

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION

2012 HILLSBOROUGH STREET ECONOMIC DEVELOPMENT STUDY

PREPARED BY KLING STUBBINS

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HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION

May 1, 2014

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Dear Friends of Hillsborough Street,

In 2012, the Hillsborough Street Community Service Corporation (HSCSC) commissioned a study of issues related to the continued development of the economic and social health of our community. We did so because we were concerned with the slow pace of private investment in the area following the completion of the largest public investment in infrastructure in our area since the New Vision for Hillsborough Street was first articulated at the end of 1999.

We commissioned the study to help us understand if there were barriers to investment that should be addressed as we move forward. We offer you this Executive Summary of the study to assist you, and us, in developing an understanding of the elements necessary to encourage beneficial investment in our community. Most importantly, we seek to develop an action plan to help us move forward to realizing our mutually shared goals.

As explained in the Executive Summary, this study is not meant to be that plan or even a proposal for future action, but it is meant to help us determine what factors we need to be sensitive to in order to develop a practical plan. The HSCSC does not support any of the proposals studied in the analysis, nor to date have we endorsed the recommendations of the consultants concerning zoning changes, the establishment of a transition zone between Hillsborough and Clark, and the development of new parking strategies. We do believe these suggestions merit careful consideration, however. We ask that, like us, you study them in order that you may form your own views on what may be successful as we move ahead, together.

We are aware of the long time it took to develop a consensus and support for the public infrastructure investment that has been made and we continue to be concerned that a similar consensus is needed in the community to provide the public support for private investment that will help us achieve our shared goals of a prosperous, vital and successful street for property owners, business operators, community residents and members of the University community -- students, faculty, staff and alumni. We ask that you join with us to work together to refine our shared Vision for the community that Hillsborough Street can become.

We are pleased and excited to welcome the new activities and residents on the street that will be brought by the construction of a new hotel, new student housing, and the new mixed use developments that are now open or under construction, including the 927 Morgan, Valentine Commons, 2604 Hillsborough, the Gregg Museum and the new hotel complex at the Bell Tower.

We are also aware of the enormous potential for new investment that the recovering Raleigh economy brings, as is evidenced by new jobs and housing on Centennial Campus, Downtown Raleigh and in the Cameron Village area. We seek to ensure that Hillsborough Street shares in this new wave of community building in Raleigh and to ensure that it brings with it the kind of Hillsborough Street we have worked hard to achieve since 1999.

Thank you for your considered support of the Hillsborough Street Community!

Sincerely,
The HSCSC Board

APRIL 2014**HILLSBOROUGH STREET ECONOMIC DEVELOPMENT AND FEASIBILITY STUDY****EXECUTIVE SUMMARY****PURPOSE OF THE STUDY**

THIS STUDY WAS COMMISSIONED BY THE HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION IN 2012 TO GAIN A CLEARER UNDERSTANDING OF THE OPPORTUNITIES FOR REDEVELOPMENT ALONG HILLSBOROUGH STREET IN ORDER FOR IT TO REALIZE ITS POTENTIAL AS ONE OF RALEIGH'S PREMIER PEDESTRIAN STREETS, TO IDENTIFY OBSTACLES TOWARD ATTAINING THOSE GOALS AND TO MAKE RECOMMENDATIONS FOR OVERCOMING THOSE OBSTACLES.

THE 1999 WALKABILITY AND REDEVELOPMENT STUDY: A NEW VISION FOR HILLSBOROUGH STREET IDENTIFIED BROAD GOALS FOR HILLSBOROUGH STREET, INCLUDING MAKING IT A MORE PEDESTRIAN AND BICYCLE-FRIENDLY ENVIRONMENT, IMPROVING THE AESTHETICS OF THE STREETScape AND LANDSCAPE, CREATING MORE CONVENIENT PARKING OPTIONS, SUPPORTING RETAIL AND LOCAL BUSINESSES, AND REMOVING BARRIERS TO DEVELOPMENT.

WITH THE CREATION OF A BUSINESS IMPROVEMENT DISTRICT AND THE RECENTLY COMPLETED PHASE I STREETScape BY THE CITY AND NORTH CAROLINA STATE UNIVERSITY SOME OF THESE OBJECTIVES HAVE BEEN ADVANCED AND THE STAGE HAS BEEN SET FOR REDEVELOPMENT THAT WOULD FULFILL THE OBJECTIVES OF THE STUDY. IN THE INTERVENING YEARS, HOWEVER, NEW DEVELOPMENT ALONG THE STREET HAS BEEN SLOW IN COMING, AND THE PROCESS FOR THEM TO COME INTO BEING HAS BEEN LONG AND OFTEN CONTENTIOUS.

THREE PROJECTS WHICH HAVE RECENTLY PROCEEDED THROUGH THE ENTITLEMENTS PROCESS ILLUSTRATE SOME OF THE BARRIERS THAT NEW PROJECTS FACE UNDER THE CURRENT CONDITIONS:

VALENTINE COMMONS STUDENT HOUSING: THIS PROJECT REQUIRED RE-ZONING TO ACCOMMODATE A HEIGHT INCREASE TO MAKE THE PROJECT ECONOMICALLY VIABLE.

2604 HILLSBOROUGH STREET: THIS 16-UNIT STUDENT HOUSING PROJECT WAS BUILT UNDER THE PREVIOUS ZONING PROVISIONS AND WITH THE PARKING EXEMPTION PROVISION IN THE PBOD. UNDER THE NEW UDO PROVISIONS THIS PROJECT WOULD NOT BE FEASIBLE DUE TO THE NEW 50-FOOT BUFFER REQUIREMENT FOR COMMERCIAL PROPERTIES ABUTTING RESIDENTIAL USE ZONES.

BELL TOWER HOTEL: THIS PROJECT REQUIRED RE-ZONING TO ACCOMMODATE A HEIGHT INCREASE TO MAKE THE PROJECT ECONOMICALLY VIABLE.

THIS STUDY SEEKS TO EXPLORE ASPECTS OF REDEVELOPMENT, PHYSICAL, REGULATORY AND ECONOMIC THAT WOULD INFORM POTENTIAL FUTURE PROJECTS, AND GIVE A BASELINE UNDERSTANDING OF WHAT WOULD BE NECESSARY TO MAKE RE-INVESTMENT IN OLDER AND UNDERPERFORMING PROPERTIES ON HILLSBOROUGH STREET FINANCIALLY FEASIBLE. FUTURE PROJECTS WOULD BENEFIT FROM A COMPREHENSIVE APPROACH TO GUIDE HOW PRIVATE DEVELOPMENT CAN PROCEED ALONG HILLSBOROUGH STREET RATHER THAN ON A CASE-BY-CASE BASIS AND THE UNCERTAINTY THAT COMES WITH THAT. IF REALIZED, SUCH NEW DEVELOPMENT WOULD BALANCE THE PUBLIC'S INVESTMENT IN THE STREETScape AND LEAD TO MEANINGFUL CHANGES ALONG THE STREET THAT WILL ENABLE THE HILLSBOROUGH STREET CORRIDOR TO REACH ITS FULL POTENTIAL AS ONE OF RALEIGH'S MOST VITAL, DIVERSE AND ATTRACTIVE LOCATIONS.

METHODOLOGY

SIX STUDY SITES WERE PURPOSEFULLY SELECTED TO INCLUDE A VARIETY OF CONDITIONS SUCH AS LOCATION, LOT SIZE, URBAN CONTEXT, CURRENT SITE DEVELOPMENT, AND ADJACENT USES. THE SITES RANGED FROM A HALF-ACRE PARCEL ACROSS FROM THE VELVET CLOAK INN ON THE EASTERN END TO A LARGE PARCEL AT THE CORNER OF HILLSBOROUGH AND GORMAN STREETS ON THE WESTERN END OF THE STUDY AREA. EACH SITE WAS TESTED FOR PHYSICAL AND ARCHITECTURAL DEVELOPMENT POTENTIAL BASED ON LOT DIMENSIONS, HEIGHT, SETBACK AND PARKING REQUIREMENTS AS WELL AS ECONOMIC FEASIBILITY. THE ECONOMIC ANALYSIS WAS BASED ON COMMON ASSUMPTIONS FOR ASSEMBLY, FINANCING AND DEVELOPMENT COSTS FOR 2012 AND WAS INTENDED AS A COMPARATIVE ANALYSIS: SOME OF THOSE ASSUMPTIONS LIKELY HAVE CHANGED SINCE THAT TIME. DEVELOPMENT POTENTIAL WAS TESTED FOR EACH UNDER THE CURRENT ZONING AND THEN UNDER ONE OF THE NEW ZONING CATEGORIES FROM THE UDO. EVEN THOUGH THE SIX SELECTED SITES VARIED CONSIDERABLY IN SIZE AND CONTEXT, COMMON ISSUES AND OBSTACLES TO DEVELOPMENT WERE FOUND FOR ALL, AND IN GENERAL IT WAS FOUND THAT UNDER CURRENT ZONING RESTRICTIONS IT IS HIGHLY UNLIKELY THAT REDEVELOPMENT WOULD BE ECONOMICALLY VIABLE FOR MANY PROPERTIES WITHIN THE STUDY AREA.

BROAD OBJECTIVES**PLACE-MAKING**

HILLSBOROUGH STREET IS ALREADY ONE OF THE MOST RECOGNIZABLE PEDESTRIAN DISTRICTS IN THE CITY. THE 1999 WALKABILITY AND REDEVELOPMENT STUDY IDENTIFIED HILLSBOROUGH STREET AS "ONE OF THE MOST IMPORTANT CORRIDORS IN RALEIGH...CONNECTING THE HEART OF THE CITY TO ONE OF OUR STATE'S GREATEST INSTITUTIONS, NC STATE UNIVERSITY...THE AREA IS DIVERSE AND DENSELY POPULATED, GIVING IT THE POTENTIAL TO BE A PRIME DESTINATION IN THE CITY AND CONTRIBUTE TO IT BOTH ECONOMICALLY AND AESTHETICALLY". THE RECENT STREETScape PROJECTS COMBINED WITH THE GOALS OF THE NEW UNIFIED DEVELOPMENT ORDINANCE AND EXPANDING TRANSIT OPTIONS BY NCSU, THE CITY AND TRIANGLE TRANSIT CAN ALL CREATE THE CONDITIONS NECESSARY TO CARRY OUT A MAJOR PLACE-MAKING RENAISSANCE TO FURTHER ENHANCE THE VITALITY OF HILLSBOROUGH STREET.

HILLSBOROUGH STREET IS WHERE THE NEIGHBORHOODS, THE UNIVERSITY AND LOCAL BUSINESSES CONVERGE, AND ITS SUCCESS WILL DEPEND ON BECOMING A DESTINATION FOR ALL, RESIDENTS, VISITORS AND STUDENTS ALIKE. BUILDING UPON THE 1999 STUDY, GOALS FOR THE FUTURE DEVELOPMENT ALONG THE CORRIDOR SHOULD INCLUDE THE FOLLOWING:

HILLSBOROUGH STREET SHOULD BE THE NEIGHBORHOOD MAIN STREET, WITH BUILDINGS FRONTING ON THE STREET, PARKING SHIELDED FROM VIEW AND CONTINUOUS GROUND-LEVEL PEDESTRIAN ACTIVITY ALONG THE STREET.

