



Yardi® Matrix

Raleigh-Durham's Smooth Journey

Multifamily Report Summer 2018

Rent Growth Dampens

Per-Unit Price Outpaces Nation

New Development Targets Core Areas

Market Analysis

Summer 2018

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Research Triangle Walks With Confidence

Raleigh-Durham's healthy multifamily market is underpinned by strong population and job growth, a solid development pipeline and attractive business climate.

The metro added roughly 19,000 jobs in the 12 months ending in February. Employment growth was substantial in professional and business services, which added 5,700 jobs. Transportation and construction added more than 7,000 jobs combined over the same period, boosted by several large-scale projects such as the 22-story FNB Tower underway in Raleigh. Austin Lawrence Partners' One City Center in downtown Durham is also nearing completion. Home to multiple academic hotspots, North Carolina's Research Triangle is constantly growing its highly educated workforce, fueling the local tech industry. Raleigh is second only to San Francisco for sheer number of jobs in the technology sector. With reasonably priced housing options and diverse employment opportunities, the area particularly attracts Millennials because of its low cost of living.

Development activity remains robust, with roughly 8,600 units under construction as of April. Almost two thirds of these are scheduled for completion in 2018. This year, 1,100 units had been delivered as of April. Yardi Matrix expects a 3.5% rent growth by the end of 2018.

Recent Raleigh Transactions

Park & Market North Hills



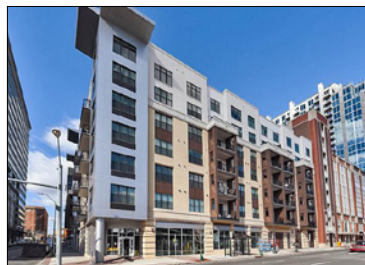
City: Raleigh, N.C.
Buyer: Magnolia Capital
Purchase Price: \$88 MM
Price per Unit: \$215,159

Station Nine



City: Durham, N.C.
Buyer: GMH Capital Partners
Purchase Price: \$68 MM
Price per Unit: \$209,124

The Edison Lofts



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

Brook Arbor

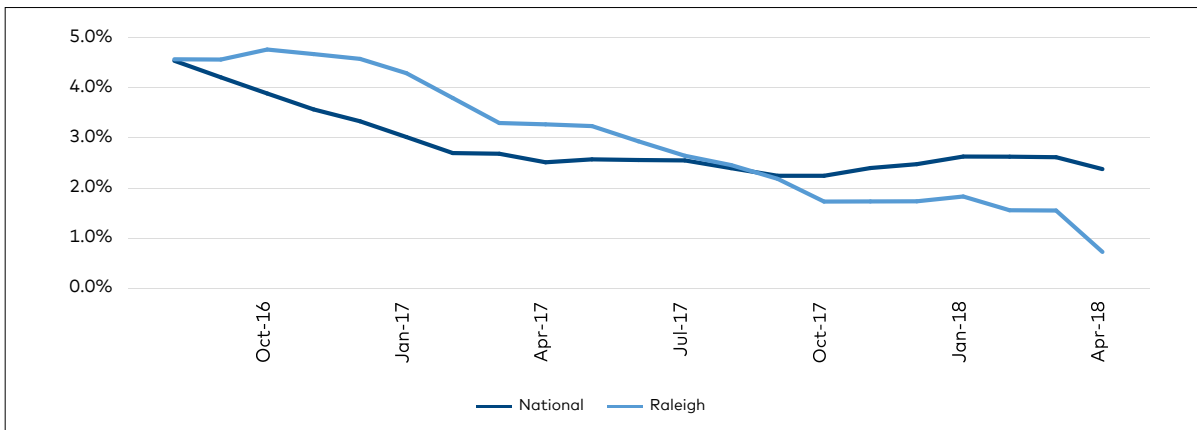


City: Cary, N.C.
Buyer: Taurus Investment Holdings
Purchase Price: \$55 MM
Price per Unit: \$180,464

