

THE ECONOMIC IMPACT OF CLOSING THE HOUSING GAP IN NORTH CAROLINA



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EXECUTIVE SUMMARY

Like most states, North Carolina faces a significant housing gap, meaning there are more households needing affordable housing than there are affordable housing units. Recently Bowen National Research was engaged to estimate the number of housing units needed to be constructed during the years 2024 to 2029 in order to close the housing gap in North Carolina.

The numbers are significant. It was estimated that 322,360 rental units and 442,118 for-sale units would need to be constructed during 2024-2029 in the State to close the housing cap in North Carolina.

The purpose of this report is to estimate the economic impact on the State economy of this construction. Economic impact includes not only the on-site construction impacts, but also the secondary and tertiary impacts on in-state suppliers to the construction as well as to in-state retailers from spending derived from additional labor income. Impacts are measured both to the private sector as well as to the public sector in the form of new public sector revenues.

A summary of the results shows the enormity of the impacts. Over 2 million jobs would be created paying a total of \$144 billion in labor income. Also, the total value of the economic activity in the State generated by the construction would be \$489 billion. Aggregate public sector revenues paid to local, state, and federal governments would be \$51 billion¹

The report provides details of the calculations and of the results.

¹ All dollar values are expressed in 2024 purchasing power.

INTRODUCTION

North Carolina faces a significant housing gap. A housing gap is defined as the difference between the number of affordable housing units needed in the State and the number of existing affordable housing units available.

Bowen National Research completed an analysis estimating the North Carolina statewide housing gap for the years 2024-2029. Bowen estimated that over this time period North Carolina will have a gap of 442,118 for-sale housing units and 322,360 rental units.² The purpose of this report is to provide estimates of total economic impact in North Carolina from constructing these units.

This economic impact will come from several sources, including on-site construction costs for both materials and labor, impacts on in-state supplier firms who will produce and provide the materials needed by the construction, and the additional spending at in-state retailers from the additional income earned by workers.

The report provides numerical estimates for each of these economic impacts, in both dollar values and employment values. Separate impacts are provided for rental units and for-sale units, plus the total impacts for rental and for-sale units combined.

APPROACH

Before presenting the estimates, it is helpful for the reader to understand some of the key concepts in measuring economic impact. Economists group economic impact into three

² Bowen National Research, "Housing Needs Assessment, North Carolina," 2024.

categories. The first is the *direct economic impact*. In the context of this report, direct economic impact is the spending and jobs related to the on-site construction of the housing units. Direct economic impact can also be thought of as the “first round” impact because it measures what happens within the confines of the main focus of the economic impact – here, construction of housing units.

The *indirect economic impact* calibrates the additional spending and jobs created from the direct spending that is made to in-state supplier firms and the subsequent spending interactions between local supplier firms. For example, the spending to an in-state lumber supplier would be part of the indirect economic impact, as would payments to the local electric utility to supply power used during construction. Any payments and associated job creation which these firms, in turn, make to their own local suppliers would also be included. The indirect economic impacts are often called “second round” impacts.

The third category is the *induced economic impact*. Considered to be the “third round impact”, this impact accounts for spending and job creation resulting from consumer retail spending associated with both the direct and indirect impacts. For example, the household spending related to jobs and income created from the on-site construction as well as jobs at in-state suppliers are labelled as induced economic impacts. The indirect and induced impacts are usually combined in presentations.

For the private sector impacts, three economic measures are estimated and presented: employment, labor income, and output. Employment is the number of jobs, and labor income is the collective payment to workers in these jobs. Output is the value of final production from all

economic activity, both at the sites of construction and off the sites. Another term for output is “gross domestic product, or GDP”

“Multipliers” are commonly used to estimate indirect and induced economic impacts from the direct impact. The multipliers give the additional, or multiple, effects from the indirect and induced impacts over and above the direct effect. In this report, multipliers are taken from IMPLAN (“impact planning”), a software program specifically developed for local economic impact analysis.³ The multipliers used in the report are specific for North Carolina and for the rental and for-sale construction sectors.

Each of these impacts also generate tax revenues for different levels of government, specifically local (municipal and county) governments, the state (North Carolina) government, and the federal government. The revenues will come from the variety of tax sources used at each governmental level.

ECONOMIC IMPACT ESTIMATES OF CLOSING THE HOUSING GAP

Table 1 shows the statewide economic impact of the rental unit construction needed to close the North Carolina housing gap over the period 2024-2029. The 322,360 unit gap was monetized by multiplying an average unit size of 964 square feet by an average square foot cost of \$270.⁴ The result is a \$260,280 cost per unit. Multiplying \$260,280 by the 322,360 units needed to close the rental housing gap yields a total expenditure of \$83.9 billion.⁵ This is the

³ IMPLAN was developed by MIG, Inc, currently located in Huntersville, North Carolina.

⁴ The value is the weighted average of square foot costs for newly constructed units and renovated units, with the proportions between newly constructed and renovated units estimated by Bowen National Research.

⁵ Land costs are not included.

direct effect (indicated under “Output” in Table 1).

Table 1. Total Economic Impact of Closing the North Carolina Rental Housing Gap.

