

Yardi® Matrix

Demand Takes Over the Triangle

Multifamily Report Summer 2019

Per-Unit Prices Peak

Investment Activity Cools Off

Population Gains Outstrip U.S. Average

Market Analysis

Summer 2019

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Laura Calugar

Senior Associate Editor

Rent Growth Accelerates Steadily

Multifamily demand in Raleigh-Durham shows no signs of abating, backed by a positive demographic tide. The deep talent pool coming from the metro's top-level universities continues to fuel the economy, attracting developers and supporting intense construction activity.

Employment growth was led by professional and business services, a sector that gained almost a third of the total 5,800 positions added in the metro in the 12 months ending in May. Increases in higher-paying jobs, especially in the tech sector, have attracted young professionals to the area. Demand for both residential and commercial real estate to accommodate this growing workforce is on the rise. Two office buildings totaling 320,000 square feet have opened in Durham's 15-acre Innovation District, with a 300-unit residential building including ground-floor retail space to follow. The major impact of several large investments on the metro's infrastructure has urged the state's Regional Transportation Alliance to launch a pre-feasibility study for a Hyperloop One system connecting the area's cities and airport.

The metro had 9,257 units under construction as of June, with 5,800 of them slated for delivery this year. Despite the addition of more than 26,000 units during the past five years, rent growth has not been inhibited. Yardi Matrix expects rents to rise a robust 4.0% in 2019.

Recent Raleigh Transactions

501 Estates



City: Durham, N.C.
Buyer: Spyglass Capital Partners
Purchase Price: \$49 MM
Price per Unit: \$182,500

Tryon Place



City: Cary, N.C.
Buyer: Eaton Vance Investment Managers
Purchase Price: \$38 MM
Price per Unit: \$185,000

The Trails of North Hills



City: Raleigh, N.C.
Buyer: Federal Capital Partners
Purchase Price: \$33 MM
Price per Unit: \$119,355

Magnolia Pointe

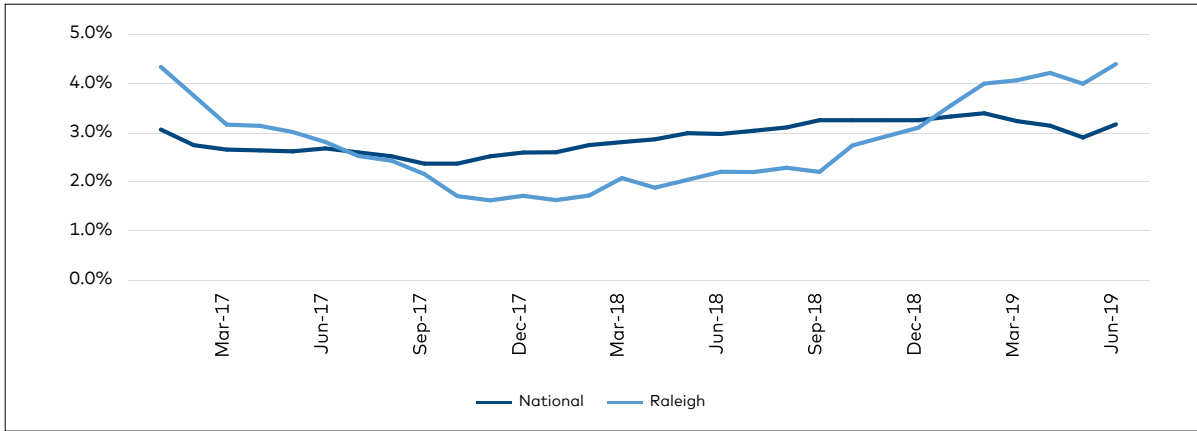


City: Durham, N.C.
Buyer: Fairfield Residential
Purchase Price: \$27 MM
Price per Unit: \$99,624