Rent Trends

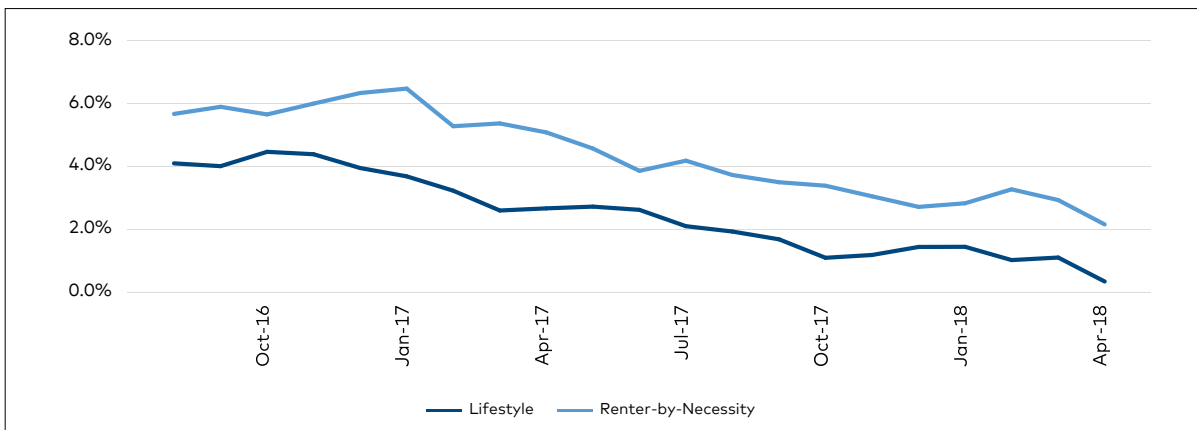
- Rents in Raleigh-Durham rose 0.7% year-over-year through April, to \$1,113, trailing the \$1,377 national average. Last year's apartment inventory boost of almost 4,700 units tempered rent growth across the metro, which had already been decelerating after peaking at 4.8% in October 2016. The dynamic construction activity has moderated demand, bringing the occupancy rate in stabilized properties to 93.9% as of March, 100 basis points below the national figure.
- Rents in the working-class Renter-by-Necessity segment rose 2.2% to \$950, while Lifestyle rents increased by only 0.3%. The gap between the two segments is likely to deepen since the pipeline mostly consists of upscale projects. Steady job gains, in-migration and high wages are expected to maintain demand for high-end apartments, while the supply-constrained RBN segment will drive more growth.
- The fastest rent improvement rates occurred in submarkets like River Forest (7.8%) and Oxford (6.9%). Rents in the Rhamkatte submarket were the highest—rising 6.0% to \$1,450 in the year ending in April. Anderson Heights saw the largest drop (-9.7%).
- With low unemployment and high per-capita income, Yardi Matrix expects rents in Raleigh to increase by 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)

