

Market Insights

Raleigh-Durham Multifamily 2Q 2022



Construction Activity



14,942

Units under construction

3,835

Units delivered (YTD)

Market Fundamentals



5.1%

Vacancy

+30bps

Year over year change

\$1,626

Asking Rent

+16.8%

Year over year change

Transaction Activity



\$243,500

Median sales price per unit (YTD)

Pace of Rent Growth Accelerates in 2Q

Highlights

- Strong demand drivers are fueling the Raleigh-Durham multifamily market. Rents and sales prices continue to push higher at rapid paces.
- Vacancy rose 20 basis points to 5.1 percent in the second quarter. This was the third consecutive quarter where vacancy trended higher, following three straight quarters where the rate tightened. The current vacancy rate is still lower than the market's long-term average.
- Rents in Raleigh-Durham continued to rise at a rapid pace in the second quarter. Asking rents reached \$1,626 per month at midyear, up 16.8 percent year over year. Some of the strongest rent growth was recorded in the past few months; rents rose 5.9 percent in the second quarter alone.
- Sales velocity during the second quarter accelerated from levels at the beginning of the year, and prices rose. Transaction counts in the first half are up nearly 30 percent from the same period in 2021. The median price year to date has reached approximately \$243,500 per unit, 21 percent higher than the median price in 2021.

Raleigh-Durham Multifamily Market Overview

The Raleigh-Durham multifamily market posted rapid rent growth during the second quarter, even as the local vacancy rate ticked above 5 percent for the first time in more than a year. Rent growth is being supported by gains in the local economy, which continues to add workers, particularly in traditional high-wage industries. The strong operational performance and expectations for additional advances continue to prompt new demand. The pace of apartment deliveries has gained momentum to this point in 2022, and the pipeline includes dozens of projects that should deliver in the next 24 months. Vacancy has trended higher in recent quarters, following a period of tightening, and the rate could creep higher in the next few periods as new properties are delivered and leased-up.

Investment activity accelerated from the first quarter to the second quarter in the local multifamily market, but the changing interest rate climate will likely influence transaction activity in the coming months. To this point, investors have been drawn to Raleigh-Durham's rapid economic growth, with the Research Triangle serving as a top destination for technology companies including Apple, Google, and Microsoft. The combination of a competitive investment market and rapid rent growth has pushed prices higher and kept cap rates low. The median price has spiked more than 20 percent from last year's figure. Cap rates inched higher in the second quarter but have remained below 4 percent in transactions that have closed year to date.

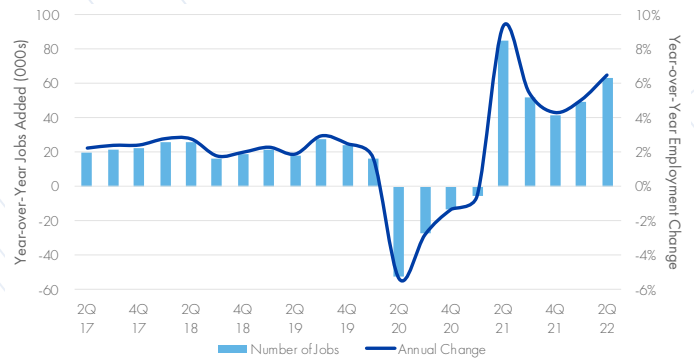
Employment

- The Raleigh-Durham labor market has continued to strengthen. During the first half of 2022, employers added nearly 27,000 jobs. Total employment in the market has grown by 63,000 workers in the past 12 months, a 6.5 percent rate of expansion.
- High-wage industries have proven to be a growth engine for the local economy. Employment in the professional and business services sector has expanded by 7.7 percent in the past year, while financial employment has grown by 6.4 percent. The two sectors have combined to add more than 17,000 new jobs to the region year over year.
- Employment in the local leisure and hospitality sector has recovered all of the jobs that were shed during COVID-related layoffs. Employment in the sector has expanded by 15.8 percent in the past year with the addition of more than 14,000 jobs.
- **Forecast:** Employment growth in Raleigh-Durham is forecast to continue throughout the remainder of the year. Area employers are expected to add roughly 40,000 jobs in 2022, a 4.2 percent expansion.



