HOUSING REPORT

FOR

MITCHELL COUNTY, NORTH CAROLINA

Prepared for
the High Country Regional Council of Governments
Boone, North Carolina

September 2020

T Ronald Brown: Research & Analysis
P.O. Box 18534
Asheville, NC 28814
919.233.0670

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Summary

This report examines population, household, and tenure trends, broken out into the senior market and the market from the working age population. These projections were supplemented by additional information from existing households who could be expected to consider residing in several housing options segmented by tenure and age. Income and affordability were also considered.

As can be expected, the findings reflect the size of the community studied, and the fact that the need for subsidized housing will exceed that for income-restricted properties (both affordable and market rate options).

Our research is based on Mitchell County as the study area, and are based on a three-year projection period over a five year study period (2020 to 2025). Spruce Pine and Bakersville are considered as a reasonable locations for any new development.

With respect to the need for owner-occupied housing for seniors in Mitchell County (defined as a single-family development of detached homes catering to the active adult market) it is found that it is unlikely that any one such community could expect to be absorbed in significant numbers in a reasonable time-frame to make that development feasible - neither in Spruce Pine, nor in Bakersville.

Spruce Pine could accommodate up to a 57-unit subsidized (rent-assisted) project for seniors - subject to the provision of the necessary rental subsidies. A comparable senior property in Bakersville could accommodate up to 23 units.

It is our observation that neither the Spruce Pine nor the Bakersville area could accommodate an affordable senior project of a reasonable size, without rental subsidy.

Based on our research, a market rate rental property for seniors in Spruce Pine is not realistic, nor is the case for Bakersville.

It is our observation that - subject to the provision of the appropriate subsidies for low and very low income persons - up to 48 units of subsidized apartments could be accommodated in the Spruce Pine area, or up to 20 such units in Bakersville.

With respect to affordable/tax credit apartments, it is seen that up to approximately 24 units is considered reasonable for the Spruce Pine area - subject the specific rent and income targeting scenario proposed (which may be more conservative than our approach, here). A reasonably-sized project is Bakersville is not realistic.

The calculated level of need determined by our research suggests that a small, perhaps 30-unit, work-force apartment complex could be accommodated in Spruce Pine*.

With respect to for-sale housing for families, the data for the Mitchell County area over the study period employed, suggests that a single-family subdivision catering to first-time home-buyers is not reasonable This is the case even were it to be developed at a good location and offer attractive, relatively affordable homes, and were to be well-marketed and involve the active participation of local lenders.

The preceding is summarized as follows:

Type of Housing	Spruce Pine	Bakersville
Senior, for sale	n/a	n/a
Subsidized: Senior, for rent	57	23
Affordable Senior, for rent	n/a	n/a
Market Rate: Senior, for rent	n/a	n/a
Family, for sale	n/a	n/a
Subsidized: Families, for rent	48	20
Affordable: Families, for rent	24	n/a
Market Rate: Families, for rent	20	n/a

Note: Figures for particular housing types are not additive because of overlapping markets

** Annually*

These various observations show that in most circumstances there is not a deep enough market to support various residential options in the study area when segmented by age, tenure, income, and location. This reflects the overall size of the market - which is not atypical of rural/non-urban areas.

*Here, it should be noted, that the need calculations used here incorporate relatively high numbers of rent-overburdened households with incomes between $50,000 and $60,000. These numbers appear somewhat anomalous - and may invalidate the conclusions drawn.

trb@tronaldbrown.com 919.233.0670 or 919.612.5328

INTRODUCTION

The focus of this report is the identification of housing needs - by tenure and age of householder, segmented by income. The study period will focus on need over the short- to medium term: from 2020 to 2025. Housing needs will be based on household projections, which in turn are based on population trends and projections.

This report was prepared in September, 2020, a period covering the ongoing implementation of guidelines and regulations pertaining to the spread and control of the novel COVID-19 virus. Consequently, the report does not address the impact of the pandemic on the housing market - either in general or on the proposed development in particular. Over this period it has become apparent that the economy will suffer severely negative impacts on employment, household incomes and apartment rental incomes, and occupancy levels. These impacts - either in scale or duration - cannot be determined, especially given that economic data are necessarily lagging indicators. Given the projection period/ time line for the calculations employed in this report, it is reasonably assumed that were any new residential development to be introduced within the short-to-medium term, then the residential market will be likely differ from that described in this report. It should be noted, however, that the economic circumstances in the intervening period will likely increase the need for the affordable housing options considered.

ANALYSIS

Our examination of housing needs in Mitchell County focuses on the need for housing from two separate populations/sub markets - the senior population and the population aged 15 to 64 years (what can be considered the working population).

Tenure Trends, by Age: Senior Households

Table 1, below, outlines the population, household, and tenure trends for the senior population of Mitchell County. Firstly, the population base of Mitchell County as a whole is quite small - the population at the 2010 Census, for example, was recorded as 15,579, with 6,685 households. Secondly, the elderly population is a share of the overall population and, as set out in the table, below, is seen to show consistent population growth with parallel growth in the total number of households - reflecting both population increases and decreasing average household size for that age cohort. Both the number of owner-occupied households and renter households showed ongoing growth.

This also shows that, over the period from 2010 to 2025, as the population of the County ages and experiences the net in-migration of older persons, the relative proportion of owner-occupied households remains quite stable.

Table 1 - Population, Household, and Tenure Trends, Households 65 and older, 1990 to 2025

Population, 65 and older				Owner-occupied		Renter-occupied	
	Population	Households	Person per Household	number	percent.	number	percent.
1990	2,554	1,670	1.53	1,470	88.0	200	12.0
2000	2,917	1,885	1.55	1,643	87.2	242	12.8
2010	3,260	2,162	1.51	1,819	84.1	343	15.9
2020	3,678	2,517	1.46	2,113	83.9	404	16.1
2025	3,826	2,657	1.44	2,230	83.9	428	16.1

Source 1990, 2000, and 2010 Census; NC State Data Center; T.Ronald Brown: Research & Analysis

The changes in these variables over the study period are illustrated in the following table.

