

COMPREHENSIVE HOUSING MARKET ANALYSIS

# Durham-Chapel Hill, North Carolina

**U.S. Department of Housing and Urban Development,**  
Office of Policy Development and Research

As of June 1, 2019



PD&R

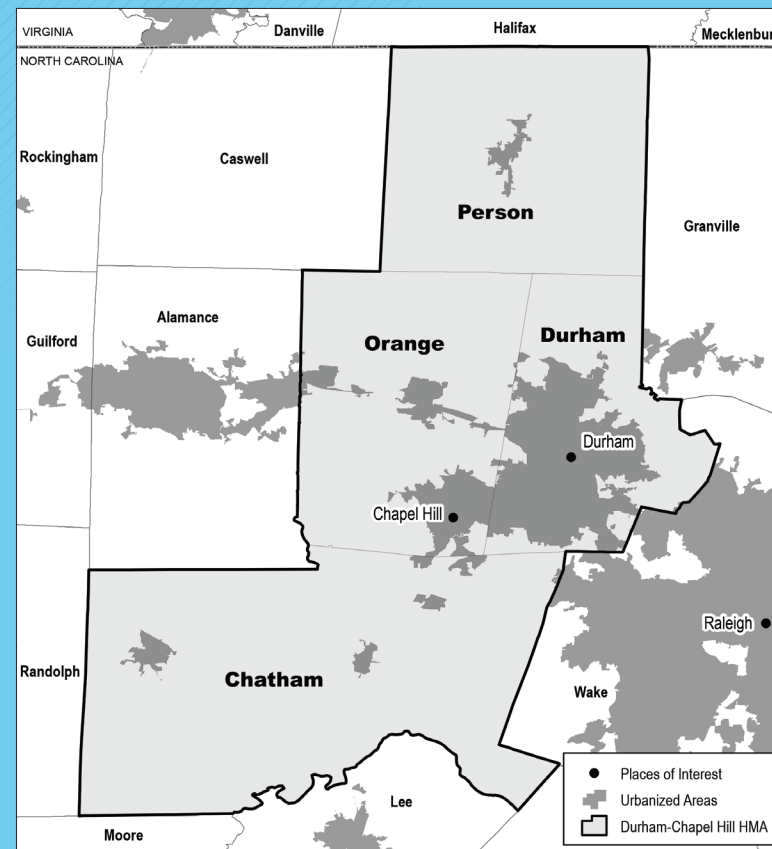
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# Executive Summary

## Housing Market Area Description

The Durham-Chapel Hill Housing Market Area (HMA) includes Chatham, Durham, Orange, and Person Counties in central North Carolina and is coterminous with the Durham-Chapel Hill, NC Metropolitan Statistical Area (MSA). The HMA and the nearby city of Raleigh are often referred to as the “Research Triangle” because of the presence of large research universities in Durham, Chapel Hill, and Raleigh. Duke University and the University of North Carolina at Chapel Hill (UNC-Chapel Hill) are both located in the HMA.



## Tools and Resources

Find interim updates for this metropolitan area, and select geographies nationally, at PD&R’s [Market-at-a-Glance tool](#). Additional data for the HMA can be found in this report’s [supplemental tables](#). For information on HUD-supported activity in this area, see the [Community Assessment Reporting Tool](#).



## Market Qualifiers

### Economy



**Strong.** Nonfarm payrolls increased 1.3 percent during the 12 months ending May 2019.

The economy has expanded strongly since 2011, with nonfarm payrolls increasing an average of 2.1 percent, annually, from 2012 through 2017. By comparison, national payroll growth averaged 1.8 percent during the same period. During the 12 months ending May 2019, nonfarm payrolls increased by 3,900 jobs, or 1.3 percent, to 315,600 jobs while the unemployment rate decreased from 3.7 to 3.5 percent. Job growth is expected to continue at an average annual rate of 1.4 percent during the 3-year forecast period.

### Sales Market



**Slightly Tight.** A 2.6-month supply of available inventory was for sale during May 2019, unchanged from May 2018.

Existing home sales totaled 9,875 during the 12 months ending May 2019, down 3 percent from the previous 12-month period, while the average sales price increased 7 percent to \$274,500. During the same time, new home sales decreased 12 percent to 2,275, and the average price was down 4 percent to \$348,500. During the next 3 years, demand is expected for 8,900 new homes. The 930 homes under construction are expected to meet a portion of demand.

### Rental Market



**Balanced.** Rent growth has averaged 5 percent annually from 2015 through 2018.

Rental housing market conditions in the HMA are currently balanced, with an overall estimated vacancy rate of 6.5 percent, down from 9.5 percent in April 2010. The apartment market is also balanced, with an average vacancy rate of 5.0 percent during the second quarter of 2019, while average rent increased 6 percent on an annual basis, following an increase of 5 percent annually from 2015 through 2018. During the forecast period, demand is estimated for 5,125 new apartment units. The 2,400 units under construction will satisfy a portion of this demand.

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### 3-Year Housing Demand Forecast

	Sales Units	Rental Units
<b>Durham-Chapel Hill HMA</b>		
Total Demand	8,900	5,125
Under Construction	930	2,400

Notes: Total demand represents the estimated production necessary to achieve a balanced market at the end of the forecast period. Units under construction as of June 1, 2019. The forecast period is June 1, 2019, to June 1, 2022.  
Source: Estimates by the analyst



## Economic Conditions

### Largest sector: Education and Health Services

The education and health services sector has accounted for almost 60 percent of all job growth in the HMA since 2000.

### Primary Local Economic Factors

The foundation of the Durham-Chapel Hill HMA economy is a highly educated workforce. The percentage of adults in the HMA with a bachelor’s degree or higher is 46.9 percent, well above the 32.0-percent rate for the nation, and the sixth highest percentage when ranking the 100 largest MSAs in the nation (2017 American Community Survey, 1-year data). Duke University and UNC-Chapel Hill are in the cities of Durham and Chapel Hill, respectively, and are both premier research universities. *U.S. News and World Report* ranked Duke University, with an enrollment of 15,900 students, the 8th-best national university in the country; and UNC-Chapel Hill, with an enrollment of 29,900, ranked 30th.

The population and economy of the HMA is closely tied to the adjacent Raleigh MSA; approximately 65,150 residents of the Raleigh MSA commute to jobs in the HMA, while 33,300 residents of the HMA commute to the Raleigh MSA (2011–2015 American Community Survey, 5-year data, most recent data available).

### Current Conditions—Nonfarm Payrolls

Economic conditions in the HMA have improved each year since 2011 and are currently strong. During the 12 months ending May 2019, nonfarm payrolls increased by 3,900 jobs, or 1.3 percent, to 315,600 jobs, down from a gain of 5,400 jobs, or 1.8 percent, during the 12 months ending May 2018 (Table 1). Almost all job growth during the 12 months ending May 2019 occurred in the professional and business services and education and health services sectors, which expanded by 2,400 and 1,200 jobs, or 5.5 and 1.7 percent, respectively.

