



Yardi® Matrix

Raleigh-Durham Holding Strong

Multifamily Report Fall 2019

Rent Growth Tops US Average

Occupancy Rate Stays Healthy

Transaction Activity Moderates Slightly

Market Analysis

Fall 2019

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Rapid Absorption Pushes Rents Up

Fueled by a strong economy and sustained demographic expansion, the Triangle's multifamily market remains one of the fastest-growing major metros in the U.S. Only two West Coast markets outperformed Raleigh (5.1%) in year-over-year rent growth this year through October. However, the metro is still affordable, with its \$1,228 average rent heavily trailing the \$1,476 U.S. rate.

Job growth was broad, with education and health services accounting for almost a quarter of the 24,800 jobs gained year-over-year through September. Several projects could further boost the sector: Skanska started work on the \$257 million UNC Hospital Surgical Tower in Chapel Hill. In addition, millennials continue to be attracted by the Triangle's large concentration of universities and tech companies such as Red Hat and IBM. Demand for office and R&D space is on an upswing and several mixed-use projects such as Longfellow's 1.7 million-square-foot Innovation District are catering to the growing needs of the Triangle.

Development activity continued at a high rate in Raleigh-Durham in 2019. With more than 4,700 units completed in the first 10 months of the year and an additional 9,224 under construction as of October, Raleigh-Durham's multifamily sector is slated for a strong 2020.

Recent Raleigh Transactions

Alexan North Hills



City: Raleigh, N.C.
Buyer: Starlight Investments
Purchase Price: \$71 MM
Price per Unit: \$239,057

The Residences at Wakefield



City: Raleigh, N.C.
Buyer: Nuveen Real Estate
Purchase Price: \$71 MM
Price per Unit: \$196,111

Manor Six Forks



City: Raleigh, N.C.
Buyer: Waterton
Purchase Price: \$58 MM
Price per Unit: \$194,631

Thornhill

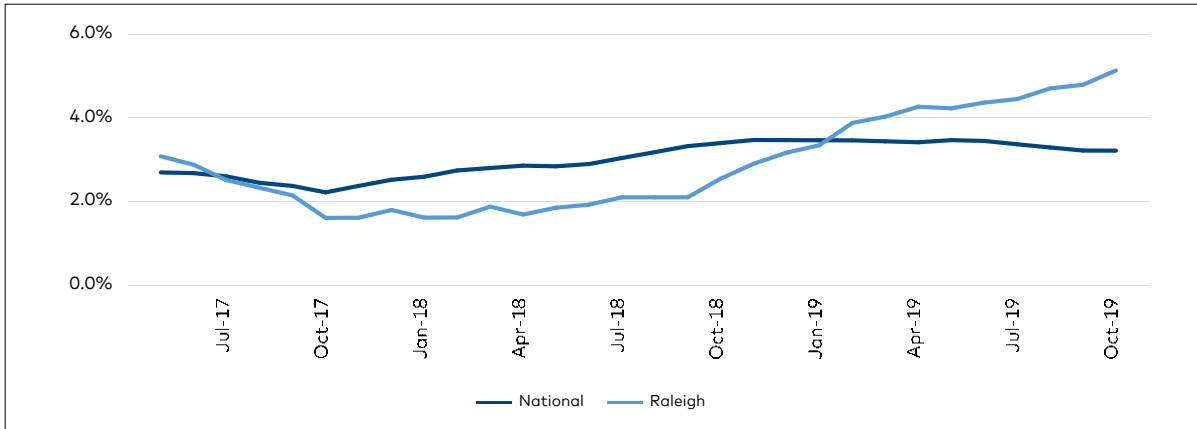


City: Raleigh, N.C.
Buyer: Independence Realty Trust
Purchase Price: \$53 MM
Price per Unit: \$166,431

