

YARDI[®] Matrix

Rapid Growth in Raleigh-Durham

Multifamily Report Spring 2017

Rent Gains Top Nation

Tech Sector Boosts Employment

Sales Volume Hits Post-Bubble High

Market Analysis

Spring 2017

Contacts

Paul Fiorilla

Associate Director of Research
Paul.Fiorilla@Yardi.com
(800) 866-1124 x5764

Jack Kern

Director of Research and Publications
Jack.Kern@Yardi.com
(800) 866-1124 x2444

Author

Robert Demeter

Associate Editor

The Research Triangle: Sharp on All Edges

Raleigh-Durham, a technology hub and educational hotspot, has a booming rental market. Local universities have produced highly educated workers, and the metro's low cost of living and temperate climate draw young professionals from all over the nation. The combination of job and population growth has generated a strong demand for apartments, with average rents reaching \$1,075.

Raleigh-Durham added roughly 20,000 jobs in 2016. Businesses are drawn to various incentives the Research Triangle provides, including the Business Investment Grant (BIG) that ensures cash grants to new and existing businesses. A handful of companies expanded operations in downtown Raleigh, including California-based Distil Networks. Nevertheless, the controversial "Bathroom Bill" played a negative role last year, pushing firms such as PayPal elsewhere. The bill was recently repealed, though.

The metro continues to appeal to investors who are being priced out or struggling to find high acquisition yields in major markets. The overall performance of the apartment sector is strong. Supply has kept up with demand, though that might be difficult going forward, as the current pipeline consists of more than 26,000 units in various stages of development. Looking forward, we expect a moderate rent growth of 4.2% in 2017.

Recent Raleigh Transactions

Realm Patterson Place



City: Durham, N.C.
Buyer: H&R Real Estate Investment Trust
Purchase Price: \$60 MM
Price per Unit: \$186,335

Preston View



City: Morrisville, N.C.
Buyer: Bluerock Real Estate
Purchase Price: \$60 MM
Price per Unit: \$155,759

Apartments at Stonehenge



City: Raleigh, N.C.
Buyer: Magnolia Capital
Purchase Price: \$57 MM
Price per Unit: \$125,498

Bell Meadowmont



City: Chapel Hill, N.C.
Buyer: Bell Partners
Purchase Price: \$51 MM
Price per Unit: \$197,760

