

North Chapel Hill Development Opportunities Analysis

Prepared for the Town of Chapel Hill

May 22, 2019



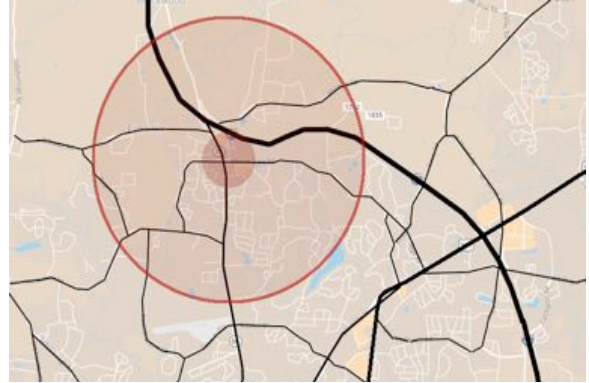
BUSINESS STREET

Introduction

This report identifies opportunities for new, infill and redevelopment of property in the commercial area near the intersection of Martin Luther King Jr. Blvd. ("MLK") and Weaver Dairy Rd. ("Weaver Dairy"). With the right type and form of development, this area can better serve the needs of nearby residents, operate in a more environmentally sustainable way, and have higher property values.

Definition of the Study Area

Although this commercial area serves commuters, its primary appeal is to residents living in a 1.75 mile radius of the intersection of MLK and Weaver Dairy. This circle extends west to Chapel Hill High School, east to East Chapel Hill High school, and south two-thirds of the distance between Homestead Rd. and Estes Dr. People living beyond this area are likely to shop at the Harris Teeter in downtown Carrboro or at one of the various food stores on E. Franklin St.



Data Sources

The data used in this analysis comes from four sources: 1) Esri, a mapping and demographics data company; 2) Google Maps, for measurements of retail building areas; 3) Avison-Young, a commercial real estate broker that publishes reports quarterly and annual reports on the leasing and absorption of space in the various regional office sub markets; and 4) the Town of Chapel Hill, which has compiled a detailed inventory of office space in local submarkets.

Existing Patterns of Development

The mix of retail, office, and higher-density residential development located near the intersection of MLK and Weaver Dairy has not developed in a cohesive and walkable fashion. The Harris Teeter store turns its back to the Chapel Hill North apartments to the east and the various office buildings immediately north of Weaver Dairy do not have good walkable connections to the Timberlyne Village shopping center immediately south of Weaver Dairy. The new medical office and pharmacy buildings on the southeast corner of MLK and Weaver Dairy are essentially drive-to locations, and there are no good bicycle or pedestrian connections between this commercial area and nearby residential areas. The power line corridors could provide that, but there are no paved trails along those. In 2007 and 2008 planning exercises showed how this area might be developed with more transit-oriented, master-planned projects¹, but that planning has been ineffective in preventing more auto-oriented development. Aerial photos on the next page compare these plans with what has actually been built or proposed by private interests. It is also important to note that it is about a mile walk between Carraway Village and the Food Lion. For all intents and purposes, Carraway Village is separate from the main commercial center of North Chapel Hill, and will likely develop with more freeway-oriented uses, as described in the last section of this memo.

1 See "Chapel Hill Northern Area Task Force Report, Final Report, 8/30/2007" prepared by the Northern Area Task Force and adopted by the Town of Chapel Hill Town Council on 1/14/2008 and the "Chapel Hill Northern Area Workshop: Transit Oriented Development Concept Plans". The latter are dated April 16, 2008 and were prepared by the Chapel Hill Planning Department and Crosby, Schlessinger and Smallridge (CSS).

Conceptual Public Plans



Privately Built or Proposed



Demographic and Lifestyle Characteristics of the Area

About 13,000 people live in the market area, enough for about one supermarket and accompanying side tenant space. Most of the area is built out with housing and the population there has been growing relatively slowly, with an increase of only about 1100 people the last eight years. There is land for more multi-family development near and along MLK, and near Timberlyne Center, if some of the sites there redevelop, but in the next ten years it is unlikely that the overall population of the area will increase by more than 2500 people. There are also about 1500 people working in various office buildings nearby, which collectively provides support for one or two small restaurants or delis.

