

Market Insights

Raleigh-Durham Multifamily 1Q 2022



Construction Activity



12,187

Units under construction

2,501

Units delivered (YTD)

Market Fundamentals



4.9%

Vacancy

-50bps

Year over year change

\$1,536

Asking Rent

+21.6%

Year over year change

Transaction Activity



\$243,500

Median sales price per unit (YTD)

Investment Activity Begins 2022 on an Upswing

Highlights

- Following a year when completions were down 50 percent from the market's long-term average, apartment construction gained momentum in Raleigh-Durham during the first quarter of 2022. The increase in deliveries pushed the vacancy rate higher, although the region's rapid job growth should cause absorption to gain momentum in the coming quarters. Rents have continued to trend higher at a rapid pace.
- Area asking rents rose 3.9 percent in the first quarter and have increased by 21.6 percent year over year, reaching \$1,536 per month.
- The pace of sales to start 2022 increased compared to levels from one year earlier. Sales were concentrated in larger deals with newer properties, pushing the median price to \$243,500 per unit. Properties that traded in the first quarter generally had cap rates between 3.5 percent and 4 percent.
- Vacancy reached 4.9 percent during the first quarter, rising 70 basis points from the end of 2021. Despite the recent increase, the current figure is still 50 basis points lower than the rate one year earlier.

Raleigh-Durham Multifamily Market Overview

Property fundamentals in the Raleigh-Durham multifamily market posted a mixed performance during the first quarter with vacancies rising but rents remaining on a sharp upward trajectory. The uptick in vacancy was due primarily to an increase in new supply, including some projects that were originally scheduled to be delivered in the prior year. While most of the pressure was on the supply side, there was also a slowing pace of net absorption. This is forecast to be temporary, however, as the market continues to post strong economic growth and in-migration from other markets.

Last year was a particularly active period for investment sales in Raleigh-Durham, and that momentum carried over into the start of 2022. More properties changed hands during the first quarter than the same time period one year ago, and per-unit prices surged. Transactions that have closed to this point in 2022 have involved larger, newer projects. This year there have also been several transactions of \$100 million or more, well ahead of the pace established at the start of last year. Prices have spiked more than 20 percent from 2021 levels, with the median reaching \$243,500 per unit.

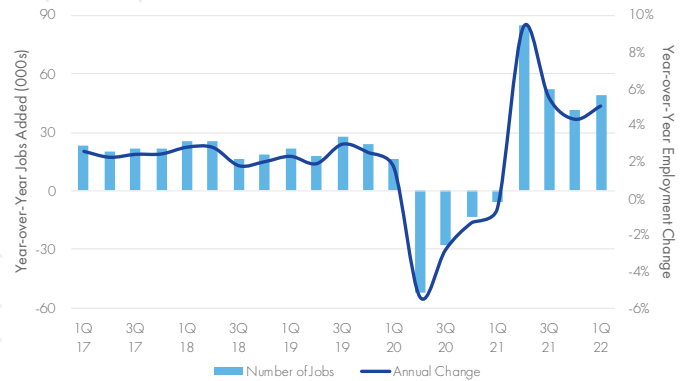
Employment

- The local employment market continues to strengthen as levels reached new highs in the first quarter. Year over year through the first quarter, employers in Raleigh-Durham have added 49,000 jobs, an increase of over 5 percent.
- Education and healthcare are sectors that expand in direct response to population growth, and they are among the industries that are driving growth in the region. During the past 12 months, employers in the education and health services sector have added 11,500 jobs, a gain of 7.6 percent.
- Vietnamese automaker VinFast recently announced plans to invest \$2 billion into a new factory in the Innovation Triangle. The Chatham County factory will be known as the Triangle Innovation Point Megasite and will begin production of electric vehicles in 2024. The project is expected to bring between 7,500 to 13,000 new jobs to the region.
- **Forecast:** Employers in Raleigh-Durham are expected to expand payrolls at an aggressive pace throughout 2022. This year, total employment in the region is forecast to expand by 4.5 percent with the addition of approximately 45,000 net new jobs.



Year over year, employers have added 49,000 jobs.