HILLSBOROUGH STREET SHOULD CREATE AN APPROPRIATE FRONT-DOOR IMAGE FOR NCSU, FOR STUDENTS, PARENTS, ALUMNI, VISITORS AND FOR EMERGING COMPANIES LOOKING TO LOCATE CLOSE TO CAMPUS.

THE STREET SHOULD BE A DESTINATION FOR A WIDE VARIETY OF USERS, NOT ONLY STUDENTS, AND CAN BE TRANSFORMED INTO A STREET WITH YEAR-ROUND ACTIVITY.

OPPORTUNITIES FOR NEW PUBLIC SPACES CAN BE CREATED BY THE UDO OPEN SPACE REQUIREMENTS.

HOUSING

THE HILLSBOROUGH STREET CORRIDOR INCLUDES A RANGE OF INSTITUTIONAL AND BUSINESS DESTINATIONS THAT WOULD BENEFIT FROM MORE HOUSING OPTIONS WITHIN WALKING DISTANCE. DUE TO ITS DESIRABLE LOCATION WITH ITS AND PROXIMITY TO NORTH CAROLINA STATE UNIVERSITY, CAMERON VILLAGE AND DOWNTOWN RALEIGH HILLSBOROUGH STREET HAS THE POTENTIAL FOR A WIDE RANGE OF HOUSING OPTIONS, NOT ONLY FOR STUDENTS, BUT ALSO FACULTY, EMPLOYEES OF BUSINESSES IN THE VICINITY AND EMPTY-NESTERS SEEKING TO DOWNSIZE AND LIVE IN A WALKABLE AND AMENITY-RICH ENVIRONMENT. FUTURE DEVELOPMENTS THAT PROVIDE A DIVERSITY OF HOUSING TYPES AND PRICE RANGES SHOULD BE ENCOURAGED.

TRANSIT

HILLSBOROUGH STREET CURRENTLY HAS THE GREATEST DIVERSITY OF TRANSIT OPTIONS TO BE FOUND IN ANY AREA OF RALEIGH. IT IS CURRENTLY SERVED BY CAT, TTA AND THE WOLFLINE BUSES AND IS IN CLOSE PROXIMITY TO PROPOSED LRT STATIONS. IT IS LOGICAL THAT HILLSBOROUGH STREET BE ONE OF THE PRIMARY AREAS WITHIN RALEIGH WHERE HIGHER-DENSITY TRANSIT-ORIENTED DEVELOPMENT IS ENCOURAGED. DOING SO WILL ACCELERATE MEETING THE RIDERSHIP THRESHOLDS NEEDED TO OBTAIN FEDERAL FUNDING AND MAKING THE IMPLEMENTATION OF THE TTA AND LRT ECONOMICALLY FEASIBLE.

EXECUTIVE SUMMARY

OBSTACLES FOR DEVELOPMENT

DESPITE ITS MANY ASSETS THERE REMAIN OBSTACLES THAT WILL CHALLENGE FUTURE DEVELOPMENT PROJECTS ALONG THE HILLSBOROUGH STREET STUDY CORRIDOR. AS STATED IN THE 1991 WALKABILITY AND DEVELOPMENT STUDY TODAY AS IT DID AT THAT TIME. FINDING WAYS TO REMOVE THESE OBSTACLES WOULD ADVANCE THE STATED BROAD OBJECTIVES TO MAKING THIS A MORE PEDESTRIAN, BIKE AND TRANSIT-ORIENTED DISTRICT:

ZONING: HEIGHT AND DENSITY: CURRENT ZONING PRACTICALLY LIMITS BUILDING HEIGHTS TO THREE STORIES (40 FT). THIS PLACES SIGNIFICANT RESTRICTIONS ON THE POTENTIAL TO DEVELOP PROPERTIES ON HILLSBOROUGH STREET, AND IN MOST CASES MAKES THEM FINANCIALLY INFEASIBLE. MOST OF THE PROPERTIES WITHIN THE STUDY AREA ARE ALREADY DEVELOPED WITH INCOME PRODUCING BUSINESSES, AND REMOVING TWO AND THREE-STORY STRUCTURES TO BUILD NEW THREE-STORY STRUCTURES DOES NOT PROVE TO BE ECONOMICALLY VIABLE. APPLYING ZONING CATEGORIES FROM THE UDO THAT ALLOW FOR GREATER HEIGHT AND DENSITY THAN CURRENT ZONING ALLOWS WOULD CREATE MORE FAVORABLE CONDITIONS FOR DESIRABLE DEVELOPMENT TO OCCUR. THE HEIGHTS AND DENSITY CAN BE TAILORED AS APPROPRIATE FOR THE SPECIFIC LOCATIONS AND CONTEXTS OF THE SITES, GENERALLY WITH LOWER INTENSITY ALONG THE EASTERN PORTION OF THE STUDY AREA ADJACENT TO RESIDENTIAL NEIGHBORHOODS AND GREATER INTENSITY FURTHER WEST AS THE STREET TRANSITIONS TO MORE INSTITUTIONAL AND COMMERCIAL USES.

RECOMMENDATION: APPLY ZONING CATEGORIES FROM THE UDO THAT ACCOMODATE GREATER HEIGHT AND DENSITIES THAN UNDER CURRENT ZONING TO ALLOW FOR HIGHER DENSITY, TRANSIT ORIENTED DEVELOPMENT.

BOUNDARIES AND TRANSITIONS: THE POTENTIAL RE-DEVELOPMENT ZONE ALONG HILLSBOROUGH STREET IS VERY NARROW, OFTEN ONLY HALF A BLOCK DEEP AND GENERALLY COMPRISED OF SMALL PARCELS, POSING SIGNIFICANT CHALLENGES BOTH FOR NEW DEVELOPMENT AND ADJOINING PROPERTIES. MANY OF THE POTENTIAL DEVELOPMENT PARCELS ABUT PROPERTIES ZONED FOR RESIDENTIAL USE, AND UNDER THE UDO THESE WILL REQUIRE A 50-FOOT BUFFER ALONG THOSE BOUNDARIES, MAKING DEVELOPMENT ON MANY OF THESE PARCELS PHYSICALLY INFEASIBLE, ESPECIALLY FOR THOSE WITH SMALLER LOT SIZES. OF THE SMALL PARCELS STUDIED IN THIS AREA ONLY ONE REDEVELOPMENT SCENARIO PROVED ECONOMICALLY FEASIBLE, AND THAT WAS ONLY ACHIEVED BY UTILIZING THE PARKING EXEMPTION UNDER THE PBOD.

IT IS ALSO SIGNIFICANT TO NOTE THAT THE MAJORITY OF THE PROPERTIES CURRENTLY IN THE RESIDENTIAL ZONE IMMEDIATELY NORTH OF HILLSBOROUGH STREET BETWEEN OBERLIN ROAD AND BROOKS AVENUE ARE IN FACT STUDENT RENTAL PROPERTIES, NOT SINGLE FAMILY, OWNER-OCCUPIED HOUSES. IT WOULD BE MUTUALLY BENEFICIAL TO THE EXISTING RESIDENTIAL NEIGHBORHOODS AND THE COMMERCIAL DEVELOPMENT ALONG HILLSBOROUGH STREET TO CREATE A MORE COHERENT TRANSITION ZONE IN THIS AREA. THIS WOULD BETTER REFLECT THE REALITY OF THE EXISTING CONDITION, WITH ITS PREPONDERANCE OF STUDENT RENTAL AND MULTI-FAMILY USES, AND WOULD ALLOW FOR SMALL NEIGHBORHOOD BUSINESSES AND START-UP COMPANIES TO INVEST WITHIN THIS ZONE, IMPROVING EXISTING PROPERTIES AND CREATING A MIX OF COMPATIBLE USES SUCH AS DOCTORS OFFICES, GALLERIES, AND PROFESSIONAL OFFICES CREATING A LAYERED TRANSITION FROM HILLSBOROUGH TO THE NEIGHBORHOODS NORTH OF CLARK AVENUE. SUCH A TRANSITION ZONE WOULD BE SYMBIOTIC WITH NC STATE UNIVERSITY, THE BUSINESSES ON HILLSBOROUGH STREET, AND THE NEARBY RESIDENTIAL NEIGHBORHOODS AND WOULD ADD GREATLY TO THE DIVERSITY AND DYNAMISM OF THE AREA.

RECOMMENDATION: ELIMINATE ABUTTING COMMERCIAL ZONING DIRECTLY TO RESIDENTIAL ZONING. LOCATE BOUNDARIES BETWEEN COMMERCIAL AND RESIDENTIAL ZONING ALONG RIGHTS-OF-WAY WHERE POSSIBLE, RATHER THAN IN THE MIDDLE OF BLOCKS OR USE TRANSITIONAL ZONING CATEGORIES. THIS WILL REDUCE CONFLICTS OF SCALE AND USE BETWEEN DISSIMILAR TYPES OF DEVELOPMENT AND CREATE THE OPPORTUNITY FOR LESS ABRUPT TRANSITIONS.

RECOMMENDATION: THE AREA BETWEEN HILLSBOROUGH AND CLARK AVENUE SHOULD BE ZONED TO CREATE A MIXED-USE DEVELOPMENT TRANSITION ZONE TO ENCOURAGE INVESTMENT AND ATTRACT COMPATIBLE NEIGHBORHOOD BUSINESSES WHILE PRESERVING THE INTEGRITY OF RESIDENTIAL NEIGHBORHOODS TO THE NORTH.

PARKING: WHILE ONE OF THE GOALS OF FUTURE DEVELOPMENT ON HILLSBOROUGH STREET IS TO LESSEN CAR DEPENDENCY THE ABILITY TO PROVIDE ON-SITE PARKING WILL REMAIN A CRITICAL LIMITATION FOR NEW DEVELOPMENT FOR THE FORESEEABLE FUTURE. EVEN WITH INCREASED BICYCLE AND PEDESTRIAN USE AND IMPROVED TRANSIT OPTIONS PARKING WILL BE REQUIRED FOR NEW DEVELOPMENT. AS FOR GLENWOOD SOUTH AND DOWNTOWN RALEIGH, MUCH OF HILLSBOROUGH STREET IS WITHIN A PBOD THAT ALLOWS A PARKING EXEMPTION FOR UP TO 16 RESIDENTIAL UNITS AND 10,000 SQUARE FEET OF RETAIL. THIS BENEFITS SMALL-SCALE PROJECTS BUT WILL NOT ADDRESS THE FUNDAMENTAL ISSUE FOR PARKING TO ACCOMMODATE MEDIUM OR LARGE-SCALE MULTI-FAMILY OR COMMERCIAL DEVELOPMENT. THE SUCCESS OF GLENWOOD SOUTH AND THE RECENT RESURGENCE OF DOWNTOWN HAS IN LARGE PART BEEN SUPPORTED BY THE AVAILABILITY OF CENTRALIZED, STRUCTURED PARKING AS WELL AS A RELATIVELY GENEROUS QUANTITY OF CURBSIDE PARKING, NEITHER OF WHICH HILLSBOROUGH STREET ENJOYS.

