

RETAIL MARKET ANALYSIS

Chapel Hill, North Carolina

Part Two: *Existing Conditions, Local and Regional Trends and Strategic Considerations*

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Prepared for The Town of Chapel Hill

by

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OVERVIEW

This Study examines the existing conditions and major trends related to commercial retail development, both within the Town of Chapel Hill and its environs, as well as the larger Triangle region of Raleigh, Cary, Durham and Chapel Hill. This analysis is intended to provide information to the Town of Chapel Hill for the purpose of crafting a development strategy relative to future retail development.

This Report, the second part of the Town's Retail Market Study initiative, is intended to assist Chapel Hill in examining opportunities to expand its non-residential tax base. The first part was an analysis of the market within the Town of Chapel Hill by Nielson Claritas in 2008.

The Nielson Claritas study demonstrated a significant amount of retail "leakage" or dollars representing retail demand that were being spent outside of the community. Together with the demand from employees, the Report estimated strong opportunity to capture future retail development within the Town.

The Town of Chapel Hill, U.S. Census, Bureau of Labor Statistics, and ESRI Business Analyst were the primary sources of data for this Study. The analysis and discussion of this data reflects only the interpretation and opinion of Development Concepts, Inc. and Gentlmen McCarty. Much of the data provided in this report is meant to portray retail demand as an order of magnitude, as opposed to precise estimates of consumer expenditure and future retail development. The consultant team cautions users of this report to consider this in making policy decisions. Given the nature of this study, the consultant team attempted to objectively offer the most probably and realistic forecasts for retail demand.

This analysis was conducted by Development Concepts, Inc. and Gentleman McCarty as independent parties, are neither are agents of the City by virtue of this or any subsequent study to be conducted on this matter.

Key questions and issues that this Study aimed to address were:

- Verification of the findings from Nielson Claritas using complimentary information and analysis;
- A thorough inventory and analysis of Chapel Hill's existing retail businesses and centers;
- Examination of the regional demographic and retail trends surrounding Chapel Hill that have a direct influence on the Town's capacity to add retail development;
- Identification of market and trade areas for Chapel Hill and the best sub-markets within those areas for retail growth and capture;
- Identification of available (re)development sites within Chapel Hill and estimates of how much and what type of retail is appropriate for each site; and
- A discussion of the key issues for the Town to consider as it crafts a strategy for retail development.

GLOSSARY

GEOGRAPHIC DEFINITIONS

This Study refers to a number of different geographies for analysis. They are described below:

Triangle Region - This is an informal name for the Raleigh-Durham-Cary Combined Metropolitan Statistical Area (CMSA) as defined by the Office of Management and Budget (OMB). The CMSA consists of Wake, Franklin, Johnston, Durham, Orange, Person and Chatham Counties. The CMSA is a combination of the Raleigh-Cary Metropolitan Statistical Area (MSA) and the Durham-Chapel Hill MSA, which did not exist during the 2000 census.

Raleigh-Cary MSA - This Metropolitan Statistical Area (MSA) consists of Wake, Franklin and Johnston counties. Its two principal cities are Raleigh and Cary.

Durham-Chapel Hill MSA - This MSA consists of Durham, Orange, Person, and Chatham Counties. The principal cities are Durham and Chapel Hill.

Town of Chapel Hill - The Town of Chapel Hill is primarily located in Orange County, with a small section located in Durham County. The 2009 American Community Survey estimated the Town's population to be 54,972.

TYPES OF RETAIL DEVELOPMENTS -

(from the Urban Land Institute)

Convenience Center - provides for the sale of personal services and convenience goods similar to those of a neighborhood center. It contains a minimum of three stores, with a total gross leaseable area (GLA) of up to 30,000 square feet. Instead of being anchored by a supermarket, a convenience center usually is anchored by some other type of personal / convenience store such as a minimarket.

Neighborhood Center - provides for the sale of convenience goods (foods, drugs, and sundries) and personal services (laundry and dry cleaning, barbering, shoe repair, etc.) for the day-to-day living needs of the immediate neighborhood. It is built around a supermarket as the principal tenant and typically contains a gross leaseable area of about 60,000 square feet. In practice, it may range in size from 30,000 to 100,000 square feet.

Community Center - provides a wider range of soft lines (apparel for men, women and children) and hard lines (hardware and appliances). The community center makes merchandise available in a greater variety of sizes, styles, colors, and prices. Many centers are built around a junior department store, variety store, super drugstore, or discount department store as the major tenant, in addition to a supermarket. Although a Community Center does not have a full-line department store, it may have a strong speciality store or stores. Its typical size is about 150,000 square feet of gross leaseable area, but in practice it may range from 100,000 to 500,000 or more square feet.

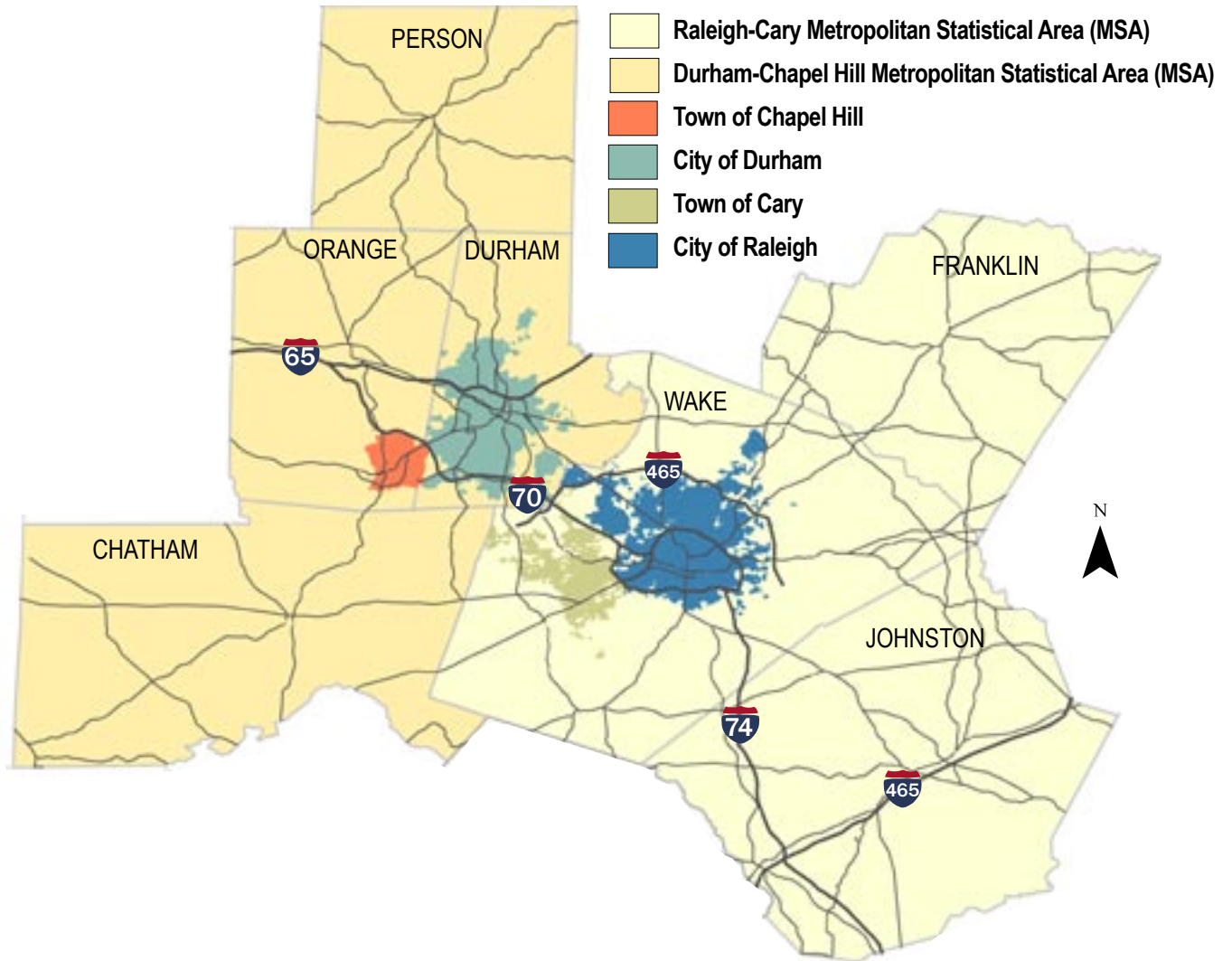
Super Community Center - centers that fit the general profile of a community center but contain more than 250,000 square feet.

Power Center - a type of super community center. These anchors typically emphasize hard goods such as consumer electronics, sporting goods, office supplies, home furnishings, home improvement goods, bulk foods, drugs, health and beauty aids, toys and personal computer hardware / software. They tend to be narrowly focused but deeply merchandised "category killers" together with the more broadly merchandised, price oriented warehouse clubs and discount department stores. Anchors in power centers typically occupy 85 percent or more of the GLA.

Regional Center - provides general merchandise, apparel, furniture, and home furnishings in depth and variety, as well as a range of services and recreational facilities. It is built around one or two full-line department stores. Its typical size is about 500,000 square feet of gross leaseable

Triangle Metropolitan Region

Source: Office of Management and Budget, U.S. Census



area. In practice, it may range from 250,000 to more than 900,000 square feet. The regional center provides services typical of a business district yet not as extensive as those of the super regional center.

Super Regional Center - offers extensive variety in general merchandise, apparel, furniture, and home furnishings, as well as a variety of services and recreational facilities. It is built around three or more full-line department stores. They typical size of a super regional center is about 1,000,000 square feet of GLA. In practice, the size ranges from about 500,000 to more than 1,500,000 square feet.

Lifestyle Center - a shopping center or mixed-use commercial development that combines the traditional retail functions of a shopping mall but with leisure amenities oriented towards upscale consumers.

Mixed Use - vertically stacked uses in a single building, typically residential units or office space above ground floor space dedicated to either retail, services, dining or offices.

TYPES OF RETAIL GEOGRAPHIES

The previous section described specific types of retail developments, but many retail / commercial areas have multiple types of developments that create a whole that is more than the sum of its parts. For example, a cluster of community or power center developments could, in total, establish a geography that has a “regional” draw. Similarly, a geography with a regional center could be combined with one or more developments of similar scale to create a “super regional” trade area.

Downtown / Central Business District - a concentration of retail businesses in many, sometimes hundreds, of individual buildings located in a community’s historic central business district. Overall size and business type / mix varies widely between communities, but they usually include a high concentration of dining and drinking establishments, as well as convenience oriented retail. Often does not include traditional “anchor” retail, instead having a concentration of smaller scale retail businesses in storefront settings. May have a local or regional draw, depending on community and retail mix. Larger Downtowns may include shopping developments like community centers or regional centers.

Neighborhood Commercial District - Similar to a Downtown / Central Business District, but of a smaller scale and oriented almost exclusively to customers from immediate or nearby neighborhoods. May include a convenience or neighborhood center(s).

New Urban Commercial District - A concentration of small scale retailers in new master planned developments. Designed to mimic downtown or neighborhood commercial districts. Emphasis on convenience goods, services and dining, with some grocery and other daily goods.

Super Regional Area - A geography that has a “super” regional trade area (covering 10-50+ miles) that has at its core either a regional or super regional center. Mid sized metropolitan areas typically have only one or two of these geographies.

SECTION 1: Existing Conditions

1.1 REGIONAL RETAIL LANDSCAPE

Befitting a metropolitan area of its size and growth rate, the Triangle Region has a number of major shopping areas, including several super regional shopping centers. Typical of regional development trends of its era, most major and minor shopping centers are built with automobile access as a primary concern, though there are several pedestrian oriented dining and entertainment destinations, mostly in historic downtown settings. Several of the existing major shopping centers were built within the past 10 years, or have been expanded or renovated to stay current with the marketplace.

