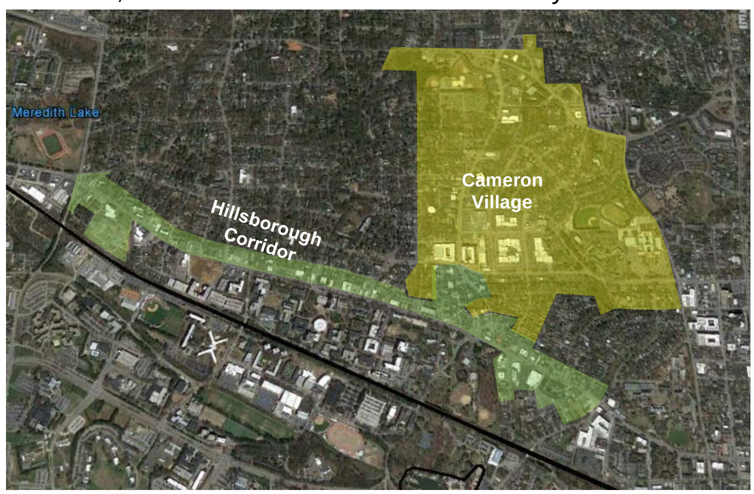
Noell Consulting Group
Marketunistic Real Estate Advice

LORD AECK SARGENT
MARKET ANALYSIS FOR THE CAMERON VILLAGE AND HILLSBOROUGH STREET CORRIDOR STUDY AREAS

Study Area Context

The two study areas, shown in the maps at right, are located in older, established areas of Raleigh. They benefit from a location proximate to, and between, two of Wake County's larger employment cores: Downtown Raleigh, anchored by State government, and North Carolina State University and its related research-related functions.



Intown Raleigh, like intown Charlotte, Atlanta, and other major cities, has experienced a rebirth over the last 15 or so years, driven by a mix of convenience and an appreciation for more walkable, interactive areas and a boredom with the suburbs. Indeed, areas such as Downtown Raleigh, the Glenwood Avenue Corridor, Cameron Village and, to a lesser extent, the Hillsborough Street Corridor, have experienced solid new residential investment, office markets that have stabilized and attracted significant attention from major tenants in the area, have seen new restaurants and stores open where vacant spaces and or Class B tenants used to be.

While highly proximate to one another, and indeed competing for the same market audiences, the study areas are actually quite different and enjoy varying strengths and challenges. The following summarizes these strengths and challenges:

Cameron Village	**Hillsborough Street**
Strengths	Strengths
• Highly established intown retail destination	• Adjacent to NCSU with roughly 35,000 students
• Strong surrounding neighborhoods with mature, long-term residents	• Established corridor with easy access into Downtown as well as to the area freeways
• New rental residential and retail investment adjacent to Cameron Village itself	• Largely walkable with street-fronting retail and a destination for students
• Sense of authenticity—doesn't feel contrived	• Also new investment, including new rental apartments and a new aLoft hotel
• Proximate to major intown desinations and demand generators.	• Significant open space and recreational opportunities, including the YMCA and Pullen Park.

Cameron Village	**Hillsborough Street**
Challenges	Challenges
• Walkable environment breaks down in many areas	• Majority of corridor is student-dominated, limiting interest from other intown groups
• Most uses are freestanding and suburban in scale—lacks dynamism • Lacks appeal to younger audiences	• Very few significant development sites along corridor, with most properties being small and relatively shallow in depth
• Majority of redevelopment opportunities exist on a smaller scale—land assembly a challenge	• Lack of parking noted as being an issue, particularly for retail
• Lack of regional freeway access combined with less walkable environment tempers office opportunities	• Retail lacks major anchors needed to draw people to the area—largely comprised of smaller, independent uses

The opportunity for each area is to tap into intown Raleigh's resurgence, attracting an diverse intown market comprised of not only younger students and graduates, but working professionals and empty nesters and retirees as well. For Cameron Village the opportunity is to build on the existing assets in place, notably the Cameron Village Shopping Center, and create a more walkable, more dynamic location through new mixed-use development. For Hillsborough, the opportunity is to stretch beyond the student market and attract residents, office tenants, retailers and others to the corridor, all through a scale and intensity that is walkable and comfortable.

Employment/Job Growth

Raleigh-Durham is among the nation's strongest job growth markets, with Wake County—the largest county in the region—accommodating for the largest share of this growth. Over the past 17 years, Wake County has added an average of 9,500 net new jobs, including high quality, office-utilizing jobs. Indeed, the greatest shares of growth in the region are: Professional and Business Services, Education & Health Services, Retail and Government, most of which utilize some, or a good bit, of office space. Indeed, assuming around 275 square feet (SF) of space per person, office-using growth in these industries supports more than 1,000,000 SF of new office space annually in the county.

Growth, 1996 - 2013	Total Growth	Share of Growth	Type of Space Used
Natural Resources & Mining	-60	0%	NA
Construction	6,450	4%	NA
Manufacturing	-5,826	-3%	Industrial
Wholesale Trade	5,249	3%	Industrial
Retail Trade	17,723	10%	Retail
Trans., Warehousing, & Utils	-1,010	-1%	Industrial, Office
Information	4,305	3%	Flex/Office
Financial Activities	10,039	6%	Office
Prof. & Business Svcs	45,178	26%	Office
Education & Health Svcs	29,280	17%	Institutional, Office, Retail
Leisure & Hospitality	26,254	15%	Retail, Hotel
Other Services	11,296	7%	Retail, Institutional, Industrial
Government	23,232	13%	Office, Industrial, Institutional
Total Growth	**172,111**		

Like office-using growth, retail growth in the county has been strong as well, with support for nearly a million square feet of space being generated annually, on average. As will be discussed later in this report, the overwhelming share of this growth is occurring outside of the BeltLine, with intown areas seeing little in terms of significant new retail. Unlike the office-serving jobs discussed on the previous page (and shown in light green on the preceding table), retail and dining jobs are largely lower wage and won't create significant new demand for housing in the two study areas.

Employment in the two study areas is relatively small, with the two combined study areas having only around 5,400 jobs in total. Over the last decade, the study areas remained stagnant or lost jobs in spite of intown (Inside The BeltLine) Raleigh seeing employment double. It should be noted that this does not include potential employment growth at NCSU as those jobs are technically located outside of the study areas.

As can be seen in the table below, employment in the areas varies somewhat, with Cameron Village having more retail employment and Hillsborough having more Arts, Entertainment & Recreation employment (fueled in part by the YMCA). Both areas have small but solid concentrations of Real Estate & Leasing employment, as well as Professional Services firms. Both also have solid concentrations of Administrative & Support functions, which are largely back-office functions utilizing older, and less expensive office space.

