Market Insights

Raleigh-Durham Multifamily 3Q 2021

Northmarq

Construction Activity

8,162
Units under construction

2,453
Units delivered (YTD)

Market Fundamentals

3.5%
Vacancy

-210bps | Year over year change

$1,467
Asking Rent

+19.5% | Year over year change

Transaction Activity

$176,700
Median sales price per unit (YTD)

3.9% | Cap rates (YTD)

Rapid Absorption of Units Fueling Robust Rent Gains

Highlights

- Heightened absorption of apartment units in Raleigh-Durham is fueling the local multifamily market, with vacancies tightening and rents spiking. The surging property fundamentals have fueled the investment market in recent quarters, with very rapid activity recorded during the third quarter.
- Vacancy fell 130 basis points to 3.5 percent during the third quarter. Year over year, the rate has declined 210 basis points. Vacancy has nearly been trimmed in half after largely holding steady at around 6 percent in recent years.
- Tightening vacancy and a rapid pace of absorption have driven significant spikes in rents. Year over year, asking rents are up 19.5 percent at $1,467 per month.
- The investment market gained momentum during the third quarter, with sales outpacing the total for the entire first half of the year. Year to date, the median price is approximately $176,700 per unit, although in recent transactions the median price topped $212,000 per unit. Cap rates have averaged 3.9 percent.

Raleigh-Durham Multifamily Market Overview

The Raleigh-Durham multifamily market is posting its strongest performance on record, with robust renter demand for units driving the local vacancy rate to new lows and pushing rents to all-time highs. During the third quarter, absorption of apartment units totaled nearly 3,000 units, bringing the total for the first nine months of the year to approximately 7,900 units. This marks a steep increase from recent years when average absorption levels were closer to 4,700 units per year. This release of pent-up demand is supporting a spike in rents; average asking rents are up nearly 20 percent year over year, and additional gains are likely in the coming quarters as operators leverage tight conditions and a surging labor market to boost property revenues.

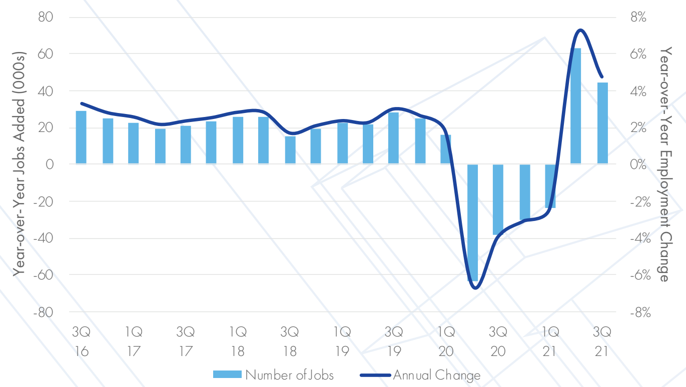
The local investment market has been particularly active to this point in 2021. After a fairly steady 2020 and start to this year, the pace of transactions picked up in the second quarter and then spiked in the third quarter. Recent sales have taken place in nearly every submarket, reflecting a widespread investor demand for multifamily assets in the region. As property performance has strengthened and investor demand has intensified, there has been an increasing number of Class C assets changing hands. The median price in these Class C properties is approximately $138,000 per unit, compared to a median price of nearly $250,000 per unit for Class A buildings and $180,000 per unit for Class B properties.

Employment

- The labor market in Raleigh-Durham has almost recovered fully from the losses recorded during the pandemic. Year over year through the third quarter, approximately 44,300 jobs have been added back to the workforce, an increase of over 4.7 percent.
- The rapid pace of growth occurring in the area is fueling new development. The construction sector has added approximately 5,000 jobs in the past year, a growth rate of nearly 10 percent.
- Genetic testing company Invitae is planning to open a new testing laboratory facility in Morrisville. The company's expansion to the East Coast is forecast to result in nearly 350 new jobs to the area. Jaguar Gene Therapy and Amgen recently made similar announcements that will yield an additional 550 positions. Average annual salaries in the new positions are expected to range between $90,000 and $122,000.
- **Forecast:** Total employment in Raleigh-Durham is expected to expand by nearly 38,000 jobs this year, an annual growth of 4 percent.

