



## Multifamily Permitting & Construction Starts Begin to Slow During Q3 2017;

Despite Decreased Permitting, The Triangle Market Remains Strong

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### Key Takeaways

- > While both construction starts and permitting for Raleigh and Durham Chapel Hill markets have slowed, the overall multifamily market conditions are strong. The Triangle could see levels of demand and supply moderate, creating a more sustainable apartment market in the near future. After many consecutive quarters of market "highs", the Raleigh-Durham region can expect to see some moderation continue into year 2018, however, demand will certainly remain steady.
- > Nationally, total multifamily construction starts of 323,000 units were down 5.8% from July, and were 23.1% lower than August 2016. Annual multifamily starts averaged 382,000 units during the first six of the past 12 months – a 47,000-unit-per-month decline.
- > The twelve-month rolling permit totals in Wake County dropped to 3,102 at the end of September 2017, down by -935 units from the previous year's total. Wake County's multifamily permits as a percentage of total residential permits decreased to 28.1% at the end of the third quarter.
- > Twelve-month rolling permit totals in Durham County dropped to 1,170 at the end of September 2017. Durham County's multifamily permits as a percentage of total residential permits decreased to 38.6% at the end of the third quarter.
- > Average effective rents held steady with no significant change. Raleigh effective rents were reported at \$1,075 per unit per month, providing a 2.9% growth rate per year. The average effective rate per square foot was \$1.11 at the close of the third quarter. In the Durham-Chapel Hill market average effective rates per square foot held steady at \$1.12.
- > Annual effective rent growth is forecast to be 3.1% in years 2018-2021 in the Raleigh market. Annual effective rent growth is forecast to be 3.4% in 2018 in the Durham-Chapel Hill market.

Market Indicators Relative to prior period	Raleigh-Durham Q3 2016	Raleigh-Durham Q3 2017
VACANCY	↓	↓
TOTAL OCCUPANCY	↑	↑
CONSTRUCTION	↑	↑
RENTAL RATE	↑	↑
Summary Statistics		
Q3 2017	Raleigh Market	Durham- Chapel Hill Market
Total Inventory (Units)	66,850	29,351
Inventory Growth	3.7%	4.3%
Vacancy Rate	4.9%	6.2%
Total Occupancy Rate	95.1%	93.8%
YTD Total Absorption (Units)	3,401	1,389
Total Units Under Construction (As of October 2017)	1,863	2,017
Total Units UC/Lease-Up (As of October 2017)	1,545	1,151
Units Delivered (Q3 2017)	939	466
Effective Rents		
Per Unit Per Month		
Average Per Unit	\$1,075	\$1,070
Average Per SF	\$1.11	\$1.12
Annual Rent Growth	2.9%	2.7%

## Absorption & Leasing Activity

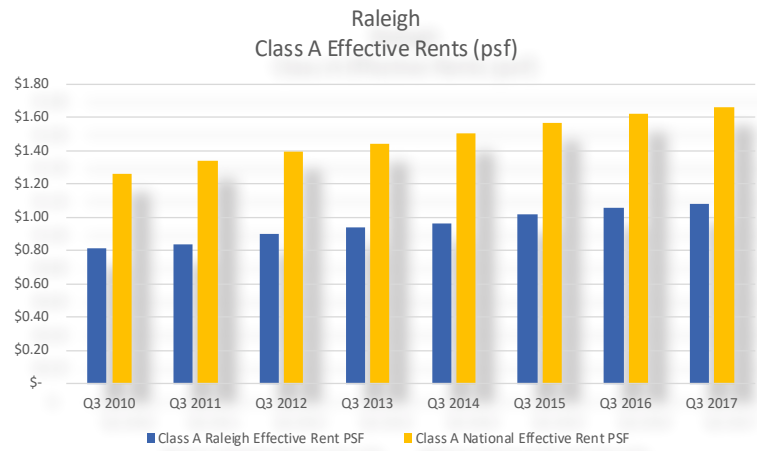
- > Overall occupancy rates in the Raleigh market were reported at 94.8% while the Durham-Chapel Hill overall occupancy rate dropped to 93.8% at the close of the third quarter. Occupancy percentages in the Raleigh market have remained above 92.0% since the first quarter of 2010.
- > The Class A asset class in Raleigh reported an occupancy rate of 96.3%, the highest of any class in both markets. The Durham Chapel Hill's Class A occupancy rate was reported at 93.2%. The occupancy percentage in the Class B and Class C asset class in Raleigh increased to 95.8% and 93.3% during the third quarter.
- > The Class C multifamily market reported the highest occupancy rate in the Durham Chapel Hill market at 94.9% at the end of the third quarter. Comparatively, the Durham Chapel Hill Class B sector reported an occupancy rate of 93.6% at the end of September 2017.
- > Year-to-date total absorption across both markets increased to 4,790 units, with 72% of total net demand occurring in the Raleigh market. Total number of units absorbed in the Durham Chapel Hill market reached 1,389 at the close of the third quarter.

