

**Vision 2010:
The Future of the North Carolina
Real Estate Industry**

Prepared for:

North Carolina Association of Realtors
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1. Introduction

This Vision 2010 report provides NCAR member Realtors[®] and other industry stakeholders with perspectives on the long-term future of the North Carolina real estate industry which, in turn, can be used as the basis for developing meaningful short- and long-term objectives and strategies. Specifically, the objectives of NCAR's Vision 2010 project are to:

- Forecast forces that will shape opportunities and challenges for the North Carolina real estate industry from 2005 to 2010.
- Identify implications for the development of NCAR member Realtors[®] objectives and strategies that are aligned with or responsive to the forces of anticipated future industry change.

The following implementation steps were used to produce a variety of perspectives to address the Vision 2010 objectives. These steps included:

- An extensive review of information and reports published by governmental agencies, universities, NAR, and other organized real estate entities was conducted to identify baseline trends that are applicable to North Carolina.
- The NCAR Strategic Planning Committee, at its February 2005 meeting, discussed initial project results and added important new insights and perspectives.
- In-depth interviews were conducted in July 2005 with industry thought leaders to produce additional perspectives on the future of the North Carolina real estate industry.

Section 2 of this Vision 2010 report identifies a series of Mega-Trend Issues that will affect the North Carolina real estate industry. Section 3 presents A Future Scenario to summarize major findings and conclusions given in Section 1. Implications for Realtor[®] Strategy Development Guidelines are given in Section 4. Selected Background Materials are given in Section 5.

2. Mega-Trend Issues

A series of mega-trend level issues will both influence and provide a context for identifying and understanding the forces of short- and long-term change in the North Carolina real estate industry. These issues are organized into the following categories:

- 2.1 Economic Factors
- 2.2 Public Policymaking
- 2.3 Demographic and Population Trends
- 2.4 Brokerage Business Models
- 2.5 Information and Communication Technologies

"In a world of surprises, what can we count on? There are many things we can rely on, but three of them are most critical to keep in mind in any turbulent environment.

- First – There will be more surprises.
- Second – We will be able to deal with them.
- Third – We can anticipate many of them.

In fact, we can make some pretty good assumptions about how most of them will play out.”

*Peter Schwartz, **Inevitable Surprises***

- 2.1 **Economic Factors** provide a framework for and a driver of the real estate industry in North Carolina over the next 5 years.

2.1.1 The nature and strength of the North Carolina economy over the short- and long-term will be driven by five major elements:

- Global economic forces, including facets like investment capital flows, low cost producer status countries, population immigration, trading block growth, international trade policies, etc., have the potential to accelerate or diminish growth because the economy of North Carolina must be placed in a global environment.
- Federal government economic and other policies, including facets like monetary, fiscal, environmental, trade, tax, base closing policies, etc., provide a policy umbrella that both influences state and local government

policymaking and the fundamentals of economic growth and the character of the North Carolina real estate industry.

- State and local governmental policies, including facets like smart growth, environmental, transportation, fees and taxes, etc., will directly affect real estate industry growth potential over the next 5 years.
- Demographic and population growth trends, including facets like relocations to North Carolina, household formation and size, boomers and other segments, income, etc., will create positive economic growth potential in North Carolina.
- Private sector initiatives, including facets like entrepreneurialism, job creation strategies, availability of financing, availability and cost of human resources, etc., will capitalize on industry, and marketplace opportunities to produce innovation needed for sustained economic growth in North Carolina.

2.1.2 On the balance, the forecasted 5-year economic environment in North Carolina is likely to be positive with growth rates slightly under or equal to nationwide estimates of 3.2%.

- Unforeseen disruptions, related to terrorism or other international or domestic factors, can easily impact North Carolina economic growth estimates.
- Positive economic growth in North Carolina should fuel a strong real estate development and sales market for new and existing properties in many real estate markets throughout the state.
- Traditional textile, furniture production, and other manufacturing industries will continue to move off-shore and a service and technology based economy will dominate the North Carolina landscape in the future.
- Pro-growth policies and economic development efforts by the State government are important catalysts for sustained and above average growth.

2.1.3 The North Carolina housing market, both new and existing, will remain vibrant and strong in terms of its economic fundamentals.

- It is likely that interest rates will increase over the next 5 years but will not attain levels that choke demand or reduce affordability in an appreciable manner.
- Housing affordability, as a function of price, interest rate levels, and financing options, will be the key variable affecting overall demand for new and existing properties.