RECOMMENDATION: DEVELOP A STRATEGY TO PROVIDE SHARED, MUNICIPAL PARKING STRUCTURES TO SUPPORT SMALL BUSINESSES, RESIDENTIAL PROJECTS AND OTHER NEW DEVELOPMENT WITHOUT ADVERSELY AFFECTING NEARBY RESIDENTIAL NEIGHBORHOODS.

CONCLUSIONS:

HILLSBOROUGH STREET REMAINS ONE OF RALEIGH'S POTENTIALLY MOST DESIRABLE LOCATIONS, WITH AN AMENITY-RICH ENVIRONMENT AND THE POTENTIAL TO BE TRANSFORMED INTO A TRULY PEDESTRIAN-ORIENTED URBAN CENTER.

THE 1999 WALKABILITY AND REDEVELOPMENT STUDY OUTLINED SEVERAL BROAD OBJECTIVES TO MAKE THE AREA MORE CONDUCIVE OF PEDESTRIAN AND BICYCLE USE AND CREATED THE VISION THAT LED TO THE PARTIALLY COMPLETED STREETScape IMPROVEMENT PROJECT. IN THE INTERVENING 15 YEARS, HOWEVER, PRIVATE INVESTMENT TO OFFSET THE PUBLIC INVESTMENT IN THE STREETScape HAS BEEN VERY LIMITED.

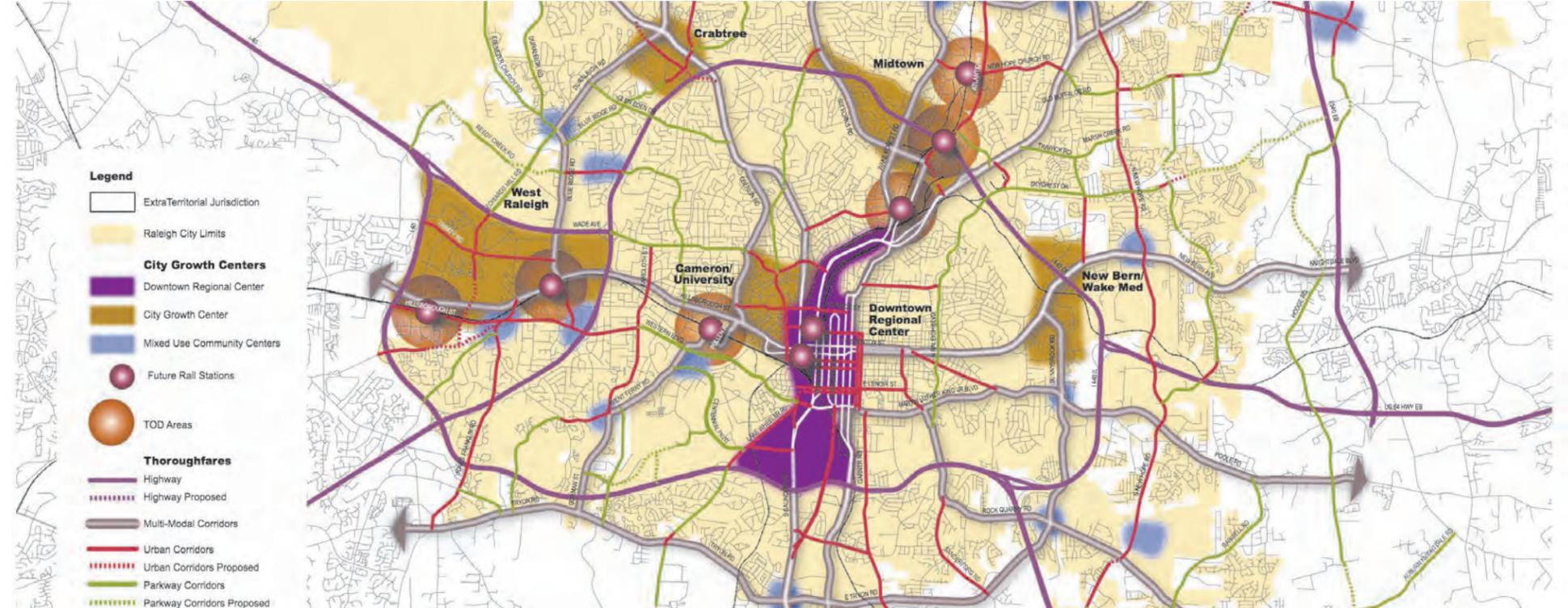
RECENT RE-DEVELOPMENT PROJECTS HAVE ENCOUNTERED SIGNIFICANT OBSTACLES AND HAVE HAD TO SEEK RE-ZONING TO BE ECONOMICALLY VIABLE. ANOTHER WOULD NOT BE POSSIBLE UNDER THE UDO WITH ITS NEW 50 FOOT BUFFER REQUIREMENT. BASED ON THE SCENARIOS TESTED FOR THE SELECTED SITES FEW PROVED TO BE ECONOMICALLY FEASIBLE UNDER CURRENT ZONING, AND SOME WOULD BE CHALLENGED EVEN WITH INCREASED ZONING.

IN ORDER TO REACH ITS FULL POTENTIAL, NEW STRATEGIES FOR THE HILLSBOROUGH STREET SHOULD BE STUDIED TO ADDRESS THREE KEY OBSTACLES TO DEVELOPMENT: ZONING FOR HEIGHT AND DENSITY, CREATING REALISTIC TRANSITION ZONES BETWEEN MIXED-USE AND RESIDENTIAL AREAS, AND CREATING A COMPREHENSIVE STRATEGY FOR PARKING THAT DOES NOT RELY ON A PARCEL-BY-PARCEL APPROACH.

WITHOUT ADDRESSING THESE OBSTACLES IT IS LIKELY THAT THE STATUS QUO WILL BE MAINTAINED FOR THE FORESEEABLE FUTURE ON HILLSBOROUGH STREET AS IT HAS FOR THE PAST THIRTY YEARS.



HILLSBOROUGH STREET AERIAL VIEW



RALEIGH COMPREHENSIVE PLAN GROWTH FRAMEWORK MAP

HILLSBOROUGH STREET IS UNDERGOING A SIGNIFICANT REVITALIZATION. THE NEW STREETScape AND TRAFFIC PATTERN WAS ESTABLISHED IN 2008. THE RENOVATED AND EXPANDED YMCA IS A MAJOR DRAW ON THE EAST END OF THE STREET WITH OVER 6,500 MEMBERS. NEW DEVELOPMENTS AT THE BELL TOWER INCLUDE A PROPOSED 125 ROOM HOTEL AND MIXED USE RETAIL, COMMERCIAL AND RESIDENTIAL SPACE. THE CHANCELLORS RESIDENCE HAS BEEN CONVERTED TO THE HOME OF THE NC STATE GREGG MUSEUM – A \$10 MILLION EXPANSION IS BEING PLANNED. THE VALENTINE COMMONS STUDENT RESIDENTIAL PROJECT NEXT TO STANHOPE VILLAGE IS OPEN, HOUSING OVER 900 STUDENTS.

TRIANGLE TRANSIT HAS PROPOSED TWO NEW TRANSIT STOPS AT DAN ALLEN AND PULLEN STREETS TO SERVE THE CAMPUS AND HILLSBOROUGH STREET. NCSU IS PLANNING TO GROW TO NEARLY 40,000 STUDENTS IN THE NEXT 10 YEARS. OVER 12 NEW BUSINESSES OPENED LAST YEAR. CONSTRUCTION HAS STARTED ON THE FMW MIXED USE RESIDENTIAL BUILDINGS AT THE CORNER OF MORGAN AND HILLSBOROUGH STREETS AND ON A NEW RESIDENTIAL BUILDING ON THE 2600 BLOCK OF HILLSBOROUGH ST THAT WILL INCLUDE NEW RETAIL AND RESIDENTIAL SPACE. LASTLY, WAKE COUNTY REPORTED EXPANDING FOOD AND BEVERAGE SALES, CONFIRMING THE SALES TAX BEING COLLECTED IS UP BY OVER 42% SINCE THE TIME THE STREETScape CONSTRUCTION CONCLUDED AND THE BID STARTED OPERATING IN THE SUMMER OF 2010. THIS EQUATES TO OVER \$40 MILLION DOLLARS OF FOOD AND BEVERAGES SALES A YEAR, OR ABOUT \$400,000 IN TAXES.

ALL OF THESE DRIVERS SUGGEST THE POTENTIAL FOR HEIGHTENED ECONOMIC ACTIVITY AND HIGHER DENSITIES ALONG THE STREET. HILLSBOROUGH STREET NEEDS TO RESPOND TO ALL OF THESE NEW ECONOMIC REALITIES AND PREPARE ITSELF FOR THE DEVELOPMENT PRESSURES THAT WILL BE EXERTED AS WE COME OUT OF THE DOWN ECONOMY. THIS STUDY IS INTENDED TO BEGIN AND INFORM THAT CONVERSATION.

PROJECT SCOPE

THE SCOPE OF THIS PROJECT IS FOCUSED ON THE PREPARATION OF A REDEVELOPMENT ANALYSIS FOR EACH OF THE SIX IDENTIFIED SITES,

1. EVALUATE THE POTENTIAL FOR REDEVELOPMENT OF THE SITES UNDER THE CURRENT ZONING REQUIREMENTS. DOCUMENT THE ISSUES AND LIMITS OF THE CURRENT ZONING FOR THE SITES.
2. DEFINE THE PROPER SCALE, POTENTIAL USES, STREET ORIENTATION AND PARKING ACCOMMODATIONS FOR NEW INFILL DEVELOPMENTS FOR EACH OF THE SITES.
3. PROPOSE AND IDENTIFY POSSIBLE STRATEGIES FOR THE TRANSITION FROM HILLSBOROUGH STREET TO THE ADJACENT NEIGHBORHOODS.
4. CREATE 3D MODEL(S) OF EACH OF THE REDEVELOPMENT SITES TO COMMUNICATE THE URBAN FORM OPTIONS TO STAKEHOLDERS AND NEIGHBORHOODS. THESE MODELS SHOULD BE COORDINATED WITH PROF. ARTHUR RICE AT THE NCSU COLLEGE OF DESIGN TO ENSURE THEY ARE COMPATIBLE WITH AN

OVERALL MODEL BEING CREATED FOR THE STREET.

PREPARE AN ECONOMIC DEVELOPMENT AND FISCAL IMPACT ANALYSIS OF THE REDEVELOPMENT SCENARIOS TO ILLUSTRATE THE REVENUE AND JOB CREATION POTENTIAL.

HOLD A WORKSHOP/ PRESENTATION FUNCTION WITH KEY STAKEHOLDERS AND ADJACENT NEIGHBORHOODS TO PRESENT REDEVELOPMENT SCENARIOS TO TEST URBAN FORM AND USES FOR NEW DEVELOPMENTS.

PREPARE A REPORT ILLUSTRATING THE RESULTS OF THE STUDY AND RECOMMEND THE APPROPRIATE NEW ZONING CATEGORIES AND MAP BOUNDARIES TO INFORM THE APPLICATION OF THE NEW UNIFIED DEVELOPMENT ORDINANCE.

