

Invest:

Raleigh-Durham 2021

An in-depth review of the key issues facing the economy in the Triangle Region: Raleigh, Durham and Chapel Hill, featuring the exclusive insights of prominent leaders.



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WAKE COUNTY, North Carolina

We're home to Raleigh and Cary, which are consistently ranked among the best places to live and work in the country.

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- ▶ Our cost of doing business is low, and our quality of life is high.

Economy:

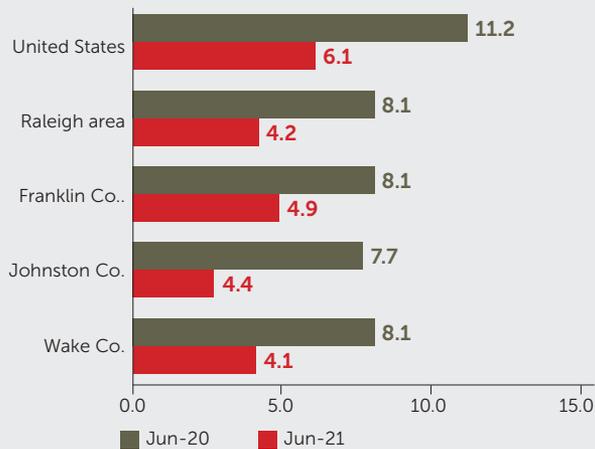
With a growing population, strong housing demand, investment from both national and international firms and a supportive government, the Triangle region of Raleigh, Durham and Chapel Hill is riding high. Already the second-fastest growing metropolitan area in the country, the Triangle is primed for an even stronger future.



Economy in numbers:

Raleigh, NC, area Economic Summary:

Unemployment rates for the nation and selected areas

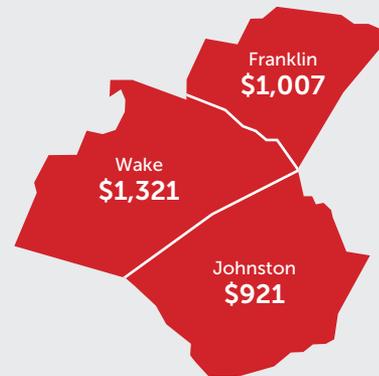


Source: U.S. BLS, Local Area Unemployment Statistics

Average weekly wages for all industries by county:

Raleigh area, 4Q20

(U.S. = \$1,339; Area = \$1,282)



Source: U.S. BLS, Quarterly Census of Employment and Wages

12-month percent changes in employment:



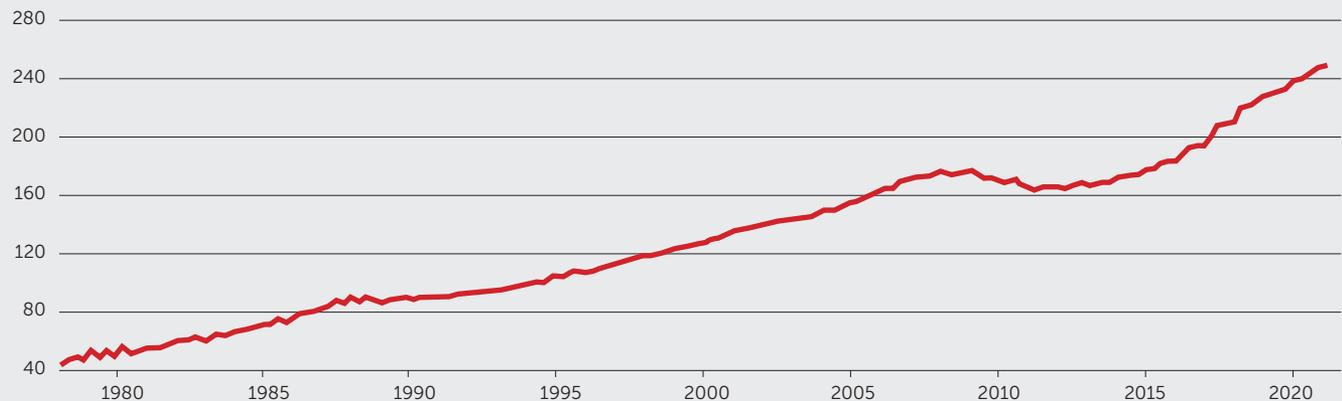
Source: U.S. BLS, Current Employment Statistics

Raleigh area employment:

Raleigh area employment (number in thousands)	Jun. 2021	Change from Jun. 2020 to Jun. 2021	
		Number	Percent
Total non farm	647.8	46.5	7.7
Mining, logging and construction	44.2	2.7	6.5
Manufacturing	31.1	0.6	2.0
Trade, transportation and utilities	122.1	12.0	10.9
Information	22.4	0.2	0.9
Financial services	33.9	0.4	1.2
Professional and business services	132.9	11.4	9.4
Education and health services	78.7	2.5	3.3
Leisure and hospitality	66.3	14.3	27.5
Other services	25.4	1.0	4.1
Government	90.8	1.4	1.6

Source: U.S. BLS, Current Employment Statistics

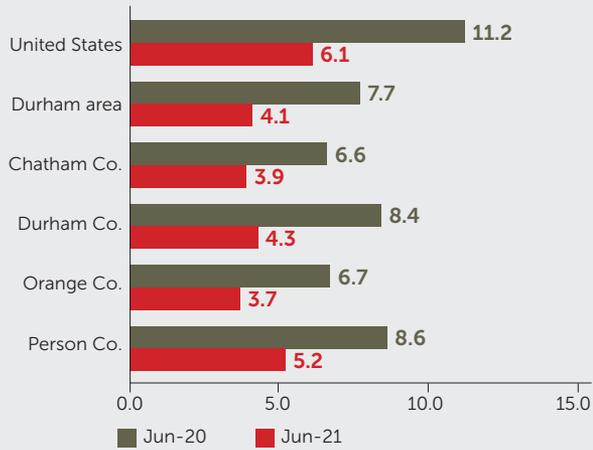
All-Transactions House Price Index for Durham-Chapel Hill, NC (MSA):



Source: U.S. Federal Housing Finance Agency

Durham, NC, area Economic Summary:

Unemployment rates for the nation and selected areas

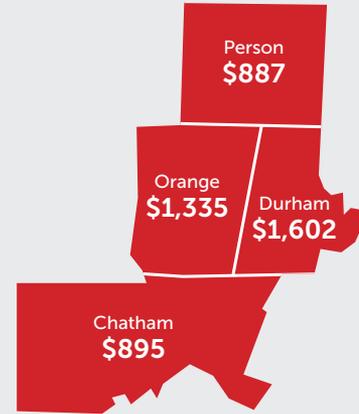


Source: U.S. BLS, Local Area Unemployment Statistics

Average weekly wages for all industries by county:

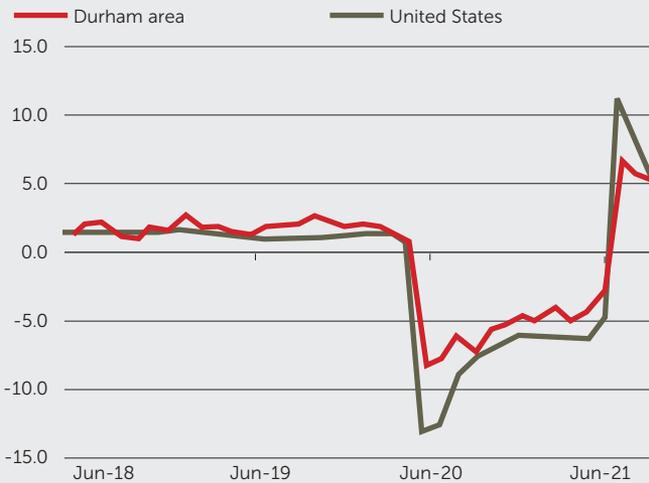
Durham area, 4Q20

(U.S. = \$1,339; Area = \$1,486)



Source: U.S. BLS, Quarterly Census of Employment and Wages

12-month percent changes in employment:



Source: U.S. BLS, Current Employment Statistics

Durham area employment:

Raleigh area employment (number in thousands)	Jun. 2021	Change from Jun. 2020 to Jun. 2021	
		Number	Percent
Total non farm	322.2	17.5	5.7
Mining, logging and construction	9.9	0.8	8.8
Manufacturing	33.3	0.5	1.5
Trade, transportation and utilities	40.7	3.4	9.1
Information	6.0	0.5	9.1
Financial services	16.5	0.3	1.9
Professional and business services	50.8	6.6	14.9
Education and health services	71.7	2.0	2.9
Leisure and hospitality	22.9	3.9	20.5
Other services	10.9	0.3	2.8
Government	59.5	-0.8	-1.3

Source: U.S. BLS, Current Employment Statistics

Unemployment Rate in Durham-Chapel Hill, NC (MSA):



Source: U.S. Bureau of Labor Statistics



Growth recipe:

Raleigh-Durham has all the ingredients for a sustained rise up the economic ladder

The Raleigh-Durham market is also known as the Triangle, a reference to the three prestigious universities of Duke, UNC-Chapel Hill and North Carolina State University. The educational institutions' steady outpouring of talent, in addition to population growth through migration, has set the region up as one of the country's most promising business locations for national and multinational companies.

Since 2010, Raleigh has been the fastest-growing Metropolitan Statistical Area (MSA - including Cary) behind only Austin, registering a growth rate of 23%, far outpacing the U.S. average of 12.6%. Sixty-nine percent of that growth was through net migration, highlighting the region's attractiveness as a relocation destination.

Why is the Triangle so attractive? Raleigh's economy has experienced exponential growth since 2009, climbing from \$50.6 million that year to \$94.8 million in 2019. The state of North Carolina itself consistently makes the shortlists of business rankings and 2020 was no different. In Business Facilities' latest list, the state came in eighth in the country in workforce development and talent attraction, fifth in terms of business climate, ninth in manufacturing employment, sixth in manufacturing output as a percentage of GDP

and 10th in FDI and Opportunity Zones. In the same rankings, Raleigh-Durham ranked seventh in the country for its startup ecosystem and Raleigh ranked sixth nationally as a tech hub. The city was also the GDP leader in mid-sized MSAs.

■ Landscape

The Raleigh-Durham-Cary combined statistical area spans nine counties: Chatham, Franklin, Durham, Granville, Johnston, Lee, Person, Wake and Vance. Raleigh is one of the country's first examples of a planned city, laid out in a grid format. After post-war hardships based on the region's dependence on agriculture, the Research Triangle Park (RTP) was established in 1959, creating thousands of jobs and turning the region into one of the most dynamic economies in the country. The population of Raleigh almost doubled from 1950 to 1970, reaching almost 123,000 from 65,000. The trend carried on, as the city reached 276,000 by 2000 and 404,000 by 2010. Raleigh's innovation was teamed with Durham's manufacturing might due to its history in tobacco and textiles. Durham also plays a role within medical R&D with its prestigious universities Duke and North Carolina Central. (■■■)

Driving forward

Diversity and talent are two economic engines pushing Raleigh to new heights

Mary-Ann Baldwin

Mayor – City of Raleigh

What are the city's key economic drivers?

One of the factors that has kept Raleigh moving forward is our diversity of businesses. We have a large tech sector, we have a large creative sector and we have a strong life science sector, especially in the Research Triangle Park. Our diversity of businesses was key in 2008 when the recession hit and is a key now during the pandemic.

The second piece that sets us apart is talent. We have NC State University here and Wake Tech. Wake Tech offers analytics certifications, producing the types of workers that companies are looking for. We have William Peace University and Meredith College, along with two historically Black colleges and universities – Shaw University and St. Augustine's University. Next door to us in our region is Duke University and UNC at Chapel Hill. All of this together really produces a talent pool like no other. That is a key economic driver for us.

The third element is our quality of life. We are seeing people move here from all over the country right now. They cite the quality of our schools, our great greenway and parks system, our arts and music culture, and our great food scene.

What steps is Raleigh taking to make sure there are affordable housing opportunities?

This is my No. 1 initiative. We have a 10-point plan for housing affordability. The City Council's first vote was to allow accessory dwelling units (or granny flats) to be built by right and we're looking for ways to incentivize their construction for aging parents or people who want to rent the property and provide housing. We also approved a rezoning text change that would allow more of what's called "missing middle housing" to be constructed. You can't build a townhome in 80% of our city and townhomes are usually somebody's entry into homeownership. We want to make it easier to build



townhomes, duplexes, triplexes and quads as well as single-family homes.

What is your outlook for the next two years?

There are several things happening. Bandwidth will be hiring about 1,000 employees. They are building a new campus in the western part of our city that will include walking trails and a Montessori school. The Department of Health and Human Services is going to be building its new headquarters here. That's 4,000 employees who will be moving from Dix Park to a site across from the Museum of Art that is also going to activate that area. We're seeing tremendous growth in the life sciences and research sector, which continues to fuel our economy. And people are moving here. The Triangle region was just named the No. 2 place to live in the country by U.S. News & World Report. ■

Q&A

John Byrne

Mayor

Town of Fuquay-Varina



How have trends accelerated by the pandemic led you to adjust the long-term plans for the town?

Technology is a key component for Fuquay-Varina. For example, we've partnered with Ting Internet to provide broadband fiber high-speed internet service throughout Fuquay-Varina. This has been one of the best things we've done for our businesses and residents. We think that high-speed internet is the fifth major utility. Large corporations that move to our community want reliable electricity, water and sewer treatment, natural gas and access to broadband infrastructure. They need to have the ability for global connectivity and efficiencies in business operations and we're moving in that direction with our industrial customer base in a big way. We have a business park that we are actively marketing and all five of the major utilities run right to the front door.

What role do industrial businesses play in Fuquay-Varina's growth?

Our industrial partners play a key role. In Fuquay-Varina, we have The Big 4: John Deere Turf Care, TE Connectivity, Bob Barker Company and Southbend. Combined, these four companies provide over 1,400 competitive-wage paying jobs and generate a substantial benefit to the local economy. We meet with them regularly and they let us know what they need and who they would like to see located in Fuquay-Varina. Logistics and business efficiencies are important to our partners and we're doing our best to recruit suppliers that will help our existing businesses be more successful.

Fuquay-Varina's geographic location is one of its most strategic advantages for expanding and relocating industries. Our access to a well-educated workforce with innovative talent working in partnership with internationally renowned research universities and an efficient local government gives Fuquay-Varina a competitive advantage for attracting advanced manufacturing, research and development, life sciences and IT and other technology industries to the community. ■



Raleigh's unemployment rate of 4.3% is significantly lower than the national average of 6.0%.

(■ ■ ■) Today, the median age in the Raleigh-Durham-Chapel Hill area is 37 and the average annual salary is just under \$57,000. Although the region has seen massive population growth in recent years, this is driven by migration rather than childbirth, suggesting the population is getting older. Regardless, Raleigh was voted seventh as a millennial magnet in Business Facilities' latest ranking. The influx in the working-age population aged 18-62 is actually causing some complications, with impressive job growth of 300,000 new jobs by 2028 projected to be outstripped by demand. Raleigh-Durham is expected to add more than 97,000 jobs by 2028, with increasingly high-skilled positions in higher demand. Job growth will be driven by health and social care; accommodation and food services; and professional, scientific and technical services. In July, the Triangle ranked third in the nation in a new LinkedIn analysis studying job growth in technology positions in regions with more than 20,000 professionals.

In spite of a challenging 2020, the Triangle region celebrated several large and small wins throughout the year. Through 2020 and into 2021, the region's housing



Bill King
President & CEO
Downtown Raleigh
Alliance

market continued to record solid growth. The expansion in population, combined with tight housing inventory has led prices to soar by almost 20% year over year as of May. As of that month, the Triangle had only 0.4 months of inventory available; market equilibrium is considered six months' supply. Fewer properties are coming onto the market than in 2020 and those that are coming are spending fewer days on the market. As a result, in May, the average sales price in the Triangle was \$401,292, up from \$330,258 for the same month a year earlier.

Much of the demand for houses in the Triangle market is driven by worker relocations, following major company investments in the region. Tech giant Apple in April committed \$430 billion in expansion CAPEX over the next five years, with plans to add 20,000 jobs to the area. One of those investments will be a new campus and engineering hub in the Triangle region, with a planned investment of \$1 billion that will create at least 3,000 new jobs in machine learning, AI, software engineering and other high-paying fields. The Silicon Valley firm has also pledged a \$110 million infrastructure spend across the state and \$100 million in support of schools and community initiatives. ■■■

How is the pipeline of residential developments in Downtown Raleigh developing?

The pipeline is building up. We've added new residential units, with 3,451 units added between 2015 and 2020. That is a lot of units and we still have more coming with another 3,530 units in the pipeline. People still see the value of residential and are excited to get a unique urban core in the region. Because of the market's performance, with occupancy still hovering near 95%, we will see the residential pipeline continuing to grow.

How does current economic activity in Raleigh compare to 2019 levels?

Food and beverage sales are recovering rapidly. They were low for a large part of 2020 and they started to take off a little unevenly. But people are coming in; nightlife has already recovered with a number of restaurants and bars already exceeding pre-pandemic levels. Downtown residential-oriented and less office-oriented businesses are much closer to fully recovered. Some are now seeing pre-pandemic sales. We're picking up rapidly and gaining ground. Visitors are back and feeling comfortable.

What are some of the incentives in place to attract businesses and create diversity?

The office side of Downtown is pretty diverse already. The area is not heavy in one particular industry. The heaviest is probably the government but in the past six years, we've seen that share decrease from 50% to 40% of Downtown employment. We still have typical office users in Downtown, like law firms. We don't depend on one large, private industry. We have a strong cloud-based software development segment that is diversifying into a lot of innovation. Some larger out-of-market employers like Apple have formalized their move to the region partly because they know they can get the labor they are looking for within the local talent base. That is a big moment for a leap forward. We're working to continue to diversify. It has been neat to see Downtown diversify even through the pandemic. ■



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Active year

Billions in transactions over the past year are expected to lead to thousands of new jobs

Scott Levitan

President & CEO – Research Triangle Park

What were the key highlights for the park over the past year?

It has been the most active year transactionally that we've ever had. We had over \$3.5 billion in transactions just within RTP. As they come online, those transactions will produce about 3,500 jobs. The total job population at RTP is about 55,000, so that's a really significant increase in the workforce for just one year. Our market is clearly very active.

What are some pandemic trends RTP has adapted?

Clearly, everybody is now on a virtual platform and working from home, so the question is what the future will look like. We're in the middle of developing a new town center for RTP called Hub RTP. It will sit within what we hope is the kind of environment that companies will be looking for. We're trying to think forward and envision what kind of environment companies — or, perhaps more importantly, a company's talent — are going to choose as a place they want to operate and work.

What makes the Triangle region appealing?

Research Triangle Park was created on the backbone of these three wonderful research institutions: Duke, UNC Chapel Hill and NC State. Over time, we've attracted other partners in proximity to the Triangle that are really doing things that are remarkable and add to the area not only in talent but also research. North Carolina Central University, which is actually the closest university to RTP, has something called BRITE (Biomanufacturing Research Institute and Technology Enterprise). On the bio side, it is a world-renowned institute and a real draw for companies doing genetic research. We have North Carolina A&T, which is in Greensboro and produces the highest number of Black engineers in the country. We offer opportunities in terms of talent development for those companies that really want to refocus and



be purposeful about attracting a diverse and unique workforce.

How does RTP benefit the state of North Carolina?

Like many states, the economic success of our urban areas is not reflected in the rural areas of North Carolina. The question is how do we advance the benefit that comes from RTP and make sure that that has an impact on our rural areas? That's happening naturally. A lot of the announcements that come from RTP are bio-manufacturing facilities that are locating in the "halo" counties: the seven counties that ring the three counties that make up the Triangle. That is a great benefit because these companies don't need to be in the center but they still want to be in the milieu of what is happening in the Triangle region. ■

Market voices: Mayor's corner



Jacques **Gilbert**
Mayor
Town of Apex

“ In terms of economic diversity, we're about 80% residential and 20% nonresidential and within nonresidential you can have everything from restaurants and retail to industry and professional services. We recognize that diversification is key to our economy. We have done studies to see what kinds of industries and businesses would thrive in our community. We know that those are things like life sciences, IT, advanced manufacturing, research and development, office headquarters, data centers, and clean tech industries. We know those are good for this area because of our tier 1 research universities. To attract those types of companies we do have targeted marketing messages and we try to be very strategic about that to attract the industries that fit in our community. ”

“ The fact that we are located in the Triangle, so very close to Downtown Raleigh — a seven-mile commute — is a strong advantage for us. For years, Garner was known as a bedroom community and a blue-collar town. In the 30 or so years that I've lived here, it really has changed. It has become more affluent. We're interested in growing in various sectors. We have some distribution centers. We also have an industrial park. We would like to see some different growth too. Life sciences is a big interest and some of our surrounding municipalities have been able to entice those companies to come to them. We'd like to see how we can do better in that regard. ”



Ken **Marshburn**
Mayor
Town of Garner



Steve **Schewel**
Mayor
City of Durham

“ Both residential and commercial private development are pouring into Durham. There are two main reasons people want to come here. First is our quality of life: we are a wonderful, livable, walkable, green city and we are not seeing many of the urban problems that bigger cities experience. About 7,000 people move here each year, and that trend has increased during the pandemic. Second, we are a city that genuinely welcomes all people. We embrace diversity in race, religion, language, documentation status or orientation. Durham's reputation for diversity and inclusion has been a boon for us. One example is Google. Recently, the company announced that it would bring an engineering hub to Durham. They specifically cited Durham's inclusiveness and our attitude of truly making everybody feel at home. ”



(...) The eventual annual economic impact from the move is expected to total \$1.5 billion.

Fellow Silicon Valley behemoth Google was ahead of Apple in announcing its own engineering hub in Durham in March, with the aim of creating 1,000 jobs. The company cited the pipeline of human talent in the region for selecting the city.

It's not only technology companies that see value in the fast-growing region, with biotechnology businesses such as Fujifilm also pledging major investments. In March, the group announced it would create 725 new jobs in North Carolina through the creation of a biopharmaceutical manufacturing plant in Wake County.

Fujifilm already has a campus in Research Triangle Park and employs more than 600 people. The minimum average wage for the new positions, which would include engineers, scientists, manufacturing personnel, is almost \$100,000. All in all, Wake County alone has 41 potential projects in the pipeline that could add up to \$2.3 billion in investment and nearly 13,000 potential jobs.

Not only is the Triangle region attracting new talent due to company relocations, it is also one of the most

Wake County has 41 potential projects that could add \$2.3 billion in investment and about 13,000 jobs

attractive nationally for remote working, according to North Carolina State University's Economy & Business 2021 report. The region has become attractive for its live-work-play balance and its strategic location along the Sun Belt. Wake County also boasts a public school system that has excelled in the last year, with a 90.8% graduation rate and many schools registering 100%. Numbeo.com voted Raleigh the third-best city in the world for quality of life in 2019.



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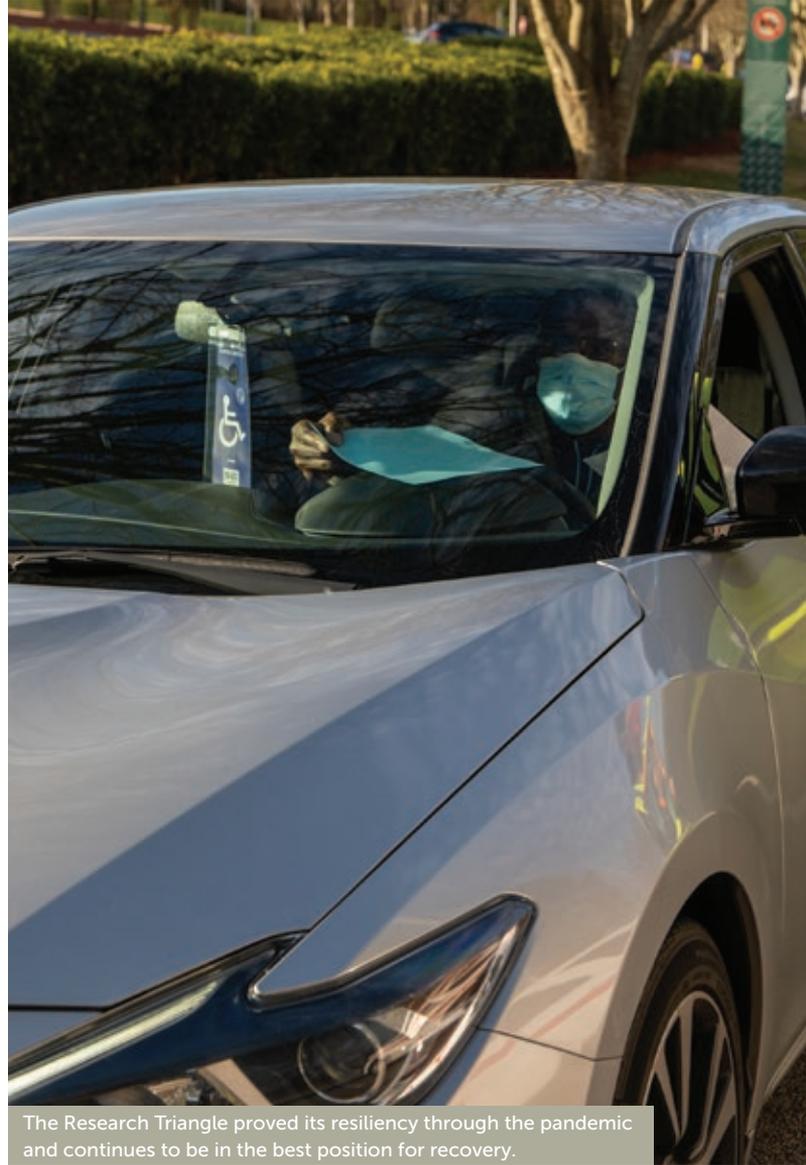


According to Wake County Economic Development, more and more major companies are expected to relocate to mid-sized markets like Raleigh. In a report, the organization projects population growth of 11.1% from 2019 to 2029. The city's population over 25 with a post-secondary education also outstrips both San Francisco and New York at 73.2%. Raleigh is No. 1 in the business cost ranking, No. 13 in the legal climate index and it boasts a low crime rate, the report said.

Raleigh is also ranked as a Top 20 city for entrepreneurship, thanks in part to its cultivation of small and minority enterprises. In addition to sponsoring the Downtown Raleigh Alliance (DRA) pop-up space for minority and female-owned businesses, the city launched the Building Up-fit small-business grant and allocated \$1 million to the Raleigh Small Business Relief Fund during the COVID-19 pandemic. The Minority and Women-owned Business Enterprise (MWBE) Program also advocates for business growth and along with the Office of Economic Development (Raleigh ED&I) supported the 22nd Annual Raleigh Small Business Expo, which attracted over 275 participants and 64 vendors. The city was voted No. 5 Best City for Female Entrepreneurs in the United States in 2019 and North Carolina was voted No. 5 Best State for Black Entrepreneurs in 2020.

COVID-19

Emerging from the COVID-19 pandemic, North Carolina and the Triangle area are in good shape. In fact, according to Moody's Analytics and Forbes, Raleigh and Durham made the Top 10 list of cities best positioned to recover from the pandemic. After the first few months of the crisis passed, Gov. Roy Cooper was eager to reopen



The Research Triangle proved its resiliency through the pandemic and continues to be in the best position for recovery.

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the state but settled on a phased reopening in May 2020. Although the stay-at-home order initially remained in place, many retail businesses were allowed to reopen, before beauty and leisure locations were allowed to open later that month. Even with continued reopening, the state imposed social distancing requirements, capacity limitations on venues and a mask mandate to control the spread of the virus.

In May 2020, the state General Assembly passed legislation awarding \$1.6 billion in federal funding to low-cost small-business loan funds, COVID-19 research at five universities, K-12 education systems and a distribution to local governments. The government also greenlit a \$600 increase in unemployment benefits that later dropped to \$300 per week. The federal funding for the program is expected to run out in September 2021 and there are no plans to end it early, according to the governor.



Kip Padgett
Town Manager
Town of Wake Forest

What types of commercial development is the town working to attract?

We're focusing on office and retail developments. Obviously, office spaces have been affected by COVID but the incubator space will hopefully fill that gap. With the addition of a Wegmans that is opening in June, we think that will set the stage for one of our main corridors in the town and create a halo effect in commercial development. We now see that pre-pandemic, there were a lot of commuters traveling to Raleigh to work but we want to give them the option to work here.

How has the uptick in residential real estate demand impacted affordable housing?

Our residential development has stayed very strong during the pandemic. In February, 85 permits were issued for single-family residential, which was the busiest month since April 2018. We are also seeing a lot of plans being pushed through our rezoning process to get land parcels ready. One of the challenges has been in affordable housing. We have a strong market and the average price can be around \$350,000. One thing we're doing is an affordable housing study. Last year, the Board of Commissioners agreed to set aside 0.5 cents from our tax rate for affordable housing initiatives. We're looking to see if we can help with infrastructure improvements that make houses more affordable.

What are some of the characteristics that make Wake Forest an attractive place to live?

We have a great park system, and we're making plans to connect these two systems in Raleigh and elsewhere. We've seen our park usage increase substantially since the pandemic began. Joyner Park is the crown jewel in our park system and we built a community center there that was opened shortly before the pandemic hit. We try to build quality of life into our community. We are right next door to Raleigh and we have a lot of amenities but Downtown still has that small-town feeling, even though we're adjacent to a major urban area. ■

Q&A

Hal Hegwer
City Manager
City of Sanford



What differentiates Sanford from the other residential hubs in the Triangle region?

Sanford is centrally located in the state with easy access to major highways and rail transportation, which is a huge asset. We also have a highly skilled workforce to ensure our industries can be successful. Along with these amenities, Sanford has invested heavily in its water and wastewater infrastructure – and continues to do so.

What partnerships between the colleges and businesses are underpinning economic growth?

Central Carolina Community College (CCCC), our local community college, is extremely robust. It has a wide range of partnerships to both prepare the workforce for high-paying jobs and also to best understand what businesses and industries need to be successful. The college works with local industry to offer specialized skills to their employees and has created competitive internships for students. CCCC's Small Business Center has partnered with the Chamber of Commerce and Downtown Sanford, Inc. to prepare entrepreneurs to run successful businesses. New programs are created as needed to ensure our community is prepared and can benefit from the economic growth we're seeing.

What are some of the city's main challenges?

The main challenge we face is providing the public services necessary for the quality of life we want for our residents, businesses, and industries. Our city is growing at a tremendous rate and it is our job to keep up. We are in the service business – whether it's police protection, fire protection, paving streets or picking up trash. These necessary services are expensive and the recurring costs are high. We must make the investments upfront so that, as Sanford grows, the quality of life doesn't suffer, even though tax-base growth comes later.

Our focus in the near term is coordinating with our regional partners for a massive expansion to our water treatment plant and the infrastructure necessary to deliver water across the region. ■



Raleigh-Durham's access to human capital, multimodal transportation and top research institutions attract firms across different industries.

Certain restrictions in the state carried over into 2021 but were loosened as the vaccine program was rolled out. As of July 9, 9.43 million total doses had been administered, with 42.6% of the state fully vaccinated. Despite many areas having to face the prospect of raising taxes due to a budget shortfall, the North Carolina state budget is projected to collect \$6.5 billion more than expected in the next two years.

Key industries

With an older population and an influx of jobseekers, the Triangle region has adopted economic diversification to ensure its continued growth. At the top of the list of desirable industries are the advanced manufacturing and biotechnology clusters, which the region is feeding with its robust talent pipeline. The region is also a hub for cleantech and smart grid companies that spend tens of millions of dollars annually on research, development and implementation of new technologies linked to sustainability and green energies. The Triangle already has the upper hand when attracting advanced manufacturing firms, due to its world-class research (■■■)



Cornerstones: Research Triangle Park

The Research Triangle Park (RTP) is the country's largest research park, a result of leaders across disciplines coming together to help pull North Carolina out of its economic decline in the mid-1950s. Bordered by Raleigh, Durham and Chapel Hill, and the renowned universities in each of those regions — NC State, Duke and University of North Carolina - Chapel Hill — RTP covers 7,000 acres and hosts more than 300 research, technology and agri-bio companies, alongside government agencies. More than 40,000 people are employed in the park.

Today, RTP is a leading innovation center that was the brainchild of a number of business leaders, with help from then Gov. Luther Hodges, who was known to favor a friendly business climate. At the time, North Carolina, a typical Southern economy, ranked near the bottom in the country in per capita income. It was largely dependent on tobacco, textiles and furniture manufacturing. Leaders in the state, including Robert Hanes, the president of Wachovia Bank and Trust Company, and contractor Romeo Guest, wanted to attract modern industries to ensure North Carolina's economic future, according to the North Carolina History Project.

It was university sociologist Howard Odum who suggested the state take advantage of the region's three research universities, NC State, UNC-Chapel Hill and Duke, according to the North Carolina History Project, and with Hodges on board, the Research

Triangle Committee was launched in 1956. In 1959, the Research Triangle Foundation was formed to manage RTP, which was home to five companies.

Sociologist Odum's idea to locate a business endeavor near the universities proved prescient as the surrounding schools provided a continuous pipeline of talent to the companies that were now locating in the park at a rate of about six a year and 1,800 new employees, the North Carolina History Project states. The universities continue to be integral partners to the park, said RTP President and CEO Scott Levitan. "Research Triangle Park was created on the backbone of these three wonderful research institutions: Duke, UNC Chapel Hill and NC State. Over time, we've attracted other partners in proximity to the Triangle that are really doing things that are remarkable and add to the area not only in talent but also research."

Between the talent flow from the nearby universities and the attractive cost of living, RTP had hit on a winning formula based on a collaborative model. By the 2000s, the park had added the NC Biotech Center and Mircoelectronics Center of North Carolina, "the nation's first state-funded non-profits that promoted small firm success in life sciences and microelectronics," the RTP website states. Those developments have helped North Carolina become a Top 3 state in bioscience employment and a global leader in vaccine research. ■



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Q&A

David Ellis
County Manager
Wake County



How is Wake County preparing for the arrival of Apple?

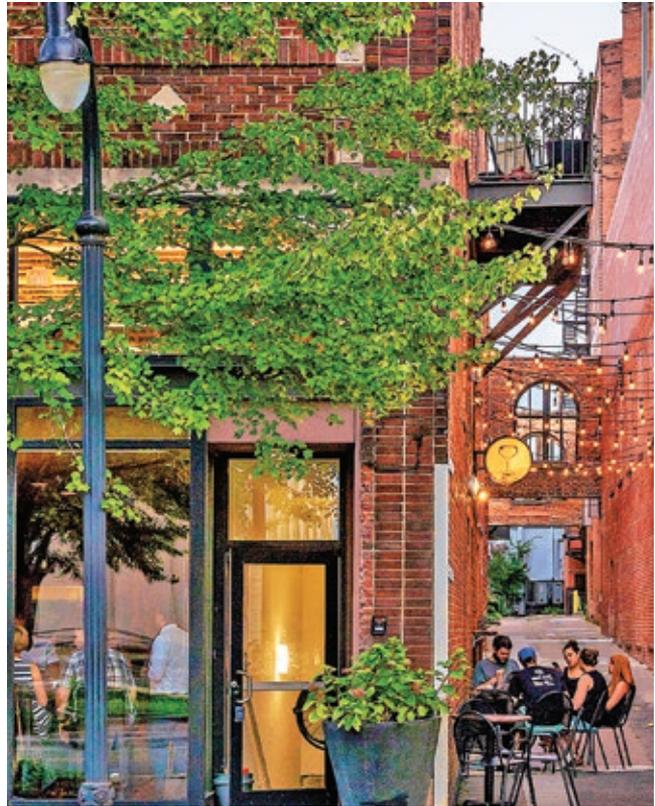
One of the things we have focused on since 2017 is the need to increase and preserve affordable housing, given the significant growth we are experiencing. With the arrival of Apple, we need to ramp up that commitment. Our county has a relatively low cost of living, ease of mobility and a mixture of urban, suburban and rural living. Traffic is manageable in the county and we want to keep it that way. Since 2016, we have been actively developing a transit plan. The transit referendum and transit tax in 2016 allowed us to get out ahead of problems that other states have experienced. Those actions allowed us to draft a more than \$2 billion plan for the next 30 years, which includes commuter rail and four bus rapid transit lines.

What strategies are in place to attract businesses?

When a company comes to a community, it's not necessarily true that they bring a lot of people with them. Companies come to Wake County because the talent is already here. Our education continuum has long been a priority for our Board of Commissioners. It begins with our youngest residents. In this year's budget, we're funding pre-K for 3- and 4-year-olds to help prepare them for a successful start to kindergarten. Wake Technical Community College is another vital part of the continuum, giving many students their first foray into higher education. Our growth has been fairly consistent over the past six years, and I don't see it slowing down anytime soon.

What is your outlook for Wake County and the local economy?

We are cautiously optimistic. There are a lot of good things going on but, at some point, the federal funds and stimulus will dry up. At that point, I think we will shift back to what normal looks like. Our budget team is cautiously optimistic that we will still see growth in Wake County, but that growth will be lower than what we are used to seeing. ■



Young professionals are attracted to the Triangle market due to its enlivened arts, culture and restaurant scene.

(■■■) universities, multimodal transport facilities and top human talent.

The region's tech and IT industries are also gaining momentum, with several notable startups establishing a footprint in the Triangle area. SAS, Cisco, Siemens, Microsoft, Lenovo, IBM and Red Hat are just some of the companies that see the value in Raleigh's tech talent base. To meet the needs of private industry, North Carolina State University's Institute for Advanced Analytics introduced the country's first Master of Science in Analytics. Life sciences jobs are highly paid, highly skilled positions and there is no shortage of them in the Triangle. Its reputation as a huge technology hub means life sciences have the infrastructure needed to grow and innovate within the market.

The government and nonprofit agencies are also doing all they can to continue attracting talent to the area. More of the region's universities are focused on creating specific degree programs concentrated on the necessary skills for the Triangle's target industries. In Durham, the Office of Performance and Innovation is working to remove barriers to employment for those who have been involved in the justice system, expanding the potential workforce as widely as possible. The city of Raleigh, the town of Cary and a host of companies that include Google Fiber and Facebook Reality Labs are also working (■■■)

Growth support

Creating job opportunities, commercial space are the key ingredients in Chapel Hill's recipe for success

Pam Hemminger

Mayor – Town of Chapel Hill

How is Chapel Hill supporting private investment?

One of the main reasons I ran for office is because I saw really bad choices being made that were going to lock us into being an elitist bedroom community and that's not what I wanted for Chapel Hill. We are 80% residential and that's just not a recipe for long-term success. That means people love to live here but they work somewhere else. To change that, we need to create more job opportunities in our community.

We noticed that startups and growing companies were leaving our town. We asked them why and received a list of issues, including the need to have more available commercial space here. We have taken a number of steps to help solve some of those issues to keep those companies here and help them with their growing needs. An early step was the creation of an Enterprise Zone in the northern area of town to attract or retain companies with light manufacturing operations. In March, Carolina Donor Services broke ground on their new headquarters – the first project in that new zone.

What has been the strategy to revitalize Downtown?

One of the trends that concerned me about our Downtown was the significant amount of new student housing on Downtown land parcels. While we love the energy that students bring to Chapel Hill, those individuals are only here for nine months and it just doesn't work for an economy. We need workers, families and young professionals who will be here for 12 months of the year living, working and shopping in Downtown.

Another component for Downtown was a need to invest in infrastructure because new development hasn't occurred here despite proximity to the university and the positive outlook for our region. We were stuck in this chicken and egg situation wherein nobody was willing to build a commercial development because they couldn't figure out how to park and nobody was



going to build parking if the commercial was not there. Fortunately, a portion of our Downtown has been designated an Opportunity Zone and we were able to partner with a private developer to combine two awful parking lots into one newer deck. Creation of the new deck has catalyzed other commercial opportunities.

What is your outlook for Chapel Hill?

I'm excited. We're seeing all kinds of interest and companies wanting to be close to that energy, to try new models. People are eager to get back to business here and to get back to a real university experience as well. The university receives \$1.2 billion annually in research dollars so we see this as a wonderful opportunity to retain talent and recruit companies with a synergy to the university and UNCHealth, which benefits all of us. ■

Chambers of Commerce

Chamber leaders discuss business support within their regions as well as trends underlying their economies.



Adrienne Cole
President & CEO
Greater Raleigh Chamber



Geoff Durham
President & CEO
Greater Durham Chamber of
Commerce

How has the chamber helped the business community to face the challenges of the last year?

The Raleigh Chamber is the largest nonprofit organization in the Greater Raleigh region and we serve a large membership base of small and large businesses. Our approach to assisting our members was immediate and we worked to meet them where they were. We shifted to a virtual setting, refocused our efforts on response and, eventually, recovery as well as supporting those companies that found themselves in a rapid growth mode. Two of our largest initiatives in response to the pandemic resulted in the creation of a rapid response website with 24/7 monitoring of questions from the community and critical resources for funding, PPE, PPP and informational virtual events. Additionally, we worked in partnership with the business community and local government leaders to raise money to support our small business community.

How is the Chamber helping to ensure companies have access to talent?

We've been focused on growing and nurturing our local talent pipeline and driving talent recruitment. We launched the Work in the Triangle platform (a talent attraction website) in 2011, with a 2.0 version coming in fall 2021. The platform is geared toward recruiting and retaining talent in the market. It's our goal to help companies access a diverse talent pipeline. We are surrounded by tier-one research universities, three historically Black universities and colleges and numerous colleges and universities that are producing world-class talent. It's very important to work with all those partners to make sure our companies can source the talent they need today and in the future. ■

What economic wins would you point to that reflect economic diversification in the Triangle area?

There is a tremendous amount of pharma manufacturing that comes along with our primary industry clusters like life sciences, biotech and the healthcare research space. Last year, Eli Lilly made a huge investment announcement of almost \$500 million in their pharma manufacturing. They will be located in the Durham side of Research Triangle Park. Biotech firm GRAIL is another one that is now starting to hire in the park. When talking about diversification, we're primarily focused on the diversification of our strong life sciences industry. There is a significant level of expansion into gene therapy work. That subcomponent of the broader life sciences is expanding rapidly. The other industry cluster that we are watching is our clean tech and how that continues to evolve. Embedded as a partner industry is our ag tech. The history of agriculture is strong in North Carolina, especially considering that this region is so driven by our three tier-one research institutes. The ag tech piece is continuing to evolve and grow.

What will the revitalization of the Durham American Tobacco campus mean for Downtown Durham?

The re-activation of the American Tobacco Campus is one of the largest new-market tax credit projects that has ever been done in the state of North Carolina. That project was the catalyst for a significant portion of what we are seeing around the rest of our Downtown community, centered around the redevelopment of old warehouses. This adaptive reuse is really what established Durham and put it on the map. ■



Mark Lawson
Vice President
 Cary Economic
 Development – Cary
 Chamber of Commerce



Ann Welton
President
 Wake Forest Area Chamber
 of Commerce

Which industries have been attracted to the region in this new landscape?

