

Raleigh-Durham



Market Indicators

	YoY Change	
Occupancy	94.4%	▼
Absorption (TTM)	2,916 units	▼
Supply (TTM)	5,309 units	▲
Under Construction	8,106 units	▼
Effective Rate PSF	\$1.20	▼

The Triangle was recently ranked by *Forbes* and Moody's as one of the top 10 positioned U.S. cities to emerge from the Coronavirus and the resulting economic downturn.

Amid COVID-driven challenges, key apartment market indicators in the Triangle showed the beginnings of decline in 2Q20. While the Triangle is not immune to some of the related headwinds, overall, the apartment market's performance remains relatively stable, and the sector is well positioned for a recovery. The Triangle is expected to remain an enticing market for corporations and multifamily investors in the long term as companies look for low cost of living, less dense metros for relocations and expansions and the talent that will subsequently follow.

Rent Performance

Despite mounting unemployment claims over the last three months, market-rate apartment collections held steady in the Triangle market through the end of June. As of June 27th, payments had been received from 96.3% of renters. This figure is 0.9% higher than rent payments received in the same time frame in 2019; however, the upcoming expiration of federal

unemployment benefits at the close of July could result in a decline in future collections. As expected, rent growth slowed in the second quarter, dipping from 4.1% in 1Q20 to 0.3% in 2Q20. The average effective rental rate across all asset classes was reported at \$1.20 psf in 2Q20, down 1.7% from 1Q20. The average effective rent per unit was reported at \$1,165 in the second quarter.

Supply and Demand

The Triangle has more than 8,100 units currently under construction. More than 5,300 units delivered in the last 12 months, bumping inventory by 7%. While apartment demand typically peaks around the mid-year mark, trailing-12-month demand dipped to 2,906 units in the Triangle. Stay-at-home directives and job cuts at the beginning of 2Q20 had an impact on leasing activity, and turnover rates declined as economic uncertainty discouraged renters from moving. The unusually low rate of churn has helped owners and operators maintain occupancy and cash flows.

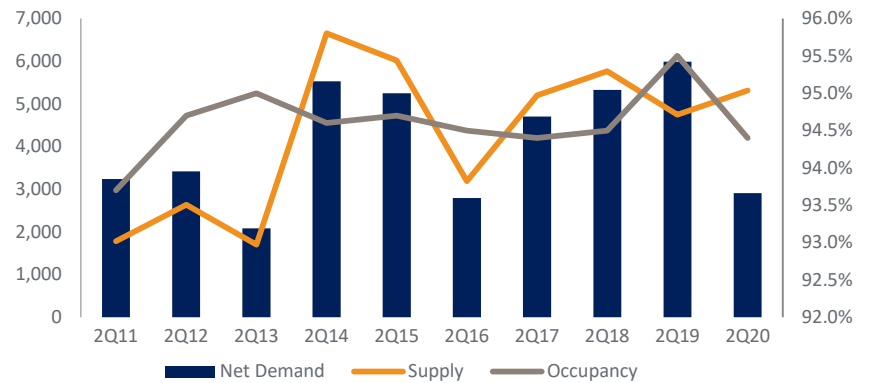
Market Highlights

- While occupancy dipped moderately in 2Q20, resident retention increased in the Triangle market. Lease renewal rates reached 57% in 2Q20, up 350 bps since 1Q20. The highest renewal rates were registered in Class C product at 70%, compared to 44% in Class A properties. While many tenants elected to renew their leases early in the quarter, many of them renewed for less than the full 12-month term, which could result in increased vacancy in late 2020.
- As the end of the enhanced unemployment benefits provided under the CARES Act approaches, bumps in missed rent payments are expected in the Triangle, particularly in Class C product, if assistance is not extended.