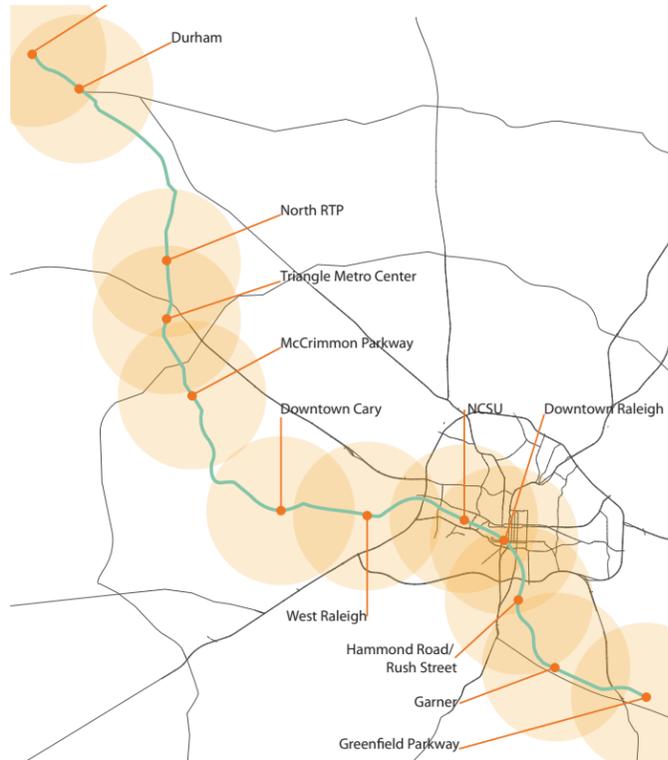
**PLANNING CONTEXT
COMPREHENSIVE PLAN**

THE RALEIGH COMPREHENSIVE PLAN GROWTH FRAMEWORK IDENTIFIES HILLSBOROUGH STREET AS A MULTI-MODAL CORRIDOR. IT DESIGNATES THE AREA AROUND PROPOSED LIGHT RAIL TRANSIT STOP AS TRANSIT ORIENTED CENTER. AT THE TIME OF THE CREATION OF THE GROWTH FRAMEWORK MAP ONLY ONE STATION LOCATION WAS IDENTIFIED – TODAY THERE ARE THREE POTENTIAL STATIONS IDENTIFIED – TWO LIGHT RAIL AND ONE COMMUTER RAIL. WE PRESUME IF ANOTHER LIGHT RAIL/COMMUTER STOP IS IDENTIFIED, IT WOULD ALSO BE DESIGNATED A TOD AREA.

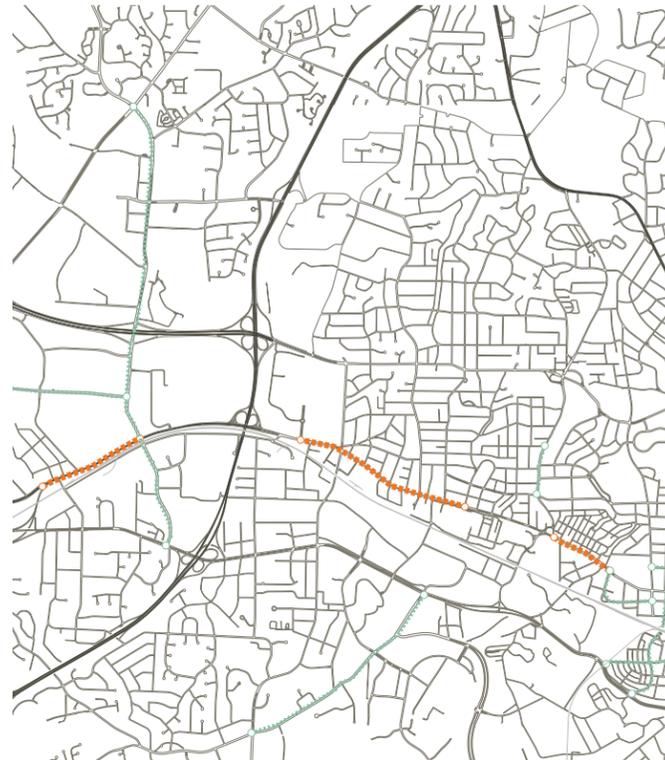
THE NEIGHBORHOODS AROUND CAMERON VILLAGE BETWEEN HILLSBOROUGH, WADE, GLENWOOD AND OBERLIN/PULLEN ARE DESIGNATED AS A CITY GROWTH CENTER.

THE GROWTH FRAMEWORK MAP SEEKS TO REDIRECT A FULL 60 PERCENT OF THIS FUTURE GROWTH INTO DOWNTOWN AND A SERIES OF SEVEN CITY GROWTH CENTERS, 12 TRANSIT-ORIENTED CENTERS, AND OVER 40 MIXED-USE COMMUNITY CENTERS, CONNECTED VIA A NETWORK OF PARKWAYS, MULTIMODAL CORRIDORS, AND URBAN STREETS.

MULTI-MODAL CORRIDORS ARE SIMILAR TO URBAN CORRIDORS IN TERMS OF DEVELOPMENT PATTERN AND LANDSCAPE APPROACH, BUT ARE TARGETED FOR A HIGHER LEVEL OF TRANSIT SERVICE SUCH AS ENHANCED BUS, EXPRESS BUS, BUS RAPID TRANSIT, OR STREETCAR. SOME OF THESE CORRIDORS ARE HIGH-RIDERSHIP.



NEW RAIL TRANSIT OPPORTUNITIES



STREETSCAPE CAPITAL IMPROVEMENT PLAN



OFF-CAMPUS STUDENT HOUSING MAP

CITY GROWTH CENTERS: LOCATED THROUGHOUT THE CITY AND ALONG MAJOR URBAN AND TRANSIT CORRIDORS, THESE CENTERS PROVIDE SIGNIFICANT OPPORTUNITIES FOR NEW RESIDENTIAL AND ECONOMIC DEVELOPMENT AND REDEVELOPMENT. CITY GROWTH CENTERS ARE GENERALLY IN LOCATIONS WITH COMBINED HIGHWAY AND TARGETED TRANSIT ACCESS, SUCH AS KEY INTERCHANGES ALONG THE BELTLINE AND OUTER LOOP. THESE CENTERS INCLUDE CRABTREE VALLEY; AN EXPANDED “MIDTOWN” LINKING NORTH HILLS WITH THE HIGHWOODS OFFICE PARK AND STRETCHING SOUTH OF THE BELTLINE TO EMBRACE SIGNIFICANT REDEVELOPMENT OPPORTUNITIES AT THE TERMINUS OF SIX FORKS ROAD; TRIANGLE TOWN CENTER; AND BRIER CREEK. THE CAMERON VILLAGE AREA IS ALSO DESIGNATED AS A CITY GROWTH CENTER.

TRANSIT-ORIENTED CENTERS: LOCATED AT STATION AREAS OUTSIDE OF THE DOWNTOWN REGIONAL CENTER WHERE RAIL TRANSIT STOPS ARE PROPOSED, THESE CENTERS ARE PROGRAMMED FOR INCREASED DENSITY AND SPECIAL DESIGN STANDARDS PROMOTING ENHANCED PEDESTRIAN MOBILITY AND REDUCED PARKING REQUIREMENTS. THERE IS SOME OVERLAP WITH CITY GROWTH CENTERS.

THE FUTURE LAND USE MAP

THE FUTURE LAND USE MAP (FLUM) OF THE COMPREHENSIVE PLAN IDENTIFIES MOST OF THE LOTS ADJACENT TO HILLSBOROUGH STREET AS NEIGHBORHOOD MIXED USE. FROM PULLEN ROAD EAST TOWARDS DOWNTOWN THE FLUM IDENTIFIES LOTS ADJACENT TO HILLSBOROUGH AS OFFICE AND RESIDENTIAL MIXED USE – LIMITING RETAIL DEVELOPMENT. ST. MARY’S, NCSU AND MEREDITH ARE ALL IDENTIFIED AS INSTITUTIONAL LAND USES. THERE IS ONE GENERAL INDUSTRIAL LAND USE AT THE DUKE/PROGRESS ENERGY SUBSTATION LOCATION AND A SMALL AMOUNT OF BUSINESS AND COMMERCIAL SERVICE USES IN THE SOUTH-WEST QUADRANT OF THE HILLSBOROUGH STREET AND GORMAN INTERSECTION. ONE SMALL SPECIAL STUDY AREA WAS IDENTIFIED AT THE MORGAN STREET ROUNDABOUT.

NEIGHBORHOOD MIXED-USE

THIS CATEGORY APPLIES TO NEIGHBORHOOD SHOPPING CENTERS AND PEDESTRIAN-ORIENTED RETAIL DISTRICTS. THE SERVICE AREA OF THESE DISTRICTS IS GENERALLY ABOUT A ONE MILE RADIUS OR LESS. TYPICAL USES WOULD INCLUDE CORNER STORES OR CONVENIENCE STORES, RESTAURANTS, BAKERIES, SUPERMARKETS (OTHER THAN SUPER-STORES/CENTERS), DRUG STORES, DRY CLEANERS, VIDEO STORES, SMALL PROFESSIONAL OFFICES, RETAIL BANKING, AND SIMILAR USES THAT SERVE THE IMMEDIATELY SURROUNDING NEIGHBORHOOD. WHILE THIS IS PRIMARILY A COMMERCIAL CATEGORY, MIXED USE PROJECTS WITH UPPER STORY HOUSING ARE ALSO SUPPORTED BY THIS DESIGNATION. MOST OF THE AREAS MAPPED WITH THIS DESIGNATION ARE CURRENTLY ZONED NB (NEIGHBORHOOD BUSINESS) OR SC (SHOPPING CENTER). WHERE RESIDENTIAL DEVELOPMENT COMPLEMENTS COMMERCIAL USES, IT WOULD GENERALLY BE IN THE MODERATE TO MEDIUM DENSITY RANGE (LESS THAN 28 UNITS PER ACRE).

MULTIPLE ZONING DISTRICTS COULD BE DEVELOPED FOR THIS CATEGORY IN THE FUTURE, RECOGNIZING THAT SOME OF THE DESIGNATED AREAS ARE ESTABLISHED NEIGHBORHOOD “MAIN STREETS” AND OTHERS ARE SUBURBAN AUTO-ORIENTED SHOPPING PLAZAS OR STRIP CENTERS. ALTHOUGH HOUSING WOULD BE ALLOWED IN ALL CASES, THERE COULD BE GREATER INCENTIVES FOR “VERTICAL MIXED USE” OR HIGHER DENSITY HOUSING (UP TO ABOUT 40 UNITS PER ACRE) WHERE THESE ZONES ADJOIN FUTURE TRANSIT STATIONS, OR ARE ON TRADITIONAL “WALKING” STREETS.

