North Chapel Hill
Market Overview
Feb. 7th, 2020
### CHAPEL HILL
### MARKET OVERVIEW

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

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

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

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Single-Family Homes (Owner Occ.)</td>
<td>7,632</td>
<td>115</td>
<td>1.5%</td>
<td>300 Units</td>
</tr>
<tr>
<td>Townhomes/ Condominiums (Owner Occ.)</td>
<td>2,300</td>
<td>-28</td>
<td>-1%</td>
<td>92 Units</td>
</tr>
<tr>
<td>Class A Rental Apartments (Excl. Student)</td>
<td>6,908 Units</td>
<td>251 Units</td>
<td>3.5%</td>
<td>650 Units (1.67 Years Currently U/C)</td>
</tr>
<tr>
<td>Class A Student Housing</td>
<td>1,785 Units</td>
<td>0 Units</td>
<td>0%</td>
<td>TBD, very policy based (339 Units U/C)</td>
</tr>
<tr>
<td>Class B/C/Affordable Rental Apartments</td>
<td>3,218 Units</td>
<td>0 Units (Affd. 44, rest neg.)</td>
<td>0%</td>
<td>TBD, very policy based</td>
</tr>
<tr>
<td>Retail</td>
<td>2.7 M SF</td>
<td>51, 386 SF</td>
<td>2%</td>
<td>50-60,000 SF</td>
</tr>
<tr>
<td>Office</td>
<td>3.2 M SF</td>
<td>-54,021 SF</td>
<td>-2%</td>
<td>50-60,000 SF</td>
</tr>
<tr>
<td>Lodging</td>
<td>1,891 Rooms</td>
<td>47 Rooms</td>
<td>2%</td>
<td>50 Rooms</td>
</tr>
</tbody>
</table>
## Chapel Hill Market Overview

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<tr>
<td>Single-Family Homes (Owner Occ.)</td>
<td>1.5%</td>
<td>2%</td>
</tr>
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<td>Townhomes/ Condominiums (Owner Occ.)</td>
<td>-1%</td>
<td>2%</td>
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<tr>
<td>Class A Rental Apartments (Excl. Student)</td>
<td>3.5%</td>
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</tr>
<tr>
<td>Class A Student Housing</td>
<td>0%</td>
<td>1%</td>
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<td>Class B/C/Affordable Rental Apartments</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Retail</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>Office</td>
<td>-2%</td>
<td>2.27%</td>
</tr>
<tr>
<td>Lodging</td>
<td>2%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

### Implications:
- Durham has seen more diverse growth across housing product types.
- Largest difference is a 3x greater rate of growth in for-sale townhomes and condominiums.
- It should be noted that while the growth rates are the same for Class A apartments there are two key differences:
  - 36% of Durham’s new units are in garden/low-rise properties versus only 10% in Chapel Hill (1701 North).
  - Chapel Hill office market is flat, while Durham has seen very strong growth.
• A low growth policy less than inflation (2015-2019 inflation was 1.8%) will result in greater affordability challenges

• Regardless of the growth level, a greater diversity of housing products is needed, particularly:
  • Townhomes and/or condominiums under $500k
  • Garden and low-rise apartments under $1,300/bedroom

• It will take time to grow the office market, thus increasing job base
  • Why is Durham seeing such strong success?
    • Durham 550k/year versus essentially no growth in Chapel Hill
DURHAM VS CHAPEL HILL IN ATTRACTION OF OFFICE TENANTS

Congestion issues on I-40

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

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

Local Workforce Differences

- Chapel Hill workforce >$40k
  - 66% commute in
  - 22% commute out
  - 12% live/work here

- Durham workforce >$40k
  - 55% commute in
  - 24% commute out
  - 21% live/work here

Durham has 5x the amount of higher earning workforce employed within their community
• In addition to:
  • Strong regional/airport access
  • Educated workforce
  • Diversity of housing products

Employers are also looking for the following site conditions:
• Walkability to coffee shops, lunch places, happy hour, workout gyms
• Park/trail access for down time reflection
• Large, open floorplates