To Subscribe

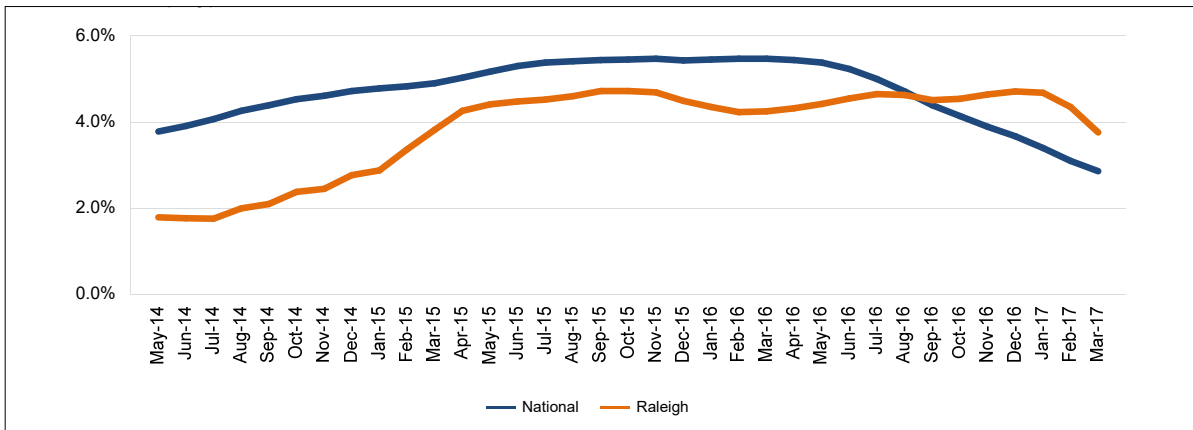
Hollie Zepke

Audience Development Specialist
Hollie.Zepke@Yardi.com
(800) 866-1124 x5389

Rent Trends

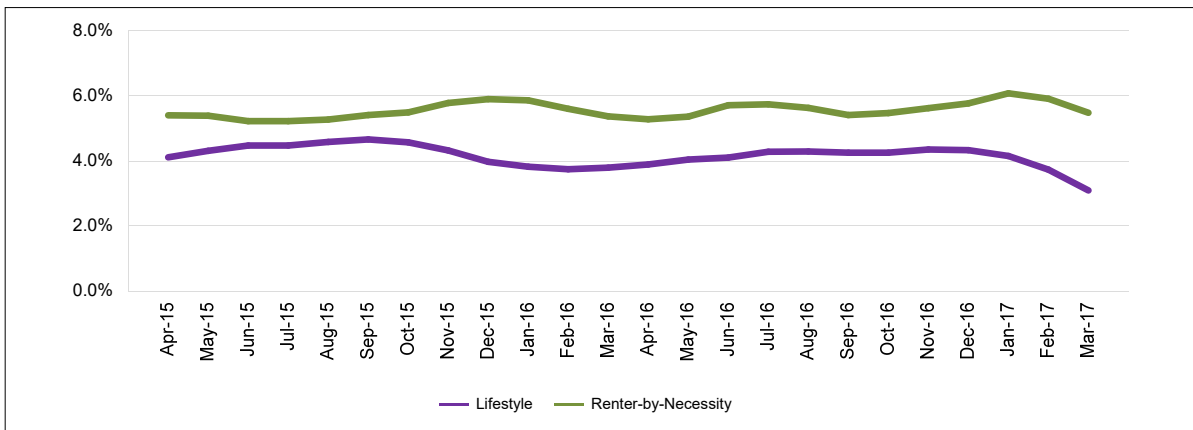
- Rents in Raleigh-Durham were up 3.8% year-over-year as of March 2017, exceeding the national growth rate of 2.7%. Growth was led by the working-class Renter-by-Necessity segment, which increased 5.5% year-over-year, while the upscale Lifestyle segment rose 3.1%.
- Raleigh-Durham's rental growth rate has decelerated, in large part due to the new supply that has come online over the past three years. Rent growth was also hindered by affordability issues. In an effort to produce more units for low-income residents, local authorities have passed initiatives such as the Neighborhood Revitalization Strategy Area Plan, which aims to reduce restrictions and enable developers to produce more low-income units.
- Renters are drawn to both core and suburban areas, signified by increasing rents across the map. Submarkets with the largest appreciation were Apex (10.1%), Oakwood (7.5%), South Cary (6.5%) and Westover and Lowes Grove, each with a 6.2% increase. Downtown Durham and the Research Triangle submarket both saw a 1% contraction in rents year-over-year. Overall, demand is expected to remain robust, while new supply should keep rent growth at a moderate level. As a result, we expect rents to increase by 4.2% in 2017.

