MARKET REPORT

Multifamily

Raleigh Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

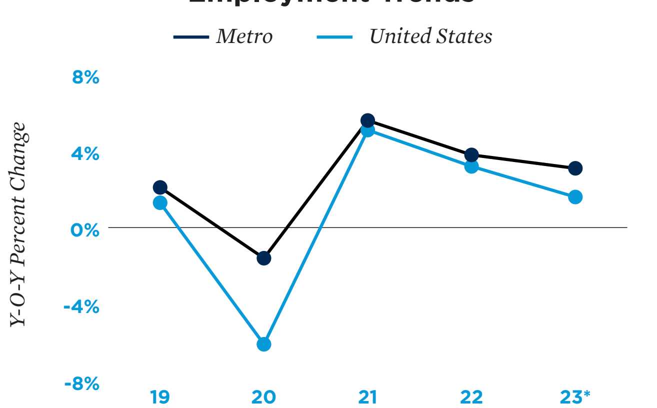
3Q/23

Raleigh Notes Net Absorption Rebound; However, Demand Still Remains Well-Below New Supply

Rental demand is exceeding historical norms. From April to June 2023, renters absorbed 2,000 units on net across the Raleigh metro, outpacing the reading throughout the entirety of 2022. This past quarter's figure — which more than doubled the long-term mean of 880 units — has been an encouraging sign for operators amid recent, abrupt rises in the marketwide vacancy rate. Despite this demand recovery, Raleigh's unprecedented construction should inhibit the metric from easing any time soon. Nearly 30,000 units were planned or underway in the metro as of June, representing more than 16 percent of current inventory. Vacancy elevation in the coming months, driven by the completion of 5,800 units in this year's latter half, will keep rent growth below the long-term average. The metric came in at a 27-month low of 1.6 percent over the year ended in June.

Lack of existing top-tier units aids rent growth in the Southeast. This year, five submarkets within the city of Raleigh are slated to record all-time highs in construction. A large share of the pipeline is designated for the Southeast, which already recorded inventory growth of 5.6 percent over the year ended in June. Fortunately, Class A inventory here remains historically low, keeping the local number of available top-tier units comparatively minimal. While ongoing development may lift the local vacancy rate, a lack of existing top-tier options should enable new supply additions to command higher rents over the near-term, after flattening here during the past year.

Employment Trends



* Forecast

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

Multifamily 2023 Outlook

33,000 JOBS
will be created

EMPLOYMENT:

Driven by government hiring, local headcounts rose by roughly 29,000 roles over the first seven months, exceeding the long-term yearly job gain. By the end of 2023, overall employment will increase by 3.1 percent.

10,000 UNITS
will be completed

CONSTRUCTION:

This year, inventory is projected to swell by a near-record 5.5 percent year-over-year. The historic pipeline will be concentrated in Central Raleigh, where about 1,700 units are slated for delivery in 2023.

180 BASIS POINT
increase in vacancy

VACANCY:

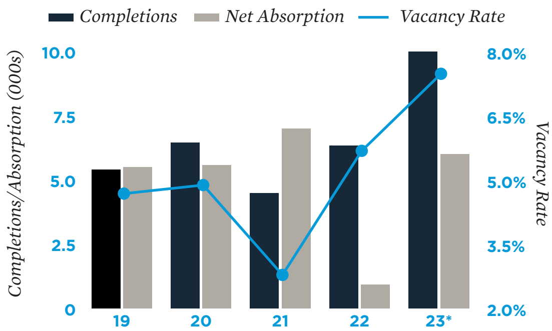
After lifting by 290 basis points during the prior year, vacancy will rise by a less extreme magnitude in 2023, as the metric closes out the period at 7.5 percent. This rate will, however, be the metro's highest since 2009.

1.9% INCREASE
in effective rent

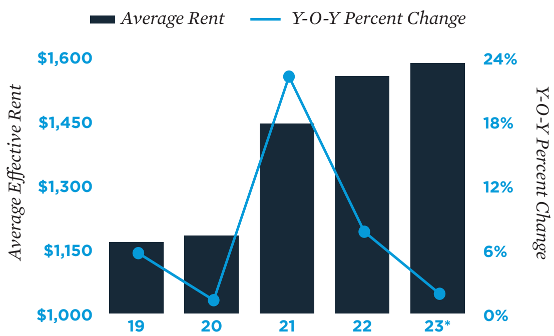
RENT:

Recovering demand is expected to nudge up rents, following a 2.1 percent decline in the average effective rate over the nine months trailing June. By year-end, the mean apartment rent will reach $1,585 per month.

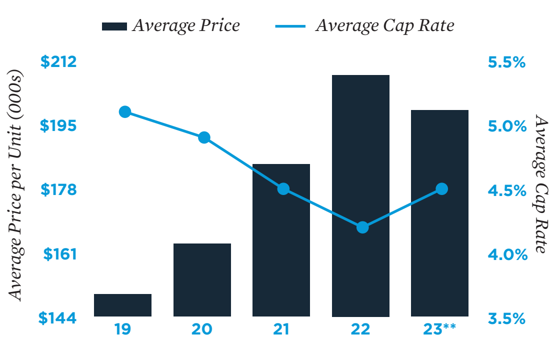
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

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

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2Q 2023 - 12-Month Period

CONSTRUCTION

7,700 units completed

- Marketwide inventory grew by 4.4 percent over the year ended in June, fueled by the completion of roughly 1,560 units in Central Raleigh.
- Northeast Raleigh noted a historically-high inventory expansion, at 8.7 percent during the last 12 months. In contrast, East Durham and Northwest Raleigh both had nominal development through the span.

VACANCY

230 basis point increase in vacancy Y-O-Y

- While most of the metro's 12 submarkets registered positive net absorption over the last year, supply outpaced demand in all of them. This lifted marketwide vacancy to 6.4 percent in June.
- Despite its recent, record-level construction, Northeast Raleigh's vacancy rate of 5.9 percent was 110 basis points below the local year-end 2019 rate.

RENT

1.6% increase in the average effective rent Y-O-Y

- Overall rent growth was limited, as rates for Class A apartments were static over the past year. Nevertheless, rises among more budget-friendly options helped lift the marketwide average effective rate to $1,562 per month.
- In every submarket, rent growth was below the metro's long-term average of 3.4 percent. North Cary-Morrisville had the highest, at 3.2 percent.

Investment Highlights

- In Raleigh, trading activity in both the first and second quarters was at or above the long-term three-month average, showing greater stability than most other markets. Deal flow has sustained, even amid a 30-basis-point rise in the average cap rate from 2022 compared to the 12-month period ended in June. Still, at 4.5 percent during the span, Raleigh's cap rates remained below every other major Southeastern metro. This may have facilitated a narrower bid-ask gap than other markets, aiding deal-making.
- This year, most trades for assets priced over $20 million took place in the urban cores of Durham and Raleigh. While Downtown Durham's activity was lower than last year's, some newer-built Class A apartments are still being targeted here due to their central locations and proximity to Duke University. Several post-2010-built assets priced over $20 million also changed hands in Downtown Raleigh, largely due to similar demand drivers.
- Layoffs in technology fields have slowed trading activity in Downtown Durham, a focal point of the local tech sector. In contrast, Chapel Hill's velocity is closer to historic norms. Interest here is buoyed by the future hiring that will come from UNC Health's multimillion-dollar expansion.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for $1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.
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