



MULTIFAMILY REPORT

The Triangle Finds Its Footing

November 2022



Unemployment Inches Up

Investment Activity Maintains Momentum

Deliveries Soften, Construction Starts March On

RALEIGH MULTIFAMILY



Rent Growth Cools, Still Up YoY

This year started on a strong note for Raleigh-Durham's multifamily market, but the cooling economy began to take effect in the second half of 2022. In the third quarter, rates contracted by 0.1% to \$1,630, while national figures improved only marginally—0.2% to \$1,718. However, at 10.8%, year-over-year rent development in the Triangle remained strong by historical standards.

The Raleigh-Durham employment market expanded by 4.4% in the 12 months ending in July, adding 39,300 jobs. Growth was led by leisure and hospitality (13,400 positions), followed by professional and business services (12,800 jobs). The metro has experienced accelerated growth in the past few years. The downtown area alone has seen roughly \$6.7 billion in projects completed, under construction or planned since 2015, according to a Downtown Raleigh Alliance report. Several infrastructure projects are underway to support the metro's long-term growth. GoTriangle leaders have proposed a 43-mile commuter rail line from Durham to either Garner or Clayton, with a planned launch in 2033. The \$3.2 billion project is currently in the feasibility stage.

Deliveries softened, with only 2,968 units coming online during the first three quarters of the year. Meanwhile, transaction activity maintained momentum, with \$3.3 billion in multifamily assets changing hands. Per-unit prices surpassed the \$250,000 mark for the first time ever, following a 22.2% annual increase.

Market Analysis | November 2022

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Recent Raleigh Transactions

Hawthorne Davis Park



City: Morrisville, N.C.
Buyer: Hawthorne Residential
Partners
Purchase Price: \$85 MM
Price per Unit: \$294,425

Alister Lake Lynn



City: Raleigh, N.C.
Buyer: Mill Creek Residential Trust
Purchase Price: \$79 MM
Price per Unit: \$253,205

One City Center



City: Durham, N.C.
Buyer: New York Life Real Estate
Investors
Purchase Price: \$56 MM
Price per Unit: \$510,826

ReNew West Durham

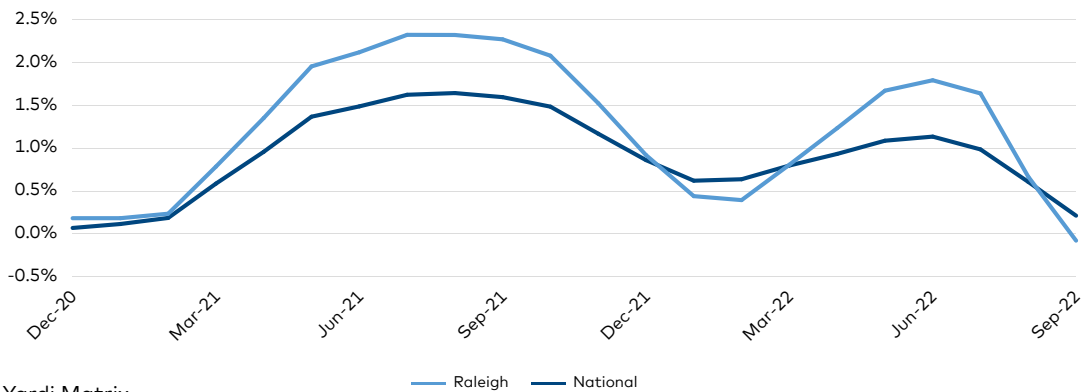


City: Durham, N.C.
Buyer: FPA Multifamily
Purchase Price: \$31 MM
Price per Unit: \$138,393

