MARKET REPORT

MULTIFAMILY

North Carolina Metros

IPA INSTITUTIONAL PROPERTY ADVISORS

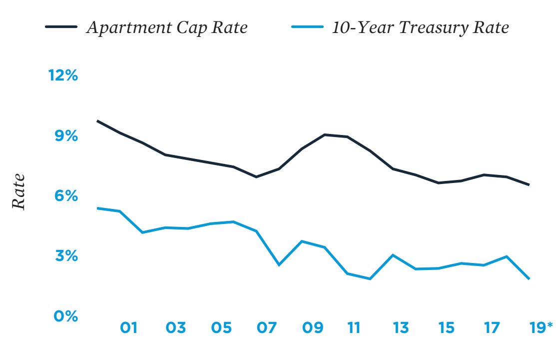
Q4/19

Tightening Vacancy Spurs Rental Gains; Investors Pursue Promising Value-Add Assets

Job creation enhances household growth, rental demand intensifies. Corporations are taking advantage of North Carolina's business-friendly climate and steadily adding positions. This triggered employment surges of at least 2.0 percent over the past year for all three of the state's major markets. Through September, the Greensboro/Winston-Salem metro recorded its strongest annual job creation rate in over 10 years, as its access to multiple interstates continues to attract logistics companies. Working-class household growth is the primary beneficiary of this trend, contributing to lower Class B/C vacancy. Farther south, Charlotte, known as one of the nation's financial centers, continues to emerge as a technology hub. Earlier this year Lowe's opened a new technology headquarters, creating over 1,500 positions. These roles often offer higher wages, driving demand for luxury housing and triggering a vacancy contraction for Class A units.

Incoming supply continues to be absorbed, vacancy eases in all major metros. Construction patterns will remain consistent with 2018 for the Greensboro/Winston-Salem and Raleigh-Durham metros; however Charlotte will receive its largest influx of rentals so far this millennium. Several of these Charlotte completions are sizable complexes containing over 300 rental units. This was evident in uptown, where the Uptown 550 at Stonewall and Novell Stonewall Station projects opened with 400 units each. However, robust renter demand in Charlotte will absorb a large portion of this substantial incoming supply, and a sub-5.0 percent vacancy rate will allow rents to edge up. The other two major metros in North Carolina will have cycle-low annual vacancy rates as a result of restrained development and strengthening demand, allowing rents to climb.

Local Apartment Yield Trends



** Cap rate trailing 12-month average through 3Q; Treasury Rate as of Sept. 30*

Includes sales $1 million and greater for Charlotte, Raleigh, Greensboro/Winston-Salem/High Point

Sources: CoStar Group, Inc.; Real Capital Analytics

Multifamily 2019 Forecast

Metro	Vacancy	Y-O-Y Basis Point Change	Average Effective Rent	Y-O-Y Change
Charlotte	4.7%	- 40	$1,164	5.9%
Raleigh	4.4%	- 80	$1,167	5.6%
Greensboro/ Winston-Salem/ High Point	4.0%	- 100	$861	5.4%

Investment Trends

Charlotte

- Sales velocity for Class A assets doubled over the past year compared with the previous annual period. Intensifying bidding activity pushed the average cap rate down 30 basis points to 5.0 percent for this category. The average cap rate for Class B/C properties held in the mid-5 to low-6 percent range.
- The east and north Charlotte regions garnered increased investor interest over the past 12 months. North Charlotte assets provided first-year yields in the low-5 to mid-5 percent range on average, while east Charlotte cap rates were a tick higher, averaging in the low-6 percent range.

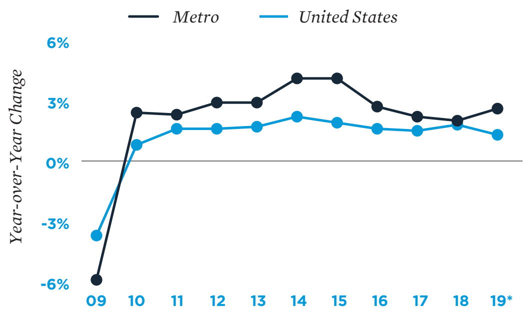
Raleigh

- Class B/C transaction velocity elevated by 42 percent year over year, specifically for properties priced $15 million and greater, in which deal flow jumped by 75 percent. These types of deals were found all throughout the metro, and occurred the most often in Cary.
- The Downtown Durham and Northeast Raleigh submarkets have attracted buyers due to relatively low entry-costs. Average price per unit within these submarkets sits around $100,000 while assets within the Downtown Raleigh submarket are nearly double that price.

