

HUD PD&R Housing Market Profiles

Fargo, North Dakota-Minnesota



Quick Facts About Fargo

- Current sales market conditions: slightly tight
- Current apartment market conditions: balanced
- The city of Fargo, founded in 1871 by the Northern Pacific Railway at the point where the train tracks crossed the Red River, began as a center for trade. Since 2016, the wholesale and retail trade sector has declined, and the metropolitan area has become increasingly known as a regional hub for education and health services.

Fargo, North Dakota

By Heather Jones | As of January 1, 2022

Overview

The Fargo metropolitan area is bisected by the Red River and includes Cass County in North Dakota and Clay County in Minnesota. The principal city of Fargo, North Dakota, is bounded by the Red River and the city of Moorhead, Minnesota, to the east and by the city of West Fargo, North Dakota, to the west. Annual spring flooding of the Red River limits the amount of developable land around the urban regions of the metropolitan area.

- As of January 1, 2022, the estimated population of the Fargo metropolitan area was 256,900, up by an average of 3,275, or 1.4 percent, annually since 2015; by comparison, population growth averaged over 4,900 people, or 2.2 percent, a year from 2010 to 2015 (Census Bureau population estimates as of July 1 and estimates by the analyst).
- The slowdown in population growth since 2015 is primarily due to reduced net in-migration associated with moderating job gains, particularly in the mining, logging, and construction sector; the manufacturing

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sector; and the information sector. Net in-migration averaged 1,575 a year since 2015, down from the average of 3,075 from 2010 to 2015.

Economic Conditions

Rapid job growth in the Fargo metropolitan area during the early 2010s slowed in the latter half of the decade, before the 2020 recession. Job growth averaged 3.0 percent a year in the metropolitan area from 2010 through 2015 before slowing to an average of 1.3 percent annually from 2016 through 2019, contributing to the slower net in-migration. Oil production in North Dakota played a significant role in stimulating the state economy during the 2010s. In the Fargo metropolitan area, expansions in the mining, logging, and construction sector, the transportation and utilities sector, and the professional and business services sector led nonfarm payroll growth from 2010 through 2015, coinciding with the increase in oil production in other parts of the state. As the price of oil fell and production decreased, the Fargo metropolitan area also experienced a general trend of decline in the mining, logging, and construction sector, which averaged 8,800 jobs in 2019, down from a high of 9,500 jobs during 2015. In addition to spillover effects from a slowdown in oil production in other parts of North Dakota, a decrease in multifamily and commercial construction during the second half of the decade resulted in job declines in the sector. Nonfarm payrolls decreased 4.6 percent, or by 6,800 jobs, during 2020, due largely to COVID-19 countermeasures, but

- Net natural change, resident births minus resident deaths, slowed slightly since 2010, averaging 1,800 a year from 2010 to 2015 and 1,550 annually since 2015.

increased almost 4.6 percent, or by 6,400 jobs, during 2021 as the economy recovered. The metropolitan area is close to a full economic recovery, but most industries are still slightly below the prepandemic highs.

During the fourth quarter of 2021 —

- Nonfarm payrolls averaged 147,200 in the metropolitan area, an increase of 6,500 jobs, or 4.6 percent, from the fourth quarter of 2020, but were 0.2 percent below the average of 147,500 jobs during the fourth quarter of 2019. By comparison, nonfarm payrolls rose 4.3 percent nationally during the past year but remained 1.9 percent below the average during the fourth quarter of 2019.
- The leisure and hospitality sector, the hardest hit sector during the recent recession, led job growth, adding 2,600 jobs, 22.0 percent, and the number of jobs remained 200 below the average of 14,600 jobs during the fourth quarter of 2019.
- The transportation and utilities sector also registered strong growth, rising by 700 jobs, or 10.8 percent, during the past year and is one of three sectors in which jobs did not

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The full reopening of the Fargo metropolitan area economy in late 2020 contributed to job gains across 9 of the 11 sectors during the past year.

