

YARDI[®] Matrix

Dynamic Triangle

Multifamily Summer Report 2016

Southport, Oakwood Lead Rent Growth

Development Pipeline Booms

Transaction Volume Tops \$3.2B



Market Analysis

Summer 2016

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Three Strong Edges

North Carolina's Triangle metro—which encompasses Charlotte and Raleigh-Durham—has been one of the more dynamic areas of the country in recent years. Local universities have produced a wealth of highly educated workers, while the area draws residents due to its low housing costs and temperate climate. The combination of job and population growth has produced extremely strong demand for apartments. The question now is whether demand will continue to be enough to absorb the heavy supply pipeline.

But the metro's robust job growth continues, with 58,200 positions added in the 12 months ending in April, led by business services, trade and transportation, and hospitality. The Research Triangle technology center is a focal point of the growth, given its role as a hub for the shipping of mail-order products, a growth industry in the Internet age.

Overall, the NC Triangle is among the top markets for supply, with 12,000 new units in 2015 and more than 10,000 slated to be completed in 2016. With occupancies at 96.3% as of April, rent growth has been strong, and investors have noticed: Multifamily transactions topped \$3.2 billion last year. While the 6.3% year-over-year increase in rent growth through May was 30 basis points above the national average, however, the large supply pipeline should cool growth, and we forecast 3.0% rent increases in 2016.

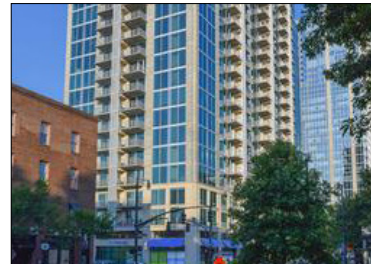
Recent NC Triangle Transactions

West Village I, II & III



City: Durham, N.C.
Buyer: The Connor Group
Purchase Price: \$187 MM
Price per Unit: \$307,061

SkyHouse Raleigh



City: Raleigh, N.C.
Buyer: World Wide Group
Purchase Price: \$103 MM
Price per Unit: \$321,875

Allister North Hills



City: Raleigh, N.C.
Buyer: LACERA
Purchase Price: \$94 MM
Price per Unit: \$215,438

Ashton Reserve at Northlake

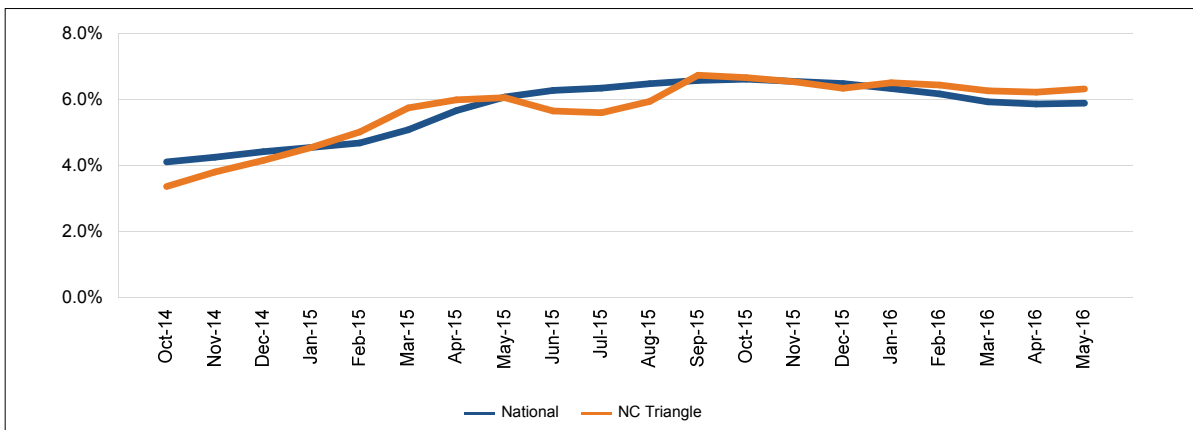


City: Charlotte, N.C.
Buyer: Bluerock Real Estate
Purchase Price: \$67 MM
Price per Unit: \$140,739