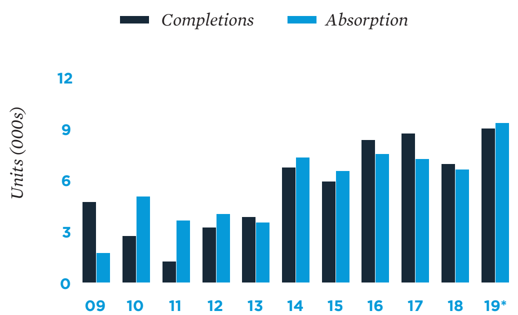
Greensboro/Winston-Salem/High Point

- Investors targeted core assets, as roughly one-third of all past-year sales were for properties located in either downtown Greensboro or downtown Winston-Salem.
- Average first-year returns for Class A and B apartments were in the high-5 percent range, while Class C yields were slightly higher in the mid-6 percent range on average.

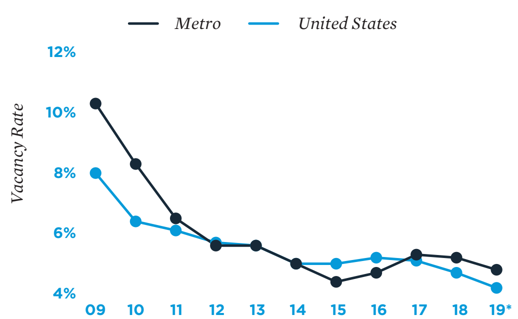
Employment Trends



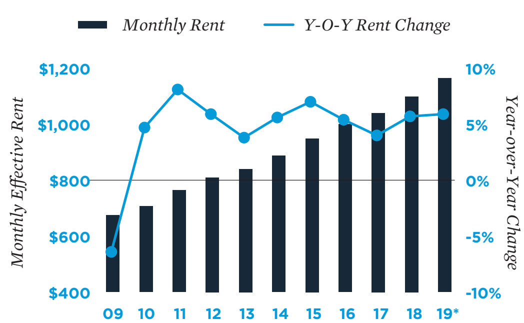
Completions and Absorption



Vacancy Rate Trends



Rent Trends



** Forecast*

Sources: Marcus & Millichap Research Services; Real Page, Inc

3Q19 – 12-Month Period

EMPLOYMENT

2.4% increase in total employment Y-O-Y

- Employers created 29,000 positions over the past four quarters ended in September, underscoring the expansion in the previous period when 26,500 payrolls were added. Over the past five years the average annual job growth rate has been 2.9 percent.
- Charlotte's fastest-growing job sector, professional and business services, continued to advance by creating 9,400 new positions over the past 12 months, a 4.5 percent surge.

CONSTRUCTION

6,750 units completed Y-O-Y

- Compared with the previous yearlong period, construction has been down this year as 750 fewer units have been completed. However, an additional 3,600 units are underway and scheduled to be finalized before year end.
- Rental demand in the UNC Charlotte and North Charlotte submarkets have underscored new development with a combined 2,700 new units opening in these areas over the past 12 months.

VACANCY

50 basis point decrease in vacancy Y-O-Y

- A decline in construction allowed vacancy to plummet to a cyclical low of 3.9 percent in the third quarter, following a 20-basis-point contraction in the previous period.
- Class A apartments experienced the greatest vacancy reduction of the three classes, as the rate dropped 70 basis points to 4.5 percent. Additionally, properties built post-2000 were in high demand with vacancy easing by 60 basis points to 4.2 percent.

RENT

6.6% increase in the average effective rent Y-O-Y

- Robust demand for a diminishing available supply resulted in a expansion of average effective rent to $1,177 per month in the past 12 months. This growth trend underscored the previous period's 5.0 percent enhancement to market rent.
- No completions during the past year in the South Charlotte submarket allowed tenant demand to push up the average effective rent by 9.2 percent over the same span to $1,144 per month.

