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Policy Development & Research

Analysis of the Asheville, North Carolina Housing Market

As of September 1, 2003



ECONOMIC RESEARCH

U.S. Department of Housing and Urban Development

Foreword

This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may be useful also to builders, mortgagees, and others concerned with local housing conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any particular mortgage insurance proposals that may be under consideration in a particular locality or the housing market area.

The factual framework for this analysis follows the guidelines developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based upon information available on the "as-of" date from both local and national sources. As such, any findings or conclusions may be modified by subsequent developments. HUD wishes to express its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

This analysis takes into consideration changes in the economic, demographic, and housing inventory characteristics of the market area during three periods: from 1990 to 2000, from 2000 to the as-of date of the analysis (Current date), and from the Current date to a Forecast date. The analysis presents counts and estimates of employment, population, households, and housing inventory as of the 1990 Census, 2000 Census, Current date, and Forecast date. For the purposes of this analysis the forecast period is 24 months.

The prospective demand expressed in the analysis should not be construed as a forecast of building activity; rather, it presents the prospective housing production that would maintain a reasonable balance in demand-supply relationship given the market's condition on the as-of date of the analysis. This analysis was prepared by Tammy Fayed, the Division's Field Economist in the Atlanta Regional Office, based on fieldwork conducted in September 2003. Questions regarding the findings and conclusions of the analysis may be addressed to Ms. Fayed at 404-331-5001, ext. 2475, and at Tammy_Fayed@hud.gov.

Housing Market Area

For the purposes of this study, the Asheville, North Carolina Housing Market Area (HMA) is defined as Buncombe and Madison Counties. The HMA is located in the western mountains of North Carolina and lies approximately 120 miles northwest of Charlotte, North Carolina and approximately 30 miles from the Tennessee border.

Summary

The HMA is a major tourist and recreation destination, making hospitality one the largest components of the local economic base. One major attraction in the area is the Biltmore Estate, a 19th-century estate and resort, which draws more than 900,000 visitors annually and currently employs more than 1,000 people. In addition, the area consistently ranks among the top retirement destinations in the nation.

Population in the Asheville HMA increased steadily throughout the 1990s. Increases in retired people in the area have contributed to the HMA's growth during the past decade, and the trend is expected to continue. Although population growth has slowed since 2000, annual population growth in Asheville during the 2-year forecast period is expected to increase above current levels. As a result of higher population growth during the forecast period, annual household formation in the HMA will approximate growth during the 1990s.

At the time of this study, both the sales and rental markets in the metropolitan area were experiencing balanced market conditions, which are expected to continue during the forecast period. Currently the overall vacancy rate in rental housing is estimated at 7 percent. Assuming construction continues at a pace similar to past trends, the overall vacancy rate is expected to remain stable during the forecast period.

During the 2-year forecast period, 2,350 additional owner and 950 additional renter households are expected to be formed. Given the current rates of construction, potential demolitions, a shift in tenure from renter to owner status, and other factors, 2,200 additional sales units and 870 additional rental units will be required in the HMA by 2005.

Economy of the Area

In 2003 the largest employer in the area was Mission St. Joseph's Health System, which employs 5,100 people, approximately 4.3 percent of the local civilian workforce. Other top employers in the area include Buncombe County Board of Education with 3,600 employees, Ingles Markets with 2,100, Buncombe County government with 1,700, and Blue Ridge Paper Products, Inc. with 1,600.

The unemployment rate for Asheville averaged 3.9 percent during the 12 months preceding the Current date, far below North Carolina's average of 6.4 percent. Table 1 presents the trends in annual average labor force, employment, and unemployment from

1992 through the most recent 12 months. Historically, Asheville has enjoyed one of the lowest unemployment rates in North Carolina. In 1992, the unemployment rate in Asheville peaked at an average annual rate of 5.4 percent. From 1994 to 2001, the unemployment rate remained below 4.0 percent, reaching a low of 2.3 percent in 1999. As a result of the recession, the unemployment rate increased slightly to 4.4 percent in 2002.