### Current Conditions—Unemployment

The unemployment rate in the HMA has been lower than that of the nation since 2000 and has declined significantly since the early 2010s (Figure 1). Due in large part to job losses during the past recession, the unemployment rate in the HMA averaged 8.1 percent in 2010, more than double the previous low of 3.9 percent in 2006 and 2007. The unemployment rate in the HMA has declined each year since 2010

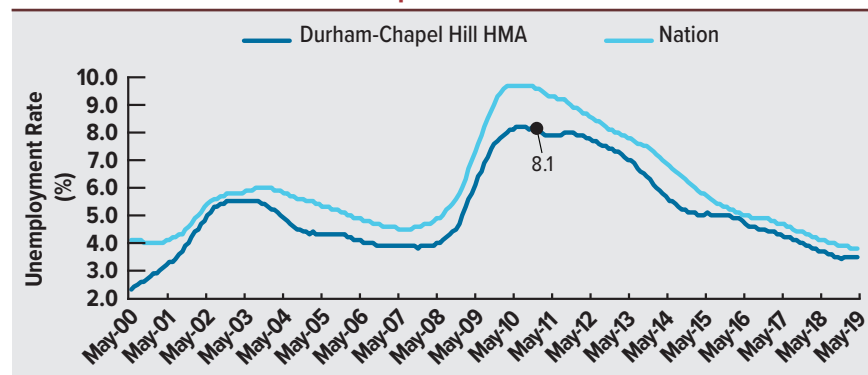
and averaged 3.5 percent during the 12 months ending May 2019, down from 3.7 percent during the previous 12 months. By comparison, the national rate averaged 3.8 percent during the most recent 12 months, down from 4.1 percent during the 12 months ending May 2018 and from a peak of 9.7 percent in 2009.

**Table 1. 12-Month Average Nonfarm Payroll Jobs (1,000s) in the Durham-Chapel Hill HMA, by Sector**

	12 Months Ending May 2018	12 Months Ending May 2019	Absolute Change	Percentage Change
<b>Total Nonfarm Payroll Jobs</b>	<b>311.7</b>	<b>315.6</b>	<b>3.9</b>	<b>1.3</b>
<b>Goods-Producing Sectors</b>	<b>36.2</b>	<b>36.6</b>	<b>0.4</b>	<b>1.1</b>
Mining, Logging, & Construction	8.3	8.8	0.5	6.0
Manufacturing	27.8	27.8	0.0	0.0
<b>Service-Providing Sectors</b>	<b>275.5</b>	<b>279.0</b>	<b>3.5</b>	<b>1.3</b>
Wholesale & Retail Trade	32.7	32.5	-0.2	-0.6
Transportation & Utilities	4.5	4.8	0.3	6.7
Information	4.3	4.3	0.0	0.0
Financial Activities	15.1	15.1	0.0	0.0
Professional & Business Services	43.5	45.9	2.4	5.5
Education & Health Services	69.1	70.3	1.2	1.7
Leisure & Hospitality	28.1	28.1	0.0	0.0
Other Services	11.2	10.9	-0.3	-2.7
Government	67.1	67.1	0.0	0.0

Notes: Based on 12-month averages through May 2018 and May 2019. Numbers may not add to totals due to rounding. Data are in thousands.  
Source: U.S. Bureau of Labor Statistics

**Figure 1. 12-Month Average Unemployment Rate in the Durham-Chapel Hill HMA and the Nation**



Source: U.S. Bureau of Labor Statistics

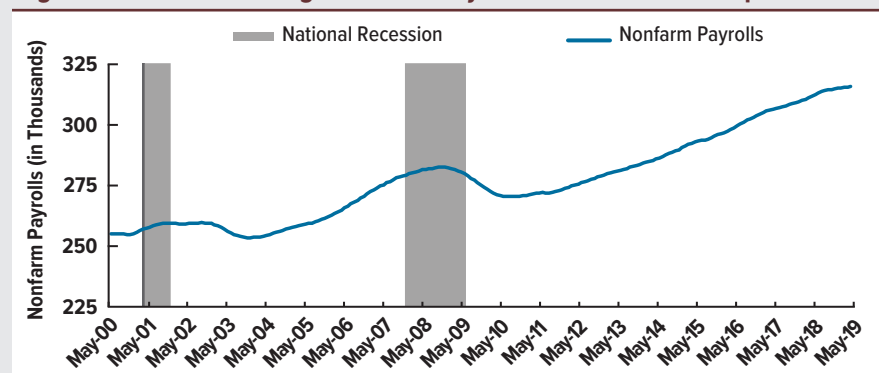


## Economic Periods of Significance

### 2000 Through 2010

The Durham-Chapel Hill HMA began the 21st century with job losses; nonfarm payrolls declined an average of 2,900, or 1.1 percent, annually during 2002 and 2003 because of long-term declines in the local manufacturing sector and layoffs in the information sector related to the collapse of the dot-com bubble. From 2004 through 2008, the HMA economy expanded, adding an average of 5,800 payrolls, or 2.2 percent, annually. During this period, the education and health services, government, and financial activities sectors led job growth, adding an average of 1,800, 1,200, and 800 jobs, or 4.0, 2.0, and 7.8 percent, respectively. Economic growth during the period supported high levels of in-migration, which catalyzed further economic growth through increased residential construction and demand for local goods and services. Subsequently, nonfarm payrolls declined by an average of 5,800 jobs, or 2.1 percent, a year during 2009 and 2010 as a result of the national recession and housing crisis (Figure 2). During this period, manufacturing jobs declined an average of 3,800, or 10.4 percent and reduced residential and commercial construction caused payrolls in the mining, logging, and construction sector to decline an average of 1,400 jobs, or 14.9 percent, annually. The 2009 bankruptcy of Nortel, a telecommunications manufacturer, led to an estimated 2,000 lost jobs during 2009 and 2010.

**Figure 2. 12-Month Average Nonfarm Payrolls in the Durham-Chapel Hill HMA**



Note: 12-month moving average.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research

### 2011 Through 2017

The HMA added 2,500 jobs in 2011, or 0.9 percent, before job growth accelerated to an average annual increase of 5,900 jobs, or 2.1 percent, from 2012 through 2017. By comparison, national payroll growth averaged 1.8 percent from 2012 through 2017. Payroll growth in the HMA during this period was broad-based, with all payroll sectors except the manufacturing sector growing at least 1 percent annually. The education and healthcare services, professional and business services, and leisure and hospitality sectors led job growth from 2012 through 2017, adding an average of 2,000, 1,200, and 900 jobs annually, or 3.2, 3.0, and 3.5 percent, respectively. Duke University Health System, a part of the larger Duke University and Duke University Health System, led job growth in the education and health services sector, adding approximately 3,000 employees between 2013 and 2018.

### Universities, Healthcare, and Corporate Collaboration

The two largest employers in the HMA are Duke University and Duke University Health System and UNC-Chapel Hill (Table 2). Duke University and Duke University Health System employs 38,525 people and had an estimated statewide economic

**Table 2. Major Employers in the Durham-Chapel Hill HMA**

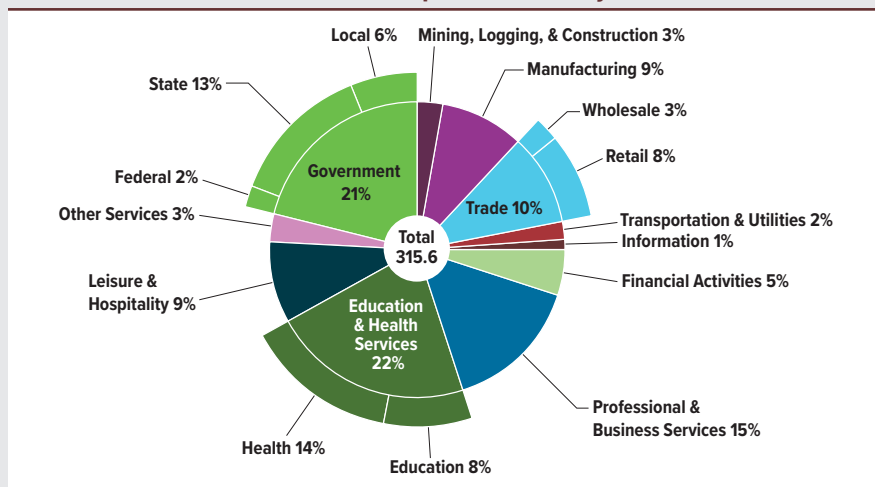
Name of Employer	Nonfarm Payroll Sector	Number of Employees
Duke University and Duke University Health System	Education & Health Services	38,525
University of North Carolina at Chapel Hill	Government	12,741
International Business Machines Corporation	Information	8,000
Cisco Systems, Inc.	Information	5,000
Blue Cross and Blue Shield of North Carolina	Financial Activities	4,700
IQVIA	Professional & Business Services	4,570
Fidelity Investments	Financial Activities	3,600
Durham Veterans Affairs Health Care System	Government	3,000
Credit Suisse	Financial Activities	2,700
Cree, Inc.	Manufacturing	2,500

Note: Excludes local school districts and retailers.

