



# 505 W. CHAPEL HILL STREET

REDEVELOPMENT INFORMATION UPDATES

**HR&A**  
Analyze. Advise. Act.

FALL 2022

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# Agenda

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Introduction and Overview

Priorities for Onsite Development

Pathways to Disposition

Decisions for the City

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# Goals for Today

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The goal for today is to present updated information, in order to inform key decision points for Council:

1

Development priorities

2

Role the City wishes to play in site redevelopment

3

Preferred approach to disposition

# Introduction and Overview



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# Current Status

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In Fall 2022, after conducting a two-phase competitive disposition process, the Durham City Council elected to reject both offers it received to purchase and redevelop the site of the former Durham Police Headquarters at 505 W. Chapel Hill Street.



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# Research and Analysis

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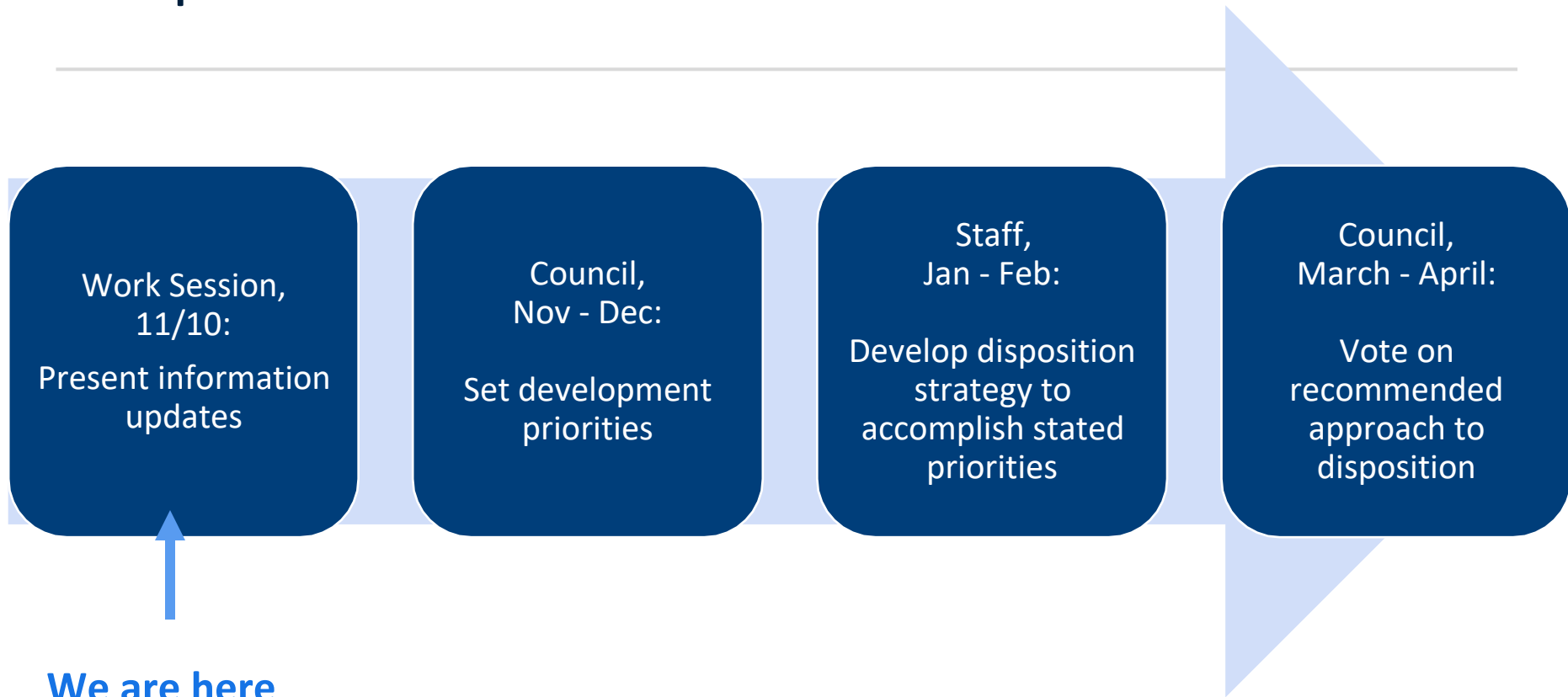
Following this decision, the General Services Department, in coordination with HR&A Advisors, undertook a research and analysis process to inform next steps, including:

- **Demographics and socioeconomic trends** to assess how Downtown Durham has changed;
- Comparison of today's Downtown, citywide, and regional **real estate market conditions since 2018**, when the site first became vacant;
- **Cost estimate to rehabilitate** the existing Milton Small Building by McDonough Bolyard Peck (MBP); and
- Estimate of **site's land value** under different development conditions, led by Valbridge Property Advisors.

