

Raleigh-Durham's Continuity

June 2023



T3 Rent Growth Rebounds
Developers Favor Upscale Assets
Unemployment Below US Rate

RALEIGH MULTIFAMILY



Rent Gains Pick Up the Pace

The Raleigh-Durham multifamily market is showing signs of improving fundamentals. After a decline that started last year and continued through early 2023, the metro's rent growth finally picked up. The average rate climbed 0.3% on a trailing three-month basis through April, to \$1,604. Meanwhile, occupancy dropped 130 basis points in the 12 months ending in April, to 94.1%.

Raleigh-Durham unemployment was 3.1% in March, the same rate as the previous two months and 40 basis points below the national average, according to preliminary data from the Bureau of Labor Statistics. The leisure and hospitality sector led job expansion, with a 9% year-over-year increase. Professional and business services added 10,200 positions—the largest addition in the market—although this figure is expected to increase, as a \$3 billion RXR Realty mixed-use project is coming to the Research Triangle. The development could encompass up to 3.5 million square feet of space for life science research, logistics, education, retail and hospitality.

Developers had 25,140 units under construction as of April, with 91.9% concentrated in upscale projects. In the first four months of 2023, the market had a transaction volume of \$383 million.

Market Analysis | June 2023

Contacts

Jeff Adler

Vice President & General
Manager of Yardi Matrix
Jeff.Adler@Yardi.com
(303) 615-3676

Ron Brock, Jr.

Industry Principal, Matrix
JR.Brock@Yardi.com
(480) 663-1149 x2404

Doug Ressler

Media Contact
Doug.Ressler@Yardi.com
(480) 695-3365

Author

Madalina Pojoga
Associate Editor

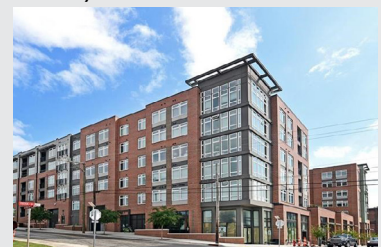
Recent Raleigh Transactions

Broadstone Oak City



City: Raleigh, N.C.
Buyer: Westbrook Partners
Purchase Price: \$93 MM
Price per Unit: \$278,358

Liberty Warehouse



City: Durham, N.C.
Buyer: CBRE Investment
Management
Purchase Price: \$89 MM
Price per Unit: \$360,324

Edwards Mill



City: Raleigh, N.C.
Buyer: Covenant Capital Group
Purchase Price: \$57 MM
Price per Unit: \$256,818

The Chelsea

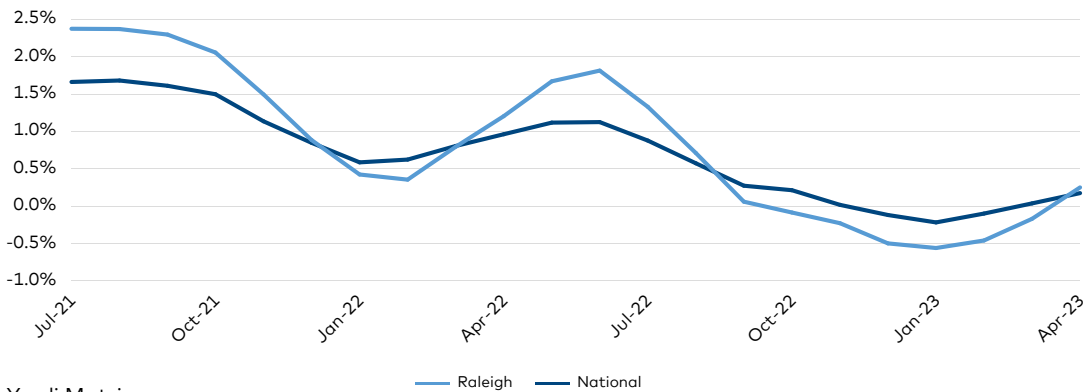


City: Raleigh, N.C.
Buyer: Brazos Residential
Purchase Price: \$45 MM
Price per Unit: \$160,714

