Northmarq

MARKET INSIGHTS

# Renter demand elevated, but lagging new supply growth

## CONSTRUCTION ACTIVITY

| | |
|---|---|
| UNDER CONSTRUCTION | 23,507 |
| UNITS DELIVERED | 5,062 |

## MARKET FUNDAMENTALS

| | |
|---|---|
| VACANCY RATE | 7.0% |
| YEAR-OVER-YEAR CHANGE | +190bps |
| ASKING RENTS | $1,619 |
| YEAR-OVER-YEAR CHANGE | -0.4% |

## TRANSACTION ACTIVITY (YTD)

| | |
|---|---|
| MEDIAN PRICE PER UNIT | $189,600 |

Raleigh-Durham Multifamily
**2Q 2023**

## HIGHLIGHTS

- Despite continued upward pressure on the local vacancy rate, operators in Raleigh-Durham pushed rents higher to this point in the year. Multifamily developers are active, with more than 23,500 units currently under construction in the region.
- Local vacancy rose 40 basis points during the second quarter, reaching 7 percent. Year over year, the rate is up 190 basis points.
- Asking rents in Raleigh-Durham pushed higher during the second quarter, increasing 1.8 percent. Year over year, rents have dipped 0.4 percent to $1,619 per month.
- The local multifamily investment market has had a slow start during the first half of 2023, with deal volume down from levels recorded last year. The median sales price year to date is $189,600 per unit, while cap rates are averaging approximately 5 percent.

## RALEIGH-DURHAM MULTIFAMILY MARKET OVERVIEW

After retreating during the second half of 2022, local apartment rents are showing signs that they have stabilized, recording solid growth in each of the first two quarters of this year. Rents have posted a cumulative increase of roughly 3 percent through the first half. While rents are trending higher, the vacancy rate increased for its seventh consecutive quarter, reaching a cyclical high of 7 percent. The ongoing rise in vacancy is primarily due to a recent swell in new development, while renter demand has accelerated. In the first half, net absorption topped 2,800 units, compared to approximately 1,100 units during the same period, one year earlier.

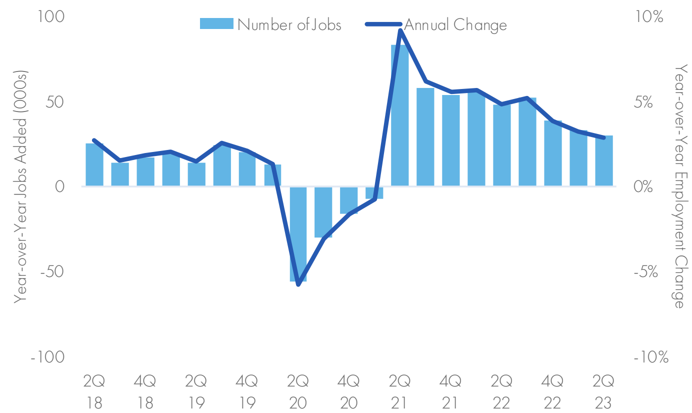
Multifamily sales activity in Raleigh-Durham has remained fairly limited to this point in the year. While some properties are still trading, the number of deals year to date is down more than 60 percent compared to the same period in 2022. Pricing trends have been mixed to this point in the year. In the handful of Class A properties that have sold, prices have proven to be steady, remaining near $340,000 per unit. In Class B transactions—which traditionally account for about 50 percent of the total activity in the market—per-unit prices have cooled, following a 38 percent run-up from 2020 to 2022. Cap rates have been mostly stable in recent months with most properties selling with cap rates near 5 percent.

