



North Chapel Hill Market Overview Feb. 7th, 2020



CHAPEL HILL MARKET OVERVIEW

Town of Chapel Hill

- **Population Growth:**
 - 2000: 48,715
 - 2020: 60,100
 - CAGR: 1.06%
- **Household Growth:**
 - 2000: 18,356
 - 2020: 22,735
 - CAGR: 1.08%
- **Median Home Price:**
 - 2000: \$217,300
 - 2018: \$409,200
 - CAGR: 3.58%
- **Median Rents:**
 - 2000: \$923
 - 2020: \$1,290
 - CAGR: 1.69%

City of Durham

- **Population Growth:**
 - 2000: 187,035
 - 2020: 272,977
 - CAGR: 1.91%
- **Household Growth:**
 - 2000: 77,419
 - 2020: 113,644
 - CAGR: 1.94%
- **Median Home Price:**
 - 2000: \$125,600
 - 2018: \$207,900
 - CAGR: 2.84%
- **Median Rents:**
 - 2000: \$873
 - 2020: \$1,200
 - CAGR: 1.60%

Implications:

- Durham is 3-4x larger, but we can compare trends by examining growth rates
- Durham has taken a pro-growth strategy which has resulted in nearly 2x the growth of Chapel Hill
- With lower growth, Chapel Hill has had more supply constraints which has driven up home prices at a rate nearly 30% more than in Durham, the result is current prices in Chapel Hill nearly 2x that of Durham's
- Rents have grown at nearly the same rates in both markets, so the greater affordability strain is really on ownership



CHAPEL HILL GROWTH RATES BY LAND USE

Land Use	Current Inventory	Avg. Annual Absorption 2015-2019	Avg. Annual 2015-2019 Growth Rate	Est. Future Annual Demand Potential 2020-2025
Single-Family Homes (Owner Occ.)	7,632	115	1.5%	300 Units
Townhomes/ Condominiums (Owner Occ.)	2,300	-28	-1%	92 Units
Class A Rental Apartments (Excl. Student)	6,908 Units	251 Units	3.5%	650 Units (1.67 Years Currently U/C)
Class A Student Housing	1,785 Units	0 Units	0%	TBD, very policy based (339 Units U/C)
Class B/C/Affordable Rental Apartments	3,218 Units	0 Units (Affd. 44, rest neg.)	0%	TBD, very policy based
Retail	2.7 M SF	51, 386 SF	2%	50-60,000 SF
Office	3.2 M SF	-54,021 SF	-2%	50-60,000 SF
Lodging	1,891 Rooms	47 Rooms	2%	50 Rooms



CHAPEL HILL MARKET OVERVIEW

Land Use	Chapel Hill Avg. Annual 2015-2019 Growth Rate	Durham Avg. Annual 2015- 2019 Growth Rate
Single-Family Homes (Owner Occ.)	1.5%	2%
Townhomes/ Condominiums (Owner Occ.)	-1%	2%
Class A Rental Apartments (Excl. Student)	3.5%	3.5%
Class A Student Housing	0%	1%
Class B/C/Affordable Rental Apartments	0%	1%
Retail	2%	1%
Office	-2%	2.27%
Lodging	2%	2.5%

Implications:

- Durham has seen more diverse growth across housing product types
- Largest difference is a 3x greater rate of growth in for-sale townhomes and condominiums
- It should be noted that while the growth rates are the same for Class A apartments there are two key differences:
 - 36% of Durham's new units are in garden/low-rise properties versus only 10% in Chapel Hill (1701 North)
- Chapel Hill office market is flat, while Durham has seen very strong growth

