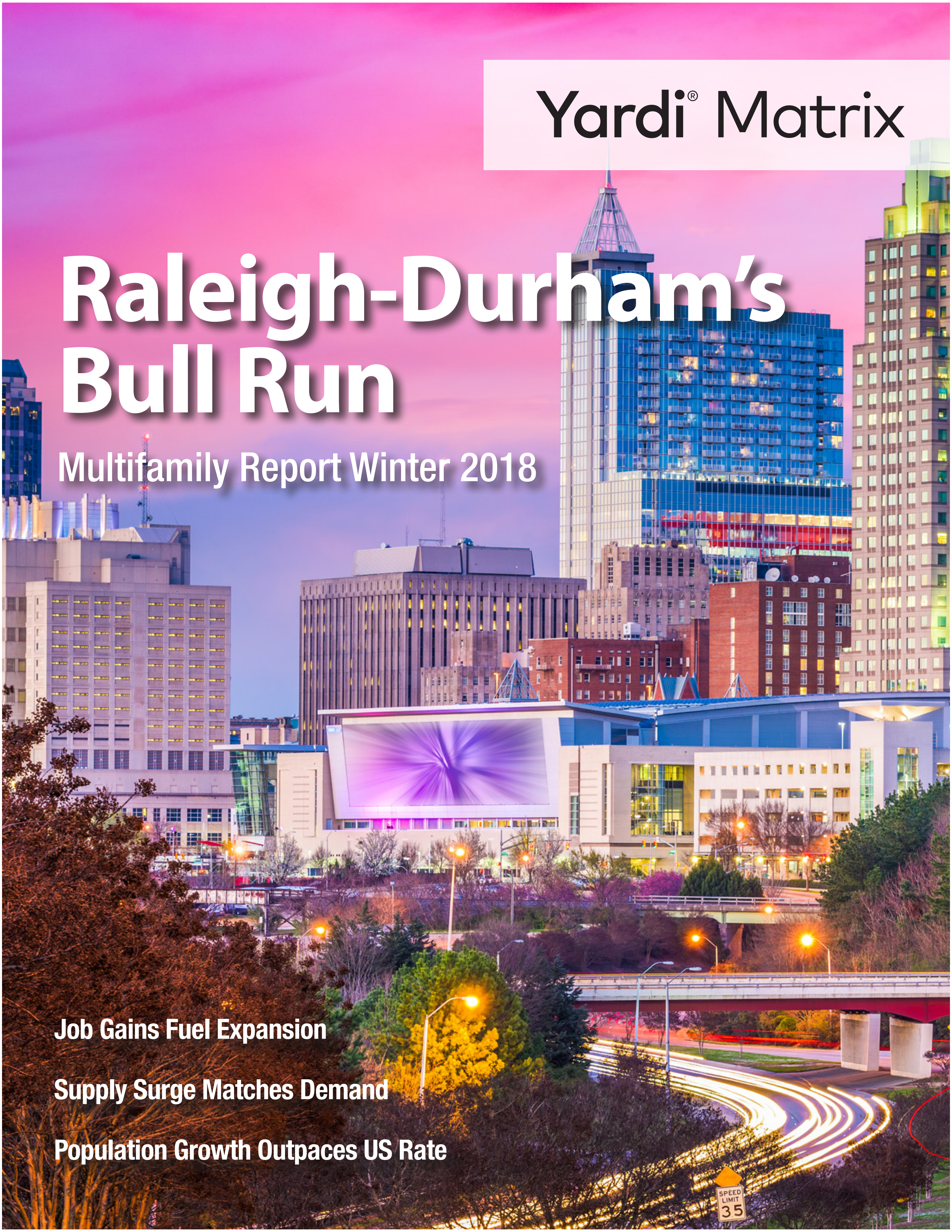
Yardi® Matrix

Raleigh-Durham's Bull Run

Multifamily Report Winter 2018



Job Gains Fuel Expansion

Supply Surge Matches Demand

Population Growth Outpaces US Rate

Market Analysis

Winter 2018

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Economic Growth Pushes Up Demand

Raleigh-Durham's multifamily market had a healthy run in 2017. The metro's life sciences hubs and educational hotspots fueled rental demand, boosting continued investor and developer interest. The average rent was $1,118 as of December, up 2.4% year-over-year, roughly on par with the U.S. growth rate.