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# Proposed Process

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# Priorities for Onsite Development



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# The City had five priorities during the previous solicitation processes, first developed in 2018:

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1. Provide a significant component (minimum of 80 units) of onsite, permanently affordable housing to residents at 60% Area Median Income.



2. Generate significant revenue to the City from the sale of land and future local tax revenues from on-site development.



3. Deliver a complement of commercial uses, such as office, lab, and retail uses supportive of a dynamic downtown environment, with a preference for a minimum of 250,000 SF.



4. Preserve the existing building, designed by celebrated NC architect Milton Small, as part of future development.



5. Deliver a signature project that demonstrates best practices in urban design to create a compelling new landmark for Downtown and promote an activated street-level experience.

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# Affordable Housing

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**Council should consider requiring at least 80 affordable housing units and/or increasing levels of affordability.**

- The Triangle, Durham, and Downtown in particular, are all growing rapidly, leading to **continued demand for housing, and higher rents for new deliveries.**
- **Onsite affordable housing** will help ensure Downtown remains affordable for all residents. Affordable housing was identified as the number one priority during public engagement in 2018 and there is a gap of roughly 800 affordable housing units at 60% AMI in Downtown.
- Affordable units are a **negative on land value**, such that the inclusion of more affordable units, with all else remaining equal, will equate to lower land value. The ultimate number of onsite affordable units and level of affordability could lead to an overall negative land value.

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# Long-Term Site Involvement

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Given today's market context, Council should consider long term involvement to potentially share in increased revenue as the development matures.

- A long-term ground lease will **generate regular lease payments** and potentially allow the City to **share in the growth** of the development's value over time.
- Given ongoing market uncertainty, a ground lease ensures the City **maximizes its financial return** in the long term.
- The City would **forego the upfront lump sum** it would receive in an upset bid public sale.
- The City would **maintain long-term ownership** of the site, securing oversight and stewardship of the property into the future, including ability to maintain permanent affordability for onsite units.

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# Commercial Uses

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Due to an ever-changing office market, Council should consider reducing square footage thresholds for office or lab space or remove the minimum altogether.

- A smaller commercial footprint focused on **flex office/lab space**, accompanied by more residential and other uses (e.g., community space, entertainment space, retail outlets) is a more in line with **current market dynamics**.
- The Downtown Durham market is showing continued demand for office and lab uses, but while robust, it is also a **highly speculative market**.
- Without a mandated development priority for a set amount of commercial space, a developer is **more likely to deliver a heavier share of residential units**, given Downtown's strong demand for apartments.



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# Milton Small Building

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**Council should come to a consensus regarding preservation of the Milton Small Building.**

- Previous engagement identified **community desire** to maintain the existing building. The building is historically significant, important to North Carolina preservationists, and maintains a piece of **Durham's unique Downtown environment.**
- The cost to rehabilitate the building (\$17.4M to return to viable shell condition\*) will have **significant impact on financial offers.** In the past process, Akridge and Ancora did not attach significant value to the building, and the cost to rehabilitate it impacted their financial offers.
- Preserving the building also **impacts the rest of the site's overall design** and development potential.

*\*There will likely be additional costs to bring the building from shell to tenant-ready condition.*

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# Signature Design and Activated Street

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The City should consider the impact of different disposition mechanisms on the ability to secure signature design and an activated street level experience.

- The City has an opportunity to build an **activated street-level experience** in a key Downtown location. As this is one of the last publicly owned sites Downtown, it is one of the **City's last options for influencing design**.
- Depending on the City's level of involvement, developers may attempt to **sacrifice signature design priorities to maintain financial feasibility** in the face of rising construction costs.

# Pathways to Disposition

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# Potential Development Roles

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Given the unsatisfactory land offers from the past process and current market conditions, the City should consider alternative disposition processes in addition to upset bid public sale. Potential roles include:

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Upset Bid Public Sale

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2

**Ground Lease:** The City engages a private partner for a long-term lease for some or all the land. The partner leads the development and day-to-day operations of any buildings.

3

**Prime Developer:** The City would retain ownership and operating and management responsibilities, create a master plan for the site, secure entitlements, conduct site prep and horizontal infrastructure, and select private development partners.



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# Upset Bid Public Sale

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A private partner acquires full ownership of some or all the land and leads development, construction, and day-to-day operations and management.