RENT TRENDS

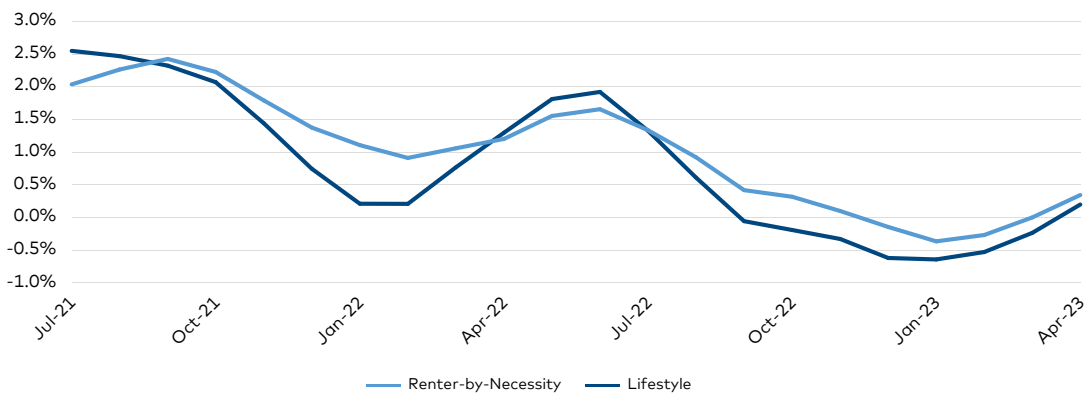
- ▶ After a decline that started in October 2022 and continued through the start of 2023, the metro's rent growth picked up pace and was up 0.3% on a trailing three-month (T3) basis through April, to \$1,604, 10 basis points higher than the national rate. In the last 12 months, Raleigh-Durham's peak rent growth was recorded in June, at 1.8%.
- ▶ Lifestyle figures were up 0.2% on a T3 basis through April, to \$1,702, while the Renter-by-Necessity segment saw a 0.3% increase, to \$1,374. Upscale rates recorded a steady decline in growth in the 12 months ending in April. The descent started in September with 0.1% and reached 0.6% by the end of 2022.
- ▶ The metro's occupancy rate decreased 130 basis points year-over-year, to 94.1%, as of April. The occupancy rate in the Lifestyle segment clocked in at 94.4%, a 110-basis-point decrease in the last 12 months, while Renter-by-Necessity assets had an average occupancy rate of 93.6%, with a decrease of 1.7% year-over-year.
- ▶ Of the 52 submarkets tracked by Yardi Matrix, Louisburg registered the highest year-over-year increase in rent as of April, at 19.6%. The submarket was followed by Creedmoor (16.9%) and Hinton (11.3%). Despite a 2% decline in the last 12 months, the Oakwood submarket still led in average rent, at \$2,008.
- ▶ The metro's single-family rental sector saw steady growth in both occupancy—up 1.7% on a year-over-year basis—and average rents—up 1.6% 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

- Raleigh-Durham's unemployment rate fluctuated throughout 2022, rising to 3.6% in August, and registering its lowest rate in December, at 2.7%. As of March, unemployment was 3.1%, 40 basis points lower than the national average and the same rate as the previous two months, according to preliminary data from the Bureau of Labor Statistics.
- The leisure and hospitality sector led employment growth, as it added 8,300 jobs in the 12 months ending in February, marking a 9% year-over-year improvement. This was followed by the information sector, with an 8.4% increase. Coming in third at 5.2%, professional and business services added 10,200 positions, which was the largest number of additions. The sector represents 19.7% of the entire Raleigh-Durham employment market.
- A \$3 billion mixed-use project is coming up in the Research Triangle. Earlier this year in February, RXR Realty acquired Veridea, a more than 1,000-acre development site in Apex, N.C., for \$91 million. Apart from its residential component, plans include up to 3.5 million square feet of space for life science research, logistics, education, retail and hospitality. This project marks the company's first development in the state of North Carolina.

Raleigh Employment Share by Sector

Code	Employment Sector	Current Employment	
		(000)	% Share
60	Professional and Business Services	207	19.7%
70	Leisure and Hospitality	101	9.6%
65	Education and Health Services	169	16.0%
90	Government	163	15.5%
50	Information	32	3.0%
15	Mining, Logging and Construction	57	5.4%
30	Manufacturing	64	6.1%
55	Financial Activities	57	5.4%
80	Other Services	40	3.8%
40	Trade, Transportation and Utilities	164	15.6%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- Raleigh-Durham gained 28,186 residents in 2021, a 2% increase from the previous year.
- The Kenan Institute of Private Enterprises ranked the metro as the fourth fastest-growing region in the U.S. in its October 2022 American Growth Project report.

