



**Economics Research Associates**



Market Analysis Report

**For Proposed Redevelopment of  
Lots 2 & 5, Town of Chapel Hill  
Chapel Hill, North Carolina**

For

**Stainback Public/Private Real Estate LLC  
(SPPRE)**

Submitted by

**Economics Research Associates**

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**ERA Project No. 15344**

1101 Connecticut Avenue, NW Suite 750  
Washington, DC 20036  
202.496.9870 FAX 202.496.9877 [www.econres.com](http://www.econres.com)  
**Los Angeles San Francisco San Diego**  
**Chicago Washington DC London New York**



**Economics Research Associates**

## Table of Contents

|               |                      |     |
|---------------|----------------------|-----|
| Section I:    | Introduction         | 1   |
| Section II:   | Summary              | 6   |
| Section III:  | Residential          | 10  |
| Section IV:   | Retail               | 27  |
| Section V:    | Arts & Entertainment | 52  |
| Section VI:   | Parking              | 73  |
| Section VII:  | Case Studies         | 76  |
| Section VIII: | Conclusion           | 98  |
| Appendix I:   | Data Sources         | 100 |

## I. INTRODUCTION

Downtown Chapel Hill (Downtown), with its eclectic mix of retail, office, and residential uses and its proximity to the University of North Carolina 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. In particular, Downtown Chapel Hill has experienced two major forces over the past few decades that have contributed to this evolution: (i) the emergence, and subsequent growth, of Research Triangle Park that has altered employment and demographic patterns in the region, and (ii) the emergence of stand-alone shopping malls that have managed to attract a growing share of residents to the detriment of Downtown establishments.

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 Downtown Plan seeks to revitalize Downtown by “encouraging the ‘incubation’ of vital, well-integrated, mixed-use development ... Incentives, instituted through creative zoning and other ordinance modifications, would encourage other desirable commercial and cultural uses, which would draw people and a heightened intensity of activity to Downtown”.

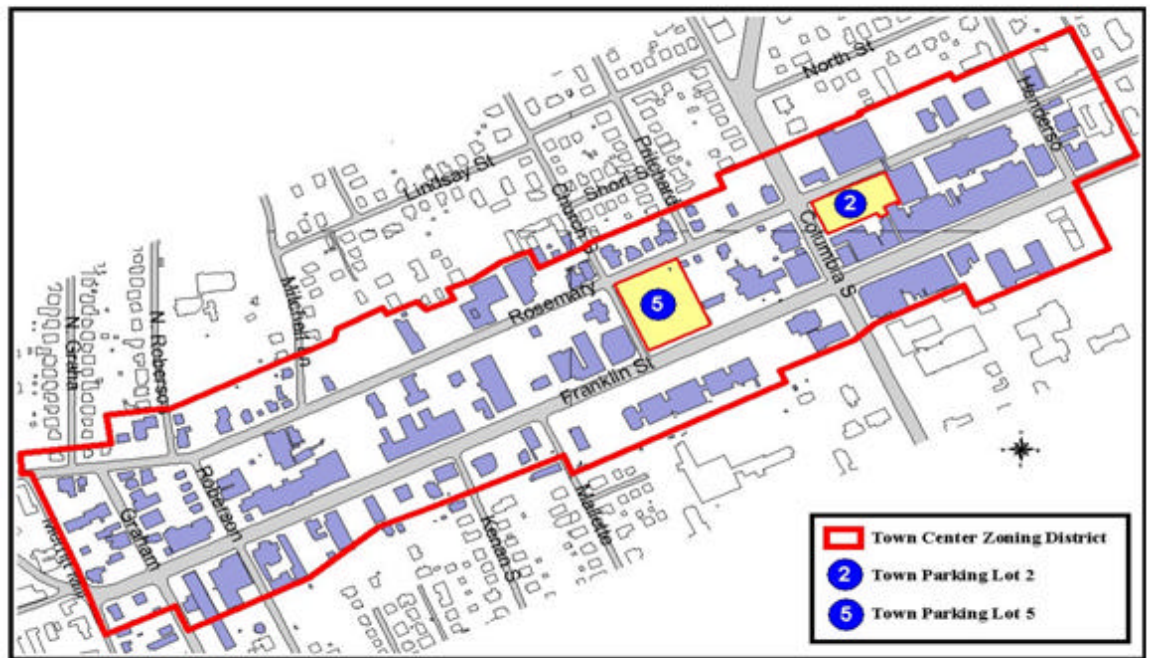
Subsequent to the adoption of the Downtown Plan, the Town conducted design workshops to solicit input from the public on the potential future development of the Lots 2 and 5. These sessions resulted in a set of Principles and Priorities for guiding the development of the two sites. The Town Council has hired Stainback Public/Private Real Estate (SPPRE) to guide the Town through the redevelopment process that is anticipated to culminate in the implementation of mixed-use projects on the sites.

