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ATTACHMENT 2

F E D E R A L R E A L T Y I N V E S T M E N T T R U S T

October 18, 2001

Mr. W. Calvin Horton
Town Manager
Town of Chapel Hill
306 N. Columbia Street
Chapel Hill, NC 27516-2124

Re: Eastgate Shopping Center

Dear Mr. Horton:

I have been advised that you will be presenting your recommendation for the Town's level of participation in the storm water system improvements at Eastgate Shopping Center to the Town Council at the upcoming Town Council meeting on Monday, October 22, 2001. I am concerned that your recommendation has been prepared without any formal conversation with or input from Federal Realty. In the absence of any formal communication with Federal Realty regarding the full scope of the project, your recommendation may fall short of a reasonable level of participation by the Town. Therefore, I feel it necessary to reiterate Federal Realty's position on this matter at this time.

As you know, the storm water conveyance system that runs along the western boundary of Eastgate from Franklin Street to the proposed linear park area south of the center conveys offsite drainage from a watershed of approximately 60 acres of privately and publicly owned property. That watershed encompasses no part of Eastgate Shopping Center. Eastgate contributes an insignificant amount of runoff to that system from approximately 68,000 square feet, or 1.6 acres, of impervious roof and land area in that immediate area. That area represents less than 2.7% of the total area contributing to the runoff conveyed through that system. Therefore, 97.3% of the storm water conveyed through that system comes from sources unrelated to Eastgate Shopping Center.

The volume of storm water generated from the watershed has increased over time as development has occurred in that area. The current volume of storm water exceeds the capacity of the system. The junction box at Franklin Street that receives this storm water has failed as a result of the increased water volume. That failure has caused periodic flooding of Eastgate tenants and the erosion of the center's drive lane and adjacent land areas. It has also jeopardized the integrity of an adjacent property's retaining wall and two Duke Power utility poles. These problems are being caused by the failure of a storm

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water system to which Eastgate Shopping Center contributes an insignificant amount of storm water.

Eastgate Shopping Center has also been subject to flooding from the adjacent Staples property, located to the west of Eastgate. As you know, the improper installation of a 30" storm water pipe discharges storm water from the Staples property on to our property further taxing the same inadequate storm water system and causing unnecessary property damage to the center.

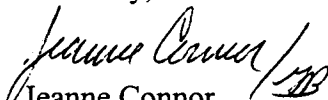
At considerable cost to Federal Realty, we have retained an engineering firm to examine this situation in detail to understand and quantify the problems. Our engineers developed a scope of work necessary to repair the damaged junction box, tie in the Staples storm water pipe and increase the storm water capacity of the existing system to accommodate the increased water flow from the 60-acre watershed. The costs of those repairs, as currently designed, are approximately \$277,800. Including engineering, permitting and associated project fees, the total costs for this project will exceed \$325,000.

As I presented to the Town Council at the council meeting last February, we do not feel that Federal Realty is responsible for the problems with the storm water system because that system does not primarily service Eastgate Shopping Center. In fact, Federal Realty's contribution to this project should be relative to the percentage of the drainage area that falls on Federal Realty's property, which we calculate to be approximately 2.7%. We are however, moving forward with the repairs in good faith because we feel the extent of the damages requires immediate remediation. Our doing so should not be construed as Federal Realty's willingness or ability to bear a considerable portion of the project costs.

I would like an opportunity to meet with you and other appropriate Town officials to discuss this project and both parties' involvement with the repairs and the costs thereof before your submission of a recommendation to the Town Council. I will make myself available to meet at your convenience. Please call me to discuss possible meeting times.

In closing let me say that Federal Realty has enjoyed its relationship with the Town of Chapel Hill. It is our desire to continue that positive relationship and to work with Chapel Hill toward an amicable resolution to this issue.

Sincerely,


Jeanne Connor

cc: Mayor Rosemary Waldorf