## EMPLOYMENT

- The Raleigh-Durham labor market continued to expand, adding 10,500 net new jobs during the past three months. Year over year, area employers added 30,000 positions, growing payrolls by 2.9 percent.
- Raleigh-Durham's health care and social assistance sector added jobs at a rapid pace during the past 12 months. Year over year, this industry grew by more than 5 percent, with the addition of 4,000 workers. The sector has been a consistent source of growth, with average increases of 3.7 percent per year over the course of the past decade.
- ProPharma, a pharmaceutical consulting company, recently moved its global headquarters to Downtown Raleigh. The company expects to create nearly 100 new jobs across a number of corporate-level functions over the next two years.
- **FORECAST:** The Raleigh-Durham economy is forecast to continue to add workers at a fairly steady pace throughout the remainder of this year. Growth is expected to reach 2.7 percent in 2023, with the addition of 28,000 net new jobs.

*Year over year, area employers added 30,000 positions.*

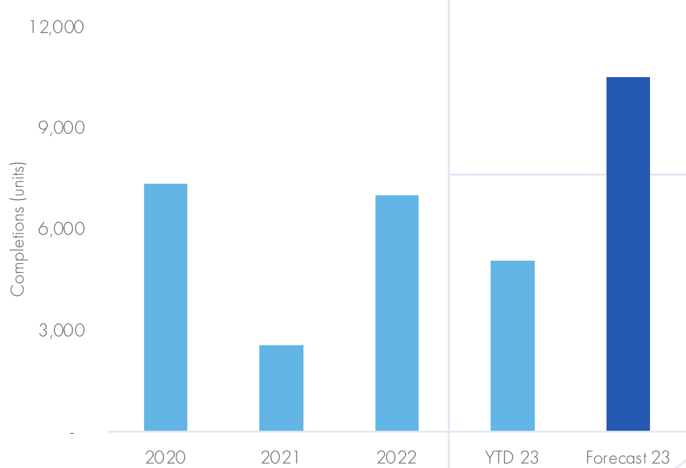
### EMPLOYMENT OVERVIEW




Sources: Northmarq, Bureau of Labor Statistics

*Projects totaling more than 5,000 units have come online.*

### DEVELOPMENT TRENDS



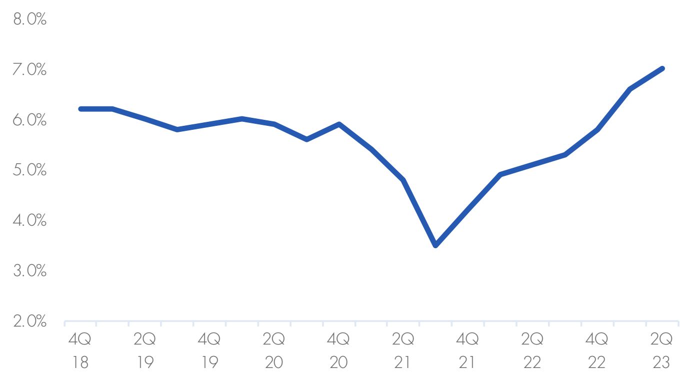

Sources: Northmarq, CoStar

## DEVELOPMENT & PERMITTING

- Multifamily construction activity continued to gain momentum in recent months as developers completed more than 2,700 units during the second quarter. Year to date, projects totaling more than 5,000 units have come online in Raleigh-Durham.
- The development pipeline includes roughly 23,500 units currently under construction, up more than 50 percent from one year ago. Downtown Raleigh remains an active location for new development with more than 3,850 units under way in the city center.
- Multifamily permitting activity slowed significantly in recent months. Developers pulled permits for fewer than 1,800 units during the second quarter, a 48 percent drop from levels at the start of the year.
- **FORECAST:** The pace of completions should hold fairly steady in the second half of the year as projects totaling 10,500 units are slated to come online during the course of 2023. The market has been recording a steady pace of inventory growth for the past several years, but the 2023 total will mark a cyclical high.