- Strong existing and new home sales produces a multiplier effect that will stimulate other forms of economic growth, increasing demand for home and household related goods and services, in North Carolina.
- If increases in housing prices stagnate or the so-called “real estate bubble” bursts, some consumers will look at the stock market or other vehicles as desirable investment opportunities.
- Population growth and immigration, household income estimates, and intergenerational wealth transfers will also contribute to strong housing demand in North Carolina.

2.1.4 A positive business environment in North Carolina is critical if strong economic growth, increased job creation, and sustained population growth is to continue over the next 5 years.

- Tax and spending policies at State and local levels must be balanced and progressive if North Carolina is to remain a highly desirable destination for business and resulting economic expansion and job creation.
- The State’s education system, at all levels, must continue to produce adequate numbers of workers with contemporary skill sets needed for a technology and service based economy.
- Basic infrastructure components like transportation systems, access to water and energy, etc. must be put in-place to attract new and sustain current business expansion.

2.2 **Public Policymaking** creates both opportunities and challenges that affect all facets of the real estate industry in North Carolina.

2.2.1 Policymaking at international and Federal government levels will, in turn, affect policy and policy outcomes in North Carolina.

- The Federal government can develop and implement legislation policies or regulations that pre-empt North Carolina policymaking processes and policies in key areas.
- Trade policies, currency evaluations, subsidies of foreign governments, etc. impact competitiveness of U.S. and North Carolina economic sectors and, at times, produce countermeasure policies.

2.2.2 Some key or pivotal North Carolina public policy issues directly affecting the real estate industry and REALTORS include:

- Policies enabling non-traditional competitors, like banks, insurance companies, mortgage companies, etc., to enter the real estate brokerage and sales industry.

- Tax or fee imposition on transactions, development, and construction, including impact fees, transfer taxes, and service taxes.
- “Smart growth” planning initiatives affecting development and density.
- Disclosure and liability regulations and related compliance requirements and costs.
- Local government tax assessment approaches with resulting impacts on affordability and market demand.
- Changes in pre- and post-licensure education requirements.
- Potential changes in specific types of legislation like the Tenant Security Act or regulations in areas like environmental protection.
- Property insurance regulations that either impede or facilitate housing development, costs, and sales.
- Anti-spamming policies that restrict telephone, fax, or email solicitation by Realtors[®].

2.3 **Demographic and Population Trends** are critical drivers of the residential real estate marketplace.

2.3.1 Personal and household economic characteristics are important real estate related elements of North Carolina demographics and population growth.

- Earned and unearned income, consumer debt, and savings rates contribute to population-wide and segment-specific housing demand levels in North Carolina.
- Equity in current housing, other liquid and fixed assets, and intergenerational wealth transfers also contribute to housing demand.
- Financial obligations, over the classic “family life cycle” from single adulthood through retirement and survivorship, contribute to short- and long-term housing demand levels.
- Multiple wage earners in a majority of North Carolina households shape housing preferences and contribute to housing demand.

2.3.2 North Carolina population dynamics reflect a highly segmented demographic pattern that will influence housing demand and the real estate marketplace.

- Overall population migration patterns from snow and frost belts to North Carolina and other sunbelt states will continue.
- Increasing ethnic diversity in the North Carolina population and in home ownership will accelerate.

- Initial home ownership will continue to occur at younger ages.
- Boomers, generations X and Y, twixters, single parent households, etc., all have unique housing needs, requirements, and
- A growing senior population is forecast and this cohort group will have expanded assisted living or elder-care needs.
- The second home and resort location market will grow in North Carolina.
- Population migration patterns from metro to rural areas will continue as some consumers seek employment in high-cost, urban areas but accept commuting consequences of owning housing in low-cost, rural areas.

2.3.3 Consumers in the North Carolina real estate market have changing expectations for housing attributes and real estate transaction processes.

- Escalating Internet use by consumers is occurring and driving needs for “smart houses” and highly efficient and electronically focused real estate transaction processes.
- Many consumers, as a function of age, Internet usage, and education levels, desire fast and complete housing and transaction information.
- Many real estate consumers will place a premium value on convenient, competent, and fast real estate services provided in a one-stop shopping model.
- FSBO and FRBO strategies, some of which will employ listing only or limited function realtor involvement, will be attempted and successfully executed by sellers and buyers in some segments.
- Tomorrow’s real estate consumer will exhibit attitudes and preferences and behaviors that gain control of the transaction process.

