



Yardi® Matrix

Raleigh-Durham Stays Strong

Multifamily Report Spring 2019

Per-Unit Prices Hit Decade Peak

Developers Target Lifestyle Segment

Rent Growth Outperforms National Average

Market Analysis

Spring 2019

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The Triangle's Economy Pushes Growth

The Triangle is hot off another strong year for its multifamily sector, which is showing no signs of slowing down in 2019. Demand in Raleigh-Durham is on an upswing, boosted by favorable demographic trends and a diversifying economy.

The metro added 26,000 jobs in 2018, a 2.9% increase, well above the 2.1% national rate. Growth was led by trade, transportation and utilities (6,100 jobs), followed by education and health services (4,900 jobs) and professional and business services (3,700 jobs). Construction jobs saw a significant increase—up 7.8% for 3,600 positions—due to multiple development projects. The first mixed-use building completed by Longfellow Real Estate Partners in the 1.7 million-square-foot Durham Innovation District includes office and lab space, with residential and retail components to follow. The industrial sector is also thriving. Amazon is working on a 2.6 million-square-foot high-tech distribution center in Garner, and Scannell Properties announced an 893,000-square-foot industrial project in Durham.

Developers had 9,000 rental units underway in the metro as of February. Healthy employment and wage increases, coupled with robust investor interest and a thriving technology sector, are bound to keep rent growth steady. Yardi Matrix expects rents to rise 3.4% by the end of 2019.

Recent Raleigh Transactions

The Pointe at Crabtree



City: Raleigh, N.C.
Buyer: Dermot Co.
Purchase Price: \$46 MM
Price per Unit: \$137,202

Lenox at Patterson Place



City: Durham, N.C.
Buyer: Chartwell Holdings
Purchase Price: \$42 MM
Price per Unit: \$143,836

54 Station



City: Durham, N.C.
Buyer: Chaucer Creek Capital
Purchase Price: \$40 MM
Price per Unit: \$151,515

Summerwind

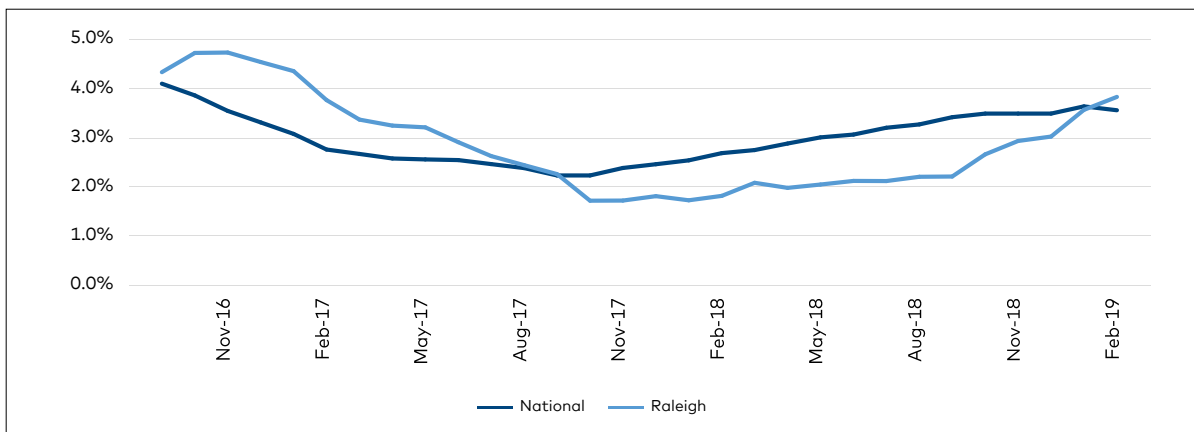


City: Garner, N.C.
Buyer: Summit Management
Purchase Price: \$31 MM
Price per Unit: \$169,444

