

# Raleigh-Durham Multifamily




## Vacancy Tightens, Rents Spike at Midyear

### Highlights

- > The second quarter was a particularly strong period of multifamily property performance in the Raleigh-Durham area. Area vacancy rates tightened dramatically, and rents surged higher. Investment activity gained momentum. Additional improvement is anticipated in the second half of the year.
- > Vacancy fell 60 basis points during the second quarter, reaching 4.8 percent. Year over year, the rate has improved by 110 basis points.
- > Strong renter demand and tightening vacancy levels resulted in a spike in area rents. Asking rents ended the second quarter at \$1,392 per month, 13.3 percent higher than one year earlier. Rents rose 10 percent during the second quarter.
- > Transaction activity doubled from the first quarter to the second quarter, reflecting the current demand in the market. The median price through the first half of the year was approximately \$161,300 per unit, and cap rates have compressed to an average of 3.9 percent.

### Raleigh-Durham Multifamily Market Overview

The Raleigh-Durham multifamily market posted strong operational performance during the second quarter with the vacancy rate dropping and rents spiking. Renter demand is being fueled by the local employment market, which reported healthy job growth with several large companies expanding and bringing high-paying jobs to the region. Absorption has been extremely active thus far in 2021, totaling more than 4,400 units. Absorption outpaced new construction during the first half of the year, as fewer than 1,200 units came online in this period. With new demand more than tripling the supply of new units, rents have pushed higher.

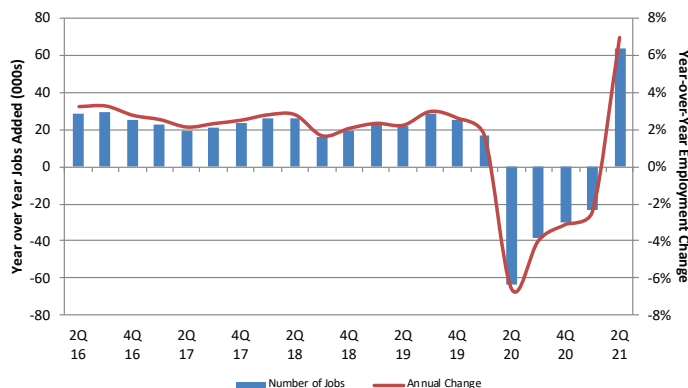
Q2 Snapshot	Raleigh-Durham Market
	<b>Market Fundamentals</b>
	Vacancy ..... <b>4.8%</b>
	- Year Over Year Change ..... <b>-110 bps</b>
	Asking Rent ..... <b>\$1,392</b>
	- Year Over Year Change ..... <b>+13.3%</b>
	<b>Transaction Activity</b>
	Median Sales Price Per Unit (YTD) ..... <b>\$161,300</b>
	Cap Rates (Avg YTD) ..... <b>3.9%</b>
	<b>Construction Activity</b>
	Units Under Construction ..... <b>6,381</b>
	Units Delivered YTD ..... <b>1,155</b>

Multifamily sales activity in Raleigh-Durham gained momentum during the second quarter. The number of transactions that took place during the second quarter doubled the figure from the first quarter. The rise in sales velocity was most pronounced in the Class C segment, where transaction activity surged late in the quarter. With an increasing number of 1970s- and 1980s-vintage properties changing hands, the median price dipped from the 2020 figure. The median price in Class C sales is approximately \$135,000 per unit, compared to a median price of more than \$200,000 per unit in Class A and Class B units.

## Employment

- > Employment in Raleigh-Durham has recorded significant recovery in recent quarters, and the local labor market is returning to full strength. Year over year through the second quarter, job growth has totaled nearly 7 percent with the addition of more than 63,000 positions. In the first half of this year, more than 17,000 jobs have been added.
- > The professional and business services sector has been one of the more resilient industries in Raleigh-Durham in recent quarters. After the initial pandemic-related job losses during the second quarter of 2020, this industry has since added back thousands of jobs every quarter. The professional and business services sector has posted a gain of 10.9 percent year over year.
- > Apple recently announced plans to expand its presence in the area with a new campus and engineering hub in The Research Triangle Park. Apple estimates this expansion will include an investment of \$1 billion to the region and bring 3,000 high-paying jobs by 2023.
- > **Forecast:** Local employers are expected to continue to add workers back at a healthy pace. Employers are forecast to expand payrolls by 3.7 percent this year, adding 35,000 new jobs.