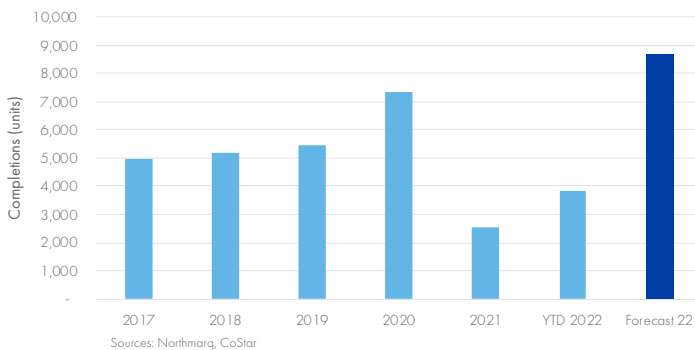
During the first half of 2022, employers added nearly 27,000 jobs.

Employment Overview



Projects totaling nearly 15,000 units are under construction.

Development Trends



Development and Permitting

- Multifamily development has gained momentum during the first half of 2022 with developers delivering more than 3,800 units thus far. During the first six months of last year, fewer than 1,200 units came online.
- The pace of deliveries is forecast to continue to accelerate in the second half of the year, as projects totaling nearly 15,000 units are under construction. The number of units that are under construction has essentially doubled levels from one year ago.
- While construction activity levels have accelerated, multifamily permitting has closely tracked levels recorded from one year ago, suggesting future development will likely level off. Permits for nearly 4,300 multifamily units were pulled in the first six months of 2022.
- **Forecast:** This year will be an active period for apartment development, as several properties that were originally slated to be delivered in 2021 were delayed. Projects totaling roughly 8,700 units are on pace to be delivered in 2022. Completions have averaged more than 5,100 units per year since 2013.

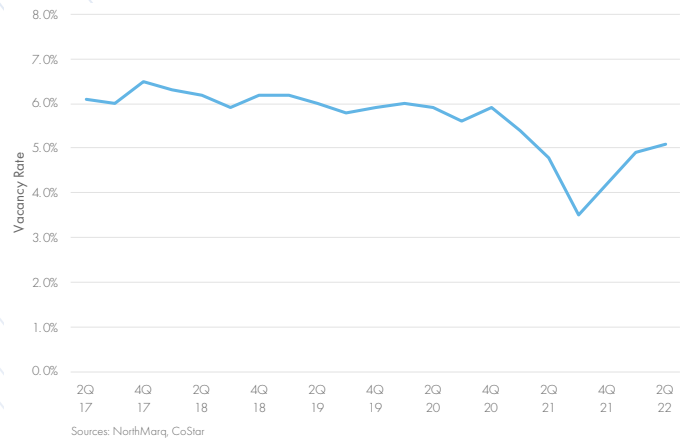
Vacancy

- Vacancies ticked up 20 basis points during the second quarter, reaching 5.1 percent. This marks the third consecutive quarter where vacancies rose in Raleigh-Durham. Prior to the recent increases, vacancies had declined from 5.9 percent to a cyclical low of 3.5 percent.
- While there has been some quarter-to-quarter fluctuation, the current vacancy rate is similar to the figure from one year ago. During the past 12 months, the rate has increased by 30 basis points.
- Vacancy in the Class A segment ended the second quarter at 5.5 percent, 30 basis points higher than one year ago. Class A vacancy fell to a low of 4.1 percent during the third quarter of 2021 and has since trended higher. Net absorption in Class A units has totaled about 550 units year to date, after demand spiked in 2021.
- **Forecast:** Area vacancies will likely trend higher in the second half of this year, as the pace of deliveries gains momentum. The rate is forecast to end the year at 5.5 percent, 40 basis points lower than the market's long-term average.



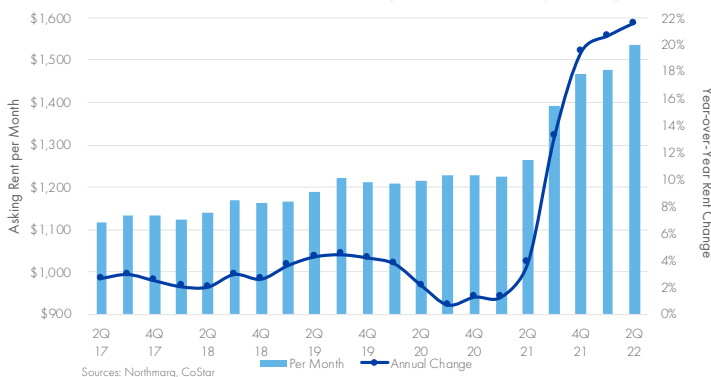
Vacancies ticked up 20 basis points during the second quarter.

