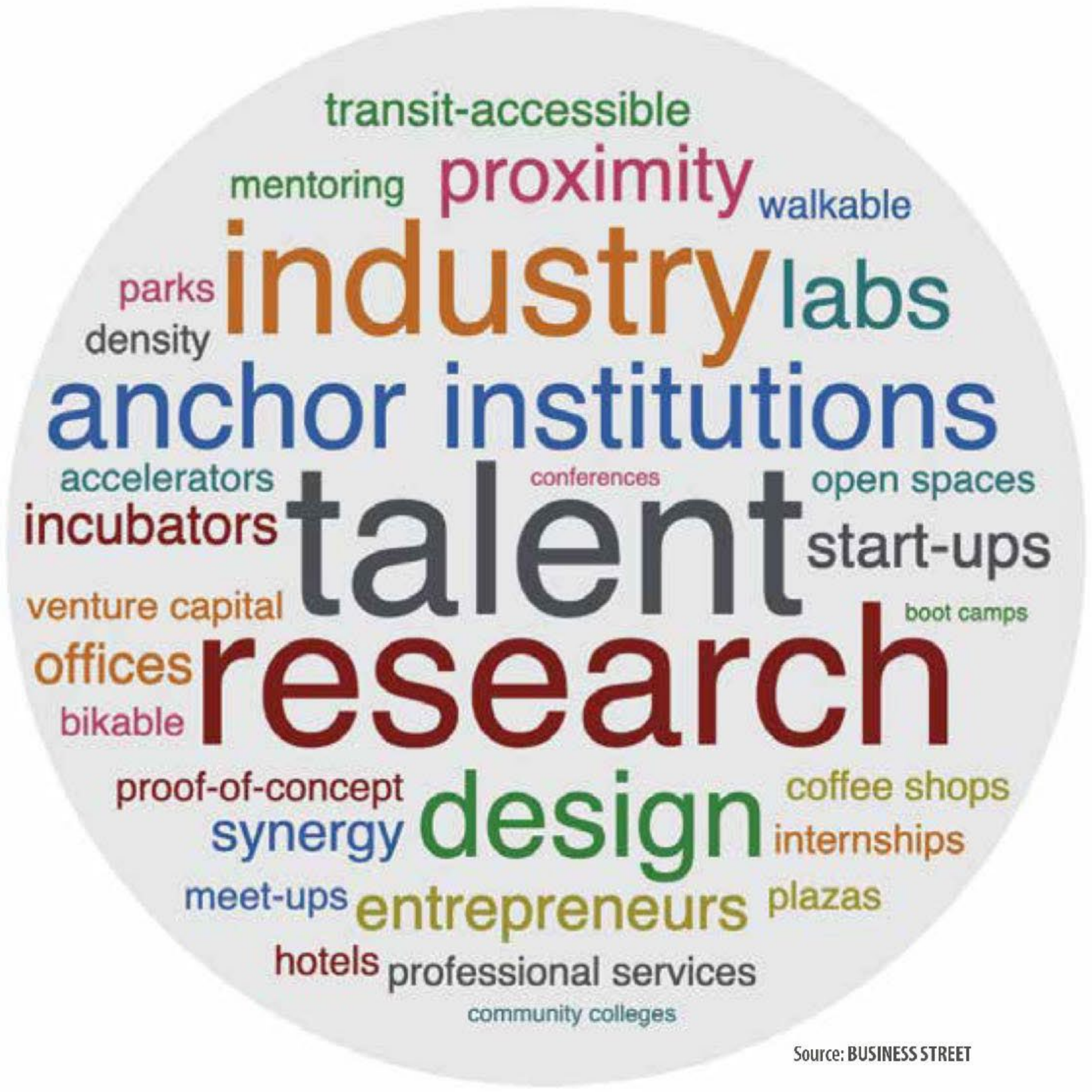
Key Real Estate Findings from the Downtown Chapel Hill Innovation District Strategy