> Year over year, approximately 44,300 jobs have been added to the workforce.

Employment Overview



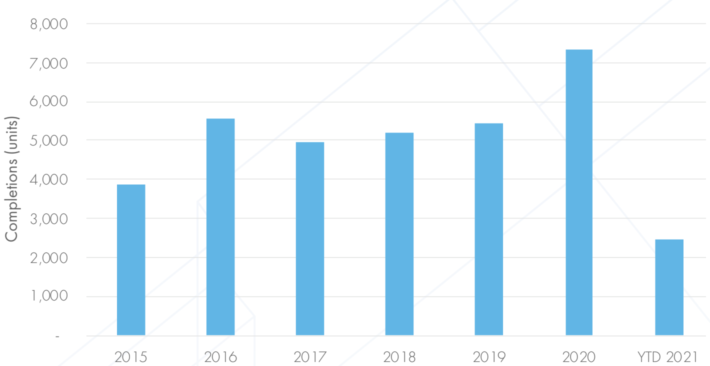
Sources: Northmarq, Bureau of Labor Statistics

Development and Permitting

- After an active year of new apartment construction in 2020, the pace of deliveries has slowed to this point in 2021. Through the first three quarters, approximately 2,500 units have come online, less than half of the number of units that were delivered in the same period in 2020.
- While the pace of deliveries has slowed, the development pipeline has remained mostly consistent. More than 30 projects totaling approximately 8,150 units were under construction as of the end of the third quarter, up 4 percent from one year earlier. Since the beginning of 2019, the average number of apartment units under construction has been about 8,300.
- As renter demand increases, multifamily construction is expected to accelerate in the near future. Developers have pulled permits for nearly 6,300 multifamily units year to date, an increase of 45 percent compared to the number of permits pulled over the first three quarters of 2020.
- **Forecast:** Projects totaling approximately 4,200 units are scheduled to be completed this year, following the delivery of more than 7,300 units in 2020.

> Developers have pulled permits for nearly 6,300 multifamily units year to date.

Development Trends



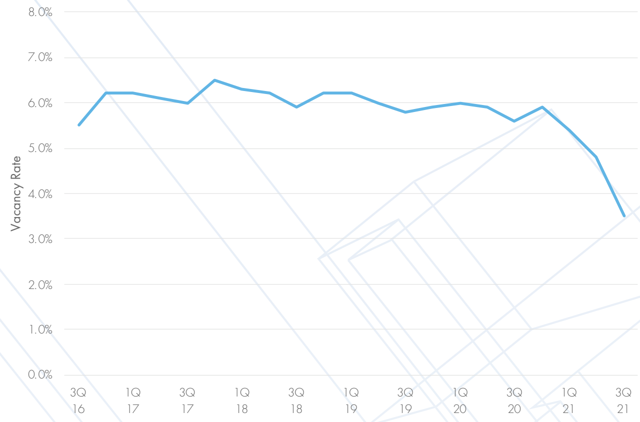
Sources: Northmarq, CoStar

Vacancy

- Vacancy in Raleigh-Durham continued its rapid tightening during the third quarter. The average vacancy rate in the region fell 130 basis points to 3.5 percent, the lowest rate in the past decade.
- Year over year, vacancy has plummeted 210 basis points. This marks the largest annual decline in the past decade. The rate had averaged 6.1 percent from 2017 through the beginning of last year but has improved at a rapid pace as absorption gained momentum.
- The vacancy rate in the region's Class A properties has matched the trend of the overall market, improving by 160 basis points in the past 12 months. As of the third quarter, Class A properties have a vacancy rate of 3.2 percent.
- **Forecast:** After historical improvements made through the first three quarters, local vacancy will likely remain steady in the coming months. The vacancy rate in Raleigh-Durham is forecast to end 2021 at 3.5 percent, 240 basis points lower than the rate at the end of 2020.

"The average vacancy rate in the region fell 130 basis points to 3.5 percent.

