



Yardi® Matrix

Raleigh-Durham: A Burgeoning Cluster

Multifamily Report Fall 2018

Rent Growth Trails National Average

Developers Target Upscale Segment

Population Gains Outstrip US Rate

Market Analysis

Fall 2018

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Economic Growth Sustains Demand

Driven by a healthy economy and strong population growth, multifamily demand in Raleigh-Durham remains robust. As prices continue to increase in the single-family market, the local apartment sector is likely to remain an attractive option for both residents and investors. Although rents rose only 1.6% year-over-year, several submarkets, including many suburban ones, registered strong hikes. This is in part due to a high demand coming from eastern North Carolina residents seeking refuge after Hurricane Florence.

With access to three of the country's top universities, the Triangle added 30,700 jobs in the 12 months ending in July. The professional and business services and trade, transportation and utilities sectors led employment growth. According to nonprofit Downtown Raleigh Alliance, 47% of Raleigh residents have a bachelor's degree or higher, which is enticing employers in search of highly educated workers. This, in turn, has increased demand for connectivity and public transport development. Local authorities recently completed Union Station, a \$110 million-plus multimodal transit center.

The metro had 7,400 units underway as of September, with 2018 completions likely to exceed last year's 4,660 apartments. With steady development matching healthy demand, Yardi Matrix expects a moderate rent growth in Raleigh-Durham in the foreseeable future.

Recent Raleigh Transactions

Republic Flats



City: Durham, N.C.
Buyer: Eaton Vance
Investment Managers
Purchase Price: \$64 MM
Price per Unit: \$194,000

Woodlyn on the Green



City: Cary, N.C.
Buyer: Starwood Capital Group
Purchase Price: \$59 MM
Price per Unit: \$128,139

Sterling TownCenter



City: Raleigh, N.C.
Buyer: Electra America
Purchase Price: \$53 MM
Price per Unit: \$156,271

Apartments at the Arboretum

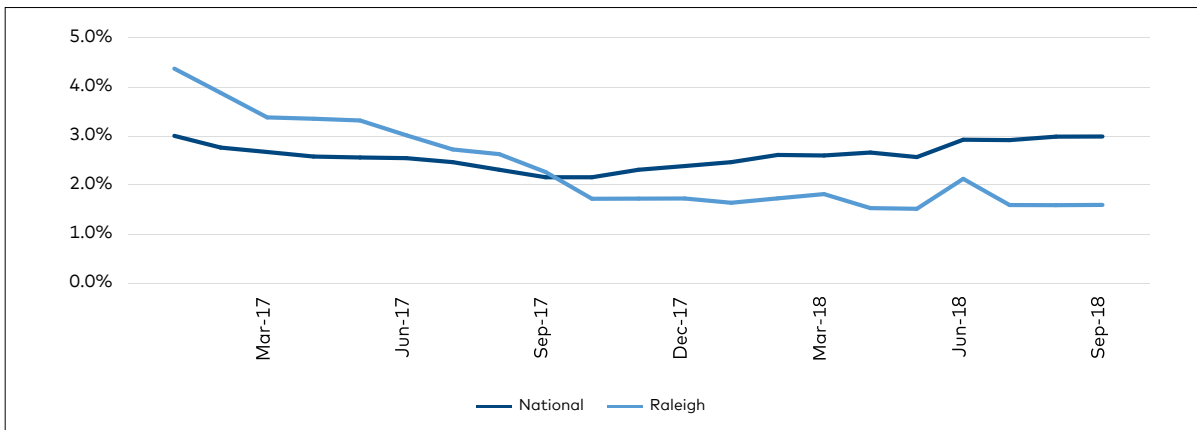


City: Cary, N.C.
Buyer: Stoltz Real Estate Partners
Purchase Price: \$45 MM
Price per Unit: \$218,537