The economy of the Asheville HMA began the 1990s with a sluggish performance but recovered quickly and recorded slow but steady growth throughout the mid- and late 1990s. The economy continued to expand until 2001 when the national economy experienced a recession and local nonfarm employment declined. From 1990 to 1999, nonfarm employment grew from 91,300 to 111,400, an average increase of more than 2,200 jobs, or 2.4 percent, each year. Between 2000 and 2002, employment declined an average of 700 jobs, or 0.6 percent. Recently, however, job losses have slowed. Nonfarm employment declined 0.5 percent to 111,200 for the 12 months ending August 2003, compared with a decline of 1.1 percent for the 12 months ending August 2002. The local tourism industry appears to have stabilized, with employment levels below those recorded in 2000. Despite recent losses, nonfarm employment is expected to improve with the national economy. During the forecast period, employment is expected to increase by approximately by 1,600 jobs each year, or 1.4 percent during the 2-year forecast period. Table 2 presents the trend in annual average nonfarm employment by industry sector from 1992 through the most recent 12 months.

Many job losses since the 2001 recession are due to a decline in manufacturing employment. Manufacturing employment began to decline after 1993. From 1990 to 1999, manufacturing employment declined an average of more than 310 jobs, or 1.5 percent annually. Between 2000 and 2002, the rate of decline accelerated to more than 1,000 jobs, or 6.1 percent annually. In 1990 manufacturing represented 23 percent of nonfarm employment, but by 2000 that number had fallen to 15 percent. In 2002 manufacturing accounted for only 13 percent of nonfarm employment. Because most manufacturing job losses were permanent layoffs or business closures, the relative importance of manufacturing is expected to continue to decline during the forecast period and beyond.

Household Incomes

Between 1989 and 1999, the median family income of all families in the HMA increased from \$30,366 to \$44,228, an average increase of 4.6 percent annually. HUD estimates the 2003 median family income in the Asheville metropolitan area to be \$49,600, a 3.0 percent average annual increase over that in 1999.

Population

According to the 1990 census, the population for the Asheville HMA was 191,774. By 2000 the population had increased to 225,965, an average annual increase of 3,419 people, with 91 percent living in Buncombe County. As of the date of this study, the

HMA had an estimated population of 235,700. The population is expected to reach 241,800 by the Forecast date of September 2005, or an average annual increase of 1.3 percent. Continued improvement in the national and local economies will support this growth; however, population growth is not expected to return to 1990s levels during the forecast period. Table 3 presents the trend in population changes in the HMA from 1990 to the Current date.

Since the 1990 Census, population growth in the HMA has been primarily concentrated in Buncombe County. The population of the county, which includes the city of Asheville, increased steadily throughout the 1990s. From 1990 to 2000, the county's population increased from 174,821 to 206,330, an increase of 3,151 people, or 1.8 percent annually. Madison County remains primarily a rural county with a relatively small population. Between 1990 and 2000, the population in Madison County increased from 16,953 to 19,635, an average annual increase of 268 people, or 1.6 percent.

Between 1990 and 2000, the median age of the population in the HMA increased from 36.7 to 38.9 years. The change in the median age of the local population was due to the popularity of Asheville as a retirement location. Between 1990 and 2000, the number of people aged 75 or older in the HMA more than doubled. In 1990, 8,016 people were aged 75 or older, but by 2000 the population aged 75 or older increased to 16,882, an average increase of 11.1 percent annually, compared with an annual increase of 3.5 percent for North Carolina as a whole. Growth of the elderly population is expected to continue as Asheville continues to become a prime retirement area.

Net natural increase (resident births minus resident deaths) for the HMA averaged 335 people each year between 1990 and 2000. According to data obtained from the North Carolina State Center for Health Statistics, net natural increase has fluctuated over the past 12 years, between a low of 182 in 1996 and a high of 630 in 1990, with a trend of general decline. The absolute decline in annual net natural increase has been the result of a significant increase in the number of deaths, not a decline in births, consistent with an increasingly older population. Net in-migration averaged 3,085 people each year from 1990 to 2000. Since then in-migration has declined slightly because of the recession, but is expected to increase again as the economy recovers.

Because of building-safety concerns, local officials have made an effort since 2000 to reduce the number of substandard housing units in the area. As a result, nonhousehold population increased at a slower pace since 2000 than during the 1990s. Since 2000 several substandard single-occupancy rooms were demolished and the residents relocated to other housing units. This process slowed the net rate of growth of nonhousehold population in the HMA. During the forecast period, nonhousehold population is expected to increase at a higher rate than from 2000 to the Current date but below the rate during the 1990s.