Rent Trends

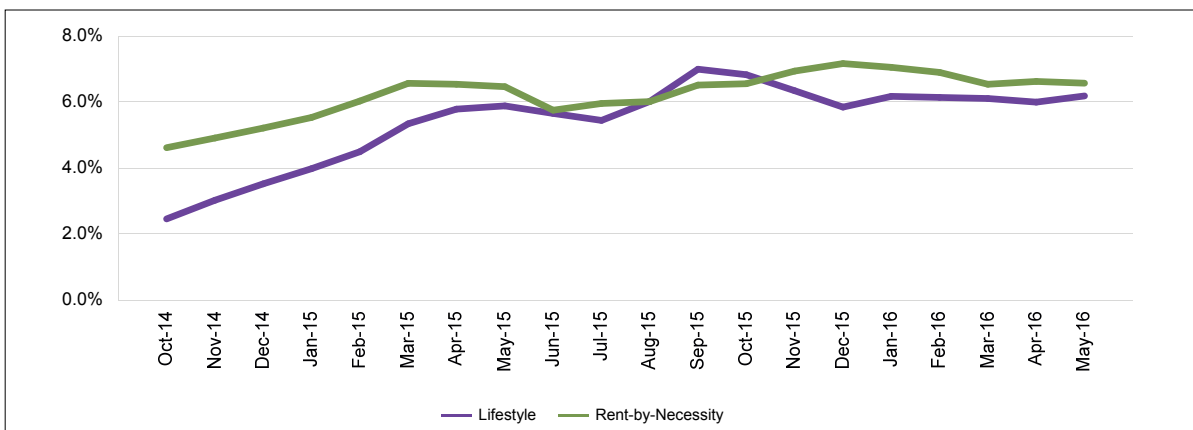
- Metro-area rents average \$939 per month, well below the national average, but rent growth was 6.3% year-over-year through May, 30 basis points above the national average. The strong gains are the result of the metro's booming economy and strong population and job growth.
- The working-class Renter-by-Necessity segment led gains with a 6.6% increase to \$822 year-over-year, while the upscale Lifestyle segment grew 6.2%, reaching an average of \$1,044. Both upper- and lower-end apartments have enjoyed good performance, thanks to diversification of the job market and relative affordability in the metro. However, the concentration of renters that are students or work in lower-paying segments such as construction, hospitality, and trade and transportation creates more demand for RBN units.
- Submarkets with the highest rent growth were in and around core areas of Raleigh and Durham, with Southport leading the way with a 13.4% increase, followed by Oakwood (11.2%), Hope Valley (9.6%), River Forest (9.0%) and Morningside (8.8%).
- We expect rent growth to moderate this year due to the influx of new supply, which will outstrip demand. As a result, we forecast rent gains will slow to 2% in 2016.

NC Triangle vs. National Rent Growth (Sequential 3 Month, Year-Over-Year)



Source: YardiMatrix

NC Triangle Rent Growth by Asset Class (Sequential 3 Month, Year-Over-Year)

