SPINNAKER STRATEGIES

OFFICE (206) 780.0553
MOBILE (206) 498.8532
ROD@SPINNAKERSTRATEGIES.COM

TO: Dwight Bassett, Town of Chapel Hill
FR: Rod Stevens, Spinnaker Strategies
RE: Summary of Past Market Studies and Plans
DA: Friday, June 19, 2015

Introduction and Summary

This memo presents a summary of past real estate and demographic studies, augmented by census and employment data. It is intended to provide a common basis of understanding about development conditions in Chapel Hill as a precursor for further discussions about a retail and commercial development strategy. Here are some of the major facts taken from below:

- Regional Employment Growth: Between 2000 and 2013, the number of new jobs in Wake County grew by almost 14 times the number in Orange County.
- Local Employment Patterns: There are about 14,000 people working in offices in Chapel Hill and Carrboro, about 75 percent of these at UNC.
- Commuting In and Out of Town: Two-thirds of workers living in Chapel Hill or Carrboro commute to jobs outside these towns. For every Chapel Hill resident who works in the town, there are 3.6 people who commute in from other places. New office development away from the downtown has followed these major commute routes, with significant office development along Highway 54 and Highway 501, the major arteries of commerce.
- Population and Household Change: Population projections forecast Wake County to grow by almost 500,000 people over the next 20 years, compared to about 40,000 people in Orange County, with much of the Orange County growth to be in unincorporated areas.
- Lifestyle Groups: Data from Esri, a mapping and demographics data supplier, shows that households in Chapel Hill are divided between older, more affluent couples and families who have established themselves; younger people who are just starting out; and singles and couples, predominantly renters, who enjoy the university town lifestyle but are much less affluent. It appears that a number of younger professionals are going elsewhere to start their careers, especially to Durham and Raleigh.
- Student Housing: About half the students who attend UNC live off-campus, with about 60 percent living in the neighborhoods of Chapel Hill and Carrboro, and the balance largely living in New Hope and the area north of I-40 and east of RTP.
- Retail Spending: Retail spending reflects this mobility, with large outflows for gas stations and large inflows for restaurants. Much of the spending for clothing and home furnishings goes to Southpoint.

- Current Supply of Retail Space: With more than 20,000 employees and students coming and going to the university each day, it is no wonder Franklin Street has so many restaurants! Downtown functions as a kind of lifestyle center for the region, with about 250,000 square feet of restaurants and shops. This is a lot of retail space for a town of Chapel Hill's population.
- Significant New Projects : The biggest commercial development projects are The Edge, Glen Lennox and Obey Creek. There is surprisingly little office development planned for downtown, although there is much residential and hotel development planned. The town has a strong hospitality industry, serving as both a lodging and restaurant destination for people working on this side of the Triangle.

The following sections describe these facts in greater detail. The last section of this memo lists the documents from which these facts were taken.

