Northmarq

CONSTRUCTION ACTIVITY

UNDER CONSTRUCTION	20,058
UNITS DELIVERED	6,990

MARKET FUNDAMENTALS

VACANCY RATE	5.8%
YEAR-OVER-YEAR CHANGE	+160bps
ASKING RENTS	$1,571
YEAR-OVER-YEAR CHANGE	+6.3%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER UNIT	$240,400

Raleigh-Durham Multifamily
4Q 2022

MARKET INSIGHTS

Ongoing job growth spurs apartment development

HIGHLIGHTS

- Conditions in the Raleigh-Durham multifamily market continued to cool during the last few months of the year, as vacancy trended higher, and asking rents fell. Multifamily developers remain extremely active throughout the region.
- The local vacancy rate continued to push higher during the fourth quarter, rising 50 basis points in the last three months to 5.8 percent. In 2022, the rate rose 160 basis points, after tightening by a similar figure in the previous year.
- Asking rents dropped 2 percent during the fourth quarter to $1,571 per month. Despite a modest decline at the end of the year, asking rents advanced 6.3 percent in 2022 and are forecast to inch higher in the year ahead.
- Multifamily sales activity slowed during the fourth quarter, reaching its lowest level of activity in more than two years. The median sales price in 2022 was $240,400 per unit, up 22 percent from the median price in 2021.

RALEIGH-DURHAM MULTIFAMILY MARKET OVERVIEW

Property fundamentals in the Raleigh-Durham multifamily market softened during the fourth quarter, as asking rents dipped, and the vacancy rate pushed higher. These trends offset a mostly healthy performance achieved during the first half of the year. Local apartment rents gave back some gains after unprecedented growth during 2021 and through the first half of 2022. Vacancy ticked higher for a fifth consecutive quarter, as new supply growth continues to outpace renter demand. Raleigh-Durham remains an active market for multifamily development with more than 20,000 units currently underway throughout the region. While apartment construction is ongoing in most submarkets, the most active area for new development is Downtown Raleigh with more than 4,000 units currently being built.

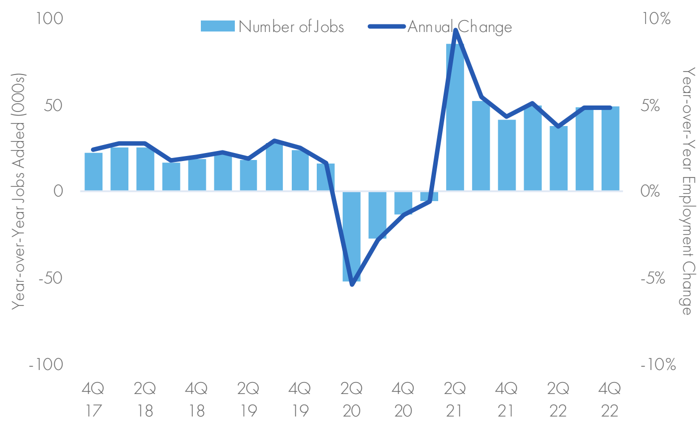
Multifamily sales activity continued to slow in Raleigh-Durham during the fourth quarter. While in a typical sales environment, investors would close out the year at an active pace, only a handful of properties traded during the final few months of 2022. Much of the uncertainty that is currently being reflected in the local investment market is due to the rapid rise in borrowing costs, prospects for slower economic growth, and some concerns about the competitive impact of new supply. Sales prices were higher for the full year but did inch lower in the fourth quarter. The median sales price in sales that closed in 2022 was roughly $240,400 per unit, up 22 percent from the median price in 2021. Cap rates generally ranged between 4 percent and 4.5 percent during the fourth quarter.

EMPLOYMENT

- Employers in Raleigh-Durham continued to add jobs during the final few months of 2022. Total employment expanded by 7,700 workers during the fourth quarter. In 2022, the local labor market grew by 4.8 percent with the addition of 48,900 jobs.
- White-collar industries continue to outperform the overall employment market. The professional and business services sector added roughly 16,500 jobs during the past 12 months, a spike of approximately 9 percent.
- Catalent, a global biotech firm, announced plans to expand its footprint in North Carolina and invest $40 million to build a new facility in the Research Triangle Park. The company will create more than 200 jobs in Morrisville within the next five years.
- **FORECAST:** The pace of employment growth is expected to slow in 2023, following rapid rebounds during the past two years. The local labor market is projected to grow by approximately 1 percent in 2023 with the addition of 11,000 net new jobs.