| | 3 Months Ending | | Year-Over-Year Change | |
|----------------------------------|------------------------------|------------------------------|-------------------------|---------|
| | December 2020 (Thousands) | December 2021 (Thousands) | Absolute (Thousands) | Percent |
| Total Nonfarm Payrolls | 140.7 | 147.2 | 6.5 | 4.6 |
| Goods-Producing Sectors | 19.3 | 20.2 | 0.9 | 4.7 |
| Mining, Logging, & Construction | 9.2 | 9.9 | 0.7 | 7.6 |
| Manufacturing | 10.1 | 10.3 | 0.2 | 2.0 |
| Service-Providing Sectors | 121.4 | 127.0 | 5.6 | 4.6 |
| Wholesale & Retail Trade | 24.0 | 23.9 | -0.1 | -0.4 |
| Transportation & Utilities | 6.5 | 7.2 | 0.7 | 10.8 |
| Information | 3.0 | 2.9 | -0.1 | -3.3 |
| Financial Activities | 11.8 | 11.9 | 0.1 | 0.8 |
| Professional & Business Services | 13.5 | 14.3 | 0.8 | 5.9 |
| Education & Health Services | 27.3 | 27.6 | 0.3 | 1.1 |
| Leisure & Hospitality | 11.8 | 14.4 | 2.6 | 22.0 |
| Other Services | 4.9 | 5.0 | 0.1 | 2.0 |
| Government | 18.8 | 19.8 | 1.0 | 5.3 |
| Unemployment Rate | 3.3% | 1.9% | | |

Note: Numbers may not add to totals due to rounding.

Source: U.S. Bureau of Labor Statistics



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decline during the 2020 recession. The sector has been a mainstay in the economy for the last two decades, largely because the metropolitan area is a transportation hub that has benefitted from job gains in the manufacturing and food processing sectors.

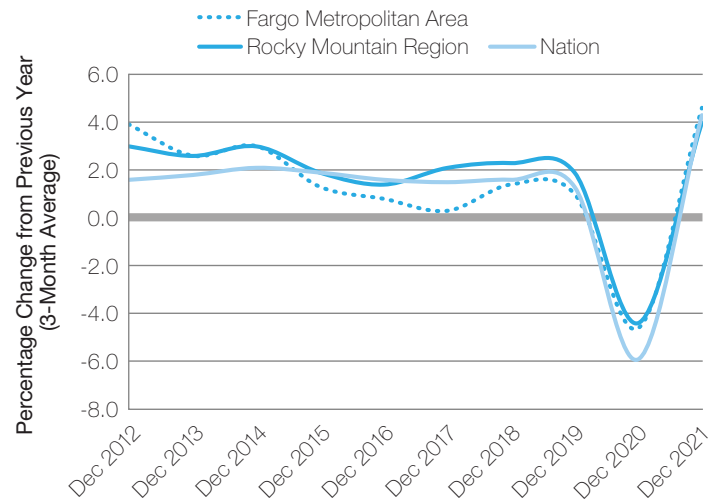
- The mining, logging, and construction sector increased from a year earlier, up 700 jobs, or 7.6 percent, compared with an increase of 100 jobs, or 1.5 percent, during the same period a year ago. The sector added jobs during each of the past 2 years largely due to gains in the construction subsector, which was deemed essential throughout the pandemic and benefited from increased residential development since 2020.
- The unemployment rate averaged 1.9 percent, down from 3.3 percent a year earlier and only slightly higher than the 1.7-percent rate during the same period of 2019, when the labor market was extremely tight. Strong gains in resident employment outpaced growth in the labor force, contributing to the declining unemployment rate.

Since 2000, the economy of the Fargo metropolitan area has generally shifted away from a dependence on the wholesale and retail trade sector, with the education and health services sector surpassing it as the largest sector during 2016. Strong gains in the education and health services sector continued from 2016 through 2019, during which the sector added an average of 1,000 jobs, or 3.9 percent, annually, the most of any sector in the metropolitan area. Sanford Medical Center Fargo, a new level one trauma hospital completed in 2017, was partially responsible for the significant job growth in the education and health services sector. By comparison, the wholesale and retail trade sector decreased by an average of 200 jobs, or 0.2 percent, annually during the period.

Sales Market Conditions

The home sales market in the Fargo metropolitan area is slightly tight, largely due to a decline in for-sale inventory during the past year, with a current vacancy rate of 1.6 percent, down from 1.9 percent in 2010. During 2021, the metropolitan area had 6,200 active for-sale listings, compared with 7,100 in 2020 (Fargo-Moorhead Area Association of REALTORS®). Supply constraints associated with inputs such as lumber and appliances—coupled with social distancing measures hindering worker productivity—have extended the construction time for new homes and contributed to the decline in for-sale inventory since the start of the pandemic. In addition to longer construction timelines, the price of construction materials recently increased. Nationally, the price of construction materials increased almost 20 percent in 2021 compared with 2020 (Associated General Contractors of America).

During the COVID-19 pandemic, nonfarm payroll jobs in the Fargo metropolitan area declined at a faster rate than in the Rocky Mountain region, but at a slower rate than the nation.