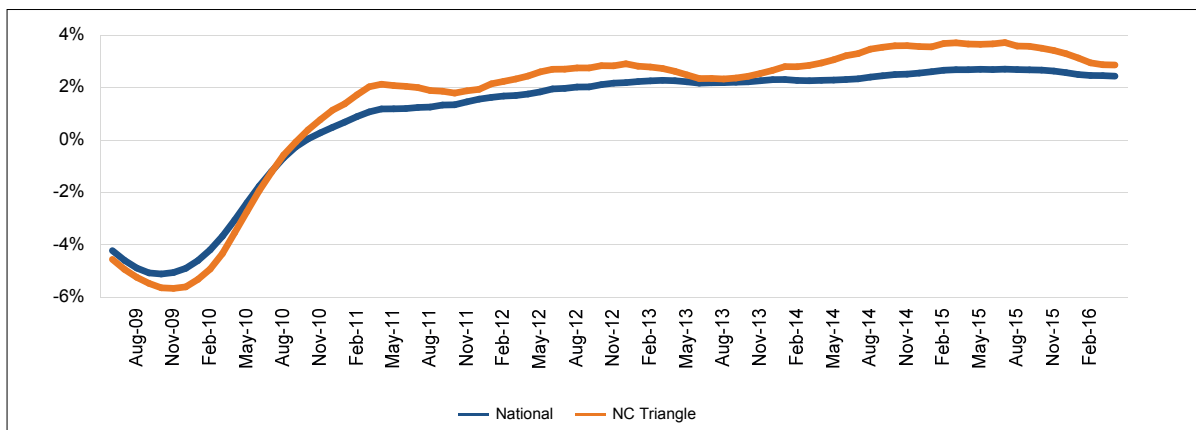


Source: YardiMatrix

Economic Snapshot

- A total of 58,200 jobs were created in the metro in the 12 months ending in May, a 2.8% increase year-over-year, above the 2.4% national average. Gains were led by the professional and business services sector (16,500), trade and transportation (9,800), and leisure and hospitality (9,600).
- The metro has consistently topped national averages since the end of the last recession, thanks to the graduates produced by its educational institutions and strong business climate. Charlotte International Airport is one of the top 10 airports in the country for traffic, contributing \$31 billion annually to the economy and supporting jobs in industries such as commerce, tourism and government.
- A number of international life science companies have expanded in and around the Research Triangle Park over the last year, fortifying the metro's reputation as a global hub for commercial bioscience. This resulted in the addition of 6,500 jobs in the education and health services sector and 1,300 in the information sector.
- The construction sector added 5,500 workers due to the growth in multifamily and commercial development. The \$50 million Park Center project broke ground at the Research Triangle Park in the first quarter. The project encompasses a series of infrastructure and amenity improvements as part of an effort to make the high-profile research center more attractive to businesses.

NC Triangle vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

NC Triangle Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	342	17%	16,500	5.1%
40	Trade, Transportation and Utilities	369	18.3%	9,800	2.7%
70	Leisure and Hospitality	217	10.8%	9,600	4.6%
65	Education and Health Services	250	12.4%	6,500	2.7%
15	Mining, Logging and Construction	98	4.9%	5,500	5.9%
55	Financial Activities	129	6.4%	4,000	3.2%
80	Other Services	75	3.7%	3,900	5.5%
50	Information	51	2.5%	1,300	2.6%
90	Government	316	15.7%	900	0.3%
30	Manufacturing	167	8.3%	200	0.1%

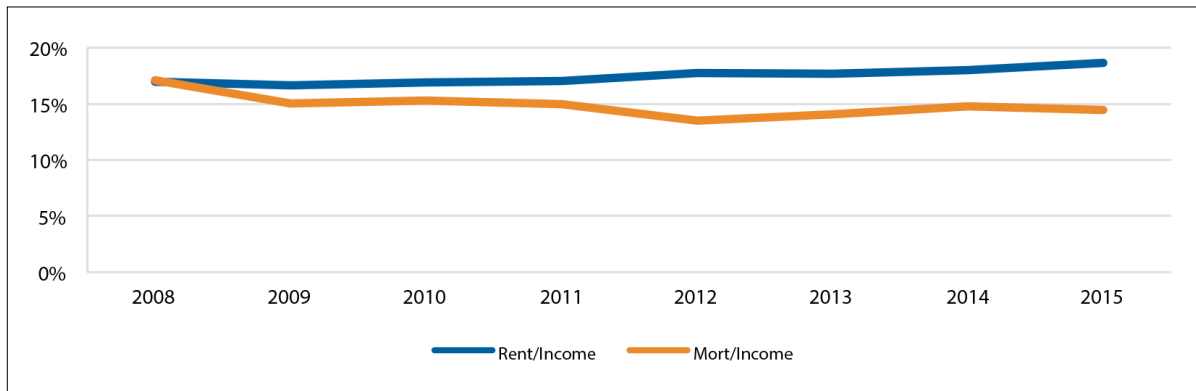
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

