

# Raleigh-Durham Multifamily




## Renter Demand Fueled by Ongoing Business Attractions

### Highlights

- > Multifamily fundamentals in Raleigh-Durham got off to a strong start at the beginning of the year. As the pace of deliveries slowed, rents spiked and vacancy tightened.
- > Apartment vacancy declined 50 basis points in the first quarter of 2021, falling to 8.5 percent. Additional tightening is expected in the coming quarters.
- > After advancing 1.3 percent in 2020, rents surged in the first quarter. Local asking rents increased 3.1 percent from the fourth quarter reaching \$1,263 per month.
- > Following an extremely active year in 2020, sales velocity slowed at the start of 2021. In sales that closed during the first quarter, the median price was \$157,600 per unit, while cap rates averaged 4.6 percent.

### Raleigh-Durham Multifamily Market Overview

The Raleigh-Durham multifamily market posted a strong start to 2021, with vacancies tightening and rents posting rapid gains. Absorption in the first quarter totaled nearly 1,800 units, tripling the pace that was recorded during the same period in 2020. Demand growth is being sparked by the local labor market, with high-profile employers expanding in the area. Raleigh-Durham attracted leading technology and life science companies throughout the pandemic, with significant expansions including Google, Fujifilm, Amazon, Eli Lilly, Bandwidth, and GRAIL. These developments will create thousands of new jobs and support renter demand over the next few years.

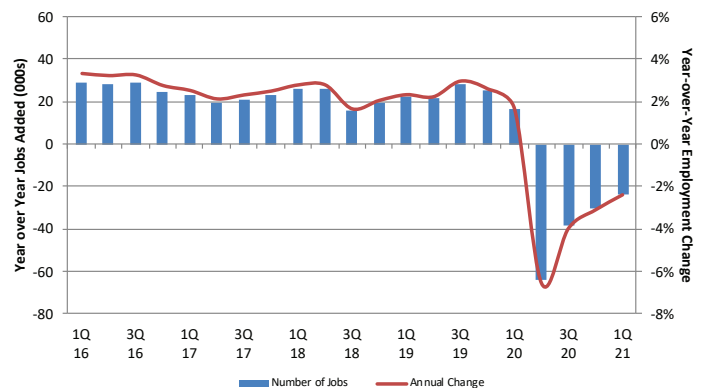
Q1 Snapshot	Raleigh-Durham Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>8.5%</b>
	- Year Over Year Change ..... <b>+60 bps</b>
	Asking Rent ..... <b>\$1,263</b>
	- Year Over Year Change ..... <b>+3.9%</b>
	<b>Transaction Activity</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$157,600</b>
	Cap Rates (Avg YTD) ..... <b>4.6%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>5,268</b>
	Units Delivered YTD ..... <b>789</b>

After a wave of newer assets traded in 2020, the Raleigh-Durham investment market returned closer to more normalized conditions during the first quarter. Approximately 40 percent of the transactions that closed in 2020 involved buildings that were built after 2015, which caused a spike in pricing. The mix of properties that sold during the first quarter included some older Class B and Class C properties, which brought the median price closer to 2018 and 2019 levels. Cap rates to start 2021 were nearly identical to levels recorded in 2020, despite the different mix of properties that sold.

## Employment

- > The Raleigh-Durham labor market is recording one of the steadier recoveries in the country. During the first quarter of 2021, employers added 8,000 net jobs, and 75 percent of the pandemic-related cuts have now been recovered. Total employment is down just 2.4 percent from one year earlier.
- > At the end of the first quarter, Google announced plans to create a Cloud engineering hub in Durham, bringing more than 1,000 new jobs into the area over the next several years. Google will initially sublease space downtown but will search for a complex for the company's eventual full-time home.
- > The Raleigh-Durham area is a leader in the biotechnology industry. Fujifilm Diosynth Biotechnologies recently chose Holly Springs for its next manufacturing facility. The new facility will include an investment of nearly \$2 billion and create approximately 725 jobs with an average annual salary of around \$100,000. The complex is scheduled to be completed by 2025.
- > **Forecast:** The Raleigh-Durham area's educated workforce will continue to result in high-wage job growth over the next several years. Total employment in Raleigh-Durham is forecast to expand by roughly 3 percent in 2021, an addition of 28,000 net jobs.

