



HR&A

505 W. Chapel Hill Street



Durham City Council Meeting

December 2022

Redevelopment of 505 W. Chapel Hill Street

Goals for Today

Today we will facilitate a discussion in order to:

-  Reach consensus on onsite development priorities
-  Grant staff “green light” to move forward on developing a disposition strategy to achieve priorities

Redevelopment of 505 W. Chapel Hill Street

Re-cap of ongoing process

In November, Council received an update from staff with new research and market information regarding:

- **Development priorities** that will serve as the foundation for a site disposition strategy, including how market conditions have changed since original priorities were developed in 2018
- **The City's role** in facilitating site disposition
- **Disposition mechanisms** the City can make use of in advancing site disposition

Redevelopment of 505 W. Chapel Hill Street

Re-cap of ongoing process



An aerial photograph of a city campus, likely a university, featuring a mix of modern and traditional architecture, green spaces, and a network of roads. The image is overlaid with a semi-transparent blue filter. The text 'Site Priorities' is centered in the upper half of the image.

Site Priorities

Past Development Priorities

Council must decide which of the original priorities it wants to keep or modify, and if there should be additional priorities.



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.**

Additional Development Priorities

Since the last work session, we understand Council is also interested in the following potential uses being accommodated on site:



Hotel w/ event/meeting space



Museum space



Historical Marker celebrating Hayti's legacy; space for healing and reflection



Cultural amenity space like theater and/or arts space

Defining Final Priorities

Council must now decide which development priorities will inform the next solicitation process, and consider trade-offs when priorities are in direct conflict.



80 units of onsite, permanently affordable housing (60% AMI)



Hotel w/ event/meeting space



Generate significant financial return to City



Museum space



Mixed-use, including significant commercial (office + lab) component



Historical Marker celebrating Hayti's legacy; space for healing and reflection



Preserve and rehabilitate Milton Small building



Cultural amenity space like theater and/or arts space



Compelling new destination + top urban design and activated street level experience

Defining Final Priorities

The desire to generate significant financial return is in direct conflict with the majority of other stated priorities.



Generate significant financial return to City

Maximizing financial return **is in direct conflict** with several of the City's other priorities:

- Affordable housing has a negative impact on land value
- High cost of rehabbing existing building has a negative impact on land value
- Inclusion of cultural/community spaces will not generate revenue



80 units of onsite, permanently affordable housing (60% AMI)



Museum space



Historical Marker/space for healing and reflection



Preserve and rehabilitate Milton Small building



Cultural amenity space

Impacts of Affordable Housing on Site Value

While affordable housing has been identified as a critical priority for this site's redevelopment, its inclusion comes with land value tradeoffs.

-\$70K to -\$91K

*Per unit negative land value for one housing unit at 60% AMI**

\$19K to \$26K

*Per unit positive land value for one market-rate housing unit**

\$89K-\$117K

Opportunity cost tradeoff between one market-rate and one affordable unit

*Ranges derived from Akridge's and Ancora's land value offers in the previous disposition process.

Impacts of Preserving Existing Building on Site Value

As demonstrated in the past two processes, rehabilitation of the Milton Small building has significant negative impacts on the site's land value and reuse is thus unlikely to be accretive.



Preserve and rehabilitate
Milton Small building

Overall cost to return the Milton
Small building to viable condition

\$17M

*Rehab and preservation costs**

Overall cost to improve the
Milton Small building

\$5.4M-\$6.3M

*Additional tenant improvements beyond shell condition***

Total estimated cost to rehab the
Milton Small building

\$22M-\$23M

Total Rehab costs

*From MBP cost estimation report. **Ranges derived from Akridge's and Ancora's land value offers in the previous disposition process. In the previous disposition process, the land value associated with the Milton Small Building ranged from -\$4.5 M to -\$6.1M.

Context – Durham Hotel Market

Given Durham’s strong hotel pipeline, existing convention center, and tepid occupancy, additional hotel/event space may not be highest and best use for the site, though additional market analysis would be needed.

Hotel Market, Downtown

750+

Hotel Rooms

0

Hotel Units Proposed or Under Construction

\$90

RevPAR, 2021-22

*Down from \$95,
2019-2020*

60%

Occupancy, 2021-22

*Down from 70%,
2019-2020*

Hotel Market, City of Durham

8,300+

Hotel Rooms

700+

Hotel Units Proposed or Under Construction

\$70

RevPAR, 2021-22

*Down from \$78,
2019-2020*

61%

Occupancy, 2021-22

*Down from 71%,
2019-2020*

Impacts of Hotel on Other Priorities

The inclusion of onsite hotel/event space is also in conflict with other development priorities.



Hotel with event/meeting space

Hotel and event/meeting space:

- May be difficult to collocate with affordable housing.
- Event/meeting space often requires significant space. HR&A identified 5 peer cities* where on average convention centers are 385K SF. This use of space would impact site's ability to accommodate additional uses.
- Hotel market demand is tepid .
- Best in class design will add to developer costs, impacting land value.

*Peer cities were selected based on similar population growth, downtown population, median income, and the presence of a significant university. The cities include Austin, TX, Tucson, AZ, Raleigh, NC, Richmond, VA, and Chattanooga, TN.



80 units of onsite, permanently affordable housing (60% AMI)



Mixed-use, including significant commercial (office + lab) component



Discussion: Site Priorities

What are your **top two priorities** for the redevelopment of **505 W. Chapel Hill Street**?

Discussion + Prioritization

Onsite development priorities should include:

- Onsite affordable housing units
- Maximum financial return
- Mix of uses, including commercial space
- Preservation of existing building
- Signature design and activated street-level experience
- Hotel w/ event/meeting space
- Museum space
- Historical Market celebrating Hayti and space for healing/reflection
- Cultural amenity space like theater and/or arts space



Discussion: Site Priorities

What **weight** do you assign these different priorities in terms of importance?

Next Steps

1

Disposition Strategy: Drawing from today's decision in defining priorities, City staff will craft a disposition strategy for the site designed to achieve Council's priorities. This strategy will lay out approach for a future solicitation process.

2

Council Approval: City staff will present disposition strategy to Council. After Council approval, staff will launch new solicitation process.

An aerial photograph of a city street grid, showing various buildings, parking lots, and green spaces. The image is overlaid with a semi-transparent blue filter. In the top right corner, the letters "HR&A" are displayed in a white, serif font. In the bottom left corner, the text "505 W. Chapel Hill Street", "Durham City Council Meeting", and "December 2022" is displayed in a white, sans-serif font.

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