Households

Between 1990 and 2000, the number of households increased from 77,290 to 93,776, an annual average of 1,649 households. Since 2000 the rate of household formation has slowed with job losses and reduced in-migration. As of the Current date, an estimated 99,100 households were in the HMA, for an average annual increase of approximately 1,550.

Housing Inventory

In 1990, 85,618 total housing units were in the HMA. By 2000 that number had increased to 103,695 units, an average annual increase of 1,808 units. The housing stock of 103,695 units included 66,425 owner- and 27,351 renter-occupied units, and 9,919 vacant units. Currently an estimated 109,000 housing units are in the inventory, an average annual increase of 1,550 units since 2000. Trends in housing inventory, tenure of occupancy, and housing vacancy from 1900 to the Current date are shown in Table 4.

Madison County has a much higher rate of homeownership than does Buncombe County. In 2000 the county had 8,000 occupied housing units, with 6,130 owner-occupied units and 1,870 renter-occupied units. Approximately half of the renter households live in single-family homes, compared with 35 percent in Buncombe County. As of the Current date, 78 percent of Madison County's households are owners compared with 71 percent in Buncombe County.

From January 2000 to August 2003, building permits were issued for 4,862 single-family and 2,464 multifamily units in the HMA. Only 10 percent of the single-family permits and none of the multifamily permits were issued in Madison County. According to Asheville officials, however, development along the recently opened Interstate 26 that connects Asheville to the eastern portion of Tennessee is increasing. The improved access from Madison County to employment centers in Asheville is expected to increase residential development in the county. Local officials have predicted a boom in the housing market in the county and a sharp increase in housing prices. Traffic along the interstate is predicted to triple by 2010. Table 5 presents the trend in building permit activity in the HMA since 1992.

Manufactured housing plays an important role in the local housing market, particularly in rural Madison County. As of the 1990 census, 14,672 mobile homes were in the HMA. By 2000 that number had increased to 20,753. Currently, the number of mobile homes is estimated to be approximately 22,850. In 2000, 22 percent of all owner households and 31 percent of all renter households in Madison County occupied mobile homes, compared to 14 and 17 percent, respectively, for Buncombe County. In Buncombe County, the number of mobile homes increased from 12,828 to 18,054 and is currently estimated at 19,850. Between 1990 and 2000, the number of mobile homes in Madison County increased from 1,844 to 2,699 and is currently estimated at 3,000.

Housing Vacancy

The 2000 Census reported a sales vacancy rate of 1.9 percent in the HMA. Because housing construction has kept pace with owner household growth, the sales vacancy rate has remained unchanged. The current overall rental vacancy rate in the HMA is estimated to be 7.1 percent, compared with 8.6 percent as of the 2000 Census. Madison County has historically experienced a higher vacancy rate than the HMA as a whole. The vacancy rate in Madison County is currently estimated at 8.0 percent down from 10.9 as of 2000.

Sales Market Conditions

During the past 5 years the demand for sales housing in the Asheville HMA has increased dramatically. Between 1997 and 2002, the volume of existing home sales in the Asheville area, as reported by the North Carolina Association of REALTORS® Inc., increased from 2,065 to 3,330 units, or at a rapid 12 percent annual rate. Sales figures for the first 8 months of 2003 indicate the rate of increase is accelerating. For this period, sales of existing homes reached 2,610, an 18 percent increase over the 2,203 units sold during the same period in 2002.

The mountainous terrain in the Asheville area limits the supply of buildable land and contributes to higher prices of both sales and rental housing. As a result of the substantial increase in demand for both new and existing homes, primarily due to in-migration of retirees, prices have increased rapidly. Data from North Carolina Association of REALTORS® Inc. indicate the average price of existing homes has increased 7.4 percent annually during the past 5 years. The average sales price for the first 8 months of 2003 was \$190,050, an increase of 4.4 percent over the average sales price during the comparable period of 2002. Local sources indicate increases in prices have been greater in downtown Asheville due high-end residential condominiums in converted commercial properties.

Rental Market Conditions

As of the Current date the rental market in the Asheville HMA was balanced. A recent survey by the local apartment association indicates overall apartment occupancy is approximately 94 percent. Currently overall rental occupancy is estimated at 93 percent. The high levels of multifamily construction during the past 3 years and a slower rate of renter household growth have resulted in more balanced conditions. As of the Current date, approximately 760 rental units are under construction. Given the expected rate of renter household formation, the rental units under construction will be sufficient to meet demand and maintain balanced conditions during the forecast period. Rents in the HMA vary widely depending on location and amenities. On average, rents range from \$400 to \$550 for efficiencies, \$400 to \$650 for one-bedroom units, \$500 to \$800 for two-bedroom units, and \$700 to \$1,000 for three-bedroom units.