Rent Trends

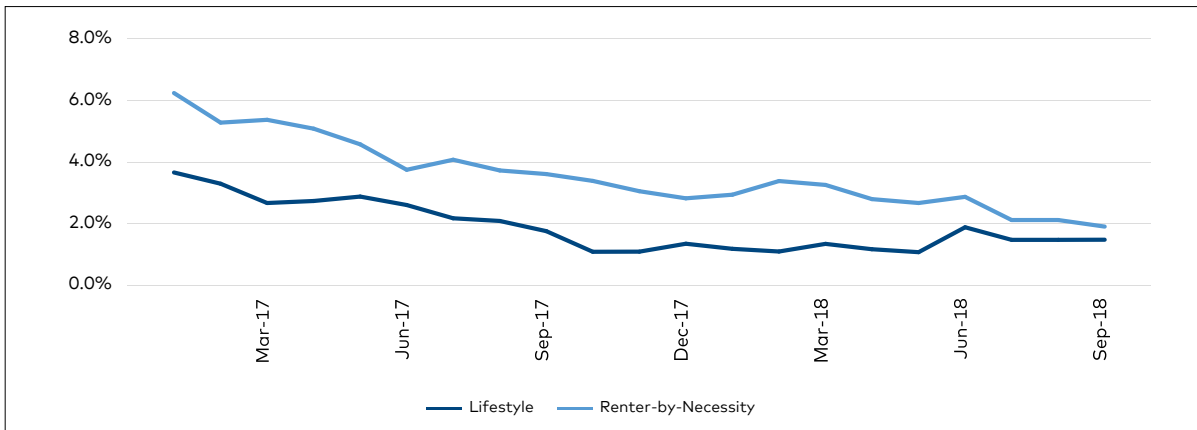
- Raleigh-Durham rents rose 1.6% year-over-year through September, roughly half the 3.0% national average. After peaking at 4.8% in November 2016, rent growth in the Triangle slowly but steadily decelerated.
- Despite a consistent amount of new supply—4,205 units year-to-date through September and 4,660 units in 2017—the average rent continues to rise, albeit at a slower pace. The average rate stood at \$1,146 at the end of the third quarter, \$266 below the national figure.
- The working-class Renter-by-Necessity segment led growth, with rates up 1.9%, to \$965. Lifestyle rents increased 1.5%, reaching \$1,238. Since around three-quarters of the 7,400 units underway are targeting high-income residents, rents in the RBN segment are likely to continue rising at a faster pace.
- Rents grew fastest in Rhamkatte (8.2%) and Smithfield (8.1%). With Hurricane Florence devastating areas of eastern North Carolina, many displaced residents sought shelter in Smithfield and across other suburban areas, causing temporary rent hikes. However, core submarkets such as Ridgewood (\$1,433) and Downtown Durham (\$1,373) continue to command the highest rents. With demand and supply in relative balance, Yardi Matrix expects moderate rent growth in the metro for the foreseeable future.

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)