*Vacancy reached 7 percent at midyear.*

## VACANCY TRENDS




*Sources: Northmarq, CoStar*

## VACANCY

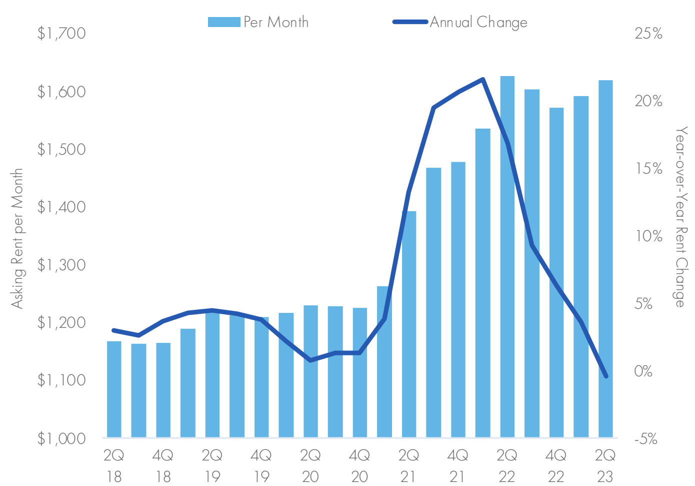
- Area vacancy has been trending higher for a period of nearly two years, and the rate increased again during the second quarter. Vacancy rose 40 basis points in the last three months, reaching 7 percent at midyear. Year over year, area vacancy is up 190 basis points.
- While vacancy has pushed higher in most parts of the region, there are parts of Raleigh-Durham where increases have been modest. During the past 12 months, the vacancy rate in the South Cary/Apex submarket has ticked up just 40 basis points to a still-tight 5 percent.
- The vacancy rate for Class A buildings ended the second quarter at 8 percent. Class A vacancy rates have ranged between 7.7 percent and 8 percent since the fourth quarter of 2022, after dipping to as low as 4 percent a few years ago. The long-term average vacancy for premium units is approximately 6.5 percent.
- **FORECAST:** Vacancy is forecast to rise in 2023, but the bulk of the expected increase has already taken place. The rate is on pace to finish 2023 at 7.2 percent, up 140 basis points for the full year. Vacancy is expected to inch up 20 basis points in the second half.

## RENTS

- After retreating during the second half of 2022, apartment rents have been rising at a healthy clip thus far in 2023. Asking rents in Raleigh-Durham advanced 1.8 percent during the second quarter to $1,619 per month. This followed a 1.3 percent increase at the start of the year.
- Rising rents in the first half of this year are being offset by the dips recorded at the end of 2022. The result is an environment where current rents are down 0.4 percent from the market's peak one year earlier.
- One factor supporting the rise in development of new units has been the steep upward climb in Class A rents in recent years. Asking rents in the Class A segment ended the second quarter at $1,877 per month, up 21 percent from levels at the end of 2020. At midyear, Class A asking rents averaged $1.93 per square foot, per month.
- **FORECAST:** After a solid first half of the year, local apartment rents are expected to inch higher in the coming periods. Asking rents are forecast to rise more than 4 percent in 2023 to $1,635 per month.

*Rents advanced 1.8 percent during the second quarter.*

## RENT TRENDS



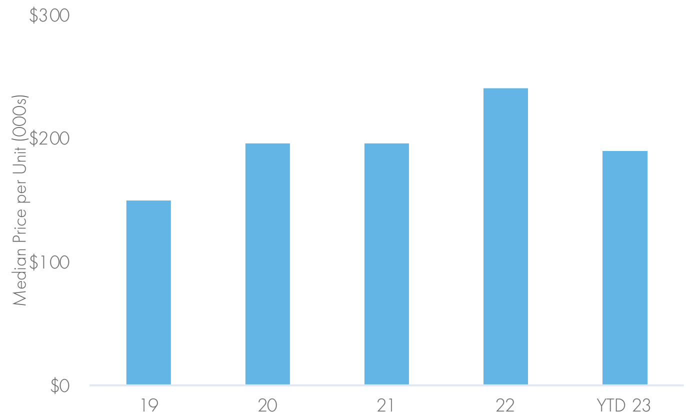

*Sources: Northmarq, CoStar*

## **MULTIFAMILY** SALES

- Multifamily transaction activity began slowing in the final months of 2022 and continued to cool through the first half of 2023. The number of deals closed year to date is down more than 60 percent from the same period last year.
- The median sales price thus far in 2023 is $189,600 per unit, down 21 percent from the median price in 2022. While prices have remained essentially unchanged in Class A properties—holding steady around $340,000 per unit—prices have trended lower in Class B transactions. To this point in 2023, the median price in Class B units is $183,600 per unit, down from more than $230,000 per unit in 2022.
- Cap rates held fairly steady from the first quarter to the second quarter. Most properties are selling with cap rates around 5 percent.

