

WEST ROSEMARY STREET STUDY AREA MARKET ANALYSIS

LORD AECK SARGENT
MARCH 2017

LORD AECK SARGENT CHAPEL HILL - ROSEMARY MARKET ANALYSIS

Exhibit 1 Executive Summary

Background

Noell Consulting Group was engaged by Lord Aeck Sargent (LAS) to conduct an overview market analysis of the Downtown Chapel Hill market, with an emphasis on the Rosemary Street Corridor and the market implications on future development within the Corridor. The following is an executive summary of our findings which was used to aid in the LAS designs for the corridor. Additional information can be found in the accompanying exhibit package.

Land Prices

Land costs in the corridor vary dramatically from \$1M up to \$4.5M per acre. Variables such as the size and configuration of the parcel or assemblage, street frontage, current zoning, mid-block or hard corner location, adjacent uses, and current revenue stream all impact land prices. With construction costs fairly fixed (with variables by use) and soft costs and developer margin consistent with industry standards, the pricing of the land becomes the primary driver behind what densities are needed for new or redevelopment to become financially viable. Generally speaking, land at \$1M or less can support 1-2 stories, land at \$2-3M requires 4-5 stories, and 7-8 stories are required to justify land at \$4.5M. Exceptions exist, but will generally require greater market rents/prices for the real estate product (ie luxury condos or hotels instead of market average pricing), or financial incentives in order to justify lower densities.

Retail

With a lack of household density and more moderate incomes in the trade area, support for additional retail is limited and driven heavily by students and destination users (visitors). This results in demand primarily focused in food and beverage sectors and needing strong visibility and access - particularly for audiences not as familiar with Downtown. With Franklin Street being the primary retail corridor, retail on Rosemary will be even more limited and need to be focused on high visibility corners, ideally those with signalized intersections. Lease rates are in the \$25-30/SF (NNN) range and would need to be brought down closer to \$15-20 to become more attractive for smaller, local businesses. That kind of gap would require subsidies in the range of \$1-1.5M per 1,000 SF of retail desired.

Office

Similar to retail, demand for office uses along the Rosemary Street Corridor is considerably more limited than along Franklin. Given the weakness of retail and poor market conditions to deliver it in a mid-block location, some ground floor space in these locations could be provided as more affordable office. Ideas to increase affordability of the space and promote availability to local entrepreneurs could include limited parking, minimal build-out, shared support space (conference room, break room, restrooms, etc), and/or financial incentives.

Residential

While demand for rental apartments is strong, this product becomes dominated by students and young Millennials. If there is greater community desire for preserving this product for older generations consider tactics such as Age-Restrictions (21+ or 55+) and/or not allowing co-signers. We have not examined the legal conditions for this in NC, but have witnessed its application in many other similar environments around the country.

Affordable Housing

With a strong market demand for rental housing, the production of affordable rental housing will require some form of subsidy. These can be achieved in the form of density bonuses or financial incentives to the developer. With NC laws, financial subsidies in the form of tax abatements are unlikely, and would therefore need to come in the form of land buy-down's, or public financing of portions of the development such as public space or parking.



SOURCE: Noell Consulting Group

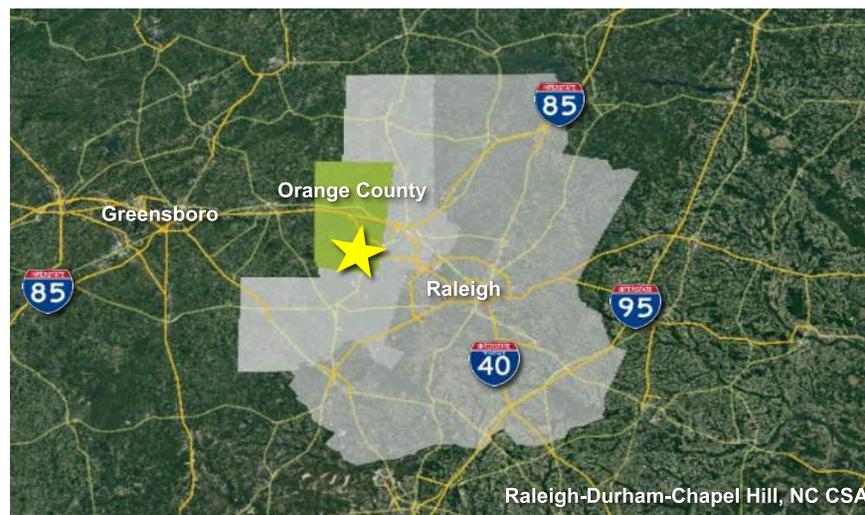
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Exhibit 2 Overview of Metro Area Population Trends

