



Downtown Chapel Hill Economic Development Overview April 14th, 2023



WHY ALLOW DEVELOPMENT?

- **Economic development**
 - **More jobs**
 - **Increased property tax base**
 - **Greater vibrancy in Downtown**
- **Lower congestion/impact on neighborhood streets**
- **Social equality**
- **Fair share of growth responsibility**



WHAT TYPES OF DEVELOPMENT?

- **Mixed-use office for growing/economically stable industries**
- **Diversified housing stock**
 - **Affordable housing**
 - **Workforce housing**
 - **Entry-level for-sale product**
 - **Mixed-use locations**
 - **Age-targeted/restricted & maintenance-free**
- **Experiential retail**
- **Select-service hotels in dynamic locations**



CHAPEL HILL GROWTH RATES BY LAND USE

Land Use	Current Inventory	Avg. Annual Absorption 2015-2019	Avg. Annual 2015-2019 Growth Rate
Single-Family Homes (Owner Occ.)	7,632	115	1.5%
Townhomes/ Condominiums (Owner Occ.)	2,300	-28	-1%
Class A Rental Apartments (Excl. Student)	6,908 Units	251 Units	3.5%
Class A Student Housing	1,785 Units	0 Units	0%
Class B/C/Affordable Rental Apartments	3,218 Units	0 Units (Affd. 44, rest neg.)	0%
Retail	2.7 M SF	51, 386 SF	2%
Office	3.2 M SF	-54,021 SF	-2%
Lodging	1,891 Rooms	47 Rooms	2%

Sources: US Census, Costar, NCG



CHAPEL HILL MARKET OVERVIEW

Land Use	Chapel Hill Avg. Annual 2015-2019 Growth Rate	Durham Avg. Annual 2015- 2019 Growth Rate
Single-Family Homes (Owner Occ.)	1.5%	2%
Townhomes/ Condominiums (Owner Occ.)	-1%	2%
Class A Rental Apartments (Excl. Student)	3.5%	3.5%
Class A Student Housing	0%	1%
Class B/C/Affordable Rental Apartments	0%	1%
Retail	2%	1%
Office	-2%	2.27%
Lodging	2%	2.5%

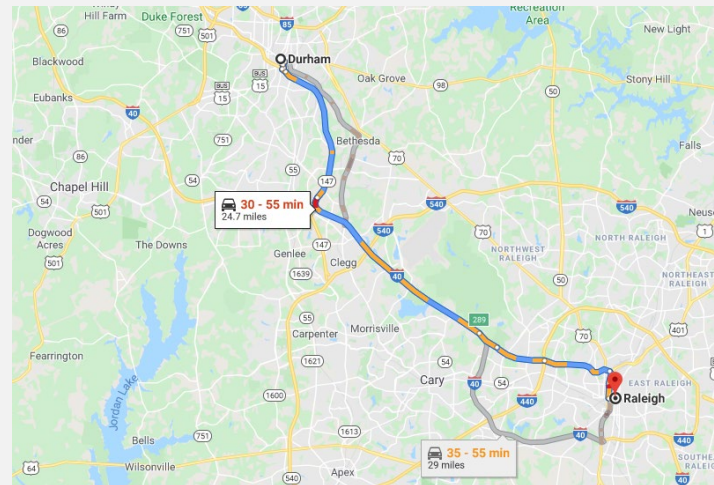
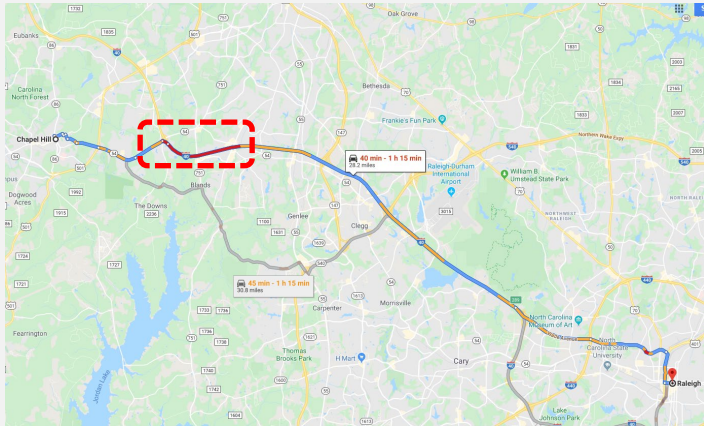
Implications:

- Durham has seen more diverse growth across housing product types
- Largest difference is a 3x greater rate of growth in for-sale townhomes and condominiums
- It should be noted that while the growth rates are the same for Class A apartments there are two key differences:
 - 36% of Durham's new units are in garden/low-rise properties versus only 10% in Chapel Hill (1701 North)
- Chapel Hill office market is flat, while Durham has seen very strong growth

Sources: US Census, Costar, NCG



DURHAM VS CHAPEL HILL IN ATTRACTING OFFICE TENANTS



Congestion issues on I-40

- Chapel Hill morning commute to Downtown Raleigh 40-75 min
- Durham morning commute to Downtown Raleigh 30-55 min
- Chapel Hill is 10-20 minutes longer, 20-36%



DURHAM VS CHAPEL HILL IN ATTRACTING OFFICE TENANTS

Local Workforce Differences

- In comparing Durham's % household growth (2000-2020) by age and income versus Chapel Hill's we see three key segments Chapel Hill has been significantly losing out on:
 - Millennials (25-34) earning under \$50,000
 - Starter families (35-44) earning \$75-200k
 - Older families (45-54) earning \$100-300k
- Also Empty Nesters 55+ earning less than \$200k, but they have less impact on workforce

	Age 15-24	Age 25-34	Age 35-44	Age 45-54	Age 55-64	Age 65-74	Age 75-84	Age 85+
Difference								
Household Totals	-1.11%	-0.66%	0.22%	-0.96%	-1.19%	-0.65%	-0.11%	1.53%
2020 Estimate Income/Age								
Income Less Than \$15,000	-1.36%	-2.00%	0.83%	-2.29%	0.14%	-1.24%	-0.66%	-0.12%
Income \$15,000 - \$24,999	1.73%	-2.46%	-0.20%	1.22%	-1.37%	-2.96%	-3.24%	-2.00%
Income \$25,000 - \$34,999	-0.40%	-0.81%	-0.76%	-3.51%	-4.16%	-4.10%	-3.64%	-2.55%
Income \$35,000 - \$49,999	4.05%	-1.92%	2.25%	-0.90%	0.94%	-2.09%	-0.66%	0.92%
Income \$50,000 - \$74,999	-2.16%	1.16%	1.87%	0.06%	-1.09%	-4.56%	-2.34%	0.51%
Income \$75,000 - \$99,999	-2.76%	0.38%	-1.70%	-1.05%	-2.68%	-1.75%	0.05%	0.57%
Income \$100,000 - \$124,999	0.00%	0.05%	-1.96%	-3.66%	-6.37%	-3.14%	-1.35%	0.48%
Income \$125,000 - \$149,999	0.00%	0.24%	-6.86%	-6.84%	-2.53%	-3.79%	-2.71%	-1.14%
Income \$150,000 - \$199,999	0.00%	-2.29%	-7.56%	-5.05%	-3.31%	-3.39%	-2.94%	-1.18%
Income \$200,000+	0.00%	0.27%	0.80%	-3.88%	-3.11%	0.86%	0.72%	0.89%

