MARKET REPORT

Multifamily

Raleigh Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

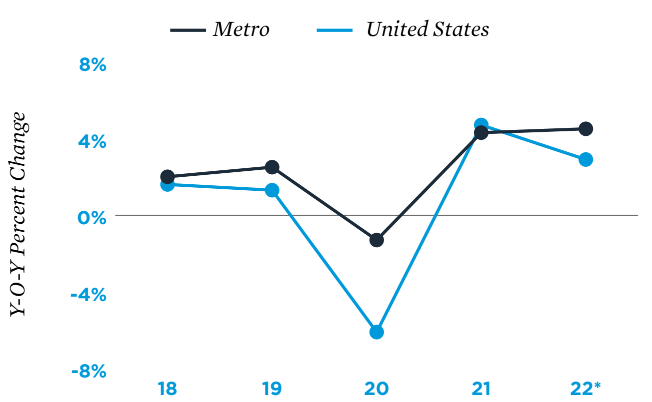
3Q/22

Growth Expectations Spark Project Starts; Recent Industrial Boom Further Lifts Demand

Submarket trio attracts multifamily development surge. Raleigh added households at the fourth-fastest pace in the nation during the yearlong span ended in June. This trend is expected to continue into the long term, as Raleigh is projected to add 18,600 households annually over the next five years. Builders have taken notice and are moving projects forward as a result, as evidenced by the substantial number of groundbreakings during the 12 months ending in June. These projects, which total 13,600 units, are heavily concentrated in Southeast Raleigh, North Cary-Morrisville and South Cary-Apex — submarkets that recorded the metro's highest net absorption figures over the past 12 months. These areas' robust renter demand, and Raleigh's rapidly expanding professional and business services sector, suggests that most of this new supply will be well received, although a near-term rise in concession usage is plausible.

Industrial move-ins stimulate new sources of rental demand. Household growth has been fueling consumer demand for last-mile facilities in Raleigh. Entering July, industrial vacancy was near a record low, aided by five 100,000-plus-square-foot move-ins over the prior 12 months. East Durham, which hosted three of these move-ins, saw its Class B vacancy rate drop 50 basis points over the past year to 3.9 percent, which helped boost the segment's average rent in the area by more than 20 percent. Additionally, a very tight Class C rate of 1.1 percent here leaves limited options for new residents accepting these roles, which will sustain demand for mid-tier rentals.

Employment Trends



** Forecast*

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

Multifamily 2022 Outlook

45,000 JOBS
will be created

EMPLOYMENT:

Raleigh's employment total is expected to expand by 4.5 percent this year. The metro's 20-year low unemployment rate of 2.7 percent in June suggests local firms will have to recruit from outside the metro more frequently to fill open positions.

5,600 UNITS
will be completed

CONSTRUCTION:

Builders complete roughly 25 percent more doors than in the prior yearlong period, expanding inventory by 3.2 percent. With just over 3,000 units delivered from January through June, the pace of construction will temper slightly during the second half.

80 BASIS POINT
increase in vacancy

VACANCY:

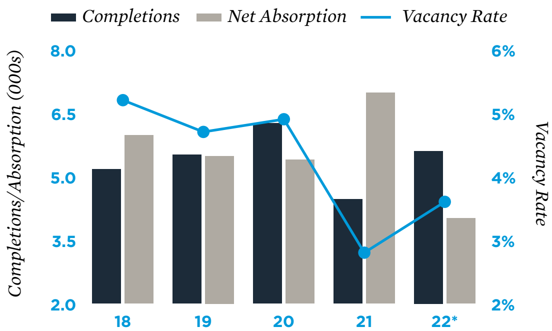
Supply outpaced demand during the first half, pulling up vacancy 130 basis points. Slowing deliveries over the second half will aid lease-up timelines for newly-finalized builds, helping to bring vacancy down to 3.6 percent.

17.8% INCREASE
in effective rent

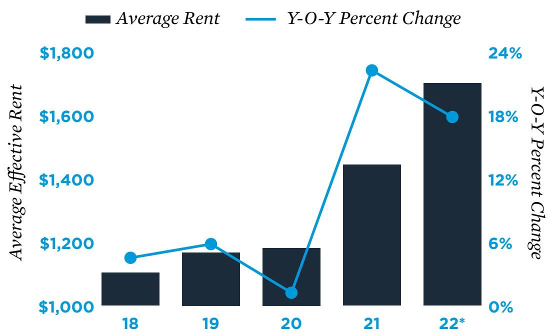
RENT:

Raleigh's average effective rent is projected to grow at one of the fastest paces in the nation during 2022, outdone only by Florida markets. The year-end rate of $1,700 per month will place the two-year gain at a staggering 44 percent.

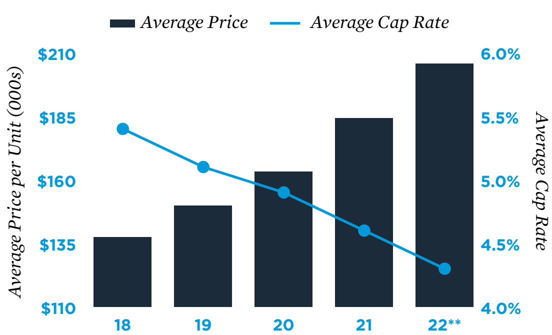
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

5,276 units completed

- Builders completed 1,050 units in Southeast Raleigh during the 12-month span ending in June, expanding local inventory by 8.3 percent.
- Entering July, Central Raleigh was home to the most development activity at 4,725 doors. The submarket's active pipeline is headlined by Platform — a 450-unit, mixed-use project slated for delivery in May 2024.

VACANCY

10 basis point decrease in vacancy Y-O-Y

- Elevated net absorption during the latter half of 2021 helped pull vacancy down to a record low of 2.8 percent in December. Since, demand has eased significantly, resulting in a 130-basis-point jump to 4.1 percent in June.
- Unit availability declined 200 basis points in Chapel Hill-Carrboro over the past year, bringing the local vacancy rate down to 3.7 percent.

RENT

21.5% increase in the average effective rent Y-O-Y

- Nine of 12 submarkets recorded rent growth that exceeded 20 percent, helping to push the metrowide effective rate up to $1,536 per month.
- The average rent for Class B units grew 21.4 percent to $1,523 per month. Gains were the sharpest in Northwest Durham-Downtown and Central Raleigh, where subsector growth rates exceeded 27.0 percent.

Investment Highlights

- Household formation metrics in Raleigh have been among the strongest in the nation, boosting institutional competition for listings, while also lifting sale prices. During the 12-month span ending in June, the metro's average price elevated 18 percent to $206,000 per unit, and the mean cap rate dropped 40 basis points to 4.3 percent.
- Over the past year, all of the metro's submarkets recorded exceptional rent growth, providing institutions with a swath of attractive opportunities for differing levels of risk tolerance. Investors seeking lower entry costs and yields above the metrowide average are most active in urban areas, completing trades in Downtown Raleigh and Downtown Durham. Expectations for stronger demand for luxury rentals in the coming years, as more young professionals relocate to the metro and prefer urban lifestyles, supports buyer activity in these areas, despite slightly elevated Class A vacancy rates.
- Institutions willing to accept lower cap rates are most active in Northwest Raleigh, where average first-year yields range from mid- to high-3 percent. Institutional investment groups are often acquiring mid-tier assets for upwards of $20 million in this submarket, with entry costs averaging at about $224,000 per unit.