CCES Meeting
Friday, June 2, 2023

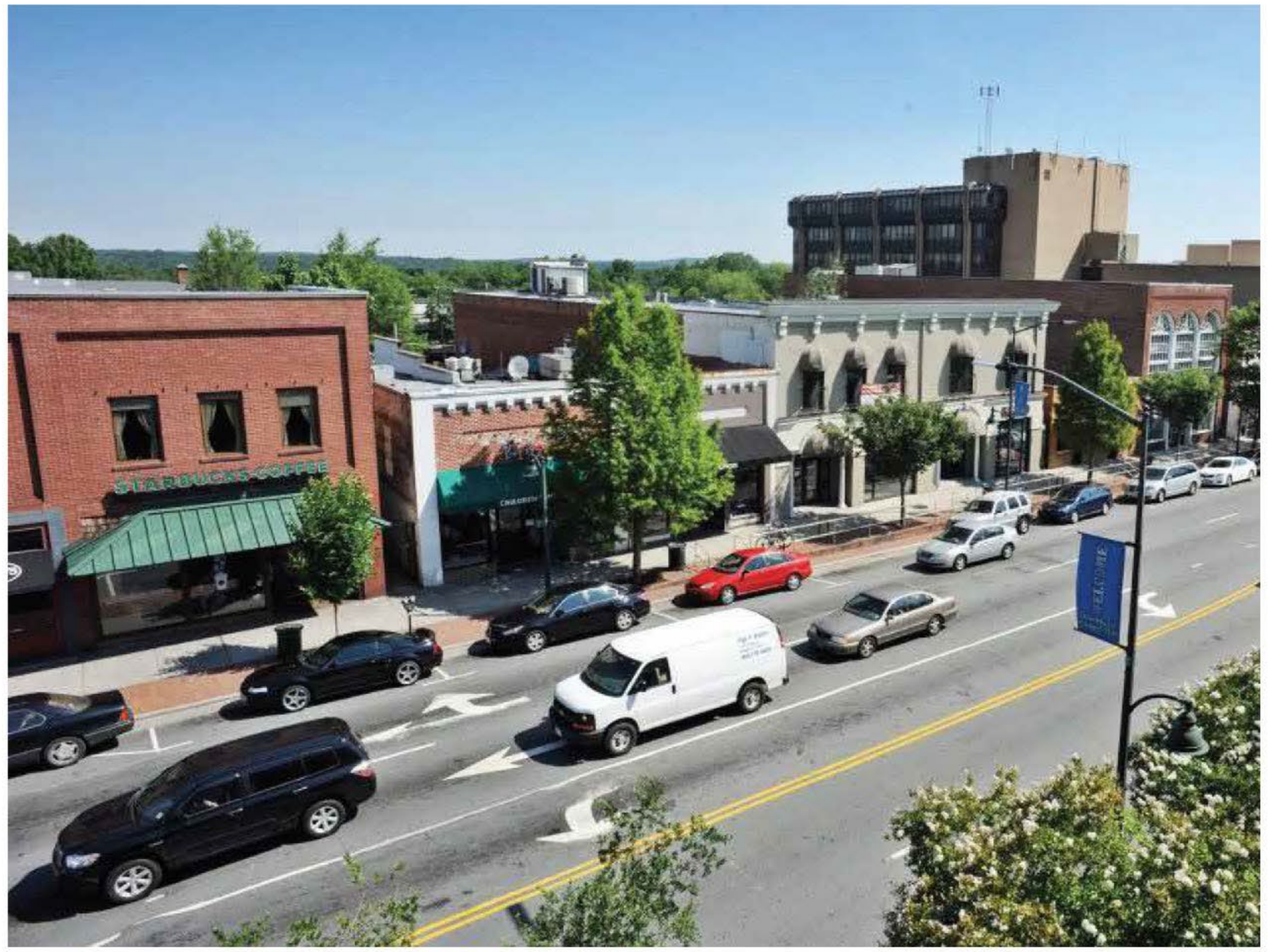
BUSINESS STREET



This word cloud includes organizations, activities, and qualities that make for a vital, 21-century work district. Notice that these words include not only startups but corporations and not just labs and offices but hotels, coffee shops, and parks. Great work districts bring a variety of people together for face-to-face collaboration and spark serendipitous encounters as they go about their daily lives.

1. What is an Innovation District?

After the Brookings Institute coined the term "innovation district" in the mid 2010s, more than 100 communities across the country proposed forming one. However, research shows that only about a dozen communities have actually done so, and most of the innovation districts that now exist are essentially siloed business parks with an institutional character. The goal of this Chapel Hill effort is not to create a separate place but to bring more people downtown, more hours of the day, and for more kinds of activity.



This strategy aims to add work and learning to a place where people already live and play.

2. Goals and Metrics

There are three simple goals for this effort:

■ Revitalize downtown.

