

II. SUMMARY

Downtown with its eclectic mix of retail, office, and residential uses and its proximity to the University of North Carolina (UNC) campus has historically been the cultural and commercial nerve center of Chapel Hill and the neighboring areas. However, like similar downtowns across the country, it has been transformed from its role as the primary commercial center to a largely secondary position. To reverse this tide of decentralization in deliberate manner the Town Council adopted the Downtown Chapel Hill Small Area Plan (Downtown Plan) in March 2000 as a part of the 2000 Comprehensive Plan for the Town of Chapel Hill (Town).

The Town has focused on two municipal parking lots, Lots 2 and 5, located in the Downtown area as "major opportunity areas" to catalyze its revitalization efforts. ERA was retained to evaluate the market potential for developing a variety of commercial, residential, arts, entertainment, and public uses at these sites.

Lots 2 and 5 are crucial for the overall development and revitalization of Downtown. ERA considers creating the optimal use program at the project sites one of the most important strategic goals of the redevelopment plan. The use strategy is especially critical for Lot 5, which has the floor area to potentially support an economically feasible mix of uses, and the added benefit of restoring continuity and generating more activity along the West Franklin Street corridor.

Based on historical trends in Chapel Hill and its surrounding area and comparative analyses of similar towns across the country, ERA identified four general challenges that Downtown faces:

- Formidable competition from suburban malls and office parks;
- Lack of shopping continuity in the Downtown area;
- Uneven retail mix that caters predominantly to students; and
- Insufficient residential density in Downtown to support neighborhood retail.

In conducting market analyses for various uses, ERA analyzed socio-demographic and economic trends in Chapel Hill and its surrounding region, including Orange, Durham, and Chatham counties. We also conducted extensive interviews with planners, economic development officials, real estate brokers, developers, business owners, and UNC staff to collect specific information about proposed developments that may impact Downtown.

While ERA examined the viability of a range of uses, including retail, office, residential, and arts and entertainment, we concluded that the most-likely feasible mix of uses would include a mix of retail, arts and entertainment uses on the ground floor with residential uses on the higher floors. ERA, therefore, focused on analyzing market demand and supply conditions for residential, retail, and arts and entertainment uses in Downtown.

- **Residential:** ERA projects that there will be strong demand for rental apartments in Chapel Hill. Based on current demographic trends and future projections, we forecast demand for up to 386 new units in multi-unit buildings over the next five years (an average annual absorption of 77 units over five years).

While our analysis indicates that there is negligible demand for owner-occupied units in multi-unit buildings, it should be noted that the condo market in the Downtown area, driven mainly by low interest rates and convenient locations within walking distance of the UNC campus, has been very active over the last few years. It seems reasonable to conclude that if interest rates remain stable and the economy continues to grow, ERA's projected demand for condos (which is based on historical ratios) might be understated. In addition, there may also be strategic opportunities in the condo market for households or parents interested in investing in apartments that cater to off-campus housing demand of UNC students.

Based on the historical growth rates of low-income households in the area, ERA also projects that the Town's mandate of a 15 percent set aside of residential units for low-income families will be easily absorbed (up to 58 units over five years).

- **Retail:** ERA estimates that the area can support 112,000 square feet of new retail space given current market conditions, and as much as 666,000 square feet if conditions are improved Downtown.

There is significant pent-up demand for additional retail space, predominantly for comparison goods such as apparel and home furnishings (GAFO). We believe that the clarity of a downtown retail district is essential in order to recruit the high quality tenants that are necessary to attract shoppers away from the malls in the outlying region. The redevelopment of key opportunity sites outside Lots 2 and 5 may also be necessary to provide a western anchor to the Downtown corridor. With UNC as the existing anchor to the east, the retail strategy for Downtown could then build on the thematic and functional concentrations created by the development of retail spaces at Lots 2 and 5.

The significant concentration of major supermarkets in the immediate area surrounding downtown suggests that a full-size supermarket may not be the most optimal use at these sites. Furthermore, grocery stores require significantly more parking than other types of retail, placing a burden on potential development economics. However, demand indicators suggest adequate market support for smaller-scale specialty food and convenience stores.

In keeping with general public opinion, our analysis concluded that Chapel Hill is adequately supplied with food and beverage service. Rather than allocating new space to bars or restaurants, the focus should be on replacing the under-performing restaurants with higher quality tenants that in turn would provide support for comparison goods retailers.

- **Arts & Entertainment:** Our analysis indicates that the population, spending potential, and cinema-viewing habits of Chapel Hill area residents is sufficient to support up to three screens, if positioned adequately. However, the market is not deep, and our analysis does not indicate strong pent-up demand, sufficient to support both an efficient, new complex (at Lots 2 or 5) and existing screens in Downtown.

For policy makers, the choice is partly between a short-term and long-term perspective. A new facility would have a significant competitive impact on existing cinemas in the short-term. In the longer term, however, the benefits of a modern movie theater development in Downtown are clear: first, entertainment, food and beverage dollars leaking out to the suburban markets could be recaptured; second, increased foot traffic will create spillover spending effects for Downtown retailers; and third, the new development may induce existing theaters to reinvest and reposition themselves.

In regard to other forms of entertainment, the UNC Arts Common project will provide a critical mass of arts and entertainment venues that can be leveraged to develop auxiliary uses that could include a mix of artist studios and galleries. These uses can be incorporated into the Downtown fabric in two ways, either through the adaptive reuse of existing second floor spaces, or by combining artist live-work units with the residential program.

Parking: Programming at the redevelopment sites must take into consideration the constraints that certain uses will place on existing parking facilities and the subsequent implications for the provision of additional spaces. The redevelopment of Lots 2 and 5 displaces 275 existing spaces and will require a number of new spaces based on the programming mix. Eliminating or decreasing mandatory parking requirements may not solve this problem, and this issue must be addressed through a combination of innovative parking facility design, improved street parking, shared parking arrangements, and programs promoting the use of other forms of transportation.

ERA also conducted case studies of seven University towns to identify tools and strategies used to reposition their downtowns. The successful approaches include a combination of:

- **Zoning amendments** to allow for more development density;
- **Modest infrastructure upgrades**, especially related to street lighting;
- **Parking improvements**, including new facilities; and
- **Mixed-use development**, including residential units on higher floors.



On the development side, while none of the towns studied used any tax incentives to attract businesses to the downtown area, a few of them offered tax benefits for renovations and upgrades. In some cases, below-market sales or ground leases were also utilized to incentivize redevelopment on town-owned sites. Zoning bonuses have been used extensively to provide a balance between desirable uses (from civic perspectives) and development feasibility.

From a programming perspective, some towns have established business improvement groups that have focused exclusively on enhancing their downtowns, with particular emphasis on retail mix, streetscaping, etc.