RENT TRENDS

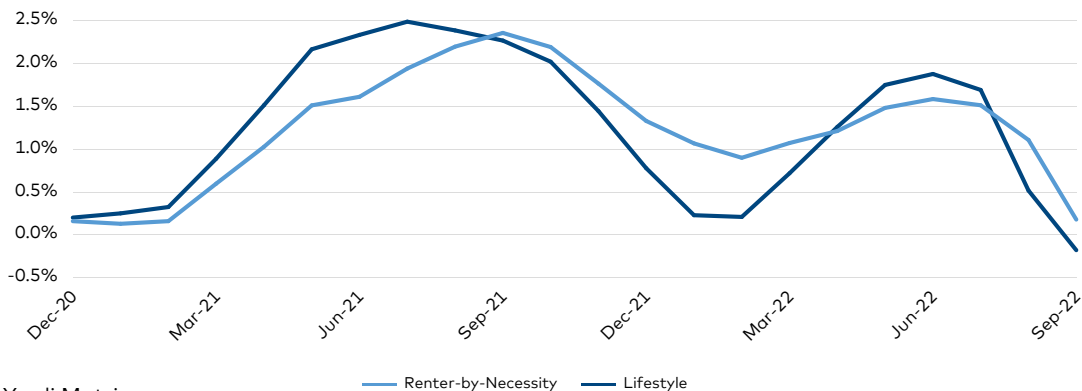
- ▶ Raleigh-Durham rents contracted by 0.1% in the third quarter, to \$1,630. The last time rates slipped into negative territory was in June 2020. On a year-over-year basis, rent development in the metro was still solid, at 10.8%, while U.S. figures slid more than a full percentage point for the third consecutive month, bringing rent growth below 10% for the first time since mid-2021. The average national asking rate stabilized to \$1,718 in September.
- ▶ As deliveries in the past few years have heavily targeted high-income renters, rent gains in the Lifestyle segment steadily began to decelerate in the second half of the year. On a T3 basis, upscale rates contracted by 0.2% to \$1,742, while rents in the working-class Renter-by-Necessity segment inched up 0.2% to an average of \$1,376.
- ▶ Following the addition of an average of 5,786 units to the metro's stock each year between 2018 and 2020, another 6,165 units came online in 2021. This caused an 80-basis-point drop in the average occupancy rate in stabilized properties to 95.3% year-over-year through August.
- ▶ All submarkets recorded rent gains year-over-year through September, with Carrboro (21.2%) and Chapel Hill (19.1%) leading the way. Urban core submarket Oakwood remained the most expensive, with the average surpassing the \$2,000 mark.
- ▶ In the single-family rental sector, occupancy hit 98.9% in August, marking a 110-basis-point year-over-year increase. Rental rates clocked in at \$2,367 in September, \$136 more than a year prior.

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 unemployment rate in Raleigh-Cary inched up to 3.3% in August, according to preliminary data from the Bureau of Labor Statistics. In the past 12 months, the lowest jobless rate was recorded in December 2021—2.7%. Durham-Chapel Hill went through a similar scenario, with unemployment going up to 3.2% in August from just 2.6% at the end of last year.
- ▶ The Triangle gained 39,300 jobs in the 12 months ending in July, with leisure and hospitality and professional and business services accounting for more than half of the new positions. Raleigh and Durham ranked among the top 10 metros in the U.S. for technology innovation, according to the second NC Tech Innovation Index. Meta is reportedly planning a major presence in Central Durham. Other tech giants such as Google and Apple have already committed to huge investments in the area, attracted by the talent pool generated by the metro's top-tier universities.
- ▶ A Downtown Raleigh Alliance report indicated that the metro's skyline could change significantly in the near future, as the downtown area has seen more than \$6.7 billion in completed, under construction or planned projects since 2015. One of the largest upcoming projects is Raleigh Union Station Phase II, a more than \$275 million investment that is expected to break ground next year and will include a new bus facility, along with residential and commercial spaces.

Raleigh Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
70	Leisure and Hospitality	107	10.3%
60	Professional and Business Services	194	18.7%
65	Education and Health Services	164	15.8%
55	Financial Activities	59	5.7%
15	Mining, Logging and Construction	57	5.5%
30	Manufacturing	69	6.6%
80	Other Services	39	3.8%
50	Information	32	3.1%
40	Trade, Transportation and Utilities	164	15.8%
90	Government	155	14.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ Raleigh-Durham's population grew by 28,186 residents in 2021, marking a 2.0% increase, well above the 0.1% U.S. demographic expansion.
- ▶ Economic and demographic data firm Woods & Poole Economics projects that the metro's population will grow by 79.8% by 2060.