The table below shows the demographic characteristics of different types of households in the market area, listed in descending order of wealth. The yellow section describes very affluent households with double the wealth of the average American household. The blue section describes fairly affluent households with about 150 percent of the average American household. The beige section describes households with less than the average American household wealth:

Lifestyles Characteristics of North Chapel Hill Households

<u>Lifestyle Group</u>	<u>Share</u>	<u>No.</u>	<u>HH Income</u>	<u>HH Size</u>	<u>Age</u>	<u>Wealth Index</u>	<u>Socio Status</u>	<u>Life Stage</u>	<u>Spending</u>
Top Tier	27%	1,384	\$173,200	2.8	47.3	437	224	Well established financially and professionally; often senior consultants; mostly empty nesters.	Luxury cars, lavish vacation homes, day spas, fine arts, high-end stores, reading, cook at home, regular trips abroad.
Professional Pride	21%	1,054	\$138,100	3.1	40.8	239	195	Well-established career professionals, long commutes, school-aged children, very organized daily routines	Several domestic trips a year, picture-perfect homes, housekeepers and landscaping, home gyms, tech savvy.
Urban Chic	15%	745	\$109,400	2.4	43.3	192	170	Slightly older married couples with and without children, 30% singles, solid in career.	Trader Joes, Costco, travel extensively, luxury imports, arts & culture, avid readers, skiing, yoga, hiking, tennis.
<u>Subtotal/ Average</u>	62%	3,183	\$146,652	2.8	44.2	314	202		
Golden Years	13%	676	\$71,700	2.1	52.3	162	133	Active seniors near end of careers, primarily singles or empty nesters, still in labor force.	Avid readers, professional services, active sports and walking, healthy eating, extensive travel abroad,
Boomburbs	10%	530	\$113,400	3.3	34.0	153	167	Young families with children, upper middle career, longer commutes, still furnishing their homes.	Club memberships, sports, family trips to theme parks, latest in technology, late model imports, gardening.
<u>Subtotal/ Average</u>	24%	1,206	\$90,012	2.6	44.3	158	148		
Emerald City	8%	398	\$59,200	2.1	37.4	74	122	Young and mobile, frequently renters, well educated but not affluent, often single.	Natural products, nutrition, Trader Joe's and Whole Foods, yoga, NPR, fine arts and music.
Dorms-to-diplomas	6%	325	\$16,800	2.2	21.6	20	78	School and part-time work, room mate situations, renters,	Socializing, having fun, new experiences, trendy budget clothing, used subcompact import cars, movies, bars, fast food, latest music, many activities.
<u>Subtotal/ Average</u>	14%	724	\$40,151	2.1	30.3	50	102		
<u>Total/ Average</u>	100%	5112	\$118,217	2.7	42.3	240	175		

Source: ESRI Tapestry profiles

On the whole, this is an affluent and well-educated area. More than 85 percent of all households here are very or fairly affluent. Only about one in seven households has less wealth than the American average.

About five in eight households in this area are **very affluent**. These households include "Top Tier" middle-aged families in which the parents are at the peak of their earning potential and the children are in high school and college; slightly younger "Professional Pride" families with children still in the K-12 system; and younger "Urban Chic" households, many of them childless couples with discretionary income for travel, eating out and yoga.

About one quarter of the households in this area are **fairly affluent**. Those households include retired university professors and families with younger children in which many of the parents have long commutes.

About one in seven households here are **less affluent**, although even they have good prospects for success later in life. Those less affluent households mainly consist of college students and recent graduates still getting started. Although they have not built up wealth, they still spend money on coffee, eating out, gym memberships, clothing and recreational equipment.

Affluent or not, almost all of these households have a number of things in common, especially education. Seventy-five percent of the adults over 25 have bachelors or masters degrees, with masters degrees outnumbering bachelors degrees two to one. Many residents here are interested in food, nutrition and health; traveling and learning about different cultures; reading and listening to NPR; and learning about social and environmental issues. These are Trader Joe's shoppers and Rick Steve's fans, either now or in the making.