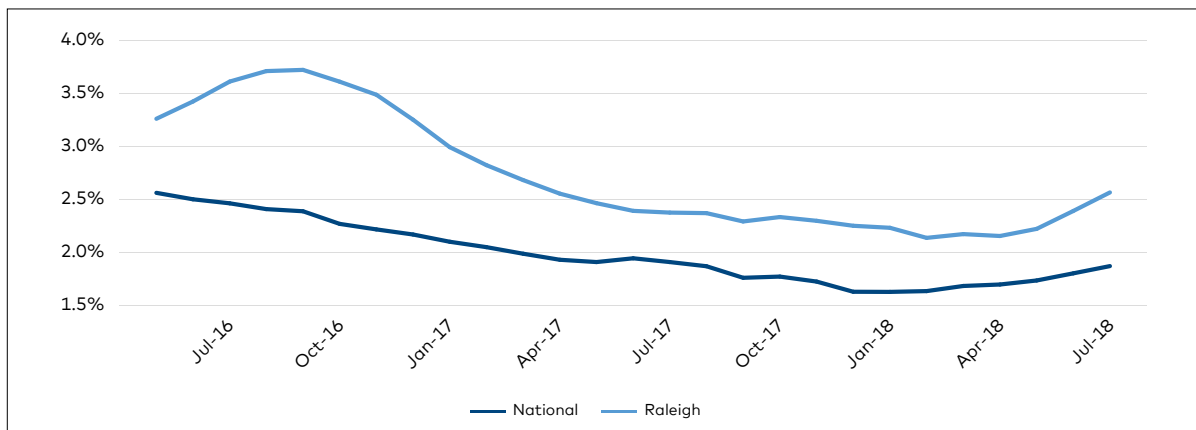


Source: YardiMatrix

Economic Snapshot

- The Raleigh-Durham metro added 30,700 jobs in the 12 months ending in July for a 2.6% expansion, 70 basis points above the national rate.
- North Carolina's Research Triangle is home to top-tier universities constantly feeding a rapidly expanding talent pool. The metro is producing highly educated workers in technology, research and development and health care, which is also mirrored by the addition of 8,500 jobs in professional and business services and education and health services. These sectors are poised to remain the region's economic engine. Skanska has secured a \$189 million contract with Duke University Health System for a project in Durham. The agreement calls for a 500,000-square-foot tower addition, slated for completion in 2021.
- The Triangle remains relatively affordable when compared to other secondary technology hubs such as Austin or Denver, continuing to provide a good alternative for businesses looking to avoid high-cost tech markets. This, in turn, highly favors the local office market, which had almost 4 million square feet of space underway across more than 20 projects as of late October. The list of large office developments is led by Dominion Realty Partners' 22-story FNB Tower, which is set to add 350,000 square feet to Raleigh's central business district by 2020.

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	165	17.3%	6,100	3.8%
40	Trade, Transportation and Utilities	153	16.0%	5,900	4.0%
70	Leisure and Hospitality	106	11.1%	5,200	5.2%
15	Mining, Logging and Construction	51	5.3%	4,400	9.4%
90	Government	158	16.6%	2,900	1.9%
65	Education and Health Services	145	15.2%	2,400	1.7%
55	Financial Activities	49	5.1%	2,000	4.3%
50	Information	28	2.9%	1,100	4.1%
80	Other Services	36	3.8%	400	1.1%
30	Manufacturing	63	6.6%	300	0.5%

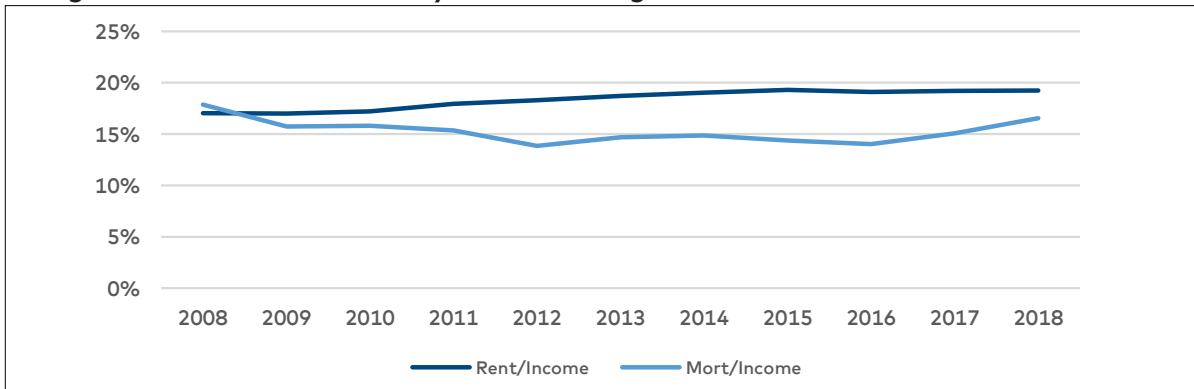
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