Raleigh-Cary Major Shopping Centers / Destinations

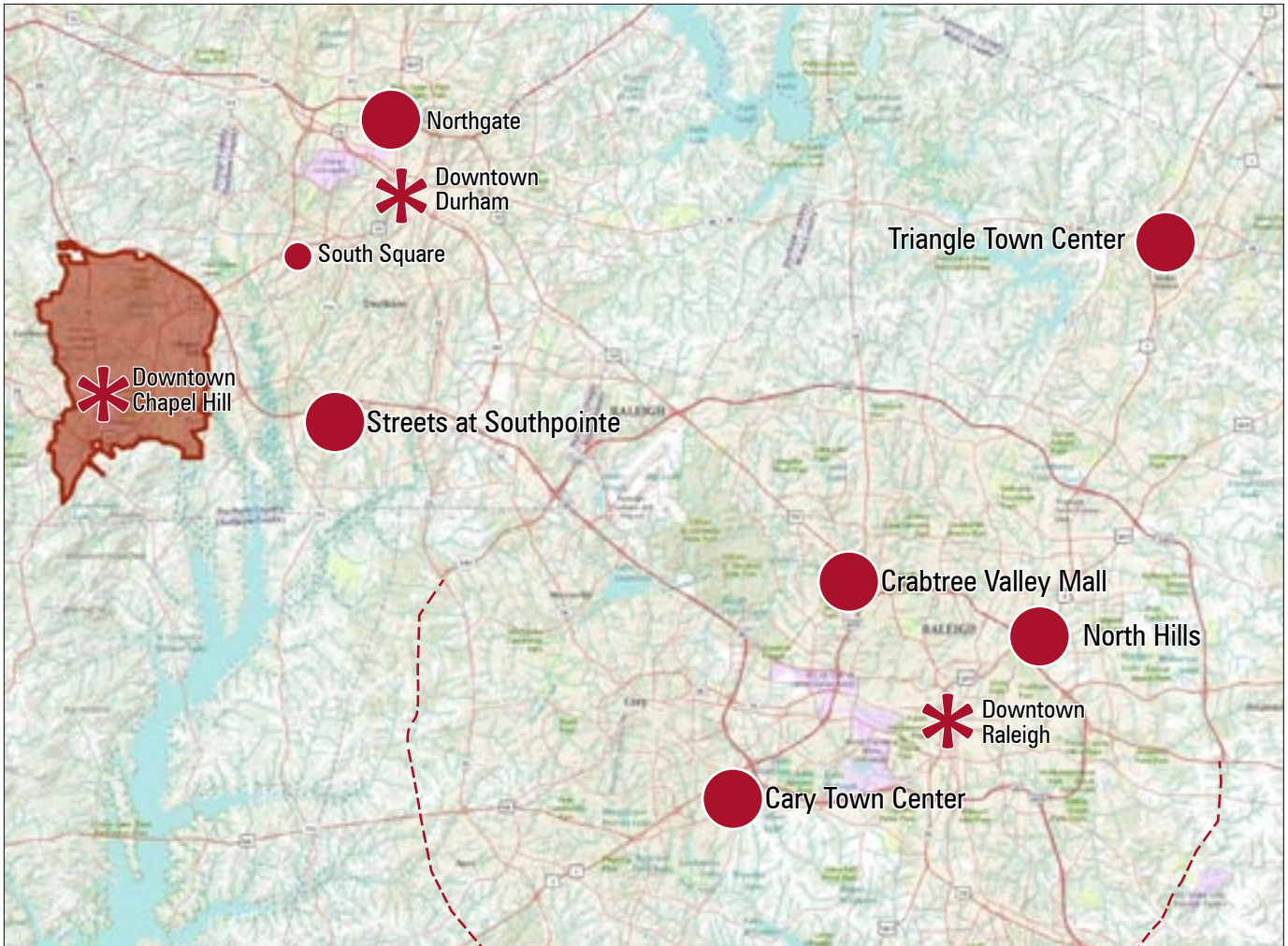
Crabtree Valley Mall - the largest enclosed shopping mall in the Triangle area at 1.3 million square feet and opened in 1972. It has 220 stores anchored by Hudson Belk, Sears and Macy’s. They expanded in the 1990s to combat competition from an expanded Cary Town Center.

Cary Town Center - Opened in 1979 as the Cary Village Mall, this regional shopping mall was expanded in 1991 to encompass 1.1 million square feet. Managed by CBL & Associates, it has 130 stores including anchors Macy’s, Hudson Belk, Dillard’s, JC Penney, and Sears. Nearby are several other shopping centers, including Crossroads Plaza with 640,000 square feet and 70 stores, and the 315,000 square foot Centrum at Crossroads development. Between Cary Town Boulevard and Jones Franklin Road, there is approximately 2.5 million square feet of regionally serving retail.

North Hills - originally opened in 1967 as the North Hills Mall and was redeveloped into a mixed use lifestyle center that includes 100 stores and 730,000 square feet of retail anchored by REI and Target, a 14 screen Regal Movie Theater, 120,000 square feet of office, and a 223 room

Figure 1.1 Regional Shopping Destinations - Triangle Region

Source: DCI Research



Renaissance Hotel. Across the street is a 275,000 square foot Captrust Office Tower and a development called The Lassiter at North Hills that includes a Harris Teeter Grocery Store and several hundred apartments.

Triangle Town Center - Opened in 2002, with anchors Hudson Belk, Sears, Dillard’s, Macy’s, Barnes and Noble, and Saks Fifth Avenue. 165 stores with 1.3 million square feet. Includes an primary enclosed mall component as well as an open air “lifestyle” component. Managed and owned by CBL & Associates.

Downtown Raleigh - Downtown Raleigh is a major dining, shopping, and entertainment destination with 80 retail businesses, 120 dining establishments, 59 bars and clubs, 130 service businesses, and 56 art and cultural establishments.

Durham-Chapel Hill Major Shopping Centers

South Square Mall - Opened in 1975 and closed in 2002 due to competition from the newly opened Streets at Southpoint. Originally it had Hudson Belk, JC Penney, and Montgomery Ward as anchor tenants and 90 stores. Razed to make way for a power center that stands in its place today, anchored by a SuperTarget and Sam’s Club.

Northgate - Opened in 1974, anchored by Macy’s, Sears, and Northgate Stadium 10. Over 100 stores with 900,000 square feet. Originally one of two regional malls serving the Durham-Chapel Hill Metropolitan Area (along with South Square).



Triangle Town Center, located in Northern Raleigh, is one of the newest and higher end shopping centers in the Triangle. It has the Region's only Saks Fifth Avenue, with both inside and outdoor retail components.



North Hills, a lifestyle center that replaced an enclosed shopping center.



The South Square development, anchored by a Super Target, that replaced an enclosed mall.



The Streets at Southpoint, a super regional center positioned to capture markets from both Durham-Chapel Hill and Raleigh-Cary.

Streets at Southpoint - Opened in 2002, it is managed and owned by General Growth Properties. It includes a central two story enclosed mall, and an open air lifestyle component with a total of 140+ stores and 1.3 million square feet. Anchors include Nordstrom, Macy's, Hudson Belk, JC Penney and Sears. It also includes some upscale retailers that have only one store in the Triangle area, including Apple, Restoration Hardware, and Bose. The only super-regional mall in the Durham-Chapel Hill Metropolitan Area.

Downtown Durham - Downtown Durham has over 40 dining establishments and several dozen retailers. With Brightleaf Square and American Tobacco complexes, as well as a recently built Performing Arts Center, it is a regional destination for dining and entertainment.

Downtown Chapel Hill - Downtown Chapel Hill is estimated to have several hundred retail and dining establishments, not including Downtown Carrboro, which has dozens more. Located adjacent to the University of North Carolina, several restaurants and establishments draw a regional customer base.

1.2 CHAPEL HILL RETAIL

Existing Retail and Competition

The Town of Chapel Hill has a unique and diverse blend of retail offerings. This includes a traditional "main street" retail environment adjacent to the University of North Carolina, traditional automobile oriented shopping centers, and contemporary mixed use developments that place offices and residences above retail shops.

Retail developments and geographies can be generally broken down into three categories based on how consumers tend to shop. The first are regional shopping centers, which draw customers on a semi-regular basis for leisure goods, such as electronics, clothing, sporting goods etc. As noted in previous discussions, these areas draw large amounts of customers over a wide trade area. The second are "regular goods" centers, built around grocery stores, pharmacies, or both that serve customers from

a closer geography on a weekly or semi-weekly basis. The third includes "daily goods" centers that offer dining, services, and convenience retail to customers within an immediate range, either neighborhood residents, office workers, college students, or all three.

Chapel Hill households have two primary areas for regional retail. The first is the Streets at Southpoint. This mall offers a high concentration of boutique, niche, and "category-killer" retail offerings, some of which are unique within the entire region, such as Urban Outfitters, Crate and Barrel, and the Apple Store. The second area is the 15-501 Corridor, anchored at one end by Eastgate and University Mall shopping centers in Chapel Hill, and South Square on the other side in Durham. This Corridor, which also includes retail centers like New Hope Commons and Patterson Place, contains a large proportion of major retailer dedicated to regular goods, such as Target, Dick's, Lowes and Home Depot, Kohl's, Dillard's, etc.

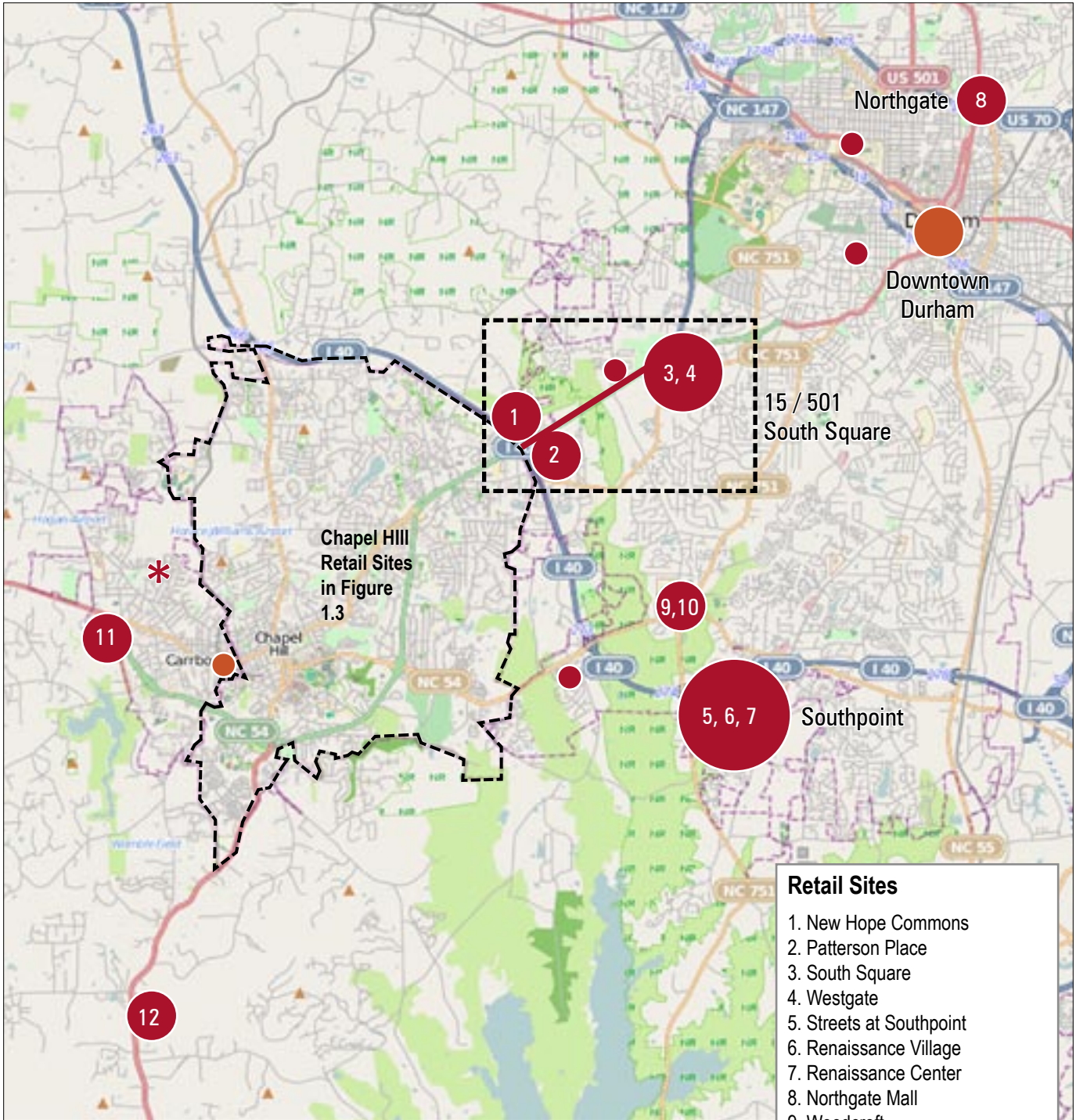
Despite this concentration of "regionally" serving retail, Chapel Hill has no regional shopping center developments. The largest single retail development is University Mall, with approximately 360,000 square feet of gross leasable area (GLA). University Mall is a relatively dated mall with several anchors, including Dillard's, Harris Teeter, and Southern Seasons - a speciality food store. It anchors the largest concentration of retail within the intersection of Fordham Boulevard, Elliot Road and Ephesus Church Road, but only with the combinations of four other retail centers does the area act as a regionally serving retail geography for Chapel Hill and its environs. The area described above and illustrated in Figure 1.3 includes three of the largest retail centers in Chapel Hill (University Mall, Eastgate Shopping Center, and Ram's Plaza) as well as additional smaller scale neighborhood strip centers. It totals roughly 800,000 square feet of retail or 55-58% of all retail square footage in Chapel Hill, not including Downtown Chapel Hill.