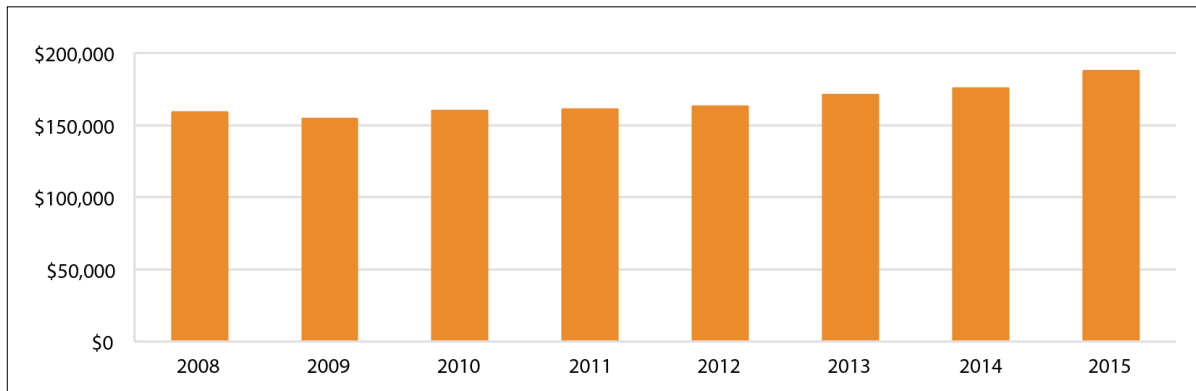
- Median home prices in the NC Triangle rose to \$187,582 in 2015, reaching a peak for the current cycle. With rent growth far outpacing wage growth and high demand serving as a negative for those on a fixed income, the need for affordable housing is high, as renting is out of reach for many in core areas.
- Owning remains a more feasible option than renting, as the average mortgage payment is 14% of the metro's median income of \$57,800, whereas renting comprises around 19%, at an average of \$900 per month.

NC Triangle Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

NC Triangle Median Home Price



Source: Moody's Analytics

Population

- Raleigh has grown by 9.3% since 2010, while Charlotte's community grew by 7%, both above the 3.1% national average.
- Since 2010, roughly 262,000 residents have moved to the NC Triangle.

NC Triangle vs. National Population

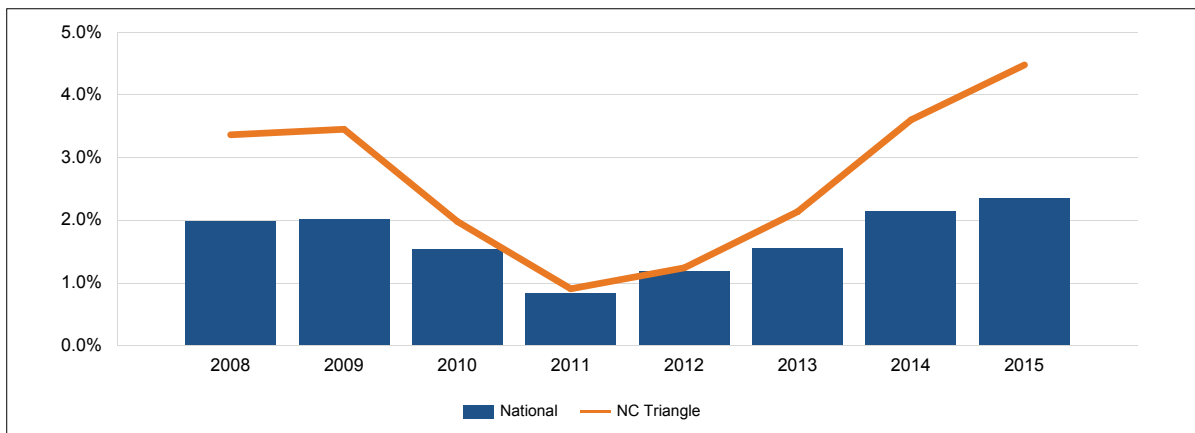
	2010	2011	2012	2013	2014
National	309,347,057	311,721,632	314,112,078	316,497,531	318,857,056
Raleigh, NC Metro Area	1,137,346	1,163,203	1,189,075	1,215,299	1,242,974
Charlotte-Concord-Gastonia, NC-SC Metro Area	2,223,894	2,257,149	2,295,879	2,337,339	2,380,314

