

# **ULI Triangle Housing and Real Estate Trends**

## **Trends in Housing Affordability in Triangle**





Image Source: Wake Up Wake County

# KEY TRENDS IN HOUSING AFFORDABILITY

Kyle Vangel, HR&A Advisors

November 8, 2018

HR&A  
Analyze. Advise. Act.



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.

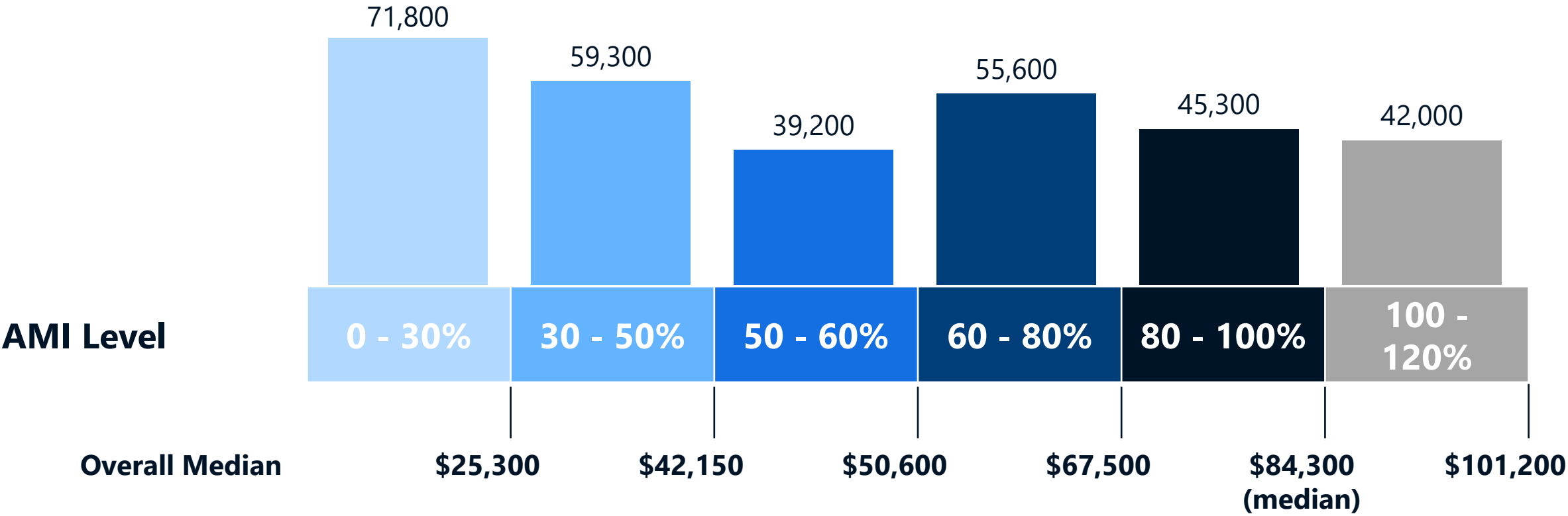
- Determined as midpoint in distribution of household incomes within a geographic region
- Provided annually by HUD\* for different household sizes (1- to 8-person)
- Used to determine eligibility for income-restricted housing programs

Raleigh MSA AMI Levels 2018						
AMI Level	30%	50%	60%	80%	100% (median)	120%
Income for a 4- person household	\$25,300	\$42,150	\$50,600	\$67,500	\$84,300	\$101,200

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

Raleigh MSA Household Distribution by AMI Level  
2018



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.

Housing Type by Incomes Typically Served

AMI Level	0 - 30%	30 - 50%	50 - 60%	60 - 80%	80 – 100%	100 - 120%
Housing Type	Public Housing					
	Affordable Housing					
				Workforce Housing		

“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)

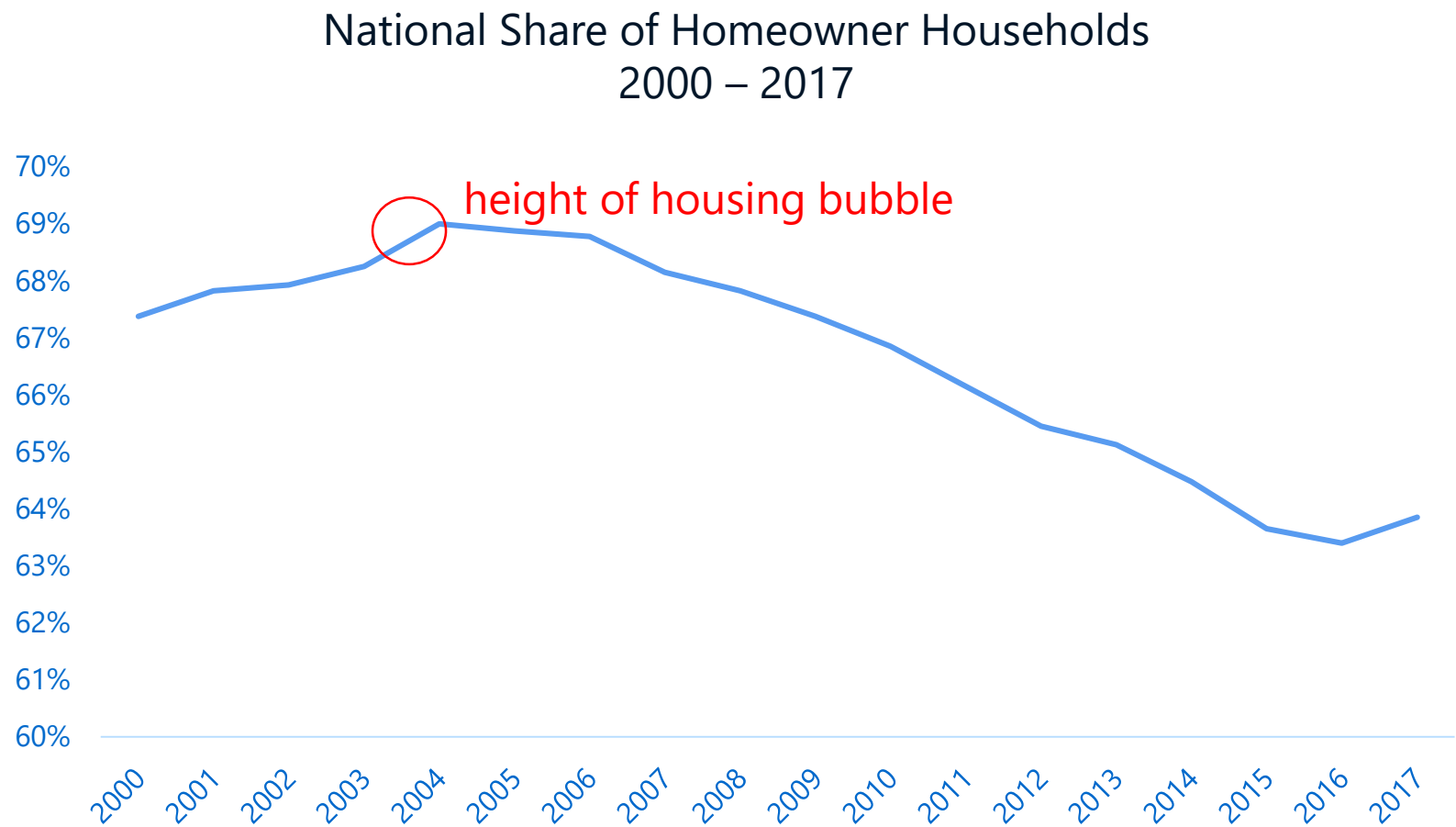


The “Missing Middle”:  
an opportunity to add supply

1. Affordability Key Terms
2. Indicators of Affordability Challenges
3. Drivers of Affordability Challenges

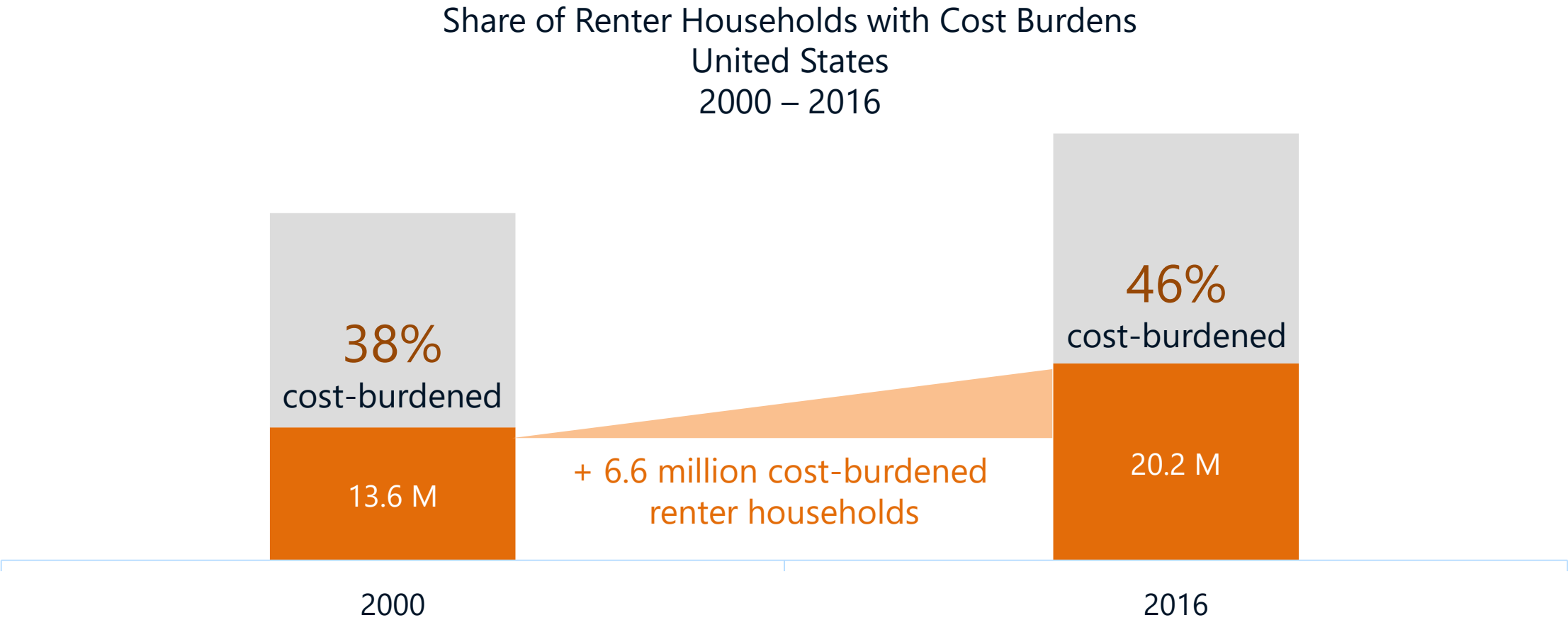


Homeownership rates have fallen to historic lows (albeit from historic highs).



Source: U.S. Census; Federal Reserve Economic Data; HR&A Analysis  
HR&A Advisors, Inc.

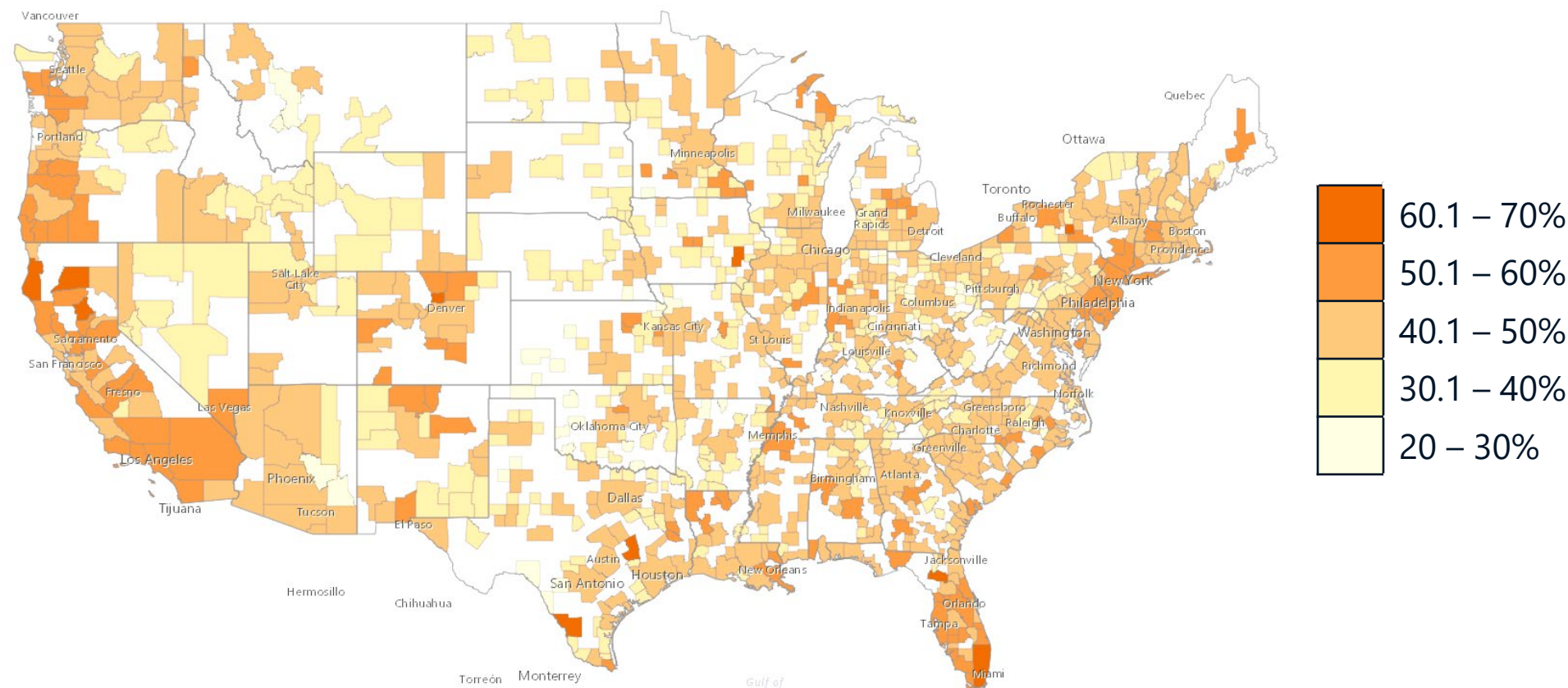
For the nation's renter households, housing affordability in has severely worsened.



