

Market Insights

Raleigh-Durham Multifamily 4Q 2021



Construction Activity



11,711

Units under construction

2,562

Units delivered (YTD)

Market Fundamentals



4.2%

Vacancy

-170 bps

Year over year change

\$1,478

Asking Rent

+20.7%

Year over year change

Transaction Activity



\$200,500

Median sales price per unit (YTD)

Renter Demand to Fuel New Construction in 2022

Highlights

- The Raleigh-Durham multifamily market gained momentum in 2021, with rents posting sizable gains and vacancy dipping to the low-4 percent range. With property fundamentals improving, investment activity surged, particularly in the second half of the year.
- Apartment vacancy trended lower through the first three quarters of 2021 before rising 70 basis points in the fourth quarter. The rate ended the year at 4.2 percent, tightening by 170 basis points in 2021.
- Rents climbed more than \$250 per month in 2021, although the pace of increases cooled in the fourth quarter. Asking rents rose 20.7 percent in 2021, ending the year at \$1,478 per month. Additional increases are likely in 2022, although the pace of growth will be more modest.
- The investment market remained active during the fourth quarter, with sales activity matching levels from the previous quarter. The median price for the year was \$200,500 per unit, nearly identical to the median price in 2020. The median price rose late in the year; in transactions during the fourth quarter, the median price reached \$228,000 per unit while cap rates compressed to 3.6 percent.

Raleigh-Durham Multifamily Market Overview

The Raleigh-Durham multifamily market had one of its strongest years in 2021, as renter demand for units dramatically outpaced supply growth. Demand peaked in the middle part of the year, driving vacancy rates substantially lower. The rate edged higher in the fourth quarter, but for the full year, vacancy declined 170 basis points and is expected to remain considerably lower than the market's long-term average. One factor fueling demand is the local labor market, which has reached new highs and is on pace to continue to expand in 2022. Job gains have been concentrated in high-wage sectors, supporting demand for newer, Class A units in the region's largest employment corridors.

The rapid improvement in multifamily property fundamentals in 2021 strengthened investor sentiment and drove accelerating sales velocity in Raleigh-Durham. The bulk of the activity for the year occurred in the second half; the total transaction count in the second half more than doubled the number of sales that closed in the first half of 2021. More than half of the sales in 2021 occurred in Wake County, including approximately one dozen properties that were delivered in the past few years. The median price in these newer, Class A properties in Wake County approached \$250,000 per unit in sales that closed in 2021, as prices for recent construction trended higher.

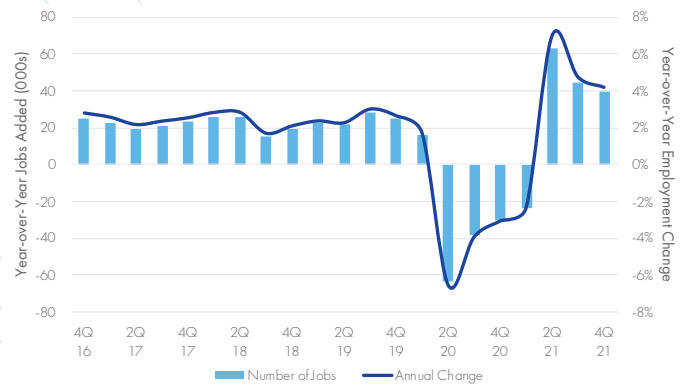
Employment

- Employment in Raleigh-Durham made a full recovery in 2021, as the labor market surpassed its pre-COVID peak during the fourth quarter. Employers added 39,700 jobs in 2021, an increase of nearly 4.2 percent.
- High-wage professional employment in Raleigh-Durham has been growing at a rapid pace. Employment in the professional and business services sector has expanded by 8,100 jobs in the past year, a gain of 4.5 percent. Growth in this sector accounted for more than 20 percent of all new jobs in the region in 2021.
- Jaguar Gene Therapy recently announced plans to invest \$125 million in Research Triangle Park. The new 174,000-square-foot facility will bring 250 new jobs to the region.
- **Forecast:** The Raleigh-Durham area is forecast to post additional employment gains in 2022, with growth projected to total 28,000 net new jobs, a 2.8 percent expansion.



Employers added
39,700 jobs in 2021.