Regional Employment Growth

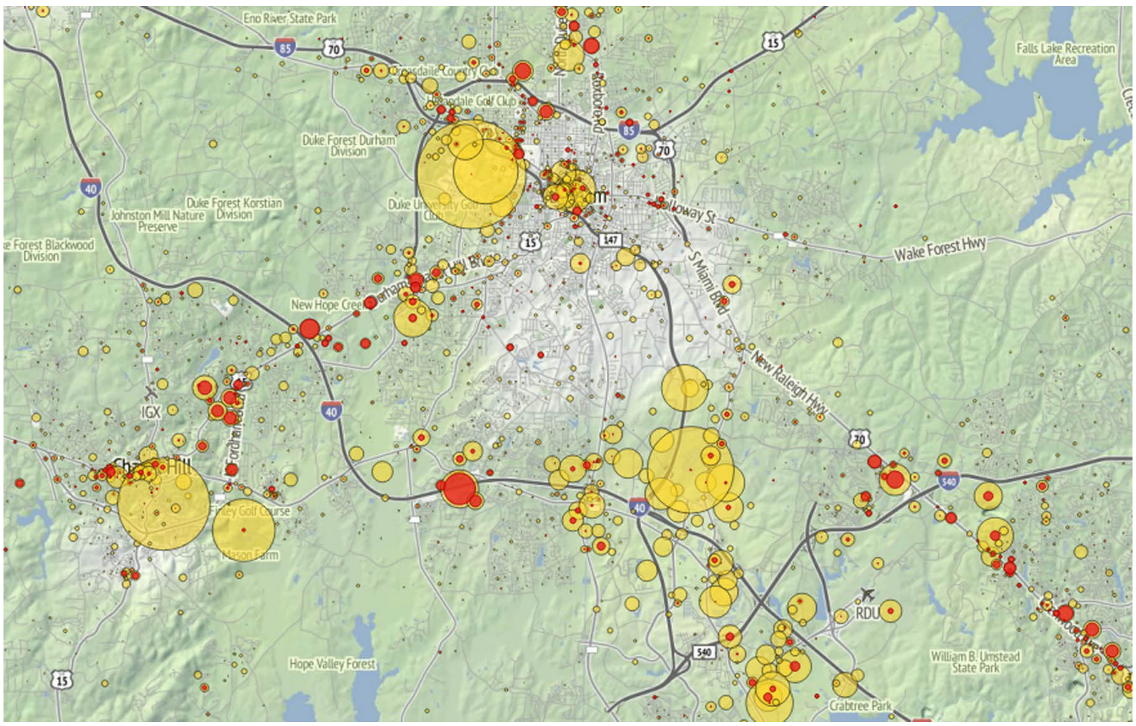
The following table shows total employment (listed in thousands of jobs) for six counties in the Triangle:

County	2000	2013	Absolute Change	Percentage Change
Chatham	16.2	14.1	(2.1)	(13%)
Durham	177.6	184.0	6.4	4%
Franklin	10.3	11.3	1.0	10%
Johnston	35.7	42.5	6.8	20%
Orange	57.4	63.8	6.4	11%
Wake	383.8	473.9	90.1	23%
Total	681.0	789.6	108.6	16%

Note that over the last 13 years, Wake County employment has grown about 14 times as much as Orange. Note, too, that the employment growth in Orange and Durham Counties are almost exactly the same. It appears that Research Triangle Park is not generating the same kinds of employment increases that it has in the past, and that more of the employment gains are going to Raleigh and Wake County.

Local Employment Patterns

The map below shows total employment for the Chapel Hill/Durham/RTP area, with the circles in orange representing that portion which is retail employment[1].



Note on this map that the axes of commerce run northeast and southeast from Chapel Hill, there being few commercial centers directly to the north, west or south. This affects the ability to lease office space in outlying projects in these other directions.

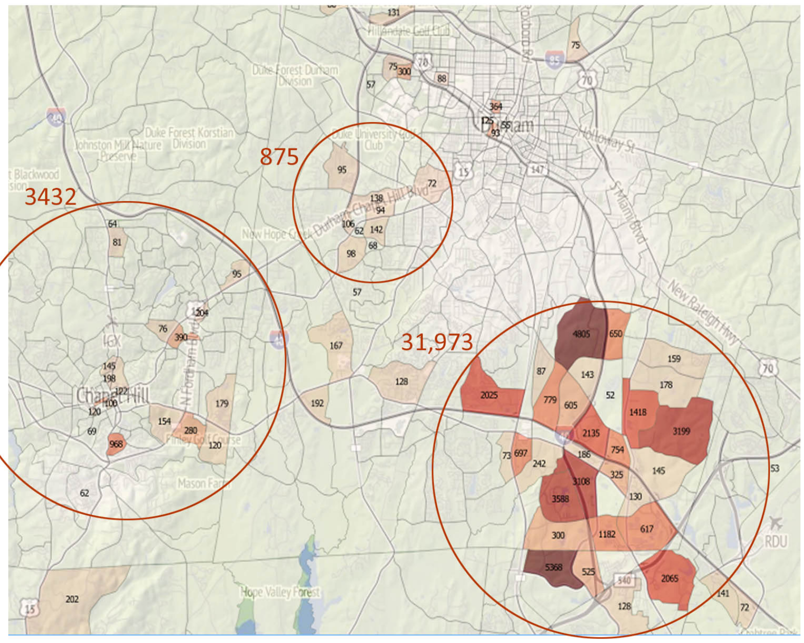
The maps on the next page show office employment in the area that includes Chapel Hill, Durham and Research Triangle Park[2], which are generally higher wage jobs often associated with the universities, medical centers and technical firms in this area. There are about 13,800 people working in offices in the Chapel Hill/Carrboro area; more than 10,000 of these are at the university and the medical center. This compares to about 32,000 people at Research Triangle Park and about 5,600 at and around Duke.[3]

[1] This map was created with 2013 data from the US Census Bureau Location Employment Dynamics website. Note that there is a major employment cluster shown east of Finley Golf Course. This cluster should be shown as part of UNC, but is located to the east because of peculiarities in the US Census Bureau LED mapping program.