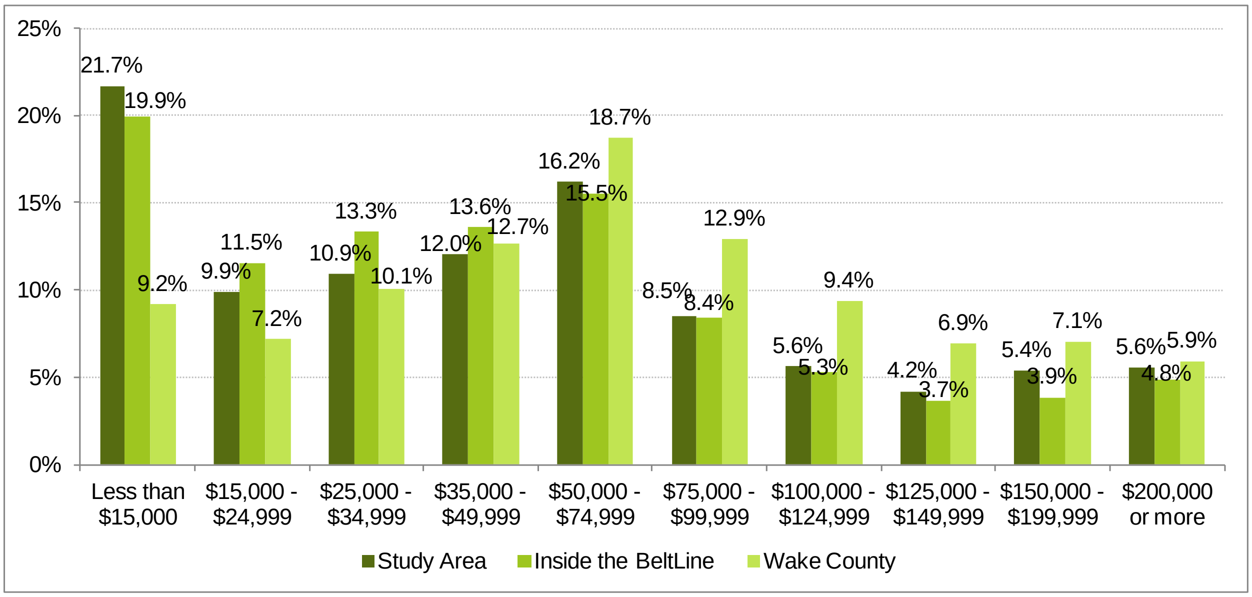
Industry Sector	Cameron Village	Hillsborough Street Corridor	Inside I-440	Location Quotient (Cameron to Inside I-440)	Location Quotient (Hillsborough to Inside I-440)
Agriculture, Forestry, Fishing and Hunting	0	0	315	0.0	0.0
Construction	88	6	3,275	1.2	0.2
Manufacturing	25	15	1,785	0.6	0.8
Wholesale Trade	33	42	3,296	0.4	1.1
Retail Trade	658	46	4,420	6.5	0.9
Transportation and Warehousing	8	0	507	0.7	0.0
Information	3	135	3,191	0.0	3.8
Finance and Insurance	332	53	4,835	**3.0**	**1.0**
Real Estate and Rental and Leasing	283	144	1,273	**9.7**	**10.2**
Professional, Scientific, and Technical Services	386	137	9,510	**1.8**	**1.3**
Management of Companies and Enterprises	89	4	3,802	**1.0**	**0.1**
Admin. & Support, Waste Mgt and Remediation	510	195	8,131	**2.7**	**2.2**
Educational Services	325	16	7,049	2.0	0.2
Health Care and Social Assistance	105	113	23,272	**0.2**	**0.4**
Arts, Entertainment, and Recreation	1	246	1,330	0.0	16.6
Accommodation and Food Services	578	452	6,050	4.2	6.7
Other Services (excluding Public Administration)	143	150	2,788	2.2	4.8
Public Administration	76	24	74,714	0.0	0.0
Total	**3,643**	**1,778**	**159,543**	**1.0**	**1.0**

Health Care, another sector that can offer higher-paying jobs, and Public Administration (a large sector of the Raleigh economy) are largely absent from the study area. As with office-serving uses, these two sectors are somewhat tempered in the study areas by the lack of regional access and by the lack of large development sites and won't likely represent a significant presence in the area going forward.

Demographics

The Cameron Village/Hillsborough Street Corridor is a demographically diverse area, featuring a broad mix of households by age and income, from struggling students to affluent empty nesters. Given the location of the study area, this is not surprising.

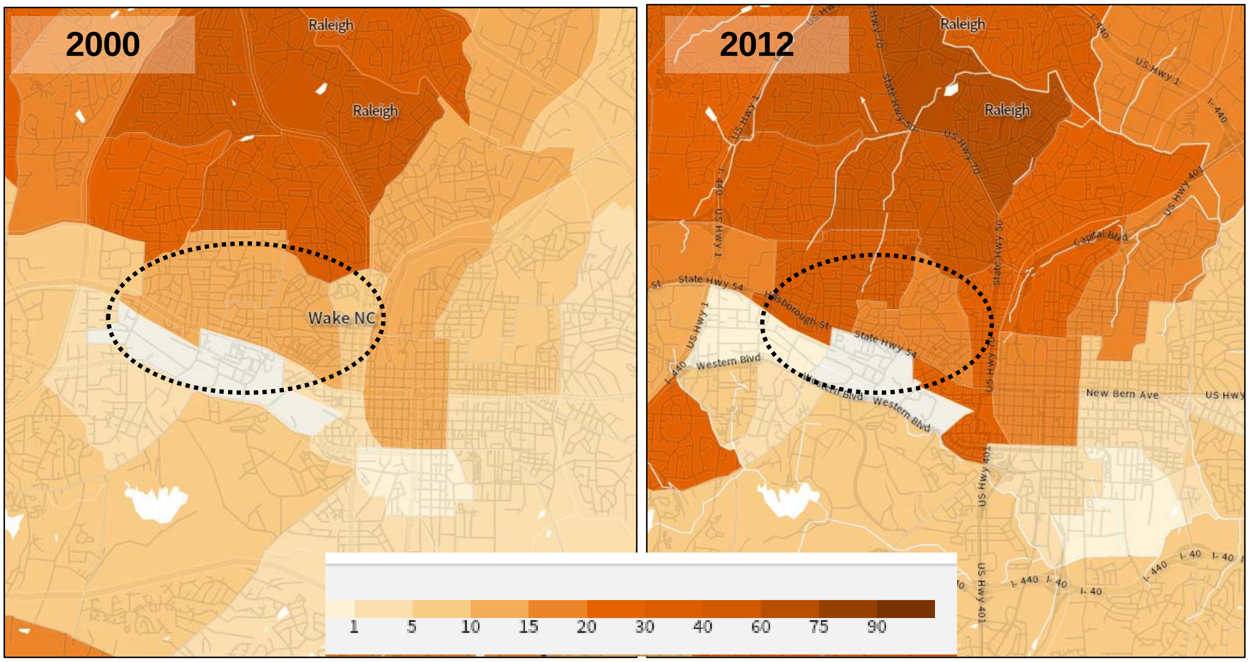
The study area features a greater share of lower-income households (mostly students) and higher-income households (maturing seniors) relative to Inside the BeltLine overall. 21% of study area residents earn in excess of $100,000 annually (compared to 18% Inside the BeltLine and 29% in Wake County overall), while 42% of study area households earn less than $35,000 annually (45% and 26% in the respective comparison areas).