Raleigh vs. National Population

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

Source: U.S. Census

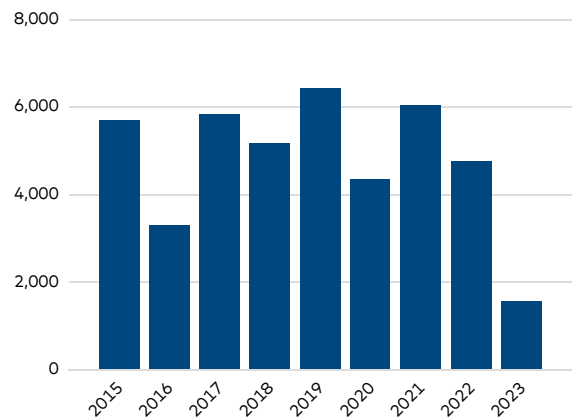
SUPPLY

- ▶ Developers brought 4,803 units online in 2022, representing 2.8% of stock and 0.5% higher than the national supply pipeline. As of April, 1,579 units were delivered, already a quarter of last year's completions and the equivalent of 0.9% of existing stock. In the past decade, the market recorded its peak delivery volume of 6,428 units in 2019.
- ▶ Raleigh-Durham had 25,140 units under construction as of April. Another 109,620 were in the planning and permitting stages. Construction was concentrated in upscale projects, which comprised 91.9% of units, while Renter-by-Necessity and fully affordable units accounted for the remaining 8.1% of the pipeline.
- ▶ As of April, seven Raleigh-Durham submarkets had more than 1,000 units under construction, out of the 35 tracked by Yardi Matrix. Wake Forest led with 2,463 units underway, followed by Morrisville (2,112 units) and Downtown Raleigh (1,721 units).
- ▶ The largest project is taking shape in the Anderson Heights submarket. Atlas Stark Holdings is developing East End Market PD, a 465-unit Class A property, subject to a \$16.4 million loan

originated by United Bank, with an expected completion date of July 2024.

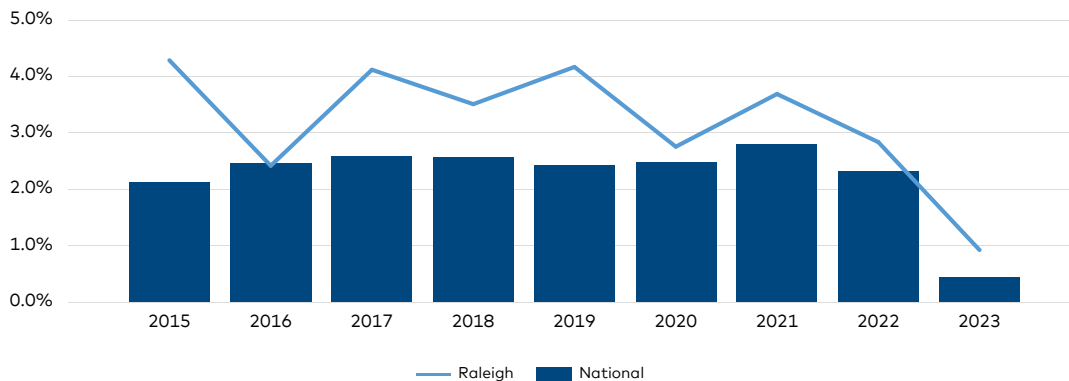
- ▶ The development with the largest number of units that came online year-to-date was in the Millbrook submarket. Broadstone Oak City, a 335-unit community, was completed in February. Alliance Residential Co. built the property with the help of a \$40.2 million loan, provided by Santander Bank.