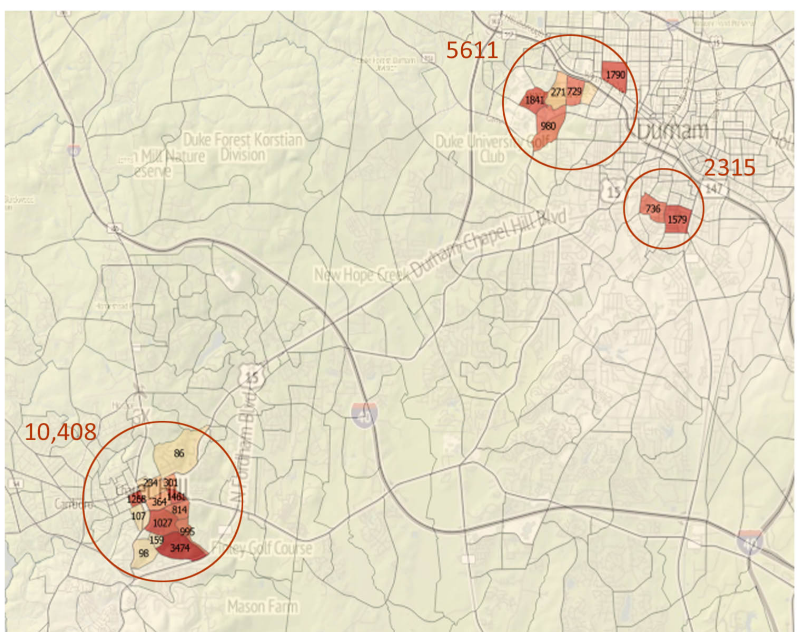
[2] This map and others on student housing and employment are made from 2010 data provided by the Triangle J Council of Governments.

[3] The data does not break out the number of jobs in Durham created by Duke.

Office Employment, Non-University

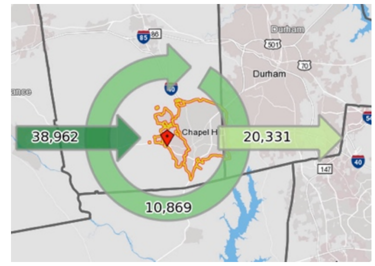


Office Employment at Universities



Source: Triangle J Source of Governments, TAZ data.

Commuting In and Out of the Town



The graphic at right shows the daily inflow and outflow of workers. Given that Research Triangle Park is less than 15 miles away, it is not surprising that about two-thirds of workers living in Chapel Hill and Carrboro commute to jobs outside the town. For every resident working in the town, there are 3.6 people commuting in from other places.

Population and Household Change

Over the last 20 years, the Triangle Region has doubled in population, adding 800,000 residents between 1990 and 2010. Although it may seem like Chapel Hill is growing much slower than it did in the 1990s, because there has been so much growth elsewhere, the absolute population growth during the 2000s was only about 15 percent lower than in the 1990s. The population of Chapel Hill increased by 8,528 in the 2000s, compared to about 10,000 in the 1900s. During the 2000s, Durham’s population increase (about 42,300 people) was almost five times that of Chapel Hill, while Raleigh’s increase (about 128,000 people) was about three times that of Durham.

Planners for the region anticipate much of the growth over the next 15 years will go to Durham County, Johnston County and especially Wake County. Between 2010 and 2030, Wake Country is expected to grow by over 500,000 residents, and Johnston County and Durham County by more than 100,000 residents each. Orange County is forecast to grow by about 40,000 residents, while Chatham County is forecasted to grow by slightly less than 30,000. Much of the Orange County growth will probably be in unincorporated areas.