The next largest concentrations of retail in Chapel Hill is Chapel Hill North / Timberlyne, a regular / daily goods area serving the northern portion of Chapel Hill and southern Orange County, Glenwood Square / Glen Lennox / East 54, which is a combines regular and daily goods geography

Figure 1.2 Major Retail Centers Near Chapel Hill

Source: DCI Research, ESRI Business Analyst

Site / Center	GSF	Category	Year	Key Tenants
15 / 505 Corridor / South Square				
New Hope Commons	408,292	Community	1995	Walmart, Dicks, Best Buy
Patterson Place	517,321	Community	2004	Home Depot, Kohl's Kroger
South Square	432,000	Community	2005	SuperTarget, Sam's Club
Westgate Plaza	202,502	Community	1987	Toys R Us
Other Misc.	150,000+	n/a	n/a	Kmart, CVS, TJ Maxx
Southpoint				
The Streets at Southpoint	1,326,000	Super Regional	2002	Macy's, Hudson Belk, Nordstrom
Renaissance Village	337,052	Power Center	n/a	SuperTarget, hhgregg, Michaels
Renaissance Center	340,703	Power Center	2003	Best Buy, Babies R Us
Other Misc.	200,000+	n/a	n/a	Kroger, Harris Teeter
Northgate				
Northgate Mall	900,000	Regional	1974	Sears, Macy's
Other				
Woodcroft Shopping Center	89,833	Neighborhood	1974	Sears, Macy's
Hope Valley Commons	103,435	Neighborhood	n/a	Harris Teeter
Carrboro Plaza	n/a	Neighborhood	n/a	Food Lion
Chatham Crossing	96,000	Neighborhood	n/a	Lowes Foods



Chapel Hill Retail Sites in Figure 1.3

- Retail Sites**
1. New Hope Commons
 2. Patterson Place
 3. South Square
 4. Westgate
 5. Streets at Southpoint
 6. Renaissance Village
 7. Renaissance Center
 8. Northgate Mall
 9. Woodcroft
 10. Hope Valley Commons
 11. Carrboro Plaza
 12. Chatham Crossing

	Super Regional		Community
	Regional		Downtown / Urban Retail
			Neighborhood
			Chapel Hill Town Boundaries



Figure 1.3 Existing Town of Chapel Hill Retail Centers*

Source: Town of Chapel Hill, ESRI Business Analyst and DCI Analysis

Site / Center	GSF**	Category	Year	Key Tenants
Chapel Hill North	95,820	Neighborhood		Harris Teeter
Timberlyne Shopping Center	112,925	Neighborhood		Chelsea Theater
Weaver Dairy Road	14,500	Convenience		
Homestead at MLK	7,000	Convenience		
Downtown Chapel Hill	270,000	Downtown		
Meadowmont	96,740	New Urban		
Southern Village	62,500	New Urban		
University Mall	400,000	Formerly regional - now Super Community	1973****	Dillard's, Southern Season, Harris Teeter
Elliot Road	194,000	Cluster of Convenience / Neighborhood Centers		Whole Foods, Staples
Eastgate	175,600	Community	1958****	Trader Joe's, Starbucks, Steinmart
Ram's Plaza	127,400	Neighborhood		Food Lion
Lowe's / Borders	147,000	Power Center		Lowe's, Borders
Midtown Plaza	24,000	Convenience		
Glen Lennox	37,000	Convenience		
Glenwood Square	52,000	Neighborhood		Fresh Market
East 54	54,000	Neighborhood		
Hillmont	23,500	Convenience		
Other Retail	234,000	Other Misc. or unaccounted for in above estimates		
Estimated Square Footage (not including Downtown)				1,624,000
Estimated Square Footage (including Downtown Estimates)				2,128,000
Estimated Gross Leasable Square Footage				1,915,000 - 2,021,000

* Includes Non Automotive and Internet Related Retailers Included in NAICS categories located in Figure 1.4. Does not include certain service type businesses, like Banks.

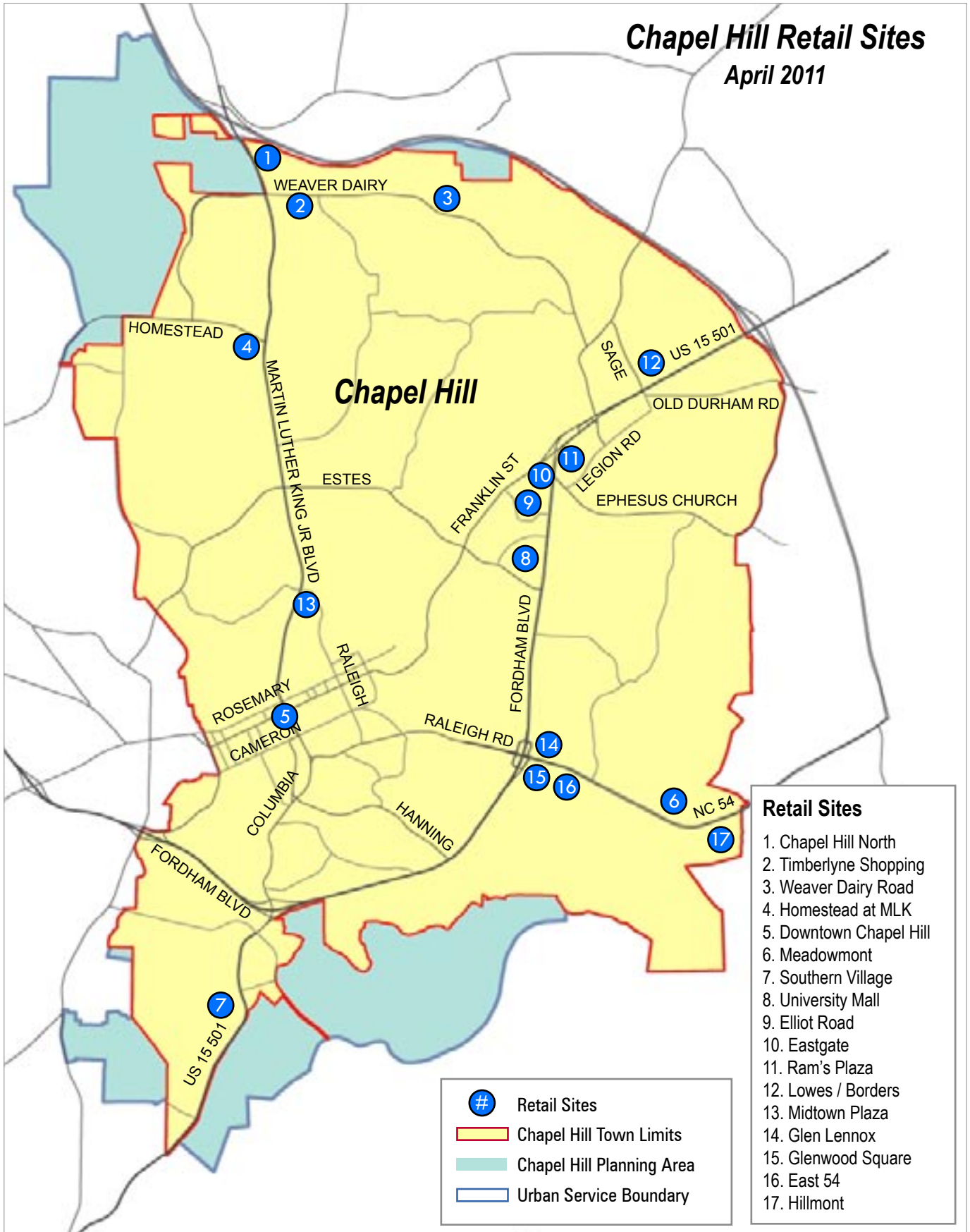
** Estimated using GIS, does not include Gross Leasable Square Footage

*** Estimated using supply data from ESRI Business Analyst

**** Center has been renovated since opening

Chapel Hill Retail Sites

April 2011





View of Southern Season, in University Mall



The Food Lion anchoring Ram's Plaza



East 54, a mixed use commercial / residential development with ground floor retail facing Route 54.



Meadowmont commercial / retail center



Downtown Chapel Hill



Whole Foods, located in a small neighborhood center on Elliott Road near Eastgate Shopping Center

with three different neighborhood centers, and Downtown Chapel Hill.

Downtown Chapel Hill is primarily consists of dining and drinking establishments, though it does have a number of daily goods retailers like Walgreens to serve students from the University of North Carolina. Using retail gap data from ESRI (illustrated in the next section) approximately 40-45% of all food and drink sales are from within the core Downtown area. The largest single retail development in Downtown Chapel Hill is University Square, which has 16 retail and service businesses and 3 restaurants. As a cluster of businesses, Downtown is the second largest retail center within Chapel Hill, though it undoubtedly draws many more customers than University Mall.

Recent Retail Development

It is important to note that with the exception of the University Mall / Eastgate Area, Chapel Hill residents must travel to Durham for all other regional / leisure based retail offerings. This includes several large and common retail destinations such as Wal-Mart, Home Depot, and Target. There have been virtually no major retail centers built within the boundaries of Chapel Hill for several decades. Instead, most of the retail activity has been is smaller scale developments like Southern Village and East 54. The most recent retail activity concerning medium to large scale centers involves only the construction of the Lowes / Borders Plaza off of 15/501, and the renovation of the Eastgate Shopping Center. University Mall, the Town's largest retail center, has been through some minor improvements since its most recent purchase.

Meanwhile, much of the regional retail that serves the Chapel Hill market has been constructed outside of the community, sometimes immediately adjacent to the Town's boundary. Since 2000, the super regional geography of Southpoint has added three major shopping centers with over 2 million square feet. Just across I-40 from Chapel Hill, Patterson Place and New Hope Commons represent another 900,000+ square feet of retail.

1.3 RETAIL GAP ANALYSIS

One of the best methods to understand both local and regional retail demand is through a retail gap analysis. This method compares a geography's retail "supply" (i.e. estimated aggregate retail sales) with the total "demand" from households living in that area, calculated through a combination of income and consumer patterns. The resulting number is the "gap" which is used to determine the opportunity for retail development. There are several different sources for this data - this Study uses data from ESRI Business Analyst, which in turn uses data from InfoUSA. There are many nuances to the retail gap data, and therefore it is best to understand them in terms of an order of magnitude as opposed to precise estimates.

Figure 1.4 illustrates the retail gap analysis for the Town of Chapel Hill. The data is broken down by employment sub-sectors using NAICS (the North American Industrial Classification System). As an example, of how a retail gap analysis works, refer to NAICS 4422 - Home Furnishing Stores. The demand, or retail potential, for this sub-sector is approximately \$7.2 million, meaning that the households of Chapel Hill would generally be expected to spend that amount in home furnishings within a given year. Existing home furnishing sales within the Town are estimated to be only \$1.4 million, resulting in retail "leakage" of \$5.8 million. This is termed "leakage" because Chapel Hill households would be expected to spend this money somewhere, and if options are not found in existing retail within Town limits, then those dollars are determined to "leak" to retail centers outside of Chapel Hill - most likely South Square or Streets at Southpoint. Leakage is one of the primary indications of opportunity for retail growth, since it illustrates the potential to "capture" anticipated spending into new retail centers.

Alternatively, a category like Full-Service Restaurants (NAICS 7221) has a higher supply than demand, resulting in a negative retail gap. This shows that local restaurants attract more sales than will be spent by Chapel Hill residents, indicating that they draw in customers from outside of the Town for customers. A negative retail gap, or "surplus" indicates a relatively competitive local retail

Figure 1.4 Retail Gap Analysis - Town of Chapel Hill

Source: ESRI Business Analyst

Industry Group	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap
Motor Vehicle & Parts Dealers (NAICS 441)	\$113,274,253	\$128,931,943	\$-15,657,690
Automobile Dealers (NAICS 4411)	\$99,859,723	\$127,032,239	\$-27,172,516
Other Motor Vehicle Dealers (NAICS 4412)	\$6,794,972	\$0	\$6,794,972
Auto Parts, Accessories, and Tire Stores (NAICS 4413)	\$6,619,558	\$1,899,704	\$4,719,854
Furniture & Home Furnishings Stores (NAICS 442)	\$14,105,380	\$4,388,557	\$9,716,823
Furniture Stores (NAICS 4421)	\$6,885,383	\$2,993,801	\$3,891,582
Home Furnishings Stores (NAICS 4422)	\$7,219,997	\$1,394,756	\$5,825,241
Electronics & Appliance Stores (NAICS 443/NAICS 4431)	\$15,209,053	\$6,809,031	\$8,400,022
Bldg Materials, Garden Equip. & Supply Stores (NAICS 444)	\$21,142,225	\$11,036,074	\$10,106,151
Building Material and Supplies Dealers (NAICS 4441)	\$18,090,359	\$8,914,596	\$9,175,763
Lawn and Garden Equipment and Supplies Stores (NAICS 4442)	\$3,051,866	\$2,121,478	\$930,388
Food & Beverage Stores (NAICS 445)	\$112,484,523	\$124,417,985	\$-11,933,462
Grocery Stores (NAICS 4451)	\$106,663,713	\$115,707,056	\$-9,043,343
Specialty Food Stores (NAICS 4452)	\$903,809	\$795,497	\$108,312
Beer, Wine, and Liquor Stores (NAICS 4453)	\$4,917,001	\$7,915,432	\$-2,998,431
Health & Personal Care Stores (NAICS 446/NAICS 4461)	\$17,798,591	\$13,614,058	\$4,184,533
Gasoline Stations (NAICS 447/4471)	\$98,521,767	\$42,641,513	\$55,880,254
Clothing and Clothing Accessories Stores (NAICS 448)	\$25,497,490	\$15,006,751	\$10,490,739
Clothing Stores (NAICS 4481)	\$19,799,504	\$11,341,580	\$8,457,924
Shoe Stores (NAICS 4482)	\$1,908,489	\$954,070	\$954,419
Jewelry, Luggage, and Leather Goods Stores (NAICS 4483)	\$3,789,497	\$2,711,101	\$1,078,396
Sporting Goods, Hobby, Book, and Music Stores (NAICS 451)	\$15,712,159	\$11,092,444	\$4,619,715
Sporting Goods/Hobby/Musical Instrument Stores (NAICS 4511)	\$10,093,347	\$3,118,968	\$6,974,379
Book, Periodical, and Music Stores (NAICS 4512)	\$5,618,812	\$7,973,476	\$-2,354,664
General Merchandise Stores (NAICS 452)	\$27,873,307	\$6,488,055	\$21,385,252
Department Stores Excluding Leased Depts.(NAICS 4521)	\$18,170,115	\$5,195,859	\$12,974,256
Other General Merchandise Stores (NAICS 4529)	\$9,703,192	\$1,292,196	\$8,410,996
Miscellaneous Store Retailers (NAICS 453)	\$10,215,808	\$17,462,236	\$-7,246,428
Florists (NAICS 4531)	\$924,889	\$797,717	\$127,172
Office Supplies, Stationery, and Gift Stores (NAICS 4532)	\$6,315,013	\$13,920,112	\$-7,605,099
Used Merchandise Stores (NAICS 4533)	\$1,318,562	\$636,770	\$681,792
Other Miscellaneous Store Retailers (NAICS 4539)	\$1,657,344	\$2,107,637	\$-450,293
Food Services & Drinking Places (NAICS 722)	\$91,164,979	\$128,386,301	\$-37,221,322
Full-Service Restaurants (NAICS 7221)	\$49,168,142	\$75,224,740	\$-26,056,598
Limited-Service Eating Places (NAICS 7222)	\$24,053,344	\$28,134,626	\$-4,081,282
Special Food Services (NAICS 7223)	\$11,160,932	\$20,719,123	\$-9,558,191
Drinking Places - Alcoholic Beverages (NAICS 7224)	\$6,782,561	\$4,307,812	\$2,474,749

environment, potentially making it more difficult to start-up additional businesses in that retail category. It can also indicate a strength, or the fact that a particularly geography is a retail center or destination.

