



CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **13,607**

UNITS DELIVERED (YTD) **10,372**

MARKET FUNDAMENTALS



VACANCY RATE **7.4%**

YEAR-OVER-YEAR CHANGE **+40bps**

ASKING RENTS **\$1,604**

YEAR-OVER-YEAR CHANGE **+0.4%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$220,800**

RALEIGH-DURHAM
MULTIFAMILY
3Q 2024

MARKET INSIGHTS

Absorption hits a 20-year high in 3Q

HIGHLIGHTS

- The Raleigh-Durham multifamily market is posting elevated absorption levels during a period of active construction. The heightened renter demand is keeping the vacancy rate fairly steady, although rents dipped in the third quarter.
- Vacancy inched lower for the second consecutive quarter, dipping 10 basis points to 7.4 percent. Despite the recent improvements, the rate has increased by 40 basis points during the past 12 months.
- After gaining some ground in the first half of the year, rents ticked lower in the third quarter. Average rents are \$1,604 per month, 0.4 percent higher than one year ago.
- Sales activity slowed during the third quarter, and transaction counts are down more than 35 percent from 2023 levels. The median price in properties that have sold year to date is \$220,800 per unit, while cap rates are between 5.25 percent and 6 percent.

RALEIGH-DURHAM MULTIFAMILY MARKET OVERVIEW

Strong renter demand is supporting multifamily property performance in the Raleigh-Durham area. Net absorption year to date has totaled nearly 5,000 units, including more than 2,300 units in the third quarter alone. This marked the highest quarterly total net absorption in at least the past 20 years. Net absorption has already surpassed the full-year totals for both 2022 and 2023. Demand is being fueled by continued housing affordability challenges and a thriving local labor market. While most major markets are posting slower paces of employment growth, the Raleigh-Durham area has sustained an elevated rate of net hiring. Payroll additions are occurring across some of the area's core industries, led by education and health, as well as in sectors that account for a smaller share of the local economy, such as construction and hospitality. Continued expansion has kept vacancy in a tight range, even as new rental inventory has come online.

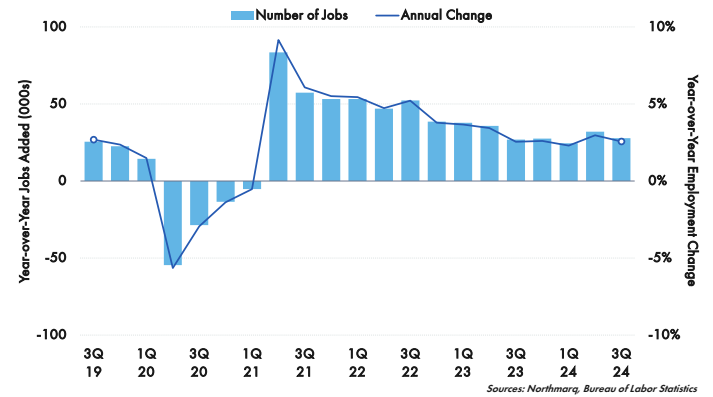
Investment activity levels in Raleigh-Durham have been lighter than in recent years to this point in 2024. Transaction counts year to date are about 35 percent lower than levels recorded during the same period in 2023, and are down more than 50 percent from average volumes recorded since 2019. While fewer properties are changing hands in the higher interest rate environment, sales are still occurring in Class A and Class B properties. Rental communities built since 2022 have accounted for roughly 30 percent of all significant transactions year to date. Pricing in these properties is generally \$250,000 per unit or higher. The greatest decline in sales velocity is occurring in 1980s- and 1990s-vintage communities, which have historically totaled about one-third of the market trading volume. Transaction counts in these assets are down about 80 percent from recent averages, with properties selling for prices closer to \$150,000 per unit.