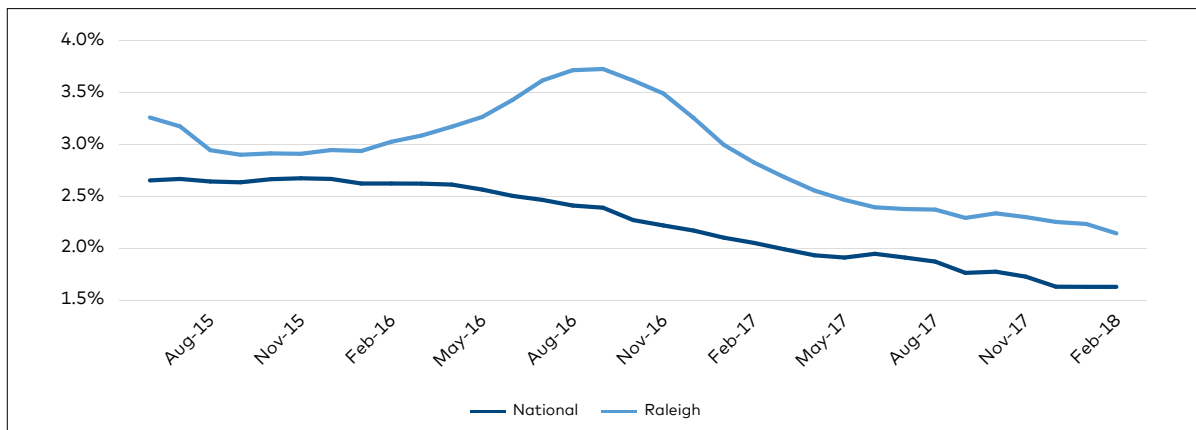


Source: YardiMatrix

Economic Snapshot

- Raleigh-Durham added 19,200 jobs in the year ending in February, a 2.2% increase and 60 basis points above the national growth rate.
- Professional and business services led job growth (5,700 jobs), followed by trade, transportation and utilities (4,200 jobs). Boosted by large-scale projects such as N.C. State University's \$150 million, 250,000-square-foot new campus developed by Skanska, as well as Longfellow Real Estate Partners' 1.7 million-square-foot Durham Innovation District, the construction sector added roughly 3,000 jobs. Austin Lawrence Partners' One City Center in downtown Durham is nearing completion. Duke University and WeWork will be among the tenants of the 27-story tower, which includes a high-rise residential component. Construction also began on the \$116 million FNB Tower in downtown Raleigh, which is set to become First National Bank's regional headquarters. Infrastructure investments are contributing to the region's high quality of life. The North Carolina Department of Transportation intends to spend more than \$2 billion over the next three years on the extension of Interstate 540.
- Spurred by its reputation as a technology and life sciences hub, Raleigh-Durham is also making important steps in the coworking sector. HQ Raleigh has doubled its local footprint, and Office Evolution announced plans to franchise three coworking centers in the Triangle.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	159	17.1%	5,700	3.7%
40	Trade, Transportation and Utilities	148	15.9%	4,200	2.9%
90	Government	169	18.1%	3,400	2.0%
15	Mining, Logging and Construction	47	5.0%	2,900	6.5%
55	Financial Activities	48	5.2%	1,800	3.9%
70	Leisure and Hospitality	95	10.2%	1,200	1.3%
50	Information	27	2.9%	1,000	3.8%
30	Manufacturing	63	6.8%	400	0.6%
80	Other Services	35	3.8%	-	0.0%
65	Education and Health Services	141	15.1%	-1,400	-1.0%

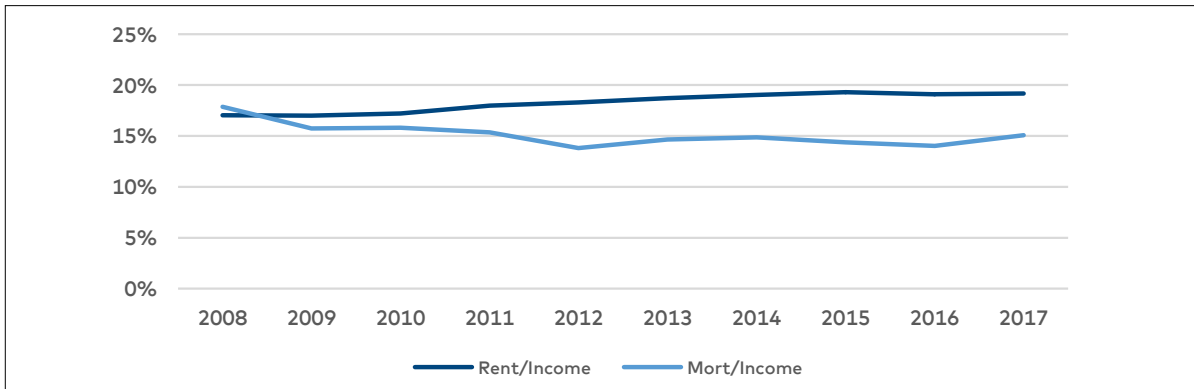
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

