



MULTIFAMILY REPORT

Raleigh Showcases Stability

February 2023



YoY Rent Growth Weakens, Still Above US

Construction Starts Increase

PPU Hits New Peak

RALEIGH MULTIFAMILY



Fundamentals Cool But Remain Healthy

With consistent investment, the Triangle's economy remained robust in 2022, keeping the metro's multifamily market up and running. Year-over-year, rents were up 7.0%, 80 basis points above the national rate. However, the metro was not immune to the overall economic slowdown that became increasingly apparent as the year went on. In the last quarter, rents in Raleigh-Durham contracted by 0.4% to an average of \$1,618, while U.S. figures also contracted by 0.2%, to \$1,715.

The Triangle's employment market saw 4.3% year-over-year growth through October, having added 44,900 positions. Job expansion was led by professional and business services (16,600 jobs), followed by leisure and hospitality (10,200 jobs). Manufacturing—which added 2,500 positions—is set to receive a boost from one of the largest economic projects in North Carolina history. Semiconductor maker Wolfspeed intends to expand its presence in the state with a \$5 billion investment in a chip plant in Chatham County. The plant is expected to create more than 1,800 new jobs by 2030.

Investor interest in the metro's rental sector remained elevated, with \$4.1 billion in multifamily properties changing hands in 2022. That followed 2021's record \$5.5 billion total investment volume. On the development side, activity moderated, as it did across most of the country. Only 4,642 units came online in 2022, marking a 32.8% decline from the previous year.

Market Analysis | February 2023

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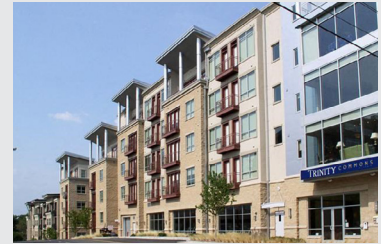
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Recent Raleigh Transactions

Trinity Commons at Erwin



City: Durham, N.C.
Buyer: The Connor Group
Purchase Price: \$100 MM
Price per Unit: \$292,398

Grand Arbor Reserve



City: Raleigh, N.C.
Buyer: FCP
Purchase Price: \$48 MM
Price per Unit: \$161,616

Brampton Moors



City: Cary, N.C.
Buyer: Kettler
Purchase Price: \$42 MM
Price per Unit: \$187,500

Pinewood Station

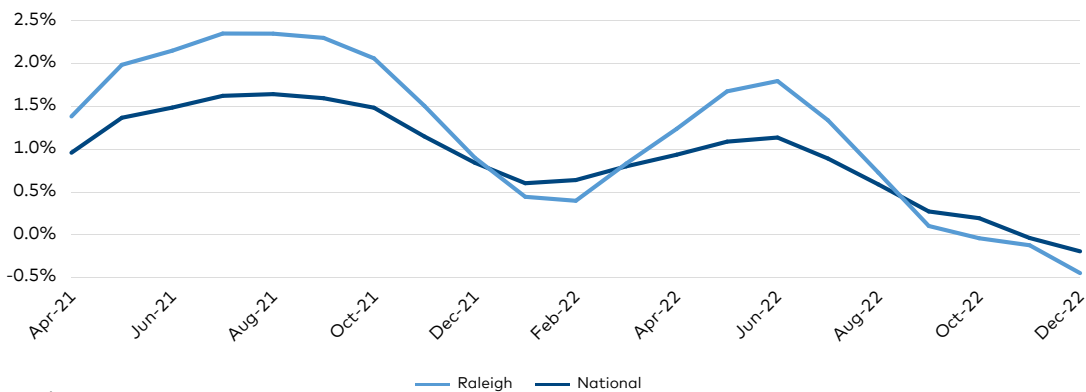


City: Hillsborough, N.C.
Buyer: RailField Realty Partners
Purchase Price: \$31 MM
Price per Unit: \$186,818