Chapel Hill Gap Analysis

As shown in Figure 1.4, virtually all retail categories in Chapel Hill show some leakage of retail dollars, with the exception of Food & Beverage Stores, Miscellaneous Store Retailers, and Food Services & Drinking Places. This indicates that a significant portion of retail spending is done by Chapel Hill residents outside of the Town. The extent of this spending is shown in Figure 1.5. After adjusting aggregate retail spending to represent non-automotive related categories, it is estimated that there is approximately \$50 million in GAFO retail leakage, which would represent 20% of all anticipated spending by Chapel Hill residents.

If this leakage were “captured” back into the Town, this would represent an opportunity for 150,000 - 200,000 square feet of new retail (assuming existing conditions and a retail range of \$250-\$350/sf, which differs based on the type of retailer). This, however, takes into consideration several categories that have negative gap results. According to ESRI Business Analyst, the retail categories that show the largest potential include Clothing Stores, Building Materials and Supplies, Electronics and Appliances, Furniture and Home Furnishings, and General Merchandise Stores. If one were to calculate the retail potential only for those categories that show leakage, the retail potential jumps from 200,000 - 275,000 square feet.

However, this analysis does not take into account all the components of a retail gap analysis. It cannot be assumed that 100 percent of the leakage within a certain retail category can be captured back into a geography. There are almost always some type of retail goods purchased that are not from local establishments, such as luxury / speciality goods found in only a few locations (like the Apple Store), or goods purchased from online vendors. Also, the data does not reflect two other important sources of retail demand: employees and students who do not live within the Town borders. These groups spend money on retail purchases in Chapel Hill, even if it is not as much as those who live in the community.

According to a survey conducted in 1989 by the International Council of Shopping Centers (ICSC), the typical office worker spends \$1,900 a year on daytime and after work dining, drinks and shopping. Adjusting for inflation, this amount rises to \$3,350. ESRI estimates that there are approximately 34,000 employees living in Chapel Hill, meaning there is an additional retail potential of over \$110 million in retail and dining, though this number has to be adjusted for capture rates and the difference between office workers (professionals) and other types of employees (non-professionals). The *Town of Chapel Hill Residential Market Study* estimated that over 12,000 University of North Carolina students live outside of Town. Figure 1.6 endeavours to paint a more complete picture of the retail environment within Chapel Hill. It should be noted that this assessment is based on a series of assumptions and should be considered to be a general indicator of retail demand rather than a specific projection.

Figure 1.5 Adjusted Summary Retail Gap Data - Town of Chapel Hill

Source: ESRI Business Analyst

	Demand	Supply	Gap
Total Retail & Dining	\$589,760,650	\$522,975,921	\$66,784,729
GAFO Retail*	\$260,038,536	\$210,315,191	\$49,723,345
Food Services & Drinking Places	\$100,134,138	\$130,769,167	-\$30,635,029
Leakage Categories Only	\$137,338,205	\$68,434,970	\$68,903,235

* GAFO = General, Apparel, Furnishings and Other - excludes motor vehicle and related purchases, gasoline stations and nonstore retailers.

Figure 1.6 Revised Gap Analysis - Residents, Employees and Students

Source: ESRI Business Analyst and DCI Analysis

	#	Spending	Demand (GAFO+Dining)	Est. Capture Rate	Adj. Demand
Chapel Hill Households	19,000	\$18,875 / household	\$360,172,674	85%	\$306,000,000
Employees	34,000				
Professional	23,000	\$3,350	\$77,050,000	50%	\$38,525,000
Non Professional	11,000	\$1,500	\$22,000,000	50%	\$11,000,000
Non Resident Students	12,000	\$2,150	\$25,800,000	15%	\$3,875,000
TOTAL RETAIL AND DINING					\$359,540,000
	Total Adj. Demand		GAFO Demand	Food & Drink Demand	
Chapel Hill Households	\$306,000,000		\$221,000,000	\$85,114,000	
Employees					
Professional	\$38,525,000		\$13,480,000	\$25,000,000	
Non Professional	\$11,000,000		\$7,150,000	\$3,850,000	
Non Resident Students	\$3,875,000		\$2,515,000	\$1,350,000	
TOTAL DEMAND	\$359,540,000		\$255,706,750	\$103,802,250	
TOTAL SUPPLY	\$341,084,358		\$210,315,191	\$130,769,167	
GAP			\$45,391,559	\$(26,996,917)	

Figure 1.7 Estimated Potential Square Footage from Captured Retail Leakage

Source: ESRI Business Analyst and DCI Analysis

Category	Demand (millions)	Supply (millions)	Gap (millions)	Adj. Gap (millions)	Potential Square Footage Capture
Furniture	\$14.1	\$4.4	\$9.7	\$8.3	24,000 - 33,000
Electronics	\$15.2	\$6.8	\$8.4	\$7.1	20,000 - 28,500
Building Materials	\$21.1	\$11.0	\$10.1	\$8.6	25,000 - 34,000
Health & Personal Care	\$17.8	\$13.6	\$4.2	\$3.5	10,000 - 14,000
Clothing	\$25.5	\$15.0	\$10.5	\$9.0	25,500 - 36,000
Sporting Goods	\$15.7	\$11.0	\$4.7	\$4.0	11,000 - 15,700
General Merchandise	\$27.8	\$6.5	\$21.4	\$18.1	52,000 - 72,700
					167,000 - 234,000

After adjusting for additional markets and applying appropriate capture rates and anticipated constant leakage, the aggregate results for Chapel Hill ends up very close to the estimated gap previously determined solely by the resident market - approximately \$45 million in leakage for GAFO retail and a surplus of \$26 million in food and drink. Available data allows a more detailed category by category look through the original data provided by ESRI, since there are no good estimates for the exact categories in which

employees and students spend their money. Fortunately, because the gap analysis for resident households was similar to the adjusted gap for residents, employees and out of town students, projections can be applied with a relative confidence of accuracy.

Using only the categories in Figure 1.4 that showed leakage, Figure 1.7 represents the potential for additional retail within the Town of Chapel Hill by retail category.

Market Area Gap Analysis

Examining the retail surplus / leakage for a single geography such as a neighborhood or municipality is not sufficient to fully analyze the potential for future retail development. Retail development relies upon trade areas that are not defined by political boundaries. Any identified retail “leakage” within a community may be met by retail centers immediately outside of that geography. Similarly, a surplus in retail for a city may underestimate the potential to add regionally serving retail that attracts customers from a larger area.

To confirm and revise the potential retail opportunities identified in Section 1.3, retail supply and demand data was drawn for two larger market areas centered on Chapel Hill. The first is a 15 minute drive time from Downtown Chapel Hill, which encompasses all of Chapel Hill and its immediate environs, including Carrboro and parts of Orange County. The second is a 20 minute drive time that includes parts of northern Chatham County, a significant portion of southern Orange County, and much of southern Durham County. A map of these areas and relevant data is illustrated in Figure 1.8.

This data shows three clear trends within the geography that can be considered Chapel Hill’s “market area”. First, leakage in retail dollars only increases the further one moves away from Chapel Hill, despite the inclusion of several regional shopping areas like Southpoint, South Square and Northgate. This indicates “latent” demand for retail goods - potential consumer spending that is not being spent in the immediate Region. Latent demand represents the best opportunity for immediate capture for new retail development.

The second trend is related to Food & Dining, which has a surplus of supply both within Chapel Hill and its overall market area. This generally means that the area is oversupplied with dining. On one hand, this is a strength, since Chapel Hill and environs clearly draw enough additional customer base from outside the area for dining. On the other hand, unless positioned well this indicates a more difficult opportunity for retail growth.

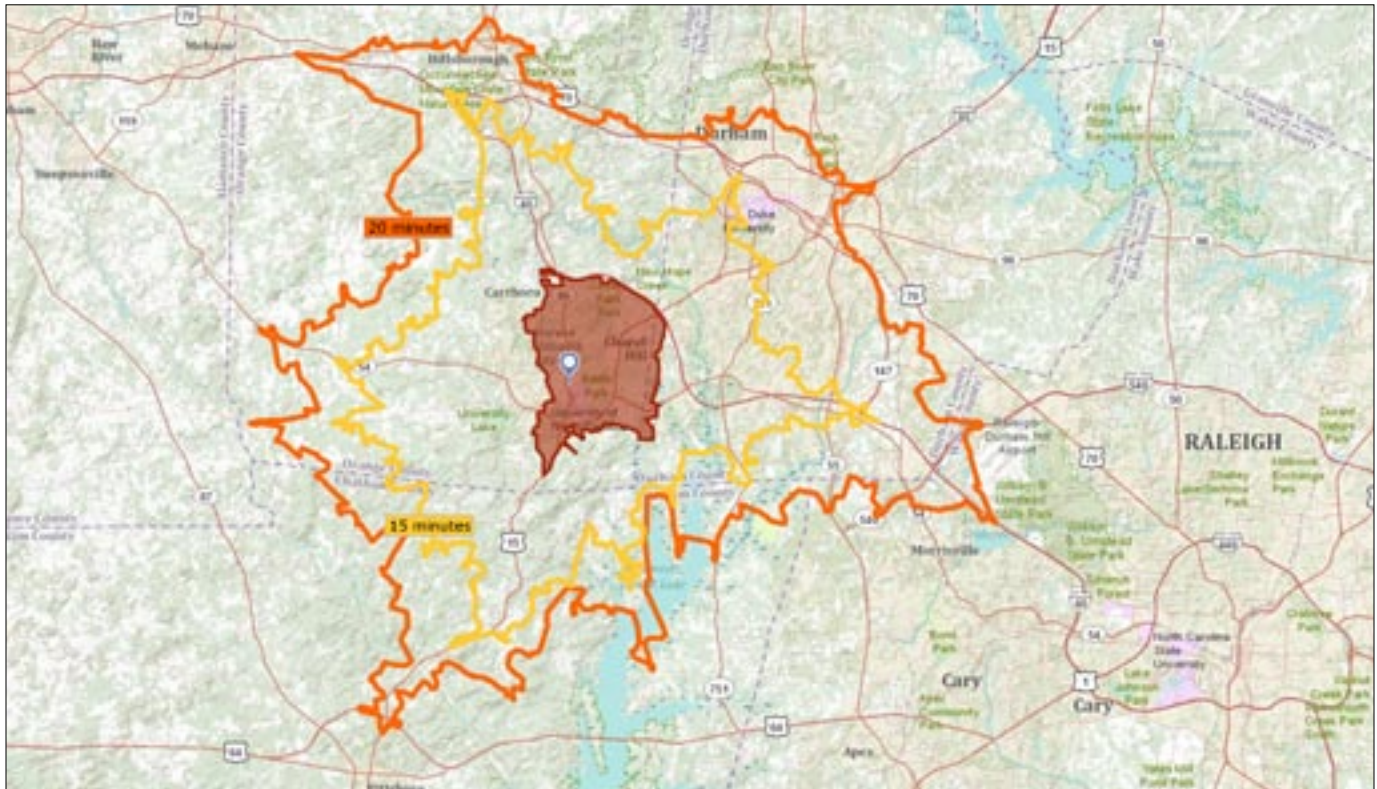
Third, the potential for future retail development within Chapel Hill is likely to come from regional opportunities as well as demand within the Town itself. This may drastically increase the potential square footage that could be developed within Town boundaries.