Demographic Highlights

3Q19 Median Household Income

Metro **$64,824**
U.S. Median **$65,205**

3Q19 Affordability Gap

Renting is **$273** *Per Month Lower*
*Average Effective Rent vs. Mortgage Payment**

Multifamily (5+ Units) Permits˟

8,093 *1H 2019*
34% *Compared with 1H 2016-2018*

3Q19 Median Home Price

Metro **$250,670**
U.S. Median **$272,227**

Five-Year Household Growth**

107,300 *or* **2.1%** *Annual Growth*
U.S. **1.0%** *Annual Growth*

Single-Family Permits˟

15,306 *1H 2019*
1% *Compared with 1H 2016-2018*

**Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI.* ***2019-2024* ˟ *Annualized Rate*

SUBMARKET TRENDS

Lowest Vacancy Rates 3Q19**

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Effective Rent	Y-O-Y % Change
Gaston County	2.7%	- 130	$959	6.0%
Concord/Kannapolis/Salisbury	2.8%	- 70	$999	6.8%
South Charlotte	3.4%	- 140	$1,144	9.2%
East Charlotte	3.7%	0	$1,014	6.1%
North Charlotte	3.7%	- 60	$1,147	7.3%
Southwest Charlotte	3.7%	- 10	$1,114	6.2%
Rock Hill/Fort Mill	3.8%	- 30	$1,109	9.3%
Myers Park	4.4%	- 60	$1,353	4.5%
UNC Charlotte	4.7%	- 20	$1,113	6.3%
Uptown-South End	4.9%	- 10	$1,688	7.0%
Overall Metro	**3.9%**	**- 50**	**$1,177**	**6.6%**

*** Includes submarkets with more than 10,000 units of inventory*

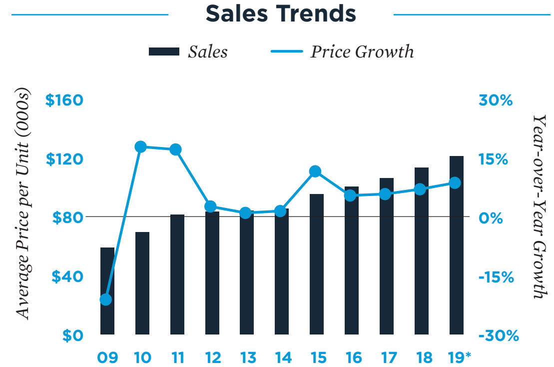
SALES TRENDS

Cap Rates Retreat as Buyer Competition Drives Up Sale Prices

- Competitive bidding drove average cap rate down 30 basis points year over year to 6.0 percent. Cap rates have been steadily dropping as investment activity has intensified over the past couple of years.
- The average price per unit rose 8.6 percent over the past four quarters to $121,000. Class A assets in particular sold for an average price per unit closer to $200,000.

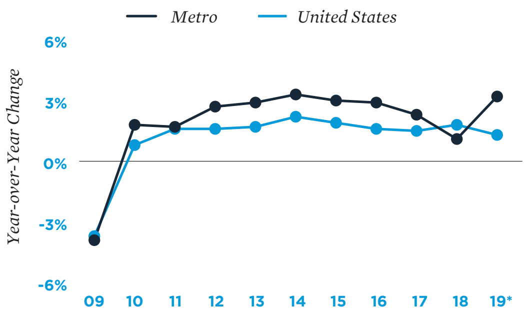
Outlook: Rental growth and tightening vacancy will continue to increase capital migration into Charlotte, specifically for luxury complexes. Sellers are coming off the sidelines as they are enticed by aggressive offers.