Vacancy Trends



Year over year, local asking rents are up 16.8 percent.

Rent Trends



Rents

- Despite an uptick in local vacancies, rent growth in Raleigh-Durham surged during the second quarter. Asking rents advanced 5.9 percent during the past three months, ending the quarter at \$1,626 per month. Rents rose 3.9 percent at the start of 2022.
- Year over year, local asking rents are up 16.8 percent with additional gains likely in the second half. During the past several years, annual rent increases generally ranged from 3 percent to 5 percent.
- Asking rents for Class A properties rose 5.2 percent in the second quarter, reaching \$1,885 per month. Class A rents reached \$1.97 per square foot, per month, after averaging around \$1.50 per square foot, per month from 2018 to 2020. The steep rise in Class A rents reflects an increase in more expensive, high density product and has been a catalyst for new development in the market.
- **Forecast:** After sharp rises throughout the past several quarters, area rents are expected to plateau in the second half of the year. Asking rents are forecast to rise 12.5 percent in 2022, ending the year near \$1,665 per month.

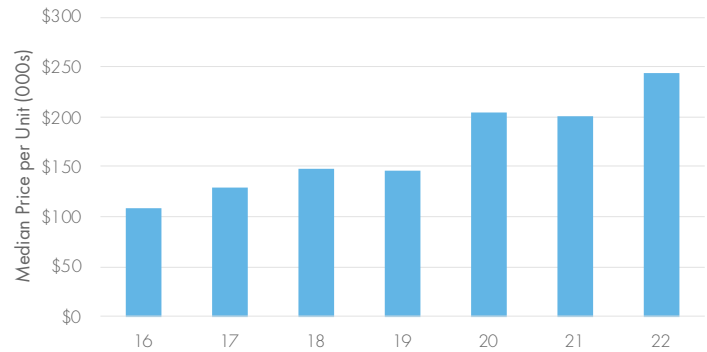
Multifamily Sales

- Sales velocity in Raleigh-Durham accelerated during the second quarter, with activity increasing 21 percent from levels recorded at the beginning of the year. The number of transactions for the first half of 2022 is up nearly 30 percent from the same period last year, although sales activity peaked at the end of 2021.
- With rents continuing to trend higher, prices have maintained an upward trajectory. The median price in the first half reached approximately \$243,500 per unit, 21 percent higher than the median price in 2021.
- Cap rates have inched up to this point in 2022 but are not dramatically higher than levels recorded at the end of last year. The average cap rate in transactions that have closed year to date is 3.8 percent, about 20 basis points higher than the average at the end of last year.



The median price in the first half reached approximately **\$243,500 per unit.**

Investment Trends



Sources: NorthMarq, CoStar

Recent Transactions

Multifamily Sales Activity

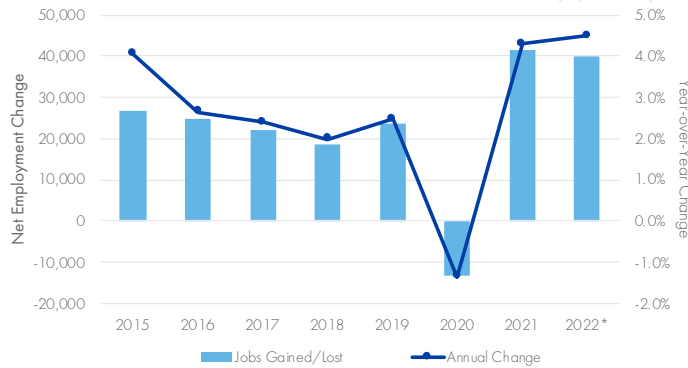
Property Name	Street Address	Units	Sales Price	Price/Unit
Preston View	1000 Stony Ct., Morrisville	382	\$124,250,000	\$325,262
Wesley	442 Jefferson Towne Dr., Raleigh	354	\$112,000,000	\$316,384
Summermill at Falls River Apartments	10311 Falls Mill Dr., Raleigh	320	\$106,000,000	\$331,250
Meridian at Nichols Plaza	900 Doverside Dr, Apex	270	\$94,600,000	\$350,370
Amberwood at Lochmere	100 Eclipse Dr., Cary	340	\$93,223,000	\$274,185
Vert at Six Forks	7816 Six Forks Rd., Raleigh	174	\$39,000,000	\$224,138