## Employment Overview



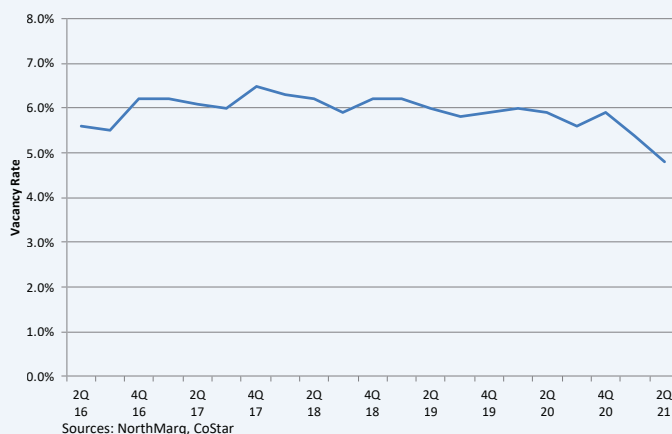
Sources: NorthMarq, Bureau of Labor Statistics

*In the first half of this year, more than 17,000 jobs have been added*

## Vacancy

- > Vacancy in Raleigh-Durham continued to decline during the second quarter, with the rate falling 60 basis points to 4.8 percent. The current vacancy rate is the lowest quarterly figure in the area in the past decade.
- > Year over year, vacancy has dropped 110 basis points. The rate was mostly flat in the second half of 2020 before posting significant improvement in the first half of this year as absorption surged and the pace of deliveries slowed.
- > The vacancy rates in the region's Class B and Class C properties have tightened during the past several quarters, reflecting the demand for rental housing in Raleigh-Durham. Vacancy in Class B units ended the second quarter at 4.9 percent, 80 basis points lower than one year ago. In the Class C segment, vacancy dropped 90 basis points year over year to 4.6 percent.
- > **Forecast:** After a sharp decline in the first half of the year, local vacancy will likely inch lower in the coming months. The vacancy rate in Raleigh-Durham is forecast to end 2021 at 4.6 percent, 130 basis points lower than the rate at the end of 2020.

## Vacancy Trends



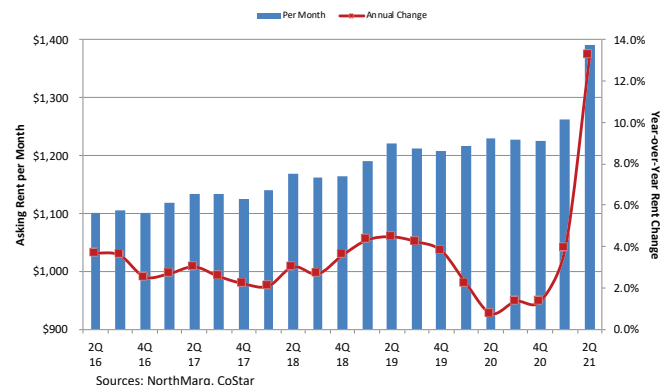
Sources: NorthMarq, CoStar

*Year over year, vacancy has dropped 110 basis points to 4.8 percent*

## Rents

- > Asking rents in Raleigh-Durham spiked during the second quarter, rising 10 percent in the past three months. Apartment rents finished the quarter at \$1,392 per month.
- > Year over year, local asking rents are up more than 13 percent. Gains have been strongest in 2021; year to date, asking rents have increased nearly \$90 per month on average.
- > Class B properties reported the largest annual spike with a 14 percent year-over-year growth, ending the second quarter at \$1,400 per month. Class B rents had leveled off in the second half of 2020, but as renter demand has heated up throughout the market, landlords have pushed rents higher.
- > **Forecast:** Apartment rents are expected to continue to rise through the rest of the year. Asking rents in Raleigh-Durham are expected to end 2021 at nearly \$1,430 per month, an annual growth rate of 16.5 percent.

## Rent Trends



*Asking rents finished the second quarter at \$1,392 per month*

## Development and Permitting

- > Following a spike in apartment deliveries during 2020, the pace slowed in 2021, as 1,155 units were delivered through the first half of the year. More than 3,200 units were delivered during the same period in 2020.
- > The development pipeline has thinned somewhat in recent quarters. Projects totaling approximately 6,400 units are currently under construction, down more than 25 percent from the total one year ago.
- > With demand elevated, multifamily construction is forecast to accelerate in the coming years. Developers pulled permits for more than 4,800 multifamily units during the first half of 2021, a figure that nearly matches the average annual totals from 2015 to 2020.
- > **Forecast:** Apartment construction is forecast to slow in 2021, following a spike in deliveries in 2020. Projects totaling approximately 3,200 units are scheduled to be completed this year, down more than 50 percent from the number of units that came online in 2020.

## Development Trends



*Projects totaling approximately 6,400 units are currently under construction*

## Multifamily Sales

- > Sales activity in Raleigh-Durham accelerated during the second quarter, with activity doubling levels from the first quarter.
- > After a strong second half of 2020, sales prices dropped through the first half of 2021. The median price during the first half was approximately \$161,300 per unit, down 20 percent from the median price in 2020. Several Class C properties changed hands—particularly late in the second quarter—which dragged down the overall per-unit pricing.
- > Cap rates continued to compress through the first six months of the year, averaging 3.9 percent, down roughly 75 basis points from the 2020 average. Cap rates have been consistently falling during the past decade.