## PROS

- Maximum upfront returns
- No long-term staff capacity or City resources required

## CONS

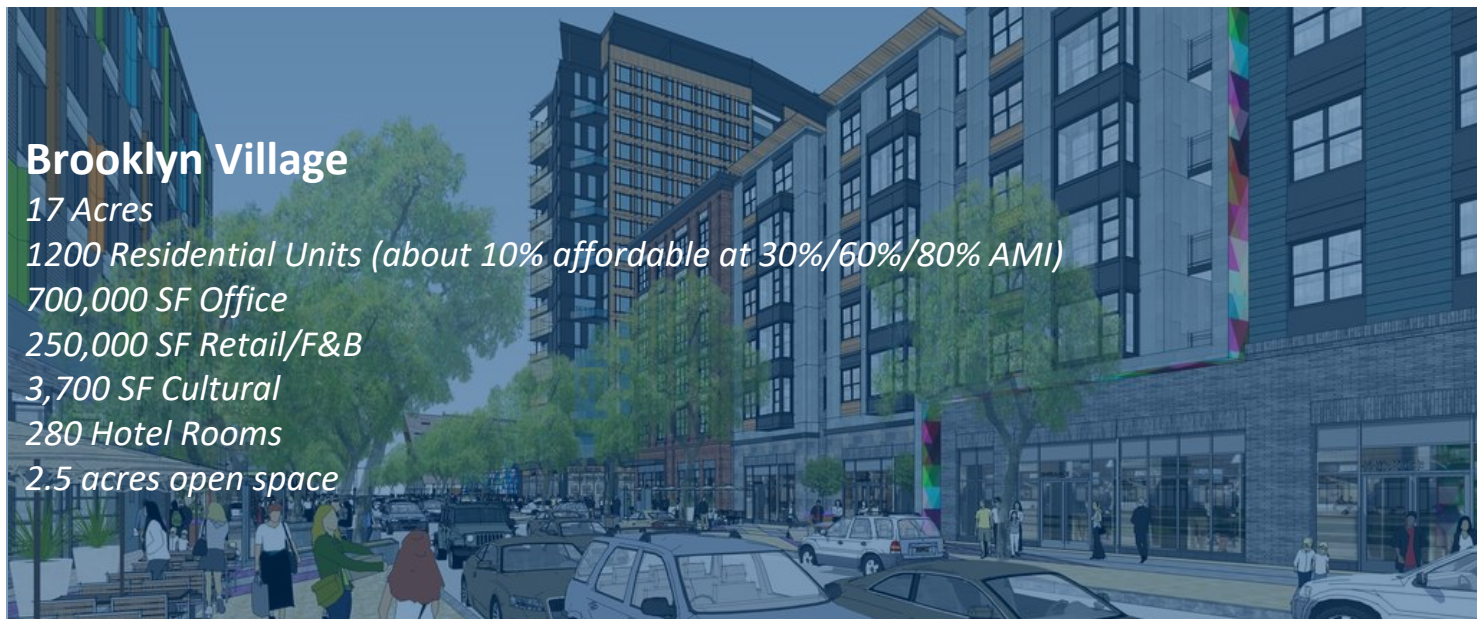
- Little oversight over development and long-term operations and management
- No access to potential benefits from the long-term growth of the market
- Development priorities and market implications will impact financial offers

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# Brooklyn Village RFQ + RFP

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Mecklenburg County oversaw a **competitive RFQ and RFP process** to solicit offers for two sites in Charlotte. The County then **sold the sites**, comprising 17+ acres, to its preferred developer, BK Partners, for \$33.7M. The developer is finalizing plans for Phase 1, which is required to begin by February 2023, including a commitment to **delivering 10% of units as affordable housing**.



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# Ground Lease

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**Ground Lease:** The City engages a private partner for a long-term lease for some or all the land. The City:

- Retains ownership of the land, while private developer engages in planning, site prep, infrastructure, and vertical development
- Enters into a development agreement with Ground Lessee for a defined period of time, typically a minimum of 49 years
- City can retain ownership of land after initial lease term

## PROS

- Transfers risk to the ground lessee while leveraging private sector operations, management, and development efficiencies
- Distributes returns over the course of decades, which is likely to outpace the revenue from up-front one-time sale

## CONS

- No upfront revenue from sale
- Staff capacity, time, and resources required to monitor performance
- Some development priorities may be sacrificed to secure a beneficial lease structure

# GoTriangle RUS Bus Ground Lease

In redeveloping the Raleigh Union Station Bus Facility in Downtown Raleigh, **GoTriangle pursued a ground lease**. GoTriangle conducted an RFQ/RFP solicitation process before selecting a **private partner that met criteria for financial and business terms**. After negotiating with Hoffman Associates, final lease terms include **annual ground rent payments with a 2% annual inflation escalation**, subject to revaluation after 30, 55, and 75 years on a 99-year lease.





