



# MARKET ASSESSMENT

## Chapel Hill TOD Planning + UDO Visioning

Market Conditions and Demand Forecasts | January 2023



VISION  
ECONOMICS  
STRATEGY  
FINANCE  
IMPLEMENTATION



# EXECUTIVE SUMMARY

## Chapel Hill TOD Planning + UDO Visioning – Market Conditions and Demand Forecasts

SB Friedman completed a comprehensive market assessment to inform planning and visioning efforts in Chapel Hill. Key findings are outlined below.

- Chapel Hill is located in a region experiencing high population and job growth; however, growth in Chapel Hill and Orange County has lagged. The Town's share of the region's population and jobs has decreased over the last two decades.
- Chapel Hill's housing stock is distributed relatively evenly between owner and rental housing. Prices in both rental and for-sale markets have increased significantly since 2015, with the biggest jump occurring between 2020 and 2021.
- Housing pressures and a limited number of protected affordable units are driving affordability challenges; nearly 6 out of 10 renter households are cost burdened and there is significant unmet need for housing affordable to households earning less than 60% AMI.
- Chapel Hill has approximately 2.9M SF of existing office space, half of which is listed as Class A space. The newest office product has rents of \$39/SF. A high Class A vacancy rate partly reflects recently delivered product in lease up.
- Chapel Hill has approximately 2.6M SF of existing retail space. Retail vacancy was at a 10-year high in 2021, but below 10%, indicating a healthy market.

SB Friedman projected future demand for new development by land use. Key findings include:

- Chapel Hill could capture between 6,400 and 8,900 new housing units by 2040 (320-450 units annually). The majority of these new units will be in multifamily buildings.
- A diversity of housing types at different price points will help increase affordability. The Town of Chapel Hill should enact policies that allow older neighborhoods to evolve over time to better meet housing needs for all income levels.
- Chapel Hill could capture between 770K and 1.2M SF of new office by 2040, most of which will be in larger-scale corporate buildings.
- Chapel Hill could support an additional 660K SF of retail space by 2040.
- While Chapel Hill has a robust pipeline of housing and office developments, additional projects outside the existing pipeline will ultimately need to be entitled to meet future demand.
- Unless Chapel Hill experiences a significant increase in tourism, the town's development pipeline is likely adequate to meet hotel demand through 2040.

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# INTRODUCTION

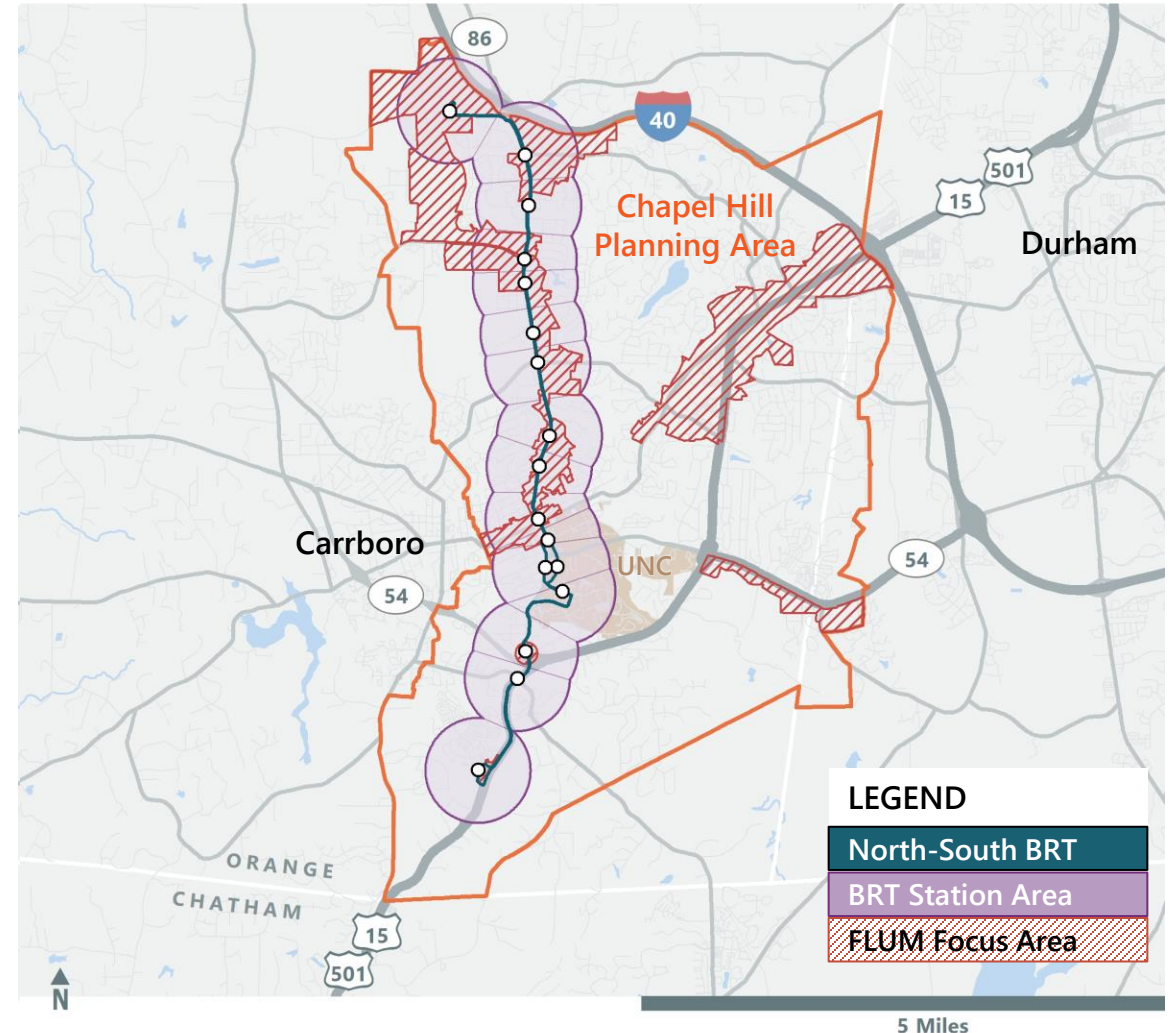
## The Town is engaged in multiple concurrent planning efforts

- The Town of Chapel Hill's North-South BRT Project (N-S BRT) is a proposed 8.2-mile bus rapid transit route with 16 planned station locations that will primarily operate in a curb-running dedicated guideway with transit signal priority.
- To complement the BRT, the Town of Chapel Hill has begun planning for transit-oriented development (TOD) within a half-mile of the stations in the corridor to:
  - Increase ridership, multimodal connectivity, and access to transportation options for pedestrians and cyclists;
  - Maximize utilization of the N-S BRT capital investment; and
  - Support economic development within the station areas.
- The Town has also begun a visioning process to audit and update its Land Use Management Ordinance. In December 2020, the Town adopted a Future Land Use Map as a Comprehensive Plan update, which identifies several Focus Areas expected to see the greatest change within Chapel Hill in coming years.
- The N-S BRT TOD Corridor and the Focus Areas are providing evidence of demand and capacity that can support implementation of the 2020 FLUM and the community's vision more generally.
- The Town of Chapel Hill engaged a planning team: SOM, SB Friedman, Neighboring Concepts, Orion Planning and Design and SRF Consulting, to draft implementation strategies to advance the Town's long-term development and transportation goals.

[1] Chapel Hill's Planning Area includes areas outside of the current Town boundary.

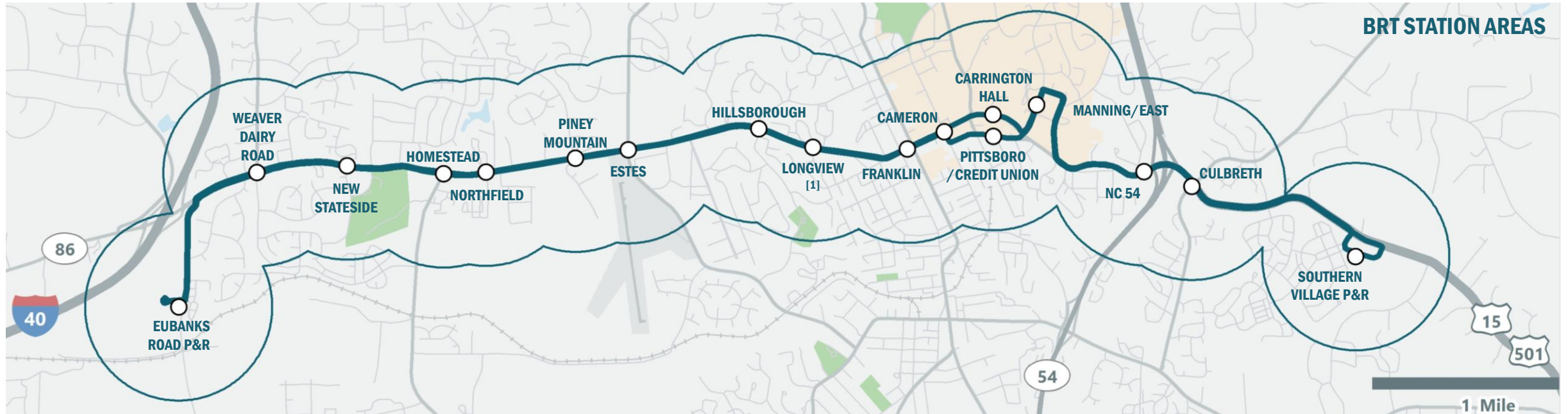
Source: Esri Business Analyst, SB Friedman

SB Friedman Development Advisors



# 2020 TOD FRAMEWORK PLAN

Plan evaluated each station area's TOD readiness, market strength, and development opportunities



[1] Longview was not evaluated in the TOD framework plan

## TOD Framework Plan – TOD Readiness Findings

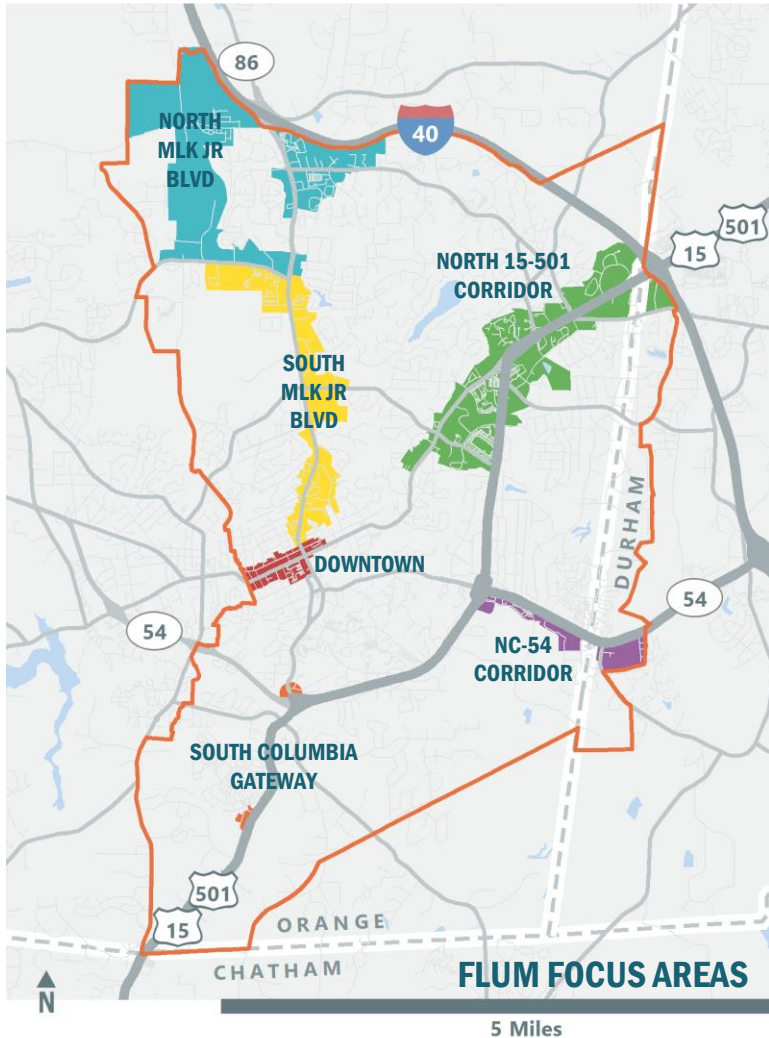
Station Area	Eubanks Road P&R	Weaver Dairy Road	New Stateside	Homestead	Northfield	Piney Mountain	Estes	Hillsborough	Franklin	Cameron	Carrington/Pittsboro	Manning/East	NC 54	Culbreth	Southern Village P&R
Readiness Rating	Emerging	Ready	Long-Term	Emerging	Long-Term	Long-Term	Emerging	Ready	Arrived	Arrived	Ready	Ready	Emerging	Long-Term	Ready
Market Strength	Low	Medium	Medium	Low	Low	Low	Medium	High	High	High	High	Medium	Medium	Low	Low
Development Opportunity	High	Medium	Low	Medium	Medium	Medium	High	Low	Medium	Low	Medium	High	Low	Low	High

Source: Chapel Hill Transit, Town of Chapel Hill, SB Friedman  
SB Friedman Development Advisors



# FUTURE LAND USE MAP (FLUM)

FLUM identified areas most likely to change in the future and provides tailored guidance for each one



## FLUM Focus Areas

North MLK Jr. Blvd	South MLK Jr. Blvd	Downtown	North 15-501 Corridor	NC 54 Corridor	South Columbia Gateway
Growth focused along transit corridors in mixed-use neighborhoods	Mixed-income housing near transit stations and within mixed-use centers	Redeveloped parking facilities to knit together the urban fabric and enhance the streetscape character and public realm	Transition single-use shopping areas to mixed-use areas with clear connections to adjacent neighborhoods	Diverse and affordable housing options with transit access	Changes complementary to existing residential uses
Diverse and accessible housing options	Locally-based businesses	Increased heights where necessary to support or encourage stated redevelopment initiatives	Special consideration to transition from higher intensity uses to single-family neighborhoods	Compact, mixed-use development	Low density residential outside Focus Area
Displacement mitigation strategies for mobile home parks	Gradual height and density transitions between new and existing development	Higher density compatible housing through infill, redevelopment, and adaptive reuse	Housing of various price points, integrated into mixed-use nodes or located near employment centers		New housing with proximity to transit
Buffers between the Greene Tract and developed land uses	Bicycle and pedestrian-friendly; connected to the larger multimodal network				
Residential uses that attract students in locations close to transit and amenities	Displacement mitigation strategies for mobile home parks	Substantial, year-round residential population to support downtown businesses	Townhomes to provide a transition between higher densities and single-family residential neighborhoods		
	Residential uses that attract students in locations close to transit and amenities		Employment centers within proximity to future transit stops		
	Buffers between Carolina North Forest and new development				

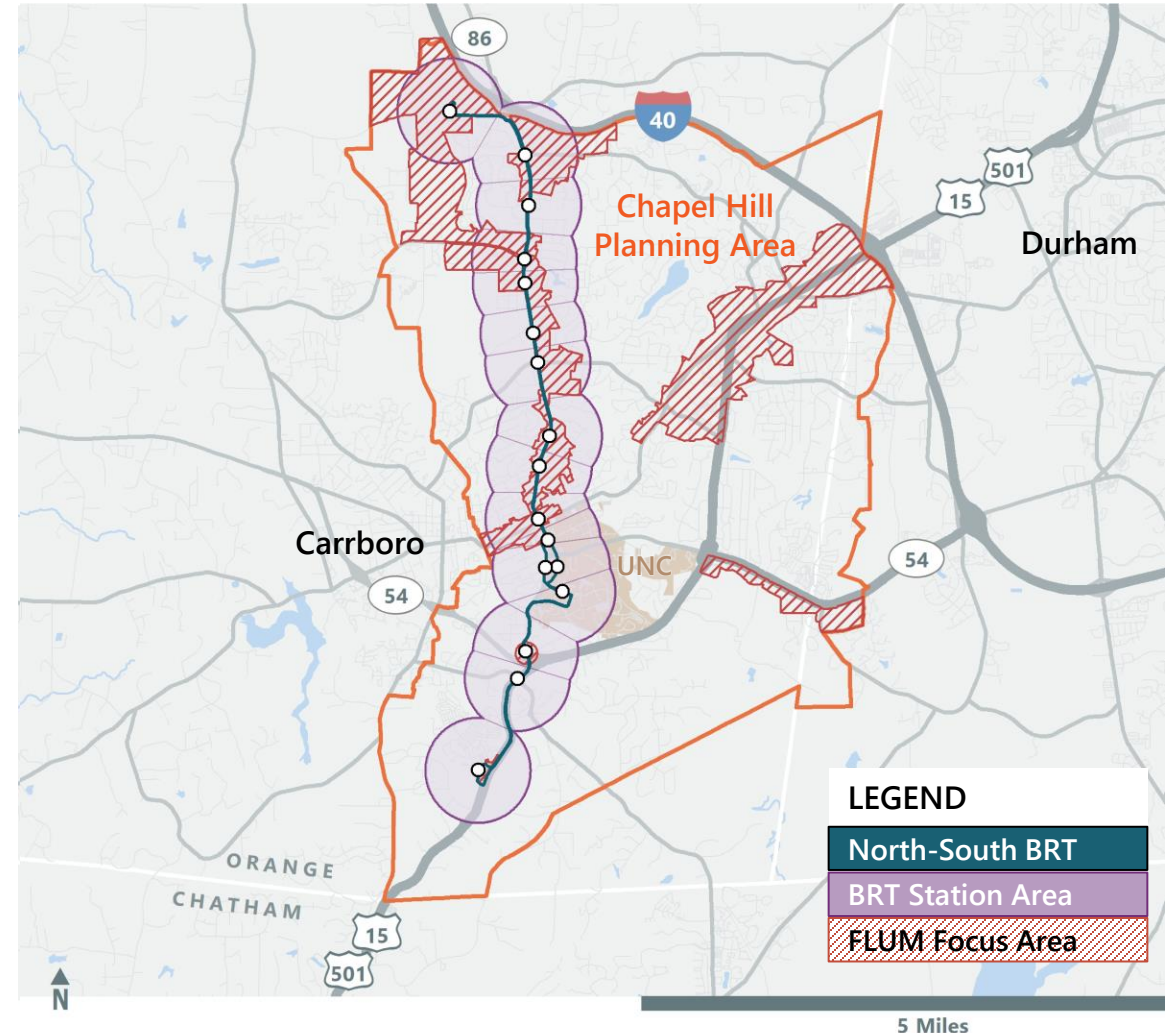
# 2022 MARKET ASSESSMENT

This market assessment will inform Chapel Hill's TOD Planning and UDO Visioning efforts

- SB Friedman was specifically engaged to complete a market assessment that builds upon and expands both the TOD framework plan and FLUM initiative. This assessment will inform subsequent work in and around BRT Station and FLUM Focus Areas.
- The BRT Station and FLUM Focus Areas, which are defined by the two planning processes, encompass ±50% of Chapel Hill's Planning Area <sup>[1]</sup> population and housing units.
- This study is poised to help develop the North-South BRT corridor through utilization of the FLUM, while helping enhance and influence transit-oriented development and land use policies within the corridor and across the Town.

	GEOGRAPHY	POPULATION	HOUSING UNITS
<b>CHAPEL HILL PLANNING AREA <sup>[1]</sup></b>	27.5 SQ. MI.	66,146	23,712
<b>STATION AREAS / FOCUS AREAS</b>	9.6 SQ. MI.	32,999	11,482
<b>% OF TOTAL</b>	<b>34.8%</b>	<b>49.9%</b>	<b>48.4%</b>

[1] Chapel Hill's Planning Area includes areas outside of the current Town boundary.  
Source: Esri Business Analyst, SB Friedman  
SB Friedman Development Advisors



# MARKET ASSESSMENT METHODOLOGY

## Key analytical process to inform market-based vision

- SB Friedman developed a baseline understanding of existing real estate market dynamics, engaged key stakeholders, and forecasted future demand for new development.



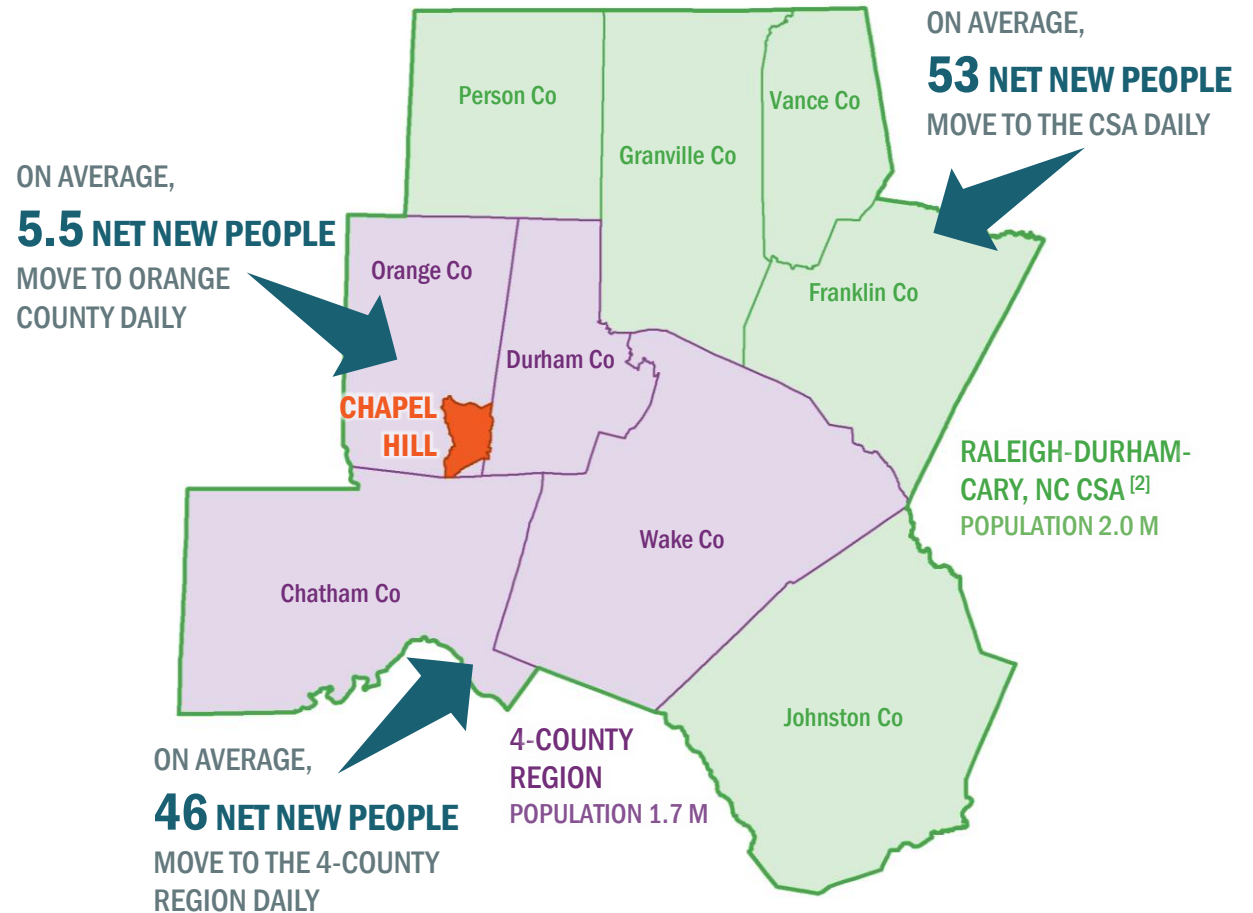


# DEMOGRAPHIC, SOCIOECONOMIC AND WORKFORCE CHARACTERISTICS

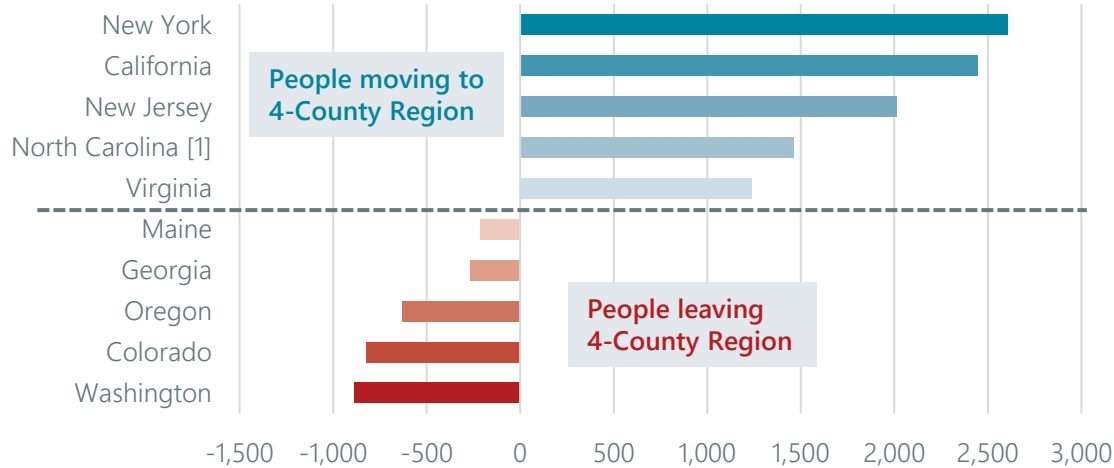
# REGIONAL CONTEXT

## Chapel Hill is located in a region experiencing significant population growth

- The Raleigh-Durham-Cary, NC Combined Statistical Area <sup>[2]</sup> (CSA) attracted, on average, 53 net new residents per day between 2015 and 2019.
- Between 2020 and 2021, the CSA had the 9<sup>th</sup> highest population increase among CSAs nationally.
- New residents are largely arriving from high-cost areas in the Northeast and western regions of the United States.



### NET ANNUAL MIGRATION - TOP STATES



[1] Net moves between the 4-County region and the rest of the state.

[2] The Raleigh-Durham-Cary, NC Combined Statistical Area consists of the following counties: Chatham, Durham, Franklin, Granville, Johnston, Orange, Person, Vance, and Wake.

Source: ACS 2019 5-Year Estimates, Esri, SB Friedman

# POPULATION GROWTH

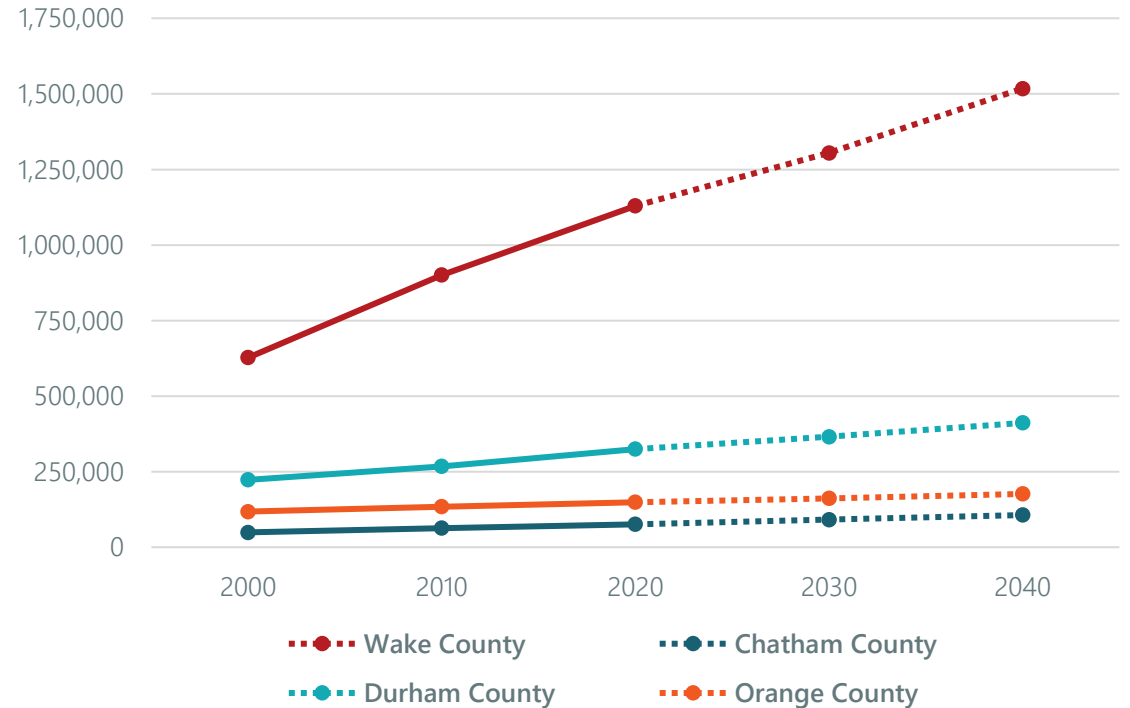
At the 2020 Census, Chapel Hill was home to nearly 62,000 people

- Between 2000 and 2020, the 4-County Region, consisting of Chatham, Durham, Orange, and Wake Counties, grew on average 2.5% annually; Chapel Hill's growth rate has been  $\pm 50\%$  of that, or 1.2% per year.
- Over the last 20 years, Chapel Hill captured 2.0% of regional growth; however, state projections are assuming that the Town will capture a higher rate of regional growth over the next 20 years ( $\pm 2.7\%$ ).

Chapel Hill Population (2000)	New Residents (2000-2020)	Chapel Hill Population (2020)	Compound Annual Growth Rate (CAGR)
48,710	+13,250	61,960	1.2%

	Historical 2000-2020 CAGR	Projected 2020-2040 CAGR
Chapel Hill	1.2%	1.0%
4-County Region	2.5%	1.4%
Raleigh-Durham-Cary, NC CSA	2.4%	1.4%

HISTORIC AND PROJECTED POPULATION



[1] The 4-County Region consists of the following counties: Chatham, Durham, Orange, and Wake. Source: Decennial Census, North Carolina Office of State Budget and Management (NC OSBM) SB Friedman Development Advisors

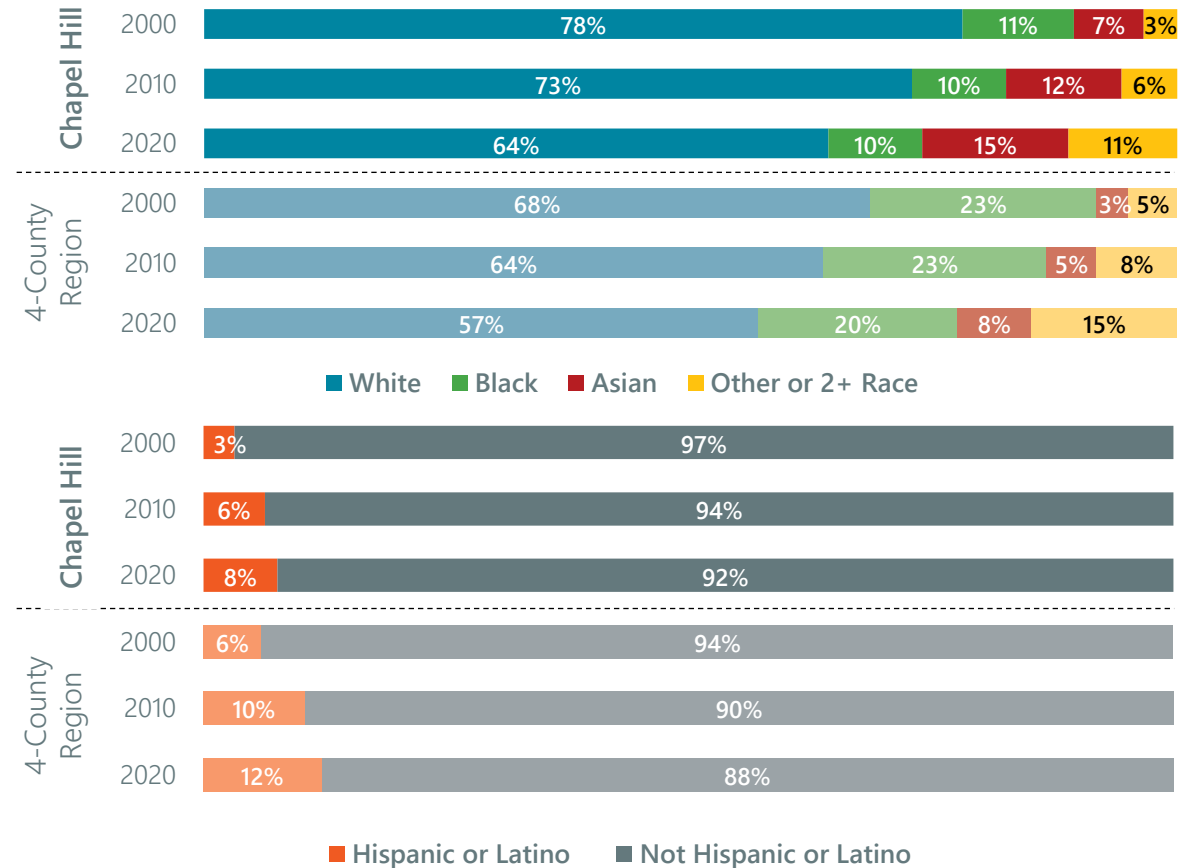


# RACIAL AND ETHNIC COMPOSITION

## Chapel Hill is less diverse than the 4-County Region, but is becoming more diverse

- Between 2000 and 2020, Chapel Hill became more diverse. In 2000, Chapel Hill was 78% white alone; that number is now closer to 64%.
- Growth is largely in people who identify as Asian or of 2 or more races.
- The share of Chapel Hill residents who identified as Hispanic or Latino also grew from 3% in 2000 to 8% in 2020.
- Chapel Hill continues to be less diverse than the 4-County Region overall.

AREA RACIAL AND ETHNIC COMPOSITION



[1] Other or 2+ Race category includes respondents that marked more than one race or a race other than the ones above. This category also includes people identifying as American Indian or Alaska Natives.