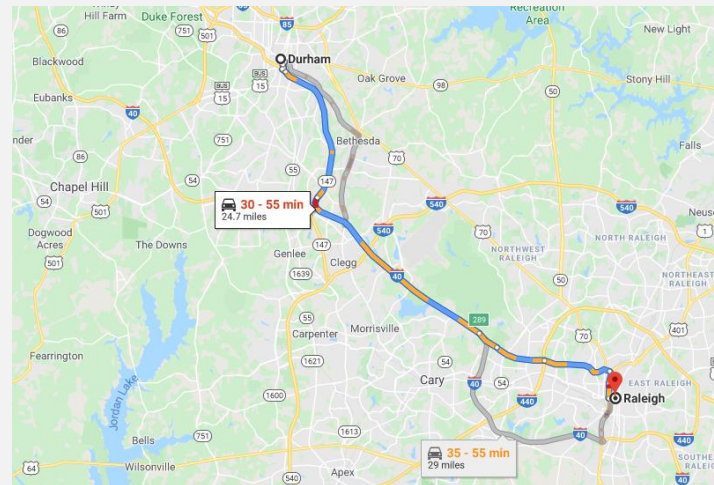
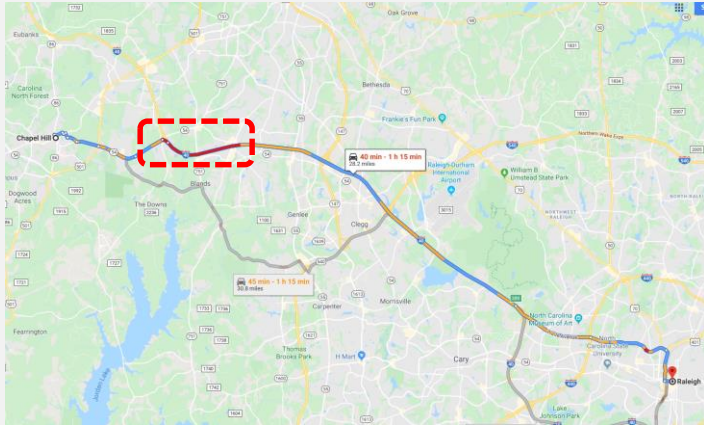


KEY FINDINGS RELATED TO MARKET OVERVIEW

- A low growth policy less than inflation (2015-2019 inflation was 1.8%) will result in greater affordability challenges
- Regardless of the growth level, a greater diversity of housing products is needed, particularly:
 - Townhomes and/or condominiums under \$500k
 - Garden and low-rise apartments under \$1,300/bedroom
- It will take time to grow the office market, thus increasing job base
 - Why is Durham seeing such strong success?
 - Durham 550k/year versus essentially no growth in Chapel Hill



DURHAM VS CHAPEL HILL IN ATTRACTING OFFICE TENANTS



Congestion issues on I-40

- Chapel Hill morning commute to Downtown Raleigh 40-75 min
- Durham morning commute to Downtown Raleigh 30-55 min
- Chapel Hill is 10-20 minutes longer, 20-36%



DURHAM VS CHAPEL HILL IN ATTRACTING OFFICE TENANTS

Local Workforce Differences

- In comparing Durham's % household growth (2000-2020) by age and income versus Chapel Hill's we see three key segments Chapel Hill has been significantly losing out on:
 - Millennials (25-34) earning under \$50,000
 - Starter families (35-44) earning \$75-200k
 - Older families (45-54) earning \$100-300k
- Also Empty Nesters 55+ earning less than \$200k, but they have less impact on workforce

	Age 15-24	Age 25-34	Age 35-44	Age 45-54	Age 55-64	Age 65-74	Age 75-84	Age 85+
Difference								
Household Totals	-1.11%	-0.66%	0.22%	-0.96%	-1.19%	-0.65%	-0.11%	1.53%
2020 Estimate Income/Age								
Income Less Than \$15,000	-1.36%	-2.00%	0.83%	-2.29%	0.14%	-1.24%	-0.66%	-0.12%
Income \$15,000 - \$24,999	1.73%	-2.46%	-0.20%	1.22%	-1.37%	-2.96%	-3.24%	-2.00%
Income \$25,000 - \$34,999	-0.40%	-0.81%	-0.76%	-3.51%	-4.16%	-4.10%	-3.64%	-2.55%
Income \$35,000 - \$49,999	4.05%	-1.92%	2.25%	-0.90%	0.94%	-2.09%	-0.66%	0.92%
Income \$50,000 - \$74,999	-2.16%	1.16%	1.87%	0.06%	-1.09%	-4.56%	-2.34%	0.51%
Income \$75,000 - \$99,999	-2.76%	0.38%	-1.70%	-1.05%	-2.68%	-1.75%	0.05%	0.57%
Income \$100,000 - \$124,999	0.00%	0.05%	-1.96%	-3.66%	-6.37%	-3.14%	-1.35%	0.48%
Income \$125,000 - \$149,999	0.00%	0.24%	-6.86%	-6.84%	-2.53%	-3.79%	-2.71%	-1.14%
Income \$150,000 - \$199,999	0.00%	-2.29%	-7.56%	-5.05%	-3.31%	-3.39%	-2.94%	-1.18%
Income \$200,000+	0.00%	0.27%	0.80%	-3.88%	-3.11%	0.86%	0.72%	0.89%