Rent Trends

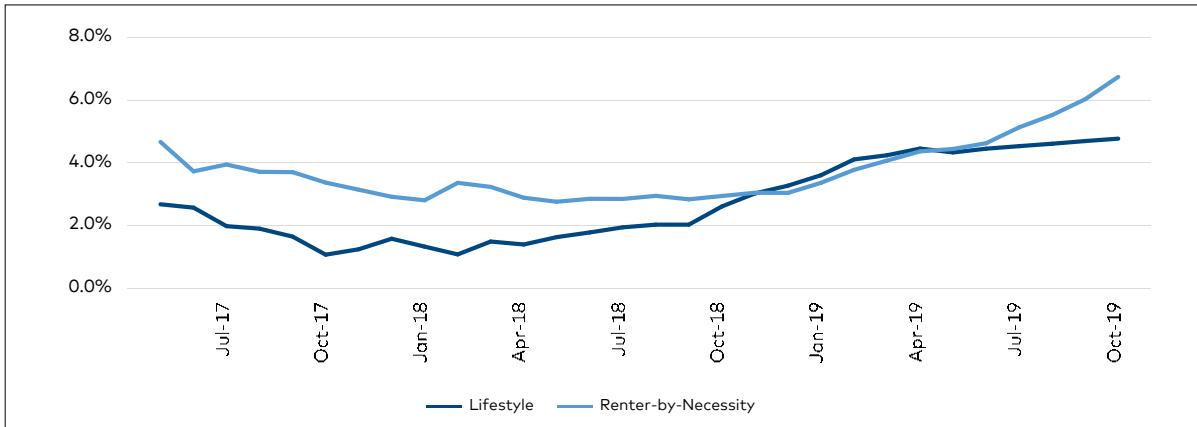
- Raleigh-Durham rents were up 5.1% year-over-year through October, 190 basis points above the national rate. The multifamily market in the metro continued its strong performance, backed by healthy demand and the Triangle's attractive economic climate. Raleigh's rent growth was just a notch below western leaders such as Phoenix (7.9%) and Las Vegas (6.4%). However, the \$1,228 average rent as of October stood \$248 below the national figure.
- Rent growth was led by the working-class Renter-by-Necessity segment, which rose 6.7% in the 12 months ending in October to a cycle peak of \$1,045. Average rents in the Lifestyle segment also reached a record, advancing 4.8% to \$1,318.
- Submarkets such as Rhamkette (\$1,622), Downtown Durham (\$1,521) and Ridgewood (\$1,471) remained the most expensive. However, rents grew the fastest in northern Raleigh with New Hope (up 9.1% year-over-year) leading the way, followed by Lynn (up 9.0%).
- With Raleigh-Durham adding new housing supply at a sustained pace, we expect rent growth to moderate slightly in 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)

