



TOWN OF CHAPEL HILL
NORTH CAROLINA

Meeting Date: 6/24/2013
AGENDA #16

EXECUTIVE SUMMARY

Title of Agenda Item: Recommendations from the Real Property Asset Review Group.

Background: At its October 17, 2012 work session, Council received a report on the appraised value of and possible options for property owned by the Town, including 523 East Franklin Street, Old Town Hall at Rosemary and Columbia and the former Sport Art Building on Homestead Road. Information about these properties was requested by the Council in June of 2012. During the work session, some Council Members suggested that staff seek the assistance of local real estate professionals on thinking about the highest and best use for some of the Town's properties based on the condition and value of existing assets, the asset needs of the Town, and the goals of Chapel Hill 2020.

The Manager convened and sought advice from a group of local real estate professionals with diverse areas of real estate expertise. This report transmits the feedback and recommendations developed by the group.

Fiscal Note: Fiscal impacts will depend on Council's direction after consideration is given to the recommendations in this report.

Recommendations: That the Council receive this report.

ATTACHMENTS:

Viewing attachments may require [Adobe Acrobat](#).

Staff Memorandum

Real Property Asset Review Group Participants

MEMORANDUM

TO: Roger L. Stancil, Town Manager

FROM: Jason Damweber, Assistant to the Manager

SUBJECT: Recommendations from Real Property Asset Review Group

DATE: June 24, 2013

PURPOSE

The purpose of this report is two-fold: 1) to share information with the Town Council about the Town's real property assets; and 2) to transmit feedback and recommendations developed by a group of local real estate and business professionals. The real property asset review group worked in coordination with staff to review the Town's property inventory with the goal of determining how to more effectively utilize some of our real property assets.

BACKGROUND

At its October 17, 2012 work session, Council received a report on the appraised value of and possible options for property owned by the Town, including 523 East Franklin Street, Old Town Hall at Rosemary and Columbia and the former Sport Art Building on Homestead Road. Information about these properties was requested by the Council in June of 2012. During the work session, some Council Members suggested that staff seek the assistance of local real estate professionals on thinking about the highest and best use for some of the Town's properties based on the condition and value of existing assets, the asset needs of the Town, and the goals of Chapel Hill 2020.

The Manager convened and sought advice from a group of local real estate professionals with diverse areas of real estate expertise. Individual Council Members offered suggestions about who should serve on the committee (a list of the group members is attached to this report). Council also approved the Manager's suggested charge to this group, which included:

- Collecting additional information on each of the three buildings above;
- Collecting information on all other Town-owned buildings and land;
- A staff assessment of which properties could be considered for immediate disposal and those that have certain restrictions, which will be identified, that could potentially complicate immediate disposal;
- Collecting information on condition of existing space and future space needs for the Police Department and Parks and Recreation Department;
- Collecting information on the condition of the Town's fire stations;
- Exploring other space needs for the future;

- Aligning of needs and assets with the Vision of Chapel Hill 2020; and
- Developing recommendations for Council consideration.

DISCUSSION

Prior to the first meeting of the real property asset review group, Town staff developed an inventory of its real property assets and created corresponding maps in order to better understand what the Town owned, where its properties were located and how it was being used. The inventory includes information on the location of the properties and identifies whether the properties include buildings, parks and/or trails, whether there are known deed restrictions, and what potential challenges might need to be addressed if consideration was given to doing something different with or disposing of the properties.

The property asset group met periodically over several months as more property information was made available, and additional meetings occurred between staff and individual members based on areas of expertise. At the group's inaugural meeting, staff communicated Council's charge and provided members with the inventory and other information regarding Town owned properties to review and digest. At the next meeting, the group identified certain properties, based on their existing conditions and use, to review further to gather information to help determine their potential value, marketability and/or alternative use potential. Those properties included: the Police Station, 9+ acres of undeveloped land at Memorial Cemetery, Fire Stations #3 and #4, 2200 Homestead Road (former Sport Art building), the Parks and Recreation Administration building and property, 523 E. Franklin Street, the old Town Hall building, and portions of the Dry Creek Greenway.

Based on a recommendation from the group, staff engaged land planning consultants to create site profiles for six of the properties above and an environmental consultant to conduct Phase 1 and 2 tests on the Police Station site, which we learned had been used as an ash landfill several decades ago. The purpose of ordering these site profiles was so that the group and staff could better determine development potential of the properties. The group was provided with the site profiles from the land planning consultant as they became available and continued discussion about the highest and best use of the properties. In April, the group determined that enough information had been gathered to begin developing recommendations for the Council's consideration.