2.3.4 Consumers will assume responsibility for some aspects of the real estate transaction through their Internet focused lives, but will pay for competent and professional REALTOR services that:

- Offer a “high tech” and “high touch” relationship with their REALTOR.
- Bring efficiency, convenience, and time savings to the transaction process.
- Provide one-stop shopping availability to integrate the transaction with mortgage title, insurance and other services.
- Are highly cost-effective in nature whether priced by commission, fees, or consultative sales approaches.

2.4 **Brokerage Business Models** will change in response to marketplace needs and opportunities, accelerating competitive pressures, and desires for greater profitability.

2.4.1 The structure of residential real estate firms in North Carolina will change.

- Banks, insurance companies, etc. will continue their aggressive attempts to gain access to the North Carolina real estate industry.
- Current large franchise firms will consolidate into mega-companies to better serve and penetrate regional and national.
- Some boutique or specialized niche companies will retain their unique identities and operate successfully.
- Larger “traditional” independent real estate companies will consolidate to gain scale needed to compete effectively and to achieve profitability.
- Limited service or discount brokers, virtual office websites, service menus, listing agencies, etc. represent some new broker models that could gain marketplace acceptance.
- Some firms will position themselves as “real estate solutions providers” or “real estate ownership service companies” in response to consumer needs and decreasing profitability.

2.4.2 REALTORS who are affiliated with traditional or non-traditional real estate firms will experience significant career changes that are both opportunistic and challenging.

- More REALTORS will continue to work with large regional or national companies than all other brokerage companies.
- Second and third career entrants will continue to dominate the REALTOR population though more younger persons will be attracted to real estate sales careers.
- Brokers will have access to a large but shrinking pool of REALTORS though many will be inexperienced and unproven in the marketplace.
- Through applications of technology, use of terms, and their affiliation with strong firms, REALTORS can gain increased productivity which will produce an “80/20” rule.
- REALTORS will become much more diversified in their ethnicity and more closely reflect the changing population demographics found in North Carolina.
- Many highly productive and mature REALTORS will begin to retire and take their mentoring and institutional memory capabilities with them.

- REALTORS compensation will change from a prototype commission structure to salary plus commission, professional fees, or other approaches.
- REALTOR education standards will increase due to governmental policies and marketplace demands.

2.5 **Information and Communication Technologies** will continue to be a major driver in the real estate marketplace, the transition process, and REALTOR-consumer interaction.

2.5.1 The fundamental realities of technology applications are clearly in-place and a digital future is certain.

- Broadband access, through public and private sector initiatives, will fully penetrate all metropolitan and rural areas in North Carolina.
- Tomorrow’s real estate buyers and sellers will be “digital natives” and not “digital immigrants.”
- Technology will continue to migrate toward the center of real estate marketing, sales, and transaction processes.
- The continued existence of traditional MLS services will be challenged since technology will create opportunities for “private,” mega, and other on-line and accessible forms of listing and sales information.
- Successful REALTORS must be proficient in those data management and communication technologies that enhance productivity, client satisfaction, and the overall performance of all real estate marketing and transaction processes.

2.5.2 Technology savvy consumers, maturation of the Internet, changes in the MLS, and the evolution of new information sources will:

- Impact the broker business model and broker-agent relationships as VOWs, limited service, and other strategies are implemented.
- Enable brokers and agents to create brand identifies in broad service areas.
- Reinforce broker and agent strategies to integrate or link the provision of ancillary with traditional transaction services.
- Spawn the need to ensure that appropriate firewalls and privacy policies are in-place.

3. A Future Scenario

The strategic environment of the North Carolina real estate industry in 2010 will be defined by opportunities and challenges in the following scenario. These are the factors that Realtor objectives and strategies must be aligned with and responsive to if success is to be achieved and sustained.

"The scenario analysis technique is not a forecasting tool but a means of describing one or more alternative futures. With a scenario or picture of the future, dynamics and insights that provide future possibilities for competitive position and strategy can be understood by decision-makers."