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Table 2 - Population, Household, and Tenure Trends, Households 65 and older: Change

Change	Population	Households	Owner-occupied	Renter-occupied
1990-2000	363	215	173	42
2000-2010	343	277	176	101
2010-2020	418	355	294	61
2020-2025	148	140	117	23
Annual change	**Population**	**Households**	**Owner-occupied**	**Renter-occupied**
1990-2000	36	22	17	4
2000-2010	34	28	18	10
2010-2020	42	36	29	6
2020-2025	30	28	23	5

Source 1990, 2000, and 2010 Census; NC State Data Center; T.Ronald Brown: Research & Analysis

The growth of the senior population reveals that around 140, net, housing units are needed for seniors between 2020 and 2025 - 117 of which are owner-occupied units and 23, net, are rentals. These figures can also be adjusted to reflect potential losses (where those losses reflect the fact that a small proportion of the housing stock will be lost to physical obsolescence, demolition, etc). Thus, these figures translate to an additional 24 owner-occupied units and ten rentals - a total of 141 owner-occupied units, and 33 renter-occupied units.

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Tenure Trends, by Age: Working-Age Households

The table below outlines population, household, and tenure trends for the working age population of Mitchell County. Here, it is seen that whereas population growth for this cohort was significant for the period from 1990 to 2000, the population of that cohort decreased, slightly, between 2000 and 2010 Beyond 2010, the growth is projected to continue to decrease somewhat. These trends, in combination with increasing average household size based on the 2000 to 2010 trend, shows a projected decrease in the total number of households between 2010 and 2020, and a further decrease between 2020 and 2025.

With respect to tenure, the incidence of owner-occupied housing increases with age. In Mitchell County, for example, in 2010, 51.4 percent of households in the 25 to 34 year age group were owner-occupiers, with the proportion for those in the 34 to 44 year age range being 73.3 percent. This proportion increases to 84.1 percent for households aged 55 to 64 years. Likewise, as these households pass through child-rearing ages average household size also tend to increase.

For Mitchell County, tenure projections show a relatively small decrease in the number of owner-occupied households between 2010 and 2020 and a further, slight, decrease between 2020 and 2025. However, between 2010 and 2025 the proportion of households that are owner-occupied is projected to stabilize. In parallel, the number of renter households are projected to show a modest decrease between 2010 to 2020 period, for example (with rates stabilizing).

Table 3 - Population, Household, and Tenure Trends, Households 15 to 64 years, 1990 to 2025

Population, 15 to 64 years				Owner-occupied		Renter-occupied	
	Population	Households	Person per Household	number	percent.	number	percent.
1990	9,300	4,109	2.26	3,295	80.2	814	19.8
2000	10,050	4,666	2.15	3,651	78.2	1,015	21.8
2010	9,847	4,523	2.18	3,312	73.2	1,211	26.8
2020	9,314	4,050	2.30	2,933	72.4	1,117	27.6
2025	9,182	3,938	2.33	2,858	72.6	1,080	27.4

Source 1990, 2000, and 2010 Census; NC State Data Center; T.Ronald Brown: Research & Analysis

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The changes in these variables over the study period are illustrated in the following table.

Table 4 - Population, Household, and Tenure Trends, Households 15 to 64 years: Change

Change	Population	Households	Owner-occupied	Renter-occupied
1990-2000	750	557	356	201
2000-2010	-203	-143	-339	196
2010-2020	-533	-473	-379	-94
2020-2025	-132	-112	-75	-37
Annual change	**Population**	**Households**	**Owner-occupied**	**Renter-occupied**
1990-2000	75	56	36	20
2000-2010	-20	-14	-34	20
2010-2020	-53	-47	-38	-9
2020-2025	-26	-22	-15	-7

Source 1990, 2000, and 2010 Census; NC State Data Center; T.Ronald Brown: Research & Analysis

The projected changes in the working-age population reveal decreases in households (both overall and by tenure) between 2010 and 2020, and continued decreases for the period from 2020 to 2025. The overall decrease in households is seen to be for a total of 112 units between 2020 and 2025: 75 owner-occupied units and 37 renter-occupied units. These figures can also be adjusted to reflect potential losses (as noted previously). Thus, these figures translate to 34 owner-occupied units and 27 rentals - yielding a net decrease of 41 owner-occupied units and nine renter-occupied units.

Tenure Trends, by Age : Summary

Data on the tenure trends outlined above for the 2020 to 2025 summary period are summarized, below.

Table 5 - Tenure by Age, Working Age and Senior Households, 2020 to 2025.

Change, 2020 to 2025	Popluation	Households Occupied/ housing units	Owner-occupied	Renter-occupied
Total population	42	29	42	-13
Working Age Population	-132	-112	-75	-37
Senior Population	148	140	117	23

Source: T.Ronald Brown: Research & Analysis

The preceding are the net numbers derived from the population, household and tenure projections. The following table includes adjustments to account for losses, as described, both for the study period as a whole and annual averages for that period.

Table 6 - Tenure by age, Working Age and Senior Households, 2020 to 2025, adjusted, and change

Adjusted for losses	Occupied/ housing units	Owner-occupied	Renter-occupied
Total population	124	100	24
Working Age Population	-51	-41	-9
Senior Population	175	141	33
Annual Change			
Total population	25	20	5
Working Age Population	-10	-8	-2
Senior Population	35	28	7

Source: T.Ronald Brown: Research & Analysis

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Here, it is seen that, overall, owner-occupied units predominate, reflecting the impact of the senior market - which exceed the numbers for the working population. The latter, however, show less dominance of owner-occupied units. It should be noted that these numbers, while reflecting the relative strength of each segment, do not represent the demand for any single product catering to any of these segments. The extent to which one particular development could cater to any market segment will be the function of several inter-related factors such as location, price/affordability relative to a target income, and the existence of potentially competing properties, etc.

Development Options: by Age and Tenure

As noted, any potential new project will appeal to only a share of the market defined in terms of the ability, for example, of persons/households in that market to be able to afford that product at a particular location, and to choose to live there, and be willing to move.

Development Options: Senior Housing, Owner-occupied

Here it can be assumed that if single-family, for sale units were offered that appealed to seniors in the $45,000 to $100,000 income range, that product would appeal to 32.0 percent of that income range. The market would be further segmented on the basis of appeal of that product in terms of design, features, and location.

