



ROBERT CHARLES LESSER & CO., LLC

**ASSESSMENT OF THE RESIDENTIAL RENTAL AND
FOR-SALE HOUSING SUPPLY AND DEMAND IN
MECKLENBURG COUNTY, NORTH CAROLINA**

Prepared for:

CHARLOTTE NEIGHBORHOOD DEVELOPMENT

April 20, 2005

AFFORDABLE HOUSING NEEDS ASSESSMENT

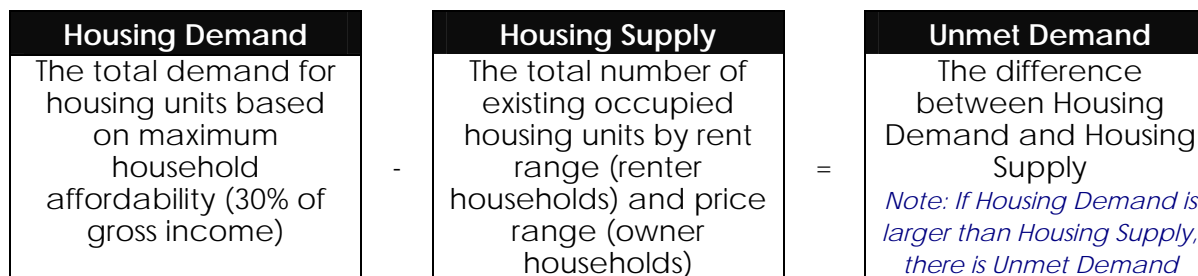
EXECUTIVE SUMMARY

In January 2005, Robert Charles Lesser & Co., LLC (RCLCo) was retained by the City of Charlotte's Neighborhood Development Department to conduct an assessment of the affordable rental and for-sale housing supply and demand in Mecklenburg County, North Carolina. The purpose of this assessment was to assist the City of Charlotte in preparing a five-year Housing and Community Development Plan for the U.S. Department of Housing and Urban Development and to assist the City's Housing Trust Fund Advisory Board in making trust fund allocation recommendations to City Council.

As part of this assessment, RCLCo identified and projected unmet affordable housing needs for households earning below 30%, 50%, and 80% of the Area Median Income (AMI). Using available demographic, economic and housing data for the Charlotte market (including the U.S. Census Public-Use Microdata Sample (PUMS) data, Claritas, Market Opportunity Research Enterprises (MORE), and the Carolina's Real Index), RCLCo quantified the current and projected five-year housing supply and demand for priority needs households in Mecklenburg County and in each of the seven Charlotte-Mecklenburg Planning Districts (North, Northeast, Northwest, Central, South, Southeast, Southwest).

Housing Supply and Demand

In order to calculate housing supply, RCLCo quantified the number of current occupied housing units¹ by gross rent range (for renter households) and home value range (for owner households). Using historical growth rates over the past 14 years and available household growth estimates, RCLCo then projected the supply of rental and for-sale housing units in Mecklenburg County by rent and price range through 2010². Housing demand was calculated by rent range (for renter households) and housing value (for owner households) based on the maximum affordability³ for area households by household income range through 2010⁴.



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Based on the housing supply and demand calculations described above, there was a net unmet demand for approximately 11,272 affordable housing units in Mecklenburg County in 2004 (including both rental and for-sale housing units). This unmet demand is projected to grow to approximately 17,361 units by the year 2010, an increase of 54%. Figure 1 summarizes the net unmet demand for rental and for-sale housing in Mecklenburg County by year:

*Net Unmet Demand for Affordable Housing in Mecklenburg County
2000, 2004, 2010*

Figure 1

Net Unmet Demand			
Year	Rental Housing Units	Owner-Occupied Housing Units	Total Housing Units
2000	9,045	4,001	13,046
2004	10,178	1,094	11,272
2010	12,530	4,831	17,361

As indicated in Figure 1 above, the unmet demand for owner and rental housing units in 2004 was approximately 1,800 units less than in 2000 and 6,100 less than projected for 2010. This is because housing affordability for owner-occupied housing units increased in 2004 due to lower mortgage interest rates; rates averaged 7.9% in 2000, 5.5% in 2004, and are projected to be approximately 8.0%⁵ in 2010. The unmet demand for rental housing units has steadily increased since 2000 – this trend is expected to continue over the next five years.