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



Source: YardiMatrix

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

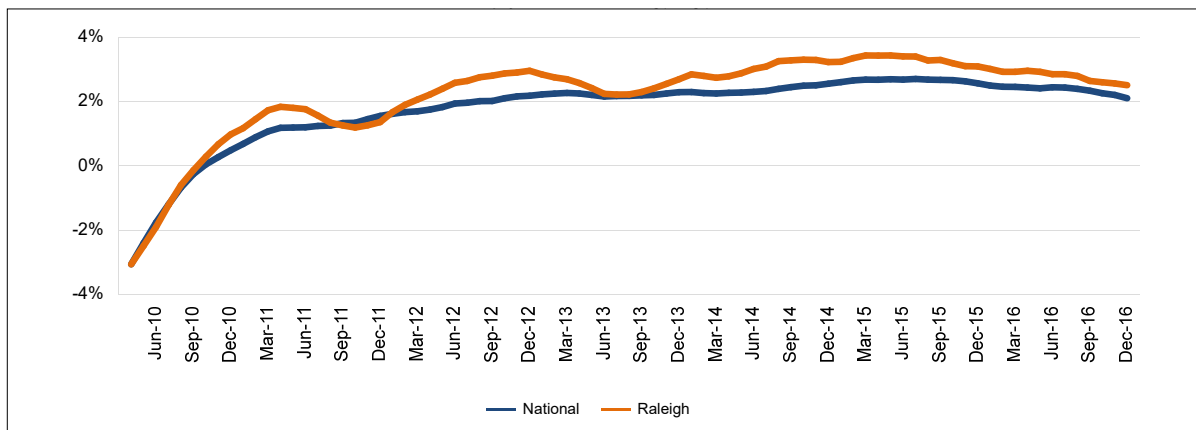


Source: YardiMatrix

Economic Snapshot

- The Raleigh-Durham metro added more than 21,000 jobs in 2016, a 2.5% year-over-year increase and 40 basis points above the national average.
- The Research Triangle continues to attract young professionals and startups due to the area's affordability, top-tier universities and strategic location within the Piedmont-Atlantic Megaregion. This is reflected in solid job growth in professional and business services (8,500 jobs), trade and transportation (6,100), and education and health care (3,000), which made up the bulk of new hires in the past year.
- Despite past challenges to gather sufficient venture capital support, recent growth in funding has alleviated the concern of losing talent to the West Coast. The emergence of numerous grants and incentives for early-stage businesses has transformed the Triangle into one of the most desirable tech markets in the country.
- Robust operations pushed office vacancy rates to multi-year lows, while rents reached historic highs. Construction also picked up, with about 500,000 square feet of office space coming online in the past year and another 2 million square feet underway. There are more than 15 office developments under construction throughout the Triangle, and almost half of the upcoming supply is already pre-leased.

Raleigh vs. National Employment Growth (Year-Over-Year)



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

Raleigh Employment Growth by Sector (Year-Over-Year)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
60	Professional and Business Services	163	17.7%	8,500	5.5%
40	Trade, Transportation and Utilities	150	16.3%	6,100	4.2%
65	Education and Health Services	137	14.9%	3,000	2.2%
70	Leisure and Hospitality	95	10.3%	2,000	2.1%
90	Government	166	18.1%	2,000	1.2%
55	Financial Activities	45	4.9%	1,400	3.2%
50	Information	25	2.7%	100	0.4%
80	Other Services	35	3.8%	0	0.0%
30	Manufacturing	62	6.7%	-800	-1.3%
15	Mining, Logging and Construction	40	4.4%	-1,300	-3.1%

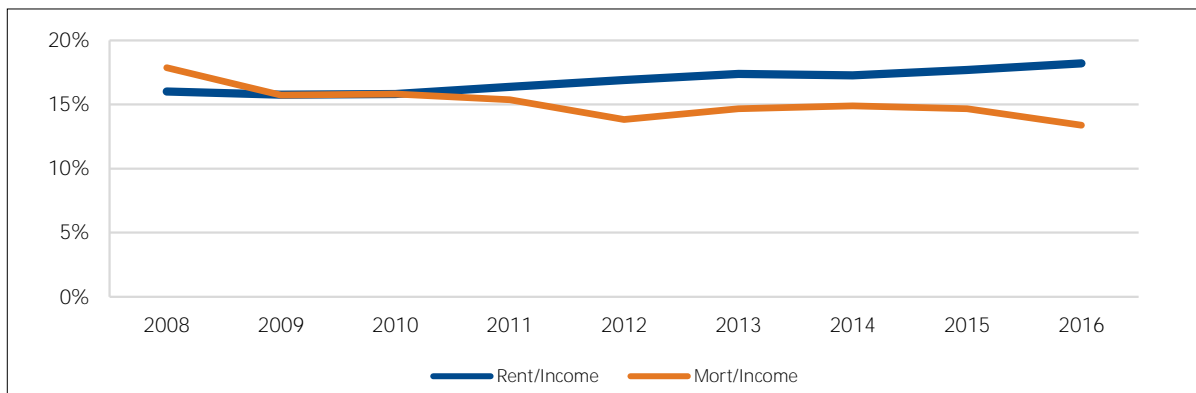
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

