

Class A properties likely to continue to change hands in 2024

CONSTRUCTION ACTIVITY



UNDER CONSTRUCTION **18,882**

UNITS DELIVERED **11,319**

MARKET FUNDAMENTALS



VACANCY RATE **7.5%**

YEAR-OVER-YEAR CHANGE **+170bps**

ASKING RENTS **\$1,573**

YEAR-OVER-YEAR CHANGE **0.1%**

TRANSACTION ACTIVITY (YTD)



MEDIAN PRICE PER UNIT **\$251,900**

HIGHLIGHTS

- Following a fairly strong first half of the year, operating conditions in Raleigh-Durham softened during the fourth quarter. The vacancy rate rose while asking rents dipped lower. Supply-side pressures pushed vacancies higher despite healthy renter demand.
- Asking rents trended lower in the second half of 2023 after posing healthy rent gains in the opening six months of 2023. Apartment rents inched higher by 0.1 percent in 2023, closing the year at \$1,573 per month.
- Although annual sales in 2023 lagged levels recorded in 2022 by 50 percent, sales activity began to build some momentum in the second half of the year. With several new construction properties changing hands, the median price was \$251,900 per unit in 2023.
- Vacancy rose 50 basis points in the last three months of the year to 7.5 percent and the rate pushed up 170 basis points for the full year. The market's long-term average vacancy rate is between 5.5 percent and 6 percent.

RALEIGH-DURHAM MULTIFAMILY MARKET OVERVIEW

Multifamily developers in Raleigh-Durham delivered new supply at a rapid pace in 2023. Projects totaling roughly 11,300 units came online for the full year, a cyclical high for the region and up more than 50 percent from the trailing five-year average. Elevated supply growth pushed the vacancy rate higher in recent months, although Class A levels remained in a fairly tight range. Renter demand accelerated in 2023, with absorption totaling nearly 6,000 units. While absorption was strongest in the third quarter, the final few months posted above-trend demand levels. Absorption in the fourth quarter topped 1,100 units, about three times higher than the average fourth quarter total recorded over the past decade.

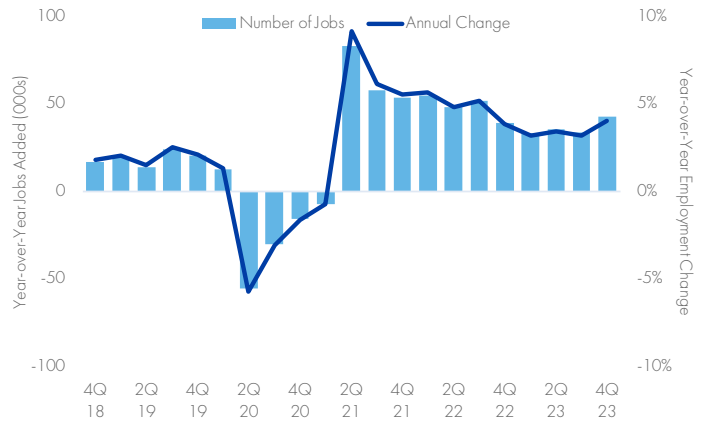
Investment trends in Raleigh-Durham were mixed in 2023. Sales slowed from the third quarter to the fourth quarter, although the second half accounted for the bulk of the year's volume. Total sales increased by 60 percent from the first half to the second half, but overall transaction volume in 2023 was down 50 percent from levels recorded last year. While fewer properties sold during the year, per-unit prices in closed transactions were higher than in 2022. This reflected the mix of newer properties that traded during the course of the year. Class A and Class B assets made up a greater share of the transaction mix in 2023 when compared to levels posted in the prior year.

EMPLOYMENT

- Total employment in Raleigh Durham expanded at a steady rate throughout much of 2023. Area employers hired 42,700 new workers during the past 12 months, increasing the local labor market by 4.1 percent, one of the fastest rates of growth in the country.
- Many sectors recorded rapid employment growth in 2023, with the professional and business services sector recording the most significant gains. During the past year, total employment in this sector surged by 7 percent with the addition of 14,500 jobs.
- Raleigh City Council recently approved a plan to begin negotiations with Omni Hotels and Resorts, to develop a new high-rise in Downtown Raleigh. Located on a 1-acre parcel between the convention center and the Martin Marietta Center for the Performing Arts, the 27-story hotel will feature 550 rooms as well as 55,000 square feet of meeting space.
- **FORECAST:** Following strong employment gains in each of the past three years, expansion in the local labor market will likely be more modest in 2024. Total employment is forecast to rise 1.8 percent in 2024, with the addition of nearly 20,000 workers.

Area employers hired 42,700 new workers during the past 12 months.