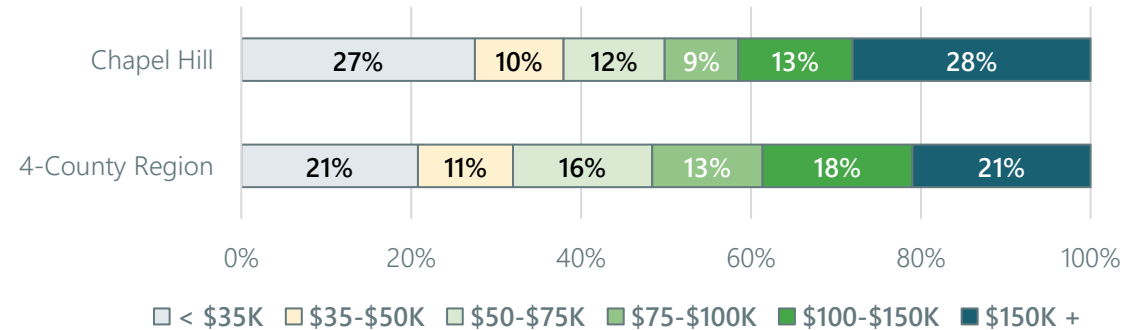
Source: Esri, Decennial Census

# EDUCATIONAL ATTAINMENT AND HOUSEHOLD INCOME

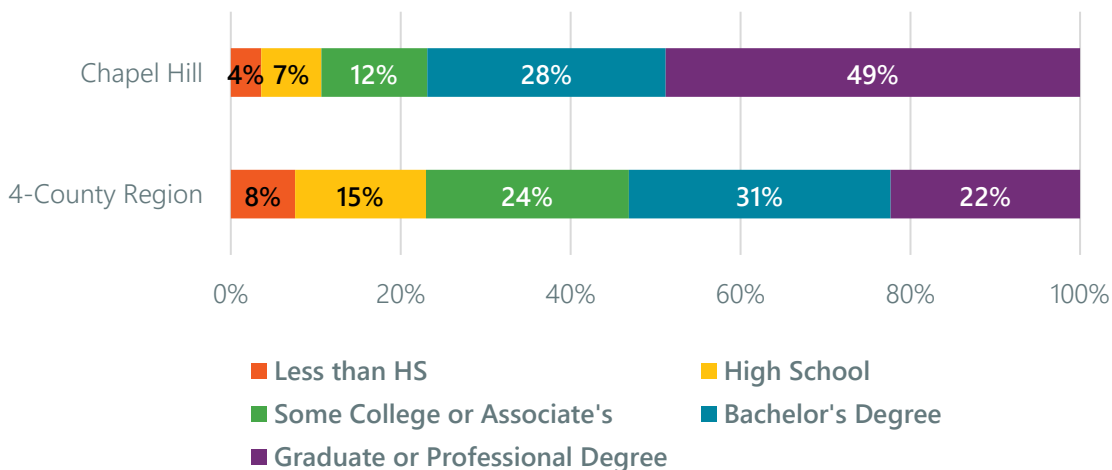
In aggregate, Chapel Hill residents are highly educated with a high median household income

- As of 2020, 77% of Chapel Hill's adult population (age 25+) held a bachelor's degree or higher. The median household income for the Town was \$75,249.
- There is a high share of lower-income households in Chapel Hill where the householder is under 25; this is driven in-part by the presence of UNC and its large student body.
- There are also a high number of households earning \$150,000+, particularly in the family years (age 35-54).

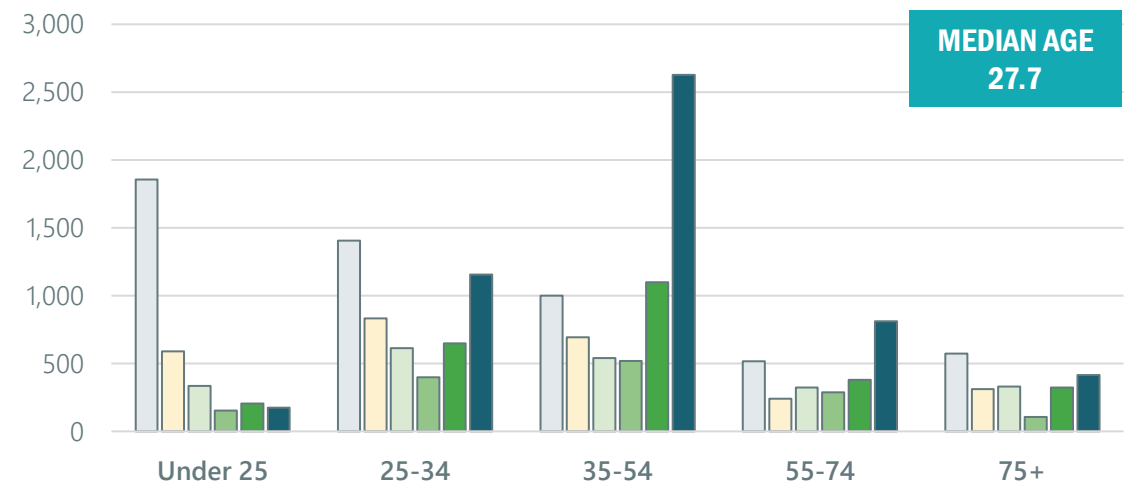
HOUSEHOLD INCOME DISTRIBUTION



ADULT EDUCATIONAL ATTAINMENT



CHAPEL HILL HOUSEHOLDS BY AGE & INCOME

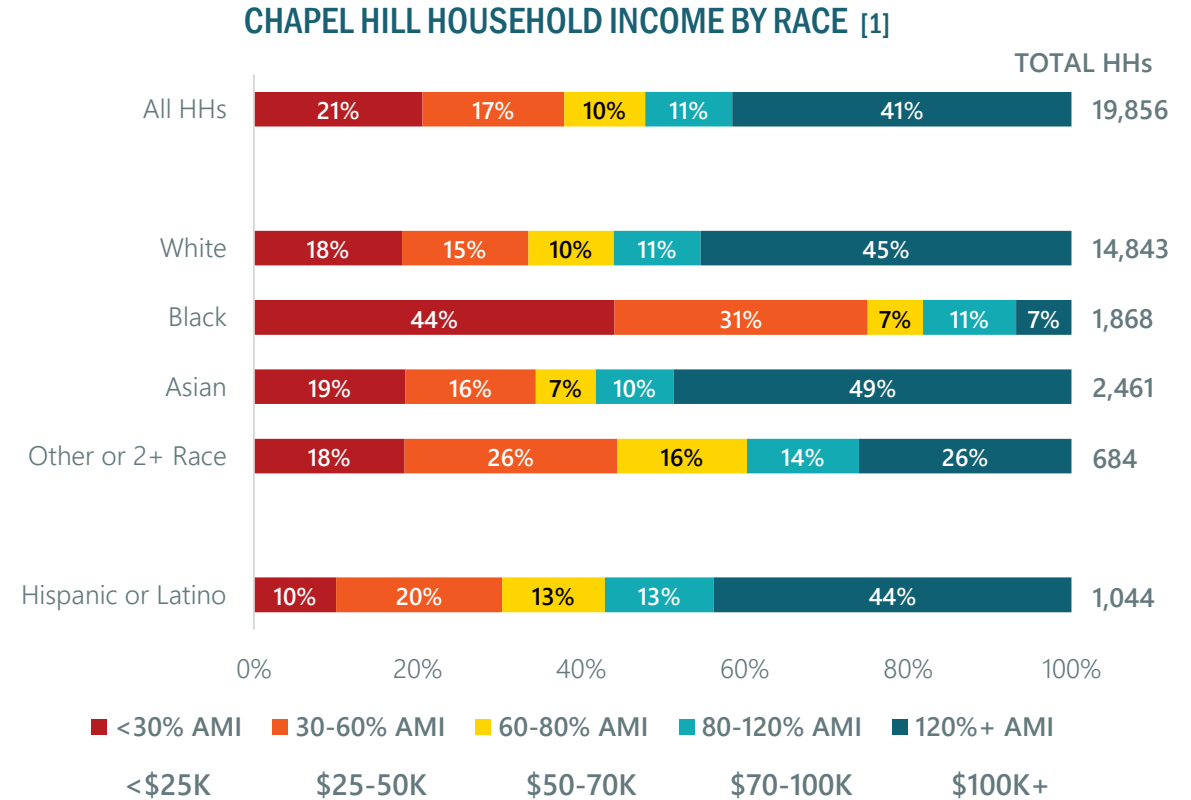


Source: ACS 2020 5-Year Estimates  
SB Friedman Development Advisors

# HOUSEHOLD INCOME

## 38% of Chapel Hill households earn 60% or less of the area median income (AMI)

- Income inequalities by race are evident in Chapel Hill.
- Overall, about 38% of all Chapel Hill households earn 60% of area median income (AMI) or less.
- However, 75% of Black households, and 44% of households identifying as of 2+ races, or American Indian or Alaska Native, earn 60% of AMI or less.
- White, Asian, and Hispanic or Latino households show comparable income distributions.



[1] AMI categories correspond roughly to 2019 AMI levels for a four-person household (\$84,800 = 100% AMI).

[2] Other or 2+ Race category includes respondents that marked more than one race or a race other than the ones above. This category also includes people identifying as American Indian or Alaska Native.

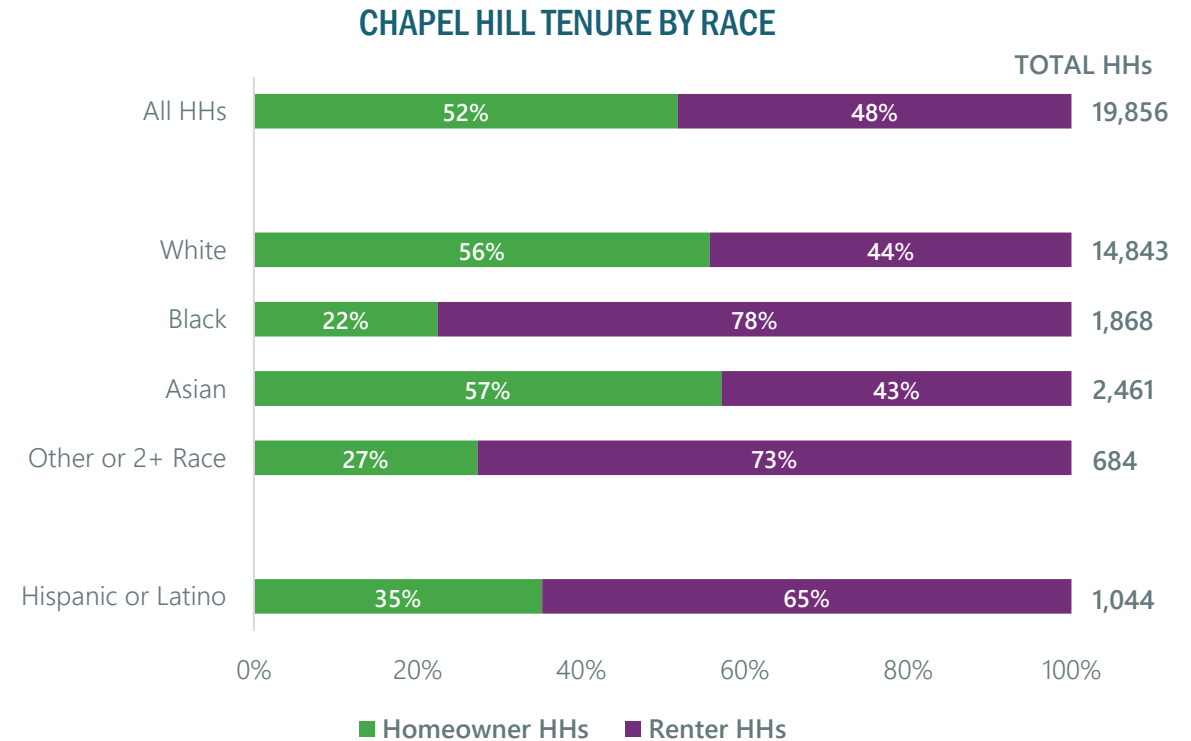
Source: ACS 2020 5-Year Estimates, SB Friedman



# HOUSING TENURE

## 52% of Chapel Hill households live in homeowner units

- White and Asian households have a higher homeownership rate than Chapel Hill as a whole.
- Relative to White and Asian homeownership, Chapel Hill experiences
  - A 34-35-point gap in Black homeownership
  - A 21-22-point gap in Hispanic or Latino homeownership



[1] Other or 2+ Race category includes respondents that marked more than one race or a race other than the ones above. This category also includes people identifying as American Indian or Alaska Native.

Source: ACS 2020 5-Year Estimates, SB Friedman

# COMMUTING PATTERNS

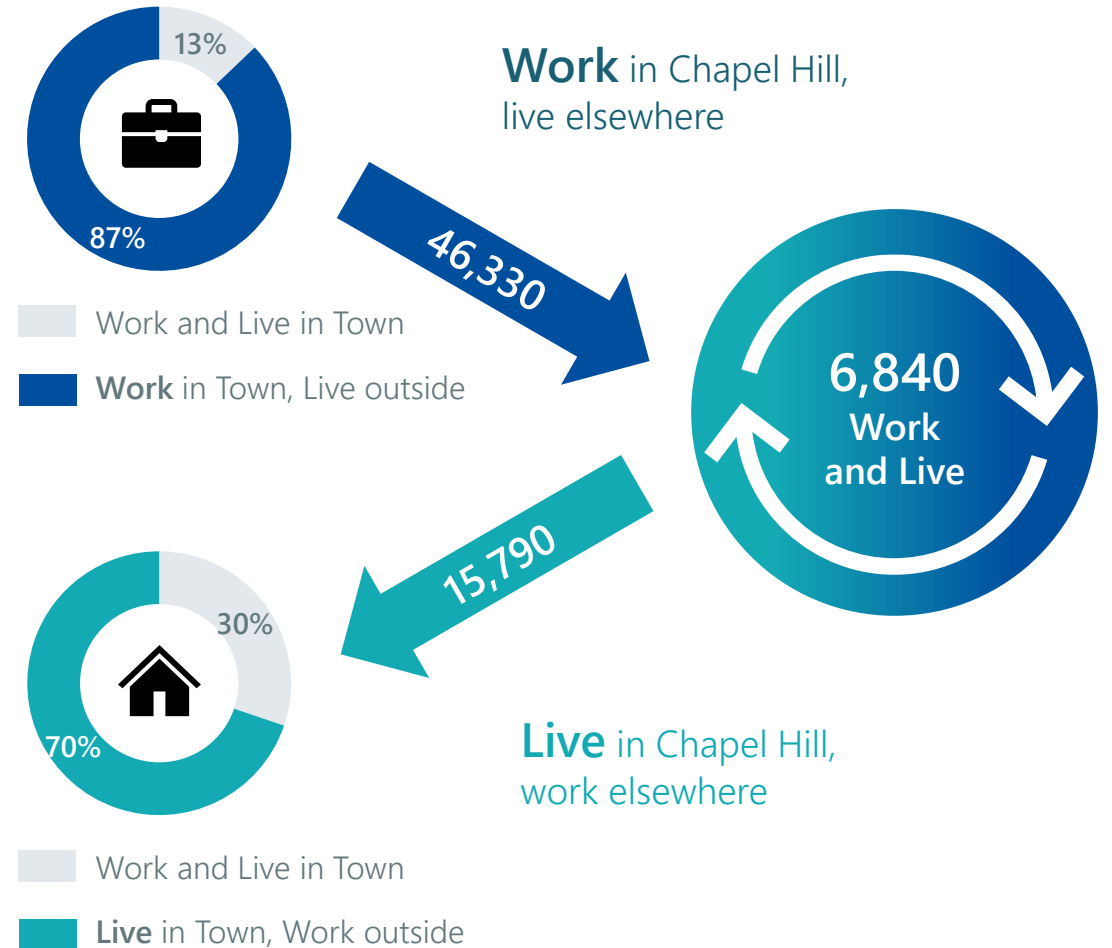
## Relatively few people both live and work in Chapel Hill

- Only ±30% of residents live and work in Chapel Hill.
- Chapel Hill workers are commuting in from adjacent areas, while Chapel Hill residents are commuting to a variety of places, including Downtown Durham, the Duke University Medical Center and Research Triangle Park.
- The Town has a very high Jobs to Housing Ratio – 2.24 jobs per housing unit

### JOBS-HOUSING RATIO IN REGIONAL CITIES WITH MAJOR UNIVERSITY PRESENCE

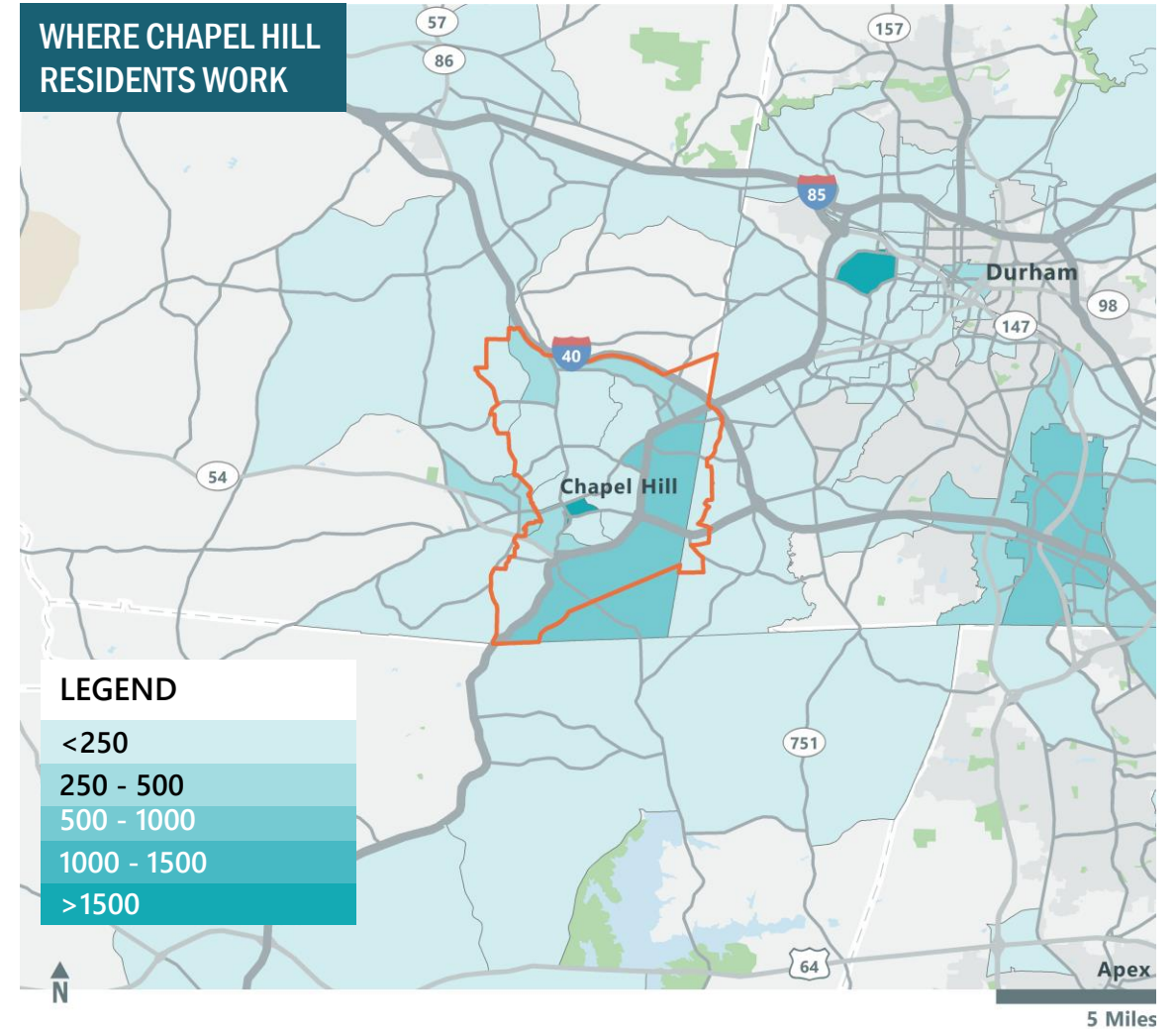
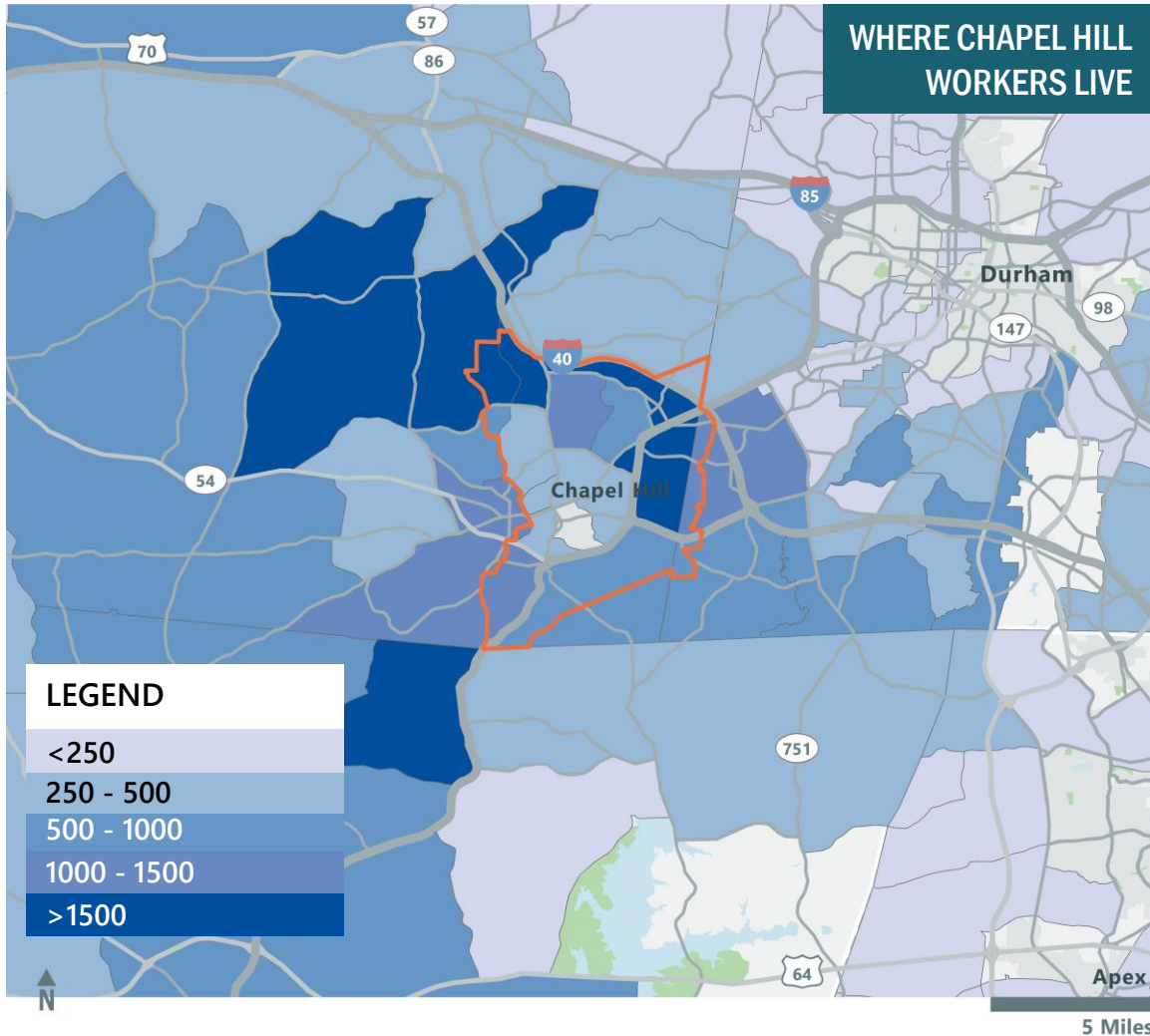
City	University	Jobs-Housing Ratio
Athens, GA	Georgia	1.23
Durham, NC	Duke	1.42
Winston-Salem, NC	Wake Forest	1.43
Raleigh, NC	NC State	1.81
<b>Chapel Hill, NC</b>	<b>North Carolina</b>	<b>2.24</b>
College Park, MD	Maryland	2.32
Greenville, SC	Clemson	3.38

Source: ACS 2019 5-Year Estimates, LEHD, SB Friedman  
SB Friedman Development Advisors



# COMMUTING PATTERNS

Workers commute from adjacent areas; residents commute to a variety of places



Source: LEHD, SB Friedman  
SB Friedman Development Advisors

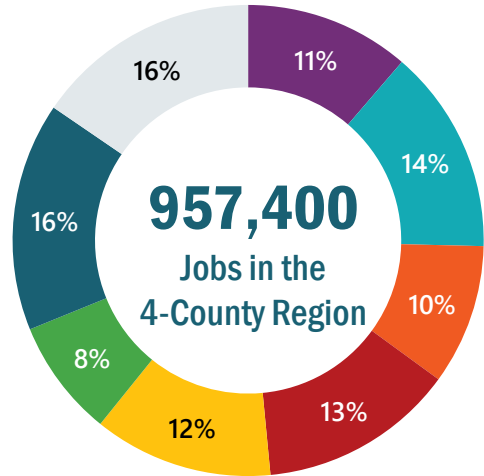
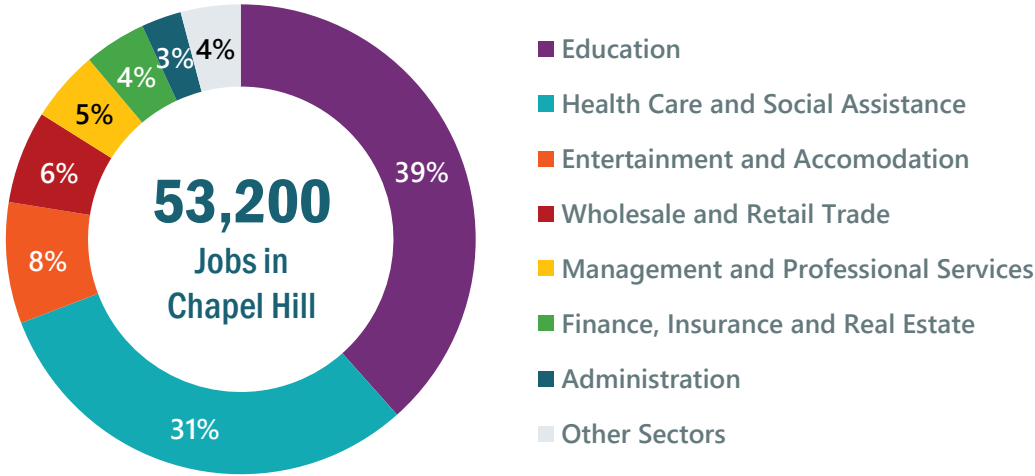


# WORKFORCE COMPOSITION

## Chapel Hill accounts for 5.6% of the 4-County Region’s total jobs

- 70% of the Chapel Hill workforce is employed in education and health care, while the 4-County Region’s economy is more diversified.
- The ReVive Chapel Hill Recovery and Resiliency Plan (2021) identified Healthcare, Education, Software/IT, and Research as key economic sectors.

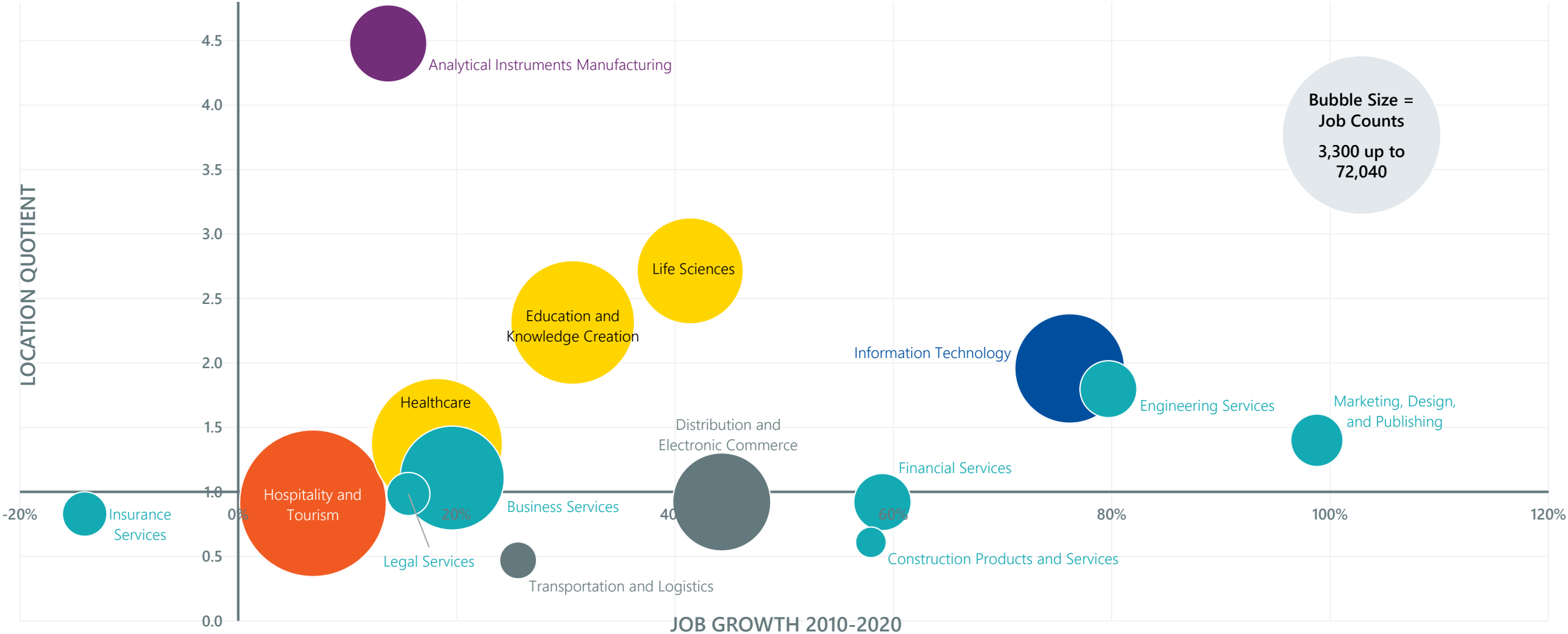
	Chapel Hill Jobs	4-County Region Jobs
Education	20,422	108,339
Health Care and Social Assistance	16,373	134,685
Entertainment and Accommodation	4,430	92,357
Wholesale and Retail Trade	3,394	128,796
Management and Professional Services	2,614	117,857
Finance, Insurance and Real Estate	2,275	77,108
Administration	1,467	150,262
Other Sectors	2,191	148,006



Source: LEHD, SB Friedman  
SB Friedman Development Advisors

# 4-COUNTY REGION CLUSTERS

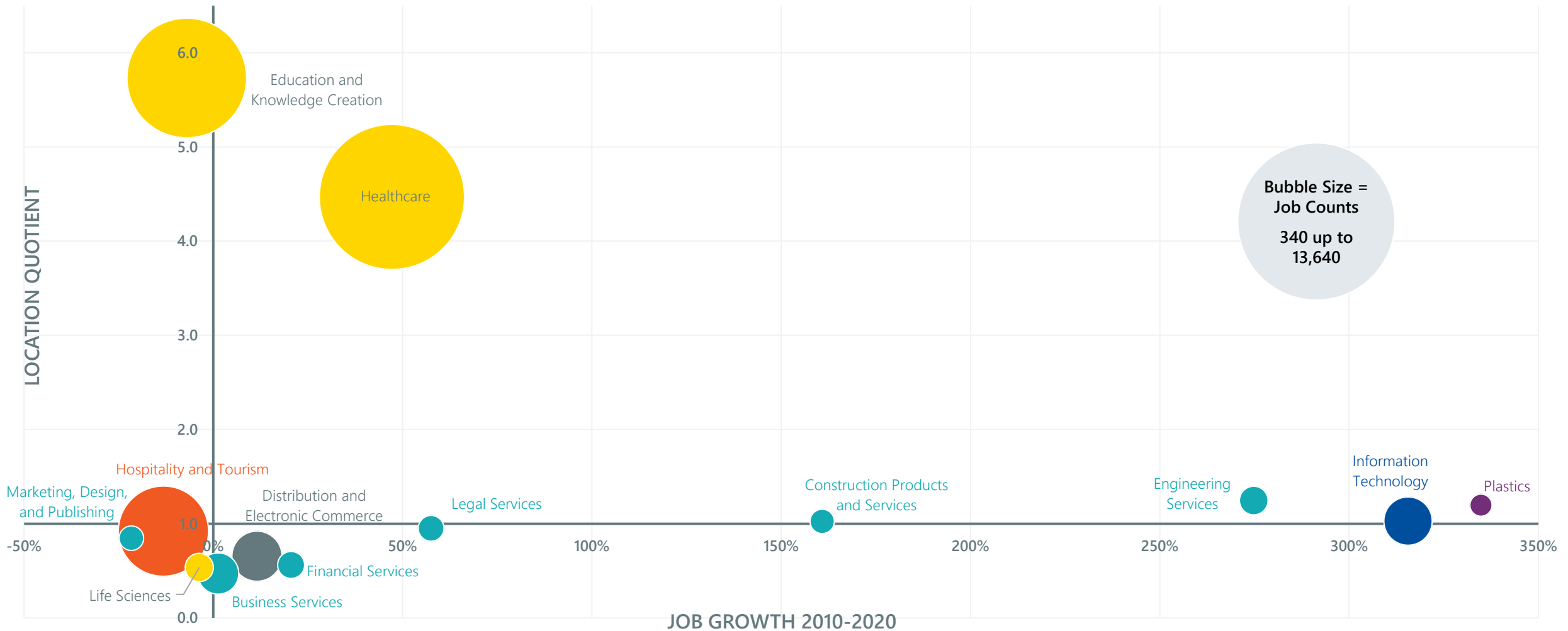
The region's economy is highly diversified



Source: Emsi, SB Friedman  
SB Friedman Development Advisors

# ORANGE COUNTY CLUSTERS

Information technology and engineering are smaller, but fast-growing sectors in Orange County



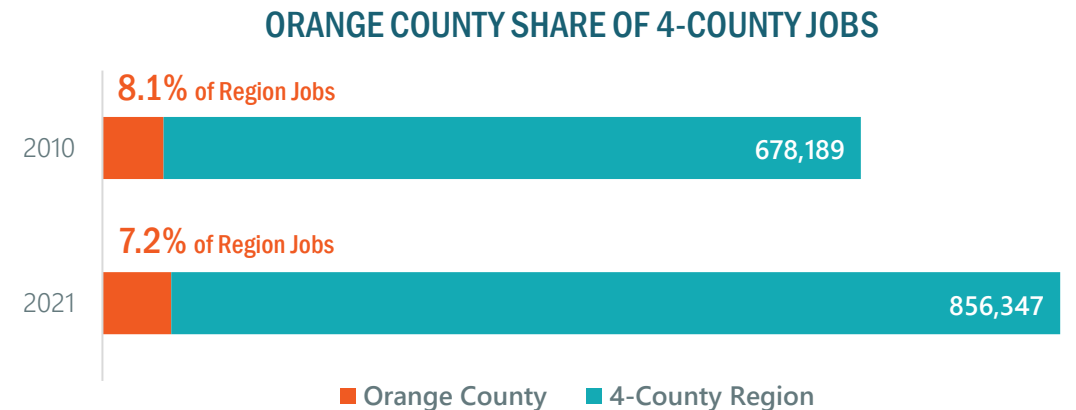
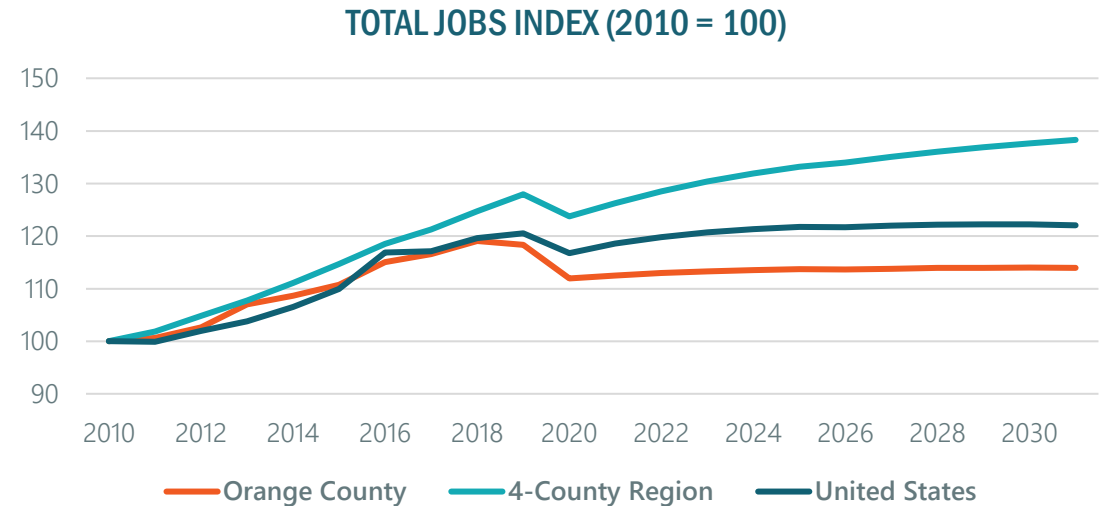
Source: Emsi, SB Friedman  
SB Friedman Development Advisors



# EMPLOYMENT GROWTH

## Recent job growth in Orange County has lagged the region as a whole

- As the 4-County Region continues to grow quickly, Orange County's share of regional jobs is declining.
- However, the Town of Chapel Hill is undertaking a planning effort to establish downtown as an employment center. The Town is currently working on an Innovation District Vision and Strategy with the goal of making downtown "a place where industry and academia come together in solving some of the world's toughest problems."
- The strategy targets companies/divisions of 50-100 people.
  - Research and Development divisions of established companies
  - Contract research organizations
  - Professional services companies



# KEY TAKEAWAYS

## Demographic, socioeconomic and workforce characteristics

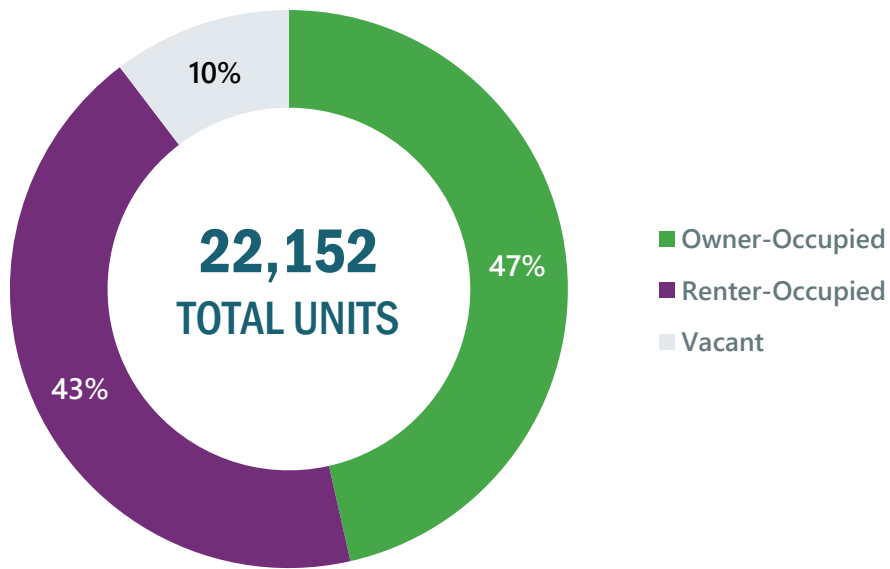
- The 4-County Region is experiencing high population and job growth; however, growth in Chapel Hill and Orange County has lagged.
- The Town's share of the region's population and jobs has decreased over the last two decades.
- Chapel Hill is less diverse than the 4-County Region but is becoming a more diverse community.
- Chapel Hill is highly educated – 77% of adults (age 25+) hold a bachelor's degree or higher.
- The Town's median HH income is high, but is impacted by a high number of low-income, young adult households.
- Income inequalities are evident; 75% of Black households earn 60% of AMI or less, there is also a 34-35-point gap between Black homeownership and white and Asian homeownership
- The Town has a high jobs to housing ratio and relatively few people both live and work in Chapel Hill.
- Chapel Hill's economy is specialized in education and health care, while the region's economy is more diversified.
- An innovation district planning effort is underway and is focused on capturing a greater share (relative to the region) of research and development, and professional services companies locally.

