

# Market Insights

Raleigh-Durham Multifamily 3Q 2022



## Construction Activity



**16,557**

Units under construction

**6,414**

Units delivered (YTD)

## Market Fundamentals



**5.3%**

Vacancy

**+180**bps

Year over year change

**\$1,603**

Asking Rent

**+9.3%**

Year over year change

## Transaction Activity



**\$264,800**

Median sales price per unit (YTD)

## Attractive Market Fundamentals Lure Increased Development Activity

### Highlights

- Property fundamentals in the Raleigh-Durham multifamily market softened somewhat during the third quarter, with vacancies rising as the pace of construction accelerated. Demand drivers remain strong, suggesting absorption should gain momentum in the coming quarters.
- Year over year, asking rents have jumped 9.3 percent, ending the third quarter at \$1,603 per month. Since the beginning of 2021, local asking rents have spiked more than 30 percent.
- Total transaction activity in the third quarter was nearly identical to levels recorded in the second quarter. Prices have increased, as the median sales price reached \$264,800 per unit, up 32 percent from 2021 levels.
- Vacancy in Raleigh-Durham pushed higher in recent months, rising 20 basis points during the third quarter to 5.3 percent. Year over year, the rate is up 180 basis points. Prior to recent increases, the local vacancy rate had been trimmed nearly in half from 2020 to mid-2021.

### Raleigh-Durham Multifamily Market Overview

The Raleigh-Durham multifamily market reported some cooling during the third quarter, as asking rents retreated slightly, and the vacancy rate crept higher. Vacancy has been trending higher for about a year, after the rate reached an extremely low level in 2021. One of the reasons the market's vacancy levels had retreated so dramatically in 2021 was a drop-off in the delivery of new units, creating a supply-demand imbalance. That trend has reversed course, and the pace of deliveries has accelerated this year. Developers are expected to remain active for the next few years, as the construction pipeline continues to swell with more than a dozen projects slated to come online by the end of the year. The upcoming apartment deliveries are concentrated in outlying suburban areas including Morrisville, Cary, and Wake Forest.

The Raleigh-Durham multifamily investment market maintained healthy conditions during the third quarter, particularly in the final few weeks of September when a flurry of properties changed hands. The market is showing ongoing signs of positive investor sentiment, with sales prices continuing to push higher, and cap rates staying fairly close to levels recorded during the past few quarters. More than half of the transactions in the last three months sold for more than \$70 million, with a handful of properties selling for more than \$100 million. During the third quarter, sales activity picked up in the submarkets surrounding the Research Triangle, a top destination for some of the world's largest technology companies. Investors were drawn to neighborhoods within close proximity to this economic hub in submarkets including Morrisville, Brier Creek, and Southpoint.

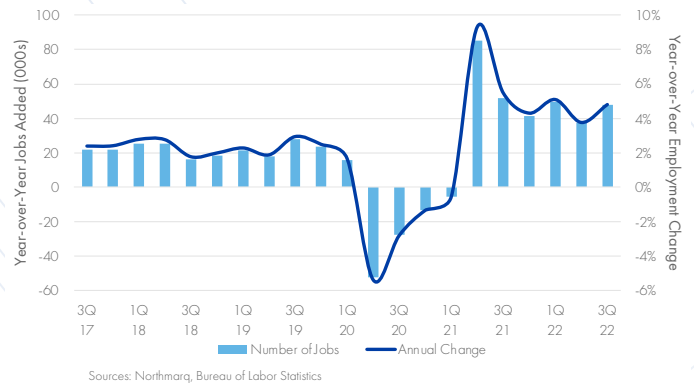
## Employment

- Local employers continued to add jobs during the third quarter with a gain of nearly 11,000 positions in the last three months. Growth in the region has been fairly steady in recent quarters; the Raleigh-Durham labor market has added 48,000 workers in the past year, a 4.8 percent rate of expansion.
- The white-collar employment base has grown significantly in the region in recent quarters. During the past 12 months, the professional and business services sector expanded by nearly 15,000 jobs and grew by 8.2 percent. Employment in financial activities rose by approximately 5.5 percent year over year.
- Wolfspeed, a leading manufacturer of semiconductors, recently announced plans to establish a manufacturing campus in Siler City. Located 50 miles west of Raleigh, the \$5-billion project is expected to create 1,800 new jobs in the region by 2030.
- Forecast:** Area employers are projected to continue to add workers to payrolls through the remainder of the year. Total employment is forecast to expand by 44,000 positions in 2022, an annual gain of 4.4 percent.