There are also some important differences in age and household size. Of the adults over 25, about 40% are younger (ages 25 to 44), the same number are middle aged (ages 45 to 64) and about 20% are older (65+). Slightly more than half of the households (55 percent) still have children living at home, while about 45 percent are single people, younger couples without children or empty nesters.

Attachment 1 includes more detail on the demographics of the area.

Opportunities for Residential Development

There is a great contrast in the housing in this area, most of which is either single-family houses on large lots or apartment in big complexes. Many of the single-family houses are nestled in the woods on cul-de-sacs or loop roads, while most of the apartments are near MLK or the major approach roads. There is also Carol Woods, a large retirement community with about 600 residents for which there is a waiting list of more than ten years. There is some middle-density housing in the area, including the Winmore mixed-income project north of Homestead Rd. and townhouses west of the aquatic center.

That division between high- and low-density leaves a lot of housing needs unmet. For example, divorced parents now on a reduced housing budget may not be able to find suitable housing near schools. Empty nesters and seniors seeking to downsize have little selection in where to live, nor do young professionals buying their first home. When it comes to housing density and affordability, this makes for a "missing middle". Here are some of the opportunities this creates for housing development:

- **Large, high-quality condominiums.** This includes flats with at least two bedrooms, high finish levels, abundant storage space (including recreational equipment), large balconies or patios for entertaining, and secure connections to parking. Think of these as a quieter alternative to living in pricey mid-rise units downtown.
- **Townhouses and mid-priced condominiums.** These units appeal to mid-management and mid-career professionals who do not want the maintenance, security or mortgage payments for a larger house. These units should be located away from busy streets, but still have strong identify and curb appeal. Given the likelihood of redeveloping sites like the movie theater, these projects could be much more moderate in scale than the institutionally-financed apartments that have recently gone up.
- **Main Street apartments.** These units would attract younger renters who want to be able to walk to the store, coffee house, pub, gym, or dinner out.
- **Independent living, assisted care and memory care for seniors.** This area has built-in demand for more good seniors housing, not only for housing with services, but for active adults who are away much of the year traveling or visiting children and grandchildren. Some of this housing might be built for people now on the long waiting lists for Carol Woods, which has a "care without walls" model that allows people to eat and participate in that community even if they do not sleep there.

Retail Needs and Opportunities

The map at right shows Chapel Hill's major retail areas in red and traffic volumes in black. The commercial area of North Chapel Hill is at top center.

Most of the town's retail space is concentrated along the major commute and approach routes connecting Chapel Hill to Durham, Research Triangle Park and Raleigh². Because so much of the retail is concentrated along highways and arterials, local stores and restaurants are more vulnerable to competition in other parts of town than they would be in a community that drives less.



Since 2008, the retail industry has grown ever more competitive at the national, state and even the local level³. Last year Kroger's closed 14 relatively new and large stores in the region. When the new Wegman's in Chapel Hill opens, its sales will be the equivalent of seven average Food Lion stores, and it is quite possible that the Food Lion in Timberlyne Village could close in the next three to five years. If and when it does, it could take 30,000 square feet of side tenants with it.

The table below shows that North Chapel Hill has far more anchor and side tenant space than comparable areas like Meadowmont or Southern Village:

Square Footage of Chapel Hill Community Shopping Centers

<u>Area</u>	<u>Anchor</u>	<u>Side Retail</u>	<u>Total</u>
North Chapel Hill	104,500	151,000	255,500
Meadowmont	41,000	61,000	102,000
Southern Village	12,000	60,000	72,000

Over time, the amount of occupied retail space in North Chapel Hill will likely drop closer to that of these other two shopping areas. Several other factors make the retail space here vulnerable to competition. One is Timberlyne Village's serpentine layout and limited exposure. Pad buildings line much of the frontage, limiting the visibility of smaller stores, and some of those stores are not visible from the front of the Food Lion. Much of the space in both this center and the retail buildings anchored by the Harris Teeter store to the north is supported by commuter spending, and over the next five to ten years many of the commuters who stop there will likely find more places to shop closer to home. The

2 According to census data, about two-thirds of Chapel Hill residents commute to jobs elsewhere, and about two-thirds of the local jobs are filled by people who commute into town.