Lifestyle Groups

The median family household income in Chapel Hill is over $104,000. Three-quarters of all households are singles and couples living without younger children, and half of all households rent. The following table shows the town’s 10 largest lifestyle groups, which are more fully described on the following page. They are shown from the top to the bottom of the page in order of falling wealth:

Name of Group	Description	Number of Households
Young & Restless	Freshly minted college graduates.	5357
Urban Chic	Affluent, middle-aged professionals with few children.	5193
Emerald City	Middle-income singles and couples in older neighborhoods.	3467
Professional Pride	Wealthy professionals working long hours.	2914
College Towns	Grads and near grads, spending money but living downscale.	2815
Dorms to Diplomas	Full- and part-time students, many living on frozen dinners.	2416
Golden Years	Active seniors, usually living in post 70s housing.	2385
Metro Renters	Younger, middle-income singles and couples.	2028
Enterprising Professionals	STEM professionals in mid-30s, many Asian, mostly single.	1624
Laptops and Lattes	Cosmopolitan tech, law and college professionals, many gay.	1195

Ten Major Chapel Hill Lifestyle Groups

300

Professional Pride (2914 HH's)
Wealthy, well-educated, well-traveled married professional couples, who often commute long distances and work long hours. Busy, heavily scheduled lives tuned to the needs of school-aged children. Two and three vehicles and newer and well-maintained suburban homes.

Urban Chic (5193 HH)
Middle-aged, primarily married couples, living in older suburbs, many with older children. Financially shrewd white-collar professional in management, law and tech with with investment income. Shop at Trader Joe's, Costco and Whole Foods. Eat organic foods and buy good wine and coffee. Avid book readers.

200

Laptops and Lattes (1195 HH's)
Well-educated law, business and tech singles in their late 30s to mid 40s, living in denser neighborhoods where they can walk or bike to work and enjoy the amenities of city life. Includes a number of same-sex couples. Cosmopolitan, connected and technologically savvy. Focus on clothes, dining out, travel and physical fitness.

Golden Years (2385 HH's)
Affluent active seniors near or in retirement, usually living in homes built after 1970. Focused on physical fitness and maintaining their health.

Enterprising Professionals (1625 HH's)
Well-educated tech professionals in their mid 30s with disposable income. Change jobs frequently and live in condos, townhouses or apartments. Work long hours in front of a computer and take pride in early adoption of new technology. Buy brand names and trendy clothing on line. Convenience is important because of frequent business trips. Asians make up one-fifth of this group.

100

Emerald City (3467 HH's)
Young, highly educated, successful professionals mostly renting older, close-in homes built before 1960. Public radio listeners and "foodies" who cook for pleasure.

Metro Renters (2028 HH's)
Young, successful singles in their 20s and early 30s, living alone or with room mate in uptown apartments. Spend much of their income on rent, clothes and latest technology. Many are still enrolled in college. Socializing, sophistication and social status are important.

College Towns (2815 HH's)
Young singles, aged 15 to 25 living with room-mates, often in low-rent apartments or houses. Half are still in college, while the rest work for a college or related employers. Digitally engaged, seeking out adventure and new experiences. Dress to impress with latest fashion.

Young and Restless (5357 HH's)
Millennials on the move and still establishing themselves. Single, diverse, living in affordable apartment buildings. Well-educated, some completing their education, some in professional and technical occupations. First to try new products. No landline telephone. Purchase natural foods but frequent fast food restaurants.

Dorms to Diplomas (2416 HH's)
College students, on their own for the first time and living on frozen dinners and fast food. Looking to learn life lessons inside and outside of the classroom. Frequently go out to bars.

Wealth Index
(US Average=100)

One group deserves special notice, "Enterprising Profiles," a lifestyle segment that includes a small but increasing number of Asian professionals. Chapel Hill is still predominantly white, but between 2000 and 2010 the number of whites in the town fell from 82 to 73 percent, while the number of Asians grew from 4 to 8 percent. With significant tech growth, the Asian population could rise to 10 or 15 percent by 2030. A more diverse population will lead to demand for more diverse goods and services.