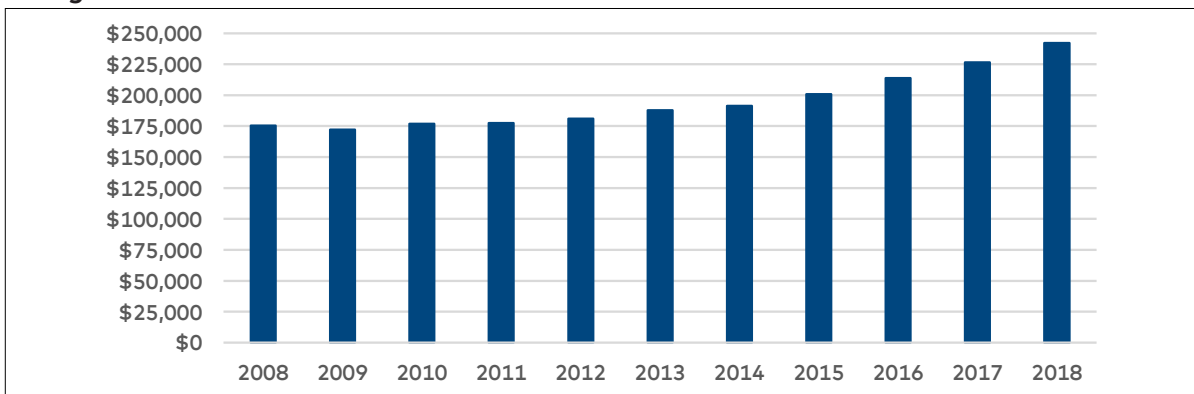
- The median home price in Raleigh-Durham exceeded \$240,000 in the first half of 2018, marking a new cycle peak. Although home values are on the rise, owning is still the more affordable option. The average mortgage payment accounted for 17% of the median income, while rent comprised 19%.
- Although Raleigh is rather inexpensive when compared to its peers, the metro is facing a shortage of affordable housing that is being temporarily exacerbated by the Carolinians' displacement following Hurricane Florence. Moreover, rising construction costs and restrictive zoning regulations make it harder for investors and developers to bet on affordable developments.

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 added about 30,000 residents in 2017, with growth poised to continue at a fast pace.
- Durham-Chapel Hill's population rose 1.5% last year, more than double the 0.7% U.S. growth rate.

Raleigh vs. National Population

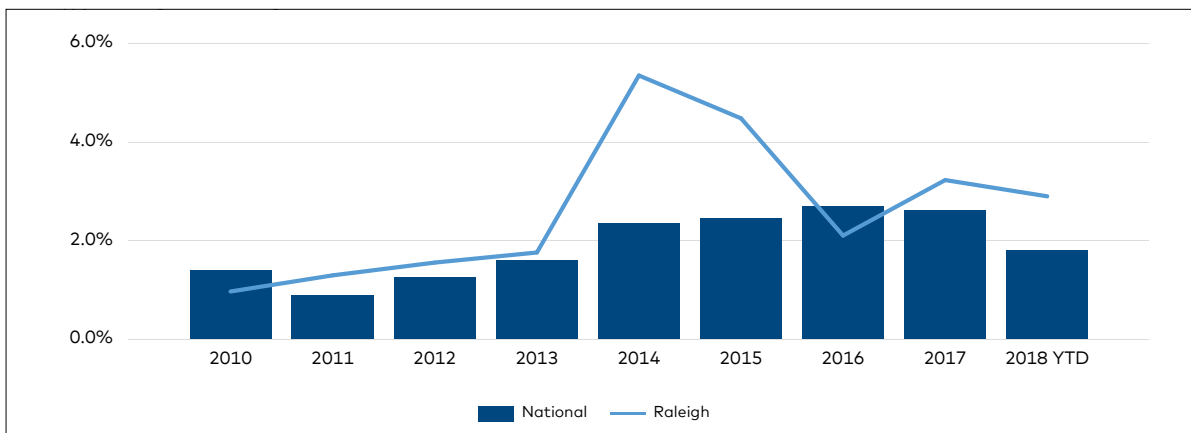
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Raleigh Metro	1,214,464	1,242,613	1,272,875	1,304,896	1,335,079