Employment Overview

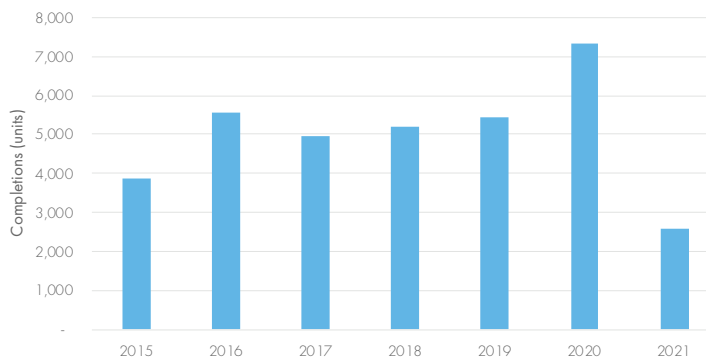


Sources: Northmarq, Bureau of Labor Statistics



Approximately 9,000 units
are scheduled to come
online in 2022.

Development Trends



Sources: Northmarq, CoStar

Development and Permitting

- The pace of deliveries slowed in 2021 after completions spiked in 2020. Developers brought fewer than 2,600 units to the market in 2021, about half the average annual total delivered during the previous five years. During the fourth quarter, projects totaling fewer than 600 units were delivered.
- The slowing pace of completions will not be sustained, as the construction pipeline includes dozens of future projects. Apartment developers had projects totaling more than 11,700 units under construction at the end of 2021, an increase of 40 percent when compared to activity at the end of 2020. A large share of development is occurring in the region's business districts. Projects totaling nearly 3,500 units are under construction in Downtown Raleigh and Downtown Durham.
- Multifamily permitting was extremely active in 2021 after a lull in the preceding year. Developers pulled permits for nearly 10,300 multifamily units, an increase of 62 percent from 2020 levels.
- **Forecast:** Deliveries are projected to spike in the year ahead, with approximately 9,000 units scheduled to come online in 2022.

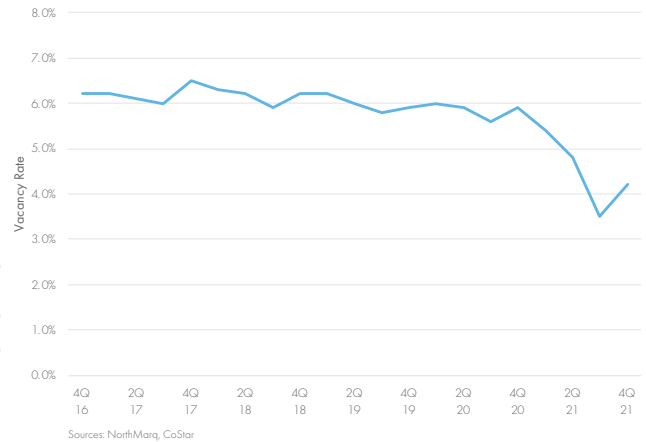
Vacancy

- After dropping to the lowest point in more than a decade, vacancy crept higher to close out 2021. The vacancy rate in the region rose 70 basis points to 4.2 percent in the final three months of the year. This marked the only quarterly vacancy increase to occur in 2021.
- Strong improvement during the first nine months of the year fueled a steep vacancy decline in Raleigh-Durham in 2021. The rate dropped by 170 basis points for the full year. Prior to 2021, the local vacancy rate had averaged approximately 6 percent since 2015.
- Renter demand for multifamily units reached an all-time high in 2021; net absorption totaled 8,400 units. From 2014 to 2019, absorption in Raleigh-Durham averaged 4,500 units.
- **Forecast:** The vacancy rate in Raleigh-Durham is expected to remain close to the current figure throughout much of the year, but an accelerating pace of new development will likely result in a modest uptick. Vacancy is forecast to end 2022 at 4.5 percent.