Chapel Hill's population is getting older. During the 2000s, the number of children under 12 grew modestly, but the number of teenagers aged 15 to 18 actually declined. This same decade, the increase in the number of adults aged 20 to 24 and aged 24 to 35 was lower than for any other adult age group under age 75. Chapel Hill does not appear to be holding onto many of its graduates once they begin their careers, and there was only modest growth in the 35 to 44 age bracket. The biggest increase was in those aged 45 to 75. Much of the growth in those 50 to 65 is probably people positioning themselves here for retirement. This has implications for retail development, since empty nesters and retirees have more discretionary time, supporting the kinds of specialty shops that offer service for the purchase of things like high-end bicycles. Older, more affluent couples also dine out more frequently—at sit-down restaurants, not fast-food chains.

<u>Student Housing</u>

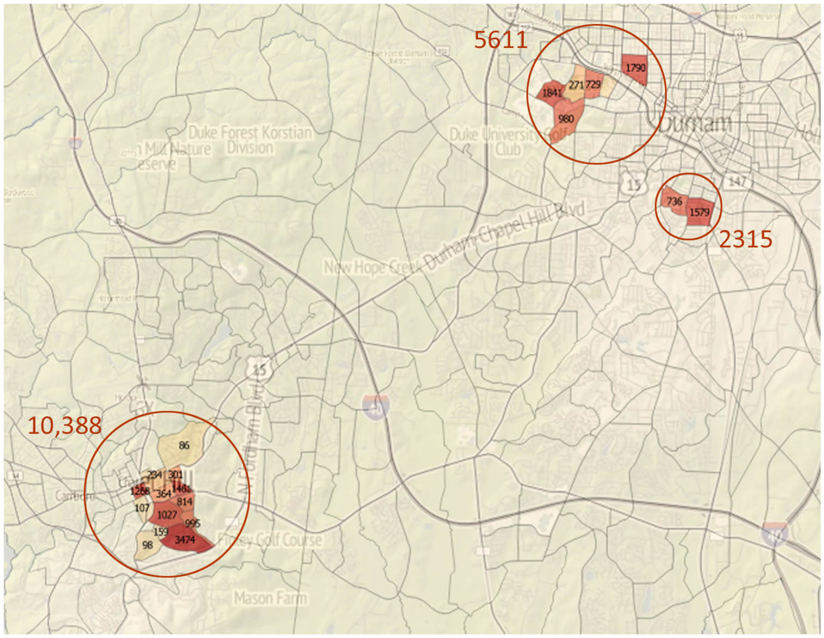
The maps on the following page show the number of students living on- and off-campus in the Chapel Hill and Durham area. In 2010 there were over 10,000 students living on campus at UNC, and slightly more than that living off-campus in Chapel Hill, Carrboro and New Hope. A surprisingly large number, almost as many as in New Hope, live between Chapel Hill and Research Triangle Park.