1.4 KEY FINDINGS - EXISTING CONDITIONS

- Chapel Hill has approximately 1.3 million to 1.5 million square feet of retail space, most of which is split up between several small to medium neighborhood and community center scaled developments.
- The Town has a wide variety of retail offerings, from traditional strip centers to “urban” storefront space both in the Downtown area, and New Urban style communities.
- While Chapel Hill has experienced some small and medium scale retail development in the past decade, the vast majority of regionally serving retail has been built just outside the Town’s borders in Durham, including 900,000+ sf in New Hope Commons and Patterson Place, and 2 million+ sf at the Streets at Southpoint and other nearby centers.
- An assessment of the gap between supply and demand for retail finds over \$45 million in “leakage”, indicating that large portions of consumer dollars are being spent outside of Chapel Hill. If captured back into Chapel Hill, this leakage would represent between 167,000 and 234,000 square feet of retail space.
- A broader view of the local retail marketplace shows that this “leakage continues outside of Chapel Hill, despite the location of over 4+ million square feet of regionally serving retail just outside of Chapel Hill. This indicates “latent” demand for additional retail in or near Chapel Hill.

Figure 1.8 Chapel Hill Market Area

Source: ESRI Business Analyst and DCI Analysis



TOWN OF CHAPEL HILL		15 MINUTE MARKET AREA		20 MINUTE MARKET AREA	
RETAIL		RETAIL		RETAIL	
Demand	\$260 million	Demand	\$925 million	Demand	\$1,440 million
Supply	\$210 million	Supply	\$810 million	Supply	\$1,300 million
Gap	\$49.7 million	Gap	\$115 million	Gap	\$144 million
= 140 - 200k GLA		= 330 - 460k GLA		= 410 = 575k GLA	
DINING		DINING		DINING	
Demand	\$100 million	Demand	\$303 million	Demand	\$466 million
Supply	\$130 million	Supply	\$377 million	Supply	\$605 million
Gap	\$(30 million)	Gap	\$(74 million)	Gap	\$(138 million)

- There is an oversupply of food and drink establishments, both in Chapel Hill and the Region. These businesses draw in customers from outside the local market, but leave limited opportunity for continued expansion in the market.
- There is also a surplus of food and beverage store sales, indicating an oversaturation in groceries.
- Spending potential from Chapel Hill households represent the largest local customer base, but employees and students represent notable sub-markets. Retail developments like Meadowmont and East 54 likely draw large percentages of sales from nearby employees.
- Leakage in core GAFO retail categories are generally equal across the board, ranging between 20,000 and 40,000 square feet in retail growth potential. The largest category of leakage is in General Merchandise. This suggests demand for a department store or supercenter, which makes sense considering that national retailers like Walmart and Target are both located outside of Chapel Hill, but within easy driving distance.

SECTION 2: Market Trends

2.1 DEMOGRAPHIC / ECONOMIC TRENDS

As the old adage “retail follows rooftops” attests, an examination of future possibilities for retail development is based heavily on population growth trends, and how current retail centers serve both existing and future population centers. Given the fast pace of growth that the Triangle area has experienced in the past 20+ years, and the population projections for the Region that suggest similar rates over the next 20 years, it is important to analyze future growth areas and the anticipated relationship of retail to those areas.

Past Population Growth

The Triangle Region has seen a significant amount of population growth over the past two decades. In 2010, the Raleigh-Durham CMSA had approximately 1.75 million people. With a 1990 population of only 864,000, the Triangle Region has doubled in only 20 years.

The Raleigh-Cary Metropolitan Statistical Area (MSA) is the 48th largest metropolitan area in the country with 1.13 million people, and the second largest metropolitan area in the State of North Carolina, after Charlotte. According to the U.S. Census, Raleigh-Cary was the 4th fastest growing metropolitan area in the country between 2000 and 2010. When examining other MSAs with increased population growth, Raleigh-Cary has added significantly more people than its growth peers. The Durham-Chapel Hill MSA has grown slower than its neighbor, but still recorded robust growth over the past two decades. It grew by 77,864 people between 2000 and 2010 and was the 102nd fastest growing MSA in the country. The City of Durham accounts for 45% of the population in the MSA and grew by 50% between 1990 and 2010. The Town of Chapel Hill accounts for 11% of the MSA’s population and grew by 47% over the same time period.

Figure 2.1 Population Projections 2010 - 2015 by Census Tract

Source: ESRI Business Analyst

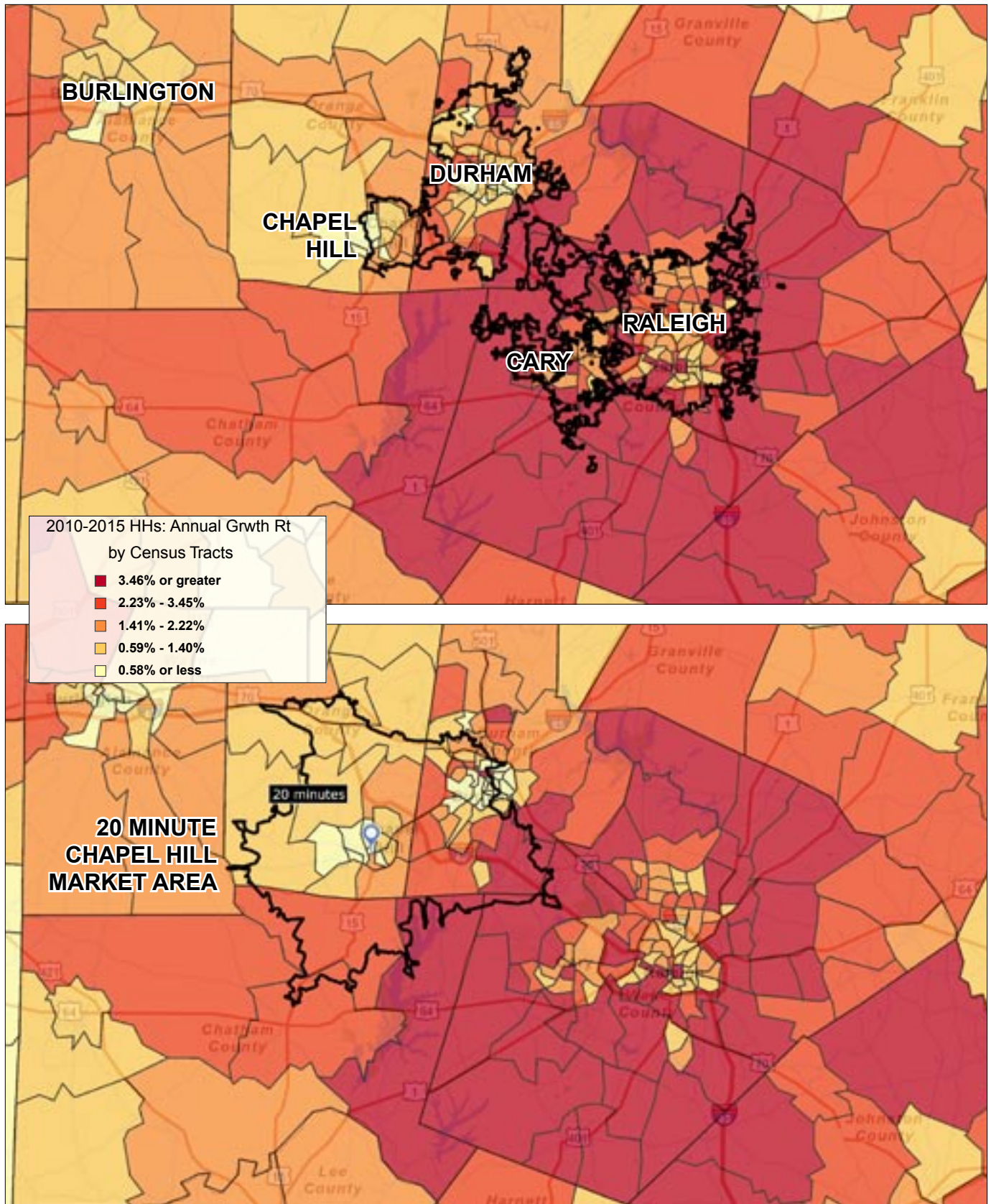


Figure 2.2 County Population Projections 2010 - 2030

Source: US Census and State of North Carolina

	2010	2020	2030
Chatham County	63,505	78,237	92,604
Durham County	267,587	323,474	378,024
Franklin County	60,619	74,697	88,330
Johnston County	168,878	220,591	271,031
Orange County	133,801	155,442	176,560
Person County	39,464	49,931	48,308
Wake County	900,993	1,160,823	1,414,333

Future Population Growth

The State of North Carolina projects that the Triangle Region will add more than 800,000 people over the next 20 years. This is the equivalent to the number of people who lived in the Region in 1990, a growth rate of 185% in 40 years. Clearly, this will have an impact on the retail landscape in the near future. Households in the Triangle area, on average spend about \$14,000 on non automotive retail goods annually. Using existing demand, household data, and projections, the Triangle Region is projected to add 325,000 new households. This will generate over \$6 billion in new retail demand, the potential equivalent of 11 to 15 million square feet of new retail, not including restaurants. Not all of this demand will be captured directly into “bricks and mortar” retail, but it is nevertheless clear how projected population growth will play a role in shaping an ever changing demographic and development landscape within the Triangle.

Figure 2.1 illustrates household growth projections by census tract for the five year span between 2010 and 2015. These can be used as a general guide to where future household growth is expected in the Triangle area. In terms of 20 year projections, they should be taken with a grain of salt, considering that these projections primarily follow the growth patterns of the past 10+ years. These maps show that Wake County is expected to continue to experience the bulk of population and household growth within the Triangle area. In particular, growth is expected to be very strong in the southern and northern parts of the county, areas

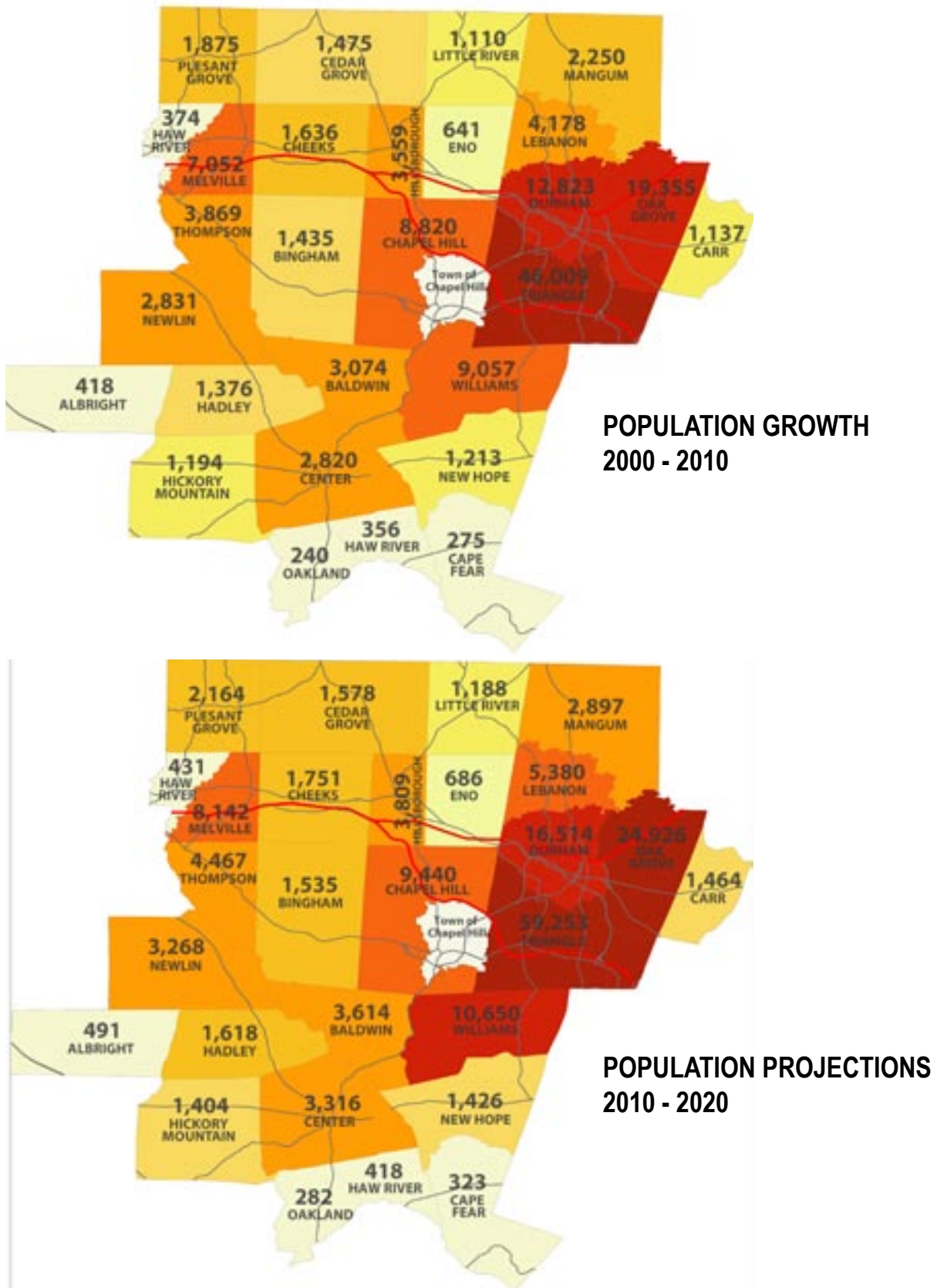
that included the communities of Raleigh, Cary, Garner, Apex, Holly Springs, and various other small towns and unincorporated areas.