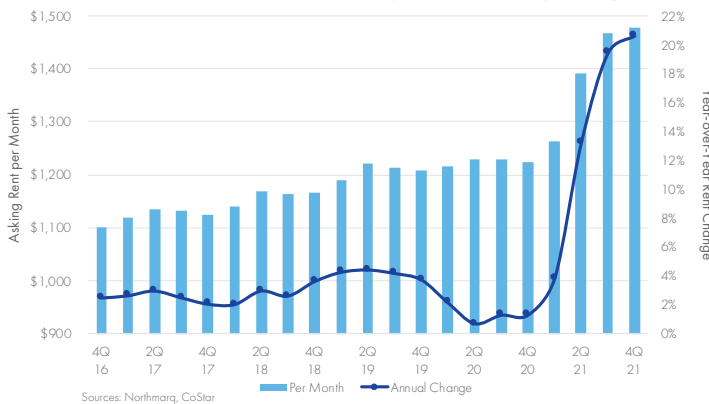
The vacancy rate declined by 170 basis points for the full year.

Vacancy Trends



Rent growth in 2021 totaled 20.7 percent.

Rent Trends



Rents

- After rapid spikes during the middle part of the year, asking rents in Raleigh-Durham gained additional ground in the fourth quarter. Asking rents reached \$1,478 per month at the end of 2021, up more than \$250 per month from the average rent one year earlier.
- Rent growth in Raleigh-Durham in 2021 totaled 20.7 percent, following average annual gains of 3.2 percent since 2012. The spike in renter demand, the slowing pace of new inventory growth, and the tight vacancy conditions all contributed to the annual increase in rents.
- While rental growth spiked across all property classes in 2021, Class A properties pushed to new heights, which should encourage additional development in the region. Asking rents among the market's top properties expanded by 18.2 percent to \$1,701 per month.
- **Forecast:** Asking rents in Raleigh-Durham are forecast to increase by nearly 6 percent in 2022 and should end the year at approximately \$1,565 per month. The delivery of newer, more expensive units, coupled with continued demand, should pull the overall average rental rate higher.

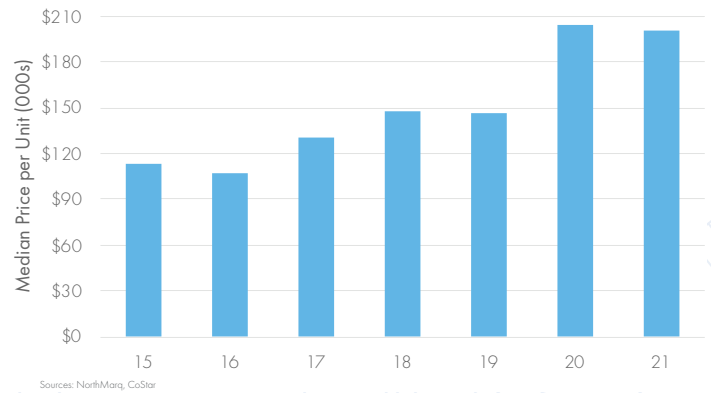
Multifamily Sales

- Multifamily property sales accelerated in Raleigh-Durham in 2021. Sales velocity remained elevated in recent months, matching levels from the previous quarter, and total transaction activity for the year was up 63 percent compared to 2020 levels.
- The median sales price for all of 2021 was \$200,500 per unit, nearly identical to the median price from 2020. Pricing trended higher at the end of the year, with the median price rising to \$228,000 per unit in the fourth quarter.
- Cap rates compressed in 2021, averaging 3.6 percent during the fourth quarter. Year over year, cap rates in Raleigh-Durham are down more than 100 basis points.



Total transaction activity for the year was up 63 percent.

Investment Trends



Recent Transactions

Multifamily Sales Activity

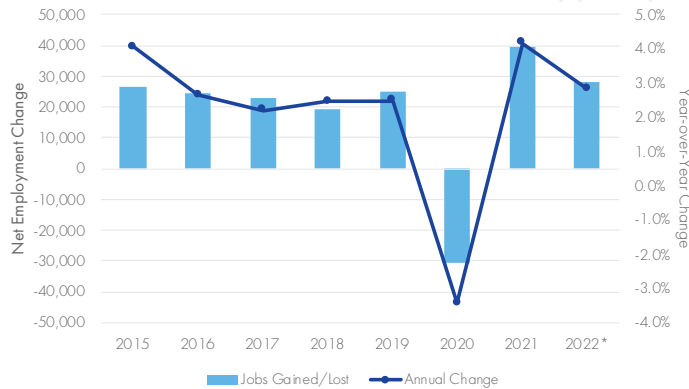
Property Name	Street Address	Units	Sales Price	Price/Unit
Luxury Apartments at Foxwood	6701 Fox Rd., Raleigh	460	\$126,000,000	\$273,913
Indigo	100 Adelaide Cir., Morrisville	488	\$121,900,000	\$249,795
The Hudson High House	100 Terrastone Pl., Cary	302	\$93,250,000	\$308,775
Regatta at Lake Lynn	3000-3013 Inland Trl., Raleigh	392	\$80,000,000	\$204,082