Employment Overview

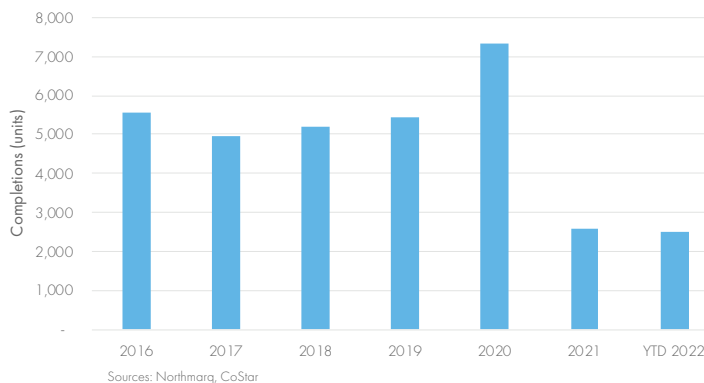


Sources: Northmarq, Bureau of Labor Statistics



During the first quarter, developers completed more than 2,500 units.

Development Trends



Sources: Northmarq, CoStar

Development and Permitting

- The pace of deliveries spiked during the first quarter as developers completed more than 2,500 new units. The number of units that were delivered in the first quarter of this year approached the total for the full year in 2021, when activity stalled briefly. Completions in the market have averaged nearly 5,000 units per year since 2015.
- Multifamily development will remain elevated in the year ahead, as projects totaling nearly 12,200 units are currently under construction. The development pipeline has swelled in recent quarters; the number of units that were under construction has advanced more than 70 percent in the past 12 months.
- Multifamily permitting has been uneven during the past few years. After slowing in 2020 and spiking in 2021, activity has cooled year to date. In the first quarter, developers pulled permits for approximately 1,170 multifamily units, down more than 70 percent from levels in the same period one year earlier.
- **Forecast:** Deliveries are forecast to spike in the coming quarters, with nearly 10,000 units projected to come online by the end of 2022. Some projects that were originally scheduled to be completed in 2021 were delayed and will come online this year instead.

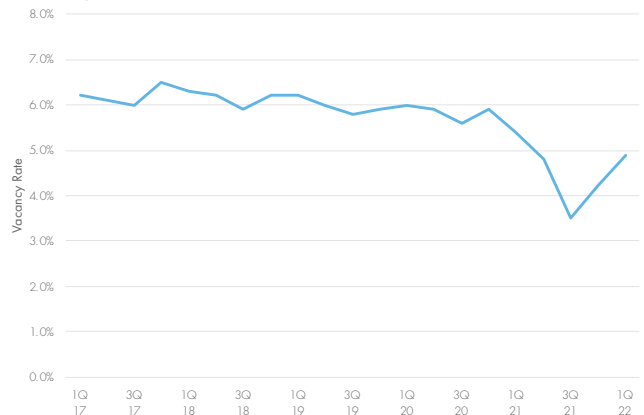
Vacancy

- After reaching record lows in 2021, vacancies increased during the first quarter. The vacancy rate crept up 70 basis points, ending the quarter at 4.9 percent.
- Even with vacancies increasing for the second consecutive quarter, the rate is still down 50 basis points year over year. The current rate is also lower than the market's five-year average of 5.4 percent.
- One reason for the rise in vacancy at the start of this year was a slowing pace of absorption. Net absorption has averaged more than 1,300 units per quarter since 2015 but totaled fewer than 300 units in the first three months of this year.
- **Forecast:** With thousands of new units slated to deliver this year, vacancies will likely creep higher. For the full year, the vacancy rate in Raleigh-Durham is expected to rise 100 basis points, ending 2022 at 5.2 percent.



The vacancy rate is down 50 basis points year over year.

Vacancy Trends

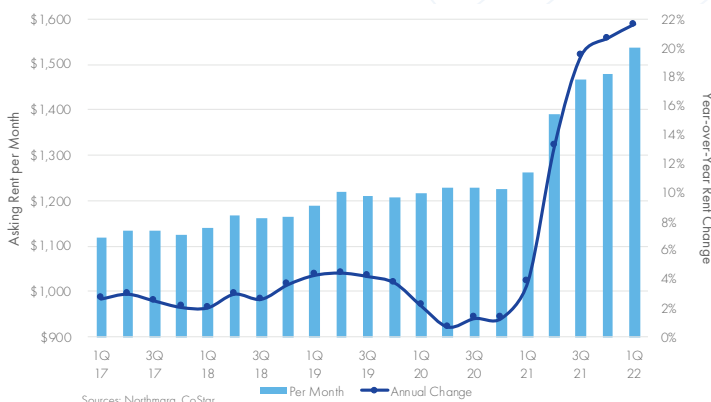


Sources: NorthMarq, CoStar



Asking rents increased 21.6 percent in the past 12 months.