Rent Trends

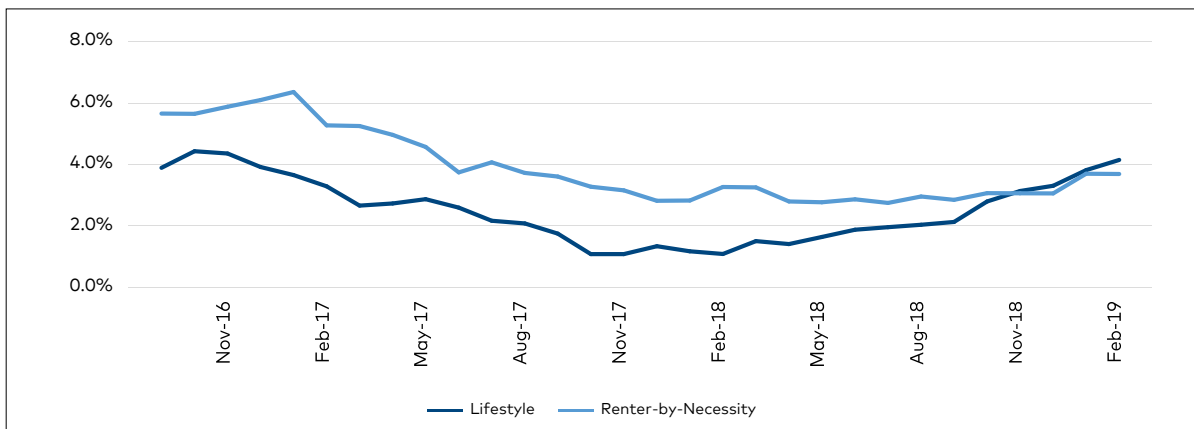
- Rents in Raleigh-Durham rose 3.8% year-over-year through February, 20 basis points above the national average. After bottoming out at 1.7% in October 2017, rent growth across the metro has picked up. Despite a consistent amount of new supply delivered during the past two years, rents are on an upward trajectory, having surpassed the national rate of growth as of this February. The average rent stood at \$1,165 in the second month of the year, \$261 below the national figure.
- Gains were led by the Lifestyle segment, with rates up 4.1% to \$1,257, for the first time this cycle. Rents in the working-class Renter-by-Necessity segment rose 3.7% to \$984.
- Rhamkatte (\$1,501), Downtown Durham (\$1,498) and Ridgewood (\$1,403) remained the most expensive submarkets. However, rents in northern and northeastern Raleigh—Anderson Heights (6.9%), Neuse Crossroads (6.9%), Wake Forest (6.6%), Wakeview (6.5%)—grew at the fastest rates year-over-year, fueled in part by the announced commuter rail extension in the area.
- With demand high across all asset classes, and a return to previous completion highs unlikely, Yardi Matrix expects rents in the metro to rise 3.4% by year's end.

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)