# HOUSING CHARACTERISTICS

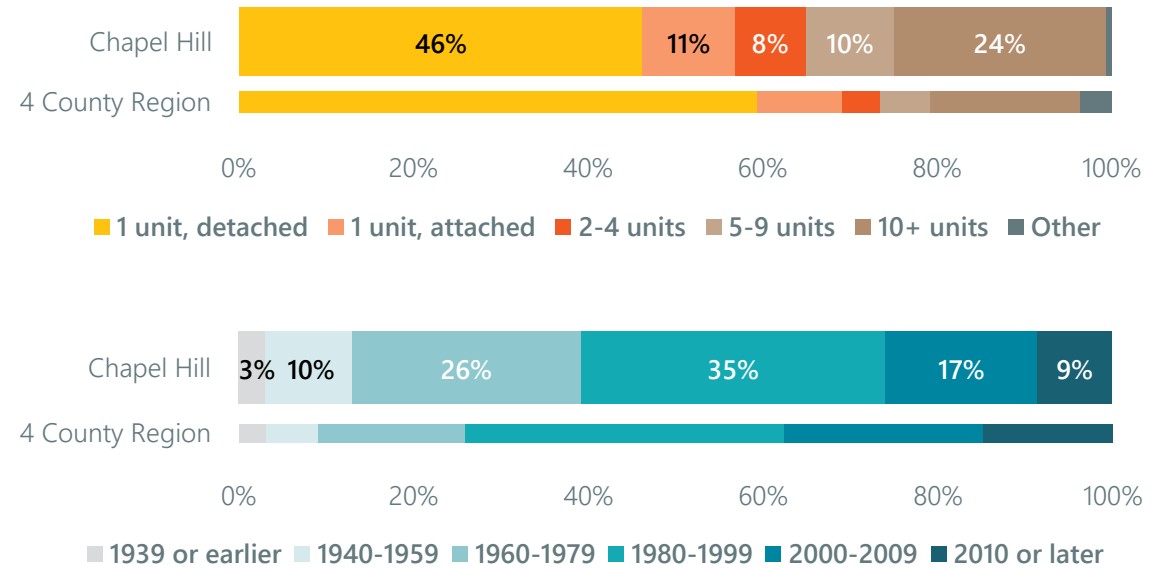
# EXISTING HOUSING STOCK

57% of Chapel Hill's housing units are single-family; 47% of housing units are owner-occupied

- Chapel Hill has a relatively even split of both single family and multifamily (2+ unit) homes, as well as of owner-occupied and renter-occupied homes.
- 35% of existing homes were built between 1980 and 1999, which was the peak period of suburbanization in the United States.
- 26% of the existing housing stock has been built since 2000.



## AREA HOUSING STOCK

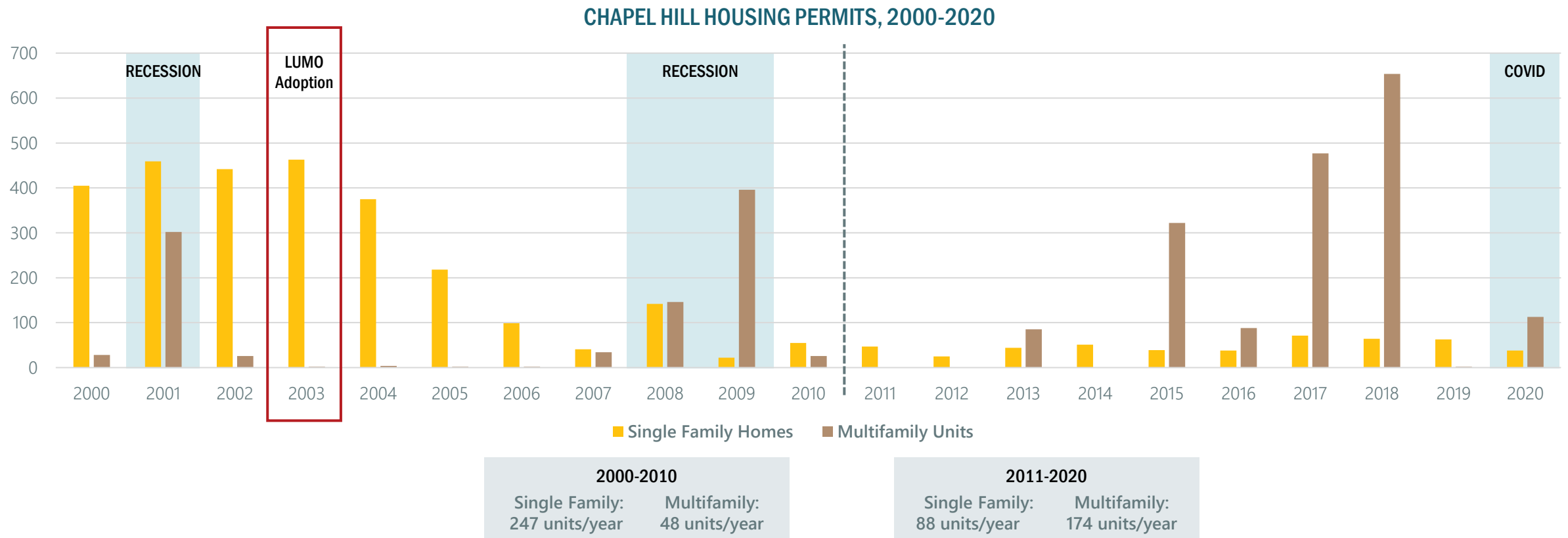




# TRENDS IN NEW HOUSING PERMITS

## Recent housing production is largely multifamily

- Housing production in Chapel Hill over the last 10 years has been primarily multifamily – permitting on average 174 units per year according to the US Census.
- The recent multifamily production represents a shift from the early 2000s, when there was a much higher level of single-family housing production.

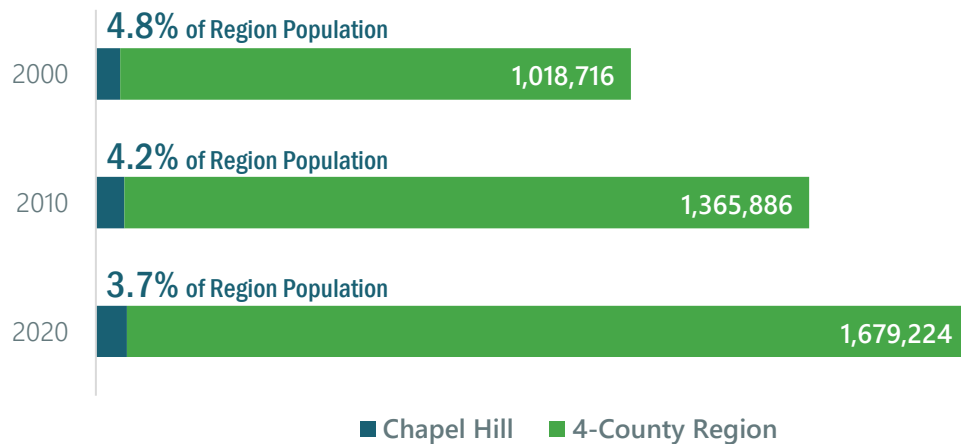


# REGIONAL CAPTURE OF NEW HOUSING PERMITS

## Chapel Hill has been capturing a decreasing share of new housing permits in the region

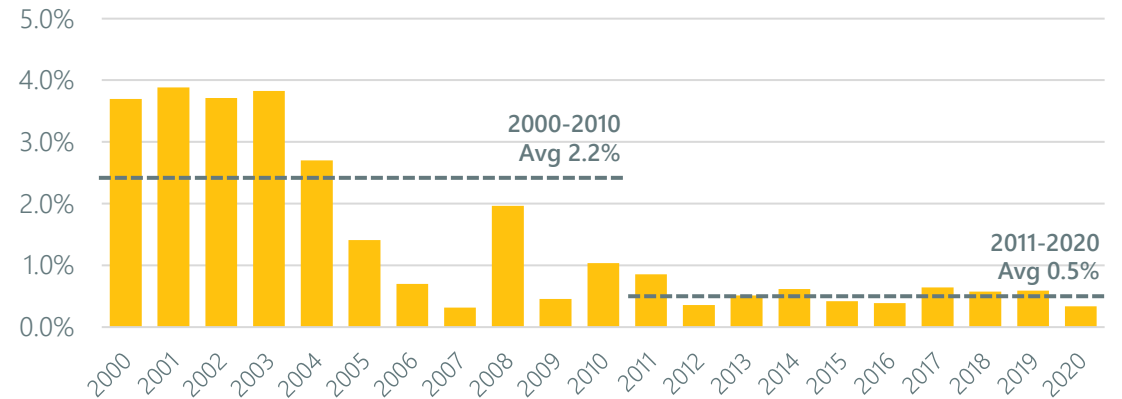
- The remainder of the 4-County Region is still producing a high number of single-family homes, resulting in a substantial decrease in Chapel Hill's capture of regional single-family housing permits.
- Chapel Hill's capture of multifamily housing permits in the 4-County Region has been somewhat consistent.
- The reduction in single-family housing starts in Chapel Hill is resulting in a decrease of the Town's share of the 4-County Region's population.

**CHAPEL HILL SHARE OF 4-COUNTY POPULATION**

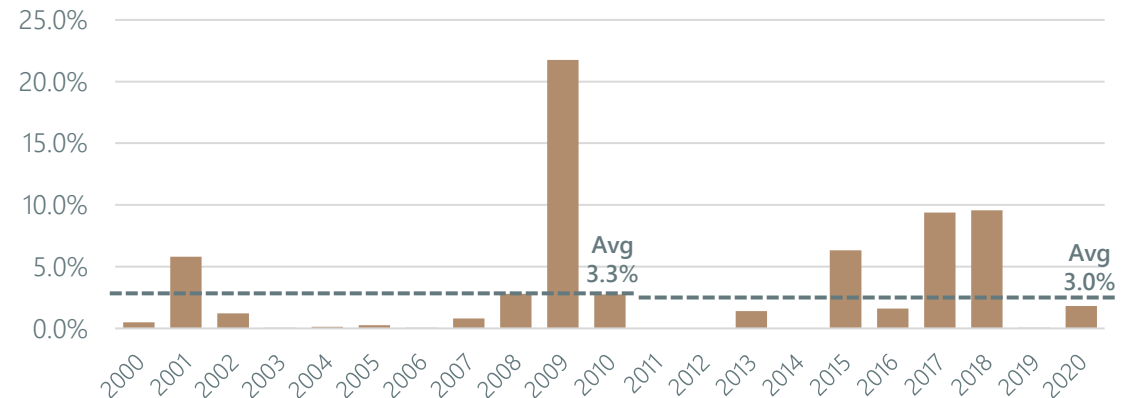


**ANNUAL CAPTURE OF 4-COUNTY HOUSING PERMITS**

**SINGLE-FAMILY**



**MULTIFAMILY**



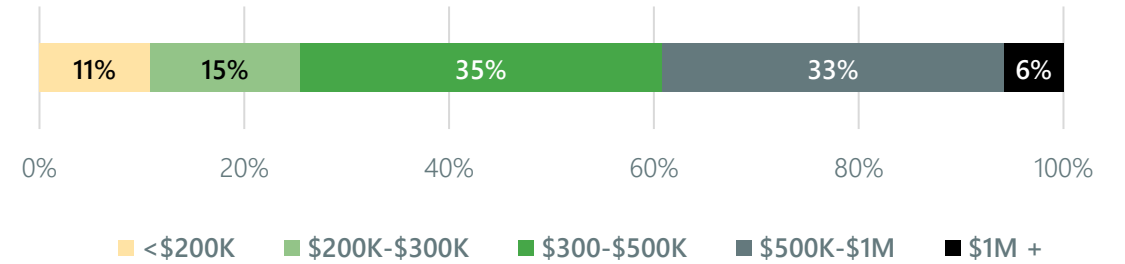
Source: Decennial Census, SB Friedman, US Census Building Permits Survey  
SB Friedman Development Advisors

# OWNER-OCCUPIED HOUSING

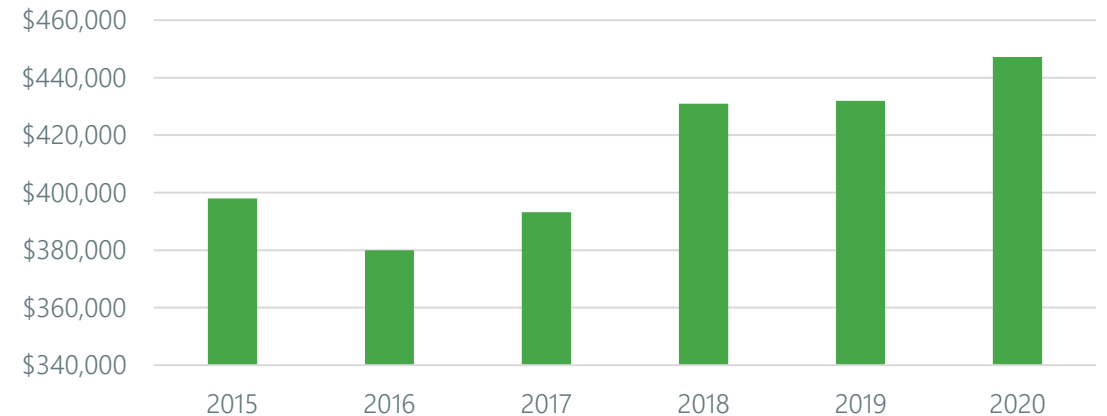
## Chapel Hill has a high median home value (\$435,500)

- A constrained housing supply is leading to upward pressure on owner-occupied housing costs.
- As of 2020, the median home value was \$435,500; nearly 40% of homes had a value above \$500,000.
- For the median home value to be considered affordable, a household would need to earn ±\$96,200 per year.

### CHAPEL HILL OWNER-OCCUPIED HOUSING VALUES



### CHAPEL HILL MEDIAN SINGLE-FAMILY HOME SALES PRICE [1]



[1] 2015-2020 data from County Assessors. Includes sales in zoning areas permitting ≤7 dwelling units/acre

[2] Required household income calculation assumes a 10% down payment and homeowner's insurance, mortgage insurance, and PMI payments equal to 10%, 10%, and 1% of monthly payments, respectively.

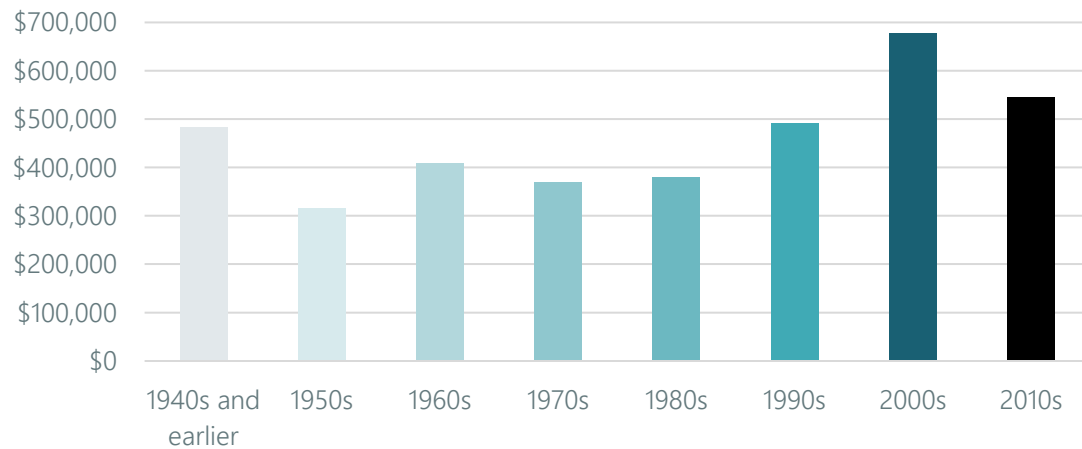
Source: ACS 2020 5-Year Estimates, Durham County, Orange County, SB Friedman

# OWNER-OCCUPIED HOUSING

## Newer housing commands a price premium over older homes

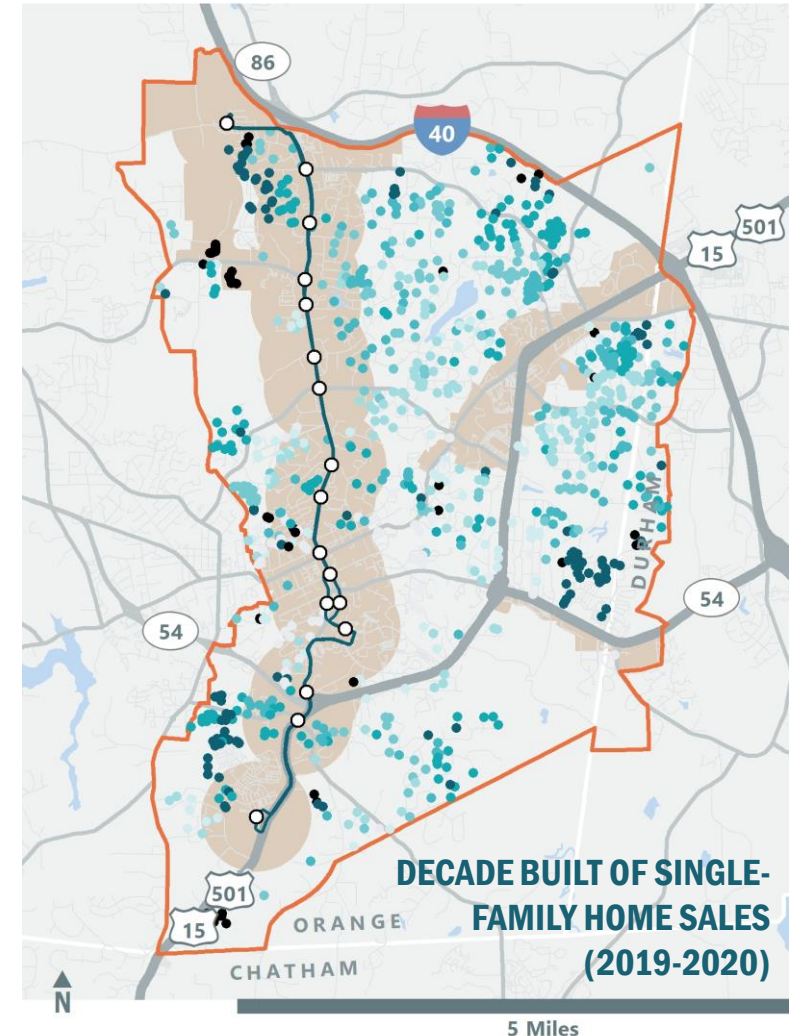
- Older single-family homes are generally more affordable than newer housing.
- The most expensive large developments (e.g., Meadowmont) were built between 2000 and 2009.

**MEDIAN SALE PRICE BY DECADE BUILT - HOMES SOLD 2019-20**



**DECADE BUILT**

1940s & earlier	1980s
1950s	1990s
1960s	2000s
1970s	2010s



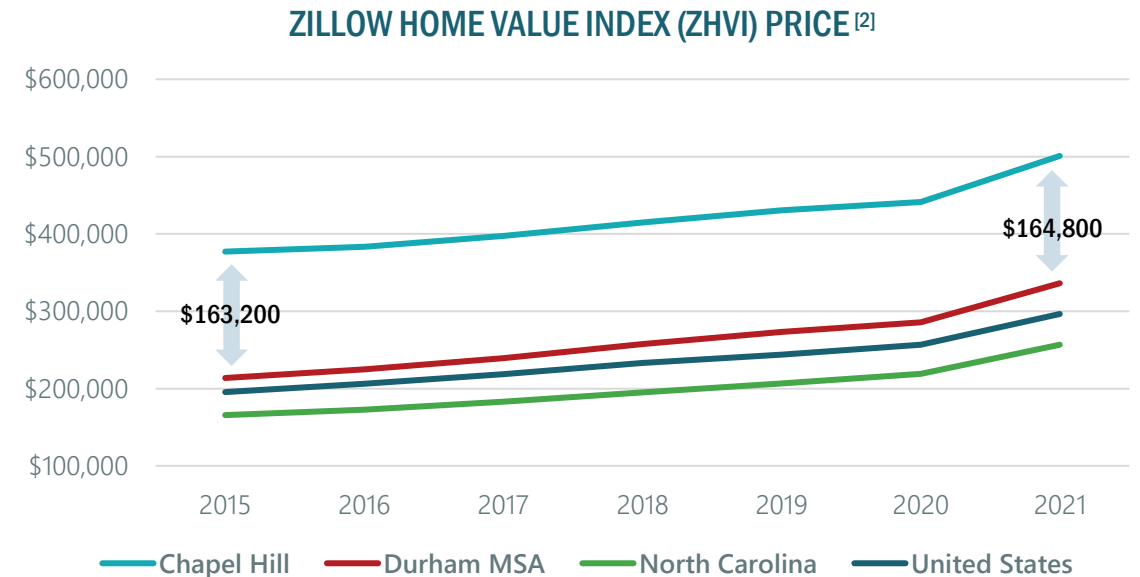
[1] Data from County Assessors. Includes sales in zoning areas permitting  $\leq 7$  dwelling units/acre  
 Source: Durham County, Orange County, SB Friedman, Zillow  
 SB Friedman Development Advisors



# OWNER-OCCUPIED HOUSING

## Single-family home values in Chapel Hill increased by 33% between 2015 and 2021

- Between 2020 and 2021 alone, single family home values in Chapel Hill increased by 14%, while North Carolina and the Durham-Chapel Hill Metropolitan Statistical Area (MSA)<sup>[1]</sup> experienced increases of 17-18%.
- Overall, single-family home values in Chapel Hill increased by 33% between 2015 and 2021.
- The typical home value in Chapel Hill is higher than in those comparative geographies. The premium in home values in Chapel Hill relative to the state and MSA was similar in both 2015 and 2021.
- As of 2021, the annual income required to afford the typical home value in Chapel Hill is now over \$110,000.
- These increases signal a constrained housing market.



	2015 ZHVI Price	2021 ZHVI Price	2015-2021 % Change	Required Income to Afford 2021\$ <sup>[3]</sup>
<b>Chapel Hill</b>	\$377,000	\$501,000	33%	\$110,700
<b>Durham MSA</b>	\$213,800	\$336,200	57%	\$74,300
<b>North Carolina</b>	\$165,700	\$256,700	55%	\$56,700
<b>United States</b>	\$195,600	\$296,600	52%	\$65,500

[1] The Durham-Chapel Hill MSA includes Orange, Durham, Chatham, Granville, and Person Counties.

[2] The Zillow Home Value Index (ZHVI) is a smoothed, seasonally adjusted measure of the typical home value in a given region. It reflects the typical value for homes in the 35th to 65th percentile range.

[3] Required household income calculation assumes a 10% down payment and homeowner's insurance, mortgage insurance, and PMI payments equal to 10%, 10%, and 1% of monthly payments, respectively.

Source: SB Friedman, Zillow

# RENTER-OCCUPIED HOUSING

Representative new projects have rents above \$2.00/SF



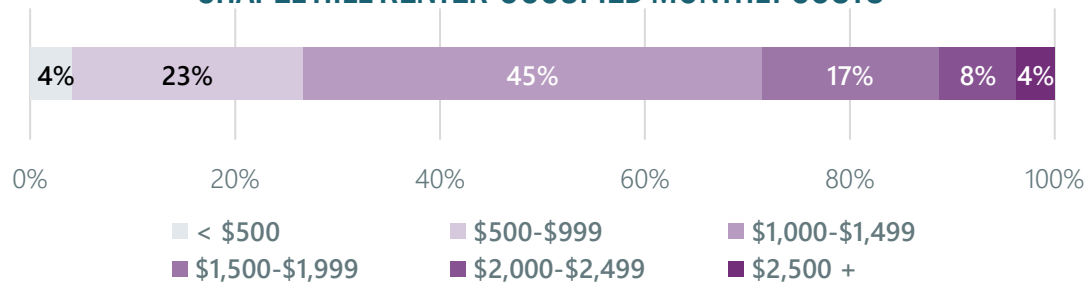
	Bell Chapel Hill	Carraway Village	Link Apartments Linden
Address	1300 Fordham Blvd	600 Carraway Crossing	411 Flemington Rd
Units (Studio/1BR/2BR/3BR+)	271 (71/118/83/0)	403 (135/109/136/23)	215 (0/135/80/0)
Year Built	2020	2019	2020
Average Unit Size	817 SF	952 SF	778 SF
Average Chunk Rent	\$1,641	\$1,949	\$1,716
Average Rent/SF	\$2.01	\$2.05	\$2.20
Vacancy Rate	6.1%	2.8%	2.8%

# RENTER-OCCUPIED HOUSING

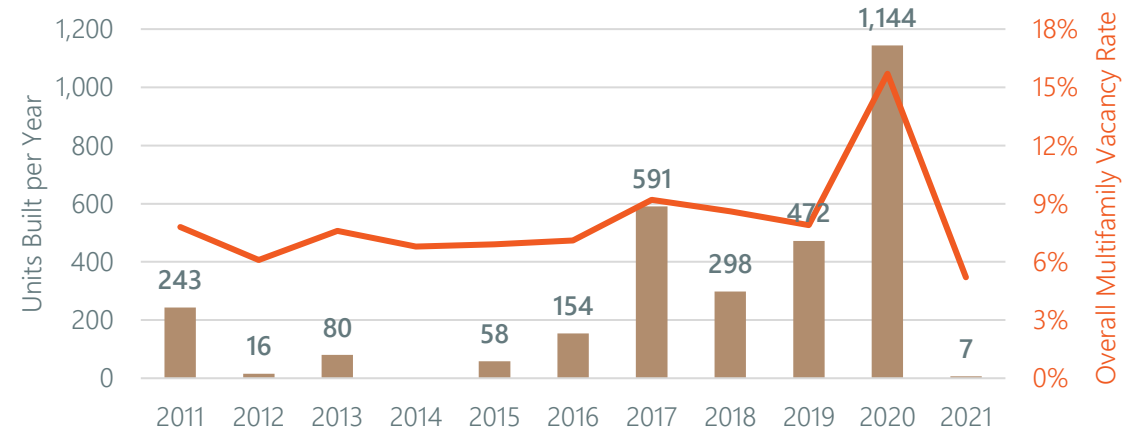
## Rental housing statistics indicate a constrained market

- The median rent reported in 2020 by the US Census for Chapel Hill was \$1,220, which would require an income of nearly \$50,000 to be considered affordable.
- Nearly 30% of renter households in Chapel Hill pay more \$1,500 per month.
- There is a ±\$0.45/SF premium for rental homes built since 2000 compared to older stock; however, units of all ages have experienced rent increases over the last decade.
- There has been a high number of multifamily deliveries in recent years; however, new multifamily housing leases quickly.
- On average, apartments built since 2011 require an annual income above \$69,000 to be considered affordable.

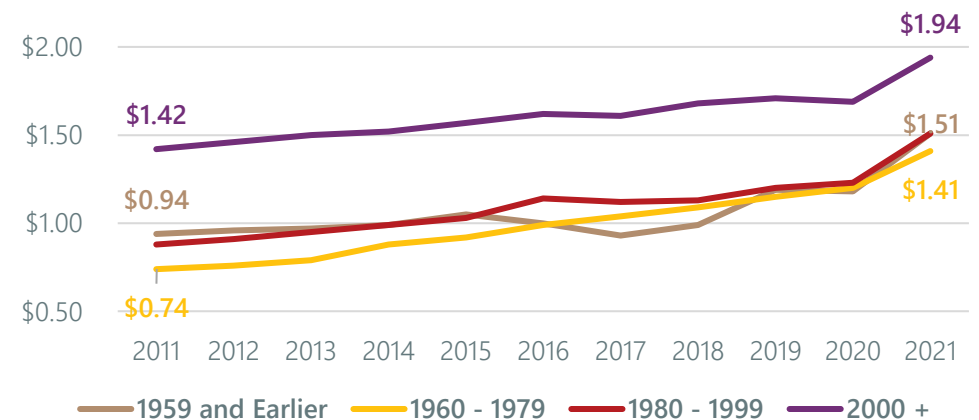
CHAPEL HILL RENTER-OCCUPIED MONTHLY COSTS



MULTIFAMILY UNITS BUILT PER YEAR



EFFECTIVE RENT PER SQUARE FOOT BY YEAR BUILT



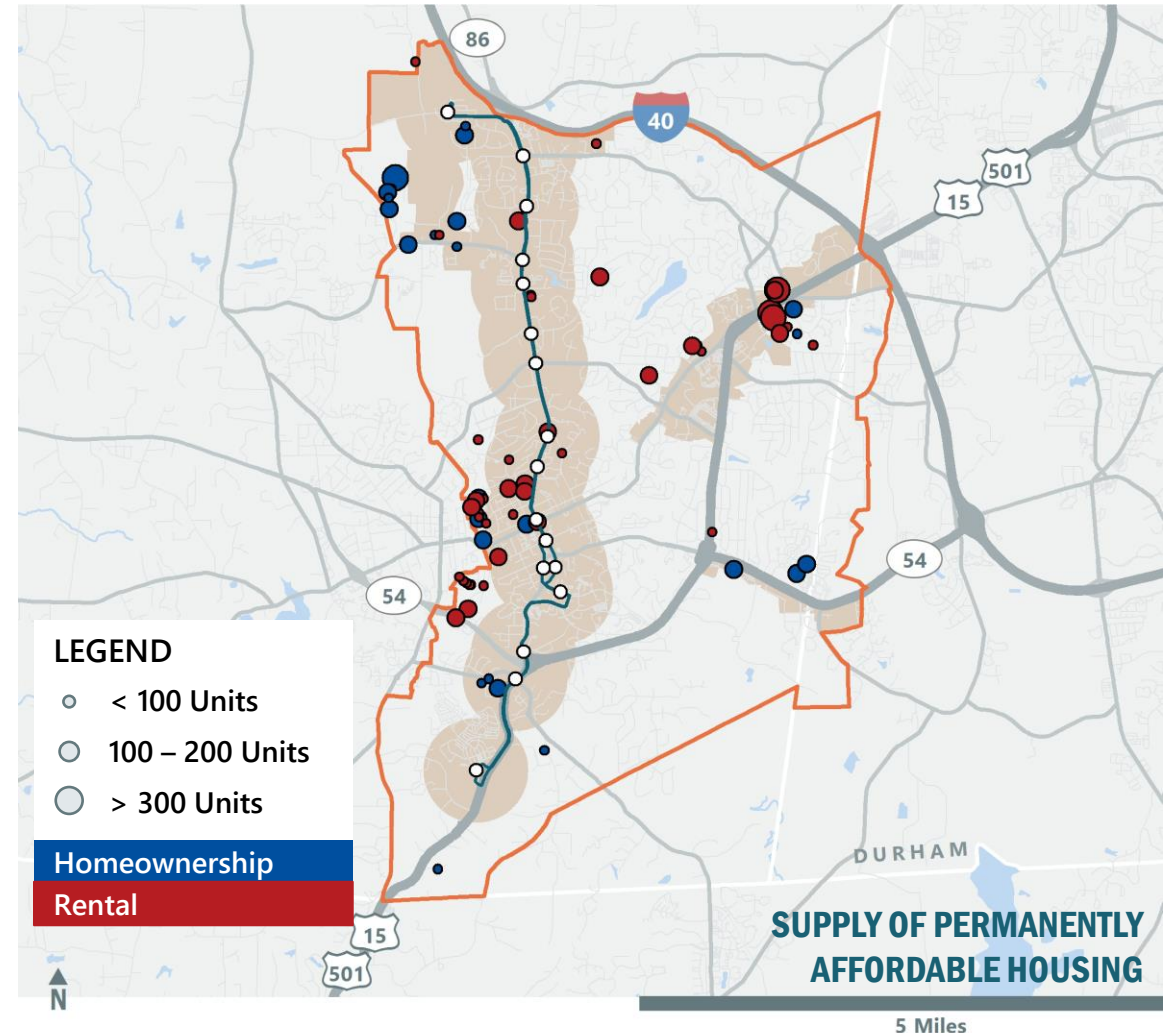
Source: 2020 ACS 5-Year Estimates, CoStar, SB Friedman  
SB Friedman Development Advisors

# PERMANENTLY AFFORDABLE HOUSING

## 1,117 permanently affordable units exist in Chapel Hill

- Permanently affordable housing refers to housing units operated or financed under subsidy programs of government agencies (e.g., low-income housing tax credits), or housing units which building owner agree to set aside units as affordable for a given period (often 99 years).
- Approximately 51% of permanently affordable units are within the BRT Station and FLUM Focus Areas; many more are just outside the boundaries.
- The majority of units target households earning 60% of AMI or lower and ±70% of homes are rental.