The subject area is located in Downtown Chapel Hill, home to the University of North Carolina at Chapel Hill, one of the top public learning institutions in the country. Along with the city of Durham, Chapel Hill serves as the center of the Durham-Chapel Hill, NC Metropolitan Statistical Area (MSA) and together with the Raleigh, NC MSA comprise the Raleigh-Durham-Chapel Hill Combined Statistical Area (CSA), a region home to over two million people.

The CSA has seen steady growth since 2000, growing at an annual rate of 2.1 to 2.8% since 2000. The vast majority of this growth has occurred in Wake County, home to Raleigh, which has captured roughly 60% of all growth since 2000, with Orange County, where Chapel Hill is located, capturing only 3.4 to 3.7%. Compared to Durham, a peer city, Chapel Hill has seen relatively little growth, growing at only 0.8% annually since 2010 and capturing only 1.1% of all growth in the CSA compared to Durham's 14.3% capture.



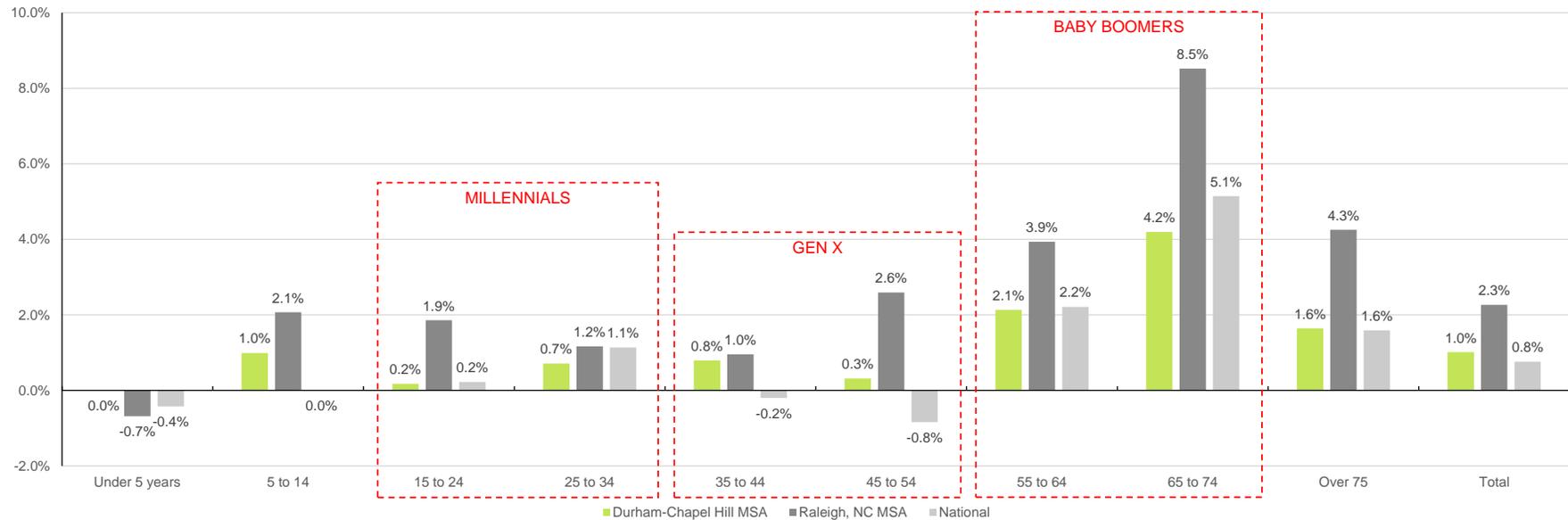
GEOGRAPHY	LAND AREA		POPULATION		ANNUAL GROWTH		ANNUAL % GROWTH		CAPTURE OF REGION	
	SQ MILES	% MSA	2015	% of MSA	2000-10	2010-15	2000-10	2010-15	2000-10	2010-15
Chatham County	682	12.4%	70,928	3.4%	1,418	1,485	2.6%	2.2%	3.1%	3.6%
Durham County	286	5.2%	300,952	14.2%	4,427	6,673	1.8%	2.4%	9.7%	16.3%
Franklin County	492	8.9%	63,710	3.0%	1,336	618	2.5%	1.0%	2.9%	1.5%
Granville County	532	9.7%	58,674	2.8%	1,142	-248	2.1%	-0.4%	2.5%	-0.6%
Harnett County	595	10.8%	128,140	6.1%	2,365	2,692	2.3%	2.2%	5.2%	6.6%
Johnston County	791	14.4%	185,660	8.8%	4,691	3,356	3.3%	1.9%	10.3%	8.2%
Lee County	255	4.6%	59,660	2.8%	883	359	1.7%	0.6%	1.9%	0.9%
Orange County	398	7.2%	141,354	6.7%	1,557	1,511	1.2%	1.1%	3.4%	3.7%
Person County	392	7.1%	39,259	1.9%	384	-41	1.0%	-0.1%	0.8%	-0.1%
Vance County	254	4.6%	44,568	2.1%	247	-171	0.6%	-0.4%	0.5%	-0.4%
Wake County	834	15.1%	1,024,198	48.4%	27,315	24,641	3.7%	2.6%	59.7%	60.3%
Competitive City Comparison										
Cary	54	1.0%	159,769	7.5%	4,070	4,907	3.6%	3.4%	8.9%	12.0%
Chapel Hill	21	0.4%	59,568	2.8%	852	467	1.6%	0.8%	1.9%	1.1%
Durham	106	1.9%	257,598	12.2%	4,130	5,854	2.0%	2.4%	9.0%	14.3%
Raleigh	142	2.6%	451,949	21.3%	12,780	9,611	3.9%	2.3%	27.9%	23.5%
CSA Total	5,511	100.0%	2,117,103	100.0%	45,765	40,875	2.8%	2.1%	100.0%	100.0%