Millennials making under \$50k

Starter families making \$75-200k

Older families making \$100-300k

Empty Nesters 55+ making under \$200k

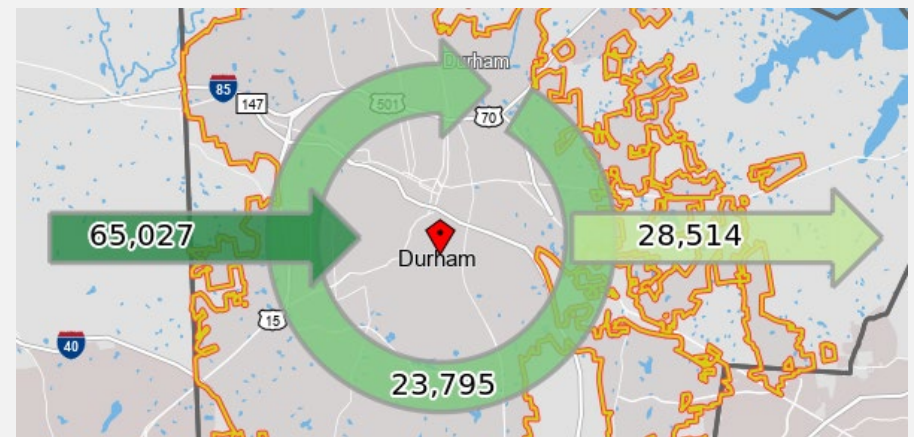
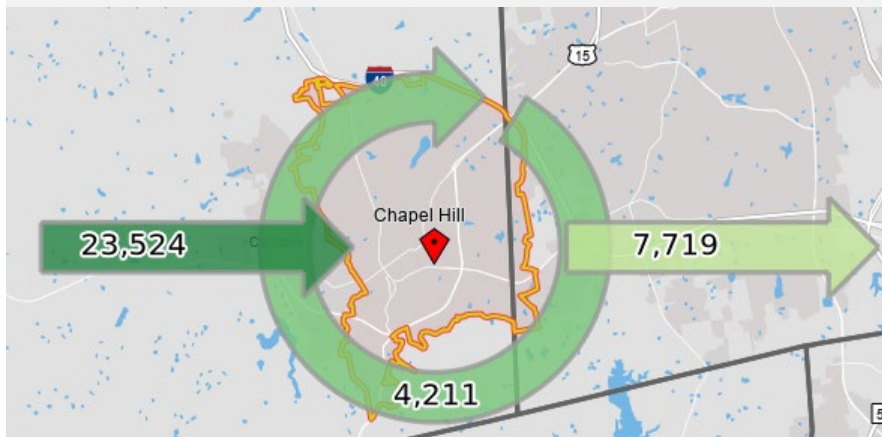


DURHAM VS CHAPEL HILL IN ATTRACTING OFFICE TENANTS

Local Workforce Differences

- Chapel Hill workforce >\$40k
 - 66% commute in
 - 22% commute out
 - 12% live/work here
- Durham workforce >\$40k
 - 55% commute in
 - 24% commute out
 - 21% live/work here

Durham has 5x the amount of higher earning workforce employed within their community





MIXED USE ENVIRONMENTS

- In addition to:
 - Strong regional/airport access
 - Educated workforce
 - Diversity of housing products

Employers are also looking for the following site conditions:

- Walkability to coffee shops, lunch places, happy hour, workout gyms
- Park/trail access for down time reflection
- Large, open floorplates

Current Durham Locations:

-10+ properties in Downtown core

Current Chapel Hill Locations:

-Only 4 properties throughout Town

-Carolina Square

-The Central

-Glen Lennox

-Station at East 54

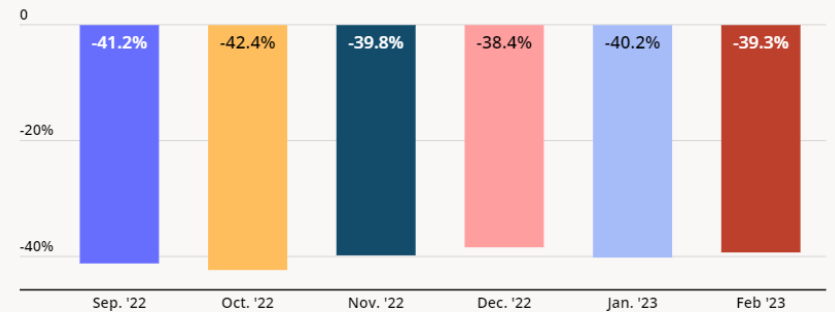


CELL PHONE DATA

- The difference between pre- and post-pandemic office visits nationwide is down 39%, according to Placer.ai
- In a suburban Atlanta example Placer found visits to a conventional suburban office park (Sanctuary Park) are down 84%, while only a few miles away, amenity-rich Avalon only experienced only a 21% decline in visits.