Unmet Demand for Rental Housing Units

In 2004, there was an unmet demand for approximately 10,178 affordable rental-housing units, or 9.2% of total renter households in Mecklenburg County. As shown in Figure 2 on the following page, in 2010 RCLCo projects the unmet demand will grow to approximately 12,530 affordable rental-housing units (10.2% of total renter households); this unmet demand is broken down as follows:

- 7,900 rental units with rents less than \$200 per month (household incomes of less than \$8,000 per year)

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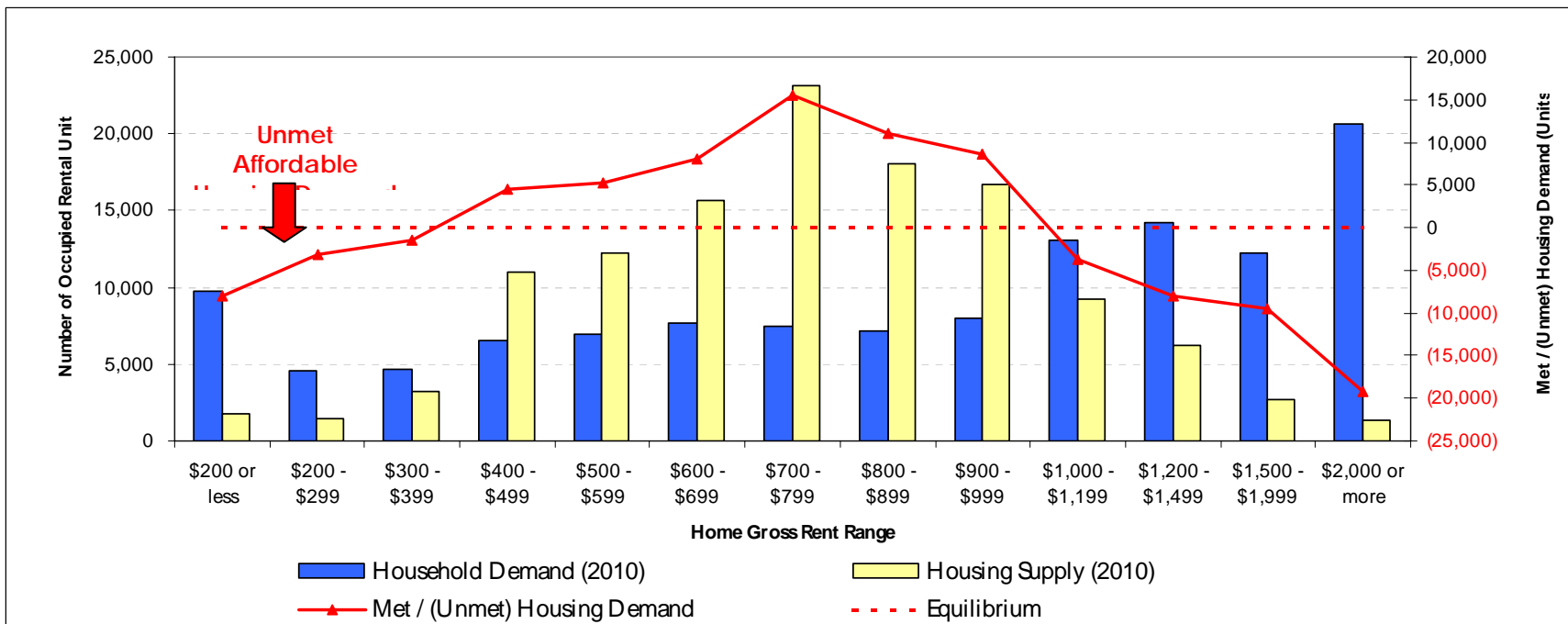
- 3,100 rental units with rents between \$200 and \$300 per month (household incomes between \$8,000 and \$12,000 per year)
- 1,500 rental units with rents between \$300 and \$400 per month (household incomes between \$12,000 and \$16,000 per year)

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A majority of the unmet demand for rental housing units is located in the Central Mecklenburg County Planning District, followed by the South Mecklenburg, Southeast Mecklenburg, and Northeast Mecklenburg Planning Districts. Please note: these figures do not account for unoccupied (vacant) rental housing units, which RCLCo estimates will total approximately 12,200 rental units in 2010 (with 650 of these vacant units having rents less than \$400 per month⁶).