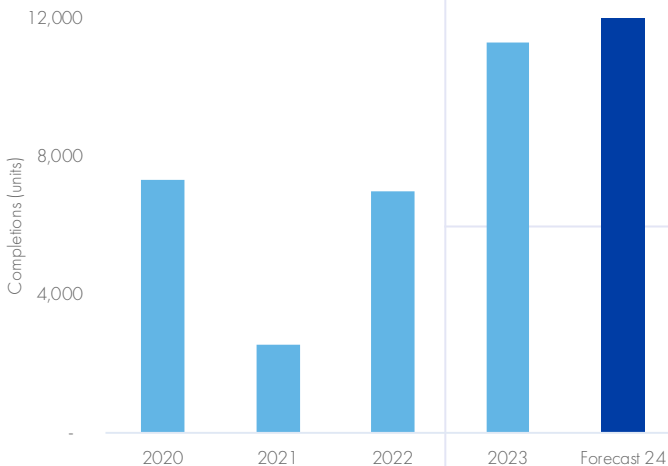
EMPLOYMENT OVERVIEW



Sources: Northmarq, Bureau of Labor Statistics

Permitting volumes peaked in late 2022 and early 2023.

DEVELOPMENT TRENDS



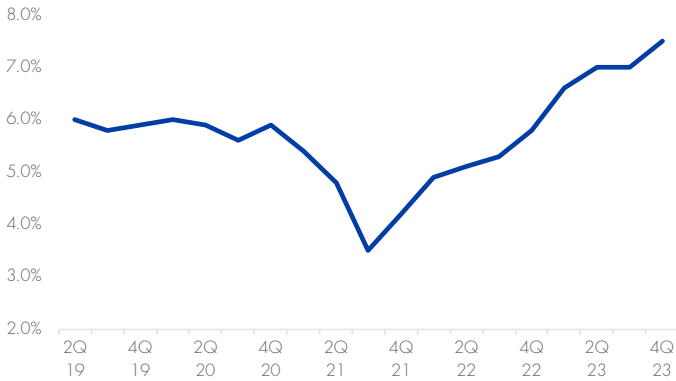
Sources: Northmarq, CoStar

DEVELOPMENT & PERMITTING

- Multifamily developers continued to deliver new projects in the closing months of 2023, bringing Raleigh-Durham's annual completion total to more than 11,300 units, following the delivery of nearly 7,000 units in 2022. Since 2013, completions have averaged approximately 5,300 units per year.
- Projects totaling approximately 18,900 units are currently under construction, down 6 percent from levels recorded one year ago. Construction is concentrated in the Downtown Raleigh submarket, with the North Cary/Morrisville, Northeast Raleigh, and Downtown Durham submarkets also active locations for new development.
- Developers pulled permits for approximately 10,000 multifamily units in 2023, down 18 percent from prior year levels. Permitting volumes peaked in late 2022 and early 2023 before slowing in recent quarters. Multifamily permitting volumes are forecast to slow by nearly 50 percent in 2024.
- **FORECAST:** Completions activity in 2024 should closely track levels from the preceding year. Approximately 11,500 units are expected to be delivered in the coming year, followed by more modest delivery totals beginning in 2025.

Vacancy in the Class A segment ended the year at 7.9 percent.

VACANCY TRENDS



Sources: Northmarq, CoStar

VACANCY

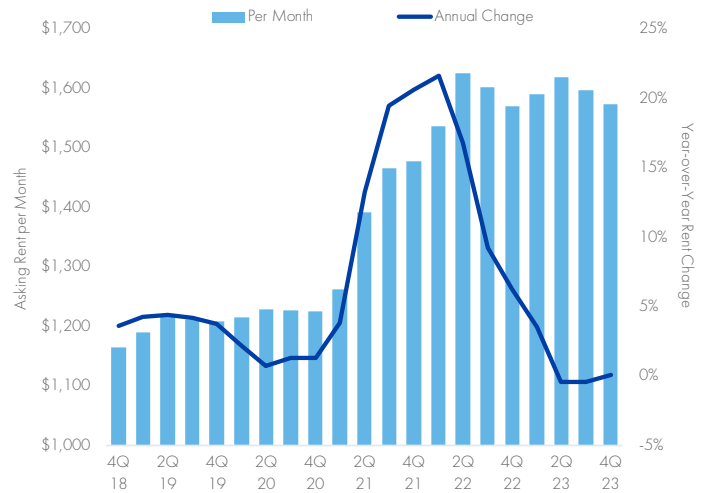
- The vacancy rate pushed higher in recent months after holding steady during the third quarter. Area vacancy rose 50 basis points during the fourth quarter to 7.5 percent. During the course of the year, area vacancy spiked by 170 basis points.
- While vacancy rose in nearly every Raleigh-Durham submarket in the past year, the vacancy rate in Chapel Hill posted improvements. Vacancy in this submarket declined by 20 basis points in 2023 to 8.3 percent.
- Despite an influx of new construction, vacancy in Class A properties remained in a fairly tight range throughout 2023. Vacancy in the Class A segment ended the year at 7.9 percent, up just 30 basis points from one year earlier.
- **FORECAST:** Renter demand should remain strong in 2024, but elevated supply growth will likely lead to vacancy increases in the coming quarters. The vacancy rate is forecast to finish 2024 at 7.8 percent up 30 basis points for the full year.