Source: U.S. Census

Supply

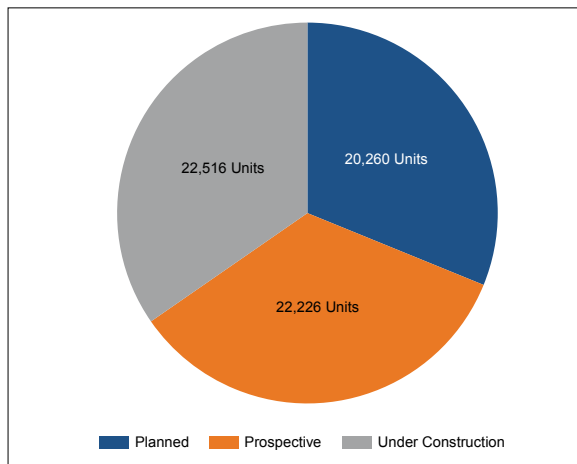
- The metro’s multifamily construction pipeline is booming. About 12,000 units came online in 2015, by far the largest gain in the current cycle. The completions added 4.5% to the metro’s stock, almost double the 2.3% national average.
- The new supply is set to keep coming. Roughly 65,000 units, including 22,500 under construction, are in various stages of development. Developers are focusing on the downtown submarkets and school districts, areas that have seen the most demand.
- Four submarkets have more than 1,000 units under construction, including Charlotte’s Uptown, which leads the forward pipeline with 1,800 units. Other submarkets with strong pipelines include Durham’s Research Triangle (1,200 units), Ballantyne – Providence (1,100) and Second Ward (1,000).
- The largest projects slated for completion in 2016 are The Villages at Ellis Crossing (600 units) in the Research Triangle, Apartments at Holly Crest (402 units) in Huntersville and The Village at Commonwealth (401 units) in Morningside, along with 20 additional communities with more than 300 units.

NC Triangle vs. National Completions as a Percentage of Total Stock (as of May 2016)



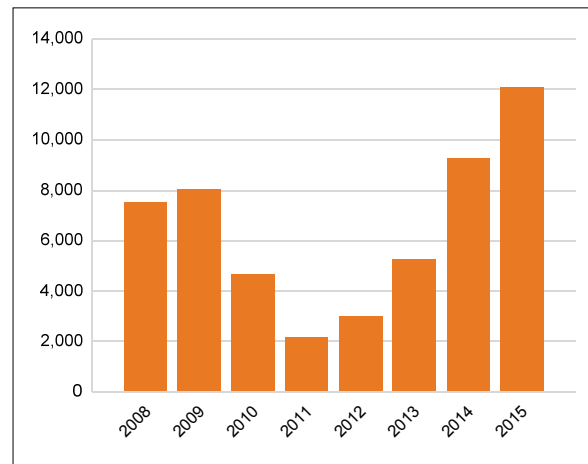
Source: YardiMatrix

Development Pipeline (as of May 2016)



Source: YardiMatrix

NC Triangle Completions (as of May 2016)