Rent Trends



Sources: Northmarq, CoStar

Rents

- Rents continued to trend higher in 2022, following a rapid acceleration last year. Asking rents increased by 3.9 percent from January to March, ending the quarter at \$1,536 per month.
- Asking rents in Raleigh-Durham have increased 21.6 percent in the past 12 months. The annual pace of growth has accelerated to this point; in 2021, rents shot up 20.7 percent. Rents have increased nearly \$275 per month in the past year.
- Asking rents in Raleigh-Durham's higher-end, Class A properties are up 17.6 percent from one year ago, reaching \$1,786 per month at the end of the first quarter.
- **Forecast:** Rent increases are expected to continue throughout the rest of the year, although last year's gains are not likely to be repeated. Asking rents in Raleigh-Durham are forecast to increase by 8.5 percent in 2022, ending the year at more than \$1,600 per month.

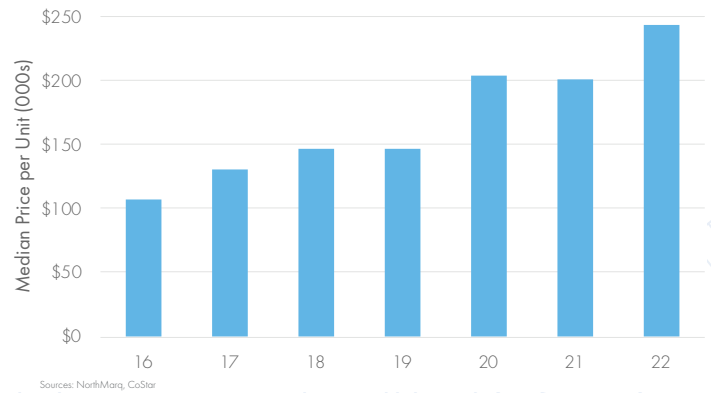
Multifamily Sales

- Multifamily property sales have accelerated across the Raleigh-Durham market at the start of 2022. Sales velocity during the first quarter is up 75 percent compared to the number of sales that took place during the same period one year ago.
- As sales velocity gained momentum and rents spiked, prices pushed higher. The median price in sales that closed during the first quarter was \$243,500 per unit, an increase of 21 percent compared to the median price in 2021.
- Cap rates ranged between 3.5 percent and 4 percent in properties that changed hands during the first quarter. This closely tracked levels recorded at the end of last year; the average cap rate during the fourth quarter was 3.6 percent.



The median price in the first quarter was \$243,500 per unit.

Investment Trends



Recent Transactions

Multifamily Sales Activity

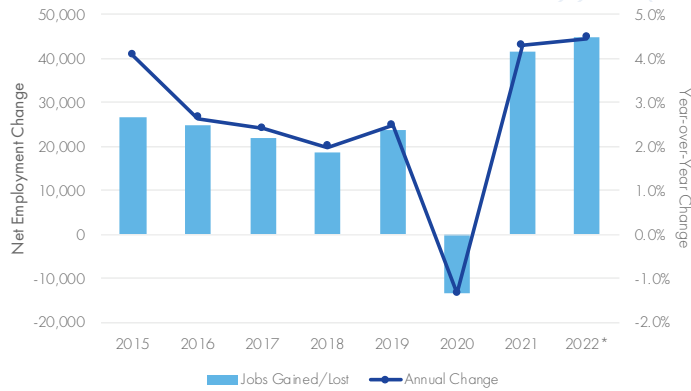
Property Name	Street Address	Units	Sales Price	Price/Unit
The Hartley at Blue Hill	625 S Elliott Rd., Chapel Hill	414	\$114,210,000	\$275,870
Villages at Raleigh Beach	2015 Wave Crest Dr., Raleigh	392	\$84,350,000	\$215,179
Foster on the Park	545 Foster St., Durham	164	\$78,300,000	\$477,439
North Oaks Landing	2038 Quail Forest Dr., Raleigh	200	\$44,000,000	\$220,000