Applying this proportion to the five-year need for 141 new homes from the senior population yields a county-wide need for 45 units (or for eleven units, annually). Given that this is a county-wide figure, it is necessary to assess the market potential of various communities throughout the county as a whole to determine the viability of such a development.

There are two communities in Mitchell County that can be reasonably considered for future residential development. These are Bakersville and Spruce Pine. Spruce Pine (2010 population of 2,175) is located in the southern portion of the County and is the largest community in the County, is the County seat, and is the focus for the area's retail, government, health, and other services. Bakersville (population of 464) is a smaller community located in the north/central portion of the county and offers fewer services. It should be noted, however, that efforts are being made to spur economic development in that community.

With respect to the market potential for housing in general, it is our assumption that the Spruce Pine area could absorb up to 100 percent of county-wide need, and Bakersville could absorb up to perhaps 40 percent of county-wide.

Applying these posited market shares to the calculated five-year need, by income, of 45 units (see above), yields up around 45 units in Spruce Pine or up to 18 units in Bakersville. These numbers translate to nine and four units, annually. Here, the need for a specific development would be determined on the basis of the type of product offered, its location, amenities, and price. Here, a single-family development of detached single-storey homes catering to the active-adult*market is not considered reasonable for a location in the Spruce Pine and/or Bakersville area.

Here, it is seen that given the projected housing needs, that as one specific segment of that need is considered, the application of even more market shares to a relatively small starting number yields a small potential demand as specific types of development are considered. Actual demand is a function of growth in demand (as set out here), plus demand from existing households in the market area who might move. Given the nature of owner-occupied housing, it is not likely that the demand for new owner-occupied units would be impacted, to any noticeable degree, by the movement of seniors from one home to another, within Mitchell County.

Development Options: Senior Housing, Renter-occupied

With respect to the need for rental housing for seniors in Mitchell County, the numbers presented above show a net need for seven rental units, per year - again, this is for units for tenants at all income levels, throughout Mitchell County. Here, three income levels can be considered. These levels may best be characterized as subsidized, affordable, and market rate. These levels are traditionally defined as relating to the income level of the tenants - and those incomes are in turn, defined relative to income levels in the host community/county. Thus, subsidized housing may be defined as that targeted to households with incomes below 50 percent of the local area median, by household size, as defined by HUD. In subsidized developments it is the norm that tenants pay 30 percent of their income on housing costs (that is, rent, plus utilities). Likewise, affordable housing is that targeted to households with incomes up to 60 percent of the median. Here, rents are not subsidized, but the rents are set to be affordable to tenants who, although with moderate incomes, can afford rents that are set to be below market rates. Here, these units are considered to be those affordable to households with incomes between 40 and 60 percent of the median (excluding units that any have deeper targeting). Market rate units are those set at market rents and are rented to households whose incomes are adequate to afford prevailing market rents. For the purposes of this report, it is assumed that market rate units are affordable to households with incomes at or above 60 percent of the median. It should be noted, however, that in areas with relatively low incomes (that is low HUD median incomes) the rents that are based on a 60 percent level, may be less than the prevailing market rents. Here, an upper limit of 120 percent of the median is employed representing a level above which older persons may be more likely to prefer continuing care retirement communities or other, more upscale, communities.

The preceding designations apply to both rental properties that are open to family tenants and those that cater specifically to a senior tenantry. The latter are typically developments that offer only one- and two-bedroom units and have features and amenities that cater specifically to seniors. Units in these developments are typically on one level - either in a single building (which may have more than one storey and be served by one or more elevators), or be in attached or detached units/ cottages. Senior renters may be seen to be willing to pay a larger proportion of their incomes on housing, where they may have fewer additional expenses than family renters. This proportion can be quite significant, especially in developments that offer meals and other services to their residents.

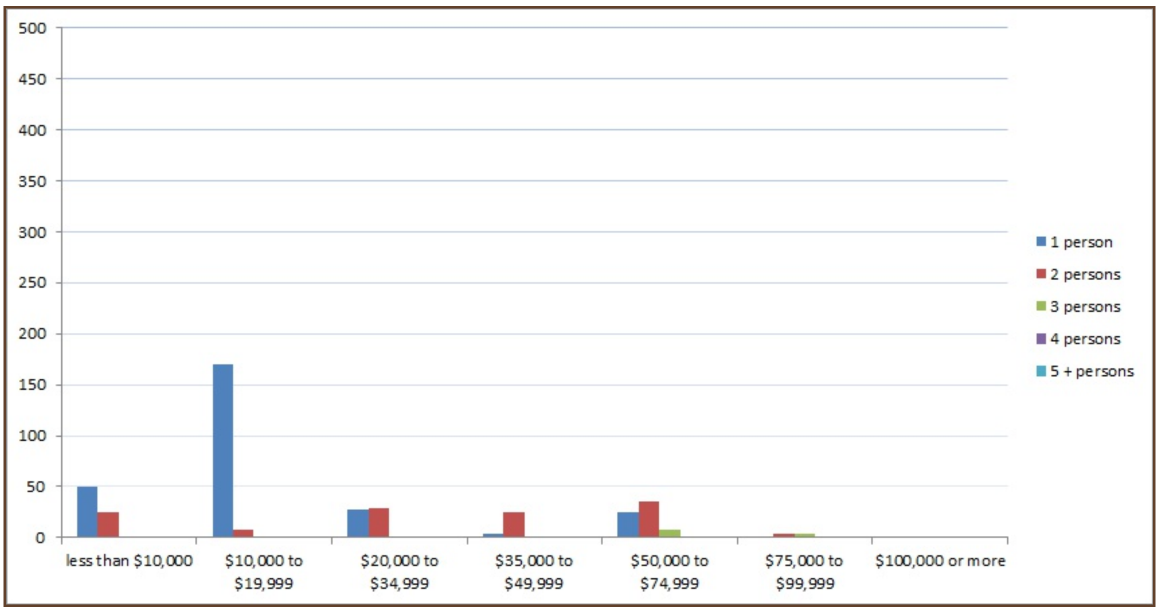
Although many senior apartments are open to residents aged 55 and older, the calculations presented here will be based on households aged 65 and older - which allows for a more conservative (but not unrealistic approach) and reflects the availability of data on income by age.