*Demand for Renter-Occupied Housing by Gross Rent Range
Mecklenburg County, North Carolina (2010)*

Figure 2



In addition to the unmet demand for those rental-housing units with rents less than \$400 per month, there will also be unmet demand for rental housing units with rents in excess of \$1,000 per month (as indicated in Figure 2 above). However, this unmet demand at the higher rent range is primarily due to these households having a higher amount of discretionary income, and not a lack of housing supply.

As per information provided by the City of Charlotte's FY2004 Housing Trust Fund Status Report, there are 450 new affordable multi-family rental units under construction in the city, of which 106 will be for households with area median

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incomes of 30% or less. The completion and delivery of these housing units will provide for approximately 4% of the affordable housing needs in Mecklenburg County (based on an unmet demand of 10,178 affordable rental units in 2004).

Mecklenburg County Rental Housing Quick Facts (2004 data)

- Approximately 37% of Mecklenburg County households are renters (110,323 households)
 - The number of renter households is growing at approximately 1.7% annually
- 17,400 renter households earned less than \$15,000 annual income (16% of all renter households)
 - The total number of renter households earning less than \$15,000 is projected to remain stable through 2010
- The median gross rent paid as a percent of annual income in Mecklenburg County is 24.3%
- 28% of renter households paid more than 30% of their annual household income towards rent; 16% paid in excess of 50%
 - These renter households generally earn less than \$20,000 annual income (with affordable rent \$375 or less)
- Those under the age of 24 and over the age of 65 generally pay 5-8% more of their gross income towards rent
- In 2004, at least 28,000 area renter households occupied rental units owned and/or operated by single or smaller landlords
- Approximately 75% of renters in Mecklenburg County live in an apartment building or complex 18% rent a

Unmet Demand for Owner-Occupied Housing Units

In 2010, RCLCo projects there will be an unmet demand for approximately 4,831 affordable owner-occupied housing units, or 1.9% of total owner-occupied housing units in Mecklenburg County; this unmet demand is broken down as follows:

- 1,500 homes valued at less than \$20,000
- 1,900 homes valued between \$20,000 and \$40,000