Further to the west, within the Durham-Chapel Hill MSA, growth is projected to be the most robust in southern Durham County, in the area of Research Triangle Park, centered on I-40. West of Durham County, the western and northern areas of Orange County show very limited growth, while Chatham County, to the south of Chapel Hill, shows relatively high growth levels. Central and Western Orange County, which is very much the western fringe of the populated areas of the Triangle Region, show sparse growth until one moves further west in Alamance County, which is part of the “Triad” Region made up of Greensboro, Winston-Salem, and High Point. One can see strong growth projections just west of the City of Burlington, seen on the upper left hand of each map.

The growth trends in and around the Town of Chapel Hill are illustrated in more detail in Figure 2.3. This graphic illustrates both past and projected growth by selected townships within Durham, Orange, Chatham, and Alamance Counties. Rather than show percentage growth, as in Figure 2.1, they show numeric growth. As mentioned previously, the primary areas of growth within the Town of Chapel Hill and its environs are directly to the east, in Triangle, Durham and Oak Grove Townships - all in Durham County. Chapel Hill Township itself shows strong past and future growth.

Figure 2.3 Past and Future Population Growth by Township

Source: US Census and DCI Analysis



Employment / Economy

The population growth in the Triangle Region is strongly correlated to regional growth in employment. The Raleigh-Durham-Chapel Hill Region has been one of the fastest growing metropolitan areas in the country in terms of new jobs. Between 1990 and 2009 (the most recent annual data), the Triangle Region added 275,300 net jobs, including 224,300 net private jobs. This is a growth rate of 54%, and a private sector growth rate of 55%.

The Durham-Chapel Hill MSA is adding employment at a lower rate than Raleigh-Cary, but the area nevertheless added over 60,000 private sector jobs between 1990 and 2007. Durham-Chapel Hill has experienced a compounded annual employment growth of 1.4% between 1990 and 2009. The majority of these jobs have been in Durham County.

According to economic forecast data by Moody’s Analytics that was presented in the *Town Residential Market Study*, the economy of the Durham- Chapel Hill metro area will not only remain robust in the near future, but will begin to outpace growth in the national economy within the next five years. The metro area has always been slightly ahead of steady U.S. growth (pre-recession), and available employment data reveals that the metro area has not experienced as much of a decline as other regions throughout the country during the 2007-2009 recession. According to Moody’s Analytics, the economy of the Durham-Chapel Hill MSA will be driven in the long-term by education, healthcare, and high-tech industries. The prospects for growth look healthy based on the stability provided by government employment and the Triangle Region’s science and technology based cluster expansion.

2.2 MARKET AREA TRENDS

Section 1.3 discussed the retail growth potential both within the Town of Chapel Hill, as well as within its 15 and 20 minute market areas. In planning for the future of retail in Chapel Hill, it must be understood what the opportunities are within the “local” market (i.e. residents, employees and students in Chapel Hill) as well as the regional market

- neighborhoods and towns that are likely to utilize Chapel Hill as a retail and services center. This Section conducts a more in depth analysis of both the retail gap and population growth trends in and around Chapel Hill in order to gauge where both existing and future market opportunity will come from and how it might influence retail development within the Town.

As discussed earlier, the 20 minute “market area” drive time established for the Chapel Hill market currently has leakage of more than \$144 million in non automotive retail goods (as well as a surplus of similar scale in Food & Drink businesses). This 20 minute drive time represents a large market area (130,000+ households) split up between differing population centers and transportation routes. In examining the regional capture potential of Chapel Hill, this market area must be better defined in terms of the supply and demand within geographical sub-areas. Figures 2.4 and 2.5 split the market area into six distinct areas in order for further analysis:

- (1) Chapel Hill - Carrboro, which includes both Towns, as well as a 5 mile buffer outside of Town boundaries;
- (2) “East”, which includes the portion of the market area in Durham County;
- (3) “South”, which includes the portion of the market area in Chatham County;
- (4) “North” - the portions of Orange County north of Chapel Hill, centered roughly on I-40;
- (5) “West” - portions of Orange County due west of Carrboro centered roughly on State Route 54; and
- (6) a “Peripheral” geography not included in the market area, inclusive of communities to the west, south, and north that must use either Chapel Hill, Burlington, or Durham for most retail that does not include daily goods or dining.

Despite strong population growth, the eastern sub-area that comprises southern and central Durham is well supplied with retail and thus offers limited opportunity for Chapel

Figure 2.4 Sub-Areas Within Chapel Hill 20 Minute Market Area

Source: ESRI Business Analyst and DCI Analysis

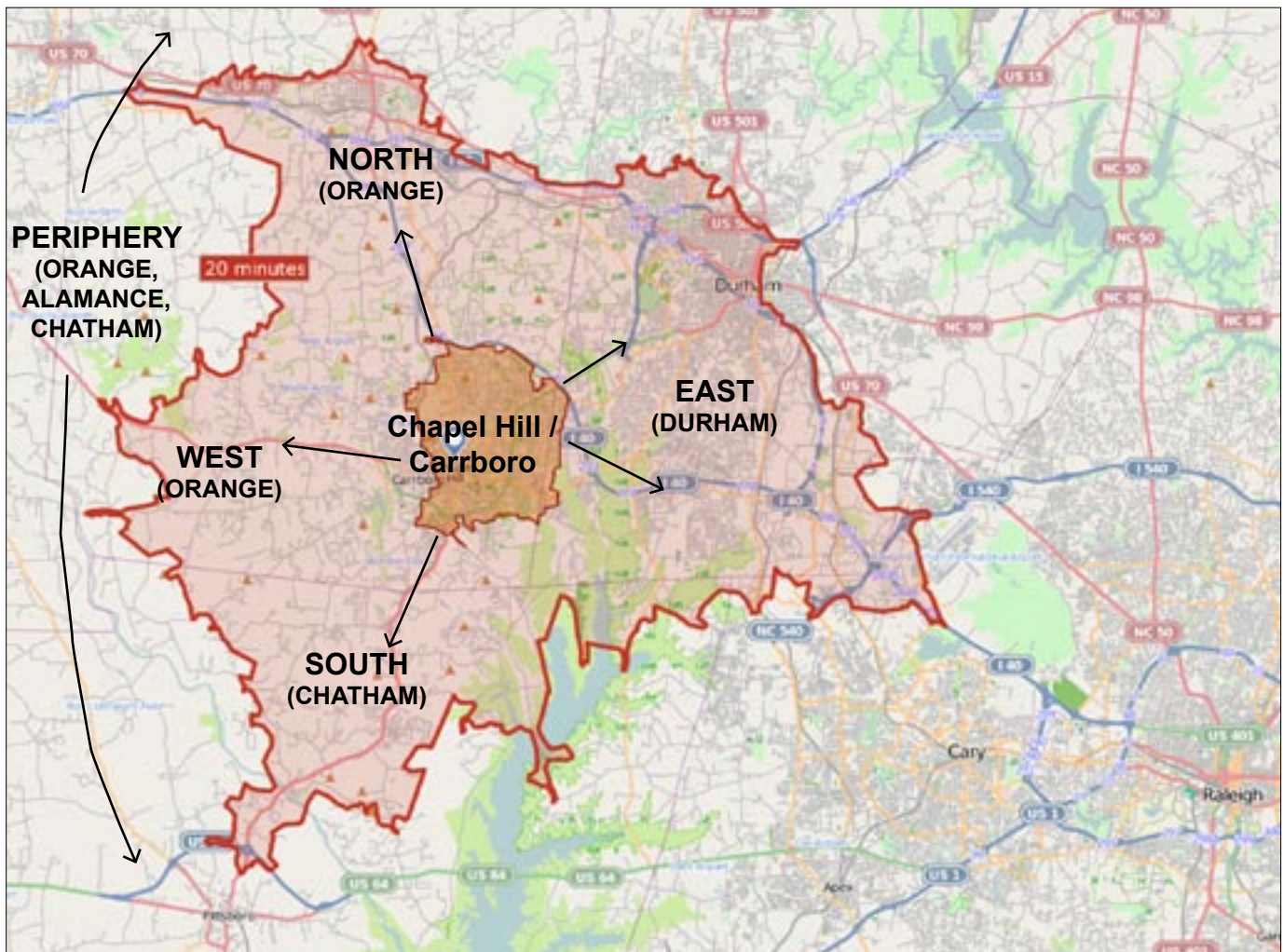


Figure 2.5 Projected Household Growth and Retail Gap by Sub-Area

Source: ESRI Business Analyst and DCI Analysis

	Households 2010	Households 2020	2010 Retail Gap*	2020 Retail Gap*	2010 Food & Drink Gap*	2020 Food & Drink Gap*
Chapel Hill - Carrboro	39,194	44,986	\$74,475,758	\$131,938,384	\$(44,560,691)	\$(18,549,734)
East (Durham)	56,625	69,108	\$(115,283,516)	\$27,970,323	\$(139,218,503)	\$(93,836,995)
South (Chatham County)	8,498	12,750	\$52,927,595	\$101,515,519	\$22,775,332	\$36,149,799
North (Orange)	9,290	10,367	\$13,846,577	\$24,227,021	\$11,449,236	\$14,857,199
West (Orange)	3,602	3,991	\$36,285,228	\$40,578,927	\$11,465,931	\$12,893,419
Periphery	14,525	17,363	\$59,477,207	\$82,618,478	\$26,009,420	\$33,352,549

* Adjusted for 75% capture potential

Figure 2.6 Graphic Illustration of Existing and Projected Retail Demand
 Source: ESRI Business Analyst and DCI Analysis

■ Non Automotive Retail
■ Food & Dining

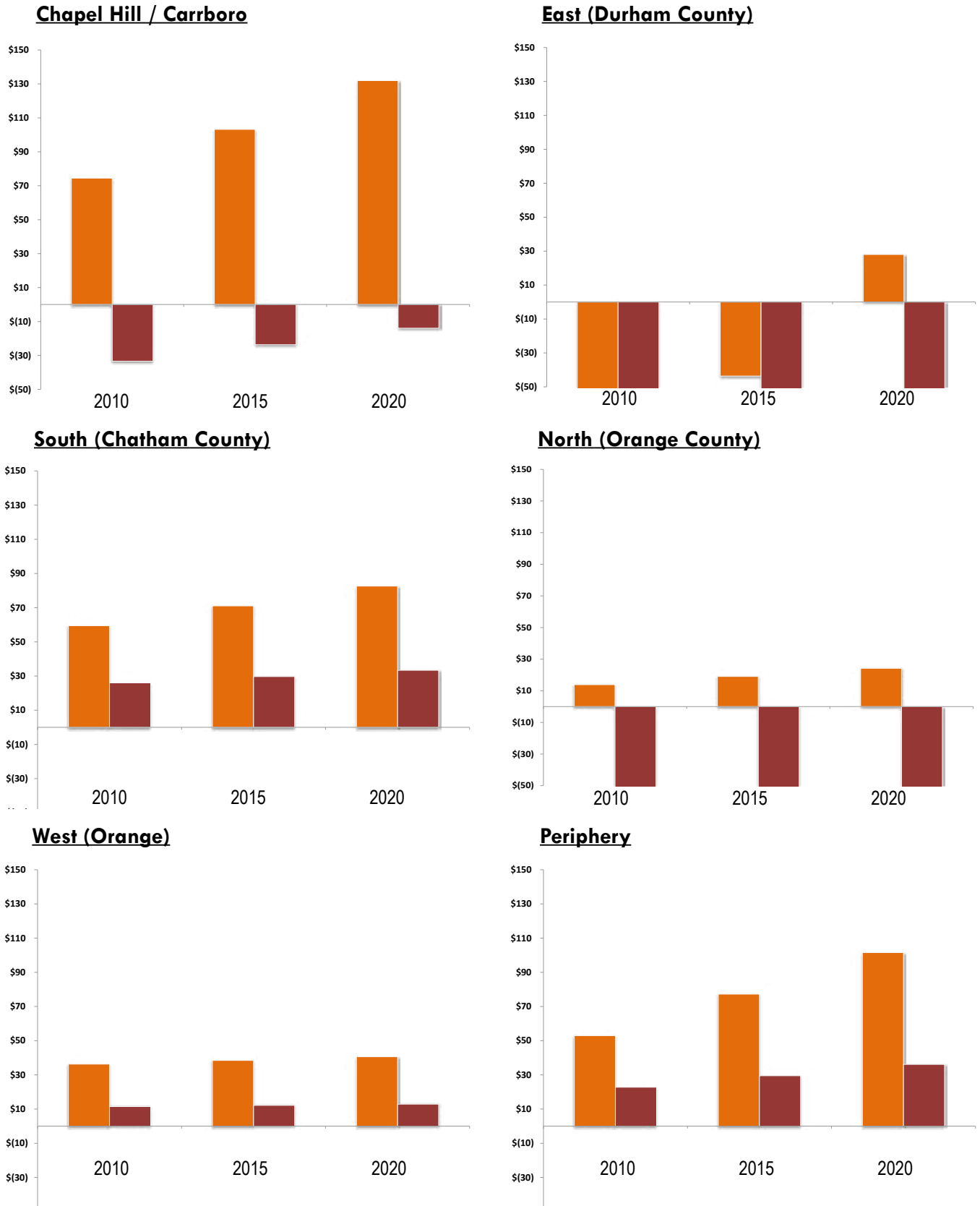


Figure 2.6 Potential Retail Capture in Square Feet by Market Sub-Area

Source: ESRI Business Analyst and DCI Analysis

	Est. Retail Sq. Ft. 2010	Est. Retail Sq. Ft. 2020	Est. Food & Drink Sq. Ft. 2010	Est. Food & Drink Sq. Ft. 2020
Chapel Hill - Carrboro	212,788 - 297,903	376,967 - 527,754	(111,402) - (167,103)	(46,624 - 69,937)
East (Durham)	(329,381) - (461-134)	79,915 - 111,881	(464,062) - (696,093)	(312,790) - 469,185)
South (Chatham County)	151,222 - 211,710	290,016 - 406,022	75,918 - 113,877	120,499 - 180,749
North (Orange)	39,562 - 55,386	69,220 - 96,908	38,164 - 57,246	49,524 - 74,286
West (Orange)	103,672 - 145,141	115,940 - 162,316	38,220 - 57,330	42,978 - 64,467
Periphery	169,935 - 237,909	236,053 - 330,474	86,698 - 130,047	111,175 - 166,763
TOTALS (midpoints)	est. 400,000 sf	est. 1,362,796 sf	est. (336,464) sf	est. (35,238) sf

Hill to capture significant retail dollars. Ongoing population growth will eventually mitigate this surplus by 2020. Retail and demographic trends in this sub-area speak to how well positioned the Streets at Southpoint and adjacent retail centers are to both the existing and future market. With its strategic position, easy access and open land available for future development, Southpoint is likely to remain a strong super regional center in the Durham-Chapel Hill market for the foreseeable future.