Economics Research Associates (ERA) was retained to evaluate the market potential for developing a variety of commercial, residential, arts, entertainment, and public uses at the proposed redevelopment sites. ERA’s market study was undertaken to identify an appropriate mix of uses that could potentially be supportable and capable of catalyzing the revitalization of Downtown. While this study does not suggest a strict program of uses for Town-owned Lots 2 and 5, its intent is to provide the Town with guidance for market-driven development.

## Market and Site Overview

The Downtown area includes lots fronting Franklin and Rosemary Streets, bounded on the west by Merritt Mill Road and on the east by Hillsborough and Raleigh Street. Map 1 below shows the Downtown area boundaries and the location of the project sites, Town-owned Parking Lots 2 and 5.

**Map 1. Chapel Hill Downtown Area with Parking Lots 2 and 5**



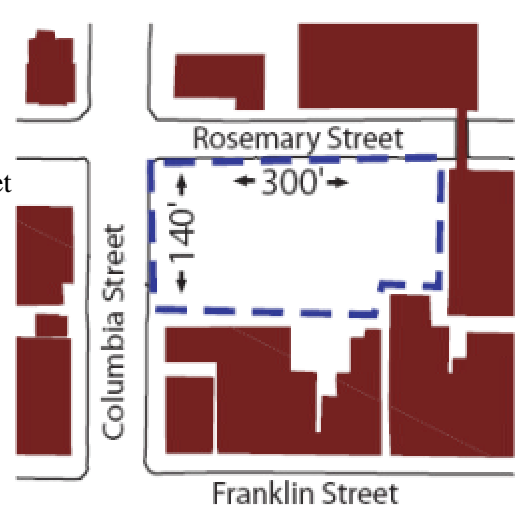
**Source:** Town of Chapel Hill Planning Department

Among the list of concepts and strategies that were outlined in the Downtown Plan, Town Lots 2 and 5 were identified as "major opportunity areas" for future development. Lot 2 is a 105-space at-grade parking lot at the corner of East Rosemary Street and Columbia Street. Lot 5 is a 170-space parking lot bounded by West Franklin Street on the south, Church Street on the west, and West Rosemary Street on the north.

The project sites are crucial to the overall development and revitalization of Downtown. The Town Council has specifically expressed a desire to accommodate a mixed-use type development on Lot 5 and preliminarily outlined a mix of land-uses including a parking deck and a transit transfer station on Lot 2.

Lot 2, located at the corner of Columbia Street and Rosemary Street, has the following characteristics:

- 105 current parking spaces, all of which are public, covering 42,000 square feet
- Vehicle Average Daily Traffic on Columbia Street at the Rosemary Street intersection was ~23,000 (2001)
- Daily Pedestrian Counts were ~4,101 on Columbia Street at the Franklin Street intersection (2001)
- Revenues ~\$445,000 (2003-2004 Adopted Budget)
- Expenditures ~\$197,774 (2003-2004 Adopted Budget)



Parking Lot 5 is located at the corner of Rosemary Street and Church Street with the following characteristics:

- 170 current parking spaces comprising 75,000 square feet
- Vehicle Average Daily Traffic was ~18,000 on West Franklin Street immediately west of the Columbia Street intersection (2001)
- Daily Pedestrian Counts of 2,313 on West Franklin Street, and 647 on Church Street at Franklin Street (2001)
- Revenues ~\$182,140 (2003-2004 Adopted Budget)
- Expenditures (including Lot 6) ~\$21,014 (2003-2004 Adopted Budget)



## ***Methodology & Assumptions***

The market study commenced in December 2003 and was divided into two phases. During the first phase, a preliminary market overview was conducted in order to examine the viability of a range of uses, including retail, office, residential, and arts and entertainment. As part of this phase, ERA analyzed socio-demographic trends in Chapel Hill and its surrounding region; collected information on repositioning efforts undertaken at similar University towns across the country; and conducted extensive interviews with planners, economic development officials, real estate brokers, developers, business owners, and UNC staff. ERA also conducted case studies of seven University towns (comparable to Chapel Hill) to identify tools and strategies used to reposition their downtowns.

Based on the first phase of analysis, ERA projected that the most-likely feasible uses for Lots 2 and 5 would include a mix of retail, arts and entertainment uses on the ground floor with residential uses on the higher floors. Using these conclusions as bases, ERA began the second phase of the study where we analyzed comprehensive market trends and developed economic models to ascertain the level of market support for the identified mix of uses. In this phase, ERA utilized data sources (see Appendix for comprehensive list) to project growth in households, income, and spending potential in Chapel Hill and the surrounding areas to estimate the demand levels for these uses.

The models utilized for this analysis reflect the projected change in demand for various uses between the years 2003 and 2008. ERA chose this five-year time period because market forecasts over longer periods are limited by diminished accuracy and validity. Typically, extended forecasts are less likely to account for unforeseen changes in economic and demographic trends. Shorter-term forecasting therefore provides a more accurate depiction of expected market conditions.

## **Interpreting the Results**

The analysis reflects the projected demand for various uses in the trade area that includes and extends beyond the boundaries that define the Downtown study area. While Downtown is one of the potential locations for future development in the Chapel Hill area, the supportable space projections derived from the analyses can potentially be sited at suitable locations throughout the trade area. Furthermore, the available footprints on Lots 2 and 5 and the current Town Center zoning suggest that all of the forecast potential for new development cannot be accommodated within these two sites.

While the analysis includes the most recent information on retail, housing, and arts and entertainment uses in the Chapel Hill area, including projects that are currently planned or underway, it should be noted that a portion of the supportable space projections derived from the analyses may be diminished by future projects (that have not been planned or proposed as of date), and, therefore, not included in our competitive supply analysis. In order to capitalize on the benefits of low interest rates and projected demographic and economic conditions, it is necessary that the Town work in an appropriate manner to capture a portion of the near term demand for new housing, retail and entertainment space in the Chapel Hill area.

Finally, the housing and retail models analyze future demand conditions under two scenarios. The first scenario considers current market conditions, in which the respective trade areas for each use continue to realize the respective existing capture levels of demand. The second scenario assumes an induced capture rate, in which underlying market conditions unique to each use type improve in favor of Downtown Chapel Hill.

### ***General & Limiting Conditions***

Every reasonable effort has been made to ensure that the data utilized in this study reflect the most accurate and timely information possible. This study is based on estimates, assumptions and other information developed by ERA from its independent research effort, general knowledge of the market and the industry, and consultations with the Town of Chapel Hill and its representatives. No responsibility is assumed for inaccuracies in reporting by the Town, its agent and representatives or any other data source used in preparing or presenting this study.

No warranty or representation is made by Economics Research Associates that any of the projected demand estimates or results contained in this study will actually be achieved.

This report is intended to provide the client and the Town with guidance for informed site planning of Lots 2 and 5. It should not be used for purposes other than that for which it is prepared or for which prior written consent has first been obtained from ERA.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.