Office Visits Remain in a Holding Pattern Nationwide

Nationwide Office Index: Monthly Visits, Sep 2022 – Feb 2023, Year-Over-Three-Year Change



Placer.ai

15 Shares / Embed



CURRENT MARKET CONDITIONS

- Nearing end of a 12 year economic run, recession increasingly likely in next 3-years
- Inflation at peak levels
 - Increased costs of goods/materials
 - High interest rates
- Land owners still want what the group down the street sold for = high land prices
 - = Tightest development margins we have seen in 14 years







OFFICE MARKET CHALLENGES

- “The combination of uneven return-to-office patterns and an aging stock where the bifurcation between desirable and undesirable buildings is growing has people speculating that aging office properties may replace regional malls as the bane of CMBS investors’ existence,” Morningstar said in the report. “Property valuations are falling, and rising interest rates are putting further stress on properties that need to refinance in the near future.”
- With corporate tenants reevaluating their need for space, Morningstar warned loan-to-value estimates and other traditional debt measures may no longer be adequate for determining the likelihood of refinancing or extending a loan. Morningstar said it’s going to become more difficult to predict loan maturity defaults on top-tier office buildings typically owned by investors with deep pockets.
- The biggest question office tenants have for landlords these days: Who’s your lender? Turmoil in the U.S. office market — which has triggered missed loan payments and foreclosure warnings — has meant prospective tenants are now taking a closer look at the financial health of property owners.



DEVELOPMENT ECONOMICS






- Current land prices in Downtown = \$6-8 Million/Acre

Product Type	Example	Description	Typical FAR	Typical Acreage	NNN Rent Needed	Average Value Per SF	Min. Dev. Cost Per SF (Incl. TIs)	Typical Land Value Per Bldg. SF	Typical Land Value Per Acre
High-Rise Subterranean Parking		Type I construction above subterranean parking. Typically 300,000 SF+.	6.0-10.0	.25-3	\$47.00/SF	\$850/SF	\$630/SF	\$50/SF	\$17,600,000+
High-Rise Above Parking Podium		Type I construction above parking podium. Typically 200,000 SF+.	4.0-8.0	.25-3	\$43.00/SF	\$780/SF	\$575/SF	\$46/SF	\$12,000,000+
Mid-High Rise, Adjacent Deck		Type I construction, but with adjacent pre-cast deck. Typically 200,000 SF +/-.	0.5-3.0	1-6	\$39.00/SF	\$710/SF	\$525/SF	\$42/SF	\$3,200,000+
Low-Mid Rise (2-5 Stories), Surface Parked		Various construction types, but not concrete, with surface parking. Typically 100,000 SF +/-.	0.35-0.75	4	\$34.00/SF	\$570/SF	\$420/SF	\$34/SF	\$800,000+



DEVELOPMENT ECONOMICS

- Current land prices in Downtown = \$6-8 Million/Acre

Product Type	Example	Description	Typical Units/Acre	Typical Acreage	PSF Rent Needed	Typical Unit Rent	Average Household Income	Average Value Per Unit	Typical Dev. Cost Per Unit	Typical Land Value Per Unit	Typical Hard Cost Per Unit	Typical Land Value Per Acre
High Rise		>12 Stories, but realistically any Type I (Concrete or Steel Structure)	>150	1.5 to 3	\$3.40	\$2,720	\$140,000+	\$650,000	\$459,000	\$55,000	\$328,000	\$8,250,000+
Podium		6-12 Stories, but most are 6-7 to remain wood frame above 1-2 floors of parking podium	100-150	3 to 4	\$2.70	\$2,160	\$100,000+	\$450,000	\$364,000	\$44,000	\$260,000	\$5,500,000+
Wrap		4-5 Stories, around or adjacent to structured parking	60-100	4 to 7	\$2.30	\$1,840	\$80,000+	\$360,000	\$308,000	\$37,000	\$220,000	\$2,960,000+
Garden-Urban		3-4 Stories, surface parked, typically with elevators	40-60	4 to 13	\$2.05	\$1,640	\$60,000+	\$310,000	\$274,000	\$33,000	\$196,000	\$1,650,000+
Garden With Elevators		3-4 Stories, surface parked	30-40	7 to 15	\$2.00	\$1,600	\$60,000+	\$60,000	\$269,000	\$32,000	\$192,000	\$1,120,000+



QUESTIONS?