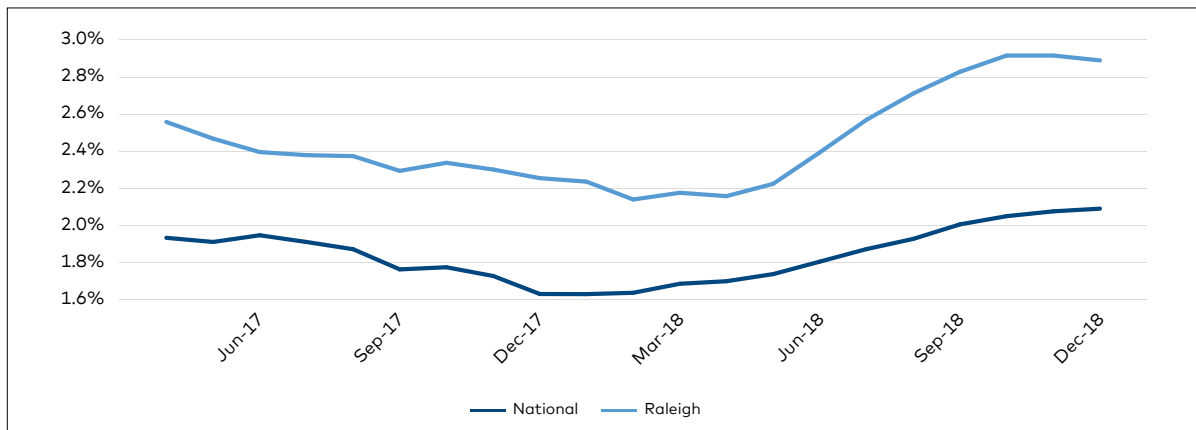


Source: YardiMatrix

Economic Snapshot

- Raleigh–Durham added 26,000 jobs in 2018 for a 2.9% expansion, 80 basis points above the national figure. Employment was solid across the metro during the second half of the year, with the rate last dipping below 2.5% in June 2018.
- Trade, transportation and utilities led gains with 6,100 jobs added, followed by education and health services, with 4,900 positions. Mining, logging and construction expanded the most (7.8%), with the addition of 3,600 jobs. These sectors are poised for further growth, as several mega-developments are expected. Amazon is investing \$200 million in a 2.6 million-square-foot high-tech distribution center in Garner, scheduled to open this year and employ 1,500 people. Scannell Properties announced an 893,000-square-foot industrial project in Durham, while UNC Health is expanding with new medical office buildings in Cary, Raleigh and Chapel Hill, where it has begun work on a 335,000-square-foot surgical tower. UNC Rex Healthcare is also building a \$136 million hospital in Holly Springs.
- The metro's diverse economic base has had a significant impact on the Triangle's transportation network. Congestion continued to increase in the region, and even though approved transit plans call for a light-rail line connecting Chapel Hill and downtown Durham, Duke University recently rejected a proposed 17.7-mile project.

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	%
40	Trade, Transportation and Utilities	157	16.3%	6,100	4.0%
65	Education and Health Services	147	15.2%	4,900	3.4%
60	Professional and Business Services	164	17.0%	3,700	2.3%
15	Mining, Logging and Construction	50	5.2%	3,600	7.8%
55	Financial Activities	50	5.2%	2,700	5.7%
90	Government	171	17.7%	1,300	0.8%
30	Manufacturing	64	6.6%	1,300	2.1%
70	Leisure and Hospitality	98	10.2%	1,000	1.0%
50	Information	28	2.9%	800	3.0%
80	Other Services	35	3.6%	600	1.7%

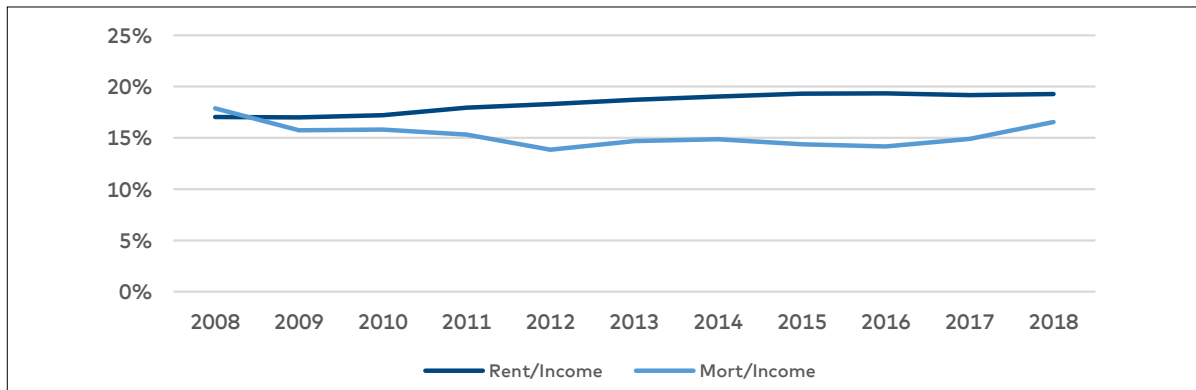
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

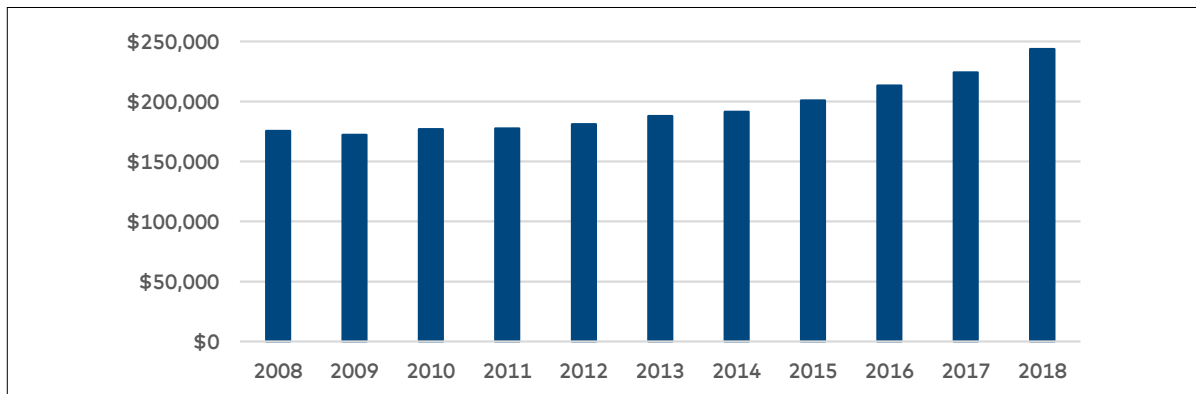
- At \$243,642, the median home value hit a new cycle high in 2018, up 38.8% from the 2008 level. Owning remained the slightly more affordable option, with the average mortgage payment accounting for 17% of the area's median income. The average rent of \$1,165 equated to 19% of income.
- Although considered a less expensive secondary market, Raleigh-Durham is in the midst of an affordable housing shortage. Durham Mayor Steve Schewel intends to place a \$95 million bond issue on the November ballot to fund the construction and preservation of affordable housing units over the next five years.