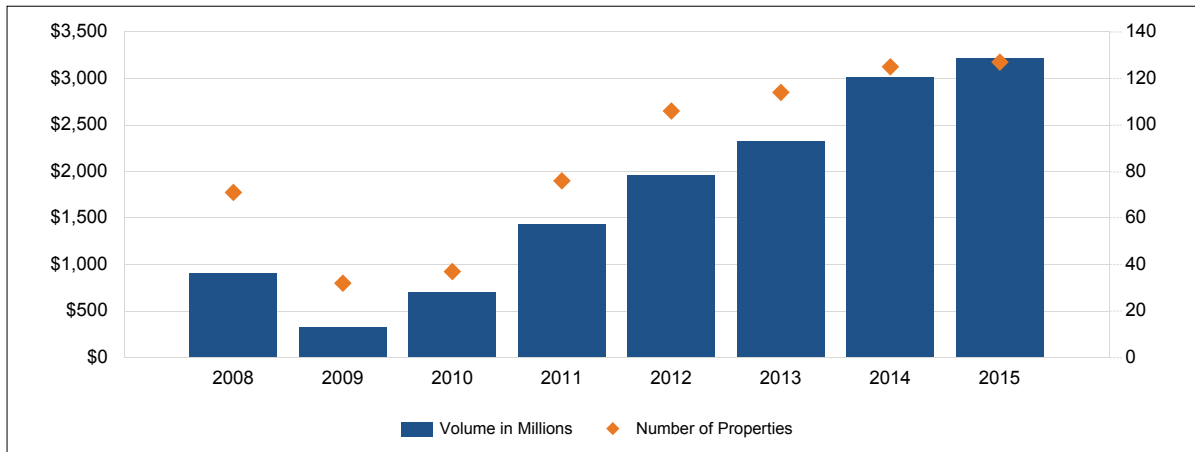


Source: YardiMatrix

Transactions

- The volume of multifamily assets sold in the metro reached an all-time high in 2015, with more than \$3.2 billion worth of properties changing hands. The area has grown increasingly popular with a wide range of institutional and local investors, as it is one of the population and employment centers of the Southeast, among the country's fastest-growing regions.
- The strong demand has pushed prices up. The average price per unit has steadily risen, reaching \$103,820 in 2015, although that remains below the \$117,157 national average.
- During the last 12 months, investor appetite was highest in the University of North Carolina at Charlotte submarket, which saw nearly \$350 million in trades. The most expensive property to change hands was West Village I, II & III in Downtown Durham, which sold for \$187 million, or \$307,061 per unit.

NC Triangle Sales Volume and Number of Properties Sold (as of May 2016)



Source: YardiMatrix

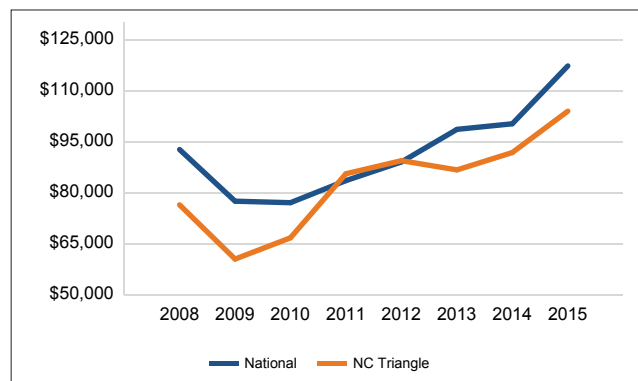
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
UNC at Charlotte	346
Downtown Durham	195
North Charlotte	186
Morrisville	146
Southwest Charlotte	131
Wedgewood	124
Laurel Hills	119
Duke University	109

Source: YardiMatrix

¹ From June 2015 to May 2016

NC Triangle vs. National Sales Price per Unit



Source: YardiMatrix

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Del Webb Senior Housing Community to Open in NC