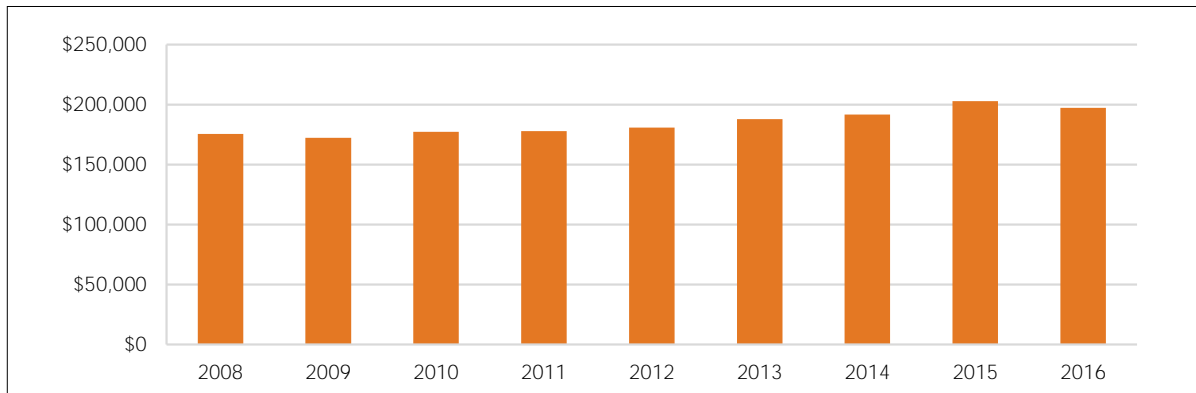
- For the first time in six years, the median home price dropped in Raleigh-Durham. In 2016, the median home value was approximately \$197,000, \$6,000 less than in 2015. Homeownership continued to be more affordable than renting, with the average mortgage payment accounting for 13% of the median household income, while the average rental rate represented 18%.
- Last year, Raleigh approved the Penny for Housing program, aiming to generate an additional \$5.7 million in property taxes for affordable housing. The 2 cent tax rate increase will ensure permanent funding for low-income housing. The plan also envisions new affordable housing developments located within half a mile of existing or proposed rail or bus stations.

Raleigh Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Raleigh Median Home Price



Source: Moody's Analytics

Population

- The metro grew by more than 110,000 residents in 2015.
- Between 2011 and 2015, the Triangle's 9.4% population growth outpaced the 3.1% national average increase.

Raleigh vs. National Population

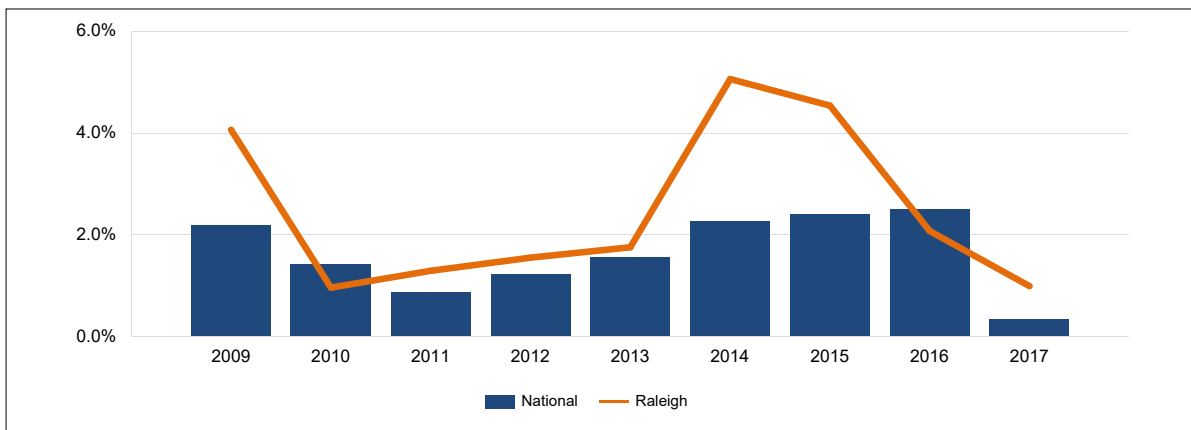
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Raleigh, N.C., Metropolitan Statistical Area	1,163,234	1,188,974	1,214,747	1,243,035	1,273,568