	Homeownership	Rental	Total
<30% AMI	-	456	456
31-60% AMI	155	315	470
61-80% AMI	149	6	155
> 80% AMI	36	-	36
<b>Total Permanently Affordable Units</b>	<b>340</b>	<b>777</b>	<b>1,117</b>



[1] Supply numbers do not account for Habitat for Humanity units located in unincorporated Orange County.  
 Source: Esri, SB Friedman, Town of Chapel Hill  
 SB Friedman Development Advisors

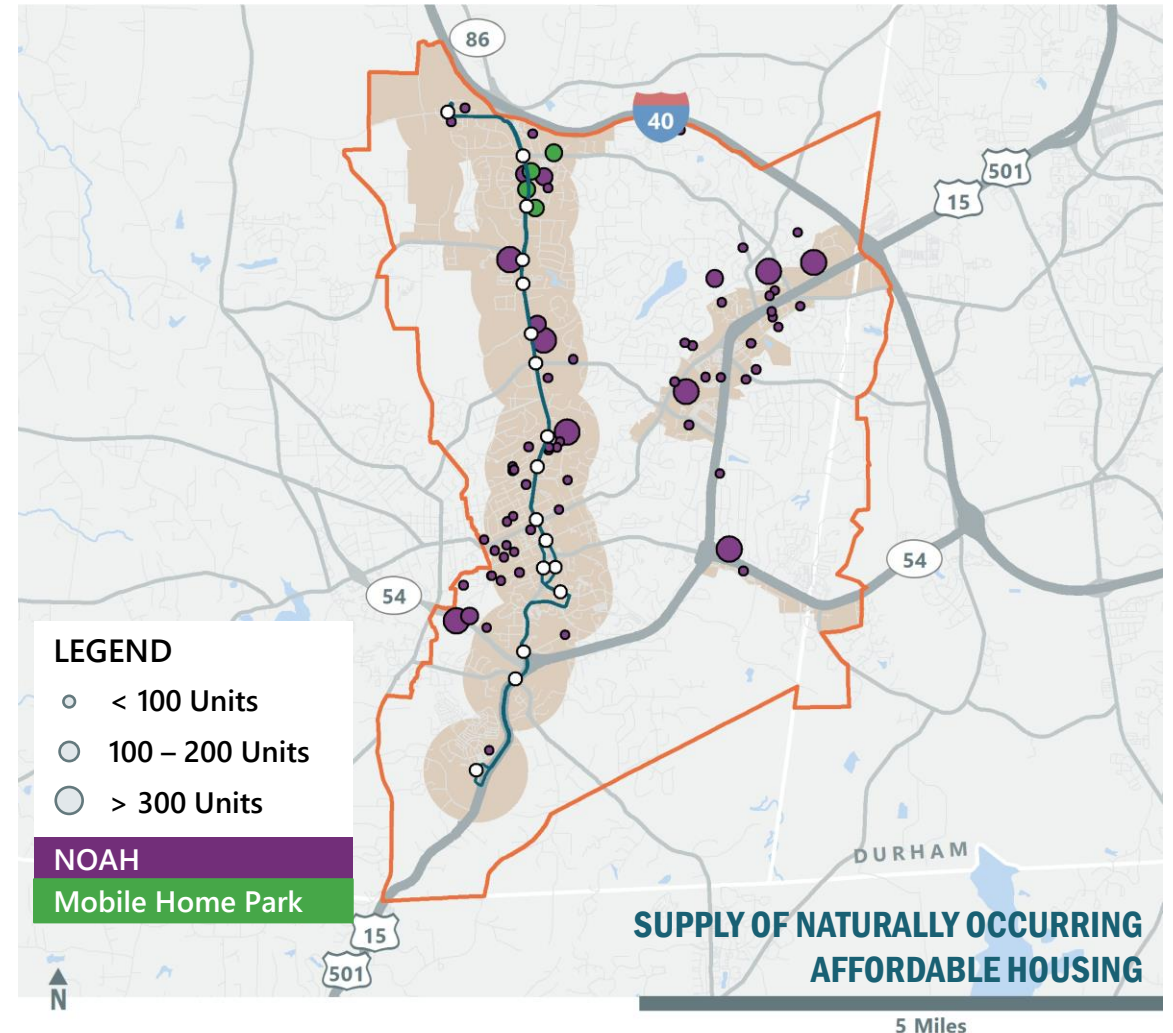


# NATURALLY OCCURRING AFFORDABLE HOUSING

## Most NOAH units are affordable to HHs earning 60-80% AMI

- Naturally occurring affordable housing (NOAH) refers to residential rental properties that are affordable but are unsubsidized by any federal program. Their rents are relatively low compared to the regional housing market.
- There are ±3,700 NOAH units in Chapel Hill, as well as 162 mobile homes.
- Most NOAH units are affordable to households earning 60-80% AMI.
- Approximately 68% of the NOAH units and 100% of the mobile home units are within the BRT Station and FLUM Focus Areas.

	< 30% AMI	31-60% AMI	61-80% AMI	Total NOAH
Studio Units	-	-	109	109
1 BR Units	40	41	1,241	1,322
2 BR Units	29	411	1,528	1,968
3+ BR Units	-	28	290	318
<b>Total Units</b>	<b>69</b>	<b>480</b>	<b>3,168</b>	<b>3,717</b>



[1] Supply numbers do not account for Habitat for Humanity units located in unincorporated Orange County.  
 Source: Esri, SB Friedman, Town of Chapel Hill  
 SB Friedman Development Advisors

# HOUSING COST BURDEN

## Chapel Hill is experiencing housing affordability challenges

- A constrained housing market and a limited number of protected affordable units are driving affordability challenges, resulting in a high number of cost burdened households in Chapel Hill.
- The greatest concentration of cost burdened households is located near Downtown Chapel Hill and UNC.

### OWNER HOUSEHOLDS



**19%**

Owner Households  
Cost Burdened

### RENTER HOUSEHOLDS



**58%**

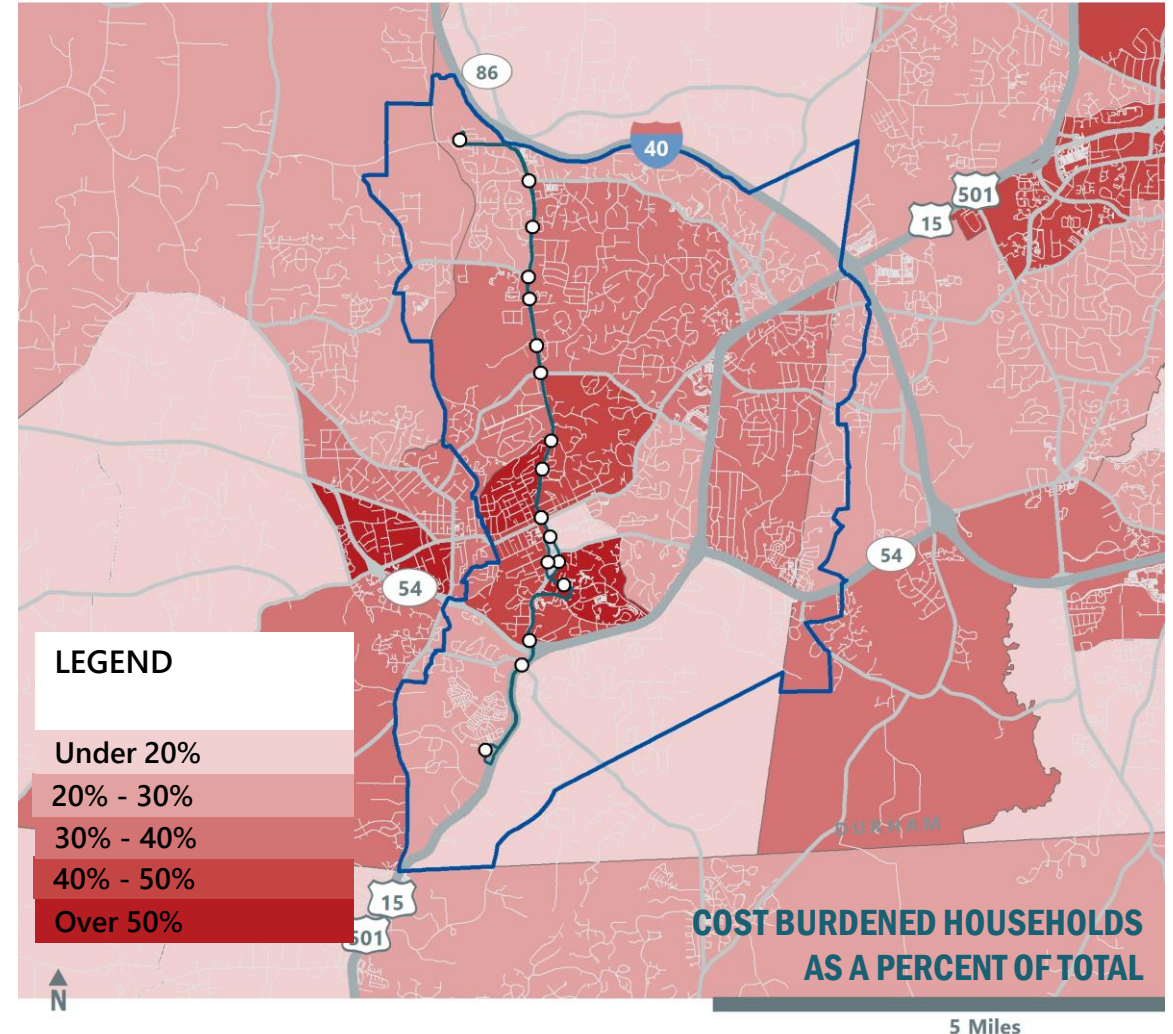
Renter Households  
Cost Burdened

### HOUSEHOLDS EARNING <\$35K



**89%**

Households  
Cost Burdened

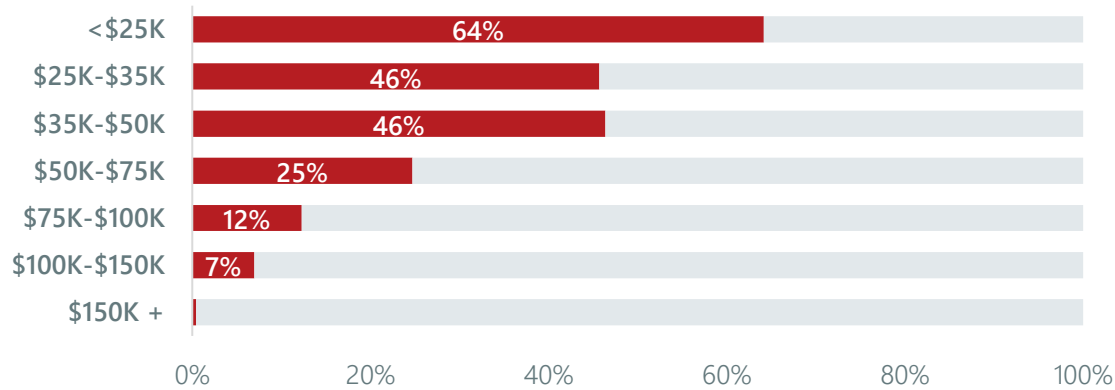


[1] This analysis includes student households.

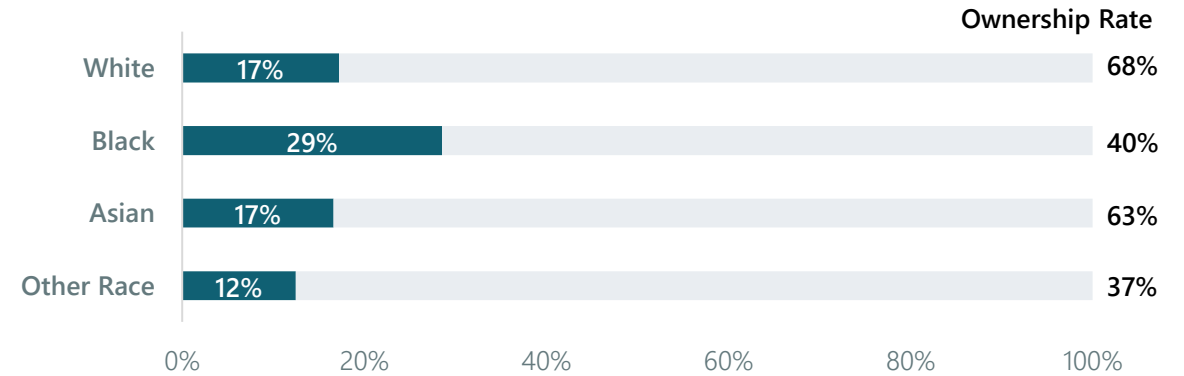
# HOUSING COST BURDEN

Low-income households and Black households have a higher likelihood of being cost burdened

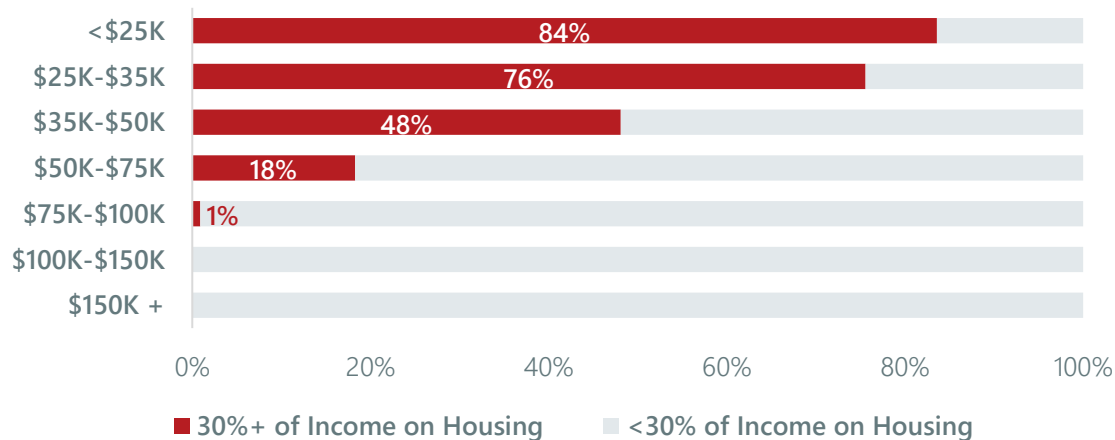
COST BURDENED HOMEOWNERS BY INCOME – ORANGE COUNTY



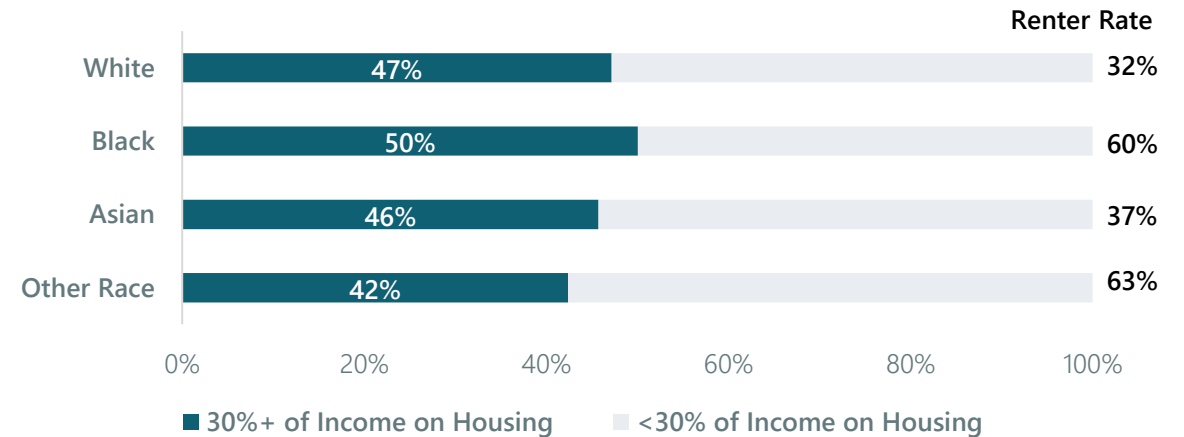
COST BURDENED HOMEOWNERS BY RACE – ORANGE COUNTY



COST BURDENED RENTERS BY INCOME – ORANGE COUNTY



COST BURDENED RENTERS BY RACE – ORANGE COUNTY



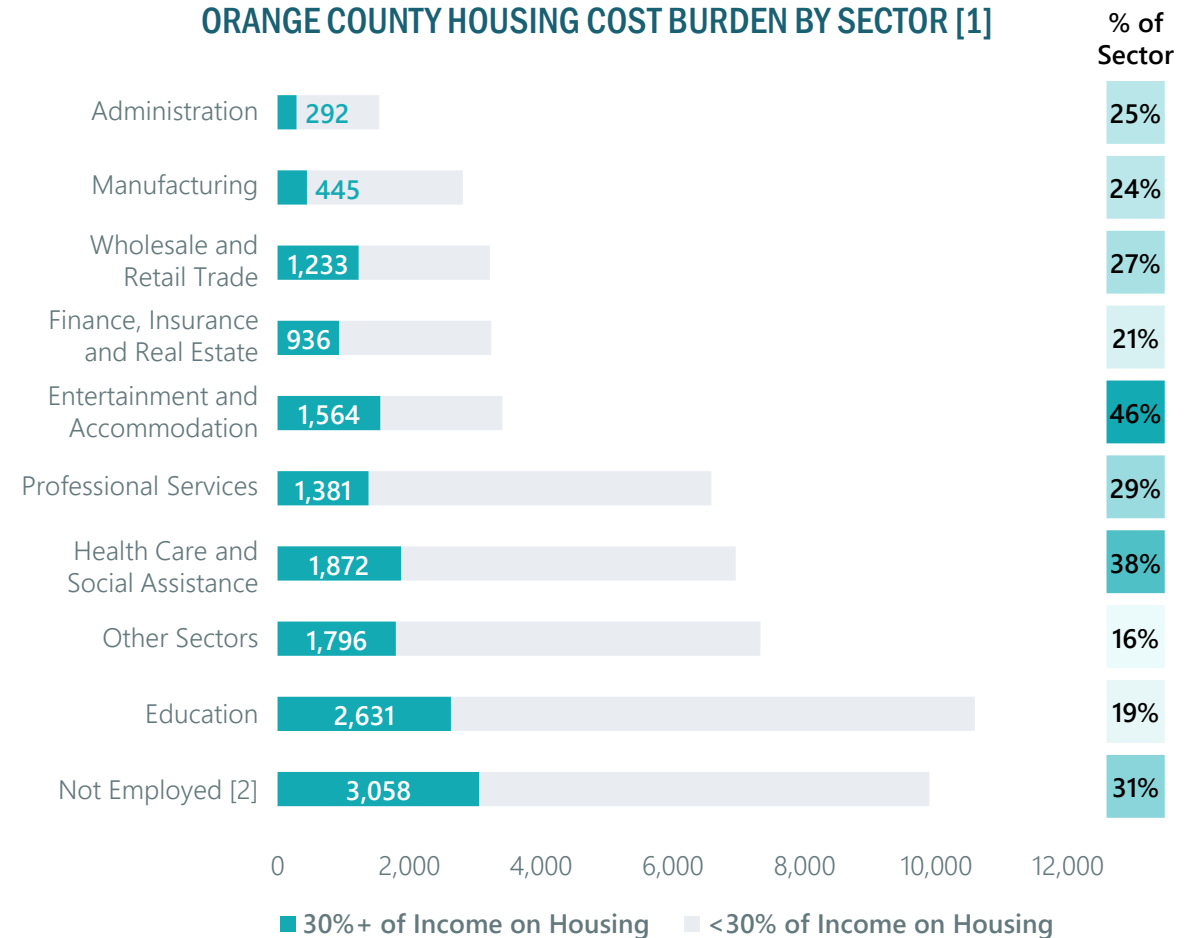
Source: ACS 2020 5-Year Estimates, SB Friedman  
SB Friedman Development Advisors

# HOUSING COST BURDEN

## Cost burdened households work in a variety of employment sectors

- More detailed data about the composition of cost burdened households is available at the County level.
- In Orange County, low-income and Black households have a higher likelihood of being cost burdened.
- Approximately 29% of Black homeowners at the County level are cost burdened, which is 12 points above White and Asian households.
- The County experiences similar cost burden rates by race for renters, but Black households are 3-4 points above White and Asian households.
- A significant percentage of households that work in the Entertainment and Accommodation and the Health Care and Social Assistance sectors are cost burdened.
- Over 2,600 households that work in the Education sectors are cost burdened.

ORANGE COUNTY HOUSING COST BURDEN BY SECTOR [1]



[1] Student households are distributed across sectors. Roughly half of renter households age 35 or less are in education or healthcare and social assistance. These two sectors account for a large portion of students that live off-campus, though students are likely distributed across all sectors based on other occupation.

[2] The majority of not employed households are retirees (86% of householders are 55+)

Source: ACS 2020 5-Year Estimates, SB Friedman

# EXISTING UNMET AFFORDABLE HOUSING NEED

## Income Limit Definitions

### DURHAM-RALEIGH, NC MSA 2022 MAXIMUM INCOME LIMITS BY HOUSEHOLD SIZE

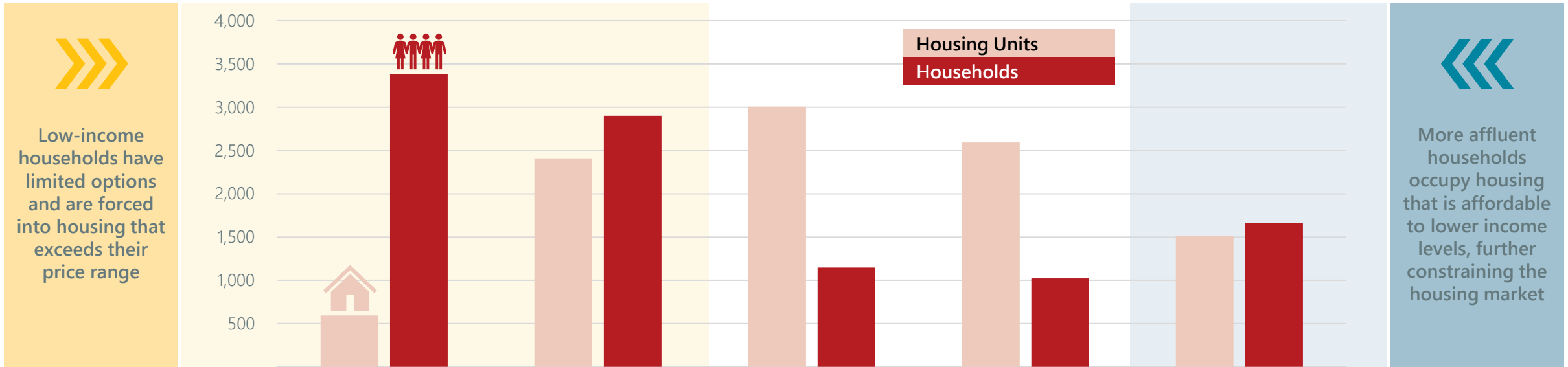
HH Size	30% AMI	60% AMI	80% AMI	100% AMI	120% AMI	150% AMI	> 150% AMI
	Extremely Low Income	Very Low Income	Low Income	Median	Moderate Income	Middle-High Income	High Income
1	\$20,100	\$40,150	\$53,500	\$66,900	\$80,300	\$100,350	> \$100,350
2	\$22,950	\$45,850	\$61,100	\$76,400	\$91,700	\$114,600	> \$114,600
<b>2.54 = Chapel Hill Average Household Size</b>							
3	\$25,800	\$51,600	\$68,800	\$86,000	\$103,200	\$129,000	> \$129,000
4	\$28,650	\$57,300	\$76,400	\$95,500	\$114,600	\$143,250	> \$143,250
5	\$32,470	\$61,900	\$82,550	\$103,200	\$123,850	\$154,800	> \$154,800
6	\$37,190	\$66,500	\$88,650	\$110,800	\$132,950	\$166,200	> \$166,200



# EXISTING UNMET AFFORDABLE HOUSING NEED

An imbalance exists within the Chapel Hill rental housing market

RENTER HOUSEHOLDS AND HOUSING UNITS BY AMI LEVEL [1]



Low-income households have limited options and are forced into housing that exceeds their price range

More affluent households occupy housing that is affordable to lower income levels, further constraining the housing market

AMI [1]	<30%	30-60%	60-80%	80-120%	>120%
<b>Maximum Rent Limit [2]</b>					
0/1-BR	\$445	\$890	\$1,188	\$1,780	-
2-BR	\$509	\$1,018	\$1,358	\$2,035	-
3-BR +	\$573	\$1,145	\$1,528	\$2,289	-

[1] Income bands correspond roughly to 2019 AMI levels. Analysis assumes a household size of 1, 1, 2, and 3 for studios, 1-BR, 2-BR, and 3+ BR units, respectively

[2] Affordable rent amount assumes that rent is ≤30% of household income for a household at the top of the respective income range, given the above household size assumption.

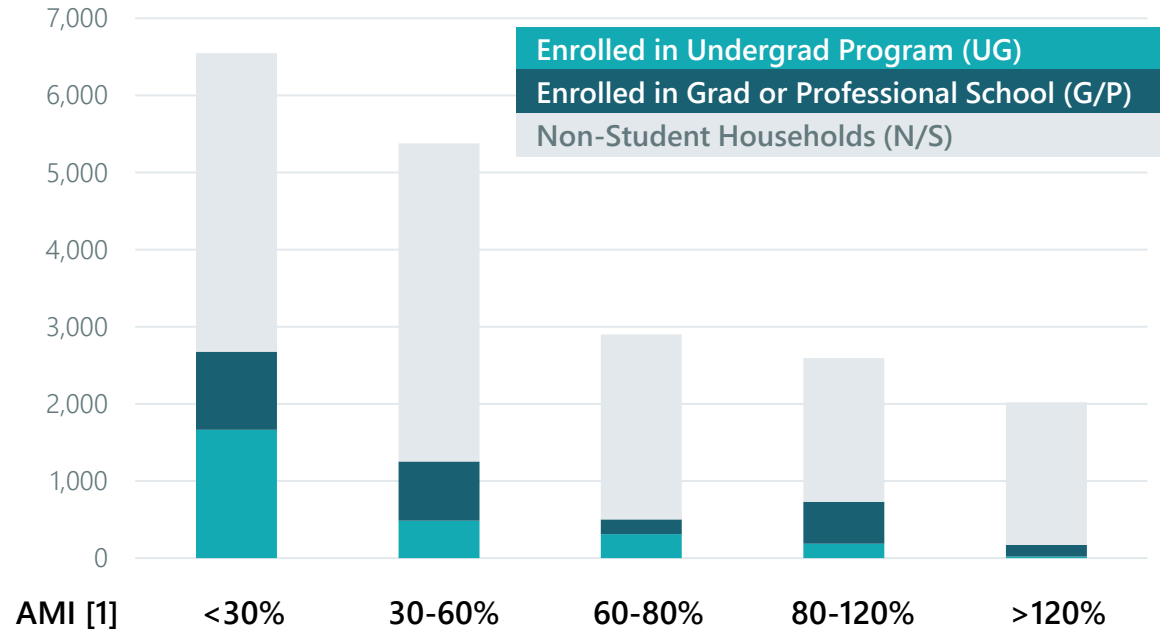
Source: 2019 ACS 5-Year Estimates, HUD, SB Friedman, Town of Chapel Hill

# EXISTING UNMET AFFORDABLE HOUSING NEED

## Student households living off-campus impact estimates of unmet need in Chapel Hill

- Detailed data about the composition of households is available at the County level.
- In Orange County, 40% of householders earning 30% AMI or less are enrolled in either an undergraduate program or in a graduate/professional school; 23% of householders earning 30-60% AMI are enrolled in one of these programs.
- Housing affordability challenges are not solely limited to student households. In each income band a majority of households are not enrolled in school.

SCHOOL ENROLLMENT – ORANGE COUNTY RENTER HOUSEHOLDS

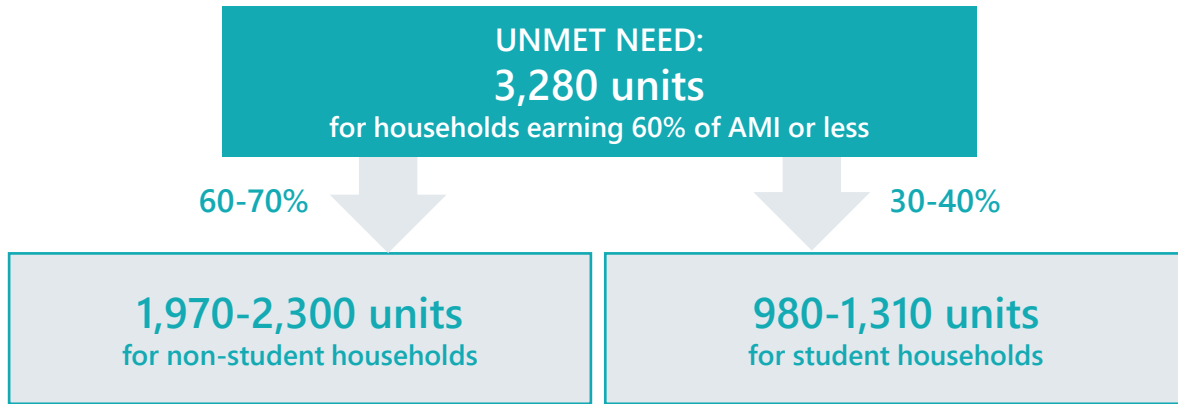


Renter Households by School Enrollment and Income

	<30%	30-60%	60-80%	80-120%	>120%
UG	25%	9%	11%	7%	1%
G/P	15%	14%	6%	21%	7%
N/S	60%	77%	83%	72%	92%

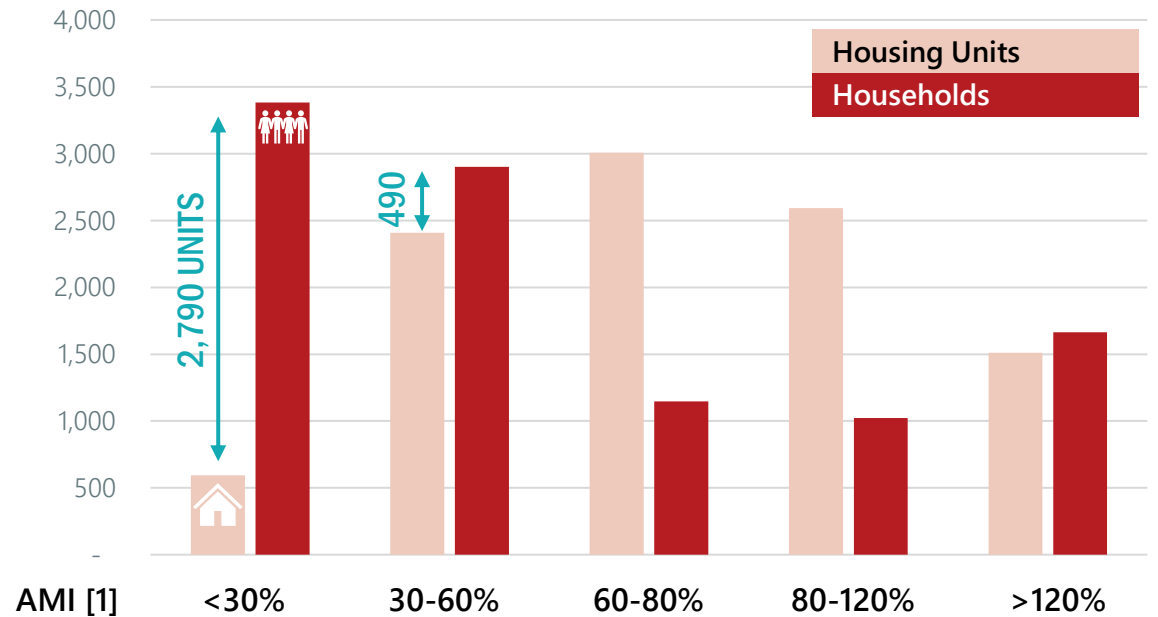
# EXISTING UNMET AFFORDABLE HOUSING NEED

An estimated 3,280 units are needed for households earning less than 60% AMI in Chapel Hill



- An estimated 3,280 housing units are needed for households earning less than 60% AMI in Chapel Hill. The majority of these units (60-70%) are needed for non-student households.
- The true housing need for lower-income households is likely even higher, as many people who work lower wage jobs in Chapel Hill cannot currently afford to live in the community. Therefore, the above numbers represent a conservative estimate of unmet need.

RENTER HOUSEHOLDS AND HOUSING UNITS BY AMI LEVEL [1]



Maximum Rent Limit [2]

Unit Type	<30%	30-60%	60-80%	80-120%	>120%
0/1-BR	\$445	\$890	\$1,188	\$1,780	-
2-BR	\$509	\$1,018	\$1,358	\$2,035	-
3-BR +	\$573	\$1,145	\$1,528	\$2,289	-

[1] Income bands correspond roughly to 2019 AMI levels. Analysis assumes a household size of 1, 1, 2, and 3 for studios, 1-BR, 2-BR, and 3+ BR units, respectively

[2] Affordable rent amount assumes that rent is ≤30% of household income for a household at the top of the respective income range, given the above household size assumption.

Source: 2019 ACS 5-Year Estimates, HUD, SB Friedman, Town of Chapel Hill

# KEY TAKEAWAYS

## Housing characteristics

- Chapel Hill's housing stock is distributed relatively evenly between single family and multifamily units. Nearly 40% of existing housing units were built between 1980 and 1999.
- Chapel Hill has captured a decreasing share of the 4-County Region's recent housing permits. As a result, the Town's share of the 4-County Region's population has decreased.
- Single family home prices have increased 33% since 2015, with the biggest jump occurring between 2020 and 2021.
- A household needed to earn above \$110,000 to afford the median value home sold in 2021.
- Average effective rents have increased 27% since 2015, with a significant increase in 2020.
- Rent growth is accompanied by strong multifamily deliveries and new housing is absorbed quickly.
- There is a ±\$0.45/SF premium for rental homes built since 2000 compared to older stock. However, units of all ages have seen rent increases over the last decade.
- The newest rental homes have rents exceeding \$2.00/SF; households generally must earn above \$68,600 to afford this housing.
- Housing pressures and a limited number of protected affordable units are driving affordability challenges; nearly 6 out of 10 renter households are cost burdened.
- Low-income and Black households have a higher likelihood of being cost burdened.
- Cost burdened households work in a variety of employment sectors, including education.
- There is significant unmet need for housing affordable to households earning less than 60% AMI.