*The median sales price thus far in 2023 is $189,600 per unit.*

### INVESTMENT TRENDS




*Sources: Northmarq, CoStar*

## **RECENT TRANSACTIONS** MULTIFAMILY SALES ACTIVITY

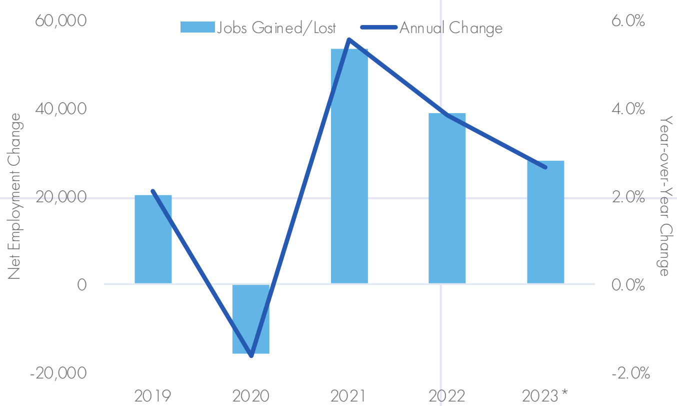
| PROPERTY NAME | STREET ADDRESS | UNITS | SALES PRICE | PRICE/UNIT |
|---|---|---|---|---|
| Marquis Ellis Crossing | 400 Advancement Ave., Durham | 336 | $85,292,000 | $253,845 |
| Stonehenge Apartments | 7303 Hihenge Ct., Raleigh | 452 | $80,000,000 | $176,991 |
| Chapel View Apartments | 2701 Homestead Rd., Chapel Hill | 224 | $39,800,000 | $177,679 |

## **LOOKING** AHEAD

Renter demand in Raleigh-Durham has lagged levels of new supply for nearly two straight years. Despite strong economic and employment conditions, which have fueled renter demand to this point in 2023 and should continue to spur leasing activity, vacancy is forecast to inch higher in the second half. Multifamily developers are on track to complete approximately 10,500 units this year, a cyclical high in the region. Area vacancy is forecast to finish the year in the low- 7 percent range. While the overall vacancy rate is expected to trend higher, leasing activity is forecast to remain strong enough to continue to support rent growth. Asking rents are projected to rise roughly 4 percent this year.

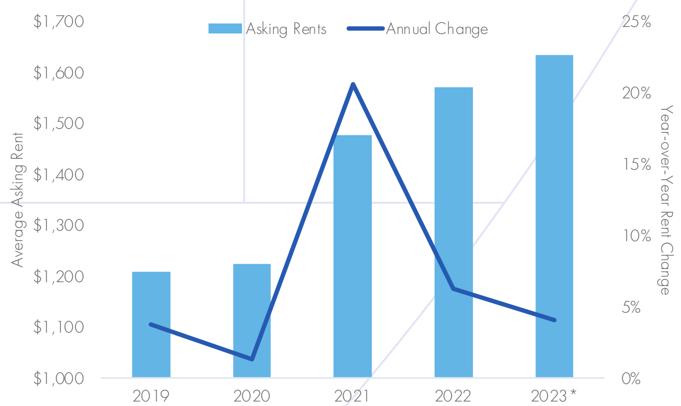
Multifamily sales activity in Raleigh-Durham is expected to remain fairly limited in the second half of the year as the high-interest-rate market continues to restrict the motivations for both buyers looking to allocate capital into the market and owners reluctant to sell at cap rates that are 150 to 200 basis points higher than in prior quarters. Still, properties will transact, and investors have demonstrated continued demand for the region's newer properties. While activity levels in the Class A segment are down, pricing remains consistent with 2022 levels in the top tier, suggesting that the investor expectations gap for premium assets has narrowed, and serving as a potential catalyst for the market as a whole.