Looking Ahead

Following an unprecedented year of growth, the local multifamily market is expected to have a more modest year of strengthening. While the Raleigh-Durham area's continued employment growth supports the demand outlook, elevated levels of new supply are forecast to come online throughout the year, a trend that began to emerge during the first quarter. This will likely result in an uptick in vacancies, offsetting some of the rapid tightening that was recorded in 2021 when deliveries reached a nine-year low. Even with the rise in vacancies, the rate is still expected to remain below the long-term historical average. Asking rents are projected to increase at an above-average pace.

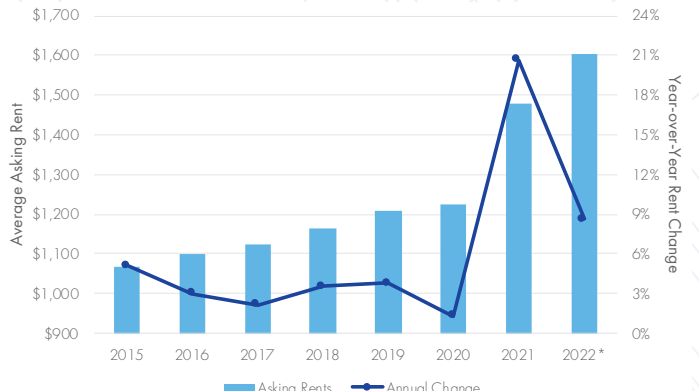
Fueled by robust growth prospects, investment activity in the Raleigh-Durham multifamily market got off to a rapid start to the year. There could be some slowing in the coming months as buyers and sellers recalibrate expectations in a rising interest rate environment. The pace of rent growth should be a key determining factor in measuring the health of the market and future cap rates. To this point, rents have continued to trend higher even as the vacancy rate has come off recent lows. Additional rent gains are forecast, which would support an upbeat market sentiment and offset much of the impact of higher borrowing costs.

Employment Forecast



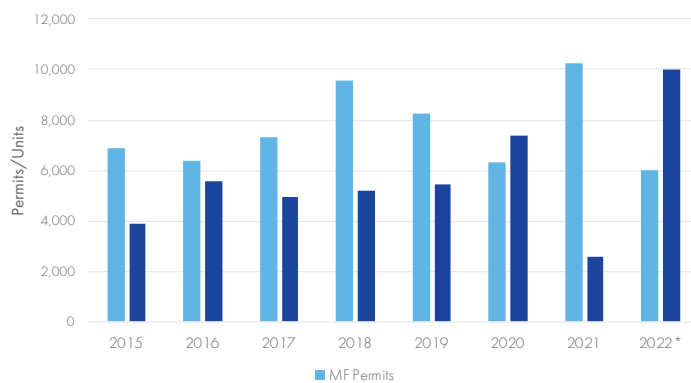
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



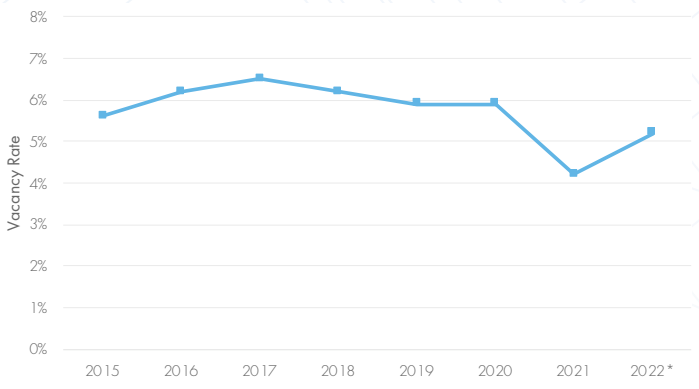
* Year End Forecast
Sources: Northmarq, CoStar

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, CoStar



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About Northmarq

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 700 employees, loan servicing volume approaching \$70 billion, and \$30+ billion in transaction volume.