SOURCE: Noell Consulting Group, U.S. Census Bureau

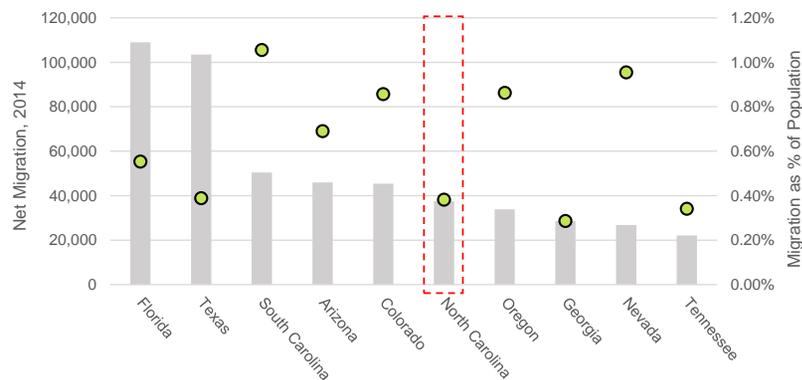


Exhibit 3
 Historical Durham-Chapel Hill & Raleigh Population Growth Comparisons

ANNUAL POPULATION GROWTH BY AGE, 2010-2014



NET MIGRATION, 2010-2014



The data above tracks the Durham-Chapel Hill MSA vs growth in the Raleigh MSA and the nation. The Durham-Chapel Hill MSA lags behind the Raleigh MSA and the nation in almost all age categories, only outperforming the nation in the Gen X age cohort. Despite this, the MSA has seen no negative growth in any age cohorts.

The graph to the left shows the top states in terms of net migration. North Carolina is 6th, although migration is a small percentage of population due to a high base level population compared to states such as South Carolina and Nevada.