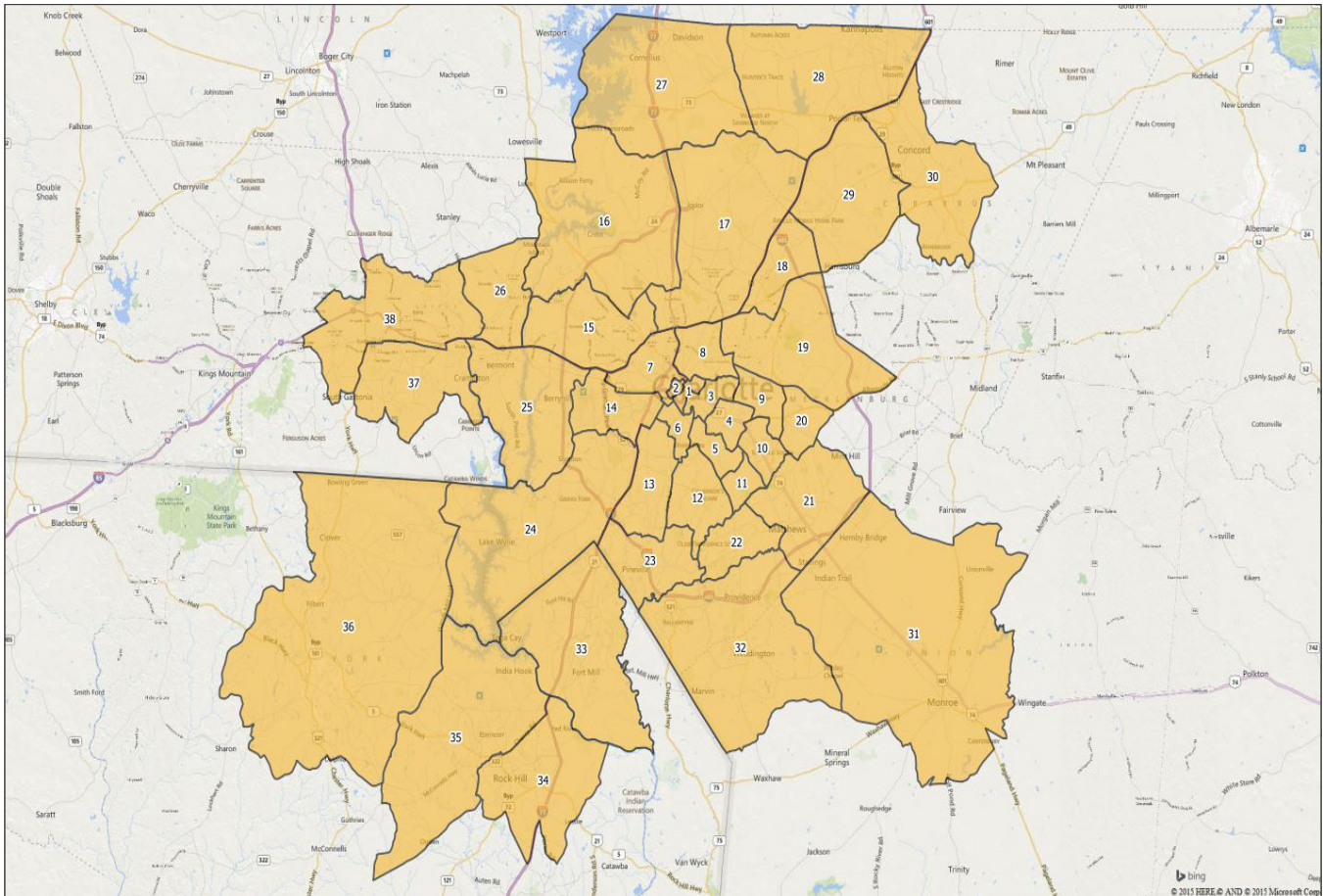


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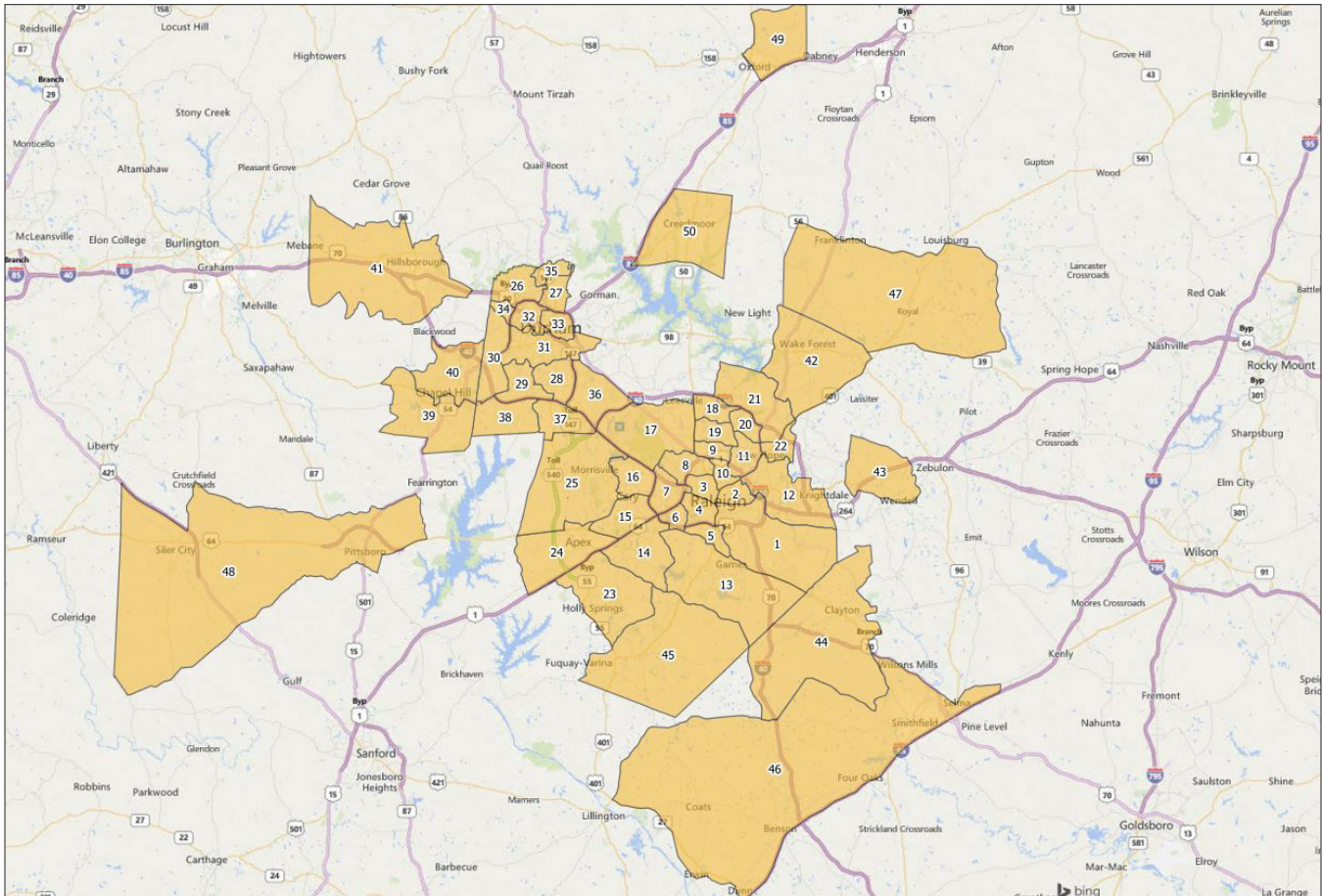
Charlotte Submarket Map