OFFICE RESIDENTIAL—MIXED-USE

THIS CATEGORY IS APPLIED PRIMARILY TO FRONTAGE LOTS ALONG THOROUGHFARES WHERE LOW DENSITY RESIDENTIAL USES ARE NO LONGER APPROPRIATE, AS WELL AS OFFICE PARKS AND DEVELOPMENTS SUITABLE FOR A MORE MIXED-USE DEVELOPMENT PATTERN. THIS CATEGORY ENCOURAGES A MIX OF MODERATE TO MEDIUM DENSITY RESIDENTIAL AND OFFICE USE. RETAIL NOT ANCILLARY TO EMPLOYMENT AND/OR RESIDENTIAL USES IS DISCOURAGED SO THAT RETAIL CAN BE MORE APPROPRIATELY CLUSTERED AND CONCENTRATED IN RETAIL AND MIXED-USE CENTERS AT MAJOR INTERSECTIONS AND PLANNED TRANSIT STATIONS. THE OFFICE AND INSTITUTION ZONES PROVIDE THE CLOSEST MATCH WITH THE PROPOSED USE PATTERN, ALTHOUGH HIGHER-IMPACT USES SUCH AS HOTELS AND HOSPITALS ARE NOT CONTEMPLATED OR RECOMMENDED IN THIS LAND USE CATEGORY.

NEW RAIL TRANSIT OPPORTUNITIES

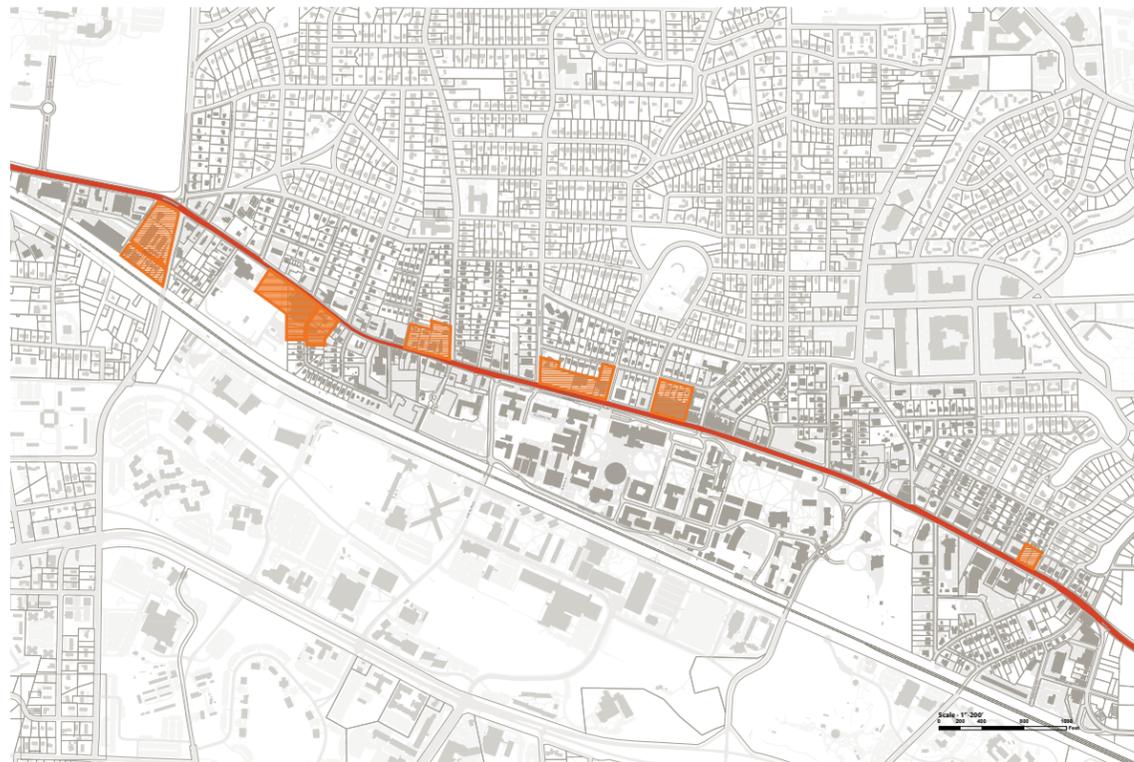
TRIANGLE TRANSIT HAS IDENTIFIED FOUR POTENTIAL LIGHT RAIL STOPS ALONG THE HILLSBOROUGH. THE STATIONS ARE IDENTIFIED AT GORMAN ST, DAN ALLEN AVE, PULLEN AVE AND MORGAN STREET. THE PROPOSED REGIONAL COMMUTER RAIL STUDY IDENTIFIED AN AREA BETWEEN DAN ALLEN AND PULLEN AS A POTENTIAL STATION LOCATION AT NCSU. ALL OF THESE STATIONS AND REGIONAL RAIL TRANSIT PLANNING HAS BEEN SLOWED BY THE LACK OF A DESIGNATED FUNDING SOURCE.

STREETSCAPE CAPITAL IMPROVEMENT PLANS

PHASE II OF THE HILLSBOROUGH STREET STREETSCAPE PLAN (FROM ROSEMARY ST. TO GARDNER ST.) HAS ITS DESIGN FUNDED AND IS IDENTIFIED AS THE FIRST PRIORITY IN THE STREETSCAPE CAPITAL IMPROVEMENT PLAN FUNDING CUE BY THE CITY OF RALEIGH. PHASE IV OF THE HILLSBOROUGH STREET STREETSCAPE (FROM OBERLIN RD. TO MORGAN ST.) HAS BEEN DESIGNATED AS THE THIRD TOP PRIORITY IN THE STREETSCAPE CAPITAL IMPROVEMENT PLAN.

OFF-CAMPUS STUDENT HOUSING

THE MAP IDENTIFIES THE MULTI-FAMILY SITES WITHIN SOUTHWEST RALEIGH IN PROXIMITY TO THE UNIVERSITY. MOST OF THESE DEVELOPMENTS ARE TARGETED TO STUDENTS AT NCSU. BECAUSE OF THE DISTANCE FROM CAMPUS MANY OF THESE STUDENTS COMMUTE TO CAMPUS BY CAR RATHER THAN ON FOOT OR BICYCLE.



STUDY SITES

NCSU ENROLLMENT PROJECTIONS

THE LATEST ENROLLMENT PROJECTIONS FROM THE NCSU LONG RANGE PLAN HAVE BEEN SCALED BACK, BUT THE UNIVERSITY STILL PLANS ON ADDING A SIGNIFICANT NUMBER OF NEW STUDENTS – AROUND 3000 IN THE NEXT 7 YEARS. THEY ARE TARGETING GROWTH IN POST GRADUATE STUDENTS – MASTER’S AND DOCTORIAL IN PARTICULAR.

“REPLACING A PREVIOUS ENROLLMENT PLAN THAT PROJECTED FASTER GROWTH, CHANCELLOR RANDY WOODSON AND PROVOST WARWICK ARDEN RECENTLY APPROVED A LONG-RANGE PLAN THAT CALLS FOR STUDENT ENROLLMENT TO GROW TO 37,000 BY THE YEAR 2020, INSTEAD OF 40,000 BY 2017. NC STATE CURRENTLY HAS JUST UNDER 35,000 STUDENTS.

THE NEW ENROLLMENT PROJECTIONS BETTER FIT THE UNIVERSITY’S STRATEGIC PLAN, THE ADMINISTRATORS SAY, AND AIM TO IMPROVE THE QUALITY OF NC STATE’S ACADEMIC PROGRAMS WHILE MAINTAINING ACCESS FOR NORTH CAROLINIANS. MUCH OF THE PROPOSED GROWTH OVER THE NEXT EIGHT YEARS WILL BE IN GRADUATE STUDENTS, ESPECIALLY DOCTORAL STUDENTS.

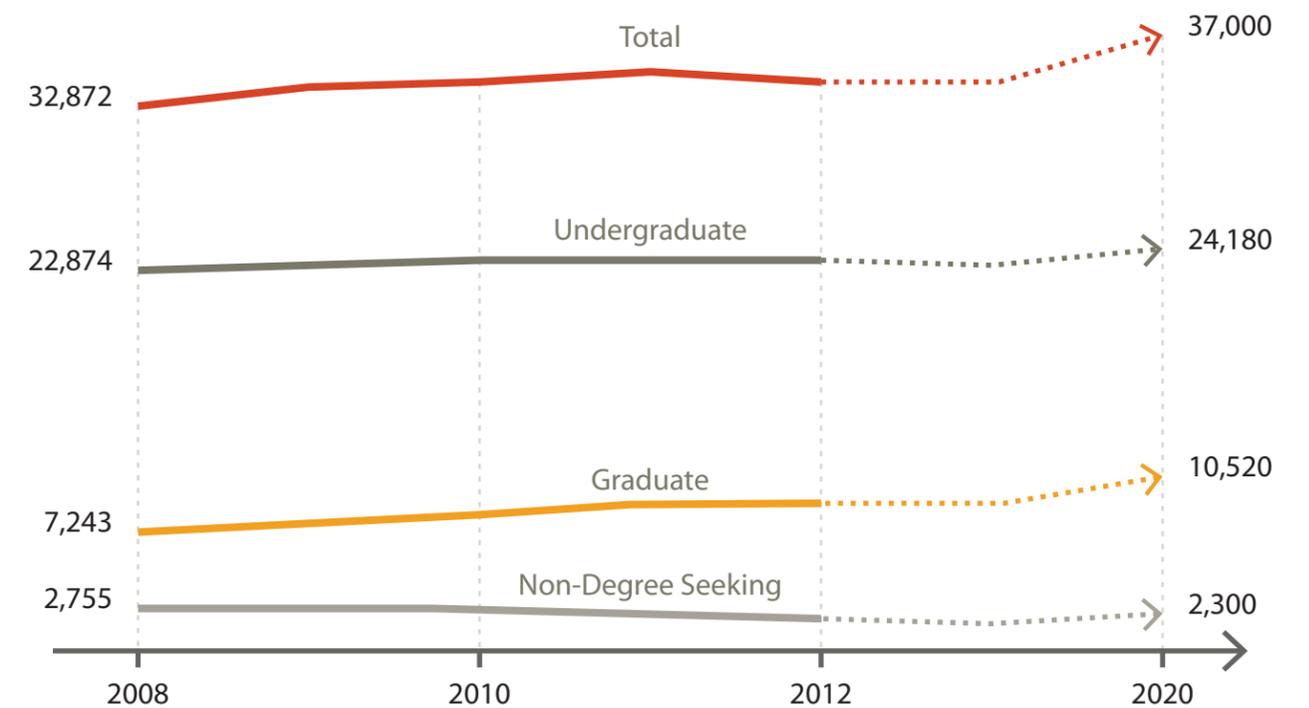
THE TOTAL NUMBER OF UNDERGRADUATE STUDENTS IS PROJECTED TO GROW MORE SLOWLY—BY AROUND 3 PERCENT—WHILE THE NUMBER OF DOCTORAL STUDENTS IS PROJECTED TO GROW BY 29 PERCENT AND THE NUMBER OF MASTER’S STUDENTS WILL RISE BY 16 PERCENT. UNDER THE PLAN, GRADUATE STUDENTS WILL ACCOUNT FOR ABOUT 28 PERCENT OF NC STATE’S STUDENT POPULATION IN 2020, UP FROM ABOUT 25 PERCENT TODAY.”