Sources: U.S. Census, Moody's Analytics

Supply

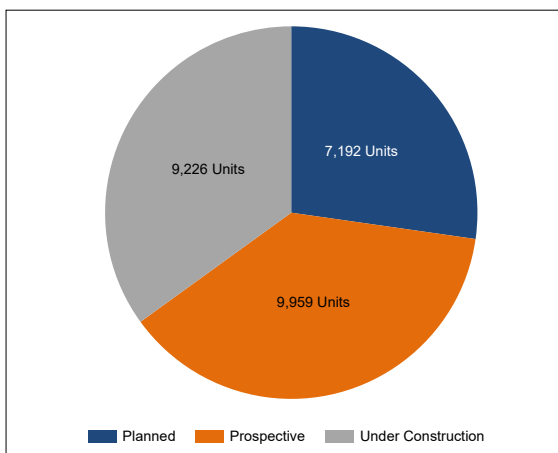
- New multifamily development in the Raleigh-Durham region dipped last year, with only 2,888 units coming online, less than half the amount of deliveries in both 2015 and 2014. The new supply represented a 2% year-over-year increase, trailing the national average by 50 basis points. In the first quarter of 2017, more than 800 units were delivered.
- Completions are expected to pick up, as more than 9,000 units were under construction as of March, with 80% of those scheduled for delivery this year. Development will remain high, with some 26,000 units in various stages. As of February, the occupancy rate of stabilized properties was 95.1%.
- Developers are focusing on submarkets with good school districts, which are the areas currently seeing the most demand. Crabtree Valley (1,165 units), Laurel Hills (723), downtown Raleigh (707), Hope Valley (669) and Research Triangle (600) round out the top five submarkets with the most development activity.
- The largest project underway is the 533-unit Crabtree North in Raleigh's Crabtree Valley submarket, which is part of a mixed-use development that will combine residential, shopping, dining and socializing. The community is slated for completion in April 2018.

Raleigh vs. National Completions as a Percentage of Total Stock (as of March 2017)



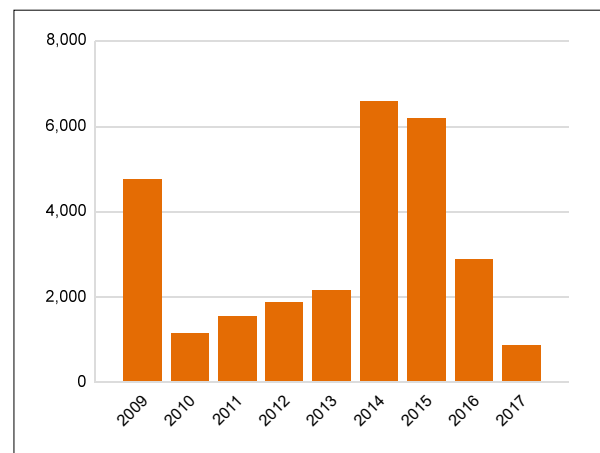
Source: YardiMatrix

Development Pipeline (as of March 2017)



Source: YardiMatrix

Raleigh Completions (as of March 2017)