Franz Tessun, Scenario Analysis and Early Warning Systems at Daimler-Benz Aerospace

- The North Carolina economy over the next five years will grow at rates that parallel the U.S. economy as a whole.
- The shape, character, and size of the North Carolina economy will be increasingly influenced by global economic, political, and social forces.
- The economic base of North Carolina will move from a manufacturing-centered economy to one focused on services and technology.
- The residential and commercial real estate industry – in terms of construction and sales of existing and new properties – will grow and remain strong.
- Some interest rate increases will occur but not of a magnitude to dampen real estate market demand in an appreciable manner.
- Mortgage interest will continue to be deductible because most policymakers recognize the value of home ownership.
- North Carolina will continue to experience increases in population and accelerating population diversity in terms of factors like ethnicity and age.
- Broadband access through public and private sector initiatives, will fully penetrate all metropolitan and rural areas in North Carolina.
- The technology revolution will continue and dramatically effect the behaviors of buyers and sellers, their expectations for Realtor service and competency, the transaction process, and other Realtor skill set requirements.

- Governments, at all levels, will be under pressure to generate increased revenues and the real estate industry can easily be targeted by governmental officials as a major service.
- “Smart growth,” environmental protection, and other strategies will underlie some aspects of North Carolina policymaking and dampen real estate development.
- The MLS might become deregulated by governmental actions or private organizations other than organized real estate will attempt to control and provide real estate information.
- Consumers will demand more competency in the delivery of real estate services at lower rates of Realtor compensation.
- Agent compensation models will change in response to different consumer demands, new broker strategies, accelerating competitive pressure, and the economic value placed on REALTOR® services by the marketplace.
- Banks and other types of new competitors are likely to enter and change the structure of the North Carolina real estate industry.
- A variety of new or alternative real estate business models will be introduced to gain share of an increasing segmented real estate market.
- Dues to industry change, marketplace trends, and other issues affecting Realtors, the structure of organized real estate will be modified to achieve greater effectiveness and efficiency.
- Unforeseen and major disruptions – like natural disasters, devastating terrorist attacks, and public health crises – can dramatically affect the preceding assumptions.

4. Implications for Realtor[®] Strategy Development

The materials and conclusions in this section provide direct input and tools for strategy development and implementation by packaging machinery manufacturers.

"If the rate of change inside a company is less than the rate of change outside, the end is in sight."

—Jack Welch

- 4.1 Realtors will need to monitor the trends and issues presented in report to identify and confirm factors most important to their continuing success.
- Some factors will force Realtors to re-engineer their core business approaches by retaining current marketing-client strategies while upgrading skill sets needed to execute such strategies.
 - Some factors will force Realtors to re-generate their core business approaches by developing and implementing highly innovative marketing-client strategies to succeed in a changing environment.
 - The only constant in the North Carolina real estate industry over the next 5 years will be the constancy of change itself.
 - Ongoing change will likely force Realtors to carefully assess present core business approaches and accept the necessity to change their objectives and strategies.
- 4.2 **Realtor Competence:** Successful REALTORS in 2010 will be defined by the following professional and personal attributes.
- Technology proficient and highly productive in the performance of all functions.
 - Embody high ethical and professional standards in conduct and approach.
 - Competent in the provision of real estate transaction, ancillary services, and broader home ownership functions.
 - Sensitive to the needs, requirements, and expectations of specialized population and consumer groups.
 - Recognize market niche opportunities and establish strong personal brands or images.

- Provide highest levels of customer service and responsiveness.
- Attract and manage a support team of assistants and specialists.
- Flexible and adaptable to changing relationships with brokers and broker innovative business models.
- Knowledgeable about changing economic, industry, market and governmental factors.
- Committed to and involved in real estate associations at local, state, national, and international levels.

5. Selected Background Materials

As indicated in the Introduction, a variety of materials and interview processes were used to develop the trends and issues presented in this report. The following items provide some of the more important statistical information that was used to document key issues and trends. For the most part, the following data items capture longer term information that is specific to North Carolina. At times, however, it was important to also include short-term data at the state and national level. Finally, the reader should not expect that data are not always available to support or document a long-term view of the North Carolina real estate industry because many types of facts and estimates become less credible over a long planning horizon. Fortunately, input from industry thought leaders and the NCAR Strategic Planning produced valuable insights to fill such “gaps.”

"Predictions are hard to make . . . especially when they are about the future."