Millennials making under \$50k

Starter families making \$75-200k

Older families making \$100-300k

Empty Nesters 55+ making under \$200k

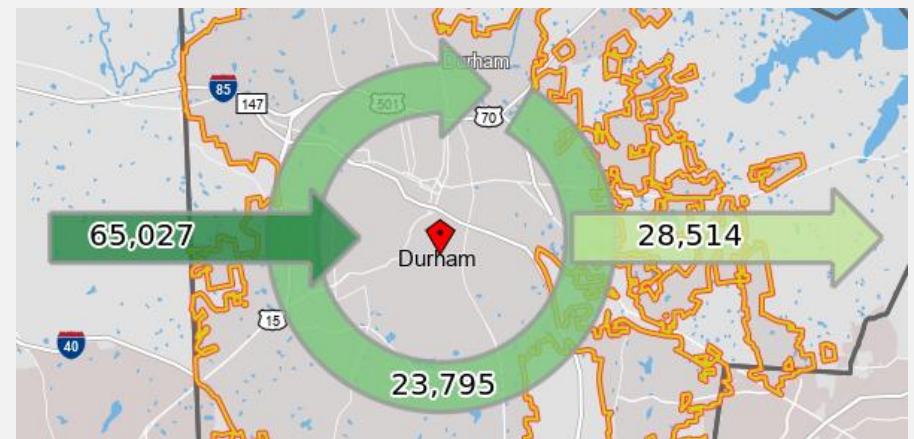
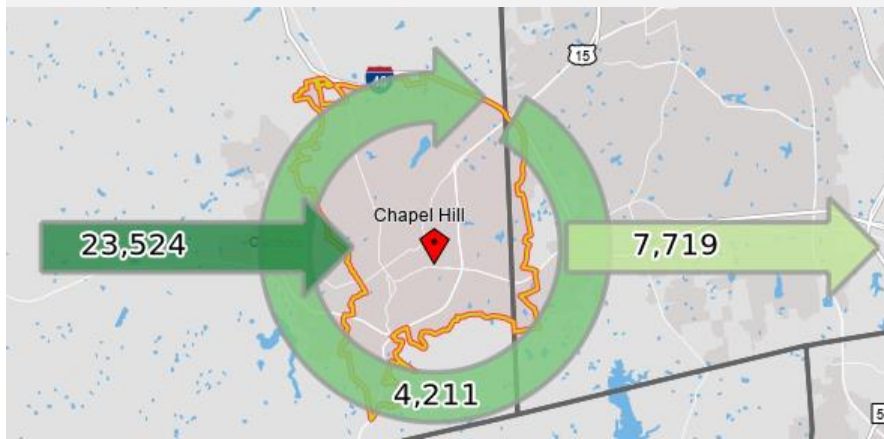


DURHAM VS CHAPEL HILL IN ATTRACTING OFFICE TENANTS

Local Workforce Differences

- Chapel Hill workforce >\$40k
 - 66% commute in
 - 22% commute out
 - 12% live/work here
- Durham workforce >\$40k
 - 55% commute in
 - 24% commute out
 - 21% live/work here

Durham has 5x the amount of higher earning workforce employed within their community





MIXED USE ENVIRONMENTS

- In addition to:
 - Strong regional/airport access
 - Educated workforce
 - Diversity of housing products

Employers are also looking for the following site conditions:

- Walkability to coffee shops, lunch places, happy hour, workout gyms
- Park/trail access for down time reflection
- Large, open floorplates