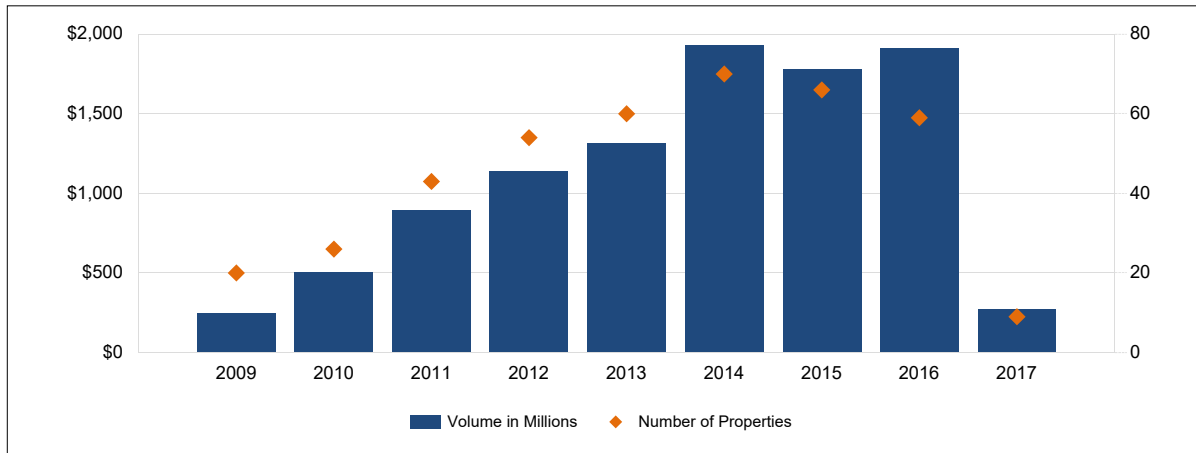


Source: YardiMatrix

Transactions

- Multifamily sales totaled \$1.9 billion in 2016, roughly on par with 2014's cyclical high. The Triangle continues to attract a wide range of investors, being one of the top markets for education and employment in the Southeast. In the first quarter of 2017, roughly \$270 million in multifamily transactions closed.
- Demand pushed the average price per unit over \$127,000 this past year, slightly below the \$133,000 national average. Cap rates for stabilized Class A properties are in the 5% range, while cap rates for Class B and C assets are in the 5.5% to 6% range.
- Notable sales activity occurred in the Research Triangle, North Cary and Chapel Hill submarkets. Realm Patterson Place, a garden-style apartment community in Durham's Colony Park submarket, sold for \$60 million, or \$186,335 per unit, marking the highest-priced sale in the metro in 2016.

Raleigh Sales Volume and Number of Properties Sold (as of March 2017)



Source: YardiMatrix

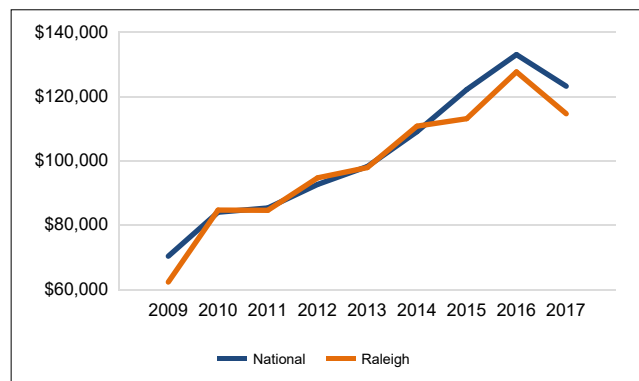
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Research Triangle	137
North Cary	129
Chapel Hill	121
Six Forks	95
Colony Park	93
Glen Forest	83
Woodcroft	75
Westover	66

Source: YardiMatrix

¹ From April 2016 to March 2017

Raleigh vs. National Sales Price per Unit



Source: YardiMatrix

Read All About It!