Rent Trends

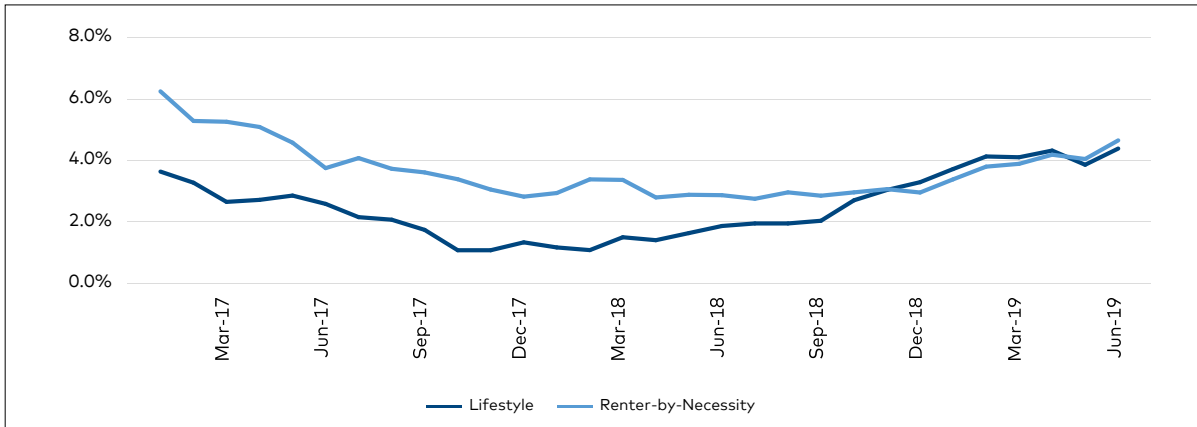
- Raleigh-Durham rents were up 4.4% year-over-year through June, 110 basis points above the national rate. After peaking at 4.8% in November 2016, rent growth in the Triangle steadily decelerated until May 2018, when it started gaining steam again, eventually surpassing U.S. rates as of January 2019. The average rent in the Raleigh-Durham area stood at \$1,211 midway through 2019, roughly \$250 below the U.S. figure. Despite significant deliveries during the past several years, the metro leads the state in terms of rent gains, outperforming Asheville (3.6%), Greenville (3.8%) and even Charlotte (3.9%).
- Population growth, one of the key drivers of multifamily demand, coupled with proximity to higher education and a bustling tech sector, has spurred strong rent increases. Rates in the working-class Renter-by-Necessity segment rose 4.6% to \$1,013, while Lifestyle rents increased 4.4% to \$1,309.
- Rents grew at the strongest rates in northern and northwestern Raleigh submarkets: Lynn (8.6%), Wake Forest (7.9%) South Cary (7.7%) and Research Triangle (7.5%). However, urban core areas were still the priciest, with Rhamkatte (\$1,601) leading the way, followed by Downtown Durham (\$1,508) and Ridgewood (\$1,458). Despite the metro's solid overall rental pipeline, Yardi Matrix expects rents to advance 4.0% this year.

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)