## Employment Overview



Sources: NorthMarq, Bureau of Labor Statistics

*Google announced plans to create a Cloud engineering hub in Durham*

## Vacancy

- > After rising in 2020, the local vacancy rate tightened to start this year, as absorption gained momentum. Apartment vacancy declined 50 basis points in the first quarter of 2021, finishing at 8.5 percent.
- > Year over year, vacancy in Raleigh-Durham has increased 60 basis points. The rise recorded in 2020 was fueled by supply-side pressures.
- > While vacancy in Class A units has trended higher in response to new development, the rate outside of the top tier is improving. The combined vacancy rate in Class B and Class C units is 6.6 percent, 60 basis points lower than one year ago.
- > **Forecast:** The pace of construction is forecast to slow in 2021, allowing healthy leasing activity to result in tightening vacancy. The rate is expected to finish 2021 at 7.6 percent, 140 basis points lower than the rate at the end of 2020.

## Vacancy Trends



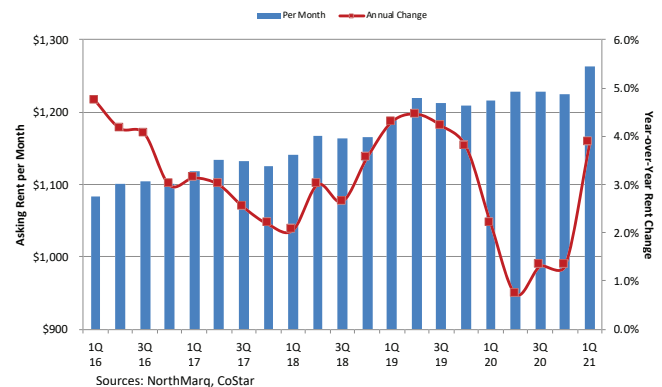
Sources: NorthMarq, CoStar

*Apartment vacancy declined 50 basis points in the first quarter of 2021 to 8.5 percent*

## Rents

- > After recording a modest rise in 2020, rents in Raleigh-Durham surged to start the year. Asking rents rose 3.1 percent in the first quarter, reaching \$1,263 per month.
- > The sharp rise at the beginning of 2021 pushed the region's year-over-year rent increase to 3.9 percent as of the first quarter. Local rent growth averaged 3.8 percent from 2015 to 2019.
- > Asking rents in the Class A segment rose 3.2 percent in the first quarter, reaching \$1,467 per month during the first quarter. Class A rents totaled \$1.52 per square foot, per month topping \$1.50 per square foot, per month for the first time.
- > **Forecast:** With rental rates spiking to start the year, the Raleigh-Durham market is on pace for a strong year of rent increases. Asking rents are forecast to advance by more than 5 percent, approaching \$1,300 per month by the end of 2021.