## Vacancy & Availability

- > Overall vacancy in the Raleigh multifamily market dropped to 4.9%, a 0.3% decrease from the previous second quarter. Vacancy in the Durham Chapel Hill market increased to 6.2%.
- > The submarkets reporting the lowest vacancy rates in the Triangle region include Franklin County, Chatham County and South Durham. Franklin County's vacancy rate was the lowest of the quarter at 2.0%. This vacancy rate is a direct result of an unusually low inventory of units in comparison with other larger Triangle submarkets.
- > The West Durham submarket closed the third quarter with a 8.5% vacancy rate, the highest among the overall Triangle market. The Central Raleigh submarket had the second highest vacancy rate of the quarter at 6.3%.

## Rental Rates

- > The Central Raleigh submarket posted the highest effective rents per unit per month in the third quarter. Effective rents in this submarket were reported at \$1.52 per square foot and \$1,240 per unit.
- > Average Class A effective rents in Raleigh were \$1,191 per unit and were reported at \$1,235 per unit in the Durham Chapel Hill market. Concession values as a percentage of asking rents were higher in Durham Chapel Hill than in Raleigh.

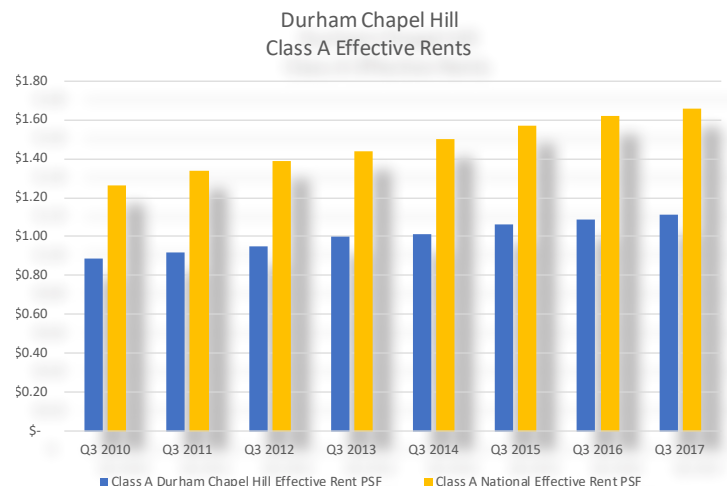


### RALEIGH MARKET: ASSET CLASS SUMMARY

	EFFECTIVE RENT PER UNIT	EFFECTIVE RENT PER SF	OCCUPANCY (%)
CLASS A	\$1,191	\$1.08	96.3%
CLASS B	\$994	\$1.03	95.8%
CLASS C	\$834	\$0.97	93.3%

### DURHAM CHAPEL HILL: ASSET CLASS SUMMARY

	EFFECTIVE RENT PER UNIT	EFFECTIVE RENT PER SF	OCCUPANCY (%)
CLASS A	\$1,235	\$1.11	93.2%
CLASS B	\$979	\$1.05	93.6%
CLASS C	\$851	\$1.02	94.9%