Looking Ahead

Activity in the Raleigh-Durham multifamily market is forecast to accelerate in the second half of this year. After supply-chain stresses caused development delays in recent years, the pace of construction is regaining momentum. The number of units that came online in the first half of this year has already topped the total deliveries recorded throughout all of last year, and the pace of construction is expected to increase in the coming quarters. The new units are coming to the market following a considerable supply-demand imbalance; in 2021, total net absorption nearly tripled the number of units that were delivered. This year, those trends should invert with absorption forecast to reach about 4,500 units, or about half of the number of units delivered assuming normalized levels of absorption.

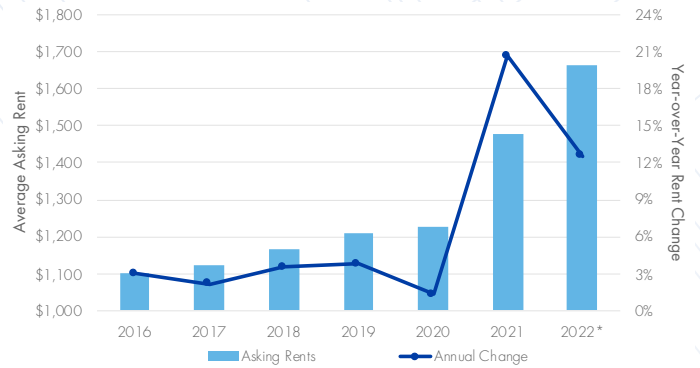
Investor demand for multifamily properties in Raleigh-Durham has remained elevated for the past several quarters, and the rent increases forecast for the market should continue to attract capital. There could be a period where transaction activity slows as buyers and sellers adjust expectations to the changing interest rate environment. After this period of price discovery, cap rates will likely level off at 4 percent or higher for most properties, and transaction activity should resume at a fairly steady pace. This process will likely accelerate if interest rate increases stall, the local economy continues to add workers across a wide range of industries, and area rents continue to rise at a rapid pace.

Employment Forecast



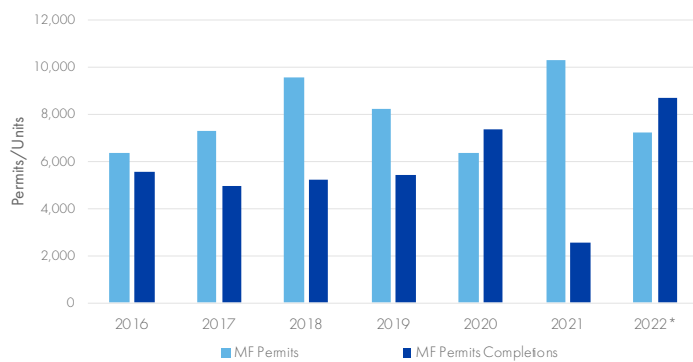
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

Rent Forecast



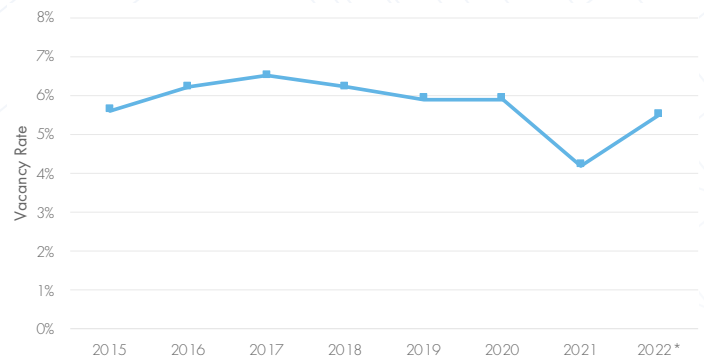
* Year End Forecast
Sources: Northmarq, CoStar

Construction & Permitting Forecast



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

Vacancy Forecast



* Year End Forecast
Sources: Northmarq, CoStar



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