# HOUSING DEMAND FORECAST



# MARKET DEMAND CONSIDERATIONS

## SB Friedman considered several factors in estimating demand by housing type

- SB Friedman prepared housing demand projections for Chapel Hill. Housing markets are regional in nature, and there is significant household mobility locally within markets. Therefore, projections were first prepared at the regional level. Then, a range of possible capture rates were used to translate that demand to the local level.
- The following key inputs were considered while quantifying future housing demand.



### Population Growth

How fast is the market area growing?  
Who is moving in?



### Headship Rate

How are living patterns changing?



### Housing Tenure

Do people want to rent or own?



### Vacancy Rate

How constrained is the current market?  
How many units need to be replaced?



### Housing Preferences

What sort of housing typologies are desired?  
How are those preferences evolving?



### Town Capture

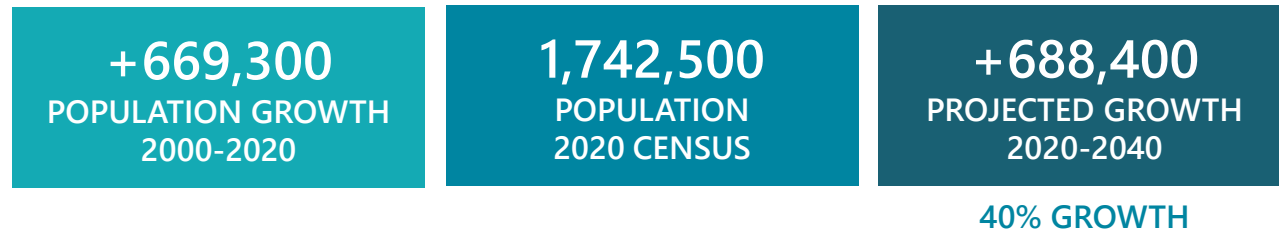
What share of regional market demand can the Town capture?

# POPULATION GROWTH

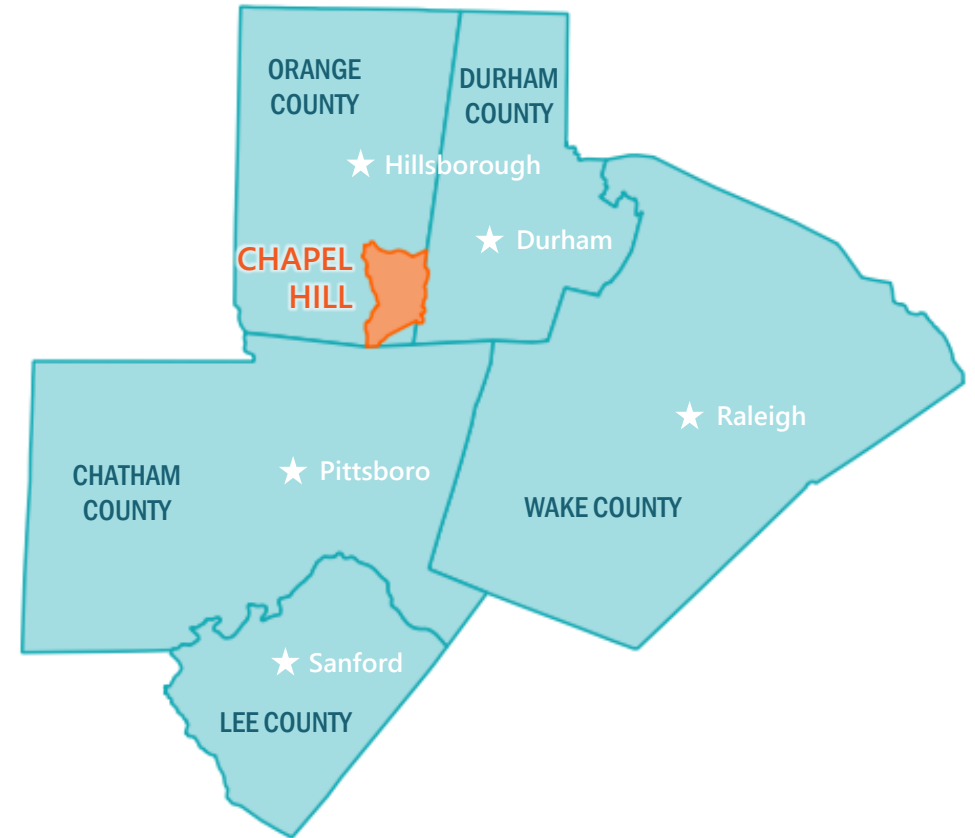
## 688,000 net new residents are projected to be added by 2040

- Chapel Hill's residential market area consists of five counties: Chatham, Durham, Lee, Orange, and Wake. The market area is growing rapidly. Over the last 20 years, the 5-County market area's population grew by 669,300.
- Population growth is a major driver of future housing demand. As a region's population grows, new housing supply must be built to accommodate more people.
- Between 2020 and 2040, the market area is projected to grow by an additional 688,400 residents (40% increase over 2020 levels).

### 5-COUNTY RESIDENTIAL MARKET AREA [1]



### 5-COUNTY RESIDENTIAL MARKET AREA [1]



[1] The market area reflects 12 Public Use Microdata Areas (PUMAs) that encompass the 4-County region plus Lee County, which is in a common PUMA with Chatham County due to their low existing population.

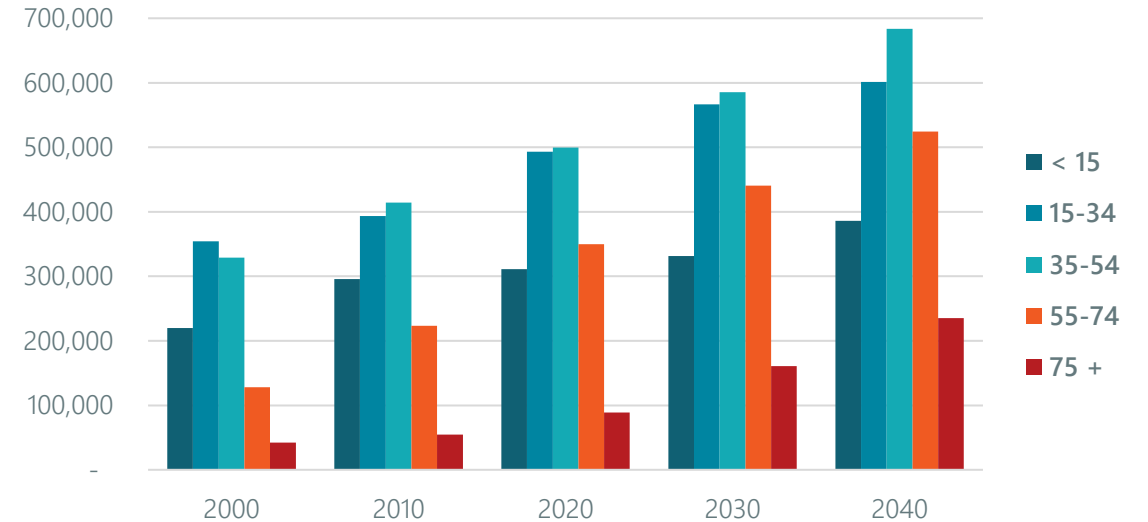
Source: SB Friedman

# POPULATION GROWTH

## Growth is anticipated to occur in all age cohorts

- Over the last 20 years, Baby Boomers (ages 55-74) were the fastest growing generation in the market area.
- Through 2040, there will be significant growth in all age cohorts. However, the fastest growth in population will be among people aged 75+ as Baby Boomers age.
- A larger share of the population will be age 55+ by 2040. Those cohorts were less than 16% of the population in 2000 and are projected to grow to over 31% of the population by 2040.

POPULATION BY AGE IN 5-COUNTY RESIDENTIAL MARKET AREA



COHORT SHARE OF TOTAL POPULATION (DECLINING / INCREASING)

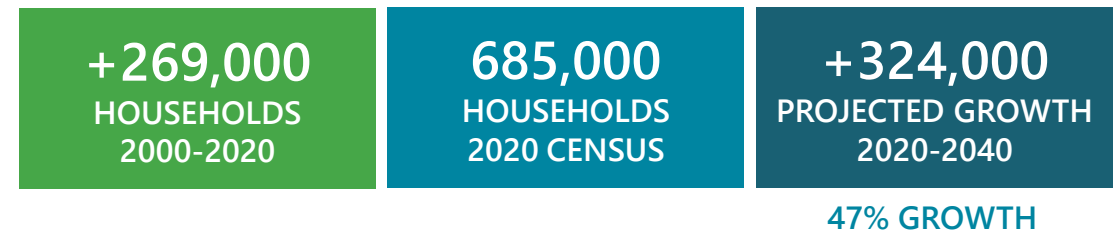
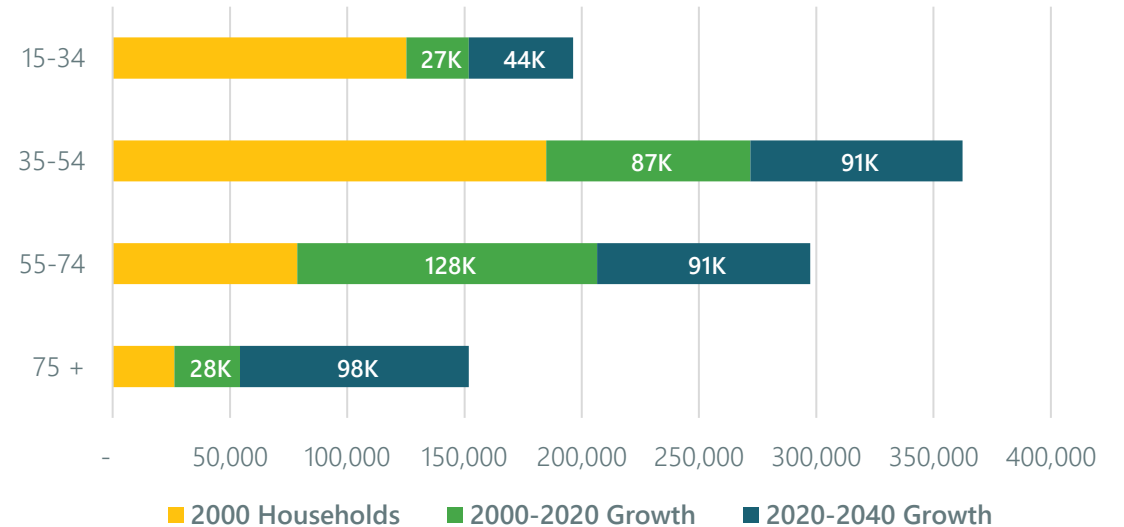
	2000	2020	2040
<15	20.5%	17.9%	15.9%
15-34	33.0%	28.3%	24.7%
35-54	30.7%	28.7%	28.1%
55-74	11.9%	20.1%	21.6%
75+	3.9%	5.1%	9.7%

# HEADSHIP RATE AND HOUSEHOLD GROWTH

Market area is anticipated to grow by 324,000 net new households by 2040

- Headship rate refers to the ratio of households to the adult population. The inverse of the headship rate is a proxy for household size and therefore relates population growth to household growth.
- Overall headship rate in the region will remain relatively constant through 2040; however, this is largely due to an aging population as older cohorts have higher headship rates. The aggregate trend masks significant trends that are occurring within demographic cohorts (described on the following slide).
- Between 2000 and 2020, the largest increase in net new households in the 5-County market area came from households aged 55-74. Over the next 20 years household growth will be relatively evenly distributed among those aged 35-54, 55-74, and 75+.

HOUSEHOLD GROWTH IN 5-COUNTY RESIDENTIAL MARKET AREA



# HEADSHIP RATE AND HOUSEHOLD SIZE

Trends are leading to an evolution of household composition



As a result of COVID-19, The overall headship rate fell in 2020 as many people—particularly younger adults, people of color, and those without a college degree—moved in with family members.



Multi-generational households are becoming more prevalent as more young adults are living with their parents longer.



Unmarried people are now also less likely to live alone and are more likely to live with roommates than in the past.



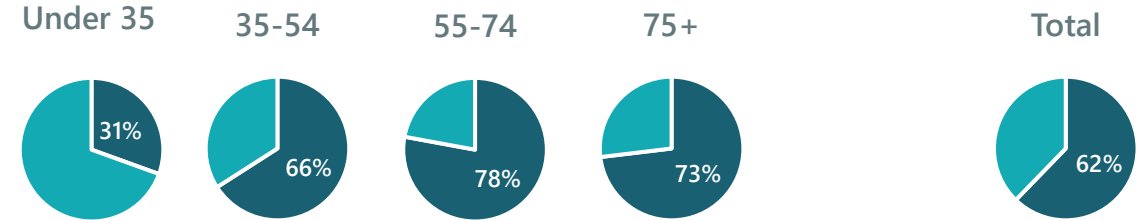
Overall headship rate in the region will remain relatively constant through 2040; however, this is largely due to an aging population as older cohorts have higher headship rates.

# HOUSING TENURE

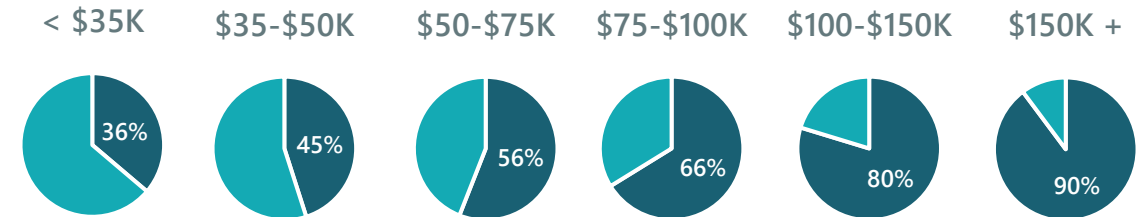
## Housing choices are influenced by the age and income of the householder

- Our demand projections account for the likelihood of households to choose rental, or for-sale homes based on their age and income.
- Nationally, single people, single-parent families, and nonfamily households make up about two-thirds of households that rent.
- Locally, propensity to rent is greatest among young households (under 35) and senior households.
- Currently, 62% of households in the market area live in owner-occupied housing.
- Homeownership rates increase with both age and income, which is in line with homeownership patterns nationally.

### TENURE BY AGE OF HOUSEHOLDER IN 5-COUNTY RESIDENTIAL MARKET AREA



### TENURE BY HOUSEHOLD INCOME IN 5-COUNTY RESIDENTIAL MARKET AREA



RENTERS

HOMEOWNERS



# HOUSING TENURE

## Recent trends are leading to declining homeownership rates



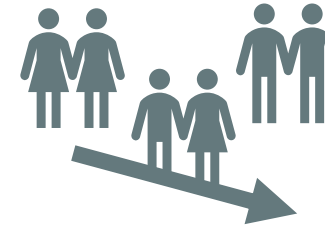
Homeownership is becoming less accessible



Young and middle-aged households are delaying homeownership



Millennials are aging out of the peak rental years but continue to rent at high rates



Marriage rates are declining and the average age of marriage is increasing, resulting in more renters



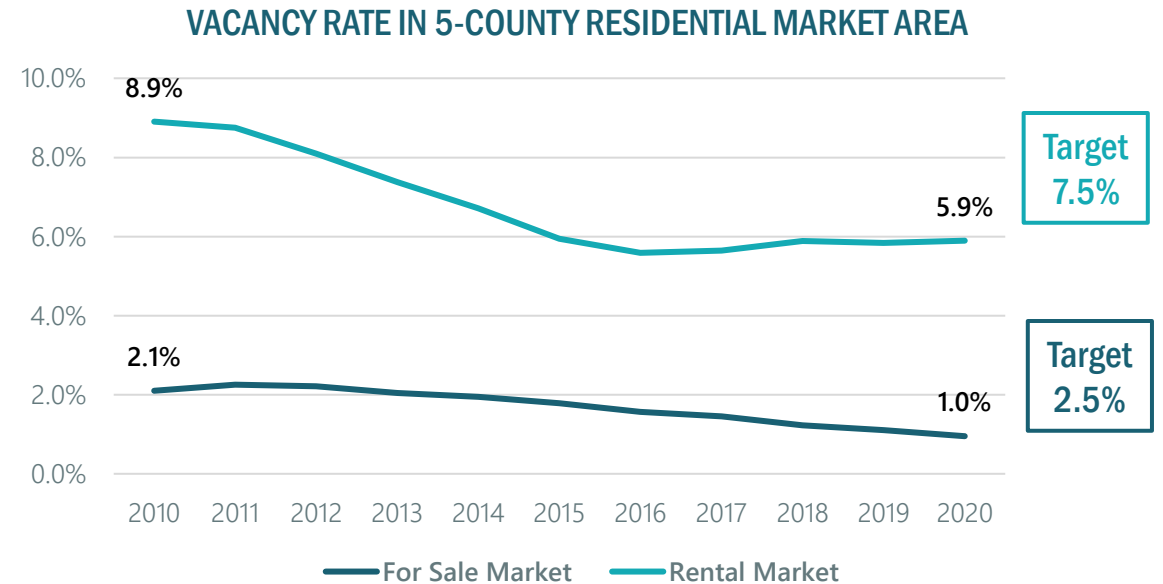
Older and higher-income households are renters by choice and choosing amenitized rental units in desirable locations

- While homeownership generally increases with age and income, there are also trends that are reducing homeownership rates across the board.
- Homeownership has historically been unattainable for some portions of the population. Now, it is becoming unattainable for a greater share of the population.
- We project that the overall homeownership rate will drop for nearly all age groups through 2040. In aggregate, the region will experience a 3-percentage point decrease in homeownership by 2040.

# VACANCY RATE

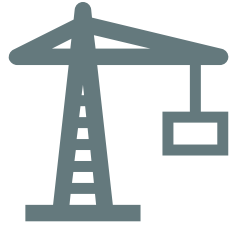
## Regional vacancy rates indicate a constrained market

- A well-functioning housing market requires a controlled level of vacancy; neither too high nor too low of a vacancy rate is desirable.
- Over the last decade vacancy rates have decreased across the market area in both the for-sale and rental markets.
- Paired with rising housing prices, historically low vacancy rates may indicate that housing supply has not matched recent growth in demand.
- Target vacancy rates by tenure reflect a healthy, competitive housing market with enough supply to facilitate desired moves.
- Housing unit loss impacts vacancy rates. Buildings deteriorate over time and must be periodically renovated to meet safety standards, or else fall out of the market.
- Nationally, around 3 out of every 1,000 owner-occupied units and 6 out of 1,000 renter-occupied units are lost each year due to demolition, disaster, or other damage.
- Mobile homes have the highest loss rate of any housing type and are especially vulnerable to demolition and damage.



# HOUSING PREFERENCES

Households have different housing preferences that vary with age and income



Since the Great Recession, housing production nationally has been primarily larger single-family homes and rental apartments. Younger households have a greater preference for new housing, regardless of tenure.



Single-family detached homes are the most popular housing type for all owner households; however, younger households are purchasing townhomes and condos at higher rates than previous generations.

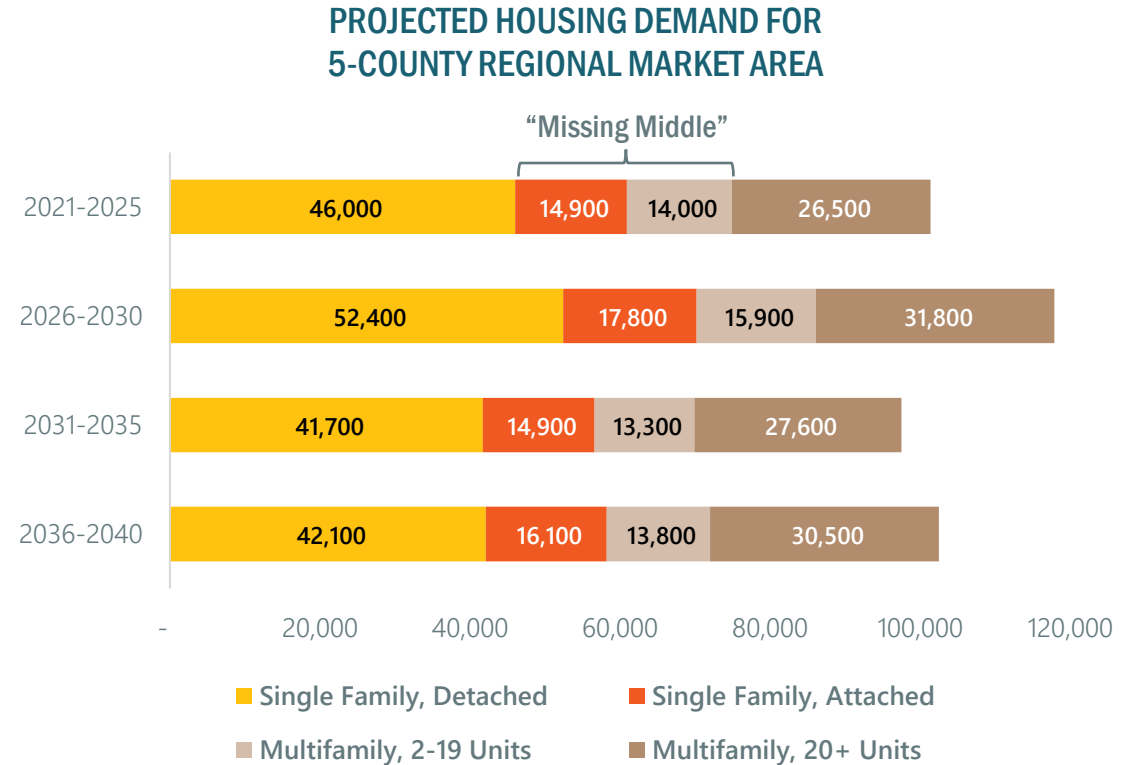


There is a growing single-family rental market. Middle-aged renter households (35-74) are more likely to rent new single-family homes than the youngest and oldest renter households.

# MARKET AREA HOUSING DEMAND

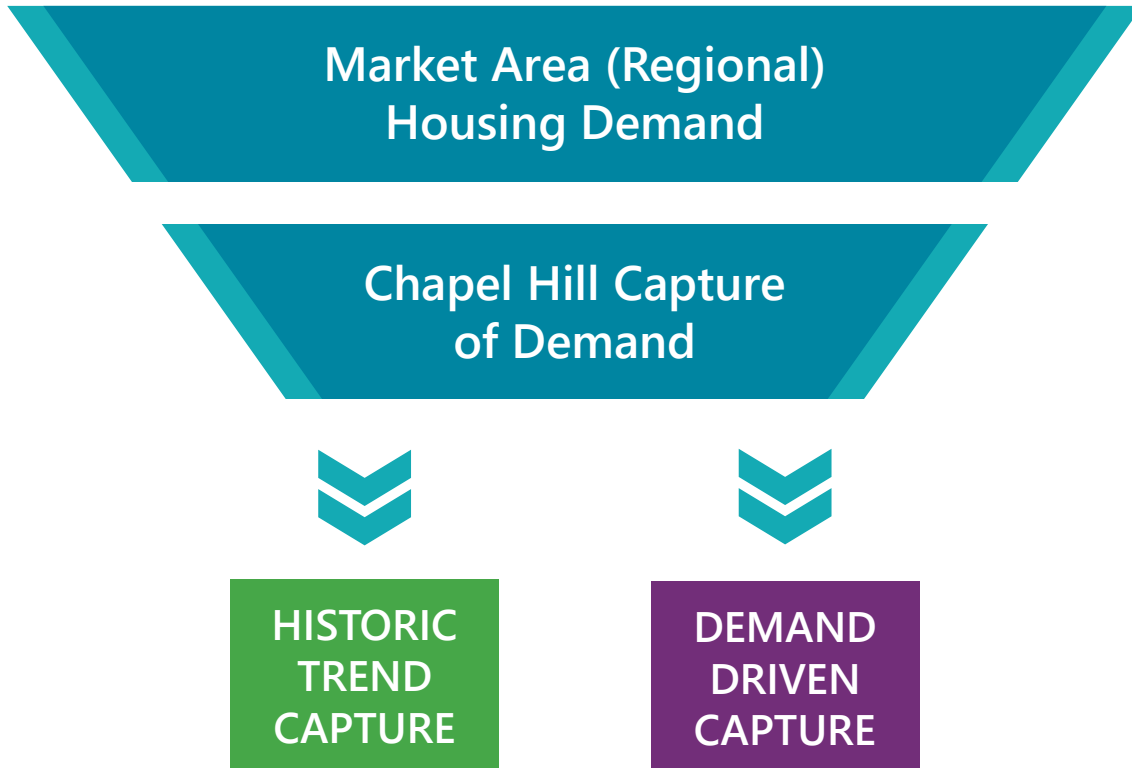
## Significant production is needed to accommodate growth in the market area

- To accommodate projected household growth and changing demographic trends, the 5-County market area needs to build ±20,800 units per year.
- There is demand for ±6,000 “missing middle” housing units annually, on average, through 2040.
- While single family homes will continue to make up a large part of new housing supply, this housing typology will gradually take a smaller share of total new units.
- New homes should reflect evolving household composition and preferences:
  - More attached housing accessible to new homebuyers
  - Alternative housing for baby boomers and seniors seeking to downsize and age in place
  - Housing to accommodate growth in multigenerational households and desire for rental single-family homes



# CHAPEL HILL CAPTURE OF HOUSING DEMAND

SB Friedman evaluated housing demand under historic and enhanced capture rates



Several efforts could increase Chapel Hill's capture of regional housing demand:

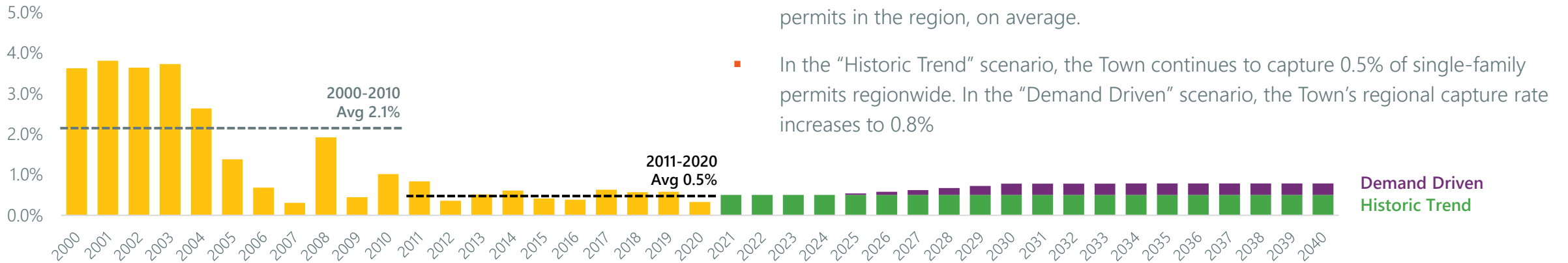
- A market response to the historic undersupply of housing via the many projects currently in the pipeline
- Opportunities within the TOD and Focus Areas to increase density
- Proactive affordable housing production within the Town
- A streamlined entitlement process, which would reduce some of the barriers to development
- Use of publicly-owned land for housing, particularly in transit-rich areas
- The complete communities planning process

# CHAPEL HILL CAPTURE OF HOUSING DEMAND

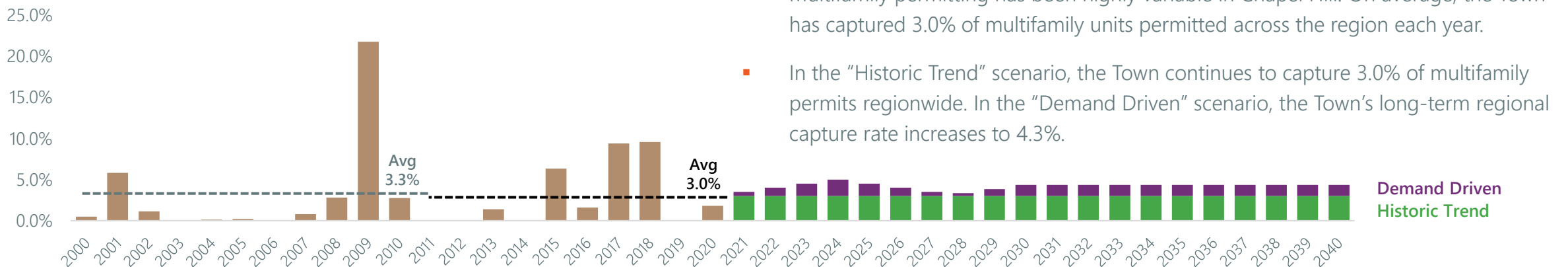
Historic regional capture rates include 0.5% of single-family permits and 3.0% of multifamily units

## TOWN CAPTURE OF PERMITS IN 5-COUNTY RESIDENTIAL MARKET AREA

### SINGLE FAMILY



### MULTIFAMILY





# CHAPEL HILL CAPTURE OF HOUSING DEMAND

Chapel Hill could capture between 6,400 and 8,900 new housing units by 2040

## HISTORIC TREND CAPTURE

6,410 total units by 2040  
320 units annually

910

Single Family, Detached

1,710

Multifamily, 2-19 Units

310

Single Family, Attached

3,480

Multifamily, 20+ Units

- Under the "Historic Trend" scenario, Chapel Hill could support 6,400 new units through 2040, or 320 unit annually.
- Given demand by various household types and income levels, the majority of units are in multifamily buildings of varying size.

## DEMAND DRIVEN CAPTURE

8,910 total units by 2040  
446 units annually

1,140

Single Family, Detached

2,250

Multifamily, 2-19 Units

530

Single Family, Attached

4,990

Multifamily, 20+ Units

- In the "Demand Driven" scenario, Chapel Hill could support 8,910 new units through 2040, or 446 unit annually.
- Relative to the "Historic Trend" scenario, a much larger share of units are in large multifamily buildings (20+ units) in the "Demand Driven" scenario.

# CHAPEL HILL CAPTURE OF HOUSING DEMAND

## New homes should be accessible to all income cohorts

- Based on demographic and migration data, if the Town were to capture its share of all income cohorts, 25% of new units would be needed for net new households earning below 60% AMI, 29% for households earning 60-120% AMI, and 47% for households earning above 120% AMI.
- Chapel Hill's recent housing production has been heavily weighted to higher price points. Housing supply increases for higher income households relieves pressure on more modest price housing.
- However, deliberate efforts need to be made to increase supply of new housing production for low- and moderate- income households. A diversity of homes at different price points will help increase affordability.
- Chapel Hill currently has an estimated unmet need of 3,280 housing units for households earning less than 60% AMI in Chapel Hill. The majority of these units (60-70%) are needed for non-student households.

REGIONAL NEW HOUSING DEMAND DISTRIBUTION, 2021-2040

	Affordable <60% AMI	Workforce and Mid-Range Market Rate 60-120% AMI	Higher-Price Market Rate 120%+ AMI
Owner-Occupied	11%	22%	66%
Renter-Occupied	39%	35%	26%
<b>Total</b>	<b>25%</b>	<b>29%</b>	<b>47%</b>

[1] AMI categories correspond roughly to 2019 AMI levels for a four-person household (\$84,800 = 100% AMI).

Source: SB Friedman

# CHAPEL HILL NET ENTITLED PIPELINE

The Town has 3,498 net entitled residential units moving through the pipeline

- Based on the Town’s data, a residential project takes 3-4 years on average to reach completion following entitlement.
- The Town’s analysis of recently completed projects demonstrated that most residential developments build close to their maximum entitlement.
- Of the 2,262 net residential units entitled 2013-2017, 1,896 units (84%) were built within five years of being entitled.
- Factoring in uncertainty at different stages of development, SB Friedman estimates that 3,125 units will be built in the next five years.
- Uncertainties about near-term deliveries can relate to the following:
  - Development program no longer makes financial sense given rising interest rates and construction costs
  - Project gets postponed by the developer or stalls in the entitlement process
  - Developers ultimately build less than the maximum number of units entitled
  - Later phases in multi-phase projects get delayed or produce fewer units than entitled for full site

CHAPEL HILL NET UNITS IN PIPELINE

	SF, Detached	SF, Attached	MF, 2-19	MF, 20+	Total
Entitled	9	90	12	657	768
Final Review	-	54	54	1,332	1,440
Construction	85	70	82	1,053	1,290
<b>Net Units in Pipeline</b>	<b>94</b>	<b>214</b>	<b>148</b>	<b>3,042</b>	<b>3,498</b>

DEVELOPMENT  
UNCERTAINTY



DEVELOPMENT  
UNCERTAINTY

<b>SBF Pipeline Projection</b>	<b>88</b>	<b>192</b>	<b>133</b>	<b>2,712</b>	<b>3,125</b>
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[1] For the purpose of this analysis, SB Friedman did not evaluate projects in the Concept Plan stage or those currently under review.

# CHAPEL HILL PIPELINE RECONCILIATION

Long-term, more projects will need to be entitled to meet housing demand

## HISTORIC TREND CAPTURE

	SF, Detached	SF, Attached	MF, 2-19	MF, 20+	Total
Net Demand	910	310	1,710	3,480	6,410
SBF Pipeline Projection	88	192	133	2,712	3,125
Demand Net of Pipeline	822	118	1,577	768	3,285

- In the “Historic Trend” scenario, there is demand for an additional 3,285 units beyond the current Town pipeline.

## DEMAND DRIVEN CAPTURE

	SF, Detached	SF, Attached	MF, 2-19	MF, 20+	Total
Net Demand	1,140	530	2,250	4,990	8,910
SBF Pipeline Projection	88	192	133	2,712	3,125
Demand Net of Pipeline	1,052	338	2,117	2,278	5,785

- In the “Demand Driven” scenario, there is demand for an additional 5,785 units beyond the current Town pipeline.

# HOUSING DEMAND THROUGH 2040 – NET OF PIPELINE

There is robust demand for housing beyond what is currently in the pipeline

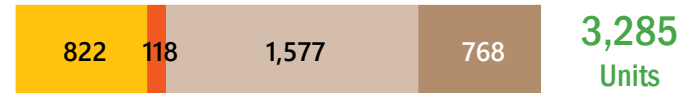
- The longer-term pipeline (Concept Plan projects and those currently being reviewed) will meet some of the remaining demand. However, projects outside the existing pipeline will ultimately need to be entitled to meet demand.
- If Chapel Hill captures a higher share of regional housing production:
  - The Town will be able to provide a more diverse housing opportunities for local residents and people in workforce;
  - The Town will reduce the upward price pressure in the market;
  - More high-quality places can be created: TOD density is linked to increased viability of resident services and a quality public realm; and
  - The Town will take a step towards meeting the Town’s Guiding Principles (FLUM).
- If Chapel Hill continues to capture its historic rate of housing:
  - The Town’s share of the regional population will continue to decrease;
  - Housing will likely become increasingly unaffordable for low- to moderate-income households; and
  - Competition will likely increase between students and long-term residents over lower cost housing.