—Yogi Berra

North Carolina QuickFacts

North Carolina

People QuickFacts	North Carolina	USA
Population, 2003 estimate	8,407,248	290,809,777
Population, percent change, April 1, 2000 to July 1, 2003	4.5%	3.3%
Population, 2000	8,049,313	281,421,906
Population, percent change, 1990 to 2000	21.4%	13.1%
Persons under 5 years old, percent, 2000	6.7%	6.8%
Persons under 18 years old, percent, 2000	24.4%	25.7%
Persons 65 years old and over, percent, 2000	12.0%	12.4%
Female persons, percent, 2000	51.0%	50.9%
White persons, percent, 2000 (a)	72.1%	75.1%
Black or African American persons, percent, 2000 (a)	21.6%	12.3%
American Indian and Alaska Native persons, percent, 2000 (a)	1.2%	0.9%
Asian persons, percent, 2000 (a)	1.4%	3.6%
Native Hawaiian and Other Pacific Islander, percent, 2000 (a)	Z	0.1%
Persons reporting some other race, percent, 2000 (a)	2.3%	5.5%
Persons reporting two or more races, percent, 2000	1.3%	2.4%
White persons, not of Hispanic/Latino origin, percent, 2000	70.2%	69.1%
Persons of Hispanic or Latino origin, percent, 2000 (b)	4.7%	12.5%
Living in same house in 1995 and 2000 ¹ , pct age 5+, 2000	53.0%	54.1%
Foreign born persons, percent, 2000	5.3%	11.1%
Language other than English spoken at home, pct age 5+, 2000	8.0%	17.9%
High school graduates, percent of persons age 25+, 2000	78.1%	80.4%
Bachelor's degree or higher, pct of persons age 25+, 2000	22.5%	24.4%
Persons with a disability, age 5+, 2000	1,540,365	49,746,248
Mean travel time to work (minutes), workers age 16+, 2000	24.0	25.5
Housing units, 2002	3,707,129	119,302,132
Homeownership rate, 2000	69.4%	66.2%
Housing units in multi-unit structures, percent, 2000	16.1%	26.4%
Median value of owner-occupied housing units, 2000	\$108,300	\$119,600
Households, 2000	3,132,013	105,480,101
Persons per household, 2000	2.49	2.59
Median household income, 1999	\$39,184	\$41,994
Per capita money income, 1999	\$20,307	\$21,587
Persons below poverty, percent, 1999	12.3%	12.4%

Business QuickFacts	North Carolina	USA
Private nonfarm establishments with paid employees, 2001	204,075	7,095,302
Private nonfarm employment, 2001	3,431,554	115,061,184
Private nonfarm employment, percent change 2000-2001	1.4%	0.9%
Nonemployer establishments, 2000	462,182	16,529,955
Manufacturers shipments, 1997 (\$1000)	161,900,477	3,842,061,405
Retail sales, 1997 (\$1000)	72,356,763	2,460,886,012
Retail sales per capita, 1997	\$9,740	\$9,190
Minority-owned firms, percent of total, 1997	10.8%	14.6%
Women-owned firms, percent of total, 1997	24.5%	26.0%
Housing units authorized by building permits, 2002	79,824	1,747,678
Federal funds and grants, 2002 (\$1000)	48,179,775	1,901,247,889

Geography QuickFacts	North Carolina	USA
Land area, 2000 (square miles)	48,711	3,537,438
Persons per square mile, 2000	165.2	79.6
FIPS Code	37	

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(a) Includes persons reporting only one race.
(b) Hispanics may be of any race, so also are included in applicable race categories.

FN: Footnote on this item for this area in place of data
NA: Not available
D: Suppressed to avoid disclosure of confidential information
X: Not applicable
S: Suppressed; does not meet publication standards
Z: Value greater than zero but less than half unit of measure shown
F: Fewer than 100 firms

Source U.S. Census Bureau: State and County QuickFacts. Data derived from Population Estimates, 2000 Census of Population and Housing, 1990 Census of Population and Housing, Small Area Income and Poverty Estimates, County Business Patterns, 1997 Economic Census, Minority- and Women-Owned Business, Building Permits, Consolidated Federal Funds Report, 1997 Census of Governments

Last Revised: Tuesday, 01-Feb-2005 15:49:39 EST

Census Bureau Links:

The Changing North Carolina Economy: Forces, Prospects, Issues: Michael L. Walden, Reynolds Distinguished Professor, North Carolina State University.

1. Job Changes by Industry: 1990-2004

<u>Industry</u>	<u>Percent</u>
Agriculture	-17%
Manufacturing	-40
Construction	+29
Services	+34

2. Changes in Employment: 1990-2004

<u>Region</u>	<u>Percent Increase in Employment</u>
Triangle	41%
SE	28
Charlotte	24
East	18
NW	16
West	14
Triad	11

3. State and Local Government Spending in North Carolina as Percent of Gross State Product

- 1992: 11.2%
- 2002: 11.3%
- Gross state product in North Carolina has increased by 75% from 1992 to 2004.
- From 1997 to 2002, increases in gross state product have been driven by the non-manufacturing sector (+225%) much more so than the manufacturing sector (+99%).