The metro added 28,900 jobs in the 12 months ending in October 2017. Local universities are producing highly educated workers, and the relatively low cost of living is drawing young professionals from across the nation. Favorable living and wage conditions lure many local graduates to remain within the region, expanding the Research Triangle's economy. Professional and business services led gains by far (12,100 jobs), followed by education and health services (4,600), financial activities (2,900), and leisure and hospitality (2,300). Employment is broad-based, boosted by ongoing efforts from local authorities to maintain and bolster investment and growth in the area.

Construction activity remains robust, the majority of new projects being rental communities. Roughly 8,800 units were under construction as of December, of which 90% are scheduled to come online in 2018. Last year, more than 4,500 units were delivered and $1.7 billion in multifamily assets traded. With supply and demand roughly in balance, rent growth should remain steady, but moderate. Yardi Matrix expects Raleigh-Durham rents to grow by 3.5% in 2018.

Recent Raleigh Transactions

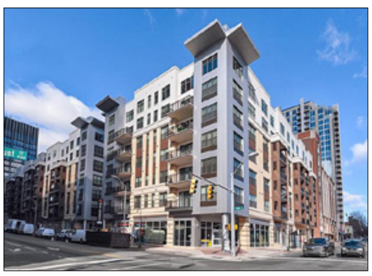
Park & Market North Hills

City: Raleigh, N.C.
Buyer: Magnolia Capital
Purchase Price: $88 MM
Price per Unit: $215,159

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

Apartments at Stonehenge

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

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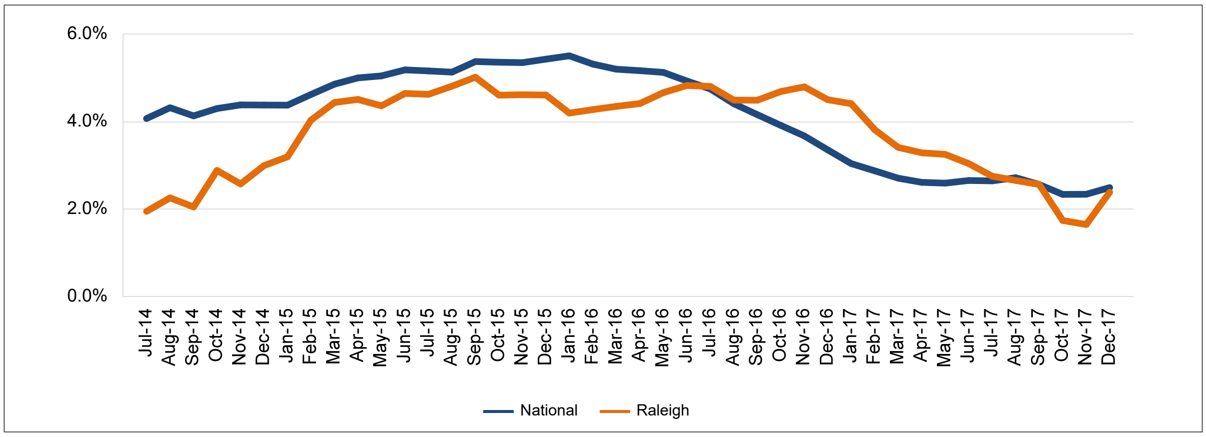
On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