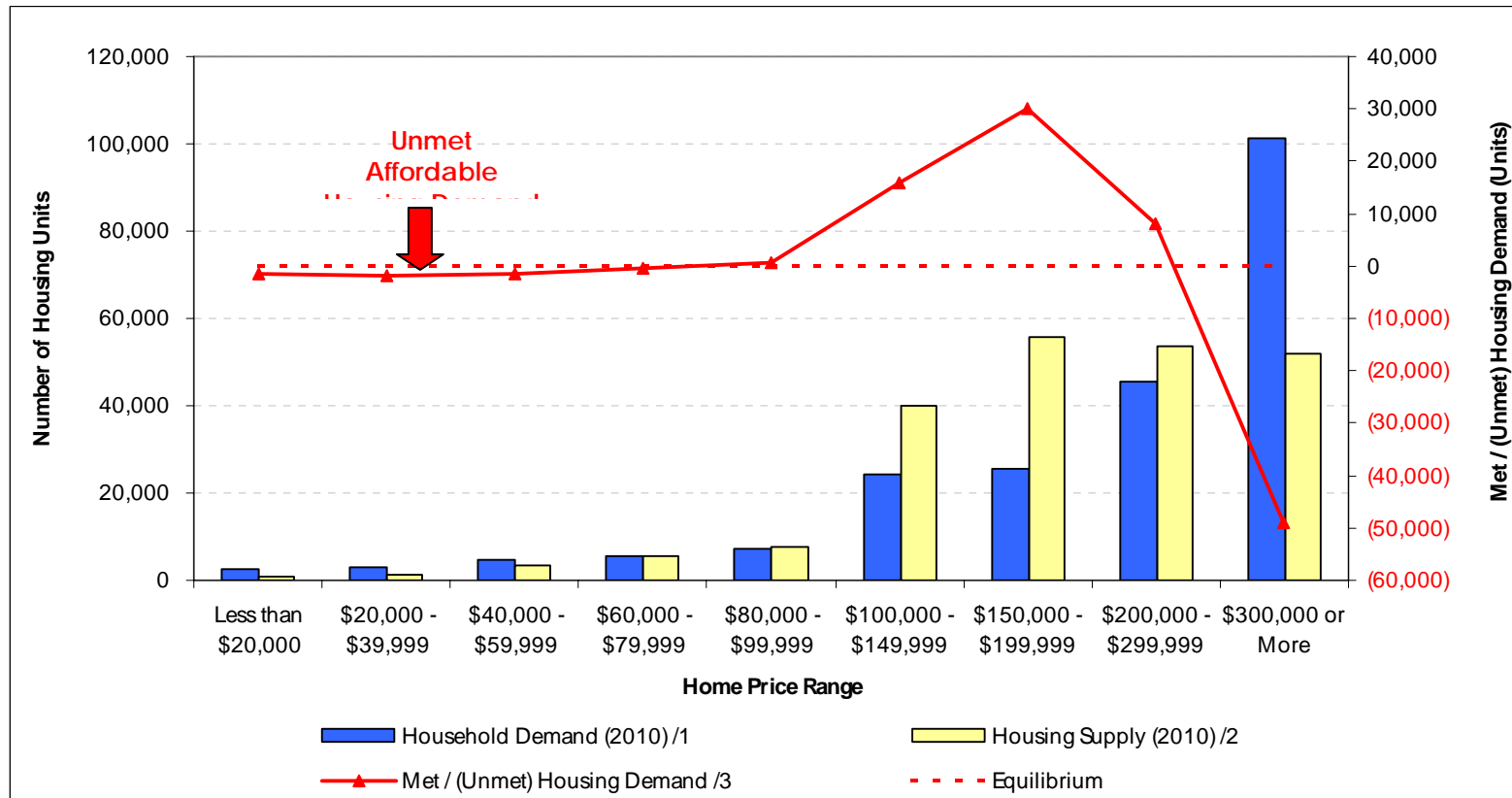
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- 1,400 homes valued between \$40,000 and \$60,000

In 2004, a majority of the unmet demand for owner-occupied housing units was located in the Central Mecklenburg County Planning District. However, due to rapid land appreciation and a lack of affordable homes in South Charlotte, the largest share of unmet demand for affordable owner-occupied housing units in 2010 will be in the South Mecklenburg Planning District (which will have unmet demand of 4,700 units valued at less than \$150,000). Please note: these figures do not account for unoccupied (vacant) owner-occupied housing units, which RCLCo estimates will total approximately 13,100 units in 2010 (with 325 of these vacant units being valued at less than \$60,000⁶).

*Demand for Owner-Occupied Housing Units by Price Range
Mecklenburg County, North Carolina (2010)*

Figure 3



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In addition to the unmet demand for those owner-occupied housing units with values less than \$60,000, there is also unmet demand for housing units with values in excess of \$200,000 (as indicated in Figure 3 above). However, this unmet demand at the higher value range is due to household spending preferences, and not a lack of for-sale housing supply.