EMPLOYMENT

- During the past 12 months, employers have maintained a steady pace of hiring in the Raleigh-Durham area. Nearly 28,000 jobs have been added, a 2.6 percent increase to payrolls.
- Construction employment has been surging, highlighting the demand for greater commercial and residential space throughout this high-growth region. Approximately 3,300 construction jobs have been created in the past year, accounting for nearly 12 percent of the net new jobs across the region. In the past year, total construction employment has surged by more than 5 percent.
- A significant employer in the region announced plans for a significant expansion earlier this year. Novo Nordisk, which makes the GLP-1 diabetes and weight management drug Ozempic, is going to add 1.4 million square feet of manufacturing space in Johnston County. The move is one of the largest expansions in the company's history and is expected to add 1,000 new jobs to the roughly 2,500 employees already working at the company's facilities in the area.
- FORECAST:** Area employment growth in 2024 is on pace to be slightly higher than the prior-year total, running counter to the national trend of a slowing pace of expansion. Employers are forecast to add 28,000 net new jobs this year, a 2.6 percent gain.

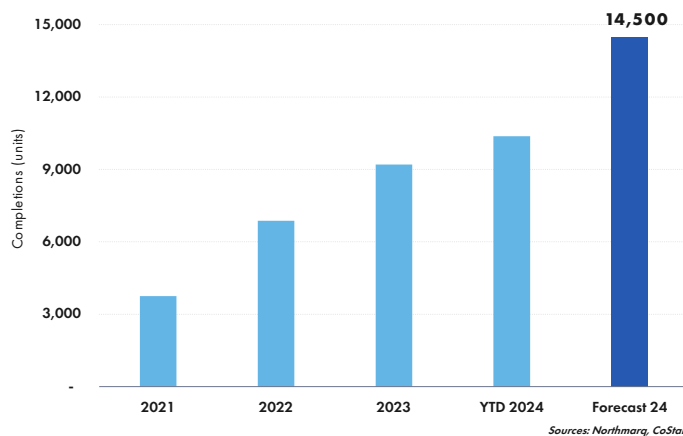
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EMPLOYMENT OVERVIEW



During the last three months, approximately 3,700 units came online.

DEVELOPMENT TRENDS

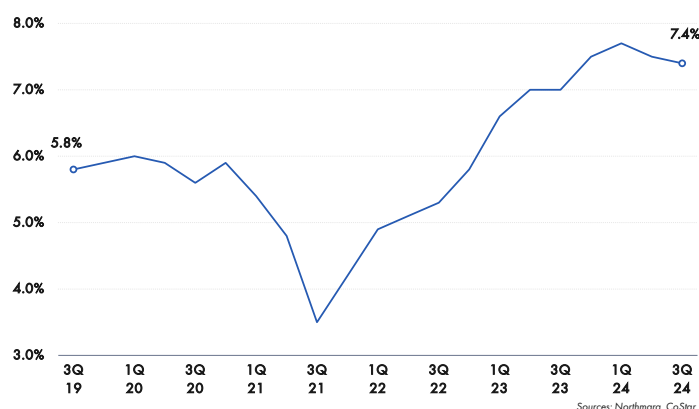


DEVELOPMENT & PERMITTING

- The pace of quarterly apartment completions has been steady and elevated for nearly two years. During the last three months, approximately 3,700 units came online, almost identical to the average quarterly figure since the beginning of 2023. Year to date, projects totaling more than 10,300 units have come online.
- Projects totaling 13,607 units are currently under construction, approximately 40 percent lower than the figure from one year ago. Wake County is the leading spot for future development, with about 10,000 units under construction. Several properties are in development or have recently come online along the Raleigh Beltline in the Northeast Raleigh and Midtown areas.
- After a sluggish start to the year, permitting volumes picked up in the third quarter. Developers pulled permits for more than 3,000 multifamily units in the past three months, exceeding the total from the first half. Despite the recent increase, multifamily permitting volumes are down more than 20 percent compared to the same period in 2023.
- FORECAST:** A steady pace of supply growth is expected to continue through the end of the year. Projects totaling 14,500 units are forecast to come online in 2024, after approximately 9,200 units were delivered in 2023.