The HUD income limits in Mitchell County, for one and two-person households, are based on a median income of $43,600 for a one person household and $49,800 for a two-person household.

Calculations here are based on an approach following the market study guidelines required by the North Carolina Housing Finance Agency - which follow accepted standards. Here, the major components are the need from senior population and housing growth, from existing renters who would consider moving, and from some seniors who live in owner-occupied housing who wish to move to rental accommodation.

The following table provides data on the income distribution of senior rental households, by household size, for Mitchell County. This information is derived from a Special Tabulation of 2013 to 2017 American Community Survey data prepared for, and published by, HUD*.

These data are illustrated, as below.



Again, it is seen that the number of senior households that rent is small, and that the incomes of senior renters - are concentrated in the lower income ranges. The vast majority of senior renters are one- or two-person households.

Calculations for subsidized units are based on an effective lower income of zero dollars, with an upper limit of $24,900 - the two person limit at 50 percent of the median. Based on the table above, it is seen that as many as 67.6 percent of renters are in that income range. Applying that to the projected need for 33 units yields 22 units.

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* The 2014 to 2018 ACS data were published recently. However, this release was not as comprehensive as previous releases and, consequently, we are employing the prior release for the purposes of this report.

With respect to need from existing renters who would likely move to a new complex, the market study guidelines suggest using rent-overburdened households - those paying more a certain proportion of income on rent. In North Carolina that proportion is 40 percent for senior households. The Special Tabulations data upon which our calculations are based, define certain "selected conditions", which for renters are seen to be households "having at least one of the following housing conditions: lacking complete plumbing facilities, lacking complete kitchen facilities, with more than 1.01 persons per room, and selected monthly owner costs greater than 30 percent of household income (2017), or gross rent as a percentage of household income (2017) of greater than 30 percent". The table for those households for senior renters in Mitchell County are as set out below.

Here, the pattern parallels that for the total number of senior renters - with very low numbers - and with rent-overburdening, etc., being concentrated in the lower income ranges.

Based on these data, it is found that 58.3 percent of income-eligible renters have those selected conditions - or around 159 renters.

With respect to senior home-owners who may consider moving to senior apartments, our calculations show that there will be a total of 821 older owner-occupied households in the qualifying income ranges in the market area. With respect to the existing elderly homeowners it is conservatively assumed that perhaps 2 percent would consider moving to the proposed apartments. Thus, a total of 17 older homeowners might consider moving.

Based on the 22 new income eligible renters derived from household growth, the 159 existing renters who might consider moving to a new subsidized complex, and the 17 older home-owners who might consider moving to rental accommodation, there is seen to be a total of 199 senior households who would be eligible for a potential new subsidized rental complex for seniors (age 65 and older). This would be from throughout Mitchell County, based on a five-year projection period. Assuming that a new complex could capture around 30 percent of this potential need, then need is determined to be for a 60-unit complex - or 57 units based on a three–year projection period.

Assuming that the share of the county-wide need for housing in general that each of the local communities was assumed to be able to capture also holds for rental units, then the Spruce Pine area could accommodate up to a 57-unit subsidized/ rent-assisted project for seniors, for example - subject to the provision of the necessary rental subsidies. A comparable senior property in Bakersville could accommodate up to 23 units.

The projections of need for an affordable senior housing complex are based on a qualifying income range from 40 to 60 percent of the local area median. The latter would range from $17,440 (the one-person limit at 40 percent of the median) to $29,880 (the two-person limit at the 60 percent level). This is a relatively narrow target range - given the mandated upper income limit and the fact that the tenants have to be able to afford the rent under the assumptions used.

Paralleling the calculations for subsidized units, it is seen that potential need for an affordable senior complex from projected household growth is seen to be for around six new units. The corresponding numbers from existing renters and from existing home-owners are found to be 28 units and six units, respectively. This yields a total potential need for 39 affordable units - or a 12-unit complex assuming a 30 percent capture rate. This translates to eleven units over three years.

Here, it is our observation that the neither the Spruce Pine nor the Bakersville area could accommodate an affordable senior project of a reasonable size.

With respect to market rate rentals for seniors, need calculations are based on a qualifying income range with a lower level equivalent to the one-person 60 percent income limit, and an upper limit equivalent to 120 percent of the area median income for two person households. Under this scenario, and following the approach used for the subsidized and affordable segments, we determined there to be a need for 26 units: nine units based on growth, eleven from existing renters, and 15 units from home-owners. A 30 percent capture rate translates to an eight-unit project. Again, this was based on a county-wide market area, over a five-year period. Assuming a three-year projection period this translates to a seven-unit need, countywide. Here, this suggests that neither the Spruce Pine nor Bakersville area could support a market rate complex catering to seniors.

Development Options: Housing for Working Age Households, Renter-occupied

The previous section outlined potential need, by income for the population aged 65 years and older - with the projected growth for the area being supplemented by need from existing renter households in the area who would move to be better housed. The need projections for renter households of working age population can be obtained using the same approach as for senior rentals (omitting need from home-owners who might move to rental accommodation).

As set out above, we have examined the subsidized, affordable, and market-rate segments - however, whereas it is realistic to look at senior rentals on the basis of a 40 percent rent-to-income ratio, we are employing a 35 percent figure for family units (assuming, as is generally held, that families have more non-housing expenses).

Here, need for subsidized apartments for families is seen to amount to up to 163 units - all of which are existing renters that are rent-overburdened, etc (given that there is no projected growth). A 30 percent capture rate yields 49 units - again, based on a five-year period, countywide, or up to 49 units, or so, over a three-year period.

Based on these numbers - which reflect the provision of subsidies for low and very low income persons, a subsidized project - of around 48 units, for example, could be considered for Spruce Pine area - subject to the provision of the necessary subsidies). A 20-unit complex could be considered for Bakersville.

