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

March 17, 2004

ERA Project No. 15344

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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".

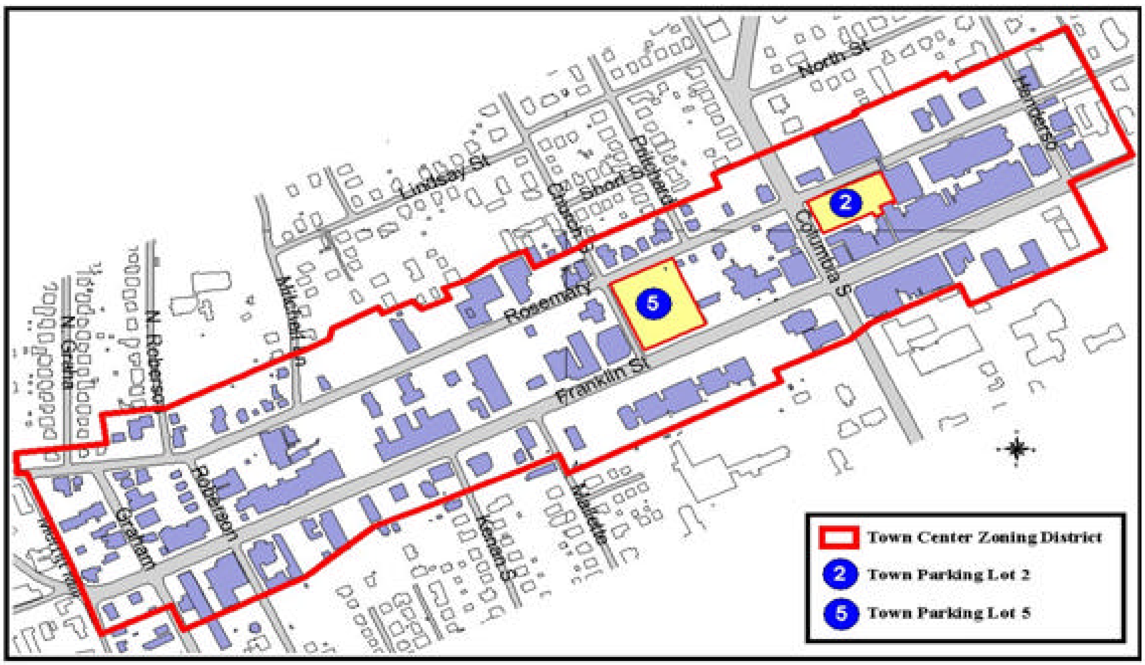
Subsequent to the adoption of the Downtown Plan, the Town conducted design workshops to solicit input from the public on the potential future development of the Lots 2 and 5. These sessions resulted in a set of Principles and Priorities for guiding the development of the two sites. The Town Council has 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



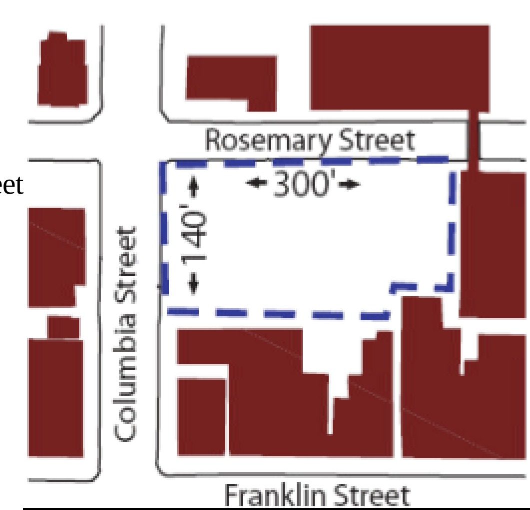
Source: Town of Chapel Hill Planning Department

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 a170-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.

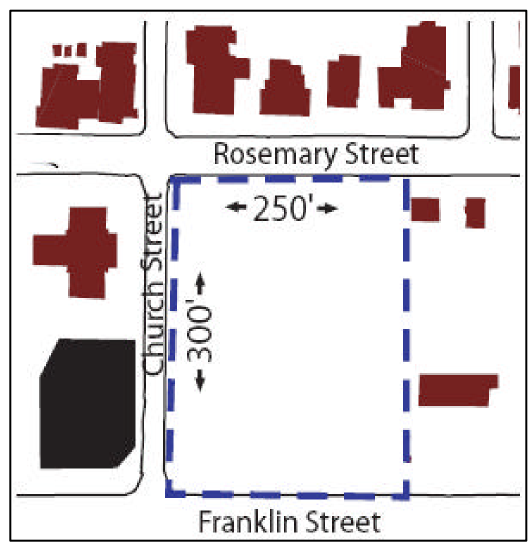
Lot 2, located at the corner of Columbia Street and Rosemary Street, has the following characteristics:

- 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.

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.

- **<u>Residential</u>:** 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).

- **<u>Retail</u>:** 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.

- **<u>Arts & Entertainment</u>:** 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.

  <u>Parking</u>: 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.

III. RESIDENTIAL

MARKET OVERVIEW

Population & Households

To project housing demand in Chapel Hill, given that the boundaries of the Town overlap Orange and Durham counties, ERA reviewed demographic and socioeconomic trends and market demand in both these counties as well as in the larger three-county area (including Orange, Chatham and Durham counties). ERA excluded the Research Triangle Park area from this analysis because of particular market characteristics of Raleigh and Durham that are not applicable to the Chapel Hill area.

As shown in Table 1 below, Orange County, where the Town is principally located, is the second- most heavily populated of the three counties (after Durham County), with a 2000 population of nearly 119,000 in 2000. This is an increase of 26 percent (since 1990), which is higher than the 21 percent average for North Carolina as a whole. The upward trend is expected to continue over the next five years, with population projected to reach just nearly 139,200 by 2008, at an average growth rate of two percent per year.

Similarly, Chatham and Durham counties, which grew by 26 percent and 23 percent respectively, have also experienced significant growth from 1990 to 2000. While these counties are projected to grow at a slower pace than Orange County, it is expected that the population of Chatham County will reach an estimated 54,300 in 2008. The trend in Durham County is upwards as well, with population estimated to increase to 249,100 by 2008. Overall, population in the three-county area as a whole is projected to grow by 31,500, from 411,000 in 2003 to 442,700 in 2008.

Table III.1

Population & Household Growth

Three-County Area, 1990 to 2008

Geography	1990	1995	2000	2003	2005	2008	2003 to 2008 Change	2003 to 2008 Percent Change	CAGR
Chatham County									
Population	39.17	44.08	49.50	51.25	52.47	54.28	3.03	5.9%	1.2%
Households	15.37	17.43	19.85	20.74	21.34	22.21	1.47	7.1%	1.4%
Durham County									
Population	182.77	202.87	224.21	233.47	239.70	249.11	15.65	6.7%	1.3%
Households	72.64	80.62	89.44	93.68	96.54	100.72	7.04	7.5%	1.5%
Orange County									
Population	94.10	108.12	118.75	126.41	131.56	139.28	12.88	10.2%	2.0%
Households	36.28	41.82	46.11	49.49	51.75	55.09	5.61	11.3%	2.2%
Total Area									
Population	316.04	355.07	392.45	411.12	423.73	442.68	31.55	7.7%	1.5%
Households	124.28	139.86	155.40	163.91	169.62	178.03	14.12	8.6%	1.7%

Source: U.S. Census, Woods and Poole Economics; Economics Research Associates, February 2004.

Chapel Hill, with a population of 46,019 in 2000 accounted for approximately 12 percent of the three-county population and just over 39 percent of the population of Orange County. The Town captured a significant amount of Orange County's population growth over the last decade: figures from the US Census indicate that the population of Chapel Hill increased by 7,300 from 1990 (or 26 percent), capturing nearly 30 percent of the population growth in the whole of Orange County.

Housing

Reflecting population and household formation trends, Orange County has the second-largest number of occupied housing units in the three-county area. According to the US Census, there were approximately 41,152 occupied housing units in Orange County in 2000, while Durham and Chatham counties had 50,378 and 38,257 occupied housing units respectively. Table 2 below shows the type of housing and ownership patterns that are prevalent in the Chapel Hill, Orange County and the larger three-county area.

Table III.2

Occupied Housing Units by Type, 2000

Chapel Hill, Orange County, & Three-County Area

	Chapel Hill Town		Orange County		Tri-County Area	
Unit Type	**Units**	**% of Tenure**	**Units**	**% of Tenure**	**Units**	**% of Tenure**
Owner Occupied						
Single Family Detached	6,095	81.9%	21,170	92.0%	75,957	91.9%
Single Family Attached	799	10.7%	1,100	4.8%	4,541	5.5%
2 units	82	1.1%	138	0.6%	377	0.5%
3 or 4 units	141	1.9%	175	0.8%	514	0.6%
5 to 9 units	196	2.6%	226	1.0%	551	0.7%
10 to 19 units	90	1.2%	169	0.7%	290	0.4%
20 to 49 units	26	0.3%	26	0.1%	128	0.2%
50 + units	14	0.2%	14	0.1%	279	0.3%
Subtotal	7,443	100.0%	23,018	100.0%	82,637	100.0%
Renter Occupied						
Single Family Detached	1,311	12.8%	3,765	20.8%	14,546	23.5%
Single Family Attached	624	6.1%	916	5.1%	2,960	4.8%
2 units	896	8.7%	1,505	8.3%	5,765	9.3%
3 or 4 units	1,048	10.2%	1,640	9.0%	6,534	10.6%
5 to 9 units	1,603	15.6%	2,849	15.7%	10,331	16.7%
10 to 19 units	1,779	17.3%	3,276	18.1%	10,701	17.3%
20 to 49 units	1,012	9.9%	1,678	9.3%	5,189	8.4%
50 + units	1,983	19.3%	2,505	13.8%	5,875	9.5%
Subtotal	10,256	100.0%	18,134	100.0%	61,901	100.0%
Total Units	**17,699**		**41,152**		**144,538**	

Tenure	Units	Tenure	Units	% of Tenure	Units	% of Tenure
Owner Occupied	7,443	42.1%	23,018	55.9%	82,637	57.2%
Renter Occupied	10,256	57.9%	18,134	44.1%	61,901	42.8%
Total Relevant Housing Units	**17,699**	**100%**	**41,152**	**100%**	**144,538**	**100%**

Note: Mobile home and Boat/RV/Van unit types were excluded for the purposes of this study.

Source: U.S. Census Bureau; Economics Research Associates, February 2004.

As Table 2 shows, there are approximately 144,538 occupied housing units in the three-county area. Being primarily a suburban community, most units are owner-occupied (57. 2

percent), with renters occupy the remaining 42.8 percent of the units. Because Chapel Hill is home to a large number of students, its share of owner-occupied units, at 42.1 percent, is significantly lower than the three-county area and Orange County (55.9 percent).

The three-county area has approximately 61,901 occupied rental units, of which almost 29 percent are in Orange County. As expected, in all three jurisdictions single-family units dominate owner-occupied housing while multi-family units dominate the rental market. Single-family houses account for 91.9 percent of the owner-occupied units in the three-county area, while more than half of the rental units are in buildings that contain at least five units. This share of multi-family rental units is higher in Orange County (57 percent) and Chapel Hill (62 percent) where a significant number of renters live in buildings that have at least five units.

Table III.3

Occupied Housing Units by Type, 2000

Chapel Hill, Orange County, & Three-County Area

Unit Type	Tri-County Area Units	Orange County Units	Chapel Hill Units	Chapel Hill as % of Tri-County	Chapel Hill as % of Orange County
Owner Occupied					
Single Family Detached	75,957	21,170	6,095	8.02%	28.79%
Single Family Attached	4,541	1,100	799	17.60%	72.64%
2 units	377	138	82	21.75%	59.42%
3 or 4 units	514	175	141	27.43%	80.57%
5 to 9 units	551	226	196	35.57%	86.73%
10 to 19 units	290	169	90	31.03%	53.25%
20 to 49 units	128	26	26	20.31%	100.00%
50 + units	279	14	14	5.02%	100.00%
Subtotal	82,637	23,018	7,443	9.01%	32.34%
Renter Occupied					
Single Family Detached	14,546	3,765	1,311	9.01%	34.82%
Single Family Attached	2,960	916	624	21.08%	68.12%
2 units	5,765	1,505	896	15.54%	59.53%
3 or 4 units	6,534	1,640	1,048	16.04%	63.90%
5 to 9 units	10,331	2,849	1,603	15.52%	56.27%
10 to 19 units	10,701	3,276	1,779	16.62%	54.30%
20 to 49 units	5,189	1,678	1,012	19.50%	60.31%
50 + units	5,875	2,505	1,983	33.75%	79.16%
Subtotal	61,901	18,134	10,256	16.57%	56.56%
Total Units	**144,538**	**41,152**	**17,699**	**12.25%**	**43.01%**

Note: Mobile home and Boat/RV/Van unit types were excluded for the purposes of this study.

Source: U.S. Census Bureau; Economics Research Associates, February 2004.

As shown in Table 3 below, Chapel Hill contains 12.3 percent of the occupied housing units in the three-county area, representing 9 percent of all owner-occupied units and 16.6 percent of all renter-occupied units. The Town has 326 owner-occupied units in buildings with at least five units, approximately 26 percent of the entire tree-county area and 75 percent of Orange County. With a significantly higher number of rental units in buildings with at least five units (6,377), the Town's share of the three-county area inventory is 20 percent and 62 percent of Orange County inventory.

People under the age of 34 years represent the largest number of renters of housing units in all three jurisdictions (three-county area: 53.5 percent, Orange County: 62.5 percent, Chapel Hill: 70 percent). People between the ages of 35 to 64 represent the vast majority of owners of housing units. In the three-county area, people in the 35 to 64 age groups own 65 percent of the units. Figures for the Town show a lower percentage of home ownership in the 35 to 64 year age groups, 60 percent. These figures are consistent with home ownership patterns in other comparable areas throughout the country, where people in their early career years tend to find renting more affordable, while those that are more established in their careers (and have more earning-power) can more easily qualify for a mortgage.

Table III.4

Occupied Housing Units by Type, 2000

Chapel Hill, Orange County, & Three-County Area

	Chapel Hill Town			Orange County			Tri-County Area[1]		
Unit Type	HHs	% of Tenure[2]	% of Total[3]	HHs	% of Tenure[2]	% of Total[3]	HHs	% of Tenure[2]	% of Total[3]
Owner Occupied									
15 to 24 years	136	1.80%	0.76%	326	1.24%	0.71%	1,118	1.24%	0.72%
25 to 34 years	700	9.25%	3.90%	2,827	10.71%	6.16%	11,341	12.61%	7.33%
35 to 44 years	1,478	19.53%	8.24%	6,488	24.58%	14.15%	21,116	23.49%	13.66%
45 to 54 years	2,081	27.50%	11.60%	7,482	28.35%	16.31%	23,080	25.67%	14.93%
55 to 64 years	1,357	17.93%	7.57%	4,132	15.65%	9.01%	13,822	15.37%	8.94%
65 to 74 years	1,030	13.61%	5.74%	2,906	11.01%	6.34%	10,623	11.81%	6.87%
75 years +	785	10.37%	4.38%	2,234	8.46%	4.87%	8,812	9.80%	5.70%
Subtotal	7,567	100.00%	42.20%	26,395	100.00%	57.55%	89,912	100.00%	58.15%
Renter Occupied									
15 to 24 years	4,011	38.70%	22.37%	5,859	30.10%	12.78%	12,625	19.51%	8.17%
25 to 34 years	3,249	31.35%	18.12%	6,303	32.38%	13.74%	22,011	34.02%	14.24%
35 to 44 years	1,298	12.52%	7.24%	3,300	16.95%	7.20%	13,076	20.21%	8.46%
45 to 54 years	751	7.25%	4.19%	1,884	9.68%	4.11%	7,551	11.67%	4.88%
55 to 64 years	272	2.62%	1.52%	730	3.75%	1.59%	3,596	5.56%	2.33%
65 to 74 years	206	1.99%	1.15%	530	2.72%	1.16%	2,448	3.78%	1.58%
75 years +	578	5.58%	3.22%	862	4.43%	1.88%	3,400	5.25%	2.20%
Subtotal	10,365	100.00%	57.80%	19,468	100.00%	42.45%	64,707	100.00%	41.85%
Total Units	**17,932**			**45,863**			**154,619**		

[1]Includes Orange, Chatham & Durham Counties.

[2]Share of households by age cohort as a percentage of households that are either owner- or renter-occupied.

[3]Share of households by age cohort as a percentage of total households.

Source: U.S. Census Bureau; Economics Research Associates, February 2004.

Completed projects in Downtown include a 45,000 square feet mixed-use project at 308 West Rosemary Street, with retail and office on the first two floors and residential condos on the third floor, and an apartment project called The Warehouse on 316 West Rosemary Street with 56 four-bedroom rental units geared towards students.

Outside the Downtown area, there are several neighborhoods of keen interest to urban planners - Meadowmont and Southern Village, both of which were built more or less on the model of New Urbanism. These projects promote high-density urban development that integrates schools, businesses, green space, and recreation facilities, reducing the dependence on cars.

Almost four years after the Town approved the controversial Meadowmont development, apartment buildings, houses and businesses are filling in the 435-acre tract on the eastern edge of town. A wellness center is open, as is a grocery store and a swim club. The commercial section of the development is about three-quarters leased, with a variety of stores, restaurants and offices either already open or opening soon. Meadowmont also had an affordable housing component that will be completed in two stages.

Apartment-dwellers started moving in during the fall of 2000, homeowners in the summer of 2001. Occupancy at Meadowmont is on schedule: 258 rental apartments have been built and are fully occupied. In 2003, 105 new households (an increase of 77 percent over 2002 levels) moved into Meadowmont, for a total of 240 households in freestanding homes and luxury row houses. This growth puts Meadowmont two to three years ahead of the anticipated build-out and speaks well about the popularity of this community.

Rental rates in Meadowmont range from $915 per month for small one-bedrooms to $1,610 per month for three-bedroom units. With unit sizes ranging from 840 square feet to 1,560 square feet, the annual rental rate for residential units in Meadowmont is approximately $12 per square foot. Rental rates in Southern Village, which is similar in character to Meadowmont also average $12 per square foot per year.

Also, Chapel Ridge Apartments, a 180-unit apartment community near the intersection of Homestead and Airport Roads, was completed recently. Rental rates are upwards of $700 per month for one-bedroom units. The development also has 24 single-bedroom affordable units for residents who are income-qualified.

SUPPLY FORECAST

Three-County Area

Reflecting population and household formation trends that were driven in large part by in-migration from other parts of the country, the number of residential building permits has increased significantly all three counties in the three-county area. As shown in Table 5 below, from 1990 to 2002 Durham County experienced the highest level of residential construction activity (2,348 units per year), followed by Orange County with 985 units, and Chatham County with 429 units per year.

Table III.5

Residential Building Permits Issued, Three-County Area

Jurisdiction	1990 -1999	2000	2001	2002	Total 1990 - 2002
Chatham County	4,091	418	513	556	**5,578**
Durham County	21,182	2,863	3,644	2,836	**30,525**
Orange County	9,214	1,070	1,432	1,088	**12,804**
Area Total	**34,487**	**4,351**	**5,589**	**4,480**	**48,907**

Source: U.S. Department of Housing and Urban Development; Economics Research Associates,

Town of Chapel Hill

Residential permits for 5,854 units were issued in the Town between 1990 and 2002, approximately 46 percent of the Orange County total. Nearly 70 percent of the activity was concentrated in single-family homes, with buildings with five or more units accounting for the second-largest share (24 percent).

Table III.6

Residential Building Permits Issued, Chapel Hill

Housing Type	1990 -1999	2000	2001	2002	Total 1990 - 2002
Single-Family	2,802	405	459	442	**4,108**
Two-Units	286	20	16	26	**348**
Three and Four-Units	6	-	4	-	**10**
Five + Units	1,098	8	282	-	**1,388**
Total Multi-Family	1,390	28	302	26	**1,746**
Grand Total	**4,192**	**433**	**761**	**468**	**5,854**

Source: U.S. Department of Housing and Urban Development; Economics Research Associates, February 2004.

The residential market in the Chapel Hill area has been fairly healthy, specifically for apartments in multi-unit buildings. A number of projects have come online in the Downtown area over the past few years, and have been absorbed quickly. These projects have been concentrated on the West Rosemary Street corridor and include off-campus housing for students as well as apartments that are marketed to residents and employees.

Projects that are scheduled to come online over the next few years include a 38-unit luxury multi-family project, with unit sizes ranging from 1,229 square feet to 2,570 square feet of living space, called the Rosemary Village on West Rosemary Street. According to the developer, condos are selling briskly even at a comparatively high price point of nearly $250 per square foot. As part of the approval process, the project will also include six rental units set aside for low-income households.

In a recent development that could have significant implications for the redevelopment of Lots 2 and 5, Riddle Properties, a development entity that built the Top of the Hill building, is planning to buy the former Chrysler dealership property at 419 W. Franklin Street. The Chrysler tract is made up of five parcels, three of which are zoned for residential development and two for commercial. While still preliminary, the developer plans to build a mix of retail and residential to front Franklin Street with parking in some of the back lots.