2005 Economic Outlook – Modest Improvement for Most: Michael L. Walden, Reynolds Distinguished Professor, North Carolina State University.

1. Perhaps more so than in any other state, economic re-structuring is occurring in North Carolina. Jobs are increasing in the “knowledge” fields like education and health, the professions, finance, and management, while employment is being cut in the furniture factories and textile mills. International competition is certain behind many of the job cuts in traditional manufacturing, but so too is increases in labor productivity. Like agriculture, manufacturing *output* in the state is rising even though employment is falling.
2. This tradeoff for the state has actually been positive. Average wages, even after adjusting for inflation are rising. The state is trading lower paying jobs for higher paying ones.

3. Employment opportunities are greatest in the metropolitan areas of the state plus the tourist and retirement destinations on the coast and in the mountains. Jobs are much harder to find in the remaining rural counties of the state, thereby prompting many individuals to commute long distances for work.
4. Tables 1 below and Tables 2 and 3 on the next two pages provide additional statistical information from Professor Walden.

Table 1. Key U.S. Economic Measures

	2003	2004	2005 Forecast
Real U.S. GDP ^a	3.0%	4.0%	3.5%
Payroll Employ. ^a	0.0%	1.6%	1.5%
Unemploy. Rt. ^b	5.7%	5.4%	5.2%
Industrial Prod. ^a	2.3%	5.2%	3.8%
Real Disposable Personal Income ^a	1.3%	2.7%	2.5%
Hshld Debt Service ^c	-0.21% pts.	-0.14 % pts.	0.1% pts.
Real Consumer Spending ^a	3.3%	4.1%	3.5%
CPI Inflation Rt.	2.3%	3.2%	2.8%
3 Mon. T-bill Rt. ^c	-0.6% pts.	0.9% pts.	1.5% pts.
10 Yr. T-Note Rt. ^c	-0.6% pts.	-0.2% pts.	1.0% pts.
S&P 500 Stock Index	35%	5%	7.5%

^a percentage change, year-end to year-end

^b end of year

^c change in percentage points

Sources: U.S. Dept. of Commerce, Federal Reserve System, author's forecasts

Table 2. Key North Carolina Economic Measures

	2003	2004	2005
Real Personal Income ^a	3.7%	3.6%	3.5%
Real Retail Sales ^a	0.4%	6.4% ^b	4.8%
Payroll Employ. ^a	-0.5%	1.4%	1.5%
Manuf. Employ. ^a	-6.1%	-2.4%	-2.0%
Unemploy. Rt. ^c	6.2%	4.8%	4.5%

^a percentage change, year-end to year-end

^b based on June to June comparison

^c end of year

Sources: U.S. Dept. of Commerce, N.C. Dept. of Revenue, Federal Reserve System,
author's forecasts

Table 3. North Carolina Regional Job Performance and Forecasts

Percentage Change in Employment by Economic Development Region

Region	2004 ^a	2005
Advantage West	-0.4%	1.2%
Charlotte	2.3%	1.8%
East	-0.4%	1.2%
Northeast	-0.2%	1.0%
Southeast	-0.3%	1.7%
Triad	-0.1%	1.3%
Triangle	1.5%	2.1%

^a November 2004 compared to average for 2003

Sources: N.C. Employment Security Commission; author's forecasts

North Carolina State Profile – Summer 2005: Federal Deposit Insurance Corporation (FDIC)

1. North Carolina's modest economic expansion continues with job growth nearly on par with the nation. In first quarter 2005, employment in the state was up 1.6% from a year earlier compared with the national average of 1.7%.
2. Economic performance still varies widely across the state. In first quarter 2005, Wilmington, Winston-Salem, Greenville, and Charlotte had year-ago job growth in excess of 3%. In contrast, weak conditions persist in other areas of the state, such as Hickory and Rocky Mount.
3. A number of factors may affect the economic outlook for North Carolina. Despite years of manufacturing job losses, North Carolina remains among the top ten most industrialized states. In late 2004, the state actually saw a halt in the erosion of manufacturing jobs. Subsequently, however, layoffs have resurfaced and likely will persist in 2005 because of increased textile and apparel import competition from China. Manufacturing job cuts account for nearly 60% of all announced layoffs thus far in 2005.
4. The military directly employs more than 135,000 people in North Carolina, the fourth highest presence in the nation. Although the recent recommendations of the Base Realignment and Closure Commission did not call for the closure of any major facilities, Pope Air Force Base outside of Fayetteville could lose more than 4,000 military and civilian positions.