A significant portion of activity we saw came from the life sciences and gene therapy sectors of the economy, along with warehousing and distribution. Those were the types of opportunities that came our way. We also interacted with several advanced manufacturing firms throughout the year, as that industry sector is very active as well. When I look back, many positives occurred in 2020. As an example, we brought Amazon here. They took about 350,000 square feet of industrial space to operate a delivery center. Another key company was Circle Graphics. They took the other 160,000 square feet of industrial space beside Amazon. Another area in which we saw a lot of growth was healthcare. Our local hospital, WakeMed, added 300 jobs in 2020 alone, along with the commencement of construction of a new Health Care Campus by Duke in west Cary. A lot of that was due to expansion occurring at Wake Med, which is great.

What makes Cary a desirable place for these companies?

First, the educational component. We really have a unique, organic system. We have one of the best and largest public school systems in the country, along with some great private schools. When you think about the amount of high-quality educational opportunities in Cary, from early childhood learning opportunities through high school followed by our three local tier 1 research universities and the best technical college in the country, Wake Tech. Another strong point is the quality-of-life component. ■

What makes Wake Forest stand out in the Triangle area?

The Wake Forest area has been growing exponentially, particularly in the last 10 years. Our population has more than doubled. We used to be a bedroom community, primarily for Raleigh, but we've taken on a life of our own well beyond relying on the bigger cities. We have lots of people who have moved to work, live and play here. Growth from the residential construction perspective has not slowed down at all. The pandemic has not affected that. We have new homes and housing going up everywhere. We have excellent schools and excellent healthcare, plus accessibility to Raleigh, Durham and Chapel Hill. It's just a very attractive place all around for people to come in and live. We've seen a sizable influx of active older adults moving to the area from the Northeast, primarily because they have adult children and grandchildren who have moved here and they want to be near family. Our growth has not skipped a beat even amid the pandemic.

How are you preparing to meet talent needs?

Several years ago, we created our Chamber Foundation, which is a 501(c)(3) nonprofit. Through our foundation, we're developing the leaders of the future. The Wake Forest Area Chamber is a business development center and the Chamber Foundation is a leadership development center. We run programs for youth and high-school students, such as our young entrepreneurs fair, where they create their own products and sell them. We have youth leadership and a career readiness academy. Our whole goal through our foundation is to be creating a pipeline for the future, not just for jobs, but for leaders in our town. ■

(■■■) to use augmented reality to solve real problems that exist in the region.

■ Employment

Like other regions across the country in the last year or so, certain sectors in the Raleigh-Durham region also felt the pain from the pandemic. Hospitality and leisure are still suffering, although they have recovered many of the job losses seen at the beginning of the outbreak. Raleigh-Cary preliminary figures for May registered 62,900 jobs in the sector, still lower than the February 2020 highs of 72,700 but a vast recovery from the 37,500 registered in April 2020. Conversely, professional and business services have added 5,700 jobs since February 2020 and 6,000 jobs have been added in trade, transportation and utilities during the period.

But while North Carolina’s unemployment rates for May look impressive at under 5%, some economists say the figures are misleading. According to one economist, the labor force fell by 16,000 and there are 55,000 open jobs in the Triangle alone. This phenomenon can perhaps be partly explained by the continued reluctance of some to return to work for a variety of reasons. For some, there is still uncertainty surrounding the virus and its spread while others have family concerns and commitments that complicate leaving the home. Some attribute the reluctance to the continued federal support packages that have increased unemployment benefits by \$300 per week and are due to expire in September. A June jobs fair hosted by the Mountain Area Workforce Development Board had an initial 60-employer slots available but were soon maxed out as demand for workers soared.

Recruitment patterns also vary depending on the



Raleigh-Durham’s robust educational ecosystem feeds a pipeline of the region’s future leaders.

DowntownRaleigh Alliance

DOWNTOWN RALEIGH

- A vibrant and rapidly growing cultural center and hub of creative talent where entrepreneurs, artists, innovative companies and award-winning chefs come together to build a dynamic urban core in the heart of the Research Triangle region.



**Wake County
Economic
Development:
foreign-owned firms
have created 17,000
new jobs in the
Research Triangle
since 2007**

sector. According to NC Tech’s IT Job Trends report, high-tech sectors gained over 1,000 employees from April to May, while hospitality firms are struggling to fill openings. But the phenomenon is not just limited to Raleigh-Durham, or even North Carolina. Nearly half of America’s small businesses can’t find workers, according to the National Federation of Independent Business. And the sectors suffering most seem to be retail and hospitality. Campaigners in North Carolina have been pressuring companies to raise the minimum wage from \$7.25 per hour for several years and it seems that workers and businesses have now reached an impasse. After a recent strike by McDonald’s workers in North Carolina, the fast-food chain is now raising the minimum wage up to \$20 per hour.

■ **Global factors**

The Triangle’s attractiveness as a research and advanced



Christopher Chung
CEO – Economic Development Partnership of North Carolina

“When people think of economic development, they usually think that means recruiting companies. International trade does not always come to mind but it’s very important. A lot of our work is helping small and medium-sized companies, particularly manufacturers. Selling outside the United States makes good sense for a business because the United States makes up only 5% of the world’s population. If companies can crack the door open to international trade, that is a tremendous economic opportunity. North Carolina’s export of goods and services has typically supported more than 400,000 jobs in the state. For us, that is economic development.”

manufacturing hub has not only been identified by national firms, many international conglomerates have set their sights on the area. Data from 2019 illustrates the state of pre-pandemic foreign direct investment (FDI), with almost \$4 billion spent by overseas investors on acquiring, establishing or expanding a business in North Carolina, representing a 66% year-over-year increase. By comparison, FDI nationwide in the same period slumped by 38% to \$195 billion. Some examples of big wins for the Triangle area are the expansion of Spanish pharmaceutical Grifols’ facility in Clayton and a major investment made by Indian forger Bharat Forge in Sandford. In Wake County, U.K. biosciences group Gilead Sciences said in February that it plans to add almost 300 jobs to the county.

The Economic Development Partnership of North Carolina is a development engine that works to attract and facilitate firms’ entry into the state and support the needs of small businesses. Of the current pipeline of 177 projects the agency is trying to lure to North Carolina, just 22% involve foreign businesses, which is lower than past years. However, this can be explained by the pandemic and travel limitations. If the state wins all 177 projects, the estimated investment could total \$14.7 billion and 50,000 new jobs could be created in manufacturing, food and beverage, agriculture, biotech, pharma, life sciences and IT.

According to Wake County Economic Development, since 2007, foreign-owned firms have announced 17,000 new jobs and more than \$5 billion in investment in the Research Triangle. The Triangle is now home to more than 700 foreign-owned companies. But the authorities and development agencies are not stopping there. Wake County Economic Development has created an



international business strategy with a committee of 20 key members from its local business community. This committee’s expertise is being used to market the Research Triangle’s competitive advantages, as well as to identify gaps in competitiveness.

■ **Public sector initiatives**

Given the budget shortfalls facing all state and local governments as they draft their 2022 budgets, it would



Veronica Creech

Director – Raleigh Economic Development Department

“When a company is interested in our municipality the Chamber of Commerce will contact us. We work hand-in-glove with the project, looking at its compatibility with our policies to see if there’s a match to our economic development policy. It’s not just about a financial incentive. We also want to be thoughtful about creating partners, how to leverage our communication and incentives that might support a large development and to be more thoughtful about a larger infrastructure investment option. When it comes to finding a specific location in the city, that’s when our office teams up with the Chamber to bring that across the line.”



have been easy for Wake County or Durham County to hike taxes or cut back on certain spending areas. Wake County experienced a \$28.8 million budget shortfall for FY21 due to COVID-19 measures and the \$193 million the county received in federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding could not be used to supplement lost income. Despite this, the FY22 budget was approved at \$1.57 billion compared to \$1.45 billion in FY21. The county expected lower income from property and sales taxes but demand for both housing and goods is robust and has produced strong revenues.

Wake County's FY22 budget is focused on rebuilding businesses badly impacted by the pandemic and restoring funding cuts. The first budget allocation was to set aside funds for high-dollar investments and capital projects. The county has increased its capital commitment by \$410 million year over year in its most recent budget, showing that the county is not shying away from spending to stimulate economic growth.

Likewise, Durham County has hiked its commitment to its capital improvement plan by 7.4% to \$82.6 million for the coming fiscal year beginning July 2021. Durham County's total approved budget reached \$736 million, up from \$686 million in the previous fiscal year. (■ ■ ■)

Innovating in the Triangle for 16+ years

Morrisville, North Carolina is one of two global headquarters for Lenovo, a Fortune Global 500 company with deep, and growing roots in the Triangle. Come join our team and help transform intelligent technology for customers around the world.



Lenovo

Market voices: County managers



John Crumpton
County Manager
Lee County

“ We have become a life science hub with Pfizer growing here. When they bought Bamboo Therapeutics three years ago and moved into the gene therapy business via a \$160 million investment followed by another \$600 million, it put us on the map for gene therapy. We have two other life science companies now, Audentes Therapeutics and Abzena Holdings. There are significant numbers of life science companies in Research Triangle Park and we’re starting to get a spillover here. Several other life science companies have asked for development proposals. That’s a good business to be in, especially with our proximity to three major universities: Duke, NC State and UNC Chapel Hill. In addition, Campbell University is just down the road from us. Along with our Community College presence we have the resources here to help grow these workforce sectors.”

“ The Board of Commissioners is focused on and committed to planning for the future. The Board recently initiated a year-long update to our comprehensive land use plan. This will likely be the most important task of the year, as future land use decisions will be guided by this document. Johnston County will continue to grow and it is our responsibility to prepare for the many infrastructure needs, such as drinking water and wastewater treatment. The North Carolina Department of Transportation has many exciting projects slated in our county. There will soon be three designated interstate highways in Johnston County. Also, the county works closely with Johnston County Public Schools and Johnston Community College to assist with their capital improvement needs. We also work closely with the 11 towns as well as our regional partners. I must add that we are very proud of the large and diversified agricultural presence here. The overall annual economic impact of agriculture in Johnston County is hundreds of millions of dollars.”



Rick Hester
County Manager
Johnston County



Dan LaMontagne
County Manager
Chatham County

“ We see the economy here as just booming. COVID really did not impact us as much as it did other places. We’ve been very fortunate. Our developers continue to expand. In fact, development really started kicking in as COVID emerged. We’ve been planning for this development for years, and when COVID hit, it didn’t slow anything down.

Coming out of the pandemic, one can only imagine how much faster it will grow. Part of our budget this year is planning for a lot of that growth and adding a lot of staff. We are expecting for it to really take off. They can’t build houses fast enough here. Preparing for that — installing utilities and infrastructure — has been part of the effort to handle that influx.”

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Ryan Combs

Executive Director – Research Triangle Regional Partnership (RTRP)

“ From an ecosystem standpoint, we already have strong engineering schools at both NC State and Duke. We do think that is going to amplify what they are doing there. Our community college system is also one of the greatest assets in the region. The customized workforce training programs that we put together for companies is second to none. These developments are going to speed up and lead to more tech-based programs from our community colleges to train the next generation of workers. IBM was the first company to move to the Research Triangle Park when it opened in the 1960s. Now, we’re home to companies like Bandwidth, Pendo, Red Hat and SAS. We have some great home-grown companies, but, now, we are seeing all these companies from places like New York and California taking a serious look because of our workforce development programs with our community colleges and the strong talent coming out of the universities.”



The Triangle area has a vibrant nightlife scene that revolves around big concerts, energetic night clubs, intimate music venues and modest wine bars.

(■ ■ ■) Given that the hardest-hit sectors during the pandemic have been mainly in small or medium businesses and in the hospitality and leisure sectors, all eyes have been on the government to evaluate what kind of support will be available going forward.

One of the measures put in place both to address the employment gap and to supply businesses with the human talent they critically need is the establishment of Partnership Raleigh. The goal of the initiative is to employ young adults between 17 and 21, providing experience in the working environment, training and life skills. The recommended candidates from the program meet a strict set of criteria, including having worked in the Raleigh Summer Youth Employment Program for two full summers and having completed development training.

The region also offers a host of organizations and resources that can help small businesses recover and thrive, including the Carolinas Small Business Development Fund, Council for Entrepreneurial Development and the Women’s Business Center of NC. NCidea is an organization that provides grants and training programs to small businesses and entrepreneurs to help them develop their businesses.

■ Looking ahead

With the continuing influx of population from all (■ ■ ■)

Unprecedented

Massive increase in technology demand is unlike anything the industry has seen

Vladimir Rozanovich

Senior Vice President (Lenovo) & President, North America International Sales Organization – Lenovo

How has demand for your products shifted during the pandemic?

The demand is unprecedented. The number of people who are still looking at PC products and infrastructure service products is at an all-time high. This is something the industry has never seen, so this is an exciting time for the industry.

There was a massive increase in demand from a variety of industries. Especially when the pandemic first hit, we saw substantial demand from school districts as they were trying to ensure they could provide a laptop to every child for remote learning. Then we saw an increase in demand for gaming. As people had more time at home and more disposable income, one of the things we saw was a significant increase in our Legion gaming product portfolio sales. One of our biggest driving factors, as people had to work from home, was the need to make sure they had laptops, high-definition cameras and good audio systems. Everyone was transitioning from their traditional office setting to working from home and needed to make sure they had the technology to remain as productive as they had been in the office. The transition to a remote environment helped to showcase our innovations and products that we feel really help the industry. The products that we put into the market actually enhanced business at a time when personal touch wasn't possible.

What has been the impact of supply chain issues on the tech sector?

Supply chain constraints have certainly been a challenge in the past year, not just for Lenovo but for the entire technology sector and beyond. Being a global company, with manufacturing in so many different parts of the world, we are better positioned than most and have



contingency plans in place to ensure we deliver products to our customers in a timely manner.

Have you experienced any difficulties in finding good talent in the Triangle?

Being a global leader, over the past year, we've invested over \$1.4 billion in research and development. That creates a nice healthy employment pipeline for students coming out of school and people looking for high-tech, innovative jobs. Because we put so much money into our R&D, we're doing a really good job of attracting and retaining top talent to the Triangle area. People know that the work being done here translates into some of the most innovative products in the market. We stand for innovation and that's what draws us here versus somewhere else. ■

**Partnership
Raleigh's goal
is to employ
young adults aged
17-21, providing
experience, training
and life skills**

(•••) corners of the country, strong housing demand, nonstop investment from both national and international firms and a supportive government, the Triangle region is set to emerge from the pandemic stronger than ever. As the competition heats up, the question will be whether the businesses and public sector in the region will move quickly enough to capitalize on its momentum and maintain its position as one of the most attractive locations in the United States to do business. The likely answer to that, given the Triangle's track record, is yes. But authorities must also ensure that growth is equitable. As housing values soar, affordable housing concerns are emerging as lifelong Triangle residents are priced out of their communities. According to Harvard University's The State of the Nation's Housing 2021 report, a disproportionately large share of households struggling with housing affordability are those with low incomes and people of color. ■



Perspectives: Economy

Jimmy **Randolph**

CEO – Sanford Area Growth Alliance

Job growth is very strong here right now. We have a major Caterpillar facility here that manufactures skid-steer loaders. They recently announced they're adding 200 more employees. Abzena Holdings will be siting a contract manufacturing facility here in our second shell building. We do have a significant presence in food services and they are hiring as well. I would say that our challenge moving forward is continuing to meet the workforce needs. We are exceptionally well-positioned to do that because of our proximity to the Research Triangle. We're just 15 minutes from the I-540 outer loop around Raleigh at Central Carolina Enterprise Park and we draw from a workforce of close to half a million within a 40-minute commute. ■

Nicole **Thompson**

President & CEO – Downtown Durham, Inc.

We're seeing a lot of startups in our Downtown area. We've got BioLabs NC that's 100% leased with a waiting list. There are only four or five of these biolabs across the country. Longfellow Real Estate Partners is converting office space into lab space at its Durham Innovation District in Downtown, and SLI Capital and Trinity Capital Advisors are constructing a 200,000-square-foot class-A office/lab space at the Roxboro at Venable Center. With Google coming in, that will put more attention on class-A office space for IT and financial services. And of course, Downtown Durham will always remain a space for small entrepreneurs, whether it be locally owned retail, bars and restaurants or artists or tech-based. ■



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Professional Services:

The Triangle demonstrated extraordinary resilience to the negative impacts of the pandemic, with uninterrupted investment flows directed primarily to its tech and life sciences industries. With its unabated growth, Raleigh-Durham has become a natural haven for professional services companies.





Triangulation:

The appetite among professional services firms to set a Raleigh-Durham foothold is undeterred

Strong and diversified industry verticals, a highly dynamic entrepreneurial and tech space, a top-tier research sector and a vibrant higher educational mosaic are the foundation for Raleigh-Durham's long-term growth — and professional services firms have taken note to establish a foothold in the area.

Setting up an entity in the Triangle region secures access to 7,000-plus companies that could need advice from legal, financial and accounting experts to assist them in navigating both the pandemic and the emerging challenges as the economy recovers from the crisis.

Out of crisis, comes opportunity, however, and the Triangle's established professional services businesses and its newcomers will be looking to capitalize, particularly as regulations and legislation evolve in the new landscape and in the context of the accumulated dry powder private equity and venture capitalists are ready to unleash to tap into the clear-cut returns that the region offers.

■ Landscape

The Triangle hosts more than 2 million residents, 7,000 companies, 700 international companies and offers the lowest corporate tax rate in the United States at 2.5%.

Those reasons alone are enough for the professional services industry to thrive. But they aren't the only factors.

North Carolina was named the #1 Best State for Business by Forbes for three years in a row, from 2017 to 2019, while it also counts more than 337,000 business and financial services workers. The trend continued with a record-breaking 2021 as 96,000 new business filings were documented across the state between January and June, an 80% increase compared to the same period in 2020. North Carolina's resilience has also been on display: 89% of the businesses created in early 2020 are still operational, despite the pandemic.

In a clear benchmark for the industry, wealth management firm Balentine's Raleigh office surpassed \$1 billion in assets under management (AUM) in the middle of the COVID-19 pandemic. Data also support the sector's strength. In June 2021, the U.S. Bureau of Labor reported 1.12 million jobs in the legal sector nationally, a 2.9% increase compared to June 2020. The rise came amid a surge in companies and businesses looking for expert advice to navigate not only the pandemic but also the plethora of new legislation drafted to deal with it, particularly in terms of financial aid programs and handling remote work. (■ ■ ■)

Legal impact

From the courts to employers, COVID touched every aspect of the legal sector

Beth Tyner Jones

*Triangle Offices Managing Partner – Womble Bond
Dickinson (US) LLP*

What makes the Triangle such an attractive market for the legal sector?

The strength of our economy, which is grounded in diverse, sophisticated businesses, along with the significant presence of world-class higher education institutions that make for a rich foundation for growth. Think about all the businesses that have grown out of here, such as SAS. The region is replete with examples like that. It's a terrific place to practice law.

What has employment-related legal work looked like during the pandemic?

COVID touched nearly every aspect of employment law. The courts slowed down as we saw less litigation and we spent more time addressing how employers respond to COVID and what accommodations were needed. Of course, everybody still wants to know if we can or should require vaccination for our employees, which they're working through now. I also believe many employers just want to get past this and focus on what's next.

How would you characterize the cybersecurity and privacy landscape from a legal viewpoint?

With the increase in remote work, you have employees working from home, which leads to greater data privacy concerns than before COVID when working in person. We've been seeing increased attacks and risk. In addition, many government bodies, both in the United States and internationally, have strengthened their regulations aimed at protecting individual privacy. I see this continuing to be a high-demand area for legal services.

How are companies re-evaluating their ESG goals?

Depending on what generational view of the workforce you're looking at, portions of the workforce have high expectations for their employers being engaged around



the topics of the time. It can be an obstacle to retention if employers do not. It's a very divisive time since as people start to work again in person, they are having trouble properly addressing divisive topics. Divisive topics, along with a lack of socialization in the workplace due to remote work for a long time and social media, are providing employers with a lot of challenges.

What is your outlook for the Triangle?

We are on the precipice of extremely significant growth for our area and region. We're expecting to be challenged as a region to keep all of our schools, roads and buildings up to the task of keeping up with the growth. With those challenges will come tremendous opportunities. We will attract new businesses and new competition. I think this growth will be unprecedented. ■

Lee Hogewood

Managing Partner –
Raleigh Office
K&L Gates LLP



How has demand for your services changed as a result of the pandemic?

We're a full-service office. We have a corporate practice, a real estate practice, employment, litigation, restructuring and insolvency. Our corporate practice has remained extremely active and engaged in various types of work you'd see in a normal economy: mergers and acquisitions, joint ventures. Real estate has been very active in the residential markets and with land acquisitions in and around Raleigh. People have recognized that they're going to be spending more time at home and are looking for newer and bigger homes where they can afford them. The employment practice, because of all of the issues and complications related to working at home, has been very busy. Insolvency and litigation was probably the area most affected early in the pandemic. The court systems have reacted by creating a more virtual environment that has proven effective and successful, so now litigation matters are not just completely on hold.

What incoming legislation or regulations are you watching that could affect your clients?

On the insolvency side, one of the things that we've been keeping an eye on are the debt limits related to the small business limits on Chapter 11. Those were increased on a temporary basis. Probably fewer businesses than one would have expected have taken advantage of that. That subchapter of the bankruptcy code does make some reorganization much less expensive for the smaller business, and, thus, a more attractive way to reorganize debts. The other thing happening in North Carolina over the course of this summer, and its unrelated to the pandemic, is the change in the receivership statutes in our state. They were modernized and improved in a manner to make state receiverships a more attractive and usable form of relief. So, it'll be interesting to see if, instead of filing bankruptcies, companies will choose to use the state court process. A number of states use a more modernized approach, so North Carolina was catching up on that front. ■



The Triangle is at the center of three Tier-1 research institutions, making the region a perfect place to facilitate collaboration between universities and the professional services sector.

■ ■ ■ The Triangle was no exception to this trend. In February 2020, the region's Top 25 legal firms counted 1,066 attorneys, 493 partners, 565 support staff professionals and 270 paralegals. By February 2021, the Triangle's legal ranks had increased to reach 1,136 attorneys, 605 partners, 723 support staff professionals and 354 paralegals. In total overall jobs, this represented a year-on-year increase of 17.7%. "Our community is diverse and notwithstanding its size, has an increasingly cosmopolitan feel," said Jimmy Yates, managing partner at Wyrick Robbins, about the attractiveness of the Raleigh-Durham region. "We have a lot to offer here: there is a good balance between quality of life and job opportunities. The Triangle area, for many reasons, does not get overheated, and we have a safety net here with the Research Triangle Park, the universities and state government. It's a good, stable area to either start a business or for those who wish to expand or relocate an existing business. We are seeing an increased interest in corporate relocations from other parts of the country. We have a highly-skilled, educated workforce, which is terrific for employers, and a relatively low cost of living."

In the private equity segment, securities filings show Triangle-based, non-real estate investors raised funds totaling \$134.7 million in 2021 alone, demonstrating their high expectations for the opportunities bubbling in the area. In July 2021, Durham-based clinical research



organization (CRO) Parexel was acquired by a EQT Private Equity and Goldman Sachs Asset Management partnership for \$8.5 billion. The same month saw the \$12 billion buyout of Raleigh's PRA Health by ICON plc. These acquisitions highlight not only investor appetite in the region but also the attractiveness of the Triangle's healthcare sector, on par with its burgeoning tech industry.

■ Talent pipeline

With the region on a strong and steady growth path, the professional services sector is well poised to take advantage, with an enviable pipeline of talent. The Triangle alone boasts a strong fabric of higher educational institutions, including the trifecta of Tier 1 research universities: Duke University, North Carolina State University and the University of North Carolina Chapel Hill (UNC-Chapel Hill). The region's academic ecosystem includes another 12 colleges and universities, as well as eight community colleges. This environment of higher education includes 176,000 students enrolled and 65,000 annual graduates. Moreover, the Triangle ranks fourth in the United States as the area with the highest concentration of Ph.Ds. In parallel, 47% of local residents have a bachelor's or higher.

The result of all this is a thriving talent pool from which the professional services industry can pull as the (■■■)



Mike Hewitt
President & CEO
vTestify

What makes the Raleigh-Durham area a great location for vTestify?

We formed this company in Florida but we came back to the Raleigh-Durham area for the same reasons as the bigger companies that are moving here, such as Apple or Google. Ultimately, it's all about access to talent and the thriving business ecosystem. The Achilles' heel of this area years ago was a lack of access to investment capital but that has been changing with Apple and Google putting their East Coast headquarters here and with so many startups coming here.

What is the purpose of vTestify?

We want to be the best capture tool for evidence. This is our niche. We're an enabling technology for various legal matters, such as court reporting, arbitration and mediation. Our software product reduces costs for clients because they don't have to travel for their trials, saving them time. It even helps to reduce their carbon footprint.

The cost of travel for lawyers was very prohibitive; the quality of the case was directly related to how much you could invest into it. There is also a dwindling supply of court reporters. There are almost no court reporting schools left in the United States. Virtually no new people are coming into the industry and there's an aging out of the current court reporters. We're helping the legal industry bridge this human capital gap.

What is your outlook for the legal industry?

I believe the industry is becoming more singularly platform-based. The legal industry is moving quicker than other industries in coming toward technological innovation and integration. I think we'll see a platform emerge for litigation management where everything can be found under that one platform, whether it be connections and ediscovery, depositions, arbitration, mediation or evidence under oath. The legal industry is going toward an integrated solution rather than individual pieces. ■

Market voices: The legal community



Byron Kirkland
Managing Partner
Smith Anderson

“ The Raleigh-Durham economy is highly diversified, which is great for businesses like ours. It’s so diverse that we’re not dependent on any particular industry or at risk of the ups and downs that one sector might experience. The businesses and industries that tend to be the strongest here are life sciences, agricultural tech, IT, software, energy, real estate, banking and finance. There are lots of growth areas, which in turn attract other, similar businesses. The Research Triangle Park region also supports an enormous amount of entrepreneurial activity that has helped create an entire ecosystem of activity to keep our business economy stable and thriving. ”

“ Our commercial real estate practice has been booming. That may be specific to our region and regions like the Triangle because businesses have learned that there’s an advantage to being in a setting where you can have more office space and a larger square footage per person. In our industry, at law firms in large metropolitan settings like New York, where people are more closely packed together, those employees are still not returning to the office. Our region is attractive because of the inexpensiveness of the land relative to places like New York. In general, our practice areas remain very busy. A good thing regarding the economy is that we did not see a sharp increase in our bankruptcy practice. ”



Leslie Packer
Managing Partner
Ellis & Winters LLP



Mary Nash Rusher
Managing Partner, Raleigh
McGuireWoods

“ The firm expects the Raleigh office to grow, not because we have to, but because we have this great combination of being in a great place to live and yet offering people the opportunity to work on really sophisticated legal work. Because of the way we work in practice groups across offices, we have people in a wide range of practice areas who can work from the Raleigh office but have practices across the country. We expect that to continue going forward. ”

“ Our advisory work picked up significantly because we were helping our clients do what we were doing, implementing procedures to enable remote working. On top of that, we were helping them adjust to the new laws that were coming out of Congress: the FFCRA (Family First Coronavirus Response Act), you had paid leave all of a sudden, the unemployment system changed radically, along with the rules, clients having to deal with layoffs, the PPP loans. For about five or six months, there was a monumental shift in how we practiced, at least until litigation came back. ”



Phil Strach
Managing Shareholder
Ogletree Deakins



Jeffrey Pfeifer

Chief Product Officer – LexisNexis North America

“About five years ago, after acquiring a number of startups in the legal tech space, LexisNexis had an idea to build an accelerator program. Our objective was to develop a wider ecosystem to support legal tech startups. We saw an opportunity to build an ecosystem where companies could help each other get a stronger footing, especially at the early tech stage and the early company development phase. As a result, we launched the LexisNexis Legal Tech Accelerator. We have between five and 10 companies participating each year and we help these companies refine their business model for the legal market, helping them grow and develop toward scale. This has been an exciting venture, based here at our technology center on NC State’s Centennial Campus.”

(...) metro region’s tech-propelled growth continues as expected. With a 2019-25 GDP growth of 16.1% projected by Oxford Economics, the Raleigh-Durham MSA ranks among the Top 10 fastest-growing metros in the country, well above the expected national average of 10.5% GDP growth. What students are studying also points to optimism for the professional services. As a reference, the University of North Carolina System’s Top 10 general areas of major for the 2019-20 cycle had Business, Management, Marketing and Related Support Services (including investment and securities, insurance, entrepreneurial studies, accounting and business/management, finance and accounting) reigning supreme with 9,983 degrees awarded, or 74.1% of the total awards of that cycle. It also showcases a 6.5% increase compared to 2018-19’s 9,372 degrees.

Moreover, the state of North Carolina’s education leaders have set a highly ambitious goal to continue providing an attractive, educated pipeline of skilled professionals: by 2030, 2 million residents will have a high-quality postsecondary degree or credential. Enter myFutureNC, a statewide nonprofit organization created specifically to attain that 2030 goal via close collaboration between government, business and education leaders.

The professional services industry can rest easy as the Triangle’s educational machinery is producing the required entry-level talent pipeline to fill its local talent needs, while it can also find more tenured professionals considering the region offers attractive quality of life and cost of living traits to retain its talent pool.

Statewide, professional and business services employment ranked sixth among North Carolina’s super-

**Raleigh-Durham is
forecast to represent
27% of the total
jobs growth for
professional and
business services by
2028**

sectors by the North Carolina Chamber of Commerce, counting 649,748 professionals. By 2028, the chamber estimates the industry will be employing 704,971 professionals, an 11% variation rate equivalent to a 1.05% annual growth rate. Raleigh-Durham alone is expected to represent 27% of that estimate, amounting to 192,300 professional and business services professionals — a leading indicator of the sector’s strength in the region.

■ Accounting and insurance

Accounting firms were instrumental throughout the pandemic in structuring recovery plans for small businesses and large corporations alike. The uncertainty sprouting from COVID-19’s economic ripple effects stressed the importance of contingency plans across all industry verticals, even more so for those most affected.

In parallel, the different draws for the Small Business (...)

Think rationally

The pandemic has been challenging for families but it has also been a learning experience



Brad McRae II

General Partner & Regional Leader, Raleigh – Edward Jones

How does a firm like Edward Jones help people?

We help people think rationally, which means they use facts to make informed decisions. It's our job as a financial adviser to provide advice. We must give enough context and information for people to feel empowered. It has been a challenging time for many families but it has also been a learning experience for a lot of people, where they see the potential of investments for their families.

For most people, it is starting with the foundation of viewing it as a protection plan and having emergency cash or liquid savings. It's important for families to have that foundation and to be prepared for the unexpected through a stake plan or a life insurance plan. From there, they can start building layers, whether that is saving for retirement, college education or the purchase of a home

or business. This past year, we learned that those who have a solid foundation are able to propel their goals and their plan. Those who were not able to prioritize that in the past are now seeing the importance of doing so.

How has retirement planning become more dynamic as a result of the pandemic?

Retirement planning is more dynamic than ever before. This can be attributed to the average length or retirement triplicating in less than a century. That's a big deal. Many people spend so much time preparing for that stage that they spend less time thinking about where they are going to be and what they will be doing when they do retire. Before the pandemic, the goal for many was to travel. Now, people have had to readjust their expectations around what retirement will look like, whether it will be working part time, volunteering, or spending time with their families.

What has the landscape looked like regarding investment opportunities and taking risks?

It's subjective and relative because client situations are unique. Those who were comfortable with taking more risks were able to take advantage of the market dropping, at one point, over 30% over the course of a few weeks. Where appropriate, our clients saw the opportunity to invest in companies or investments with lower prices with the goal of collecting those shares over time.

What are the firm's main near-term goals?

We think that the growth is evergreen. We would like to grow by at least 18 new financial advisers. The impact that will have on the community will equate to thousands of families being served in the future. We need to have a larger, deeper market share as people are relocating. ■

(■ ■ ■) Association (SBA) PPP loans had businesses looking for advice on how to obtain these lifelines, both in terms of compliance and speed. The surge in demand for such services is reflected in workforce numbers. In February 2021, the region had a total 2,548 employees working in accounting firms, a 7.6% increase on February 2019 numbers.

The same observation can be made on the financial planning side. In 2020, the aggregate number of licensed professionals, Series 7, fully licensed brokers and total number of employees reached 3,919, a nearly 3% increase compared to 2018's 3,811 professionals.

On the insurance front, the Triangle's Top 25 property and casualty insurance agencies and companies have seen the number of agents increase from 955 in 2017 to 1,047 in 2021, a nearly 10% gain. Moreover, the country's response to the pandemic, between the Coronavirus Aid, Relief, and Economic Security (CARES) Act during the Trump presidency and President Joe Biden's American Rescue Plan, has not only provided financial aid for all eligible businesses, it has also provided financial incentives to 14 states with the aim of expanding Medicaid eligibility for low-income adults. The measure was included considering that people below the federal poverty level have no access to Medicaid or marketplace coverage in the considered states. North Carolina is among the list of states that have yet to implement a Medicare coverage expansion. Raleigh-based advocacy group Care4Carolina estimated that such a measure would translate into 10,194 new jobs, \$27 million in new county revenue and \$1.85 billion in new business activity in the Triangle.

In terms of marketplace players, UnitedHealthcare and Oscar joined the North Carolina health insurance

landscape in 2021, while AmeriHealth and Friday Health Plans have announced they will be setting up a North Carolina foothold in 2022. On the consumer side of the equation, 535,803 people were enrolled in private individual plans through North Carolina's exchange in 2021, a 6% increase to 2020's 505,275 people.

■ Wealth management

The pandemic has proved to be an equal-opportunity crisis, impacting individuals at all levels of wealth, and leading to related decision-making. For high-net-worth individuals, that meant leaning more heavily toward long-term planning, nurtured by their elevated concerns around legacy planning and, in some cases, to accelerate retirement plans or draft near-term retirement plans. To attract these clients, firms need visibility, said Robin Hogan, complex manager and executive director at Morgan Stanley Raleigh Complex. "An increasing number of people are moving into this area at an astonishing rate. People want to be here. Morgan Stanley is visible on LinkedIn, Facebook, Twitter and Morgan Stanley websites. There are many ways to connect and to locate the right adviser for your investment needs. Our advisers are fulfilling the need for impact investing. Knowledge in planning, investing and caring for clients' financial well-being is what people are seeking and which our financial advisers provide."

While retirement plans often target a specific number, wealth management firms advise on diversifying assets, especially from a taxation lens — 401(k)s, Roth IRAs, brokerage accounts, and bonds are all taxed differently. At 59-and-a-half-years-old, withdrawals from either Roth IRAs or 401(k) become tax-free. While traditional IRAs and 401(k)s, along with CDs and bonds, are taxed



Barry Cobb

Management Committee Member – Yates, McLamb & Weyher LLP

“One of the things that we have yet to see in litigation is how immunity legislation that has been enacted for businesses and healthcare during the pandemic will affect our business. Many times, our business lags two or three years behind what's going on in the economy and the wider world because personal injury and wrongful death cases have a two- to three-year statute of limitations period. There has been some sweeping immunity legislation that has been passed to cover things that happened during or because of COVID-19 and we will need to continue gauging how those provisions affect our clients and our own work.”

Keith Burns

Managing Partner
Nexsen Pruet



How has real estate evolved over the past year from a legal perspective?

Real estate has been a “haves” and “have-nots” story over the past year. Real estate related to logistics and the supply chain has really taken off, driven significantly by e-commerce and the need for increased warehousing. The supply chain has been disrupted and has created some strong demand for real estate. The other segment that has shown considerable acceleration is residential real estate. Developers who create residential building lots for builders and the builders who are building on them cannot get product quickly enough. The demand for housing is unlike anything we’ve seen since 2006-7. The good news is that this demand is supported by actual jobs and wages. In contrast, there has not been nearly so much office and retail development. Those niches are still a bit nervous. Hotel development is non-existent.

What unexpected shifts in demand for your services do you see emerging?

There are two trends that we’ve detected. First, the COVID-19 trend is that the court systems and many of the regulatory bodies have been slowed over the last year. Governments have been working from home. Very few places have held jury trials. Court systems are reluctant to have people in-person and the technology has not kept up as much as one might hope. Over the next year or 18 months, we anticipate a lasting backlog in regulatory and court work. The floodgates will open because of substantial demand. The need for that legal work did not stop during COVID.

Second, every time we have an administration change at the federal level, there is a new take on regulations and how they are to be interpreted, a new take on what regulations need to be adopted or repealed. Those regulatory changes, those enforcement changes are going to create demand for legal services as people have regulations applied to them differently and as new regulations apply. ■



Raleigh-Durham’s thriving professional services sector is key in promoting economic growth and expediting strategic partnerships through the local business community.

as ordinary income, gains from brokerage accounts are taxed at capital gains rates. The latter can vary depending on income level and filing status. Moreover, federal income tax brackets and many state tax systems are tiered. The more taxable income received in a year, the bigger the cut to the government. Tax-filing status and income are sizable factors in determining the amount of money kept.

Navigating these issues can be complicated, which is where wealth management funds come in. Both mature and nascent funds are finding success in the region as the economy nears pre-COVID levels of activity. Securities filings in the Triangle are raising millions as they scout for the next high-return deals. Case in point: in early 2021, Raleigh-based Anchor Capital crossed the \$100 million mark in assets under management (AUM). Meanwhile, KDI Capital Partners’ Outstanding Business Limited Partnership Fund closed on more than \$160.9 million.

The merger and acquisition space has also been quite busy, as showcased by wealth management heavyweight Captrust’s planning for an M&A-heavy 2021. In 2020 alone, the overseer of \$50 billion in AUM and \$409 billion in assets under advisement, closed seven acquisitions and is aiming at another eight deals before the end of 2021. Fred Hutchison, managing partner at Hutchison



PLLC, said his firm is among those that have been busy in the segment, with much of the activity coming from the tech sector. “We do between 15 and 30 M&A transactions a year. M&A is certainly one of our core competencies. For most of our companies, it’s the first time they are involved with M&A, so there’s a lot of counseling going on in the process. We help them with the terms or the letter of intent. We spend a lot of time on the deal’s terms and making sure everything is in order.”

Overall, on the financial planning side in 2020, the aggregate number of licensed professionals, Series 7, fully licensed brokers and total number of employees reached 3,919, a nearly 3% increase compared to 2018’s 3,811 professionals.

■ Legal

In the legal sector, CBRE findings show Raleigh-Durham stands among the most high-performing U.S. markets for law firm growth, ranking ninth in legal market growth. The Triangle’s 27 largest law firms employ in aggregate more than 1,000 lawyers. Of those 27 firms, 14 have their headquarters in the region. “We have many great law firms with many great lawyers in this region—and I suggest that we are a bargain compared to the bigger city markets,” said David Paulson, Carolinas Managing Partner at Williams Mullen. “Any business in



Perspectives: Financial services

■ Jeff Brovet

Audit Partner – Thomas, Judy & Tucker, P.A.

One of the reasons we opened an office in Durham is that we wanted to work with people in our local market, as well as the access to talent in the Durham market. Previously, hiring someone who lived in Durham meant they had a 45-minute commute. Making an employment decision is a lot different when you have an option that is five to 10 minutes from your residence. ■

■ David Cove

Managing Partner – MassMutual North Carolina

Historically this has been a white, male dominated industry. It still is to a certain extent but there has been a major shift both in attitude and action. Attracting more women into the business is a major initiative MassMutual is focusing on alongside generally being open to more diversity. We’ve made a lot of progress, but I believe focusing on diversity is something that companies must be intentional about. ■

■ Jim Holmes

Managing Partner – Sentinel Risk Advisors

Now, in all of North Carolina there is a talent deficit. Companies with a vibrant, employee-focused culture have done well. Those that don’t have that, have lost talent. I would love to see a functional, nonpartisan approach for legalizing a lot of workers. If we can get rid of the polarized issues of politics, we can come to an issue that will help a large pool of people get work. ■

Jackie Prillaman

Raleigh Office Leader, Business Tax Partner – RSM US LLP

In the future, clients will start thinking about advancing their technology and remote capabilities earlier than they had planned and are building that into their budget. From our clients’ perspective, we’ve seen a lot more interest in how they’ll work differently moving forward and what role technology will play on that. ■

Robert Turner

President & CEO – Capitol Financial Solutions

In the social media age, there are now more investors dipping their toes into the market, which is important because it is critical to start investing early. However, the risk is the lack of knowledge surrounding highly volatile trades, such as the GameStop trade. If these young investors expecting to make significant returns get burned, they’re unlikely to return to the market in the future. ■

Q&A

Devon **Williams**

*Co-Managing Director &
Labor and Employment
Attorney*
Ward and Smith, P.A.



How has demand for your services shifted in the past year?

In mid-March 2020, we saw an immediate uptick in our labor and employment practice. Employers were wondering whether they would be able to sustain their workforce. Then the Families First Coronavirus Response Act (FFCRA) legislation came out that impacted employers and the paid leave they needed to provide.

Litigation hit somewhat of a pause in March, as did our M&A deal flow. By the summer, however, our business attorneys were busy again, and they have not stopped. Our trusts and estates attorneys, with the added effect of COVID and the inherent expectations of what is to come with the federal administration change, has been bubbling. They have remained that way this year as well, trying to help high-net-worth individuals prepare for possible tax changes down the road.

Creditors' rights has been interesting. When the economy is not doing as well for the majority, their workload is quite busy and they have creative and nuanced issues that they have to address. The practice has remained steady, although lacking the anticipated huge jump stemming from bankruptcies. The moratoriums on enforcing leases or loans were a help, but at some point, banks are going to need to recoup that money.

What is your firm's approach to diversity?

Respect and valuing others is baked into the culture of Ward and Smith. The culture of the firm is very much egalitarian. We demonstrate and live teamwork, and it's not just something we talk about. We call each other partners and, externally, we do not distinguish between junior associates or shareholders. We expect everyone to treat all other employees with respect, regardless of what position they hold in the firm, because they are all essential to what we do. We are actively working to recruit and retain women and minorities in the legal profession. Building the talent pipeline, we also have a new staff internship program building out of our diversity, equity and inclusion objectives. ■



this region (or even outside of this region) has access to high quality, high efficiency legal services right in our backyard. There are precious few legal needs of even the most sophisticated of businesses that can't be met by the lawyers and law firms in this market. That's great for the businesses that are here and the businesses that are surely on their way here."

One key aspect of the Triangle's legal market is its talent pipeline. North Carolina's Top 5 law schools are all located in the region: Duke University School of Law, the University of North Carolina School of Law, Wake Forest University School of Law, Elon University School of Law and North Carolina Central University School of Law. Bar passage rates of all five institutions range between 73% (Elon University School of Law) and 94% (University of North Carolina School of Law).

With litigation expected to be on the rise as the dust settles on the pandemic, be it the likely skirmishes between landlords and tenants, loan delinquencies or government audits related to COVID-19 financial aid programs, legal firms in Raleigh-Durham are preparing for a front-row seat on the action.