Sources: *Triangle Business Journal*; estimates by the analyst

impact of \$5.8 billion during 2015, and UNC-Chapel Hill employs 12,741 people and had a statewide economic impact of \$5.1 billion during 2015 (Economic Modeling Specialists Report). The nonfarm payroll sector that includes Duke University and Duke University Health System, education and health services, is the largest in the HMA (Figure 3).

**Figure 3. Current Nonfarm Payroll Jobs in the Durham-Chapel Hill HMA, by Sector**



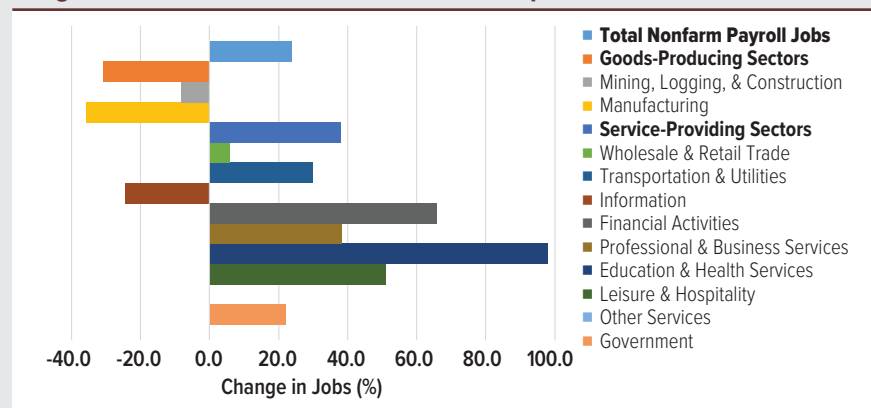
Notes: Total nonfarm payroll is in thousands. Percentages may not add to 100 percent due to rounding. Source: U.S. Bureau of Labor Statistics

Most of the university’s economic impact did not result from direct spending or hiring but in human capital development and knowledge production. The economy of the HMA benefits from the partnership of educational, corporate, and government organizations exemplified in the Research Triangle Park (RTP), one of the premier research and development corporate parks in the nation. RTP, which is in an unincorporated area east of the city of Durham in parts of the HMA and the neighboring Raleigh MSA, is home to more than 200 organizations that employ a combined 50,000 people. Four of the 10 largest employers in the HMA are tenants at RTP: International Business Machines Corporation (IBM), Cisco Systems, Inc., Fidelity Investments, and Credit Suisse. Credit Suisse, an investment bank and

financial services company, is building a \$71 million campus expansion at RTP that is expected to open in the summer of 2019 and will expand their local employment by 1,200.

The three economic sectors most closely linked to RTP, education and health services, professional and business services, and financial activities are three of the four fastest growing sectors in the HMA since 2001 (Figure 4). Since 2001, almost 90 percent of all nonfarm payrolls added in the HMA have been in one of these three sectors. Education and health services, which has added an average of 1,900 jobs annually, or 3.8 percent, since 2001, accounted for 58 percent of job growth in the HMA.

**Figure 4. Sector Growth in the Durham-Chapel Hill HMA, 2001 to Current**



Note: The current period is the 12-month average ending May 2019. Source: U.S. Bureau of Labor Statistics

In addition to the education and health services sector, a significant portion of the professional and business services sector is related to health care. The HMA and the neighboring Raleigh MSA have the largest concentration of contract research organizations (CROs) in the nation. CROs are companies that conduct and analyze clinical trials for pharmaceutical manufacturers. IQVIA, the largest CRO in the world by trial volume, was founded at UNC-Chapel Hill and is still headquartered in the city of Durham, while Syneos Health and Pharmaceutical Product Development, LLC, employ 2,100 and 2,000 in the HMA, respectively.

## Employment Forecast

During the 3-year forecast period, nonfarm payroll growth is expected to remain strong at an average of 4,475 jobs, or 1.4 percent, annually. Numerous firms plan to expand in the HMA during the next 3 years with notable growth expected in the education and health services, professional and business services, and manufacturing sectors. In the education and health services sector, LabCorp, a clinical testing provider, is expected to add 422 jobs as part of an expansion of its RTP facility, while AveXis, a developer of gene therapies, will employ 400 in its new Durham facility. In the professional and business services sector, Parexel International Corporation, a CRO, is expected to expand its Durham workforce by 264 during the forecast period, while Sensus, a provider of smart meters to

utilities, is expected to add 300 employees at its Durham facility by 2022. The manufacturing sector, which has lost more jobs than any other sector in the HMA since 2000, appears likely to add jobs during the forecast period. Corning Inc. is opening a glass vial manufacturing facility in Durham that is expected to employ 317, while ABB, Inc., a Swiss industrial equipment manufacturer, is planning on expanding its manufacturing facility in the city of Mebane by 400 employees during the forecast period. Finally, Merck & Co., Inc., a pharmaceutical company, is building a new 225,000-square-foot facility in Durham to produce the Gardasil HPV vaccine. When complete, Merck & Co., Inc.'s local employment is expected to increase by 400.



# Population and Households

**Current population: 582,700**

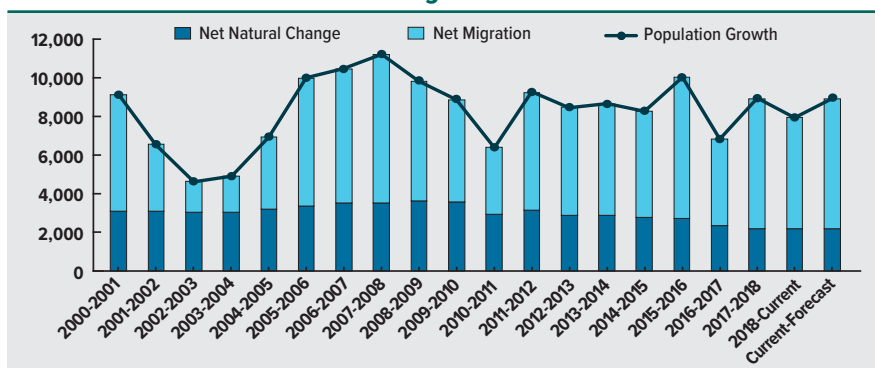
Population growth has been moderate and stable since 2012.

## Population Trends

Population growth in the Durham-Chapel Hill HMA has been strong since 2000 because of better-than-average economic conditions, relatively lower priced housing compared with metropolitan areas with similar high-skill economies, and the region’s mild climate. In addition, the neighboring Raleigh MSA was the fourth fastest growing metropolitan area in the nation from 2000 to 2010; some of this population growth spilled over into the HMA. Population growth in the HMA peaked from 2005 to 2008, when it averaged 10,550 people, or 2.2 percent, annually (U.S. Census Bureau population estimates as of July 1) because of job gains and a strong housing market.