Assumptions

The group based their discussions and recommendations on the following assumptions:

- Their task was to analyze town property holdings to determine which could be used differently in order to maximize their highest and best use.
- "Highest and best use," a real estate appraisal and zoning concept, is defined as the use that results in the highest present market value of a property that brings the greatest net return over a given period.

- A priority identified through this process was that revenues generated from potential property sales should be directed toward repairing, renovating or replacing existing public safety facilities as needed.
- The group's analysis and recommendations should not be constrained by existing zoning or existing development review processes (*the group was clear that potential property values could be maximized if Council is open to considering rezoning for certain properties*).

Additional Observations from the Real Property Asset Review Group on Value, Risk and Development Approval Process Costs

Value

Zoning confers value. Rezoning properties to allow greater density and a wider array of uses immediately alters their potential market value. The Council has an opportunity to confer value on some or all of these properties by rezoning them to allow significant density, a variety of uses, or a mixture of uses.

If the group's assumption is correct and a Council goal is to maximize the value of particular town properties through rezoning, the Council might consider also rezoning adjacent properties. This would make land assemblage for larger and more complex development proposals more feasible. (Assembling two or more tracts of land with different owners, in order to create a concept plan for development, can be extraordinarily difficult.) For example, the fire station at Elliott and Franklin is 1.05 acres, not enough land for many uses. The fire station on Weaver Dairy Road is 4.11 acres, but it could potentially have higher value if both it and neighboring parcels were rezoned.

In addition to selling properties, the Town may also have the option of offering ground leases in lieu of sale as a method to maintain long term control of properties while generating taxable value during the term. However, in these cases, the Town would likely have to be willing to subordinate its interest in the property to a potential developer's lender.

Risk

Those seeking a development proposal for a town property, or an assemblage including a town property, understand that they must assume three kinds of risk:

1. *Approval risk*, or the risk of not receiving approval, or receiving an approval that holds less value than his original proposal.
2. *Interest rate risk*, or the risk that interest rates will rise substantially before the potential buyer gets into a position to secure permanent financing on their project.
3. *Market risk*, or the risk that the potential buyer's projected demand for commercial, office or residential space turns out to be wrong because of local, regional or national economic circumstances. Consider what happened to the original developers of Greenbridge and how interest rate and market risk affected them. Consider that in 2006, our local Class A office vacancy rate was very low and developers built speculative office space, much of which still sits empty.

A buyer or developer will be more motivated if regulatory risk is removed. In other words, they will be more likely to purchase property if they know exactly which uses, at which intensities, can be constructed on the site.

Development Approval Process Costs

The group suggested that it is difficult to compare Chapel Hill's development approval process with that of other communities because these processes vary so widely. However, they believe that it would be helpful for Council to keep in mind that a process of indeterminate length, with multiple board reviews, and a Special Use Permit procedure that gives the Council considerable freedom to reject a proposal are all factors a developer must keep in mind as they evaluate what is reasonable to pay for a property.

A beneficial outcome of this group's evaluation process is that Town staff and consultants have completed much of the "due diligence" a potential buyer of these properties would need to perform in order to evaluate a purchase decision. This "due diligence" includes some appraisals (though more are probably needed to determine potential market value of certain properties), the creation of site profiles, and environmental testing on certain properties of particular interest.

RECOMMENDATIONS

There are several overarching themes that emerged as a part of the team's conversation:

- That the Town can receive a higher value for its properties if Council will entitle them to the desired use or "highest and best use" prior to sale.
- That there are sites that can offer positive opportunity for future housing development, both market rate and potentially low-income tax credit housing.
- As we think about redevelopment of these properties, particularly those on major transportation corridors, we encourage the Council to bear in mind our community's need for more commercial goods and services. This is in line with several key Chapel Hill 2020 goals about financial sustainability and our desire to shop locally.
- That the Town use proceeds from any property sales to offset costs for repairing, renovating or replacing existing public safety facilities and/or other public facilities in need of major maintenance or replacement.

Briefly, the following are some of the town properties that the committee does not recommend pursuing sale or development of at this time:

- **Public Housing Units.** Public Housing units make up a large portion of Town owned properties. Currently the need for this housing is too strong to consider disposing of these properties in order to put those sites to a different use. A longer-range strategy might explore redevelopment of these properties.