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

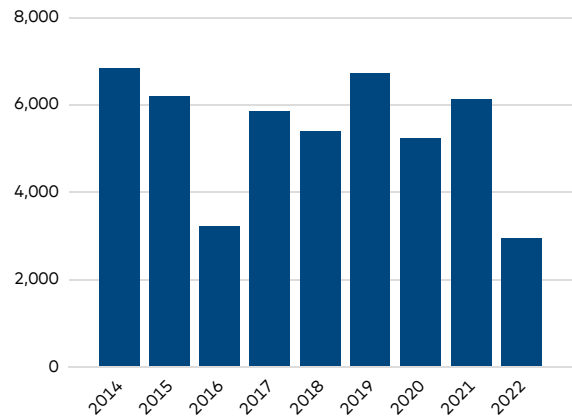
SUPPLY

- ▶ Raleigh-Durham had 19,986 units under construction as of September, with 93.2% of them in upscale projects. Only 652 units were in fully affordable developments. An additional 94,832 units were in the planning and permitting stages.
- ▶ During the first three quarters of the year, 2,968 units came online, well below the 4,948 units that were completed over the same period in 2021. Though expected to soften to more normal levels as household formation and migration steadily drop and the economy simmers down, demand will remain healthy as multifamily continues to benefit from the rising mortgage rates that limit the pool of prospective single-family buyers.
- ▶ Meanwhile, construction starts went through the roof: Developers broke ground on 9,385 units across 40 projects, almost double the 5,515 units over 20 projects they started work on in 2021 through September.
- ▶ Of the 35 submarkets tracked by Yardi Matrix, three had more than 1,000 apartments under construction: Wake Forest (1,592 units), Morrisville (1,351) and Chapel Hill (1,019). None of the other submarkets had less than 100 units underway, as construction activity stayed

strong despite rising construction costs and lingering supply-chain issues.

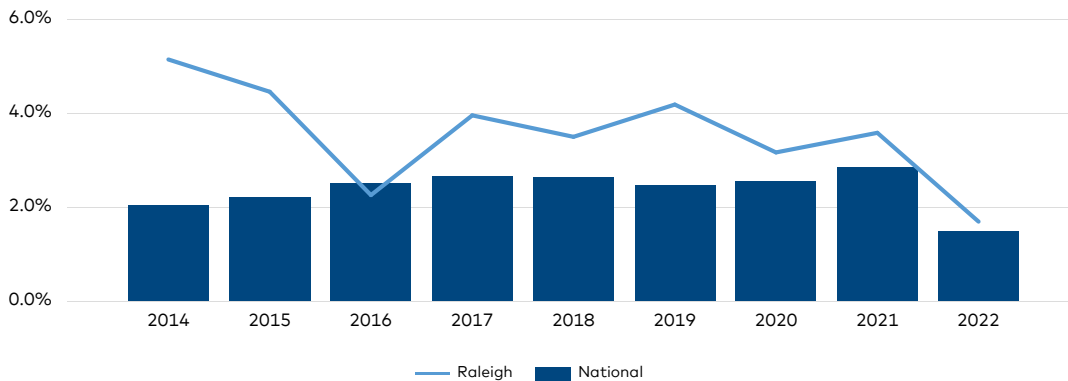
- ▶ The largest project under construction as of September was in Anderson Heights, a neighborhood inside the Beltline. Atlas Stark Holdings and SLI Capital are building East End Market PD, a 465-unit community that is slated to be delivered in mid-2024.

