

Watauga County's Current Economic Conditions January, 2023

*Data references found on page 2.



RESIDENTIAL HOME SALES

554 | **791** | **48%**
(HC Q4 2022) | (HC Q4 2021) | (% Q4 '22 Watauga)

NET SALES TAX COLLECTIONS

\$3,102,329.60 | **\$2,373,778.18** | **\$2,822,126.91**
NOV 2022 | OCT 2022 | NOV 2021

UNEMPLOYMENT RATES

2.5%	3.2%	3.5%	3.2%	3.8%	3.7%	2.3%	3.2%	3.9%
(Watauga)	(NC)	(U.S)	(Watauga)	(NC)	(U.S)	(Watauga)	(NC)	(U.S)
DEC 2022			NOV 2022			DEC 2021		

OCCUPANCY TAX COLLECTIONS

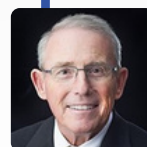
\$1,209,308.46 | **\$1,250,875.88**
(OCT, NOV, DEC 2022) | OCT, NOV, DEC 2021
3.3% DECREASE

NEW SINGLE FAMILY HOMES (APPLICATIONS RECEIVED)

62 | **74** | **-16%**
Q4 2022 | Q4 2021 | % change

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Given the actions of the FED, we can expect a mild recession either at the end of this year or the beginning of 2024 in the United States.



Dr. Harry Davis
Economist

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Q4 ECONOMIC INDICATORS | 2022

Watauga County's Current Economic Conditions January 2023

DR. HARRY DAVIS, PHD

NCBA PROFESSOR OF BANKING, ECONOMIST

Economic growth was surprisingly strong in the fourth quarter of 2022. The employment situation for the nation and Watauga county were record setting. The United States unemployment rate dropped to a 53 year low of 3.4%. Watauga County along with three other counties in the state tied for the lowest rate at 2.5%.

Home sales declined in the fourth quarter of last year to 554 units from 791 units in the fourth quarter of 2021. Housing permits also declined. High interest rates and the lack of inventory are clearly negatively impacting the real estate market.

Tourism was extremely strong in the fourth quarter as well as throughout last year. This strength was measured by occupancy and sales taxes. Hotels, resorts, and restaurants experienced strong growth. However, finding an adequate number of workers continued to be a problem for this sector.

For the US economy, housing is already in a recession and manufacturing is headed for one. The service sector continues to do very well which is seen here in Watauga County. Given the actions of the FED, we can expect a mild recession either at the end of this year or the beginning of 2024 in the US. Our state economy will do better because of our rapid population growth and stronger economy. Watauga County will also do better. The state has a large rainy day fund to support the state budget and Appalachian State University if we have a recession.

- Housing sales data provided by the High Country Association of Realtors, HC = Alleghany, Ashe, Avery, & Watauga Counties.
- Latest Sales Tax data provided by the North Carolina Department of Revenue.
- Latest Occupancy Tax data provided by the Watauga Co. TDA. Total includes Boone, Blowing Rock, and Watauga County.
- Latest Unemployment data reported by the NC Department of Commerce.
- New Single Family Home Application data provided by Watauga County, Town of Beech Mountain, Town of Boone, Town of Blowing Rock, & Town of Seven Devils.





Q4 ECONOMIC INDICATORS | 2022

Watauga County's Current Commercial Real Estate Conditions January 2023

*Data references found on page 4.



\$1,545,000
OFFICE
(4.01%)

\$7,800,000
MULTIFAMILY
(20.25%)

\$11,250,000
SPECIAL PURPOSE
(29.21%)

\$17,917,000
RETAIL
(46.52%)

QUICK STATS

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TOTAL # OF SALES

\$38,512,000

TOTAL SALES

\$13,000,000

LARGEST SALE

\$765,000

SMALLEST SALE

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The rise of interest rates has placed pressure on commercial real estate transactional activity, with fewer sales than in the previous quarter. The cost of capital combined with development costs should encourage market participants to consider reducing price from the previous quarters.