- Mt. Carmel-Bennett Road property. Town staff has looked into this property in the recent past when a potential buyer expressed interest. We believe this property is too environmentally sensitive to accommodate development at this time.
- Undeveloped sites at Town Operations Center. The committee did not spend much time discussing these sites. We assume that they are being held in reserve for future municipal needs. It should be noted that undeveloped sites at the Town Operations Center could be a viable option for siting of a Public Safety facility that replaces the Police Station and one or more Fire Stations.

Additionally, it is worth noting that while Fire Station #2 (located at 1003 Hamilton Road) is in need of significant maintenance and repair, we did not include recommendations regarding the property in this report due to ongoing discussions and uncertainties related to siting requirements for the station. The Town has received inquiries by neighboring property owners about the potential to develop the site in conjunction with the Town as a public-private partnership similar to the arrangement with 140 West. While existing legislation prohibits this sort of arrangement outside of the Downtown area, the North Carolina General Assembly is currently considering a bill (proposed by the Town of Chapel Hill – “Proposed House Bill 305/Senate Bill 265”) that would permit public-private economic development projects similar in nature to the 140 West arrangement to occur outside of the Downtown area. For this site and possibly others, especially Fire Stations #2, #3 and #4, this would be a worthwhile consideration for the Town.

The committee reviewed several sites identified as those with potential to be used differently or disposed of. These sites are listed below with some key information about each and recommendations for Council’s discussion and consideration.

1. **Police Department**

828 Martin Luther King Jr., Blvd.

Acreage: 10.24

Current Zoning: R-2 zoning

Issues identified: Small stream with undetermined impact, Phase 1 & 2 environmental studies currently underway – preliminary results indicate that some environmental concerns exist at this site. This property may need to be remediated due to environmental issues prior to selling.

Future Potential: SF Yield by zoning use: OI (Office/Institutional)-2= 79,000SF, OI-3= 215,000SF or Mixed Use-Village= 450,000SF

Recommendation: This is a good opportunity to create value on a Town property and realize proceeds that could be used for badly needed new public safety facilities. We recommend that the Council rezone in a fashion allowing commercial, mixed use or high density residential. We recommend granting a wide range of permitted uses, ordering an appraisal of the site, and placing property on market to be sold.

2. **Undeveloped Portion of Memorial Cemetery**

1721 Legion Road

Acreage: 10.1

Current zoning: R-2 zoning

Issues identified: potential access issues from Fordham.

Future Potential: SF Yield: R-2 = 67,000SF, R-4+ 160,000SF, MU-V+ 550,000SF

Recommendation: We recommend that the Town cease sales and service of new plots in the undeveloped portion of Memorial Cemetery and either use the remaining property for new public or private development purposes. This site could be an acceptable location for a new fire station. We recommend that the town do a feasibility study of this site as a new joint police and fire complex. We also recommend that the town analyze the front 2-3 acres of this tract for its feasibility as either a high-density residential site or even for a low-income tax credit residential project. Due to the potential value of the site, a low-income tax credit project would not likely be the “highest and best” use, but it may be worth considering given the values of the Council and community. Some of these uses may require rezoning. A commercial use would likely be problematic at this site because of access constraints.

3. **Weaver Dairy Road – Fire Station #4**

101 Weaver Dairy Road Extension

Acreage: 4.11

Current zoning: OI-2

Issues identified: Limited issues outside of existing use; aligned with 2020; could be developed for mixed use; overall, land may be small for some potential uses.

Future Potential: SF yield = 41,000SF, OI-3 = 87,000.

Appraisal Range: \$470,000 (as improved) - \$2,170,000 (as vacant)

Recommendation: Rezone to allow range of higher intensity uses. This property is on a transit corridor. Evaluate including adjacent properties in the rezoning to add value, which would require negotiations with owners of abutting properties.

4. **Franklin Street - Fire Station #3**

1615 East Franklin Street

Acreage: 1.05 acres

Current zoning: OI-2

Issues identified: Site access issues may exist; rezoning may be difficult without additional acreage and with adjacent neighborhood.

Future Potential: SF Yield: OI-2= 12,600, OI-3 27,000, (15,000SF optimal with parking restraints)

Appraisal Range: \$410,000 (as improved) - \$460,000 (as vacant)

Recommendation: Rezone to allow range of higher intensity uses. Evaluate including adjacent properties in the rezoning, which would require negotiations with owners of abutting properties.