Raleigh Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Raleigh Median Home Price



Source: Moody's Analytics

Population

- Between 2010 and 2017, Raleigh added 197,686 residents, up 17.4%, more than three times the U.S. growth rate.
- Durham–Chapel Hill's population rose 11.6% during the same period.

Raleigh vs. National Population

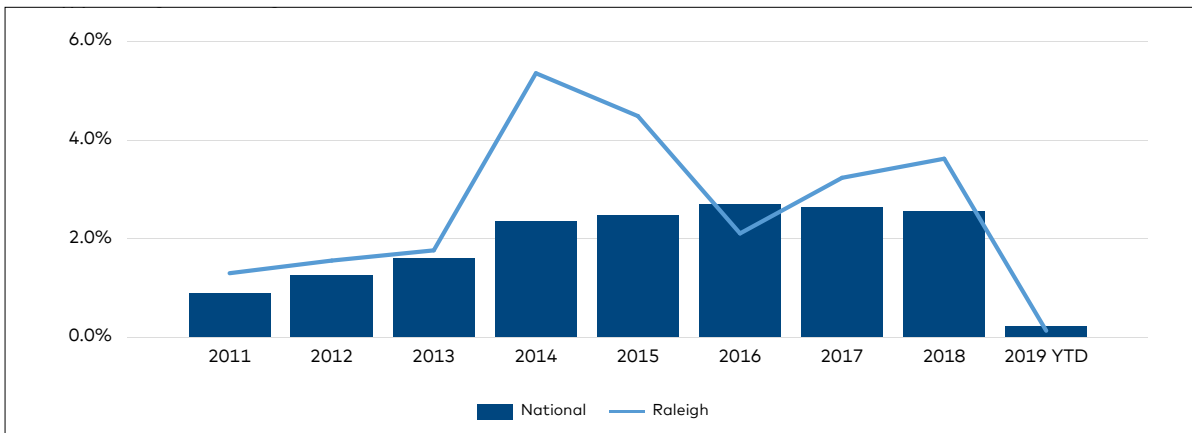
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Raleigh Metro	1,214,464	1,242,613	1,272,875	1,304,896	1,335,079

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

Supply

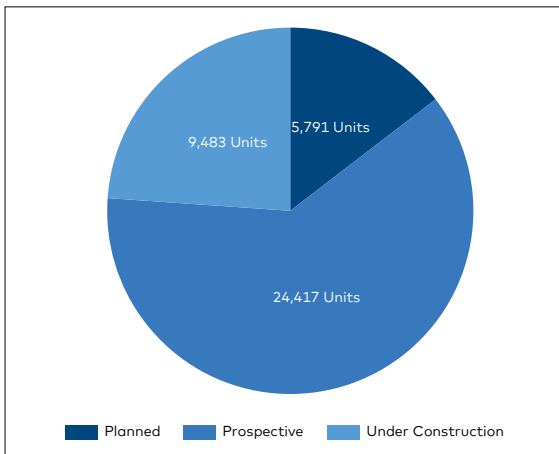
- Developers added 5,008 units to Raleigh-Durham's rental stock in 2018, as construction picked up. Demand in the market is fueled by positive demographic trends and a strong economy. Following record deliveries in 2014 and 2016 when 13,111 units were added, completions last year spiked once again, posting the market's third-strongest year of the cycle. Occupancy in stabilized properties was 94.7% as of January, 20 basis points below the U.S. average and up 50 basis points year-over-year.
- With 9,483 units underway as of February, construction activity is likely to remain robust. An additional 30,000 units were in the planning and permitting stages. Developers are still mostly catering to the Lifestyle segment, with two-thirds of assets under construction aimed at high-income earners, which is likely to put pressure on those seeking workforce-level housing.
- Most of the construction activity is concentrated in Chapel Hill (1,185 units), Morrisville (1,002 units), Duke University (760 units) and Downtown Raleigh (696 units), with several large projects close to major thoroughfares. Yardi Matrix expects one-third of the construction pipeline to be delivered by the end of this year.