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

Supply

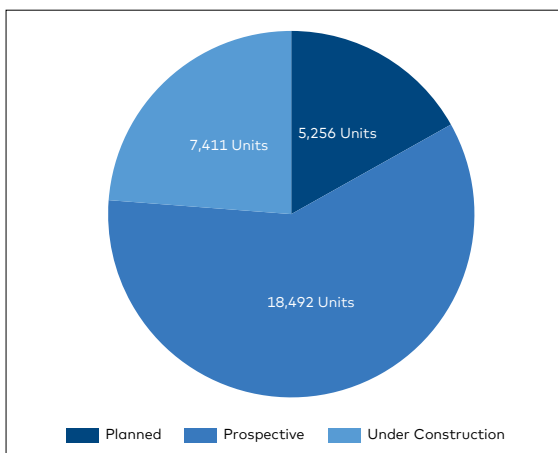
- With more than 4,200 units delivered during this year's first three quarters, development in Raleigh-Durham continues to thrive. The Triangle's healthy economy and steady population growth are maintaining a strong multifamily demand. However, as the cost and availability of qualified construction labor remain nationwide issues, some deliveries may be pushed further into 2019.
- Roughly 7,400 units were under construction as of September, with an additional 23,750 units in the planning and permitting stages. Three-quarters of projects underway target high-income renters, which is likely to put additional pressure on renters seeking workforce housing. Occupancy in stabilized properties was 94.9% as of August, down only 20 points over 12 months and slightly below the 95.4% national average.
- One-third of units under construction are concentrated in just three submarkets: Morrisville (881 units), Duke University (760 units), and Crabtree Valley (533 units), which is home to Crabtree North, the largest community underway. EYC Cos. is building a mixed-use development set to include 533 units and 125,000 square feet of commercial space.

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



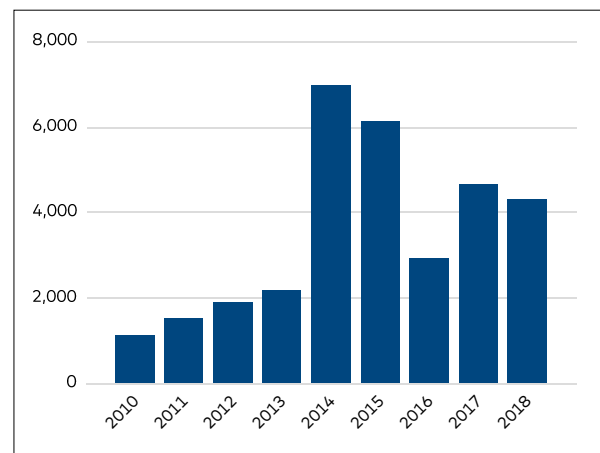
Source: YardiMatrix

Development Pipeline (as of September 2018)



Source: YardiMatrix

Raleigh Completions (as of September 2018)