## Rent Trends

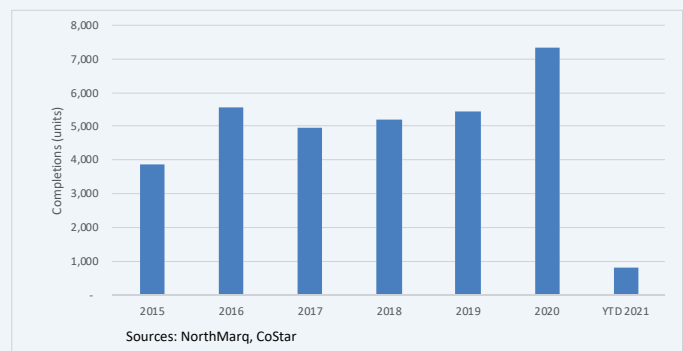


*Asking rents rose 3.1 percent in the first quarter, reaching \$1,263 per month*

## Development and Permitting

- > In the first quarter of 2021, the pace of deliveries slowed, and nearly 800 units in Raleigh-Durham were brought online. During 2020, more than 7,500 apartment units were completed, the highest annual total on record.
- > The construction pipeline has thinned following the robust year of apartment deliveries. Projects totaling nearly 5,300 units were under construction at the end of the first quarter, down 43 percent from one year earlier.
- > Developers pulled permits for nearly 2,500 multifamily units during the first quarter, up 35 percent from the same period one year earlier. Ongoing population growth and business attraction will continue to spark new development.
- > **Forecast:** After peaking in 2020, apartment construction will slow this year. Developers are forecast to complete approximately 4,500 units during 2021, the lowest annual total since 2015.

## Development Trends

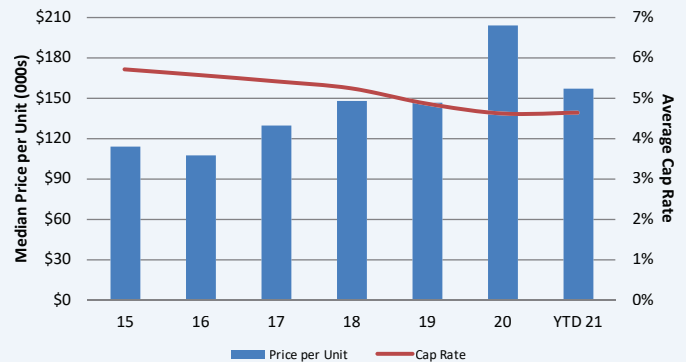


*Projects totaling 5,300 units were under construction at the end of the first quarter*

## Multifamily Sales

- > In the first quarter of 2021, the pace of investment activity slowed from heightened levels recorded at the end of last year. The bulk of the sales during the first quarter involved properties in Raleigh and Cary.
- > After a robust year in 2020, pricing dipped at the beginning of the year. The median price in the first quarter was \$157,600 per unit, down 23 percent from the 2020 median price. The decline is largely the result of a larger share of Class B and Class C assets changing hands in the first few months of the year.
- > While prices fell, cap rates held steady and averaged 4.6 percent in the first quarter. Cap rates in Raleigh-Durham gradually trended lower from 2015 to 2020.

## Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

*Cap rates held steady and averaged 4.6 percent in the first quarter*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

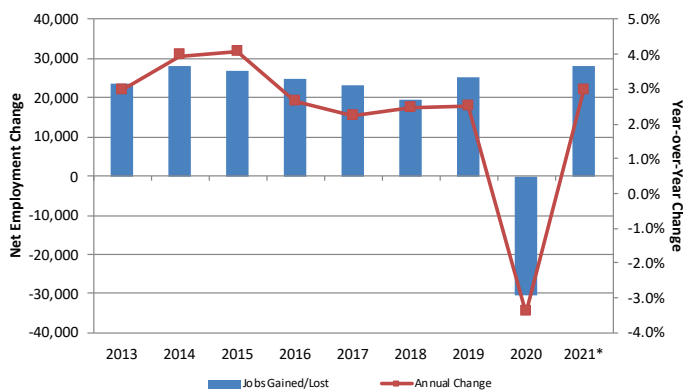
Property Name	Street Address	Units	Sales Price	Price/Unit
Brook Arbor and Old Raleigh	Multiple Addresses, Raleigh and Cary	530	\$104,000,000	\$196,226
University Ridge	3611 University Dr., Durham	350	\$59,500,000	\$170,000
Solis Alston	5110 Alston Glen Dr., Cary	240	\$59,400,000	\$247,500
The Pointe at Heritage	1747 Alexander Springs Ln., Wake Forest	260	\$38,980,000	\$149,923
Bellevue Mill Apartments	206 S Nash St., Hillsborough	112	\$18,500,000	\$165,179

## Looking Ahead

The multifamily market in the Raleigh-Durham area is forecast to strengthen through the remainder of this year. While new construction outpaced renter demand in 2020, that was a function of two forces: a record-high level of deliveries and a moderating pace of absorption due to the COVID-19 outbreak. Looking ahead to this year, the competitive threat from new development will ease, and renter demand should rebound as economic momentum builds at an accelerating pace. The results will be a vacancy rate that retreats closer to levels from 2018 and 2019, and rents that post above-average gains.