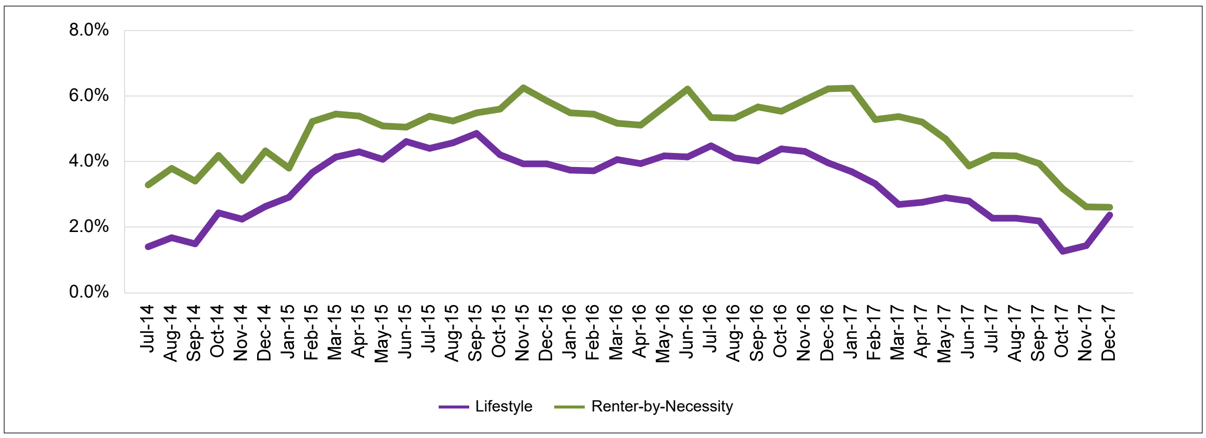
- Rents in Raleigh-Durham were up 2.4% in 2017, 10 basis points under the U.S. rate. The average rent stood at $1,118, more than $200 below the national average. Growth has steadily decelerated after peaking at 4.8% in November 2016, as two years of intense construction activity—ongoing and showing no signs of stopping—have mostly dampened demand. The occupancy rate in stabilized properties dropped 60 basis points in 12 months, reaching 94.8% in November 2017.
- The working-class Renter-by-Necessity segment led gains, up 2.6% to $946, while Lifestyle rents increased 2.4%, to $1,210. Steady demand resulted in balanced growth across asset classes. However, as the pipeline mostly comprises upscale projects, rent growth in the RBN segment is bound to continue to outperform Lifestyle properties.
- The list of submarkets leading rent growth in 2017 included Mill Grove (9.0%), American Village (7.6%), Huckleberry Springs (7.3%), Lynn (6.9%) and Louisburg (6.8%). Anderson Heights saw the largest drop (-10.5%).
- With employment gains steadily pushing up demand, we expect rents to grow 3.5% in 2018.

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)