## Investment Trends



Sources: NorthMarq, CoStar, Real Capital Analytics

*Cap rates continued to compress through the first six months of the year, averaging 3.9 percent*

## Recent Transactions in the Market

### MULTIFAMILY SALES ACTIVITY

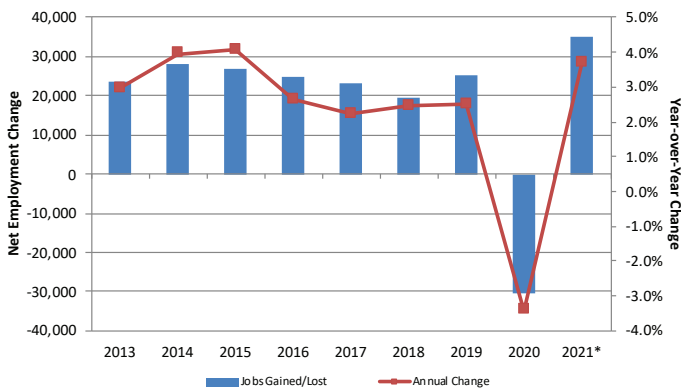
Property Name	Street Address	Units	Sales Price	Price/Unit
Willow Creek North Ridge	6615 The Lakes Dr., Raleigh	600	\$82,650,000	\$137,750
The Residences at Shiloh Crossing	3000 Dominion Ridge Cir, Morrisville	318	\$75,700,000	\$238,052
Avana on Broad	5668 Broad St., Durham	320	\$64,500,000	\$201,563

## Looking Ahead

Multifamily property fundamentals are forecast to continue to strengthen in the second half of this year. Renter demand for units should remain healthy, fueled by anticipated gains in the local labor market. Apple's new campus in Research Triangle Park is the largest move, but there are dozens of companies that have announced expansion plans in the region. On the supply side, apartment deliveries are forecast to slow this year before regaining momentum in 2022. Vacancy should continue to creep lower by the end of this year.

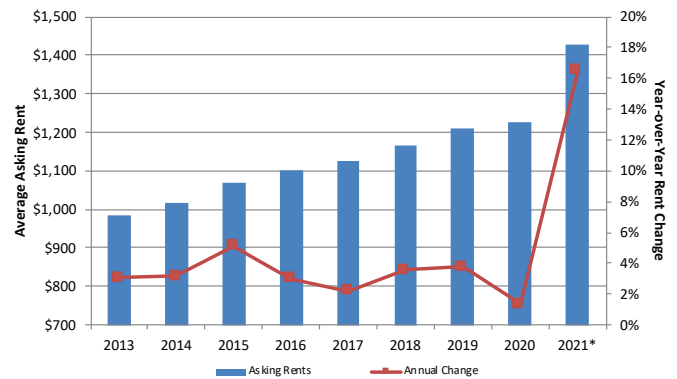
The Raleigh-Durham area has become an increasingly popular market for multifamily investors in recent years, and the region is on pace to reach an all-time high in transaction volume in 2021. The current market conditions are boosting investor sentiment, with the pace of absorption far ahead of new supply growth, driving vacancies lower and allowing for rapid rent growth. These conditions have driven cap rates lower; as recently as 2018-2019, cap rates were averaging 5 percent or higher, while current cap rates are around 4.3 percent.

### Employment Forecast



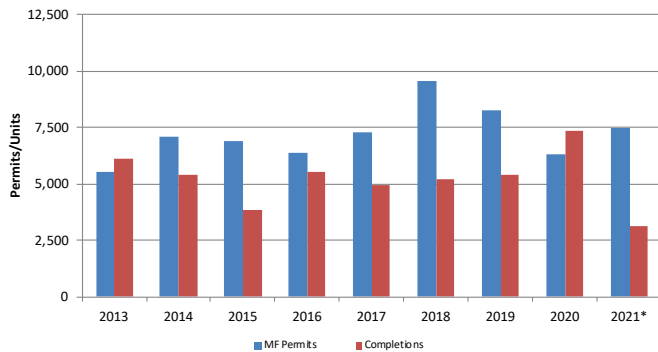
\* Year End Forecast  
Sources: NorthMarq, Bureau of Labor Statistics

### Rent Forecast



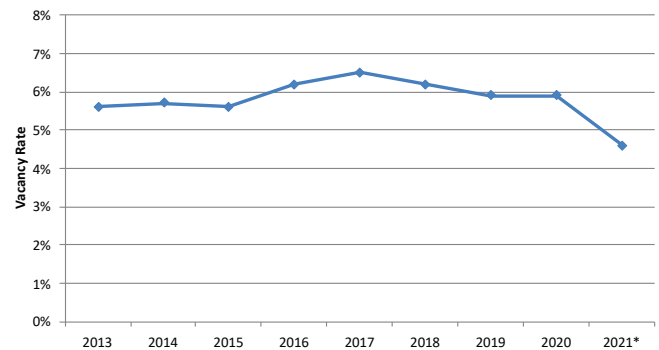
\* Year End Forecast  
Sources: NorthMarq, CoStar

### 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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