<u>Current Inventory of Retail Space</u>

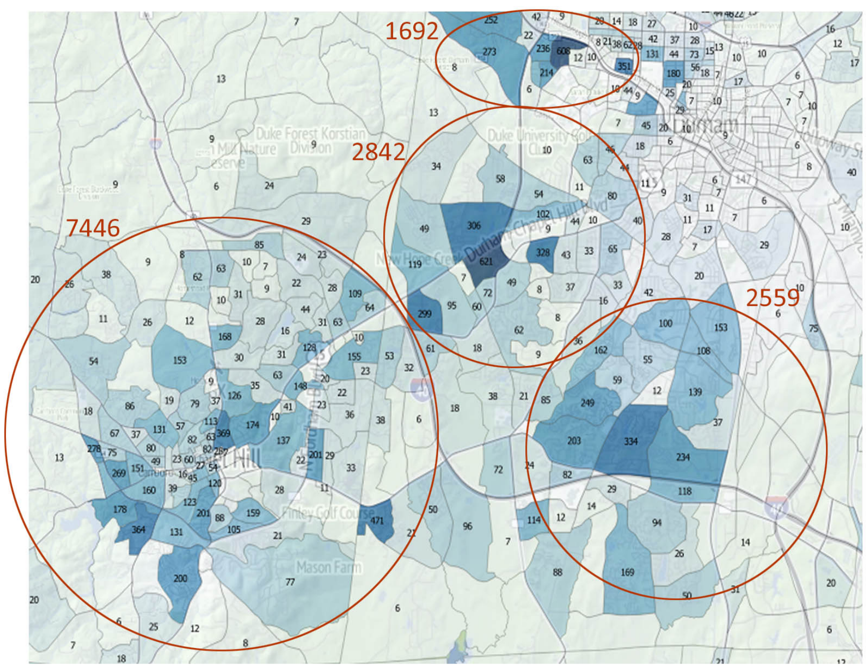
Chapel Hill currently has a total of about 2.1 million square feet of retail space. This is about the same amount as at Southpoint. Slightly less than half the retail space in Chapel Hill, about 900,000 square feet, is located in the Ephesus Church/Fordham Boulevard area[4]. Chapel Hill has a total of about 250,000 square feet of retail space downtown, a large amount for a town of this population. The Development Concepts, Inc. ("DCI") retail market analysis carried out in 2011 states that there are over 200 restaurants and bars downtown, a figure that seems high, but which nonetheless reflects the downtown's importance as a regional gathering place. One question is the extent to which downtown offerings can be diversified, to include more everyday goods and services catering to the needs of local residents. It would be interesting to know how much of the retail--especially restaurant--space downtown is attributable to students and visiting alumni, how much to permanent residents, and how much to workers at UNC, especially at the medical center.

[4] That area includes the 400,000 square foot University Mall, which is ripe for redevelopment.

On-Campus Housing (Students)



Off-Campus Housing



Retail Leakage

DCI projected demand for 1.3 million square feet of new retail space between 2011 and 2020, for which there was immediate demand for 400,000 square feet in 2011 due to leakage and potential sale to areas outside the town limits. It is significant that less than half the opportunity in 2011, about 150,000 to 200,000 square feet, came from leakage from within the town. Here were the major categories of leakage in the spending in 2011:

(Millions of dollars)

Expenditure	Demand	Leakage	Loss/(gain)
Gas stations	98.5	55.8	57%
General merchandise	27.8	21.4	29%
Building material	21.1	10.1	48%
Clothing	25.5	10.5	41%
Home furnishings	14.1	9.7	68%
Electronics	15.2	8.4	55%
Sporting goods	15.7	4.6	29%
Personal care products	17.8	4.1	23%
Dining out	91.1	(37.2)	(41%)

Note not only the category of leakage (or surplus), but also the magnitude of each. The biggest single loss is in gas stations, where most people spend at least $50 almost every week. In the right location, gas stations can be very important in getting people to stop and shop, with many grocery chains now adding gas islands as a way of building traffic and customer loyalty.[5] The DCI analysis noted the overwhelming presence of Southpoint, which attracts much of the local spending for clothing and home furnishings. Much of the spending for clothing and home furnishings probably goes there, but with the right mix of stores, especially those targeted at Chapel Hill's college students and empty nesters, the town might attract some of this spending back.

[5] Discounts on gas purchase now seem to be serving much of the same purpose as frequent flyer points, particularly as airlines add more and more conditions and fees to redeeming these.

After looking at site availability, DCI projected that future retail might develop as follows:

Project	Size (square feet)
Southern Village/ South:	300,000-500,000
Ephesus Church/ Fordham:	150,000-250,000
Northwest	25,000-100,000
Northeast	25,000-100,000
40 15/501:	25,000-100,000
Glen Lenox	30,000-50,000
Downtown	10,000-30,000
Carolina North	5,000-15,000

The numbers for Southern Village and areas to the south are based on the assumption that Chapel Hill will continue to act as a market center for unincorporated areas.

Significant New Projects

The map and table on the following two pages show significant new retail, office, hotel and multi-family projects. The larger non-retail uses such as office and hotel projects are included because they show where institutional investors are putting their money.

Note that there are seven major projects in or near downtown, five of which are residential and two are hotel. Institutional investors believe in the future of the town. Developers propose adding more than 700 new hotel rooms. This hotel development goes with about 900,000 square feet of new retail, about 1.7 million square feet of office space, and about 4500 new multi-family units in larger projects. This is a lot of development for a town this size.