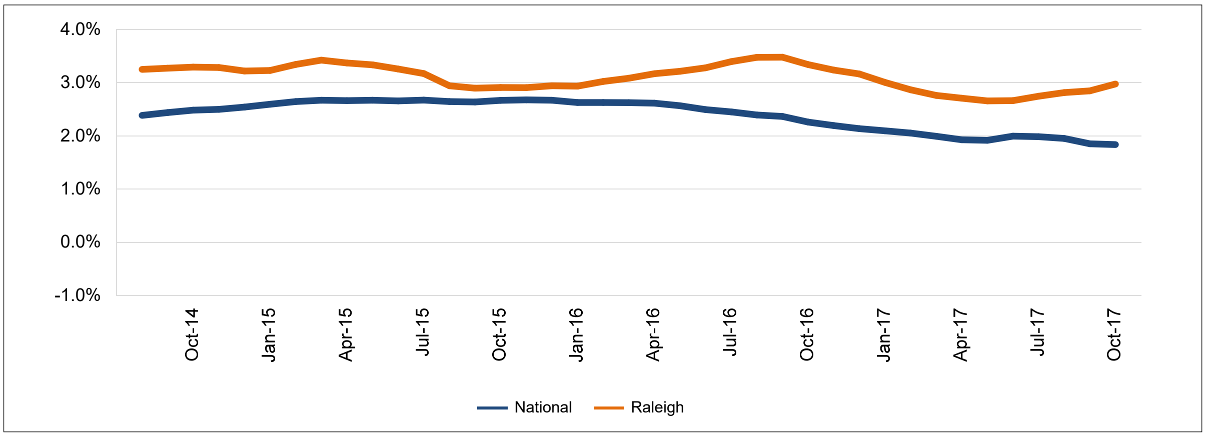


Source: YardiMatrix

Economic Snapshot

- The Raleigh-Durham metro added 28,900 jobs in the 12 months ending in October, a 3.0% increase and well above the 1.8% national growth rate.
- Employment growth in the Research Triangle was led by professional and business services, which generated 12,100 jobs, nearly three times more than runner-up education and health services, which added 4,600 jobs. The two sectors will likely remain at the top of the list throughout 2018, given the large presence of employers such as IBM, Duke University and Health System and Rex Healthcare. Global technology consulting firm Infosys announced plans to hire more than 2,000 people in the coming years.
- Financial activities (2,900 jobs) saw a substantial increase over the past year, as Swiss bank Credit Suisse started moving staff from New York to Raleigh, while also hiring locally as part of its move to the Triangle.
- Office relocations include Colorado software innovator Prescient, moving from Denver to downtown Durham, and California cleantech company Trilliant, relocating to Cary. Last year was a record-breaker for the Triangle, as 1.7 million square feet of new office space came online, with the market absorbing 1.5 million, according to JLL. Vacancy dropped to a 10-year low and the average asking rate was around $24 per square foot.

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	%
60	Professional and Business Services	169	17.9%	12,100	7.7%
65	Education and Health Services	143	15.1%	4,600	3.3%
55	Financial Activities	49	5.2%	2,900	6.3%
70	Leisure and Hospitality	97	10.3%	2,300	2.4%
30	Manufacturing	65	6.9%	2,200	3.5%
90	Government	167	17.7%	1,900	1.1%
40	Trade, Transportation and Utilities	146	15.5%	1,400	1.0%
15	Mining, Logging and Construction	44	4.7%	800	1.8%
80	Other Services	37	3.9%	800	2.2%
50	Information	26	2.8%	-100	-0.4%

Sources: YardiMatrix, Bureau of Labor Statistics

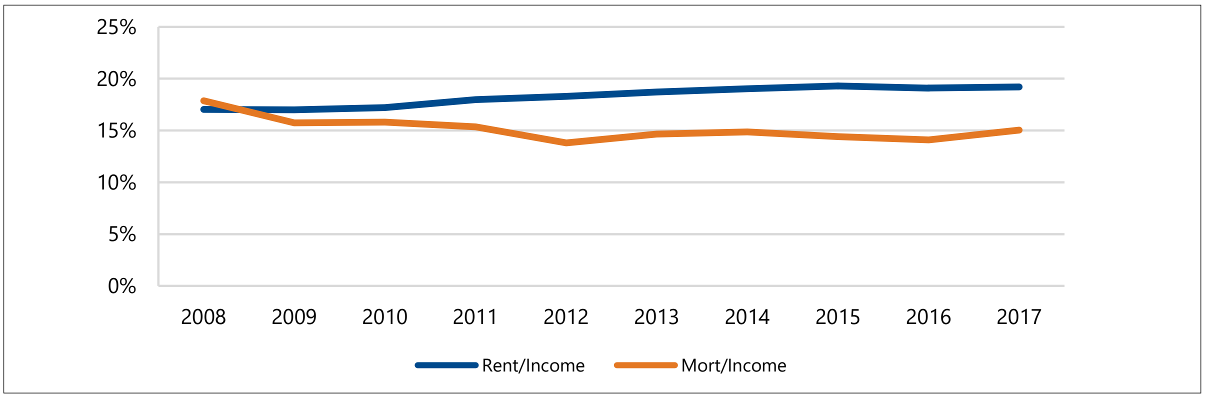
Demographics

Affordability

- The median home price in Raleigh-Durham reached $225,907 in 2017, marking a $20,000 increase since 2016 and a new cycle high. Owning continued to be more affordable than renting, with the average mortgage payment accounting for 15% of the median income, while the average rent equated to roughly 19%.