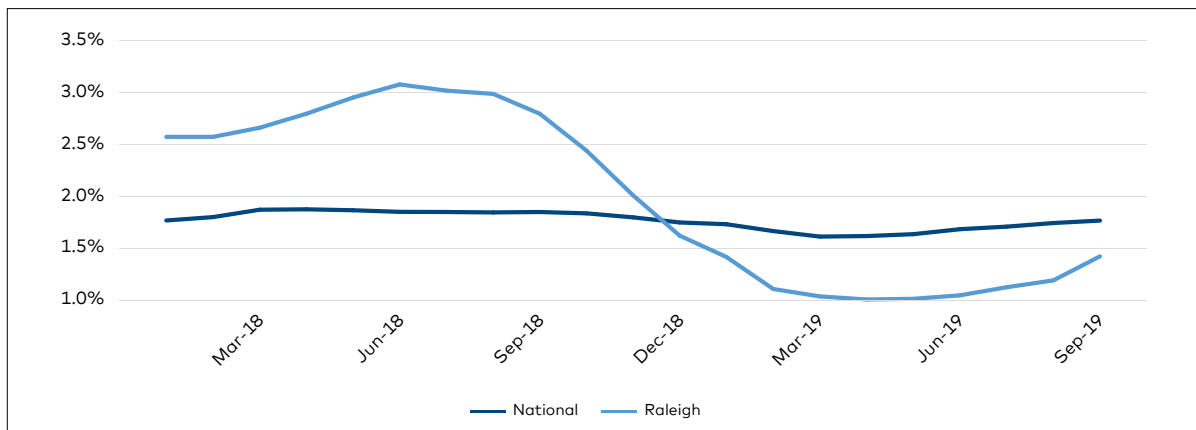


Source: YardiMatrix

Economic Snapshot

- Raleigh-Durham gained 24,800 jobs in the 12 months ending in September, up 1.4% year-over-year and 40 basis points below the national rate. Despite a clear deceleration since mid-2018, the metro's economic growth picked up toward the end of the third quarter.
- Leading the way was education and health services, which gained 5,600 jobs. The sector is poised for further growth as several projects are planned or underway. Skanska is building the \$257 million, 335,000-square-foot UNC Hospitals Surgical Tower in Chapel Hill. With North Carolina State University, Duke University and other top-tier educational institutions constantly fueling the talent pool, the metro is rapidly producing highly educated workers for STEM jobs across the Triangle—the professional and business services sector has added 5,200 jobs so far this year. STEM job wages, coupled with a rather affordable cost of living, are making Raleigh-Durham a viable alternative to expensive tech hubs such as Seattle or Silicon Valley.
- To accommodate the metro's ever-growing population, the North Carolina Department of Transportation is repairing one of the Triangle's busiest thoroughfares—the strip between Walnut Street in Cary and Wade Avenue in Raleigh. The Lane Construction Corp. won a \$347 million contract for the final design and construction of the beltline 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	%
65	Education and Health Services	153	15.8%	5,600	3.8%
60	Professional and Business Services	170	17.5%	5,200	3.1%
40	Trade, Transportation and Utilities	151	15.6%	4,700	3.2%
70	Leisure and Hospitality	101	10.4%	3,900	4.0%
90	Government	168	17.3%	1,700	1.0%
15	Mining, Logging and Construction	50	5.2%	1,200	2.5%
30	Manufacturing	64	6.6%	700	1.1%
55	Financial Activities	49	5.1%	700	1.5%
50	Information	27	2.8%	600	2.3%
80	Other Services	36	3.7%	500	1.4%

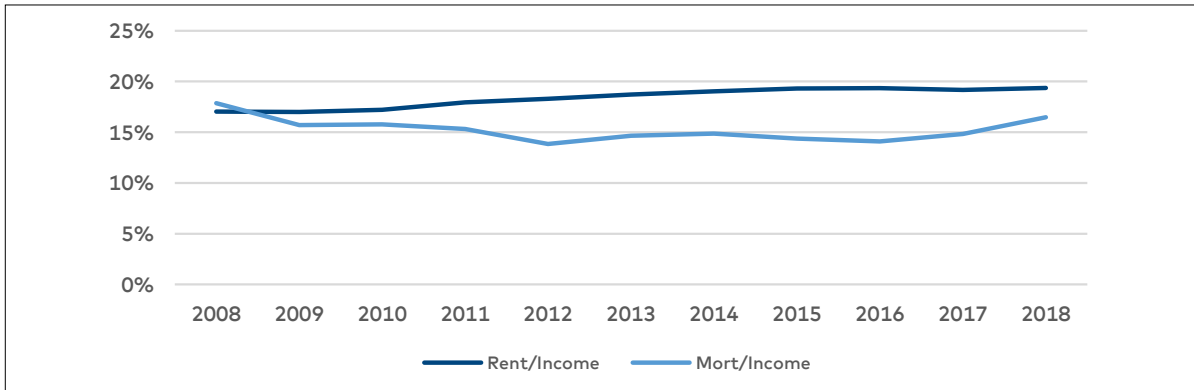
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