RENTS

- Apartment rents in Raleigh-Durham dipped in the second half of 2023 after posting strong growth in the first half. Asking rents decreased by 1.5 percent during the fourth quarter to \$1,573 per month.
- Rents were essentially flat for the full year, rising in the first half before retreating in the final two quarters. Rents inched up 0.1 percent in 2023. This followed average rent growth of 7 percent per year since 2018.
- Class A rents ended 2023 at \$1,801 per month, nearly identical to levels from two years earlier. Average Class A rents approached \$1,900 per month at midyear, but have trended lower in recent quarters.
- **FORECAST:** Apartment operators are expected to increase asking rents at a modest pace in 2024 after declines in the second half. Apartment rents are forecast to close 2024 at \$1,600 per month, up 1.7 percent from the year-end 2023 total.

Class A rents ended 2023 at \$1,801 per month.

RENT TRENDS



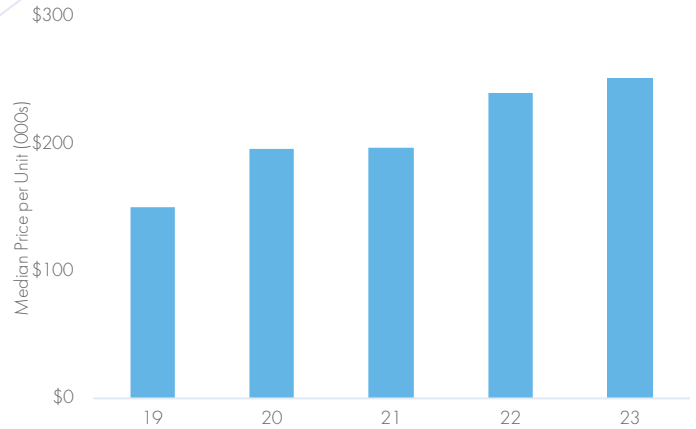
Sources: Northmarq, CoStar

MULTIFAMILY SALES

- Sales activity in the Raleigh-Durham multifamily investment market slowed from the third quarter to the fourth quarter. Total sales in 2023 were down 50 percent from levels recorded in 2022. Despite cooling in the final few months, transaction counts in the second half were 60 percent higher than during the first six months of the year.
- The median price in 2023 was \$251,900 per unit, up nearly 5 percent from the median price last year. The transaction mix in 2023 was relatively close to the mix recorded in 2022, but the sale of Class A and Class B assets picked up slightly in recent periods. Class B properties made up more than half of the sales in 2023, while top-tier assets accounted for nearly one-third of sales.
- Cap rates trended higher throughout 2023. Cap rates averaged 5.25 percent during the fourth quarter, after ranging between 4 percent and 4.5 percent one year ago.

The median price in 2023 was **\$251,900 per unit.**

INVESTMENT TRENDS



Sources: Northmarq, CoStar

RECENT TRANSACTIONS MULTIFAMILY SALES ACTIVITY

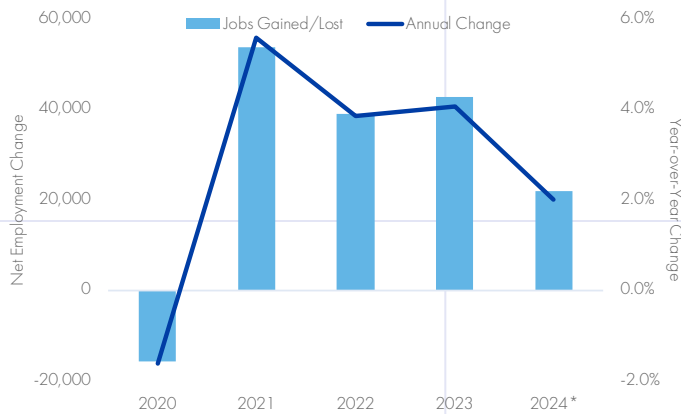
PROPERTY NAME	STREET ADDRESS	UNITS	SALES PRICE	PRICE/UNIT
The Reserve at Meadowmont	100 Village Crossing Dr., Chapel Hill	258	\$83,600,000	\$324,031
501 Estates	240 Ivy Meadow Ln., Durham	270	\$70,000,000	\$259,259
NorthCity 6	6350 Terra Verde Dr., Raleigh	291	\$64,250,000	\$220,790
Shadowood	110 Piney Mountain Rd., Chapel Hill	336	\$42,500,000	\$126,488