James Milner, CCIM

Appalachian Commercial Real Estate, President & Owner

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JAMES MILNER, CCIM

APPALACHIAN COMMERCIAL REAL ESTATE, PRESIDENT & OWNER

The fourth quarter of the year shows signs of a slowdown in activity within the overall local commercial real estate market. With a rise in interest rates, it is anticipated that transactional activity will be impacted, and we predict that activity will be less than the year prior (2022). A review of the permit data shows continued development within the Town of Boone. BCBSNC is working on the upfit of new space at the Graystone Eye building on NC Highway 105. The Western Youth Network has pulled a permit for renovations of their building within the medical district. On the east side of Boone, a hospitality group has applied for conditional district rezoning for a new 104-room hotel.

As we move into a new year, the activity will naturally slow due to the seasonal nature of the market. Even with the uptick in interest rates, the year ended with a total of \$139,510,500 in transactional activity for 31 transactions based on our parameters. We expect that there will continue to be development and redevelopment within the Town of Boone moving forward, but not at the same scale as we saw last year. Outside of the Skyline Terrace expansion and The Collection (both being located in East Boone), we have not seen any new multifamily development enter the construction pipeline.

Leasing activity remains robust with continued limited supply and high demand. However, efforts must be made to increase the supply; otherwise, rents will continue to rise. As mentioned at the economic kickoff luncheon, the market's biggest needs are industrial (flex) and office space. This is coupled with the need for retail as most of our neighborhood shopping centers are back to full occupancy with very little vacancy.

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1. The data used in this analysis is sourced from CoStar and the High Country Association of Realtors MLS.
2. The data used in this analysis is for sales transactions only in Watauga County of \$500,000 or greater.
3. The data used in this analysis excludes any transfer that was a partial interest (less than 100%).
4. The data used in this analysis treats any improved properties that were demolished for redevelopment at the time of sale or that the improvements had no contributory value at the time of sale as land sales.



Watauga County's Current Residential Real Estate Conditions January 2023

STACIE PINEDA

STACIE PINEDA REAL ESTATE GROUP, BROKER, OWNER, CRS

KEY FINDINGS

Unprecedented patterns continue to impress in the Watauga County housing market. 2022 ended with an overall residential sales volume increase of approximately two percent compared to the previous year.

- The median sales price in Watauga County is \$500,000.
- The largest price range jump for residential sales in Watauga County was the \$1-2 million price range. This reference price range of homes has tripled in sales since 2021, from 48 homes to 132 homes.

It's impossible to discuss the market without considering 1) the purchase of homes for the express purpose of income production (investment) and 2) the role of parents buying homes for university students, and a growing university.

- Carolina Cabins Rentals (CCR), a local vacation rental management company, confirms that rental requests remain high compared to 2019 (though requests are down slightly from the spikes of 2021 and 2022). CCR is aggressively pursuing inventory for its portfolio to meet this demand.
- From the sales perspective, there are more buyer discussions (relative to previous years) with eager investors who have been introduced to the mountains for the first time since the COVID-19 pandemic. Per CCR, these buyers are responsible for most luxury rental requests, which are rising. This change in demand may account for at least half of the \$1-2 million homes purchased in 2022.
- Because of increasing rent, parents purchase in the \$300,000-\$500,000 range for the student/child beyond the "kiddie condo." As a result, this makes availability and affordability more difficult for less affluent families seeking primary residential housing.

DISCUSSIONS & PROJECTIONS

The primary question is whether the current data reflects a significant shift in our market baselines, or a normal reflection of the ebbs and flows of the market. With the median sales price of \$500,000, it is increasingly difficult for people to consider relocating to work for the county's anchor industries. In Watauga County, any house above 1,500 square feet and less than \$500,000 will want aesthetic and mechanical updates, or infrastructure corrections. And yet, the market thrives. The most rational explanation is twofold:

1. Wealthy investors, investing in luxury-grade second homes or investment properties, are driving market prices.
2. Transient buyers from affluent markets who can permanently work remotely continue to relocate to the mountains post-pandemic, driving the market up with capital accrued from shifts in the cost of living between their origin cities and Watauga County.

IN CLOSING

January 2023, as compared to January 2022, showed a significant decrease in all numbers except for the price per square foot demand. This might be the residual effect of the high interest rates in November and December, in addition to inflation indicators. Regardless, the industry is presently unconcerned by these declined numbers, and I believe the market will remain robust, albeit not record-breaking.