

Multifamily Metro Outlook:

Raleigh - Q4 2023

Overview:

- It appears that the overall tech-slowdown, specifically in the Raleigh metro was short-lived as growth continues to expand at an above-average pace. During the period ending Q4 2023 the local job market expanded by 2.3% compared to 1.8% nationally.
- The current economic environment, is continuing to have an impact on apartment fundamentals. During the period ending Q4 2023 vacancies continued to soften and were at 8.5%. Furthermore, rent growth continues to also move in the wrong direction as it contracted to -2.5%. Even with vacancies continuing to rise, there is still significant supply underway, approximately 21,000 units scheduled to deliver by the end of 2025. However, the strong demographic profile in the metro should help absorb the incoming glut of supply.

Market Strengths:

- The recovery in Raleigh has been rapid. Employment in the metro is 12% above February 2020 levels and job growth in Raleigh surpassed most southern markets. Significant expansion occurred in office-using sectors, as Financial and Professional/Business Services account for 20% of the metro's workforce.
- The metro has a demographic profile that has aided in the rather quick recovery and fast expansion of the local job market. Population growth in the metro is approximately 1.9% over the next 5-year forecast compared to 0.4% nationally. Furthermore, the prime renting cohort (ages 20-34) also has an above average concentration in the metro at 1.5% compared to -0.4% nationally.
- The tech renaissance of Raleigh has turned out to be fruitful for the market, despite the recent slowdown the sector experienced. High tech now accounts for approximately 10% of the local jobs in the Raleigh region. Furthermore, the most recent CHIPS Act that was passed will be a boon to both the local tech and manufacturing sectors as semiconductor development is prevalent in the metro.

Market Weaknesses:

- Since the metro has emerged as a tech-centric metro there is some potential concern that arises with tech industry dependence for economic growth and sustainability. The tech sector remains extremely volatile and is susceptible to economic disruptions (like the most recent one in 2022 and into 2023). Even though recovery in the sector has performed above average according to Moody's Analytics, job growth has slowed from its torrid pace to slightly above-average. Furthermore, tech unicorns who grew rapidly (like Pendo, a product experience company) have been forced to trim employees as they have been impacted by the slowdown in the sector.

Development:

- Oversupply has always been a potential issue for the metro. As of Q4 2023, there are approximately 21,000 units underway and an additional 81,000 in the planning stages.

Outlook:

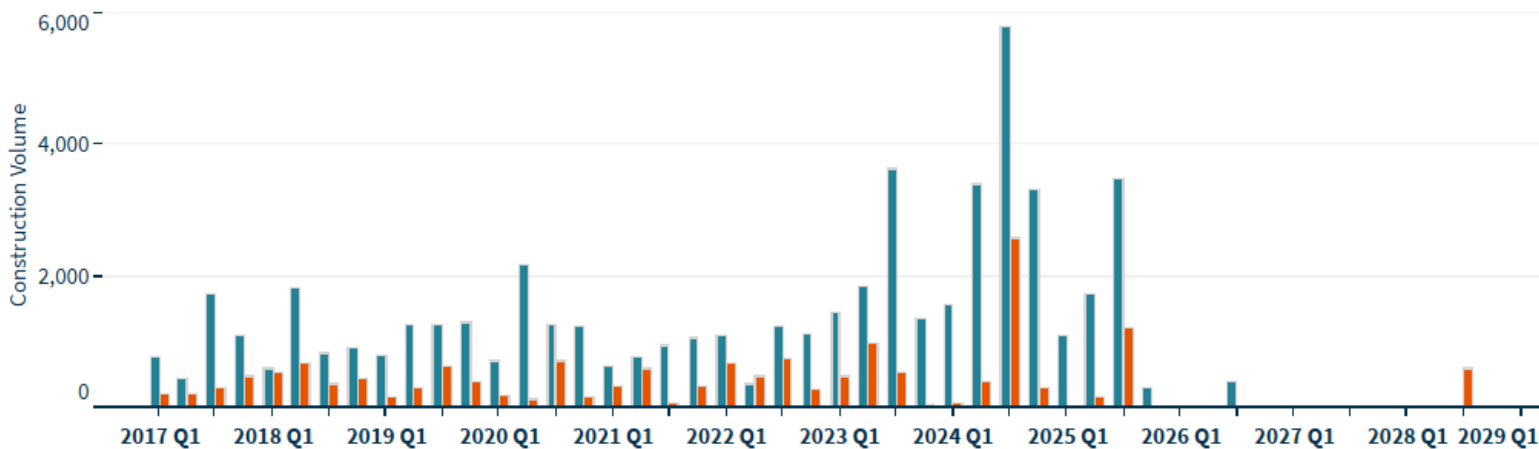
- Raleigh's apartment fundamentals continue to soften as a result of the current economic environment coupled with large amounts of supply that have been both delivered and added to the pipeline. However, Raleigh has the necessary demographic profile to absorb the supply. In the near term, Raleigh's affordability will continue to attract remote workers to the metro. Additionally, high per capita income and investment from diverse industries into its strong talent pool in the metro lures working-age individuals.
- Despite experiencing an economic slowdown in the tech sector, the Raleigh metro boasts a local economy that is rather diverse. Raleigh will continue to attract talent as a result of the above-average presence of its high-tech sector and low business costs, however due to the volatility of the high-tech sector Raleigh will remain susceptible to employment shocks.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