Sales Trends

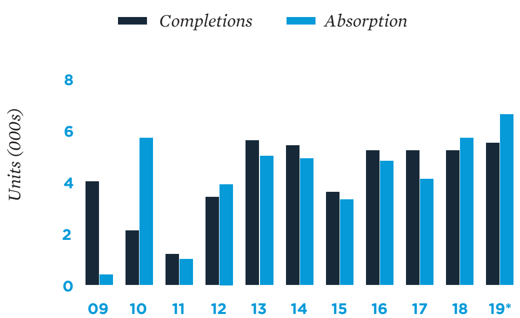


** Trailing 12 months through 3Q19*
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

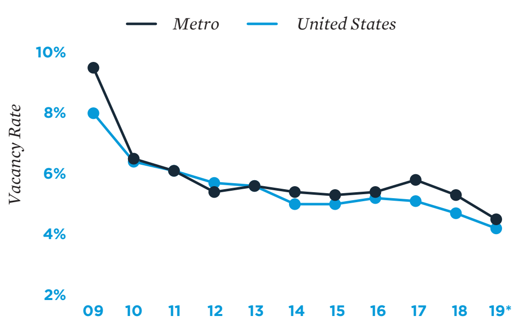
Employment Trends



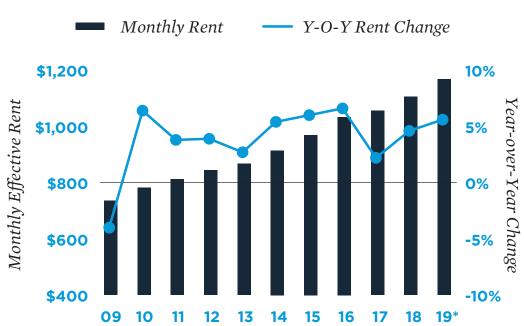
Completions and Absorption



Vacancy Rate Trends



Rent Trends



** Forecast*

Sources: Marcus & Millichap Research Services; Real Page, Inc

3Q19 – 12-Month Period

EMPLOYMENT

2.5% increase in total employment Y-O-Y

- During the past four quarters ended in September, metro employers created 23,200 positions as job growth was elevated from the 13,700 payrolls introduced in the previous year.
- The education and health services sector accounted for the largest share of net employment growth, adding roughly 5,200 positions in the past year. Additionally, the professional and business services sector grew by nearly 4,900 payrolls.

CONSTRUCTION

4,500 units completed Y-O-Y

- Fewer units were created over the past 12 months than the 5,200 finalized in the previous annual period. Another 2,150 units are underway with completions scheduled before the end of 2019.
- The Southeast Raleigh submarket received roughly 1,150 rentals from October 2018 to September 2019, and another 700 are in the construction pipeline. This uptick in construction will increase total submarket inventory by nearly 17 percent.

VACANCY

60 basis point decrease in vacancy Y-O-Y

- Robust demand tightened vacancy to a cyclical low of 4.1 percent in the third quarter. This was the second consecutive annual contraction of at least 60 basis points.
- Both Class B and C apartments experienced vacancy drops of 50 basis points or greater, to 4.0 and 3.5 percent, respectively. Additionally, leasing intensified for properties built pre-1970 as vacancy for this tranche fell 100 basis points to 3.1 percent.

RENT

6.2% increase in the average effective rent Y-O-Y

- Average effective rent expanded to $1,174 in the third quarter, as the annual growth rate surged from the 3.5 percent hike posted in the previous yearlong period.
- Class B rentals experienced the largest year-over-year rent climb among the three classes, with the average effective rent growing at 6.5 percent clip to $1,151 per month.

Demographic Highlights

3Q19 Median Household Income

Metro **$73,105**

U.S. Median **$65,205**

3Q19 Affordability Gap

Renting is **$534** *Per Month Lower*

*Average Effective Rent vs. Mortgage Payment**

Multifamily (5+ Units) Permits*

4,886 *1H 2019*

17% *Compared with 1H 2016-2018*

3Q19 Median Home Price

Metro **$298,579**

U.S. Median **$272,227**

Five-Year Household Growth**

94,100 *or* **2.4%** *Annual Growth*

U.S. **1.0%** *Annual Growth*

Single-Family Permits*

14,617 *1H 2019*

6% *Compared with 1H 2016-2018*

*Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI. **2019-2024 * Annualized Rate*