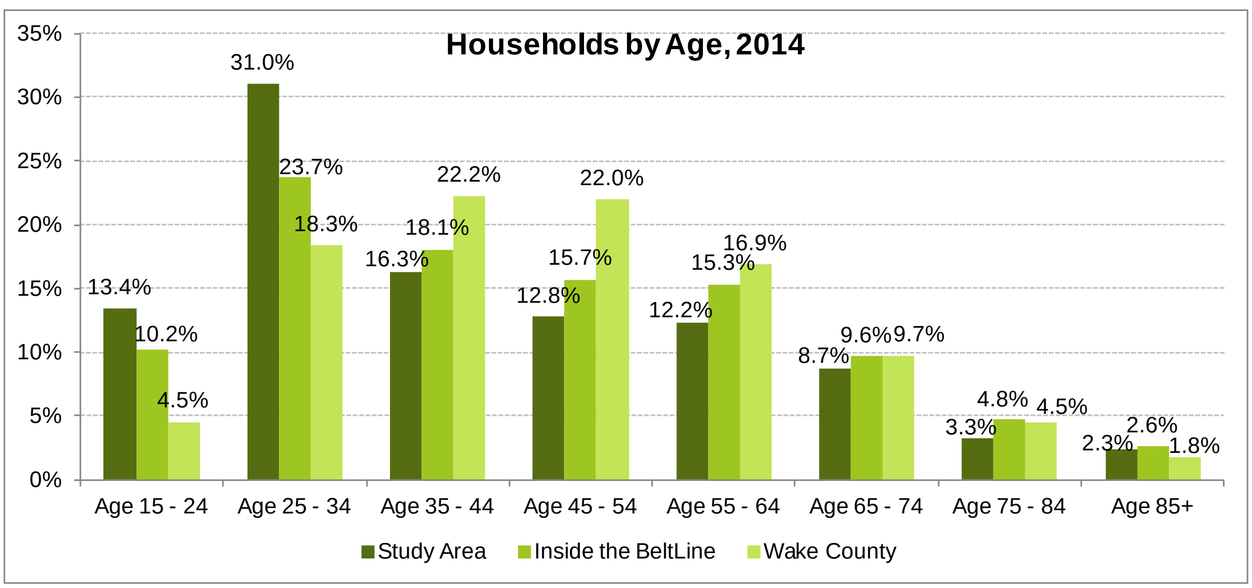
This said, the study area is gaining momentum at the high end, with the large majority of growth occurring in households earning more than $125,000 annually while seeing overall no change in households with incomes under $35,000.

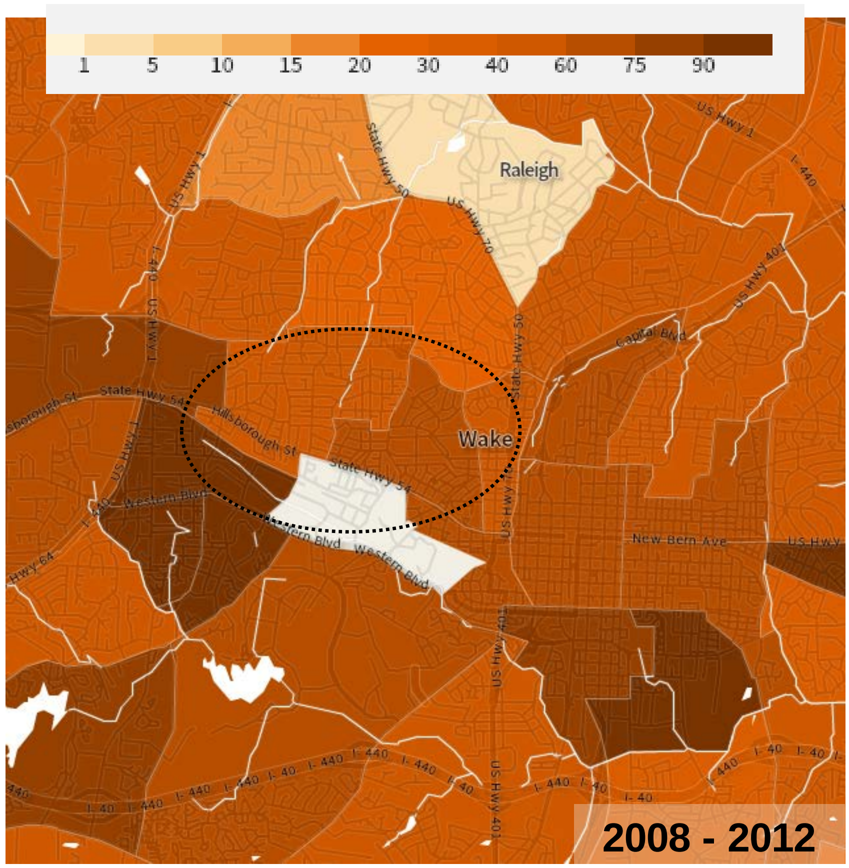
As the two maps on the following page shows, high levels of affluence in North Raleigh have pushed further into town, with a greater share of study area households (mostly in the Cameron Village study area) having incomes above $100,000.

Households with Incomes Above $100,000 Annually, 2000 and 2012



While diverse in incomes, the study area is also diverse in terms of age, although it skews toward younger households, with 45% of study area households being under 35 years of age, much higher than the 34% Inside the BeltLine and 23% in Wake County overall. Largely missing from the study area today are households typically in their family years—those 35 to 54—as many of those households have opted to live in the suburbs for their children. Above 65, the areas are all fairly similar.





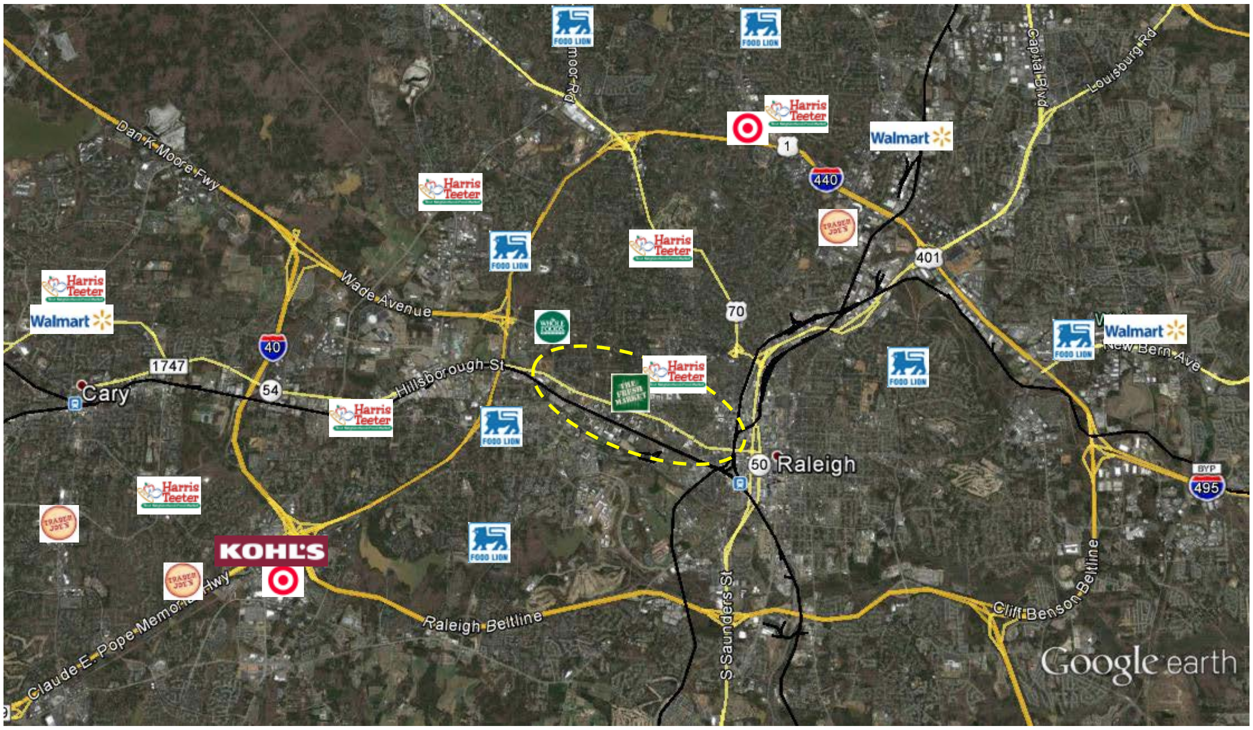
Finally, the study area skews heavily towards renting versus home ownership, with around 60% of households in the Cameron Village area being renters and upwards of 90% or more of Hillsborough Corridor residents being renters. It should be noted that this data precedes the development of 401 N. Oberlin and Crescent Cameron Village, as well as Stanhope, which is now under construction.