Outside the Downtown area, Meadowmont Village Center has recently submitted conceptual plans that include the addition of 78,450 square feet of residential floor area, consisting of 82 dwelling units. The proposal would increase the number of dwelling units in the Village Center to 106.

In addition, the Town is also considering a preliminary proposal for a large-scale 250 multi-family residential development on Eubanks Road west of Airport Road. Located near Interstate 40 and Town bus routes, the development could be potentially attractive to students and professionals. Given that the proposed development at Lots 2 and 5 will in all likelihood included low to medium-density buildings, ERA projects that the above development or the expansion at Meadowmont would not impact residential demand on Lots 2 and 5.

Demand Forecast

Three-County Area

Based on information from the 2000 Census contained on the preceding pages, and using projections from Woods and Poole Economics (a national demographic database), ERA analyzed the future demand for housing in both the three-county area and Chapel Hill.

While ERA developed projections for all types of housing units (from single detached to multi-unit buildings), given that the residential development on Lots 2 and 5 will potentially involve low to medium density buildings, we refined our analysis to provide projections on housing units in multi-unit apartment buildings.

In projecting demand for residential units, ERA applied a multi-step process to estimate demand for both owner- and renter-occupied units. The first step applies the existing ratio of owner-occupied (57.2 percent of all residential units) and rental homes (42.8 percent of all units) by unit type, (as shown in Table 2) to the projected increase in the number of households of 14,120 between 2003 and 2008 for the three-county region (as shown in Table 1).

As shown in Table 7 below, this results in demand for 8,071 new owner-occupied units in the three-county area by 2008. To further refine its projections of demand for owner-occupied units, ERA analyzed the demand for various types of owner-occupied housing, ranging from single-family detached to buildings with more than 50 units (typically cooperative or condominium ownership) from 2003 through 2008. Applying historical absorption rates for the different unit types from 1990 to 2000, ERA projects that demand for single-family detached units will be the greatest at 7,309 units.

Table III.7

For Sale Housing Demand by Unit Type

Three-County Area

Tenure/Type	Estimated 2003	Estimated 2008	Change 2003-2008 New Units	% Growth
Owner Occupied				
Single Family Detached	86,137	93,445	7,309	8.5%
Single Family Attached	5,150	5,665	516	10.0%
2 units	428	422	(5)	-1.2%
3 or 4 units	583	634	51	8.8%
5 to 9 units	625	667	42	6.8%
10 to 19 units	329	386	57	17.4%
20 to 49 units	145	144	(1)	-0.8%
50 + units	316	418	102	32.3%
Total	**93,712**	**101,783**	**8,071**	**7.9%**

Source: U.S. Census Bureau; Woods and Poole Economics; Economics Research Associates, February 2004.

Similarly, ERA analyzed demand for rental unit housing in the three-county Area though 2008. The analysis shows demand for approximately 6,045 units based on anticipated increases in population and households.

Among the different housing types, rental demand will be concentrated heavily in multi-family housing of 50 or more units, reflecting historically high absorption rates for this type of housing.

Table III.8

Rental Housing Demand by Unit Type

Three-County Area

Tenure/Type	Estimated 2003	Estimated 2008	Change 2003-2008 New Units	% Growth
Renter Occupied				
Single Family Detached	16,495	17,352	856	5.2%
Single Family Attached	3,357	3,802	446	13.3%
2 units	6,538	6,222	(316)	-4.8%
3 or 4 units	7,410	8,017	608	8.2%
5 to 9 units	11,716	12,562	846	7.2%
10 to 19 units	12,135	12,522	387	3.2%
20 to 49 units	5,884	6,509	625	10.6%
50 + units	6,662	9,256	2,593	38.9%
Total	**70,197**	**76,242**	**6,045**	**7.9%**

Source: U.S. Census Bureau; Woods and Poole Economics; Economics Research Associates, February 2004.

Town of Chapel Hill

In order to determine how many new units of housing in the three-county area could be captured within the Town of Chapel Hill, ERA undertook two analyses. The first, a Fair Share Analysis, assumes that the Town would maintain its current share of the housing inventory in the three-county area. The second, an Induced Demand analysis, assumes that the Town would maintain its share of the three-county growth in occupied household units from 1990 to 2000.

Under the Fair Share analysis in the following table, Chapel Hill is expected to capture its current nine percent of the additional owner-occupied housing demand for the three-county area for a total of 727 units. It is assumed that the unit type, ranging from single family detached to those of 50 or more, would be consistent with planned growth parameters.

Under the Induced analysis, Chapel Hill is expected to capture 10 percent of the total three-county demand or 810 owner-occupied housing units, with the majority as single-family detached houses.

Table III.9

For Sale Housing Demand by Unit Type

Chapel Hill

Tenure/Type	Potential New Units in Tri-County Area	Chapel Hill Capture Potential - 2008 Fair Share[1]		Induced[2]	
Owner Occupied					
Single Family Detached	7,309	9.0%	658	10.0%	734
Single Family Attached	516	9.0%	46	10.0%	52
2 units	(5)	9.0%	(0)	10.0%	(1)
3 or 4 units	51	9.0%	5	10.0%	5
5 to 9 units	42	9.0%	4	10.0%	4
10 to 19 units	57	9.0%	5	10.0%	6
20 to 49 units	(1)	9.0%	(0)	10.0%	(0)
50 + units	102	9.0%	9	10.0%	10
Total	**8,071**		**727**		**810**

[1] Based on Town Of Chapel Hill's existing share of owned housing units in the Tri-County area, according to the 2000 US Census.

[2] Induced capture rate based on Town Of Chapel Hill's growth of owned housing units in the Tri-County area between 1990 and 2000.

Source: U.S. Census Bureau; Economics Research Associates, February 2004.

Using the same methodology for Rental Housing units, under the Fair Share analysis, it is assumed that the Town will capture its current 16.6 percent of renter-occupied housing in the three-county area, resulting in demand for 1,002 new rental units by 2008. Under the Induced Share analysis, because the rental market in the Chapel Hill has grown significantly over the last decade compared to the rest of the three-county area, the figure increases to 1,257 units, based on an Induced Share capture rate of 20.8 percent.

Table III.10

Rental Housing Demand by Unit Type

Chapel Hill

Tenure/Type	Potential New Units in Tri-County Area	Chapel Hill Capture Potential - 2008 Fair Share		Induced	
Renter Occupied					
Single Family Detached	856	16.6%	142	20.8%	178
Single Family Attached	446	16.6%	74	20.8%	93
2 units	(316)	16.6%	(52)	20.8%	(66)
3 or 4 units	608	16.6%	101	20.8%	126
5 to 9 units	846	16.6%	140	20.8%	176
10 to 19 units	387	16.6%	64	20.8%	81
20 to 49 units	625	16.6%	104	20.8%	130
50 + units	2,593	16.6%	430	20.8%	539
Total	**6,045**		**1,002**		**1,257**

[1] Based on Town Of Chapel Hill's existing share of owned housing units in the Tri-County area, according to the 2000 US Census.

[2] Induced capture rate based on Town Of Chapel Hill's growth of owned housing units in the Tri-County area between 1990 and 2000.

Source: U.S. Census Bureau; Economics Research Associates, February 2004.

Based on ERA's analysis of the current and future housing market in Orange, Durham, and Chatham counties, as well as in the Town of Chapel Hill, it is estimated that by 2008 there will be negligible demand for new owner-occupied units in multi-unit residential buildings. However, we project the rental market to remain strong, and expect demand for 308 to 386 units in multi-unit buildings in the Town. The analysis implicitly assumes that there is enough capacity and planning flexibility in the three-county area and in the Town to accommodate this new demand.

Table III.11

Housing Demand by Type & Tenure, Chapel Hill, 2008

In Buildings with 5-49 Units

	Chapel Hill Capture Potential - 2008	
Tenure/Type	**Fair Share**	**Induced**
Owner Occupied		
5 to 9 units	4	4
10 to 19 units	5	6
20 to 49 units	(0)	(0)
Total	**9**	**10**
Renter Occupied		
5 to 9 units	140	176
10 to 19 units	64	81
20 to 49 units	104	130
Total	**308**	**386**
Total Occupied Units		
5 to 9 units	144	180
10 to 19 units	69	86
20 to 49 units	103	130
Total	**317**	**396**

Source: U.S. Census Bureau; Economics Research Associates, February 2004.

Off-Campus Housing for Students

Table 12 below shows the enrollment and housing trends at the University of North Carolina (UNC) at Chapel Hill. Nearly 70 percent of students live off-campus, either commuting from home or living in off-campus housing. Based on discussions with UNC staff, ERA estimates that there are currently 7,800 beds on-campus, including dormitory beds, married student housing, and fraternity and sorority housing.

Table III.12

Enrollment by Housing Type

University of North Carolina at Chapel Hill, Fall 2002

	Enrollment	# of Students in Dorms	% of Enrollment	# Of Beds	% of Beds Occupied
Fall 2002	26,028	7,024	27.0%	7,369	95.3%

	Married Student Housing	Fraternity/ Sorority	Other College Owned	Commuters/ Offcampus[1]
Fall 2002	277	703	-	18,024

[1] Includes privately owned housing in community and commuters from home.

Source: Statistical Abstract of Higher Education in North Carolina: 2002 - 2003;
Economics Research Associates, February 2004.

There is a 305-unit housing complex dedicated to family housing under construction. UNC is also planning to break ground on a 1,000-bed development for upperclassmen. At the same time that new dormitories are being built there will also be demolitions. The net gain in capacity in the next two years, over and above the current 7,800, is expected to be about 2,000 beds, bringing the grand total of on-campus beds to 9,800, an increase of 20 percent.

ERA

Table III.13

Enrollment Trends

University of North Carolina at Chapel Hill

Year	Enrollment
1992	23,627
1993	23,913
1994	24,260
1995	24,144
1996	23,674
1997	23,668
1998	23,827
1999	24,653
2000	24,892
2001	25,494
2002	26,028
Change 1992 to 2002	2,401
% Change 1992 to 2002	10.2%
CAGR	1.0%

Source: Statistical Abstract of Higher Education in North Carolina: 2002 - 2003; Economics Research Associates, February 2004.

As Table 13 shows, enrollment at UNC has been increasing at an average rate of one percent per year over the lat ten years, from 23,627 in 1992 to 26,028 in 2002. Assuming that the same trends continue over the next five years, ERA projects enrollment at UNC to reach 27, 600, an increase of over 1,300 students from the projected 2003 level.

If current housing development proposals by UNC are realized, from a purely market perspective ERA projects that the increase in the number of on-campus beds will be more than sufficient to absorb the projected increase in the number of students over the next five years.

However, there is an emerging nation-wide trend of parents investing in off-campus apartments in towns and cities where their children are enrolled. Students may also prefer to live off-campus, so there may be opportunities to create housing units specifically geared towards students. It should be noted, however, that student apartments have very specific configurations and layouts (three- or four-bedroom units with shared facilities), which are usually not ideal for other market segments.

Affordable Housing

The Town of Chapel Hill has a mandate for reserving 15 percent of all residential units (in developments with at least 5 units) for families earning less than 80 percent of the area median income. While eligibility for affordable units is based on family income, ERA utilized household income to analyze growth trends in income-qualified buyers. As shown in Table 14 below, the median household income in the Town was $39,140 in 1999, indicating that households earning less than $33,312 would qualify for affordable housing. For Orange County as a whole, the income threshold to qualify for affordable housing was slightly higher at $33,898.

Table III.14

Median Household Income

Orange County & Chapel Hill

	1989	1999
Orange County, NC		
Median HH Income	$ 29,968	$ 42,372
80 Percent of Median HH Income	$ 23,974	$ 33,898
Chapel Hill Town		
Median HH Income	$ 30,489	$ 39,140
80 Percent of Median HH Income	$ 24,391	$ 31,312

Source: U.S. Census Bureau; Economics Research Associates, February 2004.

Table 15 shows the estimated number of households earning less that 80 percent of the area median income for Orange County and Chapel Hill, from 1989 to 1999. While the number of these households increased by over 3,700 in Orange County, over 50 percent of the total Countywide growth is attributable to the increase in low-income households in Chapel Hill. The growth in low-income households in Chapel Hill in the 1990s (34.2 percent) was approximately 1.5 times the growth in all households (26 percent) in the Town.

Table III.15

Estimate of Households Earning Under 80 Percent of Area Median Income

	1989		1999		Change	
Geography	**Number**	**% of HHs**	**Number**	**% of HHs**	**HHs**	**%**
Orange County	14,791	40.8%	18,560	40.4%	3,769	25.5%
Chapel Hill Town	5,719	41.2%	7,675	42.7%	1,957	34.2%

Source: U.S. Census Bureau; Economics Research Associates, February 2004.

Based on ERA's projections of demand for 308 to 386 rental units from Table 11, the 15 percent affordable housing mandate translates to a set-aside of between 46 to 58 affordable units. If past demographic trends continue, ERA projects that the growth in low-income households in Orange County alone will be approximately 2,300 by 2008 (41 percent of the projected growth in households of 5,610 from Table 1), which is more than sufficient to absorb 60 affordable units over the next five years.

Based on U.S Department of Housing and Urban Development guidelines, monthly rents for affordable units are typically set so not to exceed 30 percent of gross household income. Therefore, the 2003 fair market rents for the Raleigh-Durham-Chapel Hill, NC MSA (Table 16) are as follows: $559 for a studio-size unit; $678 for a one-bedroom; $768 for a two-bedroom; $1,069 for a three-bedroom; and $1,260 for a four-bedroom unit.

Table III.16

2003 Fair Market Rents for Existing Housing

Raleigh-Durham-Chapel Hill, NC MSA

	Unit Size				
	0 BR	1 BR	2 BR	3 BR	4 BR
Fair Market Rents	$559	$678	$768	$1,069	$1,260

Source: U.S. Department of Housing and Urban Development; Town of Chapel Hill

CONCLUSION

There is significant demand for rental apartments in the Town of Chapel Hill. ERA projects that, based on current demographic trends and future projections, demand for units in medium-size residential buildings with five to 19 units is strong over the next five years.

Reflecting current residential trends, the projected new demand for owner-occupied units is overwhelmingly concentrated in the single family-type unit. While our analysis, which is based on historical ratios, indicates that there is negligible demand for owner-occupied units in residential multi-unit buildings, it should be noted that the condo market in the Downtown area has been very active. Low interest rates and convenient off-Franklin Street locations within walking distance of UNC have contributed significantly to the high absorption rates for condos. It seems reasonable to conclude that if interest rates remain stable and the economy continues to grow, ERA's projected demand for condos might be understated.

In addition, there may also be strategic opportunities in the for-sale market for apartments, especially for households or parents who are interested in investing in apartments that cater to off-campus housing demand of UNC students. It should be noted, however, that the product-type, layout, and configuration of living spaces that is likely to be demanded by students might not be ideal for other market segments.

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 at Lots 2 and 5 for low-income families will be easily absorbed.

IV. RETAIL

Retail uses require a concentration of disposable income (from nearby residents, employees and/or visitors), strong visibility and extensive frontage, adequate parking, and a clear competitive role and market identity. Moreover, supporting tenants oftentimes require an anchor tenant to generate traffic. Although Chapel Hill has a large university population and affluent resident base, the Downtown area is deficient in the some of the other attributes necessary to capture the spending power of these markets.

As part of the retail market analysis, ERA examined market support for a variety of retail uses, including General Apparel Furnishing and Other (GAFO), convenience goods, and eating and drinking establishments in the Downtown area. The GAFO category includes merchandise typically found in department stores including general merchandise, home furnishings, apparel and other similar retail items. The convenience category includes such items as food retail (grocery stores), drug stores and personal services. Eating and drinking establishments include restaurants, bars and fast food establishments.

MARKET OVERVIEW

Unlike downtowns in many smaller towns and cities, Downtown Chapel Hill is comparatively active and vibrant. A study commissioned by the Downtown Commission and conducted by the University Retail Group in 2000 estimated average retail rents in the Downtown at $22 per square foot, more than a third higher than the average in Carrboro and Eastgate, and on par with newer space in areas like Meadowmont and Southern Village. While local real estate companies do not specifically track market conditions in the Downtown area, based on interviews with real estate brokers and business owners, ERA estimates rents averaging $25 per square foot for retail space, with rents in the 100 Block area of Franklin Street as high as $40 per square foot.

While Downtown has historically posted some of the lowest retail vacancy rates in Orange County, the last economic recession has impacted Downtown disproportionately. The Orange County Economic Development Commission estimates that the vacancy rate Downtown climbed from 4 percent to nearly 8 percent. For Orange County as a whole, as shown in Table 1 below, retail vacancies averaged nearly five percent in 3Q 2003, with negative absorption of over 60,000 square feet over the past 12 months.

Table IV.1

Retail Space Market Indicators for Orange County

3Q 2003

			Net Absorption			
			3Q 2003		Past 12 Months	
Leasable (SqFt)	Available (SqFt)	Vacancy Rate	SqFt	%	SqFt	%
1,747,658	86,631	4.96%	4,942	0.28%	(60,388)	-3.46%

Source: The Triangle Commericial Real Estate Quarterly, 3Q 2003;
Economics Research Associates, 2004

While some non-food and beverage national chains like GAP are thriving in Downtown, others, like Sephora, have relocated to the Crabtree Valley Mall in Raleigh. Other non-food type establishments that have closed or relocated include Anjana's, a long-time clothing store, Turtle Records, and First Union Bank, which occupied a strategic redevelopment location in the Top of the Hill building.

As a result of relocation and closed businesses, there are several vacant spaces suitable for non-food and beverage retail, including the following:

- **119 East Franklin Street -** Space was formerly occupied by Sephora; Sephora has a long-term lease on space and is seeking to sublet two floors, approximately 4,000 square feet each.
- **142 East Franklin Street -** Approximately 1,200 square feet; Inside décor lends itself to upgrade and reuse.
- **173 ½ East Franklin Street -** Space was formerly 23 Steps bar; Second floor space with approximately 3,700 square feet.
- **462 West Franklin Street -** Building owner formerly occupied space as bookstore; 7,100 square feet total; main floor and basement are about the same size, 3,000+ square feet each, with a 1,000 square feet accessible attic space in the front of the building that has been used for retail.

In addition to individual spaces, larger redevelopment opportunities exist at the property that was once occupied by the University Chrysler-Plymouth dealership. The size of the parcel is sufficient to support a mix of uses, including a retail anchor tenant.

Retail Sales

Potential new retail development in Downtown Chapel Hill will compete with existing and proposed shopping centers and existing in-line retail concentrations within and adjacent to the Towns of Chapel Hill and Carrboro. Retail sales in the Chapel Hill and Carrboro area have been steadily increasing over the past ten years, keeping pace with increased demand from a growing resident base. Table 2 shows that retail sales in Chapel Hill grew by 115 percent between 1990 and 2001, resulting in Chapel Hill capturing an increasing share of total Orange County sales.

Table IV.2

Total Retail Sales

Chapel Hill, Carrboro, and Orange County, 1990 to 2003

Year	Chapel Hill	Carrboro	Combined Total	Orange County	Total as % Share of County
1990	$ 358,961,000	$ 85,427,000	$ 444,388,000	$ 640,662,000	69%
1991	$ 349,458,000	$ 89,035,000	$ 438,493,000	$ 640,743,000	68%
1992	$ 373,892,000	$ 91,867,000	$ 465,759,000	$ 638,895,000	73%
1993	$ 420,319,000	$ 98,874,000	$ 519,193,000	$ 698,037,000	74%
1994	$ 460,058,000	$ 103,806,000	$ 563,864,000	$ 770,782,000	73%
1995	$ 499,089,000	$ 112,568,000	$ 611,657,000	$ 846,809,000	72%
1996	$ 530,759,000	$ 122,405,000	$ 653,164,000	$ 867,151,000	75%
1997	$ 576,197,000	$ 126,554,000	$ 702,751,000	$ 931,515,000	75%
1998	$ 608,718,347	$ 129,400,000	$ 738,118,347	$ 977,263,000	76%
1999	$ 672,295,707	$ 148,875,658	$ 821,171,365	$ 1,067,357,000	77%
2000	$ 686,129,821	$ 141,981,628	$ 828,111,449	$ 1,088,702,289	76%
2001	$ 771,079,112	$ 156,006,299	$ 927,085,411	$ 1,215,464,600	76%
Estimated 2003[1]	$ 769,011,936	$ 155,588,064	$ 924,600,000	$ 1,212,206,077	76%
Sales Growth, 90-01	115%	83%	109%	90%	

1 2003 Estimates are based on combined sales for the towns of Chapel Hill and Carrboro, according to the Claritas *Retail Sales by SIC Code* .
Assumes that the share of Orange County retail sales in Chapel Hill and Carrboro stores remains the same as in 20
2 CAGR- compound annual growth rate

Source: Orange County Economic Development Commission; North Carolina Department of Revenue; Claritas, *Retail Sales by SIC Code* ; Economics Research Associates, February 2004

In order to estimate retail sales for 2003, ERA used information from Claritas, a national market research firm, which provides retail sales information for the Towns of Chapel Hill and Carrboro combined. Table 6 shows total estimated retail sales for 2003 at approximately $924.6 million in Chapel Hill and Carrboro. Compared to the sales levels reported during the past 12 years, 2003 shows a reversal in the historic pattern of strong growth in retail sales. Between 2001 and 2003 retail sales for the two Towns combined decreased by approximately $3 million. While ERA believes that a portion of this loss is attributable to the economic decline observed nationwide during the early 21st century, a significant share of retail spending is leaking out of the area to the larger suburban malls and villages in Durham and Raleigh.