Population growth slowed to an average of 9,325 people annually, or 1.9 percent during 2009 and 2010, and a low of 6,375, or 1.3 percent, during 2011 because of a decrease in net migration caused by job declines and the national housing crisis which made it difficult for potential residents to sell their existing homes and relocate to the HMA. Net in-migration averaged 7,075 people, or 67 percent of population growth, during the 2005-to-2008 period but only 4,950, or 59 percent, of population growth from 2008 to 2011 (Figure 5).

**Figure 5. Components of Population Change in the Durham-Chapel Hill HMA, 2000 Through the Forecast**



Notes: Net natural change and net migration totals are average annual totals over the time period. The current date is June 1, 2019. The forecast date is June 1, 2022.  
Sources: U.S. Census Bureau; current to forecast—estimates by the analyst

As labor and housing markets have recovered throughout much of the nation, population growth in the HMA increased after 2011. As of May 1, 2019, the population of the HMA is estimated at 582,700 people, reflecting an average increase of 8,550 people, or 1.6 percent, annually since 2011. During the period, net in-migration accounted for 69 percent of population growth, or an average of 5,900 people annually. Table 3 provides recent trends on population in the HMA.

**Table 3. Durham-Chapel Hill HMA Population and Household Quick Facts**

	2010	Current	Forecast	
<b>Population Quick Facts</b>	<b>Population</b>	504,357	582,700	609,300
	Average Annual Change	7,775	8,550	8,875
	Percentage Change	1.7	1.6	1.5
<b>Household Quick Facts</b>	<b>Households</b>	202,476	235,400	247,100
	Average Annual Change	3,375	3,600	3,900
	Percentage Change	1.8	1.7	1.6

Notes: Average annual changes and percentage changes are based on averages from 2000 to 2010, 2010 to current, and current to forecast. The forecast period is from the current date (June 1, 2019), to June 1, 2022.  
Sources: 2000 and 2010—2000 Census and 2010 Census; current and forecast—estimates by the analyst

## Migration Trends

From 2011 to 2018, domestic in-migration constituted approximately 61 percent of total net in-migration to the HMA. Migrants are drawn to the HMA because of its strong job market, temperate climate, and relatively affordable housing. The largest sources of net in-migration are from elsewhere in North Carolina and northeastern metropolitan areas (2012–2016 American Community Survey, 5-year data). International net in-migration originates mostly from Asia accounting for approximately 53 percent of all international migrants. The adjacent Raleigh MSA is the largest source of migrants to the HMA and the most popular destination for emigrants from the HMA (Table 4).





**Table 4. Metro-to-Metro Migration Flows in the Durham-Chapel Hill HMA, 2012–2016**

Into the HMA	Raleigh, NC	7,467
	Charlotte-Concord-Gastonia, NC-SC	2,678
	New York-Newark-Jersey City, NY-NJ	2,244
	Greensboro-High Point, NC	1,760
	Washington-Arlington-Alexandria, DC-VA	1,438
Out of the HMA	Raleigh, NC	6,243
	Charlotte-Concord-Gastonia, NC-SC	1,774
	Greensboro-High Point, NC	1,628
	New York-Newark-Jersey City, NY-NJ	1,467
	Washington-Arlington-Alexandria, DC-VA	1,415

Sources: U.S. Census Metro-to-Metro Migration Flows; 2012–2016 American Community Survey, 5-year data

## Population by Geography

Approximately 55 percent of the HMA population resides in Durham County, while 25 percent of the population live in Orange County, which includes the city of Chapel Hill. Chatham and Person Counties account for 13 and 7 percent of the population of the HMA, respectively (Census Bureau Population Estimates).

Chatham County has had the largest increase in population growth since 2010 growing 1.3 percent annually from 2011 to 2014, when the HMA grew by 1.7 percent annually, but grew 2.3 percent annually from 2015 to 2018, when the HMA grew 1.5 percent annually. By comparison, Durham County and Orange County grew by 2.2 and 1.3 percent annually in the former period, and 1.7 and 1.1 percent annually in the latter period, respectively.

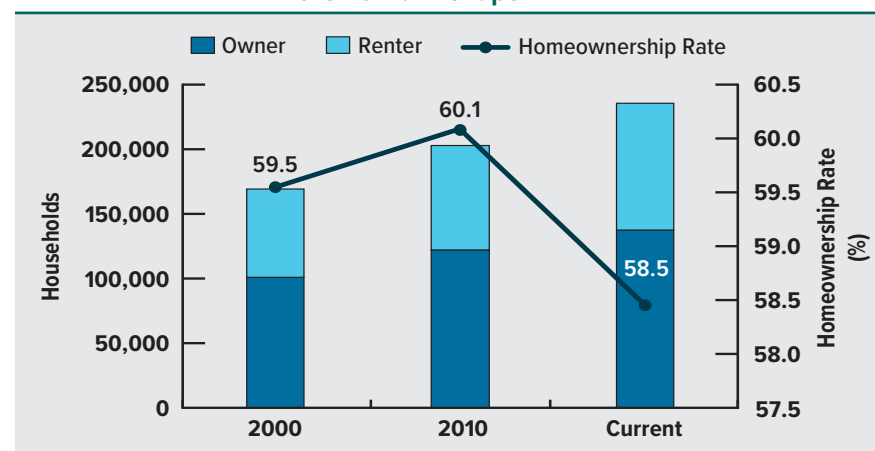
The sources of movers to the HMA vary widely between counties. Since 2010, almost all net migration to Chatham and Person Counties is domestic in origin, while domestic migration accounts for 54 percent of net migration to Durham. International in-migration to the HMA is disproportionately concentrated in Orange County, which contains the city of Chapel Hill; since 2010, approximately two-thirds of net in-migration to this county has been international, primarily because of the presence of UNC-Chapel Hill.

## Household Trends

As of June 1, 2019, the number of households in the HMA was estimated at 235,400, an increase of 3,600 households, or 1.7 percent, annually since 2010.

By comparison, household growth averaged 3,375, or 1.8 percent, annually, from 2000 to 2010 (Table 3). Household growth has increased in absolute terms since 2010, primarily because of higher population growth. The homeownership rate is currently estimated at 58.5 percent, down from 60.1 percent in 2010 (Figure 6) because of a weak labor market and a tight credit market during the first years of the decade. Renter households accounted for approximately 37 percent of household growth from 2000 to 2010 but have accounted for approximately 52 percent of household growth since 2010 as apartment construction increased in the latter period.

**Figure 6. Households by Tenure and Homeownership Rate in the Durham-Chapel Hill HMA**



Sources: 2000 and 2010—2000 Census and 2010 Census; current—estimates by the analyst

## Forecast

During the next 3 years, the population of the Durham-Chapel Hill HMA is expected to increase by an average of 8,875, or 1.5 percent a year, to 609,300, similar to population growth in the 2012-to-current period as continued economic growth attracts migrants to the HMA. Net in-migration is expected to account for approximately 75 percent of population growth. The number of households is expected to reach 247,100 by the end of the third year of the forecast period with average growth during the next 3 years expected to be similar to the population growth rate at 1.6 percent, or 3,900 households, annually.

# Home Sales Market Conditions

## Market Conditions: Slightly Tight

Home sales have stabilized after several years of rapid increases.

## Current Conditions

The sales housing market in the Durham-Chapel Hill HMA is currently slightly tight, with robust demand and a limited inventory of available for-sale homes contributing to rising home prices. As of June 1, 2019, the overall sales vacancy rate was estimated at 1.5 percent, down from 2.6 percent in 2010 (Table 5). During May 2019, the HMA had a 2.6-month supply of unsold existing homes, unchanged from May 2018, but well below the 9.5 months of supply during May 2010 (CoreLogic, Inc.). The HMA has a lower supply of available homes than the nation, which had a 3.4-month supply during May 2019, up from a 3.3-month supply during May 2018.