SOURCE: NCSU STRATEGIC GROWTH WEB SITE

STUDY METHODOLOGY

SITE SELECTION

THE SIX REDEVELOPMENT SITES WERE SELECTED BY THE COMMITTEE TO REPRESENT A BROAD RANGE OF POTENTIAL REDEVELOPMENT ISSUES LIKE – MODELING THE TRANSITION TO EXISTING NEIGHBORHOODS, COSTS OF DEMOLITION FOR EXISTING BUILDINGS, THE HIGH POTENTIAL OF REDEVELOPING SURFACE PARKING LOTS, HOW TO HANDLE STRUCTURED PARKING IN REDEVELOPMENT, THE POTENTIAL OF SITES THAT ARE TWO LOTS DEEP FACING HILLSBOROUGH STREET, THE POTENTIAL OF TOD AND LASTLY A REPRESENTATIVE GEOGRAPHY ALONG THE STREET FROM EAST TO WEST.



NCSU ENROLLMENT PROJECTIONS CHART

CHARACTER ANALYSIS

A BRIEF CHARACTER ANALYSIS WAS CONDUCTED FOR EACH SITE. THE TEAM WAS ESPECIALLY LOOKING FOR CHALLENGES AND OPPORTUNITIES THAT COULD BE USED TO GIVE THE SITE SOME REDEVELOPMENT ADVANTAGE OR DISADVANTAGE. HISTORIC PROPERTIES WERE AVOIDED. SITES WITH SIGNIFICANT TOPOGRAPHIC ISSUES WERE DESIGNED TO MAXIMIZE THE POTENTIAL FOR PARKING AND ACCESS. PROXIMITY TO TRANSIT AND PARKING RESOURCES WERE NOTED.

CURRENT ZONING AND LAND USES

THE CURRENT/FUTURE LAND USES, BASE ZONING AND ANY POTENTIAL OVERLAY ZONING WERE DOCUMENTED FOR EACH SITE. THE ALLOWABLE BUILDING ENVELOPE FOR EACH SITE UNDER CURRENT ZONING WAS DOCUMENTED AND MODELED.

FUTURE ZONING

APPLIED THE SAME OVERLAY RULES TO ALL SITES? NEW URBAN FRONTAGE DESIGNATIONS CARRY THE SAME EXEMPTIONS 16 AND 10K. LIMITED TO WOOD FRAME LOW RISE CONSTRUCTION – TYPICALLY UNDER 85 FEET TO HEIGHT OF TOP FLOOR
1/4 MILE RADIUS TO OFF SITE PARKING

FINANCIAL MODEL METHODOLOGY

THE PURPOSE OF THIS STUDY WAS TO DETERMINE THE FEASIBILITY OF MULTIPLE DEVELOPMENT PROJECTS FROM A DEVELOPER’S STANDPOINT USING COMPLEX FINANCIAL ANALYSIS. WE USED A BLANKET SET OF ASSUMPTIONS THAT WERE ALL CHOSEN BASED ON THE CURRENT STATE OF THE LOCAL MARKET. EMPIRE PROPERTIES HAS PLENTY OF FIRSTHAND EXPERIENCE WITH REAL ESTATE DEVELOPMENTS IN THE DOWNTOWN RALEIGH MARKET, AND WE WERE ABLE TO USE REAL DATA TO FORM OUR ASSUMPTIONS.

FOR A REAL ESTATE DEVELOPMENT PROJECT TO BE FEASIBLE, A DEVELOPER HAS TO BOTH BE ABLE TO DO THE PROJECT AND WANT TO DO THE PROJECT. IN ORDER TO DETERMINE THE OVERALL FEASIBILITY OF A POTENTIAL DEVELOPMENT, WE CREATED AN IN DEPTH PRO FORMA MODEL THAT TOOK INTO ACCOUNT EVERY PIECE OF DATA. WE CHOSE TO BOIL DOWN ALL OF OUR FINANCIAL ANALYSIS INTO TWO INDICATORS OF A PROJECTS SUCCESS: IRR (INTERNAL RATE OF RETURN) AND COST-TO-VALUE.



HILLSBOROUGH STREET ROUNDABOUT AT PULLEN ROAD INTERSECTION



HILLSBOROUGH STREET NCSU AREA

IRR IS A MEASURE OF FINANCIAL RETURNS THAT THE PROJECT PRODUCES FOR AN EQUITY INVESTOR. TYPICALLY, AN OUTSIDE EQUITY INVESTOR FOR A REAL ESTATE DEVELOPMENT WILL SEEK AN IRR THAT IS GREATER THAN 20.00%, GIVEN A MARKET LEVEL OF DEBT FINANCING ON THE PROJECT. IF A PROJECT GENERATES A SUFFICIENT IRR, A DEVELOPER WILL BE ABLE TO DO THE PROJECT BECAUSE HE WOULD BE ABLE ATTRACT ENOUGH EQUITY INVESTMENT TO FINANCE THE PROJECT.

COST-TO-VALUE IS THE DIFFERENCE BETWEEN THE PROJECT'S TOTAL COSTS, AND ITS INITIAL MARKET VALUE UPON COMPLETION. IF COST-TO-VALUE IS A POSITIVE NUMBER, THEN FINANCIAL VALUE HAS BEEN CREATED BY COMPLETING THE PROJECT. THIS IS A GOOD INDICATOR FOR AN OUTSIDE INVESTOR. IF COST-TO-VALUE IS NEGATIVE, IT MEANS FINANCIAL VALUE WAS DESTROYED BY COMPLETING THE PROJECT, WHICH IS A RED FLAG FOR INVESTORS. IF COST-TO-VALUE IS POSITIVE, A DEVELOPER WILL WANT TO DO THE PROJECT.

OF COURSE, REAL ESTATE DEVELOPERS DO NOT ONLY LOOK AT THESE TWO INDICATORS IN ORDER TO DETERMINE WHETHER OR NOT TO PURSUE A SPECIFIC PROJECT. THESE INDICATORS ARE HOWEVER VERY DESCRIPTIVE OF A PROJECT'S LIKELY SUCCESS AND ARE UTILIZED INDUSTRY WIDE.

ASSUMPTIONS

WE MADE NUMEROUS ASSUMPTIONS THAT WE APPLIED TO EACH SPECIFIC PROJECT USING REAL, CURRENT MARKET DATA. OUR ASSUMPTIONS AND JUSTIFICATIONS ARE OUTLINED BELOW:

CONSTANT INTEREST RATE = 5.00%.

WE ASSUMED THAT ALL PROJECTS WOULD BORROW AT A CONSTANT INTEREST RATE. THE CURRENT INTEREST RATE THAT LENDERS WERE OFFERING AT THE TIME OF THE STUDY WAS APPROXIMATELY 5.00%. WE HAVE DIRECT EXPERIENCE OVER THE LAST YEAR WITH NUMEROUS LOCAL LENDERS, AND THIS IS INDICATIVE OF THE CURRENT INTEREST RATE. WE CHOSE AN INTEREST RATE ON THE CONSERVATIVE END OF THE SPECTRUM.

25-YEAR AMORTIZATION FOR RESIDENTIAL PROJECTS.

CASH FLOW GENERATED FROM DEVELOPMENT PROJECTS THAT ARE PRIMARILY RESIDENTIAL USE IS WORTH MORE IN THE CURRENT INVESTMENT MARKET THAN ANY OTHER USE. FOR THIS REASON, LENDERS ARE OFFERING MORE ATTRACTIVE AMORTIZATION SCHEDULES FOR PRIMARILY RESIDENTIAL DEVELOPMENTS. IN ADDITION, LENDERS VIEW THE LEASE-UP RISK OF A RESIDENTIAL APARTMENT PROJECT AS LOWER THAN AN OFFICE OR RETAIL PROJECT.

20-YEAR AMORTIZATION FOR NON-RESIDENTIAL PROJECTS.

CASH FLOW GENERATED FROM PROJECTS THAT ARE GEARED MORE TOWARD OFFICE AND RETAIL USES IS NOT AS VALUABLE AS THAT FROM RESIDENTIAL DEVELOPMENTS IN TODAY'S MARKET. LENDERS ARE CURRENTLY OFFERING SHORTER AMORTIZATION SCHEDULES FOR THESE PROJECTS. LENDERS VIEW THE LEASE-UP RISK OF AN OFFICE AND RETAIL PROJECT AS HIGHER THAN A PURELY RESIDENTIAL PROJECT.

7.00% CAPITALIZATION RATE FOR RESIDENTIAL PROJECTS.

BECAUSE RESIDENTIAL PROJECTS ARE MORE ATTRACTIVE IN THE CURRENT MARKET, WE ARE SEEING LOWER CAPITALIZATION RATES FOR THEM WHEN COMPARED TO OTHER USES. THIS IS A CAPITALIZATION RATE ASSUMPTION THAT IS ON THE CONSERVATIVE END OF THE SPECTRUM.

8.00% CAPITALIZATION RATE FOR NON-RESIDENTIAL PROJECTS.

FOR THE SAME REASONS ABOVE, NON-RESIDENTIAL DEVELOPMENTS ARE NOT AS VALUABLE IN TODAY'S MARKET, SO THEY OFFER A SLIGHTLY HIGHER CAPITALIZATION RATE THAN RESIDENTIAL DEVELOPMENTS. THIS IS ALSO A CAPITALIZATION RATE ASSUMPTION THAT IS ON THE CONSERVATIVE END OF THE SPECTRUM.

SALE OCCURS AFTER 5 YEARS

THIS STUDY ASSUMES THAT A SALE IS MADE FIVE YEARS AFTER THE COMPLETION OF THE DEVELOPMENT. THIS FACTORS INTO THE OBSERVED IRR FOR EACH PROJECT. THIS IS BASED ON TYPICAL INVESTOR TIME HORIZONS.

RENTAL RATE – OFFICE USE = \$25.00 PER RENTABLE SQUARE FOOT, FULL SERVICE.

EMPIRE PROPERTIES OWNS AND OPERATES OVER 600,000 SQUARE FEET OF REAL ESTATE, SPREAD ACROSS MANY DIFFERENT USES. WE USED OUR KNOWLEDGE OF REAL RENTAL RATES AND OUR ACUTE AWARENESS ON THE CURRENT RENTAL MARKET IN SPECIFIC AREAS IN AND AROUND DOWNTOWN RALEIGH. \$25.00 PER RSF IS DIRECTLY IN LINE WITH THE CURRENT MARKET FOR CLASS A OFFICE SPACE IN THE AREA.

RENTAL RATE – RETAIL = \$21.00 PER RENTABLE SQUARE FOOT, NNN.

AGAIN, USING OUR KNOWLEDGE AND SPECIFIC DATA POINTS, WE USED \$21.00 PER RSF AS OUR RENTAL RATE FOR RETAIL USE. THE MARKET AND DEMAND FOR RETAIL SPACE IS QUICKLY CLIMBING, HOWEVER IT IS NOT QUITE AT THE SAME LEVEL AS OFFICE SPACE.



COLLEGE GRILL AT HILLSBOROUGH STREET 1970

RENTAL RATE – RESIDENTIAL = \$1.50 PER RENTABLE SQUARE FOOT, PER MONTH.