Part of that landscape also includes consolidation as law firms look to go from strength to strength. Nelson



Mullins Riley & Scarborough, for example, is poised to acquire litigation and corporate boutique firm Shanahan Law Group, echoing the Southeast expansion of a bevy of legal firms. By the end of 2020, Robinson Bradshaw realized a four-decadelong aspiration: a Raleigh foothold. The firm joined the likes of Womble Bond Dickinson and K&L Gates with both a Charlotte and Raleigh footprint.

The pandemic had a far-reaching impact on the legal sector in how it conducts its business, growing its technology use by leaps and bounds. The marriage of legal and tech was evident on April 30, 2020, as the American Bar Association Young Lawyers Division's Disaster Legal Services Program and legal tech company Paladin launched the first national disaster relief pro bono portal. The centralized, sortable database lists opportunities to tend to those impacted by COVID-19, both recent disasters, such as the Tennessee tornadoes and Puerto Rico earthquakes, as well as future natural disasters as they occur.

This is one example of how technological advancements and innovation are penetrating the legal sector, which had to play catchup in many instances compared to other industries that are more

tech-intensive. Once considered a nice-to-have, technology has become an imperative for legal firms looking to stay relevant, capture available demand and consolidate their market footprint. Those that fail to heed the call for digitalization and embracing the growing prevalence of technologies, such as AI, robotics, data analytics, deal management platforms, client portals and dashboards, automated reporting and e-signatures, risk falling behind.

Going forward, legal firms will have a critical role to play in the country's economic rebound. On one side, they will be the go-to advisers to prepare employers and employees in drafting and implementing back-to-work guidelines, fed by the provisions and recommendations offered by local trade associations, the Centers for Disease Control and Prevention, the Occupational Safety and Health Administration and state health departments. On the other, they will act as valuable partners in a plethora of areas that threaten a demand spike, including increased litigation and a raft of likely pandemic-related legislation. One area of note, according to the American Bar Association, is the real estate market where a potential eviction crisis looms as moratoriums end. Other issues in that segment include



The adoption of advanced technology and absorption of new regulations ensures a strong client portfolio.

housing insecurity among renters, the destabilization of the housing market and specifically the depletion of affordable housing.

■ Challenges

The COVID-19 pandemic had enough disruption capacity to both accelerate ongoing trends in certain industries while bringing others to a stark halt. As companies across all industry verticals look to come out on top, they will look for guidance from their accounting, legal and other professional services firms.

Despite its deep and enviable pipeline, talent acquisition and retention in the new environment will remain a key challenge, both for the professional services and the clients they serve. “We are coaching companies to create applicant and employee engagement that ensures the recruit’s experience makes them feel significant. Companies should revisit all aspects of the job posting, interviewing, on-boarding, and orientation processes including response times and levels of communication and engagement. People want to know that a company cares about them – that they matter – and that the company is also focused on making a difference in the communities it serves,” said Gary Greene, president and CEO of Greene Resources.

Professional service companies will also need to provide answers in increasingly dynamic and shifting markets. Fast-paced absorption of new regulations and legislation, coupled with technology adoption, is poised to become the winning combination to ensure a

strengthened and broader client portfolio. To this end, the ability to guide clients through the uncertainty of the post-pandemic world will be key to thrive going forward.

In light of the pandemic, consumer behavior has also fundamentally changed. This was especially true at the beginning of the pandemic as businesses leaned heavily toward one-stop-shops, integrated services, fixed fees and greater transparency on cost structures in an effort to deal with difficult cost-cutting decisions to sustain their diminished cash flow. Cost-conscious clients looking for greater value at lower price points are pushing consulting firms to recalibrate their own business and operational models to bypass diminished profitability in the context of digital-first competition entering the consulting market and amid growing demand for cybersecurity services.

■ Looking ahead

The continuous investment flows despite the pandemic, added to a strong pipeline of capable, skilled and educated talent and a diversified economy are all ingredients for professional services firms to continue to thrive going forward. Moreover, whether they are legal, accounting, wealth management, private equity or venture capital firms, they all have a vital part to play in securing the region’s rebound and continuous prosperity as the Triangle enters a new phase of growth. Adaptability is the name of the game. Those firms that are able to adapt to the regulatory and technological changes to the benefit of a satisfied client portfolio will be able to capitalize on the ongoing growth of the Triangle. ■

Market voices: Accounting services



Heather Cozart
Managing Partner
Dixon Hughes Goodman
(LLP)

“ We are seeing growth in advisory services related to being able to provide cost-saving alternatives. There is also an uptick in the outsourcing of certain accounting and operational functions. Many are struggling to consolidate their cybersecurity and IT architecture. The talent war around those two verticals in particular is unbelievable, both locally and nationwide. Employee retention is another area that has seen sizable demand growth. Several companies that have moved down here are also multinational and require assistance on foreign tax matters, parallel to multistate state and local taxes. ”

“ With the determination of entity selection, the landscape changed significantly with the 2017 Tax Cuts and Jobs Act due to the creation of the 199A deduction for pass-throughs. We are now seeing another shift, based on a prospective look at where the Biden administration will go. There is a lot of speculation around an increase in the corporate tax rate and potential increases in individual tax rates coupled with the eventual sunset of the 199A deduction in 2025. We are in a bit of a wait-and-see moment because the process of changing an entity is not one to be taken lightly. ”



John Gonella
*Regional Practice
Manager*
Cherry Bekaert



Kevin Leder
Managing Partner
CliftonLarsonAllen (LLP)

“ Demand has increased exponentially for tech-related consultancy and we have clients that have been victims of various cyberattacks. Pretty much all companies are vulnerable and that will continue to be a hot topic. Office space is another changing concept. Many companies like us put lease and office expansions on hold and now we're thinking differently about how we can work. We're still able to stay connected but I see our team working remotely more than before the pandemic. One of the great things about our business is that we can be flexible. ”

“ We've seen a huge uptick in consulting services that we've brought to the market. Especially in Raleigh, we've seen demand for consultation around PPP and the CARES Act, employee retention credits (ERC) and cybersecurity. With all the remote work, there is new demand for systems consultation. In the decentralized workspace, companies become a lot more susceptible to cybersecurity risks and hacking. The strength of Elliott Davis in the Raleigh market is that we're able to leverage those resources across our firm footprint and provide value to our clients. ”



Marshall Stein
*Shareholder &
Construction Specialty
Practice Leader*
Elliott Davis



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Commercial Real Estate & Construction:

The Raleigh-Durham MSA is fertile land for commercial real estate projects. Evidenced by major economic development wins such as the upcoming Google and Apple expansions announced amid the COVID-era, the Triangle market is expected to see continued investment, development and construction opportunities.



Commercial Real Estate & Construction in Numbers:

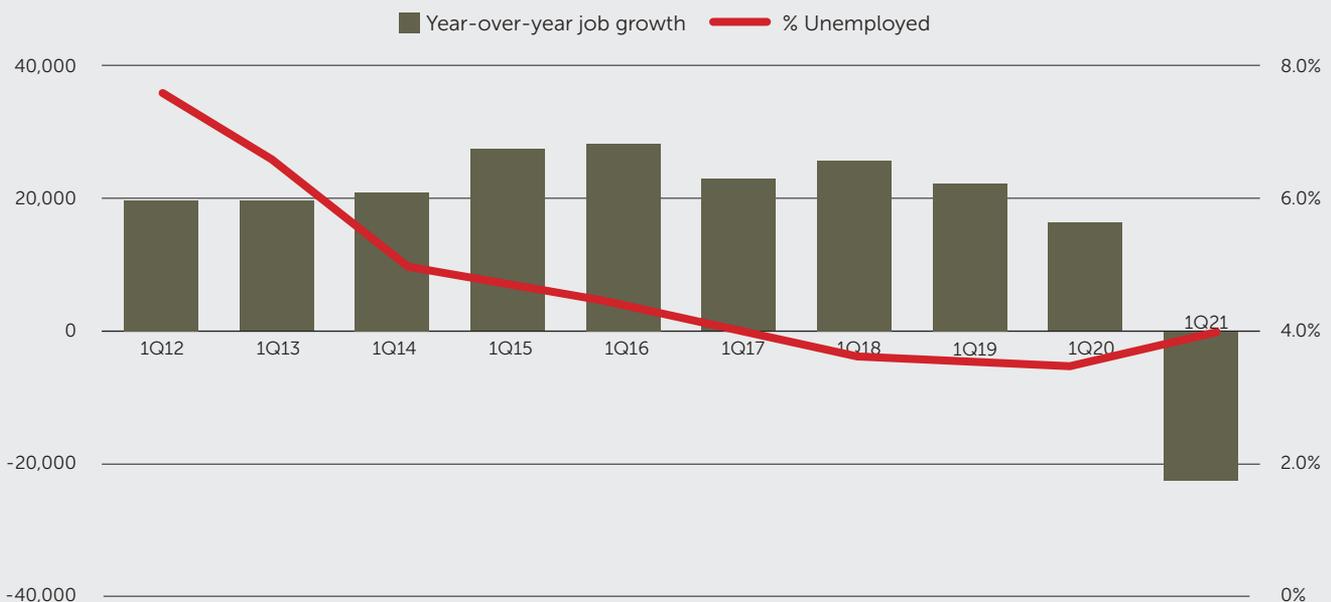
Office market overview: Raleigh asking rates (\$/SF):



Source: CBRE

Employment trends:

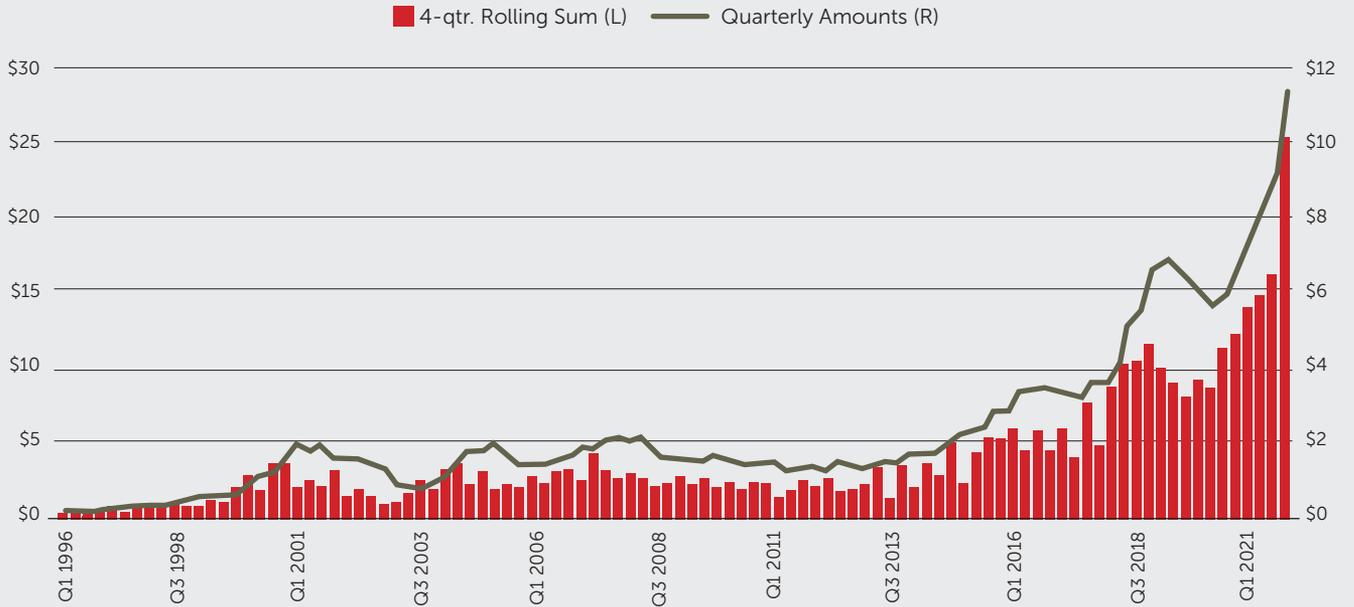
Triangle unemployment stood at 3.8% in March 2021, just 80 bps above its pre-pandemic level. The region has regained 75% of the jobs lost in early 2020. The labor force remains more than 20% below its pre-pandemic peak, presenting a significant challenge to retailers.



Source: Avison Young

Venture Capital funding surges to a new record:

U.S. Life sciences venture capital funding (billions)

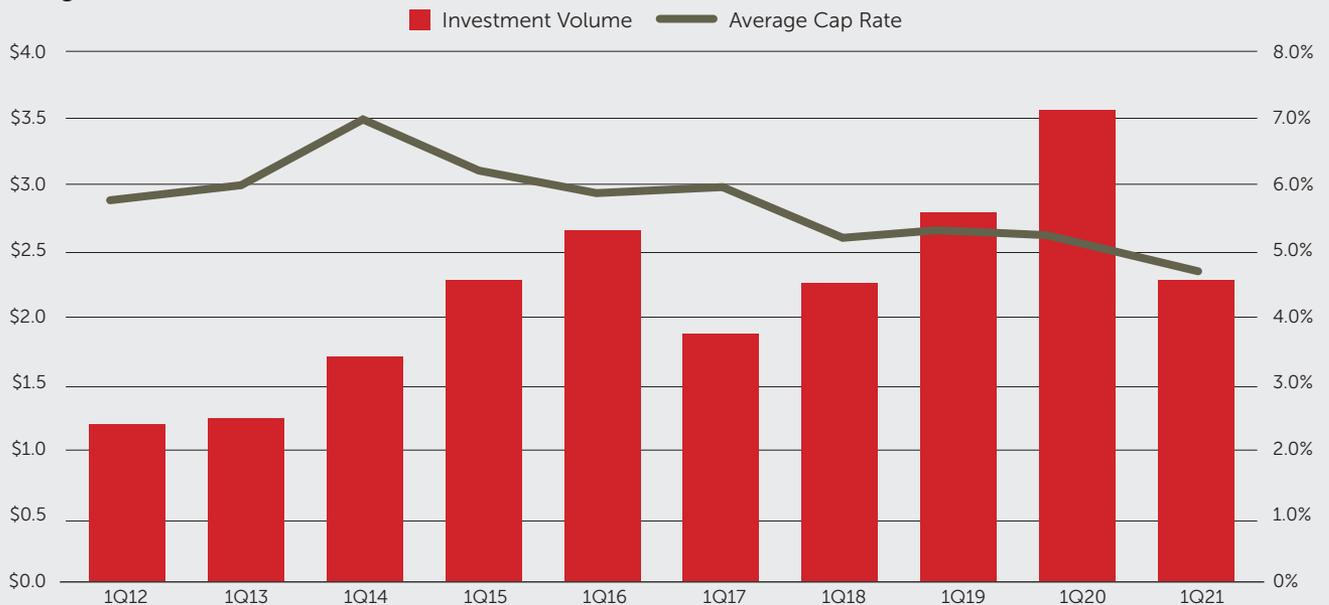


Source: CBRE

Capital markets:

Trailing-12-month investment volume totaled \$2.2 billion in the first quarter, down 57% year-over-year. Strong demand for product has led to further compression of capitalization rates on existing properties. The average Triangle multifamily cap rate was 4.6% in the first quarter, down 50 bps year-over-year.

Trailing 12 Months



Source: Avison Young



The right stuff:

Commercial real estate in the Triangle is feeding off world-class anchors, emerging industries and an expanding population

Anchored by world-class research institutions and an innovation legacy that dates back to a post-World War II economy, the Raleigh-Durham market's long-seeded embrace of technology, education and innovation has set the stage for continued development and construction in the face of COVID-19 and beyond. A growing population, stable unemployment rates and a regional approach to economic development bode well for the local development and construction sector.

Healthy population expansion and a diverse economic base go hand in hand. Historically, these two fundamental macroeconomic factors allowed the Raleigh-Durham market to weather the aftermath of the Great Recession and are setting the foundation for a robust recovery as the pandemic landscape continues. "We have historically high population growth, added to strong fundamentals that shielded us even from the recession in 2008-9. We just had a flattening of the curve. We did not experience a market dip such as happened in Las Vegas or Miami," CityPlat Principal Nikita Zhitov told Invest. "In this instance, COVID only added fuel to the fire that spurred this explosion and the growth of the Triangle market. We believe we have at least another 10-year ride of steady growth

and appreciation in the Raleigh-Durham market. In Raleigh alone, we have just under 480,000 people. Its population is projected to grow to 800,000 by 2030. A lot of infill development is required to sustain this growth. While there is not much land left, we anticipate significant redevelopment work and explosive growth in prices, with more than 10% in appreciation rates per year on real estate values." The pandemic certainly had a disparate impact across asset classes with commercial office settings bearing the brunt of the coronavirus disruption. COVID has forever reshaped the workplace dynamics by accelerating and normalizing remote work capabilities and underpinning the focus on health and wellness across commercial properties. However, the doom-and-gloom predictions announcing the death of office space never materialized. Instead, companies used this cycle to plant their flags in the Triangle region as best evidenced by the expansion of Google and Apple in the local market.

While the Delta variant may delay the return back to the office for companies of all sizes, remote work offerings are, nonetheless, here to stay, tasking architects and developers to envision what the future of the work environment will look like post-pandemic. (■ ■ ■)

Prefab focus

The prefabrication building trend can lead to significant efficiencies, which proved an advantage during COVID

Pat Rodgers

President & CEO – Rodgers

How has your business unfolded during COVID-19?

While 2020 brought us many challenges, we were grateful to close out the year as one of our strongest and highest volume years to-date. While we were able to make progress on some exciting projects, it didn't come easily, as we had to react and adapt to a new way of operating that came with a global pandemic. In addition to implementing new safety measures, we had several construction measures in place that allowed work to continue. One of those has been the use of prefabrication on our projects. This process has been a key focus for us over the last several years and will continue to evolve as the industry moves in that direction. Prefabrication is exciting and implementing prefab early in the planning phase of a project can result in increased efficiencies, higher quality, reduced overall schedule and safety improvements. One of our largest projects in 2020 implemented prefabrication across several areas of the build, which helped ease operational impacts due to COVID-19.

What can be done to increase the representation of women in the construction and engineering fields?

I'm happy to say that since I entered the industry, representation has increased. Although not a dramatic amount, it's enough to start making a difference. We have more women and minority representation in our industry now than ever before. It's important that we are making strides to continue enabling and encouraging diversity because, at the end of the day, it will help us all be more successful.

What are the company's main near-term goals?

In 2019, we launched a safety program called Live Safe and we're heavily focusing on that. Not only do we want our team members to live safely when they are on a project site, we want them safe when they're home



with their families as well. Our main goal every day is to make sure everybody goes home safely to their families. COVID-19 has stressed this goal even more.

We're also trying to ensure that projects are kept in the pipeline. As we crossed into 2021, the level of new project activity has certainly increased, and we anticipate that will continue and possibly accelerate.

As a region, the Carolinas work well together and have good private-public partnerships. Rodgers has been fortunate to be part of several of these partnerships in Charlotte and Raleigh that have helped build and expand community culture. The Research Triangle was a pioneering public-private partnership that continues to transform the region. In downtown Raleigh, we are working on the expansion and renovation of the Marbles Kids Museum, a partnership with Wake County. ■

Matt Hohorst
Vice President
ARCO Design/Build



What factors explain the strong performance of the industrial sector in Raleigh?

With everyone forced to stay home due to the pandemic, consumers turned to the internet as the primary means to procure products and groceries. Now in a post-pandemic world, it also seems that consumers have become accustomed to these buying behaviors and are gravitating away from shopping malls. From our perspective, the Triangle industrial market has been relatively dormant over the last decade but it really started to pick up the pace over the last year. As I understand it, there are approximately 160 people moving to the region on a daily basis. Even with a margin of error, it's clear that Raleigh-Durham is one of the fastest-growing metros in the country. Rapid population growth is usually a good indicator that a robust industrial market is soon to follow.

We see three trends in the industrial development space in the Triangle. First, to my last point, last mile is going to be required to address the trends in e-commerce and local population growth. Second, industrial assets seem to be offering the best means to address speed-to-market opportunities for life sciences companies looking to establish themselves in the region. Third, due to the growing demand for lab space, many flex buildings are being converted, creating a very low vacancy rate for smaller industrial users.

How does Raleigh fit into ARCO's growth strategy?

We pride ourselves on being evangelists of the design-build process in its truest form. Over the past several years, we've organically grown into the life science market throughout the country. Effective use of design-build is not very common in this sector. Though we've found that underperformance of traditional execution models have led to an ever growing need for a means of designing and building in a more efficient, thoughtful, and controlled way. That's exactly what we have brought to the Raleigh-Durham market and the life sciences sector in North America. So far, the results of this method are staggering, and we couldn't be more proud of our success. ■



Commercial real estate in the Triangle prevailed throughout the pandemic and has yet to slow down.

Conversely, the pandemic-driven demand for e-commerce and last-mile delivery provided a jolt to the Triangle's industrial sector, as seen by the strong industrial asset class performance during this cycle. In that same vein, the focus on health and wellness opens opportunities for healthcare and life sciences entrepreneurs to innovate and improve healthcare delivery models, bolstering demand for lab space, medical offices, clinics and expansion of healthcare systems.

On the apartment front, the healthy population growth, further bolstered by factors such as newfound remote work capabilities, low-interest rates and growth of local suburban markets, put multifamily developers and investors in a good position to capitalize on the Triangle's projected growth.

Challenges loom for the commercial real estate and construction sector, however. Developers and construction leaders are closely monitoring factors such as price escalation, supply chain disruptions and labor challenges that could potentially impact project



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Gordon Grubb
Founder
Grubb Ventures



What were some ways Grubb Ventures was able to continue to grow despite the pandemic?

We just consider ourselves very grateful that we were able to keep our properties operating. We converted just like everybody to online leasing and we kept construction going as well. We actually kicked off our Raleigh Iron Works project and have started site work there. We have kept plowing ahead with basically the same model and growth expectations that we had pre-COVID. We might have been a bit delayed, particularly with the kick-off of that project. Otherwise, we are tracking pretty well with construction here. We were also able to continue with Raleigh Ironworks. It took the city of Raleigh a while to really get up to speed but now we are moving forward with that.

What are Raleigh's up-and-coming development hotbeds?

We're very excited about our Iron Works project because that is a part of town that had really been neglected. Unfortunately, we are becoming a victim of our own success because now that people know what we're doing, the prices have really started escalating over there. Southeast Raleigh has a Downtown South project and there is a lot going on there. That area had also been neglected for a long time. There are concerns about gentrification and displacement. We are growing so fast and housing costs are going up but those are the areas where we see growth.

At the same time, we do have some challenges, primarily infrastructure and affordable housing. With more smart growth and densification, we hope that will ultimately allow us to think more about transit and infrastructure. With 60,000 people working out of RTP we have a reverse model unlike in Charlotte. We did not have a strong population coming to a Downtown core. We have people living in Raleigh who drive out to RTP. But now with the growth of Downtown Raleigh and Downtown Durham, we are starting to see the development of three major employment nodes, which we did not have before. ■



The Research Triangle Foundation is investing over \$1 billion in developing a new urban center in the park.

■ budgets and delivery dates. Despite the challenges, given the Triangle's resilience amid a global pandemic and a foundation rooted in innovation, technology, education and collaboration, all signs point to a strong recovery buoyed by the development of and investment in commercial real estate assets.

■ Multifamily

With an estimated population just north of 2 million people, the Raleigh-Durham-Chapel Hill metro area is one of the fastest-growing MSAs in the nation. According to the University of North Carolina, the population in the Raleigh-Cary market grew by 23% from 2010 to 2019, ranked just behind Austin as the fastest-growing MSA in the country. Though official 2020 census figures do not publish until the end of the year, it is estimated that the population is growing at a rate of 0.99% annually, according to World Population Review, which means good news for the residential and multifamily housing market.

"We have always been known as a market leader in



land deals, and residential demand for both single and multifamily has been as strong as I have ever seen it. Despite the pandemic, population growth continues and people are moving to this region whether they have a job or not. The pandemic has led people to move from apartments in densely populated cities to communities with open areas and amenities,” NAI Tri Properties Executive Vice President Jimmy Barnes told Invest..

Market fundamentals such as the tightening of vacancies, strong rent performance and ongoing construction characterize the state of the local multifamily market, factors buoyed by key economic development wins for the region.

“Raleigh-Durham attracted leading technology and life science companies throughout the pandemic, with significant expansions including Google, Fujifilm, Amazon, Eli Lilly, Bandwidth and GRAIL. These developments will create thousands of new jobs and support renter demand over the next few years,” the 1Q21 NorthMarq market report states.



Steve Hepler
Raleigh Office Leader
LS3P

What makes the Triangle a great place to do business?

The Southeast as a whole is a target for people moving from the West and North, particularly in the last year and a half. Raleigh-Durham and Chapel Hill really seem to be prime targets of this influx. The Research Triangle Park is in the middle of all that. This region stands out for its competitive edge against other communities around the country, given its high-tech industry as well as the pharma and the biotech industries. Students who graduate here tend to stay here and grow a family. They consequently get involved in the community. It's homegrown growth in addition to influx from other regions.

What challenges are you experiencing?

Costs have started to creep up. In 2020, the perception was that because everything was slowing down, things were going to get cheaper but the opposite happened. Labor is going to be a major cost. Steel and wood prices are also going up. We've already seen material shortages as well, which is affecting schedules and will be somewhat of a concern if left unchecked. Sometimes we get calls from contractors reporting delays, falling behind on the production due to supply chain issues. Our work in hospitals, specifically, has been the most restrictive. The healthcare community has experienced greater slowdowns in terms of projects moving forward. Due to public health protocols, healthcare facilities virtually closed off their buildings for obvious reasons. They're now starting to come out of that self-isolation.

What is your outlook for LS3P?

Our projection is a robust one, particularly in Raleigh. We're fortunate to be here in the Southeast as some firms are struggling up North. Going forward, sustainability is always going to be at the forefront of what we do and it's not as hard to achieve anymore. We've been part of the U.S. Green Building Council's LEED program from our inception and we incorporate strategies for sustainability in all of our designs. ■

Terence McCabe
Managing Principal –
North Carolina
EYP



What milestones or projects have helped establish EYP in the Triangle region?

One project that really set our place in the Triangle region was the UNC REX Heart and Vascular Hospital, which opened in 2017. That was the largest healthcare project in Raleigh at the time. We were really proud of that. It was the springboard for a lot of other projects. Right after that, we jumped into UNC Hospital's Surgical Tower, currently the largest project going on in Chapel Hill. We've been working with UNC Health's Strategic Plan, which is their plan for the next 10 or 15 years. What separates us from the competition is that we're not passively just designing for tomorrow. We're looking beyond what clients are asking for. We're looking 10 or 15 years down the road.

What trends are emerging in the healthcare space?

For healthcare, it's total flexibility. Designing patient rooms that are adaptable to not only patient needs but also to changes in technology. The technology is changing so quickly that rooms can become outdated the second they come online, so we're looking to change that. On the education side of that, we're seeing a change away from the traditional classroom/lecture style to more hands-on learning spaces. We're designing a lot of simulation labs in which student nurses, for example, can go into a real-life environment and actually practice their technique.

How would you describe the demand for construction in the Raleigh-Durham area?

We're lucky in North Carolina. I feel like we've gotten through the pandemic better than other states have. Healthcare is a very busy market. It slowed during the height of the pandemic but it never really stopped. It's a continual need and I see it getting even busier. Higher education has slowed down as a market. Schools have experienced a reduction in income from the lack of students and tuition. The impact of that has been a reduction in higher education projects. Hopefully, that will pick up when students return to school. ■

**Asking rents
in Raleigh-Durham
were at
\$1,263 per month
in 1Q21,
up 3.9% Y/Y**

After rising through the start of the pandemic, the vacancy rate tightened as 2021 began. Apartment vacancy declined 50 basis points in 1Q21, finishing at 8.5%, NorthMarq reported. Asking rents stand at \$1,263 posting a 3.9% growth year-over-year. After an active 2020 in terms of assets trade, the 2021 investment market experienced closer to normal conditions through 1Q21. As such, 789 units were delivered through the first quarter and approximately 5,268 units are under construction, NorthMarq reported.

Though Wake and Durham counties set the foundation for current and future development opportunities in the Triangle market, the region features a strong core of surrounding areas ripe for continued growth largely due to land availability and business relocation activity, all of which bodes well for the residential and multifamily sectors.

"Several areas are emerging, including Johnston County, the Garner/Clayton area, and the US-1 /South Sanford area. I-40 continues to see growth for many different reasons, including access into Raleigh and the Downtowns. Companies such as Amazon are locating in these areas because of transportation advantages. I-40 also provides easy access to the Raleigh-Durham International Airport. The Sanford area provides immediate access to available land. Residential developers in that area are proposing well over 2,000 homes over the coming years," Barnes said.

According to Forbes, the Triangle's robust educational system and growing population position the region for a strong post-COVID recovery, the publication reported, citing a study by Moody's Analytics. Both Raleigh and Durham landed on the report's Top 10 cities expected to make a strong recovery post-COVID. "The climate, the education-focused economy, the proximity to both beach and mountains and having a lifestyle that is a (•••)

Squeezed out

Flight from ‘unhealthy’ cities is pushing demand and squeezing some buyers and renters out of the market

Jim Anthony

CEO – APG Capital and APG Advisors

What are the biggest challenges to developing in Raleigh-Durham?

Our biggest challenge at the moment is that huge demand is overwhelming the short supply, which is squeezing lots of homebuyers and renters out of the market. It has been that way in a lot of Southern cities, as the flight from what I’ll call unhealthy cities around the country continues to grow. These are places where there is structural economic, leadership, regulatory, and tax challenges. Folks who live and work there were already frustrated and COVID pushed them over the edge. So, folks are coming here in droves. They’re going to Florida, Tennessee, South Carolina and Texas but that immigration is a major challenge for every one of those markets. Infrastructure is getting strained, land prices are going crazy and construction prices are too high with labor shortages. You will be fortunate to find loyal subcontractors right now because they’re charging whatever they want and getting it. That’s not good. Here’s what will rebalance that: I’m talking to people from New York, Pennsylvania and New Jersey who have little to do there because things are mostly not growing. These people are coming down here, bringing their skills and companies with them, so there will be growing numbers of subcontractors and general contractors here. If there’s a second major challenge, I would say that I’m hoping that people will stop buying up all of the lumber and building materials so that what doesn’t get bought in New York, Illinois, and California, can get sold down here. There is an unbelievable strain caused by the price of construction materials and products at the moment.

Can you elaborate on the Edgewater Commons development that is in the works?

Edgewater Commons is a project that has been three years in the making. The project site — roughly 70 acres — has been among the most complicated we’ve ever



worked with. It has environmental contamination, has had roadways planned that had been on the maps and which had to be removed, it had incorrect zoning, it has a slave graveyard on it because it’s an old farm, and about five or six acres of our land is in or under the Neuse River. It’s a truly interesting site and a transformational project for the east side of Raleigh.

We are planning on doing around 500 units of housing, we hope to have a shopping center in the range of 120,000 square feet, a community oriented recreational area on the banks of the River, and we’re looking into additional retail and office. We will do most of the development ourselves, despite an abundance of interest from other parties, though not the retail since we’re not retail experts. I imagine it will take three to five years to get fully built out. ■



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Welcome to Raleigh

Market voices : Construction and development



Kellie Falk
*Managing Director &
Principal*
Drucker + Falk

“Demand has exploded since the pandemic restrictions have eased. This is equally true in terms of market demand for apartment renters as it is for our clients searching for investment opportunities. Our market rent growth has been very strong, and it is due to the customer focused, professional individuals we have in all our communities who are maximizing every opportunity with the increased demand. As a result, we have been experiencing very impressive rent growth across our portfolio. In terms of business growth, DF has experienced significant growth in all our regions, and we are projecting a 20% growth this year with just the current contracts in place as of June. Additionally, we have over 2k units in our development pipeline with both existing as well as several new clients.”

“The strong markets right now in the Triangle are mixed used and life sciences. Those two are the strongest industries we’re seeing in the region. While we’re extremely heavy in mixed use, we’re looking to branch into the life sciences sector. We want to make sure we stay diverse because who knows what sectors will be hot next. Our goal is to have modest growth while staying on top of the larger projects that come into the area and having the proper labor and technology to support those projects.”



Baker Glasgow
*Vice President of
Construction*
Clancy & Theys
Construction Company



Tanner Holland
President & CEO
McDonald York Building
Company

“Ten years ago, sustainability was a really big buzzword. With the types of projects McDonald York builds, sustainability has been integrated through the design and project specifications. Many of the sustainability initiatives from 10 years ago have now entered the energy code itself and become requirements. LED lighting is the obvious example. I can also point to the efficiency of our mechanical and electrical systems as others. What we are seeing more of is the repositioning of existing buildings for new uses.”

“There is currently tremendous interest and activity in adaptive reuse. We see developers and small-business owners turning older buildings, garages, and warehouses into workspaces, restaurants, retail, and pubs. These projects don’t often generate headlines, but collectively they make a big impact. On a larger scale, Skanska recently completed the Raleigh Union Station, creating a new Downtown multimodal train hub from an abandoned warehouse. We are also seeing this in the education space where institutions are typically land-locked.”



Greg Peele
*Executive Vice President
& General Manager*
Skanska



Perspectives: Challenges, opportunities

Matthew Cooke

Partner – Davis Moore Advisors

We need to connect the Triangle in a better way. The ability to get to the major hubs and to the airport via the light rail would be a great asset to this area. There is always work going on with the highways and roads. That’s going to have to continue because the growth of the area. ■

Greg Hobbs

President & Founder – Hobbs Properties, Inc.

Our suppliers and engineers are assuring us that there is a rise in manufacturing of raw materials and we should be able to source materials at a reasonable cost and lead time soon. Providing a firm rental rate until building costs can be locked in has been a challenge. ■

Scot Humphrey

Founding Principal – Edgewater Ventures

Raleigh-Durham is a unique market from an institutional investor’s perspective. In many ways, we have three central business districts and then a lot of suburban bedroom communities around them. It is quite unique. ■

John Kelly

Principal, Market Leader – Foundry Commercial, LLC

With office products, it’s not as clear yet as to how much product we’re going to see trade and come to market this year, as well as investor appetite. However, those who buy office assets at this point in time will likely do very well going forward. ■

John Linderman

Regional Managing Director – Avison Young

Historically, we’ve been sort of discounted as a major market because of a lack of public transit and the lack of a single central core but the pandemic moved us to the top of the list as those previously perceived weaknesses became strengths. ■

Todd Saieed

CEO – Dewitt Carolinas

In general, all our properties have operated fairly normally and multifamily has outperformed. There have been cases of tenants in office buildings who have needed help and support, which we’ve been happy to provide. I think that in our region the effects of the pandemic have been minimal compared with other parts of the country. ■



The strong demand for multifamily product helped keep the market stable.

“It’s not less hectic are some of the characteristics that make the Triangle attractive for migration. This is boosted by many education opportunities, the reasonable cost of living and the business-friendly economy,” said Scott O’ Brien, principal and director of the Chapel Hill office at Lord Aeck Sargent.

Despite the persisting pandemic challenges, optimism abounds for the multifamily sector in the Raleigh-Durham market. Strong macro factors such as population growth and a diverse industry mix anchored by the region’s education, tech and innovation ecosystem are set to usher in the Triangle’s post-COVID multifamily sector development wave.

“The Triangle area and its surrounding submarkets continue to be a highly sought-after area for multifamily investors and developers. We continue to see an increase in out-of-state institutional funds seeking



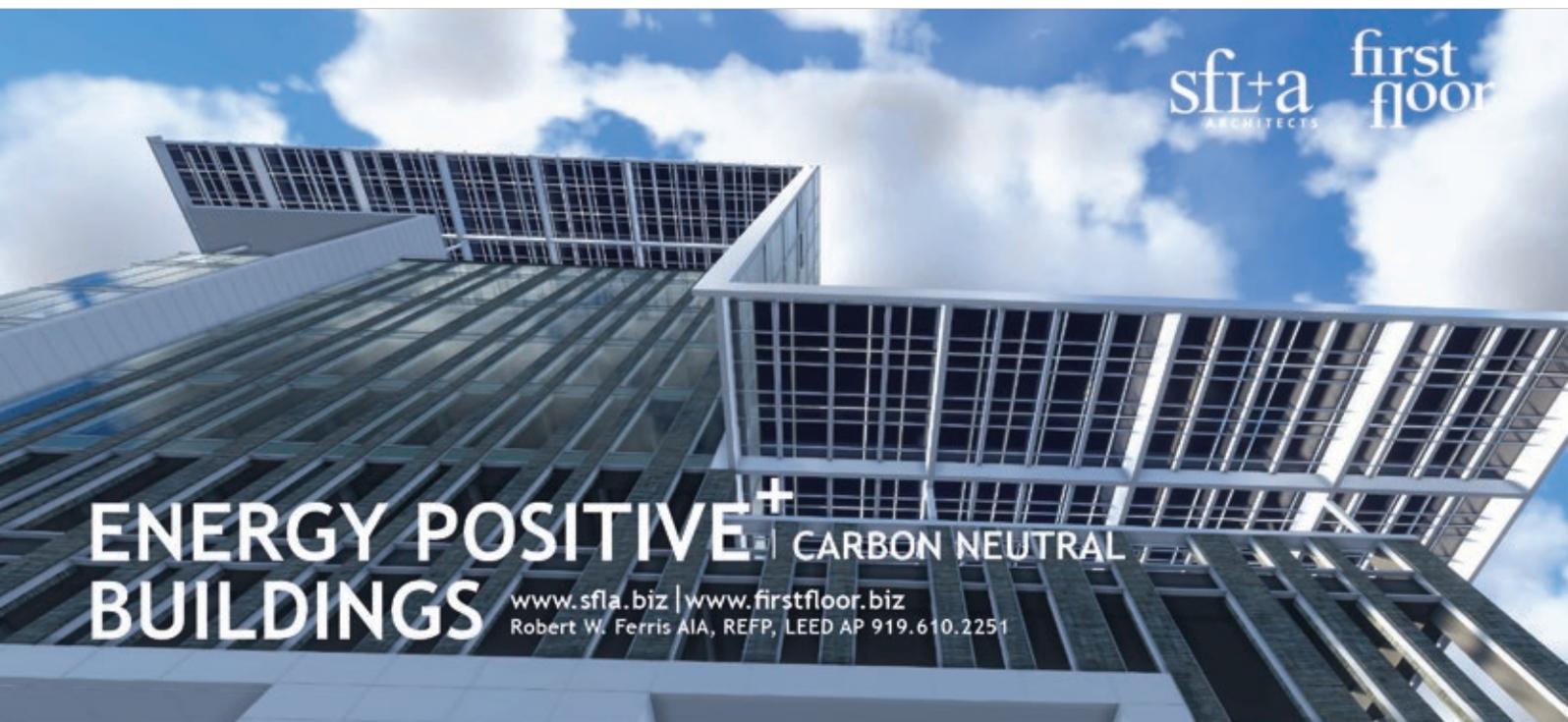
to deploy assets here. We are also starting to see the COVID-19 rebound effect on the multifamily sector with decreasing vacancy rates and increasing absorption rates. The Triangle's strong population growth continues to benefit our market, particularly with the recent announcements of tech giants like Amazon, Apple, and Google coming into our region. Investors continue with their aggressive approach to secure land while being creative in tying up and closing multifamily opportunities in the area," commercial real estate firm, Lee & Associates, said about the region's outlook in its 2Q21 multifamily market overview.

■ Single-family rentals

Though not tightly confined to the multifamily market, single-family rentals (SFR) have become extremely popular among developers and investors during the current real estate cycle. The strong rents performance seen in the apartment market is slated to open up opportunities for the single-family rental sector.

Despite the frenzied residential housing market, the lower initial investment needed for SFR-type properties compared to multifamily apartments poses opportunities for developers and investors seeking to tap into the housing demand inherent in a growing market such as Raleigh-Durham. The growing demand for housing coupled with greater resale opportunities makes SFR properties attractive for investors, according to Roofstock. "Since you can sell to both real estate investors and traditional homebuyers, single-family homes have a much larger buyer pool than apartment buildings and duplexes," Roofstock said about the opportunities inherent in the SFR market.

As such local players are actively pursuing these



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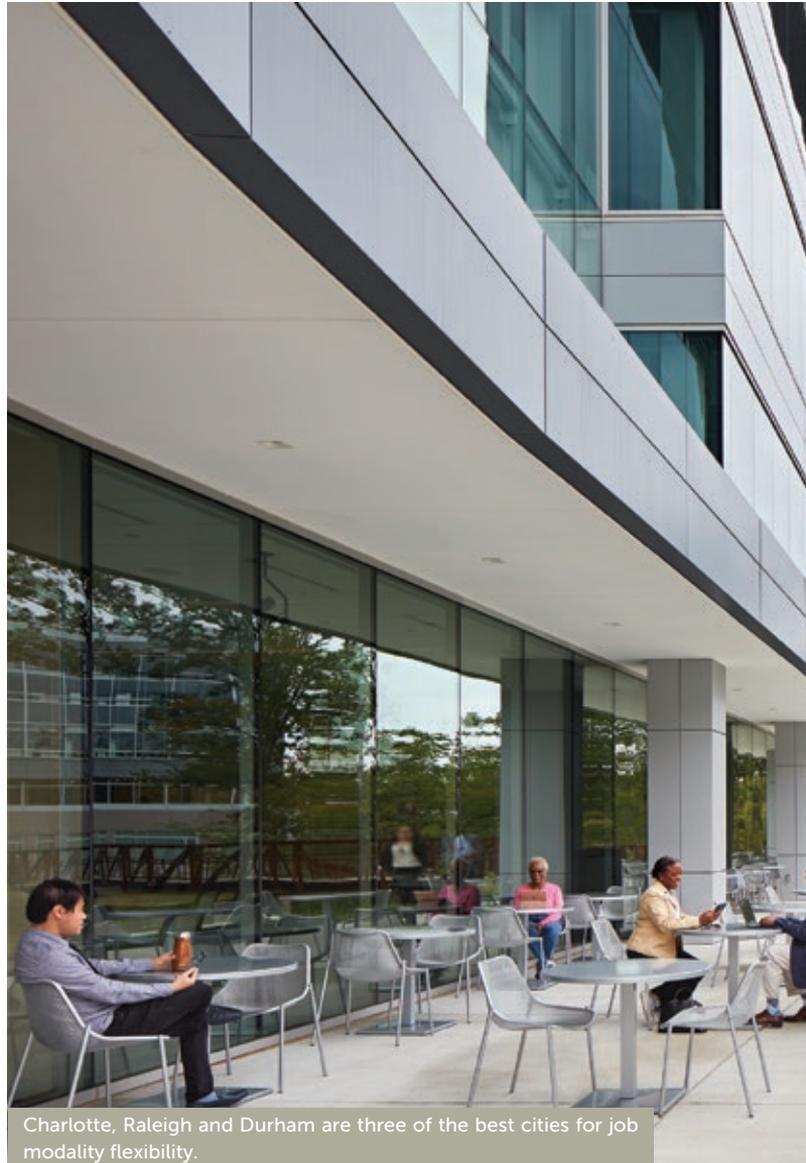
opportunities. “There is a new product that is becoming a new segment of our business: rental single-family homes,” said Preston Development Co. Owner Tim Smith, whose firm is actively building homes to buy and rent across the Triangle market, with a current focus on Chatham County. “They’ve become very popular because of the barriers to entry for new buyers looking to purchase a home as well as an intentional housing choice by many who for various reasons choose not to purchase a home but do not want to live in multifamily developments. By the time we get finished with Chatham Park, we will have close to 1,500 single-family rental units based on the project pipeline we are working on and building out. We anticipate this trend to gather quite a bit of speed,” Preston said.