3 According to an Inmar, Willard Willard Bishop study of the food store industry, "2017, Future of Food Retailing", supermarkets' share of all food sales have dropped from 88 percent in 1988 to 36 percent in 2016, and this share is expected to drop to 33 percent by 2021, with that market share lost not only to Walmart, Target, Whole Foods and Trader Joe's, but also to drug and convenience stores. More than one national retail analyst has predicted that Food Lion, as a chain, may be among the next to close. Attachment 4 shows the local supermarkets most likely to close.

Waterstone area of Hillsborough, for example, may attract a quality grocer like Harris Teeter. The one in North Chapel Hill is the last store in that chain for many miles to the west.

Attachments 2 through 5 provide more detail on the retail characteristics of the region and town.

New Types of Retail Developable Here

When it comes to strong retail, Town leaders should think in terms of **quality, not quantity**. Stores and restaurants better suited to the needs and tastes of local residents will command their spending and loyalty, and others will follow if there is a good place to go. Here are some of the kinds of stores and restaurants that could be successful here:

- Diners, bakeries and coffee houses.
- Three-star bistros and restaurants that draw lunch time traffic from neighboring office buildings and that provide an evening alternative to dining downtown.
- Brew pubs, wine bars and micro-distilleries.
- High-service stores for leisure-time pursuits like reading, biking, knitting, running and travel.

Collectively, these businesses might add up to 20,000 square feet of space or more. However, it is not enough to simply re-tenant existing centers, which are conventional shopping centers built for another era when the shopping experience counted for little. To succeed here, upscale stores and restaurants will need to be located together in a project with a sense of place, somewhere people can eat outside and enjoy one another's company without the "view" being a parking lot. The success of Saxapahaw, Whittaker Mill in Raleigh, and Geer St. in Durham shows what happens when people break the rules of conventional suburban retail and "anchor" their place with outdoor activity.

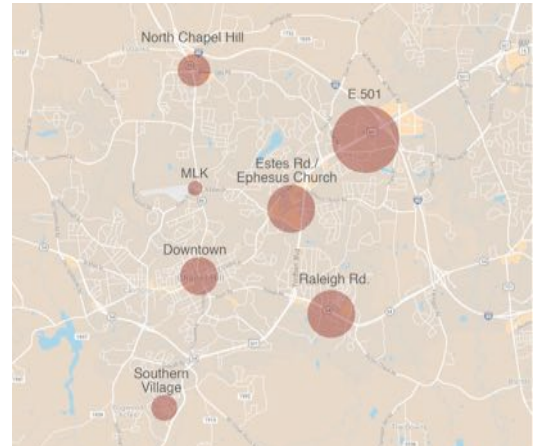
Office Development

As shown in the table at right, North Chapel Hill has a substantial amount of office space. This is a solid suburban place to work, but rent levels here are not what they could be if the area were able to more software and biotech firms.

Like the town's retail space, most of Chapel Hill's office space is concentrated along the major highways. The biggest single office tenant in town appears to be UNC Health, and this appears to be the major tenant in North Chapel Hill. Besides UNC and its affiliates, the area also has some non-profits and industry associations. It has relatively few tech firms. The area is vulnerable to competition. Over time, new office space near the UNC Health acute care clinic in Hillsborough may draw north medical professionals now located in North Chapel Hill.

To have more high-paying jobs, Chapel Hill will need more office space in more interesting settings. Downtown Chapel Hill could become a major employment center, but parking and office space is limited there. The last ten years a number of tech companies have located in downtown Durham, which now has three times as much office and lab space as all of Chapel Hill. If Chapel Hill wants those jobs, it simply has to create more office space, in a good, walkable setting.