Forecast Housing Demand

During the 2-year forecast period ending August 31, 2005, 2,350 additional owner and 950 additional renter households will be added to the Asheville HMA. Taking into consideration current market conditions and the number of units under construction, demand for 2,200 sales units and 870 rental units is expected in the HMA during the forecast period.

Table 6 presents a qualitative estimate of demand for market-rate rental demand for the Asheville HMA for the 2-year forecast period. The distribution of annual demand by bedroom size is expected to be 150 one-bedroom units, 240 two-bedroom units, and 45 three-bedroom units.

Table 1
Labor Force and Total Employment
Asheville HMA
1992 to September 1, 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Previous 12 Mos.	Current 12 Mos.
Labor Force	103,655	104,768	105,277	104,212	108,817	111,204	109,323	109,172	116,612	118,398	117,279	117,923	117,393
Employment	98,053	100,392	101,232	100,343	105,118	108,098	106,406	106,703	113,562	114,051	112,105	112,766	112,769
Unemploy- ment	5,602	4,376	4,045	3,869	3,699	3,106	2,917	2,469	3,050	4,347	5,174	5,157	4,624
Rate (%)	5.4	4.2	3.8	3.7	3.4	2.8	2.7	2.3	2.6	3.7	4.4	4.4	3.9

Source: Employment Security Commission of North Carolina

Table 2
Total Wage and Salary Employment
Asheville HMA
1993 to September 1, 2003

Employment Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Previous 12 Mos.	Current 12 Mos.
Total Nonfarm	93.5	97.6	99.9	101.2	104.2	107.8	110.2	111.4	112.8	112.6	111.4	111.7	111.2
Goods Producing	25.0	25.6	25.7	25.3	25.0	25.1	25.4	24.9	24.4	23.5	22.0	22.2	21.9
Construction and Mining	4.3	4.8	5.4	5.6	5.7	6.0	6.7	7.1	7.2	7.2	7.0	6.9	7.2
Manufacturing	20.6	20.7	20.2	19.7	19.2	19.1	18.7	17.8	17.1	16.3	15.0	15.1	14.7
Durables	12.1	12.9	12.1	12.1	11.9	11.9	11.5	11.1	10.8	10.1	9.2	9.3	9.0
Nondurables	8.4	7.8	8.1	7.5	7.3	7.1	7.1	6.6	6.2	6.2	5.8	5.9	5.7
Service Producing	68.5	71.9	74.2	75.8	79.2	82.6	84.8	86.5	88.4	89.1	89.4	89.7	89.3
Trade, Transport., & Utilities	18.5	19.0	19.8	20.1	20.6	22.1	21.8	21.7	22.5	22.4	21.2	21.6	21.0
Leisure & Hospitality	9.1	10.0	10.2	10.7	10.8	11.6	12.0	12.3	13.6	12.6	12.6	12.9	12.6
Financial Activities	2.8	3.2	3.3	3.2	3.3	3.5	3.8	3.8	3.7	3.5	3.3	3.4	3.0
Professional & Bus. Services	6.5	7.2	7.3	7.1	8.6	8.5	8.9	9.4	8.5	8.8	9.4	9.2	9.6
Educational & Health Services	12.7	13.4	13.5	14.4	15.0	15.8	16.5	16.9	17.2	18.3	19.0	18.8	19.4
Other Services	3.1	3.0	3.8	4.0	4.1	3.9	4.2	4.5	4.7	5.7	6.1	6.0	6.1
Government	14.0	14.3	14.5	14.5	15.0	15.4	15.8	15.6	15.7	15.8	16.1	16.0	16.1

Notes: Figures in thousands.
 Numbers may not add to totals due to rounding.
 Data is classified according to the North American Industry Classification System.
 Source: U.S. Department of Labor, Bureau of Labor Statistics

Table 3
Population and Household Trends
Asheville HMA
April 1, 1990 to September 1, 2005