**Table 5. Home Sales Quick Facts in the Durham-Chapel Hill HMA**

	Durham-Chapel Hill HMA	Nation
<b>Vacancy Rate</b>	1.5%	NA
<b>Months of Inventory</b>	2.6	3.4
<b>Total Home Sales</b>	12,150	6,034,000
1-Year Change	-4.4%	-4.6%
<b>New Home Sales Price</b>	\$348,500	\$384,700
1-Year Change	-4%	1%
<b>Existing Home Sales Price</b>	\$274,500	\$296,400
1-Year Change	7%	3%
<b>Mortgage Delinquency Rate</b>	1.1%	1.4%

NA = data not available.

Notes: Vacancy rate is as of the current date (June 1, 2019). Home sales and prices are for the 12 months ending May 2019. Months of inventory and mortgage delinquency data are as of May 2019.

Source: CoreLogic, Inc., with adjustments by the analyst

## Existing Home Trends

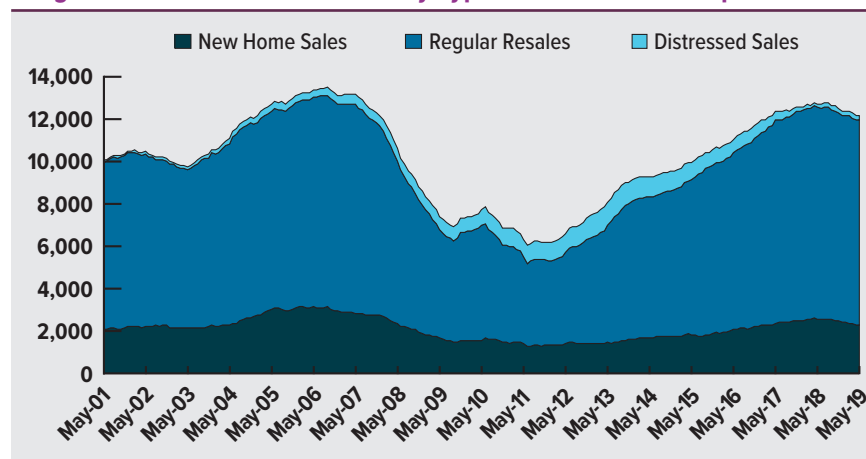
Low levels of available inventory have contributed to a decline in the number of existing home sales and rising prices in the HMA. Existing home sales (including regular resales and distressed sales) totaled 9,875 in the HMA during the 12 months ending May 2019, down 3 percent from the previous 12-month period, while the average sales price increased 7 percent to \$274,500 (CoreLogic, Inc., with adjustments by the analyst). Sales growth was negligible during the 12 months ending May 2018, with existing home sales and prices increasing by 1 and 7 percent, respectively.

Strong economic conditions and population growth contributed to a peak of 9,750 existing homes sold, on average, each year from 2004 through 2007. Existing home sales declined by an average of 1,150 home sales, or 15 percent, annually from 2008 through 2011, to a low of 4,850 homes sold during 2011 because of poor economic conditions and stricter lending standards. As the number of homes sold decreased, both the number and percentage of distressed sales (real estate owned [REO] and short sales) increased substantially. Approximately 5 percent of all existing homes sold in 2007 were distressed, but by 2011 the percentage had increased to 18 percent. The average home sales prices for REO and short sales were \$129,800 and \$192,200, respectively, in 2011, substantially less than the average price of \$224,500 for regular resales.

Despite the increased number of distressed sales, existing sales prices increased slightly throughout the housing crisis, increasing from an average of \$209,200 during 2007 and 2008 to \$211,300 during the 2011-to-2012 period. This stability in home prices was caused by the average price of regular resales increasing despite the housing crisis, from \$214,400 in the former period to \$223,800 in the latter period, which counteracted higher numbers of lower priced distressed sales.

The volume of home sales began to recover from the lows caused by the recession in 2012 following the return of substantial job growth in 2011 (Figure 7). Existing homes sales increased by an average of 1,325, or 24 percent, annually during 2012

**Figure 7. 12-Month Sales Totals by Type in the Durham-Chapel Hill HMA**



Source: CoreLogic, Inc., with adjustments by the analyst

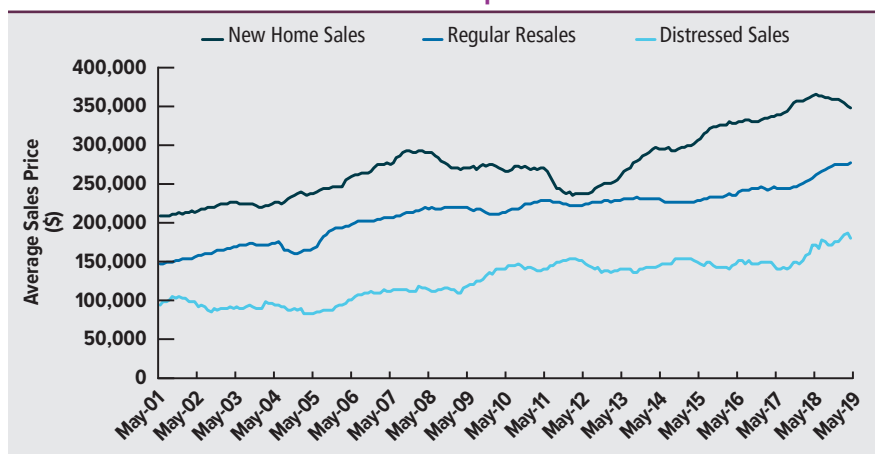


and 2013, then slowed to an average annual increase of 640 homes, or 8 percent, from 2014 through 2017. The slowdown in growth was largely attributable to decreases in the number of REO and short sales, which declined by respective averages of 22 and 37 percent, annually, during the period, while regular resales increased by an average of 850, or 11 percent, annually. Despite the large increase in the number of sales during 2012 and 2013, existing home prices increased by an average of only 1 percent annually from 2012 through 2014. The significant inventory of for-sale homes, as well as the presence of large numbers of distressed properties, kept prices from appreciating. From 2015 through 2017, as the sales market tightened and competition among homebuyers increased, existing home prices increased an average of \$8,975, or 4 percent, annually.

## New Home Trends

New home sales have slowed after several years of increasing sales volume. Approximately 2,275 new homes sold in the HMA during the 12 months ending May 2019, down 12 percent from the previous 12 months, while the average price of a new home decreased 4 percent to \$348,500 (CoreLogic, Inc., with adjustments by the analyst; Figure 8).