SUBMARKET TRENDS

Lowest Vacancy Rates 3Q19**

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Effective Rent	Y-O-Y % Change
Near North Raleigh	3.5%	- 100	$1,169	10.4%
North Cary/Morrisville	3.7%	- 70	$1,244	5.7%
Southeast Raleigh	3.9%	- 130	$1,065	2.0%
Far North Raleigh	4.0%	- 20	$1,142	4.1%
South Cary/Apex	4.0%	- 60	$1,218	8.9%
Southwest Durham	4.0%	- 20	$1,127	7.7%
Northwest Durham/Downtown	4.4%	- 250	$1,206	-2.0%
Chapel Hill/Carrboro	4.7%	- 50	$1,188	4.1%
Central Raleigh	5.0%	50	$1,229	6.7%
Northeast Raleigh	5.3%	80	$1,115	7.6%
Overall Metro	**4.1%**	**- 60**	**$1,174**	**6.2%**

*** Includes submarkets with more than 10,000 units of inventory*

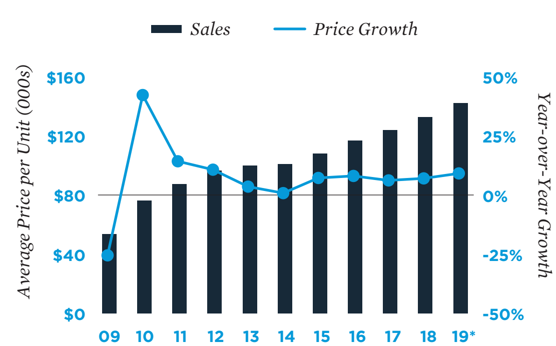
SALES TRENDS

Value-Add Opportunities Found in Suburban Assets; Buyer Activity Ramps Up

- Investment activity intensified, with deal flow surging by roughly 40 percent over the past 12 months ended in September, while the average price per unit advanced 9.1 percent to $142,000.
- Despite an elevated overall average asking price, the average first-year yield also ticked up 20 basis points to 5.8 percent. This increase in the average cap rate is linked to the emerging trend of buyers heavily targeting low entry-cost suburban markets.

Outlook: Prices and sales activity will continue to grow as investors scour suburban markets, which are offering favorable first-year yields as a result of enhanced market rents and robust demand.

Sales Trends

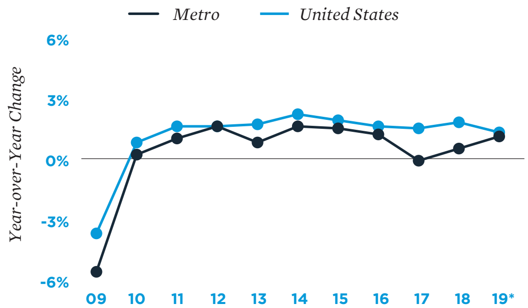


** Trailing 12 months through 3Q19*

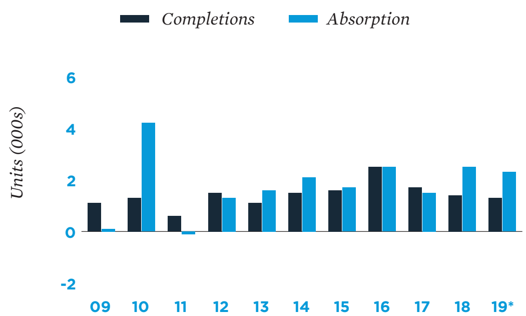
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