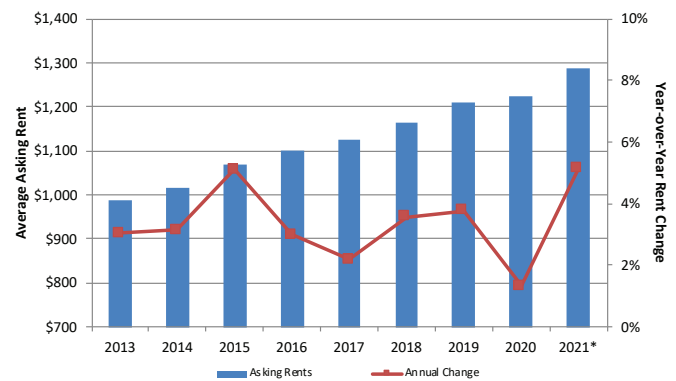
Investors have been active in the Raleigh-Durham market for the past several years, a trend that should continue in 2021. Transaction activity got off to a more gradual start in 2021 but is expected to gain momentum as local property performance strengthens in the coming quarters. Cap rates have compressed in recent years—including in 2020—but have leveled off year to date. Some of that steadying is likely a result of rising interest rates and a mix of older, lower-tier properties changing hands. Fluctuations in financing conditions will likely influence the direction of cap rates through the remainder of 2021.

### Employment Forecast



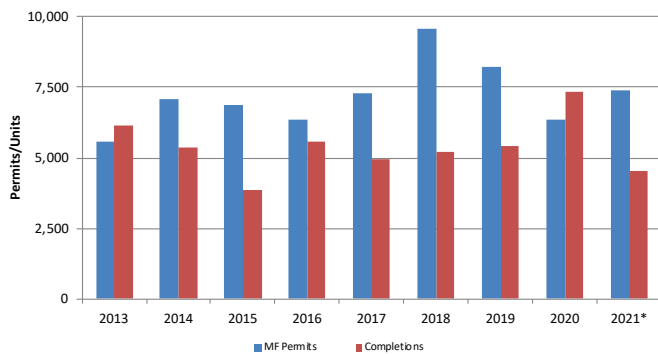
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



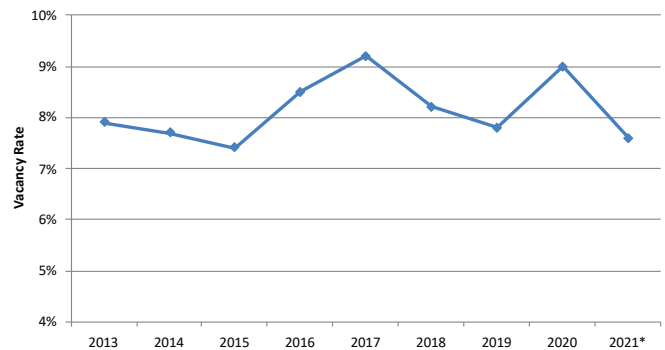
\* Year End Forecast  
Sources: NorthMarq, CoStar

### Construction & Permitting Forecast



\* Year End Forecast  
Sources: NorthMarq, Census Bureau, CoStar

### Vacancy Forecast



\* Year End Forecast  
Sources: NorthMarq, CoStar

## About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of more than \$16 billion, loan servicing portfolio of more than \$65 billion and the multi-year tenure of our nearly 600 people.

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