RENT TRENDS

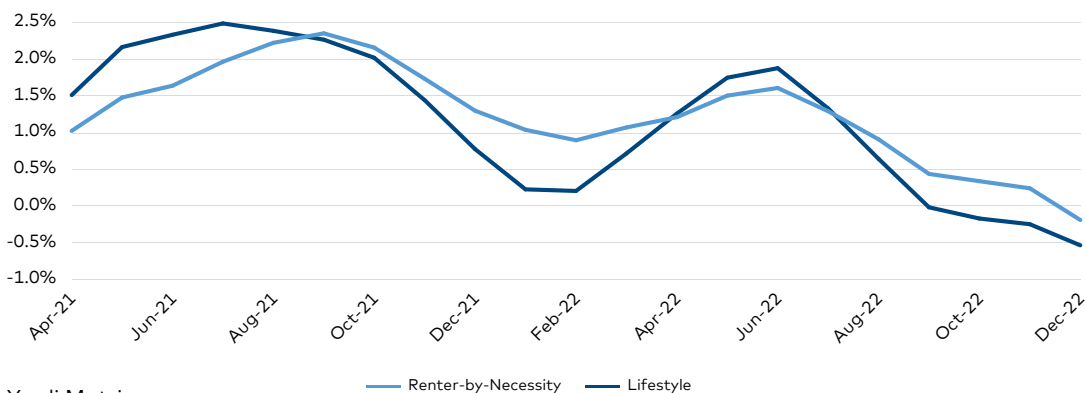
- Rents in Raleigh-Durham moved on a downward trajectory in the second half of 2022, contracting by 0.4% in the last quarter, while U.S. rates also entered negative territory, down 0.2%. However, at 7.0%, year-over-year rent growth, the metro was 80 basis points above the national rate. The average rent clocked in at \$1,618 as of December, \$97 below the U.S. average.
- With the bulk of the inventory expansion in the past couple of years targeting high-income residents, rents in the Lifestyle segment contracted by 0.5% to \$1,722. Rates in the working-class Renter-by-Necessity segment also contracted for the first time since February 2020, signaling a cooling in demand. RBN rents averaged \$1,380 in December, contracting by 0.2% in the fourth quarter of 2022.
- Nationally, renewal rents were still surging in the fall, rising 11.8% year-over-year through October. Miami (19.2%) and Tampa (18.9%) led the country for renewal rate growth, with Raleigh (16.9%) rounding out the top three.
- Last year, rent growth was most pronounced in the Durham-Chapel Hill submarkets of Carrboro (18.1% to \$1,641) and Huckleberry Springs (14.0% to \$1,462). Urban core submarket Oakwood (\$2,032) was the only one with an average rent above the \$2,000 threshold at the end of 2022.
- In the single-family rental sector, occupancy rose to 97.4% in November, a 280-basis-point uptick year-over-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 unemployment rate in both the Raleigh-Cary and Durham-Chapel Hill markets was 3.2% in November, according to preliminary Bureau of Labor Statistics data. That marked an increase from its lowest point last year of 2.8% and 2.7%, respectively, as of September. The state's unemployment rate also rose toward the end of 2022, to 3.9% from 3.4% recorded in early summer.
- ▶ In the 12 months ending in October, all but one sector expanded. The job market grew by 4.3%, 20 basis points above the national rate. Gains were led by professional and business services, which accounted for roughly a third of the 44,900 total jobs added. Meanwhile, trade, transportation and utilities lost 1,000 positions. The construction sector could also struggle going forward. In Wake County, several large infrastructure projects—including the Interstate 540 extension—are behind schedule because contractors are having a hard time finding skilled workers.
- ▶ One of the largest economic development projects in the history of North Carolina is taking shape in Chatham County. Wolfspeed announced a \$5 billion investment in a chip manufacturing plant that will eventually create 1,800 new jobs. The Durham-based firm intends to apply for funding from the federal CHIPS Act, which aims to reduce U.S. reliance on foreign-made semiconductors. The first phase of the Siler City factory is set to open in 2024.

Raleigh Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	200	18.9%
70	Leisure and Hospitality	103	9.7%
15	Mining, Logging and Construction	58	5.5%
55	Financial Activities	59	5.6%
90	Government	173	16.3%
30	Manufacturing	69	6.5%
65	Education and Health Services	165	15.6%
80	Other Services	40	3.8%
50	Information	31	2.9%
40	Trade, Transportation and Utilities	162	15.3%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- ▶ In 2022, Raleigh-Durham ranked fourth for the fastest-growing cities in the country in Kenan Institute's American Growth Project. Moreover, Raleigh-Cary was among the fastest-growing large metro areas in the U.S. between 2016 and 2021, according to Inspection Support Network data.