Current Trends

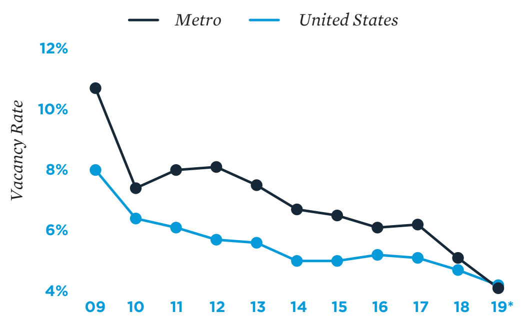
Employment Trends



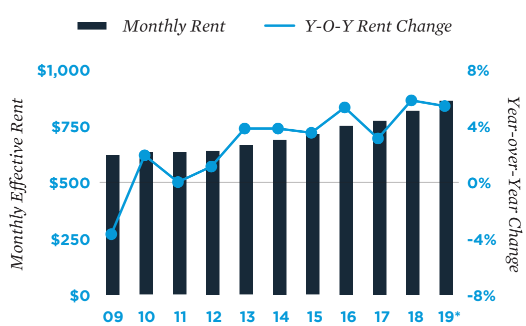
Completions and Absorption



Vacancy Rate Trends



Rent Trends



** Forecast*

Sources: Marcus & Millichap Research Services; Real Page, Inc

3Q19 – 12-Month Period

EMPLOYMENT

2.0% increase in total employment Y-O-Y

- Job growth escalated over the past 12 months ended in September as metro employers created roughly 12,700 positions. In the three previous years, the average annual growth rate had been 0.6 percent.
- The trade, transportation and utilities sector paced employment growth, adding 4,300 payrolls year over year. Additionally, the education and health services sector grew by 2,800 positions.

CONSTRUCTION

1,300 units completed Y-O-Y

- Construction stayed relatively consistent with the previous annual period in which 1,400 rentals were completed. An additional 190 units will enter the West Greensboro submarket when Hawthorne at Friendly finalizes later this year.
- The Burlington submarket received the largest share of arrivals, as the Waterside and May Hosiery Lofts projects finalized a combined 300 rentals earlier this year.

VACANCY

140 basis point decrease in vacancy Y-O-Y

- Surging rental demand drove vacancy down to a cyclical-low 3.4 percent in the third quarter. This contraction doubled the 70-basis-point drop recorded in the previous yearlong period.
- Every submarket experienced tightening vacancy over the past year. The High Point submarket continues be in high demand as vacancy retreated 190 basis points here year over year and has plummeted 420 basis points since first quarter 2018.

RENT

8.2% increase in the average effective rent Y-O-Y

- Diminishing availability allowed rent to surge at more rapid pace than the 3.9 percent expansion posted a year earlier. The average effective rent reached $875 per month as of September 2019.
- Average effective rent expanded by at least 7.0 percent for all three apartment Classes. The 9.3 percent growth rate posted by Class B complexes led the way, as average effective rent moved up to $872 per month for this set.

Demographic Highlights

3Q19 Median Household Income

Metro **$52,490**

U.S. Median **$65,205**

3Q19 Affordability Gap

Renting is **$164** *Per Month Lower*

*Average Effective Rent vs. Mortgage Payment**

Multifamily (5+ Units) Permits*

321 *1H 2019*

77% *Compared with 1H 2016-2018*

3Q19 Median Home Price

Metro **$174,274**

U.S. Median **$272,227**

Five-Year Household Growth**

42,900 *or* **1.4%** *Annual Growth*

U.S. **1.0%** *Annual Growth*

Single-Family Permits*

4,892 *1H 2019*

12% *Compared with 1H 2016-2018*

*Mortgage payments based on quarterly median home price with a 30-year fixed-rate conventional mortgage, 90% LTV, taxes, insurance and PMI. **2019-2024 * Annualized Rate

SUBMARKET TRENDS

Lowest Vacancy Rates 3Q19

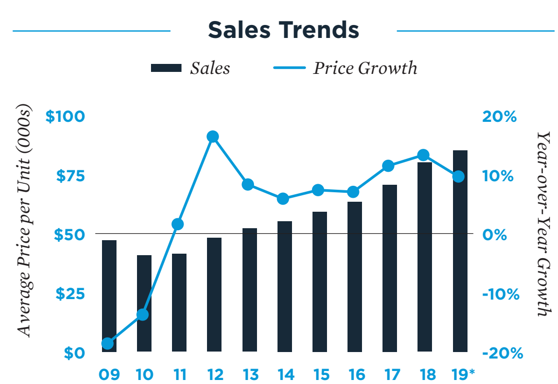
Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Effective Rents	Y-O-Y % Change
West Greensboro	2.9%	- 130	$909	5.8%
High Point	3.0%	- 190	$833	8.9%
North Winston-Salem	3.0%	- 140	$866	5.4%
South Winston-Salem	3.4%	- 200	$864	10.9%
Burlington	3.6%	- 50	$941	6.3%
South Greensboro	3.6%	- 160	$867	7.0%
North Greensboro	4.6%	- 40	$854	13.7%
Overall Metro	**3.4%**	**-140**	**$875**	**8.2%**