In 2022, the local labor market grew by 4.8 percent.

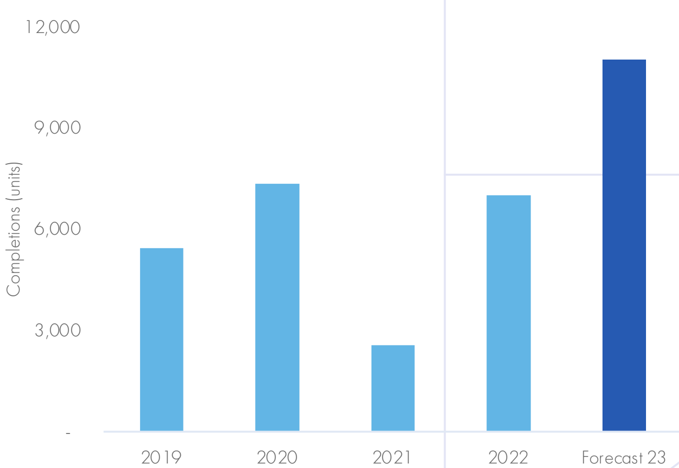
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

More than 20,000 units are currently under construction.

DEVELOPMENT TRENDS



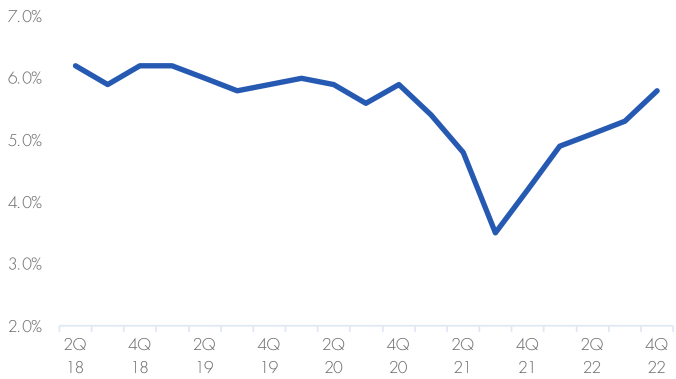
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- The pace of apartment deliveries slowed in recent months as nearly 580 multifamily units came online during the fourth quarter. In 2022, nearly 7,000 apartment units were delivered in Raleigh-Durham, after several projects that were originally on pace to be completed in 2021 were delayed.
- Projects totaling more than 20,000 units are currently under construction, up more than 60 percent from one year earlier. The most active submarkets for new development include Downtown Raleigh and North Cary/Morrisville; these two submarkets account for roughly 40 percent of the construction activity in the region.
- Multifamily permitting finished the year strong as more than 4,000 permits were pulled in the final few months of the year, up 20 percent from the previous period. Nearly 12,000 permits were pulled in 2022, a 22 percent increase from 2021.
- **FORECAST:** The pace of apartment completions will gain momentum in 2023, after new projects broke ground throughout the past several quarters. Multifamily developers are scheduled to bring more than 11,000 units online in the year ahead.

Year over year, local vacancy is up 160 basis points.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

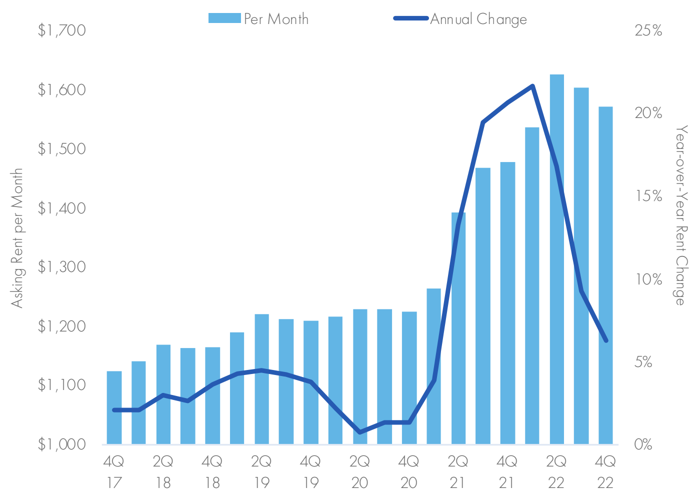
- The vacancy rate in Raleigh-Durham continued to push higher, rising 50 basis points during the fourth quarter to 5.8 percent. The rate has trended higher for five consecutive quarters; this followed a period where vacancy retreated from 5.9 percent to 3.5 percent.
- Year over year, local vacancy is up 160 basis points. The rate averaged 6.1 percent from 2015 to 2020 before falling to a 20-year low in 2021.
- Class B apartment buildings account for the largest share of the multifamily inventory in the region. The vacancy rate in Class B units ended the year at 5.7 percent, similar to the marketwide rate for all property classes. Vacancy increases in Class B units were more modest in 2022, however, rising just 120 basis points.
- **FORECAST:** Area vacancy is expected to continue to tick higher in the coming quarters, although the increases will be more modest. The rate is forecast to rise 50 basis points in 2023, ending the year at 6.3 percent.