North Chapel Hill is not now that setting. Most of the space is in either smaller buildings located on smaller streets and courts north of Weaver Dairy, many of those filled with medical professionals, or in quiet, older, suburban office parks to the east on Weaver Dairy where the main selling point is landscaping, not connection. Given the growing congestion on I-40, and the difficulty attracting regional tenants to this location, it is unlikely that this area will be able to attract many tech users unless it provides more services and amenities that workers can walk to. If it can provide those connections, then it may also be able to draw highly-skilled professionals from nearby neighborhoods now working in home offices.



<u>Area</u>	<u>Inventory</u>	<u>Share</u>
Eastowne/ 501	665,000	25%
Raleigh Road	608,000	23%
Franklin-Ford. Triangle	577,000	22%
Downtown	408,000	16%
North Chapel Hill	338,000	13%
<u>MLK</u>	<u>29,000</u>	<u>1%</u>
Total	2,625,000	100%

Other Commercial Uses

A three-star business-class hotel will probably not locate in this area, for there is not enough business to support it, nor are there enough business-class restaurants. Carraway Village may draw one, but that hotel is likely to be a one- or two-star, such as a Fairfield Inn, catering to highway travelers. It is quite possible that the commercial area of that project will develop as a highway stop, with a gas station, convenience store, and restaurants with drive-through aisles like Chick-Fil-A. The walking distance from Carraway Village to the Food Lion is about 4500 feet, and these two commercial areas should be treated as separate and distinct from one another.

Attachment 1
Demographic Characteristics of North Chapel

Population		Household Income	
2000	9,040	Less than \$50,000	32%
2010	12,233	\$50-100,000	22%
2018	13,314	\$100-150,000	16%
		\$150-250,000	11%
Households		>\$250,000	19%
2000	3,575	Median Income	\$130,801
2010	4,766		
2018	5,112		
		Race	
Homeownership		White	63%
Owners	61%	Asian	22%
Renters	35%	Black	7%
Vacant	4%	Other	8%
		Education	
Age		BA	23%
Under 25	36%	<u>Graduate school</u>	<u>52%</u>
25-34	12%	Total	75%
35-44	12%		
45-54	14%	Household Size	
54-65	13%	Single	24%
>65	13%	Couple w/o children	30%
Median Age	36.7	Couple with children	24%
		Single w. children	11%
		Roommates	11%

Source: ESRI "Market Profile" report

Attachment 2

Store Size, Sales and Market Share of Various Food Store Chains in the Research Triangle

Supermarket Sales and Total Store Size by Chain, Research Triangle Region

<u>Chain</u>	<u>Locations</u>	<u>Avg. Store Size</u>	<u>Total Store Area</u>	<u>Sales Per SF</u>	<u>Total Regional Sales</u>	<u>Share of Regional Sales</u>
Harris Teeter	19	46,000	874,000	\$500	\$437,000,000	17%
Walmart Super Ctr.	11	75,000	825,000	700	577,500,000	22%
BJ's	5	50,000	250,000	850	212,500,000	8%
Whole Foods	7	37,000	256,000	900	230,400,000	9%
Food Lion	19	34,000	646,000	325	209,950,000	8%
Sam's Club	4	70,000	280,000	600	168,000,000	7%
Costco	2	70,000	140,000	1000	140,000,000	5%
Publix	4	46,000	184,000	550	101,200,000	4%
Wegmans	1	100,000	130,000	650	84,500,000	3%
Trader Joe's	3	16,000	48,000	1750	84,000,000	3%
Aldi	7	16,000	112,000	675	75,600,000	3%
Target	10	25,000	250,000	300	75,000,000	3%
Fresh Markets	5	18,000	90,000	700	63,000,000	2%
Lidl	2	34,000	68,000	550	37,400,000	1%
Misc.	5	20,000	100,000	300	30,000,000	1%
Compare Foods	3	25,000	75,000	300	22,500,000	1%
Weaver Street	3	12,000	37,000	500	18,500,000	1%
Sprouts	1	25,000	25,000	600	15,000,000	1%
Total or average	111	719,000	4,390,000	\$588	\$2,582,050,000	100%

Estimated Population, 2018

Wake County	1,024,000
Durham County	301,000
<u>Orange County</u>	<u>141,000</u>
Total	1,466,000