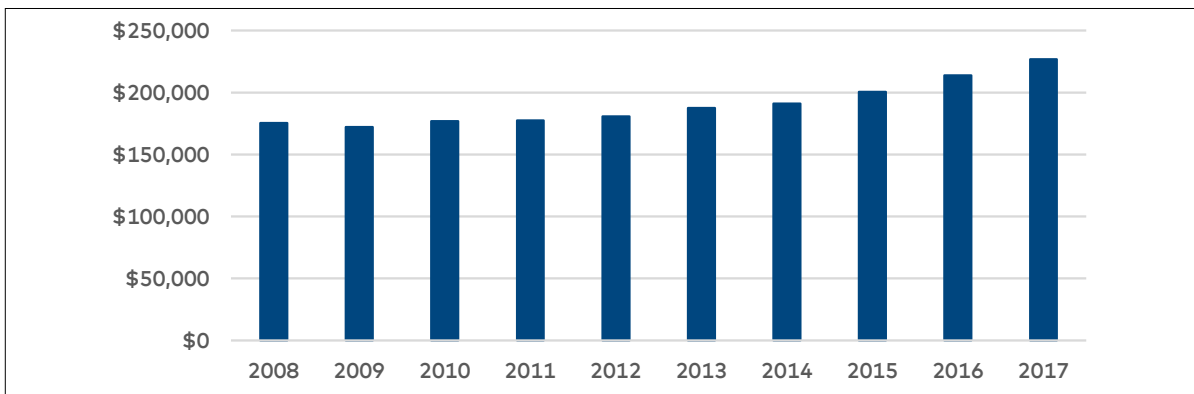
- The median home value hit \$226,773 last year, 6.0% higher than it was in 2016 and up 29% compared to a decade ago. Owning remained the more affordable option, with the average mortgage payment accounting for only 15% of the median income. The average rent of \$1,113 equated to 19% of income.
- During the last quarter of 2017, Wake County officials approved a 20-year plan, aiming to increase the number of affordable housing projects by modifying zoning rules, especially because North Carolina state law prohibits mandatory inclusionary zoning. According to a HR&A Advisors report from 2017, one fourth of Wake County residents are severely rent burdened.

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's population increased by 2.3% in 2017, more than triple the 0.7% national growth rate.
- The Research Triangle added about 40,000 residents last year, with population growth likely to continue in 2018.

Raleigh vs. National Population

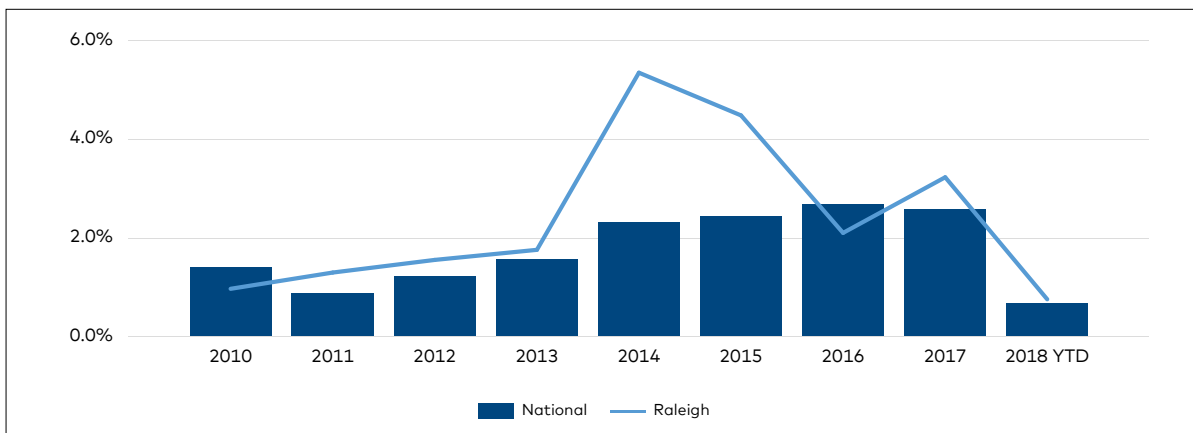
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Raleigh Metro	1,214,464	1,242,613	1,272,875	1,304,896	1,335,079