	April 1, 1990	April 1, 2000	Current Date	Forecast Date	Average Annual Change					
					1990 to 2000		2000 to Current		Current to Forecast	
					Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Population										
Asheville HMA	191,774	225,965	235,700	241,800	3,419	1.8	2,850	1.3	3,050	1.3
Buncombe County	174,821	206,330	215,300	221,000	3,151	1.8	2,625	1.3	2,850	1.3
Madison County	16,953	19,635	20,400	20,850	268	1.6	220	1.1	230	1.1
Households										
Asheville HMA	77,290	93,776	99,100	102,400	1,649	2.1	1,550	1.7	1,650	1.7
Buncombe County	70,802	85,776	90,700	93,700	1,497	2.1	1,450	1.7	1,500	1.7
Madison County	6,488	8,000	8,350	8,650	151	2.3	100	1.3	150	1.8

Note: Numbers may not add to totals due to rounding.
Sources: U.S. Census Bureau, 1990 and 2000 Censuses
Current and Forecast: Estimates by analyst

Table 4
Housing Inventory Tenure and Vacancy
Asheville HMA
1990 to September 1, 2003

	Asheville HMA			Buncombe County Submarket Area			Madison County Submarket Area		
	1990	2000	Current	1990	2000	Current	1990	2000	Current
Total Housing Inventory	85,618	103,695	109,000	77,951	93,973	98,900	7,667	9,722	10,050
Occupied Units	77,290	93,776	99,100	70,802	85,776	90,700	6,488	8,000	8,350
Owners	54,839	66,425	70,400	49,789	60,295	63,900	5,050	6,130	6,500
%	71.0	70.8	71.0	70.3	70.3	70.5	77.8	76.6	77.8
Renters	22,451	27,351	28,700	21,013	25,481	26,800	1,438	1,870	1,850
%	29.0	29.2	29.0	29.7	29.7	29.5	22.2	23.4	22.2
Vacant Units	8,328	9,919	9,925	7,149	8,197	8,200	1,179	1,722	1,725
Available Units	3,306	3,849	3,550	3,056	3,506	3,250	250	343	300
For Sale	872	1,263	1,375	798	1,130	1,225	74	133	140
Rate (%)	1.6	1.9	1.9	1.6	1.8	1.9	1.4	2.1	2.1
For Rent	2,434	2,586	2,175	2,258	2,376	2,025	176	210	160
Rate (%)	9.8	8.6	7.1	9.7	8.5	7.0	10.9	10.1	8.0
Other Vacant	5,022	6,070	6,375	4,093	4,691	4,925	929	1,379	1,425

Note: Numbers may not add to totals due to rounding.
Sources: U.S. Census Bureau, 1990 and 2000 Censuses
Current and Forecast: Estimates by analyst

Table 5
Residential Building Permit Activity
Asheville HMA
1992 to September 1, 2003

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Jan-Aug 2003*
Asheville HMA												
Total	1,344	1,119	1,260	1,092	1,604	1,482	1,537	1,371	1,470	2,285	2,364	1,207
Single-family	977	1,030	911	852	1,007	1,102	1,242	1,161	1,134	1,276	1,449	1,003
Multifamily	367	89	349	240	597	380	295	210	336	1,009	915	204
Buncombe County Submarket Area												
Total	1,280	1,023	1,188	1,014	1,479	1,346	1,405	1,245	1,327	2,151	2,245	1,108
Single-family	913	934	839	774	882	966	1,110	1,035	991	1,142	1,330	904
Multifamily	367	89	349	240	597	380	295	210	336	1,009	915	204
Madison County Submarket Area												
Total	64	96	72	78	125	136	132	126	143	134	119	99
Single-family	64	96	72	78	125	136	132	126	143	134	119	99
Multifamily	0	0	0	0	0	0	0	0	0	0	0	0

* Permits issued through March 31, 2003.

Source: U.S. Census Bureau, C-40 Construction Series

Table 6
Estimated Qualitative Annual Demand for New Market-Rate Rental Housing
Asheville HMA
September 1, 2003 to September 1, 2005

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
400	150	500	240	700	45
500	120	600	180	800	30
600	90	700	130	900	25
700	55	800	80	1,000	20
800	45	900	60	1,100	15
900	35	1,000	50	1,200	15
1,000	25	1,100	35	1,300	0
1,100	20	1,200	30	1,400	0
1,200	15	1,300	0	1,500	0
1,300	0	1,400	0	1,600	0
1,400	0	1,500	0	1,700	0

Notes: Distribution above is noncumulative.
Demand of fewer than 10 units is shown as 0.
Numbers have been rounded for comparison.

Source: Estimates by analyst