Raleigh Completions (as of April 2023)



Source: Yardi Matrix

Raleigh vs. National Completions as a Percentage of Total Stock (as of April 2023)



Source: Yardi Matrix

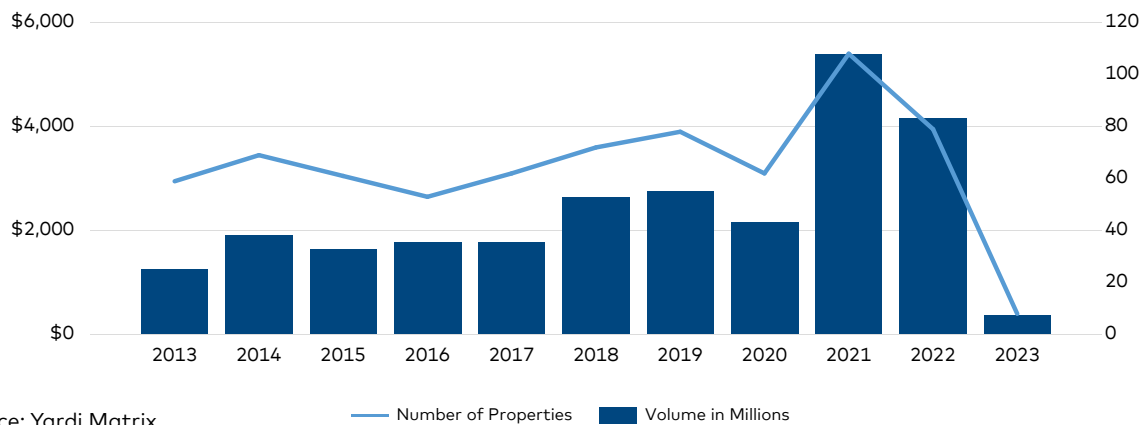
TRANSACTIONS

- ▶ Transactions in Raleigh-Durham reached \$383 million in the first four months of this year, with eight properties changing hands. The previous two years registered record-high transactions, with \$4.2 billion in sales year-over-year in 2022 and more than \$5 billion recorded in 2021—the largest investment in the past decade.
- ▶ The metro had 47 Lifestyle assets sold throughout 2022, with another 32 catering to the Renter-by-Necessity segment. Begin-

ning in 2021, the price per unit surpassed the \$200,000 threshold and remained there, reaching \$227,931 as of April, a 21.8% increase compared to the national price per unit tracked in the first four months of 2023.

- ▶ As of April, the Morrisville submarket registered the largest year-over-year transaction volume, with a total of \$447.6 million, followed by Millbrook (\$252 million) and the Research Triangle (\$204.5 million).

Raleigh Sales Volume and Number of Properties Sold (as of April 2023)



Source: Yardi Matrix

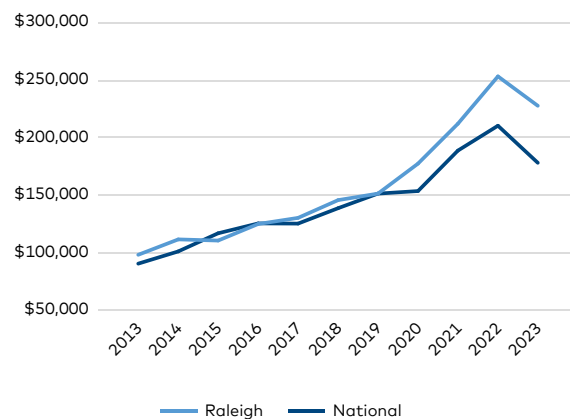
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Morrisville	448
Millbrook	252
Research Triangle	205
Piney Plains	204
Lynn	192
Neuse Crossroads	165
Downtown Durham	145