A review of total sales by major retail category reveals that GAFO accounted for 26 percent of total sales, eating and drinking establishments 20 percent, and food and convenience stores an additional 22 percent of the total. A closer review of 2003 sales estimates reveals that a significant portion of sales volume (31 percent) is attributable to car dealerships and other types of retail that are not relevant to revitalization concepts for Lots 2 and 5.

Table IV. 3

Retail Sales by Major Retail Category

Chapel Hill & Carrboro, 2003

Major Retail Category	Total Establishments	Estimated Annual Sales, 2003
GAFO		
General Merchandise Stores (Department Stores)	4	$ 15,900,000
Apparel and Accessory Stores	48	$ 20,800,000
Home Furniture, Furnishings and Equipment	62	$ 76,700,000
Miscellaneous Retail[1]	159	$ 128,100,000
Eating and Drinking Places		
Eating Places	177	$ 184,800,000
Drinking Places	16	$ 4,600,000
Food & Convenience Stores		
Grocery Stores	26	$ 152,200,000
Meat and Fish Markets	3	$ 12,400,000
Retail Bakeries	1	$ 400,000
Miscellaneous Food Stores	14	$ 15,300,000
Drug Stores and Pharmacies	10	$ 23,700,000
Other Retail		
Building Materials, Garden Supply and Mobile Homes	23	$ 42,900,000
Automobile Dealers and Gas Service Stations	22	$ 246,800,000
GAFO	**273**	**$ 241,500,000**
Eating and Drinking Places	**193**	**$ 189,400,000**
Food & Convenience Stores	**44**	**$ 204,000,000**
Other Retail	**45**	**$ 289,700,000**

[1] **Miscellaneous retail includes**: drug stores; liquor stores; antique stores; sporting goods stores; book stores; stationery stores; jewelry stores; toy stores; camera stores; gift shops; craft stores; mail order houses; florists; tobacco stores; newsstands; opticians; and pet shops.

Source: Claritas, *Retail Sales by SIC Code* ; Economics Research Associates, February 2004

Competitive Shopping Centers

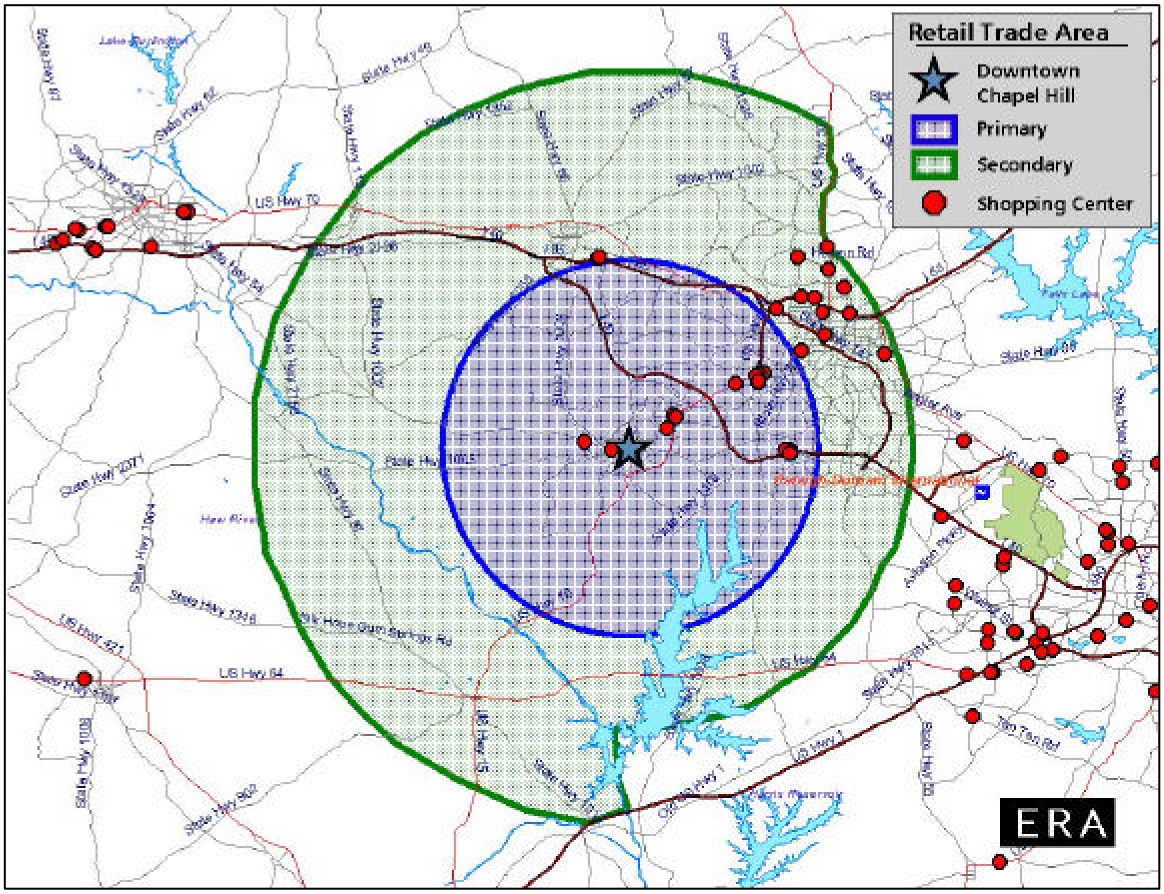
A common trend observed in urban markets across the country is the flow of dollars spent on retail from the core downtown to suburban shopping centers. Chapel Hill is no exception, with a significant mass of retail space attributable to this type of development east of Downtown toward Durham and Raleigh. Table 4 on the following page shows that there is almost 7.8 million square feet of gross leaseable area in shopping centers over 100,000 square feet in the combined trade area.

For the most part, these large-scale developments opened during the 1980s and 1990s. One of the more recent projects of this magnitude to come on line was the The Streets at Southpoint in 2002. Located in Durham, this Rouse Company project is comprised of 140 stores representing almost every major national tenant. The Streets has over 1.3 million square feet of leaseable space, of which only 3,000 square feet remain vacant.

The Streets at Southpoint's dominant market position has had a significant impact on regional shopping centers such as the South Square Mall and the University Mall, whose tenants have been relocating to newer spaces. The South Square Mall has since closed and the site is being redeveloped as a 431,976 square foot "big-box" center that will include a Sam's Club and the first Super Target in the area, complete with a grocery store and Starbucks. The first phase, which includes the Super Target, is now open and the second phase is slated to come on line in the summer of 2004. Downtown retailers will likely feel the reverberations of this redevelopment project, as an increasing share of resident spending will flow to this discount power center.

Figure IV.1

Map of Competitive Shopping Centers



Source: Economics Research Associates

Table IV.4

Shopping Centers Over 100,000 Sq Ft

Primary & Secondary Trade Area

Shopping Center	City	Year Opened	Total SqFt, GLA
Primary Trade Area			
The Streets At Southpoint	Durham	2002	1,304,000
South Square Mall[1]	Durham		431,976
New Hope Commons	Durham	1995	408,292
University Mall	Chapel Hill		362,000
Westgate Shopping Center	Durham		203,197
Parkway Plaza I & II	Durham	1983	171,343
Eastgate Shopping Center	Chapel Hill		159,000
Homestead Market	Durham	1989	155,131
Carr Mill Towncenter	Carrboro		142,814
Carrboro Plaza	Carrboro		127,650
Regency Plaza	Durham	1985	120,000
Oakcreek Village Shopping Center	Durham	1985	116,186
Rams Plaza	Chapel Hill		109,500
Southpoint Crossing	Durham	1999	102,128
Subtotal Primary Trade Area			**3,913,217**
Secondary Trade Area			
Northgate Mall	Durham	1960	776,491
North Pointe Shopping Center	Durham	1997	528,000
Gateway At Northpoint	Durham	1997	489,500
Hampton Pointe	Hillsborough		460,000
Oxford Commons	Durham	1990	331,533
Durham Plaza Shopping Center	Durham	1971	233,078
The Village	Durham		212,000
Shoppes At Lakewood	Durham	1960	200,000
North Duke Mall	Durham	1977	161,000
Brightleaf Square	Durham	1981	145,000
Durham Festival Centre	Durham	1968	131,825
Riverview Shopping Center	Durham	1973	130,058
Willowdaile Shopping Center	Durham		120,815
Subtotal Secondary Trade Area			**3,919,300**
Combined Primary & Secondary Trade Areas			**7,832,517**

[1] SqFt estimate for South Square Mall based on Faison & Associates redevelopment, including a Super Target Store and Sam's Club.

Source: National Research Bureau, *Shopping Center Directory, 2003* ;
Economics Research Associates, February 2004

MARKET DEMAND

In order to assess the potential for new retail space in Downtown Chapel Hill, ERA analyzed the expenditure patterns of three key consumer markets: resident households, UNC at Chapel Hill students, and Downtown employees. The tables presented below also provide insight into entertainment expenditures that will be leveraged in subsequent sections of the report.

Resident Market

Area residents are a key component in the retail analysis given the size of this market segment population and the magnitude of retail expenditure potential. The primary resident trade area is defined as the number of households within 10 miles of the downtown area, encapsulating most of the Town of Chapel Hill and the Town of Carrboro. The less captive, secondary resident trade area is defined as the households within 20 miles of Downtown, but outside the 10-mile ring. It should be noted that the eastern boundary of the secondary trade area does not extend the full 20 miles; due in part to the denser populations in the cities of Raleigh and Durham, a significant mass of shopping centers, and barriers caused by infrastructure and the natural landscape. These trade areas, shown on the map on the following page, represent the geographic area from which the majority of customer sales are generated on a sustained basis.

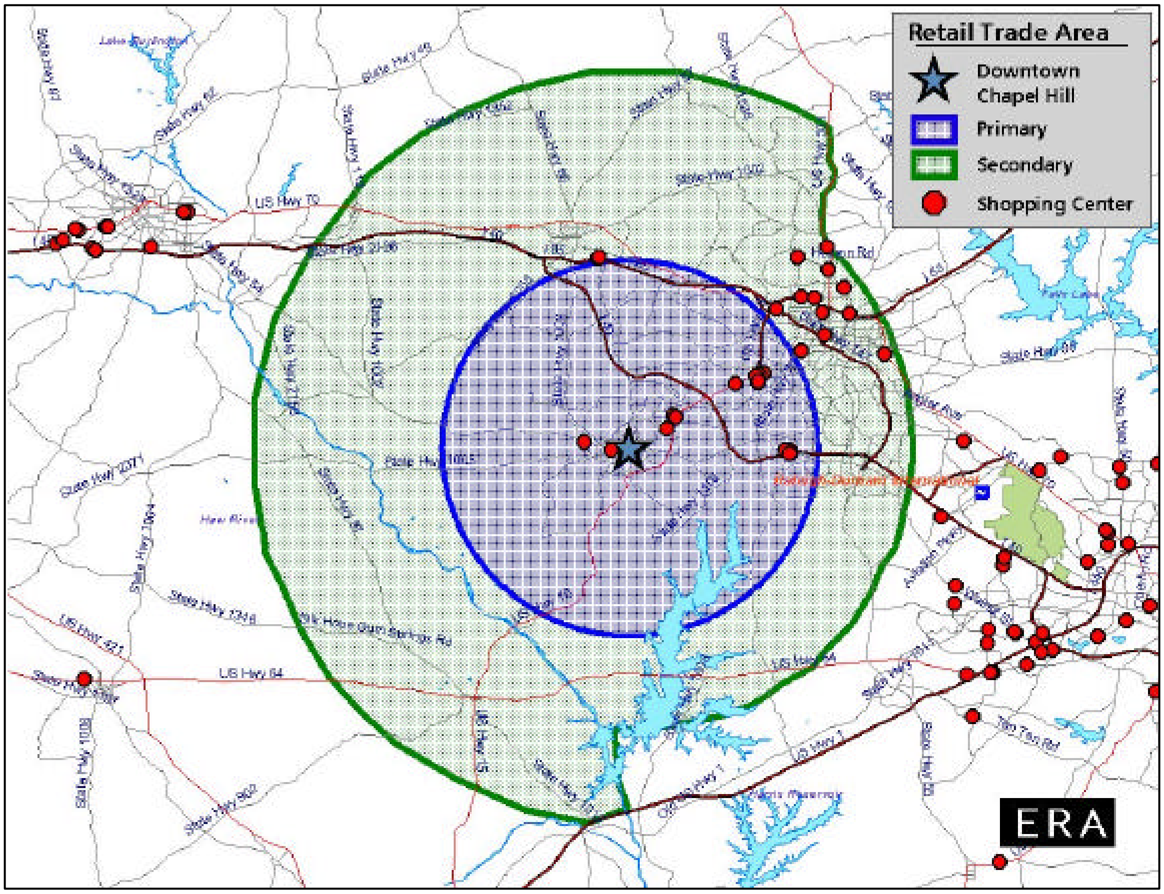
Based on estimates from ESRI Business Solutions (ESRI), a GIS database that uses US Census information, the primary trade area is expected to add approximately 8,136 new households between 2003 and 2008. The secondary trade area is forecast to grow by an additional 9,175 households. These estimates do not consider students housed in University-owned buildings.

Household spending potential is calculated by applying average household income levels to annual spending patterns adjusted for different household income levels from the most current Consumer Expenditure Report (2002) published by the Bureau of Labor Statistics, U.S. Department of Labor. It is assumed that household spending patterns remain constant over time. Projections for 2008 by ESRI indicate an average household income (in 2003 dollars) of $81,383 in the primary trade area, 34.8 percent of which is spent on retail goods and services. Income levels are forecast to be lower in the secondary trade area, with an average household income of $60,901. The Consumer Expenditure Report suggests that as income levels decrease, the proportionate share of total income spent on retail increases. Therefore, it is estimated that 36.9 percent of household income in the secondary trade area is allocated toward retail expenditure.

Recalling the growth in household formation discussed above, ERA estimates that $316 million will be spent on retail by new primary trade area residents, and $254 million by secondary trade area residents respectively. It should be noted that these are dollars that may be spent anywhere, including shopping areas throughout the region. As such, the challenge for Chapel Hill is to attract these residents away from the suburban shopping malls and the retail offerings in other cities.

Figure IV.2

Resident Trade Area and Competitive Environment



Source: Economics Research Associates

Table IV.5

Annual Expenditure Potential
Primary Trade Area Households

	Primary Residents 2003	Primary Residents 2008
Total Households, 2003[1]	67,224	75,359
Average Household Income [2]	$77,728	$81,383
Total Household Income	$5,225,121,108	$6,132,925,226
% Share of Income Spent on Retail	34.8%	34.8%
Total Existing Expenditure Potential [4]	**$ 1,818,886,098**	**$ 2,134,896,436**

[1] Total households within 10-miles of downtown Chapel Hill.

[2] In 2003 dollars.

[4] Average spending on items such as general merchandise, apparel, and food away from home is based on the 2002 US Census Consumer Expenditure Survey as shown below:

Average Annual Expenditures	**As % of Total HH Income**	**Expenditure Potential by Category 2003**	**Expenditure Potential by Category 2008**
Food at Home	8.77%	$ 458,091,893	$ 537,680,041
Food away from Home	5.75%	300,414,025	352,607,473
Alcoholic Beverages	0.99%	51,514,467	60,464,507
Housekeeping Supplies	1.54%	80,519,735	94,509,104
Household Furnishings	3.59%	187,323,759	219,869,087
Apparel- Men & boys	1.01%	52,866,892	62,051,900
Apparel- Women & girls	1.83%	95,614,718	112,226,664
Apparel- Children under 2 years	0.20%	10,487,324	12,309,374
Footwear	0.78%	40,955,847	48,071,450
Other apparel & services	0.60%	31,286,394	36,722,042
Entertainment (Fees & Admissions)	1.17%	61,145,934	71,769,329
Entertainment (TV's, radios, stereos, pets, toys, etc.)	3.73%	194,747,773	228,582,937
Personal Care Products	1.42%	74,397,082	87,322,712
Reading	0.36%	18,585,500	21,814,515
Tobacco Products	1.02%	53,161,074	62,397,194
Miscellaneous	2.06%	107,773,681	126,498,106
Total Retail	**34.81%**	**$ 1,818,886,098**	**$ 2,134,896,436**
GAFO	48.01%	$ 873,322,696	$ 1,025,052,374
Groceries	29.28%	$ 532,488,976	$ 625,002,752
Entertainment	3.36%	$ 61,145,934	$ 71,769,329
Food & Beverage	19.35%	$ 351,928,492	$ 413,071,981

Source: US Census and Bureau of Labor Statistics, *2002 US Consumer Expenditure Report* ; Economics Research Associates, February 2004

Table IV.6

Annual Expenditure Potential

Secondary Trade Area Households

		Secondary Residents 2003		Secondary Residents 2008
Total Households, 2003[1]		77,983		87,157
Average Household Income [2]		$59,250		$60,901
Total Household Income		$4,620,476,497		$5,307,979,884
% Share of Income Spent on Retail		36.9%		36.9%
Total Existing Expenditure Potential [4]	**$**	**1,706,967,319**	**$**	**1,960,955,368**

[1] Total households outside the 10-mile ring, see trade area map for geography.

[2] In 2003 dollars.

[4] Average spending on items such as general merchandise, apparel, and food away from home is based on the 2002 US Census Consumer Expenditure Survey as shown below:

Average Annual Expenditures	As % of Total HH Income		Expenditure Potential by Category 2003		2008
Food at Home	9.54%	$	440,805,936	$	506,395,616
Food away from Home	6.05%		279,704,444		321,323,042
Alcoholic Beverages	1.03%		47,712,447		54,811,817
Housekeeping Supplies	1.67%		77,142,459		88,620,864
Household Furnishings	3.70%		171,074,130		196,529,090
Apparel- Men & boys	1.05%		48,529,422		55,750,353
Apparel- Women & girls	1.93%		89,222,089		102,497,882
Apparel- Children under 2 years	0.21%		9,879,584		11,349,616
Footwear	0.83%		38,535,494		44,269,380
Other apparel & services	0.62%		28,765,606		33,045,782
Entertainment (Fees & Admissions)	1.16%		53,771,041		61,771,898
Entertainment (TV's, radios, stereos, pets, toys, etc.)	3.89%		179,757,751		206,504,790
Personal Care Products	1.53%		70,480,567		80,967,717
Reading	0.38%		17,373,715		19,958,836
Tobacco Products	1.14%		52,596,751		60,422,880
Miscellaneous	2.20%		101,615,881		116,735,807
Total Retail	**36.94%**	**$**	**1,706,967,319**	**$**	**1,960,955,368**
GAFO	47.72%	$	814,492,883	$	935,685,279
Groceries	29.95%	$	511,286,503	$	587,363,333
Entertainment	3.15%	$	53,771,041	$	61,771,898
Food & Beverage	19.18%	$	327,416,891	$	376,134,858

Source: US Census and Bureau of Labor Statistics, *2002 US Consumer Expenditure Report* ; Economics Research Associates, February 2004

UNC Student Market

For the purpose of this analysis, ERA defined the student market as comprised of individuals enrolled in an undergraduate, graduate, or professional programs and living in University-owned housing (including sorority and fraternity houses). The expenditure potential of students living off-campus is captured in the resident market analysis.

The Statistical Abstract of Higher Education in North Carolina shows historic growth in enrollment at UNC at Chapel Hill to be fairly consistent with national population growth trends, increasing at an annual rate of one percent. However, the University of North Carolina projects that the rate of enrollment will increase and as a result it is estimated that 29,249 students will attend UNC at Chapel Hill by the year 2010. Based on an enrollment level of 25,872 for the year 2000, this translates into 3,777 new students over the ten-year period, of which 2,900 are expected to live in University-owned facilities. The projected growth in the student population then suggests that University enrollment will approach 28,574 by the year 2008, with approximately 9,744 students housed on-campus.

Similar to the resident demand analysis, total student expenditure potential is calculated by utilizing data from the US Consumer Expenditure Report (CEX). The latest CEX survey (1998) provides insight into the spending patterns of the average college student living on campus. The findings of the survey suggest that students – because of greater free time – spend more on food, beverages and entertainment as a proportionate share of their total retail spending than the typical household. Further, student expenditures are seasonal and tend to be compressed during school terms, as other expenditures occur closer to home during intersession and holidays.

ERA estimates that UNC students will spend $35 million on retail in the Chapel Hill area in 2008. Once again, these dollars can be spent in areas outside Chapel Hill. However, students are more likely than other residents to spend a greater share of total retail expenditure in shops and restaurants close to the University campus due to lower levels of car ownership and other constraints related to transportation.

Table IV.7

Annual Expenditure Potential

UNC-Chapel Hill Students

		UNC-Chapel Hill Students 2003		2008
Total Students Housed on Campus[1]		8,294		9,744
Annual Retail Expediture per Student[2]		$3,594		$3,594
Total Student Spending Potential[3]	**$**	**29,812,649**	**$**	**35,024,651**

[1] Total UNC-Chapel Hill students, excluding married students, and those living off campus. Excluded students are considered part of the resident submarket.