## REMAINING UNITS TO MEET HOUSING DEMAND

### DEMAND DRIVEN CAPTURE RATE



### HISTORIC TREND CAPTURE RATE



0 1,000 2,000 3,000 4,000 5,000 6,000

■ Single Family, Detached 
 ■ Single Family, Attached 
 ■ Multifamily, 2-19 Units 
 ■ Multifamily, 20+ Units

# KEY TAKEAWAYS

## Housing demand forecast

- Chapel Hill's residential market area consists of five counties: Chatham, Durham, Lee, Orange, and Wake. By 2040, the market area is projected to add an additional 688,400 residents (40% growth).
- Through 2040, the fastest growth will be among people aged 75+ as Baby Boomers age. A much larger share of the area's population will be 55+ in 2040.
- Both nationally and locally, homeownership rates have declined. More households are now renting by choice, while others have been priced out of the homeownership market.
- Current vacancy rates in both the for sale and rental markets are at historic lows. A well functioning housing market will require controlled vacancy rates above current market levels.
- While single-family detached homes are still the most popular housing type for owner households, younger generations are purchasing townhomes and condos at higher rates than older cohorts.
- New homes built in the region should meet changing household composition and evolving preferences. New housing should accommodate first-time buyers, older generations looking to "age in place", and multigenerational households.
- To accommodate projected household growth and changing demographic trends, the 5-County market area needs to build ±20,800 units per year.
- In recent years Chapel Hill has captured 0.5% of the region's single family home production and 3.0% of its multifamily production. Town efforts could increase these capture rates.
- Capture rates are in part a policy decision of how the Town chooses to position itself for growth – whether it is positioning itself to capture historic rates or development, or an enhanced capture rate.
- Chapel Hill could capture between 6,400 and 8,900 new housing units by 2040 (320-450 units annually). The majority of these new units will be in multifamily buildings.
- A diversity of housing types at different price points will help increase affordability. The Town should enact policies that allow older neighborhoods to evolve over time to better meet housing needs for all income levels.
- While the Town has a robust pipeline of housing developments, additional projects outside the existing pipeline will ultimately need to be entitled to meet future demand.



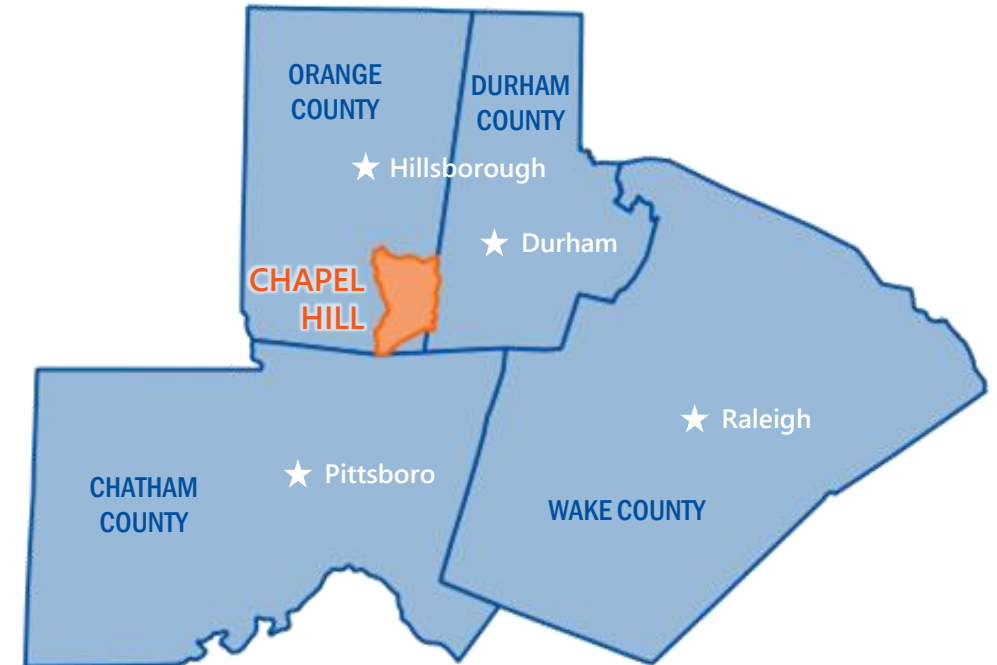
# OFFICE CHARACTERISTICS AND DEMAND FORECAST

# MARKET AREA

## Chapel Hill is located in a strong, regional office market

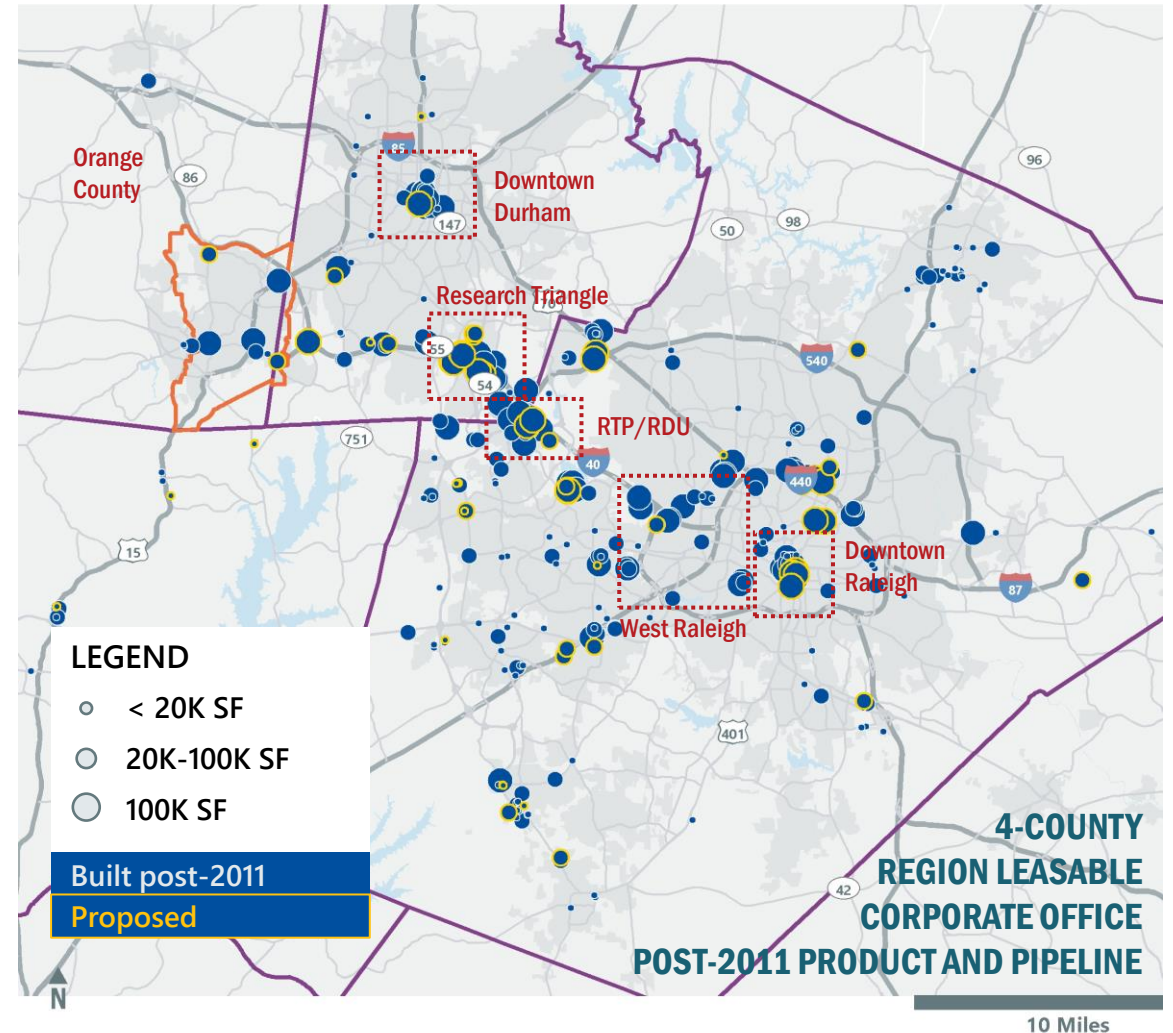
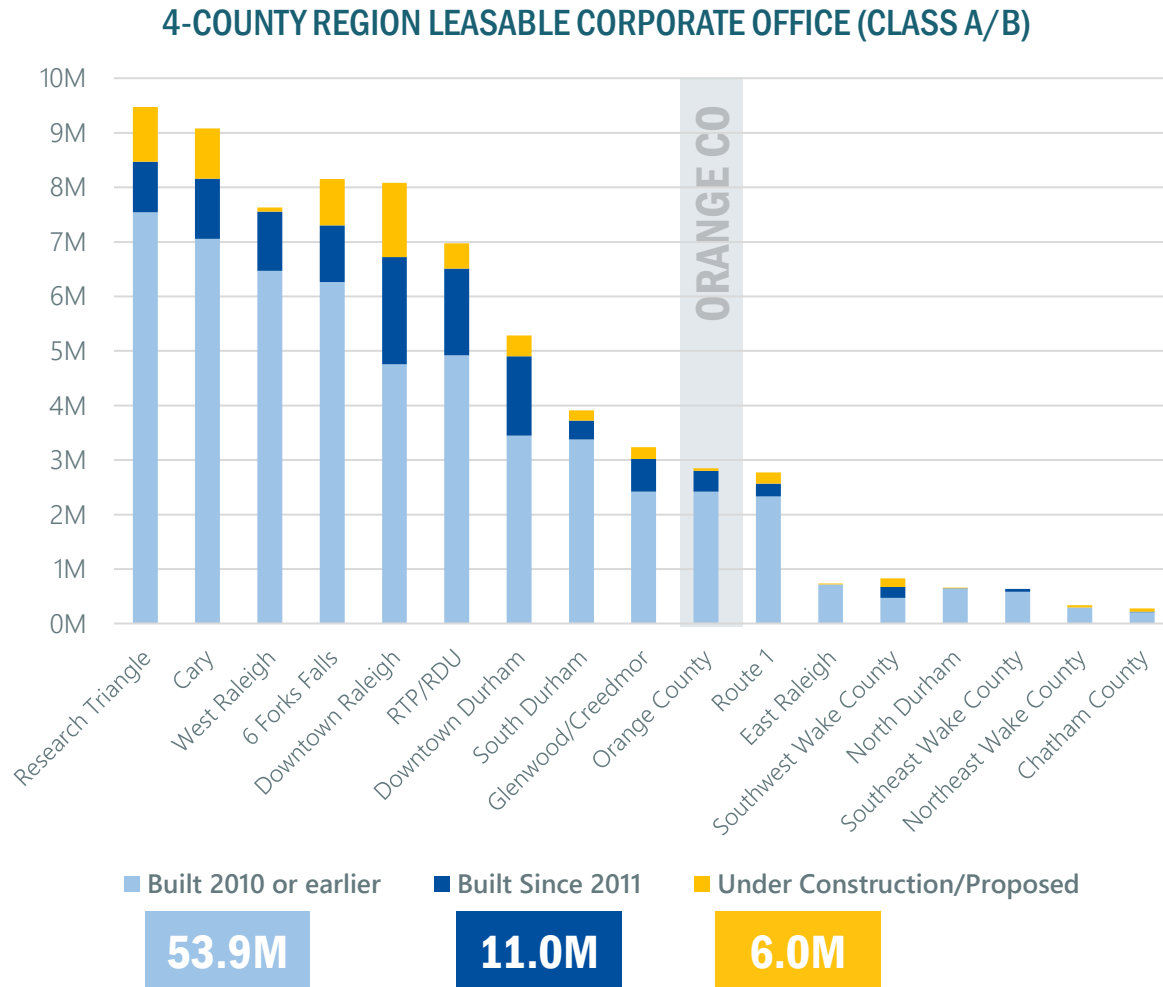
- The office market area is defined as the 4-County region consisting of Chatham, Durham, Orange, and Wake counties. This regional market area has successfully attracted several major, national office users in recent years.
- As shown on the following slide, the 4-County region includes 65M SF of leasable class A and B office space, with 6M in the development pipeline.
- Over the last decade, office development has been most concentrated in Raleigh and Durham's downtowns, as well as in and around Research Triangle Park.

### 4-COUNTY REGION – OFFICE MARKET AREA



# CORPORATE OFFICE

4-County Region has 65M SF of leasable Class A and B office space, with 6M SF in the pipeline

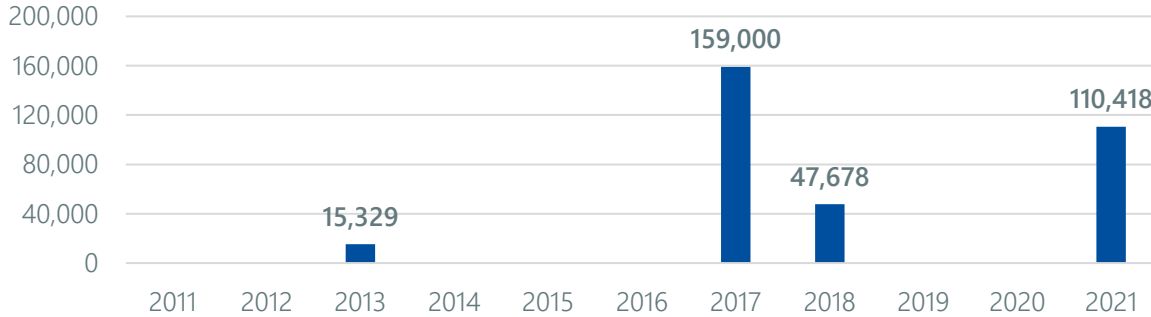


Source: CoStar (Class A and B properties only; excludes owner-occupied space), ESRI, SB Friedman  
SB Friedman Development Advisors

# CORPORATE OFFICE

2.9M SF of office space is located in Chapel Hill (2.7% of the total regional office supply)<sup>[1]</sup>

CORPORATE OFFICE BUILT PER YEAR (SF)

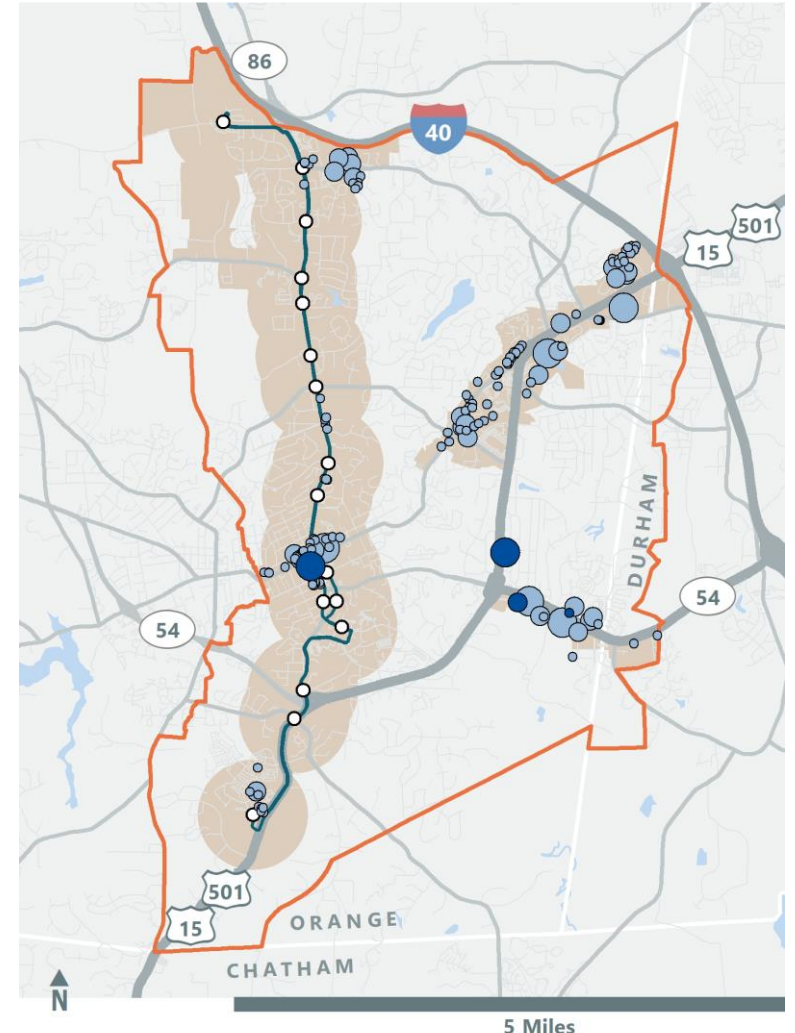


LEGEND

- < 20K SF
- 20K-100K SF
- 100K SF

- Built 2010 or prior
- Built post-2011

- Chapel Hill has approximately 2.9M SF of existing office space, including Class C and unclassified space. This number represents about 2.7% of the total regional office supply, inclusive of all building classes.
- Most office space is located downtown, along US 15-501 or along NC-54.
- About 352,000 SF of office space has been built in Chapel Hill since 2011. Overall, 46% of Chapel Hill’s existing office space was built since 2000.
- About half (51%) of office space is located in buildings of 50,000 SF or less.

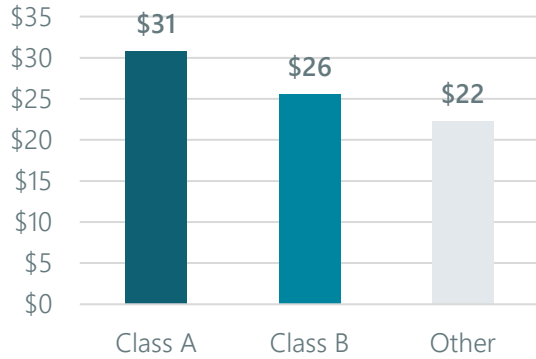


[1] 2.7% figure relates to total office supply in the 4-County region and is inclusive of Class C, unclassified, and owner-occupied space.  
 [2] Includes only properties in Chapel Hill, including those in the Orange County and South Durham CoStar submarkets  
 [3] In addition to the leasable office space, UNC and the State own 136,890 SF of office space in Chapel Hill. The above charts and map exclude this space.  
 Source: CoStar, SB Friedman

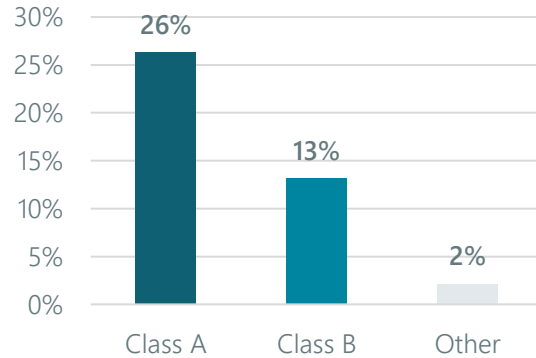
# CORPORATE OFFICE

50% of space is Class A, earning on average \$31/SF in rent

AVERAGE RENT BY CLASS  
(ALL CORPORATE OFFICE) [2]



AVERAGE VACANCY BY CLASS  
(ALL CORPORATE OFFICE) [2]



CLASS A OFFICE



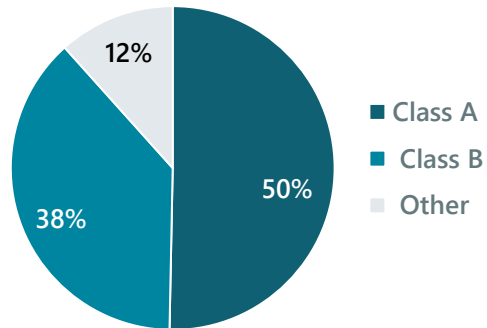
CLASS B OFFICE



OTHER OFFICE



CORPORATE OFFICE SPACE BY BUILDING CLASS



- About 50% of the space with the Town planning area is listed as Class A space – the highest-class space that has the potential to attract national, corporate tenants.
- On average, the Class A space has a rental rate of \$31/SF, though the newest office space is approaching \$39/SF. The following slide includes examples of the newest office product in Chapel Hill.
- Class A vacancy in Chapel Hill is around 25%, which is comparable to the vacancy rate in other major submarkets nearby. The vacancy rate reflects recently delivered office buildings which are still in lease up.

[1] Includes only properties in Chapel Hill, including those in the Orange County and South Durham CoStar submarkets

[2] In addition to the leasable office space, UNC and the State own 136,890 SF of office space in Chapel Hill. The above charts and map exclude this space.

Source: CoStar, SB Friedman

SB Friedman Development Advisors



# CORPORATE OFFICE

Rents at the newest office space range from \$30-40/SF; vacancy reflects projects in lease-up



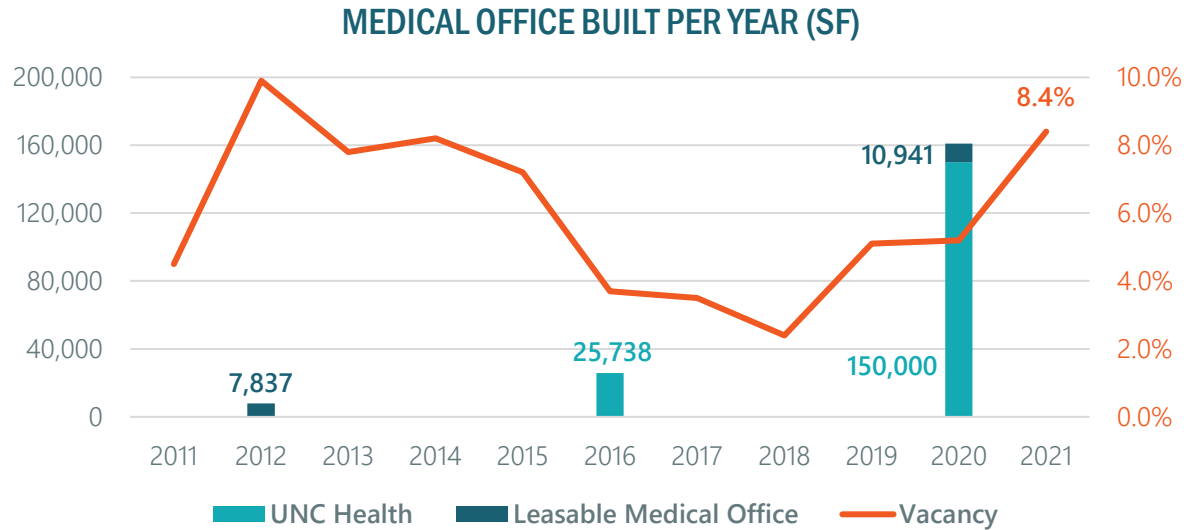
	The Gwendolyn at Glen Lennox	Carolina Square	The Station at East 54	The Parkline
Address	101 Glen Lennox Dr	123 W. Franklin St	1011 S. Hamilton Rd	1830 Fordham Blvd
Class	A	A	A	A
Square Feet	110,418	159,000	47,678	210,000
Year Built / Renovated	2021	2017	2018	1973 / 2019
Average Rent/SF	\$31.51	\$38.50	\$38.81	\$31.63
Vacancy	70% - ±77,000 SF [1]	1.4%	0%	62% - 130,500 SF
Tenants	Coco Espresso, Industrious Office (in buildout)	University of North Carolina, Data Decisions Group	Spaces, True Bridge Capital Partners, Hannah's Home Health and Care Consulting, Great Neck Realty Company	UNC Health

[1] Based on discussions with developer.  
Source: CoStar, SB Friedman  
SB Friedman Development Advisors



# MEDICAL OFFICE

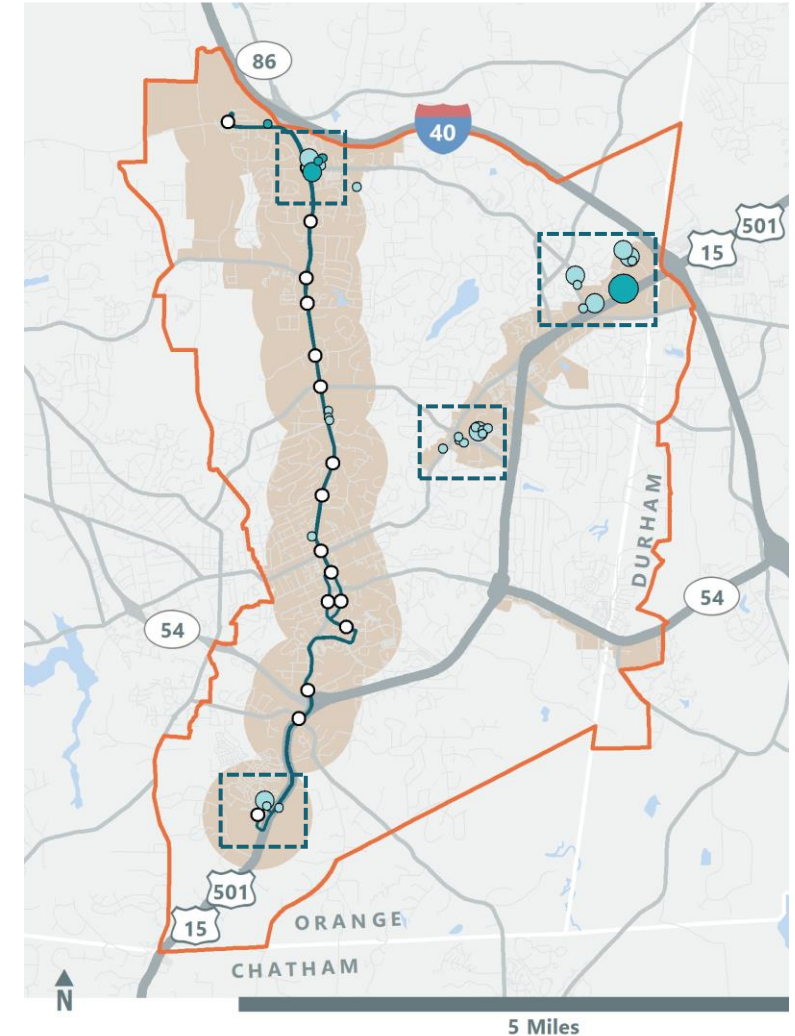
442,000 SF of existing, leasable medical office space is located in Chapel Hill



**LEGEND**

- < 20K SF
- 20K-100K SF
- 100K SF

■ Built 2010 or prior  
■ Built post-2011



- Chapel Hill has 442,000 SF of leasable, medical office. The Town’s leasable, medical office space is mostly occupied, with a vacancy rate below 9%.
- UNC Health owns an additional 175,738 SF of medical office space in Chapel Hill (two buildings).
- UNC Health is driving new deliveries of medical office space in Chapel Hill.

[1] Map includes tax-exempt medical office space owned by UNC Health.  
Source: CoStar, ESRI, SB Friedman  
SB Friedman Development Advisors

# MEDICAL OFFICE

Newest medical office space is largely occupied by UNC Health



	UNC Health Care	UNC Eastowne	110 Perkins Dr
Address	1181 Weaver Dairy Rd	100 Eastowne Dr	110 Perkins Dr
Square Feet	25,738	150,000	7,124
Year Built	2016	2020	2020
Average Rent/SF	\$31.06	\$30.15	\$23.22
Vacancy	0%	0%	0%
Tenants	UNC Healthcare	UNC Healthcare	CarolinasDentist

# OFFICE FORECAST CONSIDERATIONS

## Office demand depends on several factors

- SB Friedman prepared office demand projections for Chapel Hill. Office markets are regional in nature, and there is tenant mobility locally within markets. Therefore, projections were prepared at the regional level through 2040. Then, a range of possible capture rates were used to translate that demand to the local level.
- The following key inputs were considered when quantifying future office demand at the regional level.



### Office Jobs

How quickly are office sectors growing?



### Space Needs

How much office space do users need?



### Vacancy Rate

How constrained is the current office market?



### User Preferences

What sort of office typologies are desired regionally and locally?



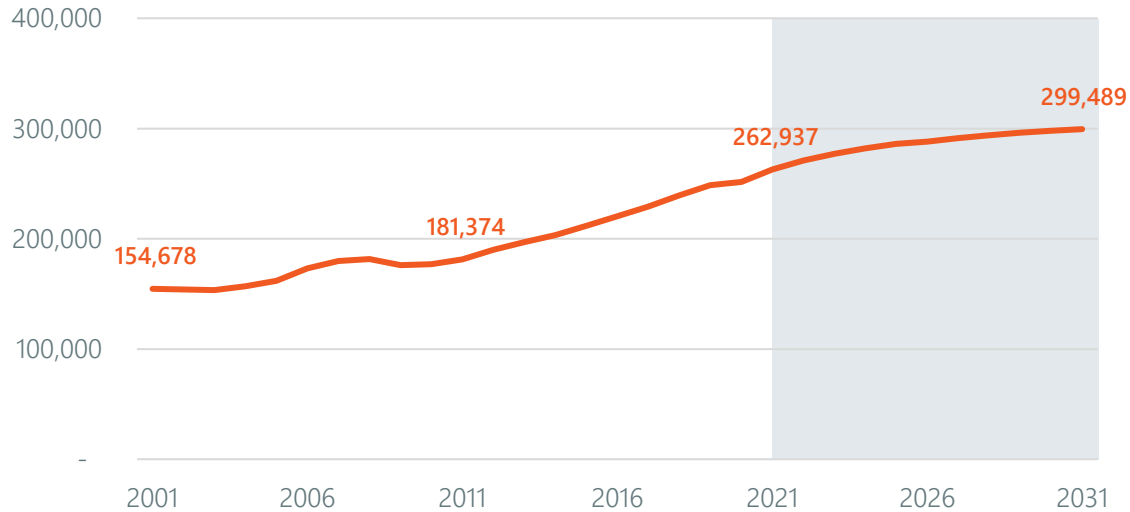
### Town Capture

What share of regional demand can the Town capture?

# OFFICE JOBS

## Employment growth is projected to slow down over the next decade

4-COUNTY REGION OFFICE EMPLOYMENT GROWTH



HISTORIC AND PROJECTED REGION EMPLOYMENT CAGR

	2001-2011	2011-2021	2021-2031
Office Employment	1.6%	3.8%	1.3%
Non-Office Employment	0.8%	1.8%	0.8%

- From 2011 to 2021, office employment in the 4-County region grew by 3.8% annually. Growth was led by the education and professional services sectors, which grew by 7.6% and 5.1% respectively
- Through 2031, office employment growth is projected to slow down to 1.3% annually. Education and health care are projected to continue growing faster than regional office employment overall.
- The regional slowdown in job growth aligns with State and national-level projections from the State of North Carolina and the Bureau of Labor Statistics, respectively.
- However, these employment projections likely do not account for tenants choosing between multiple regional markets. The 4-County region has been attracting major, national office users in recent years and could capture additional relocations in coming years.

[1] SB Friedman calculated office employment and growth by estimating what share of workers within each 6-digit NAICS sector work in offices.

Source: Emsi, SB Friedman

# SPACE NEEDS

Evolving trends are impacting how much and what kind of office space is required



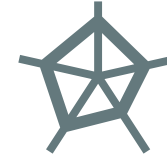
## Reductions in Density – Not Space

Office users are not anticipated to significantly downsize their footprint. However, remote and hybrid work policies may reduce how many office workers occupy the same space.



## Flight to Quality to Attract/Retain Employees

Office users are continuing to move to higher-quality, Class A space, leading to falling occupancy in older buildings. The motivations for doing so are largely to attract and retain employees.



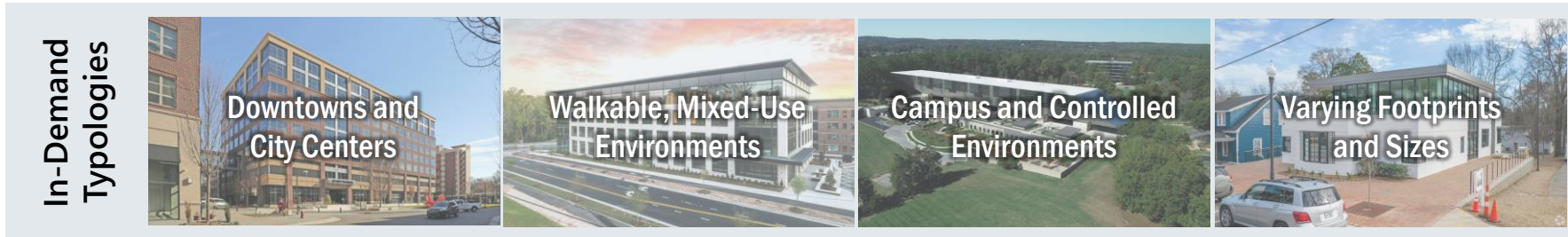
## Potential Move Away from Large-Scale Offices

Demand is anticipated to shrink for giant, centralized footprints, potentially leading to a growth of smaller, more specialized hubs closer to employees' homes.



## Emphasis on Walkable, Mixed-Use Environments

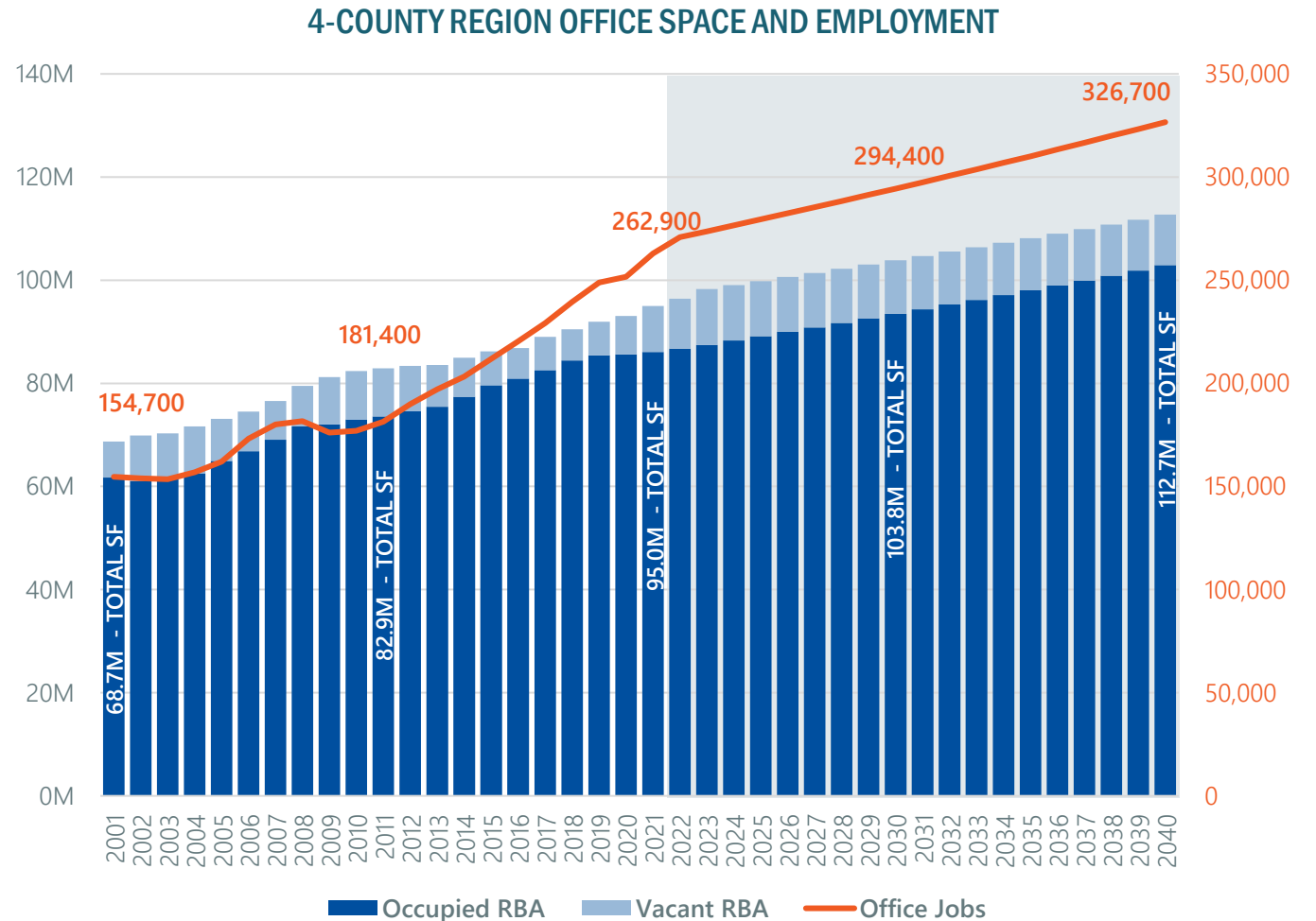
Established city centers and other walkable areas are expected to continue to be popular office locations. However, they will likely have fewer office workers on a typical day.