Current Durham Locations:

-10+ properties in Downtown core

Current Chapel Hill Locations:

-Only 4 properties throughout Town

-Carolina Square

-The Central

-Glen Lennox

-Station at East 54



CHAPEL HILL NORTH SITE

- 45 (est. 30 usable) Acres listed at \$15.1M (\$335.5/acre ~ \$500k/useable)
- 10 Acres estimated at \$6.5M (\$650k/acre)





CHAPEL HILL NORTH LAND SALES

- Carraway Village most comparable sale at @\$237k/acre (48 acres) 4 years ago
- Chapel Hill North site only worth what is allowed to be built, but reasonable to assume:
 - 45 Acre piece @ \$300k/acre
 - 10 Acre piece @ \$500k/acre (was prev. under contract for \$6.5M or \$650k/acre)





CHAPEL HILL NORTH SITE

- Total site estimated land value @ \$18M or \$327k/acre, @ \$450k/useable
- Master horizontal development cost easily \$5-7 M, @ \$200k/useable





FEASIBLE DEVELOPMENT TYPE OVERVIEW

Land Use	Market Values	Pad Ready Land Values Supported/ Unit/SF	Potential Density/ Acre	Land Values Supported/ Acre
Single-Family Homes	\$500-800k	\$50-100k	2-3	\$100-300k
Townhomes/ Condominiums	\$400-500k	\$40-50k	8-10	\$320-500k
Class A Rental Apartments (Excl. Student)	\$1.50- \$1.70	\$20-25k	30-35	\$600-875k
Retail	\$25-35 NNN	\$35-40/SF	5-15,000	\$200-600k *DNI Owner Occ.
Office	\$25-30 FS	\$35-40/SF	20-25,000	\$700-1M
Lodging	\$90-100 ADR	\$20-25k	50-75	\$1-1.875M



FEASIBLE DEVELOPMENT W/MARKET NEEDS

Land Use	Land Values Supported/ Acre	Market Demand	Maximum Potential for Site
Single-Family Homes	\$100-300k	High	Will not justify land value
Townhomes/ Condominiums	\$320-500k	High	Does not justify developed land cost, but can be offset by higher values below
Class A Rental Apartments (Excl. Student)	\$600-875k	High	Could be up to 600 units – likely not able to support structured parking, so up to 20 acres
Retail	\$200-600k *DNI Owner Occ.	Low	Limited to under 20,000 SF, less than 2-3 acres
Office	\$700-1M	Low	Limited to under 60,000 SF, less than 2-3 acres
Lodging	\$1-1.875M	Low	Limited to one hotel @ 150 rooms, less than 2-3 acres