[2] In 2003 dollars.

[3] Average spending on items such as general merchandise, apparel, and food away from home is based on the 1996-98 US Census Consumer Expenditure Survey as shown below:

	As % of Total Expenditure		Expenditure Potential by Category 2003		2008
Average Annual Expenditures					
Food at Home	31%	$	9,374,516	$	11,013,417
Food away from Home	12%		3,547,114		4,167,239
Household Furnishings	9%		2,730,715		3,208,113
Apparel and Services	16%		4,898,396		5,754,759
Entertainment	16%		4,729,485		5,556,319
Other Expenditures	15%		4,532,424		5,324,805
Total	**100%**	**$**	**29,812,649**	**$**	**35,024,651**
GAFO	41%	$	12,161,534	$	14,287,676
Groceries	31%	$	9,374,516	$	11,013,417
Entertainment	16%	$	4,729,485	$	5,556,319
Food & Beverage	12%	$	3,547,114	$	4,167,239

Source: Bureau of Labor Statistics, *Expenditures of College-Age Students and Nonstudents* ; US Census; Statistical Abstract of Higher Education in North Carolina; Economics Research Associates, February 2004

Downtown Chapel Hill Employees

The other consumer segment that this analysis takes into consideration is the downtown daytime population, which includes both private sector employees and UNC faculty and staff. For the private sector, only the population employed in office using industries is considered for the purpose of this analysis. Workers employed in retail, service and hospitality industries typically do not have sufficient free time during the workday to shop in Downtown, and therefore their contribution to total sales is considered to be either negligible or captured by the resident analysis. Also UNC employees that reside in Chapel Hill are captured in the resident market analysis.

Private sector office workers have been quantified based on data provided by the Chapel Hill-Carrboro Chamber of Commerce. A list of downtown employers provided by the Chamber suggests that 150 people are employed in private sector office using industries. For the purpose of conservative economic analysis, ERA assumes that there will be no real growth in private sector office employment over the five-year period. The analysis assumes that approximately 60 percent of faculty and staff, or 6,858 people, live outside Chapel Hill.

Based on information on employee spending developed by the International Council of Shopping Centers (ICSC), ERA estimated total annual expenditures by employees at $2,890 per year. Thus, it is estimated that on average, Downtown employees will spend about $20.3 million on retail in 2008. Considering that employees are very unlikely to stray far from their place of employment during the workday, it is expected that downtown retailers will capture much of this expenditure potential.

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Table IV.8

Annual Expenditure Potential

Downtown & University Employees

	Downtown & University Employees 2003	2008
Total Employment		
Estimated Private Sector Office Employees	150	150
UNC- Chapel Hill Faculty & Staff[2]	6,437	6,858
Subtotal Downtown Employees	**6,587**	**7,008**
Average Annual Retail Spending per Employee[3]		
Food & Beverage	$2,023	$2,023
GAFO	145	145
Convenience	723	723
Average Expenditure Potential per Employee	$2,890	$2,890
Total Annual Employee Expenditure Potential		
Food & Beverage	$13,325,501	$14,176,504
GAFO	951,822	1,012,607
Convenience	4,759,108	5,063,037
Total Employee Expenditure Potential:	**$19,036,430**	**$20,252,149**

[1] Estimate based on total office industry employment according to the Chapel Hill-Carrboro Chamber of Commerce.

[2] UNC faculty and staff projections based on UNC enrollment growth, and a student to faculty & staff ratio of approximately 4 to 1.

[3] Employee spending is based on a 1996 ICSC survey of office worker spending in downtown Indianapolis. 2003 expenditures assume relatively similar purchasing patterns as in 1996.

Source: UNC Chapel Hill; International Council of Shopping Centers; Economics Research Associates, February 2004

SUPPORTABLE RETAIL SPACE

ERA's retail demand study analyzes opportunities for new retail development in Downtown based on consumption expenditures by new households in the primary and secondary trade areas, UNC student enrollment, and employment in the Downtown area. The model illustrates the impact of future growth in these market segments for general retail (GAFO), restaurants (including leisure and entertainment) and grocery and convenience uses under two scenarios; the first considering current market capture, and the second utilizing an induced capture assuming an increased competitive advantage in Downtown. The model assumes that the proportion of spending in each of these retail categories does not change over time (i.e., future spending patterns in these categories are similar to what is spent today). The following provides an overview of the basic qualifications and key assumptions that drive the model:

- Given that data pertaining to total sales and square footage information is only available for the Towns of Chapel Hill and Carrboro combined, the analysis estimates supportable retail space by various categories for both towns. In other words, the amount of supportable retail space in 2008 reflects the total for Chapel Hill and Carrboro, not just the Downtown area. Similarly, estimated for new retail space also reflects the demand in the two towns combined.

- While Downtown is one of the potential locations for future development in the Chapel Hill area, the scarcity of developable land and other projects that are currently planned or underway suggest that all of the forecast potential for new development will not be supported within the Downtown, i.e. some of this demand is already being captured elsewhere, or will be in the future.

- Capture rates were derived based on an estimate of existing retail sales by market segment in Chapel Hill and Carrboro and on ERA's experience in similar markets.

- Annual sales per square foot is estimated based on an analysis of total sales by retail category in the Chapel Hill and Carrboro area. Sales range from $280 per square foot for general retail, $489 per square foot for food & beverage, and $584 per square foot for grocery & convenience uses. It should be noted that these sales levels are similar to sales benchmarks required by national retailers to achieving operating profit margins.

- In addition to captured demand from the market segments discussed above, ERA applied an inflow factor to each scenario assuming that additional dollars are spent by customers resident outside the trade area, but drawn to Downtown for reasons other than residential or employment proximity. This could include visitors to the UNC campus for commencement ceremonies, prospective student tours, or athletic events.

- Under the induced scenario, the analysis assumes that the Town invests in such things as streetscape improvements, and the Downtown Commission implements an overall revitalization plan that includes targeted marketing and business recruitment strategies. These efforts would result in improvements in the overall physical appearance of Downtown and attract shoppers from suburban shopping centers to produce an increase in foot traffic and additional sales.

Under the conservative scenario that utilizes existing capture rates, Tables 9-11 indicate that the area comprising the Towns of Chapel Hill and Carrboro can support approximately 1.5 million square feet of retail space. The approximate tenant mix is estimated at 849,300 square feet of space allocated to GAFO merchandise, 311,000 square feet for grocery and convenience uses, and 335,200 square feet allocated to restaurants, bars and other entertainment uses. The analysis under the induced scenario yields a supportable space estimate of approximately 2.0 million square feet. The induced scenario suggests adequate demand to support 1.2 million square feet of GAFO retail, 398,200 square feet of grocery and convenience space, and 439,500 square feet of space for restaurants, bars and other entertainment complexes.

GAFO

As Table 9 shows, there will be a significant demand for GAFO space, ranging from 991,000 square feet to 1.37 million square feet under the current capture and induced capture scenarios respectively. This type of retail has the greatest capacity to improve Downtown's competitive position in the regional market by attracting customers from a broader geography. It should be noted that the breadth of this reach is contingent upon the size, type, and quality of retailers that Downtown Chapel Hill can attract to fill its vacant and possibly new spaces.

Table IV.9
Supportable Space, GAFO
2008 Estimate

Consumer Submarket	Supportable Space: GAFO Current Capture		Supportable Space: GAFO Induced Capture	
Primary Households				
Annual Expenditures	$	1,025,052,374	$	1,025,052,374
Estimated Capture Rate @		***20.00%***		***25.00%***
Captured Expenditures:	**$**	**205,010,475**	**$**	**256,263,093**
Estimated Productivity	**$**	**280**	**$**	**280**
Supportable Space - Pri HHs:		**732,867**		**916,084**
Secondary Households				
Annual Expenditures	$	935,685,279	$	935,685,279
Estimated Capture Rate @		***7.00%***		***12.00%***
Captured Expenditures:	**$**	**65,497,970**	**$**	**112,282,233**
Estimated Productivity	**$**	**280**	**$**	**280**
Supportable Space - Sec HHs:		**234,141**		**401,384**
Growth in UNC Students				
Annual Expenditures	$	14,287,676	$	14,287,676
Estimated Capture Rate @		***22.00%***		***27.00%***
Captured Expenditures:	**$**	**3,143,289**	**$**	**3,857,673**
Estimated Productivity	**$**	**280**	**$**	**280**
Supportable Space - Students:		**11,237**		**13,790**
Downtown Employees				
Annual Expenditures	$	1,012,607	$	1,012,607
Estimated Capture Rate @		***80.00%***		***85.00%***
Captured Expenditures:	**$**	**810,086**	**$**	**860,716**
Estimated Productivity	**$**	**280**	**$**	**280**
Supportable Space - Students:		**2,896**		**3,077**
Plus Inflow @		***1.0%***		***2.5%***
Supportable Space - GAFO:		**991,000**		**1,367,700**

Source: Economics Research Associates, February 2004

Grocery & Convenience

Growth in the resident population directly translates into a need for additional food and convenience retail. Table 10 estimates total supportable grocery and convenience space between 366,000 and 453,400 square feet.

The distance consumers are typically willing to travel for these types of goods and services are limited to less than a 10-minute drive, and even less in a downtown setting. In order to generate sufficient sales volumes, these retailers require a significant population density within a short driving or walking distance.

In addition to trade area constraints, parking requirements for a grocery or convenience store are greater than for other types of retail, both because of large floor areas and the frequency at which people shop for convenience goods. For these reasons most supermarkets and convenience stores are found in suburban shopping centers where the land is available to provide adequate surface parking in addition to the store space. Parking requirements, therefore present a challenge for this type of development in a downtown environment, where street spaces are few and privately developed parking garages are often times prohibitively expensive to provide.

ERA projects that market demand for a supermarket can be adequately served by the ten grocery stores within five miles of Downtown. Figure 3 shows the preponderance of grocery stores in the area, with ten major supermarkets within five miles of the downtown area, including a Whole Foods Market and four Harris Teeter stores. The proximate concentration of grocery stores to Downtown suggest that the increased demand for convenience goods needs to met through a creative tenant mix of smaller specialty food and personal care retailers.

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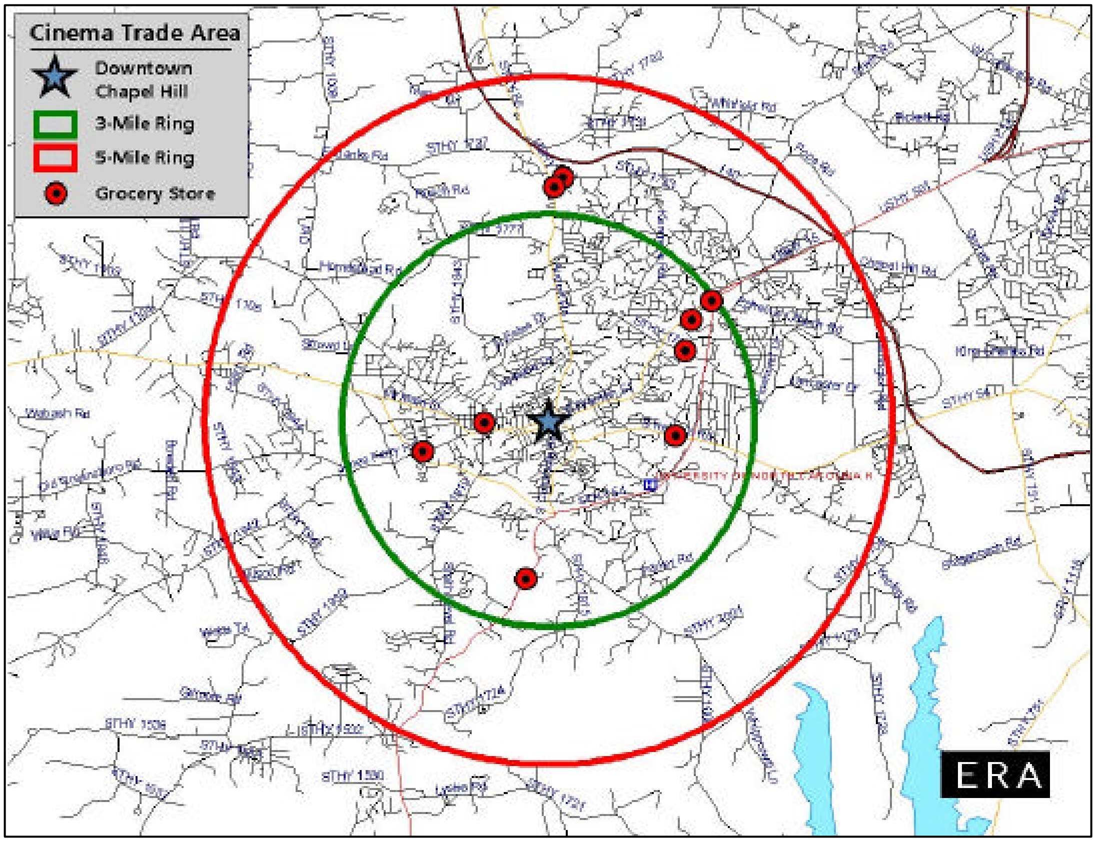
Figure IV.3

Grocery Stores within 5 Miles of Downtown Chapel Hill



Source: Economics Research Associates

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Table IV.10

Supportable Space, Groceries & Convenience

2008 Estimate

Consumer Submarket		Supportable Space: Groceries & Convenience Current Capture		Induced Capture
Primary Households				
Annual Expenditures	$	625,002,752	$	625,002,752
Estimated Capture Rate @		***30.00%***		***35.00%***
Captured Expenditures:	**$**	**187,500,826**	**$**	**218,750,963**
Estimated Productivity ($/SqFt)	**$**	**584**	**$**	**584**
Supportable Space - Pri HHs:		**321,146**		**374,671**
Secondary Households				
Annual Expenditures	$	587,363,333	$	587,363,333
Estimated Capture Rate @		***2.50%***		***5.00%***
Captured Expenditures:	**$**	**14,684,083**	**$**	**29,368,167**
Estimated Productivity ($/SqFt)	**$**	**584**	**$**	**584**
Supportable Space - Sec HHs:		**25,151**		**50,301**
Growth in UNC Students				
Annual Expenditures	$	11,013,417	$	11,013,417
Estimated Capture Rate @		***45.00%***		***50.00%***
Captured Expenditures:	**$**	**4,956,038**	**$**	**5,506,709**
Estimated Productivity ($/SqFt)	**$**	**584**	**$**	**584**
Supportable Space - Students:		**8,489**		**9,432**
Downtown Employees				
Annual Expenditures	$	5,063,037	$	5,063,037
Estimated Capture Rate @		***87.00%***		***92.00%***
Captured Expenditures:	**$**	**4,404,842**	**$**	**4,657,994**
Estimated Productivity ($/SqFt)	**$**	**584**	**$**	**584**
Supportable Space - Employees:		**7,544**		**7,978**
Plus Inflow @		***1.0%***		***2.5%***
Supportable Space - Groc. & Conv.:		**366,000**		**453,400**

Source: Economics Research Associates, February 2004

Food & Beverage

ERA's analysis indicates that that there will be a total demand for 335,200 square feet of food and beverage uses under the current capture scenario and 439,500 square feet under the induced scenario. However, Downtown is at risk of becoming an overly student-oriented place with a limited retail mix dominated by lower-end food and beverage establishments. While Downtown has always had roughly an 80/20 mix of independent retailers and national chains, most of the nationals, including Subway, Panera Bread, Starbucks, Ben and Jerry's, McDonald's, etc., are restaurants.

Table IV.11

Supportable Space, Food & Beverage

2008 Estimate

Consumer Submarket	Supportable Space: Food & Beverage – Current Capture	Supportable Space: Food & Beverage – Induced Capture
Primary Households		
Annual Expenditures	$ 413,071,981	$ 413,071,981
Estimated Capture Rate @	***35.00%***	***40.00%***
Captured Expenditures:	**$ 144,575,193**	**$ 165,228,792**
Estimated Productivity	**$ 489**	**$ 489**
Supportable Space - Pri HHs:	**295,818**	**338,078**
Secondary Households		
Annual Expenditures	$ 376,134,858	$ 376,134,858
Estimated Capture Rate @	***2.50%***	***7.50%***
Captured Expenditures:	**$ 9,403,371**	**$ 28,210,114**
Estimated Productivity	**$ 489**	**$ 489**
Supportable Space - Sec HHs:	**19,240**	**57,721**
UNC Students		
Annual Expenditures	$ 4,167,239	$ 4,167,239
Estimated Capture Rate @	***67.00%***	***72.00%***
Captured Expenditures:	**$ 2,792,050**	**$ 3,000,412**
Estimated Productivity	**$ 489**	**$ 489**
Supportable Space - Students:	**5,713**	**6,139**
Downtown Employees		
Annual Expenditures	$ 14,176,504	$ 14,176,504
Estimated Capture Rate @	***90.00%***	***95.00%***
Captured Expenditures:	**$ 12,758,854**	**$ 13,467,679**
Estimated Productivity	**$ 489**	**$ 489**
Supportable Space - Employees:	**26,106**	**27,556**
Plus Inflow @	***1.0%***	***2.5%***
Supportable Space - Food & Beverage:	**350,300**	**440,200**

Source: Economics Research Associates, February 2004

Supportable New Retail Space

In order to estimate supportable new retail space by various categories, ERA deducted total existing space from the estimated supportable space in 2008 to derive the new space that the Chapel Hill area can support in regard to the three major retail categories (Table 12). Estimates range between 112,100 square feet of new retail space under the current capture scenario to 666,100 square feet assuming an induced capture of future spending.

Table IV.12

Supportable and Existing Retail Space

Chapel Hill & Carrboro, 2003 to 2008

	Supportable Space	
Retail Category	**Current Capture**	**Induced Capture**
Supportable Space, 2008		
GAFO	991,000	1,367,700
Groceries & Convenience	366,000	453,400
Food & Beverage	350,300	440,200
Subtotal Supportable Space	**1,707,300**	**2,261,300**
Existing Space		
GAFO	853,700	853,700
Groceries & Convenience	354,000	354,000
Food & Beverage	387,500	387,500
Subtotal Existing Space	**1,595,200**	**1,595,200**
New Supportable Space, 2008		
GAFO	137,300	514,000
Groceries & Convenience	12,000	99,400
Food & Beverage	(37,200)	52,700
Total New Space	**112,100**	**666,100**

Source: Economics Research Associates, February 2004

In the case of the current capture scenario, there will be sufficient demand (between 137,200 sq. ft. to 514,000 sq. ft.) to support several small to medium size retailers offering a variety of comparison goods. The induced scenario suggests market support deep enough to create a major destination retail experience (over 500,000 square feet). While the potential to attract these types of tenants to the Towns of Chapel Hill and Carrboro exists under the right conditions, physical and regulatory constraints including inadequate developable land might impede this type of retail activity at the Downtown project sites. However, there are potential opportunities at the former Chrysler-Plymouth location to create to accommodate an optimal mix of retail uses that can catalyze development of smaller spaces at Lots 2 and 5.

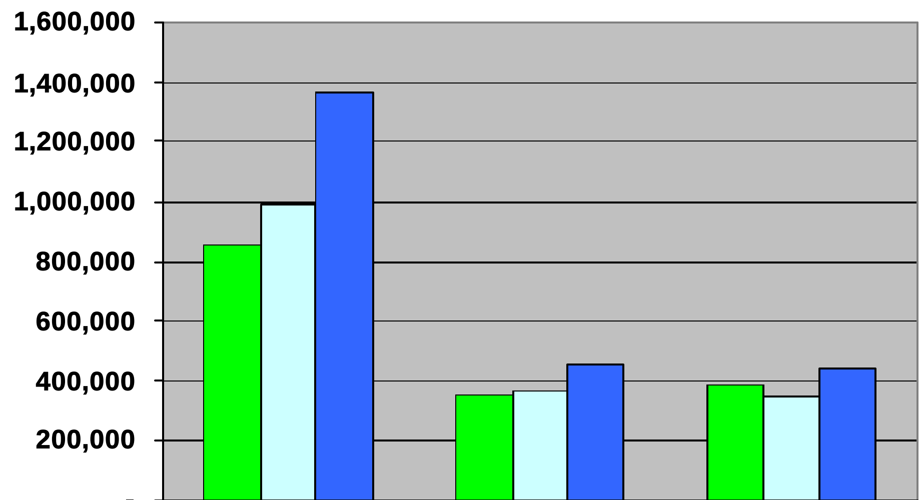
Under the current capture scenario, there does not appear to be sufficient demand for a new full-size grocery store in Chapel Hill or Carrboro. While ERA understands that the Town and residents have expressed interest in the development of a grocery store to serve Downtown, we feel that population density is too thin to support another full service supermarket. With sufficient growth in households in the Downtown area, there may be the potential to support an additional 99,400 square feet of food and convenience uses in the induced scenario. ERA believes that a share of this space could be accommodated downtown. A smaller-scale mix of specialty food stores and personal care retailers would be more appropriate if new housing products were developed within the study area and the streetscape became more pedestrian oriented.