Source: Yardi Matrix

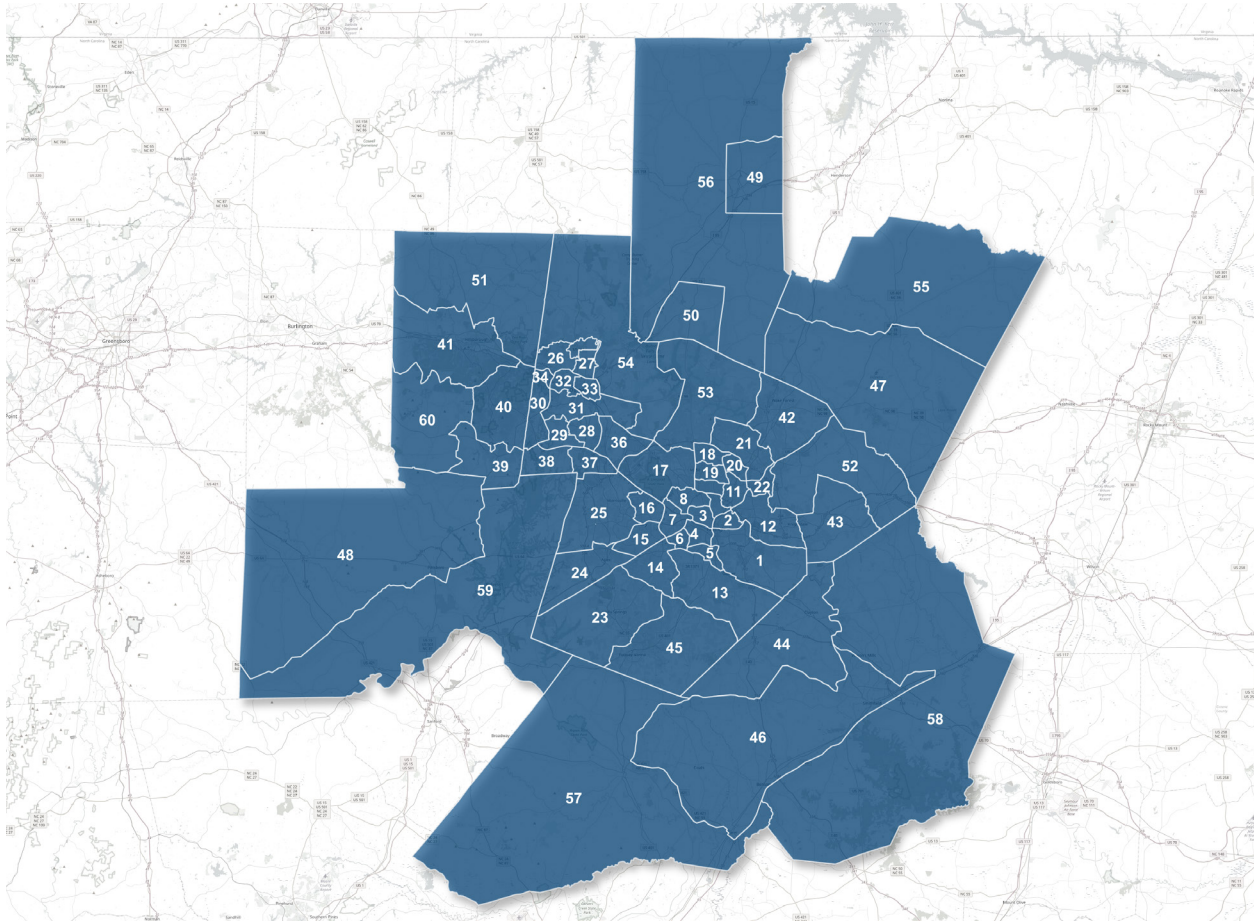
¹ From May 2022 to April 2023

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.



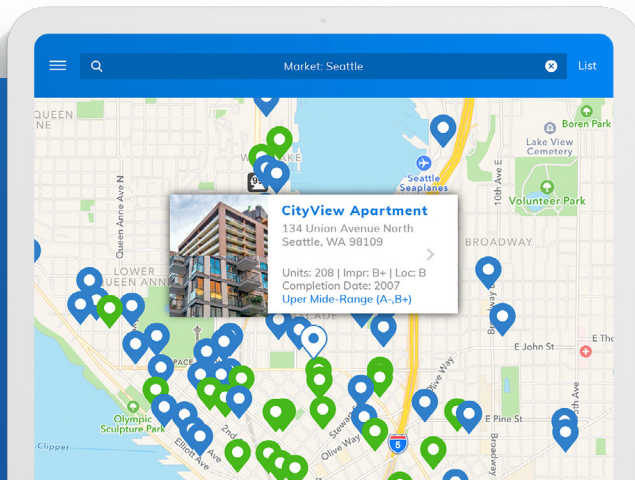
Yardi[®] Matrix

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.



(800) 866-1144

Learn more at yardimatrix.com/multifamily

Contact
US



DISCLAIMER

Although every effort is made to ensure the accuracy, timeliness and completeness of the information provided in this publication, the information is provided "AS IS" and Yardi Matrix does not guarantee, warrant, represent or undertake that the information provided is correct, accurate, current or complete. Yardi Matrix is not liable for any loss, claim, or demand arising directly or indirectly from any use or reliance upon the information contained herein.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2023 Yardi Systems, Inc. All Rights Reserved.