While appearing high, intown areas, particularly those close to employment cores and universities, tend to skew towards rental product.

Retail Overview

As referenced earlier, Cameron Village Shopping Center is indeed the most significant intown Raleigh retail core, attracting intown residents, Downtown employees, and NCSU students with its grocery, shopping, and dining opportunities

As can be seen in the map below, intown Raleigh itself is somewhat of a retail desert, with no malls and big box retailers present, and few national tenants in the area. For this type of shopping, intown residents, including those of the study area, must go outside of the BeltLine to uses like Target, Kohls, Walmart, or even a modern first-run movie theater. While many of these uses have historically shunned intown areas, the rebirth of intowns throughout the nation has resulted in stores like Target and Walmart, as well as national grocery chains, creating urban format stores that can be delivered in mixed-use or smaller-scale environments. The key in Raleigh, however, is finding the sites for such retailers.



What intown does offer is a growing local and independent restaurant base and smaller independent shops, many of which are now opting to locate in areas like Downtown Raleigh and the Glenwood Avenue corridor. Cameron Village offers a large variety of dining options from fast casual to full-service sit-down restaurants and has emerged as an intown destination for lunch and dinner. Hillsborough Street's dining opportunities are largely focused on NCSU and local college students, with there being a significant lack of quality dining options in the corridor.

The Central Raleigh retail market is relatively small, boasting around 700,000 square feet of space, and very tight, with vacancy rates of less than 4% today. Overall the submarket, which includes most of the Inside the BeltLine area with the exception of smaller areas close to I-440 to the north and east, has only experienced minor absorption, with absorption over the last 14 years totaling only 280,000, much of which has gone into existing centers or spaces. By comparison, the Cary/Morrisville market is 10 times the size of Central Raleigh and absorbed 13 times the space. The tight Central market has also resulted in fairly expensive rents, with average lease rates being the second highest in the metro area, trailing only Northern Wake. Rents intown today average approximatley $28/SF, with Cameron Village offering some of the strongest rents at an average of $35/SF (on $375 sales/SF). The Hillsborough Street corridor, lacking the destination uses that attract shoppers and patrons, is somewhat more affordable, with new space leasing in the mid $20s/SF and older space being largely in the $10s/SF. Assuming an average lease rate of around $18/SF along the Hillsborough Corridor, this translates into sales of around $225/SF; considered low relative to national averages of around $350/SF.

Noell Consulting Group (NCG) created a demand model to estimate demand potential for retail intown in 2014 and over the next decade and beyond. This demand model incorporates the local market audiences fueling demand for retail including residents in the greater area, (shown in the map on the following page), college students, and intown employees. While this radius is somewhat small, we believe it is appropriate given access issues, freeway networks, etc. This radius should be considered a "first wave" of demand (over the next decade or so), with new retail in the area first appealing to intown residents, workers and students and, over time, having an ability (with strong placemaking and destination-type restaurants) to penetrate market audiences beyond the area, including those outside of the BeltLine. This said, some stores and restaurants may be considered destinations pull from well beyond this area. Overall though, we believe the majority of stores will first pull from this area with Cameron Village being the primary destination (and a few stores on Hillsborough) that can pull from beyond.

This Primary Market Area (PMA) should be considered somewhat conservative in that it does not factor in Downtown employees and visitors, or arena visitors, although does provide for a 20% "bump" from outside sources, thus incorporating these demand sources indirectly. US Census data was utilized to measure existing supply with net demand being calculated for 2014, 2020, and 2025.

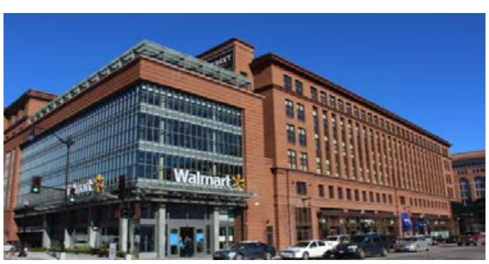
NCG's demand model found significant unmet demand for retail and dining uses in the study area (including the additional "spheres of influence", with <u>net</u> demand totaling more than 645,000 SF in the area in 2014, growing to more than 758,000 over the next decade. This demand is summarized in the table below:

	2014	2020	2025
Intown Primary Market Area Net Demand	645,000	701,000	758,000
Cameron Village/ Hillsborough Capture (Net)	498,500	523,000	558,000

It should be noted that the area can support around 41 square feet of new retail space for every new person added in the Primary Market Area (PMA). As intown continues to grow (as assumed above), demand for new space should continue at this pace.

The following summarizes demand for key <u>selected</u> store types in the study areas today (for the larger Intown PMA), with estimates for 2025 being provided as well.

- Other General Merchandise Stores (e.g. Target) — 286,000 SF today/306,000 SF by 2025
- Department Stores (e.g. Belk, Macy's) — 170,000 SF/181,000 SF
- Building Materals/Supply (e.g. Home Depot) — 114,000 SF/129,000 SF
- Miscellaneous Retailers (e.g. PetSmart) — 36,000 SF/39,000 SF
- Restaurants (full & limited service) — 26,000 SF/43,000 SF
- Furniture Stores — 29,000 SF/31,000 SF



Some additional store types are largely in balance, including grocery stores and drug stores, although this does not preclude new additions to the market in these categories, as some brands may not be represented, or be under-represented, in the study area (e.g. CVS, Trader Joe's). As noted earlier, a key issue here is that many of these retailers are large square foot users and, with the exception of more urban areas, may not be able to find quality sites intown.

Indeed the study areas themselves lack a suitable site for uses such as a Home Depot, Belk, or even a Target or Walmart, although the latter two have demonstrated a willingness to locate in the ground floors of residential buildings to get into key intown markets. As such, they could represent an opportunity at some point in the future. One unique opportunity does exist for the Hillsborough Corridor, when factoring in the larger sphere of influence (i.e. factoring in the area around the Hillsborough/I-440 interchange: the creation of a larger retail center on land currently owned by the State or by NCSU adjacent to the University Club and the School of Veterinary Medicine. Such a center would require a joint venture effort, but does represent opportunities for the greater corridor.

Based on the attributes of each study area specifically (not including spheres of influence), we believe Cameron Village, being an already-established location in the market, offering greater centrality to a larger residential base and larger parcels for potential redevelopment, represents a stronger retail location than does Hillsborough Street (the study area itself, not including the I-440 interchange area). When factoring in the possibility of the creation of a larger center at Hillsborough & I-440, opportunities for that area become more significant. Within the study areas, major thoroughfares lack traffic volumes desired by many destination retailers, with each having peak volumes between 15,000 and 20,000 cars daily. Those volumes are more consistent with neighborhood/locally-driven retail as opposed to destination retailers and bigger box users.