Need for affordable housing, as defined, amounts to a total of 88 units: again, wholly from existing overburdened households. This total translates to 26 units upon applying a 30 percent capture rate, and 26 units using a three-year projection period.

Here, it is assumed that Spruce Pine could effectively absorb, for example, up to a 24-unit project. Again, actual need would reflect the specific rent and income targeting scenario considered. A reasonably-sized project is Bakersville is not realistic.

Using 60- to 120 percent of the median as the basis for determining the need for market rate units suggests the need for 101 units (which may be considered workforce housing): or 30 units over three years, with a 30 percent capture rate. Given the affordability standard used, these figures are based on a net one-bedroom rent of $763, which is may be somewhat unrealistic. Based on these figures, a small - perhaps 30-unit - workforce-oriented property could be considered for Spruce Pine (subject to the affordability of the rents). However, the Bakersville area could not accommodate a market rate project for families. Here, it should be noted, the need calculations incorporate relatively high numbers of rent-overburdened households with incomes between $50,000 and $60,000. These numbers appear somewhat anomalous - and may invalidate the conclusions drawn.

In this section, we will examine the need for owner-occupied units by persons of working age. As noted above, however, the net need for such housing is determined to be quite small for Mitchell County over the 2020 to 2025 study period (after a period of decreasing real numbers).

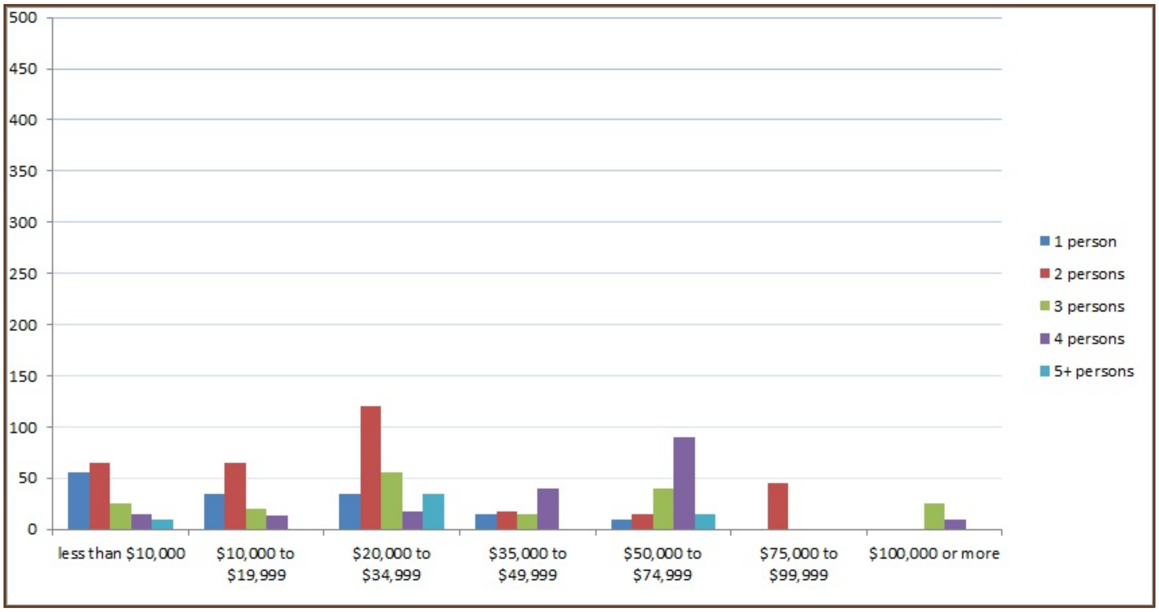
Development Options: Housing for Working Age Households, Owner-occupied

Given our projections, it is seen that no one single development/subdivision targeted to the working age population could expect to be large enough to allow it to be absorbed in significant numbers in a reasonable time-frame to make that development feasible. Instead, growth from this market segment would represent the projected increase in home-ownership as the number of households age, and consider purchasing homes. The latter would represent the normal practice of households who were renters transferring to home-ownership as they establish their family/household. It should be noted, though, that as set out earlier, home-ownership rates for households in the 25 to 44 year age range dropped from 72.5 percent in 2000 to 64.6.0 percent in 2010, for example. It is our observation that there is likely to be pent-up need for owner-occupied units by persons in the younger middle-age ranges of the working population. This need may be unmet where households in those age groups may prefer to rent, or by households in that age who rent not being able to qualify for a home loan or make a reasonable down-payment. However, it may be that there is not an adequate supply of affordable homes available for first-time home-buyers in these circumstances. Here, we address the market from potential first-time home-buyers in Mitchell County.

The market for single-family homes for first-time buyers is focused on potential buyers living in the area at present, and who would be income-eligible for any affordable development. Those potential buyers are necessarily households now renting in the area.

The income distribution for renters aged 15 to 61 in Mitchell County is illustrated in the graph, below. Again, this information is derived from a Special Tabulation of 2013 to 2017 American Community Survey data prepared for, and published by, HUD.

These data are graphed, below.



Again, it is seen that many renters have relatively low incomes, particularly one-person households. Here, we will calculate potential need for two income groups. The first, a lower group, will be households with incomes between $40,000 and $50,000, which in Mitchell County would, broadly, correspond to that cohort that would be eligible for USDA Section 502 homes. The second cohort would be that segment, with incomes above $50,000 and less than $92,000, that would qualify for North Carolina Housing Finance Agency mortgage/down-payment assistance - and would broadly represent the bulk of potential first-time home-buyers, regardless of financing source.

The lower income range is met by 7.6 percent of renters in the market area - corresponding to 83 households. The higher income range corresponds to 22.2 percent of renters - that is, 240 households. In market studies for homes for first-time home-buyers the proportion of renters that would translate to home-ownership needs to take into account those who rent by choice (either in the short- or long-term) and households who do not qualify for a mortgage or not be able to afford a down-payment. The share also has to account for the fact that a particular development may not appeal to all potential buyers (again, in terms of features, location, and the like). Typically, we have used a 1- to 2-percent figure in these circumstances. Here, we use 2 percent - which would suggest an annual need for two units in the lower range, and five units in the higher range. Again, this represents need on a county-wide basis.