■ **Office**

The office sector showed flashes of recovery during 2Q21 in what otherwise has been an extremely disruptive cycle for this asset class. Largely buoyed by vaccine availability and by positive economic development activity, the office sector experienced positive net absorption rates for the first time since 2Q20, rates that mirrored pre-pandemic levels, with approximately 152,000 square feet of office space leased through the quarter, according to JLL’s 2Q21 Office Insight report. New deliveries drove vacancy rates slightly higher despite positive net absorption, however, finishing the quarter with a total vacancy rate of 14.7%.

Both concession and rents were flat throughout Q2 with direct rents staying at \$29.25 per square foot with approximately 1,131,300 square feet of office space under construction as of Q2, JLL reported.

Whether wading through rent deferrals or making



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considerations for a safe return back to the office, constant communication between tenants, property managers and landlords has been key in navigating the pandemic challenges. “On the commercial side, we saw a higher rate of delinquency with commercial tenants, and particularly with retail, but not as much on the office front,” Real Estate Associates President Seth Jernigan told Invest. “We had to work with many of our tenants on providing some rent relief to keep them in the space. The majority of those have bounced back and are living up to whatever rent deferral agreement was put into place. We, of course, wanted to avoid having to take action against the tenants and do whatever we could reasonably do to help them weather the storm. If they were strong as COVID came in, we wanted to work it out and keep all the tenants in place, hold hands and keep things together,” he said.



Frank Baird
CEO
Capital Associates
Management

How have deferrals and concessions impacted the commercial real estate business?

We took an interesting approach early in the pandemic. I think we learned from the experience back in the early 2000s when the dotcom bust happened and we had several software companies that came in and asked for concessions in the middle of their lease term because they were over-extended and in trouble. In our world of office tenants, we have not had a lot of problems. I think we have lost one or two tenants out of about 400-500. Our company has not had to give any rent concessions to anybody. We went through a lengthy process of requesting a tenant to provide us information related to receiving PPP funds, if they implemented a pay cut in executive salaries and other financial information that illustrated financial hardship. By the time you go through all those requirements, it’s probably not worth the hassle of getting two months of free rent or any other rent concession that you would have to pay back anyway. Most of the big companies pushed it a little bit and decided it was not worth the effort. We tried to help those that were struggling but they worked through it as we did. The effect on our business has been very limited.

Where are the emerging areas for commercial real estate in Raleigh-Durham?

During COVID, we have had a lot more biomedical, pharma, clinical research, lab space and life science companies coming to the market than we ever had since I’ve been in the Triangle. It’s mainly occurring west of the airport but other buildings in Wake County are being repurposed for lab space. There’s also the Research Triangle Park, which is re-emerging as a tech leader when I thought it was maybe heading the wrong way five years ago because of lack of amenities and because employees wanted to be in bigger urban buildings Downtown, with restaurants and housing close by. But COVID has changed that dynamic. The suburban office building is alive and well. ■

The fast adoption of remote work ushered in by the pandemic allows companies and office tenants to embrace workforce flexibility and explore potential cost-reduction strategies often at the peril of collaboration and mentorship. As such, the post-COVID workforce will likely thrive in a combination of remote and in-person working environments anchored by time in the office.

“There certainly are companies that can manage with a remote workforce but there are a lot who want to be in the office for the intangibles of collaboration, culture, career pathing, training and so forth,” CBRE Raleigh Senior Managing Director Tom Fritsch told Invest. “Companies might move to a hybrid work model where office hours don’t remain the same but, for the most part, we are seeing that people genuinely enjoy spending time together and like the separation from home and office with some flexibility,” he said.

Industrial and life sciences

The pandemic-led shutdowns drove e-commerce consumption to record-breaking levels. For the Triangle’s industrial sector, what was once a rather dormant yet promising sector is now one of the best performing asset classes in the industry due to the rising demand for e-commerce and the frothy life sciences sector. Not only limited to warehousing, distributing and last-mile delivery operations, the industrial sector is also a key contributor to the Triangle’s life sciences ecosystem, all of which help carry the recovery and long-term well-being of the real estate sector.

Amid shelter-in-place mandates and calls to practice social distancing measures, COVID-19 triggered an unprecedented boom in e-commerce, transforming an



Increased demand for industrial space is rooted in the e-commerce and life sciences boom.



Tom Fritsch

Senior Managing Director – CBRE|Raleigh & CBRE|Triad

“If you look at the predictions and projections on population growth over the next five to 10 years, it leads me to believe that there will be a greater demand for e-commerce. The Triad, from an e-commerce, distribution and industrial standpoint is also growing exponentially. Their industrial space is approximately 80 million square feet and Raleigh-Durham’s is approximately 57 million square feet.

Raleigh-Durham is ranked No. 5 in the country for life sciences. This industry has been a true shining light for our commercial real estate market throughout the pandemic and we expect it to continue to be a key factor in our future growth.”



already growing consumer preference from convenient to essential, bolstering demand for industrial space in the process. U.S. consumers maximized e-commerce capabilities in record numbers in 2020. It is estimated that e-commerce sales contributed an additional \$105 billion in online revenue in 2020 while accelerating e-commerce growth by two years, e-commerce analyst Digital Commerce 360 reported in June. What was a vital way to buy almost any product has become more than just a temporary solution as evidenced by the continuous growth of e-commerce sales in 2021. In total, U.S. online retail sales increased more than 32% year-over-year in 2020 and rose 39% in 1Q21, the research organization reported, suggesting that e-commerce will continue to drive consumer behavior in a post-COVID world.

The versatility of uses afforded by industrial space coupled with Raleigh-Durham’s growing population and diverse business ecosystem are setting the stage for the growth of the sector in the coming years. “We see three trends in the industrial development space in the Triangle. First is last-mile delivery is going to be required to address the trends in e-commerce and local population growth. Second, industrial assets seem to be offering the best means to address speed-to-market opportunities for life sciences companies looking to establish themselves in the region. Third, is around light or flex industrial. Due to the growing demand for lab space, many flex buildings are being converted, hence creating a very low vacancy rate for smaller industrial users,” ARCO Design/Build Vice President Matt Hohorst told Invest.

For 2Q21, the overall vacancy rate declined to 3.1%, (■ ■ ■)

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Outlook and trends

Industry leaders discuss the characteristics that make Raleigh-Durham unique and what the future might hold in the commercial real estate sector.



William Allen
Partner
Trinity Partners



Andy Andrews
CEO
Dominion Realty Partners

What makes the Raleigh-Durham region unique compared to other areas?

Raleigh is the state's capital city and is the center of local and state government. We also have the world-renowned Research Triangle Park (RTP), which has been the region's biggest catalyst for growth and economic development since its formation in the 1960s. Then there are our three major universities: North Carolina State, Duke and UNC Chapel Hill, which together provide what is one of the most attractive things about our region: a strong education system and a home-grown, educated workforce that is central to attracting companies to this region.

What changes typify the local commercial market?

COVID and the resulting government mandated shutdowns have made it impossible to physically occupy office space. This has created a complete breakdown in the typical landlord-tenant dynamic, with most leaseholders not being able to make any real estate decisions due to such uncertainty. The long-term outlook as to re-occupancy, utilization of space and hiring is in a state of flux and if any decisions are being made, most of those are short-term decisions. Investment grade real estate cannot survive based on a temporary, short-term outlook.

Which of your services have grown in demand?

Our largest area of growth has been taking on additional property management assignments. We've added nearly 2 million square feet of industrial and office space to our portfolio just in the last year. I would attribute this to the continued attractiveness of our market from outside investment. ■

What makes the Triangle-area market attractive?

From a business perspective, you would have to say that the area has grown due to the number of students that we have graduating on an annual basis. I think there are above 25,000 kids who are graduating in this geographic area every year. That gives you a feeder for all these companies to hire raw talent and they all seem to want to be here. It started a while back, with the Research Triangle Park, and it's just grown exponentially. The Sun Belt is where everyone wants to relocate to, and we couldn't be doing what we're doing without our location. Those two factors combined make us one of the top-tier geographic areas in the country.

What sustainability features have you seen become mainstream?

There is a circular answer here. We started doing green development in 2007, before people really knew what LEED stood for. Now all of our buildings have some certification for green. We check these boxes. Saying that, the one area that really needs to improve is education. The general public, whether they are an apartment renter or an office tenant, doesn't really understand what these certifications mean. Today, it's a very interesting topic. It's foremost on the minds of all the buyers of our real estate. All of our buyers require their purchases to be certified. Now, back that step up: Do all the office tenants mandate that they work in a green-certified office building? The answer is certainly not. They should be, especially after COVID. You're using less water, less energy and it provides a healthier work or live environment all around. It's simply a smart life decision to occupy green product. ■



Robbie Ferris
CEO
SfL+a Architects

What are the trends in the demand for your services?

We've always been very passionate about the design of energy-positive, carbon-neutral buildings. Historically, the market for that has not been large. It's very much a niche market. The pandemic raised awareness about the interior environment, particularly in-door air quality. Along with that, we saw awareness about issues related to carbon neutrality, energy conservation and sustainability. I see those trends as happening at the same time. We track the number of clients that have carbon-neutrality goals, large companies that have published those goals. About three years ago, there were 100 or fewer of those companies in the country and now we have identified up to 500 companies with carbon-neutrality goals. I think that is another role for artificial intelligence: helping us identify those clients. As companies get smaller, they tend not to publish their carbon-neutrality goals.

The trend toward sustainable, carbon-neutral buildings is going to grow dramatically. I think this awareness is here to stay and that is a very positive development for our industry.

How is your company capitalizing on the influx of residents and businesses relocating to the region?

We do a lot of school and university buildings. Now, we're trying to move toward the corporate design market. As people move in, they need schools, they need universities and they need places to work. We're not focused on single-family housing or hospitals. We have very distinct markets. With population growth, those markets will improve for us and for lots of other people. ■



Ted Klinck
President & CEO
Highwoods Properties

Which office asset class will be challenged in the future?

High-quality buildings in great locations will perform well over time. Commodity class-B and class-C buildings in secondary locations may experience reduced demand.

What market factors will you be watching?

The biggest unknown in the office sector right now is what a flexible workspace means. What we are hearing from our customers is that most CEOs want their employees back in the office for at least some portion of the work week. Most companies have found that they're better together when in the office but, at the same time, employees want flexibility so it will be interesting to see how the return to work plays out over time.

What does Highwoods' project pipeline look like?

We want to continue to grow our Raleigh portfolio through both acquisitions and development as the city is consistently ranked as one of the top markets in the United States with long-term growth trends that far outpace national averages. Throughout the pandemic, Raleigh continued to see a number of high-profile job announcements, including announcements from Apple and Google and we anticipate this will continue. We spent the pandemic making sure we had buildings designed on most of our land to be in position to take advantage of new development opportunities. With respect to specific transactions, we delivered a 125,000 square foot, 100% leased office building earlier this year and we're under contract to buy a portfolio of assets which includes two high quality office buildings in Raleigh, one in North Hills and one in the CBD. We're big believers in the Triangle. ■

Hotspots

Downtowns in Raleigh and Durham have emerged as exciting live, work, play areas



George York

President & CEO – York Properties

Downtown Raleigh was not a very exciting area 10-15 years ago. It has been wonderful to see the resurgence of Downtown Raleigh with the 24-hour city vibe, the live, work, play environment, the great restaurants and entertainment options. The same can be said for the Downtown Durham area. It has really been transformed over the same period of time as Downtown Raleigh. Downtown Durham has the benefit of being adjacent to Research Triangle Park, too. The boundaries of Downtown Durham and the Research Triangle Park are actually really close, so they have an opportunity to serve as the town center for much of RTP. Then there is the whole North Hills area. It's fantastic what has been done with that neighborhood. It has cemented its very own, wonderful live, work, play environment, including lots of great office product and new apartments to complement the retail shopping. Residential communities around North Hills have benefited from all the wonderful things that have been done there. It has been great to see it transition from a sleepy, old mall to what it is today.

What are the most important infrastructure projects in the region?

The mass transit opportunity is top of mind to me. We have the bus rapid transit system coming online soon, which does not sound all that appealing to me but it's a good interim step for moving people around the community. The light rail/commuter option is still years away but it will be a significant opportunity to assist our ability to grow in this region. At some point, having that type of transportation option to get us around the Triangle will be critical. It needs to go where people want to go but it can't stop at everybody's house, so the details still need to be drawn out to help maximize usage and efficiency.

Which areas of Raleigh-Durham are the fastest-growing?

What is your near-term outlook for your properties?

We believe 2021 will continue to be a tough year for our properties as we continue to navigate the COVID environment and it is apparent that the return to normal won't happen until later in 2021 at the earliest. We will continue to work with our property owners and our merchants to create an environment where they can both be as successful as possible. A partnership approach between the property owners and their tenants will be essential in 2021 as we fight through this difficult period together. Going forward, our market and our properties are well positioned to take advantage of regional growth that we believe will continue to be strong for the foreseeable future. ■



Diego Munoz

President – KW Commercial's ThisPropertyAvailable.com

“The largest growth sector, particularly in value, has been in flex and warehouse. We saw growth in the food-product industry as well as online retailers that were growing; they needed more space. While those sectors were growing, you had other sectors – like non-anchored retail spaces – that were hurting. The pandemic, while hurtful to society, added value to the flex and warehouse segments. The sector continues to grow in value because new development isn't following suit in North Carolina as quickly as those industries would like.”

(■ ■ ■) the lowest point on historical records, dropping 300 basis points, according to Cushman & Wakefield's Q2 industrial report. Buoyed by high demand and strong rent performance, the Raleigh-Durham industrial market recorded more than 1 million square feet of new leasing activity throughout the quarter, up 45.6% year over year, according to the brokerage.

Overall net asking rent stands at \$8.81 per square foot, a reported 12.8% increase quarter-over-quarter. The development pipeline remains strong with approximately 2.3 million square feet of industrial product under construction as of Q2 with about half of it already pre-leased. “In total, the product currently under construction across Raleigh-Durham is nearly 50% preleased as a whole,” Cushman & Wakefield reported.

Outside of notable Northeastern life science markets, such as Boston and Maryland, North Carolina anchors the Sun Belt's life sciences industry base. The Tar Heel State is home to more than 770 life sciences companies with approximately 75% based in the Raleigh-Durham area, according to Avison Young's 2Q21 Life Sciences Report. Home to legacy employers such as Pfizer, Biogen, Bayer Crop Science and Merck, and newcomers, such as Fujifilm Diosynth Biotechnologies and Gilead Sciences, the life science industry has an estimated economic impact of \$84 billion, according to the brokerage firm, posing opportunities for investors, developers and construction firms.

“This market sector continues to provide us with great opportunities,” McDonald York Building Company President and CEO Tanner Holland told Invest: “Probably about 60% of our business is in that market sector. But the life science arena has attracted so much interest outside of just the space requirements. Our region's community college and university educational

programs are expanding, we have both large and small pharmaceutical-type facilities choosing Raleigh-Durham and the talent pool continues to move into our region. The life science sector is just growing exponentially and our infrastructure supporting this growth has to grow with it. What we've noticed is the real estate market and its investors, both private equity and institutional investment folks, have started to increase their interest in our market and we have seen several large real estate purchases and acquisitions,” he said.

According to CRBE, the Raleigh-Durham market attracted approximately \$469 million in venture capital funds in 1Q21, a 59% increase from 1Q20. “There is a lot of money being invested and our region continues to support and attract life science companies. From this activity, we've even seen real estate conversions from office to lab, or warehouse to research space. It's a vibrant time,” Holland said.

■ Challenges

From supply chain disruptions and sharp cost increases to a heightened focus on health and wellness to investor indecision, the pandemic forced industry leaders to stay nimble and contend with the challenges head-on. Demand and supply chain issues have directly impacted the cost of materials, most notably lumber, copper and steel. Over the last 12 months, the cost of lumber has increased more than 56%, according to Cumming's Domestic Material Price Trends analysis. Similarly, copper and brass mill shapes prices have increased more than 30% and steel pipe and tube prices are up more than 10%, the consulting firm reported.

“Overall, the biggest challenges right now are price escalation and supply chain issues. We were seeing major price escalation in wood products and later steel, (■ ■ ■)

Market voices: Architecture and design



John Atkins
Chairman & CEO
O'Brien Atkins
Associates, PA

“Raleigh and Durham exceeded all expectations in their respective growth and development, especially their downtowns. Holly Springs is becoming highly attractive to a lot of investors and is “up and coming.” Cary blossomed in the ‘90s when it was one of the fastest-growing cities in America, and continues to be attractive. The Highway 64 Corridor leaving Raleigh and going to Chatham County and the Highway 1 Corridor from Apex and Holly Springs to Sanford, in my view, are upcoming locations that will extend the “boundaries” of the Triangle.”

“This area has a great pool of talent, which means there is a lot of competition in the industry. That’s a good thing for creative industries and allows for great architecture to be developed in the area. With Google and Apple joining us, there will be a lot of development happening in the next few years and we hope to be able to shape and mold that development into something that is thoughtful and meaningful. We want to enhance the Triangle area and speak to the history and culture of the place. I know most of the designers in the area share this ethos.”



Teri Canada
*Co-Founder & Managing
Principal*
Evoke Studio



Gary Cline
*President & Managing
Principal*
Cline Design Associates

“The Triangle is very different from Charlotte. I came from the Charlotte firm, opening the Raleigh office in 1983. I love both locations but they’re very unique from each other. There are different political climates, entitlement processes, and regulations. Even the way in which local inspectors look at the exact same building code is completely different between the two cities. Raleigh and the Triangle are more cultural. They are college towns and include the state’s capital city. We have all the university sports while Charlotte is home to professional sports. In Raleigh, we are fortunate to attract and hire people from the Northeast and Midwest who are relocating to this ever growing and vibrant market.”

“People are starting to think more about the relationship between where they work and where they live. They’re looking for balance between home life and work life. If the pandemic has caused one thing, it’s made people prioritize that balance. I believe people will come back to the office for things like collaboration and being with their friends by the water cooler, but I also think people want proximity in relation to where they work. That is a major driver of the rise in new mixed-use projects in our cities. People seek the culture, convenience and social environment that comes with urban locations. Developers recognize these trends and want to address them.”



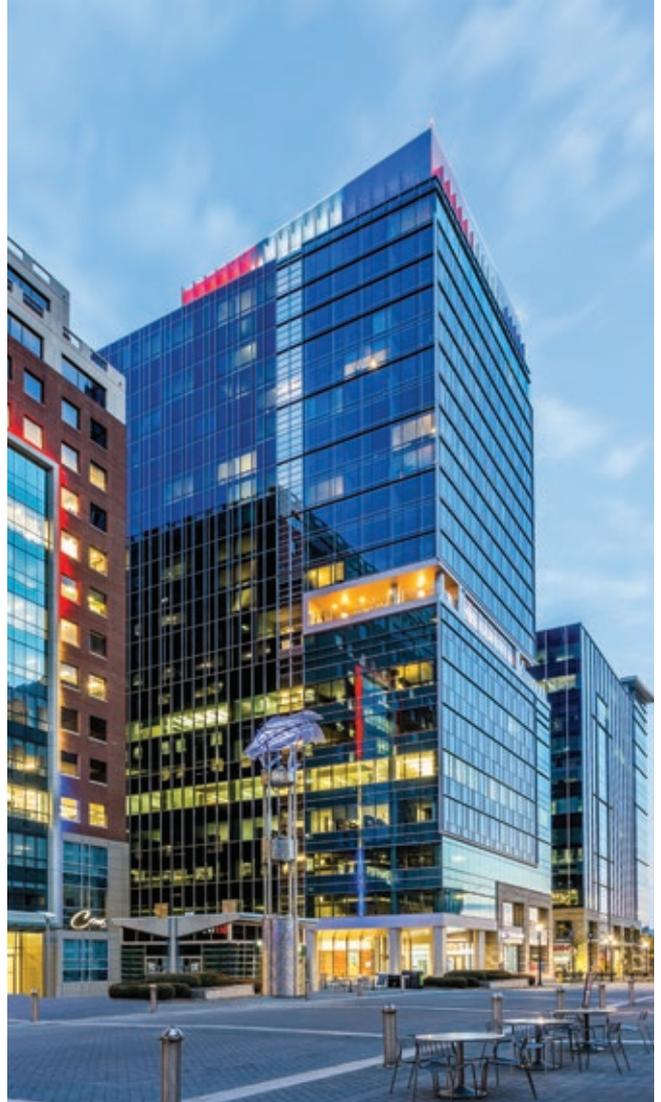
Jeff Paine
Co-Founder
Duda Paine Architects



(...) particularly joist and deck, pricing started to rise rapidly during the first quarter of 2020. Early on, we saw over 200% increases in some building products in less than 6 months,” Messer Construction Co. Vice President and Raleigh Region Leader Robert Williams told Invest:. “Classifying the construction as essential coupled with the strong life sciences ecosystem allowed capital to flow in the Triangle market. We did see life science and technology projects advance. Investment capital continued to come from other areas of the country, primarily from the Northeast and Midwest, as developers continued to focus on the Raleigh-Durham area. In our case, we have been able to move forward on a couple of developer-led projects that will probably have life science and tech customers,” Williams said.

The sharp rise in prices is mostly connected to shortages of factory workers in conjunction with supply chain disruptions from national and international shutdowns and unexpected events such as the two-week blockade of the Suez Canal in March and the Colonial Pipeline ransomware attack that left a great swath of Southeastern states scrambling for gas for a few days in May. However, the industry expectation is that material prices will level out during the second half of 2021. As such, closely monitoring the supply chain, strong local partnerships and constant communication with project partners will be crucial as the industry recovers.

“Strong partnerships with local subcontractors give us ongoing direct insight into the North Carolina market and supply chain along with an understanding of their perspectives, track pricing, and availability. Close cooperation allowed us to develop efficient solutions to keep our projects going and communicate effectively with our clients to facilitate decisions based



Developers from around the country have been focused on increasing investment in the Raleigh-Durham area.



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*President & Principal
TradeMark Properties*



What is your take on the strength of Raleigh's commercial real estate market?

It has been an incredible journey. Things really paused between March and July due to COVID-19. Activity started picking up in Q3 because everyone began to seek certainty. We are so lucky to be in a market that is pretty COVID-insulated. We do not rely on mass transit, nor do we have a high reliance on tourism activity. The talent pool is incredible, our housing market remains strong, our commercial real estate market remains strong, as people continue to fight to invest in Raleigh. One of our latest deals received 30 offers on two flex buildings. It just shows the competition here and the strength of the market. That goes a long way in showing people things are happening again. In Wake County, December 2020 was higher than December 2019 from a sales volume standpoint.

How would you characterize the future of office space?

It's an interesting phenomenon because last year, people were reluctant to sign multiyear renewals. Companies were afraid to project out too far. This year, we're seeing confidence return, which we believe is absolutely related to the efficiency of rolling out the vaccines. Confidence is returning and we're starting to sign five and seven-year leases again, which is normal for our market and what has been the minimum for both landlords and tenants.

What are some of the prevalent challenges within the commercial real estate space?

Repurposing retail spaces that are either dark or gray at this point is going to be critical. So many things have transitioned to online during COVID that these service experience locations and entertainment venues are really suffering. We've had more retailers go bankrupt in the past year than in 2007-8, which is an astounding statistic. Instead of replacing big box retailers we're converting those spaces into concepts such as walk-in clinics. COVID is changing the face of retail. ■



Real estate investment across different asset classes is expected to bolster the recovery of the local economy.

on the best information,” Skanska Executive Vice President and General Manager Greg Peele told Invest. “Unprecedented price escalation and labor shortage issues are two of the major challenges in our industry today that we are closely monitoring. What used to be a predictable 2-4% increase per year, has now become a component-by-component escalation analysis that is affecting overall budgets by about 15%. Honest and frequent communication with clients about these escalation issues are vital in limiting any surprises throughout the project. These conversations enable us to work with our clients and their designers to consider alternatives and options that may help them preserve their budgets before we go to the market,” he said.

While challenges loom for the construction industry at large, Raleigh-Durham is poised to continue to draw investment dollars and new projects across different



asset classes despite supply chain disruptions and the ongoing labor market crunch. Despite the optimism, managing expectations and proper planning are key factors as the pandemic conditions improve. “We are also carefully planning with our clients on realistic scheduling before we start a construction project because of the current lack of manpower. Labor shortages are extending what would typically be a 20-month job into a 22-month job. We have confidence that these issues will ultimately resolve as the market has always stabilized itself historically, but we are now diligently managing client expectations and mitigating schedule disruptions wherever possible,” Peele said.

■ Looking ahead

Despite a challenging cycle, the Raleigh-Durham commercial real estate and construction market has rolled with the pandemic challenges thanks to years of continued investments, economic diversification and population growth. Multifamily and industrial assets are expected to carry the bulk of development and investment activity in the Triangle market during the recovery process. The livelihood of the office sector continues to be tightly associated with the ongoing pandemic, the mutating variants and the vaccine distribution; however, the full return back to the office is more a matter of when, rather than if.

More than a year and a half into the pandemic, macro factors such as ongoing population growth, healthy economic development activity and stabilizing unemployment rates demonstrate Raleigh-Durham’s resilience and ability to contend with unprecedented changes. ■



Jamie Baker

President – The Lundy Group

“I think we’re going to see continued growth in the commercial sector in line with pre-pandemic growth numbers. I think it’s going to be a return to the mean. Coming out of the pandemic, we’ve experienced some growth that some of our competitors have not had. It’s an opportunity for us to pick up some market share with our proven track record of working and performing under pressure during the pandemic. So, we anticipate continued growth not only of our firm but of our industry. The Triangle continues to be an attractive region for population growth and that is another ingredient in our optimistic outlook.”

Cornerstones: Top office projects underway

The death of the office appears to have been greatly exaggerated. While companies are certainly working to determine what the office space will look like in the post-pandemic era, with remote working likely a permanent component in some form, the consensus is that office space construction will continue unabated.

In the Triangle market, a number of major developments are already underway. Leading the pack, is the HUB RTP, a massive mixed-used office project in Research Triangle Park. The development of 1 million square feet over 44 acres will feature 1,200 multifamily units, 75,000 square feet of retail, 425 hotel rooms and up to 1 million square feet of class-A office space.

HUB RTP will be situated at the intersection of I-40, Davis Drive, and NC 54, with access to the area's major thoroughfares. Developer KDC calls the project "transformational," saying it will, "create a dynamic live-work-play environment." Plans call for more than 13 acres of greenspace.

The latest development in RTP will be located beside Boxyard RTP, a new shipping container complex that opened in 2020.

Another leading project in the office space is the Advance Auto Parts Tower that opened in late 2020. The 20-story development has 328,600 square feet of office space and features 11 floors of class A office space, in addition to access to the conference center, terrace and street-level amenities. Beside the office tower will be a 570,000-square-foot residential tower rising 32 stories.

Rounding out the Top 3 is The Stitch, an adaptive reuse project at a former outlet mall in Morrisville. Owned and developed by Equator Capital Management and OCS Holdings, The Stitch features an 18,000 square foot indoor amenity center, an on-site healthcare provider, private phone booths, and quiet areas. CBRE in Raleigh announced in April 2021 that the facility has been fully leased to Invitae Corporation, a San Francisco-based medical genetics company. ■



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Residential Real Estate & Construction:

Residential real estate has been white hot in the Triangle market with no sign of a downturn in sight. High demand from a growing influx of residents and low supply are fueling a market that is further restricted by a shortage in construction labor and materials as a result of supply chain disruptions caused by the pandemic.





Hot streak:

There appears to be no slowing down the heated home market, although constructors are having issues

There is no shortage of buzz surrounding the Raleigh-Durham region, especially as the biotechnology and life sciences industries kick into high gear. The area was awarded second place behind only Boulder, Colorado, in U.S. News & World's 2021 ranking of best places to live in the United States. Also this year, Raleigh took third place in a Men's Health ranking of Happiest Cities in America, WalletHub called it the 11th best-run city and the Milken Institute said Raleigh's economy is the fifth-best performing in the country.

Commensurate with all the accolades over the past year, the housing market in the Triangle area has picked up steam. In fact, it is steaming hot. Raleigh is an example. As of July 2021, the city is recording the second-fewest days on the market for houses, and homes are going for tens of thousands over asking prices, according to Zillow. The average price of a home in Raleigh is now \$333,255, just under the U.S. average of \$350,000. And there is no shortage of qualified buyers. Charlotte-based mortgage firm Lending Tree said the market is the third-most competitive in the country in terms of real estate. With an average of 20.39% down payment and over 70% of buyers having a credit score of 720 or more, the situation is ripe for more than a few bidding wars.

"The market is very strong, with an imbalance in terms of high buyer demand. The challenge is providing inventory to meet that demand, both in the resale market as well as new construction, which has historically represented about 45% of our market," David Jones, CEO of Coldwell Banker Howard Perry and Walston, told Invest.

■ Landscape

So why is the region the darling of the moment? Lifestyle has a lot to do with it. The region ranks highly among young professionals and retirees alike because, as well as offering access to a booming job market in the cities of Raleigh and Durham, housing is affordable, schools are nationally ranked and there are plenty of activities and events taking place. Raleigh is one of the nation's fastest-growing cities but it still offers residents a small-town feel. And there is food and drink aplenty. Raleigh is now home to the largest beer garden in the world (even beating Germany) with the Raleigh Beer Garden and has over 1,200 restaurants to choose from. Residents in the Triangle area are within easy access of beaches, mountains, sports, nightlife, art and live music.

But one of the biggest wow factors for the region is (■ ■ ■)

Prolific market

A dire lack of inventory is driving prices higher as demand continues to surge

Jim Allen

President & Broker – The Jim Allen Group

How would you characterize the Triangle's real estate market?

There is almost no inventory in the market at all. I never believed that I would see a market this prolific in my time and I've been a top agent in Raleigh since 1993. In 2020, we closed \$462 million and in 1Q21 alone we closed nearly \$710 million. We went from a pre-pandemic market that had about 93 days on the market for the average listing to three days. In all of the Triangle — encompassing seven other major counties around us, sprinkling a bit down into Fayetteville and a bit at the coast — there are only 2,100 total active listings.

To be a healthy market, there needs to be somewhere between 12,000 and 14,000 active listings. In Wake County, which is the best county in the Triangle in terms of annual sales, there are only 1,040 total active listings, while it would require about 11,000 to be healthy, considering we sell on average 54,000 homes a year through MLS (Multiple Listing Service).

What can the average buyer do to make their offer stand out in such a competitive landscape?

It's tough. There's a wide variety of things you can do from escalation clauses to compelling letters. If you grew up in a family home, you want that next person to enjoy it the same way you do. Sometimes that helps a bit but the biggest part when presenting an offer is due diligence money, which is nonrefundable from day one as a means to set yourself apart. We're advising our clients to put down between 5 and 20%. If that's the house for you to move forward with, show your interest the best way you can. It's not always the highest offer that's going to win. The truth is most homes are selling right now for more than they're going to appraise for anyway.

What is Jim Allen Group's outlook for the near term?

We're on pace to pass \$1 billion in sales for 2021. Our



2020 numbers were a historic high for anybody in the state of North Carolina and in 2019, we did \$400 million, the top sales in the state. We're averaging \$4 million in sales a day at present. If we stay on that pace, if the market continues that way, our \$1 billion landmark will be easily attainable. The problem is getting those deals closed because we're selling so many homes. Before I can tear the house down, we have already sold it to the end user and we just have to wait to collect the commission. We do not know if closings will get there because it's taking between nine and 11 months to build a home of substance.

We wager that this market is going to continue. In 2020, we were right at 11.2% appreciation for the year. Housing wise, we will supersede that in 2021 in pockets. The shortage is going to continue. ■

John Wood

President

RE/MAX United



How would you characterize the Triangle's real estate market?

In April and May 2020, the market paused for a brief moment but picked back up quickly and 2021 is experiencing the most robust residential market ever seen in the Triangle. 2020, during the peak of the pandemic, ended as the top-selling year in the Triangle area for as long as we have been keeping records. Sales were up more than 8% year over year. Average and median prices were up more than 6%. Due to the pandemic, no one expected activity at the level that we had. Now, 2021 has taken the residential market up several notches to again setting all-time records for sales and prices in all areas of the market.

What factors are continuing to drive the market a year into the pandemic?

A major factor that drives the Triangle's residential market is jobs. We have continued to experience strong job growth over the last five years. The 2021 announcement of Apple building a campus in RTP and Fujifilm Diosynth spending \$2 billion in Holly Springs further fuel the already strong job growth. The local startup scene has performed quite well, coupled with strong investment on the commercial side, which impacts the residential market.

What challenges is the Triangle market facing?

Regulations implemented after the Great Recession increased the cost of development and building. These factors are putting pressure on startup housing opportunities. We are constantly looking for resales in the lower price range and focus on feeding that market. Historically, we have had the opportunity to help those first-time homebuyers or young families, whether through townhomes or single-family homes. The low supply and increasing property values have added pressure on this portion of the market. The person looking to put down 5% and compete in the resale market fighting against multiple bids is experiencing difficulties. ■

**National
job boards
show 65,000
openings
in the Triangle
region**

■■■ its ability to attract new companies. One of the most notable announcements of the last year was tech giant Apple's move to add a 3,000-job campus to the Research Triangle Park (RTP). The company said that the presence of prestigious universities such as Duke will allow it not only to take advantage of the talent pipeline but also to partner with institutions on cutting-edge research. And RTP has seen big demand in the last year or so. In 2020 alone, more than \$2.3 billion in biomanufacturing expansions were rooted in the area and 2021 levels look set to surpass that. Fujifilm alone announced this year that it would invest \$2 billion in a cell culture biopharma production facility in Holly Springs. In terms of new business filings, Wake County has seen a 75% increase from July 2020 and Durham an 84% rise in the same period. National job boards show 65,000 openings in the Triangle region, driving the influx of talent to the area.

■ Real estate investment

With a total population of about 2.2 million and growing in the Raleigh-Durham statistical area, it should come as no surprise that houses are in high demand. According to real estate firm Redfin, Raleigh's house prices in June 2021 had risen 27.2% year over year to a median sale price of \$382,000, about \$50,000 over the median list price quoted by Zillow. The number of homes sold rose by over 25% on the year to 1,059 and, unsurprisingly, homes were staying on the market for a median of just 33 days, down 25% on the year. In Durham, the story is similar, with median sale prices having risen over 22% year over year to \$353,000 in June. Houses are on the market for a median 29 days, down 35.6% year on year and 634 homes were sold during the month, up 22.4% on the year. Rising house prices are being buoyed by restricted supply as developers grapple with supply chain issues and rising raw materials prices.

But despite all this, houses in the Triangle are largely (■■■)

Market voices: Trends in residential



Tina Caul
Founder
The Caul Group

“The Carolinas have traditionally been an affordable market. Though prices have incrementally increased over the last 10 years, it’s still more affordable than other markets with a similar attraction rate. For example, Florida, the Northeast and the West Coast markets are drastically more expensive. Our region also offers diverse topography and our residents enjoy the ability to travel from the mountains to a beach in less than three hours. We are also surrounded by diverse higher education, top medical providers and research facilities in addition to multiple technology hubs. The Triangle is a beautiful place to call home and it’s still affordable, though that may change in the future.”

“In 2020, people put a greater emphasis on homes because that is where they were; they were not going to the office anymore, nor the gym or restaurants. The living room, the home office, the kitchen table, the home gym, all those things increased in importance almost overnight. People not only began looking around for upgraded spaces but people who were not homeowners realized that now was the time to become one. We had already been seeing that trend in the Raleigh-Durham market because it’s a desirable place to live, but 2020 kicked it up another gear and we are still feeling the effects well into 2021.”



Johnny Chappell
Owner & Broker
Chappell powered by
Compass



Jennifer Spencer
Owner
Spencer Properties

“The market is like nothing that I have ever seen before. I’m thankful that we handle the volume of transactions that we do because it has allowed us to pivot quickly. A year ago, really even 60 days ago, what would be a winning offer is drastically different from what that is now. I’ve been sitting down with buyers and telling them to be bold due to what is happening in the marketplace. Right now, the winning offer in our market for the most part is 10% or more over list. The idea that we would have this kind of offer with nonrefundable due diligence deposits of \$10,000, \$20,000, \$35,000 or more was unforeseeable. It’s a wild market.”

“The inventory crisis is national and not unique to the local market, but it may be more intense in our market due to our population growth. Our focus is equipping agents with data, skills, and experience to win offers for our clients. In addition, we help our buyer-agents embrace that their No.1 Job is finding inventory by discovering sellers before they even make the decision to list properties. We have embraced an active approach to identifying potential homes for sale and created positive results for clients.”



Kevin Woody
Chief Operating Officer
Keller Williams Legacy

(■ ■ ■) still seen as affordable, especially compared with other major metros. Although both Durham and Raleigh each dipped one place in RealtyHop's affordability ranking, both still offer properties with a median mortgage repayment of one-third of the median salary or less. But as housing prices continue to rise, will this still be true? Probably not, as foreign buyers also enter the fray. In the Triangle market, foreign buyers have consisted mainly of immigrants looking for a new primary residence, rather than a second property, and studies found that they were willing to pay higher amounts than in-country buyers. "In a 2020 report that we worked on alongside the NAR (National Association of REALTORS®), the dollar volume of foreign buyer purchases in the Triangle was around \$420 million," said Andrew Sims, CEO of the Raleigh Regional Association of REALTORS®, in an interview with Invest. "Sixty-nine percent of those foreign buyers already resided in the United States. Regarding the Triangle, 28% were from Asia and 19% from Latin America and Europe, with China and Mexico being the Top 2 countries bringing investment to the Triangle. When you talk about foreign investment, society thinks it's about people dropping money for commercial property or residential investment, but 60% of the foreign buyers right here in the Triangle were purchasing property for primary residential use. Out of that 60%, 42% were all-cash buyers. The impressive fact is that the median price of those purchases is about \$383,000."

It is possible that more inventory could be brought online by the Opportunity Zone plan that was set up in 2017. The program was designed to incentivize developers to invest in underserved areas, allowing



Affordable housing in Raleigh-Durham continues to be in high demand as the region's population rapidly increases.



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Jon Rufty
Owner & President
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them to take advantage of capital gains tax breaks. The Triangle area has a total of 30 Opportunity Zones across Chatham, Johnston, Orange, Durham and Wake counties. The majority are predictably concentrated in Durham and Wake counties. According to CoStar data, total square feet under construction in Opportunity Zone census tracts more than doubled from 5.25 million square feet in 2017 to 10.82 million square feet in 2018, before rising again to 15.52 million in 2019. The investments will take several years to pay off for investors, especially since many projects were put on hold or delayed in the last year. There is also the argument that these investments would have been made anyway and there is no real way yet to measure the success of the program.

■ **Residential**

The vacancy rate in both Raleigh and Durham (■■■)

How has your business changed over the last year?

The outside executives who are moving into the area are bringing designs and cost increases that we just have not seen in the marketplace. The style of homes they're wanting to build and how much they're willing to invest in a home is substantially different from what we typically have seen in the past.

How important is green building for your business?

In 1994, we did a project called the Healthy House and it was one of the first green-built houses in the country. We teamed up with NASA, the American Lung Association, USDA and NC State to explore a lot of what the industry thought were new technologies. Green building has been done for centuries and the things that were important in '94 are the same things that are important now, like energy efficiency, air quality, water quality and sustainable landscaping, which are the elements we need to be thinking about as we design and build houses.

How do you manage the affordability and quality of construction given current cost issues?

Our niche is upper-end custom homes and pricing is not as critical as with affordable housing. But regardless of the price of the house, everybody is looking for good value and I think it's common to ask the client what they would like. They'll start listing things and as we start looking at the complexity of the house and the interior detailing, inevitably the price comes in higher than what they were thinking. I think that's an area where we excel, which is helping people understand what things cost and therefore looking through the list and helping them identify the items they can easily make concessions on and still get the house they want.

What is the main challenge for construction in Raleigh-Durham?

I think we have a limited talent pool when it comes down to subcontractors and the craftsmen who have decades of experience. ■

Trending

Mixed-use development is expected to lead the post-pandemic market



Shannon Dixon

Executive Vice President – Casto Southeast Realty Services

them or a multifamily component. For those that lack one, we are looking at ways to add them in.

Do you think there will be a real estate market correction?

All talk right now is about the housing market and I would expect some corrections here in the future. Local housing prices have increased significantly and inventory is at an all-time low and although there is a huge amount of new development underway, construction prices and labor availability is still an issue. I do see this settling out over the next few years as inventory in single homes and rental availability increases. Retail real estate is continuing to see a bit of a correction. The pandemic has really pushed forward the inevitable with solidifying the consumers online shopping trend, which has impacted some of our centers, but we still see cap rates at historic lows for many asset types which offsets some of the concern.

What long-term trends do you see emerging as the door slowly closes on the pandemic?

The trend is toward more mixed-use development. People are driven to places where they can live and work, and these assets allow developers to put that concept into a more curated, fun experience than just your typical shopping center.

We're doing quite a bit more mixed use. We're looking at a lot of our retail assets now and assessing the ways we can incorporate new concepts like multifamily or entertainment, focusing more on bringing curated brands into the portfolio, as well as just trying to attract a variety of tenants within the food, entertainment, health and wellness spaces to give our customers a wider variety for their shopping and living experience. Most of our larger centers do have a mixed-use component to

What particular areas or neighborhoods are emerging as real estate hotspots?

Holly Springs and Apex have really come into their own. Both are in the process of redeveloping and transforming their downtown areas. What used to be very quiet streets have now become activity hubs with residential living and new mixed-use buildings going up in Downtown Apex and Holly Springs. These towns are slowly being transformed while maintaining their small-town character in the middle of all this growth, which is really attractive to families moving to the area. There are thousands of new homes and apartments under construction in these markets and it never slowed down during the pandemic. Fuji's announcement about their move to Holly Springs is a great indicator that companies see the value in what these communities can offer. ■

(■ ■ ■) remained low in the first quarter of the year at 7.3% and 8.9%, respectively. Net absorption outpaced net deliveries but the figures show that inventory units have continued to increase in both markets. During 1Q21, about 53,000 units were on inventory in Durham and 107,000 in Raleigh. But units under construction in both markets fell, which is what is largely causing bottlenecks and significant price surges. As of the first quarter, Raleigh had just over 4,600 units under construction, compared with almost 6,000 in the first quarter of 2020. Likewise, Durham's 1,712 units under construction mark an almost 40% year-over-year dip. There could be some respite ahead, however. New home construction permits in Raleigh have increased by 39% and mortgage originations are expected to grow by 16% in 2021.