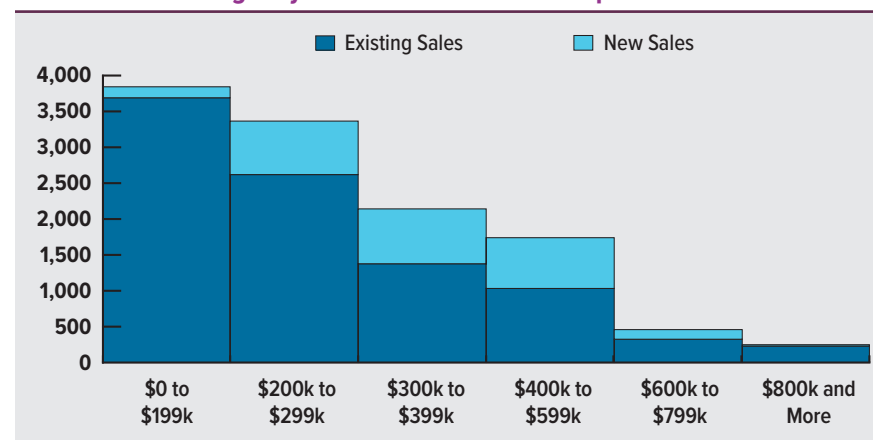
**Figure 8. 12-Month Average Sales Price by Type of Sale in the Durham-Chapel Hill HMA**



Source: CoreLogic, Inc., with adjustments by the analyst

From 2013 through 2017, new home sales increased at an average annual rate of 12 percent as the excess inventory of existing homes was absorbed and new home sales rose to an average of 2,375 during 2016 and 2017. During this period, new home sales prices grew by an average of 7 percent annually, compared with only 3 percent for existing home sales. Although new home sales in the HMA have increased since 2013, they are below the peak levels of the mid-2000s. The number of new home sales averaged 3,000 during 2005 and 2006 then declined an average of 14 percent annually from 2007 through 2011 because of poor economic conditions, decreased access to credit, and increasing inventories of lower-priced existing homes. New home sales account for about 12 percent of home sales below \$300,000 but approximately 38 percent of home sales between \$300,000 and \$600,000 (Figure 9).

**Figure 9. Share of Sales by Price Range During the 12 Months Ending May 2019 in the Durham-Chapel Hill HMA**



Source: Metrostudy, A Hanley Wood Company

## Delinquent Mortgages

Seriously delinquent mortgages and REO properties no longer significantly affect existing home prices within the HMA. As of May 2019, 1.1 percent of home loans were seriously delinquent or had transitioned into REO status, down from 1.8 percent in May 2018 and below the national rate of 1.4 percent in May 2019

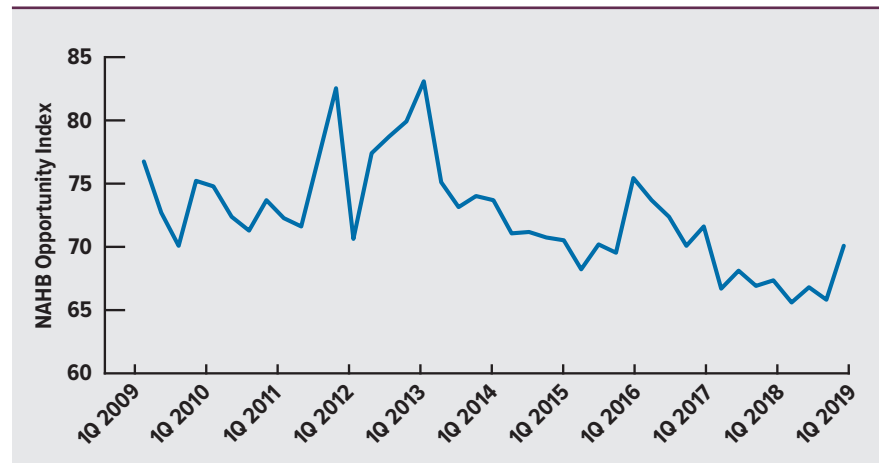


(CoreLogic, Inc.). In January 2012, the rate of seriously delinquent mortgages and REO properties in the HMA peaked at 5.0 percent, remaining well below the national rate, which was 7.3 percent during the same period.

## Housing Affordability

During the past year, home prices in the Durham-Chapel Hill HMA have increased slower than income, causing homeownership to become more affordable for more families. The National Association of Home Builders’ (NAHB) and Wells Fargo Housing Opportunity Index (HOI) for the HMA, which represents the share of homes sold that would have been affordable to a family earning the local median income, was 70.1 during the first quarter of 2019, up from 67.4 a year ago (Figure 10). During the first quarter of 2019, 129 of the 237 metropolitan areas measured had greater housing affordability than the Durham-Chapel Hill HMA. Despite increased affordability during the past year, the home price growth outpaced income growth in the HMA from 2013 through 2017. During the first quarter of 2013, the HOI was 83.1 and only 107 metropolitan areas had greater housing affordability than the HMA. Since this period, median home prices have increased 55 percent while the median household income has only increased 21 percent.

Figure 10. Durham-Chapel Hill HMA Housing Opportunity Index

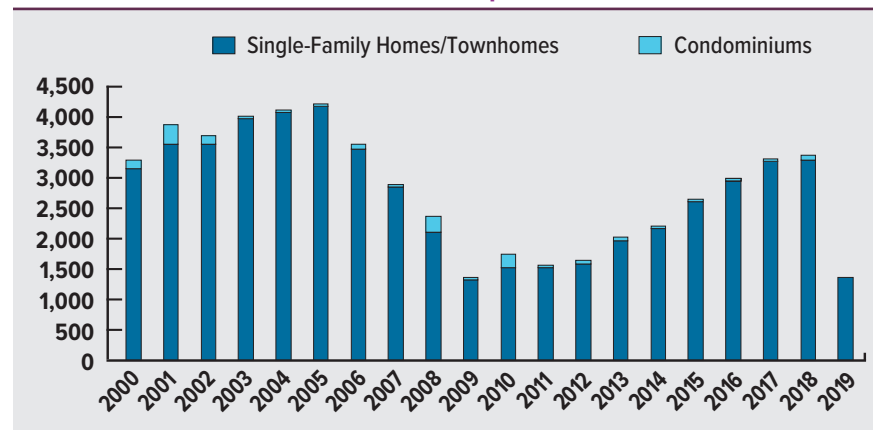


NAHB = National Association of Home Builders. 1Q = first quarter.  
Source: NAHB/Wells Fargo

## Sales Permit Activity

Homebuilding, as measured by the number of single-family homes, townhomes, and condominium units permitted, has generally trended upward in the HMA since the end of 2012 but is below the historically high levels reached during the housing boom in the mid-2000s (Figure 11). Homebuilding peaked from 2003 through 2005 at an average of 4,100 homes permitted annually, then declined by an average of 710 homes, or 25 percent, annually from 2006 through 2009, as demand for new homes fell. After reaching a low of 1,575 homes permitted on average from 2009 through 2012, for-sale home construction increased an average of 330 units, or 15 percent, annually from 2013 through 2017 because of strengthening economic conditions and increased existing home sales. Construction levels stabilized, averaging 3,325 homes built annually during 2017 and 2018. During the 12 months ending May 2019, 3,275 homes were permitted, down less than 1 percent from the preceding 12-month period (preliminary data).

Figure 11. Average Annual Sales Permitting Activity in the Durham-Chapel Hill HMA



Notes: Includes single-family homes, townhomes, and condominiums. 2019 includes data through May 2019.  
Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2017—final data and estimates by the analyst; 2018 and 2019—preliminary data and estimates by the analyst

Approximately 60 percent of all new home construction in the HMA is occurring in Durham County, with Chatham, Orange, and Person Counties accounting for about 20, 15, and 5 percent of construction, respectively. An example of a typical subdivision is the 175-home community of Meadows at Southpoint in south Durham,



which opened in 2016 and is expected to be built out during the forecast period. This townhome community offers three-bedroom homes starting at \$277,000 and four-bedroom homes starting at \$332,000.

## Forecast

Based on current and anticipated economic and population growth and the current slightly tight sales market conditions in the HMA, demand is estimated for 8,900 new homes during the next 3 years, with demand constant during each year of the forecast period (Table 6). The 930 homes currently under

construction are expected to meet a portion of demand during the first year of the forecast.