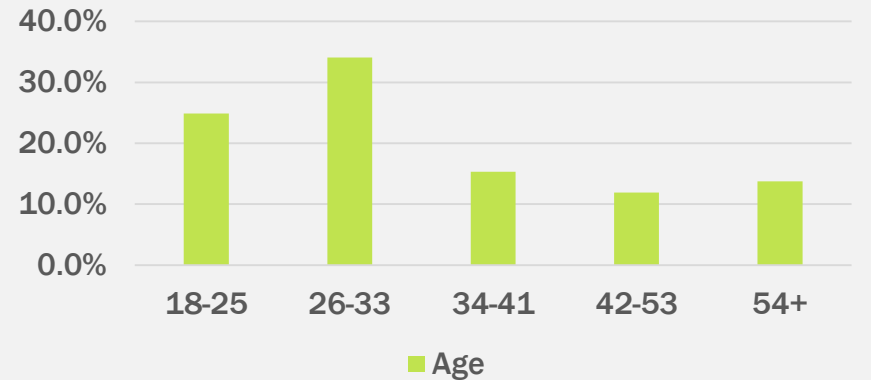
POTENTIAL DEVELOPMENT PROGRAM

Land Use	Units/ SF	Acres	Dev. Pad Land Value	Dev. Pad Land Value/Acre	Community Benefit
Townhomes/ Condominiums	220	22	\$8.8M	\$400k	“Missing middle product” Affordable for starter families earning \$100-150k
Class A Rental Apartments (Excl. Student)	400	11.4	\$10M	\$875k	While Class-A, this is G- Urban product hitting rents of \$750-1,300/bedroom, salaries of \$28-50k
Retail	20,000	0.8	\$800k	\$1M	Could be Chapel Hill North activated park setting
Office	60,000	2.4	\$2.4M	\$1M	Continued push to grow job base in Chapel Hill
Lodging	150	2	\$3M	\$1.5M	Hotel/motel and property tax
Park Space	-	1.4	\$0	\$0	Added park space that can be heavily activated
<u>Total</u>		<u>40.0</u>	<u>\$25M</u>	<u>\$625k</u>	



WHO ARE THESE RENTERS?

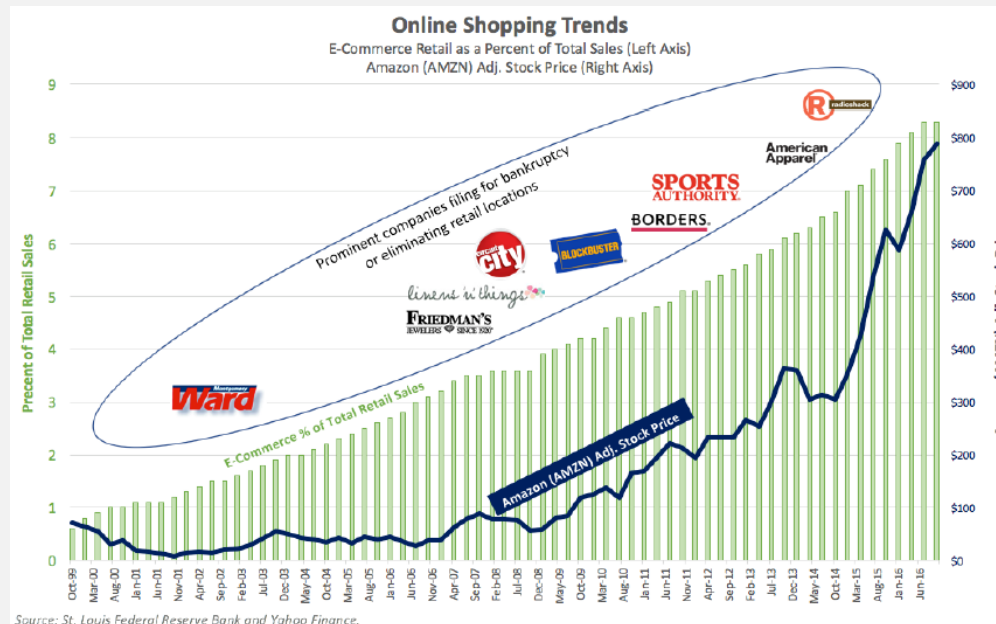
- Actual demographics from a new G-Urban deal in the submarket:
 - 40% are Millennials 25-40
 - 40% single, 60% couple/married
 - 5.5% have children
 - 34% earn under \$50,000
 - The largest concentration was households earning \$46-50k
 - Only 1.3% student
 - 12% retired
 - Top occupations:
 - Medical/healthcare 21%
 - Self-employed 15%
 - Education 8%
 - Technology 8%





OTHER QUESTIONS?

- Why are we just seeing housing proposals?
 - Brick and mortar retail is down nationally due to Amazon
 - Strong existing retail supply in Chapel Hill plus neighboring Durham
 - Office market is soft as described earlier
 - End of hotel cycle – large pipeline
 - Regional job growth of MSA has averaged 22,071 new jobs per year





OTHER QUESTIONS?

- **What is the feasibility for missing middle market rate housing?**
 - **Townhomes \$300-600,000**
 - **Affordable to households making \$75,000 - \$150,000**
 - **Average \$400,000 new home:**
 - **Builder profit \$40,000**
 - **Hard/soft costs to build \$260,000**
 - **Site development costs \$60,000**
 - **Raw land in entitled parcel, “blanks” \$40,000**
 - **Density typically 7-12/acre**
 - = Needs raw land in the \$280,000 – 480,000 range**
 - ideally sites of 5 acres+**