In keeping with public sentiment, ERA projects no net new demand for food and beverage uses under the current capture scenario. The current capture analysis actually suggests an over supply of 37,200 square feet. We believe that rather than adding new space to an already saturated market, Downtown will benefit more from the repositioning of the existing lower-end establishments in order to attract more sophisticated food and beverage operators.

Figure IV.4

Supportable vs. Induced Space (Sq. Ft.)

Chapel Hill & Carrboro, 2003 to 2008



	GAFO	Groceries & Convenience	Food & Beverage
Existing Space	853,700	354,000	387,500
Current Capture	991,000	366,000	350,300
Induced Capture	1,367,700	453,400	440,200

Source: Economics Research Associates, February 2004

CONCLUSION

Based on our analysis of the demand and supply conditions for retail uses in the Chapel Hill area, ERA estimates that the area can support 112,000 square feet of new retail space given current market conditions, and 666,000 square feet assuming improved conditions 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 is necessary to provide a western anchor to the Downtown corridor. With the 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 immediately surrounding downtown suggests that a supermarket is not the best use of the scarce developable land in the study area. Further, grocery stores require significantly more parking than other types of retail, placing a burden on potential development economics. While a full-scale grocer is not a feasible option for the provision of additional service retail, 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.

V. ARTS & ENTERTAINMENT

Chapel Hill is home to a wide variety of significant recreational, cultural and entertainment attractions, ranging from local galleries and performance venues to the prolific UNC sports program. The local and regional draw created by these attractions is an important component in the effort to activate the streets of Downtown Chapel Hill. In this capacity, arts and entertainment uses behave much like retail space in that these types of uses attract people who normally would not visit or live in Downtown.

As part of the arts and entertainment market analysis, ERA examined market support for new cinema screens, and also for small scale complementary uses such as work-live-display art galleries, furniture workshops, etc., that showcase the inherent uniqueness of Chapel Hill.

A. CINEMA MARKET ANALYSIS

As part of the assessment of the variety of uses considered for development at the respective project sites, ERA conducted a focused review surrounding the issues of developing a downtown cinema using third-party proprietary information (Nielson Entertainment Data, Inc.), past experience with downtown cinema development, and demographic information from ESRI Business Solutions to address the following:

- Overall magnitude of cinema supply in the 10-mile trade area
- Overall magnitude of cinema demand in Downtown Chapel Hill
- Current distribution of demand
- Correlation of demand to cinema size and age characteristics
- Implications for required market growth
- Expected synergy with complimentary uses

MARKET OVERVIEW

National Trends

According to the National Association of Theater Operators, the number of indoor US movie screens increased 3.7 percent per year between 1992 and 2002. As shown in Table 1, despite the emerging popularity of DVD rentals, Pay-Per-View and the Internet, gross box office revenues have remained strong – almost doubling during the ten-year period. Estimates for 2002 indicate box office revenues of $9.5 billion dollars, or approximately $270,000 per screen.

Box office revenues are driven by two factors, ticket prices and admissions. As shown in Table 2 below, the number of tickets sold per screen has remained fairly constant – fluctuating between 40,000 and 50,000 – while revenue per screen has increased at a 3.1 percent annual rate (Table 1). This is attributable to a 40 percent increase in average ticket sales price between the years 1992 and 2002. The major driver in the growth in ticket price has been the advent of stadium seating, digital surround sound, and other technologies that have improved the movie going experience. These types of amenities are typically found in the so-called megaplexes, a large movie complex with up to 30 screens. The average movie ticket in 2002 was approximately $5.81.

Table V.1

US Box Office Gross Revenue & Total Screens

Constant Dollars, 1992 to 2002

Year	Box Office Gross (millions)	Total Screens	Sales per Screen
2002	$9,519.60	35,170	$270,674
2001	$8,412.50	34,490	$243,911
2000	$7,660.70	35,627	$215,025
1999	$7,448.00	36,448	$204,346
1998	$6,949.00	33,418	$207,942
1997	$6,365.90	31,050	$205,021
1996	$5,911.50	28,905	$204,515
1995	$5,493.50	26,995	$203,501
1994	$5,396.20	25,830	$208,912
1993	$5,154.20	24,789	$207,923
1992	$4,871.00	24,344	$200,090
CAGR [1], 1992-2002	*6.9%*	*3.7%*	*3.1%*

[1] CAGR- compound annual growth rate

Source: Motion Picture Association of America; Economics Research Associates, February 2004

The second factor in that explains the increase in tickle sales is admissions. As Table 2 shows, cinema attendance has outpaced population growth by a factor of 2.4, increasing by approximately 3.4 percent per year. In 2002, people viewed an average of 5.7 movies, indicating that Americans view more movies now than at any time over the past decade. While admissions are a strong indicator of the vitality of the motion picture industry, it does not completely explain the rapid growth in box office revenues.

Table V.2

Annual Admissions vs. Population Growth
1992 to 2002

Year	Estimated Annual Admissions (millions)	Total US Population (millions)	Ticket Sales Per Capita	Tickets per Screen
2002	1,638.49	287.97	5.7	46,588
2001	1,488.94	285.09	5.2	43,170
2000	1,421.28	275.85	5.2	39,893
1999	1,471.94	272.65	5.4	40,385
1998	1,481.66	269.39	5.5	44,337
1997	1,386.91	266.28	5.2	44,667
1996	1,337.44	263.13	5.1	46,270
1995	1,262.87	259.92	4.9	46,782
1994	1,322.60	256.51	5.2	51,204
1993	1,244.98	252.98	4.9	50,223
1992	1,173.73	249.62	4.7	48,215
CAGR [1], 1992-2002	*3.4%*	*1.4%*	*1.9%*	*-0.3%*

[1] CAGR- compound annual growth rate

Source: Motion Picture Association of America; US Census Bureau; Economics Research Associates, February 2004

Other developments in the cinema industry have also been able to draw upon new customer bases to increase ticket revenues. The drafthouse concept, where a full service food menu is combined with the traditional theater experience, is one such example. The target audience market for this type of theater is similar to that of an arthouse theater –the young and educated people that are typically found in areas that contain a major university, such as Chapel Hill.

MARKET SUPPLY

Local Trends

The identified market supply of movie theaters within the Raleigh-Durham-Chapel Hill metropolitan area consists of 273 screens. The majority of the supply is located in the suburbs of the cities of Raleigh and Durham. As Table 3 shows, with respect to Downtown Chapel Hill, there are 13 screens within three miles, an additional nine screens in the three-to-five-mile band, and 31 screens are located at a distance of five to ten miles, for a total of 58 screens within ten miles of the site. It should be noted that this total does not reflect the number of screens that will exist in the area upon the summer 2004 completion of the redevelopment of the Plaza Theater in Chapel Hill, as the five-screen theater will add seven screens.

Table V.3

Current Screen Inventory

Downtown Chapel Hill Competitive Set

Area	1st-Run Screens	2nd-Run Screens[1]	Total
3 Mile Trade Area	10	3	**13**
3-5 Mile Trade Area	6	3	**9**
5-10 Mile Trade Area	31	0	**31**
Total	**47**	**6**	**53**

[1] Includes theaters that show first-run independent films.

Source: Entertainment Data, Inc.; Economics Research Associates, February 2004

The individual theaters that comprise the competitive set are listed individually in Table 4 below, and on the map on the following page. For the purpose of this analysis, the theaters have been defined as first-run or second-run based on their current lineup of movies. Theaters that show independent films also fall into the category of second-run.

Table V.4

Identified Theater Supply

Downtown Chapel Hill Competitive Set

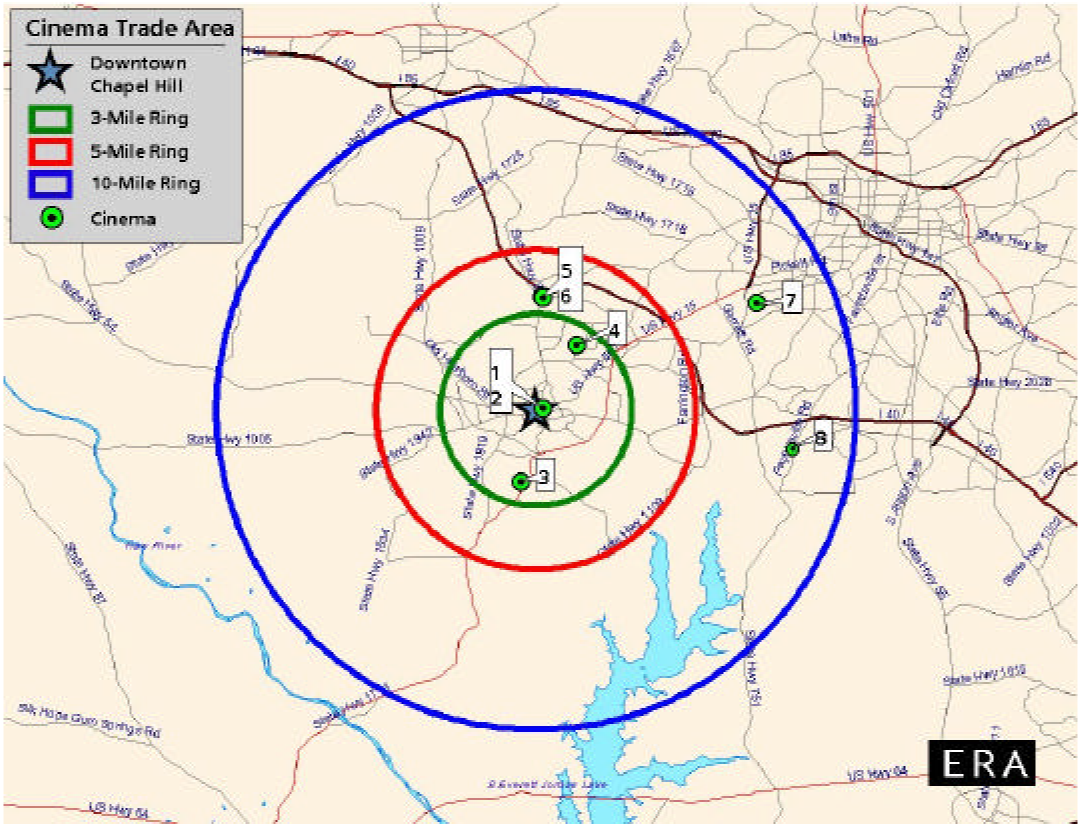
Area	Map ID	Name	Operator	1st Run Screens	2nd Run Screens
3-Mile Ring	1	Carolina Theatre	Indepdent	1	-
3-Mile Ring	2	Varsity Theatre	Indepdent	-	3
3-Mile Ring	3	Lumina Theatre	Indepdent	4	-
3-Mile Ring	4	Plaza Stadium 10[1]	Eastern Federal Corporation	5	-
5-Mile Ring	5	Chelsea Theatre	Indepdent	-	3
5-Mile Ring	6	Movies at Timberlyne 6	Eastern Federal Corporation	6	-
10-Mile Ring	7	Wynnsong 15	Carmike Cinemas	15	-
10-Mile Ring	8	Southpoint 16	Consolidated Theatres/Stone	16	-

[1] According to Eastern Federal Theaters, the 33-year old Plaza Theatre has been closed for remodeling and a brand new 10-screen theatre with stadium seating is scheduled to open in summer 2004.

Source: Entertainment Data, Inc.; Economics Research Associates, February 2004

Figure V.1

Cinemas Within 10 Miles of Downtown Chapel Hill



Qualitative Analysis of Existing Supply

ERA's qualitative analysis of the existing supply of movie theaters yielded two significant findings. First, a review of the location of the supply of second-run theaters shows that they are typically found in proximity to another theater. For example, the Carolina Theatre and Varsity Theatre are within one block from one another on East Franklin Street and both theaters run old releases and independent films. The second-run Chelsea Theatre is located within one-quarter mile from the Movies at Timberlyne, a six-screen, first-run theater. This suggests that smaller, arthouse cinemas can boost revenue by leveraging the synergy created by the proximity to other movie theaters and destinations that generate foot traffic.

Second, newer, larger, and state-of-the-art suburban theaters are pulling away from the market core. All of the theaters in the competitive set with at least 15 screens are located outside the 5-mile radius from downtown Chapel Hill. ERA understands that the expectations among operators of these types of theaters are to sell over 50,000 tickets per screen. We believe that this over penetration of per screen ticket sales averages will be at the expense of those smaller theaters that are least able to adapt to the changes in theater technology.

ERA obtained performance data for the theaters in the Raleigh-Durham-Chapel Hill MSA from Nielsen Entertainment Data, Inc., a company that tracks movie sales for royalty purposes in all theaters showing first-run films. As presented in Table 5, the average theater in the metropolitan area generated 2003 gross ticket sale revenues of $174,449 per screen. The highest per-screen revenues in the competitive set are reported by the 16-screen, Southpoint Theater at $348,625. The worst performing theater was the Plaza Theater at only $45,264 per screen, however, it should be noted that this reflects revenue for the five screens that existed before redevelopment. The overall average annual sales per screen for reporting theaters in the competitive set is shown at $203,213 and well above the metropolitan area average of $174,499.

Assuming that average ticket prices increase at the historic annual rate of approximately 3.4 percent, ERA utilized 2003 average ticket prices between $6.00 and $6.25 to translate revenues into actual tickets sold. Using these factors, ERA estimated average per-screen ticket sales ranging between 7,242 and 55,780 annually. These estimates support industry expectations for the performance of suburban megaplex theaters, with the Southpoint 16 shown to have sold twice as many tickets per screen than the metropolitan area average. Combined, the 46 screens in the identified market generated total ticket sales ranging between of 1.5 million and 1.6 million tickets in 2003.

Table V.5

Movie Theater Performance Indicators

Competitive Set vs. Metropolitan Area

Operator[1]	Screens	2003 Tikt Gross	2002 Tktt Gross	% Change	2003 $/Screen	Average Tkts/Screen @ $6.25 per Ticket	Average Tktts/Screen @ $6.00 per Ticket
Raleigh-Durham Market	**273**	**$ 47,624,533**	**$ 45,501,745**	**4.67%**	**$ 174,449**	**27,912**	**29,075**
Defined Market Theaters							
Southpoint 16	16	$ 5,578,005	$ 3,401,467	39.02%	$ 348,625	55,780	58,104
Wynnsong 15	15	2,231,068	2,862,683	-28.31%	148,738	23,798	24,790
Lumina Theatre	4	532,232	585,881	-10.08%	133,058	21,289	22,176
Movies at Timberlyne 6	6	780,176	921,778	-18.15%	130,029	20,805	21,672
Plaza Stadium 10[2]	5	226,319	344,458	-52.20%	45,264	7,242	7,544
Market Subtotal[3]	**46**	**$ 9,347,800**	**$ 8,116,267**	**15.17%**	**$ 203,213**	**32,514**	**33,869**

[1] Operating data unavailable for the Varsity Theatre, Carolina Theatre, and Chelsea Theatre.

[2] Based on data for five screens at the old Plaza Theatre. As of February 2004, the theatre is closed for redevelopment.

[3] Defined market average reflects weighted average of the five theaters reporting to ED, Inc.

Source: Entertainment Data, Inc.; Economics Research Associates, February 2004

MARKET DEMAND

ERA's efforts to determine the market area relied on our experience with other cinema developments nationwide, and analysis of area tic ket sales revenues. It is estimated that the effective trade area for any type of movie theater at the subject sites in downtown would be approximately 10 miles in diameter, or a 15 to 20-minute drive (see map above). It should be noted that this differs from the consumer trade area utilized in the retail market analysis that includes households residing in a much larger radius.

Analysis of the market area's demographics provides insight into the relative population, age, and income levels that have a direct impact on spending and lifestyle patterns. Age and income characteristics are important in that segments of the population with greater disposable time and income are likely to go to movies more often. The following paragraphs outline these relevant market area characteristics.

Population & Households

The relationship between population and movie attendance is well documented. Motion Picture Association of America surveys indicate that the United States population averages approximately 5 to 6 movies per year over the past decade. Thus, examining population growth provides a rough estimate of future demand levels in any given area.

Table 6 presents population growth patterns in the defined market area as forecast by ESRI Business Solutions. The 10-mile market area population is forecast to increase at a 2.08 percent annual rate and will approach 195,000 residents by 2008.

Table V.6

Population & Households

Defined Market Area, 2003 to 2008

Area	2003	2008	CAGR[1] 2003-2008
Population:			
0-3 Mile Band	30,569	33,739	1.99%
3-5 Mile Band	26,037	28,602	1.90%
5-10 Mile Band	119,160	132,488	2.14%
Identified Market	175,767	194,829	2.08%
Households:			
0-3 Mile Band	12,953	14,478	2.25%
3-5 Mile Band	10,132	11,297	2.20%
5-10 Mile Band	47,499	53,410	2.37%
Identified Market	70,584	79,185	2.33%

[1] CAGR- compound annual growth rate

Source: ESRI Business Solutions; Economics Research Associates, February 2004

ERA

Age

According to the Motion Picture Association of America, teenagers and young adults are the most frequent moviegoers; and people tend to see fewer movies at they get older. This relationship provides the opportunity to apply participation rates to specific populations and thus estimate a market's demand potentia l.

Chapel Hill is therefore in a distinctive position, with a high concentration of young adults attending the University of North Carolina proximate to the subject sites. Table 7 shows that the population tends to get older away from the downtown core and further from the university.

Table V.7

Population by Age

As a Percentage of the 2003 Population

Age Group	0-3 Mile Band	3-5 Mile Band	5-10 Mile Band	Identified Market
Age 0-4 years	4.5%	4.6%	5.9%	5.4%
Age 5-14 years	9.1%	10.1%	11.5%	10.9%
Age 15-19 years	10.3%	11.8%	8.7%	9.4%
Age 20-24 years	19.5%	14.8%	11.3%	13.2%
Age 25-34 years	20.7%	15.8%	17.1%	17.6%
Age 35-44 years	12.5%	12.4%	15.0%	14.2%
Age 45-64 years	16.9%	20.9%	21.1%	20.3%
Age 65-74 years	3.2%	4.8%	4.7%	4.4%
Age 75-84 years	2.4%	3.5%	3.4%	3.3%
Age 85+ years	0.9%	1.4%	1.4%	1.3%

Source: ESRI Business Solutions; Economics Research Associates, February 2004

Income

The distribution of household income within the defined market is as one expects, with higher levels of income observed further from the University campus. The most affluent portion of the defined market is found in the 3 to 5-mile band that demonstrates median household income at $52,853, followed by the outer band at $52,744.

Table V.8

Households by Income

As a Percentage of 2003 Households

Income Cohort	0-3 Mile Band	3-5 Mile Band	5-10 Mile Band	Identified Market
Less than $15,000	19.3%	16.2%	13.3%	14.8%
$15,000-$24,999	12.7%	9.3%	9.5%	10.1%
$25,000-$34,999	13.1%	9.0%	10.5%	10.7%
$35,000-$49,999	14.7%	12.8%	14.2%	14.1%
$50,000-$74,999	13.5%	15.5%	18.4%	17.1%
$75,000-$99,999	8.8%	10.9%	12.2%	11.4%
$100,000-$149,999	9.8%	12.9%	12.8%	12.2%
$150,000+	8.0%	13.4%	9.2%	9.6%
Median Household Income	**$41,097**	**$52,853**	**$52,744**	**$50,622**

Source: ESRI Business Solutions; Economics Research Associates, February 2004

Methodology for Estimating Market Demand

In order to estimate ticket sales, ERA utilized three different methods:

- Method 1 estimates ticket sales by applying participation rates to selected population age groups. Participation rates were gathered from two sources: the Incidence of Motion Picture Attendance Among the Adult and Teenage Public produced for the Motion Picture Association.
- Method 2 estimates ticket sales by applying participation rates derived from previous research conducted by ERA to selected population age groups.
- Method 3 applies a national factor of 5.8 movies per person per year to population figures in the trade area to estimate ticket sales.

Method 1

The Motion Picture Association of America (MPAA) contracts with an independent research firm to conduct an annual survey of motion picture attendance. The results are highlighted in the Incidence of Motion Picture Attendance Among the Adult and Teenage Public. The ranges of results of their survey from 1992 to 1994 provided the following information in Table 9. It is assumed that attendance patterns have not changed significantly since the time of this study.

Table V.9

MPAA Incidence of Motion Picture Attendance

Segment	Total Public	Adult Public (18 & Over)	Teenage Public (Age 12-17)
Frequent (at least once per month)	28-30%	24-29%	43-47%
Occasional (once in 2 to 6 months)	35-36%	32-34%	40-48%
Infrequent (less than once in six months)	11-11%	11-12%	6-7%
Never	25-28%	27-31%	3-5%
Not Reported	0-1%	0-1%	0-3%

Source: Motion Picture Association of America; Economics Research Associates, February 2004

Method 1 Participation Estimates

Note that the ranges of participation and frequency of cinema ticket purchases vary. The use of this information required assumptions to address the lack of specificity with respect to the number of annual movies the frequent, occasional, and infrequent moviegoer would see. For the purposes of this analysis, we assumed that in an average year, the frequent moviegoer would attend from twelve to eighteen movies, the occasional from three to eleven movies, and the infrequent one to two movies. We then applied these ranges of participation and frequency to the known population to provide a range of annual ticket sales demand for the defined market area. The results are presented in Table 10.

