ULI Triangle
Housing and Real Estate Trends

Trends in Housing
Affordability in Triangle
HR&A is an economic development and real estate consulting firm working at the intersection of the public and private sectors.
We approach and understand affordability issues at three comprehensive, mutually reinforcing levels.

**HOUSING STRATEGIES**
Analyzing local housing market conditions

**HOUSING POLICIES AND PROGRAMMING**
Designing solutions that align public and private interests

**HOUSING TRANSACTIONS**
Advising on the development and preservation of housing
1. Affordability Key Terms

2. Indicators of Affordability Challenges

3. Drivers of Affordability Challenges
1. Affordability Key Terms

2. Indicators of Affordability Challenges

3. Drivers of Affordability Challenges
Area Median Income (AMI) is a metric used to benchmark and understand local need and affordability.

- Determined as midpoint in distribution of household incomes within a geographic region
- Provided annually by HUD* for different household sizes (1- to 8-person)
- Used to determine eligibility for income-restricted housing programs

### Raleigh MSA AMI Levels 2018

<table>
<thead>
<tr>
<th>AMI Level</th>
<th>30%</th>
<th>50%</th>
<th>60%</th>
<th>80%</th>
<th>100% (median)</th>
<th>120%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income for a 4-person household</td>
<td>$25,300</td>
<td>$42,150</td>
<td>$50,600</td>
<td>$67,500</td>
<td>$84,300</td>
<td>$101,200</td>
</tr>
</tbody>
</table>

*U.S. Department of Housing and Urban Development  
Source: HUD  
HR&A Advisors, Inc.
In the Raleigh MSA, approximately 70% of households earn less than 120% of AMI.

<table>
<thead>
<tr>
<th>AMI Level</th>
<th>Raleigh MSA Household Distribution by AMI Level 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 30%</td>
<td>71,800</td>
</tr>
<tr>
<td>30 - 50%</td>
<td>59,300</td>
</tr>
<tr>
<td>50 - 60%</td>
<td>39,200</td>
</tr>
<tr>
<td>60 - 80%</td>
<td>55,600</td>
</tr>
<tr>
<td>80 - 100%</td>
<td>45,300</td>
</tr>
<tr>
<td>100 - 120%</td>
<td>42,000</td>
</tr>
</tbody>
</table>

Overall Median:
- $25,300 (0 - 30%)
- $42,150 (30 - 50%)
- $50,600 (50 - 60%)
- $67,500 (60 - 80%)
- $84,300 (80 - 100%)
- $101,200 (100 - 120%)

Source: U.S. Census; HR&A Analysis
HR&A Advisors, Inc.
“Affordable housing” can have a variety of meanings in different jurisdictions. There are three common terms that align with the income bands they each typically serve.

<table>
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<tr>
<th>AMI Level</th>
<th>0 - 30%</th>
<th>30 - 50%</th>
<th>50 - 60%</th>
<th>60 - 80%</th>
<th>80 – 100%</th>
<th>100 - 120%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing Type</td>
<td>Public Housing</td>
<td>Affordable Housing</td>
<td>Workforce Housing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
“Cost burden” is a measure of unaffordability that can apply to both renters and homeowners, at all income levels.

Per commonly-used HUD definitions:

- Cost-burdened households spend more than 30% of income on housing
- Severely cost-burdened households spend more than 50% on housing
Providing housing at different densities can add needed housing supply while better fitting the preferences and income levels of households.

Single-Family Detached Home

Townhomes and Small Multifamily (2 – 40 units)

Large Multifamily (40+ units)

The “Missing Middle”: an opportunity to add supply
1. Affordability Key Terms

2. Indicators of Affordability Challenges

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Homeownership rates have fallen to historic lows (albeit from historic highs).

National Share of Homeowner Households
2000 – 2017

Source: U.S. Census; Federal Reserve Economic Data; HR&A Analysis
HR&A Advisors, Inc.
For the nation’s renter households, housing affordability in has severely worsened.

Source: American Community Survey 5-Year Estimates; HR&A Analysis
Note: Cost-burdened households are commonly defined as those spending over 30% of household income on housing.
Notably, renters have become cost-burdened across the nation, outside of traditionally high-cost markets...

**Share of Renter Households with Cost Burdens**

2017

Source: Harvard Joint Center for Housing Studies

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...and cost burdens have increased rapidly for middle-income renters.

Share of Renter Households with Cost Burdens, by Income Bracket
2000 – 2016

Source: American Community Survey 5-Year Estimates; HR&A Analysis
HR&A Advisors, Inc.
The increase in cost burden is a direct result of two trends: real renter incomes have been stagnant or falling, while real rents have risen.

Source: American Community Survey 5-Year Estimates; HR&A Analysis
HR&A Advisors, Inc.

*Based on 30% of median monthly renter household income
In Wake County, the rate of growth in housing costs for rental housing has outpaced income growth.