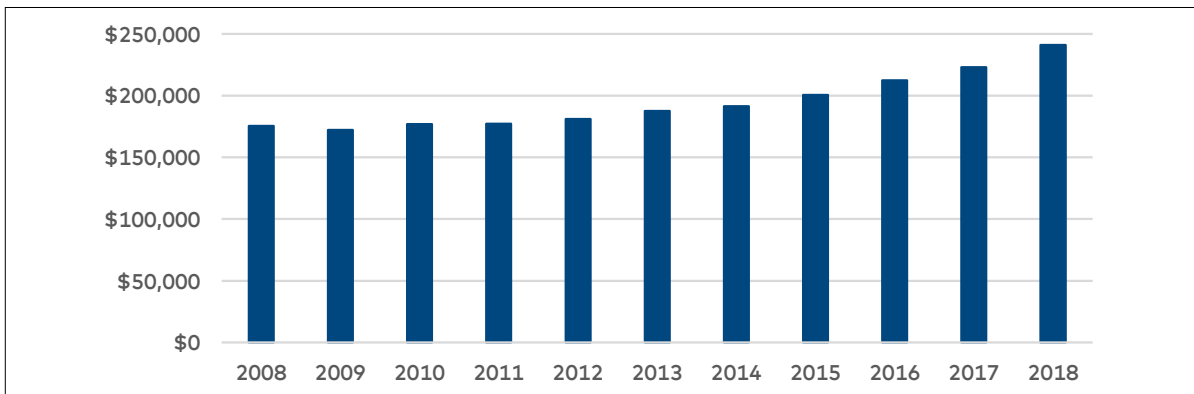
- Although Raleigh-Durham is a rather affordable secondary market, the median home price in the metro has risen 37.5% in the past decade, peaking at \$241,168 in 2018. The average mortgage payment in the metro took 16% of the area's median income, while the average rent comprised 19%.
- In November, Durham voters supported a \$95 million affordable housing bond, which is part of the city's larger \$160 million, five-year plan to address affordable housing, reduce homelessness and stabilize neighborhoods. Raleigh officials pledged to add 5,700 affordable housing units to the metro's southeast region during the next 10 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

- Raleigh's population rose 2.1% in 2018, making it the fastest-growing city in the Carolinas, followed by Charlotte with a 1.8% demographic expansion and Durham-Chapel Hill with 1.6%. Last year, the national growth rate was only 0.6%.

Raleigh vs. National Population

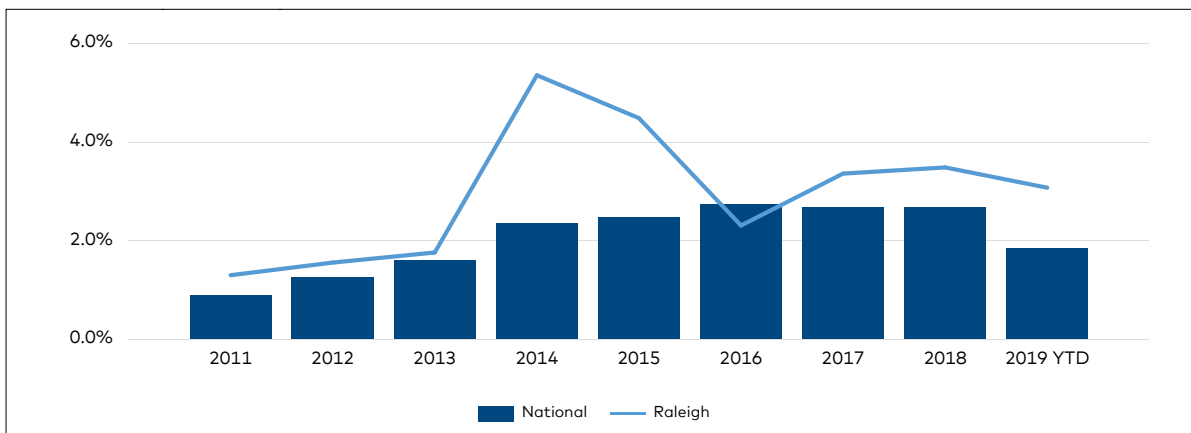
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Raleigh Metro	1,241,236	1,271,196	1,303,845	1,334,342	1,362,540