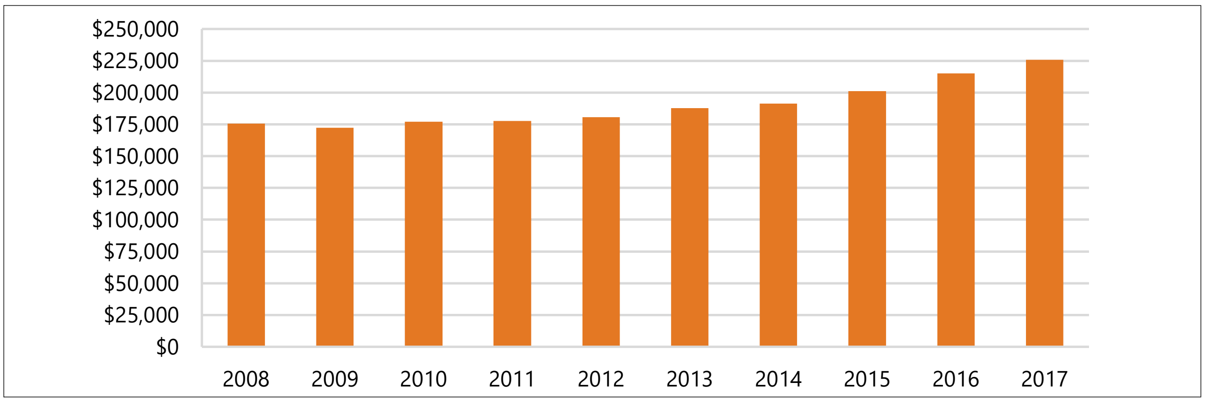
- Growing land prices and upscale developments keep adding to the metro's affordability issues. There are several affordable projects underway, but not nearly enough. In Raleigh, the city granted $8.6 million for the redevelopment of Washington Terrace, while Durham approved a $15 million downtown affordable housing plan, on which the city plans to spend $2.8 million, while $10 million would be covered through tax credits.

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-Durham's population rose by 2.5% in 2016, more than three times the 0.7% U.S. average.

- The metro added 31,500 residents in 2016 and 114,000 between 2012 and 2016, with the trend likely to continue.

Raleigh vs. National Population

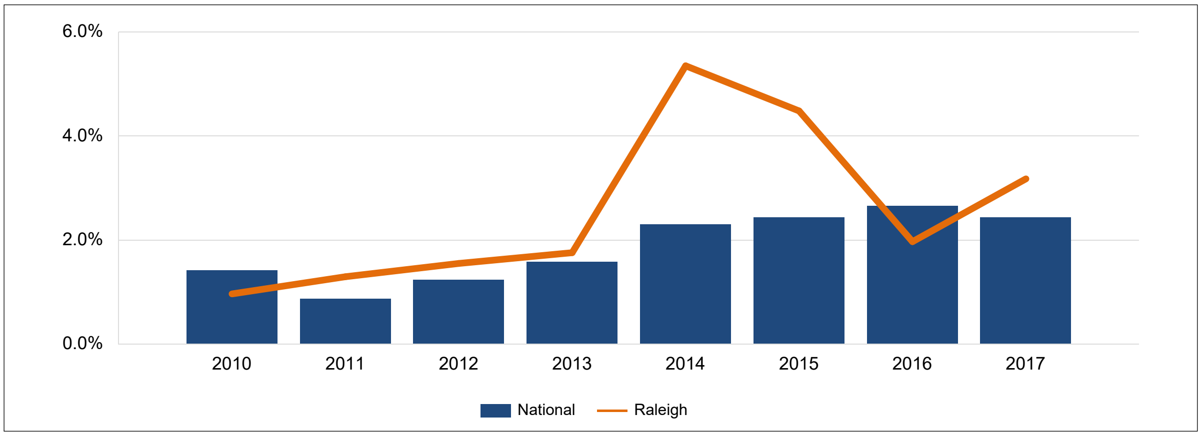
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Raleigh Metro	1,188,670	1,213,875	1,241,724	1,271,381	1,302,946