**Growth in Housing Cost Relative to Income (indexed; nominal)**

- **2000 – 2016**

- **Rental Housing**
- **Median Household Income**

- **Percentage Point Increase In Growth 2000 – 2016**
  - **Cost of Rental Housing**: 42%
  - **Median Household Income**: 26%

*Source: U.S. Census; CoStar Group; Zillow; HR&A Analysis*

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1. Affordability Key Terms

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Rents have risen in the past two decades for three main reasons.

1. RISING DEVELOPMENT COSTS
   
   Increase rents necessary to support development
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2. **DECLINING PUBLIC FUNDING**
   - Limits production and preservation of deeply affordable units
Rents have risen in the past two decades for three main reasons.

1. RISING DEVELOPMENT COSTS
   Increase rents necessary to support development

2. DECLINING PUBLIC FUNDING
   Limits production and preservation of deeply affordable units

3. SUPPLY-DEMAND MISMATCH
   Intensifying competition due to supply shortage and greater willingness to pay
Both hard and soft costs to development rose significantly from 2000 to 2016.

Real Hard Costs PSF
United States

$83

+$57% 

$130

2000 2016

Real Land Costs
United States

1.00
(indexed)

1.57

2000 2016

Source: Craftsman Cost Data; Lincoln Institute; HR&A Analysis
HR&A Advisors, Inc.
Rising development costs worsen affordability directly by forcing up the rents necessary to develop new housing.
Federal funding for income-restricted affordable housing has steadily decreased.

Source: Housing of Urban Development; HR&A Analysis

HR&A Advisors, Inc.
Demand for rental housing has grown by a third since 2000.

Growth in Renter Households
United States
2000 – 2017

+ 33%

Source: Federal Reserve Economic Data; HR&A Analysis
HR&A Advisors, Inc.
At the same time, the supply of subsidized affordable housing is expected to rapidly decline, assuming a continued lack of both new development and preservation.

### Cumulative Publicly Assisted Units with Expiring Subsidies (Millions)

**United States**

2017 – 2027

Source: Harvard Joint Center for Housing Studies; U.S. Census; HR&A Analysis

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In Wake County, nearly 9,000 publicly assisted units could lose their affordability provisions in the next 20 years.

Source: National Housing Preservation Database; HR&A Analysis
HR&A Advisors, Inc.
In addition to needing subsidized housing, low-income renters also rely upon affordable, unsubsidized housing: NOAH.

“Naturally Occurring” Affordable Housing, or NOAH, refers to rental housing that is affordable to low-income renters despite being unsubsidized by any government programs. This housing tends to be older, lower-quality housing in less-desirable neighborhoods.

Source: National Housing Preservation Database; HR&A Analysis
This supply of “naturally affordable” market-rate housing is declining nationally.

NOAH is not actually “naturally occurring.” It is the result of filtering in the market as properties age. When housing supply becomes tight, the filtering process slows or stops. As a result, NOAH units may be “lost” to rent growth when rents for aging product are pushed higher in supply-constrained markets. Units may also be lost to obsolescence.

**Net Decrease in NOAH Units**

United States
2000 - 2016

1.3 Million

Source: U.S. Census; HR&A Analysis
HR&A Advisors, Inc.
In Q1 2017, Wake County had 9,800 NOAH units.

Map of NOAH Units
Wake County
2017

Source: CoStar Group; HR&A Analysis
Note: Map shows 1-bedroom units at $766 or below. Rent limit set to reflect maximum monthly rent affordable to a two-person household at 50% AMI.
HR&A Advisors, Inc.
3. Supply-Demand Mismatch

80% of these NOAH units are located in areas with higher-than-average poverty rates, relative to the county overall.

NOAH Units in Census Tracts with Poverty Rates Above County Average
Wake County 2017

Source: CoStar Group; HR&A Analysis
Note: Map shows 1-bedroom units at $766 or below. Rent limit set to reflect maximum monthly rent affordable to a two-person household at 50% AMI.
HR&A Advisors, Inc.
Most of these units are in garden-style apartment buildings built 30 – 50 years ago.

Source: CoStar Group; HR&A Analysis

Note: Measure of 1-bedroom units at $766 or below. Rent limit set to reflect maximum monthly rent affordable to a two-person household at 50% AMI.

HR&A Advisors, Inc.
As a result, the local “gap” between supply and demand for affordably priced housing is expected to grow by over 4,000 units per year.

Projected Housing Gap for Households At or Below 50% AMI
Wake County
2015 – 2035

*These projected rates are mitigated by efforts such as preservation and new development of affordable housing, outsized income growth, or displacement of low-income households.

Note: Low-income is defined as 50% of AMI or $39,400 for a four-person household based on HUD’s 2015 income limits for Wake County.
For additional information, contact:

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Housing is a Regional Issue

- TJCOG Board of Delegates identified Transportation & Housing as top priority regional issues in 2016.
- Input at the 2017 TJCOG Regional Summit brought up the same themes:

**Identifying Challenges**

Two generations from now, what challenges do you hope will be overcome in this region?

* Access & Equity of Education
Commuting Patterns

- There are approximately 900,000 workers that live within the seven Triangle J counties.
- Almost **235,000** of them, or **26%**, work in a different county from where they live.
- More than **half** of residents in Chatham and Johnston counties work in another county.