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.  
HR&A Advisors, Inc.

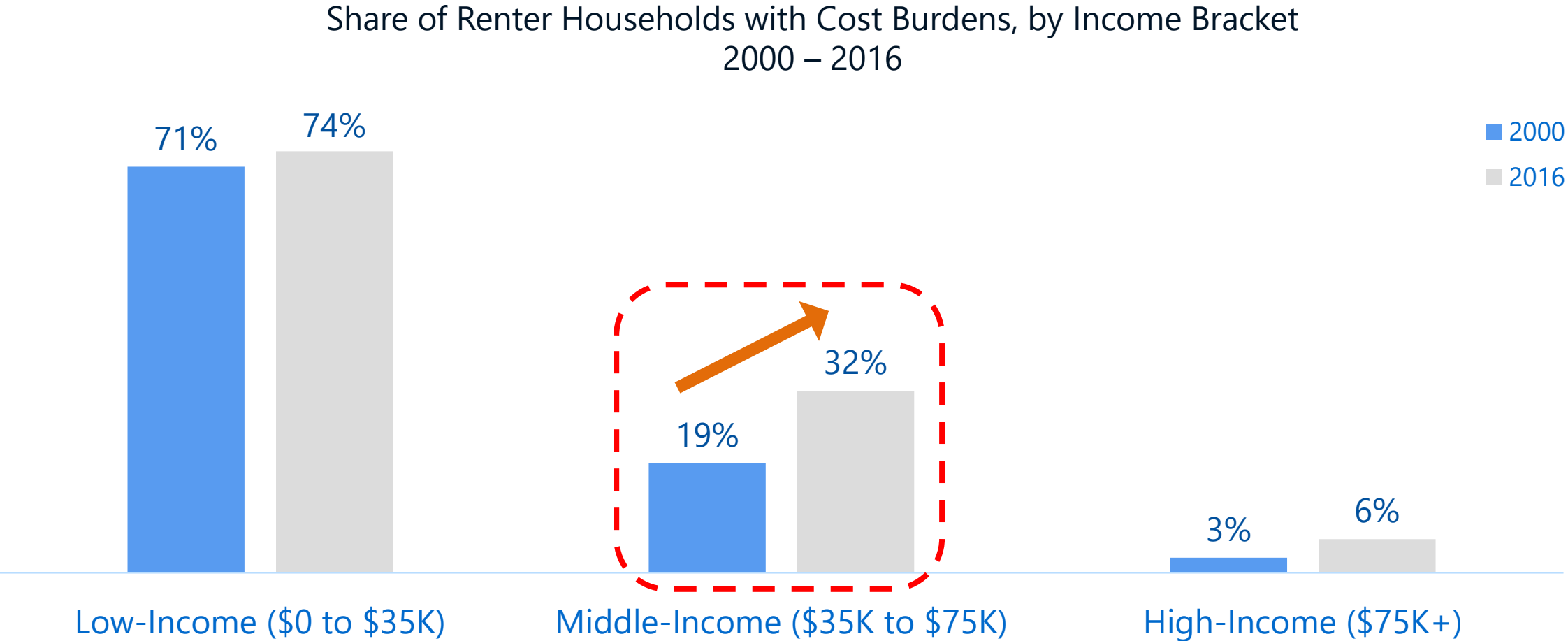
Notably, renters have become cost-burdened across the nation, outside of traditionally high-cost markets...

Share of Renter Households with Cost Burdens  
2017



Source: Harvard Joint Center for Housing Studies  
HR&A Advisors, Inc.

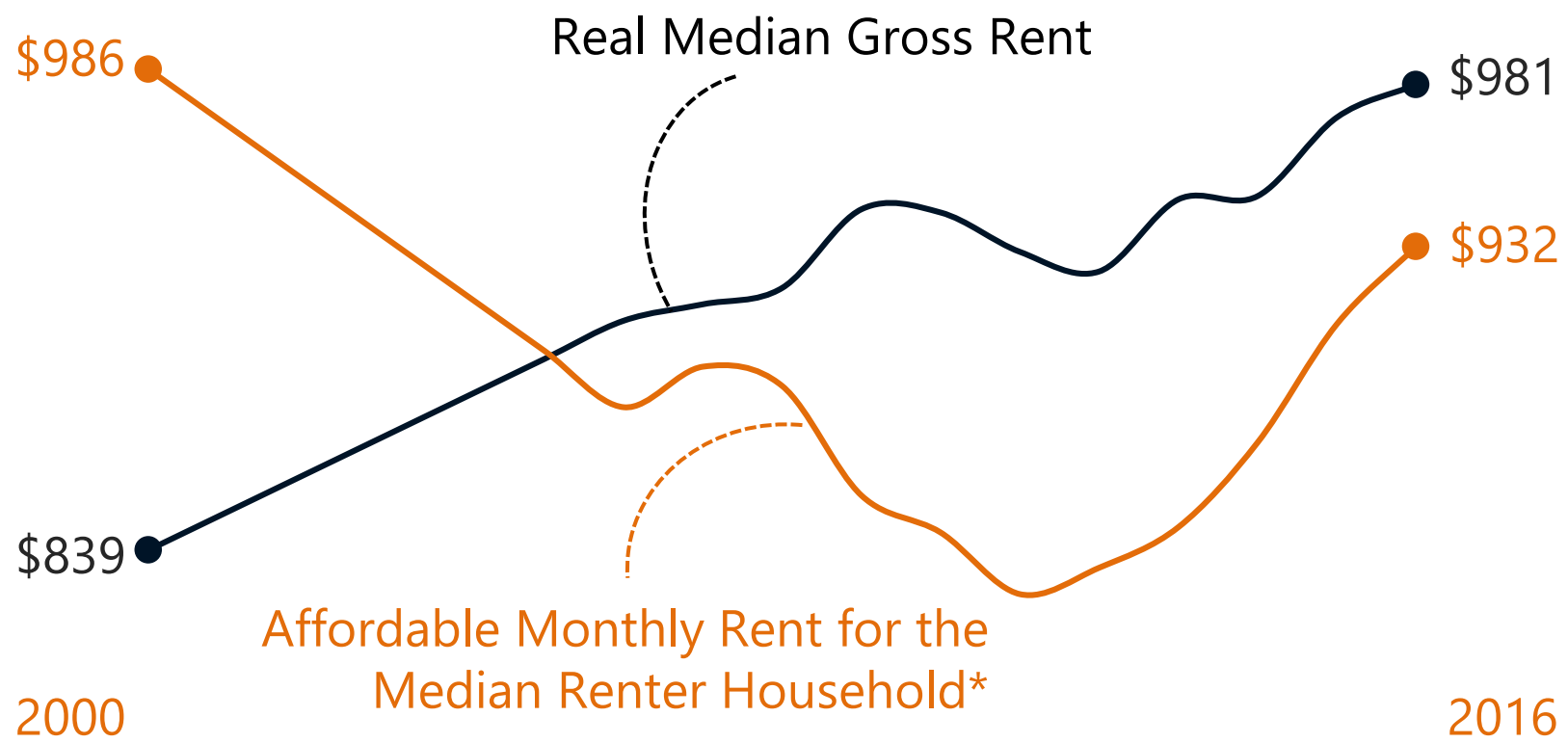
...and cost burdens have increased rapidly for middle-income renters.



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



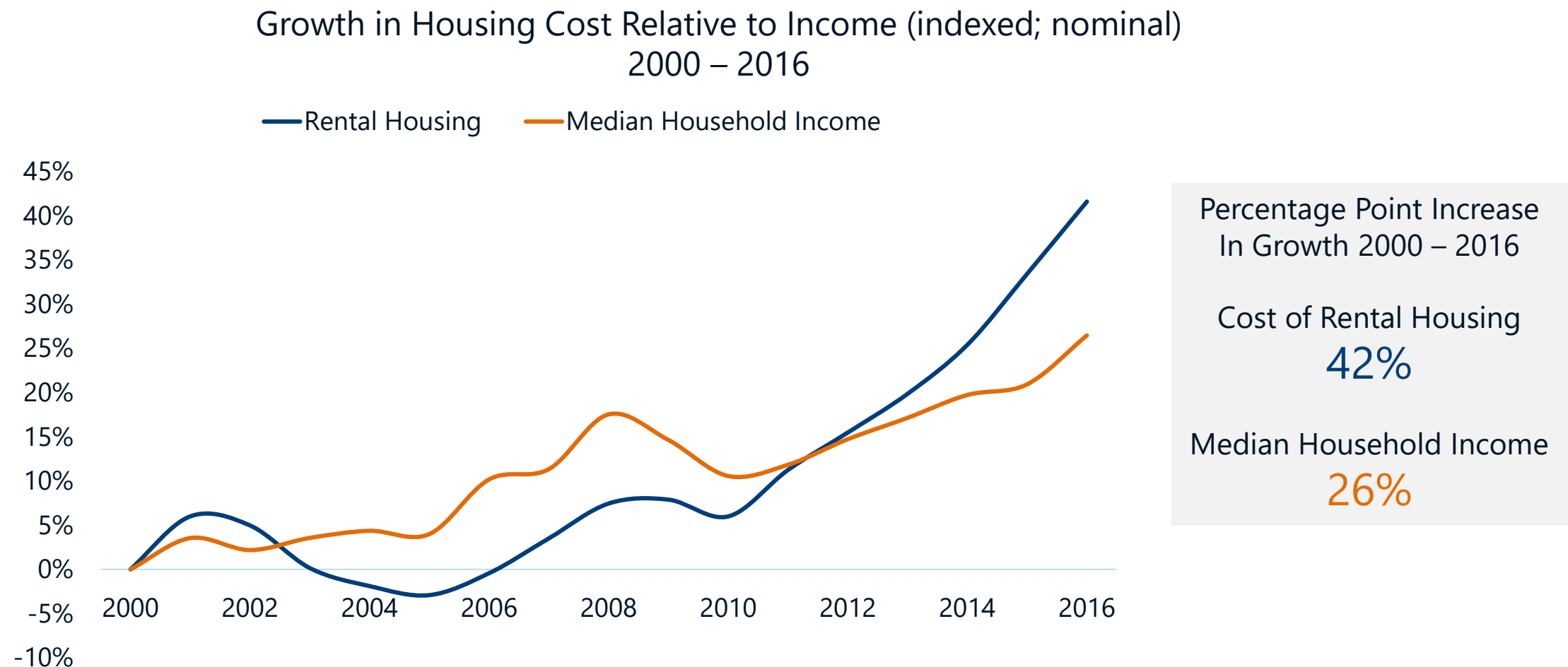
The increase in cost burden is a direct result of two trends: real renter incomes have been stagnant or falling, while real rents have risen.



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

\*Based on 30% of median monthly renter household income  
Urban Land Institute | 17

In Wake County, the rate of growth in housing costs for rental housing has outpaced income growth.



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

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1. Affordability Key Terms
2. Indicators of Affordability Challenges
3. Drivers of Affordability Challenges