Area #	Submarket
1	Second Ward
2	Uptown
3	Morningside
4	Briarcreek - Oakhurst
5	Cotswold
6	Myers Park
7	Third Ward - Lakewood
8	Tryon Hills
9	Eastland - Windsor Park
10	Coventry Woods - East Forest
11	Stonehaven - Lansdowne
12	Foxcroft
13	Colonial Village - Montclair
14	Southside Park - West Blvd.
15	Northwest Charlotte
16	Wedgwood
17	North Charlotte
18	UNC at Charlotte
19	Hidden Valley - Oak Forest

Area #	Submarket
20	Becton Park - Marlwood
21	Matthews
22	Wessex Square
23	Pineville
24	Southwest Charlotte
25	Belmont
26	Mt. Holly
27	Huntersville
28	Kannapolis
29	Concord - West
30	Concord - East
31	Monroe
32	Ballantyne - Providence
33	Fort Mill
34	Rock Hill - East
35	Rock Hill - West
36	York
37	Gastonia - South
38	Gastonia - North

Raleigh-Durham Submarket Map



Area #	Submarket
1	Downtown Raleigh
2	Oakwood
3	Ridgewood
4	Hinton
5	Rhamkatte
6	Wynnewood
7	Westover
8	Laurel Hills
9	Crabtree Valley
10	Anderson Heights
11	Millbrook
12	Wilders Grove
13	Garner
14	Piney Plains
15	South Cary
16	North Cary
17	Glen Forest
18	Six Forks
19	Lynn
20	Wakeview
21	Neuse Crossroads
22	New Hope
23	Feltonville
24	Apex

Area #	Submarket
25	Morrisville
26	Huckleberry Springs
27	Mill Grove
28	Keene
29	Woodcroft
30	Colony Park
31	Hope Valley
32	Duke University
33	Downtown Durham
34	American Village
35	River Forest
36	Research Triangle
37	Lowes Grove
38	Southport
39	Carrboro
40	Chapel Hill
41	Hillsborough
42	Wake Forest
44	Clayton
45	Fuquay - Varina
47	Louisburg
48	Silver City
49	Oxford
50	Creedmoor

Definitions

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter by Necessity households span a range. In descending order, household types can be:

- *A young-professional, double-income-no-kids household* with substantial income but without wealth needed to acquire a home or condominium;
- *Students*, who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income (“gray collar”) households*, composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households*, which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property’s ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property’s status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

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