Through a store type by store type analysis, NCG estimates current (2014) potential support for an additional 143,650 SF of retail space in the Cameron Village area and approximately 64,800 in the Hillsborough Street corridor. When factoring in the potential for the Hillsborough/I-440 area, demand grows to nearly 288,000 square feet in the corridor. It should be noted that, outside of the bigger box users captured around I-440, demand in any particular category can be captured in either location. Cameron Village's capture is higher given it is already an established destination in the intown area. Given land costs in the study areas proper, in the large majority of cases, new retail space can only be accommodated in the first floor of a mixed-use building.

As noted earlier, net demand may or may not exists in some categories, but stores lacking a presence intown or in these areas, may opt to locate in the areas and compete for demand with others already satisfying the needs of the marketplace (CVS planned at Stanhope being an example).

Store Type and 2014 Demand Estimates	**Cameron Village**	**Hillsborough Street**
Furniture	16,000	5,300
Home Furnishings	0	1,600
Electronics/Appliances	10,250	3,400
Building Materials/Hardware	13.750	0
Lawn/Garden Stores	4,000	12,000
Specialty Food Stores	4,000	2,600
Beer, Wine Stores	6,400	6,400
Jewelry, Luggage or Leather	2,250	0
Sports, Hobby, Music	1,000	1,000
Department Stores	0	0
General Merchandise	54,800	0
Office Supplies/Gifts	5,200	5,200
Other Miscellaneous	12,000	12,000
Full-Service Restaurants	8,100	4,400
Limited Service Restaurants	5,900	1,400
Total	**143,650**	**64,800**
Capture of Net Demand	**29%**	**13%**

A note on the Hillsborough Street Corridor: parking is critical to retail in Southern markets, where auto travel dominates the mode of transportation, and the corridor today lacks parking. Identifying opportunities to better utilize existing parking and/or create additional parking will be important to the corridor, particularly retail. Balancing the needs of different market audiences and the goals for the corridor will be important, as goals for reducing parking requirements on residential buildings may have an impact on parking supply available for retail in the corridor.

Office Overview

As with retail growth, office growth in the region has largely occurred outside of the BeltLine, with intown areas being relative stable and experiencing growth from a blend of government and smaller professional services firms.

The two study areas actually traverse three office submarkets, including Downtown, Cameron Village, and West Wake. Given the character of West Wake, with office buildings provided in a more suburban, campus setting, we've limited our focus on the Downtown and Cameron Village submarkets. Since 2000, total absorption in these two submarkets has been approximately 840,000, or 7.7% of the region's office demand, or 20% of Wake County's demand. The large majority of this growth (84%) has occurred Downtown by larger government and corporate users. Cameron Village, meanwhile, has only accounted for approximately 140,000 SF of absorption since 2000, or roughly 10,000 SF annually.

The Cameron Village office market is relatively diverse, featuring a mix of smaller firms (85% of tenants, but 18% of total employees), large back office functions (roughly one-third of office employees in the area) and a blend of tenant types and sizes accounting for the other half of occupied space. Most of these firms are local-serving and include professional services, some medical, and real estate offices.

While the office market in the area is relatively tight—Cameron Village enjoys a vacancy rate of less than 4% currently—this tightness is due to in part to two factors: moderate absorption (more recently averaging around 20,000 SF annually) and removal of office buildings from supply. This latter factor is a true indicator of the health of the market, as brokers have noted developers are now buying office buildings, demolishing them, and building residential product, or converting office buildings to residential product (in the case of 1300 St. Mary's). Lease rates in the area reflect this, with Cameron Village offices leasing for an average of $18/SF, a rate that has grown by less than 1% annually since 2000. While little direct data is available on the Hillsborough Street corridor, reviews of area leases indicates most space is in the low to mid $20s/SF, with a few spaces achieving higher.

As noted earlier, the vast majority of firms in the area are small, having less than 20,000 employees each. These firms are often those that can and will venture into more creative or unique spaces, such as above retail in a town center, an older loft building, or newer smaller buildings. Given the vast majority of space in the Cameron Village area can be found in dated, relatively generic office buildings, this should represent an opportunity for the study area going forward. A similar opportunity exists for the Hillsborough corridor, which has some older, unique spaces suitable for office use.

Responding to this perceived need, one new office buliding is being developed in the Cameron Village area, a 13,300 SF building with suite sizes largely between 1,400 SF and 3,000 SF; appropriate given the high numbers of tenants in the market. Rents are relatively high for the area at $26 - $30/SF. The space is currently under construction and partially leased, so no firm track record can be established on the receptiveness of the space to the market.

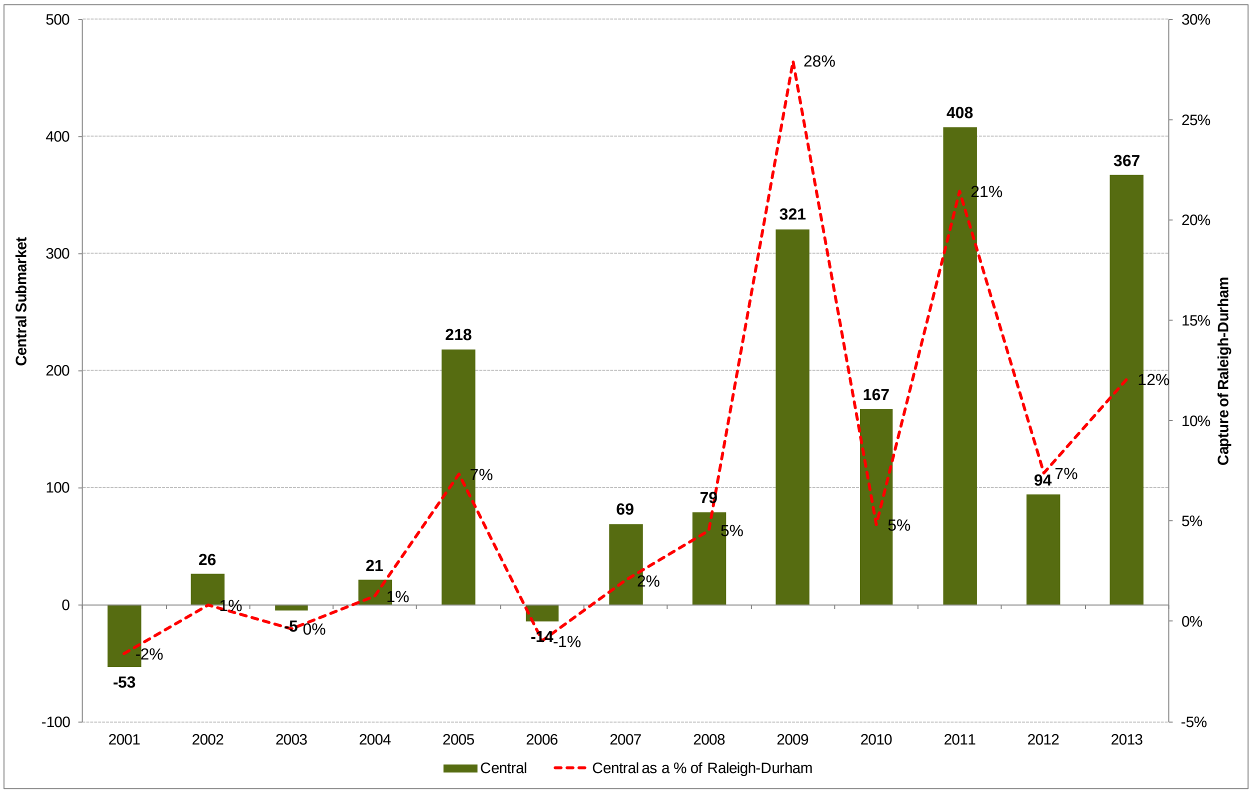
NCG created an office demand model for the Cameron Village area (including the Hillsborough Corridor) over the next five years and beyond. Based on this demand model, which incorporates Wake County employment growth, office absorption metrics and employment growth at a subcounty level. Based on this analysis, we believe the combined study area can support around 18,000 to 25,000 square feet of net new office space annually. This space should be accommodated above retail or on the ground floors of residential buildings, or in newer, more boutique-type buildings.