The biggest projects are Glen Lenox, Obey Creek, The Edge and 123 Franklin St. Three of these four may take some years to build out. Given its presence on a major regional travel route, the office space in Glen Lenox should lease well.

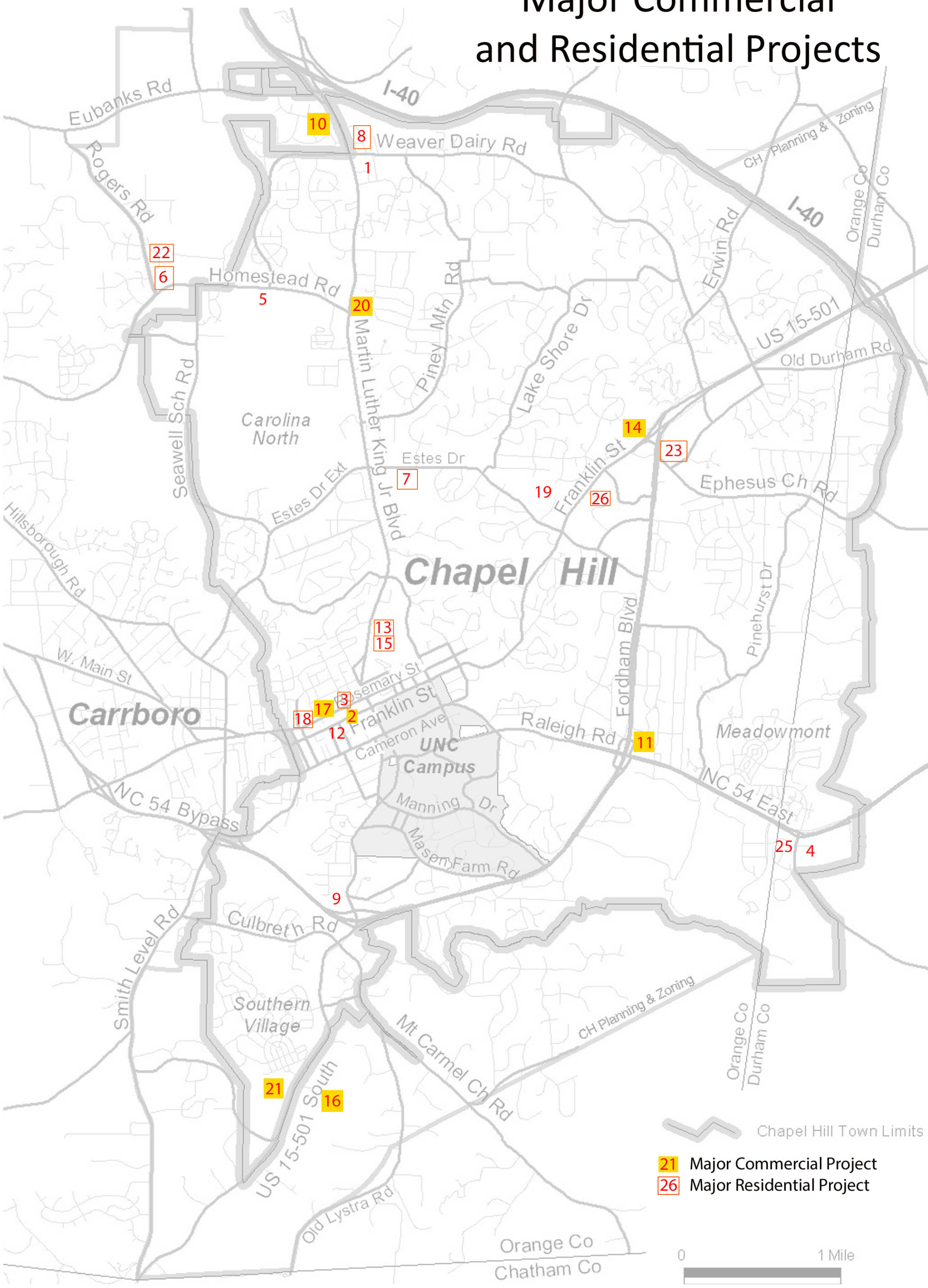
List of Larger Development Projects

No.	Project	Intersection	Retail	Office	Hotel	MF
1	1165 Weaver Dairy Rd.	1165 Weaver Dairy Rd.	35			
2	123 W. Franklin	123 W. Franklin	50	150		
3	Amity Station	322 W. Rosemary				150
4	Aydan Court	NC 54 @ Little John				90
5	Bridgepoint	2312 Homestead		77		32
6	Burch Kove	1923 Homestead				200
7	CH Retirement Community	700 N. Estes Dr.				136
8	Charterwood	MLK @ Weaver Dairy Rd.	25	35		125
9	Columbia St. Annex	1150 S. Columbia St.	7			39
10	"The Edge"	3000 Eubanks Dr.	250	100	150	
11	Glen Lennox	5 Hamilton Rd.	150	600		1500
12	Graduate	105 Kenan St.				90
13	Grove Park	425 N. Hillsborough St.				346
14	1609 E. Franklin	1609 E. Franklin			96	
15	Lux	602 MLK				301
16	Obey Creek	1119 US 15-501S	350	375	130	
17	Rosemary Street Hotel	210 W. Rosemary St.			123	
18	Shortbread Lofts	337 W. Rosemary St.				168
19	Siena Hotel Expansion	1505 E. Franklin			79	
20	South Orange Co. Campus	2551 Homestead Rd.		300		
21	Southern Village Hotel	Us 15-501S			130	80
22	St. Paul Village	Rogers Rd. @ Purefoy Rd.				126
23	The Park at CH	1250 Ephesus Church Rd.	10			800
24	Timber Hollow	MLK @ Piney Mountain Rd.				95
25	Tri City Medical Building	5002 E. Barbee Chapel Rd.		60		
26	Village Plaza Apartments	209 S. Elliott Rd.	16			266
27	Weaver Crossing	171 Weaver Dairy Rd.	15	15		
	Total		908	1712	708	4544

Key:

31 Especially large scale or significant.

Major Commercial and Residential Projects



Themes and Goals of the Comprehensive Plan

The “three Cs” of the Chapel Hill 2020 Comprehensive Plan are community, connection and choice, and these imply a desire for more mixed-use and less auto-oriented development. The following themes are especially important in guiding the creation of a commercial development strategy:

- Place: Small town friendliness, a strong downtown main street, and neighborhood conservation districts.
- Green: Rural protection, the tree canopy, a network of open spaces, and walks and trails.