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

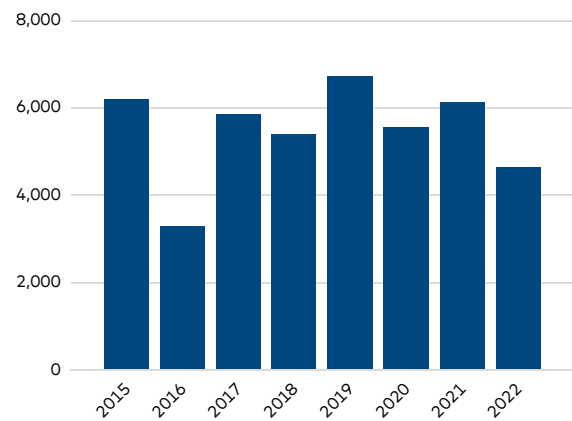
Source: U.S. Census

SUPPLY

- ▶ The Triangle had 21,224 units under construction at the end of 2022, with only a little more than 1,000 of those in fully affordable developments. Another 105,400 apartments were in the planning and permitting stages, as developers continue to bank on the metro's fast-paced household formation and demographic growth.
- ▶ Deliveries scaled back last year, with developers bringing online 4,642 units—150 of them in fully affordable properties. Overall, completions accounted for 2.6% of total stock, 50 basis points above the U.S. rate of construction. In the five years ending in 2021, deliveries averaged 5,941 units per year. Roadblocks from 2022—such as rapidly increasing construction costs, lingering supply-chain issues and the lack of a skilled workforce—will likely persist this year.
- ▶ Despite all these challenges, developers started work on 12,199 units in 2022, a significant uptick from the 7,419 units they broke ground on in the previous year.
- ▶ Meanwhile, the occupancy rate in stabilized multifamily assets clocked in at 94.8% in November, 60 basis points below the U.S. rate and down 120 basis points on a year-over-year basis.

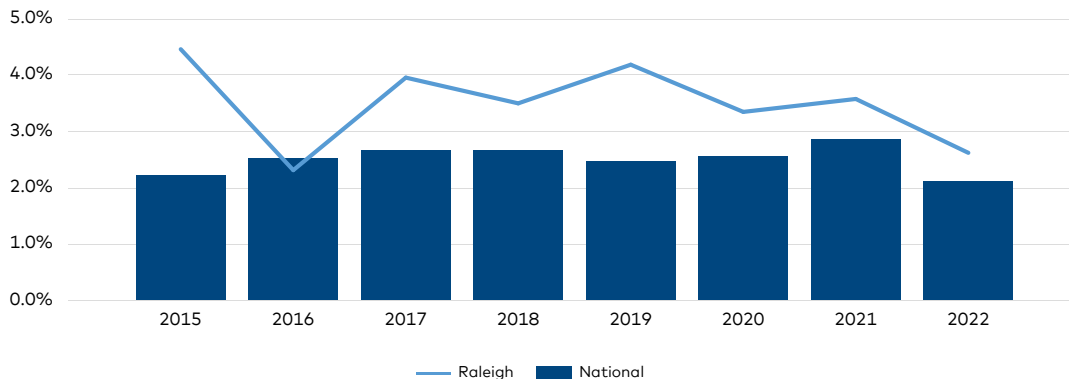
- ▶ Four of the 36 submarkets that Yardi Matrix tracks in Raleigh-Durham had more than 1,000 units each under construction at the end of 2022—Wake Forest (1,990 units), Morrisville (1,351), Westover (1,227) and Chapel Hill (1,019). The Hartley at Blue Hill was the largest project underway in these top submarkets. Woodfield Development is building the 415-unit project using a \$64.3 million construction loan originated by Citizens Financial Group Bank.

Raleigh Completions (as of December 2022)



Source: Yardi Matrix

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



Source: Yardi Matrix

TRANSACTIONS

- ▶ More than \$4.1 billion in multifamily assets traded in Raleigh-Durham last year. Although that marked a slowdown in deal velocity compared to 2021's record-breaking \$5.5 billion total investment volume, transaction activity was still significantly above pre-pandemic annual averages.
- ▶ With almost two-thirds of the deals targeting luxury assets, the per-unit price rose 20.2% year-over-year in 2022, surpassing the \$250,000 mark for the first time, at \$255,294.

Meanwhile, the U.S. average also rose 12.2%, reaching \$215,719.

- ▶ Harbor Group International was the most-active buyer in Raleigh-Durham last year, having invested a total of \$475 million in seven properties in the metro and another one in Charlotte, N.C. The Connor Group and GVA Real Estate Investments also spent more than \$235 million each on multifamily properties across the Triangle.

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



Source: Yardi Matrix

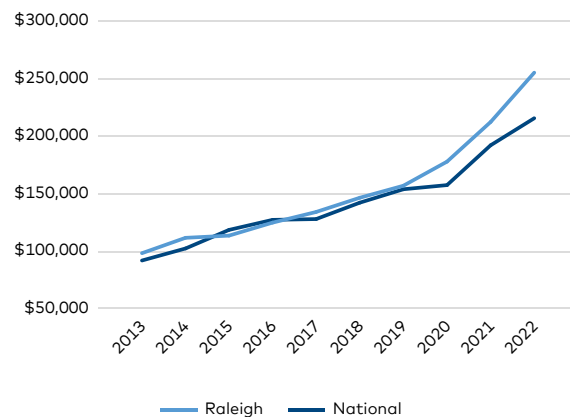
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Morrisville	534
Lynn	372
Neuse Crossroads	271
Downtown Durham	225
Lowes Grove	222
Research Triangle	205
Westover	192