As the study areas become more established as more dense neighborhoods, and the mixed-use environment and quality of life enhanced, demand potential for office space may increase over time. Examples of this can be seen in areas such as Charlotte's South End, which initially saw modest office demand and development but, as residential and retail offerings grew, saw more significant office development and demand over time, with quality of life pulling tenants into the area.

Rental Multifamily Overview

The lone bright spot in real estate over the past five years has been multifamily, and Raleigh is no exception to that. Nationally this multifamily has been heavily focused in intown areas; areas that are more convenient to major employment, shopping and entertainment cores and areas that are more walkable. Included in this are areas such as: South End in Charlotte; Inman Park/Old Fourth Ward and Midtown in Atlanta; Logan Circle, NoMa, H Street in Washington, DC; and Uptown in Dallas. Raleigh is also seeing significant infill of new rental multifamily in areas including Cameron Village, Glenwood Avenue, and Downtown. These new rental communities are drawing not only from younger Generation Y's (those generally under 35), but from more mature professionals and increasingly, empty nesters amd retirees.

As shown below, Central Raleigh, which largely comprises the area inside the BeltLine (with the exception of some of southwest Raleigh), has significantly increased its capture of regional demand from 1.8% between 2000 and 2008, to 12.5% from 2009 to 2014. This capture has resulted in average annual absorption rates of 270 units, a number that will increase once 2014 data is incorporated.



New product in Central Raleigh has also been more urban in scale and character, with the majority of new product being either midrise units "wrapping" a parking structure or high-rise construction Downtown. These development models have become achievable through rents pushing north of $1.50 to $1.60/SF, a threshhold needed to justify decked parking. Indeed, these new projects are averaging close to $1.80/SF and clear that hurdle. These higher rents have also been achieved through a reduction in unit sizes, delivering more efficient units and seeking to maintain a solid absolute price point. Indeed, developers of intown product are paying between $15,000 to $25,000 per door for land which, assuming densities of 75 to 90 or more units per acre, translates into supportable land prices of $1.2 to $2.0 million per acre, not including potential impacts from ground floor retail space.

Overall rent growth in Central Raleigh has been relatively moderate over the past five years, with the market responding to a burst of new supply in 2010 and 2011, then recovering and posting solid growth in 2012 and 2013.

There is a solid pipeline of product slated to deliver in Central Raleigh in the coming years, with as many as 3,000 units coming online in the next five years. Against this, NCG created a demand model to gauge support for new rental apartments in Central Raleigh and in the combined Cameron Village/ Hillsborough Street study area. As shown below, we believe these areas can support approximately 170 net new rental apartment units annually through 2025. It should be noted that the existing pipeline represents an approximately 6-year supply based on this demand, indicating short-term demand can be satiated by this supply.

Cut Factor	2011 - 2015	2016 - 2020	2021 - 2025	Avg. 2011 - 2025
Wake County Demand	**15,212**	**14,480**	**12,545**	**42,237**
Central Capture	17.0%	17.0%	17.0%	17.0%
Annual New Rental Apt Growth in the Central Submkt	517	492	427	479
Cameron Village/Hillsborough Street Capture	35%	35%	35%	35%
Annual Supportable New Units, Cameron Village & Hillsborough Corridors	**181**	**172**	**149**	**168**

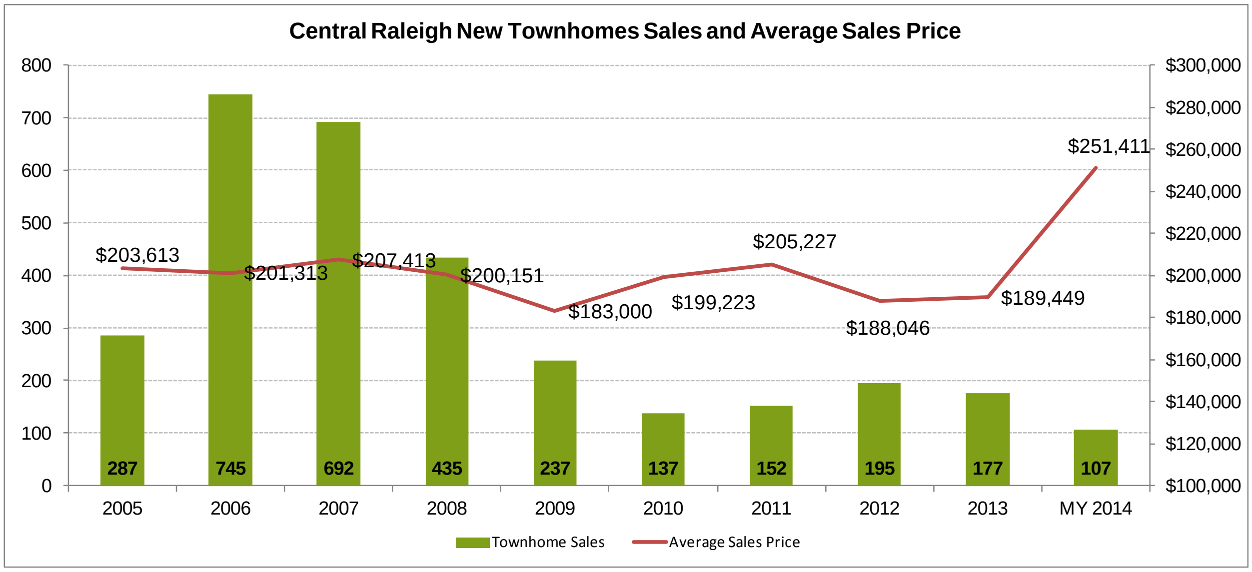
A portion of this demand has been generated through new privately-developed student housing. This product, measured typically in number of beds vs number of units, has seen significant development over the last few years, including Valentine Commons (900 beds), Stanhope (800 beds) and several smaller student-targeted deals along Hillsborough. Additional student-oriented product is now planned south of the corridor as well, with a potential for 400 to 500 additional beds. In total this would provide for 2,200 to 2,400 new beds during a period in which campus enrollment has largely been flat. Indications of overbuilding are already evident in the area, with reprsentatives from NCSU noting a drop-off in demand for student housing and the first major project to deliver, Valentine Commons, still posting a 16% vacancy rate two years after delivery.

With the majority of NCSU's enrollment growth (3,000 students by 2020) coming in graduate students—a population often averse to larger student-targeted product—this oversupply could exist for a number of years to come, with rents taking the hit to effectively "buy" demand. On the positive side, this indicates a likely slowdown in student-targeted product along the Hillsborough Street corridor, helping to create opportunities for balancing student-oriented with demand potential from other land uses.