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  
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**Limits production and  
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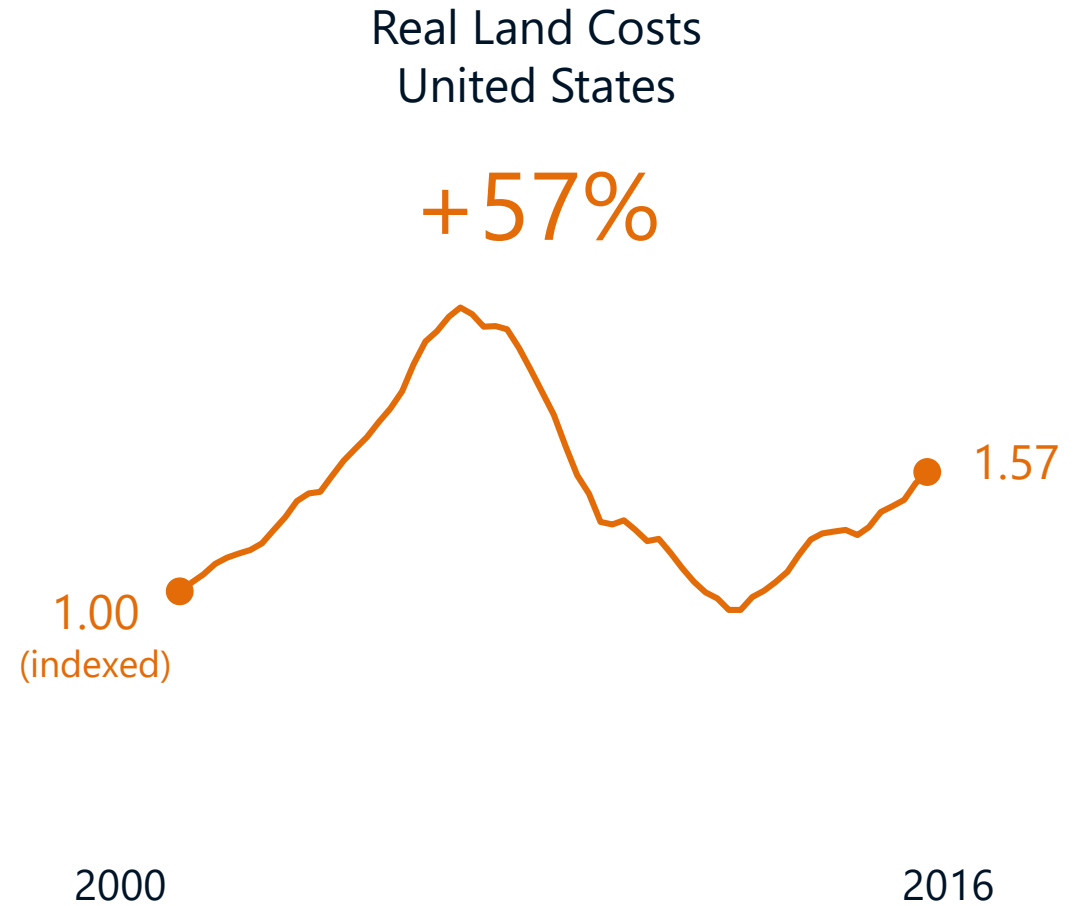
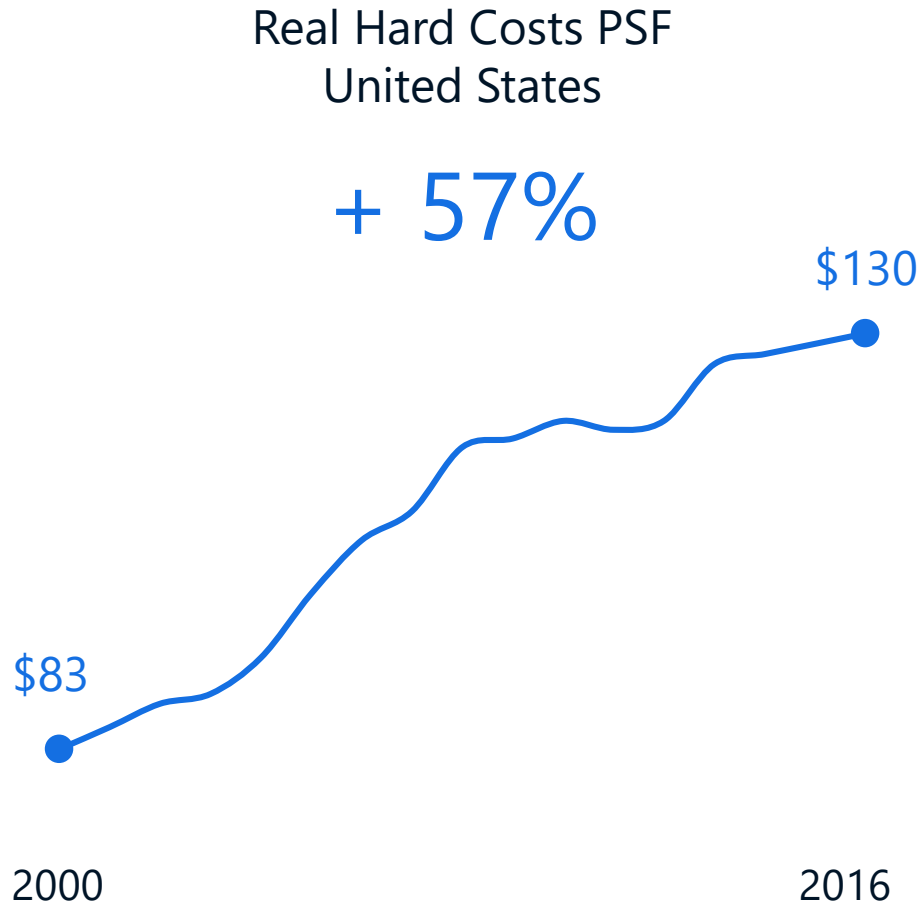
Limits production and  
preservation of deeply  
affordable units

3. SUPPLY-DEMAND  
MISMATCH

**Intensifying competition due  
to supply shortage and  
greater willingness to pay**

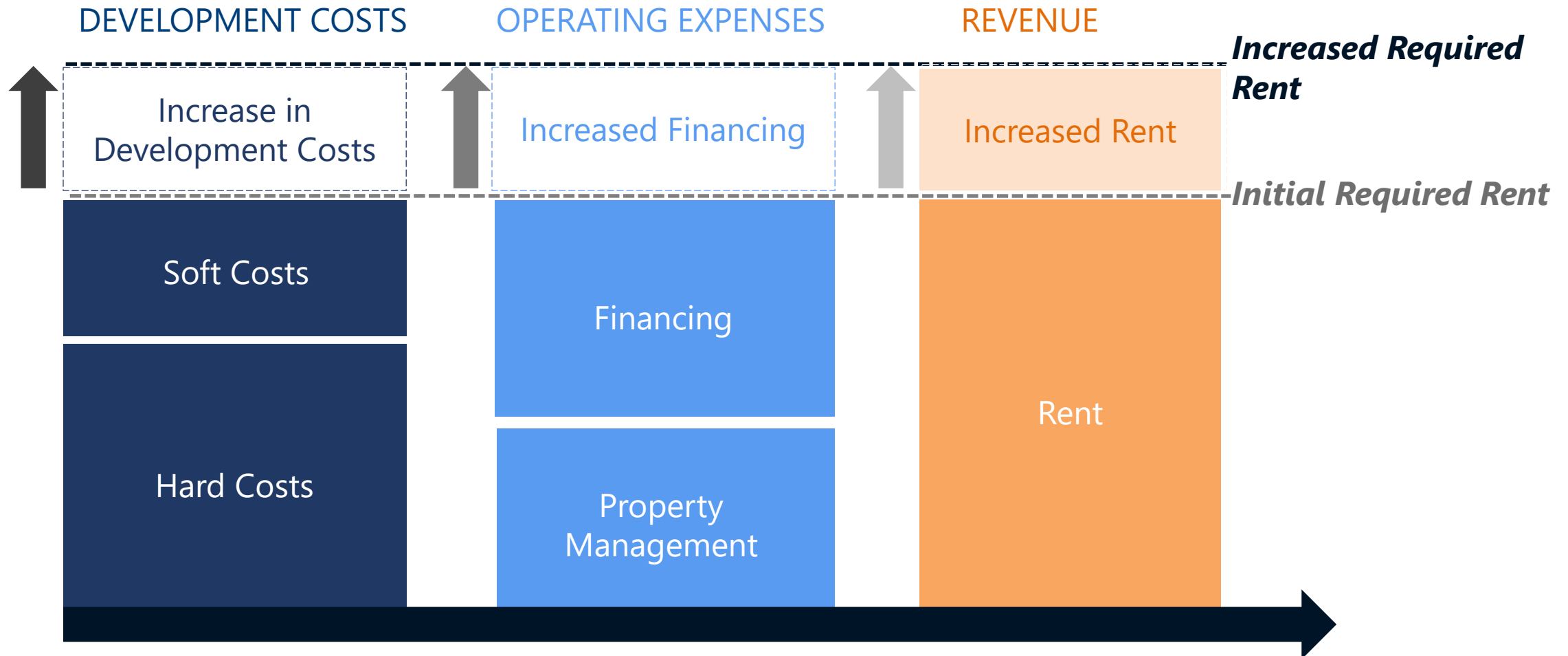
## 1. Rising Development Costs

Both hard and soft costs to development rose significantly from 2000 to 2016.

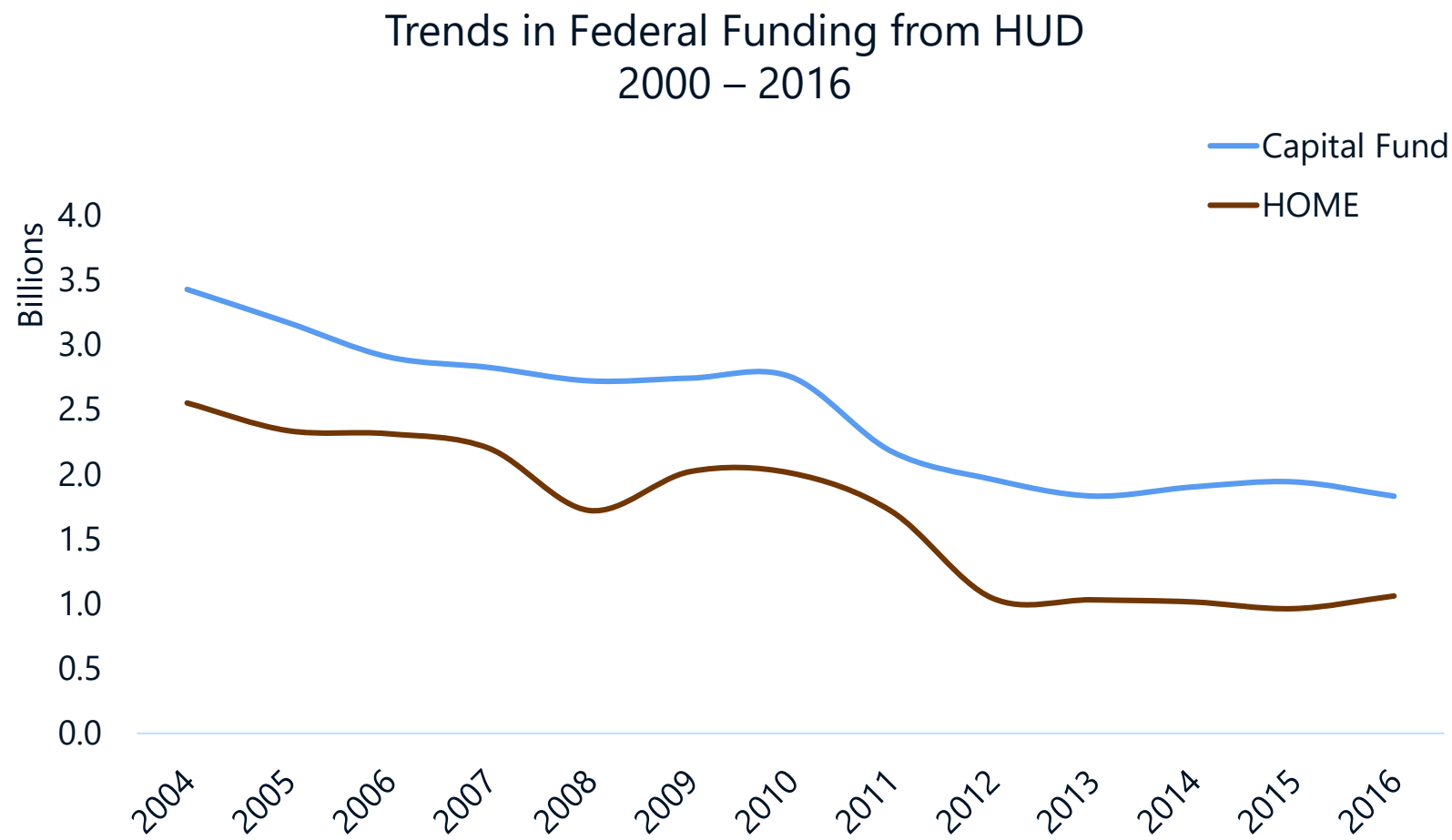


## 1. Rising Development Costs

Rising development costs worsen affordability directly by forcing up the rents necessary to develop new housing.

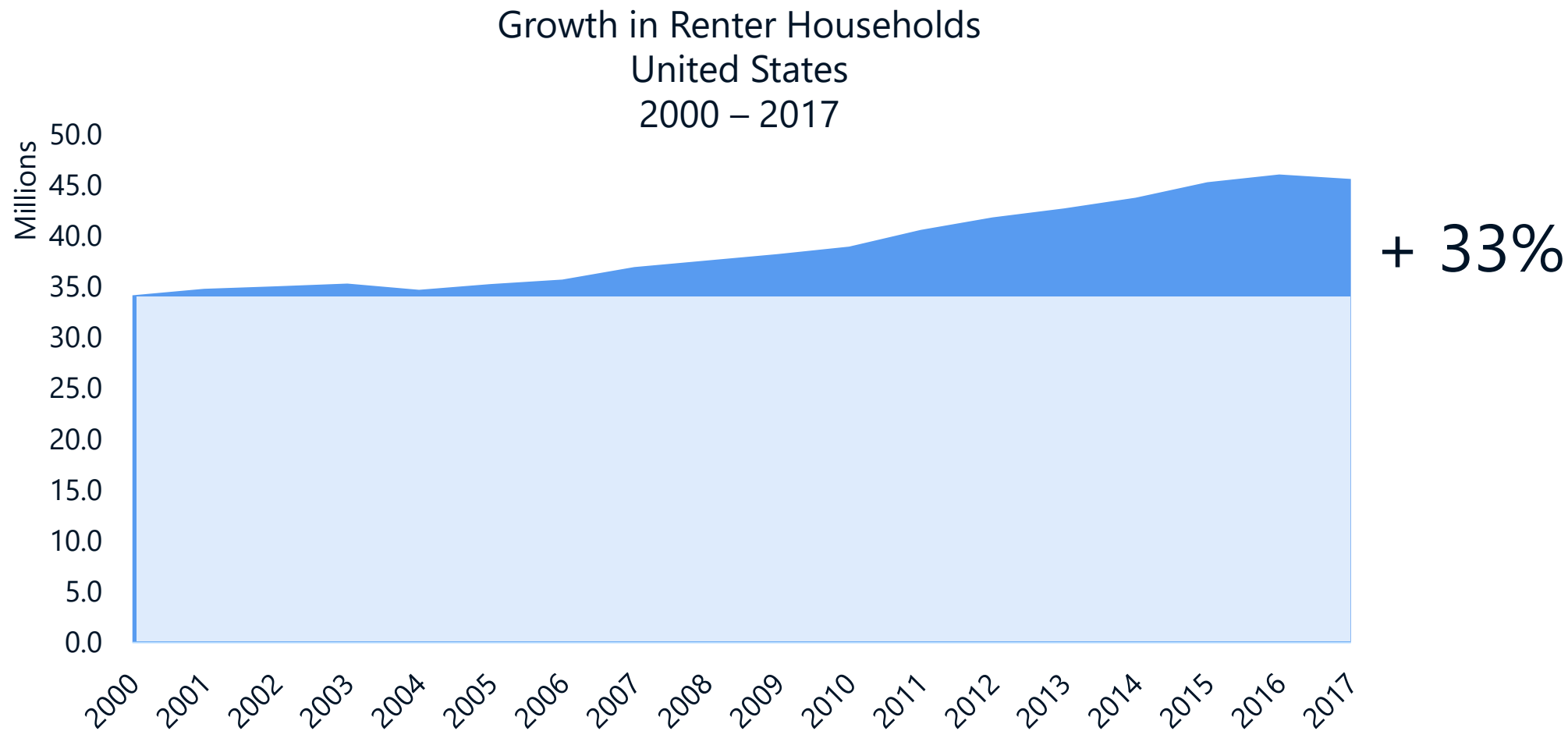


Federal funding for income-restricted affordable housing has steadily decreased.