5. Homebuilding in North Carolina eclipsed its pre-recession high in 2004, as residential permit issuance reached a record level. Through early 2005, however, growth in construction activity may have peaked. The pace of home sales remained near historic highs.
6. Construction and development (C&D) lending grew nearly 37% from a year ago. Subsequently, median C&D loan exposure rose to 11.5% of assets, up from 8.8% a year earlier and pushing the median C&D exposure levels in the state to four times the national level.
7. Despite a recovering economy and growth in home sales, home price appreciation in North Carolina has remained subdued. Home price appreciation in the state is less than half the national average, and gains in some metro areas have struggled to keep pace with inflation.
8. Although price appreciation has lagged, housing affordability could emerge as an issue in North Carolina. Despite the recovery, income growth has failed to keep pace with even modest gains in prices statewide.
9. In 2004, estimated median household income of \$40,862 was 4.2% below the amount needed to finance the purchase of the median priced house in North Carolina. This shortfall may explain why nearly 30% of all securitized mortgage originations in the state were interest-only. The increased use of innovative lending products may suggest that homebuyers are stretching to purchase higher priced homes. Interest-only mortgages may expose homebuyers to greater repayment risk when the interest rate resets or amortization begins.

North Carolina's Population Projections – 1995 to 2025: U.S. Bureau of the Census, Population Division.

1. North Carolina had a population of 7.2 million people in 1995. Among the 50 states and District of Columbia, the state ranked as the 11th most populous. By 2000, it is projected to be the 11th most populous with 7.8 million people. By 2025, it is projected to be the 11th most populous with 9.3 million people.
2. Over the 3 decades, North Carolina's total population is expected to increase 2.2 million people. Among the 50 states and District of Columbia, the state's net gain ranks as the 7th largest. Its rate of population change, at 29.9%, ranks as the 16th largest.
3. North Carolina is expected to gain 199 thousand people through international migration between 1995 and 2025, placing it 18th largest among the net international migration gains among the 50 states and District of Columbia.
4. All states and the District of Columbia are projected to show a decline in the proportion of youth (under 20-years-old) in their populations. The percentage of North Carolina's population classified as youth is projected to decrease from 27.7% in 1995 to 23.2% in 2025.
5. As the Baby Boom generation (those born between 1946 and 1964) reaches retirement age, the growth of the elderly population (65 and over) is expected to accelerate rapidly. The proportion of North Carolina's population classified as elderly is expected to increase from 12.5% in 1995 to 21.4% in 2025.

6. By 2025, non-Hispanic whites would comprise 71% of North Carolina’s population, down from 74.4% in 1995. Non-Hispanic African Americans would comprise 23.8% of the state population in 2025, up from 22.1% in 1995.

7. Total North Carolina Population Projection

<u>7/1/1995</u>	<u>7/1/2000</u>	<u>7/1/2005</u>	<u>7/1/2015</u>	<u>7/1/2025</u>
7,195	7,777	8,227	8,840	9,349

Buildings to Go Up Like Never Before: Brookings Institution Analysis Reported in *USA Today* (12/13/04).

1. Residential and commercial development in next 25 years will mushroom according to the Brookings Institution.

- Nationwide, it is estimated that 50% of homes, office buildings, stores, and factories needed by 2030 do not exist today.
- The U.S. population will increase by 33% (or 94 ML) by 2030 (to 376 ML).
- It is estimated that 60 ML housing units will be needed by 2030 and that 20 ML of these will replace destroyed or aging homes.
- Impacts on sprawl, transportation, and municipal services will be enormous.
- “Downtown” life styles are reviving though 60% to 70% of the economic development of the next 25 years will be on the “outer-edge” of current urbanized areas.

2. The following table shows the current and anticipated future housing stock needed in North Carolina by 2030.

North Carolina			
2000 Housing Units	Units Lost 2000-2030	Units Need 2000-2030	2030 Housing Units
3,523,944 ¹	662,748	2,234,193 ²	5,095,389 ³

¹ 8th largest housing stock in 2000.

² 4th largest housing stock gap between 2000 and 2030.

³ 7th largest housing stock needs in 2030, trailing only CA, TX, FL, NY, IL, PA.