Raleigh Completions (as of September 2022)



Source: Yardi Matrix

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



Source: Yardi Matrix

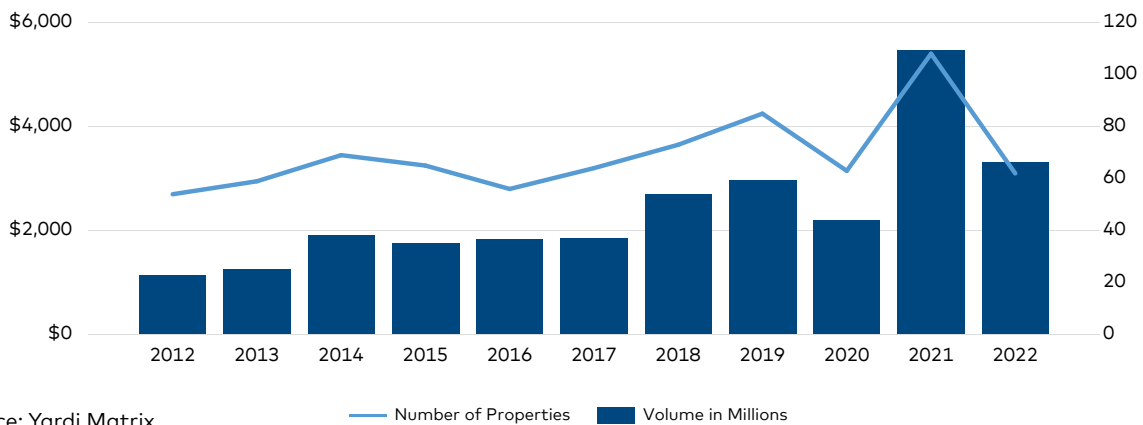
TRANSACTIONS

- ▶ More than \$3.3 billion in multifamily assets traded in the Triangle during the first three quarters of 2022, already besting all but one of the prior annual totals of the past decade. Last year was outstanding—with \$5.5 billion in sales—but the Fed’s tightening monetary policy will most likely begin to take its toll on investment activity soon, hindering transactions in the coming months.
- ▶ With 39 of the 62 properties that changed hands this year through September being

upscale communities, the per-unit price increased to \$259,835, while the U.S. figure clocked in at just \$216,578.

- ▶ Four submarkets—Morrisville, Downtown Durham, Neuse Crossroads and Lynn—accounted for a third of the \$5.7 billion total transaction volume recorded in the 12 months ending in September. Starwood Capital Group was the most-active investor, spending a combined \$827 million on acquisitions across the metro.

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



Source: Yardi Matrix

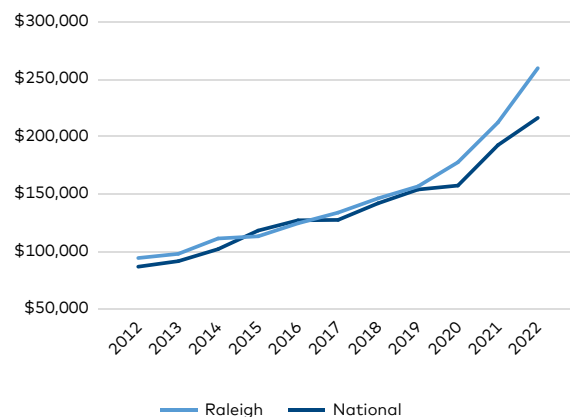
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Morrisville	606
Downtown Durham	503
Neuse Crossroads	397
Lynn	376
Glen Forest	343
Research Triangle	335
Feltonville	264