Mecklenburg County Owner-Occupied Housing Quick Facts (2004 data)

- Approximately 63% of Mecklenburg County households own their home (190,428 households)
 - The number of owner households will grow at approximately 2.5% annually through 2010
- 45,700 owner households (24%) pay more than 30% of their annual household income towards housing-related costs
 - 7% pay in excess of 50% of their annual household income
 - Those earning less than \$15,000 annual income generally pay approximately 70% of their gross household income towards housing
- The average home price in Mecklenburg County was \$210,505*
 - Homes in North and South Mecklenburg were priced approximately 30% higher than the county average
 - Homes in Southwest, Northeast, Southeast, and Northwest Mecklenburg averaged between \$140,000 and \$161,000
 - Southeast Mecklenburg had the greatest share of homes sold in the under-\$100,000 price range, followed closely by Central Mecklenburg
 - South Mecklenburg has the greatest share of homes sold in the \$350,000-plus range
- 2.2% of non-rental housing units are considered substandard (with 1,700 units having severe physical problems, and an additional 2,500 housing units having moderate physical problems) ⁷



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Comparison Between RCLCo Study and Previous (2002) Study

RCLCo reviewed the previous Affordable Housing Needs Assessment Study commissioned by the City of Charlotte in 2002 and performed by Pinpoint Market Research (Pinpoint), and noted various differences in methodologies and assumptions. The unmet demand for rental and for-sale housing in the lower-income ranges in RCLCo's study is about 20-30% higher than that in the previous Pinpoint study; this difference is due to a change in methodology. Pinpoint relied on Census and Claritas data to estimate the number of households by income range in Mecklenburg County. From this, Pinpoint used secondary data sources (including MORE and Carolinas Real Index) to calculate household supply and demand in the County – based on various assumptions including household turnover (for renters) and current housing inventory. While RCLCo shared many of the same data sources, our approach included utilizing PUMS data to quantify the number of households in the county by household type, income range, and tenure. Our housing supply and demand calculations were based on the PUMS data in combination with other data sources (including Claritas), and are therefore more comprehensive than in the previous study. By using PUMS, RCLCo was able to accurately calculate and project housing supply and demand in Mecklenburg County, while at the same time capturing a variety of factors not included in the 2002 study – including the number of priority needs households by household tenure, type, and income through 2010.

* * * * *

This engagement was conducted by Todd Noell, Senior Vice President; and James Nozar, Senior Associate. If you have any questions regarding the conclusions and recommendations included herein, or wish to learn about other RCLCo advisory services, please call (404) 365-9501.

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CRITICAL ASSUMPTIONS

The following are key assumptions used by RCLCo in this analysis:

- ¹ Housing supply calculations were based on the total number of occupied rental and for-sale housing units in Mecklenburg County, rather than to total number of housing units (including unoccupied/vacant units). Unoccupied units were not included in housing supply calculations because these units will always be present in the Charlotte area, regardless of housing demand, due to natural market forces, housing transition and household turnover. Please note: While not included in housing supply calculations, RCLCo has provided the total number of unoccupied/vacant housing units for reference within this study.
- ² The total number of rental and for-sale housing units by rent/value range (housing supply) in Mecklenburg County were quantified based on historical and current information provided within primary and secondary data sources (including PUMS, Claritas, the Carolinas Real Index, and MORE). Five-year rental and for-sale housing supply projections were then made based on historical growth rates (by housing rent and value range), historical housing value appreciation in the Charlotte metropolitan area, and the projected number of new households by income and tenure in Mecklenburg County through 2010.
- ³ Maximum housing affordability is defined as 30% of total household income for housing-related costs (including rent/mortgage payments, utilities, fuels, insurance, real estate taxes [for owners] and other housing-related expenditures); This figure is based on general affordability criteria defined by the Department of Housing and Urban Development (HUD).
- ⁴ The total number of households by income range and tenure (housing demand) in Mecklenburg County were quantified based on information from Claritas, Inc. Household income growth projections were also based on information provided by Claritas; these projections indicate substantial growth in the higher-income ranges (partly due to inflation, which is estimated to average 2.14% annually through 2010). RCLCo has accounted for inflation of household incomes within this study by also accounting for appreciation in home values (See note 2) through 2010.
- ⁵ RCLCo estimated the mortgage interest rate in 2010 at 8.0% based on information obtained from the Mortgage Bankers Association of America (MBAA), Economy.com and Mortgage-investments.com.
- ⁶ The total number of vacant rental and for-sale housing units was quantified using Carolina's Real Data (for apartments) and the U.S. Census. As of March 2005, the vacancy for rental apartments in the Charlotte area was 10.7%, and the

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area has had an average vacancy of 9.0% over the past ten years. In addition, per 2000 Census data, 5.7% of all for-sale housing units were vacant. RCLCo calculated the number of vacant rental and for-sale housing units by rent/price range based on the distribution of occupied housing units within the associated rent/price ranges.