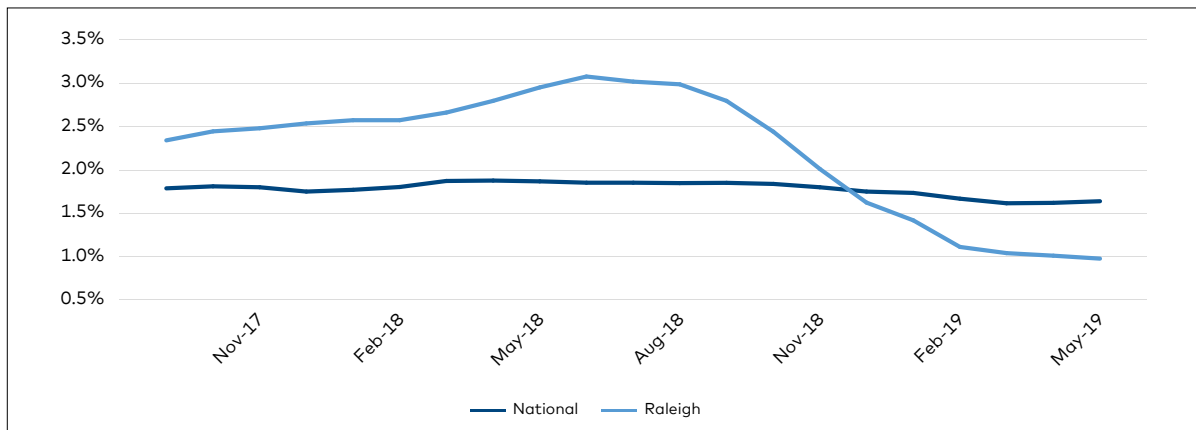


Source: YardiMatrix

Economic Snapshot

- Raleigh-Durham gained 5,800 jobs in the 12 months ending in May, a 1.0% expansion, 60 basis points below the national rate. Despite a clear deceleration following several years of strong performance, the metro's economic growth has kept the unemployment rate below the state's 4.1% May average.
- The top sector for employment growth was professional and business services, with 1,800 positions added. Home to UNC Chapel Hill, N.C. State and Duke University, North Carolina's Research Triangle is well-known for its top-notch schools, which provide highly educated workers for the area's booming tech and life sciences clusters. Government and trade, transportation and utilities gained almost 3,000 jobs combined. Amazon's delivery station in Durham recently opened, adding 400 jobs, while the company's \$200 million, 2.6 million-square-foot distribution hub in Garner is set to open next.
- Due to its accessible cost of living and alluring lifestyle, the Research Triangle remains one of the fastest-growing regions in the country. The City is looking to redefine its urban core through projects that appeal to a young talent pool: A 308-acre park is taking shape on a former mental hospital campus adjacent to Raleigh's growing downtown area.

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	166	17.3%	1,800	1.1%
90	Government	169	17.6%	1,500	0.9%
40	Trade, Transportation and Utilities	150	15.6%	1,400	0.9%
70	Leisure and Hospitality	102	10.6%	800	0.8%
15	Mining, Logging and Construction	49	5.1%	300	0.6%
50	Information	27	2.8%	200	0.8%
55	Financial Activities	48	5.0%	100	0.2%
30	Manufacturing	64	6.7%	100	0.2%
80	Other Services	36	3.7%	-100	-0.3%
65	Education and Health Services	151	15.7%	-300	-0.2%

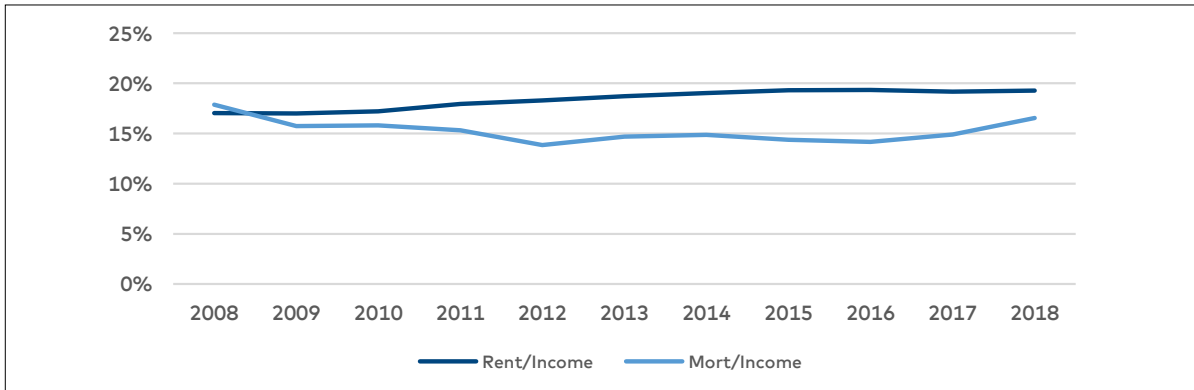
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

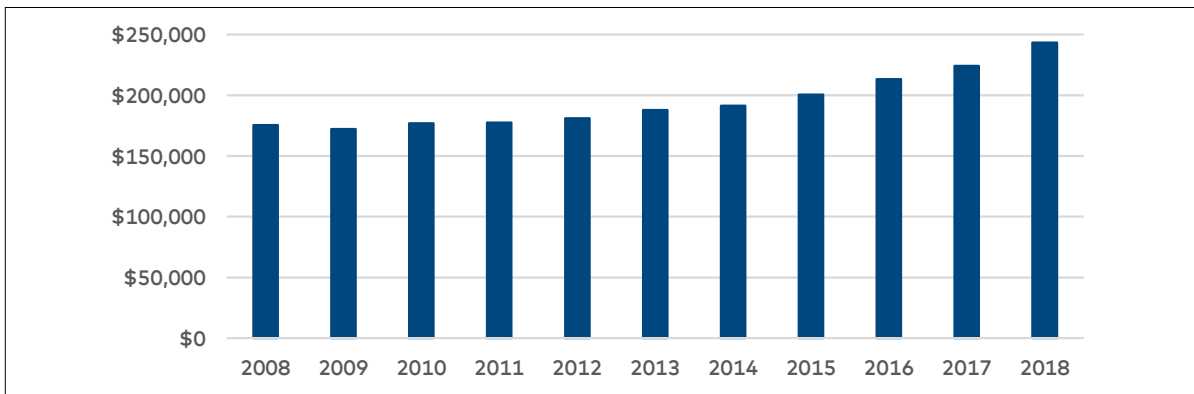
- The median home price in Raleigh-Durham continued to rise in 2018, peaking at \$243,364, following a 40% increase during the past decade. Owning was slightly more affordable than renting last year, with the average mortgage payment accounting for 17% of the area's median income and the average rent of \$1,211 equating to 19% of the income.
- According to a recent Freddie Mac study, fast-growing U.S. cities are losing affordable housing at an alarming rate. As Raleigh's population grew by 17% between 2010 and 2017, the number of units destined for affordable-to-low-income families dropped by more than 40%.