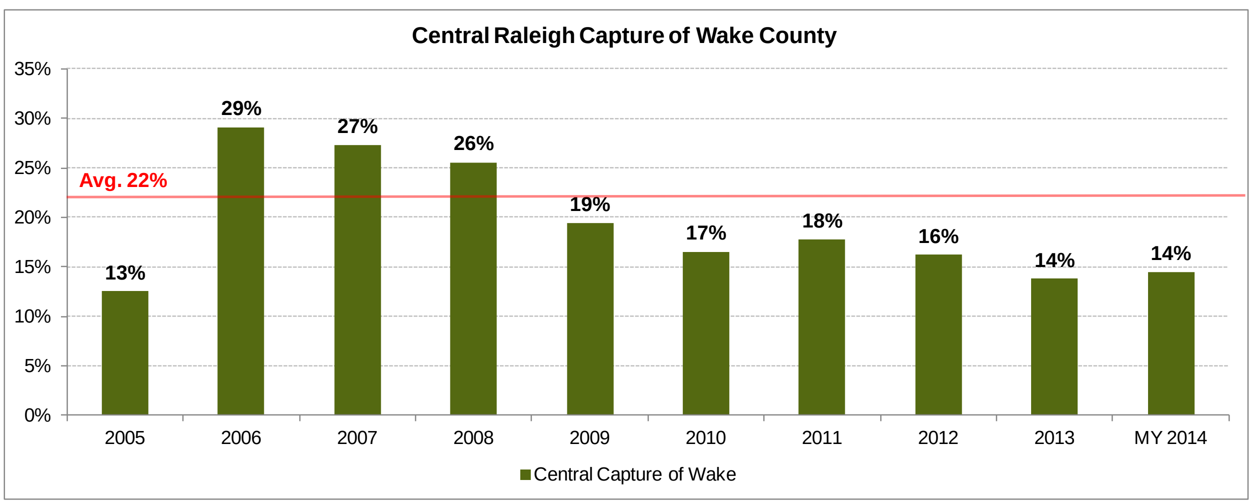
For-Sale Housing Overview

While Raleigh economically weathered the last recession better than most other metro areas, it's housing market still felt significant impacts; Central Raleigh included. Like most infill areas, most for-sale housing developed in intown locations comes in the form of two attached products: condominiums and townhouses. Both have seen a significant drop-off in volumes and, largely in price as well.

As shown on the graph on the following page, new townhouse sales in Central Raleigh (the area within the BeltLine) have dropped by roughly 75% since the peak of the market in 2006 and 2007, with average new sales now totaling around 150 to 200 annually over the last several years. While volumes have dropped off significantly, prices have held generally firm, declining by around 5% to 8% over the period; respectable given the price drops seen in many markets (note: the 2014 mid-year numbers are small and may be more influenced by a lack of product than actual appreciation).



Prior to the recession, Central Raleigh accounted for roughly 25% to 30% of Wake County townhouse sales. That number has dropped significantly, largely due to a lack of intown supply. Based on this lack of supply, Central Raleigh's capture of townhouse sales within Wake County has dropped to around 14% over the last few years. We believe this capture will increase over time as opportunities for new townhouses intown should remain strong. The main inhibitor, as with most of the country, is challenges in purchasing homes, particularly among younger buyers who are often most interested in townhouses.

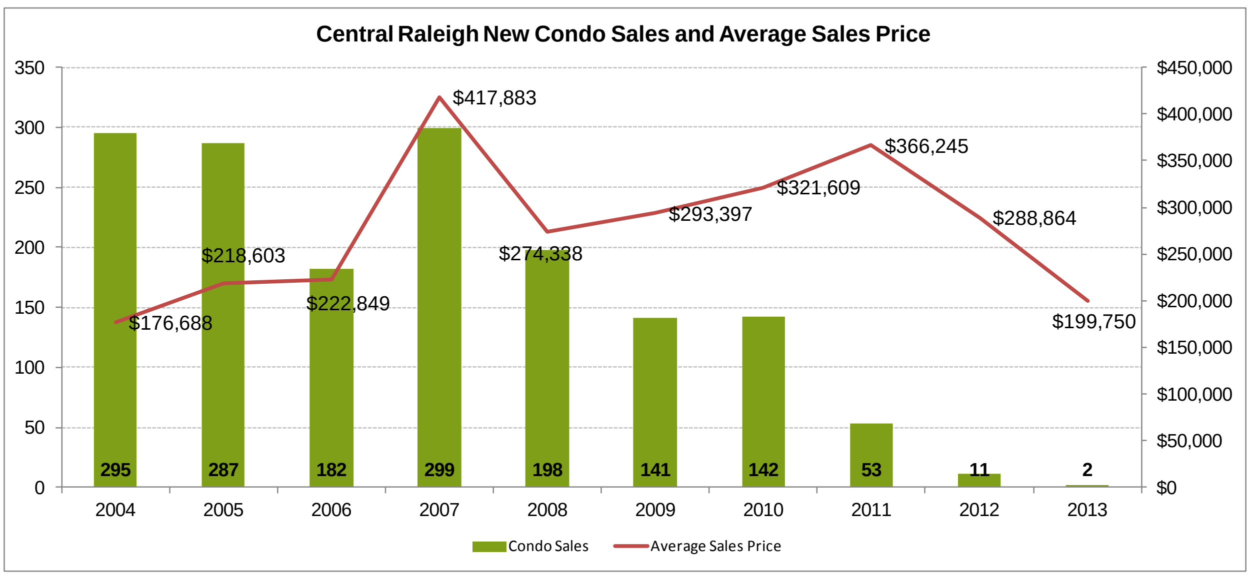


Only a few townhome communities are actively selling within the BeltLine and those products are largely lower-density products that may be difficult to support in Cameron Village and particularly within the Hillsborough Street Corridor. These communities are selling for around $150/SF to $200/SF and vary in terms of audience, with some pursuing more mature buyers (Grove at Fallon Park) and others seeking younger, active buyers (Ramblewood Townes and Bount Street Commons).

Depending on the location, either product represents an opportunity for the Cameron Village area, albeit more in a neighborhood-adjacent location, where land prices are more suitable for lower-density development. Redevelopment of multifamily, retail, or office properties for such a use are not feasible, as townhouse land prices can only go up to around $750,000 to $900,000/acre.

While townhouse development directly on Hillsborough Street is unlikely, development of townhouses on side streets in the corridor is possible and supportable, albeit at a discounted price from that seen in Cameron Village and more in the $650,000 to $750,000 per acre range.

The condominium market intown has seen a similar slowdown, albeit with a more significant drop-off, with new sales volume declining by 95% from peaks in Central Raleigh and price drops of somewhere around 25% (difficult to discern given the lack of product available). The condo market has been the hardest hit among the three major for-sale residential product types and will be the slowest to recover. Experiences in more urban markets are that bigger projects—those with more than 150 units—are very difficult to finance and most new projects developed are more in the 25 to 100-unit range, where risks are lower.



One new condominium project is actively-selling in the Cameron Village area—1300 St. Mary's; a converted office building. That project will provide for 39 units, of which 17 are currently reserved (reservations will be converted to contracts within the next 30 to 60 days). Realtors report fairly solid support so far, with the project achieving around 3 reservations per month, largely from intown residents (Cameron Village area, Five Points, Hayes Barton), ranging from their 30s to empty nesters seeking to move down. Prices are generally around the mid to upper $200s per square foot, a challenging price point for new concrete and steel construction, but achievable for low-rise to midrise product.