Build-to-rent real estate developer Cortland has been one of the most active buyers in both Raleigh and Durham, having purchased almost \$216 million in properties. Blackstone has purchased about \$170 million in Raleigh alone, with one larger acquisition being the \$110 million Park & Market apartments in North Hills. Magma Equities, a California based real estate developer notably purchased hundreds of Durham apartments for \$80 million. The University Apartments complex near Duke University is just the latest in an acquisition spree by the firm and marks its 12th purchase in the Triangle since 2019. And another student housing complex, Stanhope Student Apartments, sold this month to developer Core Spaces for \$131 million. Nine apartment deals exceeded \$65 million during 2020.

Multifamily properties remain a top target for investors. In the fourth quarter of 2020, the average price per unit was \$187,000, up over 14% on the year. Occupancy reached 95.1% during the quarter but rents per square foot remained flat, according to Avison Young.

But is all of this sustainable? Despite the rate for a 30-year mortgage reaching historic lows of below 3%, average monthly mortgage payments in the Triangle have ballooned to \$1,714 in 2021, up from \$1,535 in 2020 and \$1,617 in 2019. The region is one of the metros facing the biggest housing shortage, according to data from DeedClaim – short around 1,335 units. And according to ATTOM, single-family homes and condos are less affordable than historical averages across the country. More data from ATTOM showed that, although foreclosure filings are down 61% on the year and 78% since 2019, there are about 1.7 million mortgage holders with delinquent loans 90 or more days past due. The expiration of the foreclosure moratorium this month is likely to exacerbate the situation.

With some buyers who purchased properties (■ ■ ■)



Marti Hampton
Owner & Broker
Marti Hampton Real
Estate

Do you think market prices and double-digit growth will stabilize or come down soon?

I don't see any immediate stabilization for the market because this is all about supply and demand. During the last big uptake in 2006 and then following the Great Recession, there was a much different scenario than we have now. Back then, the requirements to get a home loan were low. We don't have that same scenario now. What we have is high demand for homes and a rise in people relocating to decrease their cost of living. With the onset of COVID-19, remote jobs became the new normal and people took advantage of the ability to live where they wanted to, not out of necessity to be close to their offices. With low interest rates and job flexibility, people are making the move regardless of price.

How does technology continue to influence the homebuying or selling process?

Technology will continue to shift the real estate market. With low inventory and many buyers eager to secure a home, we've seen a shift of sight-unseen offers from around the United States. People are shopping online well before the home hits the market.

What is your competitive advantage versus some of your peers?

Our competitive advantage is our 30-plus years of experience, and I don't think many people understand that. Experience is important when it comes to recommending a home seller a price or a buyer on their bids. The only way you can approach that is by researching to understand the neighborhood, helping clients look at the numbers to decide whether this is a sound investment or not. We have been the No. 1 seller of resale homes in this market for six years. We've seen and been through pretty much every possible scenario out there. In a fast-moving market, experience is what you want on your side to secure both a winning bid and top dollar for their home. ■

Market voices: Home builders



Rex Bost
President
Bost Custom Homes

“Clients understand that lumber prices, skilled labor, and other building commodities are at an all-time high. Most people who can afford our homes have had very good years and their businesses are booming, so they are willing to spend a little more to get what they want now. Most of our clients are seeking what we offer, better homes with all the bells and whistles and greater energy efficiency. Wine cellars and bars are in higher demand than ever. Entertainment spaces and work-from-home spaces are very popular; especially since COVID. The open plan concept is also here to stay with few exceptions, with the living and kitchen spaces opening up to the outdoor living space.”

“We have an open book with most of our contracts and I think that we do a comprehensive job of estimating the projects upfront. We provide pricing guidance throughout the process. Our team is making sure that we provide accurate pricing from the beginning. We also look at trends and incorporate them into preliminary proposals. Unfortunately, affordability is now a weekly issue due to the scarcity and high cost of materials. The cost has doubled now and it is difficult to manage.”



Tripp Loyd
CEO
Loyd Builders



Rod Mangrum
Owner
Sundance Signature

“We are concentrating on what we do best: highly detailed, upscale, downsized custom homes. A lot of our clients are coming from 7,000- to 10,000-square-foot homes but looking for a more manageable 3,500- to 4,500-square-foot package. Although they are willing to give up the excess square footage, they want to maintain the details and amenities. Fully equipped professional kitchens, luxurious baths, open floor plans and lots of coordinated indoor/outdoor living are what the buyers are demanding.”

“As a vertically integrated company, we develop most of our own neighborhoods and lots. That gives us control over our land, our houses and our sales. It provides flexibility to be able to move with the market. As a purchaser, we can evaluate and see things coming down the pike, such as rising material costs or a shortage of labor. The big thing for us is focusing on the dirt first, as well as the location, and making sure that we can envision a final product delivered at the price we want to deliver, knowing that the market will absorb it.”



Josh Swindell
Partner
Envision Homes, LLC

(...) during lockdown now reporting that they regret making such a significant purchase during a time of great upheaval, it remains to be seen whether there will be a selling spree around the corner, although most market insiders believe residential will remain tight, with a continued shortage of housing for at least the next year and half. “I think we will experience a housing shortage in the Triangle for the next 18 months,” agreed Steve Kenney, owner and founder of The Kenney Companies, who spoke with Invest:.. “There were about 8,000 homes for sale about a year ago and now there are only 2,000. Dozens of people are bidding on the same house. This housing shortage bleeds over into the apartment industry and means there is large demand for our units. I do not see that changing anytime soon for two reasons. Firstly, we still have exponential job growth and secondly, the slowdown in the approval process will make the timeline much longer for bringing new inventory online. COVID affected the permitting process and it is now so backlogged that it will be impossible for developers to produce the housing needed to meet demand.”

■ Affordable housing

Another pitfall of the hot real estate market is ensuring property remains affordable for everyone. First-time homebuyers are being priced out of home purchases and instead are moving back toward the rental market and lifelong residents within the Triangle are finding they can no longer afford to live there. According to NerdWallet, homes across the country were listed at 5.5 times the median first-time homebuyer’s income in the second quarter of 2021. This is up from 5.2 times a year earlier and far exceeds the three-times threshold lenders use to calculate mortgage affordability. Existing



Perspectives: Challenges

■ Nicholas Donahue

CEO & Co-Founder – Atmos

The biggest problem right now is land, so people are being more strategic about how they bring more lots onto the market. Small to midsize developers, which often have construction arms, are trying to figure out how to get into the development side because of the small supply. We’re just in a drought in every sense – from lots on the market, homes-to-market and the suppliers themselves. Prices are skyrocketing and everyone is just trying to keep up with demand, but not in a way that will overstretch them. ■

homeowners also are in the position to make all-cash offers, which is hard to compete with as a first-time buyer. Many new homebuyers are having to compromise on certain aspects, such as closing dates and inspections, while offering tens of thousands over the asking price so they can be in with a chance of securing a home.

Authorities are now trying to incentivize the construction of affordable developments. In Fayetteville, there is a proposal to provide an annual \$500,000 allocation and increase affordable housing subsidies by \$5,000 per unit to create a further 100 affordable units. Durham’s Coalition of Affordable Housing and Transit has created 82 affordable units and plans to develop a further 377 units on East Main Street with county support. Under a 2019 housing bond, the city will build 1,600 affordable units, preserve 800 affordable rental units and provide 400 affordable ownership opportunities to first-time buyers.

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Q&A

Mahala Landin

*Managing Partner &
Broker*

Rachel Kendall Team



How would you characterize the state of the Triangle market?

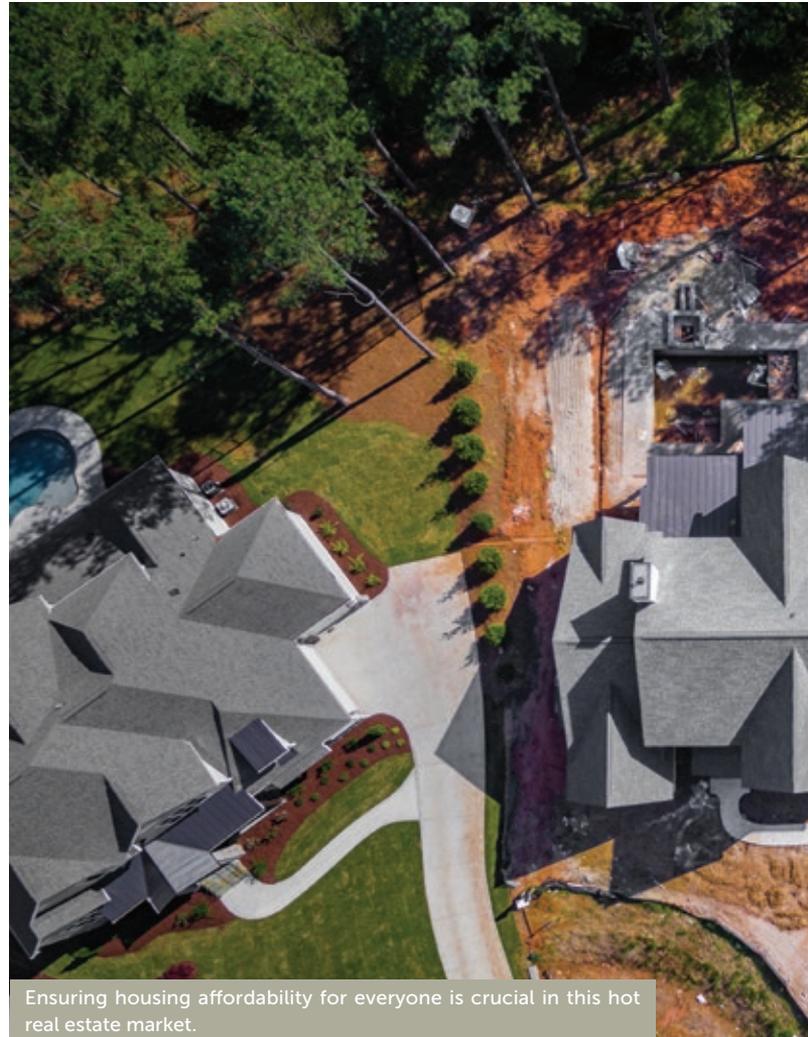
The current state is strong. We've been very lucky to have many buyers coming into our market thanks to the economic dynamic between healthcare, education and technology. We can attract large corporations into our major areas and that has helped with our consistent growth year over year. Our company pays close attention to this and hones in on the fact that we are an entrance state and that people stay once they come. Therefore, we tailor our business to focus on working with buyers on their first purchase and hopefully the next purchase to create those listing activities through past client relationships.

How can buyers make their offer stand out?

Right now, what sellers are looking for are clean terms. They want to see that the buyer is invested in getting to the closing table. We train all our agents that way because there is no fancy trick or form that will solidify that offer. They are not competing against anybody else but themselves. Buyers just need to focus on making the best offer for their family and financial situation, and the right house will be there.

Where are you seeing the greatest growth?

In 2014, it was rare for me to have to drive more than 30 minutes from the major Raleigh area. Now, we're seeing ourselves being pulled close to an hour away from Downtown Raleigh to get to that first-time homebuyer price point. Some of the areas south of Clayton and into Johnston County are growth opportunities that are attracting new major retail and mixed-use type development. That's obviously going to attract the right jobs and the right economy to those areas to continue that housing burst. But nowadays, I am being pulled west. Durham has been a strong market for the last two years and it will continue to be a hot market, but the average price point in the Durham area is well above \$300,000 and that can be challenging for a first-time buyer. ■



Ensuring housing affordability for everyone is crucial in this hot real estate market.

Last year, Wake County also created almost 450 affordable units and the city of Raleigh alone expects to provide almost 600 rental spaces and homebuying opportunities. Developer LDG is also planning to build a 188-unit apartment community designed for those making below the area's median income. However, the housing shortage is likely to worsen with the arrival of tech giants Apple and Google, which are set to add thousands of jobs and bring an influx of jobseekers to the market who can afford to pay more to buy homes.

■ **Rental trends**

Given the residential market, it should come as no surprise that rental prices have also shot up in recent years, reaching over \$1,200 in 2021 for a 956-square-foot apartment, from about \$800 in 2010. This trend is caused by a number of factors – primarily the influx of people coming to the Triangle region. But this can also be attributed partly to the inaccessibility of the housing market, driving many millennials and first-time buyers to the rental market. In fact, renter-occupied households



in Raleigh make up 43% of the total occupied housing units in the metropolitan area.

Apartment vacancy declined by 50 basis points year over year in the first quarter of the year to 8.5% and is expected to tighten further through 2021. Combined, class-B and C units recorded even lower vacancy rates of 6.6% but class-A units underperformed in response to the new inventory coming onto the market. Rents in class-A properties reached \$1.52 per square foot per month, and real estate financing firm Northmarq estimates rates will reach \$1,300 per month by the end of 2021. Northmarq also expects a 7.6% overall vacancy rate at the end of 2021, a 140-basis point tightening compared to the end of 2020.

But despite the rise in prices, studies have shown that apartments across the country are getting larger. According to business intelligence firm Yardi, millennials are getting older and are interested in adding characteristics of a single-family home to their apartments in the run-up to starting families. In fact, single-family rental units grew by 11.1% year over year



Jim Wiley
President
Beacon Street
Development

Is today's low-interest environment helping your business or creating challenges?

It's obviously helping people afford more and to lock in for those who want to be in a place for a long time. Generally speaking though, we're working with empty nesters, with people for whom these are not starter homes. I would say that the impact on our business of low rates is helpful but it's not been a driver. Most of the people who are moving into our communities are people who have been in their homes for a long time, perhaps living out a bit further, but who now want to live in a walkable area. What you're seeing with these types is a transfer of their value. The market has made it so that their existing properties are valuable and it's an ideal time for them to make that transition.

What design trends have you seen emerge over the last year?

Right before the pandemic, we did a partnership with For us it all starts with the right location. We're trying to go into the absolute best neighborhoods where you already want to live. People still love well-designed traditional homes and so do we. What we have seen change is the flexibility of working from anywhere has allowed people to live where they truly want to live. With all the changes and remote working, the design within the home is shifting, with the need for more nooks and in-between spaces in which to get work done. There's also much more attention on the neighborhood and outdoor living spaces and that's a trend with real staying power.

What is your near-term outlook?

I feel very optimistic. Obviously, there is the question of when we're going to slow down or pull back, but we're long-form developers. We believe in the area and these are the right neighborhoods and the right type of projects to introduce to the market. We set ourselves up to be patient. If something was to slow us down, we'll take it at the pace that the market gives us. We're lucky, though, in that we work with a wonderful buyer profile and well beloved neighborhoods. ■



In the Raleigh metropolitan area, 43% of occupied homes are rented.

in June 2021, the largest increase of all segments. The COVID-19 pandemic has also made people reconsider space requirements, with many now often forgoing large storage space for some kind of office space. Lifestyle apartments and upscale renter communities are also recording a significant demand surge, up by 7.2% year over year.

■ **Construction performance**

On the construction side of the residential market, activity remains strong in the Raleigh-Durham area, with significant growth over 2020 and 2021. Total construction market volume in 2020 reached \$10.8 billion in Raleigh-Durham, with residential accounting for just over half of that activity. In 2021, the total construction market volume in Raleigh-Durham is set to rise to about \$11.3 billion, with residential outpacing other sectors with a growth rate of 11.6%.

The main challenges reported by the sector in 2020 and spanning into 2021 were shortages. These shortages extended from labor to raw materials as supply chain complications caused by the pandemic and other issues saw prices shoot up and contractors unable to complete jobs on budget. The situation became so unpredictable that many contractors were forced to shelve projects because giving an accurate advance estimate for material prices was all but impossible, they reported.

Since at least 2011, employment in Raleigh-Durham’s construction sector has not faltered. In fact, it has continued to climb, reaching over 51,000 workers in 2020, a 1.4% year-over-year increase even as the unemployment rate surged to 6.4% from 3.4%. Employment in the sector continued to grow by 2.1% in 2021, reaching 52,094 jobs. Still, construction firms



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complain there is a dearth of skilled talent for roles such as electricians, engineers and plumbers. A shortage of skilled highway construction workers across the United States has prompted North Carolina to launch an HCTA training program, which provides fully funded full-time on-the-job training. Two of every five workers in the building trades are estimated to be on track to retirement by 2031, posing a conundrum for the industry.

Land availability is also getting scarce. Vacant developable lots in the Triangle fell to 14.7 months' supply in the fourth quarter of 2020 compared with 16.5 months' supply in the third quarter. The scarcity of land means builders often offer higher prices or better purchase conditions, inevitably pushing prices up. In Wake County, land inventory is running so low that some rural parcels have sold for \$60,000 per acre. To find a way around the problem, smaller developers have been trying to find smaller parcels of land that large developers would not be interested in, meaning they avoid a bidding war with Goliath.

But despite rising costs, construction management firm Cumming found in its first quarter market analysis that Raleigh-Durham is actually the lowest cost construction market across a variety of cities. In the Triangle, the cost to build a museum or performing arts center comes in at about \$815 per square foot, compared with up to \$1,304 in New York City. An acute-care facility might cost \$779 per square foot in Raleigh-Durham but \$1,455 per square foot in Honolulu. And the \$673 per square foot required for a five-star hotel in the Triangle pales in comparison to the \$1,044 per square foot price tag in San Francisco.

■ Key projects

There have been several high value projects completed and under construction in the Raleigh-Durham area in 2020. Often, residential comes as a component of mixed use, as is the case with the city of Raleigh, where the entire Downtown is set for a makeover with the Downtown South District, a 135-acre plot of land spanning the I-40 from South Saunders Street to South Wilmington Street and reaching to Water Works Street to the north. Developers are seeking to add a stadium and entertainment complex, 40-story towers, containing more than 9 million square feet of retail and more than 16,000 residential units, and 12 million square feet of office space in a \$2.2 billion investment. The project has already gained rezoning approval from the city.

Several other large-scale residential and mixed-use complexes are already under construction in Raleigh's Downtown. A 40-story mixed-use 12-story tower is being planned by Highwoods Properties in the Warehouse



Linda Trevor

Broker

Linda Trevor & Co

Compass

How do you help buyers in a seller's market?

The market is very strong for sellers and very challenging for buyers. While we have been in a seller's market for a couple of years, this drastic shift occurred quickly and it's tough to bring buyers up to speed. To prepare the buyers, I do everything I can to meet them in person and educate them so that they can see our sincerity. I show them recent sales histories to give them an idea of how much their offer should be so that they know it's not just me saying, you've got to go \$20,000 or \$30,000 over the listing price. I show them the stats. I warn them that their offer might not be the first. It could be No. 3 or No. 4 and they should have a back-up plan. I show them the different strategies they can use for a successful offer.

What do you do to prepare sellers?

It still can be overwhelming when the showings happen. No matter how much I tell them that the upcoming week will be busy, they are always surprised. They need to be prepared for the showings. Then they need to be prepared for the offers and be ready to navigate the burden of the many offers that do come in. Do they get emotional? Do they care about any of the stories of the buyers? That process itself is something. Sellers are no different than buyers in that they want to make sure they've made the best choice. So, really, we just carefully walk them through the offer process.

Will the price of homes continue to increase?

I don't see stabilization anytime soon. I would say that the old days of 3 to 5% increases is now definitely closer to 10, maybe more. Each neighborhood is a little bit different and every time there is a sale, typically the house is a little higher than the last one.

What are some of the hot neighborhoods?

Everything has benefited but I would say that Cary, Apex and Holly Springs have been leaders, at least for this part of Wake County. Much of Raleigh is still very popular. ■

**Residential
construction
contributes
\$3.08 to GDP
for every dollar
invested**

District, while developer RALDT 2 is seeking permission for a 40-story mixed-use development with 500 residential units on South Dawson Street. The Nexus, an eagerly anticipated 40-story mixed use development in the pipeline, is located on 3.3 acres that were purchased in 2017 by The Acquisition Group for \$22 million. After securing a rezoning approval from Raleigh City Council, developer Capital Square is planning a 20-story development in Downtown Raleigh featuring 296 units.

■ Looking ahead

Although 2020 was a surprising year for real estate, given the anticipated COVID-19 effects at the outset of the pandemic. Rather than hurt, the pandemic bolstered the sector, with the momentum continuing into 2021, especially in high demand markets like the Triangle. Rock-bottom inventory, high absorption rates and all-cash buyers entering bidding wars at tens of thousands over asking are continuing to push prices up. This is good news for sellers but not necessarily for buyers, or

for existing community residents being pushed out of neighborhoods. Affordable housing policy also needs to be at the forefront of the real estate discussion.

One spark that could ease the inventory crunch is current homeowners cashing in on inflated values. “Some people have looked at the market and decided to cash in and rent for a year or two,” said Jones, of Coldwell Banker Howard Perry and Walston. “Most of the restrictions related to the pandemic are now lifted and this was the linchpin for people to be so reluctant to sell. Today, most sellers can put their houses on the market and receive 10 offers within a week or so. It will be interesting to see if the perceived hurdles ease and if listing inventory begins to rise again. Hopefully, more people will become acclimated to the prospect of selling.”

On the construction side, activity is often seen as a proxy for economic growth given that residential construction contributes \$3.08 to GDP for each \$1 invested, supports 21.66 jobs, and generates new personal earnings of \$1.08. While the market in the Triangle is in high demand right now, certain factors such as high costs, labor shortages and supply chain disruption are putting the brakes on output. Some developers have voiced concerns that construction firms will be unable to keep pace with the demand in the coming years, especially after the Raleigh-Durham market was ranked No. 1 for overall real estate prospects and for home building prospects by the Urban Land Institute and PwC.

Notwithstanding unpredictable costs and supply chain bottlenecks, the future looks rosy for the residential real estate and construction industry. Huge pent-up demand that shows no sign of slowing is bound to keep the industry busy for the near to midterm. ■

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Infrastructure, Transportation & Utilities:

The infrastructure and transportation segments in Raleigh-Durham are creaking under the weight of the region's fast-paced growth. Despite the considerable challenges, the good news is that there is also considerable support from the state and federal governments to make improvements.





Heavy weight:

Can the region's infrastructure and transportation backbone support the area's rapid rise?

As the nation leaves the pandemic behind, optimism for the future and pent-up energy have become the animating forces of the day. Both robust economic growth — all but assured after the bottom fell out in 2020 — and a Biden presidential administration that has turned domestic development into its signature issue are sure to have far-reaching consequences for the Raleigh-Durham region.

Already an economic juggernaut before the pandemic, this part of North Carolina is on-track to continue its growth as it stands to benefit from one of the unforeseen effects of COVID-19: the rise of remote work and immigration of people from all over the country (but especially the major cities of the Northeast and Midwest) to the vibrant, human-scale economies that dot the Southeast. Over the next 10-20 years, it is estimated that over 650,000 new residents will arrive in the Triangle region, where the weather is better, housing is cheaper, populations are less dense, highly-skilled labor abounds and where the tax policy is more welcoming.

The question surrounding Raleigh-Durham's infrastructure now becomes whether it is up to the task of absorbing this growth in population and economic activity. It's not a bad problem to have but it's a problem, nonetheless.

■ Landscape

Even without the economic growth, North Carolina's infrastructure is looking creaky indeed, a fact highlighted in the Biden administration's state-by-state details of its \$2.3 trillion infrastructure proposal. The plan paints a telling tale for North Carolina, and suggests the adverse impact poor conditions have on residents: with 1,460 bridges and 3,116 miles of highway in need of work, commute times have increased by nearly 11% in the last decade, with each driver spending an average of \$500 annually because of poor road conditions; for state residents relying on public transportation, commute times are longer by nearly 60%, with non-white North Carolinians 3.4 times more likely to use public transportation; and drinking water infrastructure is expected to require \$17 billion in extra funding over the next 20 years. There is also the matter of digital infrastructure, which must be improved to address 6% of North Carolinians who lack access to broadband, over half of the state that has only one broadband provider and the 14% of North Carolinians without an internet subscription. Finally, Raleigh-Durham International Airport is in need of a new runway.

Then there's the weather to consider. In the last year (■■■)

Growing smartly

Amid explosive expansion, transportation authorities are unified in providing more options

Charles Lattuca

President & CEO – GoTriangle

What challenges has GoTriangle experienced in the past year and how are you addressing them?

The Raleigh-Durham area is exploding in growth and it's going to accelerate once we get out of the pandemic. The challenge is figuring out how to best handle the growth that is coming. To ensure that the Triangle stays on all those Top 10 lists about great places to live, we have to continue building a solid transportation system that gives people more options than driving alone in cars on increasingly crowded roadways.

At the start of the pandemic, like most transit systems, GoTriangle suffered a significant loss of ridership. A lot of businesses shut down back in March or had their employees start working from home. We experienced a rapid decline in users of the transit system even as we kept transporting frontline workers to their essential jobs. Ridership has been slowly coming back over the past year. We are back up to about 55% to 60% of pre-COVID levels for our ridership during the weekday and 90% to 95% on the weekends. Fortunately, we still see a lot of sales tax being generated and that is part of the transit financing in the Triangle area. The three counties have a half-cent sales tax that is dedicated to transit. The sales tax has bounced back remarkably, and, in some areas, it has actually increased over the previous year.

How will the commuter rail and bus rapid transit (BRT) corridors work in the Triangle?

In the Triangle, each county has its own local transit provider. GoTriangle is the regional system that runs across municipal lines and connects everybody together. The three counties are working together to create one unified regional transit network and that network includes both commuter rail and BRT projects. Federal funding has been secured for BRT projects that belong to GoRaleigh in Wake County and Chapel Hill Transit in Orange County. These are projects that serve



high-volume, high-capacity corridors where there is a lot of ridership. The BRT corridors are shorter than commuter rail. These BRT projects, for the most part, will operate buses in dedicated lanes for 60% to 70% of their routes. That is what makes bus rapid transit so desirable. In addition to dedicated lanes, BRT buses will have the ability to jump ahead of traffic at signal lights. This is called queue jumping. BRT will suit the needs of people who take shorter trips than commuter rail and even attract new riders because of its ability to bypass a significant portion of the congestion that is already on our roads.

The proposed commuter rail service between Clayton and Durham will bypass traffic congestion, too, and provide greater access to opportunity and a speedier commute to work across a wider geographic area. ■



The Raleigh-Durham region is easily accessible through multiple interstates.

(■ ■ ■) in North Carolina, there have been 42 extreme weather events that have cost the state \$50 billion in damages.

To address the issues, many eyes are trained on President Joe Biden’s infrastructure bill, which holds the promise of delivering hundreds of billions of dollars for transportation projects, repairing bridges and roads, as well as updating water systems, broadband networks and the electric grid. Of course, getting the bill through Congress is a delicate balancing act that pegs the president between the progressive wing of the Democratic Party that is demanding more spending and a recalcitrant Republican Party that is stubbornly opposed to raising the corporate taxes that Biden hopes will help fund this building spree.

The opposition also contends that the president has a capacious definition of infrastructure. The lack of comity and compromise that has become so abiding in Washington is not reassuring but there have been hopeful signs that the two parties might come together for the country, such as when a scaled-back infrastructure bill (\$1.2 billion) made it through the

Senate — with both Republican and Democratic support — in August 2021.

The federal government is not the only force driving infrastructure spending. On the state level, soaring tax revenues despite the pandemic have surprised everyone, leading the Legislative Fiscal Research Division and the Office of State Management and Budget to jointly forecast a \$6.3 billion windfall by 2023. This surprise has sparked a debate at the state capital as legislators revisit the budget. Republicans have cited this surplus as evidence of excessive taxation and, in the state Senate, have gone against Democratic Gov. Roy Cooper by insisting that the budget earmarks stay the same, including designating \$4.3 billion for the state infrastructure fund over the next two years. Furthermore, while this windfall holds the potential for transformational investments in the state, there is also an understanding that it should go toward pandemic recovery. According to Cooper’s proposals, at least \$1 billion should help refill the state’s rainy-day coffers, which were depleted over the course of last year’s health crisis.

Nor is the private sector’s influence on infrastructure



negligible in Raleigh-Durham. Since its creation in the 1950s, the Research Triangle Park (RTP) — among the most prominent high-tech zones in the world — has been a regional magnate, attracting highly-skilled and well-paid jobs to the area. In April 2021, Apple added to this legacy when it announced the creation of a new campus and engineering hub just off the Triangle Expressway. Apple has said it will invest over \$110 million in North Carolina infrastructure. The economic impact of the new campus is touted at \$1.5 billion a year, along with 3,000 new jobs over the next decade. The Apple news came on the back of an announcement by Google in March 2021 that it would be building an engineering hub in Durham, bringing over a thousand new jobs into the area in the coming years.

While such announcements are obviously welcome, there is a feeling that, with the arrival of the tech behemoths, TRP has exceeded its infrastructure capacity and, like the state at large, has become a victim of its own success. The North Carolina Department of Transportation (NCDOT) was already facing delays in its efforts to ease commuting times for TRP-adjacent

workers, and that was before Apple announced its new campus, a move many predict will draw more companies and more demand for housing and infrastructure.

The challenges surrounding infrastructure and transportation in Raleigh-Durham are considerable. There is the added logistical consideration of keeping track of all of the players across the patchwork of municipalities in the region and understanding of the infrastructure needs of each. The city of Durham, for instance, is leading the charge on a slew of bicycle and pedestrian-gear projects that will make the city healthier and more scalable while holding the promise of easing commuter traffic. Meanwhile, in the same city, NCDOT will be at work executing massive highway improvements, such as the widening of I-40.

■ Transportation

The eruption of the COVID-19 pandemic caused immense damage to the transportation ecosystem not just in the Raleigh-Durham area, but in North Carolina as a whole. With stay-at-home orders in place, the move to remote work and having fewer people than ever using the road, the NCDOT, which is fully funded through the Motor Fuels Tax, Highway Use Tax and DMV fees, faced a \$300 million budget shortfall for the fiscal year ending June 30, 2021, according to the agency.

Such strain on the system caused drastic cuts and project delays. All told, nearly 50 projects across the state, due to commence in 2020-2021, were delayed. Among these projects put off were bridge and bridge replacement efforts, improvements to I-440 in Raleigh and several simultaneous projects (\$200 million in total) to widen I-95 to eight lanes. The cuts went well beyond delayed start times: consultants were laid off, a hiring freeze was instigated, except when there was an impact to public safety, only purchases deemed critical were allowed and many services were suspended or reduced. In a desperate measure to save money, the NCDOT insisted its 9,300 employees, including executive and senior leadership, take unpaid leave to offset the budget shortfalls.

State legislators were able to offset the decline in revenue by reducing the “cash floor,” or the amount of money the NCDOT was required to keep on hand from \$300 million to \$125 million, a desperate measure for a desperate time. While the bleeding has now stopped with people back on the roads, the budget shortfalls stemming from these first months of the pandemic are expected to have a lingering effect for some time to come, according to a report in the Washington Post. This will add a patina of decay — potholes, poorly serviced train lines and old airport terminals — to an already aging infrastructure.

**The GoTriangle
commuter
rail is expected
to carry up to
10,000 passengers
a day**

Still, there are many projects that have captured the attention of Raleigh-Durham residents. For one, highway construction is back, with work continuing on a stretch of I-40 from Raleigh to the I-40/NC 42 interchange in Clayton. The purpose of this enormous \$360 million project is to ease congestion on the roads, something which has gotten notably bad as more and more people move into the region.

But the solution is not necessarily automobile-centric. Of particular note is the GoTriangle commuter rail project, which seeks to exploit the 43 miles of track already overseen by the North Carolina Railroad Company. In its new iteration, the track will be refitted with a modern commuter rail system that will connect West Durham to Garner or Clayton, stopping along the way in Raleigh, NC State, Cary, Morrisville, Research Triangle Park and Downtown Durham.

The project's current study phase is expected to conclude in 2022 but, already, there is a great deal of enthusiasm for the project. Early estimates suggest that the rail system will carry 7,500 to 10,000 passengers a day while 20-year projections show that for every \$1 billion invested, there will be a return of \$5 billion in GDP and 50,000 jobs.

Certainly, with new major companies moving into an already crowded TRP area, there is a robust desire to have alternative modes of transportation besides the over-crowded highways that currently dominate. Reflecting this desire is the gathering momentum behind a Bus Rapid Transit (BRT) line along New Bern Avenue in Raleigh. In fact, the New Bern bus route was one of the beneficiaries of the Biden administration's American Rescue Plan Act, the \$1.9 trillion recovery bill that was signed in March 2021. Just as the city was beginning to acquire property for its new route, the act was passed and the transportation project received another \$5.4 million (there was already a \$35 million Federal Transit Administration grant). Money for the project not covered by federal funds was raised by a half-



The Research Triangle Park is home to the Raleigh-Durham International Airport and six regional airports.

cent sales tax approved by Wake County voters in 2016. The New Bern Avenue line is slated to be running by next year and will run 5 miles, from GoRaleigh station Downtown to New Hope Road.

The effort to remake Raleigh-Durham's transportation corridors has become a cooperative as the Regional Transportation Alliance business coalition, GoTriangle and NCDOT have together invested in a study — the Freeway and Street-based Transit (FAST) network — that seeks innovative solutions to the region's transit woes. The idea is to find a workable approach by which roadways can be given over to mass transit systems in a way that will positively affect the residents of the Raleigh-Durham area. Like many of the most ambitious projects, this remains in the planning phases.

There is also an emerging consensus at the state level that investment in infrastructure will have to



Doug Middleton
General Manager
 GoDurham

How do you ensure cohesion among regional transit partners?

As transit providers, we're a very cohesive group in the Triangle to start with. We have certain processes and systems and mechanisms by which we collaborate on any number of issues, policies and initiatives. I'm very operational in orientation, so I work with the general managers and directors across several organizations anytime there are extraordinary events or scenarios impacting the region. During COVID, we constantly worked together and collaborated to get through the challenges in the most effective way possible. Aside from those epic disasters and impacts to operations in the community, we also collaborate on technologies. But we collaborate on service continuity, above all. We want to achieve a seamless transportation experience for our customers.

What is the private sector's role in mass transit?

We sometimes partner with private entities or investor groups to solve community needs or introduce initiatives. For example, we work with many vendors to acquire new technologies. Currently, we're working with mobile ticketing platforms to simplify and speed up the fare payment process for customers. Aside from that, private enterprise may be engaged in service expansion, opening up new markets, partnering with local governments to create better services in certain areas and adding more services. I was part of a program that involved local businesses in Washington. The businesses contributed investment funds and revenues to the agency to subsidize bus fares so they could get more people to start coming in from outside localities to visit and patronize the sleepy seaside village shopping and restaurant venues. It was a huge success that couldn't have happened were it not for the private enterprise looking for what we provide, while understanding it is very expensive to finance independently and that they weren't about to start up their own private transit system. This was a classic private-public partnership that was pretty successful. ■

be increased in the coming years. The NC FIRST Commission, formed to advise the Secretary of Transportation on long-term transportation strategy, released a report, drawn from 18 months of analysis, that total investment, which now stands at \$50 billion over the next decade (\$5 billion annually) will have to be increased by an additional \$20 billion by the end of this decade. Such an increase in costs will not be easy to meet, especially in this era of declining gas tax revenue; therefore, the commission recommends implementing new strategies for raising capital.

■ **Raleigh-Durham International**

Raleigh-Durham International Airport (RDU), while not a major regional hub like Charlotte or Atlanta, is a hive of activity commensurate with the size of the region it serves. In pre-pandemic times, the airport (■■■)

Safe bet

With health measures in place, the airport and airline segments expect a continuous recovery



Michael Landguth

President & CEO – Raleigh-Durham International Airport

What is the long-term view for your capital improvement projects amid decreased revenues?

In March 2020, our board approved the airport's FY 2020-2021 budget, which included a 21-gate expansion in Terminal 1. The following month, after COVID hit and passenger traffic plummeted to historic lows, we quickly transitioned to survival mode, cutting our \$300 million budget in half and pausing nearly all capital projects. The board approved another survival budget in 2021 that included a list of contingency projects linked to passenger traffic thresholds. The contingency projects were identified as high priority projects to accelerate recovery if traffic returns sooner. Examples include Terminal 2 checkpoint expansion, roadway improvements and an e-commerce platform. We are also starting the environmental assessment for the replacement of our primary runway, which should take around 18 months. We expect recovery to continue throughout the year but it is hard to predict an exact time frame and it may be inconsistent, so we are being strategic and financially conservative.

What are your main takeaways from having operated in the pandemic landscape for more than a year?

The initial impact of the pandemic was unprecedented. We lost 96% of our customers in April 2020 and the recovery has been slow, particularly in the business travel segment. But with all the precautions we have implemented, we believe air travel is safe, and our customers agree. In a survey of RDU travelers last year, 83% agreed we are taking the appropriate steps to keep them safe and healthy when they travel. We are emphasizing social distancing, providing free hand sanitizer in the terminals and requiring everyone to wear a mask in the airport. There has been no evidence that people are at higher risk of contracting the virus as a result of air travel. In fact, a recent study from the Harvard School of Public Health found that flying is as safe as grocery shopping.

What message is sent by airlines investing in RDU?

In November 2020, JetBlue increased the number of nonstop destinations it serves at RDU from three to 12. American Airlines, Delta Air Lines, Frontier and Spirit have also added new routes during the pandemic and Sun Country became RDU's 11th airline when they began service in May. This reflects the overall feeling in the business community that this is a hot market. Airlines are investing here because they want to ensure that they have the capacity and network in place to support the impending return to growth. Businesses in the Research Triangle region have continued to recruit during the pandemic, and they will need robust air service once things return to normal. ■



(***)) had nearly 400 daily flights on seven airlines reaching almost 45 nonstop destinations. It is expanding its international reach, as well, and there are 1.5 million passengers annually passing through RDU on their way to international destinations.

Of course, airports, air travel and airlines were among those areas hit hardest by the pandemic as fear of contagion and social distancing protocols caused a precipitous decline in traffic. In the face of this emergency, RDU had to cut budgets and operations, reducing spending by nearly 45% as it deferred \$96 million in capital projects. The federal and state governments were able to step in and cover 45% of the airport's budget: RDU received \$49.5 million through the CARES Act, \$50.7 million through the American Rescue Plan Act, and a further \$18 million from the North Carolina state government.

Such a decline is problematic for the entire region. RDU, after all, brings \$15.1 billion in annual economic impact, supports 99,000 local and regional jobs, provides \$518 million in state and local taxes and is responsible for \$3.5 billion in personal income. The deep cuts will put RDU on a precarious footing for some time to come.

One brighter spot for the airport, and which augurs

**RDU provides
an economic
impact of
\$15.1 billion
annually**

well for the US economy, has been the return of cargo passing through the airport. The pandemic caused a revolution in e-commerce, rapidly accelerating trends that had been at work for years. Much of the cargo passing through the airport is stamped with UPS or FedEx, indicating that it is e-commerce driving the growth. Already volume exceeds 2019 levels, and this figure itself is misleading since international shipments have not resumed, only domestic. Many see such trends as a sign that pent-up demand will cause a post-pandemic economic boom in the United States.

STAYING COMPETITIVE

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- Alleviate parking challenges
- Create a happier, more connected workforce



Despite these difficult times, RDU was able to complete work on certain capital infrastructure projects: annual preservation work on the airport’s primary runway was completed ahead of schedule, while another runway had its pavement successfully repaired; a four-gate activation project was completed in Terminal 1; and in the parking garage, elevators, moving walkways and other systems were modernized.

In the pipeline is the RDU Vision 2040 plan which, thanks to the extended time scale of the project, will likely remain unaffected by the shortfalls caused by COVID-19. With this plan in place, the next 20 years promise to bring a raft of improvements to the airport: upgraded taxiways, a new primary runway, expansion of the airport’s capacity to process customs and international cargo, enlarged corporate aviation facilities, expansions of both Terminals 1 and 2, as well as improved garage and rental car facilities.

■ Utilities

The picture for utilities is mixed in the Raleigh-Durham area, where there have been calls for upgrading water infrastructure and moving away from fossil fuels but with few results. The system is getting creaky. That’s not to say it’s small. The North Carolina Utilities Commission regulates nearly 3,400 separate companies that have a combined jurisdictional revenue of nearly \$11 billion.

In energy, there is a demand among consumers for more market competition but this has been slow in coming and companies are still operating in a similar marketplace to that established 100 years ago. House Bill 611, sponsored by Republican Representative Larry Strickland and making its way through the state assembly, would study the ways the market could be restructured to offer consumers more choices while promoting renewable energy, increased competition and innovation.

In June 2021, a massive energy bill — Bill 951 — was unveiled. It is the product of months of secret negotiations between House Republican leaders and the major player in the North Carolina energy industry, Duke Energy Corporation. The survival of the bill is in doubt, however, as it did not take long for the opposition to make their voices heard. Many see the bill as too amenable to Duke Energy’s long-term interests (the company played a large part in writing it). Environmental groups oppose the bill on the grounds that it offers weak protections. House Democrats oppose the bill on similar grounds. Ultimately, it was hastily and surreptitiously written, and, in only 47 pages, would largely redraw the state’s energy infrastructure. Still, the



The RDU Vision 2040 program promises to bring a variety of improvements to the Raleigh-Durham International Airport.

fact that it is here in the first place shows an awareness that something must be done for the region’s aging energy system.

For all the talk of fossil fuels, every passing year makes alternative energies a more viable option. A report from the Research Triangle Park-based RTI International showed that there has been \$40.3 billion invested in renewable energy across the state of North Carolina and that in 2020, renewable energy development investment was 62 times higher than what it had been in 2007. These numbers are translating into jobs. With 99,670 people employed in the clean energy sector, North Carolina ranks ninth in the nation. It is first looking solely at rural clean energy jobs.

■ Looking ahead

It has been a difficult year for infrastructure, transportation, and utilities. Although these areas



Robert Heuts
Airport Director
Raleigh Exec Jetport

What shifts in demand for your services have you experienced over the course of the pandemic?

We're seeing an uptick in transient activity. Companies decided they were not going to send their people on a commercial airline during the pandemic. These companies are using charter operations to visit customers and do what they have to do to run their businesses. In addition, the recreational flyers figured out pretty quickly that they can feel safe 5,000 feet in the air by themselves.

What long-term changes have emerged?

Prior to COVID, people would hop on an airplane and no one would pay much attention to the way the plane was sanitized. Now, the airlines are doing a full clean-up, and then getting it certified by somebody certified to do that. Today, a person jumping on a charter jet knows that the airplane has been cleaned and disinfected the way it needs to be. That's done in between all flights. I really think that will be a long-term change and it's probably a good thing. Maybe it won't be as intense next year as it is this year but I see that as something that will continue.

What's motivating airlines to do business in the Triangle region?

First, there are some great universities in this area. You've got Duke, North Carolina and NC State, the different community colleges, and other smaller schools. All of these have thrived here, and that builds the basis for a great workforce. Back in the 1950s, IBM and Northern Telecom started recognizing the fact of our highly trained workforce. They built Research Triangle Park, the largest research park in the world. It attracted great companies. Everything has changed over the years but the RTP still has a representation of great global companies. You've got the educational system and private companies involved in research and development and then there's manufacturing. Add to that the governmental activity and you have a very dynamic region. All of that works together. ■

are not directly subject to the whims of the market, they do depend on major budget allocations from the government for the execution of multiyear projects. COVID-19 battered the finances of local and state governments and it will take some years before they have recovered.