## SUBMARKET COMPARISONS | Q3 2017

	PROPERTY COUNT	EXISTING INVENTORY (UNITS)	AVG. PER UNIT SIZE (SF)	ASKING RENT PER UNIT (\$)	EFFECTIVE RENT PER UNIT (\$)	EFFECTIVE RENT GROWTH (%)	CURRENT OCCUPANCY (%)	CONCESSION VALUE (% OF ASKING RENT)
<b>RALEIGH MARKET</b>								
Cary	63	16,609	1,004	\$1,108	\$1,102	0.06%	95.5%	-0.46%
Central Raleigh	27	5,987	852	\$1,250	\$1,240	0.31%	93.7%	-0.80%
Franklin County	1	75	1,063	\$1,034	\$1,034	4.58%	98.0%	0.00%
Garner	10	2,090	978	\$983	\$982	1.92%	96.4%	-0.16%
Hillsborough	31	8,216	976	\$1,082	\$1,078	2.08%	95.6%	-0.36%
Johnston County	4	778	1,068	\$1,059	\$1,059	0.30%	96.7%	0.0%
North Central Raleigh	43	10,493	946	\$1,035	\$1,031	0.01%	94.5%	-0.39%
Northeast Raleigh	31	6,729	966	\$997	\$993	-0.84%	94.4%	-0.44%
Northwest Raleigh	54	15,645	987	\$1,063	\$1,060	1.23%	95.5%	-0.27%
Market Total	264	66,850	970	\$1,079	\$1,075	0.56%	95.1%	-0.41%
<b>DURHAM-CHAPEL HILL MARKET</b>								
Carrboro	15	3,094	924	\$1,036	\$1,019	1.07%	92.4	-1.59%
Chapel Hill	15	2,750	986	\$1,101	\$1,079	-2.10%	92.8	-2.05%
Chatham County	1	242	1,046	\$1,256	\$1,256	13.81%	95.6	0.0%
North Durham	15	2,882	939	\$926	\$922	2.41%	94.3	-0.46%
Orange County/Other	4	741	1,046	\$922	\$897	0.78%	93.4	-2.74%
South Durham	59	14,631	973	\$1,052	\$1,046	0.22%	94.9	-0.52%
West Durham	23	5,011	894	\$1,274	\$1,270	2.17%	91.5	-0.30%
Market Total	132	29,351	955	\$1,079	\$1,070	0.78%	93.8%	-0.77%

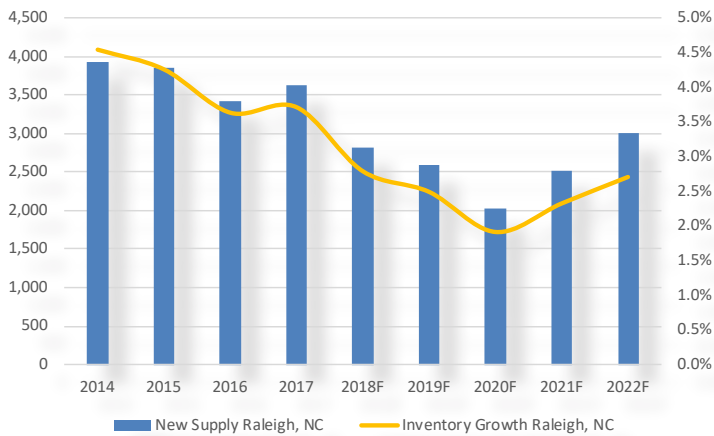
## NOTABLE SALES TRANSACTIONS | Q3 2017

	PROPERTY SUBMARKET	PROPERTY TYPE	SALES PRICE (MIL.)	TOTAL UNITS	PRICE PER UNIT (\$)	EFFECTIVE RENT PER UNIT (\$)	CURRENT OCCUPANCY (%)	CAP RATE (%)
<b>RALEIGH MARKET</b>								
Park and Market	N Central Raleigh	Mid-High	\$88.0	409	\$215,159	\$1,383	91.0	NA
Cary Greens at Preston	Cary	Mid-High	\$52.5	292	\$179,795	\$1,153	97.2	4.8
Crest at Briar Creek	NW Raleigh	Mid-High	\$47.9	291	\$164,605	\$1,136	96.0	NA
Bells Falls River	N Central Raleigh	Garden	\$45.7	284	\$160,915	\$1,100	94.4	4.9
The Devon	Central Raleigh	Mid-High	\$37.7	180	\$209,250	\$1,446	92.3	NA
Edwards Mill	NW Raleigh	Garden	\$34.5	220	\$156,818	\$1,201	92.0	NA
Olde Raleigh	NW Raleigh	Garden	\$33.5	228	\$146,930	\$1,098	94.3	5.2
Towne Station	Cary	Garden	\$27.9	196	\$109,412	\$1,129	93.9	NA
Hawthorne Glen	NW Raleigh	Garden	\$22.6	156	\$144,551	\$1,084	95.5	NA
<b>DURHAM-CHAPEL HILL MARKET</b>								
Autumn Woods	Orange County	Garden	\$36.5	236	\$154,661	\$1,056	94.0	5.2
Mission Triangle Point	South Durham	Garden	\$23.2	224	\$103,571	\$916	96.0	5.2
Bainbridge in the Park	South Durham	Garden	\$22.0	216	\$101,852	\$962	97.2	NA
180 West Apartments	Carrboro	Garden	\$23.6	250	\$94,400	\$893	84.8	NA