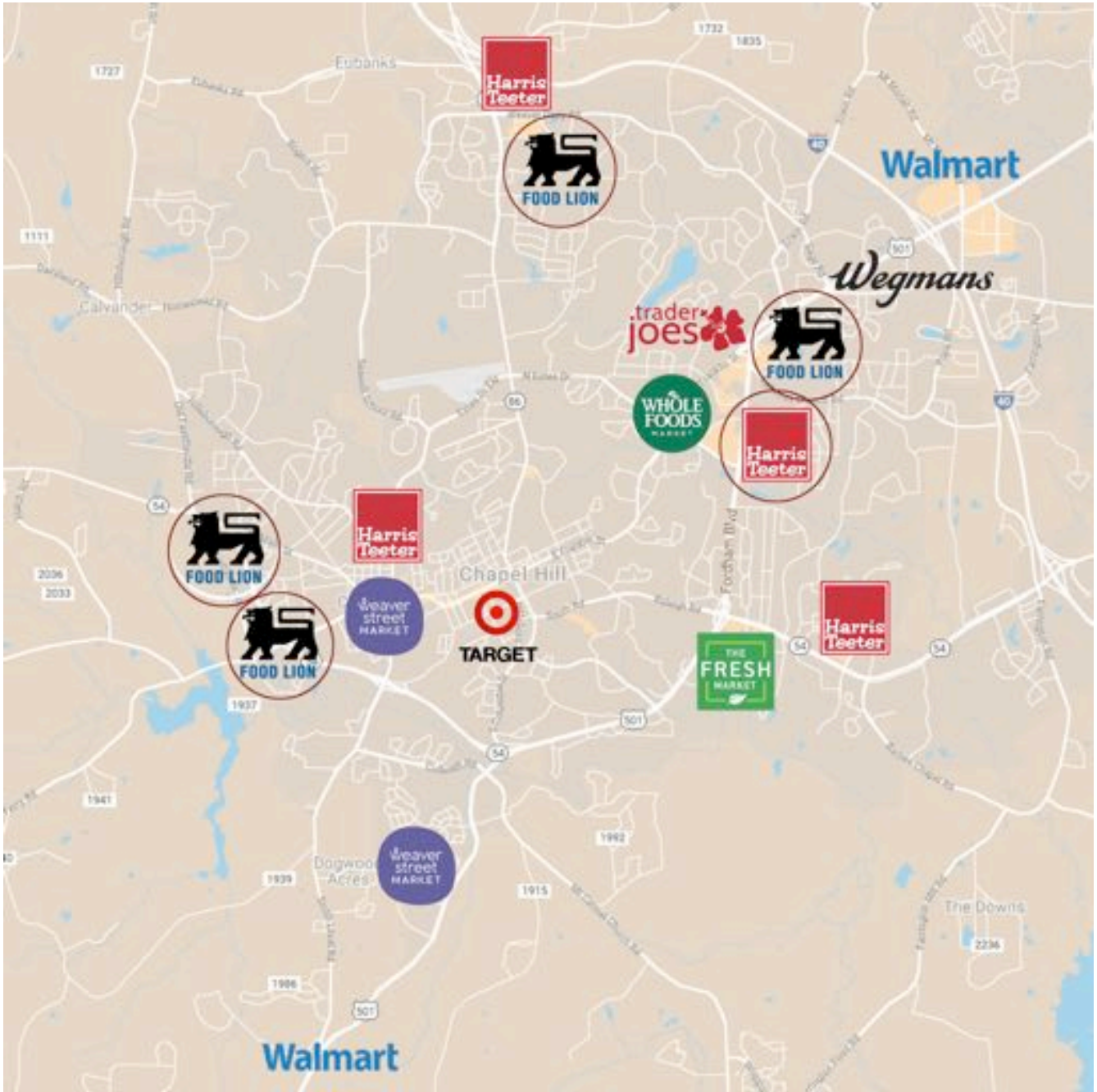
Store area per person: 3.0 square feet

Source: Business Street count of store locations in the region. Average store size based on sample of significant number of locations for each chain. Sales estimates per square foot taken from multiple online articles.