Source: U.S. Bureau of Labor Statistics

Largest Employers in the Fargo Metropolitan Area

| Name of Employer | Nonfarm Payroll Sector | Number of Employees |
|-------------------------------|-----------------------------|---------------------|
| Sanford Health | Education & Health Services | 8,651 |
| Essentia Health | Education & Health Services | 5,141 |
| North Dakota State University | Government | 4,363 |

Note: Excludes local school districts.

Source: Fargo Moorhead West Fargo Chamber

During 2021 —

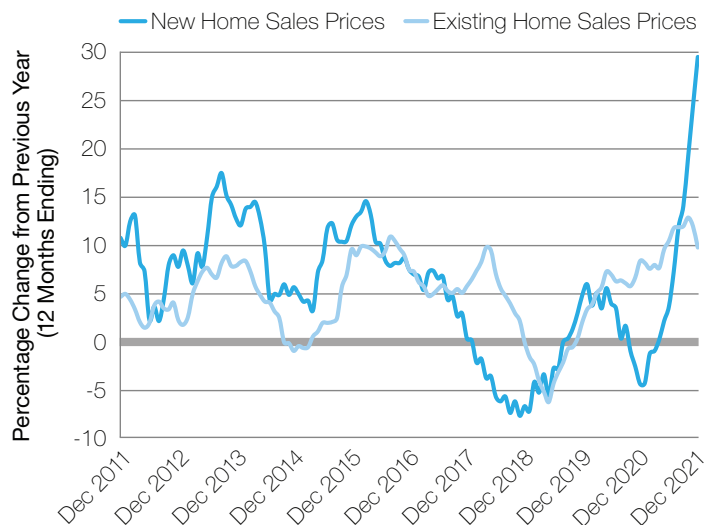
- Existing home sales totaled 5,100 homes, a 3-percent increase from 2020, and the average sales price of an existing home increased 10 percent, to \$264,200, during the same period.
- New home sales decreased 39 percent from 850 homes during 2020 to only 520 homes sold in 2021. Significant price increases contributed to lower sales, with prices rising 29 percent to an average sale price of \$422,500.
- The percentage of home loans in Fargo that were seriously delinquent (90 or more days delinquent or in foreclosure) or transitioned into real estate owned (REO) status was 1.4 percent in December 2021, down from 2.8 percent in December 2020 but above the 0.9-percent rate in

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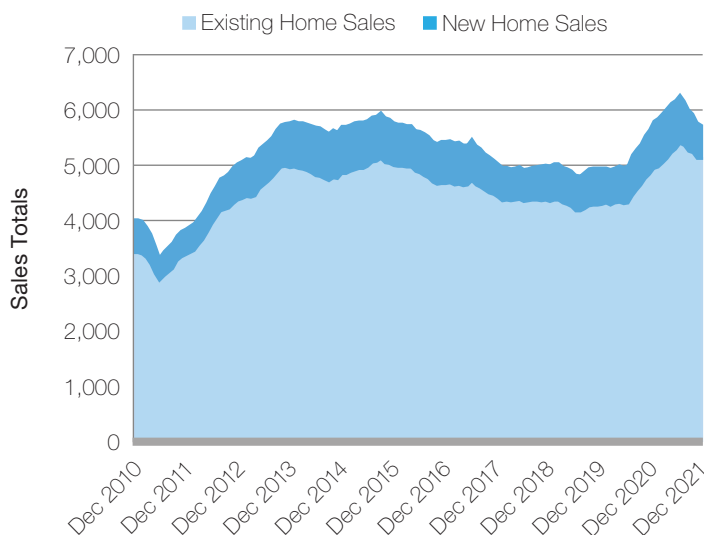
December 2019 (CoreLogic, Inc.). The rise in the rate partly reflects an increase in the number of loans in forbearance, as the economic contraction during the COVID-19 pandemic made it more difficult for some homeowners to stay current on their mortgage payments. The current rate for the

Growth in the average new and existing home sales prices in the Fargo metropolitan area accelerated during the past year at a much faster rate in the new home market.



Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc.

New and existing homes sales in the Fargo metropolitan area declined in 2021 compared with the previous year, primarily due to low inventory available for sale and increasing prices.



