

# Multifamily Metro Outlook:

## Raleigh - Q1 2021

### Overview:

- The Raleigh economy has started its recovery from the virus and has picked up right where 2019 left off. As of Q1 2021 local job growth was nearly double the national rate at 4.4 percent compared to 2.6 nationally. The high-tech industry which has a local concentration of 10 percent, which is approximately double the national rate, is the local economic crutch and has been minimally impacted by the onset of the virus as much of the industry was already working remotely.
- The virus has had a minimal impact on the metro's apartment sector. As of Q1 2021 vacancies were approximately 6.5 percent and rent growth has soared to 1.25 percent, more than double the national rate during the same period.

### Market Strengths:

- The three major universities located in the metro, University of North Carolina, N.C. State, and Duke, all support Raleigh-Durham's favorable demographic profile for rental demand. In addition, according to Moody's Analytics, Raleigh-Durham's prime renting cohort population is forecast to grow by 1.9 percent on average annually, significantly more than the national average growth rate (which is expected to contract) over the next five years.
- According to Reis Inc., Raleigh's risk exposure to the impact of COVID-19 is "low." The low ranking can be attributed to the metro's high industrial diversity rating (0.73) and the amount of high-tech industry exposure that is prevalent in the area. Raleigh's local tech sector continues to expand as tech employer Bandwidth announced a \$100 million headquarters expansion that will bring 1,200 new jobs to the metro according to CoStar.
- The tech renaissance of Raleigh has turned out to be fruitful for the market. According to Moody's Analytics, high tech now accounts for approximately 10 percent of the local jobs in the Raleigh region. With 3 of the top 10 employers, Cisco, SAS Institute and IBM being tech companies, the number of tech jobs in the region will continue to expand.
- The cost of doing business in Raleigh-Durham is 12 percent below the national average, according to Moody's Analytics. In comparison to Silicon Valley, Raleigh-Durham and the state of North Carolina boast tax rates that are more than two-thirds lower and labor costs that are one-third lower than their California counterpart.

### Market Weaknesses:

- The metro which also serves as an educational hub due to the presence of three prominent universities (Duke, North Carolina State and University of North Carolina) is facing a period of flux due to the virus. The Fall 2020 semester was hindered by the virus even with mitigation factors put in place. However, the University of North Carolina school system and Duke are expected to open the Fall 2021 semester with full in-person learning. Duke University will be requiring that both students and faculty are vaccinated whereas the University of North Carolina school system does not have a vaccine mandate in place currently.
- Oversupply has always been a worry for the local Raleigh metro. As of Q1 2021, there are approximately 5,500 units underway and nearly 33,000 units in the planning stages.
- Despite the ongoing success of the local tech scene there are a few things that could present some issues for the sector. As a result of COVID-19, there has been a nationwide restriction on H-1B visas which limits tech firm's ability to acquire top talent. Furthermore, the virus has also lowered foreign enrollment at local universities which also limits the talent (potential) pool for employers.

### Development:

- Since the beginning of 2006, Raleigh-Durham has had approximately 14,000 condo/townhome units completed and 1,800 are underway. Condos do not pose a significant threat to the rental market here.
- Additions to new supply appear to have slowed considerably since 2014 when almost 9,000 units were delivered in a single year. Since 2016, approximately 23,000 units have been completed. An additional 5,500 units are currently underway for delivery through the first half of 2022.

### Outlook:

- **Multifamily Outlook - Steady:** The arrival of the virus in the Raleigh metro could turn out to be beneficial for the apartment market. Despite having the demographic profile necessary for absorption of increased supply, the rate of completions has continued to slow into 2021. The precautions taken as a result of the onset of the virus should give the local apartment market time to settle. Furthermore, the apartment market has been minimally impacted by the arrival of the virus. Vacancies have hovered just above 6 percent and rent growth has fully rebounded to pre-pandemic levels.
- **Economic Outlook - Less Stable:** The metro does not have a high dependency on the employment sectors most impacted by COVID-19 (Leisure/Hospitality and Retail), which should continue to mitigate the local employment impacts. 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.