The rate fell 10 basis points to 7.4 percent in the third quarter.

VACANCY TRENDS



VACANCY

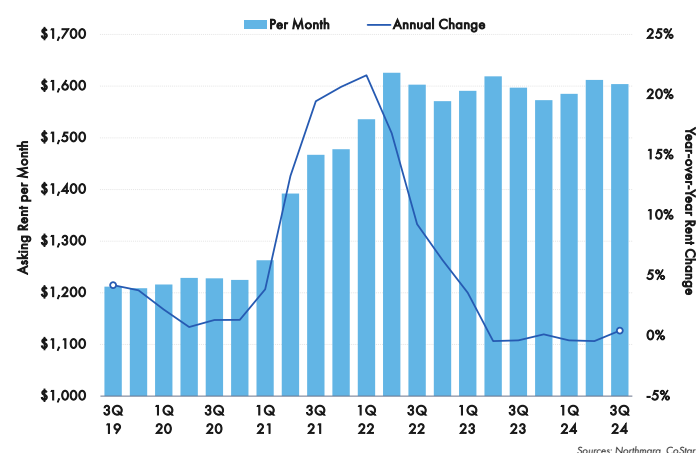
- Multifamily vacancy in Raleigh-Durham inched lower in the third quarter, building on a modest improvement in the prior three-month period. The rate fell 10 basis points to 7.4 percent in the third quarter. This marked the first two consecutive quarters where vacancy tightened since 2021.
- Despite the recent declines, the current vacancy rate is 40 basis points higher than it was one year earlier. The rate is also higher than the market's recent trends; since 2019, area vacancy has averaged 5.9 percent.
- Class A vacancies have been tightening in recent periods, supporting the overall health of the market. The vacancy rate in Class A properties ended the third quarter at 7.5 percent, 80 basis points lower than levels from one year earlier. Vacancies in Class B buildings have shown the opposite trend, rising by 110 basis points year over year to 8.6 percent.
- **FORECAST:** After improving slightly during the middle part of the year, seasonal forces will likely push vacancies higher in the fourth quarter. The rate is forecast to end 2024 at 7.8 percent, 30 basis points higher than at the end of 2023.

RENTS

- Rents in Raleigh-Durham crept lower in the third quarter, after ticking higher in the first half of the year. The average asking rent in the market ended the quarter at \$1,604 per month, just 0.4 percent higher than one year ago. Rents have remained very close to \$1,600 per month since the beginning of 2023.
- One segment of the market where rents have pulled back in recent quarters is in the region's top-tier properties. Class A asking rents topped \$1,900 per month and \$2 per square foot, per month in late 2022 and the first half of 2023, but have trended lower in recent periods. Class A asking rents ended the third quarter at \$1,836 per month, and \$1.92 per square foot, per month.
- The North Cary/Morrisville submarket has been one of the most active locations for absorption in recent quarters, but the elevated levels of renter demand have not resulted in rent gains. Rents in the submarket ended the third quarter at \$1,682 per month, down 1.8 percent year over year. In South Cary, rents reached \$1,750 per month, about 2.3 percent lower than one year earlier.
- **FORECAST:** Rents are expected to end this year at \$1,605 per month, nearly identical to current levels and up 2 percent for the full year. Rents gained momentum in the first half of 2024, but will likely remain flat amid a more competitive leasing environment.

The average asking rent ended the quarter at \$1,604 per month.