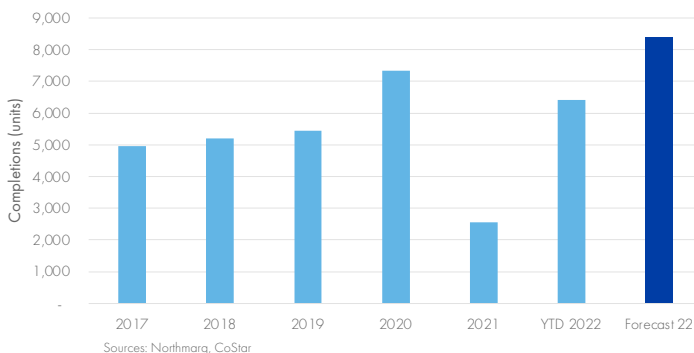
The Raleigh-Durham labor market has added 48,000 workers in the past year.

### Employment Overview



Year to date, projects totaling more than 6,400 units have come online.

### Development Trends



## Development and Permitting

- Apartment construction activity picked up during the third quarter with the completion of nearly 2,600 units. Year to date, projects totaling more than 6,400 units have come online, nearly tripling levels from last year. Several projects that were originally slated to come online in 2020 or 2021 were delayed, and ultimately, delivered this year.
- The multifamily development pipeline continues to swell with projects totaling approximately 16,600 units currently under construction. This represents a sharp increase in the number of units that have been in development in recent years. Since 2015, the average number of units that were under construction was approximately 8,900.
- Multifamily permitting accelerated in recent months, as developers pulled permits for approximately 2,950 units during the third quarter, a 25 percent increase from the previous period. Year to date, multifamily permitting is up about 5 percent from the same period in 2021.
- Forecast:** Following a steep decline in completions in 2021, developers in Raleigh-Durham are on pace to deliver nearly 8,400 apartment units this year.

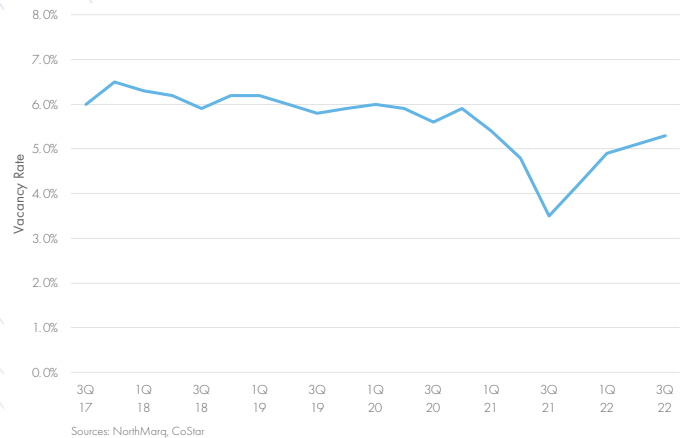
## Vacancy

- After reaching a 20-year low, the vacancy rate has trended higher in each of the past four quarters. Recent upticks have been modest; the vacancy rate rose 20 basis points in the last three months, matching the increase in the second quarter.
- Year over year, the rate climbed 180 basis points to 5.3 percent. The current figure is still below the region's long-term average. Area vacancy has averaged 5.7 percent during the past five years.
- After rising earlier in the year, the Class A vacancy rate leveled off during the third quarter, inching up just 10 basis points to 5.7 percent. Vacancy in Class A units reached a cyclical low one year ago at 4.1 percent. The long-term average for Class A properties in the region is closer to 6.5 percent.
- **Forecast:** The vacancy rate is expected to hold steady in the final quarter. Vacancy is projected to finish 2022 at 5.3 percent, up 110 basis points from the end of last year.



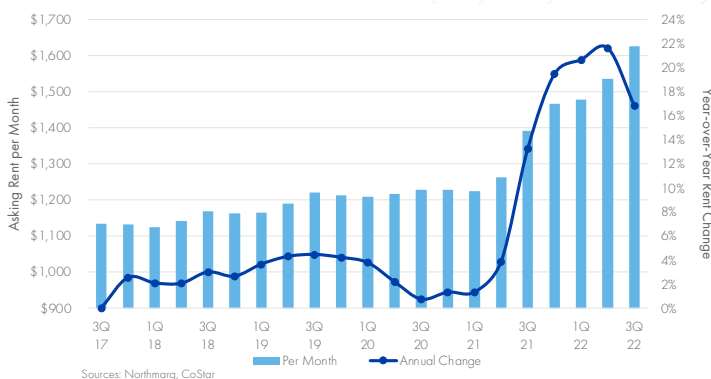
The Class A vacancy rate leveled off during the third quarter.