**Table 6. Demand for New Sales Units in the Durham-Chapel Hill HMA During the Forecast Period**

Sales Units	
<b>Demand</b>	8,900 Units
<b>Under Construction</b>	930 Units

Note: The forecast period is from June 1, 2019, to June 1, 2022.  
Source: Estimates by the analyst



# Rental Market Conditions

## Market Conditions: Balanced

Rental market conditions in the HMA are balanced despite high levels of apartment construction since the early 2010s.

## Current Conditions and Recent Trends

Overall rental housing market conditions (which include single-family rentals, townhomes, and mobile homes, as well as apartments) in the Durham-Chapel Hill HMA are currently balanced, with an overall estimated rental vacancy rate of 6.5 percent, down from 9.5 percent in 2010 (Table 7). High levels of renter household growth since 2010 have contributed to declining vacancy rates and rising rents, despite increased apartment construction during the period.

**Table 7. Rental and Apartment Market Quick Facts in the Durham-Chapel Hill HMA**

	2010 (%)	Current (%)
<b>Rental Market Quick Facts</b>		
<b>Rental Vacancy Rate</b>	9.5	6.5
<b>Occupied Rental Units by Structure</b>		
Single-Family Attached & Detached	30	33
Multifamily (2–4 Units)	11	13
Multifamily (5+ Units)	53	49
Other (Including Mobile Homes)	5	4
	Current	YoY Change
<b>Apartment Market Quick Facts</b>		
<b>Apartment Vacancy Rate</b>	5.0%	-0.8
<b>Average Rent</b>	\$1,150	6%
Studio	\$1,080	6%
One-Bedroom	\$1,025	6%
Two-Bedroom	\$1,196	6%
Three-Bedroom	\$1,493	9%

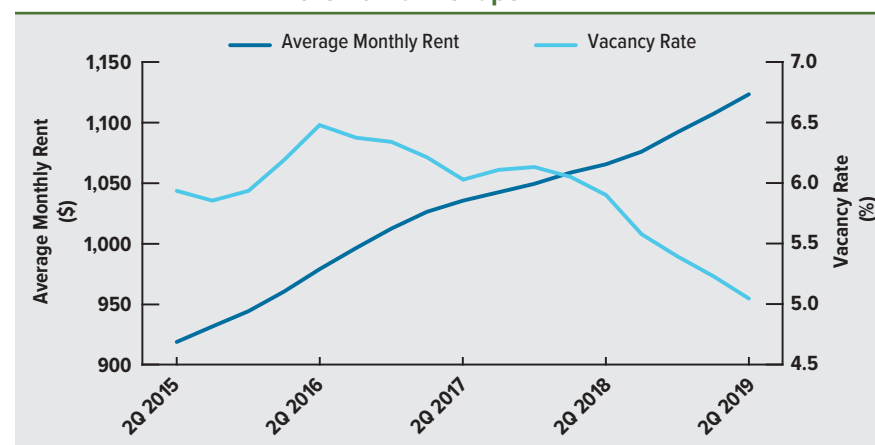
YoY = year over year.

Notes: The current date is June 1, 2019. Current data for “occupied rental units by structure” are 2017 American Community Survey, 1-year data, the most recent data available.

Sources: American Community Survey, 1-year data; apartment data—RealPage, Inc.

The apartment market, which makes up approximately 63 percent of renter-occupied units in the HMA, is also balanced (2017 American Community Survey, 1-year data). The apartment vacancy rate averaged 5.0 percent during the second quarter of 2019, down from 5.8 percent a year earlier (RealPage, Inc.). The apartment vacancy rate has trended downwards since 2016, when the annualized vacancy rate reached a peak of 6.5 percent (Figure 12). During the second quarter of 2019, the average rent in the HMA increased 6 percent from the second quarter of 2018 to \$1,150, while average rents for one-, two-, and three-bedroom apartments were \$1,025, \$1,196, and \$1,493, respectively. Rent growth was steady during 2013 and 2014, averaging 3 percent each year, and increased to an average of 5 percent, annually, from 2015 through 2018.

**Figure 12. Apartment Rents and Vacancy Rates in the Durham-Chapel Hill HMA**



2Q = second quarter.  
 Note: Four-quarter running average.  
 Source: RealPage, Inc.

## Market Conditions by Geography

Apartment vacancy rates vary across the HMA, ranging from a low of 3.7 percent in the RealPage, Inc.-defined Southwest Durham market area to a high of 6.4 percent in the Northwest Durham/Downtown market area, which includes Duke University. The Northwest Durham/Downtown market area was the only market



area where the vacancy rate did not decline during the most recent 12-month period, remaining unchanged. The elevated vacancy rate in the Northwest Durham/Downtown market area was caused by a large number of apartment completions that occurred during the past year. According to RealPage, Inc., approximately 1,050 apartments opened in the Northwest Durham/Downtown market area since the second quarter of 2018, accounting for almost two-thirds of all apartment construction in the HMA during that time. During the same time period, no apartments opened in the Southwest Durham market area. Rents are highest in the Northwest Durham/Downtown market area at \$1,201 and the Chapel Hill/Carrboro market area, which includes UNC-Chapel Hill at \$1,199, and the lowest in the East Durham market area at \$1,090. Apartment rents are converging across submarkets, however, with rent growth in the East Durham market area leading the HMA at 11-percent annual growth during the second quarter of 2019, while the Northwest Durham/Downtown market area had the lowest with no change in rents.

## Student Housing

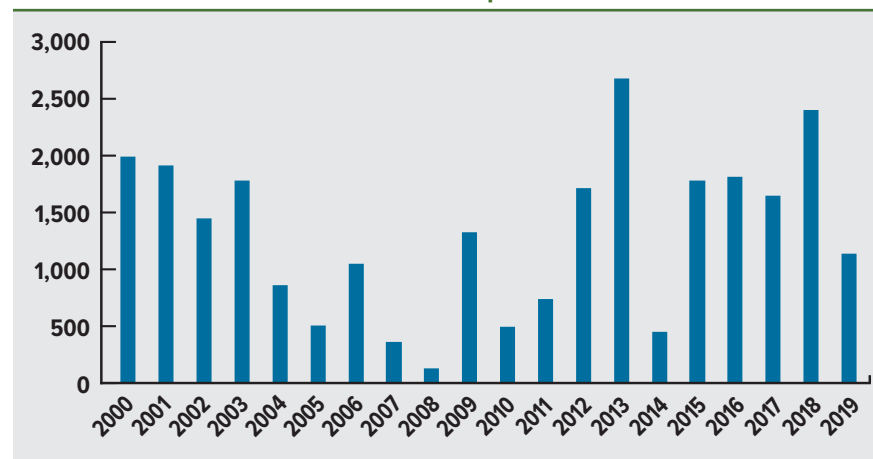
University students living off campus are estimated to make up approximately 40 percent of renter households in Orange County, which contains UNC-Chapel Hill, and 10 percent in Durham County, which contains Duke University. Private student-specific apartments do not make up a significant amount of the rental stock of Durham County but account for an estimated 10 percent of the apartments in Orange County, meaning students are a substantial part of regular rental market demand in these counties. The impact of students on the rental market of the HMA is not expected to change in the next 3 years, as neither Duke University or UNC-Chapel Hill plan to significantly expand enrollment or their on-campus housing.

## Rental Construction Activity

Builders have responded to strong rent growth with high levels of rental construction since the early 2010s. Following the Great Recession, apartment construction, as measured by the number of rental units permitted, declined to very low levels during 2010 and 2011, averaging only 620 units permitted annually because of a soft rental market (Figure 13). Rental construction quickly rebounded, however, with an average of 1,775 rental units permitted annually from 2012 through 2018. During this period, approximately 70 percent of rental construction occurred in Durham County, with almost all of the remainder occurring in Orange

County. During the 12 months ending May 2019, approximately 1,700 rental units were permitted, a decrease of approximately 21 percent compared with the previous 12-month period (preliminary data).