### EMPLOYMENT FORECAST



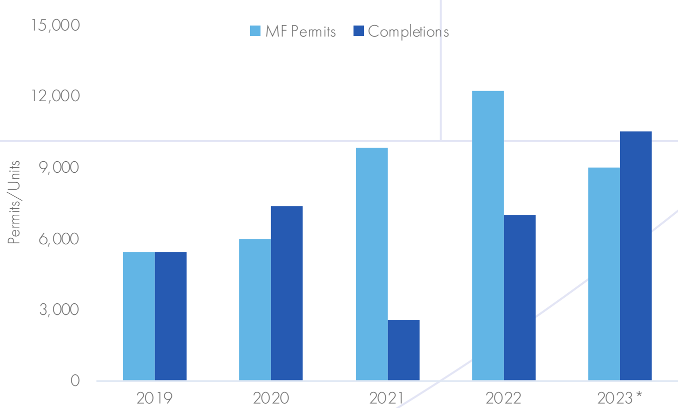

* Year End Forecast
Sources: Northmarq, Bureau of Labor Statistics

### RENT FORECAST



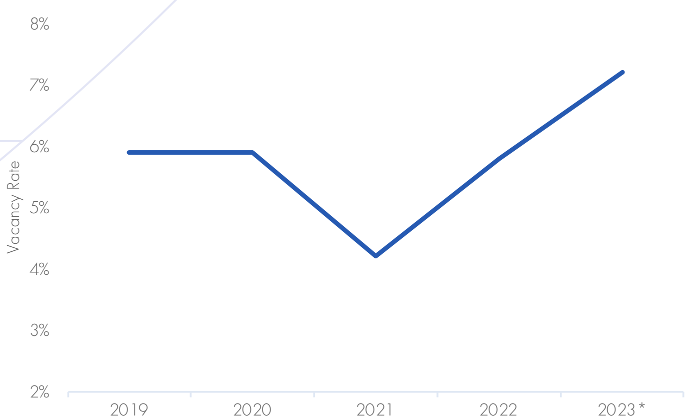

* Year End Forecast
Sources: Northmarq, CoStar

### CONSTRUCTION & PERMITTING FORECAST




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

### VACANCY FORECAST




* Year End Forecast
Sources: Northmarq, CoStar

Northmarq

**FOR MORE INFORMATION,**
PLEASE CONTACT:

**JEFF GLENN**
*Managing Director–Investment Sales*
919.322.4769
jglenn@northmarq.com

**ANDREA HOWARD**
*Regional Managing Director–Investment Sales*
704.595.4280
ahoward@northmarq.com

**ALLAN LYNCH**
*Managing Director–Investment Sales*
704.595.4277
alynch@northmarq.com

**JOHN CURRIN**
*Senior Vice President–Investment Sales*
704.595.4276
jcurrin@northmarq.com

**CAYLOR MARK**
*Senior Vice President–Investment Sales*
704.595.4278
cmark@northmarq.com

**DAVID VINSON**
*Managing Director–Debt & Equity*
919.322.4767
dvinson@northmarq.com

**TOM PELOQUIN**
*Managing Director–Debt & Equity*
203.801.8119
tpeloquin@northmarq.com

**PETE O'NEIL**
*Director of Research*
602.508.2212
poneil@northmarq.com

## ABOUT **NORTHMARQ**

Northmarq offers real estate investors access to experts in debt, equity, investment sales and loan servicing. We combine industry-leading capabilities with an open, flexible structure, allowing our team of seasoned professionals to do the best work on behalf of clients and lenders. Our solid foundation and innovative approach have led to substantial growth, with more than 1,000 employees, loan servicing volume approaching $80 billion, and $40+ billion in transaction volume.



**BUILT TO THRIVE**

**northmarq.com**