Vacancy Trends



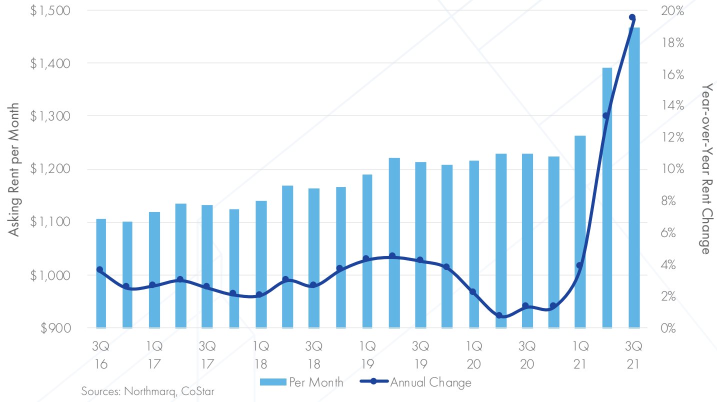
Sources: NorthMarq, CoStar

Rents

- Asking rents in Raleigh-Durham continued to record strong gains during the third quarter, increasing by 5.4 percent from July to September to $1,467 per month.
- After rent growth that averaged about 3 percent per year since 2016, the pace of rent growth has spiked in recent periods. Average asking rents in the market have increased 19.5 percent year over year.
- While rents are pushing higher across all property classes, some of the most noteworthy gains are being recorded in Class B properties. During the past 12 months, asking rents in Class B units have increased 20.1 percent, rising nearly $250 per month to $1,481 per month.
- **Forecast:** Asking rents in Raleigh-Durham are on pace to rise more than 22 percent this year, with the average approaching $1,500 per month.

"Average asking rents have increased 19.5 percent year over year.

Rent Trends



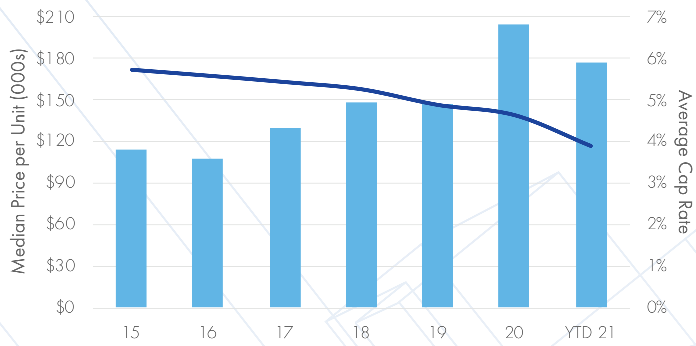
Sources: Northmarq, CoStar

Multifamily Sales

- Sales activity in Raleigh-Durham has gained significant momentum in recent months. The number of apartment properties that sold during the third quarter exceeded the total number of transactions from the first half of the year. Velocity is up 17 percent when compared to levels from last year.
- Projects totaling more than $1.5 billion were sold during the third quarter, bringing the total sales in the Raleigh-Durham area to nearly $2.6 billion year to date. Through three quarters of the year, multifamily investment volume has already topped the total volume recorded in 2020.
- The median price in sales to this point in 2021 is $176,700 per unit. Prices trended higher in the third quarter, when the median price spiked to $212,500 per unit, and a handful of properties changed hands above $300,000 per unit.
- Cap rates have generally crept lower in 2021, averaging 3.9 percent, about 75 basis points lower than in 2020. The timing of the cap rate compression coincided with the rapid rent growth that took place in the second and third quarters.

> Cap rates have crept lower in 2021, averaging 3.9 percent.

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

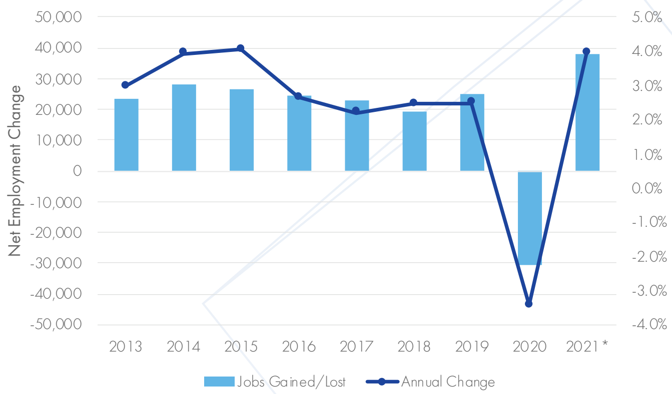
Property Name	Street Address	Units	Sales Price	Price/Unit
Indigo	100 Adelaide Cir., Morrisville	488	$121,900,000	$249,795
Bell Chapel Hill	1300 Fordham Blvd., Chapel Hill	272	$85,250,000	$313,419
Level at 401	5721 Goodstone Dr., Raleigh	300	$58,500,000	$195,000
Williamsburg Manor	1248 Donaldson Dr., Cary	183	$36,000,000	$196,721