RENTS

- Asking rents trended lower at the end of 2022, following pronounced growth in the first half of the year. During the fourth quarter, average rents fell 2 percent to $1,571 per month.
- Despite the recent decline, apartment rents in Raleigh-Durham rose 6.3 percent in 2022, a faster pace of growth than the region's long-term average. With the exception of 2022 when rents spiked more than 20 percent, long-term annual rent gains have averaged closer to 3 percent.
- While asking rents across all property classes have come down from recent all-time highs, the Class C segment posted the steadiest performance in 2022. Average rents in lower-tier units rose 5 percent in 2022 to $1,275 per month.
- **FORECAST:** Local apartment rents are projected to inch higher at a modest pace in 2023. Average rents are expected to reach nearly $1,595 per month by the end of 2023, an annual increase of about 1.5 percent.

Rents rose 6.3 percent in 2022.

RENT TRENDS



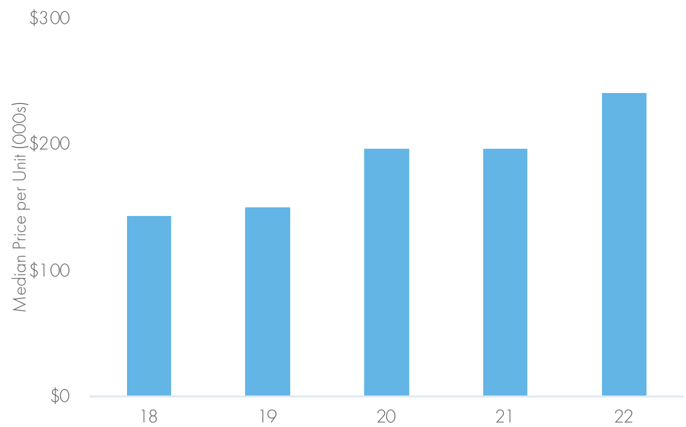
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- The local multifamily investment market continued to cool during the fourth quarter, marking its slowest period in terms of deal volume in more than two years. The number of properties that traded in 2022 fell 38 percent from levels recorded during 2021.
- Pricing remains elevated to this point in the year but has begun to come down in recent months. In 2022, the median sales price reached approximately $240,400 per unit, up 22 percent from the median price in 2021. During the fourth quarter, the median sales price was about $185,000 per unit.
- Cap rates have pushed higher in recent months in response to the sharp rises in interest rates. Most properties that traded during the fourth quarter had cap rates between 4 percent and 4.5 percent.

In 2022, the median sales price reached $240,400 per unit.

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

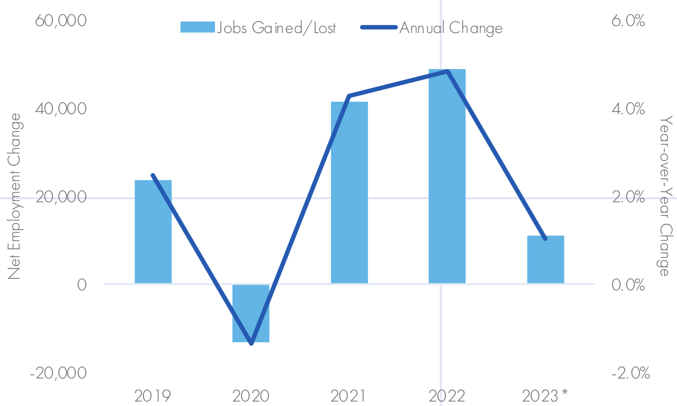
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
Bradford Apartments & Townhomes	21035 Bradford Green Sq., Cary	390	$149,000,000	$382,051
Trinity Commons	2530 Erwin Rd., Durham	342	$100,000,000	$292,398
Pinewood Station	600 S Churton St., Hillsborough	166	$30,825,000	$185,693
Avon Crossings	205 Kent Ln., Durham	160	$28,000,000	$175,000