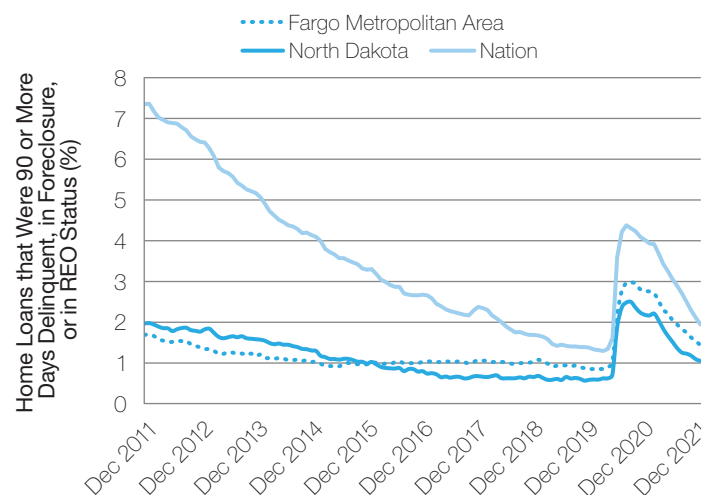
Note: Includes single-family homes, townhomes, and condominiums.
Source: CoreLogic, Inc.

metropolitan area is above the 1.1-percent rate for North Dakota and below the 2.0-percent rate for the nation.

New home sales construction activity—measured by the number of single-family homes, townhomes, and condominiums

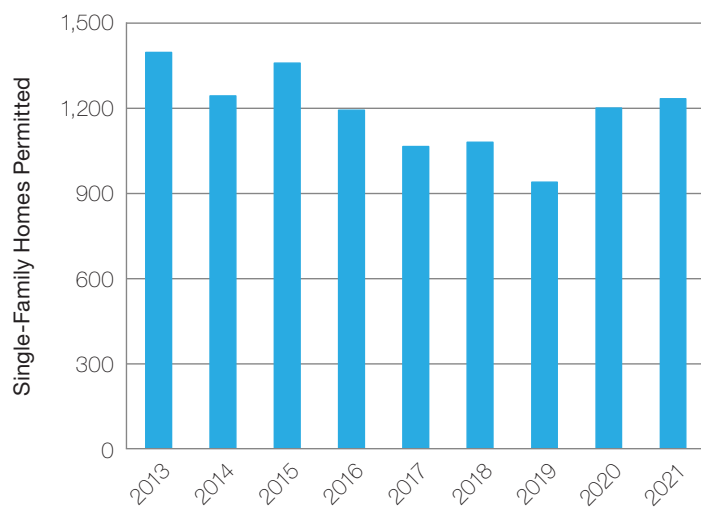
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The share of seriously delinquent home loans and REO properties in the Fargo metropolitan area increased substantially in mid-2020, mostly due to an increase in forbearances, following more than 9 years of very low rates.



REO = real estate owned.
Source: CoreLogic, Inc.

Single-family permitting activity in the Fargo metropolitan area has been relatively stable over the last decade, increasing during each of the past 2 years.



Sources: U.S. Census Bureau, Building Permits Survey; 2000–2020 final data and estimates by the analyst; 2021—preliminary data and estimates by the analyst

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permitted (hereafter, homes)—rose during the past 2 years as sales market conditions tightened. Recent development activity has been concentrated on the south side of the city of Fargo, where developable land is more readily available than in other parts of the metropolitan area, particularly in areas near schools, parks, open spaces, and ponds.

- The number of single-family homes permitted was 1,225 during 2021, up 3 percent from a year ago (preliminary data).
- After 1,400 homes were permitted during 2013, the number of homes permitted in the metropolitan area declined during 4 of the next 6 years, to only 940 in 2019.

Apartment Market Conditions

Apartment market conditions are balanced in the Fargo metropolitan area, with relatively low levels of multifamily construction contributing to rent growth and declining vacancy rates since the late 2010s. By comparison, relatively high levels of multifamily construction contributed to soft market conditions in the mid-2010s; many of those units have been absorbed, bringing the market into balance.