**Figure 13. Average Annual Rental Permitting Activity in the Durham-Chapel Hill HMA**



Notes: Includes apartments and units intended for rental occupancy. 2019 includes data through May 2019. Sources: U.S. Census Bureau, Building Permits Survey; 2000 through 2017—final data and estimates by the analyst; 2018 and 2019—preliminary data and estimates by the analyst

## Recently Constructed Rental Properties

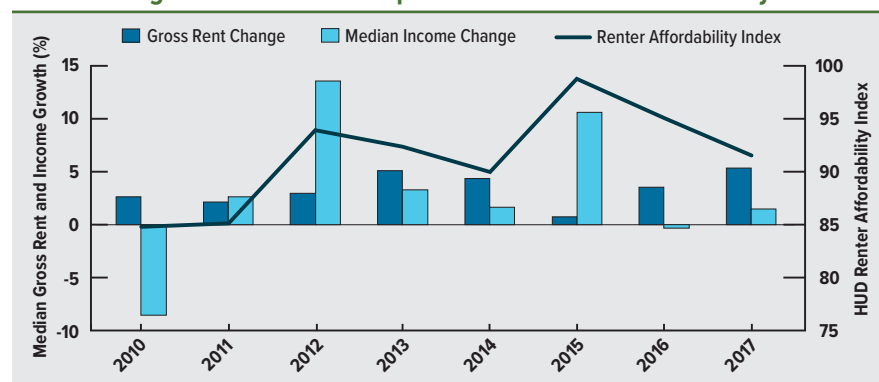
Current apartment construction has been evenly split between Durham and Orange Counties. The Alta Blu, a 298-unit market rate apartment complex in Chapel Hill, is one of the newest apartment complexes in the HMA. The Alta Blu opened in May 2019 and offers one-, two-, and three-bedrooms starting at \$1,300, \$1,630, and \$1,830, respectively. The Solis Patterson Place, a 345-unit market rate apartment complex in Durham, is expected to open during the summer of 2019. When complete, studio, one-, two-, and three-bedroom units will be available at \$1,050, \$1,200, \$1,550, and \$2,000, respectively.

## Housing Affordability: Rental

Rental housing in the Durham-Chapel Hill HMA has become more expensive since 2010, but the effect on rental affordability has been offset by high income growth. Between 2010 and 2017, the median gross rent increased by a total

of 27 percent, while the median income of renter households increased by 37 percent. As a result, the HUD Rental Affordability Index, a measure of median renter household income relative to qualifying income for the median-priced rental unit, increased from 84.8 in 2010, to 92 in 2017, signifying a more affordable rental market (Figure 14). It is important to note, however, that some of the increase in income was likely caused by lower-income households choosing to move outside of the HMA in response to increased rents.

**Figure 14. Durham-Chapel Hill HMA Rental Affordability**



Source: American Community Survey, 1-year data

Among households that have incomes below 50 percent of Area Median Family Income (AMFI) approximately 25.7 percent spend between 30 and 49 percent of their income on rent, while 48.3 percent spend more than 50 percent of their income on rent (Table 8). By comparison, 25.7 and 50.2 percent of similar

**Table 8. Percentage of Cost Burdened Renter Households by Income in the Durham-Chapel Hill HMA and the Nation, 2011–2015**

	Cost Burdened		Severely Cost Burdened	
	Durham-Chapel Hill HMA	Nation	Durham-Chapel Hill HMA	Nation
Renter Households with Income <50% AMFI	25.7	25.7	48.3	50.2
Total Renter Households	20.4	22.0	22.7	23.8

AMFI = area median family income.

Note: “Cost-burdened” households spend between 30–49 percent of their income on rent and “severely cost-burdened” households spend over 50 percent of their income on rent.

Sources: Consolidated Planning/CHAS Data; 2011–2015 American Community Survey, 5-year estimates, huduser.gov

families nationwide spend between 30 and 49 percent and more than 50 percent of their income on rent respectively.

The city of Durham, Duke University, SunTrust Bank and NC Community Development Initiative will create a \$10 million loan fund in the summer of 2019. This fund will support below market rate loans to preserve and create additional affordable housing units. Additionally, voters in the city of Durham will vote on the creation of a \$95 million affordable housing bond in November 2019. If passed, the bond would create 1,800 new, affordable units and preserve an additional 800 affordable units.

## Forecast

During the 3-year forecast period, demand is estimated for 5,125 apartments in the HMA (Table 9). Demand is expected to be evenly distributed among each year of the forecast period. The 2,400 units currently under construction will fulfill all expected demand during the first year of the forecast period.

**Table 9. Demand for New Rental Units in the Durham-Chapel Hill HMA During the Forecast Period**

Rental Units	
Demand	5,125 Units
Under Construction	2,400 Units

Note: The forecast period is July 1, 2019, to July 1, 2022.

Source: Estimates by the analyst



# Terminology Definitions and Notes

## A. Definitions

<b>Demand</b>	The demand estimates in the analysis are not a forecast of building activity. They are the estimates of the total housing production needed to achieve a balanced market at the end of the 3-year forecast period given conditions on the as-of date of the analysis, growth, losses, and excess vacancies. The estimates do not account for units currently under construction or units in the development pipeline.
<b>Other Vacant Units</b>	In this analysis conducted by the U.S. Department of Housing and Urban Development (HUD), other vacant units include all vacant units that are not available for sale or for rent. The term therefore includes units rented or sold but not occupied; held for seasonal, recreational, or occasional use; used by migrant workers; and the category specified as “other” vacant by the U.S. Census Bureau.
<b>Building Permits</b>	Building permits do not necessarily reflect all residential building activity that occurs in an HMA. Some units are constructed or created without a building permit or are issued a different type of building permit. For example, some units classified as commercial structures are not reflected in the residential building permits. As a result, the analyst, through diligent fieldwork, makes an estimate of this additional construction activity. Some of these estimates are included in the discussions of single-family and multifamily building permits.
<b>Distressed Sales</b>	Short sales and real estate owned (REO) sales.
<b>Seriously Delinquent Mortgages</b>	Mortgages 90+ days delinquent or in foreclosure.

<b>Home Sales/ Home Sales Prices</b>	Includes single-family home, townhome, and condominium sales.
<b>Rental Market/ Rental Vacancy Rate</b>	Includes apartments and other rental units such as single-family homes, multifamily homes, and mobile homes.
<b>Forecast Period</b>	6/1/2019–6/1/2022—Estimates by the analyst
<b>Cost Burdened</b>	Spending more than 30 percent of household income on housing costs.
<b>Regular Resales</b>	Existing home sales excluding distressed sales.

**B. Notes on Geography**

<b>1.</b>	The (metropolitan statistical area) definition noted in this report is based on the delineations established by the Office of Management and Budget (OMB) in the OMB Bulletin dated February 28, 2013.
<b>2.</b>	Urbanized areas are defined using the U.S. Census Bureau’s 2010 Census Urban and Rural Classification and the Urban Area Criteria.
<b>3.</b>	The census tracts referenced in this report are from the 2010 Census.



**C. Additional Notes**

1.	The NAHB Housing Opportunity Index represents the share of homes sold in the HMA that would have been affordable to a family earning the local median income, based on standard mortgage underwriting criteria.
2.	This analysis has been prepared for the assistance and guidance of HUD in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.
3.	The factual framework for this analysis follows the guidelines and methods developed by the Economic and Market Analysis Division within HUD. The analysis and findings are as thorough and current as possible based on information available on the as-of date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD expresses its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.
Cover Photo	iStock

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