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

Supply

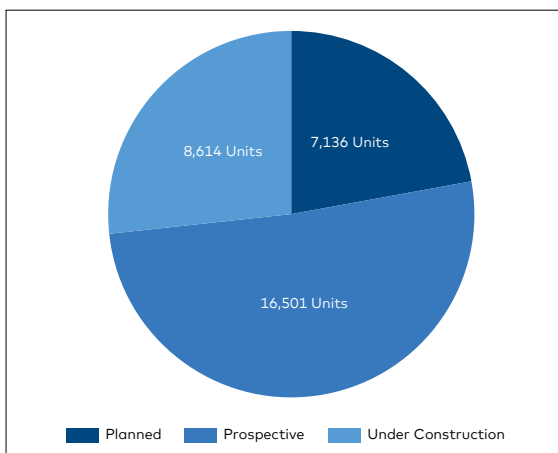
- Following consecutive years when deliveries crossed the 6,000-unit mark in 2014 and 2015, completions slowed down in 2016, with a slight bounceback last year. Roughly 1,100 units were added year-to-date through April, and Yardi Matrix expects about 5,600 units to be completed for the entire year.
- Construction activity remains significant, with 8,600 units underway as of April, out of a total multifamily pipeline of more than 32,000 units. About two-thirds of the properties under construction are scheduled for completion this year.
- The bulk of upcoming inventory is geared toward high-income residents who prefer to live in Lifestyle units located near major thoroughfares. Thus, most of the construction activity is concentrated in Morrisville (902 units), Lowes Grove (856 units) and Duke University (683 units).
- Some of the largest projects underway are also close to main transportation routes, including Crabtree North in Crabtree Valley. The 533-unit community is part of a 20-acre project developed by EYC Cos., which will also include 125,000 square feet of retail, restaurant and hotel space.

Raleigh vs. National Completions as a Percentage of Total Stock (as of April 2018)



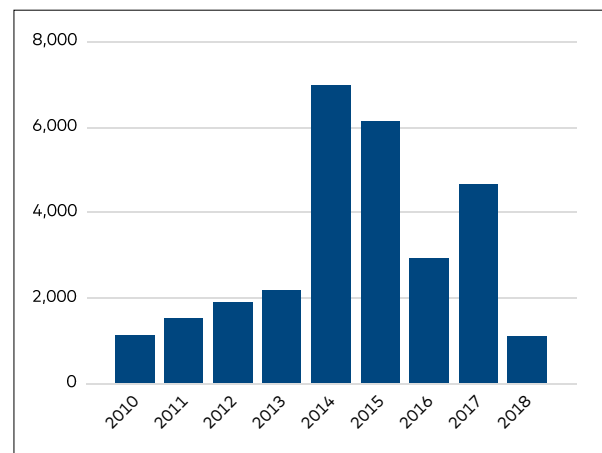
Source: YardiMatrix

Development Pipeline (as of April 2018)



Source: YardiMatrix

Raleigh Completions (as of April 2018)