Source: Housing of Urban Development; HR&A Analysis  
HR&A Advisors, Inc.

Demand for rental housing has grown by a third since 2000.



Source: Federal Reserve Economic Data; HR&A Analysis  
HR&A Advisors, Inc.

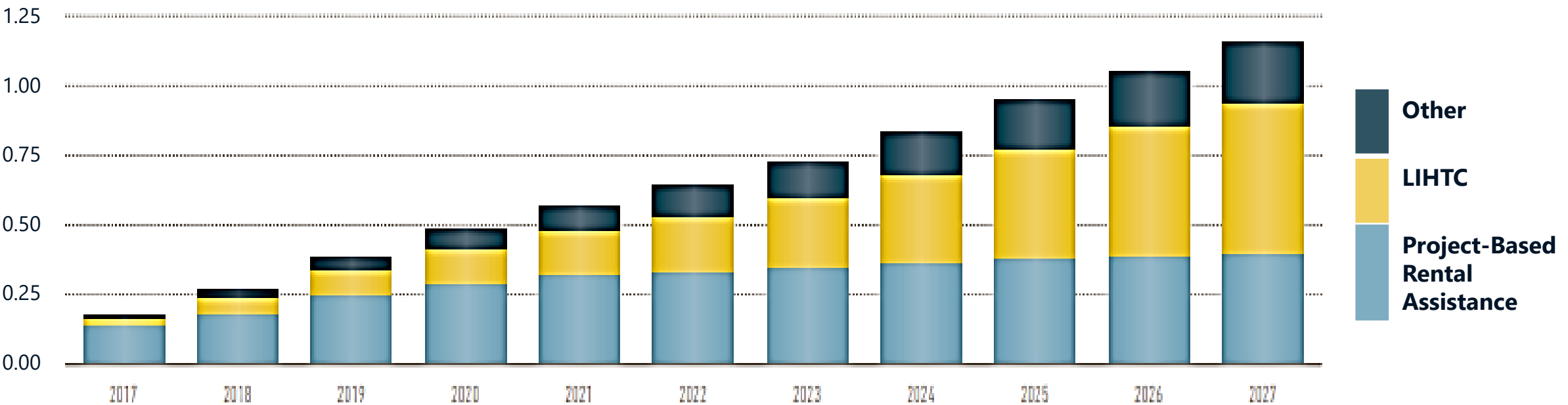


3. Supply-Demand Mismatch

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)

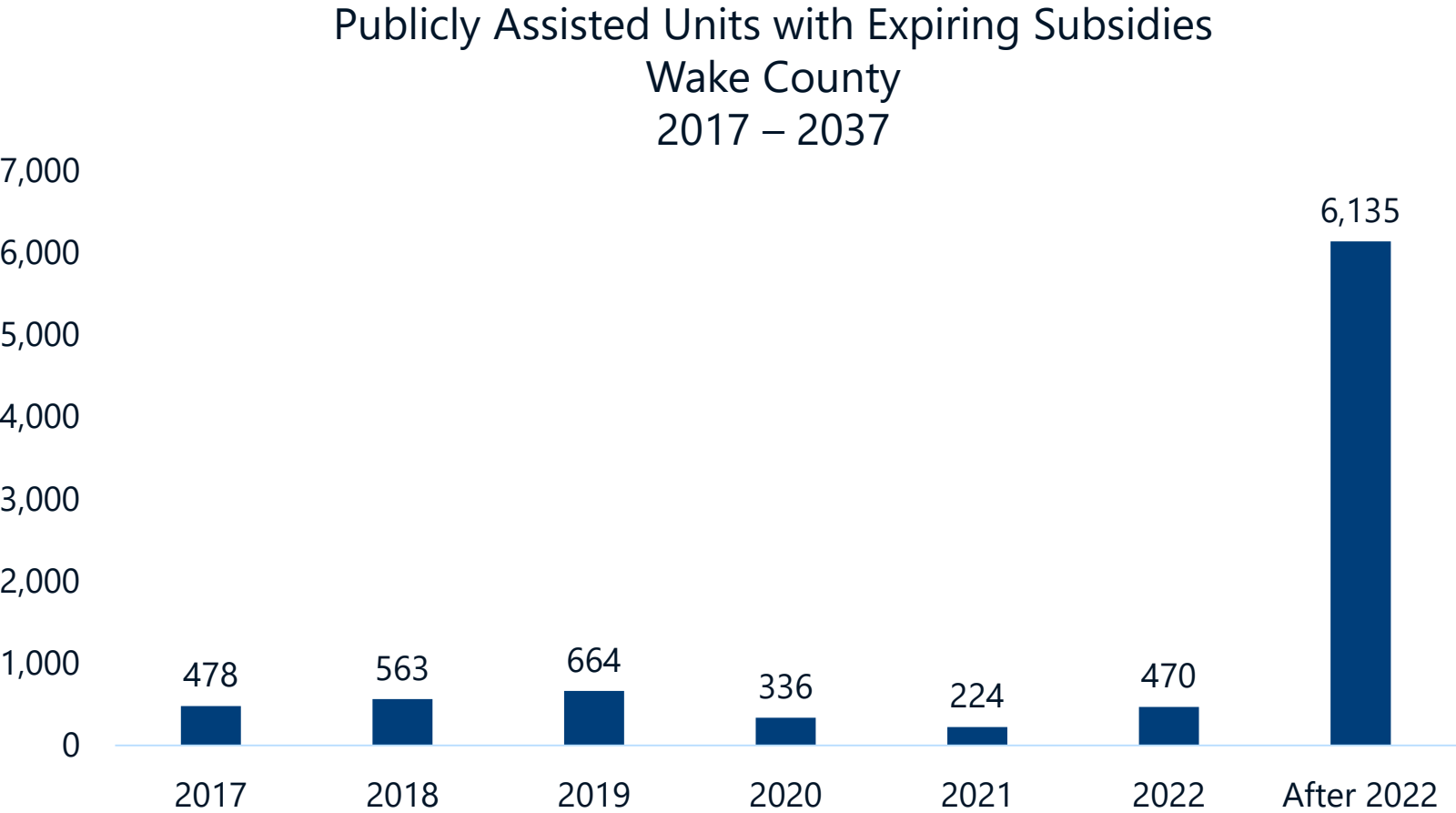
United States  
2017 – 2027



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

3. Supply-Demand Mismatch

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.

### 3. Supply-Demand Mismatch

In addition to needing subsidized housing, low-income renters also rely upon affordable, unsubsidized housing: NOAH.

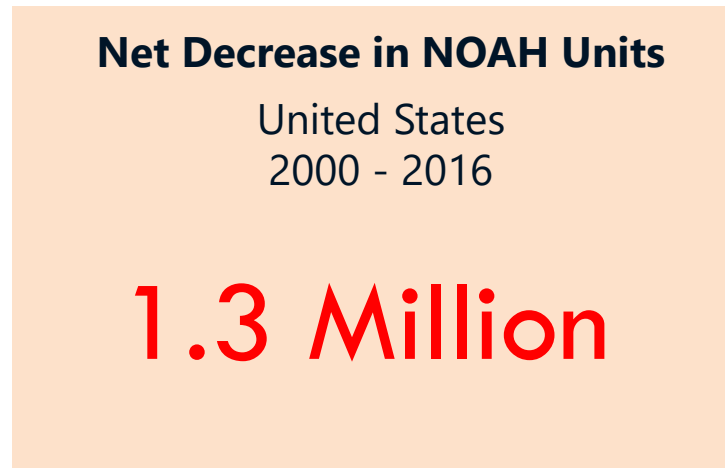
**“Naturally Occurring” Affordable Housing, or NOAH, refers to rental housing that is affordable to low-income renters despite being unsubsidized by any government programs. This housing tends to be older, lower-quality housing in less-desirable neighborhoods.**

*Source: National Housing Preservation Database; HR&A Analysis*

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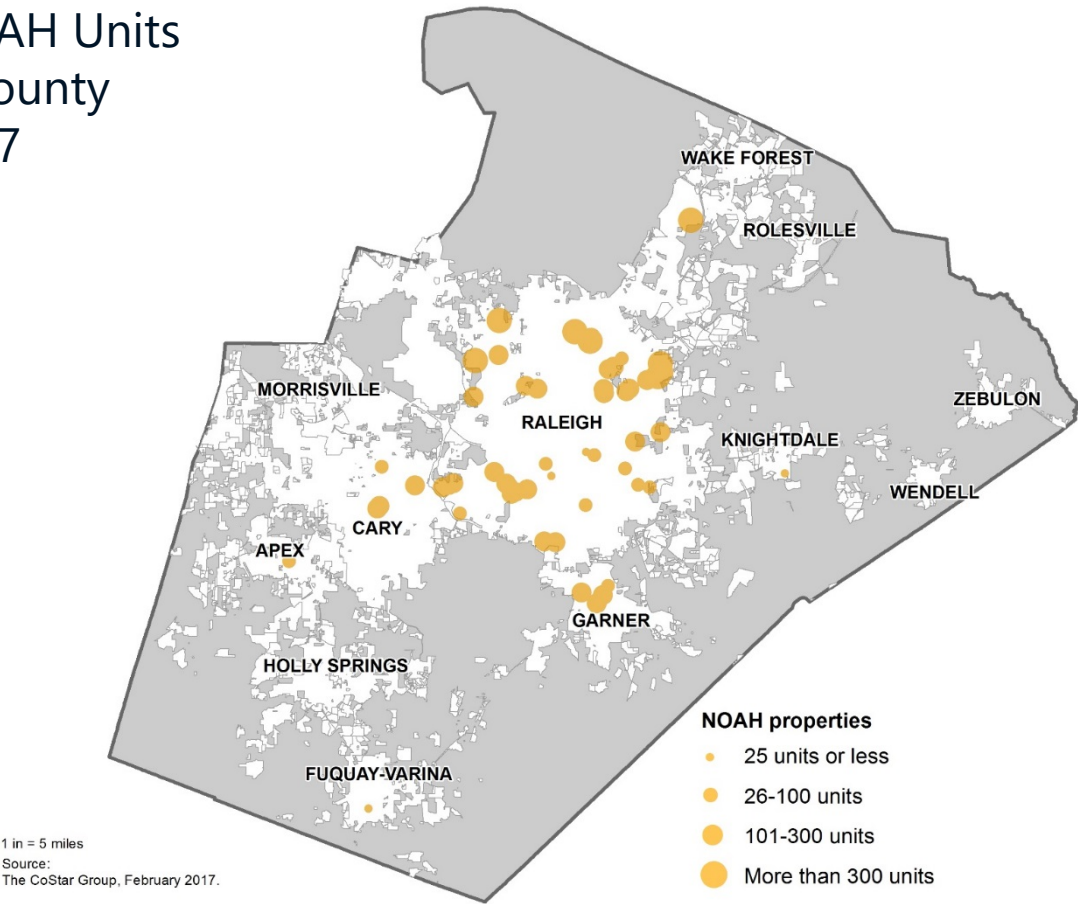
This supply of “naturally affordable” market-rate housing is declining nationally.

**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.**



In Q1 2017, Wake County had 9,800 NOAH units.