Based on the 2003 population this analysis yields a range of ticket sales between 643,000 and 1.48 million for the defined 10-mile trade area. The average of these ranges indicates expected sales levels approximately 1.04 million tickets. Forecast population estimates for 2008 suggest sales levels to increase to approximately 1.16 million tickets.

Referring back to the actual performance of the cinemas in the local market, real ticket sales indicate that the 2003 demand estimates assuming high participation and high frequency in attendance most accurately captures the true rate of movie attendance in the Chapel Hill region. Therefore, ERA believes that the forecast demand estimate for 2008 is more likely to be around 1.65 million tickets, as shown below in Table 10.

Table V.10

Method 1- Estimated Ticket Sales Based on MPAA Data 2003 and 2008

2003

Frequency	Low	Low	High	High
Participation	Low	High	Low	High
Age Group				
12-17	101,172	193,204	112,676	218,734
18-20	44,471	90,743	52,014	103,578
21-24	73,507	149,992	85,975	171,207
25-29	65,184	133,009	76,241	151,821
30-39	106,590	217,498	124,670	248,260
40-49	95,676	195,228	111,905	222,841
50-59	72,667	148,277	84,992	169,249
60 +	83,747	170,886	97,952	195,056
Total	643,014	1,298,837	746,426	1,480,746

2003 Average:	**1,042,256**

2008

Frequency	Low	Low	High	High
Participation	Low	High	Low	High
Age Group				
12-17	109,759	209,603	122,240	237,299
18-20	49,242	100,478	57,594	114,689
21-24	82,814	168,983	96,861	192,884
25-29	63,088	128,731	73,789	146,938
30-39	113,178	230,941	132,375	263,605
40-49	107,256	218,856	125,448	249,811
50-59	90,848	185,375	106,257	211,594
60 +	100,200	204,458	117,196	233,377
Total	716,384	1,447,425	831,760	1,650,197

2008 Average:	**1,161,442**

Source: Motion Picture Association of America; Economics Research Associates, February 2004

Method 2

Method 2 incorporates results from models developed from prior ERA research that provide an estimate of annual movie tickets by age. The results are summarized in Table 11. These demand estimates on par with the averaged results of the first methodology using the MPAA data, showing nearly approximately the same levels of demand for both 2003 and 2008.

Table V.11

Method 2- Estimated Ticket Sales Demand
2003 and 2008

		2003		2008	
Age	Average Annual Movie Tickets	Defined Market Area Population	Estimated Ticket Sales	Defined Market Area Population	Estimated Ticket Sales
5-11	5.0	13,284	66,421	13,731	68,657
12-15	10.1	9,153	92,443	9,872	99,704
16-20	12.8	17,865	228,667	19,691	252,045
21-24	9.6	18,609	178,650	20,966	201,270
25-29	7.1	16,502	117,166	15,972	113,398
30-39	6.0	26,985	161,909	28,653	171,916
40-49	4.4	24,222	106,576	27,153	119,475
50-59	2.6	18,397	47,831	22,999	59,798
60+	2.0	21,202	42,403	25,367	50,734
Total		166,218	**1,042,067**	184,404	**1,136,998**

Source: Economics Research Associates, February 2004

Method 3

As a check, ERA applied an annual 5.8 tickets per person factor to the market area populations for both 2003 and 2008. The results of this yielded annual demand levels of 1.01 million and 1.13 million tickets respectively. Table 12 provides a summary of the three approaches used to quantify the demand for movie theater tickets.

Summary of Estimated Ticket Sales Demand

Based on an average ticket price of $6.25, gross revenues for the five cinemas in the trade area reporting to Nielsen EDI indicate that 1,495,648 tickets were sold in 2003. For the three theaters that did not report gross revenues in 2003, ERA assumed a conservative estimate of 12,000 tickets sold per screen. The three non-reporting theaters comprise seven additional screens that translate into an additional 84,000 tickets, for a total of 1,579,648 tickets sold in the defined market area. Closer examination of the performance of cinemas in the local market indicates that demand estimates derived from High Participation/High Frequency scenario (shaded section of Table 10) under Method 1 is the closet approximation to actual observed movie ticket sales in the Chapel Hill area.

Supportable Screens

ERA then translated annual ticket sales into screens by dividing the average number of tickets per screen into the estimated demand levels. Based on the review of local cinema operating performance and the findings of the demand analysis, sales estimates from Method 1 assuming High Participation/High Frequency in attendance were used for this calculation. It was assumed that an additional 5 percent of total tickets demanded are generated by inflow factors from visitors to Chapel Hill and people residing outside the 10-mile trade area, resulting in a total demand of 1.55 million and 1.73 million tickets in the trade area for 2003 and 2008 respectively. Nielson EDI data suggests that the average theater in the metropolitan area generates between 27,000 and 30,000 tickets per screen. As presented in Table 12, the analysis yielded average supportable screens of 55 in 2003 and 61 in 2008.

Table V.12

Estimated Supportable Screens
National Demand Trends, 2003 and 2008

	Estimated Ticket Sales, 2003	Estimated Ticket Sales, 2008
Annual Trade Area Ticket Sales	**1,480,746**	**1,650,197**
Plus 5% Inflow [1]	*74,037*	*82,510*
Total Ticket Sales	**1,554,783**	**1,732,707**
Supportable Screens @ 27,000 tickets per screen	58	64
Supportable Screens @ 30,000 tickets per screen	52	58
Average Supportable Screens	**55**	**61**
Less: Existing Supply	53	58
Under/(Over) Supply	**2**	**3**

[1] Assumes that movies attended by people living outside the 10-mile ring, visitors to Chapel Hill and other moviegoers account for an additional 5% of total ticket sales in the 10-mile trade area.

Source: Motion Picture Association of America; Economics Research Associates, February 2004

Comparing forecast supportable screens to the actual screens in 2008 reveals that the market can support up to three additional screens. While the market demand indicates insufficient support for a first-run cinema megaplex, pent-up demand for higher quality food service can be leveraged to support the development of an entertainment district including better restaurants and a small cinema theater. Distributing the risk across entertainment and food service improves the position of a potential cinema in a market approaching saturation. Further, the type of films in the typical small theater lineup will compliment the UNC Arts Common project and generate additional foot traffic, to the benefit of other Downtown retailers.

CONCLUSION

Development of a new theater in Downtown Chapel Hill will have varying effects on nearby movie houses, and will also create additional pressure on parking. We believe that the arthouse theaters that continue to operate "status quo", i.e. the Carolina Theatre and the Varsity Theatre, may not be unable to effectively compete with a new, modern product located just blocks away, offering a superior assortment of amenities. This evaluation is not based on demand patterns, but rather on the qualitative features that would create competitive disadvantages. As our analysis indicates, the population of Chapel Hill is significant enough to support at up to three screens, and can potentially support more screens if positioned adequately. And while the ultimate shake-up of the market is indeterminate, we would expect to see redevelopment of nearby theaters.

The benefits of a modern movie theater complex downtown are clear. First, entertainment, food and beverage dollars leaking into suburban markets could be recaptured. Second, increased foot traffic will create spillover spending effects for downtown retailers. Third, the new development may induce nearby theaters to either reinvest, or reposition as private galleries, performing arts space, or some other type of public art venue.

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 and 5 and the existing screens in downtown Chapel Hill. 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. Ultimately, Downtown would be stronger with such a new, competitive cinema complex.

B. ARTS & PUBLIC SPACE MARKET ANALYSIS

Unlike the cinema and retail analyses, market support for auxiliary arts and entertainment space cannot be quantified using a measure of sales per screen or sales per square foot. In light of this limitation, ERA approached this phase of analysis from a more qualitative perspective; relying on national and local trends in the arts industry, a review of pertinent development of new arts-oriented space, and interviews with select members of the Chapel Hill arts community.

Due to the unique experience that is expected from this type of entertainment use, ERA believes that an arts-oriented project will potentially have greater drawing power than a cinema complex. As such, the consumer market that is discussed below refers to the same geography considered in the retail analysis (Section IV).

MARKET OVERVIEW

A review of national consumer expenditure patterns suggests an apparent need for increased entertainment and recreation amenities nationwide. The Bureau of Economic Analysis (BEA), U.S. Department of Commerce reports that between the years 1996 and 2001, the real growth in recreation spending, including dollars spent on the performing arts, spectator sports, and movie tickets, outpaced both GDP growth and increases in overall consumer expenditure. Despite an economic recession and the affects of September 11 on tourism, these trends remained strong during the first few years of the decade.

Table 13 shows that over the six-year period, growth in recreation spending was two to three times greater than the growth in total consumer expenditure. Given the concentration of a relatively educated and affluent population in the Chapel Hill area – the key demographics that drive entertainment and recreation spending – ERA projects that local spending patterns will be reflective of larger national trends.

Table V.13

National GDP and Consumer and Recreation Spending
1996 to 2001

(billions of 1996 dollars)	1996	1997	1998	1999	2000	2001
Real GDP *(change from previous year)*	3.6%	4.4%	4.3%	4.1%	3.8%	3.0%
Real Personal Consumer Expenditures *(change from previous year)*	3.2%	3.6%	4.8%	4.9%	4.3%	2.5%
Real Recreation Expenditures *(change from previous year)*	7.8%	7.9%	9.2%	10.3%	8.3%	6.6%

Source: U.S. Department of Commerce, Bureau of Economic Analysis; National Endowment for the Arts, 2003

The Arts & Economic Prosperity study conducted by Americans for the Arts, a national non-profit organization, supports the BEA findings: the arts industry generated $134 billion in economic activity nationwide in 2000, including $80.8 billion of direct event-related spending by arts audiences on admissions, lodging, transportation, meals, and retail. The report also surveyed towns and cities nationwide to better understand the magnitude of arts-related spending in communities in relation to population size. The results for communities with populations ranging between 50,000 and 99,999, similar to the size of Chapel Hill and Carrboro, indicates that in the year 2000, arts-related events on average generated approximately $12.7 million in resident and non-resident spending[1].

The report also suggests that over half of this total is related to non-resident expenditure, which suggests that there could be significant opportunities for the revitalization of Downtown Chapel Hill. However, in order to attract the level of tourist volume required for Downtown to experience a noticeable impact on street activity, and in turn retail sales revenue, a critical mass of cultural and performance venues is necessary to host large scale arts events.

UNC Arts Common

UNC's proposed Arts Common program has the potential to create a critical mass of cultural and performance venues in Chapel Hill. The project presents an opportunity to create complementary uses at the project sites that can leverage these cultural assets and translate the increased visitation and tourism into greater economic activity for Downtown. The Arts Common program proposes to build new buildings and renovate old structures to create a pedestrian-friendly zone accessible from Franklin Street. The plan creates a new entrance to campus with a green space to rival McCorkle and Polk Places. As part of the first phase, the renovated 1,500-seat Memorial Hall will open in January 2005 to host music and performance arts, followed by Gerard Hall and Playmakers Theatre in 2007. A new Music Building with a 300-car underground garage and two small performance halls that can seat 150 and 750 people respectively is scheduled to open in 2009. It is expected that a design team for this project will be selected in Spring 2004. Finally, the Ackland Museum expansion is expected to be complete in 2010 with nearly double the current exhibition space.

The total cost is estimated at approximately $69 million, of which the Arts Common music and performance arts hall is expected to the be the most expensive of the five projects with a budget of over $23.1 million. Based on ERA's discussion with UNC staff, funding for these projects involve a mix of sources, including State and University bonds and private funds that are yet to be identified. As shown below in Table 14, with the exception of the Ackland Museum expansion, funds for most of the projects have already been identified. Project budgets are of March 2004, and will likely change if the planned level of fund raising is not achieved.

[1] This excludes spending reported for Santa Fe, NM of over $150 million. Several arts events in Santa Fe are major national draws, and therefore was not considered for the purpose of this study.

Table V.14

Funding for Arts Common & Related Projects

Project Name	Project Type	Start Date	Total Budget	Sources of Funds	% Funded
Arts Common-Music Building	New Construction	Jan-07	$ 23,142,500	State Bond, Fund Raising	83%
Ackland Art	Facility Expansion	TBD	20,000,000	Fund Raising	0%
Memorial Hall	Facility Renovation	May-03	16,600,000	State Funds, State Bond, Fund Raising	100%
Cameron Parking	New Construction	TBD	7,500,000	University Bonds	n/a
Smith Hall-Playmakers	Facility Renovation	Aug-05	1,855,200	State Bond, Fund Raising, Overhead Receipts	73%

Source: UNC Chapel Hill, Facilities and Planning Department; Economics Research Associates, 2004

Market Demand

ERA's approach in quantifying the future demand for arts-oriented uses is similar to the methodology applied to the retail analysis, considering both current capture and induced scenarios. However, as mentioned above, levels of sales productivity are unavailable for this market segment, and therefore supportable space estimates are not calculated. Rather, this analysis considers the growth between 2003 and 2008 in consumer expenditure for recreation and entertainment as derived in the retail market analysis. The same assumptions apply to this analysis, including the following:

- Estimates of consumer expenditure consider residents and students living within the 30-mile trade area discussed in the retail analysis.
- The model assumes that the proportion of spending on entertainment and recreation does not change over time (i.e., future spending patterns in this category is similar to what is spent today).
- The analysis estimates changes in recreation and entertainment expenditure that are expected to occur in both Carrboro and Chapel Hill.
- Capture rates were derived based on an estimate of existing entertainment and recreation sales in Chapel Hill and Carrboro. These estimates consider admissions to UNC athletic events, ticket sales revenue at local movie theaters discussed above in the cinema analysis, and data from the BEA, U.S. Department of Commerce.
- In addition to captured demand from the market segments discussed above, ERA applied an inflow factor to each scenario assuming that additional dollars are spent by customers resident outside the trade area, but drawn to Downtown for reasons other than residential proximity. This could include visiting UNC sports fans, cultural visitors to the Chapel Hill area, and other non-resident consumers.

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- Under the induced scenario, the analysis assumes that the historic trend of growth in recreation spending continues, and that the Arts Common project increases visitation and tourism to Chapel Hill. Other public or private efforts to improve the overall physical appearance of Downtown may also be necessary to induce additional spending.

Based on changes in entertainment expenditure highlighted in Section IV, ERA estimates than between 2003 and 2008, trade area residents and UNC students will spend an additional $19.5 million on recreation and entertainment. Based on the 2001 findings from a BEA study on consumer expenditure, total recreation expenditure will be distributed across the arts (36.8 percent of total expenditure), sporting events (33.1 percent), and movie ticket sales (30.1 percent).

Table V.15
Growth in Recreation Expenditure by Category
2003 to 2008 Estimates

Consumer Submarket	Annual Expenditure[1]: Recreation 2003	2008	Change, '03 to '08
Primary Households			
Performing Arts	$ 22,476,568	$ 26,381,611	$ 3,905,043
Sporting Events	20,240,996	23,757,634	3,516,638
Movies	18,428,369	21,630,084	3,201,715
Subtotal Primary Households	**$ 61,145,934**	**$ 71,769,329**	**$ 10,623,396**
Secondary Households			
Performing Arts	$ 19,765,640	$ 22,706,666	$ 2,941,027
Sporting Events	17,799,702	20,448,207	2,648,505
Movies	16,205,699	18,617,025	2,411,326
Subtotal Secondary Households	**$ 53,771,041**	**$ 61,771,898**	**$ 8,000,857**
UNC Students			
Performing Arts	$ 1,738,507	$ 2,042,441	$ 303,935
Sporting Events	1,565,591	1,839,295	273,705
Movies	1,425,388	1,674,582	249,194
Subtotal UNC Students	**$ 4,729,485**	**$ 5,556,319**	**$ 826,833**
Total Consumer Market			
Performing Arts	$ 43,980,715	$ 51,130,719	**$ 7,150,004**
Sporting Events	39,606,289	46,045,136	**6,438,848**
Movies	36,059,457	41,921,691	**5,862,235**
TOTAL ANNUAL EXPENDITURE	**$ 119,646,460**	**$ 139,097,546**	**$ 19,451,086**

[1] Does not include spending on food and beverage, or other retail related expenditures.

[2] Total UNC-Chapel Hill students, excluding married students, and those living off campus. Excluded students are considered part of the resident submarket.

[3] Spending on entertainment & recreation categories are based on U.S. Dept. of Commerce, Bureau of Economic Analysis 2001 data as shown below:

Recreation Admissions	Per capita spending, 2001 dollars	As % of Total Spending
Performing Arts	$37.20	36.8%
Sporting Events	$33.50	33.1%
Movies	$30.50	30.1%
Total	**$101.20**	**100.0%**

Source: U.S. Department of Commerce, Bureau of Economic Analysis; Economics Research Associates, 2004

Table 15 above applies these proportions to the growth in recreation expenditure for the Chapel Hill and Carrboro consumer market, resulting in an additional $7.2 million spending on performing and visual arts, $6.4 million spending on spectator sports, and $5.9 million spending on movie tickets respectively.

In the next step of this analysis, ERA applied capture rates to the expenditure potentials discussed above in order to derive estimates for future recreation expenditure in Chapel Hill and Carrboro. It is assumed that the growth in sports related expenditure will be captured by the many high caliber university athletic programs in the region, and therefore will have little bearing on the potential for the development of new entertainment uses Downtown. However, it should be noted that increased admissions to sporting events directly translates into increased visitor spending in local hotels, shops, and restaurants. Similarly, growth in cinema related expenditure would either be captured by the existing theaters in the 10-mile trade area discussed in the preceding section of the report, or by additional screens at new theaters. Therefore, this analysis specifically considers growth in expenditure in the performing and visual arts sector.

As Table 16 shows, there will be significant growth in expenditure on arts-related industries, ranging from $1.8 million to $2.8 million under the current capture and induced capture scenarios respectively. While most of this expenditure is expected to occur as a result of the Arts Common project, ERA believes that the residual dollars in the arts-related expenditure may be sufficient to support small-scale uses, such as private galleries and design studios.

Table V.16

Captured Growth in Arts-Related Expenditure

Chapel Hill & Carrboro, 2003 to 2008

	Expenditure Growth: Arts	
	Current Capture	**Induced Capture**
Growth in Arts Expenditure		
Annual Expenditure Potential, 2008	$ 51,130,719	$ 51,130,719
Less: Annual Expenditure Potential, 2003	43,980,715	43,980,715
Total Growth in Expenditure Potential	**$ 7,150,004**	**$ 7,150,004**
Current Capture @	***24.50%***	***35.00%***
Captured Growth in Expenditures:	**$ 1,751,751**	**$ 2,502,501**
Plus Inflow @	***2.5%***	***10.0%***
Total Growth in Arts Expenditure	**$ 1,795,545**	**$ 2,752,752**

[1] Does not include spending on food and beverage, or other retail related expenditures.

Source: Economics Research Associates, 2004

According to members of the local arts community, Downtown Chapel Hill is presently at a comparative disadvantage to Carrboro and other more suburban locations where rents for this type of space are cheaper and quality of available space higher. Based on discussions with the Orange County Arts Commission, ERA understands that local developers and landlords have not been successful in attracting artists to Downtown Chapel Hill, possibly because second floor spaces offered were of low quality, with little to no finishes. Few arts-related projects, with the exception of the spaces at the Bleeker Street Studios in Carrboro, have been successful in attracting artists away from their homes.

The economics of what is typically a heavily subsidized industry presents another barrier that must be overcome. Successful public arts programs, such as Artspace in Raleigh, often receive the majority of program funds from government grants and support from non-profit organizations.

A local venture capitalist attempted to use a combination of historic tax credits and conventional financing mechanisms to fund an arts project in Durham to spearhead its downtown revitalization initiative. While local financial institutions were interested in the project, the perceived risk in the blighted area of Durham was too high to provide the necessary gap funding.

ERA conducted interviews with individuals connected to the Durham project, the findings of which suggest that although the demand for gallery and studio space exists, local artists are unwilling to pay market rate rents for the quality of space that they desire. A survey conducted by the Orange County supports this notion, revealing that artists are typically willing to pay rents that are approximately 70 to 80 percent of comparable market rate rents. In addition to the lower rent thresholds, members of the arts community generally want their own space, and are therefore unwilling to engage in space sharing arrangements with other artists, that could improve bottom-line development feasibility. The Durham project attempted to leverage an anchor tenant capable of paying high enough rents to offset the lower rent-paying tenants, but was unable to sign a deal with a local high profile restaurateur.

CONCLUSION

National trends that favor the growth in the arts, entertainment, and recreation industry suggest that Chapel Hill is in a position to capitalize on increasing levels of consumer expenditure and enhance its visitor base. While the region's existing arts community is thriving, Chapel Hill lacks a critical mass of cultural attractions. As a result, potential revenues from cultural tourism are currently not being captured.

However, the implementation of the proposed Arts Common plan over the next several years may change this environment. The Arts Common project presents an opportunity to create complementary uses at the project sites that can leverage these cultural assets and translate the increased visitation and tourism into greater economic activity for Downtown.