RENTS TRENDS

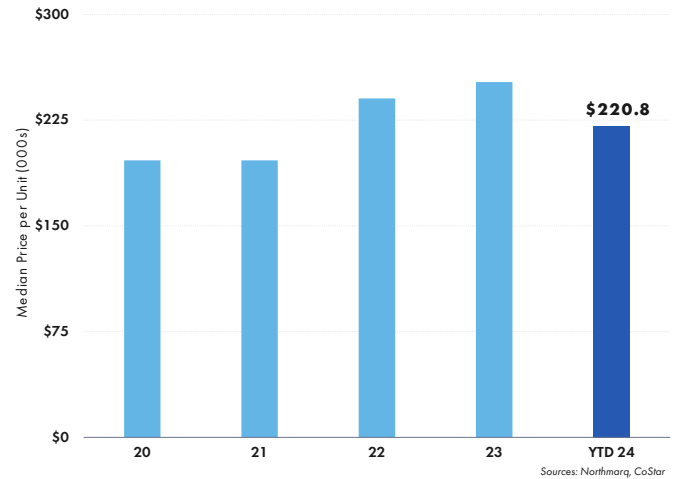


MULTIFAMILY SALES

- Transaction activity in the Raleigh-Durham area continued to cool during the third quarter. Fewer multifamily properties sold in the last three months than traded in either the first or second quarter. Year to date, sales velocity is down more than 35 percent when compared to the same period in 2023.
- Prices have trended a bit lower to this point in 2024 after reaching peak levels in the second half of 2022 and the first half of last year. In transactions that have closed to this point in 2024, the median price is \$220,800 per unit, 12 percent lower than last year's figure.
- Cap rates have not changed significantly during the course of this year. The current trading range for multifamily properties in Raleigh-Durham is between approximately 5.25 percent and 6 percent. Year to date, most of the properties that have traded have been Class A or Class B properties, and cap rates for older assets would likely need to be higher than current averages to attract investors.

In 2024, the median price is \$220,800 per unit.

INVESTMENT TRENDS



RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

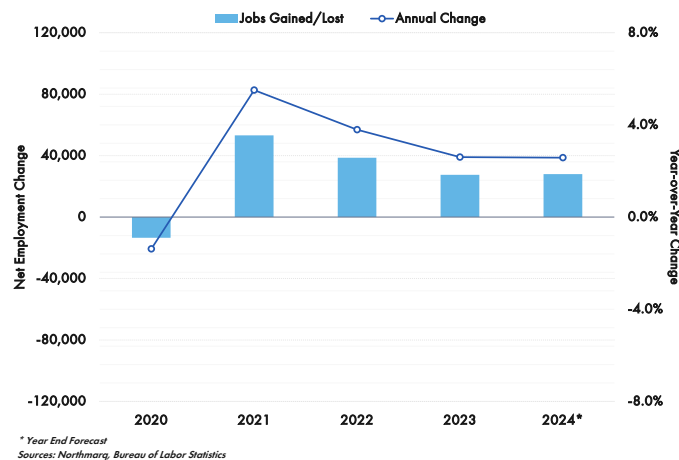
PROPERTY NAME	STREET ADDRESS	YEAR BUILT	UNITS	SALES PRICE	PRICE/UNIT
Cortland Perimeter Park	3055 Carrington Mill Blvd., Morrisville	2018	262	\$66,500,000	\$253,817
The Dartmouth	104 Dartmouth Rd., Raleigh	2016	171	\$47,100,000	\$275,439
Triangle Park	5011 S Alston Ave., Durham	1986	122	\$16,500,000	\$135,246