Still, the news is not all bad. The fact that Biden has decided to make infrastructure revitalization his signature issue means that there will be a renewed focus on it and the possibility of major funds for big projects that will offset the losses incurred fighting the pandemic. And it is not just the president holding this view. There is a mood around the country that infrastructure has been ignored for too long.

In Raleigh-Durham it is vitally important that these issues be addressed. People are coming, jobs are coming and an economic boom is likely underway. Will the current infrastructure be enough to support this influx? ■

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Banking & Finance:

Raleigh-Durham's bankers received an unexpected boost in 2020 by way of the PPP loans. As the funnel for funds, banks were able to help offset a low interest rate environment that continues to squeeze margins. Reinventing themselves for a digital and remote world also proved essential along with the need for cyber protections. It all adds up to a mammoth shift in the banking and finance landscape.





Mammoth shift:

Financial players are navigating a new world of innovation and sustainable growth

For a growing number of banking and finance institutions, there's no place like Raleigh-Durham. Considering that 65% of the area's graduates stay after graduation, 70% population growth is projected by 2046, a 1 million-strong regional workforce, the fourth-highest concentration of Ph.Ds in the country and the lowest corporate tax rate in the United States at 2.5%, the Raleigh-Durham region is an investment no-brainer and a boon for banking and finance entities.

Based on key metrics including price-to-rent ratio, cost of living, corporate tax rate, prices per square foot, state income tax and talent, the Raleigh market is best positioned to take advantage of the current business climate, trends in entrepreneurship and venture capital flows, according to WRAL.com's TechWire citing a Silicon Valley Bank study of regional markets across the country. To illustrate its attractiveness, the area's crown jewel, the Research Triangle Park, attracted \$11 billion in new investments and 18,000 new jobs in the middle of the pandemic.

It adds up to a ripe environment for a sector that also benefits from being close to Charlotte, the nation's second-largest banking hub.

■ Landscape

Throughout 2020, Raleigh-Durham's Top 25 banking players collected an aggregate \$63 billion in deposits, a testament to the Triangle's capacity to attract capital even amid the uncertainty triggered by the pandemic. Truist, Wells Fargo and PacWest Bancorp are the Top 3 banks by deposits in the region, with an aggregate \$35 billion, representing close to 55% of the Triangle's banking market share. Raleigh-based banks on the list include First Citizens Bancshares, TowneBank and North State Bank with a total \$8 billion in deposits and a 12.4% market share. Durham's M&F Bancorp also made the list, with \$163.3 million in deposits and a 0.25% market share.

From a state lens, Federal Deposit Insurance Corp's (FDIC) latest Quarterly Banking Profile (March 2021) showed net income at North Carolina banks soared 70% in 1Q21 compared to 1Q20. The net income of the state's 47 financial institutions totaled \$8.12 billion in the quarter, close to double the net income of 1Q20, which was \$4.77 billion. North Carolina banks also bolstered their equity capital to \$293.33 billion, a 4.6% increase from 2020 and a 19.1% gain from 2019.

Some examples of banking and finance growth in the region include Fifth Third Bank, which has set the (■ ■ ■)

New capabilities

Bank merger creates growth opportunities beyond traditional deposits and lending role

Jim Hansen

Regional President, Eastern Carolinas – PNC Bank

How has the BBVA-PNC merger progressed?

We're excited. It's a great growth opportunity for our company. In 2012, PNC bought RBC Bank (USA), which was based here in Raleigh and allowed PNC to enter the Southeast. I was at RBC when that occurred, so knowing what the other side looks like, I can confidently say that PNC is a great company and really knows what it's doing. All of this makes us optimistic for the PNC-BBVA partnership.

How have you continued serving the needs of your corporate clients?

Our strategy for serving corporate clients is unchanged. PNC has capabilities that we've been building over the last few years in this space. In October 2020, for example, we started a financial wellness initiative around taking all these pieces we deliver and bringing them into one voice that says, "This is what PNC can do to help your employees." So, it's something that we're doing beyond the traditional banking role of taking deposits, making loans and that kind of thing.

How are you revamping your branch strategy with all the changes happening on the consumer end?

I think all of us have watched this evolution that the last year has sped up. If you go back five or six years, 25% of our transactions were digital. In the fourth quarter of 2019, it was 71%. Fourth quarter of 2020: 77% of our consumer transactions were through non-teller channels. The remaining are walk-ins or drive-throughs at one of our branches. What does that mean? We're all transforming the way we interact with our customers. In some ways, it means that our needs are different, so we need to be adaptable.

How did PNC deal with the onslaught of PPP loans?

PNC registered about 76,000 PPP loans, or \$13 billion, in



the first round of PPP. The second round is in progress and there is continued strong demand. This round was more specific. One loan couldn't be more than \$2 million in the second round. You have to show your revenue was down 25% in a quarter of 2020 over the quarter in 2019. When you see the demand, it's definitely a lot of smaller businesses that have been really affected by all this. The application portals are open and running.

What are your goals for the Raleigh operation?

We're looking into how we continue to grow in the region. In terms of what this region has to offer — startups coming in, corporate relocations — that's very meaningful for our sector. We're happy to be part of that evolution. We will make sure to continue bringing all of PNC to the market, from small businesses to big corporations. ■

Ron Day
President & CEO
First Carolina Bank



How would you characterize the state of business for your operations?

It has never been better. We have doubled the size of our bank in the last 18 months, crossing the \$1.2 billion asset mark in May 2021. We've been in quite a unique position here in North Carolina. The number of state-chartered banks has decreased from over 110 prior to the 2008-09 recession to less than 40 today. One of the things that we have learned through all of this is that customers like dealing with smaller institutions that are responsive and decisive.

We were only a moderate participant in the PPP loan program, focusing mostly on our existing customers and a high level of personal attention with them throughout origination and now forgiveness of these essential loans. We were able to take relationships from larger banks because we were more responsive on full operating relationships throughout the pandemic (not just PPP). Our opportunities for attracting new customers and hiring new people who wanted to come to a less complicated platform and a place where they could serve their customers have really been remarkable.

What is First Carolina's Bank vision for the future of its retail footprint?

Our strategy is not to have multiple locations per market. We have one location per market. We focus first on finding a good leader and then opening one office and serving the market from that one office. We tend to build our customer footing by bringing in commercial business that in turn leads to additional referrals and retail opportunities with the employees of those businesses. We focus on operating efficiency even as we invest in new markets, and lower is better. We are the most efficiently run bank in the state of North Carolina, and rank in the national Top 20 in that regard. Our efficiency ratio is around 40%, which means that for every 40 cents of non-interest expense, we generate a dollar of revenue. That is a testament to our talented people and demonstrates our excellent operating processes. ■



The Triangle attracts investments from local and international venture capital firms.

■ Triangle as a priority market due to the ripe opportunity not only in terms of retail banking (doubling its local branches from five to 10 and projecting another 10 for 2021 alone), but also in terms of commercial banking and wealth management.

Raleigh-based First Citizens is on schedule to conclude its CIT Group acquisition announced in October 2020, despite the COVID-19 complications. By 2Q21, the new financial institution with more than \$100 billion in assets emerging from the deal will turn First Citizens into one of the Top 20 largest banks in the United States. Even with the double challenge of a merger and navigating a pandemic, the bank closed 2020 with total pre-merger assets close to \$50 billion. Southern Pines-based First Bank also reported strong numbers with uninterrupted, organic growth in Raleigh. The Raleigh office boasts the largest organic growth of the bank's entire 103-branch network.

Also driving the sector is a booming real estate



market. PwC and the Urban Land Institute (ULI) ranked the Raleigh-Durham area No. 1 for expected growth in housing construction for 2021. Fuelled by the pandemic-related immigration and attractive housing costs, the Triangle is a safe bet for financial institutions giving out construction loans. Durham, specifically, has a limited housing inventory with 1.7 months of availability. Single-family housing construction permits, however, surpassed forecasts with 346 permits issued as of February 2021, a 33.6% difference to the projected 259. The same was observed with multi-unit permits, with 158 permits compared to the projected 135. Meanwhile, Durham delinquencies (5.5%) remain lower than the national average (6%), while foreclosures sit at 0.2%, also below the national average (0.3%)

■ CARES Act and PPP loans

By the end of 2020, Raleigh and Durham ranked second and third in terms of PPP loans approved in North Carolina, right behind Charlotte. The former raked in 10,149 PPP loans for a total \$1.22 billion, while the latter obtained 4,036 PPP loans for an aggregate \$434.43 million.

On Aug. 10, 2020, the Small Business Administration (SBA) opened its PPP forgiveness portal. The loans can be partially or fully forgiven if used for payroll, rent, mortgage interest or utilities. As per the established SBA guidelines, the threshold to be eligible for full forgiveness is being able to justify that a minimum 60% of the PPP loan was spent on payroll costs, while up to 40% can be spent on other allowables, including rent, lease payments and mortgage interest.



Chuck Purvis

President & CEO – Coastal Federal Credit Union

“Many consumers took it on the chin during the pandemic. All the stimulus payments and unemployment extensions helped but it has been a difficult time for them. Our business wasn't heavily affected. People don't borrow money when their future is uncertain, so we saw some decline in consumer lending. Consumers, particularly low-income service-oriented consumers, were hit hard. We did payment deferrals on about 30,000 loans, totaling about \$600 million in loan balances, to give our members the chance to manage through the crisis financially. We know unemployment was somewhat high among our members, so we did everything we could do financially and in terms of loan payments to help them through what turned out to be a year of hardship.”



The Triangle is a priority market for banking institutions due to its potential growth of commercial banking and wealth management verticals.

Characterized by a chaotic rollout for the first round of PPP in the spring, by the time the second round rolled around in summer 2020, most entities, in particular the smaller community banks that proved pivotal in the rollout, had mastered the learning curve. The industry was ready to deal with further federal financial aid, coupled with the addition of an SBA loan component that raised the guarantee from 75% to 90% as of February 2021.

Another modification to PPP loans enacted in February was the specification that only businesses with fewer than 20 employees would be able to apply to ensure that small businesses were the main beneficiaries of this round, a move that benefited minority-owned businesses and mom-and-pop shops. North Carolina bankers welcomed the change and shared the Biden administration’s goal to make PPP loans available to the largest number of struggling small businesses. The state’s financial institutions put their money to work, providing PPP loans to close to 144,000 small businesses for an aggregate \$14.9 billion, according to the North Carolina Bankers Association.

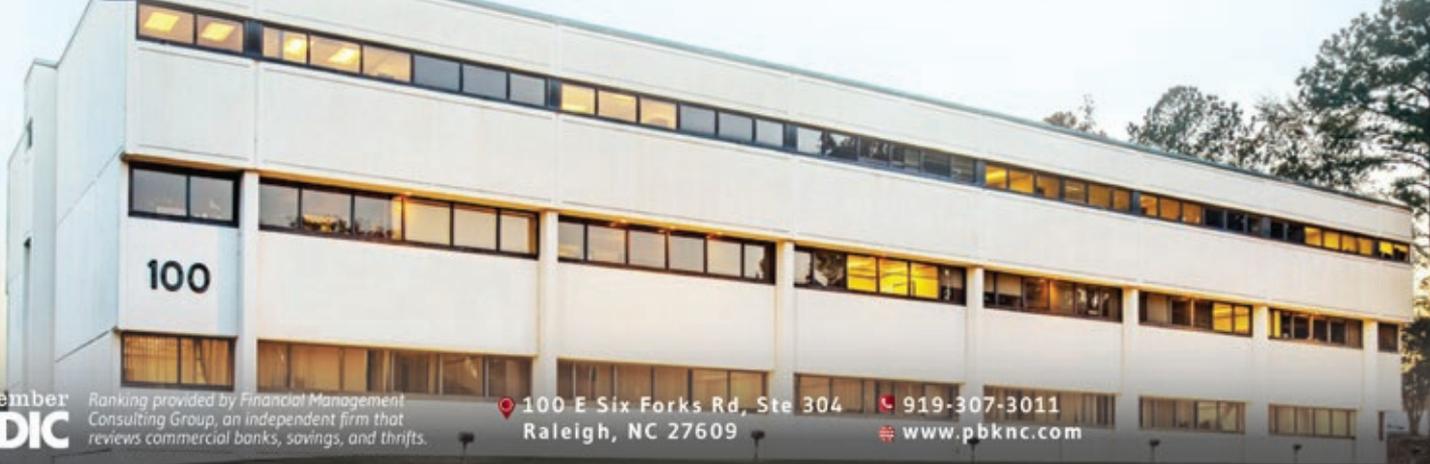
■ Challenges

Although the PPP rollout was considered a success that greatly bolstered banking revenues, there were also challenges for the sector. In particular, the Federal Reserve cut interest rates to near-zero levels as early as March 15, 2020 and in parallel launched a \$700 billion quantitative easing program. Lower rates are good for consumers who have capitalized on the favorable borrowing environment to refinance mortgages, pay down debt or boost emergency savings but the rate environment squeezes bank margins, leading to lower profits.



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Financial regulations require banks to hold 4.5% of common equity in capital and 6% of Tier 1 capital, which can't be used for lending

More than a year later, the Fed shows no sign of raising interest rates. Although the U.S. economy appears to be in recovery mode, underpinned by federal aid resources and as vaccination rollouts advance across the country, millions of people remain out of work, with unemployment nationally hovering around 6%.

For North Carolina banks, low interest rates remain the top concern. In the last five years, financial regulation has disproportionately impacted regional banks by inhibiting their lending ability in the community or increasing lending costs in the region, in addition to harsh financial penalties for those who are noncompliant. The regulations also require banks to hold 4.5% of common equity in capital and 6% of Tier I capital, which cannot be used for lending.

Increasing capital costs, sustained low interest rates, decreasing returns on equity and decreased proprietary trading are all shrinking the Net Interest Margin (NIM) for banks and financial institutions. The good news for Raleigh-Durham is that its booming real estate market and investment injections are providing solid loan demand, helping offset the negative impact of low interest rates.

As if low interest rates were not challenging enough, the forced push toward the digital world poses a two-pronged challenge for financial institutions: bolstering their respective digital platforms to accommodate the sudden spike in demand for digital services while amping up security systems to prevent both fraud attempts and cyberattacks.

■ Regulations

COVID-19 advanced digitized banking services across the globe to cater to users demanding the availability of in-person branch services in the virtual space. The sudden surge in technological innovation, combined (■■■)



Ted Whitehurst
CEO
Providence Bank

How has the investment in technology changed for banks due to the pandemic?

Providence Bank was fortunate in that we already offered online and mobile banking for personal customers and online banking and remote deposit capture for commercial customers. We had strong customer penetration of these services but it ramped up even further in March 2020. While we hope the worst is behind us regarding the pandemic, it caused us to move forward more quickly with additional digital services and to review or upgrade current offerings to assure they are as robust as our customers need. We are a community bank, though, and our customers still wanted, and needed, to see us and speak with us. Many customers continued to use traditional means of banking – the drive-through, the night deposit, ATMs, and even in-person appointments, though masked and socially distanced.

What is your evaluation of the housing market?

It seems everyone is speculating about whether or not we're in a bubble. In the current environment, there are several factors that are different from what we experienced in the past. Today's rapid increase in prices is more of a supply issue than a true housing bubble and I believe the supply issue will resolve itself when everything is reopened and back to full production. In some places, there is only a one-month supply of housing. The other difference, when you compare today to the Great Recession that started in late 2007, is that banks have more capital and liquidity, as do customers. In the Triangle market, continuing announcements of new companies establishing a footprint is bolstering the pipeline, with Apple and Amazon as just two examples. It's hard for me to see the area slowing down anytime soon considering all of that. Interest rates are somewhat of an unknown. We are all starting to feel an increase in prices, although the Fed has been adamant that this is transitory. I think there will be some upward momentum in interest rates but I don't think that is a bad thing because it will be gradual. ■

Community-minded

Leading community and regional banking leaders provide their perspective on the challenges ahead and advantages they offer clients.



Travis Bailey
*Regional Executive & Senior
Vice President*
First Bank



Laura Bunn
Triangle Market President
First Horizon

How important is the Triangle region in your overall North Carolina operations?

Over the last three years, First Bank has focused on growing intentionally and organically in the Triangle. For example, since 2019, we've seen a 100% increase in assets held here. Through the pandemic, we've continued that growth by another 40%, which is significant. With the opening of our new regional headquarters on Six Forks Road, Raleigh is now the largest branch in the First Bank network. That reflects First Bank's commitment to this area.

As a community bank, what steps have you taken to provide for small businesses throughout the pandemic?

Our main concern was to help our clients get through whatever might be thrown at them throughout the pandemic. Our goal is and was to give our customers continued confidence by providing the support and tools they need. This parallels the support First Bank has given to employees across the bank's footprint—that the bank was going to be there with them and their families throughout this difficult and uncertain time.

What is your outlook for the banking sector in the Triangle region?

We're going to exceed expectations. We have a strong pipeline for loans and deposits and there's a lot of appetite in the market for what First Bank has to offer—a personal touch, customized and flexible options, competitive rates and, as cheesy as it might sound, someone who actually cares about each business customer they serve. That looks like the boutique, private banking-type model that we can bring to the Triangle market. ■

What are the benefits of your merger with IBERIABANK and the acquisition of the SunTrust branches?

These two developments help us in two ways. One, with a strong delivery system in the Triangle market and, second, the merger with IBERIABANK will bolster the ability to invest in solutions to support our customers.

Acquisition of the branches improves our ability to serve customers and the community throughout the Triangle. From our perspective, these acquisitions accelerated the growth plans that we have for the Triangle. As the Triangle grows, businesses and residents will prosper. First Horizon has the opportunity to acquire new customers and support the community as part of this growth.

How did First Horizon deal with the onslaught of PPP loans in the Triangle market?

First, we repurposed our Triangle team, with each team member having a clearly defined role in the PPP process. Many of our team members worked around the clock to secure much needed funding for the businesses in our community. The total PPP loans for the mid-Atlantic region in the first round totaled \$336 million. The Triangle closed over 1,200 applications in the first round of funding. Reflecting on what we accomplished through the PPP process, it gave businesses the resources to manage the pandemic-related uncertainty as many people did not know what to expect. Second, it demonstrated that financial institutions can adapt quickly, as banks repurposed teams to serve as the conduit between the borrowers and the Small Business Administration on a large scale. ■



Lee Fite
*Regional President,
 Mid Atlantic
 Fifth Third Bank*

What is the role of the Triangle market in Fifth Third's overall North Carolina strategy?

The Triangle region is one of the fastest-growing and diverse areas in the country, with tremendous community support for innovation, access to intellectual capital and business growth. Additionally, it is a fantastic place to live and work due to the climate, culinary scene and appeal to families. Those are just a few of the reasons that make the Triangle an attractive place to invest. We've been a part of the Triangle for nearly two decades now and have continued to make deliberate and significant investments to support and grow our presence in the community.

Our team in the Triangle is composed of talented bankers who choose to live and work in that area. We are consistently looking for opportunities to partner with local business owners to find ways to help them achieve their objectives and thrive. We believe that our purpose is to assist in providing opportunities for everyone in the community to find success and prosperity. One way we will do that is by expanding our service through significant retail expansion.

How has the recovery process unfolded in the Triangle?

Broadly speaking, we're seeing substantial recovery for midsize and larger businesses. We believe that the second half of 2021 will be a period of growth for the Triangle as we're already seeing that with a number of our Triangle-based customers. The challenge with recovery is that, like the challenges presented by the pandemic, it is not uniform. While some are seeing growth and great wealth, there are persistently high numbers of people who continue to need assistance with basic essentials. ■



Taylor Vaughn
*Market President
 United Bank*

How do Raleigh and the surrounding area fit into United Bank's strategy?

We are a vehicle for growth. United has been trying to get into the Carolinas for a long time now. We were founded in West Virginia and moved over to the D.C. market in the early 1990s and we have very strong penetration in those markets. The next logical step was to move into the Carolinas. I would say Raleigh and Charlotte are the target markets for United's growth in our regional footprint. From a pure economic and job growth perspective, there are a lot of people moving here. We came into the market through the purchase of CresCom Bank, which has a strong presence on the coast and was headquartered in Charleston. Right now, it is about building the brand and letting people know how we do business. That can be very difficult in banking, especially if you're an outsider, and I think a lot of that feeling comes from the number of mergers taking place in banking. United has been independent for 182 years and we have a remarkable track record. We plan to be here for the long haul and grow alongside local businesses.

What is your branch strategy?

In the Triangle, this does not change much as we have a limited footprint. We have two commercial lending offices and two full-service branches in a market of 1.2 million people, which is not enough of a physical presence in my opinion. We are a lean operation and we operate very efficiently but I think, looking at the data, the Triangle may be the one market where everyone is trying to build their branch presence rather than cutting it back. I think we will be following that trend. ■



Sophia Wajnert

Head of Credit Suisse Raleigh – Credit Suisse

“We’re excited and optimistic about the outlook for Raleigh-Durham. There are a lot of great things happening here, with various corporate projects starting in the area. That comes with a ton of opportunity and growth. It’s exciting and refreshing to see that project activity has not wavered at all, even over the past year. The extent to which the Triangle continues to grow and support businesses is really promising. Talent attraction, retention and development remains critical. This is one area where we will continue to dedicate our time and resources, in terms of thinking about attracting top talent to the region, to the benefit of all the great local organizations that have decided to commit to the Triangle. There is definitely more opportunity to grow the talent pipeline.”

(■■■) with remote work, raised concerns over increases in fraud and cyberattacks, prompting financial regulators to enact new rules around transparency and data protection.

Deloitte posits that the banking and finance industry’s regulatory framework is shifting toward stronger oversight of digital transformation and technological innovation; governance; anti-money laundering compliance; consumer protection, and control of dynamic data environments. For example, the Federal Financial Institutions Examination Council (FFIEC) issued the “Architecture, Infrastructure, and Operations” booklet on June 30, 2021. It provides expanded guidance to assist examiners of financial institutions in their assessment of the risk profile and adequacy of their information technology architecture, infrastructure and operations. The booklet rescinds and replaces the operations booklet of the FFIEC Information Technology Examination Handbook issued in July 2004.

In parallel, the Consumer Financial Protection Bureau (CFPB) issued an enforcement compliance bulletin and policy guidance relating to consumer reporting of rental information, applicable from July 7, 2021. The bulletin was enacted in light of the heightened risks to renters associated with inaccurate consumer reporting information. As pandemic-related government interventions, which sought to protect renters, begin to expire, the CFPB will be laser-focused on the compliance of Consumer Reporting Agencies (CRAs) and furnishers’ compliance with their accuracy and dispute obligations under the Fair Credit Reporting Act (FCRA) and

Regulation V with respect to rental information, holding them accountable should they fail to comply.

Transparency will be center stage going forward, especially considering the federal government is intent on confirming the \$800 billion directed at the PPP loans and other financial aid as provisioned by the CARES Act is accounted for, up to the last cent. The first subpoenas from U.S. attorneys have already dropped and it is likely that more will follow. Banks will need to adopt a proactive approach to face these inquiries by auditing each and every PPP loan they were able to get for their clients.

Moreover, ever since the Office of the Comptroller of the Currency (OCC) announced in July 2018 that it would begin accepting special purpose national bank charter applications from fintech companies that receive deposits, pay checks or lend money, fintechs are virtually on a level playing field to start competing with banks. Traditional banks that fail to adapt to this trend risk falling behind.

■ Tech revolution

In April 2021, Goldman Sachs announced it had reached a technological breakthrough to harness quantum computing for its financial operations, a major innovation leap that could be within the institution’s reach in the next five to 10 years. This landmark is an echo of the digital transformation that COVID-19 accelerated in the financial landscape.

Quantum computing players will find a strategic business haven within the Triangle’s strong fintech and entrepreneurial ecosystem, as showcased by (■■■)

Branching out

While the industry trend is toward fewer physical branches, not all banks are scaling back

Brian Reid

President, Raleigh – TowneBank

How has the pandemic forced the bank to rethink its branch strategy?

The evolution to digital-only banking will take at least 15-20 years to complete but we're undeniably headed in that direction as an industry. By design, we have relatively few offices in North Carolina but we believe that our physical footprint is still important and valued by our clients. We plan to build five to seven new offices throughout the Greater Triangle, Charlotte and Triad regions during 2021 and beyond. We will have a limited but very strategically located branch offering (main corridors).

How is technology changing the banking sector?

Fintech is going to start competing directly with banks. The changes and innovation, like online transfers and stock trading, are going to continue to accelerate. Banks need to adapt and integrate the new technology into their core systems to allow their clients to access the full range of products and services digitally.

How do you expect the real estate sector and mortgage-lending side of the business to perform in the next year?

Banks have more cash on their balance sheets than ever because of the uncertainty caused by the pandemic. The real estate market had distinct winners (warehouse, residential and multifamily) and losers (hotels, retail centers and office) during 2020 and into 2021. The first half of the year will still be relatively light in terms of economic activity and capital investment for owner-operated companies (commercial and industrial entities). We anticipate an uptick as the pent-up demand from the past year starts to flow into North Carolina in 2H21 and into 2022.

We closed just over \$6 billion in residential mortgages last year and while activity will still be robust in 2021, I don't think it will be as busy this year due to a lack of supply for potential residential homebuyers, less



demand for refinancing and a projected mortgage rate increase during 2021. It's a sellers' market as there is just not enough supply right now.

What are the bank's main goals and objectives in the next year?

We want to increase our footprint and serve the community in an intimate and unique way. We are large enough to handle the complex corporate relationships but our typical target market from a business development perspective is midmarket companies with \$5 million to \$100 million in annual revenues and real estate developments with borrowing needs between \$1 million and \$25 million. We want to provide solutions for the people and businesses in our community — that's what gets us up in the morning. ■

Mike Golden

Regional President,
Raleigh
Wells Fargo



What role does the Raleigh market play in the overall Wells Fargo strategy for North Carolina?

I lead one of two regions in North Carolina, which is called the Carolina East region, spanning geographically from the Piedmont Triad to the Triangle to Coastal North Carolina. My office is based in Raleigh. We're a major force in the company, in terms of both deposit share and customer households. In the Triangle alone, we serve 230,000 households. That has been especially critical in the last 12 months as we have served our customers while at the same time keeping our team members safe. Through a North Carolina lens, Charlotte and Raleigh are two of the Top 20 fastest-growing markets in the country. We are a technology and growth hub. We've seen growth rates continue, even with the pandemic. We have commanded a major market share for a number of years, ranking No.1 or No. 2 based on FDIC deposit statistics.

How has Wells Fargo been an important factor in financially supporting the business community?

The last 12 months have been the most unique of my 40-year career. First and foremost, we are proud to have kept most of our branches open. We've grown deposits based on FDIC market share by \$1.6 billion. Our customers trusted us to retain more deposits than they did previously. We also announced an investment in six African-American minority deposit institutions, including M&T Bank, which is headquartered here in the Triangle. That is a pledge to invest up to \$50 million in our Black-owned businesses. As part of this investment, we unlocked access to a dedicated Wells Fargo relationship team that will help provide financial, technological and product development advice to them.

Another way that we funded businesses in need is through our partnership with the Raleigh Relief Fund. We are one of the original investors in that fund. Collectively, the fund and the city of Raleigh generated \$1.6 million in grants for over 200 small businesses early in the pandemic, before the first PPP loan was ever made. ■



The Raleigh-Durham region's corporate tax rate of 2.5% is the lowest in the country.

■ quantum computing firm Atom Computing's decision to use the Triangle as its growth base, armed with a recently closed \$15 million funding round. The surge of AI in loan underwriting also prompted the National Community Reinvestment Coalition (NCRC) to urge federal banking regulators to exhaustively evaluate and monitor different mechanisms to protect consumers and small businesses from discrimination when lenders use artificial intelligence (AI) and machine learning (ML) to underwrite loans.

Banks have received the consumer's message loud and clear and are investing to bolster and diversify their digital solutions aimed at customers who prefer to bank virtually. Yet, keeping pace with technological trends can spread resources thin, especially for smaller and midsized lenders such as community and regional banks, making partnerships and alliances a practical solution rather than developing the necessary tech in-house. The result is the expansion of a consolidation phase in the



industry that had already been underway well before the pandemic.

Fintech companies are also showing an increasing appetite for collaboration with community banks, to be less dependent on venture capital funds. Raleigh-based Constellation Digital, is among those, offering an open digital banking platform that allows access to a digital services marketplace to credit unions. Postponed 2020 projects with credit unions are being restarted as these lenders move closer to a new normal and address pent-up demand kindled by the limitations of legacy providers.

In another consolidation success story, Fifth Third Bank announced the broadening of its relationship with fintech leader FIS to replace its legacy deposit and trust servicing systems. FIS' next-generation platforms will become an integral part of Fifth Third Bank's digital transformation strategy.

Lean operations are also taking branch networks back to the drawing board, as showcased by PNC Financial Services Group Inc.'s 2020 decision to close 170 branches, including 10 North Carolina locations. For 2021, it anticipates closing an additional 120 branches.

■ Growth drivers

Despite the pandemic, North Carolina's economic profile is strong: GDP growth of 6.5% in 1Q21, an unemployment rate of 4.8% as of May 2021, a top corporate tax rate of 2.5%, a top individual income tax rate of 5.25% and a AAA, stable bond rating from both Moody's and S&P.

And Raleigh-Durham's future is definitely tech-driven. Google's announcement to create an engineering hub focused on cloud computing that will create as much as



Stewart Patch

Triangle Regional President – Dogwood State Bank

“Regarding the effects of the pandemic, we were so early in our life cycle that we didn't have a huge portfolio of existing loans that we were worried about. We were able to pivot and look at what opportunities were presented as a result of the state of the world and how we could take the situation and turn it into a positive. Then the PPP program was rolled out and people were struggling to make sense of the program. We were getting calls from customers at larger institutions that couldn't get traction with the PPP loans and we were able to step in and say, this is why we're here, this is why we exist, to fill this gap in the marketplace. There are very few instances in the banking world when banks have the opportunity to differentiate themselves. This really was one of those times.”

1,000 jobs at full capacity is a testament to that future. For banks, the development is expected to foster the transition to cloud-powered financial services. Furthermore, Apple picked the Triangle for a new \$1 billion tech campus that will focus on artificial intelligence, machine learning and software engineering, all components in the emerging fintech revolution.

The Research Triangle is also poised to become a cybersecurity mecca. The region houses a National Security Agency (NSA) lab, centers of excellence in the discipline and 15 higher education degrees and programs that produce specialized experts to fill the ranks of the region's banking and finance players in this regard. Big players present in the area include BitSight, LexisNexis, Petronella, WingSwept, IBM, Red Hat, XceedIT, SAS Cybersecurity and Innovative Systems Group. In May 2020, the United Nations reported that cybercrime was up 600% globally since the outset of the pandemic.

The big sectoral names in the region include Credit Suisse, Fidelity Investments and IHS Markit, but fintech startups are attracting investor attention at a notable pace. 2020's announcements include LoanWell, a fintech startup selected for a new Google accelerator program, which granted it \$715,000 from 11 investors. In 2021, insightsoftware was infused with \$800 million from a single investor, catapulting its value to \$4 billion, while no-code analytics platform Malartu was acquired by FORT Capital resources. The acquisition is expected to produce \$1 billion in annual transaction volume.

Insurance

The focus on cybersecurity and its related threats, including ransomware, is not only apparent in the banking segment but also in the insurance sector. Given



Apple chose the Triangle region for its new \$1 billion technology campus.



James Sills

President & CEO – Mechanics and Farmers Bank (M&F) Bank – Raleigh

“2020 was a challenging year due to the pandemic and the social unrest but our bank had one of its best years. Our total assets increased by \$44 million or 16%. Going forward, you will see banks like ours and larger banks put more emphasis on digital banking platforms and improving the customer experience. There is an unbelievable shift happening in the banking industry where banks are investing more in technology than they ever had in previous years. Overall, our customers have increased their use of mobile banking, online banking and ATMs over the past 12 months.”

Cybercrime is up 600% since the outset of the pandemic, according to the Research Triangle Regional Partnership

the surge in cyberattacks and fraud attempts throughout the COVID-19 pandemic, small businesses are actively on the lookout for insurance policies to protect them from these escalating threats. In 2020 alone, North Carolina's Department of Justice processed reports for a total 1,644 data breaches. Between January and July 2021, 1,125 breaches had been reported. Raleigh-Durham International Airport's new insurance premium for cybersecurity alone rose to close to \$100,800 for 2021, compared to 2020's \$65,000 for its soon-to-expire cyber-liability policy.

A key issue throughout the pandemic and still in the courts has been business interruption claims. A potentially precedent-setting case played out in Raleigh-Durham after Giorgio's Hospitality & Lifestyle Group and Matt Kelly, owner of Lucky's Delicatessen, Mateo Bar de Tapas, Mother & Sons Trattoria and Saint James Seafood, joined forces against Cincinnati Insurance



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Q&A

William Hedgepeth
President & CEO
Select Bank & Trust



What is the role of the Triangle market in the bank's overall growth strategy?

The Triangle market is pivotal in our growth strategies as set out by our board and executive management. We are working very hard to build and support the best team we can, meet our customer and prospective customer needs and support that community. We will continue to provide our team members in the Triangle the resources they need to grow our market share.

How are fintechs impacting community banks?

More fintech companies are coming into the competitive landscape that can help community banks up their digital game. We're thankful that we have a great team that does their due diligence in selecting the fintechs and vendors that will work best in our segment and for our customers. We still have some features that are rolling out as a piece of the overall transition in 2020. In fact, we just rolled out GuardMyCard, a really interactive and user-friendly way to manage debit card spending, track debit card usage, limit employee card use and a lot more.

How is the bank taking advantage of the Triangle's real estate market?

There are a few ways to answer that but the quote that comes to mind is, "if you build it, they will come." People and businesses are flocking to the Triangle because of its economic landscape and we hope that we can be helpful in multiple ways there. Our mortgage team is ready and willing to help those moving to the area with buying or building, and our commercial team assists residential and commercial developers with their banking needs.

What is your near-term outlook for the industry?

Many challenges lie ahead for Select Bank & Trust and the other small community banks. The lower interest rate environment is one such challenge. The external and internal challenges will require our utmost focus but we always tell our team to focus on one banking relationship at a time and the rest will take care of itself. ■



Businesses large and small navigated the pandemic with the help of the region's banking and finance sector.

Company in a lawsuit after the insurance company determined that the companies did not qualify for payouts after the restaurants shut down, even though owner Giorgios Bakatsias had been regularly paying for business interruption insurance. The judge in the case sided with the restaurateurs.

Until then, the courts had been siding with insurers by determining that business interruption coverage only applied if the business presented physical damage or structural alterations, usually linked to a fire or a storm, not a pandemic.

■ **Looking ahead**

Raleigh-Durham's banking and finance industry played a crucial role in helping businesses large and small navigate the ripple effects of the pandemic. As the region regains a new sense of normalcy and pent-up demand across a variety of industries progressively increases, the Triangle's financial institutions, whether fintech startups, community banks or international behemoths, will continue to play an essential part in the area's growth.

Fueled by a dynamic housing market, a constant infusing of VC and PE investments and a bustling tech and innovation hub, the Triangle's banking and finance players are sure to continue to find the talent, demand and growth they need to continue to thrive, even considering the challenges posed by the growing need for tech-infused services and record-low interest rates. ■

Healthcare:

The healthcare sector, including the biotech and life sciences segments, is an integral part of the Raleigh-Durham economy. While the sector suffered through the pandemic, there's no denying its underlying strength as it positions for greater growth ahead.





Cutting-edge:

The Triangle healthcare network is a leader in medical research, development and life sciences

Raleigh-Durham's healthcare sector already supports an estimated 2 million people but with exponential population growth, that number is rising. This presents challenges and opportunities for the providers in a region that hosts several world-acclaimed institutions, providing access to the most advanced technology and leading-edge medicine.

Like every other healthcare sector in the country, Raleigh-Durham's network was severely tested by the COVID-19 pandemic, with providers stressed by saturation and revenues damaged as profit-generating elective procedures were put on hold. But the sector is emerging from the pandemic as vaccinations continue and is already rebounding.

In addition to Duke University Health System, notable hospitals are the nonprofit UNC Medical Center in Chapel Hill, providing 945 beds and employing 13,000 people, alongside fellow nonprofit UNC REX Healthcare, which has 665 beds and employs 7,300. WakeMed Health and Hospitals is a network of three nonprofit hospitals with 919 beds based in Raleigh. Duke University Hospital alone is nationally ranked in 11 adult specialties and nine children's specialties, while the UNC Hospitals claim national ranking in three adult specialties and seven

children's specialties. The Duke University Hospital is one of the state's largest hospitals in terms of patient beds and generates around \$8.2 billion in gross patient revenues per year. UNC's Chapel Hill medical center brings in about \$5.4 billion in patient revenue.

■ Landscape

The presence of nonprofit and teaching hospitals has helped establish the Triangle area as a leader in the medical research, development and life sciences segments but the pandemic forced players to hit the pause button as the contagion spread and cases mounted. In Durham County alone, there were over 25,000 total confirmed cases by early August 2021 with the mortality rate well below average at 0.8%. After a peak toward the end of 2020 and into 2021, hospitalizations in the county tailed off and have remained below 60 per week since March. As of early August, more than three-quarters of residents 12 years and older had received at least one dose of the COVID-19 vaccine, with 63% fully vaccinated.

Despite the Triangle's commendable handling of the pandemic, the virus has undoubtedly put huge strain on the region's healthcare providers. One way in which the hospitals were hit was in delays to surgeries. (■■■)

Incredible year

‘Extraordinary’ perseverance in a year marked by unparalleled challenges

Dr. Bill Fulkerson

Executive Vice President – Duke University Health System

As a leader in the health industry, what are your impressions from the last year?

It has been an incredible year. The one thing that has been so impressed on all of us was the enormous effort and commitment that I saw in taking care of patients with COVID and other patients. We started seeing patients in the late winter here. We cut back on our routine care considerably. We fought the battles that all healthcare systems did around supply chain, making sure to get the proper equipment for our teams. The perseverance of our teams and our staff was just extraordinary. We were well prepared in terms of emergency systems we practiced but, even with that, the performance and resilience of our team was truly heartening.

What are your impressions about the expansion of telehealth during this time?

Even before COVID hit, we were dipping into telehealth. For instance, we have our Tele-stroke Network. We would do consultations, too, over the telephone or by video. But when we needed to cut back on our in-person visits, telehealth just exploded. We put the infrastructure in place very quickly to scale that up and expand it. We made 10 years of progress in just a few months.

What are you doing to ensure that access to health is commensurate with the growing population?

It starts with our provider physicians, advanced practice providers and nursing workforce. We have a large physician workforce in the Triangle area of well over 2,000, as well as about 350 primary care providers, which is the largest in this area. So, it starts with them and their buy-in to the idea that we must have the best quality and that we also have to deliver care at a competitive cost. We examine our practices all the time, looking for opportunities to enhance quality even more while being



as efficient and productive as we can, so that everyone can get the care they need. One of the great things about Raleigh-Durham is that it's growing, people are moving here. One of the biggest challenges we have is trying to stay ahead of that curve and create access to care.

What are Duke Health's near-term goals?

Quality is always job one, so we will continue to stress quality and doing even more than we're doing today. Growth is the other priority. Again, because of the region's explosive population growth, we have to work very hard to stay ahead of the game. Growth also means more jobs. Today, the health system employs about 23,000 people. If you take the School of Medicine and the university and add all of us together, we are the second-largest private employer in North Carolina. ■

Craig Humphrey
President & COO
FirstCarolinaCare
Insurance Company



What are the advantages of being a health insurance company owned by a health system?

We were designed to offer community members local health insurance that wouldn't leave anyone behind. We created products that initially the hospital would help subsidize for a lot of the small employers, employers with 25 people and under, who really were not offering health insurance at the time. We don't have shareholders like our national peers do, so the dollars we spend on healthcare stay in the community. We also partner with other provider groups, so even though we may be owned by two hospital systems, we really have brought a lot of the medical community together to participate in our quality initiatives. This elevates the level of care for the member because we partner with their doctor to ensure that the focus is on finding areas of shared value and opportunities for innovation that improve outcomes.

What is your view of price transparency?

Health insurance has been focused on transparency for a number of years. Members are able to go to their plan website and get an estimate of their out-of-pocket cost for care. Since the start of this year, transparency in pricing has been introduced at all hospitals, so that is a good next step. I think the real issue is that healthcare can be complex. Because healthcare is complex, it makes health insurance very complex. The average person doesn't really understand their insurance benefits. They know they have insurance and they will typically refer to it by the name of the insurers but they don't understand what that means. In recent years, so many folks chose to move into high deductible health plans, which are great for those who tend to be healthy but one must remember that this is not a great product for everyone. We're working with employers to do a better job building education, encouraging them to inform their employees about what their benefits are. Part of this education is understanding the value of using participating providers in their insurance plan network. That understanding leads to more transparency. ■

■ ■ ■ Immediately in March 2020, Duke Health, WakeMed and UNC Health all announced they would be delaying elective surgeries to conserve supplies for the fight against the pandemic. By October, the hospitals were readmitting elective procedures but had to fight through a huge backlog.

The problem was exacerbated by serious health problems that had emerged during the pandemic as people became reluctant to seek help from care providers at the height of lockdown. The financial impact of this reduction in elective procedure volume is estimated to have caused \$200 billion in financial losses for hospitals and health systems nationwide between March and June 2020. According to McKinsey, it could take up to two years for hospitals to work through the backlogs.

The situation was further complicated at the beginning of 2021 when hospitals began to fill up again amid critical staffing shortages. North Carolina hospitals, including WakeMed, began to once again review their surgical schedules to find ways to push procedures back, especially those requiring inpatient stays. UNC REX stopped scheduling orthopedic and bariatric procedures and most life-changing gender reassignment surgeries for transgender patients were also pushed back. The main issue facing hospitals, rather than availability of beds and supplies, continues to be staff shortages. Even with more beds, the already-stretched hospital staff would be unable to maintain them, experts believe.

■ Notable developments

Although the Triangle's health systems were put under pressure by the pandemic, research institutions were eager to step up to the plate and help with the testing and vaccination efforts. In January 2021, pharmaceutical firm Novavax delivered promising phase 3 clinical trial results after Raleigh-based Wake Research Associates enrolled 2,000 of the almost 30,000 trial volunteers. Overall, the firm has enrolled 6,000 people in COVID-19 vaccine trials. And even earlier, prior to approval of the Pfizer and Moderna vaccines, Durham refrigeration technology company Phononic was approached to discuss distribution efforts. The Pfizer vaccine requires storage at -80°C to -60°C, requiring highly specialized storage and distribution networks.

As with any crisis, the pandemic created both challenges and opportunities for companies. Raleigh-based insurer and physician services firm Curi announced in April 2021 that it would acquire Charlotte-based analytics company Arrowlytics in a push to expand its services. And Bain-backed, Raleigh-based behavioral health firm Broadstep Behavioral Health in June acquired a portion of Wisconsin-based Bethesda Lutheran Communities'

residential and support programs in Illinois, Indiana and Wisconsin, expanding its footprint outside of North Carolina.

