MARKET REPORT

Multifamily

Raleigh Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

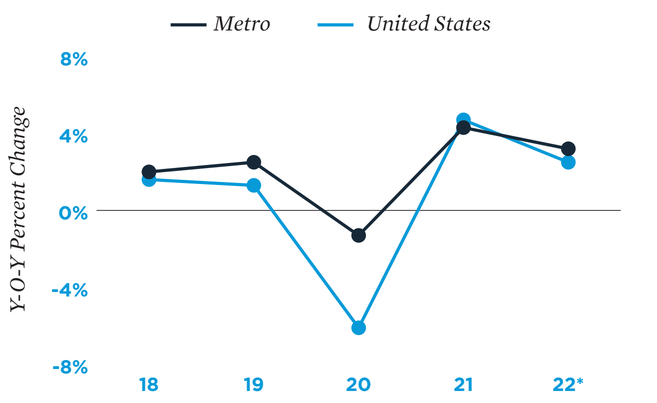
2Q/22

Labor Market Composition Aids Outlook; Population Growth Hoists Demand

Skilled job sectors bolster high-end demand. The metro is home to a sizable technology sector, along with a rapidly growing life science cluster, two industries that have outperformed during the health crisis. Expansions by firms like Google and Amazon, as well as entrants in the life science sector like Amgen and Fujifilm Diosynth, have allowed the metro's employment tally to climb more quickly than the national pace. High-skill employment gains have bolstered incomes, increasing demand for top-tier units near universities and employment hubs. As a result, Class A vacancy fell 240 basis points metrowide in 2021. South Cary-Apex recorded a 450-basis-point drop in Class A vacancy, as nearby life science projects come to fruition.

Demand surge and economic trends justify stock growth. Home to the fourth-fastest rate of population growth among major United States metros last year, Raleigh posted robust demand as renters absorbed almost 8,000 units. Builders are responding by accelerating development. The current construction pipeline is the largest in metro history, with more than 9,000 rentals currently in progress. Still, the market is well positioned to receive these units, as vacant stock slid below 5,000 rentals last year for the first time since 2001, and Class A vacancy rests at a historically tight 3.2 percent. Despite the large near-term completion volume, metro availability is expected to decline this year.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook

32,000 JOBS
will be created

EMPLOYMENT:

Hiring by traditional office-using firms pushed the metro's total job count beyond the pre-pandemic mark last year. Additional growth in the sector and the recovery of leisure and hospitality jobs will expand payrolls by 3.2 percent this year.

8,000 UNITS
will be completed

CONSTRUCTION:

Development will elevate in 2022, with supply additions projected to grow apartment stock by roughly 4.6 percent by year-end. This is the largest completion schedule on record for the metro and the fastest inventory growth since at least 2001.

10 BASIS POINT
decrease in vacancy

VACANCY:

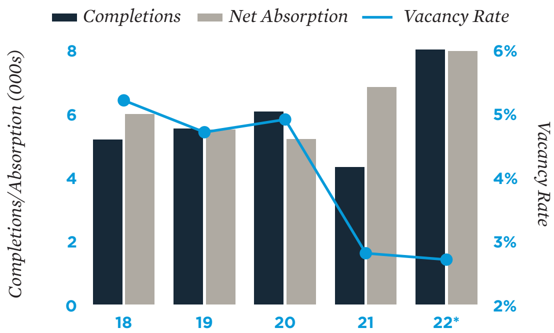
Despite record-setting construction, vacancy in the metro is set to ease to 2.7 percent in 2022 as net absorption matches delivery volume. This year and the second half of 2021 are the only periods on record to note sub-4 percent availability.

8.0% INCREASE
in effective rent

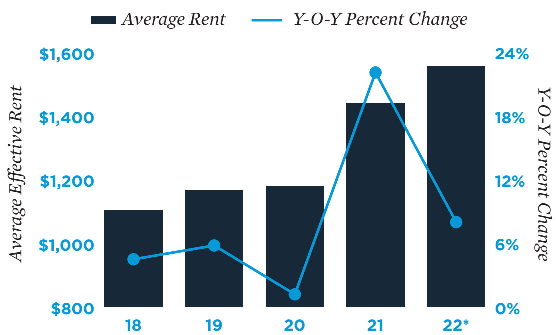
RENT:

Coming off a staggering 22 percent increase in 2021, effective rent payments will continue rising at a brisk, albeit more sustainable, pace this year. Reaching $1,557 per month by year-end puts the two-year rate of rent growth just under 32 percent.

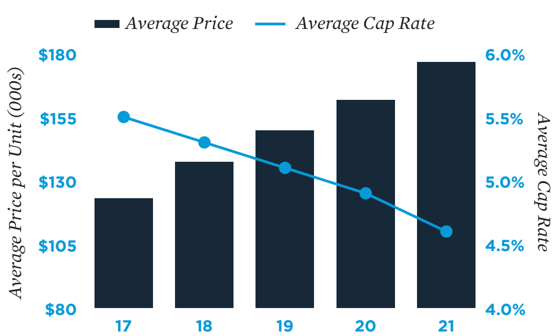
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

1Q 2022 - 12-Month Period

CONSTRUCTION

4,349 units completed

- Developers expanded inventory by 1.8 percent in the 12-month period ended in March, with more than 9,000 additional units under construction at the onset of the second quarter.
- Construction has been spread fairly evenly throughout the metro, but locales nearest to RTP continue to be a key target for builders.

VACANCY

230 basis point decrease in vacancy Y-O-Y

- Class C vacancy plunged 240 basis points to 2.2 percent last year, leaving lower-wage residents with few available budget-friendly options.
- The return of in-person learning at the University of North Carolina aided demand in Chapel Hill-Carrboro. The area recorded a 380-basis-point vacancy retreat in the 12-month period ended in March.

RENT

23.7% increase in the average effective rent Y-O-Y

- All of the metro's 12 submarkets reported annual rent growth estimated above 20 percent at the end of the first quarter.
- Suburban rents grew at a 23.1 percent pace last year, climbing to $1,461 per month. In the urban centers, the effective rate reached $1,528 per month on a 25.6 percent year-over-year gain.

Investment Highlights

- Transaction velocity skyrocketed last year, with sales volume more than doubling, when compared to 2020. Owners local to the market have been net sellers recently, as average pricing climbed to $176,700 per unit last year. Several consecutive years of price growth above 8 percent has altered holding periods and sparked this trend.
- Out-of-state buyers and institutions have become increasingly active in the metro, resulting in per-unit prices rising and cap rates retreating. The mean first-year return has compressed to 4.6 percent, but is often closer to 3 percent for institutional-grade assets near employment hubs and universities. While cap rates are lower than those found in other major East Coast markets, consistent NOI growth and local economic expansion have kept national buyers active.
- Investors may ramp up activity in South Cary-Apex, as Amgen continues work on its Holly Springs campus, scheduled for completion in 2025. Many jobs created at the facility will be high-income roles, suggesting nearby Class A assets are set to benefit. South Cary-Apex has above-average entry costs, with high-end assets trading above $250,000 per unit, and cap rates between 3 percent and 4 percent.

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