



Town of Chapel Hill

Market Impact of Proposed Duplex Ordinance in R1, R2, & R3

May 24th, 2023



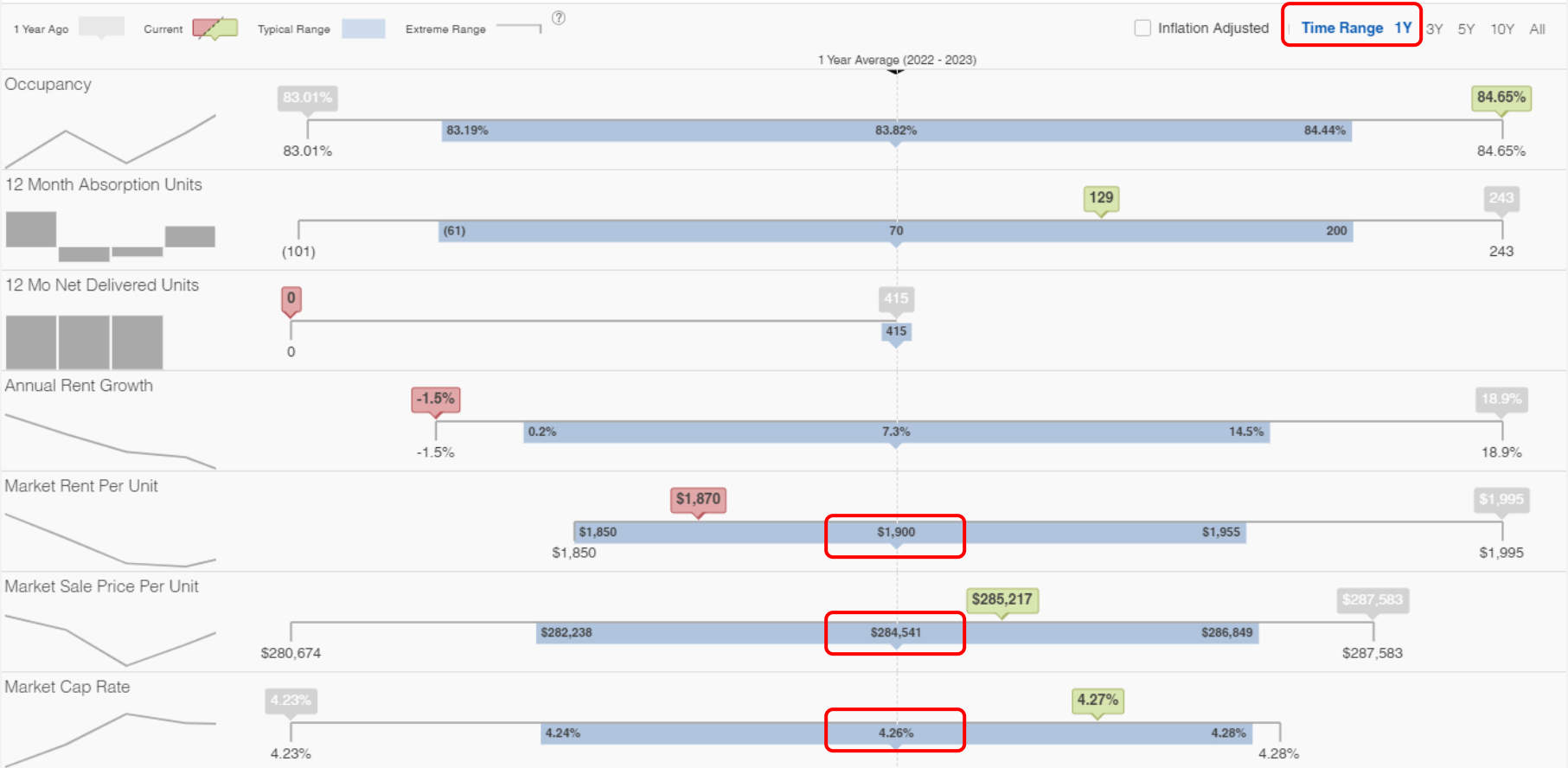
EXECUTIVE SUMMARY

- **By examining current metrics in the Chapel Hill Class A multifamily market, along with an existing analog of Class A duplexes (The Townhomes at Chapel Watch Village), we were able to build a back of the envelope proforma for a new construction duplex. Metrics included: unit size, unit rent, operating expenses, and exit sales cap rate.**
- **Cost inputs for the proforma were provided from local builder/developers of this product type, and include soft costs, hard costs, and return on cost margins.**
- **We asked the local builder/developers for target land prices as a % of total development costs for this product, but also ran the proforma to solve for supportable land costs given the local market metrics.**



CURRENT RENTAL MARKET

Key Performance Indicators



SOURCE: Costar for Class A market rate MF properties within Town of Chapel Hill



CURRENT TOWNHOME RENTAL IN MARKET EXAMPLE



- **120-unit townhome community built in 2011**
- **Fully amenitized with pool, clubhouse, fitness center, playground, etc.**
- **All two and three bedrooms**
- **Most with 1-2 car garages**
- **Average rent \$2,426 on 1,475 SF**



SOURCE: Costar & Northwood Ravin



NEW CONSTRUCTION RENTAL DUPLEX FINANCIAL MODEL

- \$60,000 average site, permit, impact, landscaping/hardscaping costs
- \$175-200 per SF average vertical construction costs
- \$90,000 average soft costs – design, engineering, legal, finance costs, contingency, etc.
- Land typically 10-15% of total development budget

Unit Size	1,475		
Rent per Unit	\$2,600		
\$/SF	\$1.76		
Units on Site	2		
Total Gross Monthly Rent	\$5,200		
% Operating Expenses	30%		
Annual Net Operating Income (NOI)	\$43,680		
CAP Rate	4.25%		
Value	\$1,027,765		