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

Supply

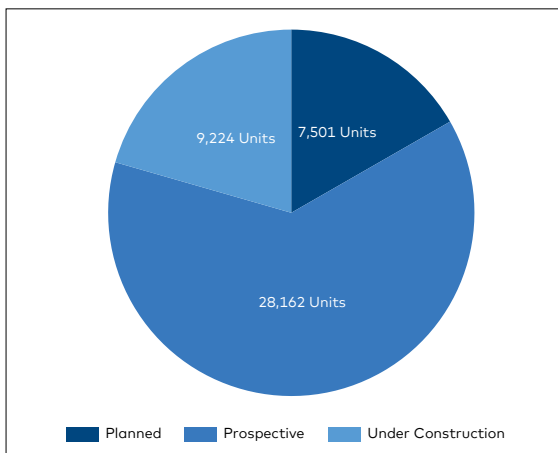
- Raleigh-Durham had 9,224 multifamily units under construction as of October. Despite the addition of more than 31,000 units since 2014, developer interest in the Triangle remained high, particularly in Durham's core and across several high-growth Raleigh suburbs. Meanwhile, occupancy in stabilized properties was flat year-over-year, at 94.8% as of October.
- A total of 4,702 units were completed across the metro year-to-date through October. Most of them came online in Morrisville (881), a submarket in which developers are also looking to capitalize on heightened investment activity, as the area also led the market for transaction volume. Although development has been largely focused on luxury apartments in the metro in the past few years, rents in the Lifestyle segment rose 4.8% year-over-year through October, a cycle record.
- Chapel Hill continues to dominate the development pipeline with 1,350 units underway as of October. Many apartments will cater to University of North Carolina students, while others will be close to major thoroughfares such as Interstate 40 or near Skanska's \$257 million upcoming UNC Hospitals Surgical Tower.

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



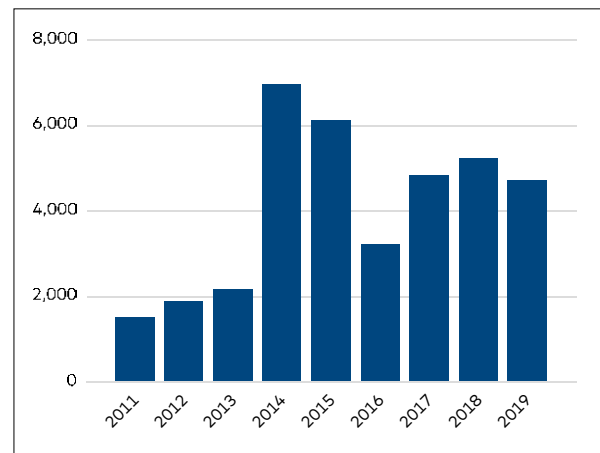
Source: YardiMatrix

Development Pipeline (as of October 2019)



Source: YardiMatrix

Raleigh Completions (as of October 2019)