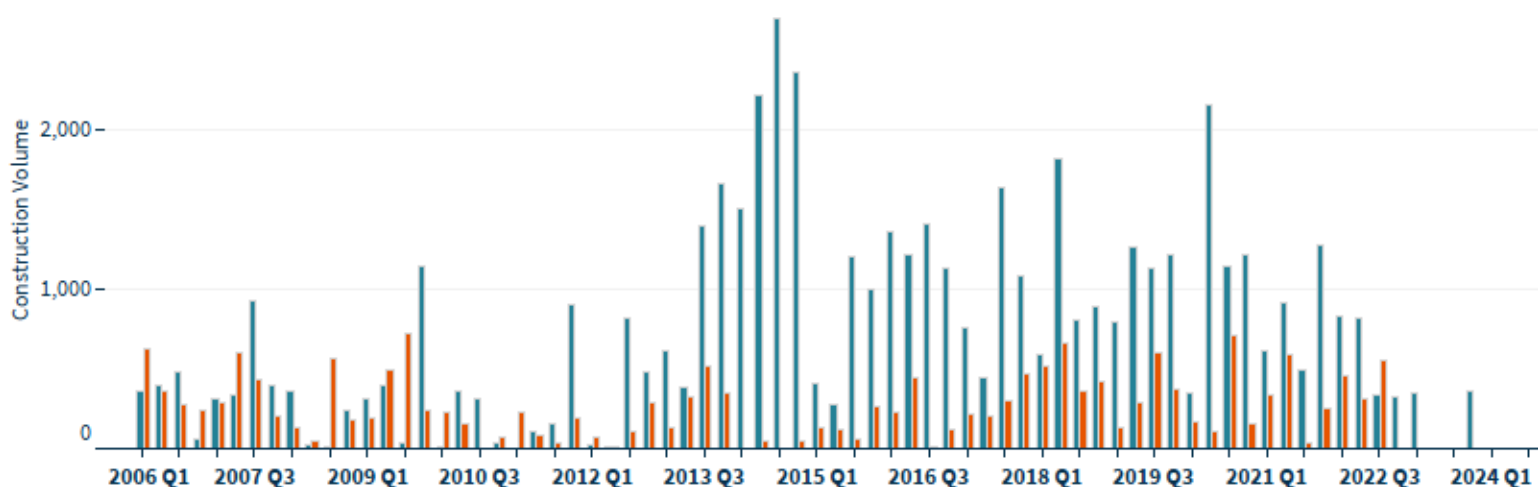
## Five Year Metro Area Growth Forecast

	Q4 2020	Q4 2025	Raleigh (5-Year Annual Average Change)	National (5-Year Annual Average Change)
<b>Population (000s)</b>	1,432	1,570	1.85%	0.52%
<b>Households (000s)</b>	535	623	3.09%	1.41%
<b>Renting Cohort (Ages 20-34) (000s)</b>	299	328	1.88%	-0.26%
<b>Total Employment (000s)</b>	620	698	2.38%	1.71%
<b>Median Household Income</b>	\$82,857	\$90,249	1.72%	2.83%
<b>Median SF Home Price</b>	\$347,716	\$382,736	1.94%	4.30%
<b>Net Migration (Annualized)</b>	14,810	20,363		