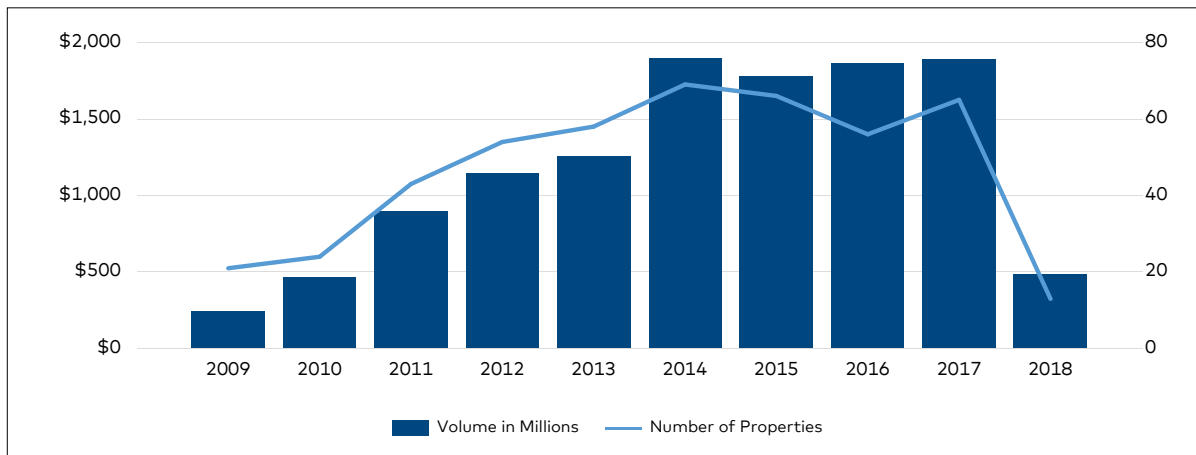


Source: YardiMatrix

Transactions

- Almost \$2 billion in multifamily assets changed hands in the 12 months ending in April. In 2017, investment volume reached \$1.9 billion, and with transactions at about \$500 million year-to-date, investor appetite is expected to continue to carry on at a consistent rate this year.
- Strong demand coming from in-migration has pushed per-unit prices this year above the \$146,694 national figure. Raleigh metro units claimed \$156,618 on average, with most of the property sales falling under the Lifestyle category.
- With more than \$200 million in total transactions, Morrisville continued to lead sales, followed by Crabtree Valley. At \$88 million, Magnolia Capital's acquisition of the 409-unit Park & Market North Hills from Crow Holdings marked the largest transaction in the 12 months ending in April.

Raleigh Sales Volume and Number of Properties Sold (as of April 2018)



Source: YardiMatrix

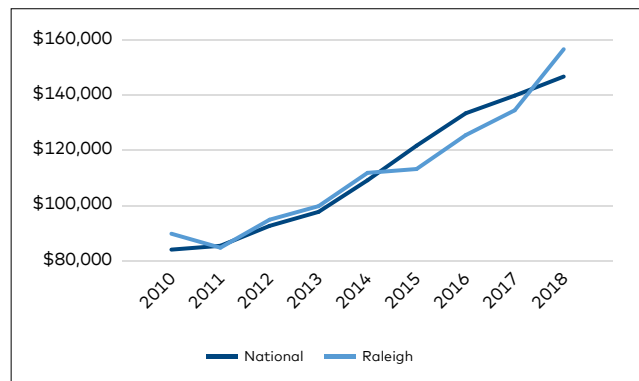
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Morrisville	201
Crabtree Valley	153
Research Triangle	127
Ridgewood	105
North Cary	97
Glen Forest	95
Laurel Hills	91
Neuse Crossroads	87

Source: YardiMatrix

¹ From May 2017 to April 2018

Raleigh vs. National Sales Price per Unit



Source: YardiMatrix

News in The Metro

Brought to you by:



Eyzenberg & Co. Arranges Developer, Ground Lease for NC Student Housing

The firm selected Greystar to develop Grove Park, a 339-unit community in Chapel Hill, which is set to replace the current apartment building at the site.



Blue Heron Closes Construction Loan for NC Asset

The 164-unit community will rise next to Durham Central Park, replacing a functionally obsolete and underutilized building.



Bainbridge Opens 200-Unit Luxury Community in Raleigh

Bainbridge Lake Crabtree is situated in Morrisville, N.C., within minutes of Research Triangle Park, and features a mix of one-, two- and three-bedroom floorplans.



Waypoint Buys NC Apartments

The company acquired the 214-unit Capital Creek at Heritage, located in Raleigh's submarket Wake Forest, from TWO Capital Partners for \$36.4 million.