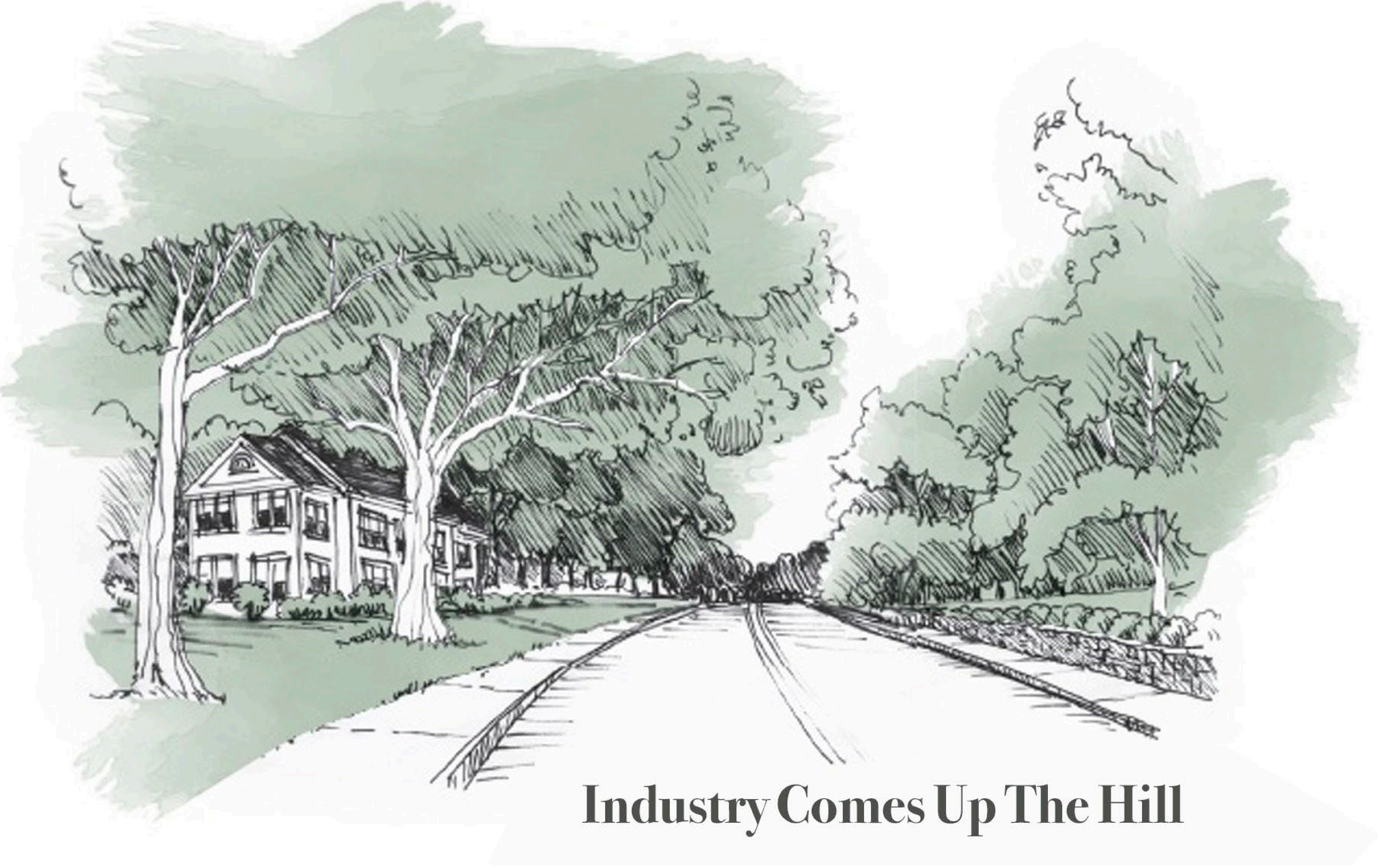
Even before the pandemic, downtown had increasingly become distanced from the daily lives of many Chapel Hill residents. It has scores of cafes, bars, and restaurants, but few stores where residents shop regularly and even fewer businesses with high-paying jobs in industry. Success in this effort will put more people on the street more hours of the day.

■ Create a better front door for UNC.