Raleigh vs. National Completions as a Percentage of Total Stock (as of February 2019)



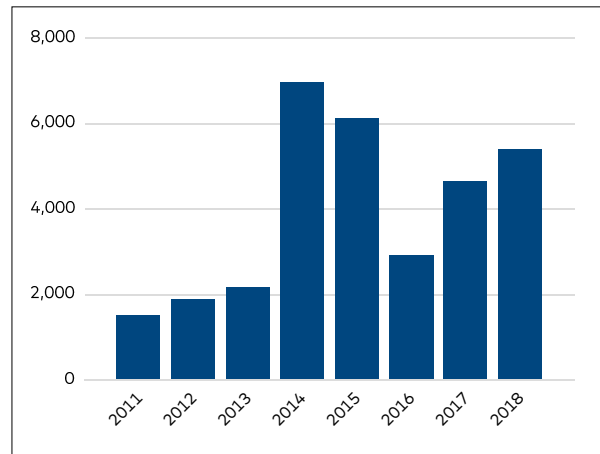
Source: YardiMatrix

Development Pipeline (as of February 2019)



Source: YardiMatrix

Raleigh Completions (as of February 2019)

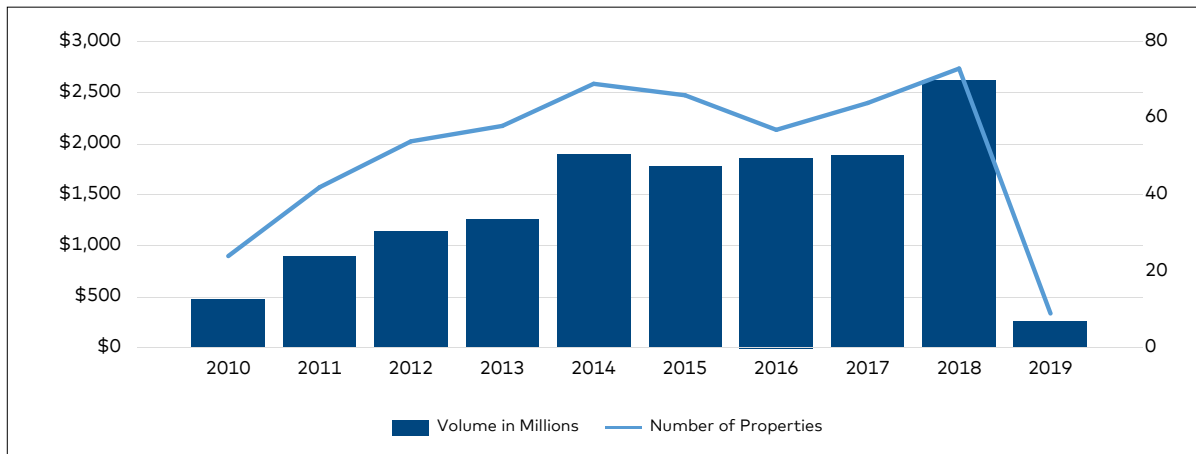


Source: YardiMatrix

Transactions

- Investment activity remained high across the metro, with approximately \$2.6 billion in multifamily assets changing hands in 2018, a new cycle peak. During the first two months of 2019, transaction volume surpassed \$257 million, signaling enduring investor appetite. Roughly two-thirds of the properties that traded in 2018 were in the Lifestyle segment, which has pushed per-unit prices to a cycle high of \$143,745, close to the \$154,305 national average. Acquisition yields for stabilized Class B and C properties in infill locations went as high as 6.5%.
- Drawn by the Triangle's solid fundamentals, investors targeted urban submarkets such as Glen Forest (\$249 million), Lowes Grove (\$248 million) and North Cary (\$222 million). The largest deal in the 12 months ending in February was Lantower Residential's purchase of the 308-unit Lantower Weston Corners in Cary. The recently completed community traded for \$73.9 million.