Raleigh Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Raleigh Median Home Price



Source: Moody's Analytics

Population

- In 2017, Raleigh added some 30,000 residents, while Durham-Chapel Hill gained 8,500 residents.
- In-migration drives much of the state's growth, but locals are more inclined to stay here than in other parts of the U.S.

Raleigh vs. National Population

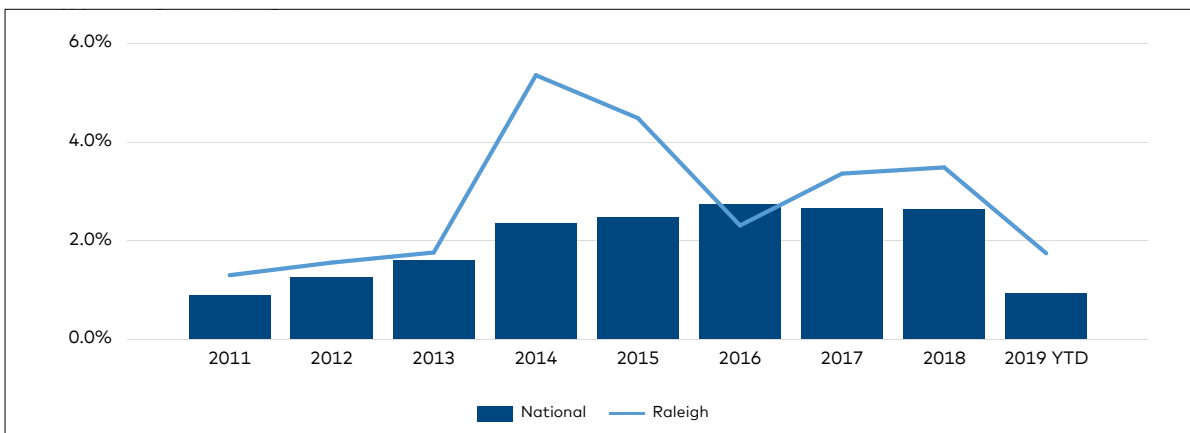
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Raleigh Metro	1,214,464	1,242,613	1,272,875	1,304,896	1,335,079

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

Supply

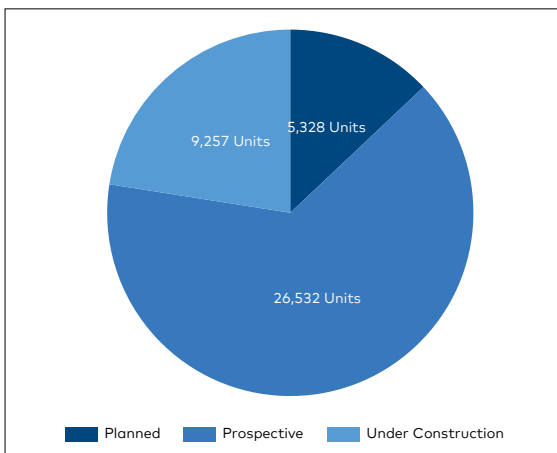
- Development activity in Raleigh-Durham is intense, with 9,257 units under construction as of June. The metro's pipeline has been powering through, despite the widespread lack of skilled labor and accelerating construction costs. Yardi Matrix expects 5,800 units to come online in 2019, which would mark yet another solid year for completions. However, overall deliveries are not likely to exceed 2014's cycle high of almost 7,000 units.
- Year-to-date through June, developers added 2,607 units to the metro's rental stock. Fueled by a diversifying economy and strong demographic trends, demand continues to be high across asset classes. Still, developers heavily favor the Lifestyle segment, with almost three-quarters of the properties underway targeting high-income residents. Occupancy in stabilized properties was 94.6% as of May, up 20 basis points year-over-year and 40 basis points below the U.S. average.
- Chapel Hill led construction activity, with 1,185 units underway as of June. Almost a third of those will cater to the submarket's broad student base. Oakwood (747 units under construction) is home to the largest property underway in the metro: Kane Realty's 445-unit Peace project, to be completed in 2020.