Looking Ahead

Apartment developers are expected to have a hard time delivering enough units to match the pace of renter demand growth for at least a few more quarters. Vacancy levels are forecast to remain close to the current low figures, allowing for additional rent growth. The recent pace of absorption is considerably higher than the market's long-term average, and likely represents a release of pent-up demand after the economic turbulence of 2020 and early 2021. Looking ahead to 2022, demand conditions will likely normalize, and the pace of rent growth should be healthy, but not repeat the record-setting gains recorded in recent quarters.

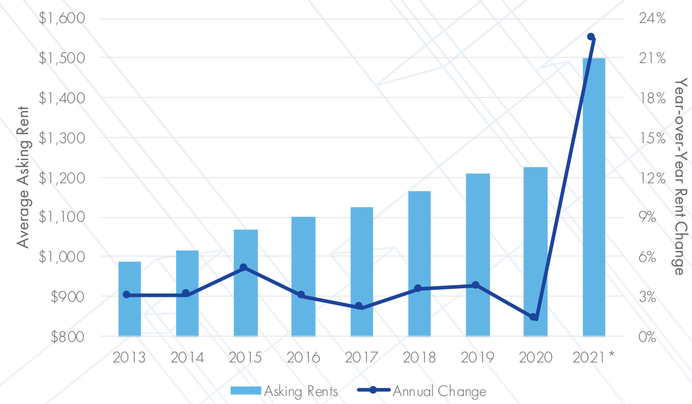
Investment demand is forecast to remain elevated in the Raleigh-Durham area for the next several quarters. The strength of area multifamily operating fundamentals is attracting new investment capital, and the rapid growth in the local population and in high-skill, high-wage industries is fueling in-migration from other markets. These trends are attracting a deeper pool of potential buyers looking to allocate capital into a market with strong prospects for future growth. With investor demand expected to remain elevated, cap rates will likely stay near current ranges of 4 percent or lower.

Employment Forecast



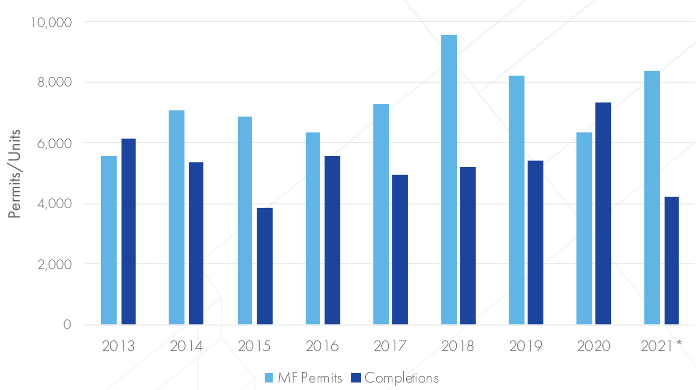
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



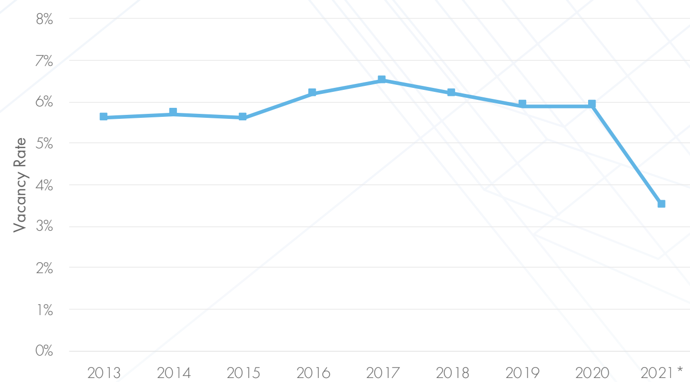
* Year End Forecast
Sources: Northmarq, CoStar

Construction & Permitting Forecast



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, CoStar

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