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

Supply

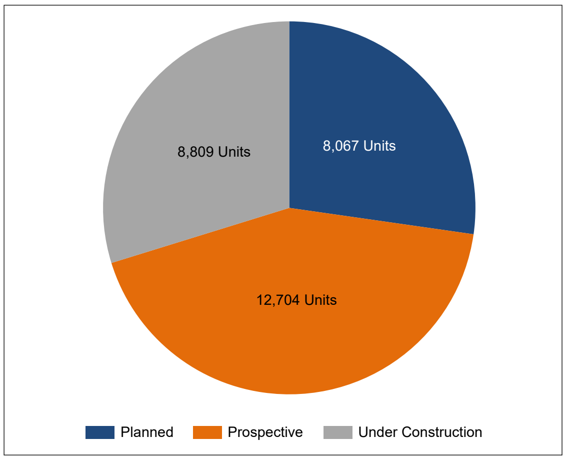
- With more than 4,500 units delivered, multifamily completions almost doubled in 2017, compared to the previous year. Apartment demand continues to be sustained by above-trend job gains and fast-paced population growth.
- More than 8,800 units were under construction as of December 2017, with an additional 20,800 units in the planning and permitting stages. Approximately 90% of the properties under construction are scheduled for delivery in 2018.
- The development surge is led by Morrisville (1,102 units under construction), Lowes Grove (856 units), Crabtree Valley (736 units) and Duke University (665 units). Projects are spread out across the map, as both Raleigh and Durham's core and secondary submarkets are seeing increased activity. The bulk of the upcoming supply will be upscale.
- EYC Cos.' 533-unit Crabtree North, the largest project underway, is part of a mixed-use development that will encompass residential and retail space. The luxury community will be located in Crabtree Valley—one of the metro's most active submarkets—and is slated for completion in the spring of 2018.

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



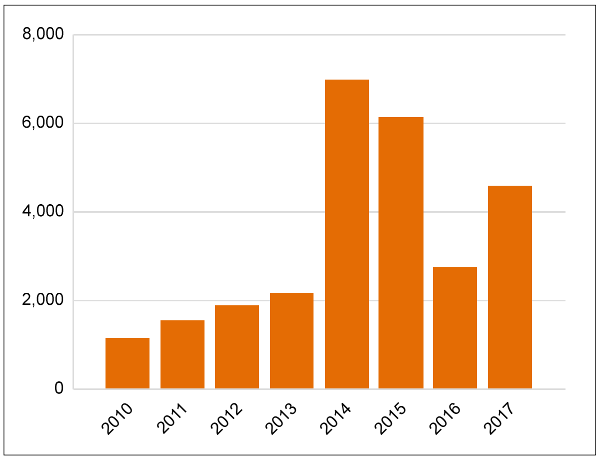
Source: YardiMatrix

Development Pipeline (as of December 2017)



Source: YardiMatrix

Raleigh Completions (as of December 2017)