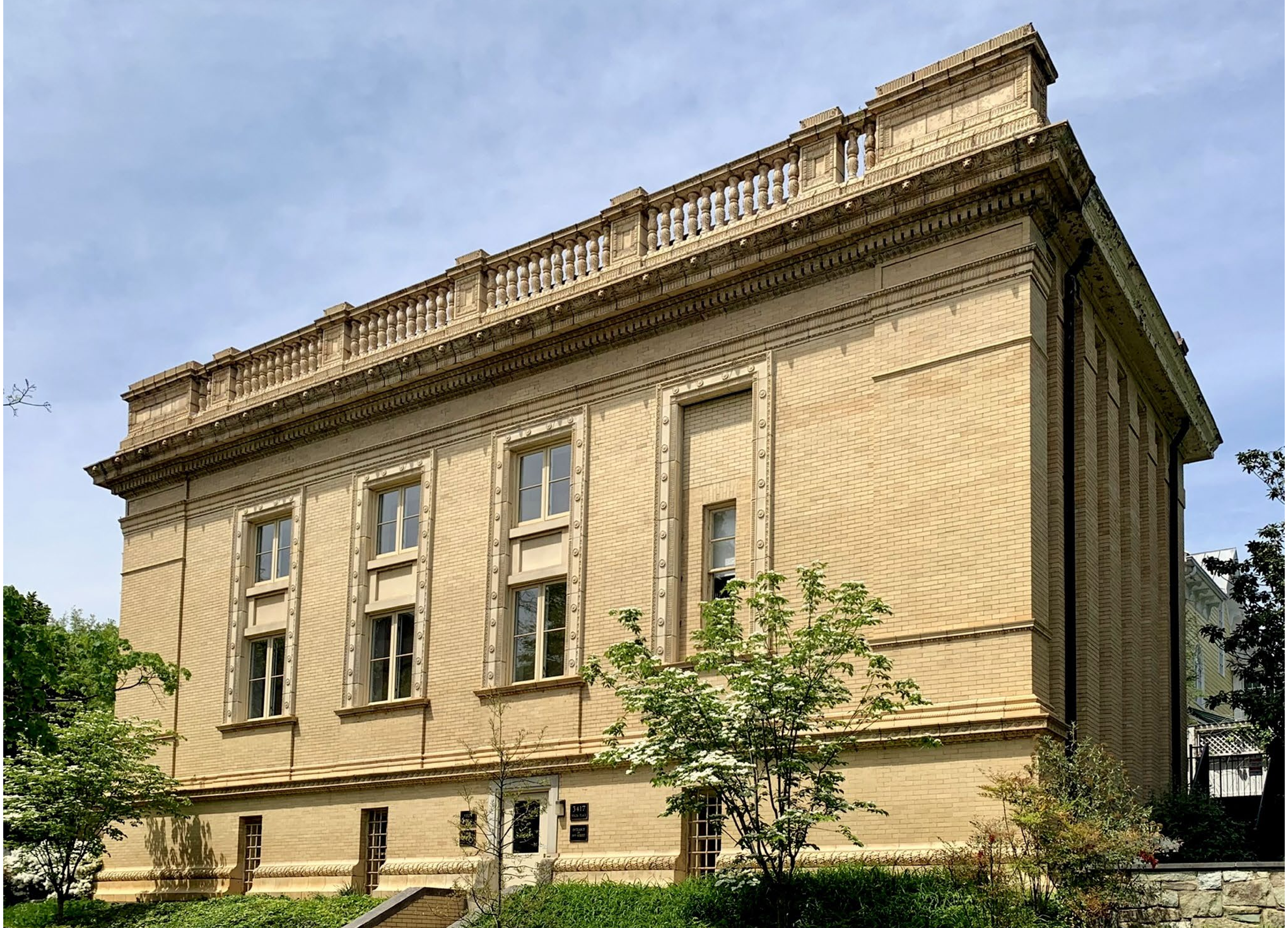
Fifty years ago, the heart of downtown was a block of retail on East Franklin St. Today the center of campus life has shifted half a mile south, while the center of retailing has moved a half mile west. A better front door for UNC means making the 100 block of E. Franklin St. more exciting and different, with fewer shops selling tee shirts.

■ Increase jobs and tax revenue.

Success will be measured by the amount of private investment in workplaces and firms, the number and variety of jobs, and whether these jobs go to Chapel Hill residents and UNC graduates .



Industry Comes Up The Hill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This rendering shows how UNC-owned parking lots north of the Information Technology Services offices on Franklin St. could be developed with a mid-rise building and grade-level plaza. This development may not be feasible until other new projects now in development are leased up and the Town develops additional public parking.