Raleigh Sales Volume and Number of Properties Sold (as of February 2019)



Source: YardiMatrix

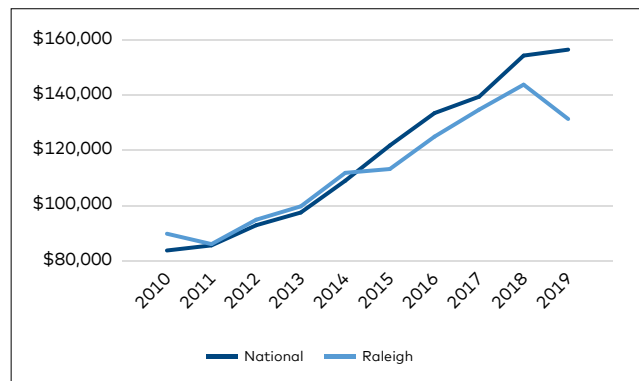
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Glen Forest	249
Lowes Grove	248
North Cary	222
Colony Park	152
Six Forks	143
Westover	120
Morrisville	119
Wynnewood	113

Source: YardiMatrix

¹ From March 2018 to February 2019

Raleigh vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Nuveen Real Estate Sells 336-Unit Raleigh Asset

The 14-building community changed hands for \$46.1 million. The buyer used a \$27.7 million loan originated by Prudential Financial to finance the acquisition.



CBRE Secures \$33M Acquisition Loan For New Durham Property

Chaucer Creek Capital is the new owner of 54 Station, a 264-unit community completed last year. The company plans to build an additional 24-unit building.



Preiss Co., Nuveen Real Estate Buy NC Student Housing

The joint venture has acquired Signature 1505, a recently completed community in Raleigh. According to Yardi Matrix data, Blue Vista Capital Group's student housing arm sold the 525-bed property for \$52.7 million.



Waterton Purchases NC Portfolio For \$169M

The properties include Ashford Green and The Retreat at McAlpine Creek in Charlotte, Atria at Crabtree Valley in Raleigh, and Audubon Parc in Cary. Bainbridge Cos. sold the four-property multifamily portfolio.



Hudson Capital Properties Pays \$55M For NC Community

Located in Cary, N.C., the 302-unit property will undergo extensive capital improvements across all units. The seller was White Oak Partners.



Magnolia Sells Raleigh Community After Short Hold

HFF marketed Stonehenge Apartments on behalf of the seller, which purchased the property last year for \$56.7 million.



Why a Smart Investment Strategy Includes the Triangle

By Laura Calugar

Raleigh-based NorthView Partners focuses on multifamily development, construction and investment management within the Triangle region of North Carolina. Currently, the company has more than 1,000 units under construction in Raleigh-Durham and roughly 1,700 Class A apartments in its portfolio.

What makes the Raleigh-Durham area great for investment, in addition to strong demographics and a healthy economy? NorthView Partners CEO Mark Barker shares the reasons behind the company's expansion plans in the market.

How would you describe the Triangle's multifamily market at the beginning of 2019?

The Raleigh-Durham market continues to perform well. This is mostly driven by job growth, as we've seen about 35,000 jobs added in the last 12 months, with an unemployment rate of 3.5 percent. We have seen a modest slowing in rent growth, resulting from the amount of supply being delivered in the overall market. Some submarkets have performed better than others, as those submarkets have not seen as much supply delivered and/or have experienced strong employment growth.

Which submarkets perform best and why?

We have properties in Northern Raleigh, Cary, Apex and Fuquay-Varina, N.C., and all have done well. We've seen the best performance in the southernmost portion of Wake County. We believe this is due to our product being tailored to each submarket, the tremendous residential



growth that is occurring and because Interstate 540 provides direct access to Research Triangle Park, the area's largest employer base.

You have recently expanded your business model to include senior housing. What led you to make this decision?