LOOKING AHEAD

Multifamily operating conditions are expected to post a mixed performance in 2023. After two years of rapid growth in the local labor market, area employers will add jobs at a much more modest pace in the coming quarters. Absorption of units should be positive this year, but the volume of renter demand will likely be restrained by the less aggressive hiring in 2023. On the supply side, development activity is expected to pick up in the coming quarters. The upcoming surge in new deliveries will push the vacancy rate higher as absorption levels are projected to trail supply growth for the foreseeable future. Despite these potential challenges, the market is forecast to record modest rent increases, with operating conditions buoyed by continued population expansion.

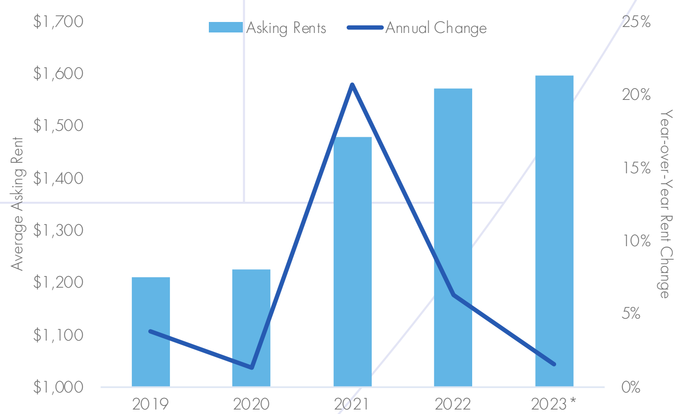
The Raleigh-Durham multifamily investment market will continue to make adjustments in 2023. Sales prices should begin to stabilize in the next few quarters, allowing for a broader range of investors to complete deals. As owners adjust to the new pricing environment, cap rates will continue to inch higher, likely reaching or topping the mid-4 percent range in the coming periods. Additionally, with construction activity expected to pick up in 2023, investors should see a greater number of newly delivered, Class A projects enter the investment market in the next 12 to 24 months. Many of these projects will ultimately lease up and be sold, although investors will monitor the timelines required for new construction projects to stabilize and the volume of incentives offered to new renters.

EMPLOYMENT FORECAST



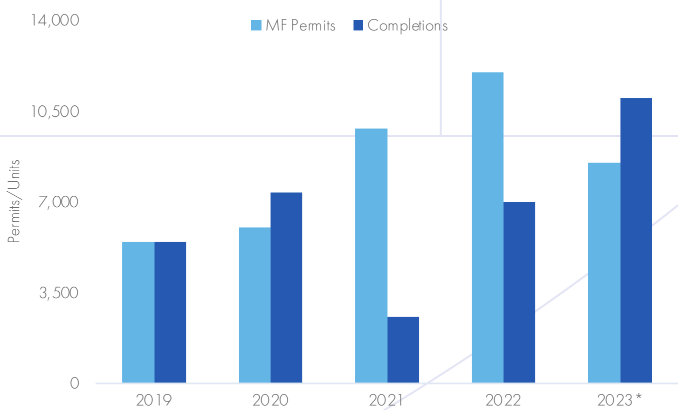
* *Year End Forecast*
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



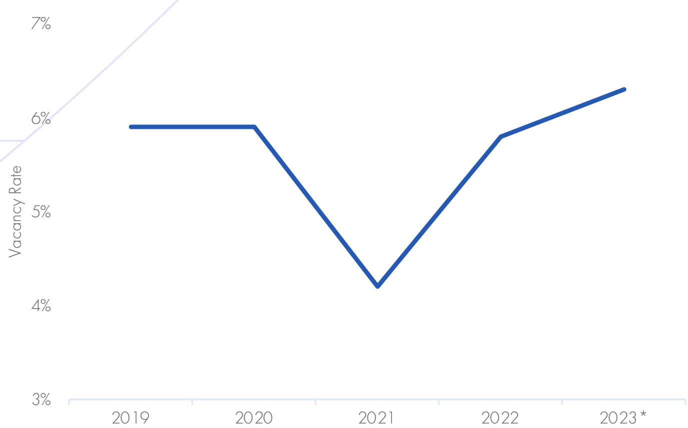
* *Year End Forecast*
Sources: Northmarq, CoStar

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

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