### Vacancy Trends



Since the beginning of 2021, local asking rents have spiked more than 30 percent.

### Rent Trends



## Rents

- After posting unprecedented rates of growth during the past six quarters, local asking rents dipped in the last three months. During the third quarter, area rents fell 1.4 percent to \$1,603 per month.
- Despite the recent decline, apartment rents in Raleigh-Durham have increased 9.3 percent during the past year, advancing by nearly \$150 per month. Since the beginning of 2021, local asking rents have spiked more than 30 percent.
- Class A asking rents recorded rapid gains in 2021, rising more than \$250 per month. Rents in the top tier are showing some signs of meeting resistance. During the third quarter, Class A asking rents fell 2 percent to \$1,859 per month, or \$1.94 per square foot, per month. Year over year, apartment rents in top-tier properties are up 6.5 percent.
- **Forecast:** Local rents are expected to record modest upticks in the final few months of the year. Average asking rents are forecast to finish 2022 at \$1,608 per month, up 8.8 percent for the year.

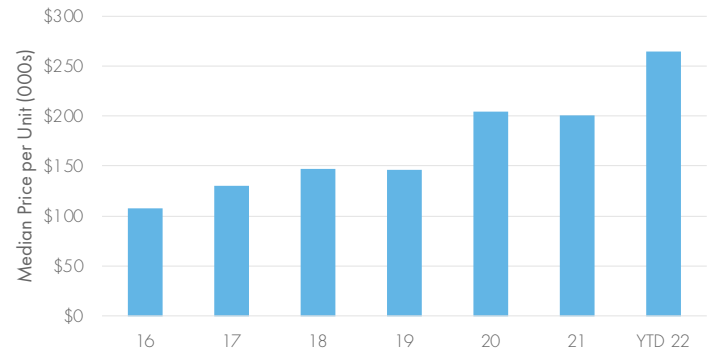
## Multifamily Sales

- Multifamily transaction activity showed signs of cooling early in the third quarter, but activity levels gained momentum in the final few weeks. Total transaction activity in the third quarter was nearly identical to levels recorded in the second quarter. Year to date, transaction counts are down about 18 percent when compared to the same period in 2021.
- Despite the pace of sales slowing, prices trended higher. To this point in the year, the median sales price reached \$264,800 per unit, up 32 percent from the median price in 2021. The bulk of the properties that traded during the third quarter were located outside the city centers, including a handful of deals surrounding the Research Triangle.
- Even as interest rates have pushed higher, cap rates in Raleigh-Durham have remained low, at least to this point in 2022. The average cap rate in sales year to date is approximately 3.7 percent.



To this point in the year, the median sales price reached **\$264,800 per unit.**

### Investment Trends



Sources: NorthMarq, CoStar

## Recent Transactions

### Multifamily Sales Activity

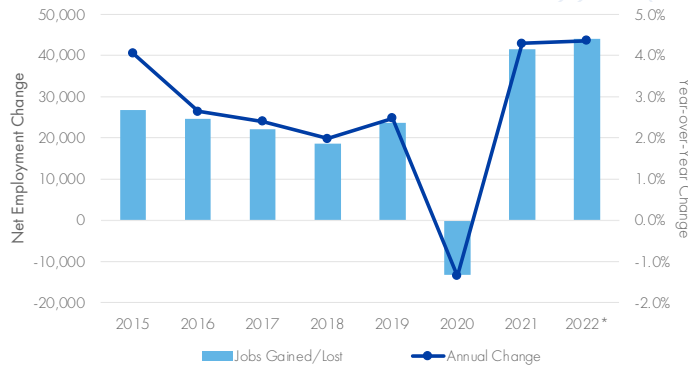
Property Name	Street Address	Units	Sales Price	Price/Unit
Bainbridge Aviation Crossing	4555 McCrimmon Pky., Morrisville	298	\$120,000,000	\$402,685
The Lex at Brier Creek	200 Wind River Pky., Morrisville	346	\$99,742,500	\$288,273
Alister Lake Lynn   FKA The Mark	6421 Campus Dr., Raleigh	312	\$79,000,000	\$253,205
One City Center	110 Corcoran St., Durham	109	\$55,680,000	\$510,826
Alcove Garner Apartments	26 Anvil Peak Dr., Garner	170	\$42,250,000	\$248,529