As with the other three land uses, NCG created a for-sale attached residential demand model to estimate potential support for new attached townhouses and condominiums in the greater area and in the two study areas. This demand incorporates projected job growth with attached and detached home sales trends in Wake County and Central Raleigh. Based on our estimates, we believe the two study areas could capture around 10% of Central Raleigh demand, with captures being tempered by land supply, particularly for new townhouses.

	New For-Sale Housing Demand (Units) by Timeframe				Totals
	2006- 2010	2011 - 2015	2016 -2020	2021 - 2025	2011 - 2025
New Wake County Attached Homes	7,694	8,809	10,593	11,471	30,873
Central Raleigh Area Capture					
Attached Homes (TH & Condo)	31%	19%	25%	31%	26%
Central Raleigh Attached Homes	2,385	1,674	2,648	3,556	7,878
Cameron Village/Hillsborough Street Corridor Capture					
Attached Homes	10.0%	10.0%	10.0%	10.0%	10%
Combined Area Attached Home Capture	239	167	265	356	788
Townhouse Demand		92	119	124	336
Condo Demand		75	146	231	452

While 65% of intown attached home sales have been townhouses (35% condos), we believe the lack of land in the area suitable or feasible for townhouse development will result in a greater share of demand being for for-sale condos, with less capacity existing to support for-sale townhouses.

Land Prices

As noted earlier, rental apartment development is one of the few real estate products moving forward in intown Raleigh and many other markets. Retail and office development, while recovering, is just beginning to occur in many markets and thus, the majority of land sales occurring in and around the study area have been for development or redevelopment as rental apartments.

NCG examined a number of potential redevelopment sites in the Cameron Village study area, most of which are existing office sites, and identified both an estimated current value and a potential multi-family density required for redevelopment of these parcels to be feasible (assuming some level of ground floor retail). The following summarizes these sites:

Property	Current Use	SF	Acres	Current Lease Rate	Est. Value per Acre	Potential Use	Target Density (DU/SF Acre)	Feasibility
505 Oberlin	Post Office Site	42,184	1.91	$18.50	$4,281,783	Multi-Family	135	No
615 Oberlin	Office	18,792	0.67	$17.50	$5,143,690	Multi-Family	125+	No
617 Oberlin	Office	2,979	0.34	$17.50	$1,606,824	Multi-Family	60	Yes
1111 Oberlin	Office	7,274	0.45	$18.50	$3,133,799	Multi-Family	100	No
1101 Oberlin	Office	9,394	0.69	$18.50	$2,639,440	Multi-Family	100	Borderline
Rite-Aid/Chick-fil-A	Retail	33026	2.74	$26.60	$4,439,476	Multi-Family/Retail	125+	Unlikely

In general, the following summarizes the land prices each potential land use can support, with Hillsborough largely representing the lower end of the ranges and Cameron Village running the full range:

- For-Sale Townhouses: $750k - $900k/acre for 12 – 15 DU/Ac
- New suburban office: 15,000 SF/acre $1.3M/acre
- Decked mid-rise Multifamily 75 – 100/acre $1.7 - $2.0M/acre
- Retail: Assumed to be first floor land use and not freestanding.

Redevelopment of parcels along Hillsborough Street—most will be for new multifamily housing—is a more difficult issue to discern. Feasibility, and the type and height of construction, varies parcel-by-parcel, depending on:

- The location of the property (Projects fronting NCSU tend to be the toughest, in part due to the following issues);
- The size of the property (very small properties being more challenging, particularly with parking);
- The age and performance of the existing land uses (newer retail being tougher to redevelop); and
- The amount of retail on-site relative to the size of the parcel (e.g. higher FARs).

Below are several properties NCG examined to understand potential heights required for feasible redevelopment of existing properties to multifamily (assumed to be rental in this exercise).

As noted above, rental apartment developers can afford to pay around $1.7M to $2.0M per acre for midrise product (stick-built) with structured parking. These prices assume densities from 75 – 100 units per acre and rents around $1.60 or higher. Hillsborough Street, while maintaining an absolute dollar discount to those in Cameron Village, can achieve strong per square foot rents via reducing unit sizes (achievable with college/grad students and younger working singles/couples). Student-oriented buildings may also have significantly reduced parking provisions, allowing densities to go much higher.

This allows for similar land prices as Cameron Village, with a challenge being the land supply, which is largely comprised of very small parcels, most of which are in current use as retail, and many with very limited parking and thus high FARs. These dynamics vary widely and impact the potential values of these properties significantly.

To this NCG ran a number of case study properties, making assumptions for potential existing lease rates for retail and utilizing tax data for parcel size and current square feet. This analysis found that stick-built construction (generally five floors or lower) is feasible on properties with:

- Older retail stock achieving lower lease rates (around $16/SF - $18/SF or so and below); and
- Properties with low FARs and abundant parking fields.

Property	Existing Retail SF/Acres	Assumed Potential Land Value	Assumed Redevelopment Density	No. of Floors Required for Feasible Redev.
1307 Hillsborough (FMW Site)	0 SF/.55 Acres (0.0 FAR)	$350,000	75 DU/Acre	4 – 5 Floors
2510 Hillsborough (Joshi Site)	7,500 SF/.19 Acres (.9 FAR)	$1.19M	225 DU/Acre	7 Floors
1 Dixie Trail (Eat Village Grill)	3,537 SF/.67 Acres (.12 FAR)	$821,000	90 DU/Acre	4 – 5 Floors
2316 Hillsborough (Jimmy Johns/ Chipotle Site)	11,127SF/.44 Acres (.58 FAR)	$2.99M	300 DU/Acre	7+ Floors

- * Assumes 800 – 850 SF average unit size and rents of around $1.60 to $1.70/SF

Smaller properties with older retail and higher current FARs, such as the Joshi site, require somewhat greater intensities to support redevelopment and thus require steel frame construction—more in the lines of 6 to 7 floors. Finally, some properties, such as the small strip with Chipotle and Jimmy John's, are too new and achieving rents that are too solid to support redevelopment for a long, long time.

In short, appropriate development heights and intensities will vary along Hillsborough Street, depending on the sites and the existing uses. Development feasibility can be enhanced via reduced parking, although such scenario tempers market appeal for these projects beyond students, and may further limit non-student interest in parts of the corridor overall.

Over the next five years or so, we expect development pressure in the Hillsborough Street Corridor to focus more on eastern portions of the corridor, particularly around the YMCA/Velvet Cloak area and near the new aLoft Hotel—an area that connects both Cameron Village and Hillsborough Street. This is in part due to the ability to begin connecting the corridor to Downtown Raleigh as well as to the abundance of student housing options already being developed or approved in western portions of the corridor; a market that will become increasingly competitive in the coming years.

To influence growth and redevelopment in central portions of the corridor, those closest to NCSU's campus, the City and the University will likely need to partner to facilitate better town-gown relations and broaden that portion of the corridor's audiences & patronage beyond the student market. Case studies should be conducted looking at other successful efforts that have occurred elsewhere in the US. Potential case studies the City should consider include:

- Rutgers University--New Brunswick, NJ
- U. of Washington--Seattle
- Arizona State Univ--Tempe
- U. of Georgia--Athens
- Texas Tech Univ.--Lubbock Texas
- Ohio State Univ.--Columbus
- Notre Dame (Eddy Street)--South Bend, IN
- Vanderbilt Univ--Nashville
- Univ. of Virginia--Charlottesville, VA