Also in April, Duke Regional Hospital opened a new \$102 million, 112,000-square-foot facility at its Durham campus with 11 more outpatient clinic rooms, and 13 more ER treatment rooms. The space, designed for behavioral health patients, also features a secure behavioral health treatment emergency unit with 18 spaces. And in June, Duke Health, UNC Health and Southpoint Surgery Center all submitted applications to provide some or all of the 40 additional acute care beds and four additional ORs by 2023 required by Durham and Caswell counties. UNC Health's proposal involved a new \$251.9 million hospital with 40 acute care beds and two operating rooms.

Medicaid expansion could also create some further hospital opportunities, according to Care4Carolina. Wake and Durham counties could collectively see almost 8,500 new jobs, just over \$1.5 billion in new business activity and about \$18.4 million in new county revenue if the change was enacted. Expansion, however, remains a contested issue in the state legislature with Democratic Gov. Roy Cooper pushing for it and Republican lawmakers firmly against the change.

The pandemic also paved the way for a new form of medicine to gain momentum. Although telehealth has been used for several years, uptake has been slow due to reluctance to adopt the technology and a fear of an inferior level of care. However, after the pandemic forced insurance companies in particular to accept telehealth claims, the practice took off.

By September, the North Carolina Department of Health and Human Services announced that Medicaid had processed more than 1.1 million telehealth and

350,000 telephonic doctor's visits. Many patients reported increased satisfaction and healthcare providers found that the practice could lower healthcare costs, while increasing efficiency. According to the numbers, increased telehealth uptake could save U.S. companies \$6 billion per year and healthcare insiders say that even post-pandemic, it is here to stay. Many experts believe that, in the future, telehealth will serve as a complement to in-person visits for routine or minor primary care appointments that do not require physical examination.

■ Job growth

The pandemic year undoubtedly took the biggest toll on healthcare professionals. Even pre-COVID, North Carolina was slated to have one of the worst nursing shortages in the United States, with 13,000 required by 2025, according to a report by Georgetown University. When hospital admissions began to surge, nurses and doctors were on the frontlines and before long, care providers were reporting high levels of burnout and stress.

According to Mental Health America, 76% of healthcare workers reported exhaustion and burnout during the pandemic and 70% had trouble sleeping. Claims have since been made against the federal government regarding unsafe working conditions, lack of PPE and low pay. And in a year that mental health came into sharper focus than ever before, nurses and doctors described their experience in hospitals at the peak of the pandemic as worse than a war zone.

This has exacerbated the nursing shortage as many who worked through the pandemic burned out or simply wanted to retire early. UNC REX is working to fill about 240 positions, a number representing 10% of its total nursing staff. The hospital was bringing on 100 new

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graduates and hopes more nurses will return in the fall.

Until then, some solutions are emerging, including the phenomenon of travel nurses. These nurses are paid competitive amounts to fill care gaps across the country at hospitals that are pressed. The market for travel nurses is estimated at \$10 billion and is growing. In a 2020 survey, 90% of hospital systems reported using travel nurses compared to just 60% in 2019.

The crisis has even pushed North Carolina legislators to reconsider SB 249/HB 277, or the SAVE Act, which failed to get off the ground in 2019. The act would modernize regulations to allow Advanced Nursing Practitioners (ARPs) to treat patients without doctor supervision, increasing efficiency and freeing up more staff, with the potential to save \$4.3 billion per year in healthcare costs.

Health insurance market

According to 2019 census data, about 11.4% of Raleigh city’s population and 14% of Durham County’s population is uninsured. The Kaiser Family Foundation reported at the beginning of 2020 that 33.5% of North Carolina residents had incomes below 200% of the federal poverty level, outstripping the US average. As a result, the state has more health problems, with its health ranking slipping to 36 in 2019 from 31 in 2015. The same report found that over 15% of North Carolina residents do not see a physician when needed due to cost.

The Affordable Care Act (ACA) helped many North Carolinians access health insurance, with almost 536,000 enrolled through the state’s exchange for 2021, up from 447,680 in 2019. The state consistently has one of the highest ACA figures in the country and the number of people with health insurance increased 17% from 2010 to 2019.



The Research Triangle Park leads the United States in vaccine manufacturing.



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Carolina Meadows offers the **EQUITY ADVANTAGE™**



Under North Carolina's ACA plans, there are six providers. Oscar and UnitedHealthcare are new for 2021 and AmeriHealth and Friday Health already announced plans to join for 2022. Of the four existing providers, Blue Cross Blue Shield 2021 premiums for North Carolina decreased by 1.03% and Cigna's fell by 14.3%. Ambetter/Centene premiums increased by 6.2% and premiums for Bright Health rose by about 2%. The average benchmark plan premium in North Carolina's exchange was 10% lower in 2020 than it was in 2019.

Like in most states, many rely on health insurance provided by employers but this was thrown into turmoil during the pandemic as many abruptly lost their jobs. The Kaiser Family Foundation estimated, based on May 2020 unemployment data, that 723,000 North Carolinians had become uninsured due to job loss. An October 2020 report found that health insurance costs for families (■■■)



Lyndon Jordan, MD
*Musculoskeletal
Radiologist
President & Managing
Partner*
Wake Radiology UNC
REX Healthcare

How important is it for healthcare systems to showcase value added care?

It's critically important for healthcare systems and providers to demonstrate value-added care. As a provider of outpatient diagnostic imaging, we strive to add value by getting to an actionable diagnosis in the most efficient means with the fewest imaging tests. From our first contact with a patient and their ordering clinician, our Wake Radiology UNC REX team works to develop relationships that build confidence and trust. This focuses on ensuring the most appropriate and cost-effective exam for the patient. Our imaging technologists use their experience and care to obtain quality images and our board-certified radiologists then use these images to make a timely and actionable diagnosis which helps direct the next steps in the patient's health management.

What is the company's relationship with talent development in the radiology segment?

Wake Radiology UNC REX has more than 400 employees, including nearly 60 physicians – each having a focused area of professional interest and expertise. During the past year, we added 15 fellowship-trained specialists who are coming from some of the most renowned training facilities and institutions around the country. Our team, especially new radiologists, expects access to modern imaging tools and a robust IT infrastructure that enables real-time collaboration among referring providers and specialists.

Since our practice opened in the 1950s, we have expanded outpatient radiology services in the Triangle through innovation, a subspecialty focus and recruitment of top talent. The newly trained specialists joining our group bring with them new imaging protocols and tools that allow us to continue this enhanced support to our community. Wake Radiology UNC REX will continue to grow with the Triangle – and we will continue to focus on technology as a tool to connect our community with a broader network of imaging specialists. ■

Coming together

Helping healthcare professionals deal with burnout has been among the challenges of the pandemic



Donald Gintzig

President & CEO – WakeMed Health & Hospitals

Has WakeMed Health's Accountable Care Organization achieved what it set out to?

One of WakeMed's key aspects and one of our aspirational goals is value. Our mission is to improve the health and well-being of the community but also to be a leader in value. In 2013, we sat down and partnered with a very large primary care, independent physician's association and thought about how we could work together to improve the health of a population, increase access and get the right care at the right price. We were one of the first accountable care organizations in North Carolina and I think it has worked out very well as we've worked through the population health spectrum. We've done this primarily through shared savings. If we are able to keep people healthy, we can offer services at a lower rate since the insurers, employers and accountable care organizations get some savings. That is the return. Ultimately, we don't want to provide care in a more expensive setting when it can be done in a less expensive out-patient setting.

How has WakeMed faced the challenge of staff burnout?

It has been a challenge. We are taking care of really sick people all the time. We had to make sure that our teams knew that we were doing everything as a community health system to keep our staff, their families and our patients safe. It was important for employees to know we were exercising every available resource with the least amount of exposure risk as possible. There was a lot of communication and constant updates about the risks and about the CDC guidance. By the time we were giving regular — weekly, daily — updates on what the virus was doing, we were putting together a pretty robust resource that everyone in our organization could tap into. Our spiritual care, human resources and leadership teams were able to come together and ensure that no one felt alone in this crisis.

What are WakeMed's priorities moving forward?

We are implementing efforts to grow the physician network WakeMed Physician Practices. We've been thinking of where healthcare is going: How do we expand access for all? How do we reduce disparity? And how do we engage our community's businesses and families in that health journey? We all want to reduce the cost of healthcare and the way to do that is to not get sick. If we focus on health and well-being overall, we won't need to be spending as much on people after they're already sick. As a community-based health system, the healthier our community is, the closer we've come to achieving our mission. That's the key. So, growing primary care, urgent care, home care — we even offer hospital services at homes now, which, ultimately, is a cost saver — are the ways to do this. ■

(■ ■ ■) arranging cover through employers rose 4% to over \$21,000 in the year, representing a 55% increase over the last 10 years. On average, workers pay 17% of the premium for single coverage and 27% for family coverage. The average annual deductible for single coverage is now \$1,644.

One debate that has raged on in North Carolina for several years (and was amplified by the COVID-19 pandemic) is the expansion of Medicaid. After 900,000 North Carolinians lost their jobs and associated benefits in the months to June 2020, Medicaid enrollment soared by about 75,000. Still, many of those who lost jobs fell within the “coverage gap,” which occurs when someone is earning too much to qualify for Medicaid but too little to apply for ACA subsidies. The pandemic added an estimated 300,000 to the existing 500,000 in this gap, which could be eradicated by the Medicaid expansion. In Durham County, 70,110 are enrolled in Medicaid and in Wake County the number is 180,366. Despite support from the federal government and from Cooper at the state level, the Republican-majority legislature continued to refuse to fund the expansion as recently as June. Adopting the expansion could entitle the state to \$1.2 billion over two years in incentives under the federal stimulus bill passed in March. Research by George Washington University also found that expansion would add 37,000 new jobs to the state.

■ Public health

The pandemic also had implications for public health within the Raleigh-Durham healthcare sector. One of the biggest issues to be highlighted amid lockdowns, social distancing orders and job losses was the event’s impact on mental health. Data compiled by the NC Healthcare Association show that 20% of patients discharged from the ER in December were diagnosed with a behavioral health issue, which represents a 7.5% year-over-year increase. There was a much more pronounced increase of 70% among children.

Surprisingly, the state Senate’s budget in June did not include additional funds for mental health despite evidence of a funding gap. But other services are being offered, including Plume, which is a private company that developed an app to provide gender-affirming hormone therapy for the transgender community. There are also various hotlines, including Hope4NC and Hope4Healers.

Prior to the pandemic, the biggest public health issue was the opioid crisis and while it remained at the forefront of public health policy, it too was exacerbated by the pandemic. According to the Kaiser Family Foundation, during the pandemic, about four in 10 U.S. adults reported symptoms of anxiety or depression, making them (■ ■ ■)



Michael Riccobene
CEO
Riccobene Associates

How did the pandemic impact your business?

We were very much opposed to limiting our services but when the governor gave the stay-at-home order, and based on how the virus was evolving, on March 27, we adhered to emergency-only services. We needed to make sure that we minimized the spread, which all of us can agree was important. We were at 600-plus employees and reduced that to 135 within two weeks. At the same time, the government handled the pandemic in a good way. They made it easier for businesses like ours to lay people off where we would really have been opposed to it. They were able to provide subsidies to our fired employees that allowed them to stay home for almost the same amount of money that they were making while working. We maintained their benefits and continued to monitor their health, regardless. These measures kept people out of the emergency room and minimized the impact that it would have had on healthcare in general. We started to ramp up as soon as COVID numbers improved and restrictions loosened. It was virtually a V-shaped ramp-up. By June, the pent-up demand from people on lockdown looking to get back out was extraordinary.

What are some of the salient disruptions or innovations driving the dentistry space?

A lot of people have gotten to the point where they want to take better care of themselves. It has really helped in terms of driving people to visit the dentist. Along those lines, dentistry made a technological shift as showcased by SmileDirectClub. The more awareness there is on what they can do, the more patients will come flocking to the dentist. Moreover, we are transitioning from a 2D world to a 3D world. We take digital pictures of everyone’s teeth and show them on a big screen what they actually look like. It builds credibility and it helps people make a decision to do what they need to do. Technology has increased our ability to be able to communicate with people, to build credibility and also help them see the need to get the work done. ■

Roundtable:

Tech ecosystem

Industry insiders provide a look at how innovative companies are leveraging the local life sciences and tech ecosystem.



Josh Arant
COO
MAKO Medical

What role is the lab sector playing in the vaccination process?

As long as this virus continues to mutate and continues to create different variants, there will always be the need for a diagnostic component. Flu testing is a testament to that. We've had a flu vaccine for a while now but we continue to test during flu season. We believe COVID-19 will be quite similar to how the flu is today, where you still need to test for it to ensure the appropriate diagnosis is made. Hopefully, it's not going to be at the mass scale it is now, where there are community drive-through events and massive outbreak testing, which we pray will be limited by vaccination. There is, however, an imperative for some surveillance testing with the variants if the virus continues to mutate.

What does the move from lab operations to a full-service healthcare facility look like for MAKO Medical?

The laboratory was the biggest opportunity to make the most impact within healthcare. Eighty percent of doctors' decisions are lab results-based. We feel we have been able to create some success within the lab industry, somewhat disrupting it. What we really want to do is take those same principles, that same approach, and infuse it into pharmacy, technology and other ancillary healthcare services that need to be disrupted so the patient gets the most value out of their care. We believe technology is a big opportunity with so many silos within the healthcare industry. One of the blessings that will come out of COVID is the adoption of technology. Whether it is telemedicine or just the integrations, that will help accelerate the value of healthcare tremendously. ■



Jerry Lepore
CEO
 MobileSmith Health

What role does MobileSmith Health play in Raleigh-Durham's healthcare sector?

MobileSmith Health builds mobile applications for the healthcare industry. Initially, if a hospital system or a corporation determined a need for a communicative or educational application, MobileSmith Health had the capacity and experience to build and tailor to their needs. In 2020, we began to transform ourselves into a company that builds the technology ecosystem for delivering integrated remote and mobile healthcare applications. It was a big step for us, which brought about several positive outcomes. There have been a lot of good things developing over several years relating to research, including medical, drug or treatment research, parallel to improvements in medical devices and add-ons. Yet, for all those improvements, there has not been a lot of headway made in patient engagement and patient adherence with their healthcare. Our technology ecosystem enables patients to engage as a part of their care journey and create true shared decision-making with their healthcare providers regarding their care.

What are the advantages of operating a life sciences company within the Triangle area?

Everything goes back to talent. There is a great foundation there because of the educational and health systems that are in place in the area. The good news about the medical technology sector is that our educational systems also have great affiliated hospital systems. Not only is the Triangle region ideally suited for education, our institutions are well known for the fields of technology and healthcare. We're keeping that talent and we are attracting attention. ■



Chuck Morrison
Founder & CEO
 INVZBL

What has been your company's contribution to the management of the pandemic?

We provide UV-C disinfection services for high-touch devices like smartphones, tablets and laptops. The idea for our company came along in late 2018 in response to K-12 school directors telling me there was a high degree of absenteeism and that devices were being returned in less-than-optimal condition. The idea was to eliminate absenteeism not only for students but also for teachers, who are also prone to getting sick due to the spread of bacteria. COVID created a lot of delays in developing our product because the infrastructure and certifications were in such high demand.

While communities consider how to safely reopen K-12 schools, many educators and parents are paying attention to recent guidelines from the Centers for Disease Control and Prevention, including those on cleaning and disinfection. One area of concern is shared high-touch items. INVZBL helps schools safely re-open. We now have cabinets deployed at Forsyth Country Day School and Atrium Health facilities.

Which industries are demanding your solution?

There is big demand in warehousing and logistics, as well as retail. One of the bigger home improvement stores wants to use our service to disinfect their inventory guns. Employees carry a lot of high-touch items on them, including box cutters, ID badges or radios. These must be disinfected when shifts change. These companies are all trying to iron out policies and procedures. Another industry is hospitality, and another is repair for automobiles, where mechanics are sharing tools. ■

Kevin McLeod

President & CEO
Carolina Meadows
Senior Communities
and Services, Inc.



In what ways can technology help senior living and what are the challenges?

There is a great market for technology in senior living, in particular for those folks who have the expertise to deliver products geared toward senior living. Our challenge was getting our residents and team members up to speed on using the technology. We realized, too, that at Carolina Meadows, we didn't have all the infrastructure necessary to make technology as available as it needed to be. This was particularly true with the changing rules surrounding COVID. We realized that we needed to get our voice out to the residents so everybody could hear the same thing at the same time. We set weekly town hall meetings over Zoom so that we could get all the residents covered. It was a great way to stay connected. A lot of the time they just wanted us to listen to them and to know what we were doing to keep them safe.

Did you have to adjust your services as a result of the pandemic?

One of the things we had to think through very carefully was the question of whether or not we would do marketing tours. People were still expressing interest in joining our wait list or moving to our campus. Our marketing and sales team became very good at doing virtual tours. We made it possible for residents to move in and we had 36 move-ins during 2020. This was contrary to a lot of our counterparts who stopped residents from moving in.

What are some advantages of being in the Raleigh-Durham region?

One advantage is our proximity to excellent schools — North Carolina State University, Duke, and UNC at Chapel Hill. They are leaders in their fields. As a result, there's a great deal of talent here. There's also a great deal of talent in the biopharmaceutical industry within RTP. We don't tap into that necessarily but a lot of our residents, people who have moved to North Carolina, have been a part of these areas. ■

(■■■) more susceptible to substance abuse. Alcohol and substance abuse have increased by around 12%, participants in the survey reported.

North Carolina has developed an Opioid Action Plan (OAP), consisting of several metrics that include reduction in supply, a syringe exchange program, help with employment and housing and counseling services. According to the government's action grid, Durham County is providing all services except one and Wake County is offering all services except three. The state is also pursuing legal action against the key players in the crisis, including pharmaceutical company Purdue. In February, the state was awarded a \$19 million settlement from consulting firm McKinsey due to its role in advising the pharmaceutical company.

After a bumpy start to the rollout, the vaccine program gained steam in 2021 and by the beginning of April, eligibility was open to all North Carolina residents. But after a surge of vaccinations, a hesitancy emerged among the remaining unvaccinated population, which complicates efforts to achieve herd immunity. In Wake County, about 10% of the population surveyed by the Kaiser Family Foundation said they were hesitant; the number was 11% in Durham County. As of the end of July, 61.4% of the Wake County population and 54.9% of the Durham County population was fully vaccinated. This compares with 50% fully vaccinated for the entire country.

According to separate research by the Kaiser Family Foundation, there is a racial disparity in vaccinations, with white people having received a higher share and the share allocated to Black populations remaining lower than their share of deaths. The pandemic also disproportionately affected vulnerable workers in the informal sector, who were prevented from accessing COVID-19 tests, saw their income cut due to missed work and struggled to access healthcare. In North Carolina, this has mainly affected Latino populations. The Latino community is just over 9% of the population but makes up about 45% of the COVID cases in North Carolina.

■ Biotech and life sciences

Where there is adversity, there is opportunity and the Triangle's biotechnology and life sciences sectors flourished during the pandemic. The region is expecting significant further investment due to the increase in revenues recorded by the companies present in the Triangle. Health IT and clinical research firm Iqvia reported a 13.8% year-over-year increase in the 4Q20 to \$3.3 billion, contract research organization PPD's revenue surged almost 40% to \$1.4 billion in the quarter and research company PRA's quarterly revenue reached \$873.4 million, a 9% year-over-year gain.



John Perkins

Chairman & CEO – US Radiology Specialists

“When you think about healthcare and different specialties, I would say radiology is one of the most forward-facing in terms of technologies. It comes in a number of different ways. One pertains to clinical technologies: how do we make sure that we are managing the workflow of physicians so they can look at reads in an efficient way. Emerging technology, such as artificial intelligence, will increasingly be important in terms of how we think about workflow and diagnostics. This will enable physicians to be more efficient. Again, this technology is emerging and nascent but it's something we're focusing on.”

Both Raleigh and Durham host many notable names in the biotech and life sciences space. Patheon, Biogen, G1 Therapeutics and Aerie are all headquartered in Durham. Raleigh hosts Biomerieux, Merck, GlaxoSmithKline and Novo Nordisk. The Research Triangle Park alone is home to more than 450 life science companies, 10 million square feet of laboratory inventory and 50,000 employees across R&D organizations.

Laboratories are also much more affordable compared to fellow research cluster New England, for example, where rents can climb to \$125 per square foot. In the Triangle, rents range between \$28 and \$35 per square foot. Existing companies, such as Grifols, Novartis, Fujifilm, LabCorp and Merck, are expanding in the region and according to CBRE, current demand is at 2 million square feet of biomanufacturing space and 840,000 square feet of wet lab space. Eli Lilly, Beam and Grail all announced expansion plans in 2020, committing to a total of 1 million square feet of real estate in the Triangle. Biotech firm BioAgilytix also committed in October to add 878 jobs in Durham paying a minimum of \$96,500.

Raleigh-Durham is ranked No. 5 in the nation for life sciences, so it comes as no surprise that the region continues to attract top talent. National job boards show there are thousands of available tech positions – openings were up 22.7% in April 2021 compared with March 2020. Demand in Raleigh rose 43%, while Durham and Chapel Hill increased by 20%. In fact, demand is so high that earlier this year, WRAL TechWire and North Carolina Biotechnology Center launched a designated Bio Jobs Hub platform, posting jobs from process technicians to quality control associates and research analysts.

Recent research in the global science community has been mainly focused on COVID-19 and related themes and

the Triangle area is no exception. One project devised by the UNC Institute of Marine Sciences and the CDC is the analysis of the presence of COVID-19 and transmission in wastewater. The technique has been successful in identifying polio outbreaks and monitoring opioid use.

But not all projects have focused on the pandemic. Raleigh biotech startup Inceptio Bio in June launched a \$26 million advanced manufacturing platform that uses cell- and gene-based therapies to treat cancers. Durham-based Xilis, which was spun out from Duke University's Angel Network, raised \$70 million in Series A financing in July to advance its precision oncology platform.

■ Looking ahead

Like everywhere else in the world, the Raleigh-Durham area's healthcare sector suffered in the past year in many ways from the COVID-19 pandemic. Some of the impacts of the last year will be long-lasting, including the impact on mental health, physician and nurse staffing and hospital revenues. But the region is in a uniquely privileged position, being one of the premier healthcare research and development hubs in the nation and seeing exponential expansion from the world's largest biotechnology and life sciences firms.

While healthcare reform is likely needed to address disparities and bridge access gaps, health insurance has come a long way in North Carolina in recent years, as evidenced by the demand for ACA coverage. NIH funding continues to pour into the region, reflecting its innovative and pioneering position within health research. The prestigious institutions that anchor the healthcare sector, such as Duke University, UNC and Research Triangle Park, will continue to play a pivotal role in the region's economic growth. ■



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Education

From K-12 to higher ed, COVID-19 unveiled shortcomings in the way academic institutions teach and in how students learn. But the pandemic also revealed areas of opportunity to prepare the country's leaders of the future. Education institutions in Raleigh-Durham are ready to heed the lessons learned.





Tomorrow's talent, today:

The Triangle is positioned to produce an enviable pipeline of skilled professionals

Raleigh-Durham's growth has been well noted and one of its defining characteristics is education. The region, and in particular the Triangle, is home to a triumvirate of prestigious academic institutions: Duke, UNC-Chapel Hill and NC State University. The Research Triangle itself is consolidating as a national hub for research and innovation, while adapting to today's challenges to ensure the businesses of tomorrow have a ready workforce.

In all, Raleigh-Durham hosts 12 colleges and universities and eight nationally renowned community colleges. The region attracts 174,000 students while producing 65,000 graduates every year. In parallel, the Research Triangle houses the Research Triangle Park (RTP). Extending over 7,000 acres, it is the largest research park in the United States, gathers more than 300 tech-versed companies and serves as a convergence point for 55,000 innovators on a daily basis.

Although the region strongly leans toward tech and was well equipped to tackle the push toward remote learning

sparked by COVID-19, many institutions continue to grapple with the challenge of creating a competitive, cost-effective and value-driven online education platform for their student population.

Other challenges have arisen as a result of the pandemic but one, in particular, stands out: enrollment.

■ Landscape

The top challenge that Raleigh-Durham's educational sector is facing is a drop in enrollment. Public schools in North Carolina witnessed a 5% decline in Average Daily Membership (ADM) in the first month of the 2020-21 semester, amounting to 70,000 students. For kindergartners, the drop is as high as 13%, given they are not legally required to come to school to begin with.

Amid pandemic-related safety concerns, homeschooled children in the state increased from 95,000 during the 2019-20 school year to 112,614 in 2020-21, a nearly 19% increase. Meanwhile, Durham's public schools remained committed to operating in full remote learning mode (■■■)

Expansion mode

Health sciences, engineering and a new homeland security program highlight Campbell's broadening curriculum

J. Bradley Creed

President – Campbell University

What impact did the pandemic have on the university's enrollment figures?

Last fall, there was very little impact. After the pandemic hit, we had more entering students than we had in 2019 intakes. The fall enrollment of 2021 will be a challenge. Our applications and deposits are down compared to last year, which is true across the board in private higher education. Declining enrollments will have an impact but we have been remarkably disciplined with our financial management, so we are keeping pace.

What are Campbell's fastest-growing areas of study?

Campbell has been in a steady pattern of expansion over the last 40 years based on adding new programs. Anything related to health sciences on the undergraduate level is in high demand. Our business major has remained strong. We have the oldest Trust and Wealth Management program in the nation. We recently started a new program in engineering that has attracted students as well as a homeland security program. Most of the traditional undergraduate arts and science majors, such as English, political science and chemistry, are stable. Our law school is only 40 years old but we now have Campbell attorneys in 97 out of 100 counties in this state. We anticipate making a similar impact with our medical school graduates.

How has your partnership with Cape Fear Valley Health evolved?

We place great importance on collaboration and partnerships. Campbell started a school of osteopathic medicine eight years ago. We do not own or operate a hospital, so we depend on partnerships to deliver our clinical education and establish medical residencies. Cape Fear Valley is one of our key partners, so we do many of our clinical rotations for third- and fourth-year medical students there, as well as rotations for other



health science programs, such as pharmacy. We've also established graduate medical education residency programs with Cape Fear Valley. Campbell is committed to doing its part in addressing the shortage of primary care providers in the state and in the nation.

What are your near-term goals and priorities?

We anticipate transitioning, hopefully soon, into a post-pandemic world. I'm working with our President's Cabinet to think deliberately about what comes next after we complete this strategic plan. COVID will leave lasting challenges for colleges and universities but I believe we also have rare opportunities to refocus our priorities and establish goals that lead to success. Even in the midst of these inordinate challenges, it is important to look to the future so we can position ourselves to thrive. ■

Kevin Guskiewicz
Chancellor
UNC-Chapel Hill



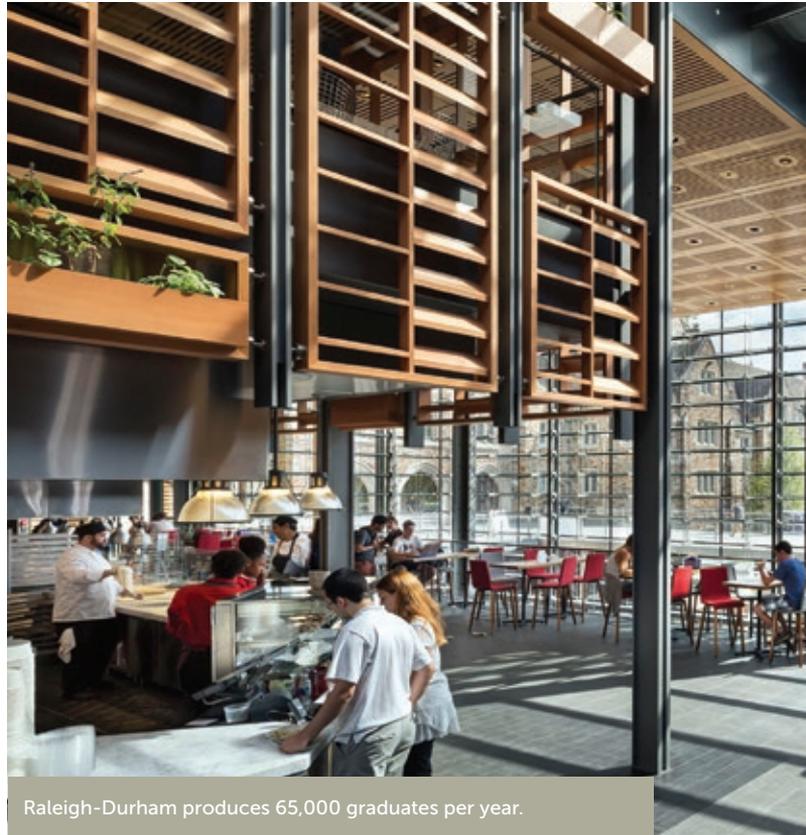
What industries do you see influencing your programs moving forward?

Public-private partnerships will prove critical. We're closely examining the way we build our curricula. Our general education curriculum prepares students not only with the soft skills they need to adapt to the jobs and careers of the future but also for jobs that do not even yet exist. Our Gillings School of Global Public Health, the School of Medicine, School of Pharmacy and the School of Nursing have seen increased applications over the pandemic as a result of what we have called the Fauci Effect. Essentially, students are galvanized to join these programs to learn how they can help the world prepare for future pandemics.

There are several pharma industry connections here locally, and we are leveraging those in preparing the next generation to be able to contribute to those fields. In parallel, Apple's new campus in the Triangle is going to foster data science programs. We're launching a new data science minor in the fall of 2021 and a graduate certificate in applied data science. We're aligning to where the greatest needs are given the industry opportunities.

What developments are you looking forward to?

We have a new initiative that is going to be a wonderful public-private partnership, North Carolina's Rapidly Emerging Antiviral Drug Development Initiative (READDI). It's leveraging the incredible researchers here who have led throughout the recent pandemic. It operates as a nonprofit that will progress new treatment options for COVID-19 patients and the 1 million North Carolinians who will suffer from the long-term effects of COVID-19. READDI's scientists are world leaders in this area and we need to be focusing on new treatments that are urgently needed to overcome the limitation of existing drugs and the emergence of virus strains resistant to our current vaccines. READDI is going to work to provide answers to this while also stimulating economic development, providing in parallel a global recognition of excellence in pandemic preparedness for the future. ■



Raleigh-Durham produces 65,000 graduates per year.

into 2021 and for the remainder of the first semester. This, of course, raised concerns about school funds and laid bare the vulnerabilities that educational institutions across all levels have in terms of a lack of diversification in their funding.

It also laid bare the issue of the region's digital divide. As of August 2020, 11.9% of U.S. households reported having no internet access. Wake County, Durham County and Orange County stand below the national average at 7%, 11% and 8%, respectively, but that still represents an aggregate of 45,574 homes across the Triangle's core counties without internet access.

Moreover, potential learning gaps are feared by the state's educational leaders as North Carolina's public schools, which service 1.5 million students, are showcasing increased absences and lower grades, meaning an increased number of students is liable to repeat the school year due to the pandemic.

On the higher education front, the Raleigh-Durham triumvirate — NC State, UNC-Chapel Hill, Duke — was impacted by the pandemic-induced limbo imposed on out-of-state and international students, translating into a hefty cut in revenues. This held particularly true for Duke as close to 80% of its students are out-of-state. For NC State and UNC-Chapel Hill, the combined proportion of out-of-state and international students reaches 15 and 18%, respectively. Although tuition does not make up the



lion's share of either institution's revenue, other revenue streams — athletics, dining halls, dorms, student clubs, media rights, donor contributions, ticket sales — are also heavily dependent on in-person interactions and massive gatherings, both of which were hampered by the pandemic. In one example, the UNC System Board of Governors returned more than \$188.9 million to students across the state in on-campus room and board payments once it went full remote, and that is only half of the 2020 semester.

Commonly referred to as auxiliary enterprises, these alternate revenue streams could represent a \$340 million hit across the Triangle should they reflect a 50% reduction for the three landmark institutions, according to an American City Business Journals analysis cited in the Triangle Business Journal.

Despite the dire revenue news, schools went ahead with expansions even amid the COVID-19 crisis. Private Triangle independent school Thales Academy has school openings slated for Cary and Pittsboro for the 2021-22 academic year, as well as a Clayton campus slated for 2023. In parallel, UNC-Chapel Hill's Kenan-Flagler Business School is looking beyond the Raleigh-Durham region and setting up shop in Charlotte to offer its MBA program. At full capacity, the Charlotte location will extend over 3,000 square feet of office and classroom space.



Evan Duff
President
North Carolina
Wesleyan College

In what ways is the school assisting transfer students?

Since 2011, we've had a big focus on ensuring that students who have previous college coursework from up to five different schools can have a seamless way to transfer their credits. There is no time limit on college credits so if a student took a course 20 years ago, that still counts, and we include that in their graduation plan.

We also recognize transfer courses that some other institutions may not. We used to only accept 60 hours of transfer from a community college but we now allow them to transfer an additional 15 hours of general education credit for a total of 75 hours of transfer credit.

Through research and best practices, the only way to meet state and federal attainment goals for undergraduates is to simplify the process and recognize all academic accomplishments. We consider military and law enforcement training and other viable learning experiences on a case-by-case basis.

What changes are you expecting in the new landscape and what is your near-term outlook?

With the new presidential administration, I anticipate a greater amount of funding for colleges in general but more so for minority serving colleges. There may be some changes in the community college system — perhaps not free tuition but perhaps some programs that leverage costs.

It's too early to anticipate any regulation that would hinder what we do, and I don't think that always comes from a federal level.

There is a lot of information out there about what colleges should be focusing on, from AI to better modes of delivery of education. I do think colleges will need to be more creative and part of this will be through the creation of partnerships. We have a partnership with a major firm known as the ActOne Group, which is a recruiting firm that will be on our campus working in partnership with our career services offices. ■

About 40 private primary and secondary schools in the Triangle received PPP loans of at least \$150,000

■ Challenges

As universities across the United States transitioned to remote-by-force, the seismic shift meant higher ed institutions were also tackling the challenge of providing paying students with continued added value in an online platform. With the removal of chance encounters, travel and exchange programs as well as the on-campus experience, COVID-19 hit home the importance of a cost-effective education at a time when the student population is increasingly crippled with debt.

It also highlighted the critical aspect of producing employable professionals by offering a curriculum that directly responds to companies' needs when it comes to specific, high-value skills in high demand in the labor market.

In the short-term, however, NC State, UNC-Chapel Hill and Duke are leaning heavily toward offsetting the disadvantages of online learning by delivering pre-

pandemic, near-normal on-campus activity, while still working out the kinks inherent to international program travels.

To support students in these trying times, Gov. Roy Cooper introduced a new financial aid program of \$51.4 million. It includes the Longleaf Commitment program, a \$31.5 million investment to ensure graduating high-school seniors from low- and middle-income families receive at least \$2,800 in federal and state grants to direct toward tuition and most fees at any of North Carolina's 58 community colleges.

In addition, Cooper recommended investing \$350 million of the state's \$5.7 billion share of the American Rescue Plan in the NC Guarantee Scholarship. It will serve students from families making \$60,000 a year or less by guaranteeing \$6,000 per year to cover attendance costs in any UNC system institution or North Carolina community college.

As far as PPP loans go, close to 40 private primary and secondary educational institutions in the Triangle received loans of at least \$150,000 to address the unforeseen expenditures of the pandemic. COVID-19 relief funds have also proven critical for higher ed institutions in the Triangle, as showcased by the Saint Augustine University success story. Strengthened by a solid enrollment run since 2018, the pandemic threatened to halt the university's three years of consecutive enrollment hikes. The institution obtained a \$20 million strikeout from its balance sheet via a loan forgiveness program for Historically Black Colleges and Universities (HBCU) that borrowed money through the federal government's HBCU Capital Financing Program. The school was also approved for a \$2.36 million PPP loan in April 2020. (■ ■ ■)

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Market voices: Education landscape



Jo Allen
President
Meredith College

“ When businesses are trying to keep their employees on the payroll, it’s hard for them to hire a college intern. On the other hand, for businesses that were forced into furloughs or layoffs, college interns were a great opportunity to keep things running until they could bring their full time employees back. So, there’s a bit of a mixed story there. I would say the area of experiential learning hit hardest was study abroad. We have a palazzo in Tuscany that we closed for the year. And few other countries were safe for study abroad, so we are hoping to make those opportunities available for students and even graduates over a longer period of time. ”

“ One of the ways that we build trust in higher education is through transparency in our decision-making. We did a lot of town halls and invited people to share their thoughts about decisions that the university was faced with, talking through our processes and our thinking around the protocols that we were putting in place and the decisions that were being made. That level of transparency really benefited our institution. While not everyone agreed at the end of the day, there was a respectful exchange, which we think is a critical skill set for students and for all of us going forward as a way to build trust. ”



Connie Ledoux Book
President
Elon University



J.B. Buxton
President
Durham Technical
Community College

“ Our top priority will be to have a campus environment that keeps our students, faculty, staff and community safe. We’re also highly focused on equity, inclusion and racial equity in our hiring practices and the way in which we do our internal work. We want to know what our recruitment and success rates look like and the outcomes in terms of graduation and labor market so we can hold ourselves to high standards. We’re fully dedicated to the success of our students and we’re moving them to sectors of the economy that provide them with opportunities for economic mobility. ”

“ Online education is here to stay but there will be challenges. We need to provide bridges to support the digital transition of marginalized communities that lack access to online resources and technology. We’re looking at ways to create zones where those individuals can come and learn online, and learn how to learn online, with a reliable connection and with all the necessary support systems around them. For example, we’re thinking about how we can expand our campus broadband reach to help the wider community. Everybody needs to have access to digital learning and we cannot afford to leave anyone behind. ”



Paulette Dillard
Dean
Shaw University

The right strategy

Pre-pandemic framework proves to be the right one for a post-pandemic world



Vincent Price

President – Duke University

Our commitment to life-long education is also a critical part of our framework.

How has Duke invested in science and technology?

Our strategic framework emphasizes an investment in people. This means investing in our faculty and students when it comes to financial aid and in our staff in a wide array of ways. We are emphasizing strategic areas where Duke can excel and these are strengths not just at Duke but in the region more generally. These are areas connected to computing, especially the intersection between machine learning and health applications, but also quantum computing. We've identified strengths in material science, particularly as they relate to the creation of novel materials, soft materials and materials that can assist in health and therapeutics. We are working on how the brain and body can be made more resilient and repaired by engineering the immune system. We're catalyzing highly specific areas and bringing in new researchers across the schools to strengthen and vitalize Duke.

What changes in strategic planning do you foresee given the new landscape?

Our strategic framework was developed in my first year as president through consultations with faculty, staff, trustees and students. The first thing we did early in the pandemic was to revisit that framework and ask ourselves whether it needed alteration in light of what we were facing. The answer was that it was right and most of what we have done has been accelerated by the pandemic. Our commitment to racial equity and social justice, which has been pronounced for years, has become much more focused and stronger in dealing with the second pandemic that has affected our country: not the virus but the social and systemic fissures that the virus has exposed and widened. The people-first orientation of our strategic framework has become more important.

What are your near-term priorities?

In 2024, we will celebrate the 100th anniversary of the creation of Duke University. I remind people that Duke was created out of Trinity College in Durham in 1924 and that was five years after Durham and Trinity college had navigated through the Spanish flu pandemic. We find ourselves 100 years later under similar circumstances. We look forward to our anniversary as an opportunity to do as much great work over the next 100 years as our counterparts did in the previous 100 years.

What we are thinking about is leveraging all the assets we have, principally our human infrastructure, and mobilizing all our energies around those elements of our strategic framework. When we celebrate our centennial, we will be looking forward to a second hundred years to take us even further than the first. ■



Christine **Johnson McPhail**

President – Saint Augustine's University

“ I think that we're in a very robust community here in Raleigh. When I think about St. Augustine's as an HBCU (historically Black colleges and universities), we need to look at that in a number of ways: we have to be mindful of the economic impact; we have to be mindful that as an HBCU in America, we have a political face as well; we also have to pay attention to the fact that we play a cultural role as well.

The graduate programs that we are developing are very intentional in the extent to which they look at those three aspects. ”

(---) ■ **Unique opportunities**

In terms of educational attainment, 55.4% of Raleigh-Durham's college-educated population have a bachelors, followed by 22.4% with a masters, 12.9% with an associate degree and the remaining 9.3% was shared between doctorates and professional schools. True to its high-tech and science reputation, the concentration of bachelors degrees in the Raleigh-Durham-Chapel Hill area are dominated by Science and Engineering and related disciplines, representing 51.5% of the total in 2020. Arts and Humanities followed at 22.7%, Business at 17% while Education attracted the remaining 8.7%.

Creative problem solving in the higher ed sphere was evident in the Triangle as well. Case in point: Duke University is laying out its plans to increase enrollment of community-college transfer students from its typical 5% in any given year. The Durham-based institution is joining a trend observable across the country as community colleges can potentially provide a student pipeline for private colleges still reeling from enrollment issues and committed to diversifying their student populations.

Looking at the future of education, Duke University received its single-largest donation since its inception: \$100 million from The Duke Endowment of Charlotte. It will serve as the foundation for the university's Duke Science and Technology Initiative, primarily focused on recruitment in the realms of material science, computing and artificial intelligence, and biological resilience.

In parallel, Duke University is accelerating the commercialization of its research via its Research Translation and Commercialization Initiative, launched in July 2021. The aim is to restructure the university's Office of Research into the Office of Research and

In 2020, Duke University received 98 patents and launched 17 startups

Innovation to produce startups and licencing agreements from its research at a faster pace. In 2020 alone, Duke University reported 405 invention disclosures and \$65 million in revenue, while also receiving 98 patents and launching 17 startups.

UNC-Chapel Hill followed suit by partnering with BASF Corporation on a deal for bolstered research and funding for the university.

Amid a bevy of corporate announcements relating to the Triangle, Apple's \$1 billion expansion into Research Triangle Park is poised to act as a boon by improving rural connectivity and keeping the skilled talent produced in the region.

■ **Trade schools**

The region's strong focus on tech and sciences does not mean that the Triangle overlooks its skilled trade needs, although here too there are challenges, mainly to do with an aging labor force. In 2019, 70% of the (---)

Roundtable:

Workforce training

Community college leaders provide their perspective on efforts to train tomorrow's workforce.



Lisa Chapman
President
Central Carolina Community
College



David Johnson
President
Johnston Community College

How do your programs reflect the needs of the local economy?

Some of the areas in which we are growing everyday include biotechnology, construction, industrial services and healthcare. Educational and career pathways that include alignment among our K-12 partners and our university partners are designed to address local and regional employer talent requirements. We meet with employers to make sure we're meeting their needs through these designed pathways as well as through customized training that may be for a specific company that's expanding or coming here. We're committed to workforce training. We are a one-stop shop for anyone who is looking for a specific kind of training or education.

How do you match students with a potential career?

