



Smart Growth Collaborative Meeting Focus: Development Trends

Meeting Notes

Thursday, March 14, 2019
Triangle J Council of Governments

1. Single Family Residential Market Overview - Amanda Hoyle, Metrostudy

Notes briefly capture what was said in the presentation and the discussion – look at presentations for more details.

State of the Market:

- Existing home sales are down nationally in 2018. Good news right now is that the total inventory was up in January – but still only about 2.4 months of supply. Historical equilibrium is about 6 months of supply. Do not anticipate much change in 2019. Triangle is not alone... other markets are much tighter than we are, creates a challenge for both buyers and sellers.
- Triangle job growth is higher than the national averages. Many high paying jobs are coming to our region over the next two or three years.
- Many folks are staying in their homes longer. Our housing stock is older. New buyers are trending toward purchasing older homes and remodeling them.
- New and existing home sale unit slow growth in 2018.
 - Only 25% of the home sales were new home sales... resale is about 70% of the sales. Distressed/foreclosure sales remain very low.
- New home construction – mostly multifamily right now
- Triangle apartment index shows that we will need about 4,000 units a year of multifamily housing to meet the demand of the market. The apartments that are being built are being absorbed quickly.
- Annual starts and closings by market shows that Raleigh ranks #11 among Metrostudy survey markets.. just above Charlotte.
- Triangle shows that there is increasing demand in townhomes. Townhomes make up about 22% of new starts. Rising construction costs makes townhomes a lot more feasible than single-family detached homes.

Top Builders in 2018

- There is a very tight market for builders. Top 25 builders only have a total of 66% of market share.
- Builders biggest challenges include:
 - High appreciation in land prices, labor shortages, inflating material costs, regulatory constraints: development review process is very burdensome

New Home Inventory

- New home inventory is currently about 7 months of supply. Equilibrium is about 7-8 months so we are right at where we need to be.
- Increased rainfall has caused decreased closings, starts, and lot deliveries.

- This did help keep is in check with the amount of vacant developed lots. We have about 18.5 months of supply... equilibrium is about 20 months of supply. We have been just barely able to keep up with the demand of builders.
- 2019 is forecasted for slower, but steady growth in 2019 and beyond. 4-6% growth in annual starts and closings. Particularly in price points less than \$350,000.
 - After 2019 thinking that the market will slow a bit more.

Housing market trends: home prices

- Raleigh-Cary – average home price is up about 23% in the last 5 years for new sale. Regular resale is up about 22% .
- Average new home price is up by about 2.6%... year before it appreciated by 8.3%.

What does this mean for affordability?

- Historically, mortgage rates are still low. The fixed rate 30 year is about 4.41%. Not expecting it to jump too much too quickly. Though we know the low rate environment can only last so much longer.
- Affordability affects home buying power. About 43% of the population can afford a new home at the new home price.
- It is worse in Durham-Chapel hill than the overall Triangle market.
- For every 1% interest rate increase, it is about 12% reduction in price for the buyer.

Key takeaways from national housing market

- Housing market will be increasingly overvalued in 2019.
- Were in the “8th inning” of the cycle, with a mild to moderate price correct predicted beginning in years 2020/21.

Key takeaways locally

- We are at, or very close to, the peak of the market and are not forecasting any drops coming in the future.
- We may have prices that are very high and overpriced, we do not have the same kind of supply that we had before the crisis back in 2007.

2. Commercial Real Estate Trends - Jimmy Barnes, NAI Carolantic Realty

State of the Market Overview

- NC was #1 best state for business in 2018, Forbes
- Raleigh/Durham is Top Market for Real Estate Investors in 2019, PwC US. Investors are looking to the Triangle.
- Job growth is what is driving our economy right now. In 2018, we ended up with about 28,000 new jobs, 2019 around 24,000 new jobs as well.
- The Downtown Raleigh market – commercial vacancy is at an all-time low right now at 3%. Vacancy equilibrium is about 10-11%. Raleigh and other markets are very low right now. Also a lot of commercial under construction right now in suburban Raleigh. Vacancy is at 8% in that market. Same for Cary/Apex/Morrisville. RTP is up on buildings under construction, higher vacancy rate though 14% vacancy. It is lower than previously in earlier years. Downtown Durham has some activity, but a lot of space built last year. Right now vacancy is at 8%, which is higher than last couple of years.

- Every submarket reviewed has new office construction. Rental rates on average are about \$23.52/sqft. Raleigh/Durham has about 8% vacancy rate right now.

Forecast: Office/Industrial Market

- 2018 prediction: big construction year – strong absorption, but RTP office vacancy rises.
 - Actual: More than 3.1 million SF built and strong absorption. RTP office vacancy dropped 1%.
- 2019 Prediction: another strong year. Record low vacancy in the industrial market will rise by year-end. Five office submarkets will remain under 10% vacancy. They will be “landlord” markets. Downtown Raleigh record low office vacancy will remain in the 3% range with minimal new construction.

Forecast: Multifamily/Residential

- 2018 prediction: vacancy goes up, deliveries drop but continued good absorption.
 - Actual: right on here as vacancy goes up. Continued strong absorption.
- 2019 prediction: stable absorption, fewer new units proposed. Not as many as we have seen. Similar amounts of new units delivered because so many under construction. Rental rates remain strong, but minimal increases. No shortage of capital. Vacancy remains stable at 6%.

Investor Outlook for Income Property

- Investors face some challenges in 2019 with rising interest rates, higher construction costs, retailers downsizing, and office co-working concerns.
- Industrial market is most attractive segment with rising rental rates.
- Regional retail malls and power centers are the least popular product type.

3. Questions & Open Discussion

- Wendy Jacobs: Is affordability a concern for builders? Do you see builders working with localities that are interested in supporting affordable housing?
 - In order to do something like that, everyone has to be at the table to talk about it because unless the cost of land or other incentives are available, the builder won't be able to make it work.
- What does the market look like for the redevelopment of retail stores/strip malls?
 - Retail vacancies have increased for the last few years.
- Wendy Jacobs noticed that they would like to have a diversity of tax base.