## SupplyTrack Pipeline

### Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



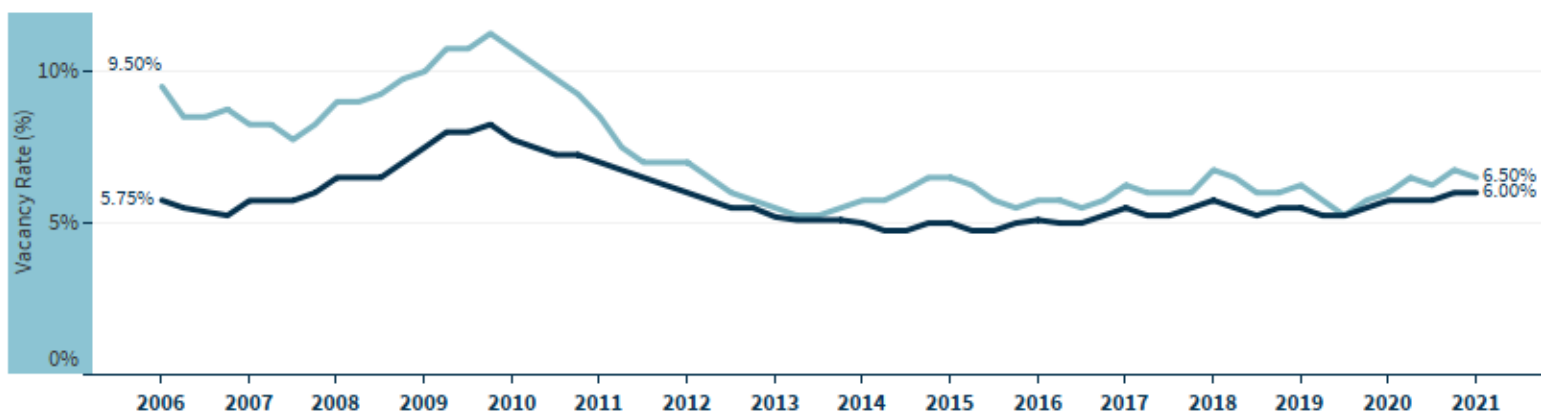
## Vacancy & Rent Composite Estimates

### Vacancy Rates

Raleigh | National

Q1 2021 Vacancy Rate:

6.50%

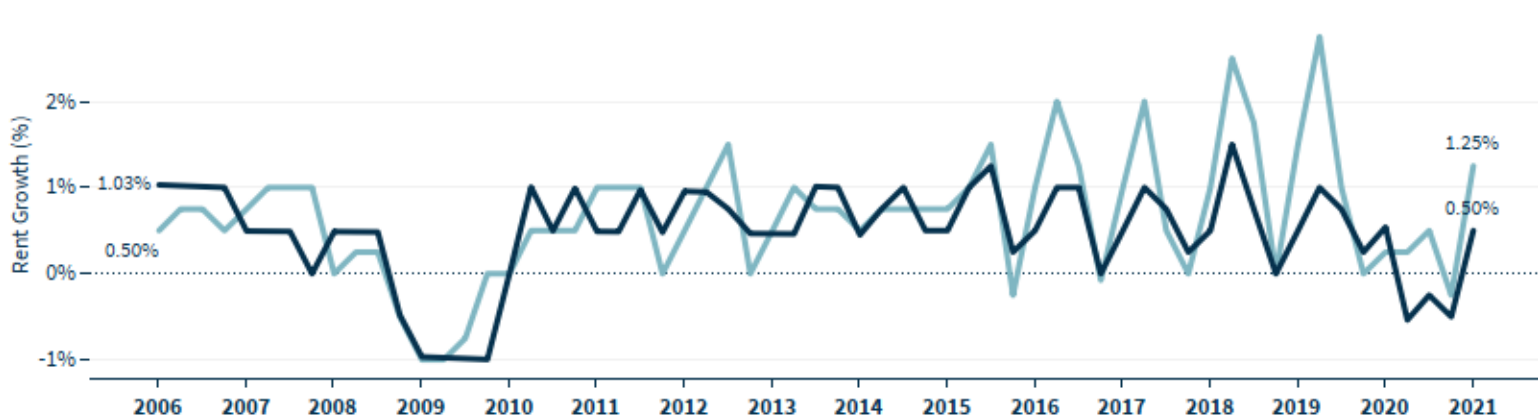


### Asking Rent Growth

Raleigh | National

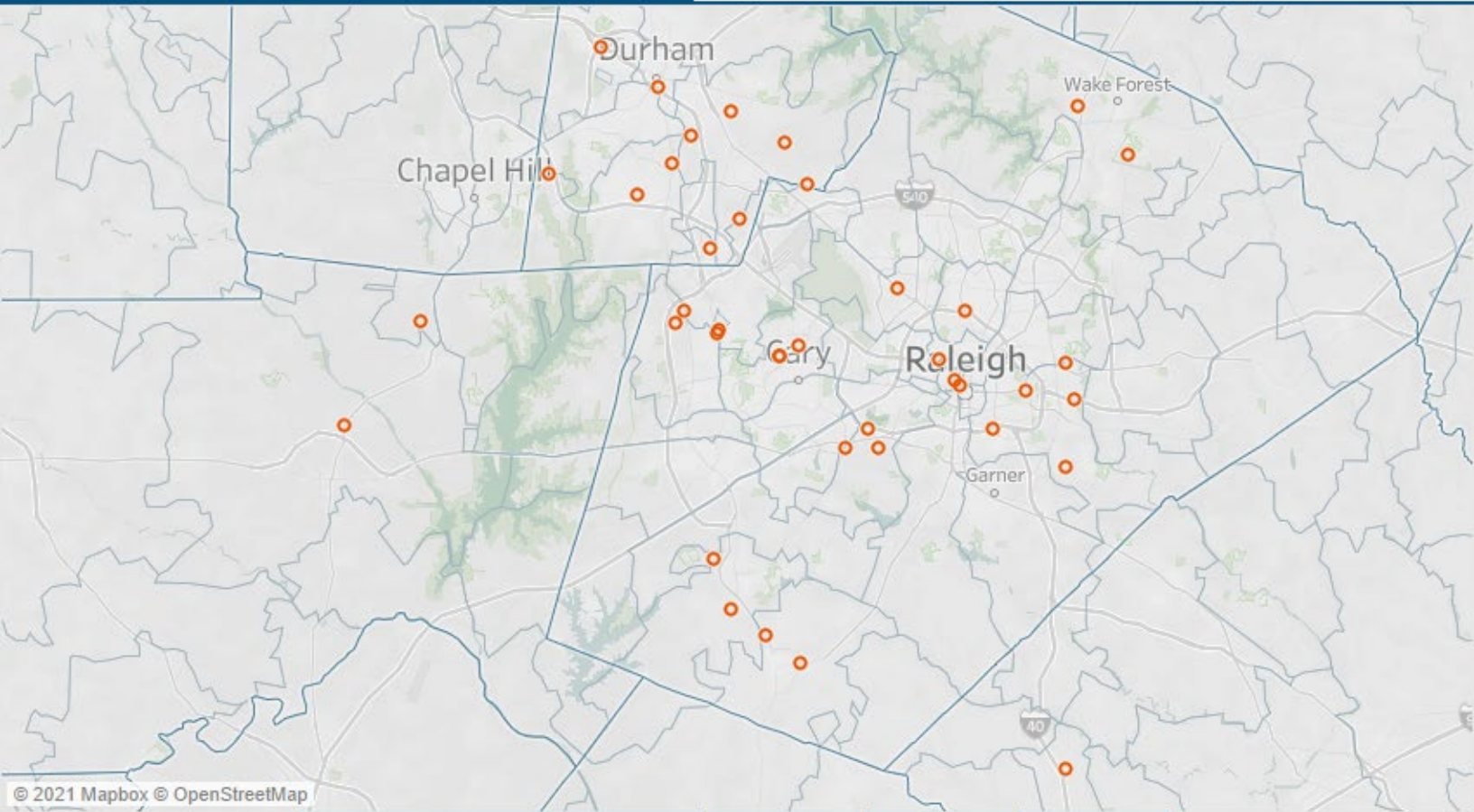
Q1 2021 Asking Rent:

\$1,200



Source: Multifamily Economics and Research

## Construction: Bidding & Underway



<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Central Raleigh	6	676	1.04M
Chapel Hill/Carrboro	2	500	0.82M
East Durham	9		
Far North Raleigh	2	332	0.41M
Near North Raleigh	2	624	0.81M
North Cary/Morrisville	9	743	0.71M
Northeast Raleigh	1	392	0.39M
Northwest Durham/Downtown	2	356	0.46M
South Cary/Apex	4	1,144	1.12M
Southeast Raleigh	5	646	0.70M
Southwest Durham	7	36	0.08M
<b>Grand Total</b>	<b>49</b>	<b>5,449</b>	<b>6.54M</b>

## Multifamily: ESR Team

*We welcome your feedback! Please give us a call or send an email with any comments, suggestions, or insight you may have or information you'd like covered in future editions.*

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## Multifamily Economics and Market Research Team

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### Sources Used

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

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