5) **Parks and Recreation Office**

200 Plant Road

Acreage: 3 acres (approximately)

Current Zoning: R-2

Issues identified: Additional parking needed for community center; environmental issues (stream)

Future Potential: Residential

Recommendation: We see two options here:

- a) Evaluate this property's potential as a low-income tax credit housing site.
- b) Rezone to R-5 (or higher density residential) and market the property. Use proceeds to secure new office space for Parks and Recreation Department (potential location yet to be determined).

6) **Former Library**

523 East Franklin

Acreage: .94 acres (approximately)

Current Zoning: R-2

Issues identified: Preservation easement; location in residential neighborhood

Future Potential: Higher density residential or OI-1 or OI-2; existing building 13,500 sq. ft.

Recommendation: Analysis of the existing building and renovation costs suggest to us that there is not a good municipal use for this building. We believe office use may be the best option, but we understand that any office use must be sensitive to the building's location in the Franklin-Rosemary historic district. It has been suggested in the past that this would be an ideal location for the Visitors Center, perhaps a combined Orange County Visitors Bureau office and a University Welcome Center office. There is a preservation easement on this building that might be removed or left in place.

We recommend ordering an appraisal of the building to determine potential market value with the existing easement, as well as the potential value if the preservation status was removed and the property was rezoned to OI-1 or OI-2. If the Town opts to dispose of this property, which we recommend, the most effective option would be to work through Preservation NC, the entity that holds the easement, to help identify potential buyers. Proceeds from the sale of this property could be used to offset costs of other identified asset needs.

7) **Former Sport Art Building**

2200 Homestead Road

Acreage: 14.25 acres

Current Zoning: R-4C

Issues identified: Subject to the Vineyard Square SUP, community garden and affected by a pond and perennial and intermittent streams.

Future Potential: Development Opportunity Area, R-5C to allow greater intensity, Town initiated modification of the existing SUP to allow the property to be sold.

Appraisal Range: \$675,000

Recommendation: Determine stream impacts and developable property, rezone to R-5C to allow greater intensity and place the property on the market to be sold.

8) **Old Town Hall**

100 W. Rosemary

Acreage: 1.0

Current Zoning: TC-1

Issues identified: Community value of building, due to its history

Future Potential: Uncertain

Recommendation: This property has an appraised market value of \$1.7 million, which would be significant income for the town's capital improvements fund. In addition, it is surrounded by properties ripe for new development -- it's a premier location -- that are under single ownership. We see this corner as an excellent downtown location for residential development, and its potential is in some ways greater if the existing building is removed. However, we believe that the question of whether to preserve that building is a community decision. We recognize that there are factors other than market value that should be taken into consideration here.

The adjacent parking lot (West Rosemary Parking Lot) with 14 spaces could be included and add value to the development opportunity. The property around the sites may also be available for sale and could make this a great gateway development opportunity.

9) **Dry Creek**

Near intersection of I-40 and Erwin Road

Acreage: 131.71 acres

Current Zoning: R-1 in buildable area.

Issues identified: 100 year Flood Plain, Located in Urban Services Boundary, also lies adjacent to Future Focus Area #5 – North 15-501

Future Potential: R -1,2 or 3, 26 acres that are buildable are in two separate section and are adjacent to Erwin Road; R-1 = 356,212 SF, R-2 = 429,876, or R-3 = 728,864

Recommendation: Consider selling the two parcels at this site (17.82 acres and 8.26 – divided by Irwin Road) for residential development. Some of the adjacent property that is not developable may be used as a preserve to offer density at other sites throughout Town if a Payment in Lieu were made toward land preservation.

10) East Rosemary Parking (Lot 2)

There is a planning initiative, Rosemary Imagined, on-going for this street. Once complete, we recommend looking into options, including disposing of the property for development purposes, for maximizing the highest and best use of this site.

CONCLUSION

This report reflects the assumptions and recommendations of a group of local real estate professionals about how to maximize the highest and best use of some key Town properties. Town staff is prepared to act on any of the recommendations Council considers worth pursuing and can provide additional information on any of the properties specifically addressed in this report or included in the more comprehensive inventory.

ATTACHMENTS

- 1) Real Property Asset Review Group Participants

Real Property Asset Review Group Participants

- Michael Clayton, Clayton Commercial Realty
- Robert Dowling, Community Home Trust
- John (Jack) Graham, Avison-Young
- David Hartzell, Center for Real Estate Development, Kenan-Flagler Business School (did not participate in drafting of report – out of office)
- Laura Kiley, Kiley and Associates LLC
- Johnny Morris, Morris Commercial
- Roger Perry, East-West Partners
- Paul Snow, Analytical Consultants
- Rosemary Waldorf, Bryan Properties