Raleigh-Area Property Trades for \$43M

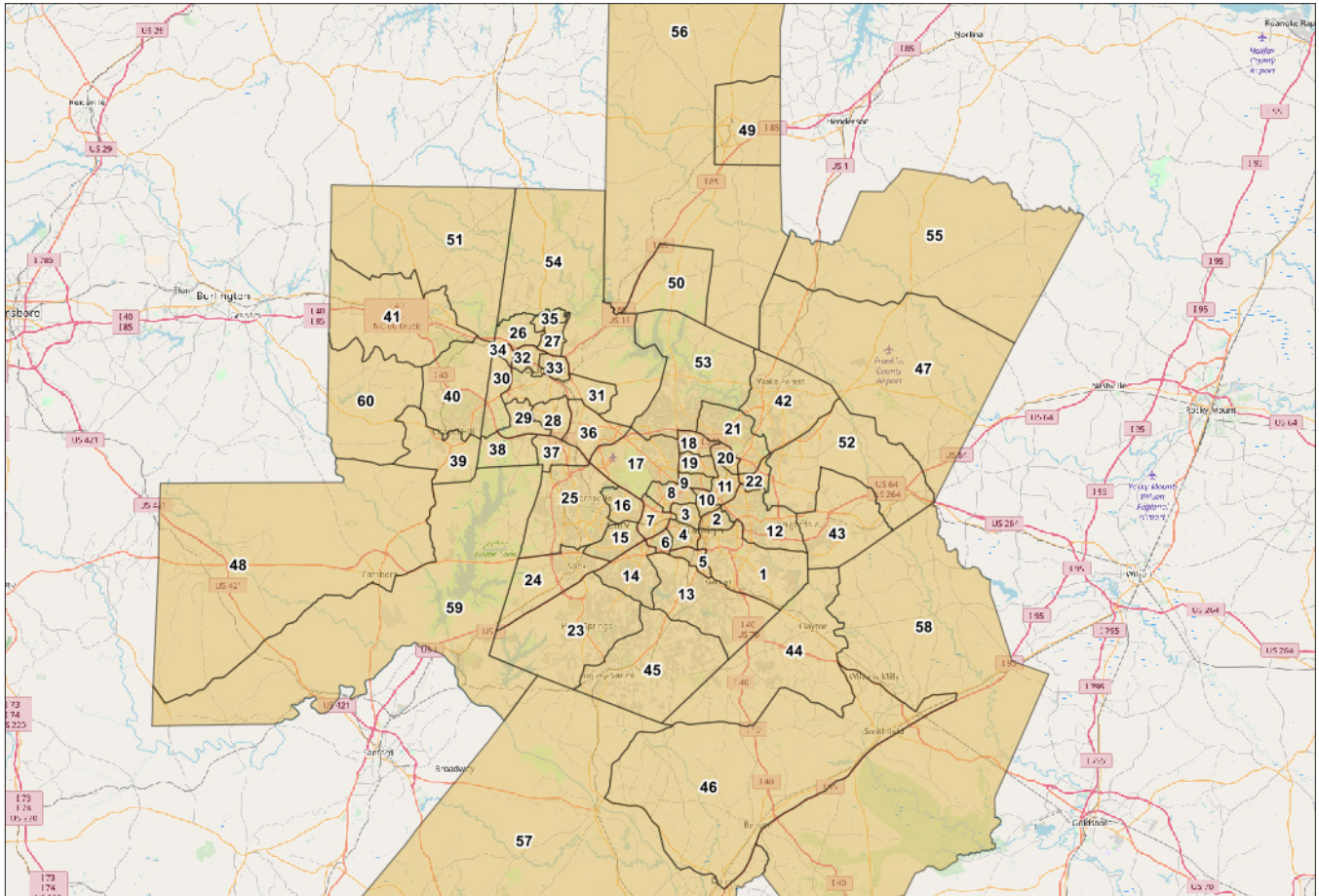
The new owner, a joint venture between DRA Advisors and Fogelman Properties, plans to implement both in-unit and amenities upgrades.



PAC Sells \$43M Suburban Raleigh Asset

Built in 1997, the 328-unit Lake Cameron was the oldest property in the company's portfolio, having most recently traded in 2006 for just above half the current price.

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
17	Glen Forest
18	Six Forks
19	Lynn
20	Wakeview

Area #	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 #	Submarket
41	Hillsborough
42	Wake Forest
43	Wendell
44	Clayton
45	Fuquay-Varina
46	Smithfield
47	Louisburg
48	Siler 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 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.

Market Data & Analysis

Fogelman drives deals with Yardi® Matrix



"Yardi Matrix is a major contributor to our profitable investments and informed property management."

Mark Fogelman
President
Fogelman Properties

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