AFTER REVIEWING OUR OWN PORTFOLIO AND HAVING A DETAILED MARKET REPORT COMMISSIONED, WE HAVE CONCLUDED THAT THE CURRENT LOCAL MARKET FOR NEW RESIDENTIAL UNITS IS \$1.50 PER RSF, PER MONTH. THE FACTS THAT ARE DRIVING THIS HIGH VALUE ARE THE EXTREMELY HIGH DEMAND FOR APARTMENTS AND CONDOS IN DOWNTOWN RALEIGH. SPECIFICALLY, HILLSBOROUGH STREET CATERES TO BOTH PROFESSIONALS IN THE DOWNTOWN RALEIGH AREA, AS WELL AS THE LARGE STUDENT POPULATION AT NORTH CAROLINA STATE UNIVERSITY.

LAND AND BUILDING ASSEMBLY COST = 150% OF COUNTY TAX ASSESSED VALUE.

EVERY POTENTIAL PROJECT SITE THAT WE OBSERVED IN THIS STUDY INVOLVED THE COST OF ASSEMBLING THE NECESSARY LAND FOR DEVELOPING. NATURALLY, THE ACTUAL ASSEMBLY PRICE OF EACH PROJECT WOULD DIFFER FROM ONE ANOTHER. STILL, WE NEEDED A BLANKET, BASELINE ASSUMPTION TO APPLY TO EVERY SCENARIO. TO ACCOMPLISH THIS, WE ANALYZED THE RECENT LAND AND BUILDING SALES IN THE AREA ALONG HILLSBOROUGH STREET. AFTER CONDUCTING OUR RESEARCH, WE CONCLUDED THAT A GOOD AVERAGE ASSUMPTION FOR ASSEMBLY COST IS 150% OF THE CURRENT COUNTY TAX ASSESSED VALUE.

MARKET RENT GROWTH = 3.00%; EXPENSE GROWTH = 3.00%; VACANCY RATE = 5.00%

WE MADE THESE ASSUMPTIONS FOR YEARLY GROWTH, WHICH ARE INDUSTRY STANDARDS. THE VACANCY RATE IS ALSO AN INDUSTRY STANDARD FOR A TIGHT MARKET.

OPERATING EXPENSES

WE ESTIMATED ALL OF THE OPERATING EXPENSES FOR THESE PROJECTS BASED ON REAL DATA FROM OUR PORTFOLIO. WE ANALYZED NUMEROUS PIECES OF DATA, AND CAME UP WITH NUMBERS FOR EACH DIFFERENT EXPENSE.

DEVELOPMENT COSTS – CONSTRUCTION HARD COSTS

- DEMOLITION AND SITE WORK = \$5.00 PER LAND SQUARE FOOT
- WOOD FRAME SHELL = \$70.00 - \$90.00 PER GROSS SQUARE FOOT
- STEEL/CONCRETE SHELL = \$100.00 - \$120.00 PER GROSS SQUARE FOOT
- CONCRETE SHELL = \$70.00 - \$90.00 PER GROSS SQUARE FOOT
- PARKING – GROUND LEVEL = \$3,500 - \$5,000 PER PARKING SPACE
- PARKING – POURED IN PLACE = \$13,500 - \$16,500 PER PARKING SPACE

- PARKING – PRECAST = \$9,000 - \$11,000 PER PARKING SPACE
- STORM WATER TREATMENT – WET POND = \$25,000
- STORM WATER TREATMENT – RAIN GARDEN = \$50,000
- STORM WATER TREATMENT – SAND FILTER = \$125,000
- HARD COSTS INCLUDE A 5.00% CONTINGENCY COST

ALL OF OUR CONSTRUCTION HARD COST ESTIMATES ARE FROM KLING-STUBBINS, A NATIONWIDE LEADER IN DESIGN AND ENGINEERING SERVICES. THEY HAVE AN IN DEPTH KNOWLEDGE OF THE CURRENT MARKET FOR CONSTRUCTION SERVICES AND PROVIDED ESTIMATES BASED ON HUNDREDS OF ACTUAL PROJECTS NATIONWIDE.

DEVELOPMENT COSTS – CONSTRUCTION SOFT COSTS

- ARCHITECTURAL SERVICES = 5.00% OF TOTAL HARD COSTS
- ENVIRONMENTAL SITE ASSESSMENT = \$10,000
- PERMIT FEES = BASED ON THE CITY OF RALEIGH'S FEE SCHEDULE
- THOROUGHFARE FEES = BASED ON THE CITY OF RALEIGH'S FEE SCHEDULE
- LEGAL AND ACCOUNTING FEES = \$25,000
- REAL ESTATE TAXES = CALCULATED BASED ON THE CURRENT TAX RATES
- GENERAL LIABILITY INSURANCE = \$2.96 PER \$1,000.00 OF TOTAL HARD COSTS
- BUILDER'S RISK INSURANCE = \$0.10 PER \$100.00 OF TOTAL HARD COSTS
- SURVEY FEES = \$5,000
- INSPECTING ARCHITECT'S FEES = \$1,000 PER MONTH FOR DURATION OF CONSTRUCTION
- APPRAISAL FEES = \$10,000
- SOFT COSTS INCLUDE A 5.00% CONTINGENCY COST

OUR CONSTRUCTION SOFT COST ESTIMATES ARE PULLED FROM SEVERAL DIFFERENT CONTRACTORS IN EACH RESPECTIVE FIELD. WE HAVE RECENT, FIRSTHAND EXPERIENCE WITH THESE COSTS IN THE LOCAL MARKET.



2604 HILLSBOROUGH STREET RENDERING BY NEW CITY DESIGN GROUP

DEVELOPMENT COSTS – FINANCING AND CARRYING COSTS

- FINANCE FEE = 1.00% OF TOTAL LOAN AMOUNT
- ORIGINATION FEE = 1.00% OF TOTAL LOAN AMOUNT
- THESE FEES ARE IN CONGRUENCE WITH THE MARKET INDUSTRY WIDE.

DEVELOPMENT COSTS – MISCELLANEOUS COSTS

- DEVELOPER'S FEE = 5.00% OF TOTAL PROJECT COSTS
- LEASING COMMISSIONS = 6.00% OF GROSS AGGREGATE VALUE OF LEASES
- PURCHASE COMMISSION = 3.00% OF TOTAL SITE PURCHASE PRICE

THE DEVELOPER'S FEE IS THE AVERAGE AMOUNT THAT IS WIDELY ACCEPTED BY LENDERS. THE OTHER RATES FOR COMMISSIONS ARE ALSO CURRENT MARKET RATES THAT ARE PAID BY THE DEVELOPER.

CONCLUSIONS

HILLSBOROUGH STREET REMAINS ONE OF RALEIGH'S POTENTIALLY MOST DESIRABLE LOCATIONS, WITH AN AMENITY-RICH ENVIRONMENT AND THE POTENTIAL TO BE TRANSFORMED INTO A TRULY PEDESTRIAN-ORIENTED URBAN CENTER.

THE 1999 WALKABILITY AND REDEVELOPMENT STUDY OUTLINED SEVERAL BROAD OBJECTIVES TO MAKE THE AREA MORE CONDUCTIVE OF PEDESTRIAN AND BICYCLE USE AND CREATED THE VISION THAT LED TO THE PARTIALLY COMPLETED STREETScape IMPROVEMENT PROJECT. IN THE INTERVENING 15 YEARS, HOWEVER, PRIVATE INVESTMENT TO OFFSET THE PUBLIC INVESTMENT IN THE STREETScape HAS BEEN VERY LIMITED.

MUCH OF THE RESIDENTIAL AREA BETWEEN HILLSBOROUGH STREET AND CLARK AVENUE IS PREDOMINANTLY OCCUPIED BY RENTAL PROPERTIES, NOT OWNER-OCCUPIED SINGLE FAMILY HOMES. THIS AREA COULD BENEFIT FROM FURTHER STUDY TO CREATE A TRANSITION ZONE FROM MIXED-USE ON HILLSBOROUGH STREET TO NEIGHBORHOODS NORTH OF CLARK AVENUE.

MOST OF THE DEVELOPMENT SITES IN THE CENTRAL AREA OF HILLSBOROUGH STREET ARE CONFINED TO A NARROW ZONE OF RELATIVELY SMALL PARCELS



CURRENT VS. PROPOSED ZONING - IRR COMPARISON

ABUTTING DIRECTLY TO RESIDENTIAL ZONED PROPERTIES. THE 50 FOOT BUFFER REQUIREMENT ON THESE SITES MAKES DEVELOPMENT VERY DIFFICULT IN MOST CASES.

ECONOMIC FEASIBILITY IS CHALLENGED ON MANY OF THE PROPERTIES BY THE HIGH COST OF LAND ASSEMBLY AND DEMOLITION OF EXISTING BUILDINGS. LARGER PROPERTIES AND EXISTING SURFACE PARKING LOTS ARE MORE ECONOMICALLY FEASIBLE.

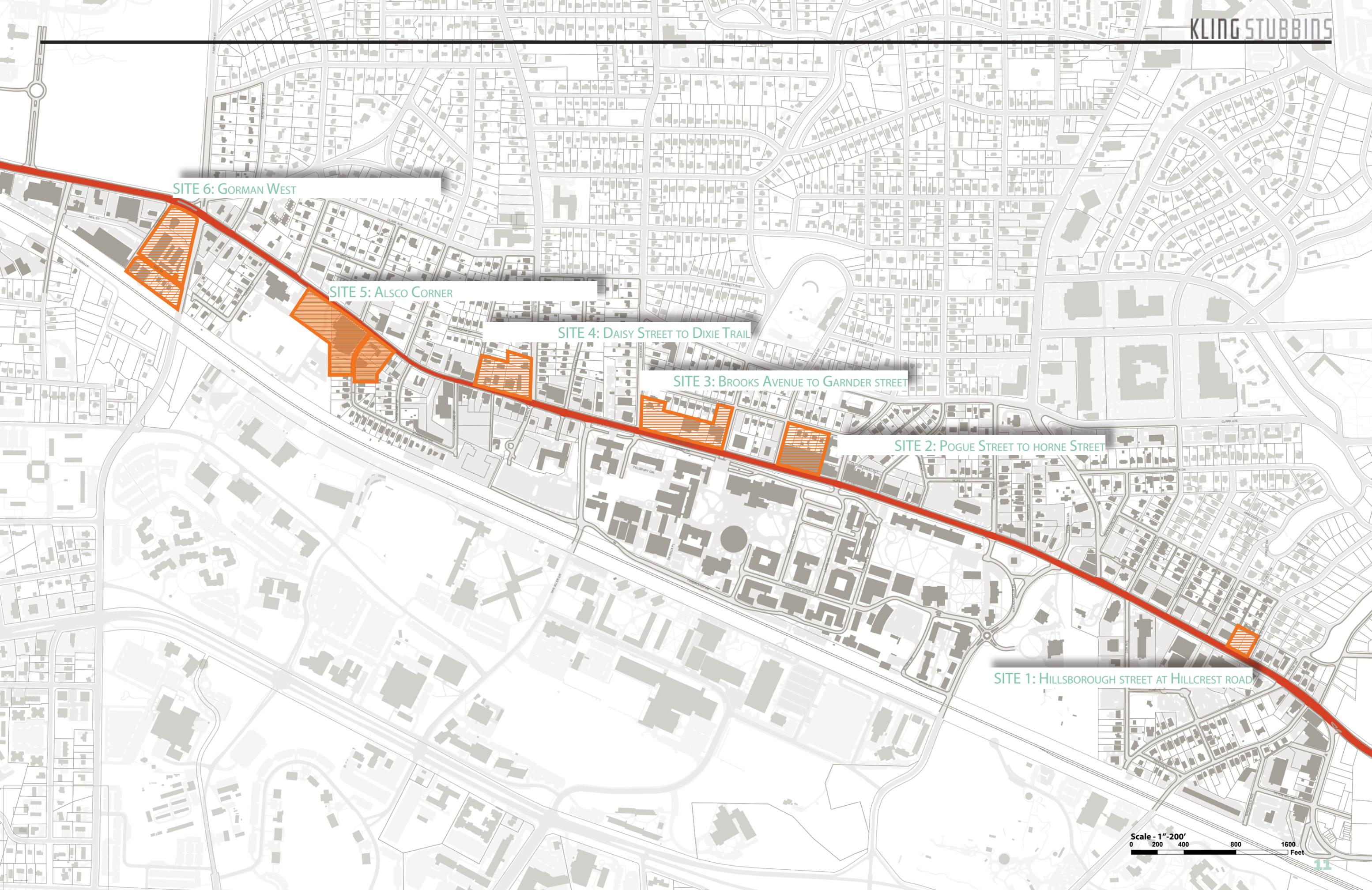
THE PBOD PARKING EXEMPTION FOR RESIDENTIAL PROJECTS WITH 16 UNITS OR LESS MAKES SMALLER STUDENT HOUSING PROJECTS MORE FEASIBLE UNDER CURRENT ZONING.