- ⁷ Substandard housing units (with severe or moderate physical problems) quantified based on information from the 2002 American Housing Survey for the Charlotte, North Carolina metropolitan area

The conclusions and recommendations presented in this report were reached based on our analysis of the information available to us from our own sources and from the client as of the date of this report. We assume that the information is correct, complete and reliable.

Our conclusions and recommendations are based on certain assumptions about the future performance of the global, national, and/or local economy, as well as that of the real estate market and on other factors similarly outside either our control or that of the client. To the best of our ability we analyzed trends and information available to us in drawing these conclusions and making the appropriate recommendations. However, due to the very fluid and dynamic nature of the economy and the real estate markets, it is critical to continually monitor the economy and the market, and to revisit the aforementioned conclusions and recommendations periodically to ensure that they stand the test of time.

We assume that in the future the economy and the real estate markets will grow at a stable and moderate rate. History tells us that stable and moderate growth patterns are not sustainable over extended periods of time. Indeed, we find that the economy is cyclical, and the real estate markets are typically very sensitive to these cycles. Our analysis does not take into account the potential impact that major economic "shocks" could have on the national and/or the local economy, nor does it account for the potential benefits from a major "boom". Similarly, the analysis does not necessarily reflect the residual impact on the real estate market and the competitive environment of such boom or shock situations. We are currently in the midst of an economic recovery, the timing, depth and duration of which are unknown, and which to date has had varying impacts on the real estate market in most areas.

Additionally, we assume that economic, employment and household growth will occur more or less in accordance with current expectations, as will other forecasts of trends and demographic and economic patterns. Along these lines, we

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are not taking into account any major shifts in the level of consumer confidence; in the cost of development and construction; in tax laws (i.e., stable property and income tax rates, deductibility of mortgage interest, etc.); or, in the availability and/or cost of capital and mortgage financing for real estate developers, owners, and buyers. Should any of the above change, there is good reason to believe that this analysis should be updated, and the conclusions and recommendations summarized herein be accordingly reviewed (and possibly revised).

We also assume that competitive projects will be developed as planned (active and future), and that real estate demand will be met with a reasonable stream of supply offerings. Finally, we assume that major public works projects occur and are completed as planned.

GENERAL LIMITING CONDITIONS

Every reasonable effort has been made to insure that the data contained in this study reflect the most accurate and timely information possible and it is believed to be reliable. This study is based on estimates, assumptions and other information developed by RCLCo from its independent research effort, general knowledge of the industry and consultations with the Client and its representatives. No responsibility is assumed for inaccuracies in reporting by the Client, its agent and representatives or any other data source used in preparing or presenting this study. This report is based on information that was current as of the date of this report, and RCLCo has not undertaken any update of its research effort since such date.

Our report may contain prospective financial information, estimates or opinions that represent our view of reasonable expectations at a particular point in time, but such information, estimates or opinions are not offered as predictions or as assurances that a particular level of income or profit will be achieved, that events will occur or that a particular price will be offered or accepted. Actual results achieved during the period covered by our prospective financial analysis may vary from those described in our report and the variations may be material. Therefore, no warranty or representation is made by RCLCo that any of the projected values or results contained in this study will actually be achieved.



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Possession of this study does not carry with it the right of publication thereof or to use the name of "Robert Charles Lesser & Co." or "RCLCo" in any manner without first obtaining the prior written consent of RCLCo. No abstracting, excerpting or summarization of this study may be made without first obtaining the prior written consent of RCLCo. This report is not to be used in conjunction with any public or private offering of securities or other similar purpose where it may be relied upon to any degree by any person other than the Client without first obtaining the prior written consent of RCLCo. This study may not be used for any purpose other than that for which it is prepared or for which prior written consent has first been obtained from RCLCo.