Margin	5.75%		
Supportable Dev. Budget	\$759,652		
Est. Hard Costs	\$175	\$516,250	78%
Est. Site Costs	\$20	\$59,000	9%
Est. Soft Costs	\$30	\$88,500	13%
		\$663,750	
Remaining for Land		\$95,902	13%

SOURCE: NCG and local Chapel Hill builder/developer interviews

NEW CONSTRUCTION DUPLEX IMPACT ON EXISTING SINGLE-FAMILY

- Can only support land costs of \$90-100,000
 - Will not result in tear-downs
 - Will not drive home prices up
- New construction duplexes at current market rents have a value of \$513,000
 - Median sales price in Chapel Hill last month = \$515,000
- Professional leasing & management will require 2.5-3.0 times rent in household income to qualify
 - $\$2,600 * 2.5 * 12 \text{ months} = \$78,000$ minimum annual household income
 - Median Chapel Hill household income in 2021: \$77,037
- On average the value and demographic of the duplex/renter is equal to the for-sale homes/homeowner therefore we anticipate no value drop to neighboring single-family homes in most locations
 - If duplexes were built adjacent to homes with an existing value of significantly above \$515,000, and the design/quality was noticeably inferior, some value loss may occur, but we believe it would be very minimal

SOURCE: NCG, US Census, Redfin

WILL NEW DUPLEXES INCREASE STUDENT RENTERS?

- Based on the current market metrics we believe new duplex units would rent for \$2,600+
- This rent would also need to substantially increase if the land costs were higher than the \$90-100,000 target previously mentioned.
 - A \$200,000 lot (more typical in Chapel Hill) would require duplexes to rent for \$3,000+
- Majority of these units would be three bedrooms and thus demand \$1,000/month per bedroom if student roommates.
- New student housing developments in the market, such as Union Chapel Hill, average \$1,300 - 1,700/bedroom which included utilities and furniture.