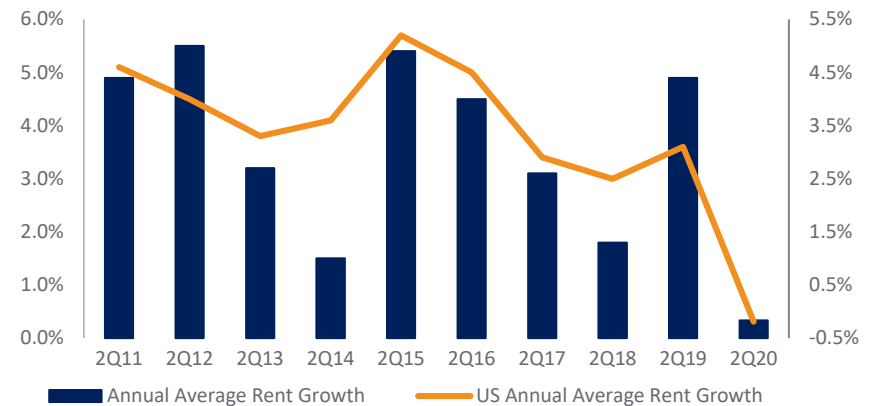
Capital Markets

- The Triangle experienced a decline in apartment sales activity in 2Q20 as volume dipped by 68% over 1Q20. While volume declined across all property types, the multifamily sector remains a top target for investment activity. Multifamily sales accounted for 54% of the Triangle's total capital markets activity in the second quarter. Apartment volume totaled \$218 million, bringing year-to-date volume to \$894 million.
- The average sales price per unit in the Triangle, and across the U.S., is still at an all-time high. The average price per door in the Triangle reached \$176,000 at the close of 2Q20. While multifamily remains a favored asset class, ongoing economic uncertainty, logistical challenges and a gap between buyer and seller expectations will weigh on transaction volume until the market sees some softening in pricing. The average cap rate was 5.0% in the second quarter, down 40 bps year-over-year.

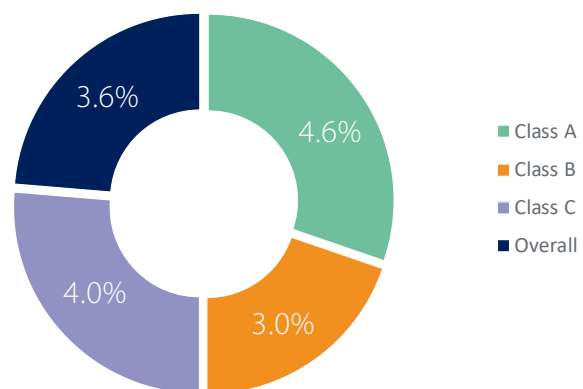
Supply and Demand (trailing 12 months)



Annual Average Rent Growth (all asset classes)



Concessions (Value as Percentage of Asking Rent)



Market By The Numbers

BY SUBMARKET	Existing Units	Occupancy	Net Demand (Units) (TTM)	New Supply (Units) (TTM)	Under Const.	Eff. Rent/Unit	Eff. Rent/PSF
Central Raleigh	25,229	94.4%	355	806	1,151	\$1,228	\$1.33
Chapel Hill/Carrboro	15,596	94.1%	60	483	1,229	\$1,186	\$1.26
East Durham	7,668	94.5%	112	260	279	\$1,055	\$1.10
Far North Raleigh	10,263	95.0%	-51	-	240	\$1,123	\$1.12
Near North Raleigh	16,750	94.6%	-147	203	979	\$1,166	\$1.27
North Cary/Morrisville	17,751	94.2%	-92	205	2,187	\$1,210	\$1.19
Northeast Raleigh	8,884	94.4%	174	230	442	\$1,098	\$1.13
Northwest Durham/Downtown	14,990	93.7%	421	440	662	\$1,279	\$1.47
Northwest Raleigh	9,912	95.0%	-119	-	-	\$1,143	\$1.14
South Cary/Apex	12,747	94.3%	1,224	1,532	869	\$1,166	\$1.14
Southeast Raleigh	12,321	94.5%	479	604	-	\$1,096	\$1.11
Southwest Durham	15,826	95.0%	500	546	68	\$1,097	\$1.13
Total Market	167,937	94.4%	2,916	5,309	8,106	\$1,165	\$1.20

Select Year-to-Date Sales

Property	Buyer	Total Units	Avg. Unit Size (sf)	Sale Price (\$M)	Avg. Price/Unit	Avg. Effective PSF
Sojourn Glenwood Place	Ascentris	296	1,029	\$83.8	\$283,155	\$1.50
Cumberland Cove	Related Companies	552	1,073	\$81.0	\$146,739	\$1.03
Weston Lakeside	Stoltz Real Estate Partners	332	1,107	\$67.8	\$204,066	\$1.16
Hawthorne Six Forks	Cedar Grove Capital	471	942	\$66.0	\$140,127	\$1.28
Brizo	Blackstone	261	1,064	\$56.2	\$215,172	\$1.15
Southpoint Crossing	Starlight Investments	288	934	\$51.5	\$178,819	\$1.19
Independence Park	Magma Equities	312	1,053	\$50.0	\$160,337	\$1.09
Hawthorne at the Trace	Knightvest Capital	250	950	\$42.0	\$168,000	\$1.12
Parc at University Tower	Knightvest Capital	186	950	\$38.0	\$204,301	\$1.30
University Apartments	Dominion Group	200	800	\$25.2	\$126,382	\$1.11

Trends to Watch

COVID-19's impacts on the Triangle multifamily sector are just beginning to materialize in quarterly statistics.



New Supply

With more than 8,000 units currently under construction (up 53% YoY), the Triangle market will test demand in the coming quarters.