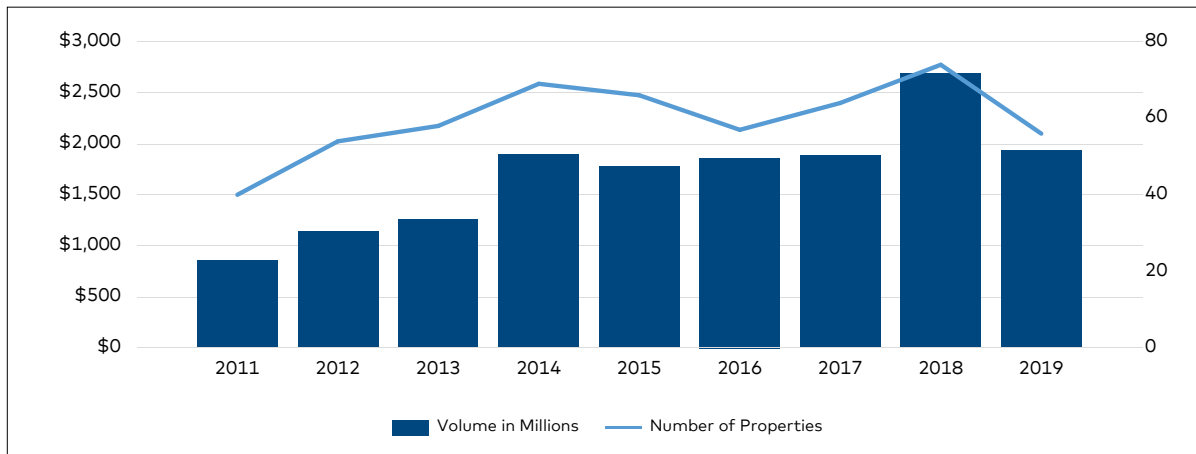


Source: YardiMatrix

Transactions

- Following last year's cycle peak of \$2.7 billion, multifamily transaction activity has shifted down in 2019, reaching \$1.9 billion at the end of October. However, given the metro's appeal and strong economic prospects, investment activity is likely to exceed \$2 billion by year-end, which would make this year the second strongest of the cycle from a sales volume standpoint. During the first 10 months of 2019, the average price per unit in Raleigh-Durham was \$148,828—a new cycle high for the metro, still some \$14,000 below the national average.
- Submarkets in the Triangle's core areas attracted the most capital in the 12 months ending in October, with Morrisville (\$438 million) leading the way. The investment volume in this submarket was impacted by the largest transaction in the metro. Woodfield Investments and Goldman Sachs sold The Aster—a recently completed, 493-unit luxury community—for \$119 million to Kettler.

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



Source: YardiMatrix

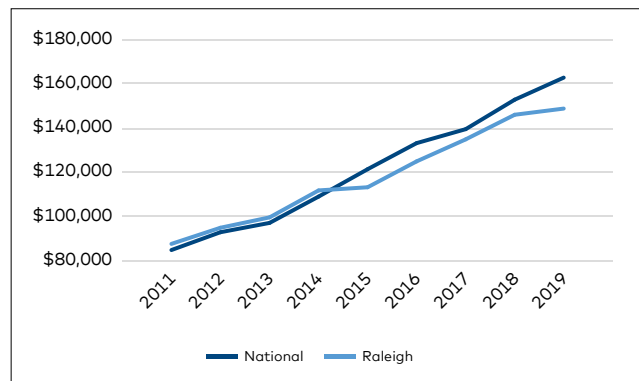
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Morrisville	438
Glen Forest	355
Colony Park	152
Six Forks	143
Millbrook	140
Piney Plains	136
Laurel Hills	130
Wynnewood	126

Source: YardiMatrix

¹ From November 2018 to October 2019

Raleigh vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Magma Equities Buys Value-Add Asset

The firm purchased a 199-unit community neighboring North Carolina State University. The new owner will make multimillion-dollar improvements.



Nuveen Expands Portfolio

The firm picked the 360-unit property for \$70.6 million. Bell Wakefield was 95 percent occupied at the time of sale.



Student Housing Assets Change Hands

The Priess Co. has sold a portfolio of three communities to a Chicago-based firm. The properties house a combined 890 beds.



TruAmerica Buys Portfolio for \$109M

The firm purchased three properties in Raleigh, marking its first acquisition in the state. A JLL team of Andrea Howard and John Currin represented the seller, Investcorp.