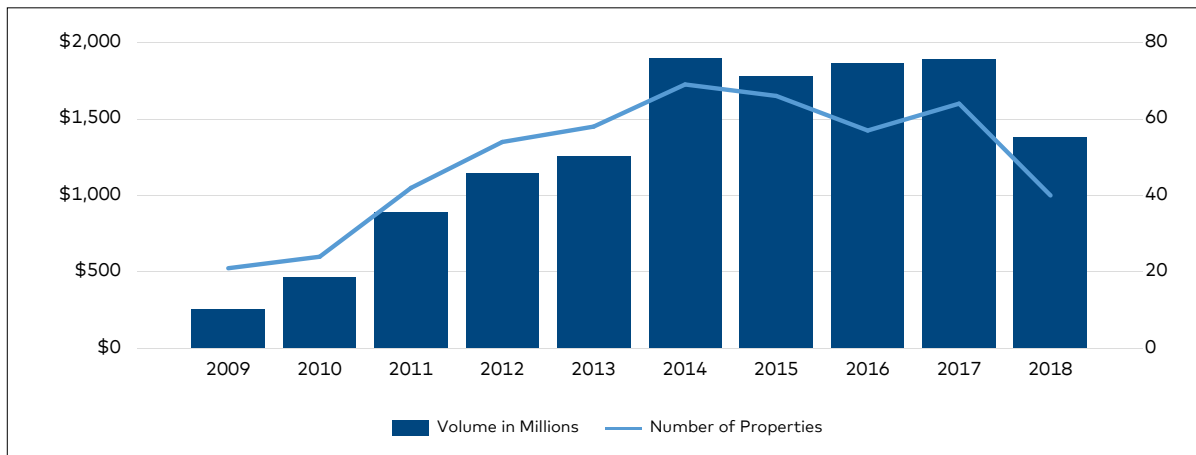


Source: YardiMatrix

Transactions

- Investment sales continued at a fast clip in Raleigh-Durham, with more than \$1.9 billion in multifamily assets changing hands year-over-year through September. During the first three quarters of 2018, the transaction volume hit \$1.4 billion, signaling a steady investor appetite. The area's rapidly growing economy, combined with a strong demographic expansion and increasing investor interest in secondary and tertiary markets, has boosted per-unit prices to a \$139,394 high for this year's first three quarters, close to the \$151,135 national average.
- Investors focused on the North Cary, Research Triangle and Glen Forest submarkets. At a combined \$528 million, investment volume in the three submarkets exceeded a quarter of the total sales volume in the 12 months ending in September. The 462-unit Woodlyn on the Green in North Cary traded for \$59.2 million. Starwood Capital Group acquired it as part of an 11-property, \$442 million North Carolina portfolio deal.

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



Source: YardiMatrix

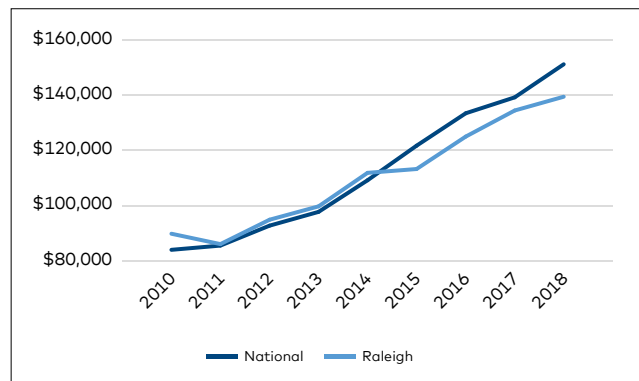
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
North Cary	201
Research Triangle	170
Glen Forest	158
Lowes Grove	145
Lynn	102
Ridgewood	97
Colony Park	92
Wake Forest	85

Source: YardiMatrix

¹ From October 2017 to September 2018

Raleigh vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

Brought to you by:



HFF Secures \$50M Acquisition Loan In Durham

The company's debt placement team working on behalf of borrower Lantower Residential included Senior Directors Jamie Leachman and Roger Edwards.



Raleigh Community Trades for \$24M

Hawthorne Residential Partners sold the 184-unit asset two years after it acquired the property for \$15.5 million from Heritage Capital Group. The buyer financed the purchase with a 10-year, \$16.7 million Freddie Mac loan.



StoneBridge Buys 346-Unit Durham Community

HFF assisted with the sale and also worked on the new owner's behalf to secure a \$28.9 million Freddie Mac loan for the acquisition. TH Real Estate sold the garden-style asset.



Work Begins on 318-Unit Luxury Community in NC

Dominion Realty Partners broke ground on The Residences at Shiloh Crossing in Morrisville. Capital Bank provided construction financing for the project.



NC Asset Receives \$24M Refi

Signature Property Group secured the loan to refinance 119 South Apartments, a 264-unit Class A property located in Mebane.