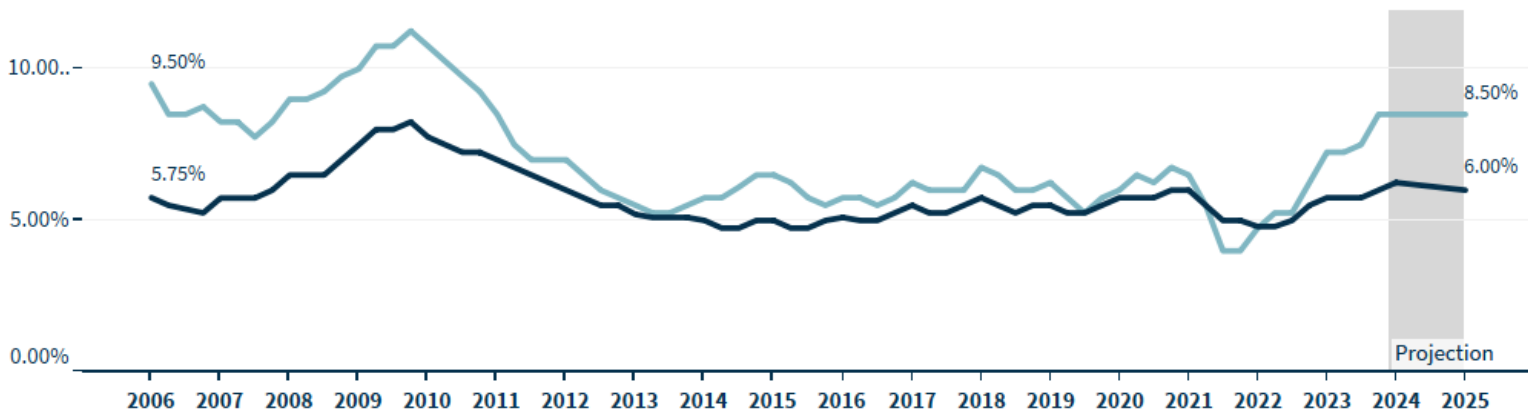
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Raleigh | National

Q4 2023 Vacancy Rate:

8.50%



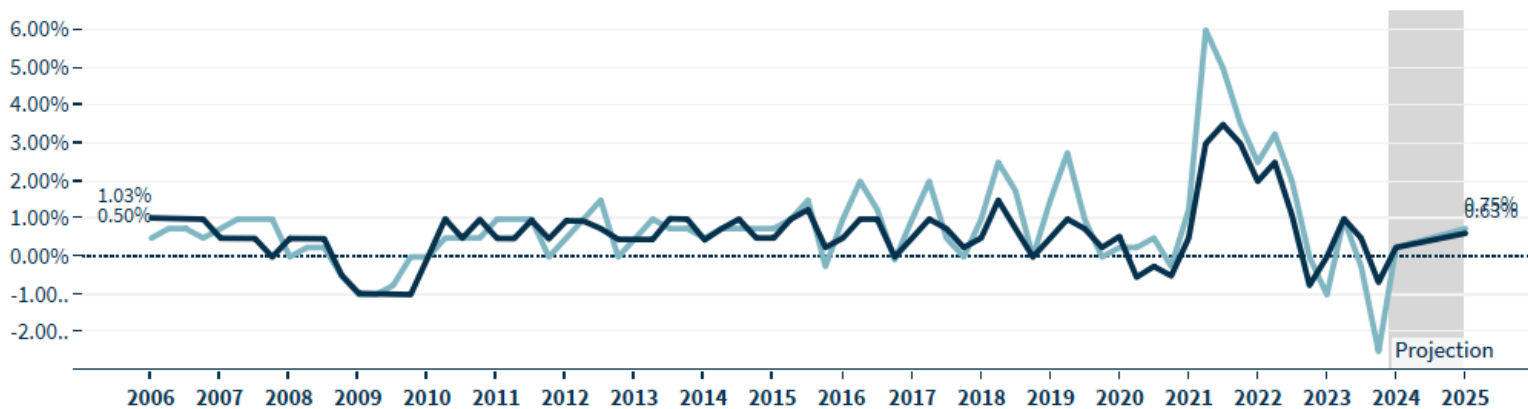
Projection

Asking Rent Growth

Raleigh | National

Q4 2023 Asking Rent:

\$1,500

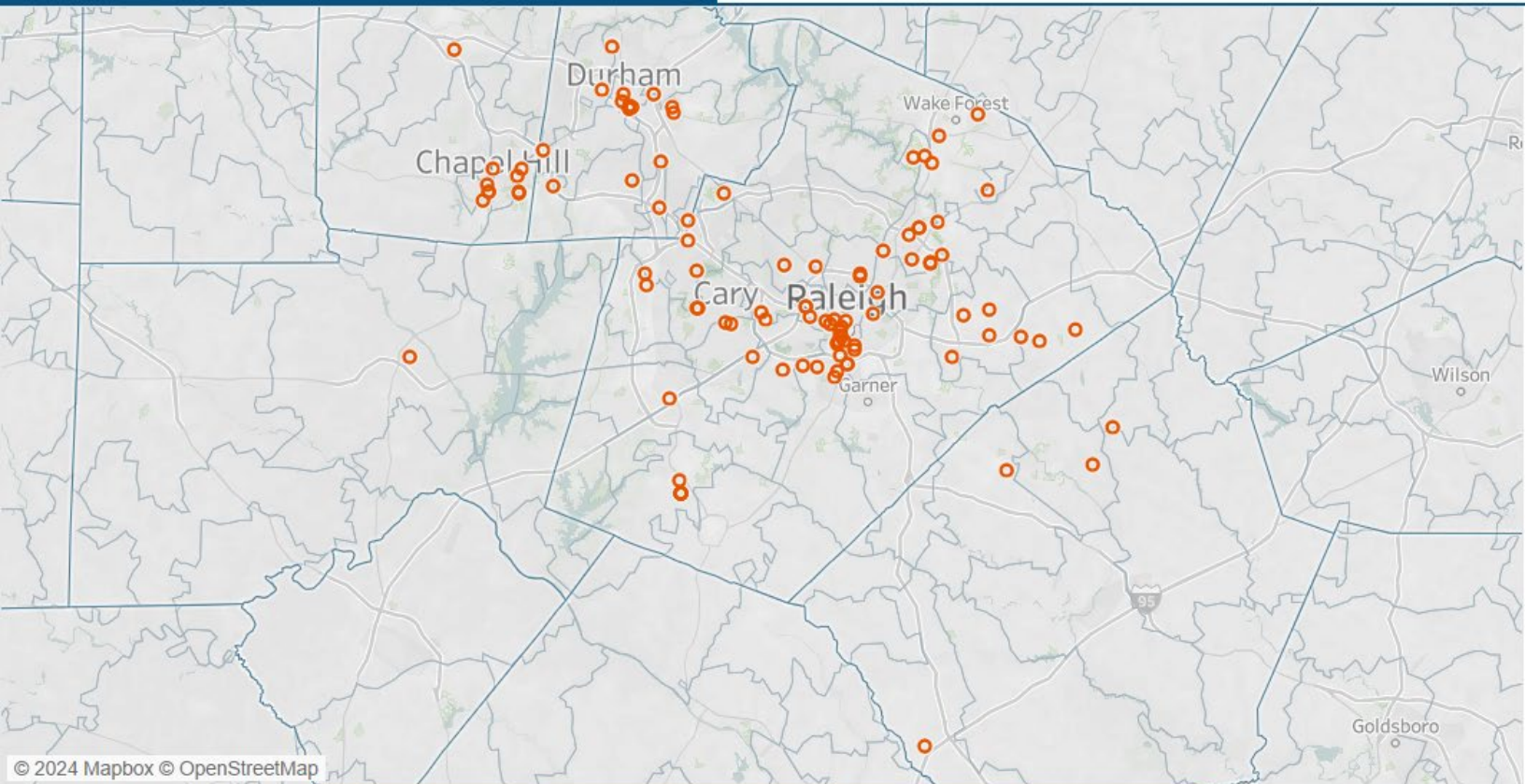


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



MultiHousingSubmarketName	Apartments	Units
Central Raleigh	25	6,111
Chapel Hill/Carrboro	12	2,579
East Durham	6	1,234
Far North Raleigh	6	804
Near North Raleigh	4	1,022
North Cary/Morrisville	7	1,839
Northeast Raleigh	11	1,449
Northwest Durham/Downtown	7	1,759
Northwest Raleigh	1	223
South Cary/Apex	11	1,338
Southeast Raleigh	15	1,991
Southwest Durham	2	635
Grand Total	107	20,984

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- Moody's CRE/REIS
- CoStar
- Real Capital Analytics
- RealPage
- Greenstreet
- Dodge Data and Analytics SupplyTrack Pipeline
- CBRE-Econometric Advisors
- Yardi

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