The best opportunity to capture retail dollars, both today and in the next 10 years, is within the core Chapel Hill - Carrboro sub-area, where the GAFO retail gap is anticipated to be as much as \$120 million by 2020. This is promising for retail development attempts within the Town itself, since only Chapel Hill is best situated to capture most of this latent demand. However, there are two caveats to this opportunity. The first is whether Chapel Hill, a community that is almost completely built-out in terms of development, will be able to realize large-scale redevelopment projects containing multi-family housing, one of the only methods to keep up with projected population growth. If not, then this population will almost certainly leak to outlying areas where other existing or future retail centers would benefit from the customer base. For example, Chatham County, to the south of Orange County and Chapel Hill, has already seen considerable spillover in terms of population due to a number of factors, including the high cost of living and housing within Chapel Hill. Second, will Chapel Hill keep

up with retail trends, or will new retail on the periphery of the Town serve to capture the internal Chapel Hill - Carrboro market, just as Southpoint and developments along 15-501 have done over the past 10-15 years.

The next trends appear in the southern sub-area, which represents northeastern Chatham County. Chatham County has seen considerable growth in the past two decades - adding more than 10,000 people just in the past decade. Most of that growth has occurred in the townships directly south of Chapel Hill, as evidenced in Figure 2.3. Other than a small neighborhood scale retail center (Chatham Crossing), northern Chatham County has virtually no retail offerings, and the 20,000+ residents in this Region must drive north along 15-501 into Chapel Hill or along Old Farrington Point Road into Durham to reach any retail or dining beyond the daily goods offered through a grocery store and pharmacy. Chapel Hill is an ideal market to capture this retail demand, as travel times from many Chatham County neighborhoods to existing retail centers can be quite long. However, Chatham County is in and of itself a reasonable place to meet this demand. Projected household growth within the northeastern part of the county has enough leakage to support 225,000 to 325,000 square feet of retail and dining - a number that rises to 400,000 to 580,000+ by 2020. It stands to reason that sooner or later Chatham County will be targeted for a large community or even regional retail center to take advantage of this market.

Chapel Hill (and Carrboro) are well positioned to draw in a customer base from western and northern parts of Orange County, but these show the weakest potential within the market area. With tepid growth in the past 20 years, these sub-areas represent sparsely populated areas that have reasonable access to urban amenities while remaining thoroughly rural in nature. However, together they represent as much as 200,000 - 300,000 square feet of demand, the bulk of which is likely to be spent in businesses in or near Chapel Hill due to the low possibility that retail centers of any scale being built within proximity of those areas to meet local needs.

The “Periphery” sub-area is similar to western and northern Orange County in terms of its rural nature, but it has areas that are growing much faster. Portions of eastern Alamance County, for example, added more than 6,000 residents in the past decade. It is possible that retail within Chapel Hill could capture some of the demand within this area, particularly areas along Route 54.

include Chapel Hill and Carrboro, as well as Chatham County. Southern Durham County, which has the largest population and fastest population growth, is oversupplied with several major regional retail centers, and thus offers limited short-term market capture opportunity for Chapel Hill.

- Growth patterns within the Chapel Hill market area show potential for over 1.3 million square feet of new retail over the next 10 years. 400,000 square feet of this amount is latent demand that could be captured immediately.

2.3 KEY FINDINGS - MARKET TRENDS

- The Triangle Region is expected to add more than 800,000 people and 325,000 households over the next 20 years. This ensures that future demand for retail will be steady throughout the Region.
- Areas around Raleigh-Cary are projected to grow the fastest, suggesting that a significant proportion of future retail will be located in that area of the Region, as opposed to Durham or Chapel Hill.
- Both Raleigh-Cary and Durham-Chapel Hill MSAs are expected to see job growth similar to that of the recent two decades, which added more than 275,000 jobs. Stable job growth in growing sectors supports the State population projections for the Region, and will generate sustained growth of higher income households.
- Chapel Hill’s market area, defined as a 20 minute drive from Downtown Chapel Hill, was broken down into sub-areas for further analysis. Major growth areas

SECTION 3: Conclusions

3.1 TRADE AREA AND POTENTIAL RETAIL CAPTURE

The analysis in Section 2.2 showed that within the Chapel Hill market area, the best sub-markets were Chapel Hill and Carrboro and northern Chatham County, followed by peripheral areas in Alamance and Orange Counties. Underserved areas of Orange county west and north of Chapel Hill had limited market potential due to sparse population density and slow projected growth. The fastest growing area - southern Durham, is served well by regional and super regional retail centers and thus as a broad market does not represent significant retail opportunity for Chapel Hill.

Figure 3.1 applies anticipated capture rates to each of the sub areas of the Chapel Hill market area, creating a more defined “trade area” in which retail development within the Town is likely to pull. The evidence shows that, within the trade area, there is currently potential for 400,000 - 600,000 square feet of retail, rising to 700,000 - 1 million square feet by 2020.

3.2 COMPETITIVE AREAS WITHIN MARKET AREA

The Chapel Hill market area was drawn to reflect the retail growth potential of the Town of Chapel Hill, but it obviously

includes geographic areas that not only contain major retail centers already (South Square, Southpoint, etc.) but also areas outside of the Town itself where retail can be developed to serve the growing demand generated by increased populations. The potential retail capture for the Town of Chapel Hill depends somewhat on the capacity of these competitive areas to build retail to serve existing and growing demand.

Another key consideration is understanding potential expansion plans and capacities of certain retailers. Between the 15/501 Corridor and Southpoint, a large number of national retailers are represented. Despite growth in this area, the addition of stores in the same geography makes sense only if population density is sufficient to support two stores. Already, many national retailers like Target, have two stores within the southern Durham sub area. It is important to understand where a large concentration of retailers exist when evaluating for national and regional expansion. These future markets are best when located at a certain distance from existing centers.

Below is a brief discussion of three competitive areas:

Durham County

Just as it has occurred in the past decade, there are several areas within Durham County that could potentially handle new or expanded retail developments that are positioned to capture not only the growth occurring in southern Durham County, but also the growth of Chapel Hill and Carrboro.

Figure 3.1 Definition of Chapel Hill Trade Area Potential

Source: ESRI Business Analyst and DCI Analysis

Sub Market	2010 Retail Gap	Estimated Capture Rate	Square Footage 2010	2020 Retail Gap	Estimated Capture Rate	Square Footage 2020
Chapel Hill - Carrboro	\$74,475,758	75%	160,000 - 224,000	\$131,938,384	75%	282,000 - 395,000
East (Durham)	\$(115,283,516)	0%	0	\$27,970,323	25%	20,000 - 28,000
South (Chatham County)	\$52,927,595	75%	114,000 - 159,000	\$101,515,519	75%	217,000 - 305,000
North (Orange)	\$13,846,577	75%	30,000 - 41,500	\$24,227,021	75%	52,000 - 73,000
West (Orange)	\$36,285,228	75%	77,000 - 108,000	\$40,578,927	75%	87,000 - 122,000
Periphery	\$59,477,207	25%	43,000 - 59,000	\$82,618,478	75%	59,000 - 83,000
			423,000 - 592,000			718,000 - 1,000,000

If little to no retail is added to the immediate Chapel Hill market, it stands to reason that retail development will continue in this area, which has very good regional access, clusters of existing retail, and high recognition from the existing consumer base. That being said, as noted previously the retail centers of South Square, Southpoint, and along 15/501 consist primarily of national and regional retailers. Assuming that some if not most of the consumer demand is likely to be met through new branches of these retailers, it may be more likely that future demand is met in other areas based on those retailer's desires to locate in new markets.

Chatham County

Chatham County has seen quick population growth over the past decade, and is projected to add over 4,000 new households in the next decade. The three townships immediately south of Chapel Hill are projected to add over 17,500 people between 2010 and 2015. Chatham County is also underserved by retail, with Chatham Crossing and various retail offerings in Pittsboro as the primary retail. Residents use Chapel Hill and areas like Southpoint for shopping for goods other than daily goods. With immediate potential for over 100,000 square feet of retail, growing to as much as 300,000 square feet by 2020, northern Chatham County seems to be an ideal place for a new community or regional shopping center in the next decade.

Hillsborough

Hillsborough is the County Seat of Orange County and retail center to the central and northern portions of the County. Due to its location off of I-40 and within central Orange County, it is a minor retail center consisting of a Wal-Mart and other daily goods retailers. Because of limited population growth and an existing cluster of retail businesses, Hillsborough is a likely area to capture future retail demand in central / northern Orange County, at least for daily goods. Demand for leisure and other speciality goods served in community or regional type centers is presently met at South Square or Southpoint and will continue to do so until a competitive center is opened closer to the local Hillsborough market.

Carrboro

The "west" sub-market area, which represents most of southwestern Orange County, shows latent demand for nearly \$36 million, with growth potential up to \$40 million, and a Food & Drink gap of \$12 to 14 million. This demand, combined with latent demand found within the Town of Carrboro itself, could manifest itself in a new or expanded retail center in Carrboro, which is closer in terms of drive times than Chapel Hill.

3.2 POTENTIAL DEVELOPMENT SITES & CAPACITY

This Section identifies the best opportunities for retail development within Chapel Hill land provides an assessment as to the most appropriate scale and type of possible retail development given findings from this analysis, information provided by the Town of Chapel Hill, and previous knowledge of the Town's geography. Figures presented for retail development simply represent estimates by the analyst given knowledge of the local market and an understanding of market trends and demographics as presented in this Study. They do not reflect detailed site analysis or consideration of any development proposals that may be up for consideration by the Town Planning Department or Town Council.

New / Greenfield Development Opportunities

All areas capable of new development are found on the fringes of Town, or outside of Town boundaries within the Urban Services Boundary. These sites are illustrated in Figure 3.2.

Northwest - A potential development area off of I-40 and Martin Luther King Blvd. that can accommodate several hundred thousand feet of development (of varying uses), depending on topography and zoning located within the urban services boundary.

Although this site has good visibility along I-40, its access is less than ideal. It is not well positioned to capture either local Chapel Hill / Carrboro market demand unless no other retail sites of any scale manifest themselves within or near Chapel Hill. The location has strong reach into areas

in Orange and Durham counties, but located within a 10 minute drive time are three regionally serving retail areas, including South Square, Southpointe and the Northeast Gateway of Chapel Hill. Additionally, retail capture from areas north and west is limited given limited existing population density and future growth projections. There are also existing neighborhood centers located nearby (Chapel Hill North and Timberlyne) that serve the demand for daily goods. Most likely retail opportunities are as a neighborhood / convenience center designed to serve high density residential development or a small retail center with speciality anchors not found within the local marketplace. Estimate: 25,000 to 100,000+ square feet depending on the build-out of the site. This amount could expand up to 50%+ given the timing of a development on this site and the desire of certain retailers to locate here. There is a possibility that this site may appeal to speciality retailers not currently served in the market area's regional centers.

South - An area across of 15/501 from Southern Village. Also located within the Urban Services Boundary and capable of several hundred thousand feet of development, depending on topography.

This area, if capable of being developed due to topography and other physical constraints, holds strong opportunity for a community or small regional shopping center due to its ability to draw from both Chatham County to the south and western Orange County on Routes 15/501 and 54. It is also well located to capture the market from southern Chapel Hill - including the University of North Carolina. Carrboro is located at a sufficient distance from other major retail centers to make it a feasible location for the expansion of retailers already in the regional marketplace. Estimate: 300,000 to 500,000+ square feet, which due to topographical constraints may be limited.

Gateway / Northeast - Undeveloped land off of 15/501 and I-40 in the northeastern corner of the Town, adjacent to Durham.

