new apartments in core areas or near universities, where yields are below 5%. Demand has pushed the average price per unit to $138,988 in 2017, surpassing the national average for the first time this cycle.
- The Chapel Hill ($190 million) and Morrisville ($152 million) submarkets led sales activity. The largest asset to change hands was the 2017-built, 265-unit Berkshire Chapel Hill. Trammel Crow Residential sold the 24.9% leased community—which is minutes away from UNC—to Berkshire for $73 million or $274,528 per unit.

Raleigh Sales Volume and Number of Properties Sold (as of July 2017)



Source: YardiMatrix

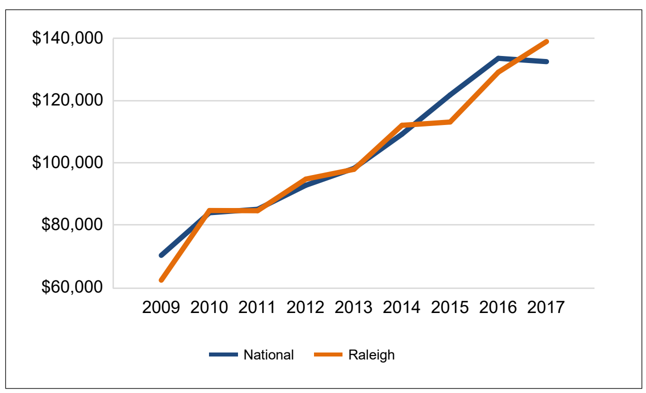
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Chapel Hill	190
Morrisville	152
Six Forks	95
Reasearch Triangle	93
North Cary	84
Glen Forest	83
Downtown Raleigh	75
Carrboro	74

Source: YardiMatrix

[1] From August 2016 to July 2016

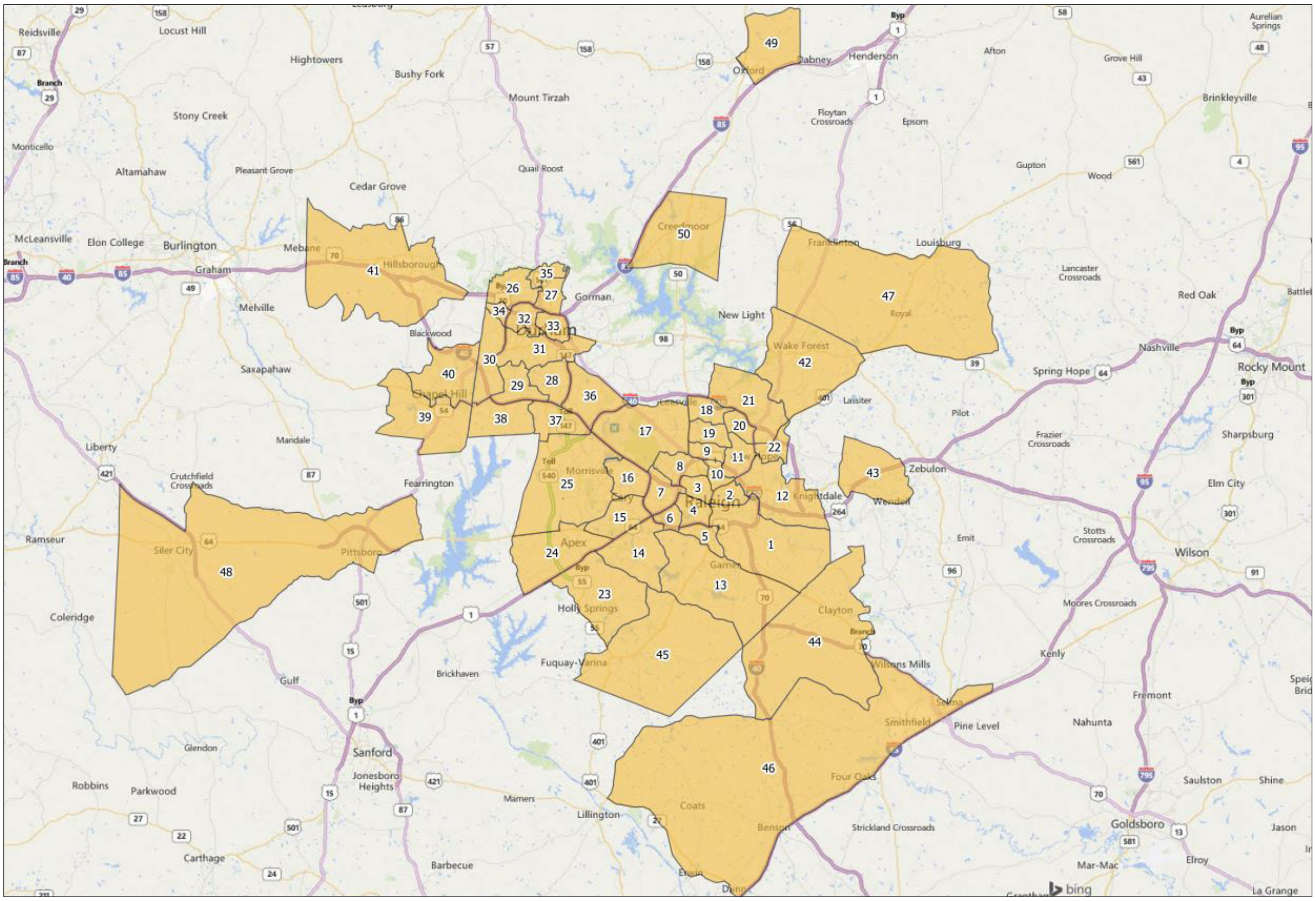
Raleigh vs. National Sales Price per Unit



Source: YardiMatrix

Photo by Sean Pavone Photo/iStockphoto.com

Raleigh-Durham Submarkets



Area #	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
21	Neuse Crossroads
22	New Hope
23	Feltonville
24	Apex

Area #	Submarket
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	Reasearch Triangle
37	Lowes Grove
38	Southport
39	Carrboro
40	Chapel Hill
41	Hillsborough
42	Wake Forest
44	Clayton
45	Fuquay–Varina
47	Louisburg
48	Silver City
49	Oxford
50	Creedmoor

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 may 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 may 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, may 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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