The demographics for Raleigh-Durham are very strong for senior housing. Based on previous work experience, we knew that senior housing is an operating business, not a real estate business. The development process is similar—

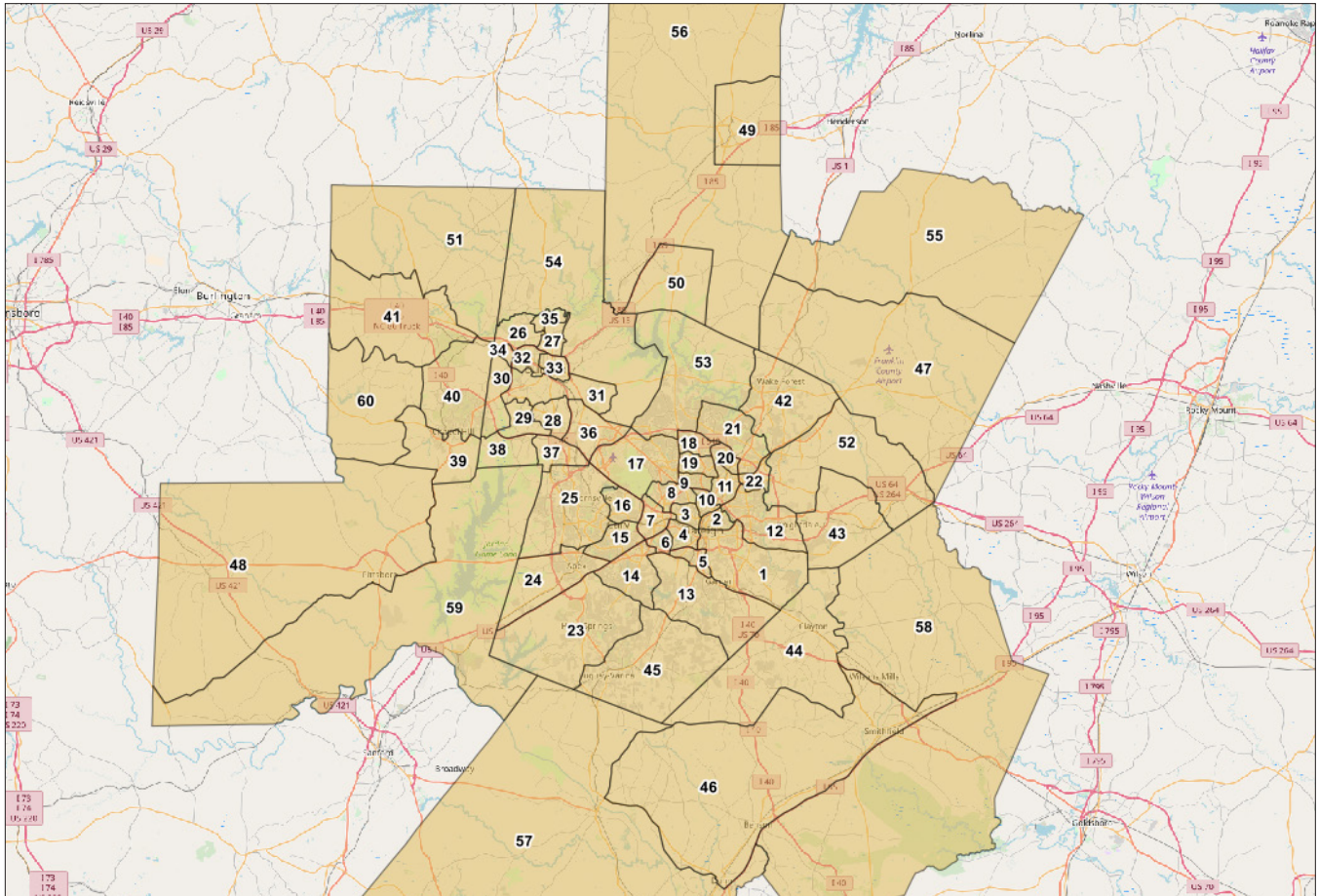
site identification, design process, entitlement process, etc.—but for a senior housing endeavor to be successful, a strong operator is needed.

Through local networking, we met Steve Morton and his son Arick, owners of Navion Senior Solutions. Based on several meetings, we developed a friendship, and that led to the formation of a strategic partnership to develop senior housing.

How do you expect the Raleigh-Durham multifamily market to perform in the year ahead?

Most forecasts are for the Raleigh-Durham market to continue to experience excellent job growth, population growth and an increasing and expanding economy. So as long as that happens, we'll continue to see the robust supply being delivered get absorbed. If the local economy does slow down, we could see some softness in occupancies in certain submarkets.

Raleigh-Durham 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.

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President
Fogelman Properties

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