This calculated need for seven units annually suggests that a single-family subdivision catering to first-time home-buyers is very limited - even if it were to be developed at a good location and were to offer attractive, relatively affordable homes that would be well-marketed and involve the active participation of local lenders. Here, even a small-sized subdivision is not considered realistic.

Market Study Terminology

The following presents the accepted definitions of various terms typically found in real estate market studies. These definitions are typically followed unless reviewing agency requirements differ.

Absorption period - the period of time necessary for a newly constructed or renovated property to achieve the *stabilized level of occupancy*. The absorption period begins when the first certificate of occupancy is issued and ends when the last unit to reach the *stabilized level of occupancy* has a signed lease. Assumes a typical premarketing period, prior to the issuance of the certificate of occupancy, of about three to six months. The month that leasing is assumed to begin should accompany all absorption estimates.

Absorption rate - the average number of unites rented each month during the *absorption period*.

Acceptable rent burden - the rent-to-income ratio used to qualify tenants for both income-restricted and non-income restricted units. The acceptable rent burden varies depending on the requirements of funding sources, government funding sources, target markets, and local conditions.

Achievable rents - *See Market Rent, Achievable Restricted Rent.*

Affordable housing - housing affordable to low or very low-income tenants.

Amenity - tangible or intangible benefits offered to a tenant. Typical amenities include on-site recreational facilities, planned programs, services and activities.

Annual demand - the total estimated demand present to the market in any one year for the type of units proposed.

Assisted housing - housing where federal, state or other programs *subsidize* the monthly costs to the tenants.

Bias - a proclivity or preference, particularly one that inhibits or entirely prevents an impartial judgment.

Capture rate - the percentage of age, size, and income qualified renter households in the *primary market area* that the property must capture to fill the units. Funding agencies may require restrictions to the qualified households used in the calculation including age, income, living in substandard housing, mover-ship and other comparable factors. The *Capture Rate* is calculated by dividing the total number of units at the property by the total number of age, size and income qualified renter households in the *primary market area.* See also: penetration rate.

Comparable property - a property that is representative of the rental housing choices of the subject's *primary market area* and that is similar in construction, size, amenities, location, and/or age. Comparable and *competitive* properties are generally used to derive market rent and to evaluate the subject's position in the market.

Competitive property - a property that is comparable to the subject and that competes at nearly the same rent levels and tenant profile, such as age, family or income.

Comprehensive market study - NCHMA (the National Council of Housing Market Analysts) defines a comprehensive market study for the purposes of IRC Section 42 as a market study compliant with its Model Content Standards for Market Studies for Rental Housing. Additionally, use of the suggested wording in the NCHMA certification without limitations regarding the comprehensive nature of the study, shows compliance with the IRC Section 42 request for completion of a market study by a 'disinterested party.'

Concession - discount given to a prospective tenant to induce the tenant to sign a least. Concessions typically are in the form of reduced rent or free rent for a specific lease term, or for free amenities, which are normally charged separately (i.e. washer/dryer, parking).

Demand - the total number of households in a defined market area that would potentially move into the proposed new or renovated housing units. These households must be the appropriate age, income, tenure and size for a specific proposed development. Components of demand vary and can include household growth; turnover, those living in substandard conditions, rent over-burdened households, and demolished housing units. Demand is project specific.

Effective rents - contract rent less concessions.

Household trends - changes in the number of households for a particular area over a specific period of time, which is a function of new household formations (e.e. at marriage or separation), changes in average household size, and net *migration*.

Income band - the range of incomes of households that can afford to pay a specific rent but do not have below any applicable program-specific maximum income limits. The minimum household income typically is based on a defined *acceptable rent burden* percentage and the maximum typically is pre-defined by specific program requirements or by general market parameters.

Infrastructure - services and facilities including roads, highways, water, sewerage, emergency services, parks and recreation, etc. Infrastructure includes both public and private facilities.

Market advantage - the difference, expressed as a percentage, between the estimated market rent for an apartment property without income restrictions and the lesser of (a) the owner's proposed rents or (b) the maximum rents permitted by the financing program for the same apartment property. (*market rent - proposed rent*) / *market rent * 100*

Market analysis - a study of real estate market conditions for a specific type of property.

Market area - *See primary market area.*

trb@tronaldbrown.com **919.233.0670 or 919.612.5328**

Market demand - the total number of households in a defined market area that would potentially move into any new or renovated housing units. Market demand is not project specific and refers to the universe of tenure appropriate households, independent of income. The components of market demand are similar to those used in determining project-specific demand. A common example of market demand used by HUD's MAP program, which is based on three years of renter household growth, loss of existing units due to demolition, and market conditions.

Market rent - the rent that an apartment, without rent or income restrictions or rent subsidies, would command in the *primary market area* considering its location, features and amenities. Market rent should be adjusted for *concessions* and owner paid utilities included in the rent.

Market study - a comprehensive study of a specific proposal including a review of the housing market in a defined market area. Project specific market studies are often used by developers, syndicators, and government entities to determine the appropriateness of a proposed development, whereas market specific market studies are used to determine what housing needs, if any, exist within a specific geography.

Marketability - the manner in which the subject fits into the market; the relative desirability of a property (for sale or lease) in comparison with similar or competing properties in the area.

Market vacancy rate, economic - percentage of rent loss due to concessions, vacancies, and non-payment of rent on occupied units.

Market vacancy rate, physical - average number of apartment units in any market which are unoccupied divided by the total number of apartment units in the same market, excluding units in properties which are in the lease-up stage.

Migration - the movement of households into or out of an area, especially a *primary market area*.

Mixed income property - an apartment property containing (1) both income restricted and unrestricted units or (2) units restricted at two or more income limits (i.e. low income tax credit property with income limits of 30%, 50%, and 60%).

Mobility - the ease with which people move from one location to another.

Move-up demand - an estimate of how many consumers are able and willing to relocate to more expensive or desirable units. Examples: tenants who move from class-C properties to class-B properties, or tenants who move from older tax credit properties to new tax credit properties.

Multi-family - structures that contain more than two housing units.

Neighborhood - an area of a city or town with common demographic and economic features that distinguish it from adjoining areas.