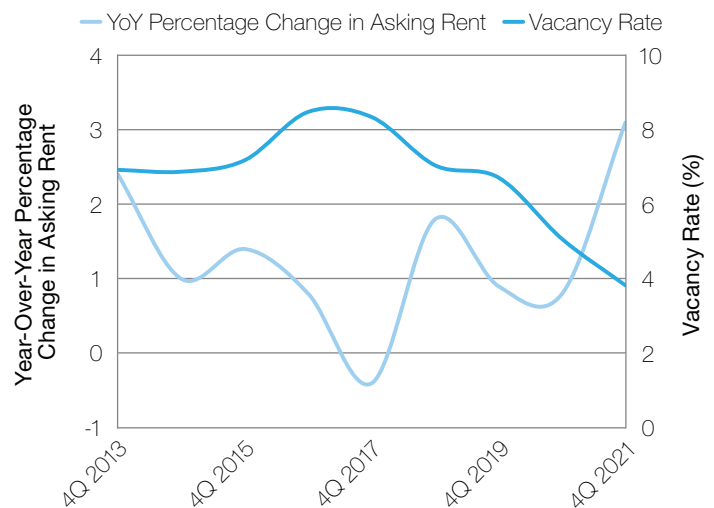
During the fourth quarter of 2021 —

- The vacancy rate in the metropolitan area was 3.8 percent, down from 5.0 percent a year earlier (CoStar Group). By comparison, the apartment vacancy rate fluctuated between 7.0 percent and 8.5 percent from the fourth quarter of 2015 through the fourth quarter of 2018, when the apartment market was soft.
- The average rent in the metropolitan area increased to \$866, a 3-percent increase from a year ago. Following a modest decline during the fourth quarter of 2017, the average rent has since increased each year as the apartment vacancy rate has declined.
- An average of 1,025 apartment units have been absorbed each year in the metropolitan area since 2015, and net deliverables for the same period averaged 870 units annually; units constructed and delivered earlier in the decade are only now being absorbed.

Multifamily construction activity, measured by the number of multifamily units permitted, decreased almost every year since 2014, when 2,525 units were permitted, but has started to increase in the past 2 years as the market has responded to a sharp decline in the apartment vacancy rate. Many of the new developments were located near the new Sanford Medical Center. As these new units were completed, it became apparent that the market was not able to support the supply,

- Construction will begin in the spring of 2022 on the sixth phase of the Golden Valley community in the city of Fargo. The latest phase of this development, on the west side of 25th Street South and 70th Avenue South, will have 30 single-family homes; lot prices range from \$50,000 to \$90,000, and each buyer can choose their own contractor for construction.

Relatively slow multifamily permitting in the Fargo metropolitan area has contributed to declining vacancy rates and rising rents since the late 2010s.



4Q = fourth quarter. YoY = year-over-year.

Source: CoStar Group

and vacancy rates rose. In 2021, vacancy rates indicated the market had come back into balance.

- During 2021, 1,050 multifamily units were permitted in the metropolitan area, up by 280 units, or 37 percent from a year ago (preliminary data).
- Multifamily permits reached a recent peak in 2014, with 2,525 units permitted, but subsequently declined during the next 4 years, reaching a low of only 490 units during 2019.
- Churches United and Beyond Shelter, Inc. have partnered to build a 36-unit senior living complex, Silver Lining Apartments, in the city of Moorhead next to the Bright Sky Apartments, another permanent supportive housing solution.

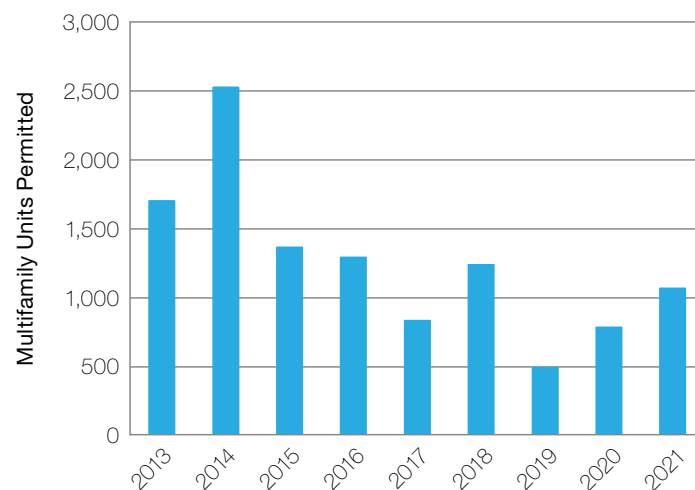
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The facility will provide housing and additional support services for seniors 55 years and older; the property is expected to be completed in spring 2023.

- Enclave recently broke ground on a 127-unit apartment complex in the city of Moorhead, west of Red River and south of Interstate 94. The complex is part of a mixed-use plan that will eventually include retail and some affordable units and is expected to be completed in the fall.

After peaking in 2014, multifamily permitting activity in the Fargo metropolitan area generally trended downward during the remainder of the decade, increasing during the past 2 years.



Sources: U.S. Census Bureau, Building Permits Survey; 2000–2020 final data and estimates by the analyst; 2021—preliminary data and estimates by the analyst