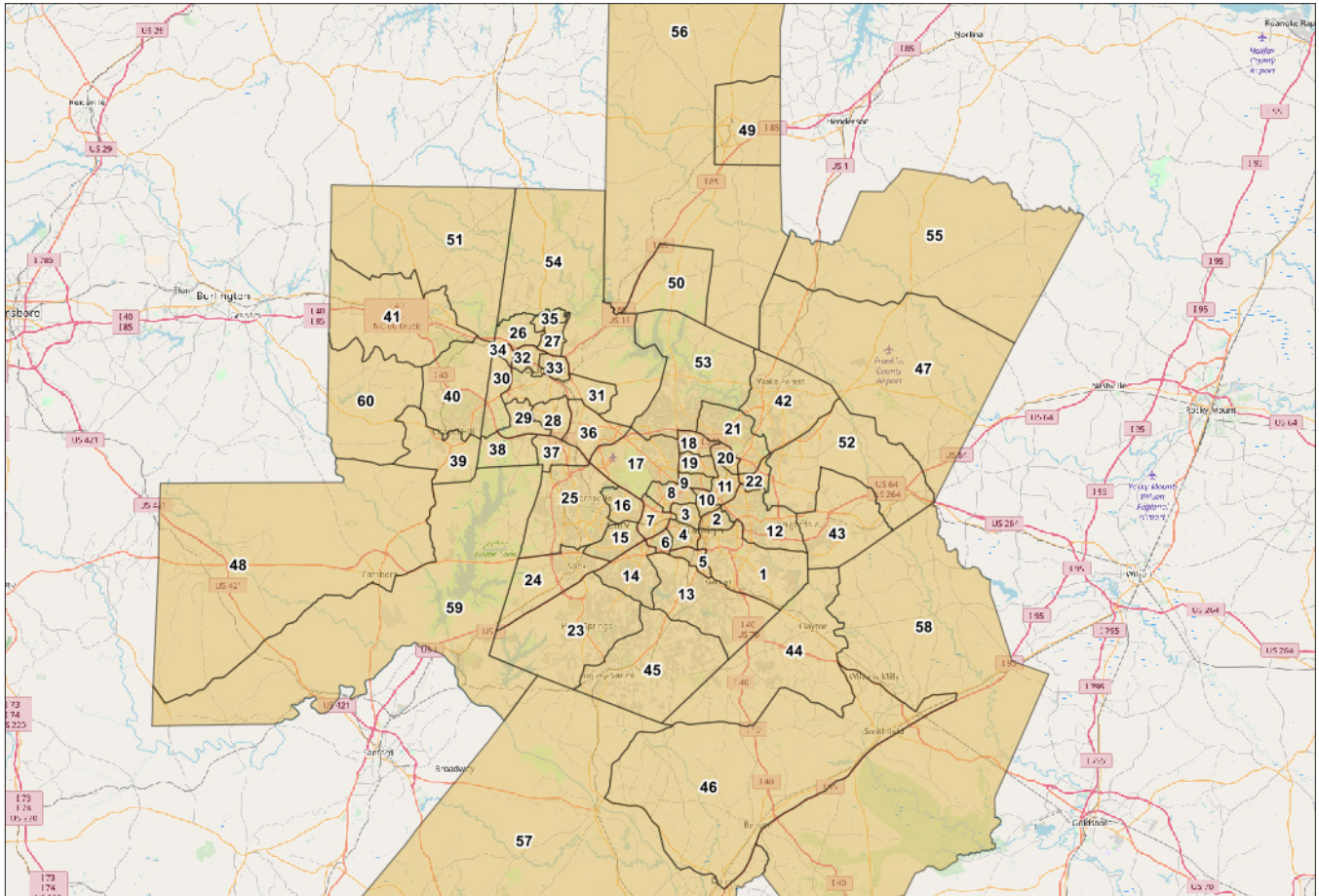


American Landmark Expands NC Footprint

The Florida-based company teamed up with Electra America to acquire a three-property portfolio comprising more than 1,000 units. The new owners plan to invest up to \$8 million in renovations.

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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.

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Mark Fogelman
President
Fogelman Properties

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