Net rent (also referred to as contract rent or lease rent) - Gross rent less *tenant paid utilities.*

Penetration rate - The percentage of age and income qualified renter households in the *primary market area* that all existing and proposed properties, to be completed with six months of the subject, and which are competitively priced to the subject that must be captured to achieve the *stabilized level of occupancy*. Funding agencies may require restrictions to the qualified households used in the calculation including age, income, living in substandard housing, mover ship and other comparable factors. Units in all proposals / households in market * 100, see also: capture rate.

Pent-up demand - a market in which there is a scarcity of supply and vacancy rates are very low.

Population trends - changes in population levels for a particular area over a specific period of time – which is a function of the level of births, deaths, and net *migration*.

Primary market area - a geographic area from which a property is expected to draw the majority of its residents.

Programmatic rents - See *restricted rents.*

Project based rent assistance - rental assistance from any source that is allocated to the property or a specific number of units in the property and is available to each income eligible tenant of the property or an assisted unit.

Redevelopment - the redesign or rehabilitation of existing properties.

Rent burden - gross rent divided by adjusted monthly household income.

Rent burdened households - households with *rent burden* above the level determined by the lender, investor, or public program to be an acceptable rent-to-income.

Restricted rent - the rent charged under the restrictions of a specific housing program or subsidy.

Restricted rent, achievable - the rents that the project can attain taking into account both market conditions and rent in the *primary market area* and income restrictions.

Saturation - the point at which there is no longer demand to support additional unit. Saturation usually refers to a particular segment of a specific market.

Secondary market area - the portion of a market that supplies additional support to an apartment property beyond that provided by the primary market area.

Special needs population - specific market niche that is typically not catered to in a conventional apartment property. Examples of special needs population include: substance abusers, visually impaired person or persons with mobility limitations.

Stabilized level of occupancy - the underwritten or actual number of occupied units that a property is expected to maintain after the initial rent-up period, expressed as a percentage of the total units.

Subsidy - monthly income received by a tenant or by an owner on behalf of a tenant to pay the difference between the apartment's *contract rent* and the amount paid by the tenant toward rent.

Substandard conditions - housing conditions that are conventionally considered unacceptable which may be defined in terms of lacking plumbing facilities, one or more major systems not functioning properly, or overcrowded conditions.

Target income band - the *income band* from which the subject property will draw tenants.

Target population - the market segment or segments a development will appeal or cater to. State agencies often use target population to refer to various income set asides, elderly v. family, etc.

Tenant paid utilities - the cost of utilities (not including cable, telephone, or internet) necessary for the habitation of a dwelling unit, which are paid by the tenant.

Turnover period - 1. An estimate of the number of housing units in a market area as a percentage of total housing units in the market area that will likely change occupants in any one year. See also: vacancy period. Housing units with new occupants / housing units * 100 2. The percent of occupants in a given apartment complex that move in one year.

Unmet housing need - new units required in the market area to accommodate household growth, homeless people, and housing in substandard conditions.

Unrestricted rents - rents that are not subject to *restriction*.

Unrestricted units - units that are not subject to any income or rent restrictions.

Vacancy period - the amount of time that an apartment remains vacant and available for rent.

Vacancy rate-economic vacancy rate - physical - maximum potential revenue less actual rent revenue divided by maximum potential rent revenue. The number of total habitable units that are vacant divided by the total number of units in the property.

Other Terms

The following terms are also to be found in professional market studies - here, this information is drawn from various sources including HUD, the Census Bureau, and the Urban Land Institute.

Area Median Income (AMI) - 1005 of the gross median household income for a specific Metropolitan Statistical Area, county or non-metropolitan area established annually by HUD.

Attached housing - two or more dwelling units connected with party walls (e.g. townhouses or flats).

Basic rent - the maximum monthly rent that tenants who do not have rental assistance pay to lease units developed through the USDA-RD Section 515 Program, the HUD Section 236 Program and HUD Section 223(d)(3) Below Market Interest Rate Program. The Basic Rent is calculated as the amount of rent required to operate the property, maintain debt service on a subsidized mortgage with a below-market interest rate, and provide a return on equity to the developer in accordance with the regulatory documents governing the property.

Below Market Interest Rate program (BMIR) - Program targeted to renters with income not exceeding 80% or area median income by limiting rents based on HUD's BMIR Program requirements and through the provision of an interest reduction contract subsidize the market interest rate to a below-market rate. Interest rates are typically subsidized to effective rates of one percent or three percent.

Census tract - a small, relatively permanent statistical subdivision delineated by a local committee of census data users for the purpose of presenting data. Census tract boundaries normally follow visible features, but may follow governmental unit boundaries and other non-visible features; they always nest within counties. They are designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions at the time of establishment. Census tracts average about 4,000 inhabitants.

Central Business District (CBD) - the center of commercial activity within a town or city; usually the largest and oldest concentration of such activity.

Community Development Corporation (CDC) - entrepreneurial institution combining public and private resources to aid in the development of socio-economically disadvantaged areas.

Condominium - a form of join ownership and control of property in which specified volumes of space (for example, apartments) are owned individually while the common elements of the property (for example, outside walls) are owned jointly.

Contract rent - 1. The actual monthly rent payable by the tenant, including any rent subsidy paid on behalf of the tenant, to the owner, inclusive of all terms of the lease. (HUD & RD) 2. The monthly rent agreed to between a tenant and a landlord (Census).

Difficult Development Area (DDA) - an area designated by HUD as an area that has high construction, land, and utility costs relative to the Area Median Gross Income. A project located in a DDA and utilizing the Low Income Housing Tax Credit may qualify for up to 130% of eligible basis for the purpose of calculating the Tax Credit allocation.

Detached housing - a freestanding dwelling unit, typically single-family, situated on its own lot.

Elder or senior housing - housing where (1) all units in the property are restricted for occupancy by persons 62 years of age order or (2) at least 805 of the units in each building are restricted for occupancy by households where al lease on household member is 55 years of age or older and the housing is designed with amenities and facilities designed to meet the needs of senior citizens.

Extremely low income - person or household with income below 30% of the Area Median Income adjusted for household size.