Attachment 3:
Food Retailer Space in the Greater Chapel Hill Area

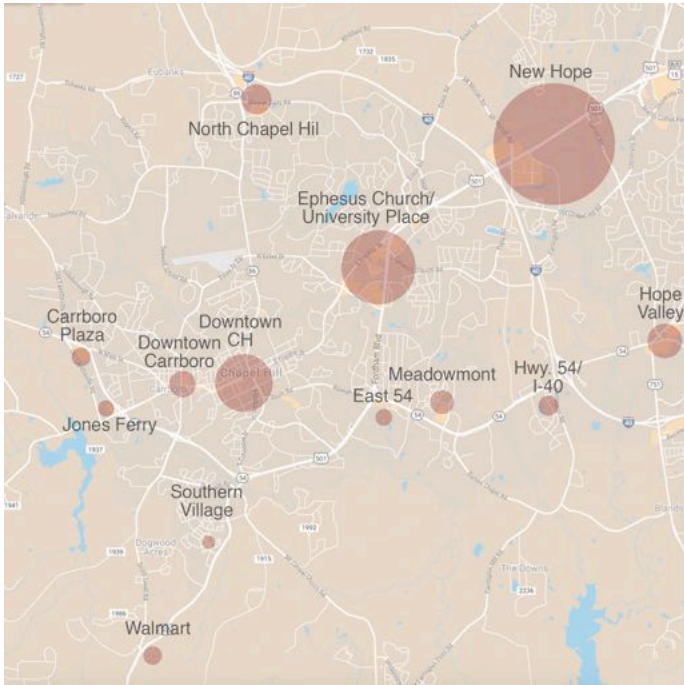
<u>Store</u>	<u>Location</u>	<u>Size</u>
Food Lion	N.W. Carrboro	33,300
Food Lion	Carrboro Plaza	46,500
Food Lion	Ephesus Church/ U.P.	30,000
Food Lion	North Chapel Hill	32,900
Fresh Market	East 54	28,400
Harris Teeter	Downtown Carrboro	34,700
Harris Teeter	Ephesus Church/ U.P.	36,400
Harris Teeter	Meadowmont	45,100
Harris Teeter	North Chapel Hill	46,600
Target	Franklin St.	5,000
Trader Joes	Ephesus Church/ U.P.	13,000
Walmart	New Hope	50,000
Walmart	S. 501	50,000
Weaver St. Market	Downtown Carrboro	13,500
Weaver St. Market	Southern Village	12,700
Wegman's	Hwy. 15-501	130,000
<u>Whole Foods</u>	<u>Ephesus Church/ U.P.</u>	<u>41,000</u>
Total		649,100
Number of local residents		115,000
Square feet per capita		5.6
Regional ratio		3.0
Percent by which local exceeds regional average		88%

Attachment 4:
Chapel Hill-Area Supermarkets Vulnerable To Closure⁴



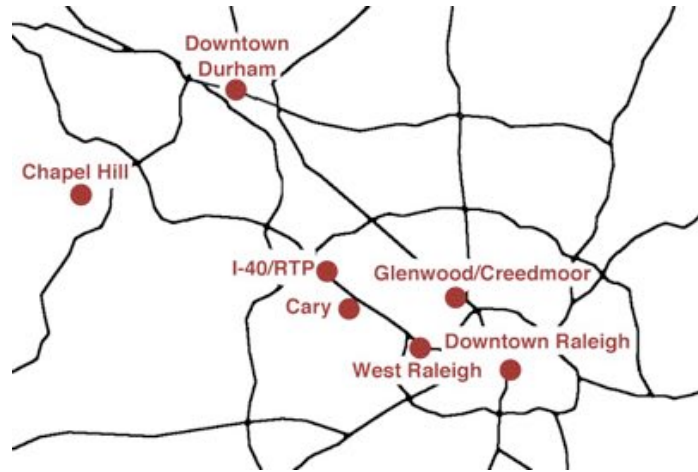
⁴ Vulnerable stores circled in red.