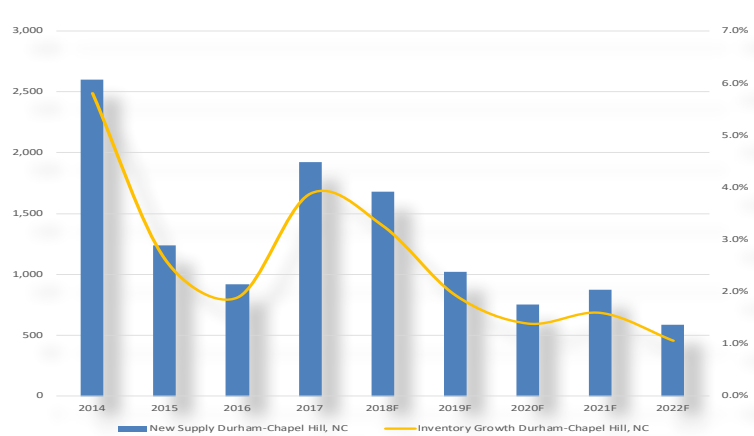
# Construction & Investment Activity

- > Year-to-date, the total number of units scheduled to deliver in the Raleigh market reached 3,617 and 1,951 units in the Durham Chapel Hill market. Total units delivered by quarter reached 939 in the Raleigh market and 466 units in the Durham Chapel Hill market. In the Durham Chapel Hill market, of the properties that have delivered within the last twelve months, effective rents have averaged \$1,383 or \$1.53 per square foot. Properties that have delivered in the Raleigh market within the last twelve months have reached effective rents of \$1,397 or \$1.46 per square foot.
- > The Cary submarket led the region in development activity for the third consecutive quarter. There are 1,069 units in the pipeline scheduled to deliver in this submarket. Not far behind was South Durham where there are 1,043 total units in the pipeline delivery schedule.
- > The apartment sector in the Raleigh-Durham region remains the most attractive property type among investors, with sales volume exceeding \$530M in the third quarter. Prior twelve-month sales through the end of mid-year 2017 topped \$1.7B with an average price per unit of \$136,083. The most notable transaction of the quarter was the sale of the Park and Market, a 409 unit mid-highrise development in the North Hills submarket. The Raleigh property sold for \$88.0 million and \$215,159 per unit. Other notable multifamily sales include the Cary Greens at Presont in Cary. The asset sold for \$52.5 million and \$179,795 per unit at a 4.8% cap rate.