Fair Market Rent (FMR) - the estimates established by HUD of the Gross rents (Contract rent plus Tenant Paid Utilities) needed to obtain modest rental units in acceptable condition in a specific county or metropolitan statistical area. HUD generally set FMR so that 40% of the rental units have rents below FMR. In rental markets with a shortage of lower priced rental units HUD may approve the use of Fair Market Rents that are as high as the 50th percentile of rents.

Garden apartments - apartments in low-rise buildings (typically two or four stories) that feature low density, ample open-space around buildings, and on-site parking.

Gross rent - the monthly housing cost to a tenant which equals the Contract rent provided for in the lease plus the estimated cost of all Tenant Paid Utilities.

High-rise - a residential building having more than ten stories.

Household - one or more people who occupy a housing unit as their usual place of residence.

Housing unit - house, apartment, mobile home, or group of rooms used as a separate living quarters by a single household.

Housing Choice Voucher (Section 8 Program) - federal rent subsidy program under Section 8 of the U.S. Housing Act, which issues rent vouchers to eligible households in the use of the housing of their choice. The voucher payment subsidizes the difference between the Gross Rent and tenant’s contribution of 30% of adjusted income, (or 10% of gross income, whichever is greater). In cases where 30% of the tenants’ income is less than the utility allowance, the tenant will receive an assistance payment. In other cases, the tenant is responsible for paying his share of the rent each month.

Housing Finance Agency (FHA) - state or local agencies responsible for financing housing and administering assisted housing programs.

HUD Section 8 Program - federal program that provides project based rental assistance. Under the program HUD contracts directly with the owner for the payment of the difference between the contract rent and a specified percentage of tenants' adjusted income.

HUD Section 202 Program - federal program which provides direct capital assistance (i.e. grant) and operating or rental assistance to finance housing designed for occupancy by elderly households who have income not exceeding 50% of Area Median Income. The program is limited to housing owned by 501(c)(3) nonprofit organizations or by limited partnerships where the sole general partner is a 501(c)(3) nonprofit organization. Units receive HUD project based rental assistance that enables tenants to occupy units at rents based on 30% of tenant income.

HUD Section 811 Program - federal program which provides direct capital assistance and operating of rental assistance to finance housing designed for occupancy by persons with disabilities who have income not exceeding 50% of Area Median Income. The program is limited to housing owned by 501(c)(3) nonprofit organizations or by limited partnerships where the sole general partner is a 510(c)(3) nonprofit organization.

HUD Section 236 Program - federal program which provides interest reduction payments for loans which finance housing targeted to households with income not exceeding 80% of area median income who pay rent equal to the greater of Basic Rent or 30 percent of their adjusted income. All rents are capped at a HUD approved market rent.

Income limits - maximum household income by county or Metropolitan Statistical Area, adjusted for household size and expressed as a percentage of the Area Median Income for the purpose of establishing an upper limit for eligibility for a specific housing program. Income limits for federal, state and local rental housing programs typically are established at 30%, 50%, 60% or 80% of AMI. HUD publishes income limits each year for 30% median. Very low income (50%), and low income (80%), for households with 1 through 8 people.

Low income - person or household with gross household income below 80% of Area Median Income adjusted for household size.

Low income housing tax credit - a program to generate equity for investment in affordable rental housing authorized pursuant to Section 42 of the Internal Revenue Code, as amended. The program requires that a certain percentage of units built be restricted for occupancy to households earning 60% or less of Area Median Income, and that the rents on those units be restricted accordingly.

Low rise building - a building with one to three stories.

Metropolitan Statistical Area (MSA) - a geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities have a high degree of economic and social integration with that core. Qualification of an MSA requires the presence of a city with 50,000 or more inhabitants, or the presence of an Urbanized Area (UA) and a total population of at lease 100,000 (75,000 in New England). The county or counties containing the largest city and surrounding densely settled territory are central counties of the MSA. Additional outlying counties qualify to be included in the MSA by meeting certain other criteria of metropolitan character, such as a specified minimum population density or percentage of the population that is urban.

Mid-rise - a building with four to ten stories.

Moderate income - person or household with gross household income between 80 and 120 percent of area median income adjusted for household size.

Public Housing or Low Income Conventional Public Housing - HUD program administered by local (or regional) Housing Authorities which serves low- and very-low income households with rent based on the same formula used for HUD Section 8 assistance.

Qualified Census Tract (QCT) - any census tract (or equivalent geographic area defined by the Bureau of the Census) in which at least 50% of households have an income less than 60% of the area median income or where the poverty rate is at lease 25%. A project located in a QCT and receiving Low Income Housing Tax Credit may qualify for up to 130% of the eligible basis for the purpose of calculating the Tax Credit allocation.

Rural Development (RD) market rent - a monthly rent that can be charged for an apartment under a specific USDA-RD housing program, that reflects the agency's estimate of the rent required to operate the property, maintain debt service on an unsubsidized mortgage and provide an adequate return to the property owner. The rent is the maximum rent that a tenant can pay at an RD Property.

Rural Development (RD) Program (Formerly the Farmers Home Administration Section 515 Rural Rental Housing Program) - federal program which provides the low interest loans to finance housing which serves low- and moderate-income persons in rural areas who pay 30 percent of their adjusted income on rent or the basic rent, which is the higher (but not exceeding the market rent). The program may include property based rental assistance and interest reduction contracts to write down the interest on the loan to as low as one percent.

Single-family housing - a dwelling unit, either attached or detached, designed for use by one household and with the direct access to a street. It does not share heating facilities or other essential building facilities with any other dwelling.

State Data Center (SDC) - a state agency or university facility identified by the governor of each state to participate in the Census Bureau's cooperative network for the dissemination of the census data.

Tenant - one who rents real property from another.

Tenure - the distinction between owner-occupied and renter-occupied housing units.

Townhouse (or Row House) - single-family attached residence separated from another by party walls, usually on a narrow lot offering small front and back-yards; also called row house.

Very low income - person or household whose gross household income does not exceed 50% of Area Median Income adjusted for household size.

Zoning - classification and regulation of land by local governments according to use categories (zones); often also includes density designations.