# REGIONAL OFFICE FORECAST

## 4-County Region will need to add 17.7M net SF by 2040 to accommodate projected office job growth

- Accounting for the trends in space needs, the 4-County region will need to add approximately net 17.7M SF of office space by 2040 to accommodate the growth in office job sectors and maintain a controlled level of vacancy.
- Some existing, older office space will be demolished. To account for demolitions, the region will need to add approximately 21.6M SF of gross office space.
- About 15.3M SF of the gross office space (71%) should be larger space suitable for corporate users. The remaining 6.3M SF (29%) should be in smaller buildings more suitable for professional users (e.g., dentists, lawyers).
- New office space should reflect evolving user preferences:
  - More flexible layouts, with high-quality building amenities
  - Largely positioned in walkable, mixed-use environments





# CHAPEL HILL CAPTURE OF OFFICE DEMAND

## Recent trends and efforts position Chapel Hill for a greater capture of new office development

The 4-County region has been competitive in attracting and keeping national companies



### Cost of Living Below National Average

The Raleigh-Durham metro area's cost of living is below the national average, and housing costs are lower than in most peer metros.



### Highly Educated, Young Talent Pool

Benefitting from the presence of multiple major universities, the region has a large and quickly growing pool of young, college-educated professionals



### Diversified Economy

Multiple sectors, such as tech, healthcare and professional services, have a strong presence in the region, contributing to a dynamic economy



### Low Personal and Corporate Income Tax Rates

North Carolina has low personal and corporate tax rates, which attract national companies to the state

Recent trends and efforts position Chapel Hill for a greater capture of new office development in the region



### Flight to Quality

Chapel Hill has newer, highly amenitized office space available with more space entitled



### Walkable, Mixed-Use Environments

Chapel Hill has prioritized walkable, mixed-use development



### Growth of Life Sciences

Chapel Hill is positioning itself to capture a portion of this growth and leverage the proximity to UNC

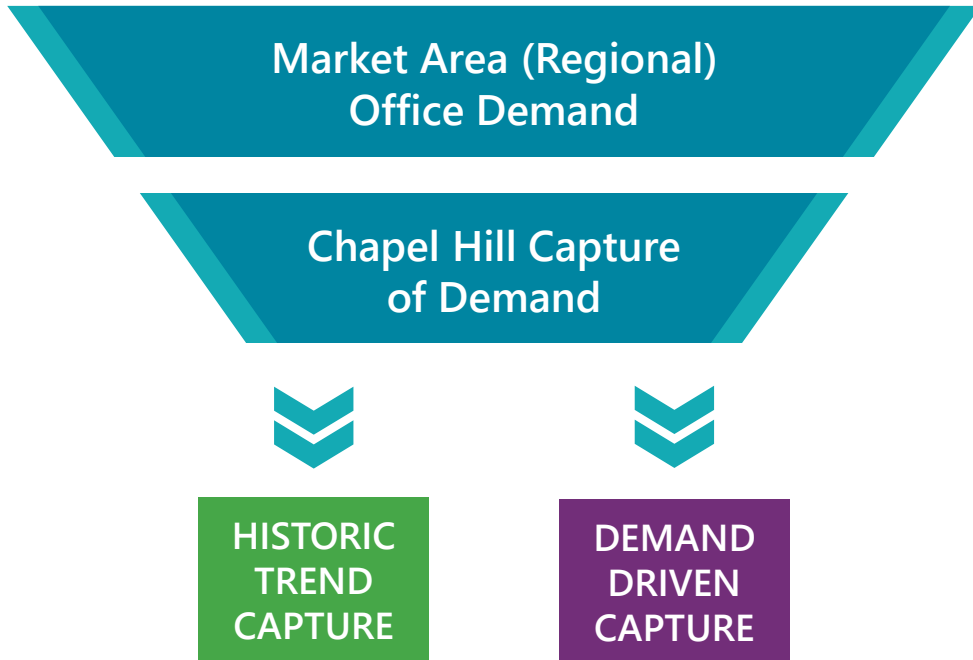


### Innovation District

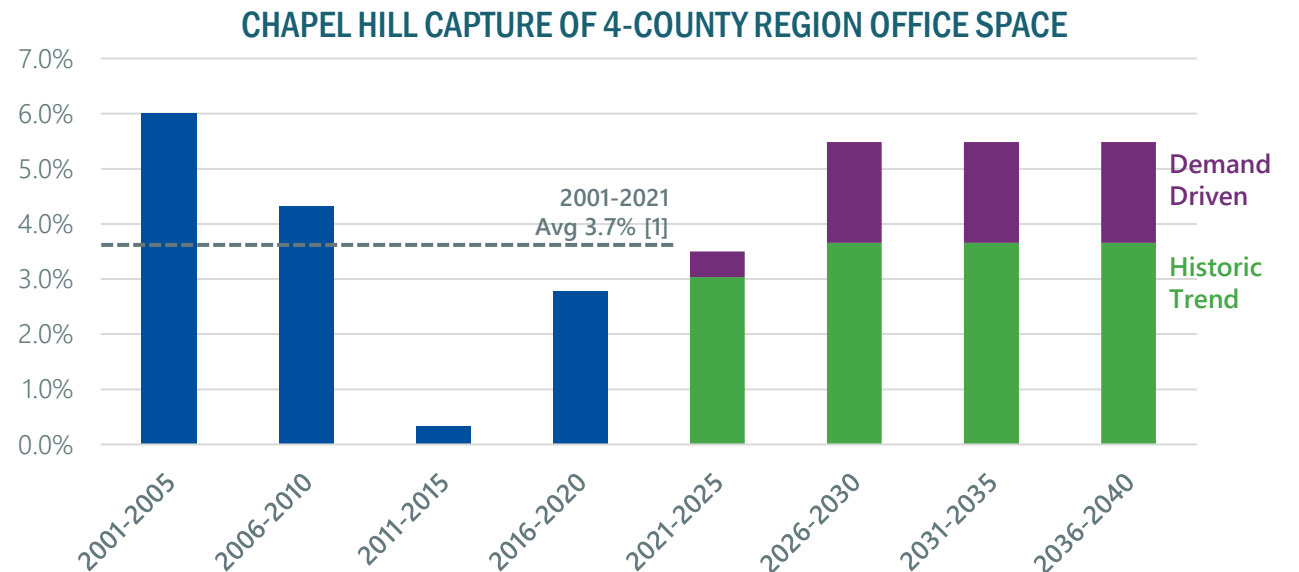
Chapel Hill is outlining a vision and strategy to develop an Innovation District downtown

# CHAPEL HILL CAPTURE OF OFFICE DEMAND

SB Friedman evaluated office demand under historic and enhanced capture rates



- Between 2001 and 2020, Chapel Hill captured 3.7% of the office space built in the region, on average.
- In the “Historic Trend” scenario, the Town continues to capture 3.7% of new office space built regionwide. In the “Demand Driven” scenario, the Town’s regional capture rate gradually increases to 5.1%.



[1] Historic capture rate reflects Chapel Hill’s capture of all office space—including smaller projects and owner-occupied space—developed in the 4-County region from 2001-2021. This analysis considers major renovations (i.e., Parkline) as comparable to new development.

Source: CoStar, SB Friedman

# CHAPEL HILL CAPTURE OF OFFICE DEMAND

Chapel Hill could capture between 770K and 1.2M SF of new office by 2040

## HISTORIC TREND CAPTURE

**700-800K SF**

Larger-Scale Corporate  
Office Space by 2040

**70-75K SF**

Professional  
Office Space by 2040

- Under the “Historic Trend” scenario, Chapel Hill could support between 770K and 875K SF of new office through 2040.
- Given recent tenant profiles, the majority of space will be in larger-scale corporate office buildings.

## DEMAND DRIVEN CAPTURE

**1.0-1.1M SF**

Larger-Scale Corporate  
Office Space by 2040

**80-85K SF**

Professional  
Office Space by 2040

- In the “Demand Driven” scenario, Chapel Hill could support between 1.0M and 1.2M SF of new office through 2040.
- Relative to the “Historic Trend” scenario, a much larger share of space is in larger-scale corporate office buildings in the “Demand Driven” scenario.

# KEY TAKEAWAYS

## Office market characteristics and demand forecast

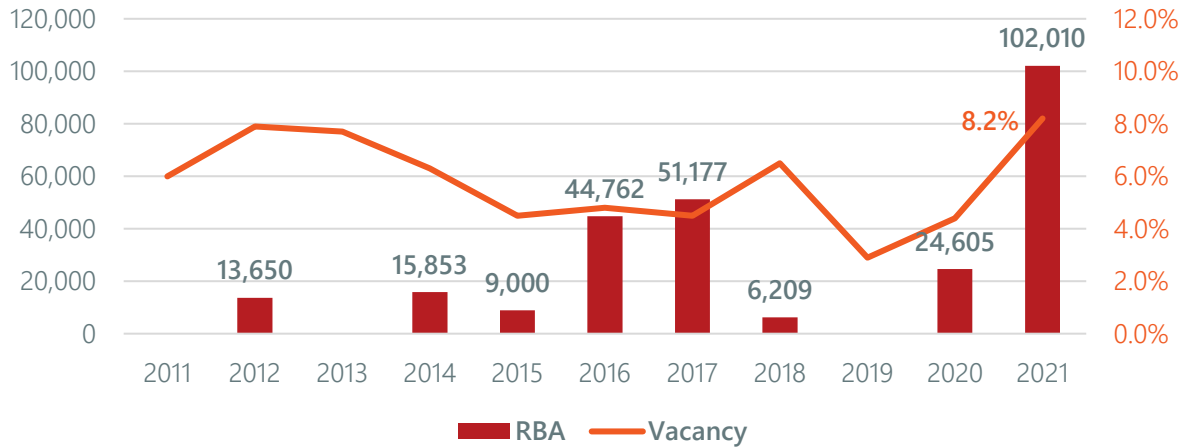
- Chapel Hill is located in a regional office market area consisting of Chatham, Durham, Orange, and Wake counties. This 4-County Region has 65M SF of leasable Class A and B office space, with 6M SF in the pipeline.
- Chapel Hill has approximately 2.9M SF of existing office space, including Class C and unclassified space. This number represents approximately 2.7% of the total regional office supply, inclusive of all building classes.
- Approximately 352,000 SF of office space has been built in Chapel Hill since 2011. Overall, 46% of Chapel Hill's existing office space was built since 2000.
- Approximately 50% of the space with the Town planning area is listed as Class A space. On average, this space has a rental rate of \$31/SF, though the newest product is approaching \$39/SF.
- Class A vacancy in Chapel Hill is around 25%. The vacancy rate reflects recently delivered buildings which are still in lease up.
- Chapel Hill has 442,000 SF of leasable, medical office. The Town's leasable, medical office space is mostly occupied, with a vacancy rate below 9%.
- Office employment growth in the region is projected to slow down over the next decade. Education and health care are projected to continue growing faster than regional office employment overall.
- Evolving trends are impacting how much and what kind of office space is required. Downtowns and walkable, mixed-use environments are growing in popularity for office users.
- The 4-County Region will need to add 21.6M gross SF by 2040 to accommodate projected office job growth, accounting for changing space needs, demolitions, and a controlled level of vacancy.
- Between 2001 and 2020, Chapel Hill captured 3.7% of the office space built in the region, on average. Through 2040, Chapel Hill could capture as much as 5.1% of regional office production.
- Chapel Hill could capture between 770K and 1.2M SF of new office by 2040, most of which will be in larger-scale corporate buildings.

# RETAIL CHARACTERISTICS AND DEMAND FORECAST

# EXISTING RETAIL MARKET

Approximately 2.6M SF of existing retail space is located in Chapel Hill

RETAIL BUILT PER YEAR (SF)

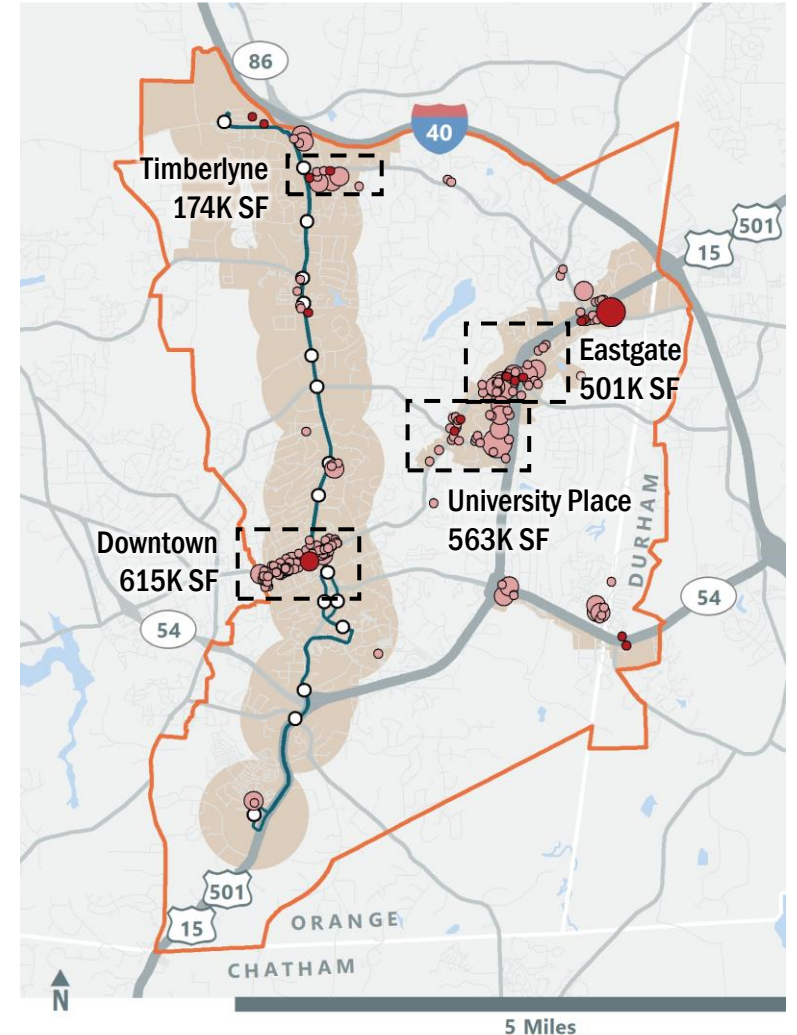


LEGEND

- < 20K SF
- 20K-100K SF
- 100K SF

Built 2010 or prior  
 Built post-2011

- Chapel Hill has 2.6M SF of retail space, largely concentrated in three areas: downtown, University Place/Eastgate, and Timberlyne.
- Over the past 10 years, 267,300 SF of retail space was delivered.
- Retail vacancy was at a 10-year high in 2021, which aligns with national retail trends, but remained below 10% indicating a strong market.



[1] Includes projects under construction or proposed  
 Source: CoStar, ESRI, SB Friedman  
 SB Friedman Development Advisors

# EXISTING RETAIL SPENDING

## Chapel Hill is currently losing some sales to nearby retail clusters

### CHAPEL HILL PLANNING AREA RETAIL LEAKAGE

NAICS	Sector	Est. # of Bus.	Leakage
442	Furniture and Home Furnishings Stores	9	\$35.5 M
443	Electronics and Appliance Stores	10	\$11.0 M
444	Bldg. Materials, Garden Equip. and Supply Stores	14	\$34.7 M
445	Food and Beverage Stores	33	(\$61.0 M)
446	Health and Personal Care Stores	32	(\$14.4 M)
448	Clothing and Clothing Accessories Stores	47	\$2.8 M
451	Sporting Goods, Hobby, Book and Music Stores	29	(\$17.3 M)
452	General Merchandise Stores	7	\$120.9 M
453	Miscellaneous Store Retailers	38	\$9.9 M
722	Food Services and Drinking Places	201	(\$49.3 M)

Retail Gap  
 Retail Surplus

- Using Esri Business Analyst data, SB Friedman projected unmet retail demand for the Town planning area, as presented to the left.
- There is a surplus in certain retail categories, indicating that shoppers are travelling into Chapel Hill for these retail sectors. Based on the demographics of its residents alone, Chapel Hill appears to be oversupplied in food and beverage stores, restaurants, and sporting goods stores. However, tourists visiting Chapel Hill and UNC can help augment resident demand and support additional retail in several more tourist-focused categories.
- In contrast, there is unmet demand in the general merchandise, furniture and home furnishings, and building materials retail categories. Some of this unmet demand can likely support new stores within the Town.
- Key feasibility considerations and demand forecasts are outlined on the following pages.



# MARKET FORECAST CONSIDERATIONS

## Retail demand depends on several factors

- SB Friedman projected retail demand for a variety of retail categories. Retail markets are more localized than residential or office markets, so projections were prepared through 2040 for a defined retail trade area. Then, capture rates were used to translate that demand by sector to the Town.
- The following key inputs were considered when quantifying future retail demand at the trade area level.



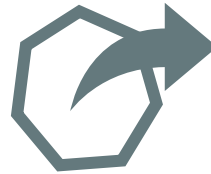
### Population Growth

How quickly is the trade area growing?



### Retail Spending

How much do residents spend on retail?



### Sales Leakage

How much in sales is lost to other areas?



### E-Commerce Sales

What share of sales do e-commerce and omni-channel capture?



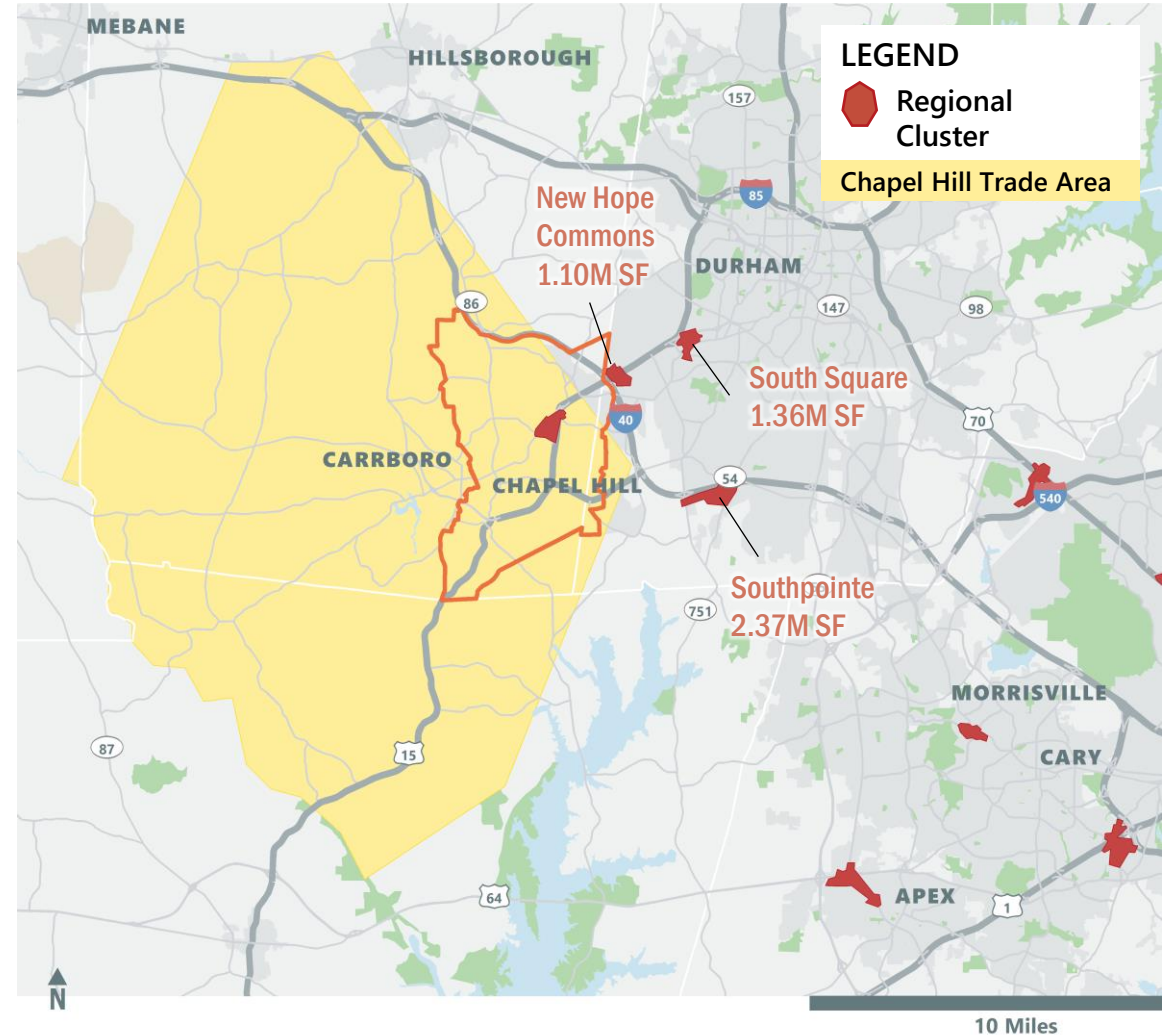
### Retail Trends

What sort of retail typologies and tenants desired regionally and locally?

# RETAIL TRADE AREA

## Primary Trade Area extends west from Chapel Hill

- To project demand, SB Friedman conducted an analysis of competitive retail clusters to delineate the geography from which Chapel Hill attracts most of its retail customers.
- Trade areas across the MSA were defined by the presence of a regional cluster: a concentration of over 1M SF of rentable retail space. Chapel Hill is home to one regional cluster, located along NC 15-501. This cluster encompasses both the University Place and Eastgate shopping centers.
- Other more community-serving retail is present across the region, but smaller retail nodes do not affect trade area boundaries.
- After clusters were identified, trade areas were drawn based on drive times and Thiessen polygons. The Chapel Hill Trade Area, presented to the right, covers most—but not all—of the Town, and extends into Orange and Chatham counties.
- Three large centers—New Hope Commons, South Square, and Southpointe—are located just outside the Town’s boundaries. Chapel Hill loses a portion of retail sales to these clusters.

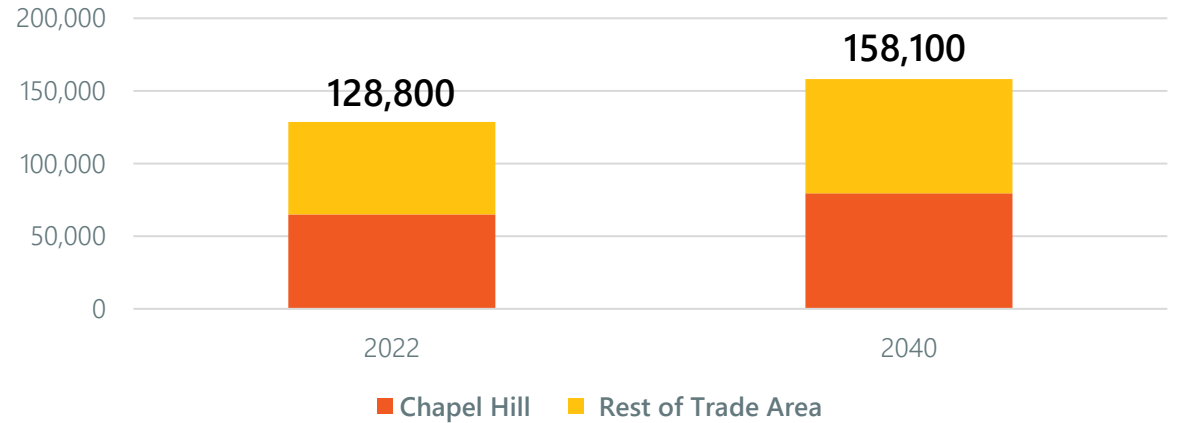


# POPULATION GROWTH AND RETAIL SPENDING

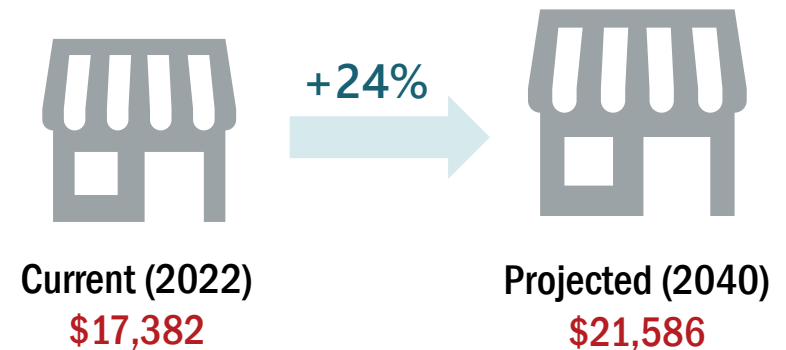
## Primary Trade Area extends west from Chapel Hill

- The Chapel Hill trade area is home to 128,800 residents, about half of which live in Chapel Hill proper.
- Under the “Demand Driven” residential demand scenario, the trade area’s population is projected to increase to 158,100 by 2040.
- The trade area is projected to become more affluent over the next two decades. After controlling for inflation, trade area per capita retail spending is projected to increase by 24% by 2040.

### TRADE AREA PROJECTED POPULATION



### TRADE AREA PER CAPITA RETAIL SPENDING

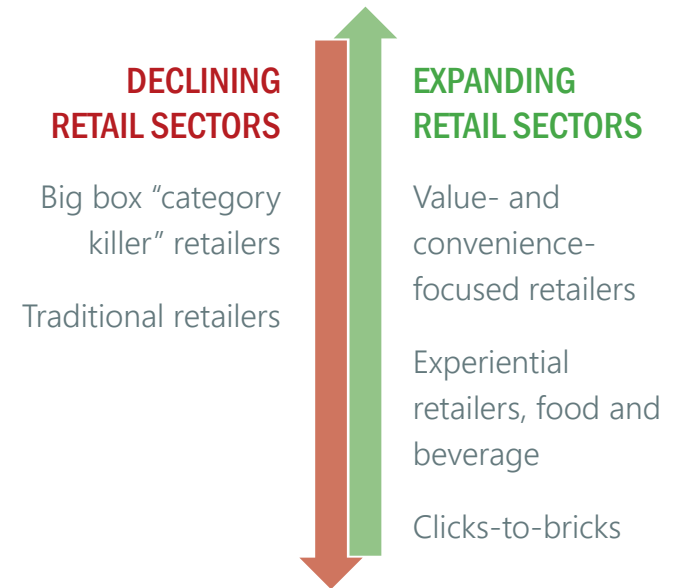
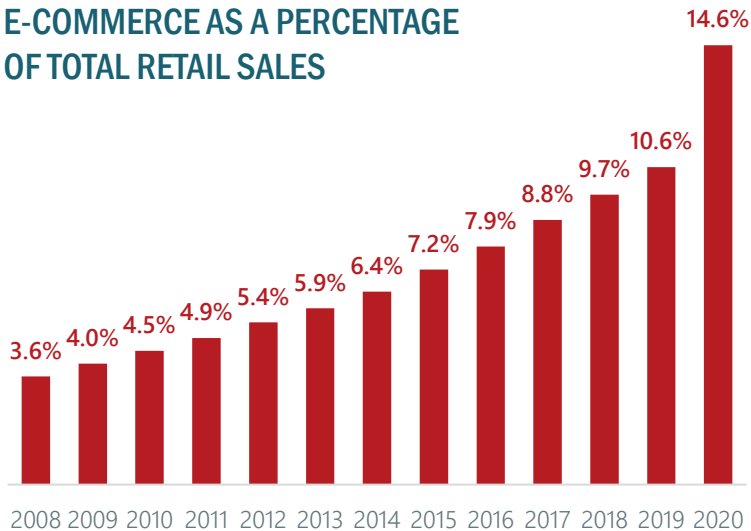


# RETAIL TRENDS

## Recent trends are impacting bricks and mortar retail nationally

- Growth of e-commerce is impacting brick and mortar retail development and was accelerated by the COVID-19 pandemic.
- Traditional retailers are repositioning brick and mortar stores to accommodate multi-channel and omni-channel shopping.
- Some retail sectors are declining, while others are expanding.

**E-COMMERCE AS A PERCENTAGE OF TOTAL RETAIL SALES**



# NET SPENDING POTENTIAL

Shifts are expected in per-capita retail spending

Retail Category	2022 Retail Spend per Capita (Net of Omni-Channel)	2022-2040 Change in Retail Spend per Capita (Net of Omni-Channel)
Food services and drinking places	\$1,776	\$760
Building materials and garden equipment and supplies stores	\$1,077	\$343
Grocery stores	\$2,647	\$329
Furniture and home furnishings stores	\$612	\$121
Health and personal care stores	\$956	\$108
Miscellaneous store retailers	\$629	-\$24
Clothing and clothing accessories stores	\$743	-\$108
Sporting goods, hobby, book, and music stores	\$407	-\$179
Electronics and appliance stores	\$483	-\$234
General merchandise stores	\$2,657	-\$243

- After accounting for the various retail trends described on the previous page, we projected per capita retail spending in the Chapel Hill trade area net of e-commerce and omni-channel sales.

- Several sectors, including Food Services and Drinking Places and Grocery Stores, are projected to have higher per capita demand in 2040. On the other hand, sectors like General Merchandise Stores and Electronics and Appliance Stores are projected to have lower per capita demand in 2040.

# DEMAND PROJECTIONS

Chapel Hill could support an additional ±660K SF of retail space by 2040

Retail Category	Trade Area Demand Change 2022-2040	Trade Area Demand Potential (2040)	Typical Sales PSF (2040)	Chapel Hill Capture of Demand	Chapel Hill Supportable SF
Furniture and home furnishings stores		\$96M	\$320	25%	75,000
Electronics and appliance stores	 *2040 Demand Lower Than Current Demand	\$7M	\$1,120	66%	4,000
Building materials and garden equipment and supplies stores		\$168M	\$510	10%	33,000
Health and personal care stores		\$39M	\$930	66%	28,000
Clothing and clothing accessories stores	 *2040 Demand Lower Than Current Demand	\$18M	\$490	50%	18,000
General Merchandise Stores		\$262M	\$340	25%	192,000
Miscellaneous Store Retailers		\$38M	\$500	50%	38,000
Food Services and Drinking Places		\$136M	\$670	66%	134,000
<b>Total Occupied Retail SF</b>					<b>522,000 SF</b>
<i>Non-Retail SF % (Services, Medical, Professional Office, etc.)</i>					<i>15.0%</i>
<b>Total Occupied SF</b>					<b>614,000 SF</b>
<i>Vacancy Rate</i>					<i>7.0%</i>
<b>Total Supportable SF</b>					<b>660,000 SF</b>

# KEY TAKEAWAYS

## Retail market characteristics and demand forecast

- Approximately 2.6M SF of existing retail space is located in Chapel Hill. Over the past 10 years, 267,300 SF of retail space was built.
- Retail vacancy was at a 10-year high in 2021, but below 10%, indicating a healthy market.
- Three large centers—New Hope Commons, South Square, and Southpointe—are located just outside the Town’s boundaries. Chapel Hill loses a portion of retail sales to these clusters.
- Growth in e-commerce is impacting brick and mortar retail development and was accelerated by the COVID-19 pandemic.
- Traditional retailers are repositioning brick and mortar stores to accommodate multi-channel and omni-channel shopping.
- Chapel Hill could support an additional 660K SF of retail space by 2040 in the following categories:
  - Furniture and home furnishings stores
  - Electronics and appliance stores
  - Building materials and garden equipment and supplies stores
  - Health and personal care stores
  - Clothing and clothing accessories stores
  - General Merchandise Stores
  - Miscellaneous Store Retailers
  - Food Services and Drinking Places
- In addition, new retail space could include service-oriented businesses, such as salons, yoga studios, or dry cleaners.