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



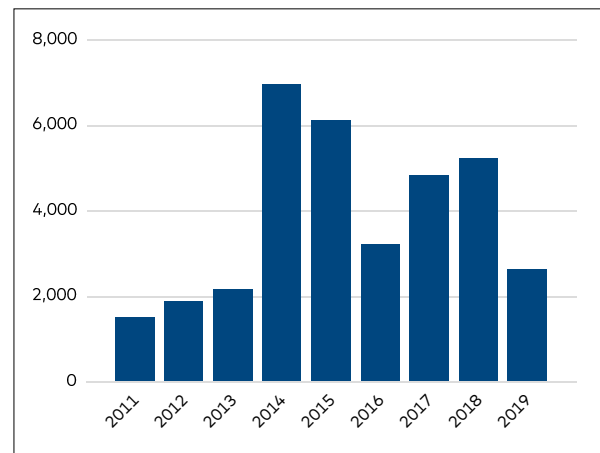
Source: YardiMatrix

Development Pipeline (as of June 2019)



Source: YardiMatrix

Raleigh Completions (as of June 2019)

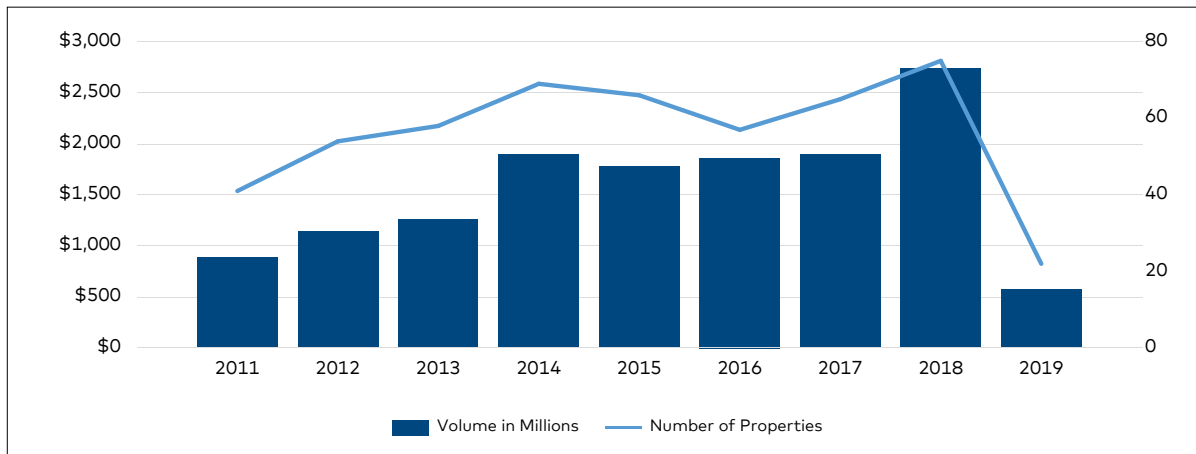


Source: YardiMatrix

Transactions

- Transaction volume in Raleigh-Durham surpassed \$2.7 billion in 2018, a new cycle peak. Investor appetite slowed down a bit during the first half of 2019, with only \$575 million in multifamily assets changing hands. Investors targeted both Class A properties and value-add product, mainly in suburban areas of the metro, bringing the average per-unit price to \$134,796, some \$22,000 below the national figure.
- North Cary (\$222 million), Glen Forest (\$205 million) and Lowes Grove (\$167 million) continued to be the most heavily transacted submarkets, accounting for roughly a quarter of the \$2.3 billion total sales volume recorded during the 12 months ending in June. Although Nuveen Real Estate's \$78.4 million purchase of the 385-unit Marshall Park in Laurel Hills was the largest transaction, Carroll Org. was the most active buyer in the metro, paying \$392 million for seven properties totaling 2,743 units.