Proportion of workers who work outside their county of residence
Data Source: 2012-2016 American Community Survey
Housing Stock
Chatham, Durham, Johnston, Orange, & Wake Counties

There are over 680,000 homes in the Triangle, 37% of which are rented.

61% of households are 1-and-2-person households, yet just one-third of housing units are 1 and 2-bedroom units. There are limited options for those who want smaller homes.

Data Source: 2012-2016 American Community Survey
Population Growth vs. Building Permits
Chatham, Durham, Johnston, Orange, & Wake Counties

Data from the American Community Survey 5-Year Estimates and U.S. Census Bureau Building Permit Survey

Total new units: 94,068
Total new households: 91,352
Difference: 2,716
Projected Population Growth
Chatham, Durham, Johnston, Orange, & Wake Counties

- Currently **1.7 million** people live in the five counties.
- By 2045, we expect the population will grow to **2.8 million**.
- Will mean an additional **400,000 households**

Data from the NC OSBM 2016 estimates, Connect 2045 population projections
Q: Of residential units that received a building permit over the past six years, what proportion are for units in larger apartment buildings (5+ units)?

A. 12%
B. 25%
C. 31%
D. 43%
Building Permits by Housing Type
Chatham, Durham, Johnston, Orange, & Wake Counties

- Larger apartments generally make up around 30% of new units permitted in a year
- Missing middle housing types, or 2-4 units, make up less than 1% of new units

Data from the U.S. Census Bureau Building Permit Survey
Rapid Increase in Housing Values, 2004-2015

Source: https://www.washingtonpost.com/graphics/business/wonk/housing/overview/
Job and earnings growth

The region has seen high growth in low-paying jobs, but low wage gains in those low-paying jobs.

Growth in Jobs and Earnings by Industry Wage Level, 1990 to 2012

Source: U.S. Bureau of Labor Statistics; Woods & Poole Economics, Inc. Universe includes all jobs covered by the federal Unemployment Insurance (UI) program.
154,000 low- and moderate-income households (64%) are housing cost burdened across the region.

Data from the 2012-2016 American Community Survey
Median Rent & Affordability Thresholds
Chatham, Durham, Orange, & Wake Counties

Data from the 2017 Out of Reach Report, and the DataWorks NC 2017 Triangle Rent Summary

Rent affordable at:
- Median income
- 80% of AMI
- 50% of AMI
- 30% of AMI

Durham-Chapel Hill HMFA
- $1,833
- $1,466
- $916
- $550

Raleigh-Cary MSA
- $2,005
- $1,604
- $1,003
- $602
Affordable Rental Units
Chatham, Durham, Johnston, Orange, & Wake Counties

Q: What proportion of rental units in the five counties have legally-binding affordability restrictions (income-based rents)?

A. 5%
B. 11%
C. 18%
D. 24%
Affordable Rental Units
Chatham, Durham, Johnston, Orange, & Wake Counties

- LBAR units make up **11%** of all rental units
- NOAH units make up **41%** of all rental units

Units considered affordable if affordable to at or below 80% AMI based on household size/number of bedrooms.

Data sources: National Housing Preservation Database, CoStar, local government and nonprofit housing providers
Thank You

Resources: www.tjcog.org/housing.aspx

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Why Does it Matter?

Bill King, Downtown Raleigh Alliance
Commuting times and congestion

- There are approximately 900,000 workers that live within the seven Triangle J counties.
- Almost 235,000 of them, or 26%, work in a different county from where they live.
- More than half of residents in Chatham and Johnston counties work in another county.
Commuting times and congestion

1,000-home development gaining steam south of Fuquay-Varina

Local

America’s fastest-growing suburb is in the Triangle
Public Health + Educational Attainment

- Longer commutes = less physical activity
- Asthma, exposure to toxins from substandard and old housing
- More opportunity for green building to reduce energy costs
- Housing security can reduce stress and improve mental health and educational attainment
- Lower housing costs = more spending on other needs
- Better neighborhoods mean more walking and access to amenities
Neighborhood Effects

• Displacement

• Concentration of poverty can lead to isolation and limited economic mobility

• Homogenous communities are less dynamic

• More housing can slow rent growth
Rent Growth

1,803 units added in 20 months

Source: Integra Realty Resources
**Economic Development**

- Cost of living is powerful attraction for employers
- Housing availability matters to employers
- Growth will continue

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**Amazon’s HQ2 Could Worsen The Housing Crisis, New Report Says**

The Urban Institute concludes we'll need 267,000 additional residences by 2025 to keep up

**7 horrible things that could happen to cities if they win Amazon's HQ2 bid**

Is Raleigh’s housing market good enough for Amazon’s HQ2? Zillow says maybe.
Economic Development

Only the Triangle, Atlanta, Boston, NYC, Los Angeles, Washington D.C., and Chicago have three Tier-1 Research Universities in one metropolitan region.
Future
Future
Thank You!

Questions?