THE 40 FOOT HEIGHT LIMIT CAPS MOST PROJECTS TO THREE STORIES AS FOUR STORIES OF CONSTRUCTION WITH RETAIL AT GROUND LEVEL IS DIFFICULT TO FIT WITHIN 40 FEET.

RECENT RE-DEVELOPMENT PROJECTS HAVE ENCOUNTERED SIGNIFICANT OBSTACLES AND HAVE HAD TO SEEK RE-ZONING TO BE ECONOMICALLY VIABLE. ANOTHER WOULD NOT BE POSSIBLE UNDER THE UDO WITH ITS NEW 50 FOOT BUFFER REQUIREMENT. BASED ON THE SCENARIOS TESTED FOR THE SELECTED SITES FEW PROVED TO BE ECONOMICALLY FEASIBLE UNDER CURRENT ZONING, AND SOME WOULD BE CHALLENGED EVEN WITH INCREASED ZONING.

IN ORDER TO REACH ITS FULL POTENTIAL, NEW STRATEGIES FOR THE HILLSBOROUGH STREET SHOULD BE STUDIED TO ADDRESS THREE KEY OBSTACLES TO DEVELOPMENT: ZONING FOR HEIGHT AND DENSITY, CREATING REALISTIC TRANSITION ZONES BETWEEN MIXED-USE AND RESIDENTIAL AREAS, AND CREATING A COMPREHENSIVE STRATEGY FOR PARKING THAT DOES NOT RELY ON A PARCEL-BY-PARCEL APPROACH.

WITHOUT ADDRESSING THESE OBSTACLES IT IS LIKELY THAT THE STATUS QUO WILL BE MAINTAINED FOR THE FORESEEABLE FUTURE ON HILLSBOROUGH STREET AS IT HAS FOR THE PAST THIRTY YEARS.



SITE 6: GORMAN WEST

SITE 5: ALSCO CORNER

SITE 4: DAISY STREET TO DIXIE TRAIL

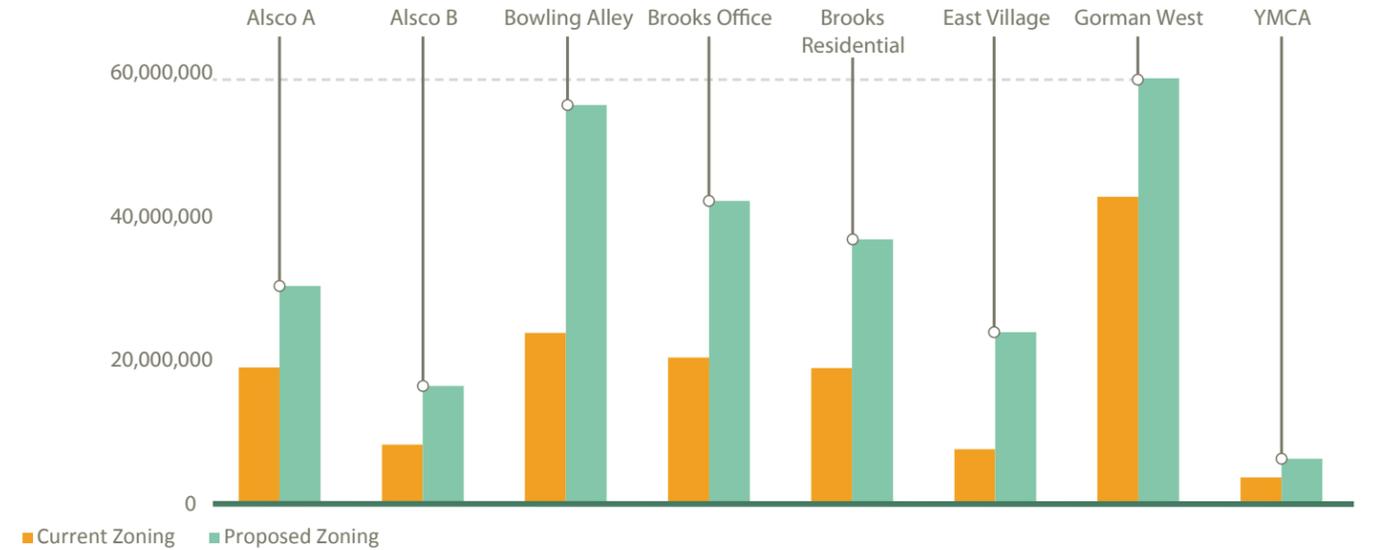
SITE 3: BROOKS AVENUE TO GARNDER STREET

SITE 2: POGUE STREET TO HORNE STREET

SITE 1: HILLSBOROUGH STREET AT HILLCREST ROAD

Scale - 1"=200'
0 200 400 800 1600 Feet

PROJECT	TOTAL VALUE	WAKE RATE=.00534	RALEIGH= .003826	BID= .001
ALSCO A	\$1,625,394	\$8,680	\$6,219	\$1,625
ALSCO B	\$812,147	\$4,337	\$3,107	\$812
BOWLING ALLEY	\$5,903,560	\$31,525	\$22,587	\$5,904
BROOKS	\$2,171,575	\$11,596	\$8,308	\$2,172
EAST VILLAGE	\$2,483,902	\$13,264	\$9,503	\$2,484
GORMAN WEST	\$4,462,114	\$23,828	\$17,072	\$4,462
YMCA	\$357,540	\$1,909	\$1,368	\$358
TOTAL	\$17,816,232	\$95,139	\$68,165	\$17,816



EXISTING TAX REVENUES 2012

PROJECT	TOTAL VALUE	WAKE RATE=.00534	RALEIGH= .003826	BID= .001
ALSCO A	\$20,158,883	\$107,648	\$77,128	\$20,159
ALSCO B	\$8,717,796	\$46,553	\$33,354	\$8,718
BOWLING ALLEY	\$29,293,307	\$156,426	\$112,076	\$29,293
BROOKS OFFICE	\$22,130,281	\$118,176	\$84,670	\$22,130
BROOKS RESIDENTIAL	\$20,650,644	\$110,274	\$79,009	\$20,651
EAST VILLAGE	\$9,718,078	\$51,895	\$37,181	\$9,718
GORMAN WEST	\$46,491,196	\$248,263	\$177,875	\$46,491
YMCA	\$3,617,430	\$19,317	\$13,840	\$3,617
TOTAL	\$160,777,615	\$858,552	\$615,135	\$160,778

POTENTIAL CHANGE IN VALUE UNDER CURRENT AND PROPOSED SCENARIOS CHART

PROJECT	TOTAL VALUE	WAKE RATE=.00534	RALEIGH= .003826	BID= .001
ALSCO A	\$18,533,489	\$98,968	\$70,909	\$18,534
ALSCO B	\$7,905,649	\$42,216	\$30,247	\$7,906
BOWLING ALLEY	\$23,389,747	\$124,901	\$89,489	\$23,389
BROOKS OFFICE	\$19,958,706	\$106,580	\$76,362	\$19,958
BROOKS RESIDENTIAL	\$18,479,069	\$98,678	\$70,701	\$18,479
EAST VILLAGE	\$7,234,176	\$38,631	\$27,678	\$7,234
GORMAN WEST	\$42,029,082	\$224,435	\$160,803	\$42,029
YMCA	\$3,259,890	\$17,408	\$12,472	\$3,259
TOTAL	\$142,961,383	\$763,413	\$546,970	\$142,962

CURRENT ZONING

PROJECT	TOTAL VALUE	WAKE RATE=.00534	RALEIGH= .003826	BID= .001
ALSCO A	\$31,529,524	\$168,368	\$120,632	\$31,530
ALSCO B	\$16,825,665	\$89,849	\$64,375	\$16,826
BOWLING ALLEY	\$60,968,200	\$325,570	\$233,264	\$60,968
BROOKS OFFICE	\$43,891,384	\$234,380	\$167,928	\$43,891
BROOKS RESIDENTIAL	\$38,558,816	\$205,904	\$147,526	\$38,559
EAST VILLAGE	\$26,247,471	\$140,161	\$100,423	\$26,247
GORMAN WEST	\$63,295,845	\$338,000	\$242,170	\$63,296
YMCA	\$6,240,624	\$33,325	\$23,877	\$6,241
TOTAL	\$287,557,529	\$1,535,557	\$1,100,195	\$287,558

CURRENT ZONING

PROJECT	TOTAL VALUE	WAKE RATE=.00534	RALEIGH= .003826	BID= .001
ALSCO A	\$29,904,130	\$159,688	\$114,413	\$29,905
ALSCO B	\$16,013,518	\$85,512	\$61,268	\$16,014
BOWLING ALLEY	\$55,064,640	\$294,045	\$210,677	\$55,064
BROOKS OFFICE	\$41,719,809	\$222,784	\$159,620	\$41,719
BROOKS RESIDENTIAL	\$36,387,241	\$194,308	\$139,218	\$36,387
EAST VILLAGE	\$23,763,569	\$126,897	\$90,920	\$23,763
GORMAN WEST	\$58,833,731	\$314,172	\$225,098	\$58,834
YMCA	\$5,883,084	\$31,416	\$22,509	\$5,883
TOTAL	\$269,741,297	\$1,440,418	\$1,032,030	\$269,742

PROPOSED ZONING

POTENTIAL FISCAL IMPACTS FOR WAKE COUNTY, CITY OF RALEIGH AND HILLSBOROUGH STREET BUSINESS IMPROVEMENT DISTRICT

PROPOSED ZONING

POTENTIAL CHANGE IN VALUE UNDER CURRENT AND PROPOSED SCENARIOS

HILLSBOROUGH STREET COMMUNITY SERVICE CORPORATION

2012 HILLSBOROUGH STREET ECONOMIC DEVELOPMENT STUDY

PREPARED BY KLING STUBBINS