## Looking Ahead

After a slowdown in apartment deliveries last year due to supply-chain issues across the country, multifamily developers are on pace to bring a record number of units online in 2022. Total completions are projected to reach nearly 8,400 units this year, following the delivery of fewer than 2,600 units in 2021. While the year-to-year rise in deliveries is noteworthy, the combined total for both years is consistent with two-year completion totals from 2015 to 2020. Absorption totals have lagged last year's levels to this point in 2022, but continued growth in the local labor market should fuel renter demand as new projects are delivered. The vacancy rate, which remains below the market's long-term average, may inch higher in the coming quarters if the national economy shows further signs of slowing.

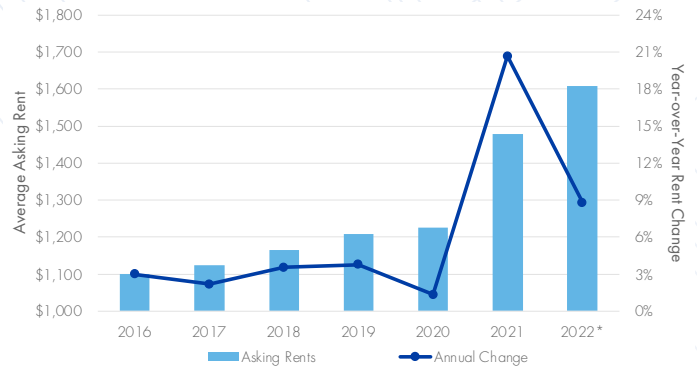
The local multifamily investment market is exhibiting some mixed signals in 2022, but most of the signs point to continued health. Transaction activity is behind last year's elevated pace, but sales velocity broke out of a lull late in the third quarter, which could signal a stronger close to the year than was originally forecast. One aspect of the market that continues to show a clear direction is pricing; per-unit valuations have continued to push higher at an aggressive pace. With several new projects likely to deliver in the coming quarters, and investors demonstrating a preference for Class A projects, a number of properties will likely transact at elevated per-unit prices. Cap rates have remained low throughout much of this year but will likely trend higher in the fourth quarter and at the start of 2023, as interest rates continue to rise.

### Employment Forecast



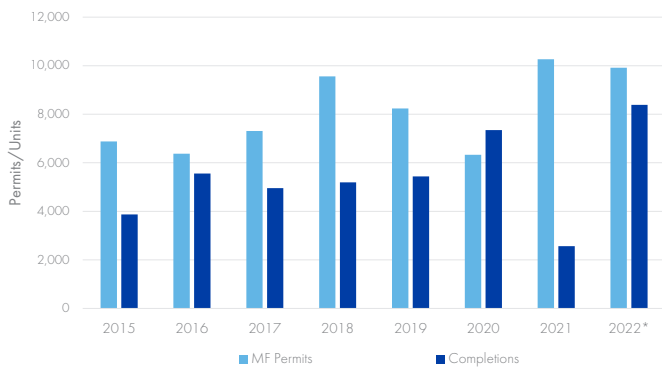
\* Year End Forecast  
Sources: Northmarq, Bureau of Labor Statistics

### Rent Forecast



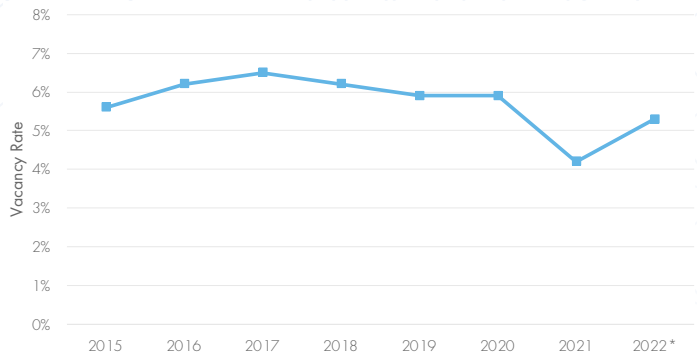
\* Year End Forecast  
Sources: Northmarq, CoStar

### Construction & Permitting Forecast



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

### Vacancy Forecast



\* Year End Forecast  
Sources: Northmarq, CoStar



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