This is a good site in terms of access to regional routes in the form of I-40 and 15/501, though access and visibility of the site remain somewhat problematic. The site's trade

area is also largely oversupplied with retail. Located within an existing regionally serving retail geography, it is feasible that a community sized retail center would be successful given the area's overall retail pull. Estimate: 25,000 to 100,000 square feet depending on overall build-out of the site. This amount could expand up to 50%+ given the timing of a development on this site and the desire of certain retailers to locate here. There is a possibility that this site may appeal to speciality retailers not currently served in the market area's regional centers.

Redevelopment Opportunities

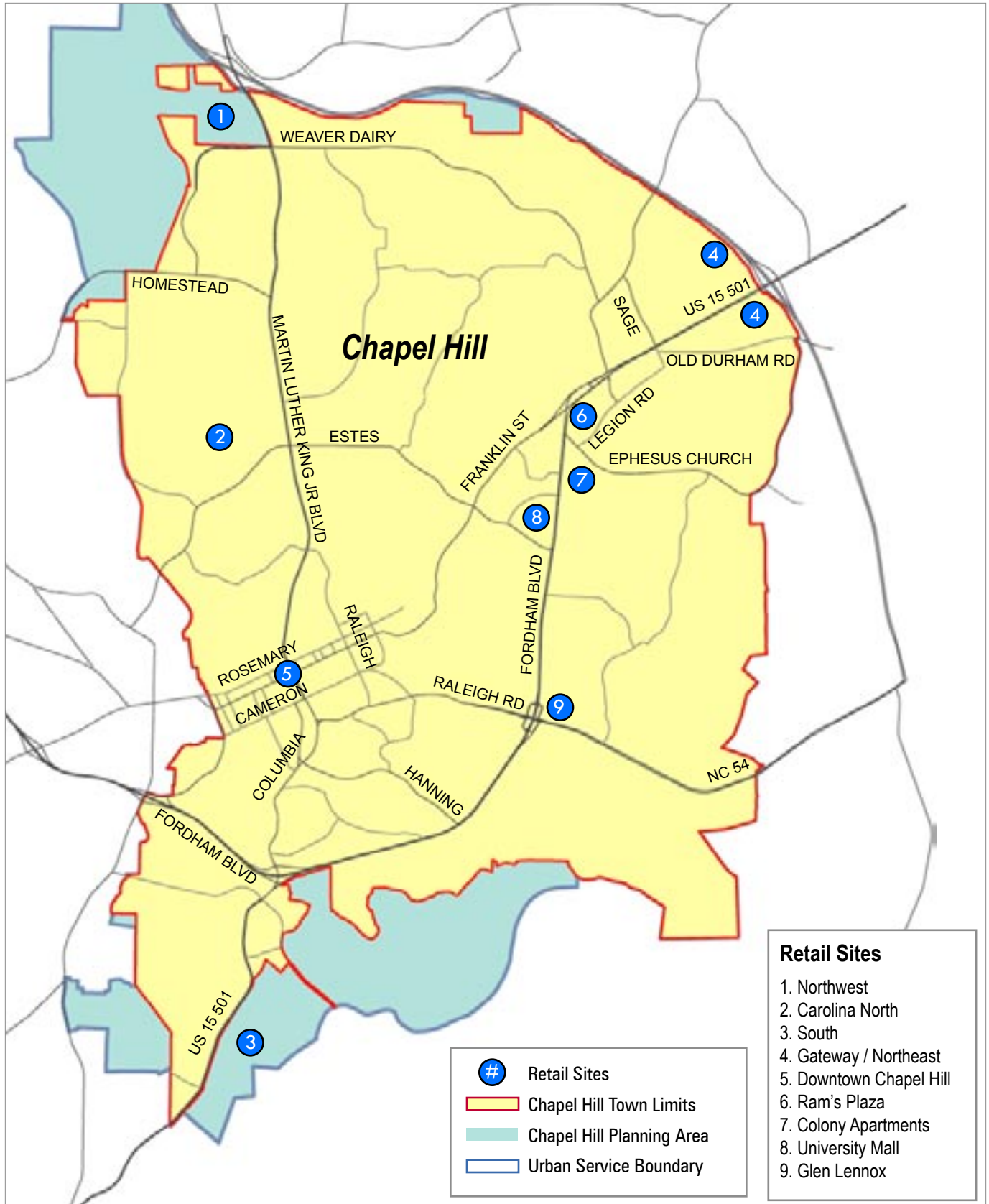
Downtown Chapel Hill - Planned infill development in the Downtown should help it grow as a retail center. Virtually bereft of open development sites, the University Square redevelopment and related projects have the capability of adding 10,000 - 30,000 square feet of retail to what already exists, mostly in the form of Food & Drink establishments, but the addition of residential units on or near Franklin Street may generate real or perceived demand for daily goods retailers, like a second pharmacy. Beyond this, it's unlikely that any significant amount of new retail beyond another 10,000 to 20,000 square feet, can happen given redevelopment of existing property. As the Town's / Region's primary center for dining, a more likely scenario is that existing retailers will continue to be replaced by higher revenue establishments. Estimate: 20,000 to 50,000 square feet.

Carolina North - There may be an opportunity for some convenience scale retail development similar to the existing Homestead project to be built in order to take advantage of the planned expansion of the UNC campus to a site off of MLK Boulevard. Scale depends on the final uses for the campus, though it is most likely to consist of Food & Drink and daily goods uses. Estimate: 5,000 to 15,000 square feet.

NE Gateway - Also known as the Ephesus Church - Fordham Boulevard Small Area, this geography was examined last year for its redevelopment. For purposes of this analysis, University Mall is also included in this area, though it was not part of the Small Area Plan. As noted in Section 1, this

Figure 3.2 Retail Development Opportunity Sites

Source: DCI and Town of Chapel Hill



area represents the largest concentration of retail within the Town of Chapel Hill.

This geography has three distinct opportunities for retail development: (1) University Mall; (2) Ram's Plaza; and (3) Colony Apartments. However, much of this is likely to be in the enhancement of existing retail space or buildings that are underperforming or ready for redevelopment. As identified in the Small Area Plan, the most likely opportunities are in new or enhanced retail space as a component of larger mixed-use developments with residential, office, and hotel uses. In order for any of these sites to be considered more than a basic enhancement or community scaled retail center, major redevelopment and land acquisition will likely be necessary. Estimate: 150,000 to 250,000 of enhanced retail space (new tenants with higher sales / sq. ft., 50,000 to 150,000 of new retail. This amount could expand up to 50%+ given the timing of a development on this site and the desire of certain retailers to locate here. There is a possibility that this site may appeal to speciality retailers not currently served in the market area's regional centers.

Glen Lennox - The Glen Lennox area, presently a development of low density rental cottages, also had a Small Area Plan conducted to study the area's redevelopment potential. A small neighborhood center already exists on the Route 54 frontage, though it has no anchor and is a secondary location compared to Glenwood Square across the street, and East 54, just to the east.

Assuming the redevelopment of the Glen Lennox Small Area into what will be in part higher density residential uses, and understanding the site's advantageous location at the intersection of Routes 54 and 15/501, as well as the presence of an existing cluster of retail totaling over 100,000 square feet, it is feasible that the existing neighborhood center can be expanded to hold a higher concentration of retail and service businesses. The limited frontage on Route 54 somewhat hinders any development opportunity, as do the traffic patterns surrounding the site and the fact that its western border - Route 15/501 - is a limited access highway that provides visibility but no access. Overall the most compatible retail development

would be the redevelopment of the area at a neighborhood scale development, or an East 54 type mixed-use arrangement that holds Food & Drink and other service oriented businesses for residents and employees. The site does not necessarily preclude a larger scale development that takes advantage of its strong location, but any such proposal would have to be weighed carefully in terms of traffic and other transportation related issues. It is worth mentioning that in its current state, it's unlikely to offer retail potential due to physical constraints.

Estimate: 30,000 to 50,000, but possible community center anchored by 1-2 junior anchors at 80,000 to 100,000 sq. ft.

Major / Regional Retail Opportunities

The previous sections have demonstrated the capacity of Chapel Hill to capture a significant amount of retail. Some of this will likely manifest itself into a cluster of "regionally" serving retail businesses, either as a community or regional retail center type of development, or smaller scale developers that work together as a regionally serving geography. Examples include the possibility of a supercenter (Target, Wal-Mart) anchored center designed to serve regional markets to the south, north and west. Based on current estimates there could be as much as 200,000 - 300,000 square feet to capture for such a center immediately and perhaps double that given future population growth trends and the right location for such a center.

However, there are physical constraints to the development of such a center/geography that meant that Chapel Hill may realistically only have one or perhaps two opportunities to capture new retail in this fashion. Development areas "South", "Northwest", "Gateway" and "NE Gateway" are more or less the only areas that could accommodate a new large scale retail development. Given the timing of various real estate and policy decisions related to retail development, all of these sites can be considered "in play" for a retail center of larger scale. This study has studied these sites in the context of the larger market, evaluating them from a level playing field in the context of broad market trends. It is worth noting that the likely immediate pressure for retail development to serve existing demand may mitigate some or all of the negative aspects

of these sites that were observed by the consultant team in a “neutral” evaluation. Given physical constraints at all locations, it will be up to the Town of Chapel Hill to evaluate large-scale retail opportunities on these sites in terms of realistic short and long term market capture, but also the ability for the Town to capture retail development of a certain scale in the short-term given the goal of an expanded commercial tax base.

3.3 FUTURE CHAPEL HILL RETAIL DEVELOPMENT

Based both on analyses of existing conditions and future trends, there appears to be a considerable amount of demand for retail within Chapel Hill and its environs. However, there are several ways in which future retail development might manifest itself in Chapel Hill.

There are four key factors that will impact this future development:

- (1) The extent to which the Town of Chapel Hill will allow future retail development. There are a limited number of available areas within the Town that do not require redevelopment, and the Town has historically been very involved in guiding preferred development patterns.
- (2) The extent to which regional and national retailers see Chapel Hill and its environs as a new market and choose to expand there as opposed to serving the market through existing locations.
- (3) The short-term ability of developed areas to redevelop in a manner that can accommodate new retail. Multiple physical conditions can hinder the short-term redevelopment of some key sites.
- (4) The ability of Chapel Hill to meet residential demand (the population projections (and subsequent retail demand estimates) for Chapel Hill and Carrboro are based on past growth patterns. However, these communities, especially Chapel Hill, are close to reaching their maximum built-out stage unless new areas of the county are annexed. In the next 10 years, if Chapel Hill is unable to keep up housing supply with demand, it will mean that this demand will

leak to outlying areas like Chatham County. This makes it more difficult to capture existing and future demand within Chapel Hill, and makes it more likely a retail center will eventually be located outside of the Town to take advantage of peripheral growth.

Figure 3.3 Summary of Retail Estimates

Source: DCI Analysis

Sub Market	Estimate (in square feet)
Northwest	25,000 - 100,000*
South	300,000 - 500,000
Gateway / Northeast	25,000 - 100,000*
Downtown Chapel Hill	20,000 - 50,000
Carolina North	5,000 - 15, 000
NE Gateway	150,000 - 250,000
Glen Lennox	30,000 - 50,000**

* This amount could expand up to 50%+ given the timing of a development on this site and the desire of certain retailers to locate here. There is a possibility that this site may appeal to speciality retailers not currently served in the market area’s regional centers.

** Possible community center anchored by 1-2 junior anchors at 80,000 to 100,000 sq. ft.

3.4 CONSIDERATIONS FOR CHAPEL HILL RETAIL STRATEGY

- Anticipated population growth throughout the region will continue to drive demand for new and improved retail offerings.
- Given existing latent demand and future population growth, it seems likely that there will be an opportunity for 2-3 additional mid-sized community or regional type retail centers within the Chapel Hill market area, combined with a number of smaller scale convenience and neighborhood scale developments.

- Although there is potential to add new square footage at the scale of a large regional or super regional center, it is anticipated that new retail centers will likely be split between a mixture of regional, community and neighborhood serving developments, depending on location and focus. The Streets at Southpoint is too well positioned to envision another super regional mall being built within the Durham-Chapel Hill MSA, especially considering Southpoint's retail geography has room for expansion.
- These additional regional centers could take the form of new development, or improved and enhanced centers that already exist (i.e. University Mall).
- The existing concentration of retail in South Square and Southpoint suggests that new retail center of any scale (i.e. community or regional) will likely locate at a distance sufficient enough for existing retailers in the marketplace to expand.
- Chapel Hill is well located to capture large portions of both existing and future retail demand. However, if the Town does not move proactively to capture this growth, there is a strong likelihood that future growth may occur in outlying areas.
- The likelihood of retail growth occurring in areas outside of Chapel Hill increases if anticipated population growth in the market area, which has been historically been concentrated in Chapel Hill and Durham, continues to leak to outlying areas in Chatham and Orange Counties.
- Presently, the past and anticipated growth in Northern Chatham County makes it a strong candidate for consideration for a large community / regional retail center of several thousand square feet.
- Food & Drink is unlikely to be a driver in future retail developments, though the current surplus should not prevent incremental start-ups by businesses in this category, especially those that are part of mixed-use developments and in Downtown, which draws a regional customer base.
- If Chapel Hill is to provide housing to meet supply and match anticipated growth patterns over the next 20 years, then future housing stock is likely to be built at much higher densities than most existing neighborhoods, providing continued opportunities for new neighborhood / convenience centers like East 54 and Meadowmont.