Source: Yardi Matrix

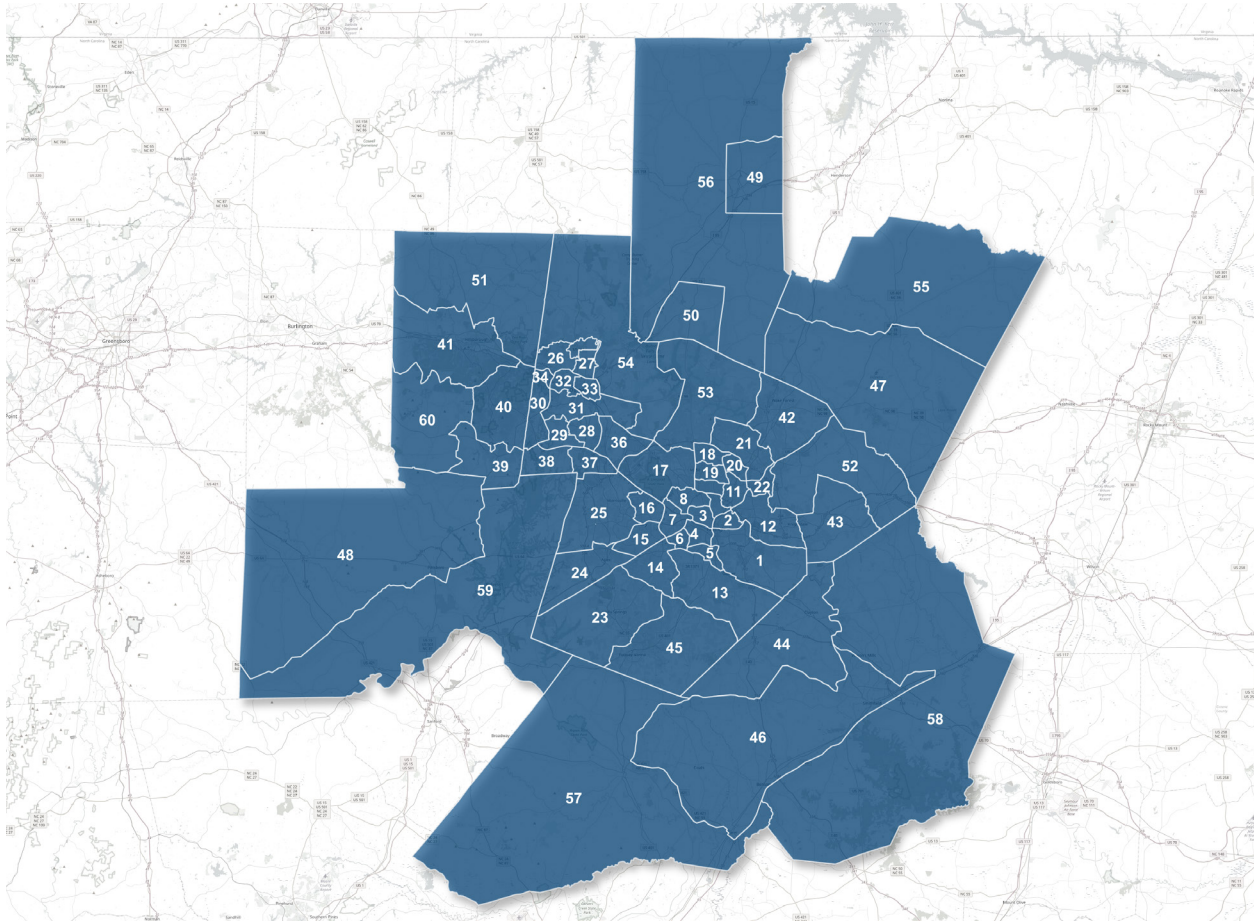
¹ From October 2021 to September 2022

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 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.

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



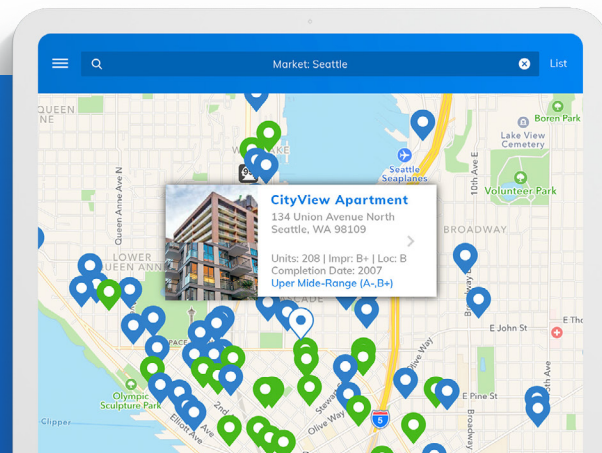
Yardi Matrix

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with the industry's
leading data provider



MULTIFAMILY KEY FEATURES

- Pierce the LLC every time with true ownership and contact details
- Leverage improvement and location ratings, unit mix, occupancy and manager info
- Gain complete new supply pipeline information from concept to completion
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access aggregated and anonymized residential revenue and expense comps



Yardi Matrix Multifamily
provides accurate data on
19.7+ million units, covering over
92% of the U.S. population.



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