	Totals			Per Gross SF of Building		
Development Program	Rosemary	P2	ITS	Rosemary	P2	ITS
Site area	74,500	28,600	47,200			
Building Area						
Ground floor space	16,000	6,000	12,000			
Patio level office			14,000			
Office tower	154,000	78,000	98,000			
Total	170,000	84,000	124,000			
Net Rentable area	139,400	68,880	101,680			
Number of floors						
Podium	2	0	2			
Above podium	7	6	8			
Total	9	6	10			
Typical floor size	11,000	13,000	14,000			
Number of buildings	2	1	1			
Parking stalls	420	10	245			
Parking ratio	2.5	0.1	2.0			
Effective rents						
Ground floor rent	30.5	30.5	32.5			
Office rents	35.5	35.5	37.5			
Monthly parking rate	120	120	120			
Hard Costs						
Site preparation	1,600,000	1,000,000	1,250,000	9.41	11.90	10.08
Parking	9,240,000	220,000	5,390,000	54.35	2.62	43.47
Ground floor	3,000,000	1,125,000	2,250,000	17.65	13.39	18.15
Tower space	28,875,000	14,625,000	21,525,000	169.85	174.11	173.59
Tenant improvements	7,903,500	3,910,500	5,109,500	46.49	46.55	41.21
Total	50,618,500	20,880,500	35,524,500	297.76	248.58	286.49
Soft Costs						
Architecture & engineering	3,037,110	1,252,830	2,131,470	17.87	14.91	17.19
Permits and fees	759,278	313,208	532,868	4.47	3.73	4.30
Legal and administrative	759,278	313,208	532,868	4.47	3.73	4.30
Financing points	759,278	313,208	532,868	4.47	3.73	4.30
Construction interest	3,037,110	1,252,830	2,131,470	17.87	14.91	17.19
Leasing commissions	1,194,009	592,590	814,380	7.02	7.05	6.57
Project management	5,061,850	2,088,050	3,552,450	29.78	24.86	28.65
Total	14,607,912	6,125,922	10,228,373	85.93	72.93	82.49
Total Costs	65,226,412	27,006,422	45,752,873	383.68	321.51	368.97
Revenues						
Parking revenues	604,800	14,400	352,800	3.56	0.17	2.85
Ground floor revenues	390,400	146,400	312,000	2.30	1.74	2.52
Office revenues	4,646,950	2,353,650	3,123,750	27.34	28.02	25.19
Total, gross revenues	5,642,150	2,514,450	3,788,550	33.19	29.93	30.55
Vacancies	(423,161)	(188,584)	(284,141)	(2.49)	(2.25)	(2.29)
Net Revenues	5,218,989	2,325,866	3,504,409	30.70	27.69	28.26
Operating Expenses						
Ground floor & office	1,870,000	924,000	1,210,000	11.00	11.00	9.76
Parking	168,000	4,000	98,000	0.99	0.05	0.79
Total	2,038,000	928,000	1,308,000	11.99	11.05	10.55
Net Operating Income	3,180,989	1,397,866	2,196,409	18.71	16.64	17.71
Capitalized Value	70,688,639	31,063,694	48,809,083	415.82	369.81	393.62
Residual Land Value	5,462,227	4,057,272	3,056,211	32.13	48.30	24.65
Residual Value/ land s.f.	$73	$142	$65			

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8. Top Challenges

There are four challenges to the development of new office space downtown:

■ Earning The Premium For Place

New construction will require effective rents about $5 per square foot higher than Glen Lennox or downtown Durham. Downtown must now earn that premium by becoming safer, cleaner, and more attractive.

■ The Approvals Process:

Uncertainty about what developers can build has slowed the market for land sales. Town government needs to prioritize its urban design goals for West Rosemary and create a pilot process that will expedite the approval of projects that conform to those goals.

■ Marketing:

Downtown has seen so little new office development for so long that a single team of brokers marketing a single project will not be able to put downtown back on the map as a regional employment center. The Taskforce needs to work together in identifying prospects and making cold calls that get the word out that industry is now welcome here.

■ Parking:

Structured parking is one of the highest costs of development, and sharing this parking with complementary users can effectively halve its cost. Fostering this sharing will require creating a system of garages, in-lieu fees to finance them, and good way-finding.

Key Findings

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Off-site parking doubles residual land value.

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Provide parking.