	Jobs, #	Labor Income, \$ billion	Output, \$ billion	Local Tax Revenues, \$ billion	State Tax Revenues, \$ billion	Federal Tax Revenues, \$ billion	Total Tax Revenues, \$ billion
Direct	432,171	\$28.8	\$83.9	\$0.9	\$1.0	\$5.4	\$6.4
Indirect & Induced	338,985	\$21.9	\$63.5	\$2.2	\$1.9	\$5.8	\$7.7
Total	771,156	\$50.7	\$147.4	\$3.1	\$2.9	\$11.2	\$14.1

Source: analysis by author using IMPLAN.

A total of over 771,000 jobs would be associated with the construction, including on-site, supplier, and impacted retail jobs. A total of \$50.7 billion would be paid to the workers, and the total impact on the economy would be \$147.4 billion. Total tax revenues to all levels of government would be \$14.1 billion.

Table 2 shows the economic impact from construction needed to close the for-sale housing gap. The 422,118 for-sale housing unit gap is monetized by using a 2000 square foot unit and a \$210 cost per square foot, for a total unit cost of \$420,000.⁶ Multiplying the per unit cost by the 422,118 units yields a total cost \$177.3 billion , which is the direct effect (under “Output” in Table 2).

⁶ The value is the weighted average of square foot costs for newly constructed units and renovated , with the proportions between newly constructed and renovated units estimated by Bowen National Research.

The numbers again are very significant. Over 1.4 million workers would be associated with closing the for-sale housing gap, including those on-site and off-site. Total labor income

Table 2. Total Economic Impact of Closing the North Carolina For-Sale Housing Gap.

	Jobs, #	Labor Income, \$ billion	Output, \$ billion	Local Tax Revenues, \$ billion	State Tax Revenues, \$ billion	Federal Tax Revenues, \$ billion	Total Tax Revenues, \$ billion
Direct	662,556	\$44.1	\$177.3	\$0.8	\$2.1	\$9.9	\$12.8
Indirect & Induced	761,909	\$49.4	\$164.3	\$3.8	\$5.3	\$11.9	\$21.0
Total	1,424,465	\$93.5	\$341.6	\$4.6	\$7.4	\$21.8	\$33.8

Source: analysis by author using IMPLAN

paid would be \$93.5 billion. Total impact on the economy would be \$341.6 billion, with \$33.8 billion paid in taxes at local, State, and federal levels.

Lastly, Table 3 combines the results in Tables 1 and 2 to show the total economic impact of closing both the rental and for-sale housing gaps in North Carolina. During the construction, almost 2.2 million jobs in the State would be created, paying a total of over \$144 billion to workers. Again, the total includes on-site workers, workers at in-State supplier firms, and workers in retail firms impacted by the spending of the additional labor income. Total economic activity is \$489 billion, and public sector revenues to local, North Carolina state, and federal governments is \$51 billion.

Table 3. Total Economic Impact of Closing the North Carolina Housing Gap.

	Jobs, #	Labor Income, \$ billion	Output, \$ billion	Local Tax Revenues, \$ billion	State Tax Revenues, \$ billion	Federal Tax Revenues, \$ billion	Total Tax Revenues, \$ billion
Direct	1,094,727	\$72.9	\$261.2	\$1.7	\$3.1	\$15.3	\$20.1
Indirect & Induced	1,100,894	\$71.3	\$227.8	\$6.0	\$7.2	\$17.7	\$30.9
Total	2,195,621	\$144.2	\$489.0	\$7.7	\$10.3	\$33.0	\$51.0

Source: Tables 1 and 2.

CONCLUSION

The estimated economic impact of constructing enough housing units in North Carolina to close the housing gap would be large – indeed, very large. Including the indirect and induced effects with the direct effect, over 2 million jobs would be created and \$489 billion in aggregate economic impact – technically termed “gross domestic product, or GDP” – would be added to the State economy during the construction process. To put the GDP number in perspective, the annual GDP of the entire North Carolina economy in 2023 was \$788 billion.⁷ Of course, the construction required to close the State housing gap would require several years of activity.

Addressing North Carolina’s housing gap is an important collective priority for the State. Not only would closing the housing gap provide tremendous social and economic benefits to

⁷ US Bureau of Economic Analysis.

thousands of North Carolina households, but it would also generate an enormous boost to the State economy.

REFERENCES USED IN THE STUDY

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- “Important Construction Costs in 2024,” *Janover*, November 2, 2024
- “How Much Does It Cost to Build and Apartment,” *BuildOps*, 2024
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LIMITATIONS OF THE STUDY

The author has used the best data and best analytical procedures to generate the numerical results in this study. However, the author cannot guarantee the results will occur now or in the future.

ABOUT THE AUTHOR

Michael L. Walden is a William Neal Reynolds Distinguished Professor Emeritus at North Carolina State University, where he taught for 43 years. He is currently President of Walden Economic Consulting. The author of 15 books and over 350 articles and reports, among Walden’s specialties are economic impact analysis, particularly for institutions and firms in North Carolina, and economic outlook. He has made over 3200 public presentations. The winner of several national and state awards, among them are the UNC Board of Governors Award for Excellence in Public Service, the Holladay Award for Excellence from North Carolina State University, the Order of the Long Leaf Pine, and the Champion-Tuck Award for Excellence in Public Broadcasting. Walden frequently comments about the economy in the local

and national media, writes a biweekly newspaper column, and makes scores of public presentations each year across the state as well as in the country.