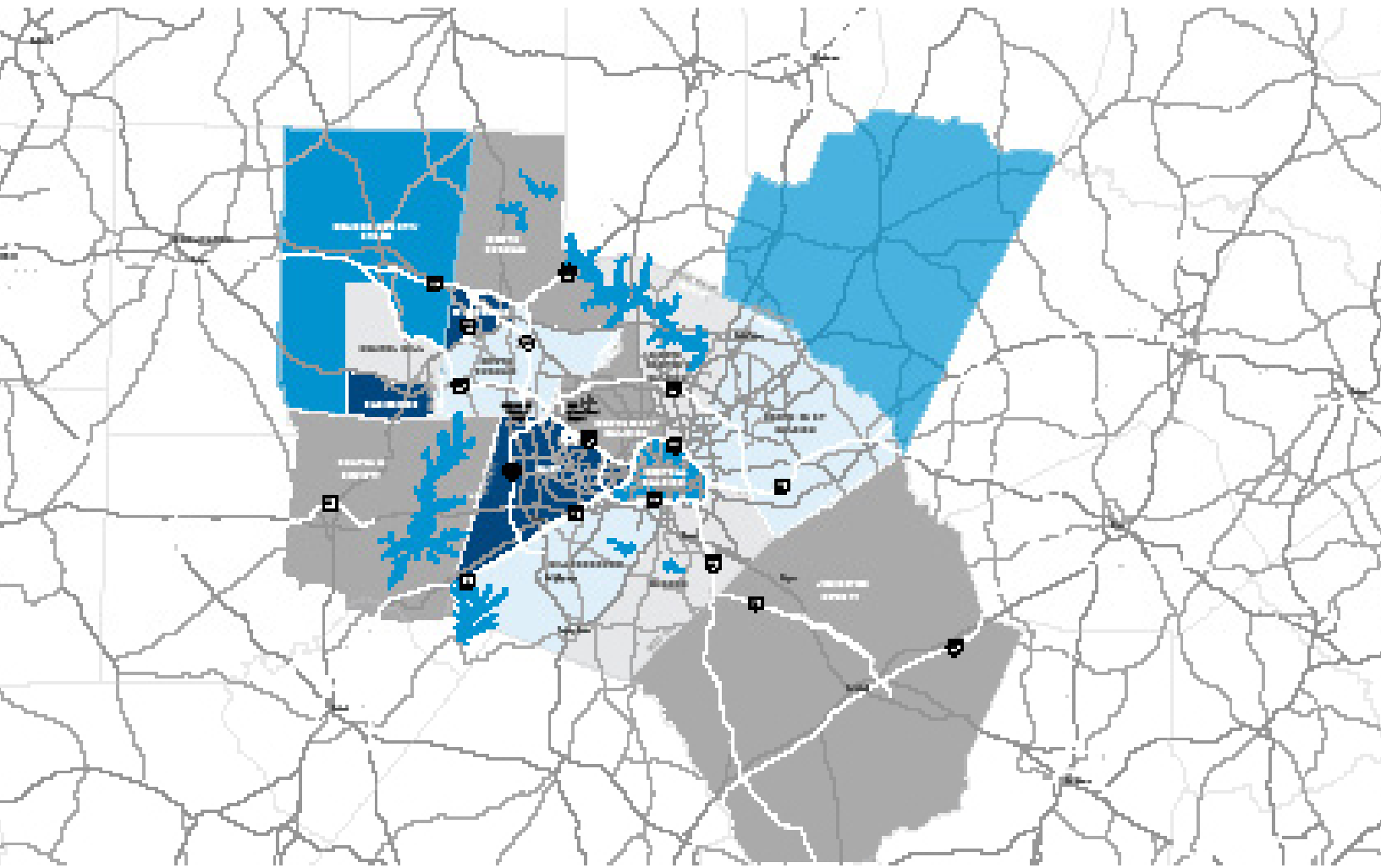
MF Supply and Inventory Growth: RALEIGH



MF Supply and Inventory Growth: DURHAM CHAPEL HILL



# TRIANGLE SUBMARKET MAP



## SOURCES/METHODOLOGY

### METHODOLOGY

The Raleigh-Durham Multifamily reports calculate apartment statistics using AXIometrics database of existing and under construction properties at market and submarket levels. Included in our pool of data are Class A, B, and C apartment properties with all unit mixes (studio-4 bedrooms) containing 25+ units that report “market rents” only. (it does not include affordable rent types or market/affordable rent types).

### ASKING RENTS

Asking rents are the monthly costs of occupancy for a particular space quoted on a per unit basis. The asking rent for each unit excludes any concessions or rent specials.

### EFFECTIVE RENTS

Effective rent is the asking rent adjusted downward for concessions or rent specials.

### VACANCY

Vacancy is reported as space that is not currently physically occupied by a tenant. Available units do not include employee units and model apartments. Vacancy percentage is a measurement conveyed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory. Under construction space generally is not included in vacancy calculations.

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# 396 offices in 68 countries

United States: 153

Canada: 29

Latin America: 24

Asia: 36

EMEA: 111

ANZ: 43

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## \$105

billion in  
annual revenue

## 2.0

billion square feet  
under management

## 15,000

professionals  
and staff

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