Rent Collections

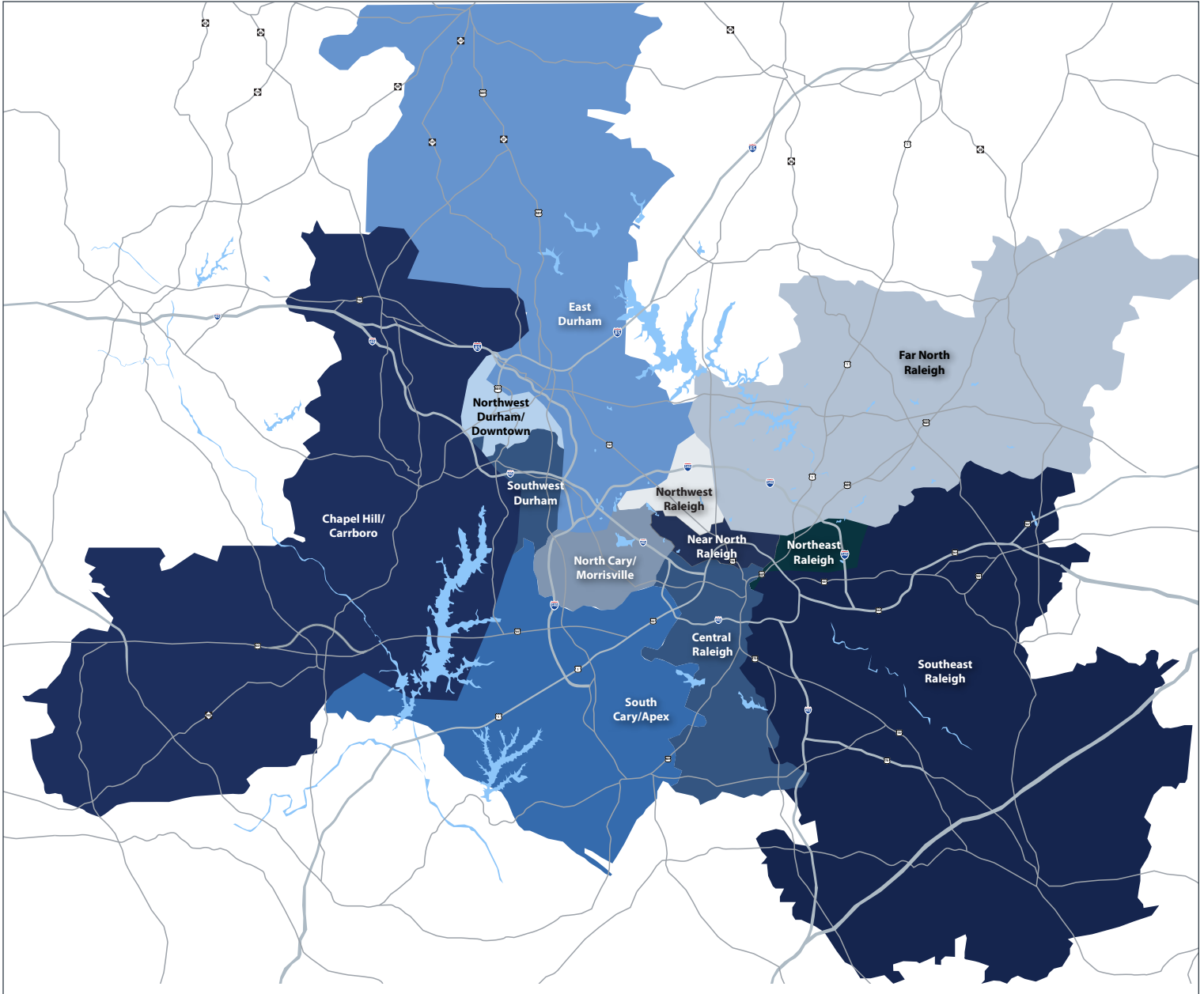
Rent collections continue to hold around 2019 levels, another encouraging sign for market performance in the near term.



Job Growth

The Triangle job market began to bounce back in June with the addition of 35,500 jobs, according to the Bureau of Labor Statistics.

Submarket Map



Raleigh-Durham Multifamily Team

Steven B. Peden
Principal, Capital Markets | Multifamily
919.719.8198
steven.peden@avisonyoung.com

Craig Cadwallader
Vice President, Capital Markets | Multifamily
919.420.1556
craig.cadwallader@avisonyoung.com

Kyle Gonzalez
Associate, Capital Markets | Multifamily
919.866.4273
kyle.gonzalez@avisonyoung.com

Elizabeth Gates
Principal, Senior VP of Research
919.420.1563
elizabeth.gates@avisonyoung.com

Emily Bostic
Research Analyst
919.866.4274
emily.bostic@avisonyoung.com

Wes Boatwright
Principal, Capital Markets Group | Debt & Equity
202.644.8559
wes.boatwright@avisonyoung.com



avisonyoung.com



© 2020 Avison Young - North Carolina, LLC

All rights reserved. E. & O.E.: The information contained herein was obtained from sources which we deem reliable and, while thought to be correct, is not guaranteed by Avison Young.