It should also be noted that the scale and diversity of the Arts Common projects might result in a disproportionate share of arts-related expenditure being captured by the new facilities, and existing facilities in Carrboro and Chapel Hill. ERA projects that while residual arts and entertainment dollars may be sufficient to support small-scale performance venues, galleries, or other arts facilities, from a development feasibility perspective these uses may not be able to support market-rate rents. However, existing second floor spaces downtown are ideal for adaptive reuse arts projects that can be supported by higher value tenants.

Based on discussions with members of the Orange County Arts Commission, ERA also believes that a coordinated marketing and outreach plan to the arts community is necessary in order to present Downtown as a viable alternative to working at home. Local artists and craftsmen need to be informed of the economic benefits that a more lively and active downtown will provide. The level of increased visibility and sales potential in Downtown that will result from the Arts Common project and an improved retail mix can be leveraged to provide further incentive.

VI. PARKING

According to the Urban Land Institute's *Ten Principles for Rebuilding Neighborhood Retail, 2003*, prerequisites for an active mixed-use corridor include easy accessibility, high visibility, a sense of personal security, and an adequate supply of convenient parking. Like most downtowns, parking will be one of the most important issues that Chapel Hill needs to consider when programming the mix of uses for the redevelopment of Lots 2 and 5. ERA understands that maintaining the current level of parking, at minimum, in Lots 2 and 5 is one of the Principles of the redevelopment of these sites.

PARKING DEMAND

Several factors contribute to the number of parking spaces that a particular project requires. The type of land use or building use programmed for a particular site will have varying degrees of impact on parking requirements.

Table VI.1

Local Parking Requirements & Industry Standards

	Town Requirements		ERA Benchmarks	
Major Use Type	**Zone: TC-1**	**Zone: TC-2**	**Low**	**High**
Retail	1 per 400 sq. ft.	1 per 250 sq. ft.	1 per 250 sq. ft.	1 per 200 sq. ft.
Restaurants	1 per 400 sq. ft.	1 per 4 seats	1 per 125 sq. ft.	1 per 100 sq. ft.
Other Convenience Business	1 per 400 sq. ft.	1 per 250 sq. ft.	1 per 200 sq. ft.	1 per 175 sq. ft.
Cinema[1]	-	-	10 per screen	85 per screen
Multi-Family Residential				
Efficiency	1 per unit	1 per unit	-	-
1 or 2 bedrooms	1 per unit	1.5 per unit	-	-
3 or more bedrooms	1 per unit	2 per unit	-	-
All unit sizes	-	-	0.2 per unit	2 per unit

[1] Based on data provided by the Urban Land Institute. The high parking benchmark reflects requirements for larger cinema complexes more typical of suburban megaplexes.

Source: Town of Chapel Hill; Urban Land Institute; Economics Research Associates, 2004

Table 1 above compares existing current parking requirements in Chapel Hill, as found in the Town Land Use Management Ordinance, with national benchmarks that ERA has observed in comparable downtown areas. The ratio of required parking spaces to building floor area in the project study area – located in the "Town Center-2" zoning district – for the most part appear on par with national standards, with a few exceptions. Notably, the parking requirements for restaurant uses are much lower than the number of spaces typically required for more sophisticated higher-end food service. Town code also indicates that convenience uses only require one space per 250 square feet of building floor area. Current requirements would then provide insufficient parking for a full-scale grocery store, which because of the frequency of trips made by automobile, typically requires one space for between 175 square feet and 200 square feet of building floor area.

The programming of the proposed 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 could require a number of new spaces based on the programming mix. Eliminating or decreasing mandatory parking requirements will not solve this problem, and even though the lack of parking in downtown areas is often an issue of perception, the challenges for the Town and a potential developer will include the following:

- Estimating the level of demand for parking under a variety of redevelopment scenarios;
- Deciding on the optimal location and configuration for new spaces; and
- Devising a financing structure that will affect project feasibility.

While Chapel Hill is in a better position than most communities, in that many residents and students use transit, foot, or bicycle, the development of anchor retail tenants, changes in the existing retail mix, increases in density, and the introduction of entertainment destinations will increase the popularity of Downtown streets and the subsequent need for parking.

Municipalities across the country facing the same problem have developed a variety of creative solutions. The following provides a list of potential solutions applicable to Chapel Hill:

- On-street parking is mandatory for some types of retailers, such as food stores and personal services, where parking in a garage is an inconvenience for customers. The level of traffic for this type of retail requires that on-street parking spaces turnover in a timely fashion. This can be achieved through low-cost metered parking that is fairly enforced during peak business hours.
- The perception of inadequate parking will dissuade shoppers from coming downtown when ample surface parking is readily available at nearby malls. Higher land values and limited developable land suggests that surface parking is not the best solution for Downtown. Therefore, off-street parking structures must be designed in such a way so as to not interrupt the continuity of storefronts and public space. While garages need to be visible from the street and within close proximity to downtown destinations, this problem can easily be solved through directional signage and improved way finding.
- The proportion of multi-use trips to downtown must be taken into consideration. Visitors to the new music hall proposed by the UNC Arts Common project will likely park in university-owned facilities, and are then free to shop and dine downtown without having to worry about finding a place to park.
- Employees, residents, and shoppers will require parking at different times of the day. Shared parking arrangements can be implemented to take advantage of day

part utilization by these different market segments. Downtown businesses should encourage employees to park at more remote locations and provide incentives to use other forms of transportation. This will free the more proximate and convenient spaces for shoppers and visitors that will be competing with the employees for available parking. Also, downtown residents should be provided with permitted parking to ensure availability of spaces during peak business hours.

- Innovative and contextual parking designs, such as underground or rooftop parking, are typical of dense downtown projects. However, this type of parking is very expensive, and in turn is one of the main reasons why projects that otherwise have high potential for success are never built. In most communities, people are unwilling to pay even nominal fees for structured parking when spaces are free and available at suburban shopping centers. Experience shows that public support is often necessary to provide adequate parking; achieved through tax incentives for developers who provide public parking, or through the construction of municipal parking facilities.

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VII. UNIVERSITY TOWN CASE STUDIES

Overview

In researching comparable case studies for Chapel Hill, ERA identified twenty-one cities located throughout the continental United States with sizeable educational institutions and a downtown/retail street. These cities were sorted by population and by size as well as by the university size and population. Table 1 on the following page shows the overall size, residential population, campus size, and school enrollment of the cities that were initially selected.

Of these cities, ERA selected six cities that were similar to Chapel Hill primarily in terms of (1) population and (2) university enrollment. ERA also researched and interviewed Athens, Georgia at the request of Chapel Hill officials. A brief summary of selected characteristics of each city's downtown and a history of the downtown development is shown in Table 2 below. The seven cities appear in the report as follows:

- Ames, Iowa
- Athens, Georgia
- Charlottesville, Virginia
- Northampton, Massachusetts
- Palo Alto, California
- Santa Barbara, California
- San Luis Obispo, California

Table VII.1

Potential Comparable Schools with Downtown Areas 1/

		Town		School		Ratios	
School	Location	Size (sqm)	Population	Size (acre)	Total Enrollment	School/ Town	Enrollment/ Population
Iowa State University	Ames, Iowa	19.65	50,700	11,421	27,900	0.908	0.55
University of California at Davis 2/	Davis, California	9.9	61,400	5,300	30,200	0.836	0.49
Stanford University	Palo Alto, California	26	61,200	8,200	3,856	0.493	0.06
Ohio University	Athens, Ohio	9.48	21,300	1,800	27,900	0.297	1.31
Cornell University	Ithaca, New York	5.46	28,900	745	13,700	0.213	0.47
California Polytechnic University 3/	San Luis Obispo, California	10.7	43,400	1,321	18,300	0.193	0.42
University of Virginia at Charlottesville	Charlottevilles, Virginia	10.4	40,500	1,113	19,600	0.167	0.48
University of Michigan at Ann Arbor	Ann Arbor, Michigan	28	114,000	2,500	39,000	0.140	0.34
Washington State University	Pullman, Washington	8.93	24,900	620	18,400	0.108	0.74
University of California at Santa Barbara	Santa Barbara, California	18.89	92,300	989	17,800	0.082	0.19
University of Florida 4/	Gainesville, Florida	45.52	218,000	2,000	40,700	0.069	0.19
Oregon State University	Corvallis Oregon	13.6	50,000	500	18,800	0.057	0.38
University of Georgia	Athens, Georgia	16.61	153,400	605	32,400	0.057	0.21
University of North Carolina at Chapel Hill 5/	Chapel Hill, North Carolina	21.2	50,500	729	26,400	0.054	0.52
Princeton University	Princeton, New Jersey	16.25	16,000	500	6,600	0.048	0.41
Arizona State University	Tempe Arizona	39.5	158,600	700	47,400	0.028	0.30
Brigham Young University 6/	Provo, Utah	43	105,200	600	29,400	0.022	0.28
Syracuse University	Syracuse, New York	25.1	147,300	200	12,600	0.012	0.09
University of Oregon	Eugene, Oregon	41.5	140,000	280	20,000	0.011	0.14
Chico State 7/	Chico, California	27.7	68,600	119	16,200	0.007	0.24
Smith College	Northampton, Massachusetts	34.5	29,000	125	2,600	0.006	0.09

1/ Enrollment information is as of Fall 2002. Population data is gathered from the census and is of 2000 unless stated otherwise.
2/ Campus size includes agricultural and open space.
3/ Population is as of 2001. Enrollment is as of Fall 2003.
4/ Campus size includes open space.
5/ Population is as of July 2002 and was issued by the State of North Carolina.
6/ Population estimates are of 2003.
7/ Enrollment is for full-time day students.

Source: Individual school websites; Individual city websites; US Census;

Table VII.2

Comparable University Towns - Selected Characteristics[1]

	Chapel Hill	Ames	Athens	Charlottesville	Northampton	Palo Alto	Santa Barbara	San Luis Obispo
Location	North Carolina	Iowa	Georgia	Virginia	Massachusetts	California	California	California
School	University of North Carolina at Chapel Hill	Iowa State University	University of Georgia	University of Virginia at Charlottesville	Smith College	Stanford University	University of California at Santa Barbara	California Polytechnic University
Core Campus Size (acres)	689	490	605	367	-	2,300	815	400
Total Campus Size (acres)	729	11,421	4,308	1,113	125	8,200	989	1,321
Enrollment	26,400	27900	33878	19600	2600	3856	17800	18300
Population	50540	50700	126000	40500	29000	61200	92300	44174
Size of City (sqm)	21.2	19.65		10.4	34.5	26	18.89	10.7
Size of Downtown (blocks)	6 long/2 wide	5 long / 3 wide	5 long / 4 wide	8 long / 3 wide	5 long / 4 wide	7 long / 3 wide	8 long / 10 wide	4 long / 2 wide
Number of Retail Stores	59	61	64	50-60	60	136	210	n/a
Number of Food and Dining Stores	68	n/a	45	43	40	30+	90	n/a
Key Anchors	None	None	40 Watt Club Georgia Theater	None	Thorne Marketplace Faces	None	Nordstrom, Macy's Restoration Hardware Border's	None
Office	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Residential	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Entertainment	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Parking	Street Parking/ Parking Lots	Free Street Parking	Six Parking Lots	n/a	Six Surface Lots	Two Public Parking Lots	Ten Public Parking Lots	Two Tolled Parking Lots
Management Org	Downtown Commission	Downtown Ames Assoc.	Downtown Devp. Auth.	Downtown Visitors Bureau	None	None	SB Downtown Organization	Downtown Association
Management Org Budgets	n/a	n/a	n/a	n/a	-	-	$391,000	n/a

[1] Enrollment information is as of Fall 2002. Population data is gathered from the census and is of 2000 unless stated otherwise.

Source: Economics Research Associates

Ames, Iowa

Ames, Iowa is a small town with a population of approximately 50,700 residents. It is located about one-half hour from Des Moines, Iowa, and less than one half-day's drive from Minneapolis, Kansas City, Omaha, and Chicago. Incorporated in 1869, Ames is home to Iowa State University.

The downtown, centered on Main Street, is the cultural, community, and civic center of Ames. Five blocks long and three blocks wide, it includes the City Hall, a library, post office, and 61 specialty retailers, service providers, and dining establishments. There are no anchor stores in Ames but the local brewpub is a popular attraction for students of Iowa State. Downtown Ames has no parking structures or lots but there is free parking behind stores as well as street parking.

Campustown

Although annexed to Ames in 1893, Iowa State University developed a retail center independent and separate from downtown Ames. Called Campustown, the retail center was first developed in the 1900s and is located five miles from downtown and directly across from Iowa State University. It is approximately six blocks long and three blocks wide with approximately 136 retailers, of which more than 30 are dining and eating establishments. Anchor stores are mostly independent stores and include a movie theater, University Bookstore, Tea Galaxy, Copyworks, Jimmy Johnson and People's Bar and Grill. Most retailers are specialty stores, such as bookstores and coffee shops, that are targeted at students and university employees. The buildings are generally mixed-use with first floor retail and upper floor residential units. Shoppers to Campustown can park at several private parking lots and two town-owned lots.

Campustown thrives in part because it is located between the University's residential towers and Iowa State University. Unlike downtown, it has a low vacancy rate but high turnover in tenants due to the student-oriented nature of its retailers. It struggled in the mid-1990s, but has begun to successfully market itself as an international food and shopping area. Campustown is currently experiencing a decrease in foot traffic from students due to new buses running between the residential towers and Iowa State University. The Campustown Action Association, an organization of 40 members that organizes and manages events for the area, is marketing Campustown to students to promote patronage.

Development Background & Repositioning Efforts

Before the 1960s, downtown was the primary retail center in Ames with several department stores, including Sears. Downtown began to struggle when Sears and the other two main anchor stores moved to the then newly-constructed North Grand Mall in the 1960s. Downtown Ames was confronted with two main issues:

1. How to attract more patrons and visitors?

2. How to sustain occupancy levels?

To solve these issues, downtown Ames implemented the following:

- **Infrastructure Investment:** Downtown underwent a major $ 6 million infrastructure upgrade that included new sewer mains, streetscaping, and lighting in the 1960s.
- **New Retail Programming:** Repositioned to include more specialty stores such as book and antique stores and to be more pedestrian-friendly. This allowed downtown to complement North Grand Mall and other shopping areas as a unique specialty shopping area.
- **Zoning Changes:** Implemented new zoning regulations in the 1960s that included higher-density development such as multi-story buildings with retail on the ground floor and residential units located on the upper floors.
- **Other Guidelines:** Town required developers to provide one and one-quarter parking space for each new bedroom built.

Today, downtown Ames is successful in attracting townspeople to live, work and shop in its area. Approximately 80,000 square feet of space is occupied.

The town does not offer incentives to locate to downtown but does offer tax abatements for developer and businesses that keep building design and appearances similar to other downtown buildings. Because Ames is located nearby several large metropolitan cities, it has a growing population that patronizes the downtown and other local shopping areas. With new investment and development in the area, downtown Ames has become the mixed-use cultural, community and civic center of the town.

Like downtown Ames, Campustown does not offer incentives for businesses to locate to its shopping district. Tax abatement programs are offered however for building design and appearance in order to keep all buildings of uniform design.

Railroad Station

Changes to the downtown continued in the 1990s when City Hall moved into an old high school in the area, and an old railroad station that was sold to a developer for a nominal amount, was rehabilitated into a major commercial space. The historic railroad depot, or Main Street Station, is located at the end of Main Street, on Clark Avenue. The city acquired the depot when the railroad moved out of town and converted part of the depot to a municipal office building and the other part to a parking lot. When the city vacated the office space, the depot stayed vacant for some time after before a private developer, Hubbell Realty of Des Moines, offered to redevelop it for commercial uses.

In lieu of the nominal value, Hubbell Realty agreed to:

- Rehabilitate the building for commercial uses, while maintaining the historic nature and façade of the building;
- Build an additional 20,000 square feet of retail and office space; and

- Operate the parking lot according to town parking rules and restrictions, and pay for maintenance costs.

The rehabilitation was completed in 1994 and the railroad station became Main Street station with a total of 16,400 square feet of retail and office space.

Photo: Main Street Station, Ames, Iowa

Main Street Station is considered a mixed success. It was successful in that it retained the depot's historic façade, added an additional 20,000 square feet of office and retail space, and offered parking at no additional maintenance cost. However, the project failed to generate foot traffic in the area, mainly because it was located at the end of Main Street and did not have the sort of tenants that could draw shoppers. The site's most successful retailer has been a Drugtown Drugstore, which is the only retailer of its kind in the downtown area.

Main Street Station is currently for sale by the developer. It is zoned for commercial uses and features and retail uses of various sizes.

Development Issues

In terms of development issues, the major issue affecting the University community and Ames is housing. In the early 1990s, Iowa State University's student body grew rapidly and put pressure on housing prices in Ames. Though the University has begun to build more housing on campus, students consider campus housing undesirable. The planning department is considering measures to mitigate the housing crisis in Ames.

Transportation

Ames does not have a transfer center or transit center. The town is serviced by local taxi service and local bus service, Cyride, which runs until 12:30 at night. Cyride is also the only public bus system for the University, and runs through both the University and the downtown. The biggest group of riders for Cyride is University students. Student ridership increased dramatically when an unlimited ride program was implemented in 2002. As a response to the increased ridership, Cyride has had to add drivers and buses to its system. Ames has approximately four million people using its system a year and has no plans to add a transfer center or transit center in the near future.

Athens, Georgia

Athens, Georgia is a prosperous community with a population of 126,000 people. It is located approximately 70 miles east-northeast of Atlanta and shares a common local government with Clarke County. The town grew around the University of Georgia and was incorporated in 1806.

The downtown adjoins the northern end of the University of Georgia and provides a flourishing music scene for the local community as well as nightlife for the student population. Five blocks long and four blocks wide, it includes 64 retailers, 45 restaurants, 40 clubs, 22 service providers, and five theaters. Most retailers are specialty retailers such as jewelry stores and gift shops, which primarily target the younger market. Although there are no anchor stores, the 40-Watt Club and the Georgia Theater hold prominent positions in the downtown area. Most stores and clubs are located on the first floor of three storey buildings with second floor residential units. There are six parking lots, one parking deck, and street metered spaces in the downtown area.

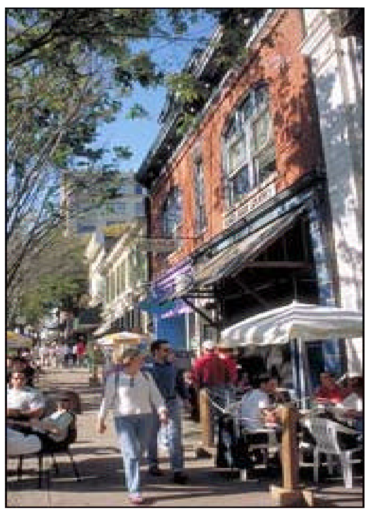


Photo: Downtown Athens

Development Background & Repositioning Efforts

During the 1960s, the downtown was the traditional retail district with several department stores including the predecessor to Macy's Department Store. As a reaction to the development of suburban strip centers in the 1960s, the Athens Downtown Development Authority was formed in 1977 to manage the downtown. The group implemented the following programs:

- **Infrastructure Investment:** Downtown underwent the first phase of a beautification program in the 1980s, which included trees planted on streets and sidewalk benches. In addition, historic buildings were rehabilitated and sensitive design management systems were encouraged. The second phase, which includes new streetscape, is currently underway.

- **New Programming:** Downtown was able to maintain most of the specialty stores in the area but attracted more bars and clubs to the area after the University of Georgia banned alcohol on campus.

- **Zoning Changes:** Implemented new zoning regulations that allowed residential uses and other uses downtown.

Today, downtown Athens is a successful mixed-use and nighttime music district known for producing the music groups like the B52's, REM, and Widespread Panic. It has a strong residential component comprised of converted condominiums and loft apartments, inhabited by students and young professionals in their thirties and forties. With several recent construction and renovation projects, the downtown central retail district is also expanding out toward Pulaski Street.

Photo: Downtown Athens Evening Entertainment

Development Issues

Because nighttime music and entertainment is integral to the environment, downtown Athens has several major unique issues that it has had to manage. One challenge is that the city has had to balance the number of retail outlets with the number of dining establishments, bars, and clubs in the area. In 2003, seven businesses closed including four restaurants and one club. Of the thirty new businesses that opened, six were retailers while four were new restaurants and two were new clubs. The city has yet to find a creative solution to balancing the mix of retail outlets with restaurants, bars, and clubs.

Another issue is that the infrastructure for retail uses and dining, club, and bar uses differs. The infrastructure currently in place is for mainly retail uses. To deal with excess sewage and garbage from outside dining and club and bar entertainment, the city has had to put in place measures such as organic trash. The city has also had to hire a downtown police chief and handpicked police escorts to deal with potential disturbances in the downtown area and to keep the area safe. This measure has been integral in ensuring that the clubs and bars coexist with residences and neighbors.

Transportation

With clubs and bars closing as late as three in the morning and buses ending their run earlier in the evening, there is a demand for taxis and other forms of private transit. The city attempted to run free public nighttime shuttles but found that demand for the shuttles was low. The city is continuing to find alternatives to lessen the pressures on the taxi services downtown.