2004-2005 House Price Appreciation: Office of Federal Housing Enterprise Oversight (OFHEO).

Geography	1st Quarter to 1st Quarter	2004-2005	1st Quarter of 2005	Since 1980
United States Average ¹	12.5%	2.2%	50.5%	248.8%
North Carolina ²	6.0	1.8	24.6	194.1

¹ Top five states are: NV, CA, HI, DC, and FL and lowest five states are: TX, IN, OK, OH, AND CO.

² North Carolina rank is 36.

***Top 20 Metropolitan Statistical Areas
and Divisions With
Highest Rates of House Price Appreciation**

Percent Change in House Prices with MSA Rankings

Period Ended March 31, 2005

MSA	National Ranking**	1-Yr.	Qtr.	5-Yr.
Bakersfield, CA	1	33.67	5.52	101.61
Las Vegas-Paradise, NV	2	33.25	2.88	89.06
Reno-Sparks, NV	3	31.78	4.39	85.20
Visalia-Porterville, CA	4	31.60	6.18	77.27
Palm Bay-Melbourne-Titusville, FL	5	31.21	7.72	98.40
Salinas, CA	6	30.94	4.90	117.00
Riverside-San Bernardino-Ontario, CA	7	28.72	3.85	116.38
Stockton, CA	8	27.71	5.39	110.69
Merced, CA	9	27.45	5.77	118.45
Fresno, CA	10	26.89	5.04	111.23
Santa Barbara-Santa Maria-Goleta, CA	11	26.75	3.52	121.77
Yuba City, CA	12	26.04	4.52	121.96
Port St. Lucie-Fort Pierce, FL	13	26.03	5.50	109.35
Sacramento-Arden-Arcade-Roseville, CA	14	25.84	4.10	112.53
West Palm Beach-Boca Raton-Boynton Beach, FL (MSAD)	15	25.82	5.55	102.17
Modesto, CA	16	25.64	4.57	117.67
Los Angeles-Long Beach-Glendale, CA (MSAD)	17	25.55	3.36	105.52
Sarasota-Bradenton-Venice, FL	18	25.48	5.96	89.39
San Diego-Carlsbad-San Marcos, CA	19	25.11	3.13	117.72
Santa Ana-Anaheim-Irvine, CA (MSAD)	20	24.47	2.94	106.97

*For composition of metropolitan statistical areas and divisions see <http://www.census.gov/population/estimates/metro-city/0312msa.txt> or see OFHEO HPI FAQ #8 for more information.

**Note: Rankings based on annual percentage change, for all MSAs containing at least 15,000 transactions over the last 10 years.

furniture area

***Bottom 20 Metropolitan Statistical Areas and Divisions With Lowest Rates of House Price Appreciation**

Percent Change in House Prices with MSA Rankings

Period Ended March 31, 2005

MSA	National Ranking**	1-Yr.	Qtr.	5-Yr.
Bloomington-Normal, IL	246	3.35	-0.78	17.92
Greensboro-High Point, NC	247	3.32	1.60	18.75
Spartanburg, SC	248	3.31	-0.02	18.70
Akron, OH	249	3.01	-0.17	21.01
Dallas-Plano-Irving, TX (MSAD)	250	2.96	0.52	21.72
Canton-Massillon, OH	251	2.91	1.24	21.75
Anderson, IN	252	2.82	0.48	18.47
Greeley, CO	253	2.68	0.16	30.88
Burlington, NC	254	2.63	0.46	18.48
Mobile, AL	255	2.32	-1.31	18.50
Wichita, KS	256	2.30	0.27	18.18
Hickory-Lenoir-Morganton, NC	257	2.25	0.93	19.41
Austin-Round Rock, TX	258	1.96	-0.12	21.06
Mansfield, OH	259	1.90	0.87	24.27
Tulsa, OK	260	1.81	0.13	21.57
Macon, GA	261	1.76	-1.17	21.77
Sioux City, IA-NE-SD	262	1.65	-0.28	17.05
Kokomo, IN	263	1.62	-1.73	13.78
Lafayette, IN	264	1.51	-0.16	12.14
Youngstown-Warren-Boardman, OH-PA	265	0.85	-0.17	20.38

*For composition of metropolitan statistical areas and divisions see <http://www.census.gov/population/estimates/metro-city/0312msa.txt> or see OFHEO HPI FAQ #8 for more information.

**Note: Rankings based on annual percentage change, for all MSAs containing at least 15,000 transactions over the last 10 years.