LOOKING AHEAD

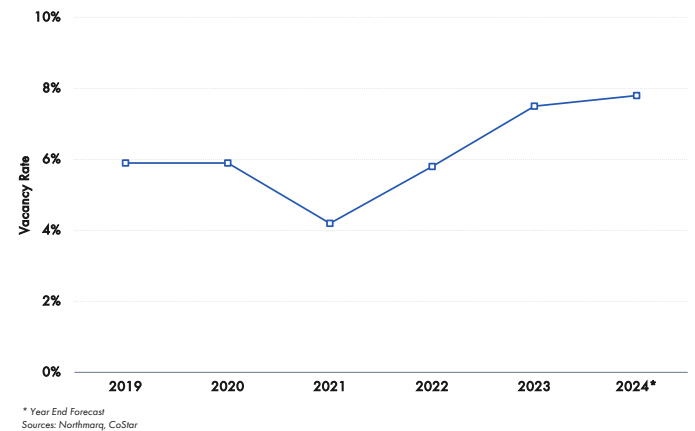
Developers are expected to remain active through the remainder of this year and into 2025 in the Raleigh-Durham area, which should place some added supply-side pressures on operating fundamentals. To this point, absorption of new units has been robust, significantly outpacing totals from recent years. Renter demand is expected to remain healthy in the coming periods, although it will likely prove challenging to keep pace with new construction. The result should be a modest vacancy uptick in the coming months, following two consecutive quarters of slight improvements. Longer term, the outlook brightens. The development pipeline will begin to thin by this time next year, and the drivers that have fueled demand are expected to remain in place. While 2024 will be a year of limited rent growth, conditions should strengthen beginning in 2025.

Investors are expected to gradually increase multifamily transaction activity in Raleigh-Durham in the coming quarters. Sales velocity has been slowed by the combined forces of elevated interest rates and the competitive pressures associated with continued construction. Both of these forces should begin to ease going forward. Interest rates have already started to trend lower, and further declines are likely into the first half of next year. While the development pipeline still has a number of projects—particularly in Wake County—leasing activity has been elevated and the number of starts is declining. Recently delivered properties are expected to continue to trade, and the future growth in the investment market will come as transactions involving Class B and Class C assets resume. A few of these properties have sold in 2024, but activity levels are down about 75 percent from recent averages.

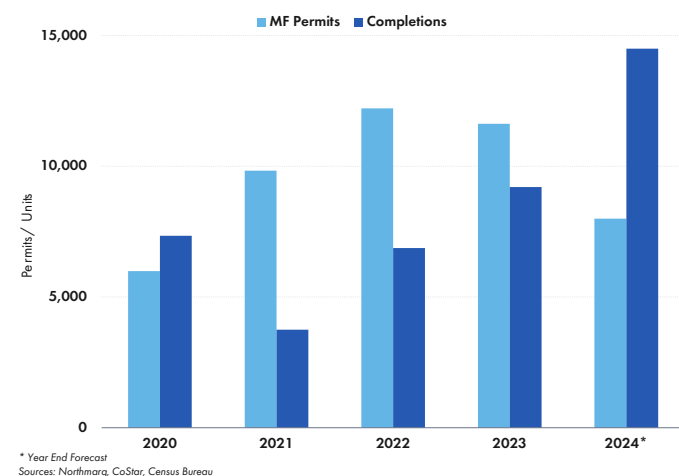
EMPLOYMENT FORECAST



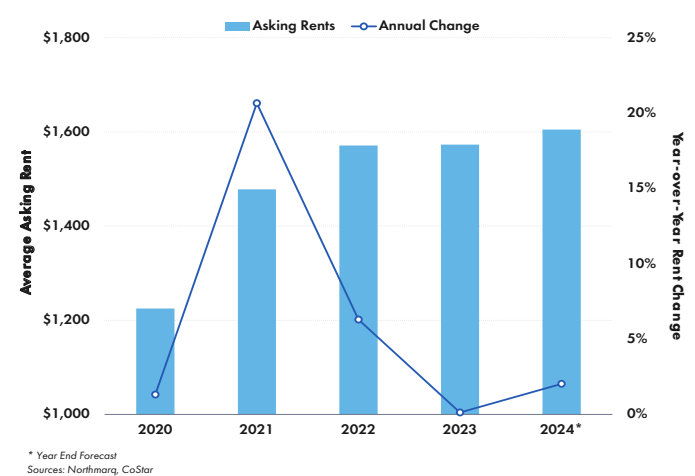
VACANCY FORECAST



CONSTRUCTION & PERMITTING FORECAST



RENTS FORECAST





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