Source: Yardi Matrix

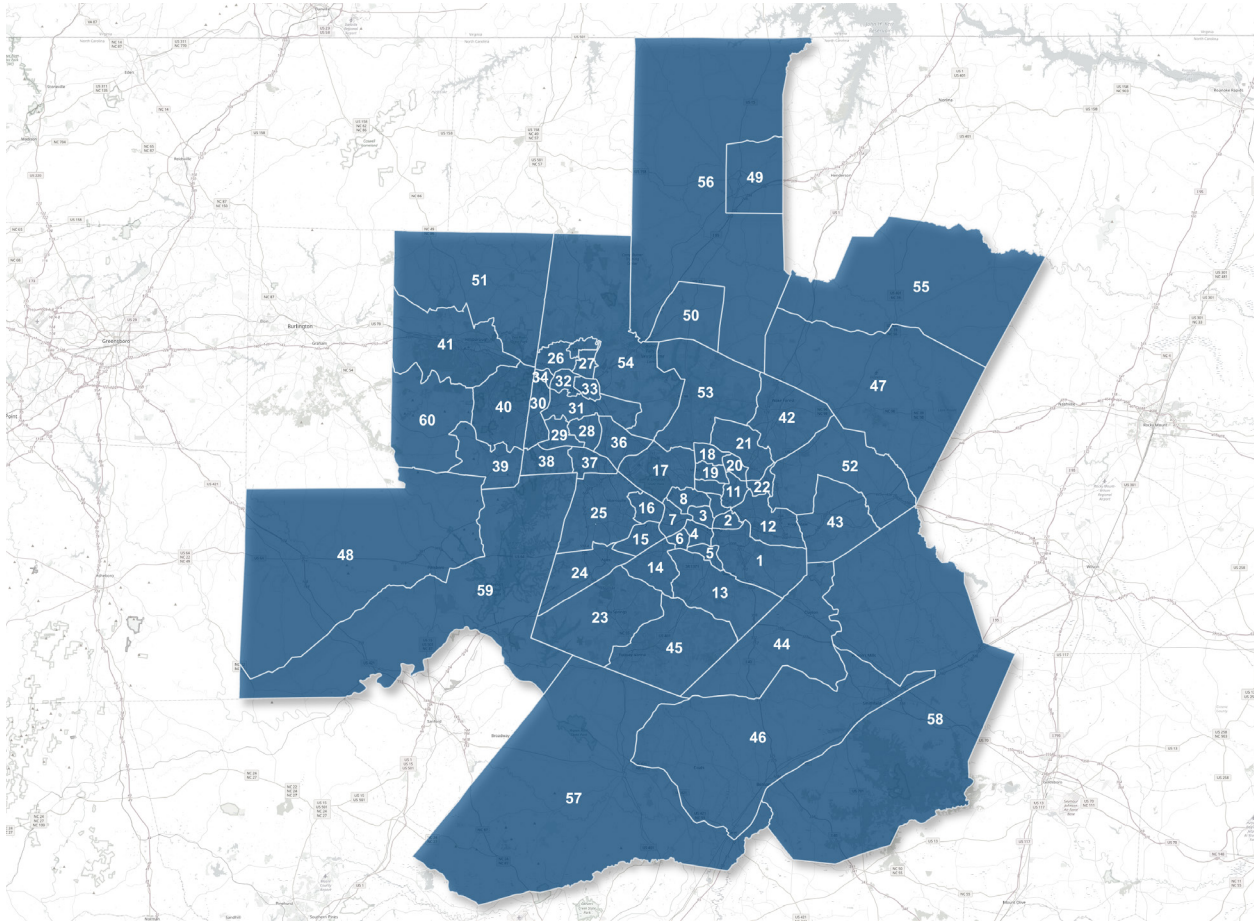
¹ From January 2022 to December 2022

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.



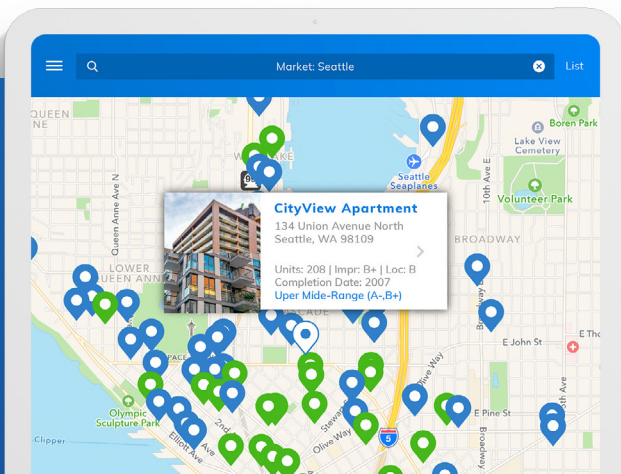
Yardi® Matrix

Power your business
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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