Map of NOAH Units  
Wake County  
2017



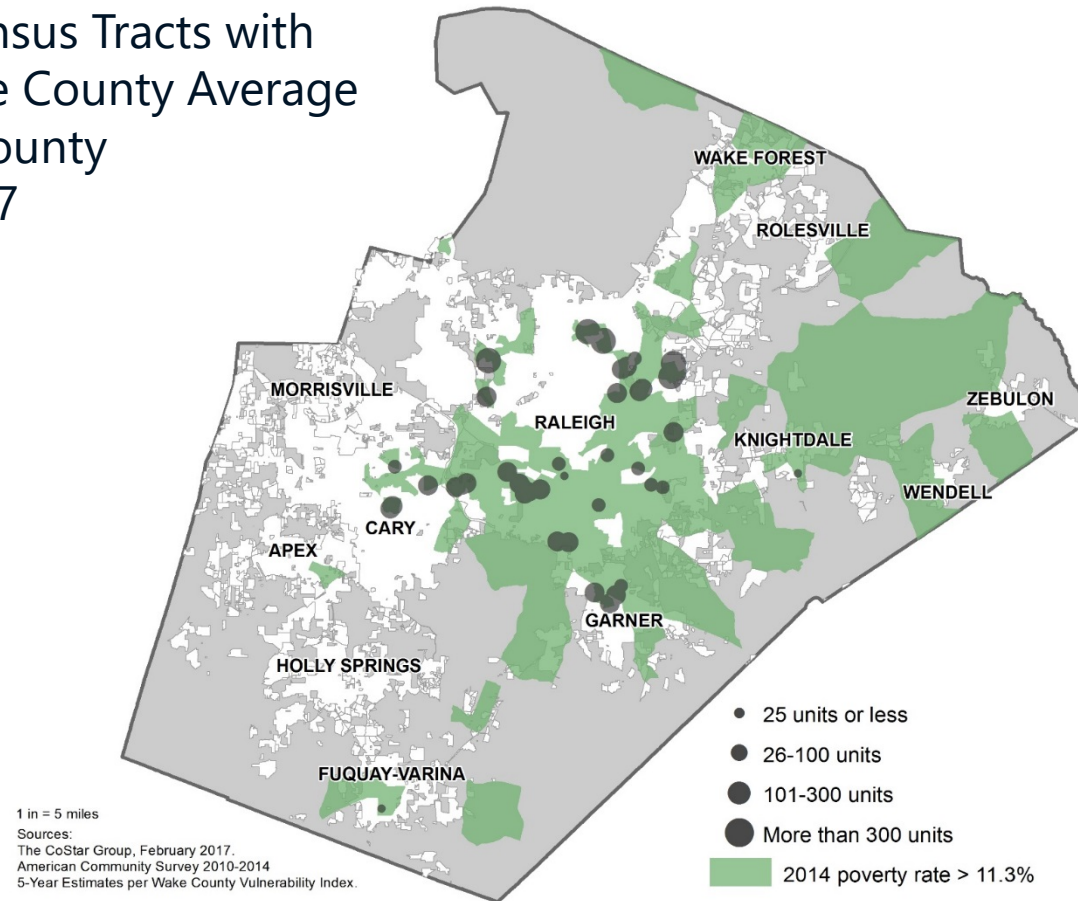
Source: CoStar Group; HR&A Analysis

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.  
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### 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



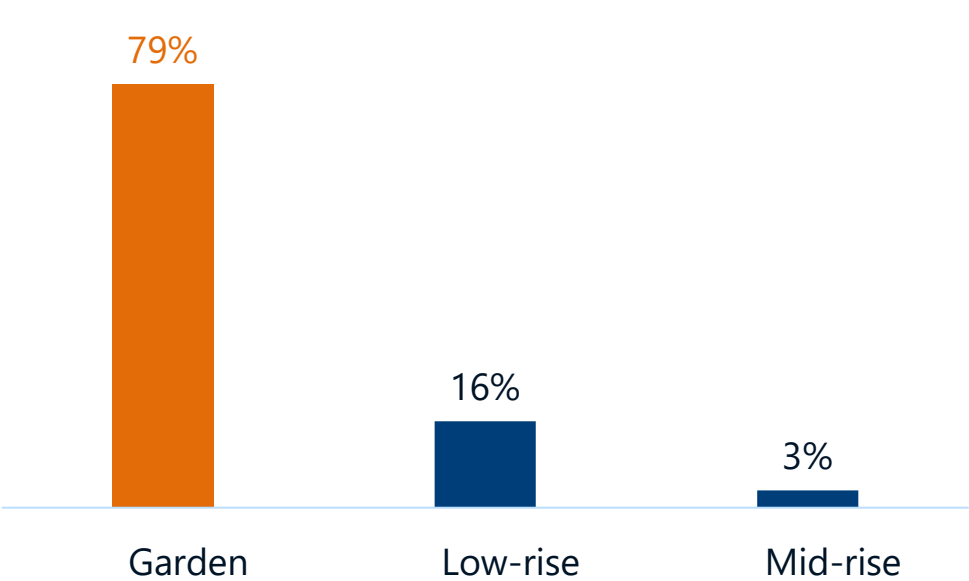
Source: CoStar Group; HR&A Analysis

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.

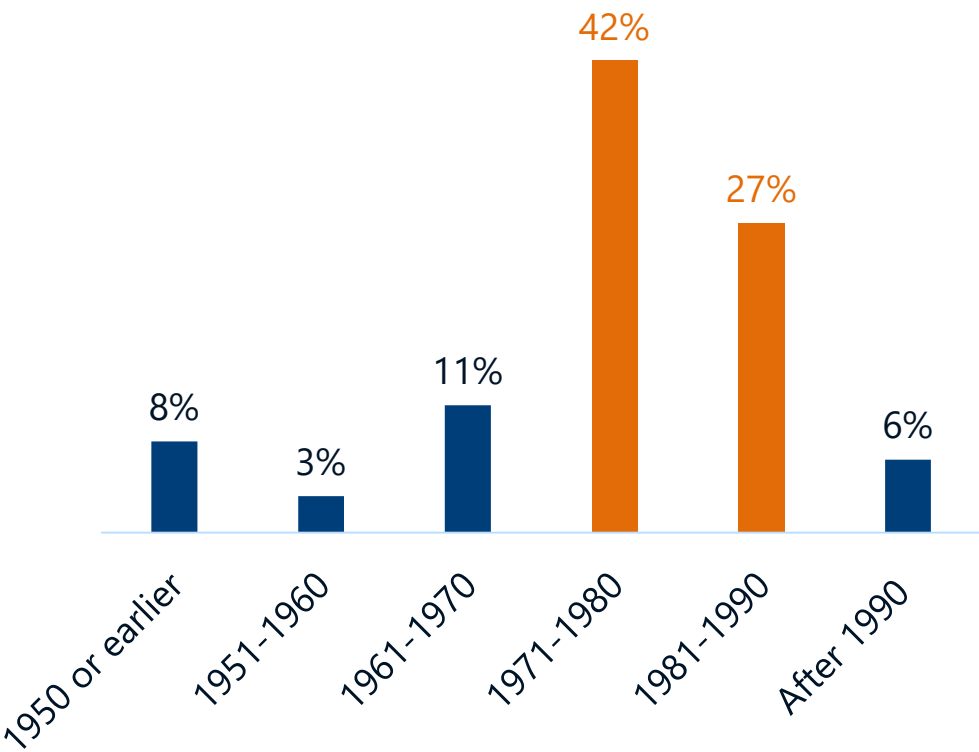
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Most of these units are in garden-style apartment buildings built 30 – 50 years ago.

Share of NOAH properties by Building Style  
Wake County  
2017



Share of NOAH properties by Year Built  
Wake County  
2017



Source: CoStar Group; HR&A Analysis

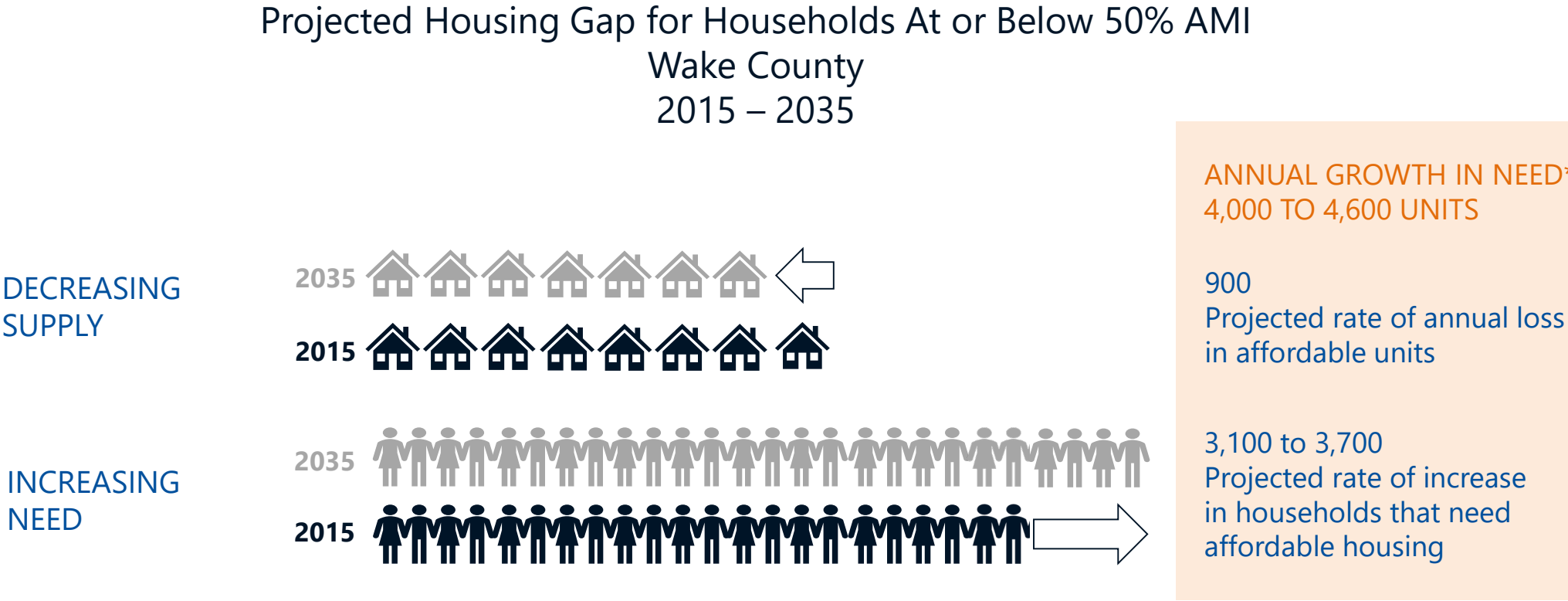
Note: Measure of 1-bedroom units at \$766 or below. Rent limit set to reflect maximum monthly rent affordable to a two-person household at 50% AMI.

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3. Supply-Demand Mismatch

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.



*\*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.*

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# Regional Housing Snapshot

John Hodges-Copple on behalf of Aspen Romeyn  
Principal Planner, Triangle J Council of Governments  
November 8, 2018



## 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



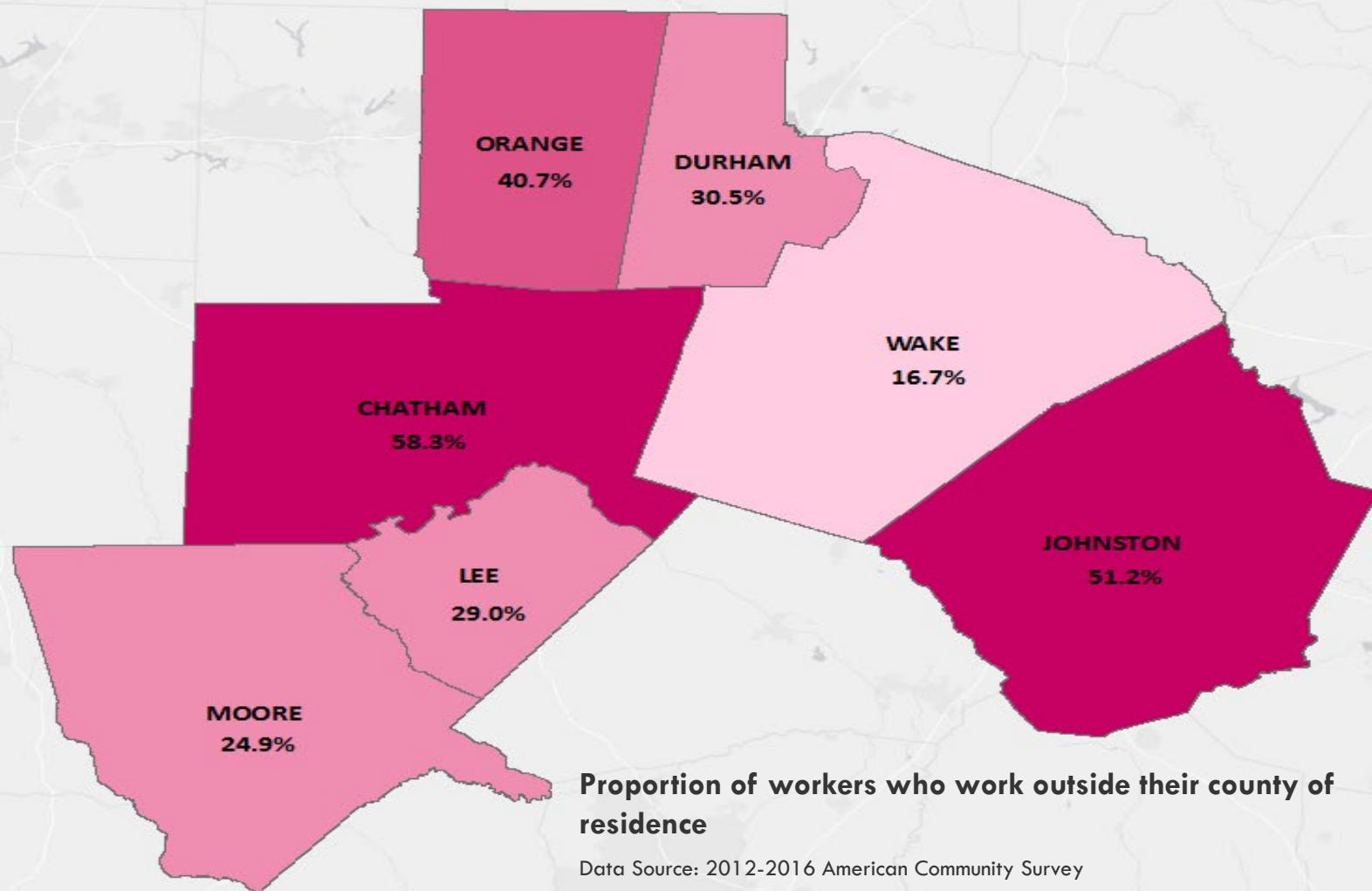
Two generations from now,  
what challenges do you hope  
will be overcome in this  
region?