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



Source: YardiMatrix

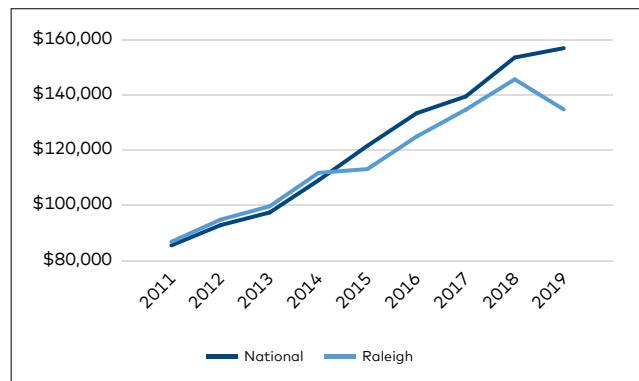
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
North Cary	222
Glen Forest	205
Lowes Grove	167
Six Forks	143
Westover	136
Morrisville	119
Wynnewood	113
Colony Park	110

Source: YardiMatrix

¹ From July 2018 to June 2019

Raleigh vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

Brought to you by:



Get the latest in local real estate news on [Multi-HousingNews.com](https://www.Multi-HousingNews.com)



Public-Private Partnership Kicks Off Durham Project

DHIC, Self-Help and local authorities broke ground on Willard Street Apartments, downtown's first newly constructed, fully affordable community for households earning 60 percent or less of the area's median income.



Zaremba Group Buys Raleigh Community For \$45M

The sale of the 191-unit luxury asset in North Carolina comes less than four months after the property opened its doors. Zaremba financed the acquisition with a \$24.8 million loan from PNC Bank.



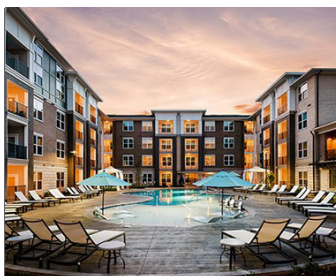
Eller Capital Acquires NC Community For \$19M

Carroll Org. sold the 188-unit multifamily asset less than a year after acquiring it as part of a 40-property portfolio. LaSalle Mortgage Real Estate Investors provided a \$20.4 million loan to the new owner.



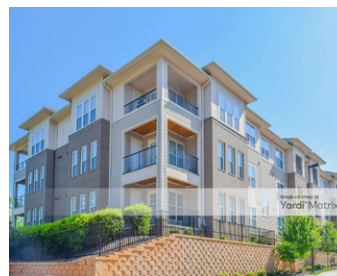
NCCU Kicks Off 2 Student Housing Communities

Scheduled for completion in 2021, the properties will feature 1,247 beds. An additional residential hall, Lawson Street Residential Hall, is projected for completion in 2021.



RK Properties Buys North Carolina Apartments

The purchase of Bainbridge Lake Crabtree in Morrisville represents the company's second acquisition in the metro over the past two months.



Raleigh-Durham Community Sells For \$38M

The deal marks Centennial Holding Co.'s second major sale of the year. The firm acquired the asset from Dominion Realty Partners in 2014 for \$32.3 million.

Top 5 Apartment Owners in Raleigh-Durham



data by
Yardi Matrix

By Jeff Hamann

The Raleigh-Durham, N.C., metro has long been in the sights of investors, owing to strong and steady employment and population growth. Rents across the metro grew by an average of 2.8 percent year-over-year through May, more than double the national rate. The vast majority of the largest apartment owners across the Triangle are regional or national investors. Of the 46 investors with a portfolio of more than 1,000 units, only five are exclusively focused on Raleigh-Durham.

Company	No. of Communities	Units	Largest Community
MAA	15	5,200	Post Parkside at Wade, 803 units
General Services Corp.	16	4,839	Duke Manor Apartments, 904 units
Carroll Org.	10	3,685	ARIUM Lake Johnson, 576 units
Camden Property Trust	8	3,054	Camden Manor Park Apartments, 484 units
Weinstein Properties	9	2,806	Bexley at Triangle Park Apartments, 434 units