Attachment 5:
Chapel Hill Area Retail Centers and Sizes



<u>Location</u>	<u>Size (sf)</u>	<u>Share</u>
New Hope	1,185,000	30%
Ephesus Church/ University Place	680,000	17%
Downtown Chapel Hill	670,000	17%
Hope Valley	290,000	7%
North Chapel Hill	257,000	7%
Downtown Carrboro	190,000	5%
Walmart	120,000	3%
Meadowmont	102,000	3%
Carrboro Plaza (NW)	105,000	3%
Hwy 54/ I-40	80,000	2%
East 54	75,000	2%
Jones Ferry	65,000	2%
<u>Southern Village</u>	<u>72,000</u>	<u>2%</u>
Total	3,891,000	100%

Attachment 6:
Regional Office Nodes and Share



<u>Submarket</u>	<u>Total Inventory</u>		<u>Construction, '12-18</u>	
	<u>Amount</u>	<u>Share</u>	<u>Amount</u>	<u>Share</u>
I-40/ RTP	14,489,904	33%	1,669,341	25%
Cary	5,572,692	13%	807,654	12%
West Raleigh	5,390,470	12%	763,795	11%
Downtown Raleigh	4,899,591	11%	1,020,323	15%
Downtown Durham	3,815,681	9%	1,112,648	17%
Six Forks Rd.	3,640,810	8%	657,814	10%
Glenwood/ Creedmoor	2,600,487	6%	500,000	7%
South Durham	1,646,653	4%	0	0%
<u>Chapel Hill</u>	<u>1,559,869</u>	<u>4%</u>	<u>158,284</u>	<u>2%</u>
Total	43,616,157	100%	6,689,859	100%

Source: Avison-Young 4th quarter office reports

Attachment 7:
List of Major Office Buildings Open or Under Construction
in the Research Triangle, 2010-2019

<u>Project</u>	<u>Market</u>	<u>Size</u>	<u>Opening</u>
Weston Lakefront	Cary	427,000	2015
Centergreen 3	Cary	167,154	2017
Metlife 3	Cary	213,500	2019
Carolina Square	Downtown Chapel Hill	158,284	2017
Diamond View III	Downtown Durham	130,000	2013
Chesterfield- 701 W. Main	Downtown Durham	284,000	2016
One City Center-110 Corcoran	Downtown Durham	130,195	2018
Southern Gateway- 200 Morris	Downtown Durham	160,000	2018
Southern Gateway-300 Morris	Downtown Durham	178,998	2018
555 Mangum	Downtown Durham	229,455	2019
SECU Tower	Downtown Raleigh	132,000	2013
Charter Square	Downtown Raleigh	242,969	2015
The Dillon	Downtown Raleigh	220,354	2018
One Glenwood	Downtown Raleigh	212,500	2019
FNB Tower	Downtown Raleigh	212,500	2019
Glenlake 5	Glenwood/ Creedmoor	166,000	2015
Biologics	Glenwood/ Creedmoor	166,000	2015
Crabtree Terrace	Glenwood/ Creedmoor	168,000	2019
Perimeter 2	I-40/ RTP	206,409	2014
Perimeter 3	I-40/ RTP	245,352	2014
Perimeter 4	I-40/ RTP	192,225	2015
Forty540	I-40/ RTP	205,000	2017
Legacy at Brier Creek	I-40/ RTP	116,500	2017
Perimeter 5	I-40/ RTP	258,250	2018
Perimeter 6	I-40/ RTP	195,687	2019
Triangle 54- 1	I-40/ RTP	152,456	2019
3300 Paramount Pkwy	I-40/ RTP	97,462	2019
Midtown Plaza	Six Forks Rd.	329,214	2017
Tower 4 at North Hills	Six Forks Rd.	328,600	2019
Alliance One	West Raleigh	146,491	2015
Wade 3	West Raleigh	103,000	2015
Wade 4	West Raleigh	104,171	2017
751 Corp. Ctr. Dr.	West Raleigh	96,000	2018
Wade 5	West Raleigh	209,145	2020
		6,584,871	

Source: Avison-Young 4th quarter office reports.