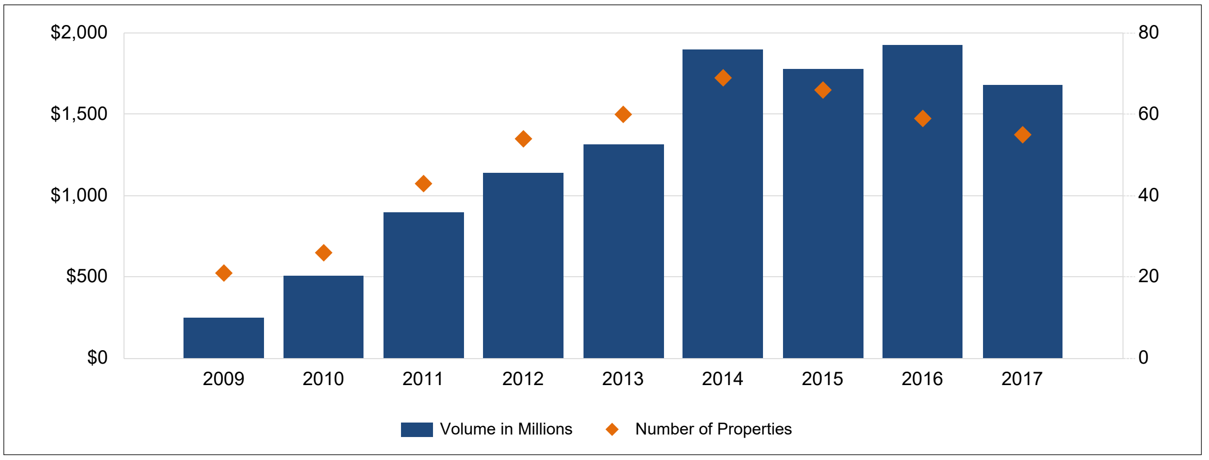


Source: YardiMatrix

Transactions

- About $1.7 billion in properties traded in Raleigh-Durham in 2017. Multifamily remains the most sought-after asset class among investors, even though transaction volume fell by roughly $250 million since 2016.
- Acquisition yields for stabilized Class A communities stood between 4.8% and 5.5%, while yields for Class B and C assets ranged between 5.3% and 6.8%. Strong demand pushed per-unit prices to a cycle high of $136,103, almost on par with the U.S. average.
- Morrisville led sales activity, followed by Chapel Hill and Crabtree Valley: The three submarkets accounted for roughly a third of the total sales volume. The 409-unit Park & Market North Hills green development ranked as the largest transaction of 2017. Magnolia Capital bought the asset, located in the Crabtree Valley submarket, from Crow Holdings for $88 million, or $215,158 per unit.

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



Source: YardiMatrix

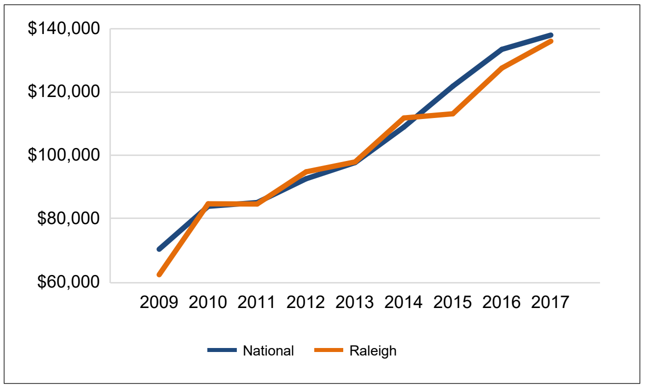
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Morrisville	201
Chapel Hill	195
Crabtree Valley	153
Neuse Crossroads	106
Glen Forest	95
Carrboro	94
Laurel Hills	91
Downtown Raleigh	79