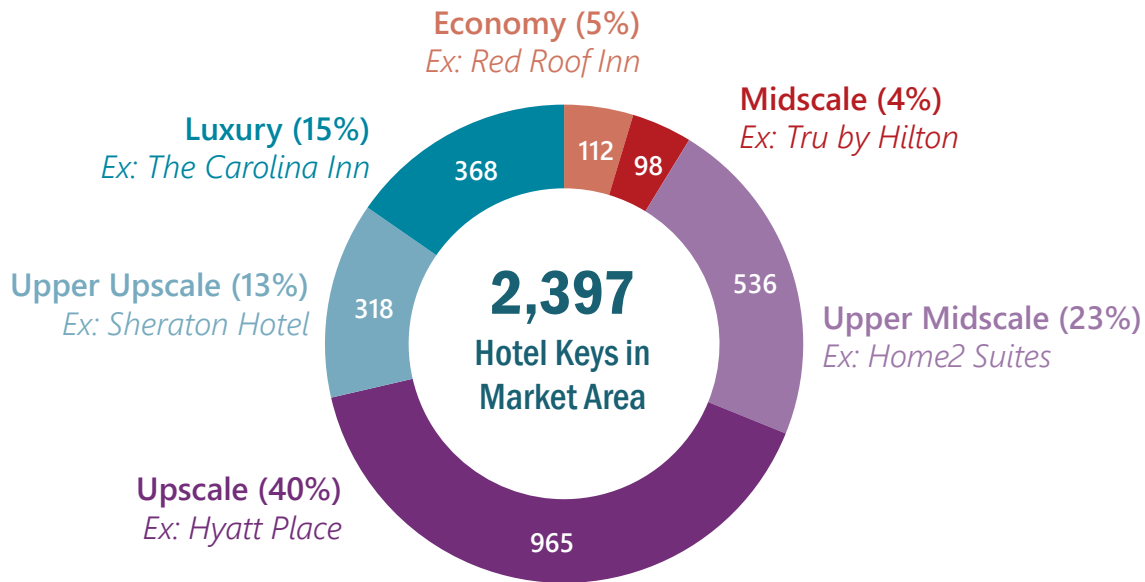


# HOTEL CHARACTERISTICS AND DEMAND FORECAST

# EXISTING HOTEL MARKET

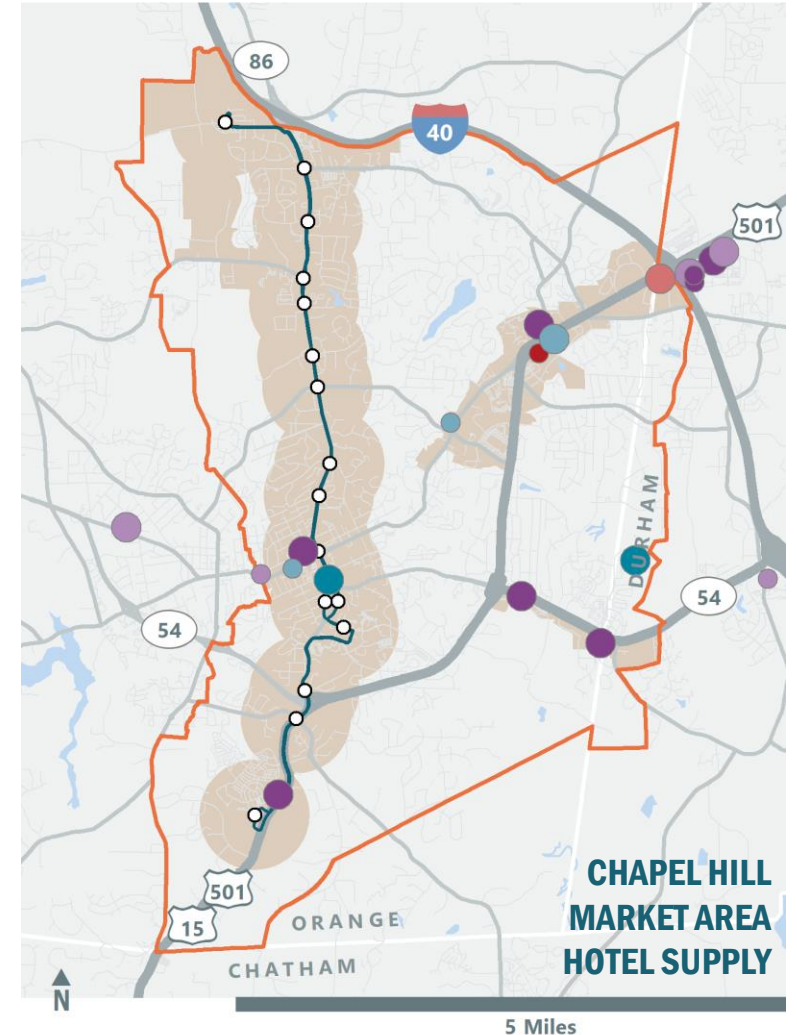
Nearly 2,400 hotel rooms are located in Chapel Hill's market area

- Chapel Hill's hotel market area encompasses the Town, as well as nearby hotels in Carrboro and along I-40.
- Of the 2,397 total keys in the market area, 1,627 (68%) are located within the Town boundary.



## LEGEND

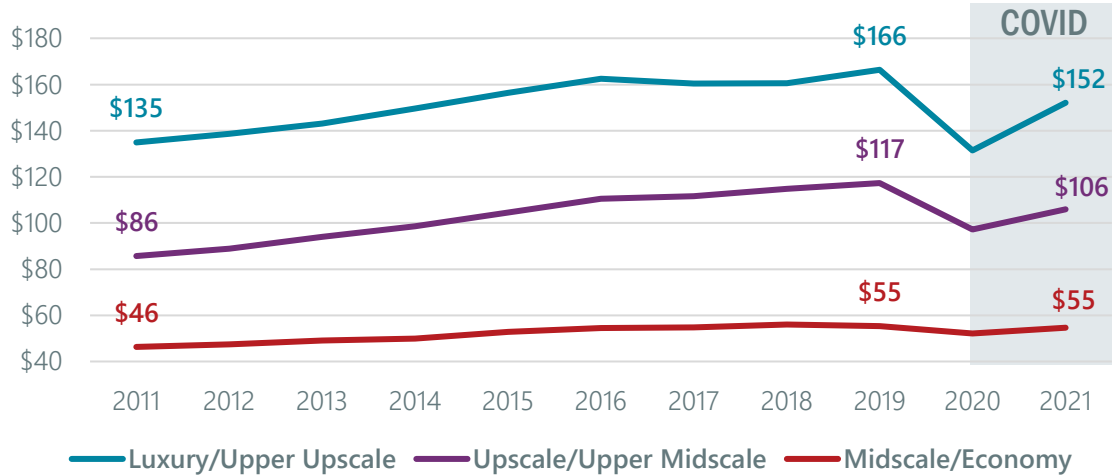
- < 99 Keys
- 100+ Keys



# HOTEL PERFORMANCE

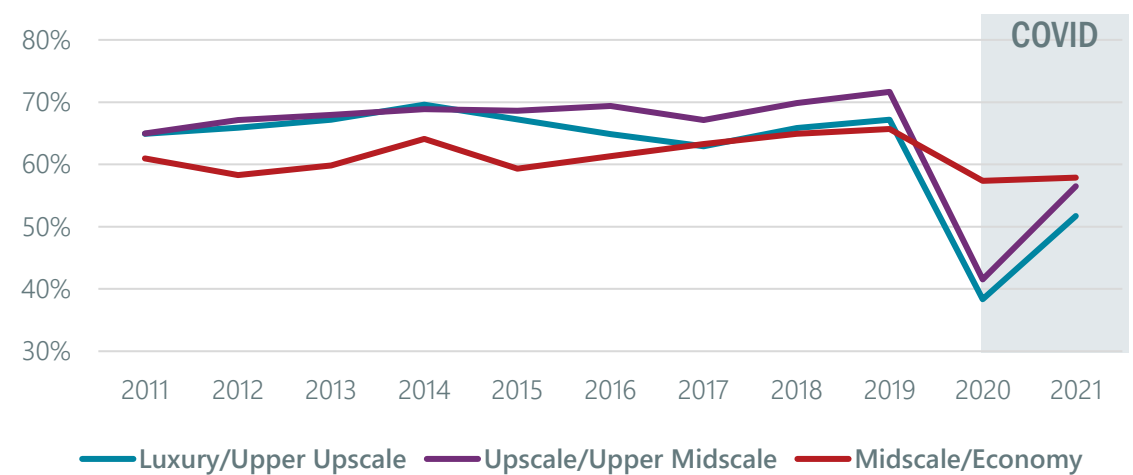
The Chapel Hill hotel market is still recovering from the effects of COVID-19

HOTEL AVERAGE DAILY RATE BY CLASS



- Average Daily Rate (ADR) fell in 2020 across all classes as a result of the COVID-19 pandemic.
- ADR for midscale and economy class hotels has recovered to pre-pandemic levels, though ADR in other classes is still below 2019 levels.

HOTEL OCCUPANCY BY CLASS



- Hotel occupancy fell sharply during the pandemic and has not yet returned to pre-pandemic levels for any class.
- Overall market occupancy was 60% in June 2022, compared to 70% in June 2019.

# DEMAND PROJECTIONS

## The existing pipeline is likely adequate to meet demand through 2040

- SB Friedman’s projections show demand for an additional net 61-92 keys in Chapel Hill by 2040 as the result of population and employment growth.
- There are currently 97 keys under construction (Tarheel Lodging), and an additional 589 entitled. Assuming typical downcycling and redevelopment in the hotel market, this pipeline will meet our demand projections.
- For Chapel Hill to support further hotel development beyond the current pipeline, one or more of the following would likely need to occur:
  - Growth in tourism to Chapel Hill
  - Significant increase in the size of the UNC student body
  - Increase in the number of major events (conferences, sports, concerts, etc.) in Chapel Hill or hosted by UNC
  - Increase in the pace of hotel downcycling and redevelopment in Chapel Hill

### CHAPEL HILL ENTITLED HOTEL PIPELINE



Project	Address	Keys	Stage
Tarheel Lodging	1740 Estes	97	In Construction
West Rosemary	108 W Rosemary	135	Entitled
Glen Lennox	5 Hamilton	150	Entitled
University Place	201 Estes	250	Entitled
Summit Place	101 Erwin	54	Entitled

# KEY TAKEAWAYS

## Hotel market characteristics and demand forecast

- Nearly 2,400 hotel rooms are located in Chapel Hill's market area
- The Chapel Hill hotel market is still recovering from the effects of COVID-19
- The Town's existing pipeline is likely adequate to meet demand through 2040
- For Chapel Hill to support further hotel development beyond the current pipeline, one or more of the following would likely need to occur:
  - Growth in tourism to Chapel Hill
  - Significant increase in the size of the UNC student body
  - Increase in the number of major events (conferences, sports, concerts, etc.) in Chapel Hill or hosted by UNC
  - Increase in the pace of hotel downcycling and redevelopment in Chapel Hill

# RECOMMENDED HOUSING TOOLKIT

# TRANSIT AND AFFORDABLE HOUSING

## Locating affordable housing near transit reduces the two largest expenditures for most households

- Locating affordable housing near transit reduces the two largest expenditures for most households – housing and transportation costs.
- Households along the proposed BRT route could use these savings to increase their spending on goods and essential services, plan for large or unexpected expenses, and/or build household wealth.
- Nearly six out of ten renter households in Chapel Hill are cost-burdened. The North-South BRT and TOD work along the Corridor is an opportunity to address ongoing affordability challenges experienced in Chapel Hill.
- The programs, policies and strategies implemented within the TOD station areas could be extended Town-wide to address affordability challenges in a variety of local contexts.

### CHAPEL HILL COST BURDENED HOUSEHOLDS

#### OWNER HOUSEHOLDS



**19%**

Owner Households  
Cost Burdened

#### RENTER HOUSEHOLDS



**58%**

Renter Households  
Cost Burdened

#### HOUSEHOLDS EARNING <\$35K



**89%**

Households Earning <\$35K  
Cost Burdened



# EXISTING POLICIES AND PROGRAMS

Chapel Hill has many policies and programs in place to create and preserve affordable housing

## HOUSING DEVELOPMENT

- Town manages 336 public housing apartments across Chapel Hill and Carrboro
- Town leverages publicly-owned land for new, affordable housing developments

## HOUSING PROGRAMS

- Home Buyer Assistance and Rental Assistance Programs assist Town employees secure housing in and around Chapel Hill
- Transitional Housing Program assists low-income families transition from the Town's public housing to the private market

## FUNDING MECHANISMS

- Chapel Hill voters approved a \$10M affordable housing bond in 2018
- Affordable Housing Development Reserve provides annual funding from the Town's general fund
- Chapel Hill receives CDBG and HOME funds from the federal government

## PLANNING AND REGULATION

- Affordable Housing Development Fund uses in-lieu payments from developers towards affordable housing
- Manufactured Homes Action Plan addresses redevelopment threat facing manufactured home communities in Orange County
- Affordable Housing Preservation Strategy Framework sets forth approach for maintaining NOAH units

## ZONING POLICIES

- Inclusionary Zoning Ordinance mandates larger for-sale developments in most districts to set aside 15% of units as affordable (10% in downtown)
- Town negotiates affordable units or in-lieu payment as part of conditional rezoning applications for rental housing developments
- Single-family units with accessory apartments allowed by right in most districts

## PARTNERSHIPS AND COALITIONS

- Orange County Affordable Housing Coalition strives to foster collaboration among providers, local governments, and advocates
- Northside Neighborhood Initiative acquires and sells properties for affordable housing as part of community land bank strategy
- Town provides operational support to Community Home Trust which has developed an inventory of permanently affordable for-sale homes

# POTENTIAL FUTURE POLICIES AND PROGRAMS

Chapel Hill is in the process of piloting or implementing new housing policies and programs

## HOUSING DEVELOPMENT

- Town exploring redevelopment of public housing sites to add density
- Town identifying additional publicly-owned sites that could be used for affordable housing
- Town building a pipeline of affordable housing tax credit projects

## HOUSING PROGRAMS

- Town preparing to start a revolving loan fund for affordable housing programs

## FUNDING MECHANISMS

- Town exploring additional funding mechanism for affordable housing preservation and development

## PLANNING AND REGULATION

- Town is reviewing options for expediting the review process for affordable housing projects; anticipating Council approval on November 16<sup>th</sup>

## ZONING POLICIES

- Town re-examining affordable housing incentives, such as density bonuses
- Town updating the LUMO to better foster the creation and preservation of affordable housing units
- Town exploring LUMO text amendment to expand housing choices in neighborhoods

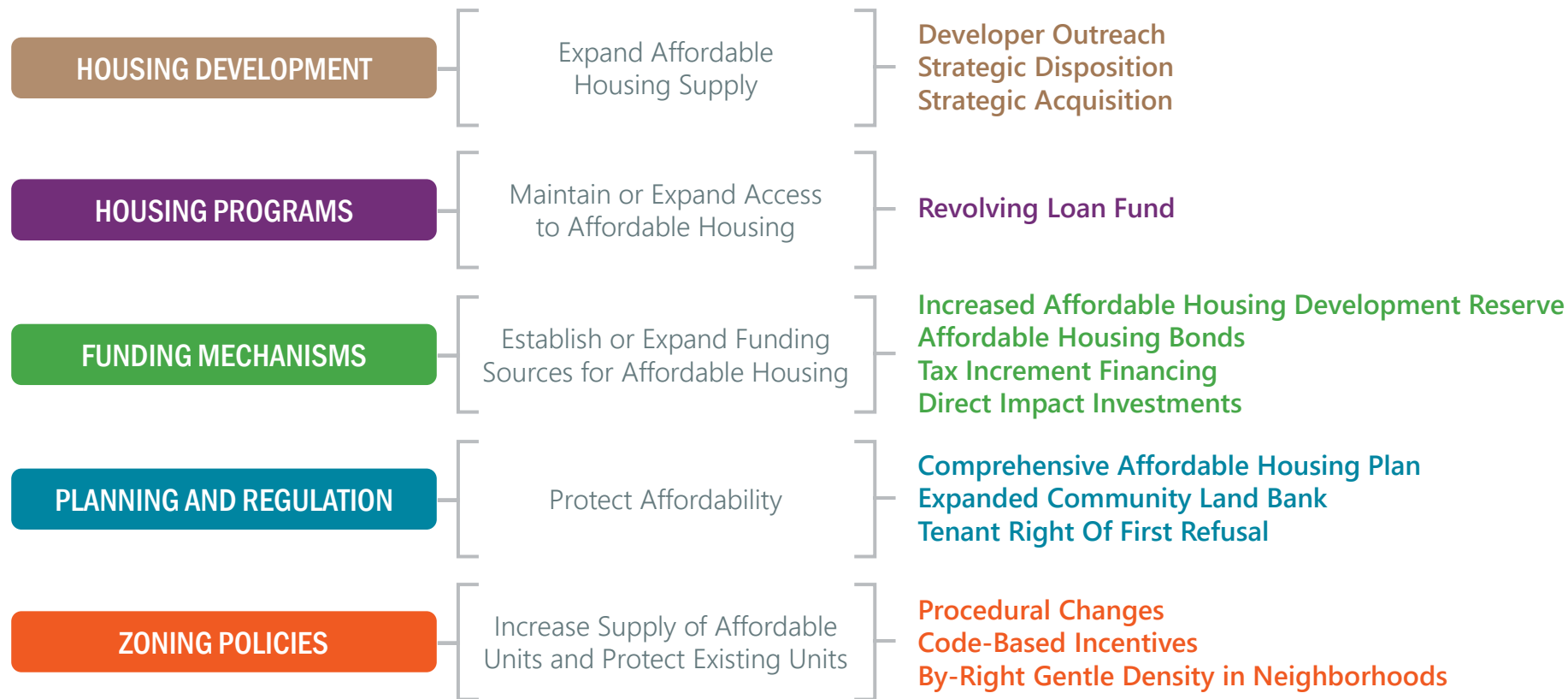
## PARTNERSHIPS AND COALITIONS

- Town working to expand acquisition and development strategy to include UNC, UNC Health, private financial institutions, and other partners

# RECOMMENDED HOUSING TOOLKIT

## Strategies to expand, protect, and diversify housing stock and promote affordability

The following programs, policies and strategies could be implemented to further expand Chapel Hill's efforts to protect and expand the supply of both affordable and missing middle housing. These recommendations are currently under review and should be further vetted by Town staff and Council. To successfully implement and administer additional policies and programs, the Town may need to increase staff capacity.



# RECOMMENDED HOUSING TOOLKIT

## Housing Development

### Developer Outreach

It is our understanding that affordable housing developers have, in many cases, avoided undertaking projects in Chapel Hill due to the Town's regulatory environment. As the Town considers adjustments to its process, including an expedited review of affordable housing projects, the Town could reintroduce Chapel Hill to the housing development community and continue to play an active role in connecting developers, funders, and service providers. This includes identifying local developers willing to undertake affordable or missing middle development, as well as actively marketing development opportunities, revised entitlement processes, and available incentives.

### Strategic Disposition

Chapel Hill already leverages Town-owned land for affordable housing projects and is continuing to identify other opportunities within its existing land inventory. As the Town explores partnerships with UNC and UNC Health to ease housing development challenges, it could also identify mission-driven landowners (e.g., religious institutions) with surplus land holdings. Around the country, churches and nonprofits are partnering with municipalities to build affordable housing.

These partnerships allow the public sector and mission-driven landowners to have significant control over what ultimately gets developed on a site, while activating underutilized sites. As the Town identifies potential partners, it will be important to discuss redevelopment strategies that align with the Town's housing objectives, as well as how the Town could assist in development efforts. When working with potential partners, the Town should identify any potential zoning or regulatory barriers that could impede housing development.

The Town could lead requests for proposals (RFP) that require a certain type of development through controls on typology, affordability requirements, or other factors. Furthermore, public- or partner-owned land could be provided to developers at a discount to incentivize the private sector to address unmet housing needs (affordable, senior, or missing middle housing development, etc.).

### Strategic Acquisition

In addition to evaluating the suitability of its existing land holdings, the Town could also consider strategically acquiring sites. Typically, this would require the Town to meet a seller's valuation for the site. The Town could consider key sites in the Station and Focus Areas, including larger vacant parcels and aging commercial centers. As a landowner, the Town could then undertake a disposition process, as outlined above, or undertake long-term preservation of any NOAH units acquired.

# RECOMMENDED HOUSING TOOLKIT

## Housing Programs

### Revolving Loan Fund

Chapel Hill is currently exploring a revolving loan fund (RLF) for affordable housing. If a source of funding is identified, a RLF could be used to support a variety of housing programs:

- **Naturally Occurring Affordable Housing (NOAH) Preservation.** Both property owners and renters could use a RLF to mitigate rent or property tax increases in areas experiencing rapid price appreciation. Larger organizations, including potentially the Town itself, could leverage a RLF to acquire NOAH projects for the purpose of long-term preservation of affordability. Both Durham and Wake County have recently started loan programs to finance the acquisition and preservation of naturally occurring affordable housing.
- **Property Rehabilitation.** Property owners could use a RLF to finance major property improvements, including ADU construction or accessibility improvements. Older structures—which often serve as a form of naturally-occurring affordable housing—are generally in most need of rehabilitation. Greensboro has programs in place that provide low-interest loans to homeowner for housing rehabilitation and to landlords for rental housing improvements.
- **New Affordable Housing Construction.** A RLF can provide bridge loans for affordable housing developers. In particular, a RLF could be used to finance land acquisition and would subsequently be repaid once tax credits or other project financing is obtained.
- **Homeownership Assistance.** A RLF can provide additional financing between what a borrower can obtain in private financing and the total amount needed to purchase a house. A RLF can thereby help increase access to homeownership. However, given the high housing prices in Chapel Hill, a typical revolving loan amount would be unlikely to make a purchase attainable to low- and moderate-income households. To more effectively expand homeownership, an RLF would likely need to be paired with a community land bank strategy.

Regardless of the housing program, a RLF relies on interest payments and ultimately repayment from the borrower to replenish the fund. Those payments then allow the Town to issue additional loans. Typically, revolving rehabilitation loan funds have criteria such as home age, type of improvement, cost of improvement, or resident income. Recipients of the loan typically would not be able to receive a loan from a traditional bank, and loans are generally offered at lower interest rates.

# RECOMMENDED HOUSING TOOLKIT

## Funding Mechanisms

### Increased Affordable Housing Development Reserve

The Town dedicates a portion of its general fund for affordable housing programs. However, the annual Affordable Housing Development Reserve allocation has remained flat since 2015. The Town could consider increasing this reserve amount to expand housing programs and accommodate ongoing inflation and other cost increases.

### Affordable Housing Bonds

In 2018, Chapel Hill voters approved a \$10 million bond to create and preserve affordable housing. This bond is the Town's single largest source of funding for affordable housing. The Town could consider placing another bond on the ballot in order to fund future affordable housing development and/or transit improvements.

### Tax Increment Financing

Tax increment financing (TIF, often called project development financing in North Carolina) is a way for a municipality to capture the property value increases associated with new development and redevelopment. Those captured revenues are then used to reinvest within the immediate area. In North Carolina, housing for people of low or moderate income is an authorized use of TIF revenues. TIF is rarely used in North Carolina, likely in part to its perceived complexity, statutory limitations, and availability of alternative types of project financing.

In North Carolina, a TIF district must consist of property that is blighted, deteriorated, undeveloped, inappropriately developed, or appropriate for conservation activities or economic development. To issue bonds or other debt instruments, a jurisdiction needs to get approval from the Local Government Commission. State law also limits the amount of a jurisdiction's land area that can be placed in a TIF to no more than 5%. Should Chapel Hill pursue establishing a TIF, the Town will need to consider which area or areas could make the best use of the tool.

A synthetic TIF is an alternative strategy that includes pledging a portion of future incremental revenues to an area without a formal district in place. Operationally, a synthetic TIF functions similarly to an actual TIF. However, it is simpler and easier to establish and eliminate as needed.

### Direct Impact Investments

Around the country, large employers, financial institutions, and philanthropic foundations often provide financial support towards affordable housing. Chapel Hill could engage these entities which are active locally to direct impact investment funds toward housing strategies that address local and regional unmet needs.

# RECOMMENDED HOUSING TOOLKIT

## Planning and Regulation

### Comprehensive Affordable Housing Plan

In addition to the N-S BRT TOD planning study, Chapel Hill has initiated several housing market studies in recent years, including the *Housing Needs and Market Assessment* (2017), *Affordable Housing Gap and Economic Analysis* (2017), and *Projected Housing Needs, 2020-2040* (2021) studies. To build on this past work and the ongoing TOD planning study, the Town should undertake a comprehensive planning effort that focuses specifically on affordable housing. This study would ideally develop an updated guide for the Town's housing investments and regulatory programs.

### Expanded Community Land Bank

Chapel Hill's Northside Neighborhood Initiative already operates a land bank which was funded through an initial \$10M loan from UNC. The land bank identifies properties for purchase and rehab, and then sells to nonprofits that develop affordable housing. To date, approximately 50 affordable units have been developed. The Town provides annual operating support as well as gap funding to buyers. Going forward, the Northside land bank could be expanded, or a new land bank could be established, to support affordable housing within Chapel Hill. The Town could assist this process by developing an inventory of the vacant property while pledging funding to acquire and clean parcels. Land bank property would provide low-cost opportunities for affordability in the Station and Focus Areas.

### Tenant Right Of First Refusal

Tenant right of first refusal laws are also designed to ensure long-term affordability. The Town should explore the feasibility of allowing tenant right of first refusal in any instance that NOAH properties—including manufactured home communities—are redeveloped. Tenants could then rent redeveloped units in the new building at the same rate as pre-redevelopment. North Carolina laws regarding rent control may limit the ability of jurisdictions to implement this policy (other than for public housing units, to which the policy already applies). The Town could attempt to negotiate a similar benefit as part of any rezoning agreement, as was done for the Glen Lennox redevelopment. Such agreements would only apply to a specific project rather than town-wide. If tenant right of first refusal is a viable option, the Town could also work to connect renters facing displacement with nonprofit organizations who can help renters organize or secure funding.



# RECOMMENDED HOUSING TOOLKIT

## Zoning Policies

### Procedural Changes

It is our understanding that the complexity of Chapel Hill’s development review process limits the production and supply of affordable housing by adding time, cost, and risk to projects; restricting the ability to meet funding deadlines; and preventing some developers from advancing projects. Chapel Hill is currently piloting an expedited review process for affordable housing projects, which may soon be adopted permanently. This process could be formalized to streamline the development process for a greater variety of residential projects that set aside a portion of units as affordable. Given the high land price and development costs in Chapel Hill, creating a more streamlined process could support the development of affordable housing.

In addition, the Town could consider increasing the threshold that triggers the Town Council review process. The existing low threshold allows for very little by-right development within Chapel Hill. Increasing the threshold would allow the typologies and densities expressed in the FLUM to be developed by-right; thereby reducing the entitlement process and providing more certainty to the development community.

### Code-Based Incentives

As part of other zoning code updates, Chapel Hill could also consider adopting code-based incentives that support equitable development patterns. Incentives such as reduced parking requirements or height and density variances could be granted to developers in exchange for more affordable units or other public benefits. Incentives that are clearly articulated in the zoning code—rather than negotiated individually for each development—would provide certainty for the development community around tradeoffs while streamlining the entitlement process. These code-based incentives could be piloted in certain areas—such as specific zoning districts or around transit stations—or could be applied across all of Chapel Hill.

### By-Right Gentle Density in Neighborhoods

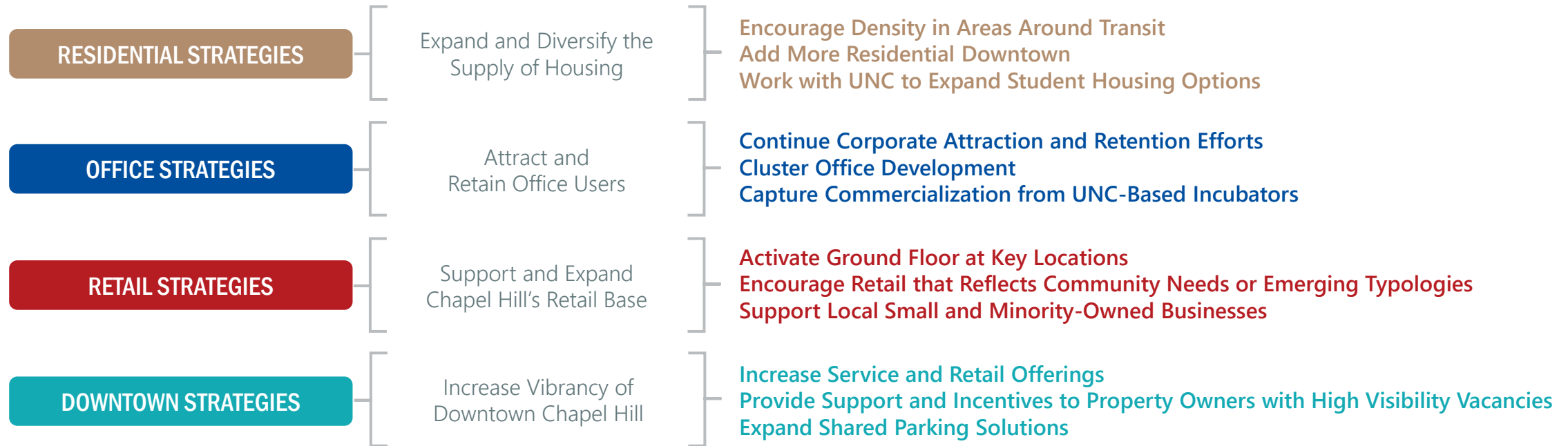
A majority of Chapel Hill’s developed land area is zoned exclusively for single-family housing. The Town recently legalized accessory dwelling units (ADUs) in these areas. Introducing additional “gentle density” into these neighborhoods—in the form of duplexes, triplexes, or small multifamily buildings—can gradually increase density over a longer period. These units would not be legally restricted as affordable but have historically served as a form of naturally occurring affordable rental housing and could offer homeownership at a lower price to many households by reducing a buyer’s land costs. Many communities around the country, including Durham, have recently begun to allow duplexes and other moderate-density housing in districts previously zoned exclusively for single family housing.

# RECOMMENDED IMPLEMENTATION STRATEGIES

# RECOMMENDED IMPLEMENTATION STRATEGIES

## Strategies to facilitate equitable growth and development

There are additional strategies that Chapel Hill could consider to support market-rate and commercial development. These development strategies will be assessed and implemented with a focus on equity. Recommendations are currently under review and should be further vetted by Town staff and Council.



# RECOMMENDED IMPLEMENTATION STRATEGIES

## Residential

### Encourage Density in Areas Around Transit

Housing and transportation costs are generally the two biggest expenditures for households. Chapel Hill should continue facilitating residential development and redevelopment around the proposed BRT stations. Locating additional housing along the N-S BRT could help households reduce their transportation costs and would increase transit ridership. A diversity of housing is required to meet the needs of Chapel Hill residents at different ages, life stage and incomes. Therefore, the Town could encourage a variety of residential typologies and tenures, while also supporting greater affordable housing production.

### Add More Residential Downtown

Chapel Hill has a significant opportunity to grow its economic and commercial base by supporting residential development in and around downtown. This area will benefit from the forthcoming N-S BRT improvements. Some residential projects have been built in the downtown recently, and others are in the pipeline; the Town could continue encouraging this development momentum, focusing particularly on projects that serve segments of the housing market beyond students. More residents in the downtown would foster a sense of community and increase the viability of different retail and commercial uses. With its proximity to jobs, transit and retail, downtown Chapel Hill is also best suited for higher-density development.

### Work with UNC to Expand Housing Options

Currently, UNC students compete with long-term residents for housing in campus-adjacent neighborhoods. At the same time, many university employees cannot afford to live in Chapel Hill. UNC could help address these challenges by supporting more housing development on underutilized land holdings. The Town could partner with UNC to identify sites and attract developers. UNC-sponsored development does not have to be limited to student dorms. Around the country, there are successful examples of universities entering public-private partnerships to build investment-grade mixed-use residential projects. UNC and the Town could partner to develop housing to serve a wide variety of households.

# RECOMMENDED IMPLEMENTATION STRATEGIES

## Office

### Continue Corporate Attraction and Retention Efforts

Over the last decade, Orange County's share of regional jobs has declined. During this period new office development in the region has primarily concentrated in Raleigh and Durham's downtowns, as well as in and around Research Triangle Park. The Town's Economic Development department actively works to attract office users and development to Chapel Hill. The Town could continue these efforts and market available incentive programs. Chapel Hill's economic base is heavily specialized in education and healthcare. There is potential to grow other sectors that are quickly growing regionally, particularly life sciences, engineering, and information technology. Many of these sectors would benefit from proximity to UNC's research, facilities and talent pool.

### Cluster Office Development

How and where people work has been significantly impacted by the pandemic. Office users are continuing to move to higher-quality, Class A space, which is leading to declining occupancy in older buildings. Established city centers and other walkable areas are expected to keep growing as popular office locations, though they will likely have fewer office workers on a typical day. Chapel Hill is well positioned to capitalize on these trends. The Town could encourage office developments to cluster in key locations, particularly downtown, though some users will continue to desire more controlled, campus environments. At the same time, some of Chapel Hill's older office buildings may struggle to maintain occupancy. The Town could therefore proactively identify areas with a concentration of older or vacant office buildings. These areas may benefit from redevelopment to residential or another use rather than continuing to serve as office.

### Capture Commercialization from UNC-Based Incubators

The Town and UNC partnered to create the Carolina Economic Development Strategy as a way to revitalize downtown Chapel Hill and promote economic development. As part of this strategy, the Town and UNC are working to create a downtown innovation district. As the Town continues to facilitate the innovation district, it could be proactive in retaining commercial users that have been incubated locally by assisting with relocation efforts.

# RECOMMENDED IMPLEMENTATION STRATEGIES

## Retail

### Activate Ground Floor at Key Locations

To support a vibrant pedestrian environment, Chapel Hill could promote active ground floor uses wherever possible. However, given recent retail trends, it is unlikely that retail can be supported throughout the Station and Focus areas. The Town could prioritize new, walkable retail development within the downtown and at station areas along the N-S BRT with the highest projected ridership. In other places, Chapel Hill could promote alternative activation strategies. In new office and residential developments, amenity spaces, such as gyms, can activate the ground floor. If feasible from a financial and design standpoint, parking garages should limit exposure on the street-facing sides.

### Encourage Retail that Reflects Community Needs or Emerging Typologies

While certain retail categories in Chapel Hill are well supplied, there is unmet current or future demand in others, including general merchandise, furniture and home furnishings, and building materials. The Town could be proactive in attracting additional retail development within these sectors, as well as in value-, convenience-, and experience-focused sectors, which are all growing nationally.

### Support Local Small and Minority-Owned Businesses

Chapel Hill has a strong retail market overall. However, certain areas—parts of downtown in particular—exhibit relatively high vacancies. The Town could encourage local small and minority-owned businesses to fill these spaces by connecting potential tenants with property owners and available resources. The Town could also encourage property owners to test alternative tenancing strategies, such as short-term leases or pop-ups. Through supportive services or incentives to businesses and property owners, the Town could help fill vacancies in high-visibility locations. This strategy would also activate more ground floor spaces, particularly in the downtown.

# RECOMMENDED IMPLEMENTATION STRATEGIES

## Downtown

Downtown Chapel Hill would benefit from many of the land use strategies already discussed. There are additional downtown-specific strategies that could strengthen and support this part of Chapel Hill.

### Increase Service and Retail Offerings

#### Provide Support and Incentives to Property Owners with High Visibility Vacancies

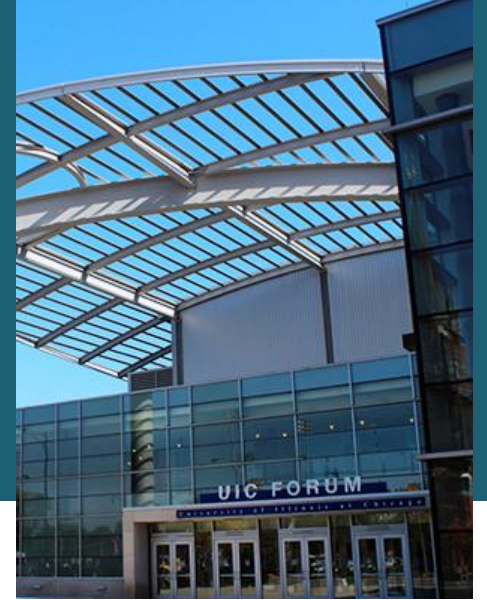
Retail and service offerings in the downtown have historically catered to students and UNC visitors. As the residential and employment bases in the downtown increase, there may be opportunity to enhance retail amenities such as dry cleaners, yoga/fitness studios, urban format general merchandise stores and pharmacies. In the meantime, the Town could also provide supportive services or incentives to businesses and property owners to fill high visibility vacancies in the downtown. New retail within the downtown should be developed in transit-supportive mixed-use formats, where possible. The Town should continue working with the Downtown Partnership on programming and to attract and support businesses.

### Expand Shared Parking Solutions

Chapel Hill should promote shared and flexible parking arrangements, leveraging parking garages in the downtown. Flexible downtown parking solutions would help accommodate a more diverse range of uses and make more efficient use of parking resources. More shared parking would also free up existing surface parking lots for more productive uses. To implement expanded shared parking, the Town could undertake the following:

- Quantify current inventory and demand for parking.
- Assess future demand based on study area development projections.
- Recalibrate the employee and visitor parking strategy within the downtown core.
- Develop a joint use parking policy to optimize use of available parking downtown.
- Allow and facilitate joint use parking arrangements in public and private garages to minimize construction of new parking spaces.





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