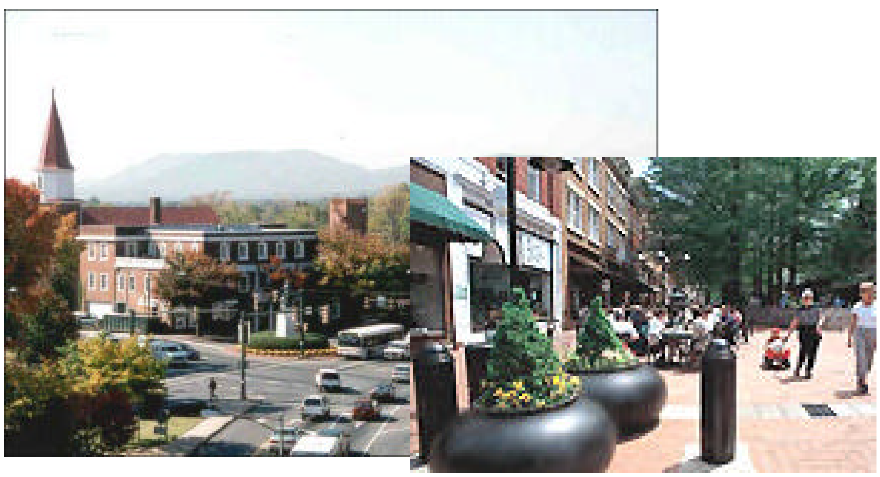
The downtown area has also had to grapple with a shortage of parking. Because downtown is located adjacent to the University, students often park downtown, contributing to the shortage of parking in the area. The city recently implemented free bus service to students and extended it to faculty and staff. The free bus service is funded by student activities fees and has alleviated the parking shortage downtown and increased visitation to the downtown area. To further mitigate the parking shortage downtown, new residential developments must arrange for parking for their residents within 1,500 feet of the project site.

In addition to the campus bus system, Athens also has a city bus system that runs through campus. An interchange is located at the core of the downtown and connects the downtown buses with the campus buses. This interchange will be replaced with a $3 million dollar multi-modal station located in downtown.

Charlottesville, Virginia

Incorporated in 1888 and "designed" by Thomas Jefferson, Charlottesville, Virginia is a 10.4 square mile city located 100 miles from Washington DC. It serves as the economic, cultural, and educational center of a multi-county region in Central Virginia. With a population of approximately 40,500, Charlottesville is home to the University of Virginia at Charlottesville (University).

University students frequent both downtown Charlottesville and The Corner, a retail center across the Central Lawn of the University of Virginia. Downtown Charlottesville is the entertainment, art, and retail center of the City. A pedestrian mall, it is located a mile and a half from the University and is eight blocks long and three blocks wide, with between 50 and 60 retailers. Stores are mainly specialty stores such as bookstores, boutiques and cafes. There are no anchor tenants downtown. Parking is accommodated on streets and in two private parking lots. In addition to retail stores, downtown also has an ice rink, six screen-theater, art galleries and performance facilities.



Photos: Downtown Charlottesville

The Corner

The Corner is a retail area that slowly developed around a meeting hall off-campus around the mid-1800s, a time when the Charlottesville and the University were not yet connected by transportation. It is approximately three blocks long and has between 30 and 40 retailers, of which 12 are restaurants. It is comprised primarily of specialty stores, such as restaurants, bookstores, bars, and convenience stores. There are no anchor stores. The Corner is accessible by a free public bus to all Charlottesville residents from the downtown area. Communal parking lots are located behind stores and shoppers can also park at two private lots. The Corner complements downtown Charlottesville by offering youth-oriented stores and specialty stores different from those offered downtown. Patrons who frequent The Corner include students, professors and townspeople looking for youth-oriented shops.

Development Background & Repositioning Efforts

Downtown was redeveloped by the city in the early 1970s when its department stores began moving out of the area. During that time, several measures were taken to improve the downtown and to attract patrons to the area. These measures include:

- **Infrastructure Upgrade:** Streets and lighting was renovated.
- **Design Improvements:** Planners encouraged three- and four-story building developments with ground floor retail and upper floor residential units.
- **Zoning Changes:** Zoning regulations were amended to allow taller buildings if the development included residential units of different bedroom and ownership types.
- **Tax Incentives:** Tax abatements were offered for renovated spaces

Downtown Charlottesville has also been successful in attracting students in part because it implemented a free trolley to and from the University in the mid-1990s. The trolley runs every 15 minutes and is subsidized by the Transit Department. The area is now a 24-hour entertainment district.

Development Issues

In terms of development, Charlottesville has several issues and is currently working on several new projects. The City houses approximately one-third of the University's students and is struggling with affordable housing. Because the University does not fund housing, Charlottesville hopes to encourage more mixed-use and residential development, particularly in West Main Street, which lies between the Rotunda and the downtown area. It is changing zoning in the area to include more mixed-use developments. To enhance the downtown, Charlottesville is extending the downtown mall in front of City Hall and building a new performance facility.

Transportation

Charlottesville currently does not have a transfer or transit center. Public transit options for students include public buses, the university transit service, and a free trolley which circles between the University, City Hall, and downtown. During football season, a football shuttle is available for a minimal charge of $3 roundtrip. Both the free trolley and football season shuttles have been successful programs in attracting ridership. Charlottesville currently has funding for a new transit center, which would include retail, housing, and restaurants, and visitor center. The project is estimated to cost between $9 and $12 million.

Northampton, Massachusetts

Northampton was established as a Puritan settlement purchased from the Nonotuck Indians in 1654. It was an industrial center in the 1800s but evolved to become a thriving cultural center in the 1980s. It is now home to many art galleries, music clubs, boutiques, and restaurants. The city has several colleges in the near vicinity. Mount Holyoke College is located across the river in South Hadley and Amherst College, Hampshire College, and the University of Massachusetts are located across the Connecticut River, in Amherst. Downtown Northampton is home to the prestigious Smith College.

Downtown Northampton is the commercial, cultural and government center of the city. It is five blocks long and four blocks wide with 60 retailers and 40 dining establishments and three anchor stores – Thornes Marketplace, a mini-mall located in a historic building, Faces, a department store, and a high-end jeweler. All of the anchor stores are independent retailers, as are most of the retailers in downtown Northampton. Most buildings are three to four stories high with first and second floor retail and with the upper floors used as office space and residential units. There are six surface parking lots in the downtown area.

Photo: Downtown North Hampton

Green Street

There is a one-block street of retailers that currently exists to serve students called Green Street. It currently has between twelve and fifteen retailers, many of which are college-managed stores and coffee shops. Smith College is slowing expanding its campus onto the area and will be building over the block shortly.

Development Background & Repositioning Efforts

Downtown Northampton was repositioned in the early 1980s. Before the repositioning, dilapidated and deteriorated buildings sprinkled around the area despite downtown's historic role as regional center. The city took a series of steps to improve the area, including:

- **Infrastructure Upgrades**: Funding infrastructure improvements such as streetscape and lighting with bonds
- **Parking Facilities:** Building a public parking garage
- **Incentives:** Attracting developers to rehabilitate older buildings

In implementing these improvements, Northampton attracted new businesses into the area and triggered a renaissance. Over the last ten years, it has made the area less dependent on retail and encouraged more restaurant and entertainment venues such as theaters and art galleries. Downtown Northampton is now at almost full occupancy.

The town does not offer incentives for retailers to locate their businesses in the downtown area but business assistance loans and referrals are given to new businesses. Density bonuses are given to developers for mixed-use developments. The City is primarily concerned with preserving the historic character of old buildings and works closely with the school and developers on design issues. The downtown is managed by the Chamber of Commerce, which absorbed the downtown association and runs it with volunteer staff. The city is considering a business improvement group for the downtown area.

Transportation

Because Northampton is a small town, public buses are the only form of public transit. There is no main transit center or multi-modal center in town but there does exist a central bus stop located on Main Street in downtown. This bus stop connects buses traveling to and from downtown in all four directions. The city has looked into creating a transit center attached to a parking garage but has encountered problems with street sizes and locations. The city is now looking to expand the bus stop to accommodate more buses at one time by closing street parking there.

Palo Alto, California

Most commonly known as the birthplace of Silicon Valley, Palo Alto is located 35 miles south of San Francisco and 14 miles north of San Jose. More than 100 years old, the City is named for a majestic 250-year old coastal redwood tree along San Francisquito Creek. The City is home to Stanford University.

Photo: Downtown Palo Alto

Downtown Palo Alto has historically been the retail center of Palo Alto. In the late 1960s, the downtown began to weaken economically when the Stanford Shopping Center was constructed and pulled several businesses from the area. Downtown Palo Alto still attracted patrons, but faltered throughout the 1970s and 1980s. In the mid-1980s, the city began working with the local downtown businesses to create a new zoning district. This district required all buildings to have ground floor commercial retail space that offered either retail or personal services. In addition, the district promoted pedestrian uses. With the new zoning in place, downtown Palo Alto began to revive in the late 1980s and reemerged as a popular destination.

Downtown Palo Alto is currently the retail and entertainment center for students and Palo Alto residents. It is seven blocks long and three blocks wide, with independent local and chain stores running down its main street. Although Downtown Palo Alto does not have any anchor stores, there are a number of stores that have a presence in the area. These stores include the Palo Alto Bicycle Shop, the Apple Computer Store, Magnolia Hi-Fi, and the Cheesecake Factory. There are offices located in the upper floors of buildings and along the side streets. Residential units are located around the downtown area. Downtown Palo Alto has street parking and several private surface lots. In 2003, the city opened two parking garages with 800 spaces each.

Development Initiatives and Repositioning Issues

Palo Alto implemented several measures to promote visitation and generate funds for the downtown area. These include:

- **Zoning Changes:** Creating a new zoning district that required ground floor retail and commercial space.
- **Infrastructure Upgrades:** Make infrastructure improvements for a pedestrian-friendly shopping area.
- **Parking Improvements:** Making Downtown Palo Alto is in a parking assessment district, which requires that developers and businesses offer a parking space for every 250 square foot. If the business or developer is unable to provide parking, it could pay an in-lieu fee of $50,000 for every parking space required. The blended parking rate was implemented in the late-1990s and funded the new parking garages.

Development Issues

Palo Alto faces two main development issues for its downtown area. The first issue is that there is pressure from developers to tear down old buildings for new and bigger buildings. Residents and the local business community prefer to keep the downtown small and local. The second development issue is the lack of affordable housing in the area, which prevent Stanford graduates from staying and residing in the area. Planners have failed to find a solution to the affordable housing issue thus far. Strict zoning requirements prevent the downtown from changing and growing too quickly.

Santa Barbara, California

The University of Santa Barbara at California (UCSB) is located in the city of Santa Barbara and directly adjacent to the town of Isla Vista. The core campus is 815 acres and the total campus size is 989 acres. The school had an enrollment of approximately 17,800 students in the fall 2002.

Downtown Isla Vista

UCSB is flanked by two major retail areas – the Isla Vista Downtown and the Santa Barbara Downtown. The Isla Vista Downtown is directly adjacent to the UCSB campus. It is comprised of about nine blocks of retail stores centered on a five-acre park. There are a total of 94 retail establishments onsite. Most retail outlets are specialty stores such as bookstores, coffee shops and fast food outlets. There are no anchor tenants. Although eating and drinking establishments total 35 of the 94 retail outlets, they represent about 75 percent of all commercial real estate. Most buildings are one-story buildings though there are a few two-story buildings with office space or residential units located on the second floor. Parking is on street and free.

The Isla Vista Downtown has a number of challenges. The commercial downtown has high turnover of businesses and 85 percent leakage in retail sales to nearby big box developments and downtown Santa Barbara. In addition, there is high turnover in office space downtown. Development issues include a high rental-occupied housing (95 percent), university acquisition of properties, and lack of infrastructure in the downtown area. Isla Vista hopes to develop its downtown and other areas by bringing in an anchor tenant such as a sit-down dining establishment, developing a parking lot, creating a more mixed-use downtown, improving downtown infrastructure, renovating the public park, and promoting an active downtown association.

Isla Vista is currently in the process of solidifying new development incentives and measures to promote growth in the downtown and in the city. One major incentive included in the 'revamped' zoning that allows two-floors of residential units if the developer provides ground floor commercial space. Other measures include an in-lieu parking fee program and a low-cost loan program for new businesses.

Map: Key Locations in Downtown Santa Barbara

Downtown Santa Barbara

The downtown is Santa Barbara's retail, cultural and entertainment district. It is located approximately ten to twelve miles from the UCSB campus and is approximately eight blocks long and ten blocks wide. There are 210 retail outlets and 90 eating and dining establishments. The main anchors are Nordstorms, Macy's, Saks Fifth Avenue, Urban Outfitters, Restoration Hardware, Border's and Anthropologie. Most retail outlets are on outdoor paseos or streets. State Street, the main street, has retail outlets primarily but side streets have mixed-use development with first floor retail and office or residential on the upper floors. In addition to retail, the Santa Barbara Downtown also houses many galleries, theaters, and a performance auditorium. There are ten public parking lots scattered throughout the downtown area and parking for the first 75 minutes is free.

Downtown was redeveloped in 1992 after the San Nuevo Mall was developed. Before 1992, the downtown area was comprised mainly of smaller specialty stores. During the early 1990s, downtown underwent significant infrastructure improvements including wider streets and pedestrian friendly areas. Its current success is attributed to these redevelopment efforts.

San Luis Obispo, California

San Luis Obispo began with the founding of Mission San Luis Obispo de Tolosa in 1772 by Father Junípero Serra as the fifth mission in the California chain of 21 missions. The City was first incorporated in 1856 and thrived as an oil-shipping port and agricultural center in the early 1900s. San Luis Obispo now draws numerous visitors due to its proximity to Pismo Beach and Hearst Caste. Located halfway between San Francisco and Los Angeles, San Luis Obispo had approximately 44,174 residents in 2000. The City is the home of California State Polytechnic (Cal State Poly).

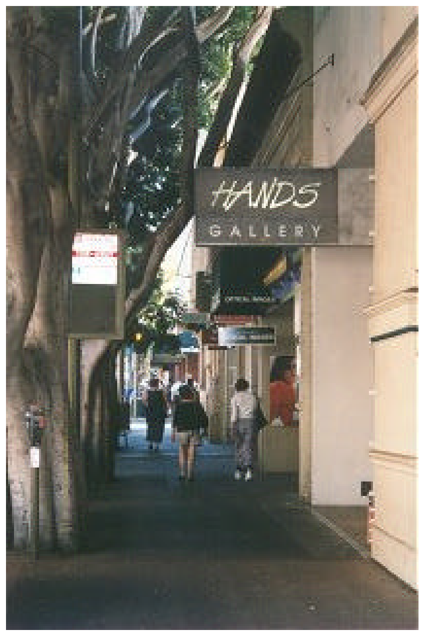


Photo: Downtown San Luis Obispo

Downtown San Luis Obispo is a pedestrian-oriented shopping area that is approximately 4 blocks long and two blocks wide. It is comprised of mostly specialty shops and chain stores such as the Gap and Express. Because a larger shopping center with big box retailers and department stores such as Best Buy, Lowes, Target, and Macy's is located just south of downtown, there are no anchor stores though one shopping center is currently under construction. The buildings are almost all two- and three-story buildings with retail on the first floor and residential or office space on the upper floors. There are two large paid parking lots and another parking lot under construction. Downtown San Luis Obispo attracts both students and townspeople to its retail stores.

Cal State Poly grew organically, with planning policies often implemented after growth had occurred. Because the University is located on the outskirts of the city, there are few development or planning issues between the University and City. There was some citizen conflict regarding rental housing changing the appearance of single-family homes in San Luis Obispo but Cal State Poly is currently constructing more campus housing to mitigate those issues.

Transportation

San Luis Obispo has a transfer center located adjacent to city hall. The transfer center, which connects local buses to outside neighborhoods, has parking for four buses in five bays. In development for over 15 years, it was finally built in 2001. Ridership is split 50-50 between students and city residents. Student ridership is high because they pay a pre-paid fare for unlimited service.

CONCLUSIONS

There are several common themes that emerge in the case studies that ERA performed of six University towns. Efforts to revitalize and reposition the downtowns were implemented primarily as a reaction to the emergence of shopping malls in suburban locations that attracted downtown anchor tenants.

The most widely used tools and strategies included 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 towns offered tax benefits for renovations and upgrades. Below-market sales or ground leases were also utilized to encourage redevelopment on town-owned sites. Zoning bonuses have been used extensively to provide a balance between desirable uses (from the town's perspective) 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.

One of the unresolved issues that some towns are facing is the lack of affordable housing for residents as well as students. While there is significant demand for affordable housing, the economic and financial realities often make it difficult for private developers to build affordable housing.

VIII. CONCLUSION

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 the interim phase of this study, 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.

ERA's market evaluation of potential redevelopment opportunities suggests that Downtown can overcome these challenges through an enhanced residential, retail, and arts program. While this study considered each of these uses separately, the synergistic effects that can be created by combing uses through innovative designs and space configurations will encourage the vitality and growth of the Downtown business district of Chapel Hill as an economic, cultural, recreational, entertainment, and historic center.

Based on the preceding analysis, ERA estimates that growth in residential demand can support between 317 and 396 new housing units, with sufficient growth in income-qualified households to meet the Town's 15 percent affordable housing unit requirement. Our analysis of the demand and supply conditions for retail uses in the towns of Chapel Hill and Carrboro indicates that the area can support 112,000 square feet of new retail space given current market conditions, and 666,000 square feet assuming improved conditions Downtown. Forecast growth in entertainment expenditure indicates that Downtown can support up to three new movie screens. In addition, the UNC Arts Common project will generate sufficient increases in arts and entertainment spending to support small-scale performance venues, galleries, or other arts facilities.

A key component of the optimal use strategy is the development of new housing that will increase population densities and enhance the existing Downtown consumer base. ERA believes that residential development is best suited for lots facing the less trafficked Rosemary Street corridor, allowing for uninterrupted commercial development along the Franklin Street corridor.

To revitalize Downtown and recapture the spending that has been leaking to competitive shopping centers; Downtown needs to develop a stronger retail base. The redevelopment sites need to be programmed accordingly to ensure that there is adequate footprint and configuration necessary to recruit general merchandise retailers. The concurrent development of neighborhood retailers in smaller spaces along Franklin Street will then create a sense of commercial continuity, connecting the larger scale tenants to other Downtown tenants. The retail mix could include smaller-scale specialty food stores, quick-stop cafes, and personal care retailers in new and existing street-level spaces catering toward new and existing residents, Downtown employees, and UNC students and staff.

The Downtown market is adequately supplied with food and beverage service, which suggests that new space should not be dedicated to new restaurants and bars. ERA recommends that existing establishments be repositioned to increase the capture of unmet spending potential and generate additional foot traffic for other retail outlets.

Redevelopment plans should also incorporate an enhanced recreation and entertainment base in order to attract the level of visitation that will result in a consistently active Downtown core. Toward that end, 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 new cinema and a mix of artist studios and galleries. A cinema will require a significant amount of space, and could therefore limit potential development of retail and residential uses. Market indicators suggest that artist studios and galleries typically do not attract market-rate tenants; during the first phase of redevelopment these uses may be accommodated in existing second floor spaces.

Another approach involves combining live-work units as part of the residential program. This type of space would appeal to local artists and also traditional downtown households that prefer the open floor layouts typical of this style of development. Higher priced units marketed toward traditional households can support the below market rate space set-aside as artist live-work units. These units can then be applied to the Town's 15 percent affordable requirement.

The programming of the proposed redevelopment sites must also take into consideration the constraints that these 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 may require additional new spaces based on the programming mix. Experience in other downtowns suggests that a combination of innovative parking facility design, improved street parking, shared parking arrangements, and programs promoting the use of transit will work can achieve this goal.

Most importantly, the Town of Chapel Hill must remain an active participant in the revitalization of Downtown. Financial feasibility and on-going operational success for this type of redevelopment project is difficult to guarantee without a transparent commitment from the public sector and existing businesses. Tools such as zoning amendments, street infrastructure upgrades, municipally funded parking, tax incentives for Downtown businesses and developers, or business improvement groups that focus exclusively on enhancing Downtowns by emphasizing retail mix, streetscaping, etc., may be critical in ensuring long-term success.

APPENDIX I. Data Sources

Report Section	Subheading	Page	Source(s)
III. Residential			
T1. Population & Household Growth	Three-County Area, 1990 to 2008	10	U.S. Census Bureau; Woods & Poole Economics
T2. Occupied Housing Units by Type, 2000	Chapel Hill, Orange County, & Three-County Area	11	U.S. Census Bureau
T3. Occupied Housing Units by Type, 2000	Chapel Hill, Orange County, & Three-County Area	12	U.S. Census Bureau
T4. Occupied Housing Units by Type & Age, 2000	Chapel Hill, Orange County, & Three-County Area	13	U.S. Census Bureau
T5. Residential Building Permits Issued	Three-County Area	15	U.S. Department of Housing & Urban Development (HUD)
T6. Residential Building Permits Issued	Chapel Hill	15	U.S. Department of Housing & Urban Development (HUD)
T7. For-Sale Housing Demand by Unit Type	Three-County Area	17	U.S. Census Bureau; Woods & Poole Economics
T8. Rental Housing Demand by Unit Type	Three-County Area	18	U.S. Census Bureau; Woods & Poole Economics
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