Current Durham Locations:
- 10+ properties in Downtown core

Current Chapel Hill Locations:
- Only 4 properties throughout Town
  - Carolina Square
  - The Central
  - Glen Lennox
  - Station at East 54
• 45 (est. 30 usable) Acres listed at $15.1M ($335.5/acre ~ $500k/useable)
• 10 Acres estimated at $6.5M ($650k/acre)
Carraway Village most comparable sale at @$237k/acre (48 acres) 4 years ago
Chapel Hill North site only worth what is allowed to be built, but reasonable to assume:
- 45 Acre piece @ $300k/acre
- 10 Acre piece @ $500k/acre
  (was prev. under contract for $6.5M or $650k/acre)
• Total site estimated land value @ $18M or $327k/acre, @ $450k/useable
• Master horizontal development cost easily $5-7 M, @ $200k/useable
<table>
<thead>
<tr>
<th>Land Use</th>
<th>Market Values</th>
<th>Pad Ready Land Values Supported/ Unit/SF</th>
<th>Potential Density/ Acre</th>
<th>Land Values Supported/ Acre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-Family Homes</td>
<td>$500-800k</td>
<td>$50-100k</td>
<td>2-3</td>
<td>$100-300k</td>
</tr>
<tr>
<td>Townhomes/ Condominiums</td>
<td>$400-500k</td>
<td>$40-50k</td>
<td>8-10</td>
<td>$320-500k</td>
</tr>
<tr>
<td>Class A Rental Apartments (Excl. Student)</td>
<td>$1.50-1.70</td>
<td>$20-25k</td>
<td>30-35</td>
<td>$600-875k</td>
</tr>
<tr>
<td>Retail</td>
<td>$25-35 NNN</td>
<td>$35-40/SF</td>
<td>5-15,000</td>
<td>$200-600k *DNI Owner Occ.</td>
</tr>
<tr>
<td>Office</td>
<td>$25-30 FS</td>
<td>$35-40/SF</td>
<td>20-25,000</td>
<td>$700-1M</td>
</tr>
<tr>
<td>Lodging</td>
<td>$90-100 ADR</td>
<td>$20-25k</td>
<td>50-75</td>
<td>$1-1.875M</td>
</tr>
<tr>
<td>Land Use</td>
<td>Land Values Supported/ Acre</td>
<td>Market Demand</td>
<td>Maximum Potential for Site</td>
<td></td>
</tr>
<tr>
<td>-------------------------------------</td>
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<td>---------------------------</td>
<td></td>
</tr>
<tr>
<td>Single-Family Homes</td>
<td>$100-300k</td>
<td>High</td>
<td>Will not justify land value</td>
<td></td>
</tr>
<tr>
<td>Townhomes/ Condominiums</td>
<td>$320-500k</td>
<td>High</td>
<td>Does not justify developed land cost, but can be offset by higher values below</td>
<td></td>
</tr>
<tr>
<td>Class A Rental Apartments (Excl. Student)</td>
<td>$600-875k</td>
<td>High</td>
<td>Could be up to 600 units – likely not able to support structured parking, so up to 20 acres</td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td>$200-600k</td>
<td>Low</td>
<td>Limited to under 20,000 SF, less than 2-3 acres</td>
<td></td>
</tr>
<tr>
<td>Office</td>
<td>$700-1M</td>
<td>Low</td>
<td>Limited to under 60,000 SF, less than 2-3 acres</td>
<td></td>
</tr>
<tr>
<td>Lodging</td>
<td>$1-1.875M</td>
<td>Low</td>
<td>Limited to one hotel @ 150 rooms, less than 2-3 acres</td>
<td></td>
</tr>
</tbody>
</table>
# POTENTIAL DEVELOPMENT PROGRAM

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

- Actual demographics from a new G-Urban deal in the submarket:
  - 40% are Millennials 25-40
  - 40% single, 60% couple/married
  - 5.5% have children
  - 34% earn under $50,000
  - The largest concentration was households earning $46-50k
  - Only 1.3% student
  - 12% retired
  - Top occupations:
    - Medical/healthcare 21%
    - Self-employed 15%
    - Education 8%
    - Technology 8%
• Why are we just seeing housing proposals?
  • Brick and mortar retail is down nationally due to Amazon
  • Strong existing retail supply in Chapel Hill plus neighboring Durham
  • Office market is soft as described earlier
  • End of hotel cycle – large pipeline
  • Regional job growth of MSA has averaged 22,071 new jobs per year
• What is the feasibility for missing middle market rate housing?
  • Townhomes $300-600,000
  • Affordable to households making $75,000 - $150,000
  • Average $400,000 new home:
    • Builder profit $40,000
    • Hard/soft costs to build $260,000
    • Site development costs $60,000
    • Raw land in entitled parcel, “blanks” $40,000
    • Density typically 7-12/acre
    = Needs raw land in the $280,000 – 480,000 range
      - ideally sites of 5 acres+