We make sure the students have a good understanding of what's available when they come to us and what's necessary and possible in order to get through their career with us and to wherever they want to go. When I get the chance to talk with our students face-to-face, I tell them about the investment this community is making in them—the students. North Carolina's dual enrollment option is pathway-designed, which means students don't waste their time taking courses that don't count toward something. In our high schools, we have college employees who are career coaches and mentor students. Our community's investment is this: if the students successfully complete the dual enrollment option during their high-school time, they'll already have credits with us and will already be on the pathway and will have up to two years of tuition free based on the support of the counties. ■

How has demand changed for your programs?

All of our career pathways are in high demand. For fall, several classes are already full, including welding, machine technology and electronics. Those technical trades are in high demand because students know they can obtain high-paying jobs that will support them into the future. The trucking industry, for example, is demanding we produce more drivers because there is a tremendous national shortage. We offer the oldest Truck Driver Training program in the nation that offers an eight-week training course in trucking. In some cases, our graduates are making over \$100,000 per year and it's not unreasonable for graduates to start at \$60,000 to \$70,000 dollars.

All our technical programs are thriving but so are our college transfer programs. We understand that not everyone who comes through the doors wants a technical education and some are interested in transferring to a four-year institution. The ultimate success of students is defined by the changes in the lives of graduates as a result of the education we have been able to provide.

How is the college meeting the needs of the growing healthcare industry?

One of the drivers of the county's economy is the pharmaceutical industry, so we've designed programs that fit around that. One of those is called BioWork, which prepares future employees to work as process operators in manufacturing facilities for biological products. Students combine basic science, communication and manufacturing skills and practices. The pharmaceutical industry has helped us develop this curriculum. ■



Scott Ralls
President
 Wake Technical Community
 College

What major programs do you offer that reflect the needs of the local economy?

The Raleigh metro region is one of the nation's most dynamic technology economies and since we are our community's college, you can see that reflected in our programs. We have six campuses, three training centers, and in terms of the number of people we serve, we are the largest college in North Carolina. We have one of the greatest breadths of information technology programs, we're adding significant capabilities in biotechnology and life science with a new facility that will come online next fall. In fact, just last year, we acquired a seventh site that will be developed into a new technology campus with a focus on Industry 4.0, the internet of things, the area where industry, technology and infrastructure meet.

We opened a new center for building technologies this year for programs such as HVAC, electrical and building automation technology. We're also one of the region's leaders in training for healthcare professions, public safety and hospitality.

How do you see online education developing at the college level in a post-pandemic future?

Previously, we had some courses online, some on-site and some hybrid, which is using the best elements and efficiencies of both. I think we're moving toward a hybrid world, where a lot of the services we provide and aspects of instruction will move online but there will be a lot of things that won't. We're a tech college, so there's a lot of hands-on lab work in our curriculum. That doesn't work as well online. ■



Thomas Stith
President
 North Carolina Community
 College System

What is the purpose of NCWorks?

The North Carolina Workforce Credentials program is designed to increase and raise awareness about high-quality, nondegree credentials that are recognized by employers and help obtain high-wage jobs. We're targeting those high-wage, high-demand jobs. North Carolina community colleges have offered short-term training programs for many years and, in recent years, citizens and employers have begun to recognize the value of short-term credentials. These credentials are a way to ensure that the employees being hired have the skills necessary to meet the workforce demands. We've found that 67% of jobs in North Carolina are projected to require a high-quality credential or postsecondary degree by 2030.

How are community college training programs evolving amid shifts in worker roles?

We have very strong partnerships and collaborations with the private sector. We see the transforming roles of workers as an opportunity to grow our engagement in the private sector to ensure that our colleges are designing programs that meet the specific needs of the local industries. For example, one of our community colleges is working with a local biopharma company to produce 200 to 250 graduates within the next 24 months to fill jobs that are needed in the biopharma industry.

We're seeing growth in the biopharma, life sciences, IT, industrial manufacturing, healthcare, construction and aircraft maintenance industries. Company relocations and expansions, with Apple being a recent example, will drive the acquisition and training of local talent. ■

Brian Ralph
President
William Peace
University



What do the opportunities for remote learning look like moving forward?

At William Peace, one of our core strategies is immersive learning. Immersive learning is all about how students interact with information in as many and varied ways as possible. In-person learning is what really facilitates immersive learning, whether that is through group projects, undergraduate research, working with external partners and internships.

Technology plays a role in how we create these varied experiences for our students. We'll look at how to maximize and optimize the use of technology while leveraging the human connection that we believe is critical to learning. One of our major focuses is helping our students learn how to learn because we believe this will be essential in our students' success after graduating from the university. Our primary mode of instruction will remain in-person but we've learned new ways to integrate various technologies.

What factors are influencing strategic planning moving forward?

For one, diversity, equity and inclusion is at the center of our plans. It is one of our core values and we know the future of learning institutions is very diverse. Most of the major school districts in North Carolina are minority-majority schools districts. We want to make sure we're able to best attract all of those bright and talented students.

We have the great opportunity of being in Raleigh and we want to leverage this. This is a terrific city that is on the move so we're looking at the many ways our location can be advantageous to students. Our strategic partnerships will be important as well moving forward. We will also look at how to take immersive learning to the next level. Our faculty are unbelievably committed to learning new ways to teach and finding new ways for students to learn and connect with information. We're really excited as to how immersive learning will look over the next 10 to 15 years. ■



The welding industry mainly consists of men, but profuse demand is driving women to pursue a career in the field as well.

■ ■ ■ 13,000 licensed electricians were 51 or older. The state's plumbers face the same conundrum: barely 3 percent of the 5,500 licensees in North Carolina are under the age of 30. It's a similar landscape for construction: By 2030, there will be a labor shortage of 500,000 skilled highway construction workers. The North Carolina Department of Transportation's (NCDOT) Office of Civil Rights has taken matters into its own hands, sponsoring new Highway Construction Trade Academies around the state.

The importance of this industry niche is also made apparent in manufacturing, which employs 472,000 professionals in North Carolina, the ninth-largest in the United States and reigning supreme in the Southeast. By 2024, the American Welders Society estimates the United States will be short by over 400,000 welders in the national workforce.



This overwhelming level of demand is having at least one positive outcome: it is encouraging women in Raleigh to pursue a career in welding, especially now that the profession offers newer, tech-infused and safer equipment than those traditionally associated with the industry.

Orange County is helping persuade more women into the construction and related industries with its Hope Renovations program, launched in July 2020. Hope Renovations is a skilled trades training program directed at women. It graduated its first class in September 2020. Moreover, county commissioners hit the gas pedal for the construction of a second building on Durham Tech's Hillsborough campus to cater to the fast-growing demand in key areas, including healthcare, IT and skilled trades — primarily electricians, plumbers and HVAC technicians.

In Durham, local elected officials have made workforce development a top priority. County commissioners launched a nonprofit grant program to support community college Durham Tech's Back-to-Work short-term training initiative, for example.

■ Workforce preparation

The pandemic did not only cause significant dips in employment across industries, it also made apparent the urgent need to either reskill or upskill large portions of the workforce as companies adapted to the virtual world and the changing needs and wants of their respective consumer bases. This was made apparent in the surge of e-commerce and telemedicine, to name only two of the most prevalent examples.

In a commendable effort toward recovery, UNC Charlotte's 2021 economic report showed North

By 2024, the American Welders Society estimates the U.S. workforce will be short of over 400,000 welders.

Carolina was well on its way to recover 99.8% of its lost jobs during the pandemic. Yet, the accelerated tech trends that developed throughout 2020 will require a workforce with a specific skill set to face the Triangle's future challenges and growth opportunities in the highly dynamic industries that make up its industrial and business fabric. It comes as no surprise then that coding bootcamps have multiplied across the Raleigh-Durham area, offered by top-tier institutions including UNC-Chapel Hill and Tech Talent South.

The Governor's Emergency Education Relief Fund (GEER) also set up WakeWorks Propel, a training initiative to assist residents undergoing a job transition and economic recovery process. It offers scholarships of up to \$750 for accelerated, non-degree Workforce Continuing Education courses to obtain industry-recognized or state credentials for high demand jobs in industrial manufacturing, information technology, healthcare, public safety and skilled construction and (■■■)



Johnson Akinleye

Chancellor – North Carolina Central University

“ There have been multiple impacts as a result of the pandemic, and we all are coping with COVID-19 in one way or another. Thankfully, all the education providers in our state, whether it be K-12 or higher education, have risen to the occasion. It may have been particularly challenging for the K-12 segment due to the age of students adapting to learn in a completely new learning environment. The online nature of pedagogy can be difficult for some children. Despite this, I do believe that certain adjustments have made it easier to cope with these sudden challenges. ”

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The Triangle region is home to 12 colleges and universities and eight community colleges.

(•••) maintenance trades. The overall majority of the courses can be completed in three to six months.

Within the educational space, North Carolina is tackling the teacher shortage by passing Senate Bill 582, which allows people who complete one college semester of teacher preparation classes to become part-time high-school instructors.

■ Remote learning

For a look at what higher ed institutions went through as they went fully remote at a moment's notice, as well as what to expect going forward, UNC-Chapel Hill provides a good example, where technology staff played a critical role in creating a successful and engaging online learning experience. Learning from the experiences of spring 2020, UNC-Chapel Hill says it was better prepared when classes again went remote in the fall "having worked diligently since last spring to reimagine their fall courses amid the COVID-19 pandemic," said a story published on the school's website.

Higher ed IT departments are called to collaborate and work together with faculty to design educational tools that keep students engaged and foster interaction in a remote setting. The lessons learned throughout this process will be decisive when it comes to switching to remote by force to remote by choice.

One positive development of this experience is that now schools can capitalize on the positive and reinforce

educational efforts that combine different methods — synchronous, asynchronous, online interactive, in-person and virtual reality applications — and potentially provide cost savings. In the end, digital tools work best when complementing, not substituting, face-to-face learning. These post-pandemic insights on changing the way lessons are taught and learned are poised to fundamentally change how academic institutions plan for, manage, fund and update online education.

The expectation is that the management of online learning will be integrated within academic leadership structures and processes. The previously decentralized and distributed online course development, parallel to student support functions, will become centralized to have better control and improvement capacity over a program's areas of opportunity, to the benefit of both student and faculty.

Remote learning also means addressing the digital divide and familiarizing students with the technologies, platforms and learning methods associated with it. For online learning to have the desired impact, students will need to be exposed to and learn from online learning platforms early in their academic training to make the most of them. Raleigh's Digital Inclusion division aims to do just that, particularly through its Raleigh Digital Connectors program. The program provides technology and leadership training for children aged 14 to 18, offering a chance for them to expand their 21st

Cecilia Holden
President & CEO
myFutureNC



What have been some highlights this year for myFutureNC?

We are a nonprofit that was started by the work of the myFutureNC Commission that began in 2017. This initiative led to the state establishing the educational attainment goal to have 2 million North Carolinians between the ages of 25 and 44 hold a high-quality credential or post-secondary degree by 2030. The North Carolina General Assembly codified this goal into state law to ensure our state remains economically competitive now and into the future by providing the workforce necessary to fill the jobs across the state. The pandemic occurred three months into the launch of the new nonprofit; however, over the last year or so, the importance of this work has been elevated. Data shows that individuals who lost their jobs during the pandemic more likely had lower levels of education. In the midst of the pandemic, economic development has continued to flourish in urban North Carolina. We are an in-migration state and most of the jobs we have been able to attract, such as the entry of Apple, will require higher levels of education. Our work has not slowed during the pandemic and, if anything, we've been able to reach more people.

What is your near-term outlook?

Coming out of the pandemic, there is about \$10 billion being infused from the federal level specifically for education in North Carolina. If we're able to strategically leverage these resources, we will be better positioned to see improvements in educational attainment in areas where there may previously have been limited resources. These resources may also allow us to adjust and do things a little more creatively. Looking at the data, it shows that those born in poverty are likely to remain in poverty; however, we believe that education is the gateway to upward mobility, as well as a main driver of North Carolina's economy. Our work is state-led but the work must be locally owned and driven. We are lifting up and catalyzing action at the local levels to help us achieve our goal. ■



Key drivers of Raleigh-Durham's success are the region's innovation, education and collaboration.

century technology skills, develop professional life skills, participate in open data projects and explore workplace environments.

■ K-12

At the early stages of education, public and private schools appear to have experienced two very different pandemics.

While North Carolina's private schools added 3,282 children to their classes for the 2020-21 school year, amounting to a 2.2% increase compared to 2019-20, the state's public schools witnessed a 5% drop in enrollment, representing 70,000 fewer students. The phenomenon is not exclusive to North Carolina with media outlets reporting similar trends across the United States.

The lion's share of the state's public schools opened the 2019-20 school year offering remote learning only, gradually transitioning to a mix of in-person and online classes, with most districts ultimately switching to full-time, daily face-to-face instruction by the end of that school year. The difference in performance with private schools lies in the fact that private education promoted in-person class offerings with much more availability compared to public schools while following strict COVID-19 safety precautions.

The heavy promotion of in-person classes from private schools does not mean that public schools did not get to dabble in innovation in their own right. Durham Public Schools is making its very first virtual K-12 academy a permanent school in fall 2021: Ignite! Online Academy. (■■■)

Partner support

Strong corporate relationships have been ‘invaluable throughout the pandemic’ for the education space

Randy Woodson

Chancellor – NC State University

What support are corporate partners seeking during this turbulent time?

Their priority, like the rest of us, is to remain connected. One of the great opportunities in the education space right now is continued education for the corporate workforce looking to upskill their talent. We work with both regional and national companies in this area. We’re fortunate to have strong corporate relationships that have proved invaluable throughout the pandemic.

What is your view of virtual and hybrid learning?

NC State already had a large online presence prior to the COVID crisis. We are ranked sixth in the country for online engineering education, for example, and we are in the Top 25 for online MBA programs. That said, it was a huge challenge converting practically all of our student roster into online programs overnight. We’ve learned a lot about the most-effective ways to work remotely, in particular in areas such as accounting and procurement.

What critical components are needed to maintain the growth of the university’s research department?

NC State is a top research university renowned for partnering with industry and government to address real-world challenges. Cutting-edge research is vital to all NC State’s colleges and we’re a leader in big data, biomedical engineering, materials science, agriculture and food safety, translational medicine and more. Much of our strength is in the applied disciplines of engineering, textiles and computer science. Our research is more closely aligned with commercialization than a lot of other school programs, and that is why so many company startups come from NC State.

How do you see your strategic planning evolving?

Aside from continuing our traditional focus on public-



private partnerships, we’re looking at the digital divide and making sure that we’re doing everything we can to strengthen our online learning platforms. Inclusion and diversity is an increasing focus to ensure that the university moves forward in an equitable way. Finally, we want to become known as a pipeline for talent in the technology sector.

What are your main near-term goals and priorities?

We want to give our students more flexibility and more opportunities to gather in person. We will continue striving to enhance our strengths and impacts in research and we are continually striving to improve the ease and effectiveness in which our industry and government partners can effectively work with our university to achieve goals. ■

A L1ght study showed a 70% increase in hate speech and a 40% rise in online toxicity between students in digital platforms

▀▀▀ The academy is poised to offer a tailored approach to learning by combining virtual coursework with field trips for students interested in taking classes from home.

These new tech opportunities are not challenge-free, however. Attentive oversight and online safety features are a must in the digital landscape to prevent cyberbullying in the virtual classroom. A website communication analysis across millions of webpages conducted by L1ght unveiled a 70% increase in hate speech and a 40% rise in online toxicity between students in digital platforms.

▀ **Looking ahead**

Pre-COVID, Raleigh-Durham’s educational landscape acted as a strong catalyst for people and businesses alike while dealing with the long-standing challenge of keeping curriculums relevant to key industry needs and tuition costs at a competitive level to avoid burdening students with stifling debt. Post-COVID, educational

trends that were projected over several years accelerated at a vertiginous pace — in a matter of months.

Short term, the Triangle’s academic sector will remain laser-focused on maintaining healthy levels of enrollment while it works on re-establishing the revenue streams of auxiliary enterprises. Higher ed institutions are called to stay on pace with the dynamism showcased by innovative and tech-infused industries, as talent is more often than not the key driver for companies setting up shop in the Triangle.

The competition for skilled talent has also reached a new phase in which it has truly reached a global scale, given that remote work allows companies to hire anyone, anywhere and enables companies to make up for the gaps in their own local talent market. Raleigh-Durham’s academic fabric will be competing not only with other institutions within the state but also around the world in producing the talent needed with the skill sets of the future that companies are so eager to integrate into their ranks.

The Triangle’s universities will require not only outside-the-box, disruptive practices in how they design their curriculum and impart knowledge. Partnerships with non-academic players will also prove essential to continue strengthening the area’s pipeline of talent. Saint Augustine University, for example, will be partnering with Braven Environmental to offer students and staff research and internship opportunities at the company’s facilities. NC State’s Kenan Fellows Program for Teacher Leadership announced a grant from the Biogem Foundation to launch a STEM-focused professional development pilot program for K-12 educators: STEMwork.

If done well, these sorts of partnerships are poised to launch the Triangle’s educational leadership to new heights going forward. ▀



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Tourism, Arts & Culture:

Decimated by COVID-19, Raleigh-Durham's tourism industry is back above water after struggling for more than a year. Despite ongoing challenges, including a labor shortage, all expectations are for a rebound to pre-pandemic levels, although how long that takes remains to be seen.





Strong allure:

The region hasn't lost its tourism appeal, although it continues to deal with challenges

The story of modern Raleigh-Durham has been one of hope and progress across all sectors of the economy. As the city's star rose, so did its profile as a destination for tourists from across the country and the world. As tourists were drawn by the area's natural beauty, world-class sports and cultural institutions, and with a vibrant business tourism economy, Raleigh-Durham worked to develop its infrastructure to keep up with the demand,

Then came COVID-19. The bottom fell out from beneath the industry. Now, as it picks up the pieces, the Raleigh-Durham tourism industry is not only fortifying itself for the future, it is also remaking itself according to the exigencies of the present.

■ Landscape

Some industries were relatively unaffected by the COVID-19 pandemic and some others were even able to thrive. But there were some that were completely decimated. Tourism falls under this last category. In Raleigh-Durham — as in the the rest of the world — people weren't traveling, going on business trips or staying in hotel rooms; families weren't taking their summer vacations; large events were canceled, whether it be a night at the opera, a football game or

a robotics conference; and restaurants were operating at a significantly reduced capacity while struggling to keep up with their overhead.

The numbers released by the Visit Raleigh tourism board are staggering: due to the nearly 300 canceled meetings, conventions and sports events in Wake County alone, there was a loss of nearly 370,000 tourists who would have brought \$145 million in revenue. Compared to 2019, this represented a 25% decrease in sales tax revenue from area restaurants, a 52% decrease in hotel lodging tax revenue and a nearly 50% decrease in hotel occupancy rates.

In total, tourism tax collections were down by about \$21 million. All together, over 28,000 Wake County hospitality jobs, with a payroll of \$836 million, were put into jeopardy by the pandemic. Across the state, according to the American Hotel & Lodging Association, the North Carolina hotel industry lost 22,787 hotel-related jobs and 88,225 indirect jobs.

To put these numbers in perspective, the decline in 2020 came after a record year in 2019 when the region drew nearly 18 million visitors who spent almost \$3 billion in the local economy, a number that translates to \$284 million in state and local revenue. Indeed, (■■■)

Back to normal?

Travel is starting to return but at a slow pace. Still, the second half of the year looks promising

Dennis Edwards

President & CEO – Greater Raleigh Convention and Visitors Bureau

How is Raleigh attracting travelers to bolster the sector's recovery?

Part of the problem we have with COVID-19 is that every state has different restrictions related to mass gathering requirements. In North Carolina, the largest number of people we can have indoors is 30% capacity or up to 250 people, while other states have 50% capacity to no capacity limitations. On the leisure side, there is some activity from visiting friends and relatives. Weddings are starting to return as well.

Business travel is coming back slowly. Many corporations and organizations still have their employees working from home, so until employees start returning back to the offices, business travel will still be somewhat limited. We believe that probably around late summer or early fall, business travel will start recovering in some capacity.

Sports is our shining star right now. Despite all the challenges, youth, amateur and collegiate sports are still taking place in this market. We're starting to see the return of sports meetings and conventions, with a few small meetings. Until the mass gathering limitations are lifted, everything of large capacity is going to be a little bit slower to return.

Our 3Q21 and 4Q21 calendar looks like a normal convention center calendar. We have a lot of events and conventions on the books. If they're allowed and able to meet, those will continue to happen. Ultimately, leisure travel is what is really going to spark the rebound. Eighty-one percent of the American public say they intend to take a trip in the next six months. That's up 16% since January 2020.

What is your near-term outlook for Visit Raleigh and its markets?

We anticipate seeing a recovery by the second half



of 2021. If you think about weddings, many of the weddings in 2020 were postponed until 2021. On top of the people who want to get married this year. So, the wedding business is going to be huge. We do see many conventions coming back as well.

Another market that we really have started to own is esports. We're blessed to have a number of people and companies in the gaming industry, including Epic Games, right here in our backyard. We have about 20 gaming companies in the region. All of our universities and colleges now offer some kind of gaming curriculum. Plus, our PNC Arena and Raleigh Convention Center are both wired and geared now for gaming competitions. We have three major esports competitions coming this fall including the esports collegiate championships. It's an up-and-coming market. ■

Q&A

Rebecca **Bolton**

General Manager
Durham Convention
Center



What is the Durham Convention Center's approach to the return of in-person gatherings?

Certainly, the hybrid component will continue at least until the end of the year. This is especially true of conferences that draw people from further away, where people will have to fly in. Conventions are a long-lead sales closing process, so you might call me today about a conference we would be hosting in 2023 or 2024.

How will the virtual hybrid component be leveraged in a post-COVID world?

I think at first, the hybrid component was perceived as a little clunky, meaning that it was expensive and there were not many streamlined, user-friendly solutions. In contrast, people are now very comfortable with video chat platforms, jumping on Zoom or WebEx or Microsoft Teams. This component provides access to content for a wider range of participation and has been critical in maintaining momentum for many programs. However, I believe there will always be the necessity for people to meet face-to-face. There's something about it that can't be replaced. That said, I do think people will continue to use the hybrid component, particularly for events where it is important that people have a broader reach. I also think people's sense of personal space has expanded; the six-foot rule has entered the collective psyche. We'll continue to space people out.

Has your sector experienced staffing challenges?

This is a nationwide issue. In every conference call that I'm on, there's conversation about staffing shortages. This is especially true for the fall, when conventions will pick up again in earnest. My colleagues in the sector have found ways to share staff through this shortage but, as we all get busier, resources will continue to tighten. When we get back to realistic conference volume, we anticipate an even greater shortage. We're all doing our best to plan for that now. Thankfully, we've identified new ways to share resources through the process. ■



The Durham Performing Arts Center is the No. 1 performing arts organization in the Triangle area.

■■■) until the unique aberration of the pandemic, Raleigh-Durham's tourism and hospitality sector had been doing remarkably well: 2019 saw a 9.4% increase in food and beverage sales compared to 2018 and, over the last decade, food and beverage had increased by 107%.

■ **Recovery**

Despite the massive blow from the pandemic, there are strong signs that the bleeding has stopped. While vaccination rates have stalled in many parts of the Southeast, the opening up of the economy (at least compared to spring 2020) has continued, with many events again running at full capacity. Also, of the conventions, meetings and group sporting events that were canceled during the initial months of the pandemic, 51 have been rescheduled for this year and are poised to add \$37.1 million in economic impact. Experts look to 3Q21 as a potential full recovery in the Raleigh-Durham tourism sector, although pandemic uncertainty remains around the Delta variant.

For restaurants, the lack in traffic resulting from the absence of tourists and local customers was compounded by restrictions put in place by the state government: first, in the March 2020 initial frenzy, Gov. Roy Cooper banned all indoor patronage of eating and drinking establishments across the state, allowing only for take-out and delivery. This led to some dining establishments

evolving by having their waitstaff work as delivery people (with much of their income supplemented by tips, the dearth of in-house customers was especially problematic for this segment of the industry). To counter this drop in traffic, the North Carolina state government allowed restaurants to permit outside seating in zones normally relegated to pedestrians.

When diners and revelers were allowed back, it was required that there be capacity limits while customers had to follow social distancing and mask-wearing guidelines. It was not until May 2021, with the vaccination campaign in full swing, that Cooper was able to lift most restrictions. For many, however, the damage was complete, with their doors remaining indefinitely shuttered.

Now that establishments are re-opening, restaurants are facing a different challenge: the inability to hire and retain staff. To make ends meet at the beginning of the pandemic, there were massive layoffs across the industry. Now, with an equally rapid full re-opening in swing, owners and managers are needing to fill these positions but they are having a hard time locating suitably experienced employees. In Durham alone, 70% of hospitality businesses have been affected by labor shortages, with over 60% saying that these shortages pose a threat to their viability. Some businesses are resorting to creative tactics to staff their establishments: Raleigh's 42nd Street Oyster Bar and Seafood Grill is turning to social media more aggressively than ever before to advertise vacancies, has instituted a signing bonus and even a referral bonus whereby customers receive a \$100 gift card if they recommend a new employee, according to a report on public radio station WUNC's website. This issue points to a greater one in the American labor market: with so many receiving weekly government unemployment aid, there is little incentive to go out and work for what is often less money.

■ Raleigh-Durham International

The dearth in tourists brought passenger traffic at Raleigh-Durham International Airport (RDU) to levels not seen since 1987. This on the back of a record-breaking 2019, when 14.2 million passengers traveled through the airport. In contrast, 2020 saw only 4.9 million; the entire month of April 2020 saw 40,000 passengers, the same number for a single day in April 2019. This staggering decline was showing glimpses of recovery at the end of the year when, in December, passenger numbers had climbed back to 112,000 but this was still a 56% decline over December 2019.

Not surprisingly, RDU had to adapt. Anti-COVID measures — social distancing markers, sanitation (■■■)



Laurie Paolicelli
Executive Director
Chapel Hill/Orange
County Visitors Bureau

How have you adapted your role due to the pandemic?

After a couple of months of lockdown, we realized that the locals really wanted to explore more of their backyard. This is not a traditional market for us. We focus more on everything but the locals. We shifted gear and used this pandemic as a silver lining, telling our several thousand locals that they have a terrific backyard here. A lot of people here had lost their jobs in the hospitality industry and wanted to come back to work. We said, let's partner, let us help you understand everything in your backyard and help you come back to work. So that's what we did. We shifted and made the local residents our primary market. We created a colorful, illustrated map of the county and we reached out to local media to let them know what was going on. When the federal relief money from the CARES Act came through, we did a major blitz around a hundred-mile radius and said, we know you're getting cabin fever, why not drive over to one of the coolest college towns in North Carolina and check out what we have to offer.

What local partnerships have you sought to promote tourism in the region?

We started talking to our hotels daily. We started talking to our public health officials, which was new to us. We started a partnership with tourism and public health, helping them to extend their message. We started partnering with local creative people to design masks and safety posters. I also give credit to The Chamber for a Greater Chapel Hill-Carrboro, which really took a leadership role and brought a lot of us together every week. It would be more apt to say that I was part of a partnership rather than created a partnership. We sat down as a visitor bureau staff, put a mirror up to ourselves and asked, what has to change?

We really learned a lot during this experience and now is the time to see how we are going to come out of this. We used it as a chance to strengthen our conversations internally. ■

Regional hotels

Hospitality leaders discuss the impact of COVID-19 and the recovery timeline.



Jim Beley
Manager
The Umstead Hotel & Spa



Pete Byers
General Manager
Residence Inn Raleigh
Downtown

How would you describe the state of the hospitality sector in the region?

It's changed dramatically. The fact is our business mix has drastically changed. Historically, corporate travelers made up the bulk of our weekday occupancy but with company travel restrictions still in place, it has been slow to return. Fortunately the leisure travel segment has been stronger than ever with the increase of domestic vacations. This high demand has pushed leisure guests into the lower rated weekdays to avoid the high demand weekends. That has allowed the luxury and resort markets to thrive achieving revenue numbers comparable to pre-COVID numbers by filling the corporate void with higher rated leisure business at lower occupancy levels. This shift has not come without its own set of challenges, with more guests occupying each room and each wanting to utilize our restaurant, spa, and pool outlets. For our type of property, that gets concerning in terms of questions surrounding if we have enough availability in the spa, pool or dining room. People want the full experience when they come to our hotel. We're adjusting to what our guests expect when they come to a luxury hotel but it's very different than before.

What is your outlook for the next 12 to 18 months?

Without any setbacks, I believe that in 2022 we will most likely be back to the levels that we last saw in 2019. That's my forecast. What could hinder that situation is if companies continue to mandate the amount of business travel. But from what I hear, business travel is going to come back in a very solid way in the third quarter of this year. ■

What innovative hiring methods are you using?

The labor issue is highly prevalent in the hospitality sector. The past year has provided little incentive or motivation for anyone to come back to work. We have used all of the traditional routes when hiring associates: online job postings, brand job postings, job fairs, websites and so forth. We've used signing bonus offers and have increased wage scales for existing associates in an effort to retain those we have and to help attract new talent. We've had members who have gone down to the local Walmart with flyers and handed those out in an effort to get people interested. Is this innovative? No, but it's just getting your feet on the ground, trying to do your best to find folks who are interested. What we've found is that folks aren't as readily available right now for different reasons.

When do you anticipate the return of leisure and business travel to the Raleigh area?

We are already seeing economic trends turn upward this year. Raleigh is a big festival town with many large events throughout the year. One of our biggest festivals involves the International Bluegrass Music Association's World of Bluegrass festival, which is returning this September. The event is one of Raleigh's biggest, bringing more than 200,000 visitors in 2019 and accounted for an economic impact of over \$18 million. The return of Bluegrass and many other festivals will continue to be key in moving the economic needle over the next two years. I also believe we will begin to see our business travel ramp up this fall at a slightly greater pace than has been projected previously. It will take more time to regain historic levels but we'll start to see it increase. ■



Bill McCallen
General Manager
 Embassy Suites Raleigh
 Durham Research Triangle
 East

How is your hotel adapting in a post-pandemic world?

Ultimately, the health of our staff is our first priority and the health and wealth of our guests is right behind that. Our challenge will be to provide a workforce to ramp up in the same way as the business is to capture it and keep our guests happy. Many customers are coming back, expecting what they had before. But as everyone is learning, things are different now. Still, they have pretty high expectations despite the fact that we are in a different world.

What trends in hospitality have emerged?

Some emerging trends in the hospitality industry are the use of digital keys and digital check-in. For us, trying to be ahead of the next catastrophe is pivotal for our operation to stay competitive and to stay on the front side of it. Our leadership is very attuned to steering us as an organization in those different directions and the different ways of providing services for our guests.

What is your outlook for the Triangle market's hospitality sector?

We are very optimistic that the hospitality sector in the Triangle market will recover and get to a more efficient, brighter and better place, strictly based on how my vision of hospitality has always been. If we can take care of people and focus on that, the business side of it will happen.

As long as we are able to keep our focus, we'll be fine as an industry. We may not have as many co-workers and relationships as we had but they will be stronger, better and more reliable in terms of guests and associates. ■



Schack von Rumohr
General Manager
 The StateView Hotel

How have you been mitigating the labor shortage?

The biggest challenge we're facing now is the labor shortage. We're not the only ones that have this issue. We're all struggling to find help. It's now all about what we pay each individual and what incentives we offer to potential candidates.

We are working with the community and other properties to find solutions. Having North Carolina State University in our backyard, we created an internship program with the university that allows us to get young students to work for us and experience the hospitality business.

What are the benefits and challenges of being located on NCSU's campus?

Being on campus and having the university in our backyard does have its advantages. We do get the majority of the NCS University business at our hotel, such as graduation day, parents day the NCS football team. Our case is unique because in a situation like ours, being out of the city, people can get away from the city. Guests come to our property to relax and spend their days with their families.

What are your guest demographics and what is your near-term outlook?

Our business has shifted after COVID-19. We see much more leisure business, especially on the weekends, with very little corporate business during the week. However social events have increased. We see more weddings returning. We believe this trend will remain until the end of 2021 and then slowly returning to pre-COVID-19 business conditions in 2022. ■

RDU's revenue from its Top 10 routes dropped by \$150 million in 1Q20 Y/Y

(■■■) stations, and air filtration systems — were installed. Service was reduced, with nonstop flights going from 57 destinations to 38, and, in December, an average of 223 departures a day in 2019 became an average of 102 departures in 2020. Unsurprisingly, these reductions have had an effect on revenue. Of routes at RDU, the Top 10 revenue generators accounted for \$416.9 million in the first quarter of 2019. The equivalent number for 2020 was \$267 million, a drop of nearly \$150 million.

But a recovery is in the works. In February 2021, JetBlue announced seven new routes out of RDU. Despite good news such as this, budget woes are expected to continue for some time due to reductions. And even if domestic picks up, international (once a promising growth area for RDU) is expected to lag behind domestic for some time. In some cases, examples of the decline can be especially concrete: a longer primary runway at RDU, three years in the planning, has been reduced in scope in keeping with the reduction in traffic. The runway was initially designed to be 11,500 feet long — capable of launching Asia-bound flights — but will now be reduced to 10,000, with the possibility of extending at a later date. The money that was to be used at the airport will be needed in other areas to make up for budgetary shortfalls.

■ Arts and culture

The decline in tourism naturally also had a great effect on Raleigh-Durham's cultural institutions. In a tally of 760 North Carolina cultural organizations, there was a median expected loss of \$23,000, with 61% expecting severe economic impact and 9% expecting to not survive at all. Institutions such as museums had to (■■■)

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Back in the game

More than just winning: From Zoom to digital fan tunnels, pro sports teams like the Hurricanes are staying connected

Don Waddell

President – Carolina Hurricanes

What were some of the lessons learned by the organization over the last year?

We spent a long time preparing for a return to play. You have to provide an environment that'll make everyone feel comfortable, not only our players but our staff and now our fans, too. We spent a lot of time preparing for that. We were following the government rules to the greatest extent possible.

Also, we do everything by Zoom, even our player meetings. It's a different world but we're doing what we can.

How is the team using technology to increase revenue and improve the fan experience?

The world's gone digital. It was happening before COVID but obviously the pandemic has just taken it to the next level. When we post on Facebook, Instagram or Twitter, our views are just off the charts. The way you do that is by having good contact and our players are part of the community, they want to be part of the community, and we try to encourage them to identify with the fans.

At games, we would do fan tunnels, where fans could high-five players as they came out onto the ice. Now, we do the same thing but virtually. It's been a great success for people. The players see all these fans on a Zoom call, they stop and talk to them, they thank them for their support. So, we've been able to continue that in a way I never thought would be possible. In these crazy times, you've got to find ways to engage your fans with your teams. Winning hockey games is incredibly important for that but so is staying in touch with your fans.

What is your outlook for both the team and the Raleigh-Durham sports industry?

I think it's going to be robust. We were allowed to



have 4,500 fans in the arena and we sold every ticket in minutes. People are looking for things to do and I think as other events come back, people are going to be very excited. They are looking for activities not only to participate in but also to support.

My feeling is that when we come out of this and people feel comfortable between the vaccine and everything else, that the 2021-22 season is going to be incredible. We have so many big shows lined up for the arena and they've been demonstrating strong sales.

Even in areas like the music industry, people haven't been able to tour over the last year and they're excited to do so. We're very encouraged by what we've been seeing and we hope that everything continues in a positive direction. ■

Market voices: Performing arts



Elizabeth Doran
President & CEO
North Carolina Theatre

“Every arts organization I know in America already had a crisis when the pandemic hit because of the way that people were choosing to spend their time. Many forms of live performing arts have faded over the years. Part of this is caused by arts organizations accepting an inequitable model where access to the arts is restricted to people who can pay top dollar for it. This is a self-perpetuating, negative, downward motion for the arts. For any system, it is hard to suddenly stop. Arts organizations are focusing on diversifying and therefore expanding audiences, helping to solve this first crisis already in place when the pandemic began. A second crisis was a lack of capital due to the high costs that nonprofits bear to provide culture – costs that are heavily labor-related and only go up. The pandemic actually provided arts organizations with the sudden stop many actually needed to address these issues. As was true for many other industries, this pause forced innovation and change.”

“One of the programs that will restart when we reopen is called DPAC For All. Each and every Broadway performance has specially selected seats that are just \$15. That is about a 50% discount from seats in the same section. It goes up to 80% in the most expensive seats. It allows people, particularly for Broadway shows, to come to their first show ever. About half of the performances we have here at DPAC are Broadway shows, so this program creates an entry point for guests of all means, all ages, all races to come see a big Broadway show and hopefully have that great experience and maybe over time develop an interest and a lifelong passion. We also host educational events, either at DPAC or at the universities and public schools, for every Broadway show that comes to town. We take cast and crew members out to those schools and they host master classes and different educational events to connect with theater and music students throughout the area, particularly right here in Durham.”



Bob Klaus
General Manager
DPAC – Durham
Performing Arts
Center



Kerry Painter
*Director & General
Manager*
Raleigh Convention
and Performing Arts
Complex

“The industry is ready, clients are excited to start planning in-person and hybrid events, and people are ready to travel. Corporations that initially did not plan to have events this year are starting to host smaller meetings. Sporting events and family activities have picked up, from a 5,000-person volleyball tournament to a weekend-long roller skating event in our Exhibit Hall. We’re all yearning for the connection and networking that is only possible in face-to-face settings.

The challenge now is creating experiences that are not only safe but make financial sense for the organizer. Conventions often require sponsors and, without trade shows or similar elements to cover the cost of the meeting, organizers cannot justify an event. Without a roadmap, it can require a great deal of creativity and flexibility but the RCC is adept at both. We’re ready to work with planners to make it happen.”



(***), adapt by sharply reducing visitors and then staggering their arrival times. After being closed in March 2020, the state's museums were allowed to reopen at 30% capacity in September, followed by 50% several months later. It was not until March 2021 — a full year after initially closing — when museums were allowed to begin operating at 100% capacity.

For many in the hospitality, tourism and culture industry, federal and state stimulus money was able to offset some of these losses and keep businesses running, albeit some were in a state of life support. Both the CARES Act under former President Donald Trump and the American Rescue Plan Act under President Joe Biden allowed relief money to flow to businesses in these industries.

In response, the local government has been hard at work, playing its part in ensuring that Raleigh-Durham makes a full recovery. The Greater Raleigh Convention and Visitors Bureau was awarded \$1.25 million of CARES Act money by Wake County for the effort of driving tourism recovery through advertising, marketing, public relations and strategic meetings.

In a similar vein, the city of Raleigh, Greater Raleigh Convention and Visitors Bureau and Raleigh's Business

Alliances began the Wish You Were Here initiative promoting safe tourism in the face of COVID-19, educating actors in the industry and providing certification for those deemed worthy.

■ Technology and Innovation

In keeping with its status as the great tech center of the Southeast, Raleigh-Durham's tourism scene is in many ways being rewritten by technological innovation. These developments were also compounded by the pandemic, which saw the region become one of the most popular destinations for tech workers, who can often work remotely, as they were fleeing the more densely populated and expensive cities of the Northeast, Midwest, and West Coast, and choosing to settle in the tech hub of the Southeast.

To combat the toll taken on workers in the hospitality industry due to the pandemic, one Raleigh developer, Greg Gelanis, created an app called The Crafty Barkeep, which helps keep workers in the service industry connected and aware of potential job openings. Beyond serving its purpose as a job listings site, it also allows bartenders to keep in touch and exchange recipes.

The technological advancement of Airbnb has



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also had an effect on the Raleigh-Durham tourism landscape. A survey by the hospitality startup found that Durham had become one of the trendiest future travel destinations. This is in keeping with the home-work model: as people seek a change of scenery from their usual, pandemic-induced work-at-home environment, they look to Airbnb, which, more than a hotel, offers the amenities of home and enables “pod travel.” These people are increasingly looking toward Durham for working staycations of two weeks or more, drawn by the relatively wide-open spaces and the wealth of natural beauty. Despite the fact they are working, these post-pandemic tourists will still need to eat and as such, will patronize the city’s offerings, which will be a boon for the decimated hospitality industry.

It hasn’t been a completely smooth ride for Airbnb in North Carolina, however. The state had to suspend almost 60 Airbnb listings (including 21 in the Triangle area) due to illegal parties occurring in defiance of COVID rules. These rules stipulated the banning of large gatherings, with indoor gatherings limited to 10 people after November 2020 until the opening of the state in spring 2021.

Technology was also able to help certain tourism draws continue during the pandemic year, even if it meant there was no excess of tourism money spent by outsiders. The OUT! Raleigh Pride Festival was able to go on in 2020 and 2021 but instead of occurring in person, it happened over Facebook Live, YouTube and Zoom. Virtual dance parties were the flavor of the day as organizers used the circumstances as an opportunity to reach a broader audience through education. The festival will be returning in physical form in June 2022.

Indeed, the year has been a monumental one for digital events as COVID shuttered what was a vibrant area in the Raleigh-Durham tourism economy. One Durham-based talent agency, All American Entertainment, told the Triangle Business Journal that the boom in virtual events had been a savior to the company in an otherwise lean year. The company, which helps place talent at events, stated that, since the beginning of 2021, 82% of its scheduled events have been virtual, with the ratio of virtual to live events at 2:1. The company had to quickly change direction and train its staff accordingly but it has been an investment that appears to have paid off.

Esports — the showing of gaming activities in a venue that attracts crowds — has also proved to be a profitable draw. The Greater Raleigh Esports Local Organizing Committee, a group of civic, sports and

business leaders, has redoubled their efforts to turn the city into one of the biggest destinations for esports and gaming events in the nation. This is a promising direction for a sector whose profile is on the rise. Already, Raleigh-Durham has staged esports events that have brought millions of dollars in revenue into the local economy.

■ **New construction**

It appears that two messages concerning tourism in Raleigh-Durham have emerged: on the one hand, the sector was hit incredibly hard in the immediate fallout from the pandemic; on the other hand, there was enough momentum prior to the pandemic, and there is enough optimism for the sector after the pandemic, that hope remains for a strong recovery. Construction projects in the pipeline, and some with completion dates on the horizon, continued despite the woes facing tourism. Such faith shows that developers and investors are confident there will be a strong rebound as the pandemic recedes into history.

Among the new, yet-to-be-completed projects in the area that will be tourism draws are the Fenton Mixed-Use Development (scheduled completion, late 2021), which includes office, retail, cinemas and two boutique hotels; the John Chavis Memorial Park and Community Center (scheduled completion, summer 2021), an urban park with plenty of civic space and one of the oldest operating carousels in the country; and the North Carolina Freedom Park (work to be completed in 2022), which honors the region’s African-American heritage and is only a few blocks from the state capital in Raleigh.

■ **Looking ahead**

Despite the shock and dislocation of the past year, it is heartening to see optimism remain high. Raleigh-Durham was experiencing a boom before the pandemic and, by all accounts, this is picking up again as the vaccinations remain on course and the pandemic recedes into the background.

Of course, this has not been without its casualties. Many hospitality establishments have closed their doors forever. Additionally, for the major cultural institutions of the city, and the government funds supporting them, there have been budget shortfalls that may take years to overcome.

Yet, with continued efforts on the part of the government, civic authorities and the people of Raleigh-Durham, the tourism industry is expected to make a full recovery and even exceed its pre-pandemic records. ■

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