- Town/Gown Relations: Stone walls, UNC spin-off businesses, attracting new thinkers and money, and providing housing for university workers.
- Access: More places to work, alternatives to downtown dining, more types of housing, and maintaining a strong tie to RTP.
- Health Care: Leveraging a national-level health center, providing better physical access, and dealing with the large number of patients and workers coming and going to these facilities daily.

Next Steps

It is clear from the findings above that Chapel Hill, no matter how much of a village it seeks to be, is part of a regional network of rapidly growing places, and that its future needs to be fit within this context. It is possible to hold on to this small-town charm, the tree canopy, and the stonewalls and avoid the scarring of empty big box stores, but this requires a strategy for positioning Chapel Hill in the regional economy that will guide it in attracting talent and investment.

A starting point for the development of this strategy is a list of “big ideas”, similar to those of the Comprehensive Plan, but more focused on economic development. For example, one big idea might be “Holding On to Our Young People.” This would attract retail sales and strengthen the local economy with talent critical to building the next generation of business. This “big idea” approach to strategy can provide the “why” and ”what” foundations of strategy, leaving the design detail of “how” to come later, after you have developed a common vocabulary for action.

Information Sources

- Development Concepts, Inc. “Retail Market Analysis, Chapel Hill, NC,” July 2011.
- PowerPoint presentations on demographics and housing prepared by Dwight Bassett.
- 2010 population and employment data from the Triangle J Council of Governments.
- U.S. Census Bureau American Community Survey, 2013.
- County labor employment statistics from the State of North Carolina, Dept. of Commerce, Labor and Economic Analysis Division.
- Employment levels and commute patterns from the U.S. Census Bureau Location Employment Dynamics mapping.
- ESRI Tapestry data on demographics and lifestyle groups.
- Detail on new projects shown on the Town of Chapel Hill website.
- 2020 Chapel Hill Comprehensive Plan, adopted June 25, 2012.