\$300M Multifamily Fund Gets 1st Close

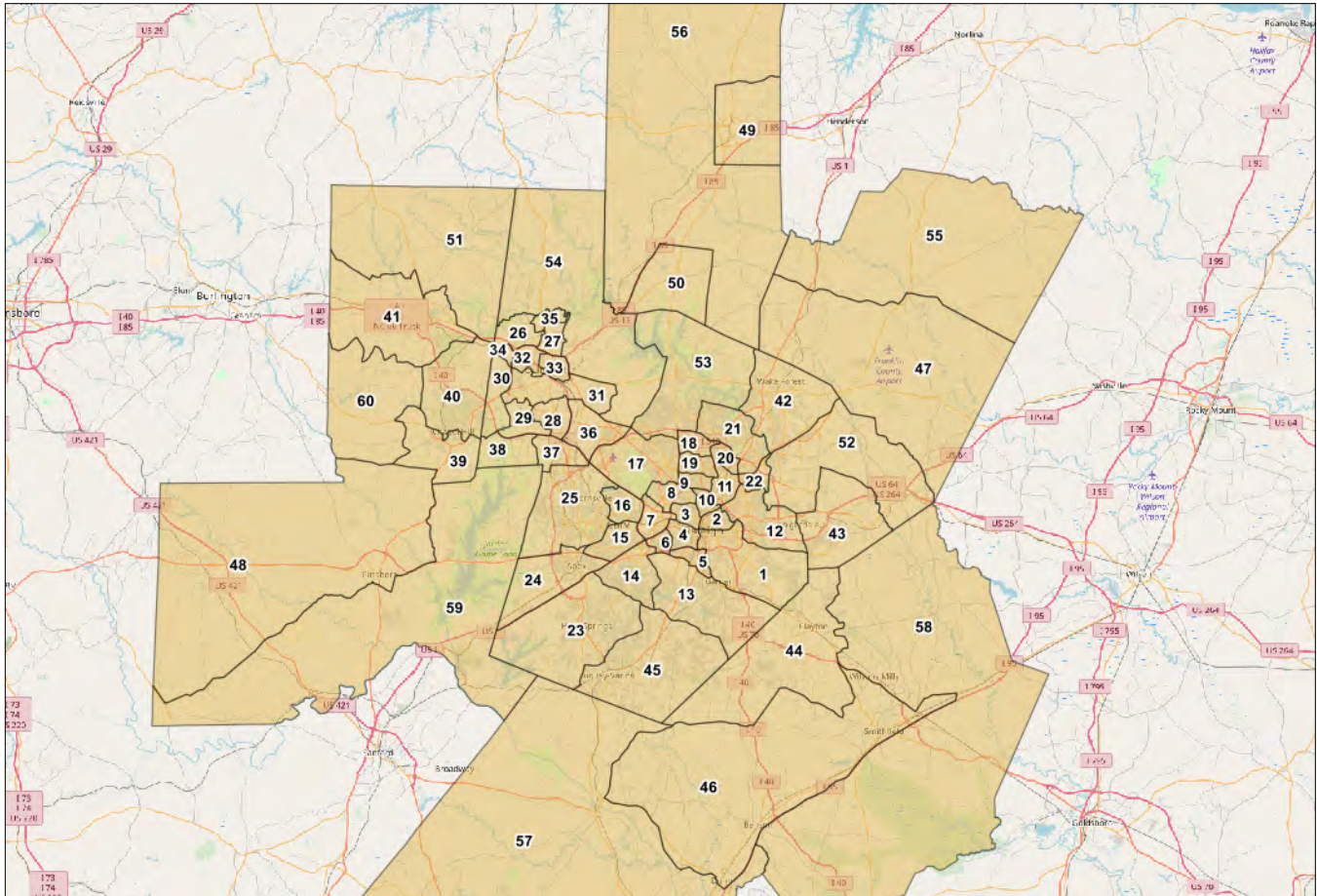
Atlantic | Pacific Cos. and Blue Arch Advisors have scored \$140 million of equity commitments for the vehicle.



Luxury Senior Housing Breaks Ground

The \$80 million facility is the developer's third Optimal Living-branded community. The project is slated for completion in late summer 2021.

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.

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