SALES TRENDS

Easing Cap Rate Entices Long-Time Holders to Reposition Their Portfolios

- Sales velocity escalated by more than 60 percent over the past four quarters, and increased buyer competition allowed the average sale price to rise 9.6 percent to $85,000.
- Robust buyer interest benefited sellers as the average cap rate eased 50 basis points to 6.4 percent. The cap rate has now plummeted by 150 basis points since the end of 2016.

Outlook: Long-time holders will begin to enter the market as sellers, with aggressive bidding patterns increasing their returns on sale. Capital will continue to flow into the metro as it offers favorable entry-costs in comparison to the other North Carolina metros.



* Trailing 12 months through 3Q19

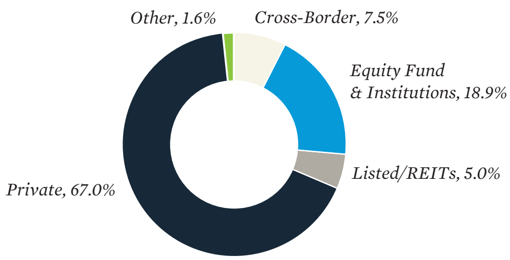
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

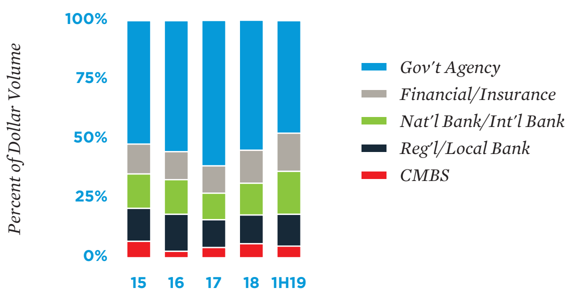
By DAVID G. SHILLINGTON, President, Marcus & Millichap Capital Corporation

- **Fed cuts rate again, while balancing assortment of factors.** The Federal Reserve cut the overnight rate by 25 basis points at the end of October, the third reduction in less than 100 days in an attempt to lengthen the economic runway. Muted inflationary pressure and continued trade negotiations have boosted the probability for an additional rate cut in December as it is anticipated by some domestic and foreign markets. However, at the end of October, the U.S. and China were in talks for finalizing the first phase of a trade deal, potentially erasing the need for another rate reduction if the preliminary agreement quickly comes to fruition. This, along with positive economic indicators like strong wage growth, sustained job creation and a rising 10-year Treasury, will continue to make future decisions difficult for Fed members as they balance the array of forces tugging at both ends of possible outcomes. Global developments including slowing European economies as well as the progression of Brexit and its potential aftermath will also help determine future Fed decisions. Though recession risks remain, the economy's solid foundation has softened it in recent months, signaling continued domestic growth in the near future.
- **Abundant liquidity balances conservative underwriting.** Debt financing for apartment assets remains strong, supported by a variety of lenders. Fannie Mae and Freddie Mac, two mainstay apartment capital sources, were recently given increased lending caps, allowing the two Government Sponsored Enterprises to purchase $100 billion in loans during a yearlong period that started at the beginning of the fourth quarter 2019. A wide range of local, regional and national banks; pension funds; insurance companies and CMBS sources will also remain active. All have responded to the falling interest rate climate by reducing mortgage rates, but lender spreads have widened as the 10-year Treasury rate remains near cycle lows. Given the downward pressure on interest rates, lender caution has risen, particularly for construction loans. Though lending is still available for these types of projects, investors may need to blend mezzanine debt with other capital sources until they prove out their concepts and substantially fill units. For stabilized existing assets in most major markets, financing remains plentiful.

1H19 Apartment Acquisitions By Buyer Type



Apartment Mortgage Originations By Lender



Includes sales $2.5 million and greater
Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: $250

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; National Association of Realtors; Moody's Analytics; Real Capital Analytics; RealPage, Inc.; TWR/Dodge Pipeline; U.S. Census Bureau