LOOKING AHEAD

Developers are expected to continue to deliver new multifamily properties at an elevated pace through 2024, even after annual completions reached a cyclical high in the past year. Rapid population growth and an expanding local labor market—particularly in high-wage industries—were conditions that encouraged developers to ramp up construction efforts to meet current and future demand. The coming year will be an active one for supply growth, but construction should slow in the following years, allowing for conditions to stabilize. Demand should be strong enough to allow for modest rent gains in 2024, although operators in some submarkets where inventory growth is strongest will likely make greater use of concessions to attract renters.

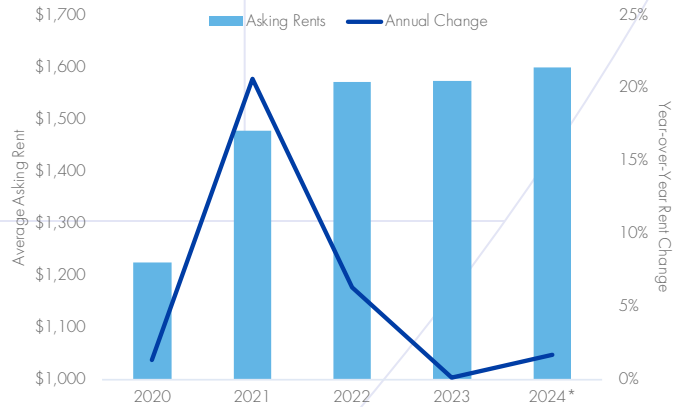
The Raleigh-Durham multifamily investment market was more active in the second half than at the beginning of the year, which may well carry over into 2024. Some of the newer construction projects began to change hands in 2023, although the bulk of that activity occurred during the third quarter. Investors will likely continue to acquire new Class A properties, either at stabilization or during lease-up. In 2023, these properties accounted for approximately one-third of all transactions, commanding prices ranging from \$250,000 per unit to \$350,000 per unit. Cap rates rose in 2023, but should level off in the coming year, particularly in the second half if interest rates decline as expected.

EMPLOYMENT FORECAST



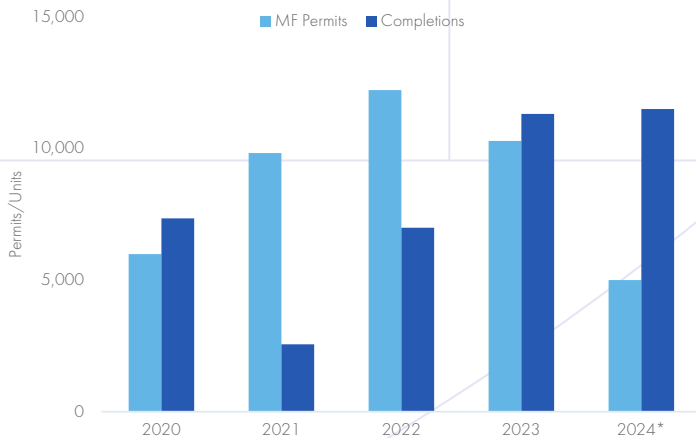
* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

RENT FORECAST



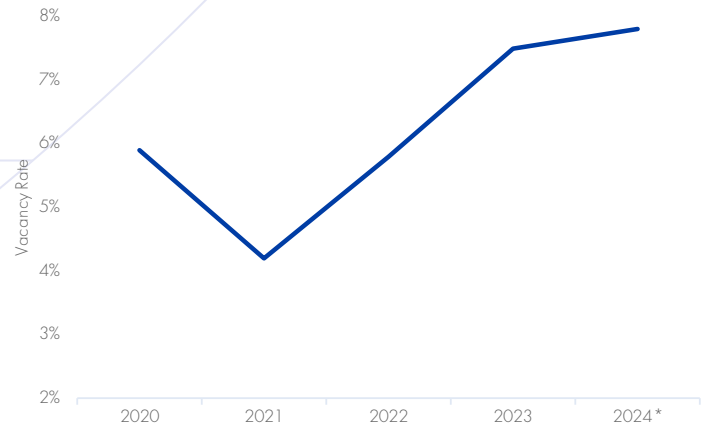
* Year End Forecast
Sources: Northmarq, CoStar

CONSTRUCTION & PERMITTING FORECAST



* Year End Forecast
Sources: Northmarq, Census Bureau, CoStar

VACANCY FORECAST



* Year End Forecast
Sources: Northmarq, CoStar



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