\* Access & Equity of  
Education



# Commuting Patterns

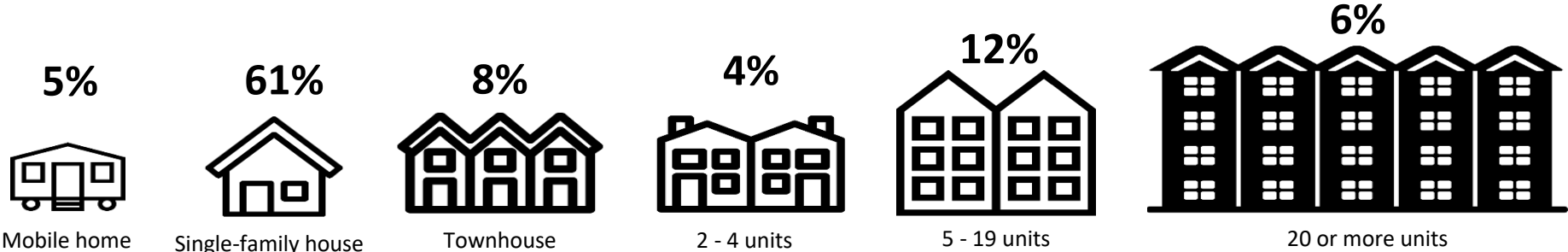
- ▶ There are approximately 900,000 workers that live within the seven Triangle J counties.
- ▶ Almost **235,000** of them, or **26%**, work in a different county from where they live.
- ▶ More than **half** of residents in Chatham and Johnston counties work in another county.



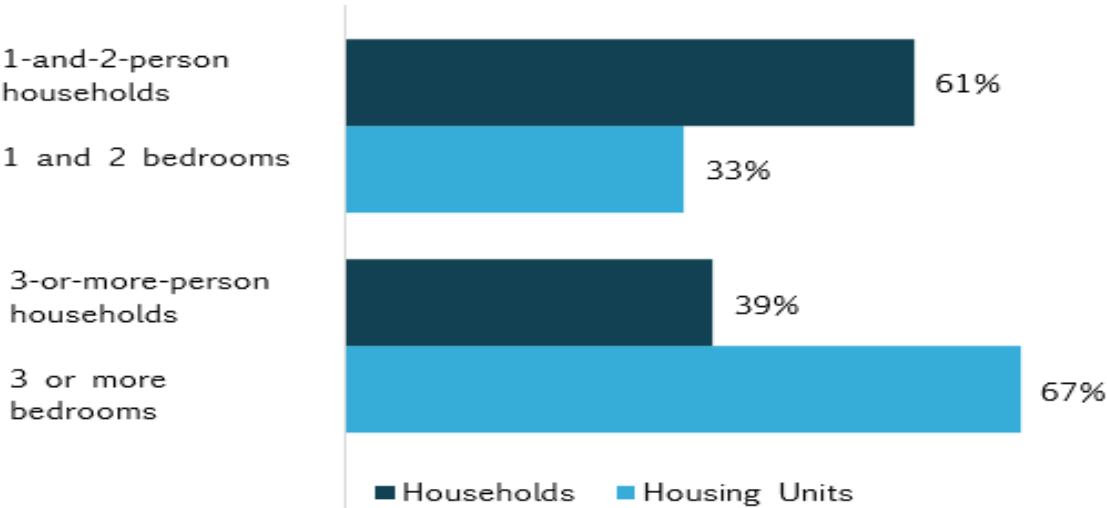
# Housing Stock

Chatham, Durham, Johnston, Orange, & Wake Counties

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



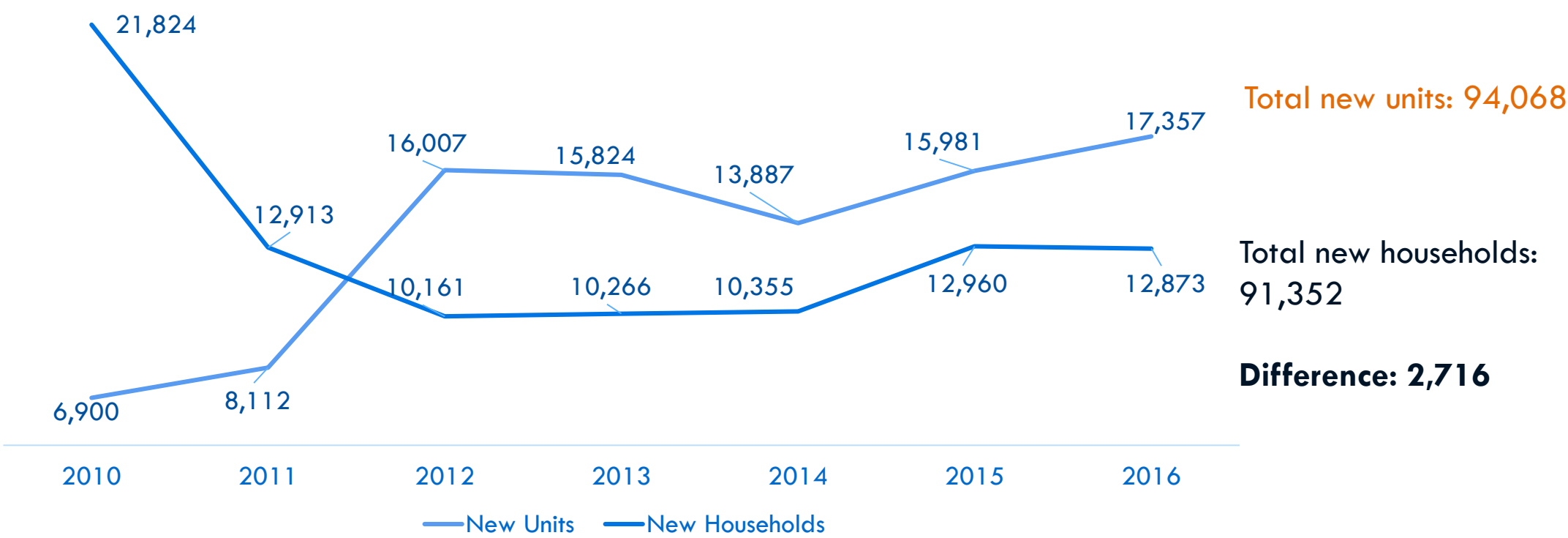
**61%** of households are **1-and-2-person households**, yet just **one-third** of housing units are **1 and 2-bedroom units**. There are limited options for those who want smaller homes.



Data Source: 2012-2016 American Community Survey

# Population Growth vs. Building Permits

Chatham, Durham, Johnston, Orange, & Wake Counties

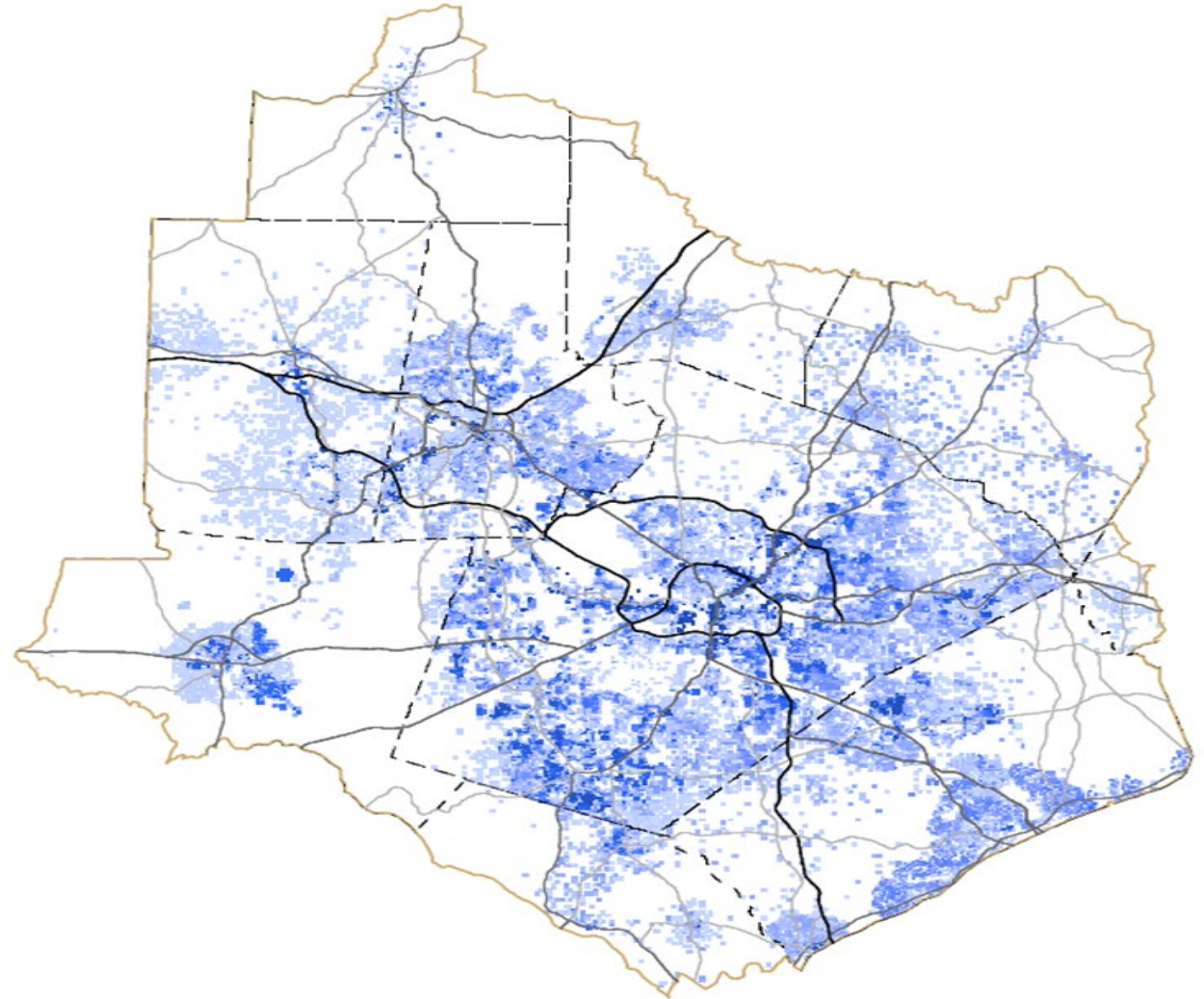




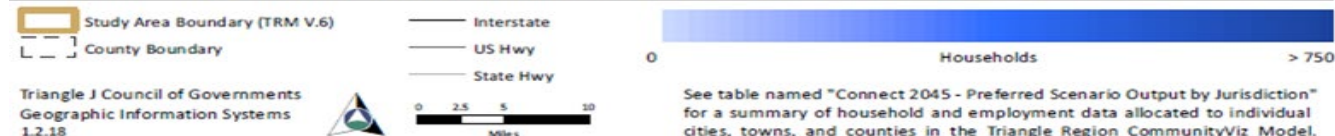
# Projected Population Growth

*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**



Regional Composite Map - New Household Distribution - 32-Year Forecast (2013-2045)