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# Prime Developer

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The City retains ownership and operating and management responsibilities, creates a master plan for the site, secures entitlements, conducts site prep and horizontal infrastructure, and selects private development partners

## PROS

- Complete control over site design and development program, making it easier to achieve all development priorities.

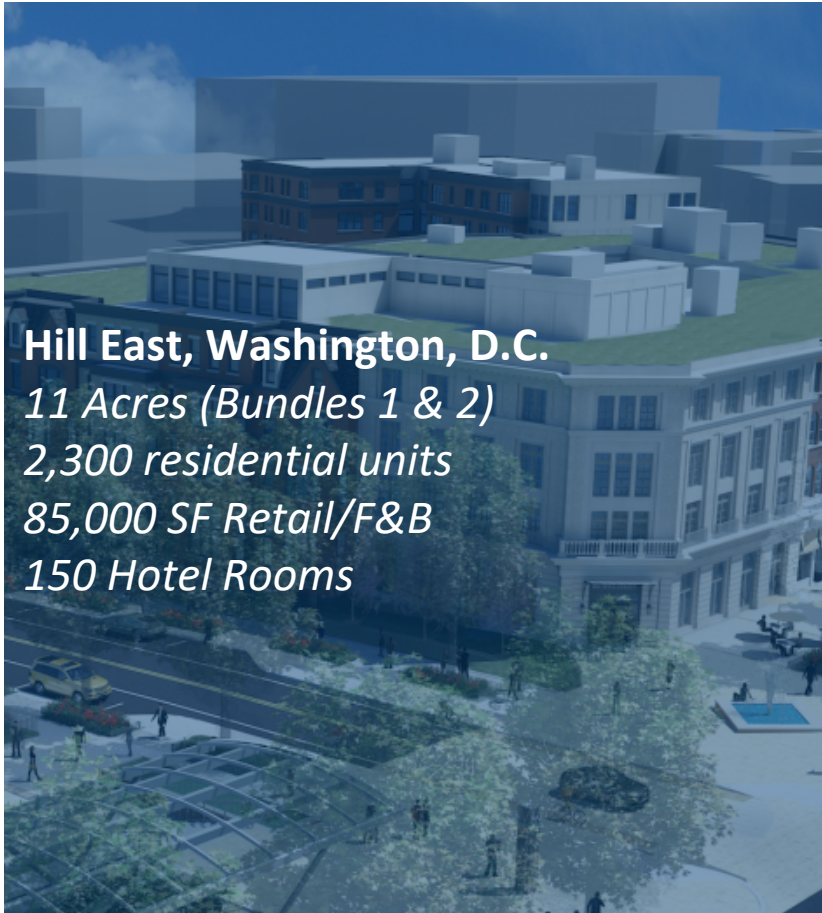
## CONS

- Significant undertaking for the City in terms of staff capacity and time
- The City will also need to expend significant financial resources and bears financial risk for the development
- No upfront revenue, with a long-time horizon for the City to realize payback on its investment

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## Hill East Development, Washington, D.C.

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**Hill East, Washington, D.C.**  
*11 Acres (Bundles 1 & 2)*  
*2,300 residential units*  
*85,000 SF Retail/F&B*  
*150 Hotel Rooms*

**District of Columbia** (The District) is serving as prime developer of the Hill East project. The District is handling **site planning and site prep activities**, including construction of two parking lots and soliciting developers for individual parcels and/or parcel bundles as part of a larger mixed-use vision to **redevelop vacant buildings and replace the DC General Family Shelter.**

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# Mechanism for Disposition

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Each disposition mechanism presents a different balance of potential risk and reward to the City.



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# Mechanism for Disposition

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Depending on the preferred development role of the City, different mechanisms for disposition are available.

## Ground Lease

Competitive RFQ/RFP process with intentional marketing to developers; negotiations to structure lease terms.

## Prime Developer

Involves crafting a development strategy, marketing the site to developers, entitling sites, and selecting developers for individual pads via multiple RFQ/RFPs.

## Upset Bid Public Sale

Competitive RFQ/RFP process with intentional marketing to developers.

# Decisions for the City

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# Next Steps for Council

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1

**Clarify onsite development priorities:** including affordable housing requirements, open space minimums, required minimum of commercial space square footage, preservation of the existing building, and any other land use and/or program requirements Council wishes to pursue.

2

**Determine desired approach:** including whether the City continues to move ahead with a upset bid public sale approach or entertains other options.

3

**Select a mechanism for disposition to achieve these goals:** For a ground lease, this would necessitate executing the RFQ/RFP process to select a development partner and structure a ground lease.