Looking Ahead

Following a year of considerable strengthening, momentum in the local multifamily market is forecast to be sustained in 2022. Continued economic growth will drive demand for all forms of housing, and apartments should continue to attract renters, particularly as a strong labor market attracts residents from other markets. The year ahead is expected to be an active one for new multifamily construction. In 2021, the pace of deliveries slowed, following a period where the development pipeline thinned after minimal permitting activity. Several projects have now broken ground, and assuming labor shortages and supply-chain issues do not result in significant delays, construction in 2022 should alleviate some of the current supply-demand imbalance.

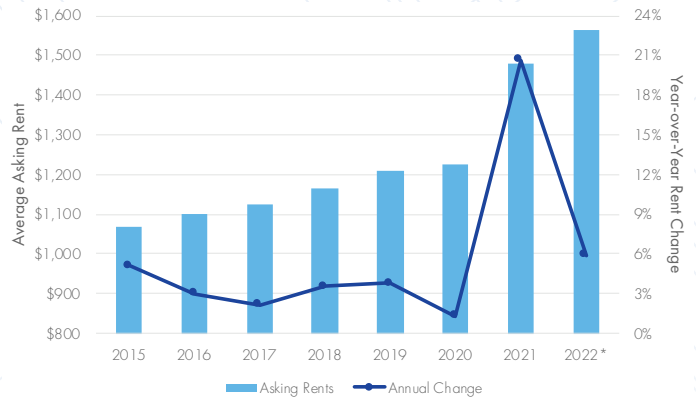
Strengthening property fundamentals will continue to make the local investment market a competitive climate for the next several quarters. Investors stepped up acquisition activity in Raleigh-Durham in 2021, and capital should move into the region in the coming year. Investors will track rent increases and the lease-up activity at new projects. While a repeat of last year's rapid rent spikes is not likely, gains in 2022 are expected to outpace the market's long-term average. Cap rates have crept lower during the past several years with rapid compression occurring in recent months. Investors may continue to accept lower initial cap rates with the expectation that future rent increases will boost returns.

Employment Forecast



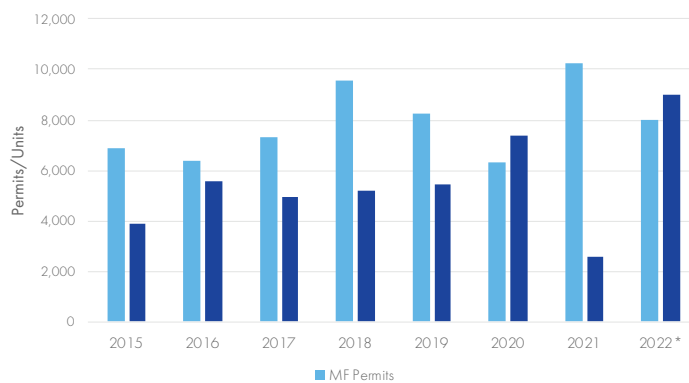
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



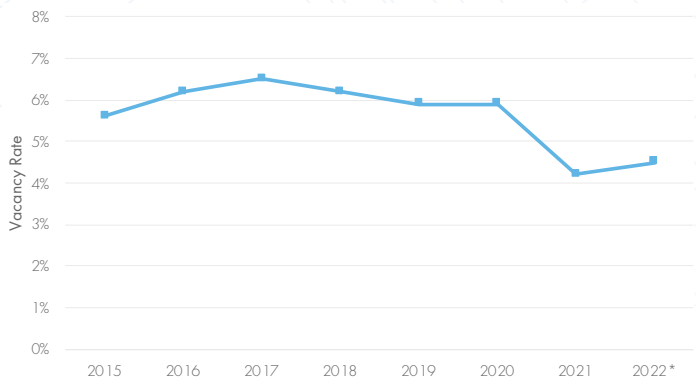
* Year End Forecast
Sources: Northmarq, CoStar

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, CoStar



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