# Building Permits by Housing Type

*Chatham, Durham, Johnston, Orange, & Wake Counties*

**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%

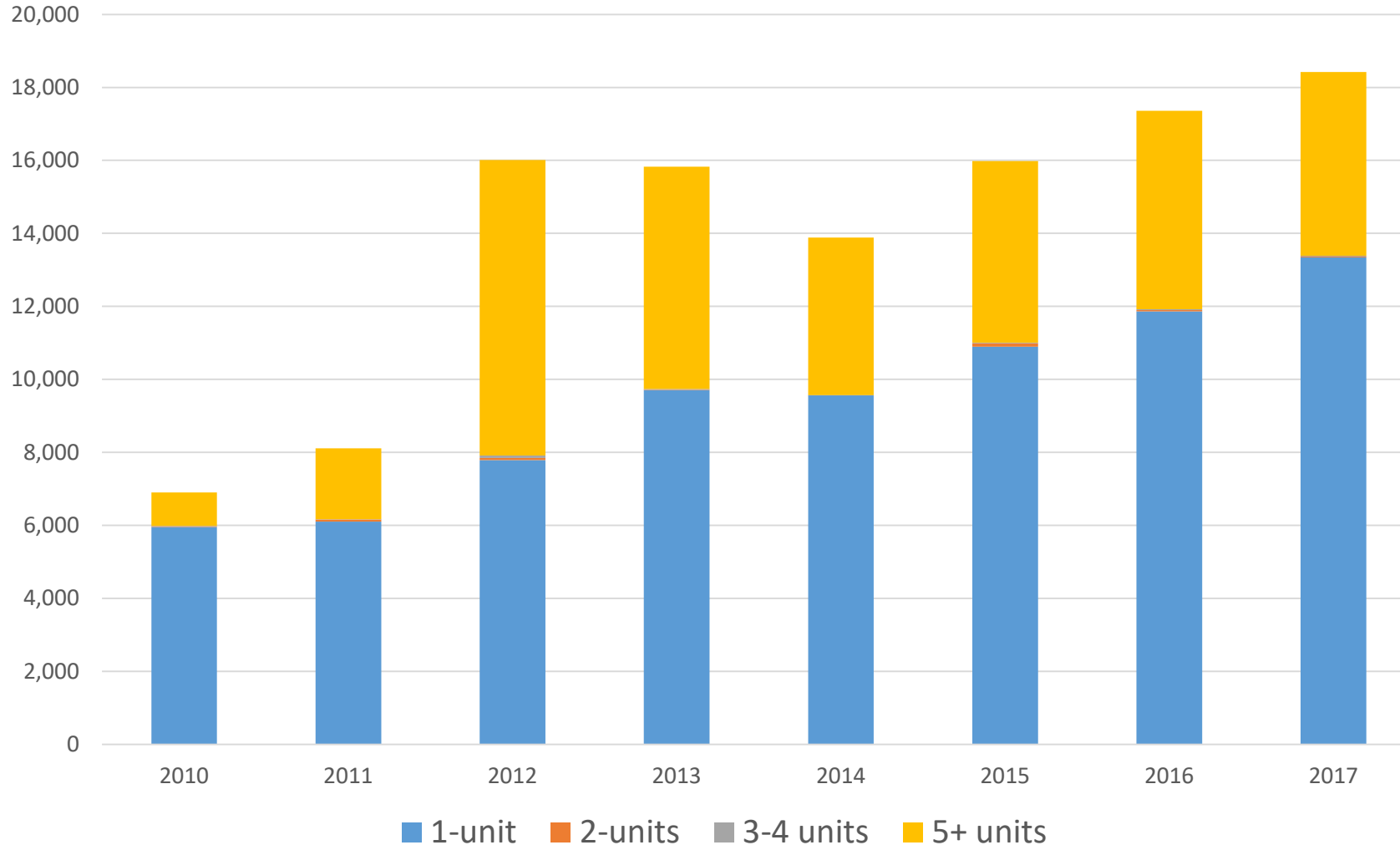
B.25%

C.31%

D.43%

# Building Permits by Housing Type

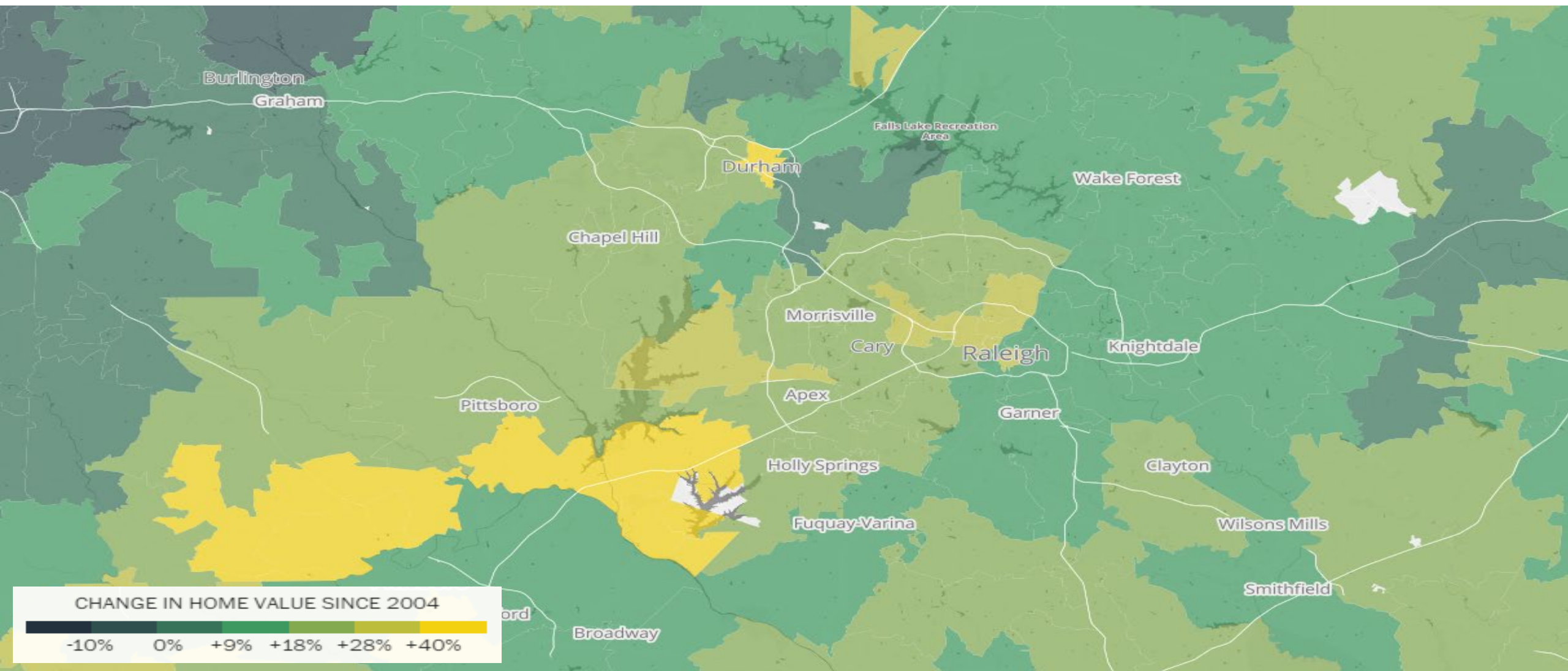
*Chatham, Durham, Johnston, Orange, & Wake Counties*



- 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



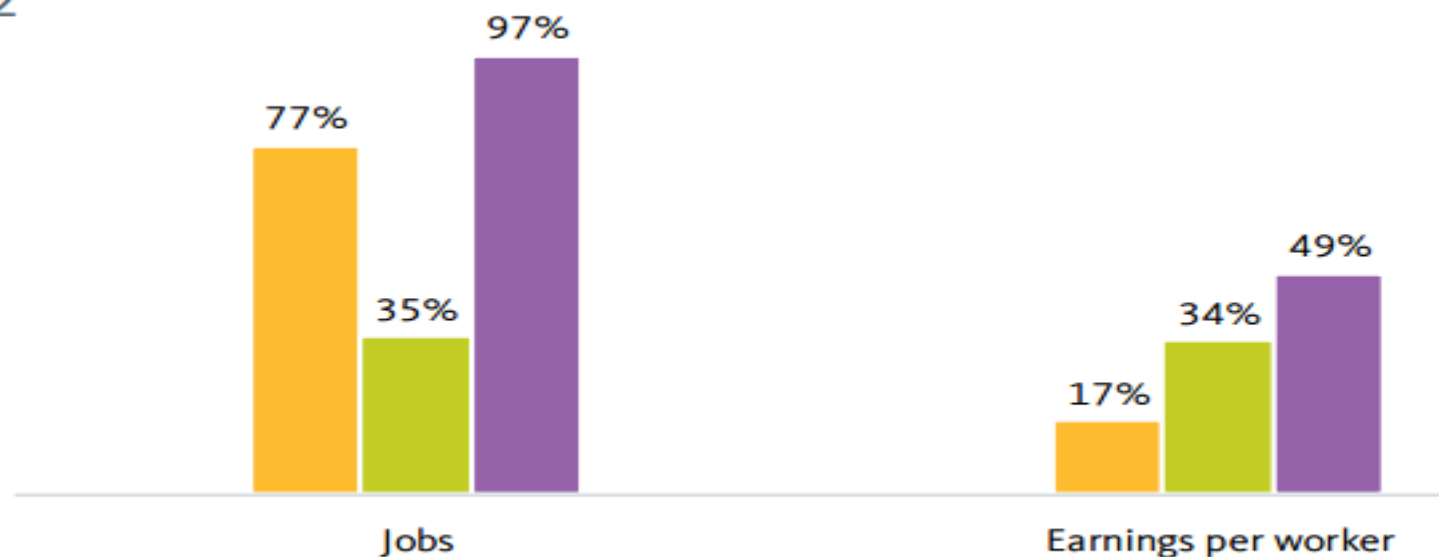
Source: <https://www.washingtonpost.com/graphics/business/wonk/housing/overview/>

## 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

- Low-wage
- Middle-wage
- High-wage

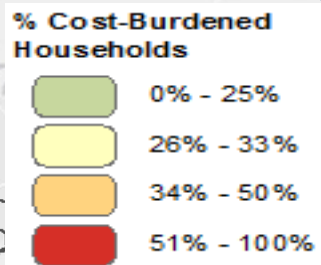


Source: U.S. Bureau of Labor Statistics; Woods & Poole Economics, Inc. Universe includes all jobs covered by the federal Unemployment Insurance (UI) program.



# Cost-Burdened Households

*Chatham, Durham, Johnston, Orange, & Wake Counties*

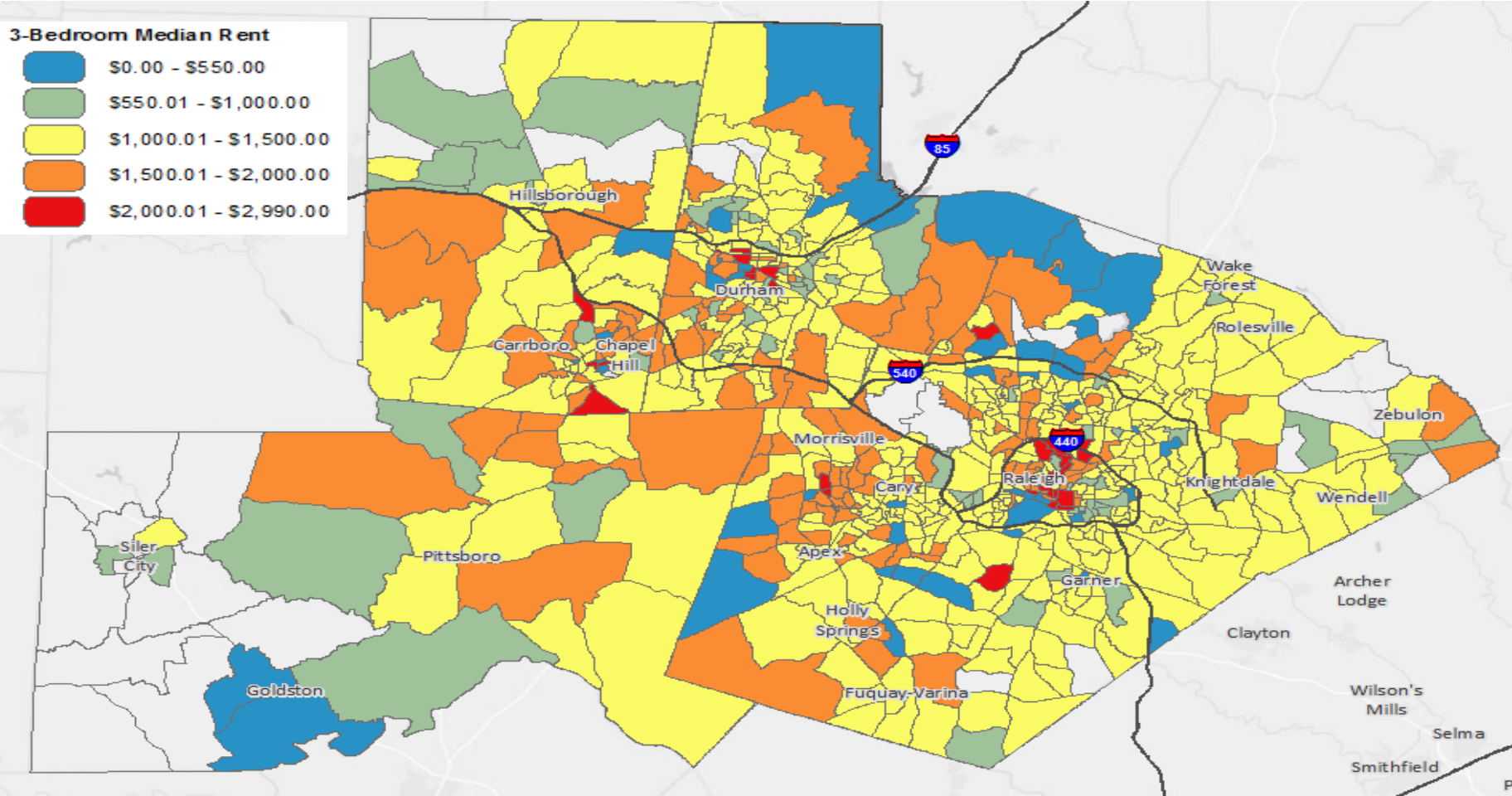


Housing cost-burdened households spend more than 30% of their income towards rent/mortgage and utilities

**154,000** low- and moderate-income households (**64%**) are housing cost burdened across the region.

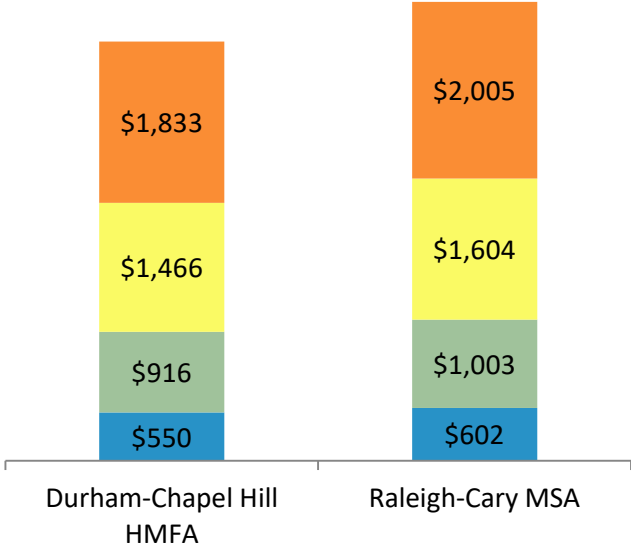
# Median Rent & Affordability Thresholds

Chatham, Durham, Orange, & Wake Counties



Rent affordable at:

- Median income
- 80% of AMI
- 50% of AMI
- 30% of AMI



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



# 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%

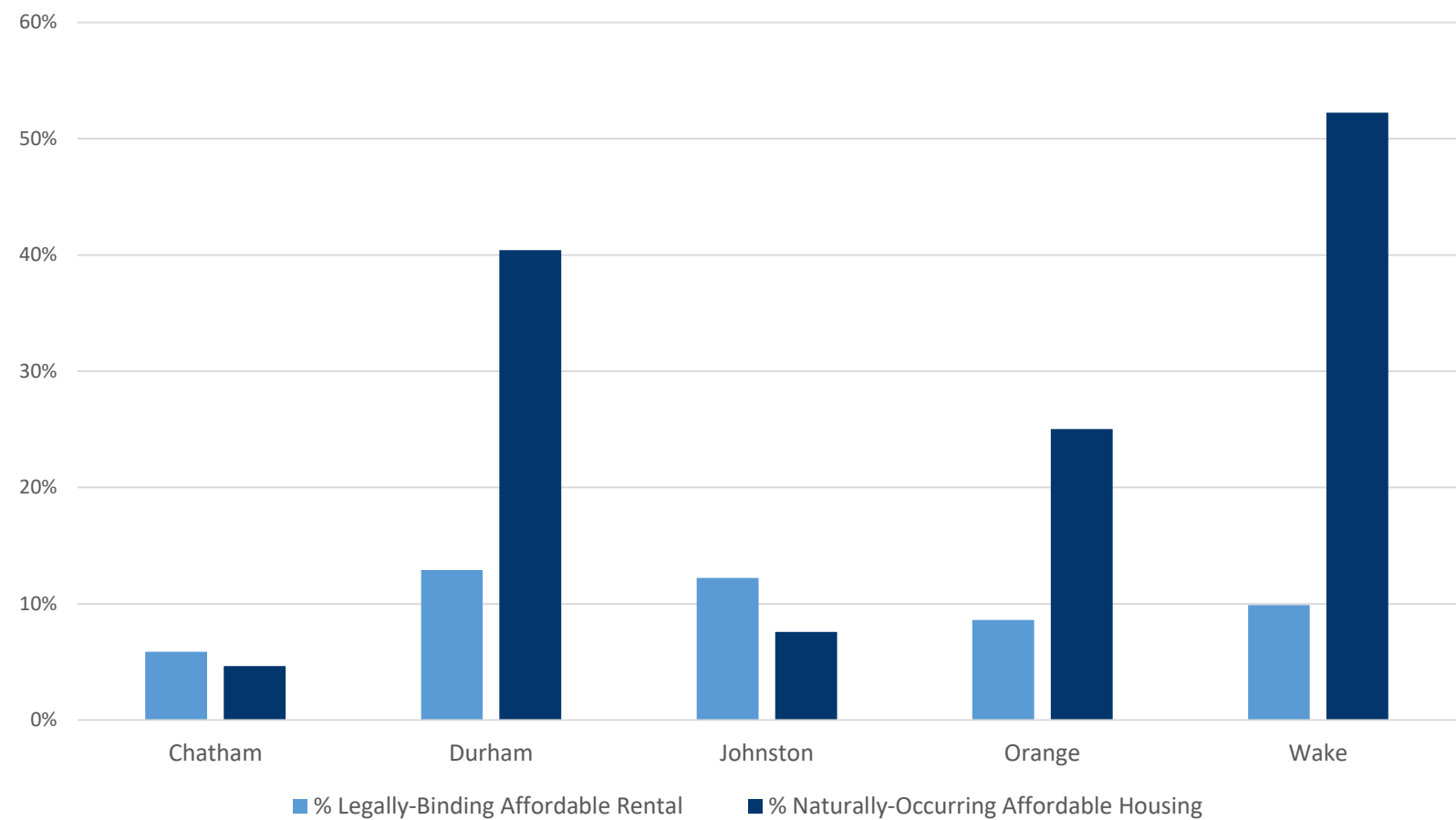
B.11%

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](http://www.tjcog.org/housing.aspx)**

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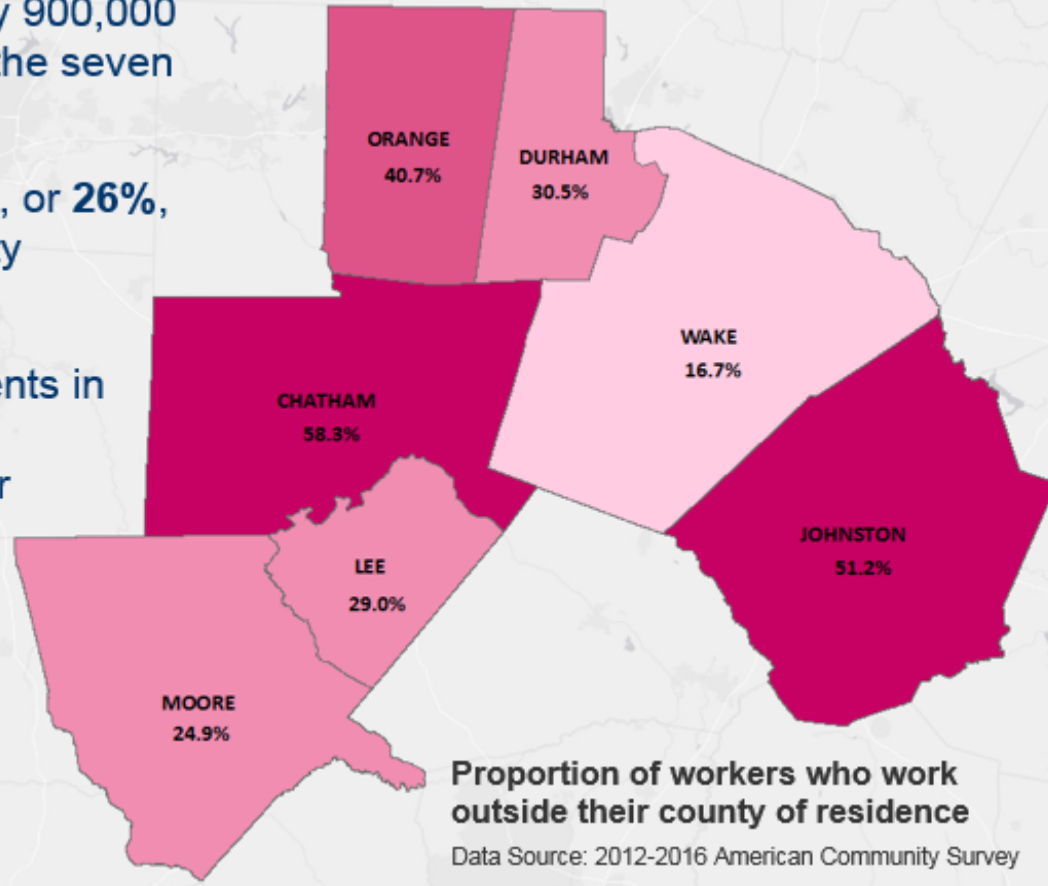
# Why Does it Matter?

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

Residential Real Estate

## 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

CITYLAB

DESIGN / TRANSPORTATION / ENVIRONMENT / EQUITY / LIFE



Nick Adams/Reuters

## If You Want Less Displacement, Build More Housing

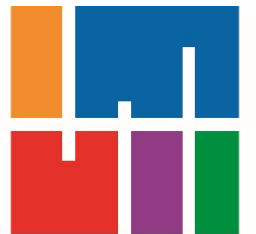
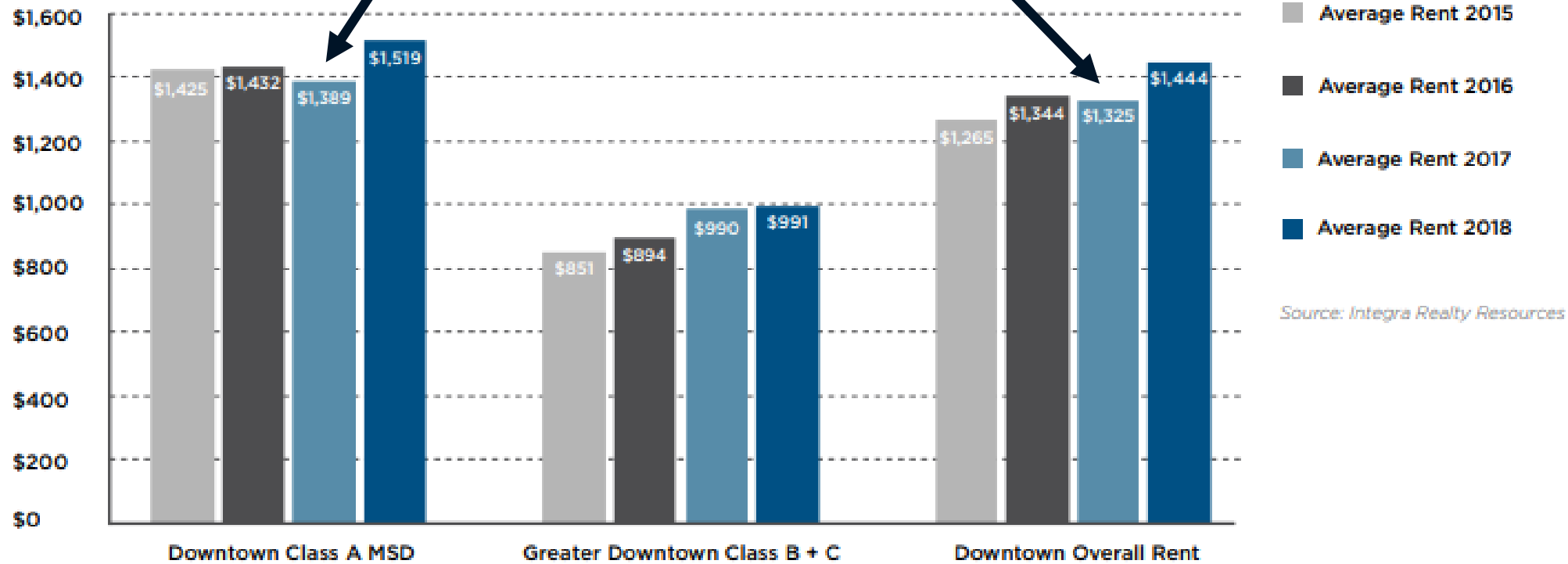
JOE CORTRIGHT AUG 28, 2018





# Rent Growth

1,803 units added in  
20 months



# Economic Development

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

## 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

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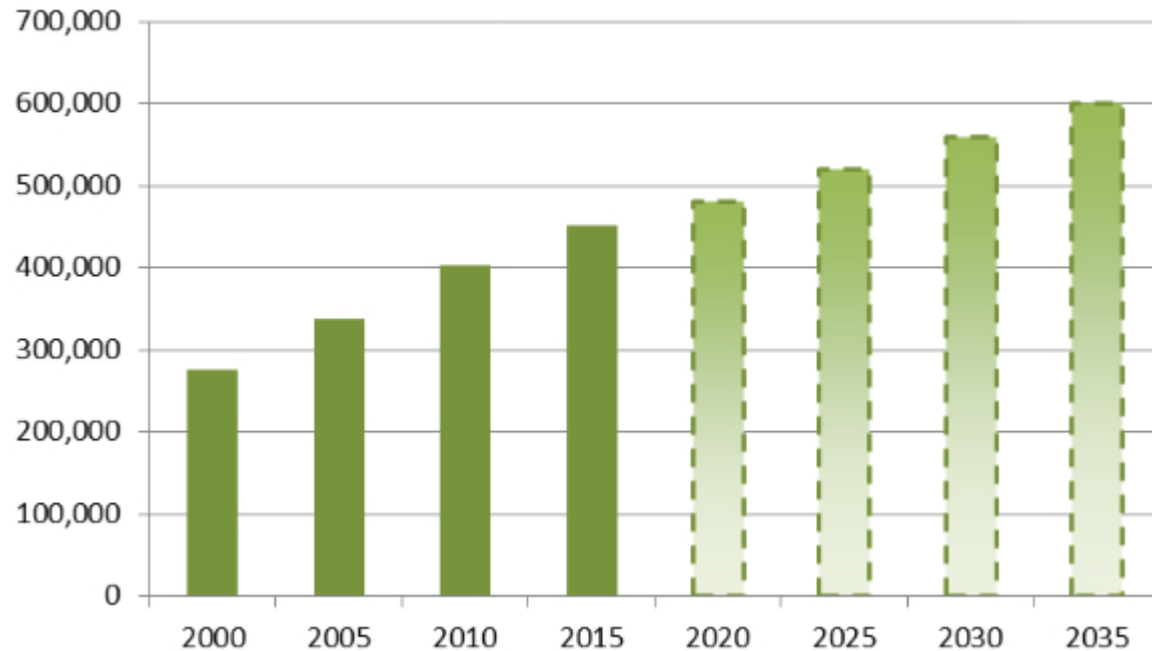
### 7 horrible things that could happen to cities if they win Amazon's HQ2 bid

LOCAL

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

**#2**

HOTTEST SPOT FOR  
TECH JOBS—FORBES

**#2**

BEST PLACE FOR BUSINESS  
AND CAREERS—FORBES

**#2**

AREA WITH THE HIGHEST  
NUMBER OF TECH JOBS—  
NEW YORK TIMES

**#3**

BEST CITY FOR JOB  
SEEKERS IN 2017—INDEED

**#4**

HIGHEST % OF WORKFORCE  
IN STEM—WALLETHUB

**#4**

CITY WITH FASTEST GROWING  
INCOMES—SMARTASSET



# Future





# Future



**Thank You!**

**Questions?**