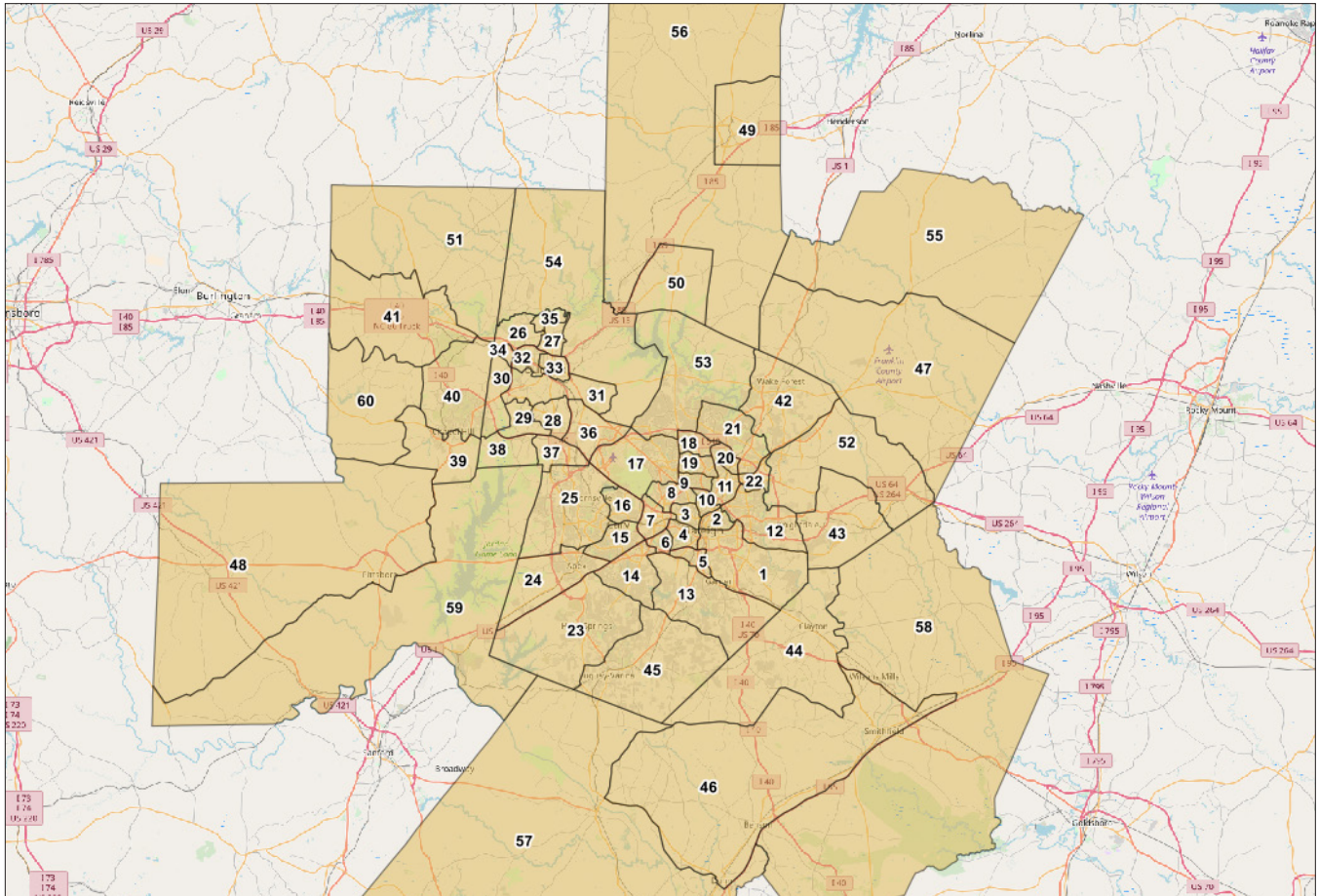
MAA

MAA is the largest owner in the metro with a total of 5,200 units. The REIT's overall portfolio includes some 100,000 units nationwide, from Washington, D.C., to Las Vegas. The trust is also Austin's largest apartment owner.

The firm's Raleigh-Durham portfolio is spread across 10 submarkets. The largest property, the 803-unit Post Parkside at Wade, is in the middle of an expansion project. The development is slated to deliver by the end of the year, adding 150 units alongside several recently constructed office buildings. The completed part of the community was 95.3 percent leased as of May.



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	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 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.

Q How do you | get your property data?

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



MARK FOGELMAN
PRESIDENT
FOGELMAN PROPERTIES



800.866.1144
YardiMatrix.com

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.

© 2019 Yardi Systems, Inc. All Rights Reserved.