Peak Campus,
Blue Vista Capital Team Up
In 2 College Towns



Raleigh's Now Twice as Nice
For Avison Young



Raleigh Luxury Apartments
To Open in Fall 2017

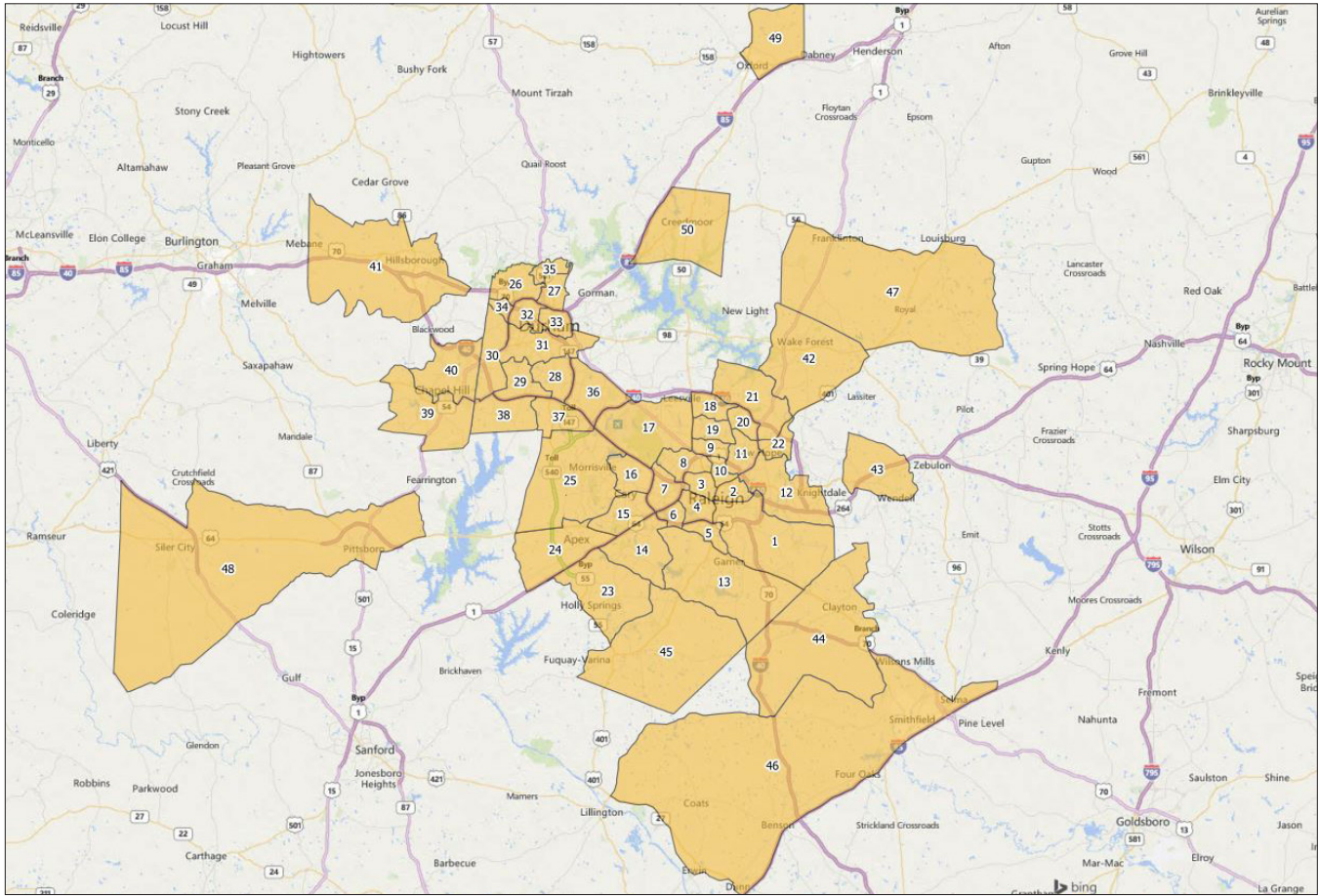


Southern Gateway Lands
\$77M Construction Loan

Get the latest Raleigh-Durham
real estate news at



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.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.

What's the best choice for CRE news & views?



With so much information out there, selecting the best source can be daunting. Keep it simple. *Commercial Property Executive* and *Multi-Housing News* will keep you up-to-date on real estate news, data, trends and analysis—daily, weekly or monthly. Trust the leading integrated industry information resource to help you make informed decisions and achieve your business goals.



cpexecutive.com



multi-housingnews.com

Visit our websites and sign up for our free emailed newsletters at cpexecutive.com/subscribe and multi-housingnews.com/subscribe.

DISCLAIMER

ALTHOUGH EVERY EFFORT IS MADE TO ENSURE THE ACCURACY, TIMELINESS AND COMPLETENESS OF THE INFORMATION PROVIDED IN THIS PUBLICATION, THE INFORMATION IS PROVIDED "AS IS" AND YARDI MATRIX DOES NOT GUARANTEE, WARRANT, REPRESENT OR UNDERTAKE THAT THE INFORMATION PROVIDED IS CORRECT, ACCURATE, CURRENT OR COMPLETE. YARDI MATRIX IS NOT LIABLE FOR ANY LOSS, CLAIM, OR DEMAND ARISING DIRECTLY OR INDIRECTLY FROM ANY USE OR RELIANCE UPON THE INFORMATION CONTAINED HEREIN.

COPYRIGHT NOTICE

This document, publication and/or presentation (collectively, "document") is protected by copyright, trademark and other intellectual property laws. Use of this document is subject to the terms and conditions of Yardi Systems, Inc. dba Yardi Matrix's Terms of Use (<http://www.yardimatrix.com/Terms>) or other agreement including, but not limited to, restrictions on its use, copying, disclosure, distribution and decompilation. No part of this document may be disclosed or reproduced in any form by any means without the prior written authorization of Yardi Systems, Inc. This document may contain proprietary information about software and service processes, algorithms, and data models which is confidential and constitutes trade secrets. This document is intended for utilization solely in connection with Yardi Matrix publications and for no other purpose.

Yardi®, Yardi Systems, Inc., the Yardi Logo, Yardi Matrix, and the names of Yardi products and services are trademarks or registered trademarks of Yardi Systems, Inc. in the United States and may be protected as trademarks in other countries. All other product, service, or company names mentioned in this document are claimed as trademarks and trade names by their respective companies.

© 2016 Yardi Systems, Inc. All Rights Reserved.