Source: YardiMatrix

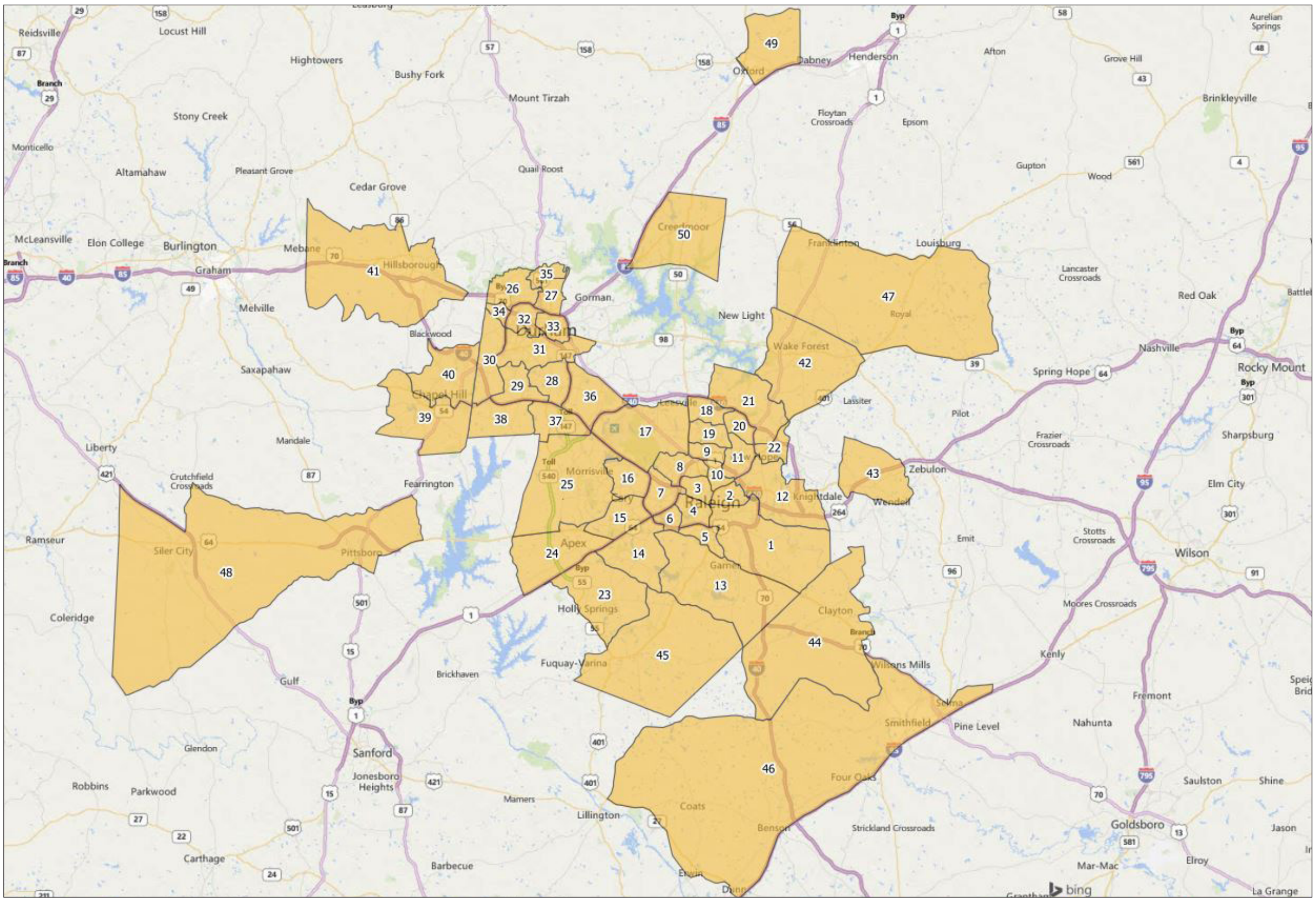
[1] From January 2017 to December 2017

Raleigh vs. National Sales Price per Unit



Source: YardiMatrix

Raleigh 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

Area #	Submarket
17	Glen Forest
18	Six Forks
19	Lynn
20	Wakeview
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

Area #	Submarket
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.