SOURCE: Noell Consulting Group and US Census



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Exhibit 4
Age and Income Analysis of the Chapel Hill-Carborro PMA and Comparison to Orange County
2000 - 2016 (estimates)

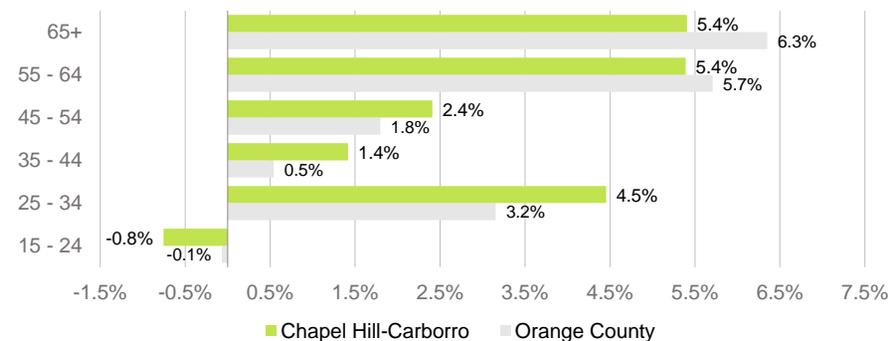
Total Household Growth in Chapel Hill & Carborro Area							
2000 - 2016	15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65+	Total
\$0 - \$25,000	-1,916	-523	-103	-70	245	-98	-2,465
\$25,000 - \$35,000	28	-494	-202	-71	49	117	-573
\$35,000 - \$50,000	236	-63	203	-173	216	215	634
\$50,000 - \$75,000	-108	235	4	177	341	286	935
\$75,000 - \$100,000	85	367	-72	64	289	254	987
\$100,000 - \$150,000	-19	477	-54	48	342	419	1,213
\$150,000 - \$200,000	-3	158	-8	90	238	339	814
\$200,000 +	-8	500	775	868	736	652	3,523
Total	-1,705	657	543	933	2,456	2,184	5,068
Target Audience	0	1,674	848	1,074	2,162	2,165	7,923



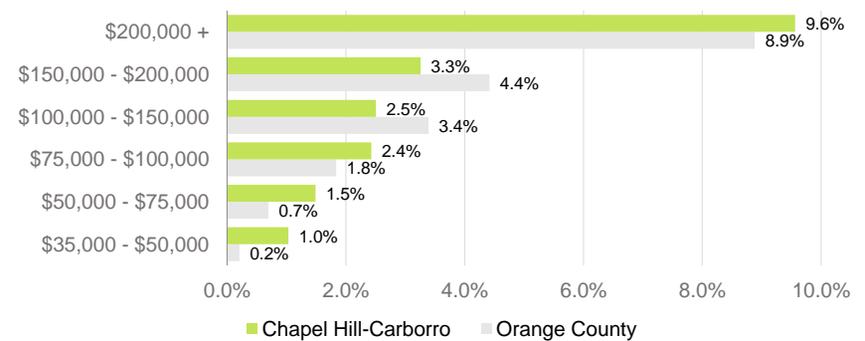
The PMA has added 7,923 household within the target age & income ranges since 2000, or 495 HH/yr.

The Chapel Hill / Carrboro Primary Market Area (PMA) has seen positive growth among almost all age and income groups and this growth is in-line with the county as a whole. This growth has mostly occurred among 25 to 35 years and those aged 55+, with high income households earning \$200,000+ being the highest growing income cohort. These figures show the area to be an attractive location for affluent empty-nester and retirees.

Household Growth By Age (HHs \$50k+ Only)



Household Growth by Income



Source: NCG, Nielsen, US Census Data

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Exhibit 5
Summary of Renter Households in the Chapel Hill-Carborro, 2016

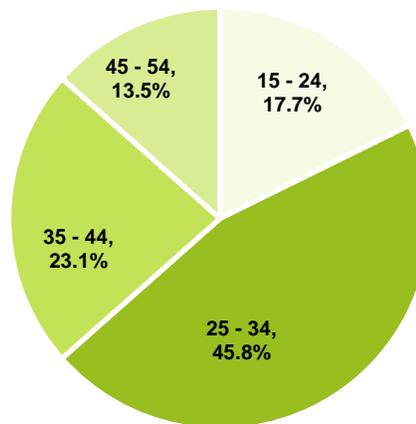
Income/Age	15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75 - 84	85+	Total
Less than \$15,000	2,816	1,111	421	208	145	51	69	59	4,881
\$15,000 - \$24,999	1,033	786	307	94	57	40	62	53	2,432
\$25,000 - \$34,999	942	592	233	123	77	42	53	41	2,103
\$35,000 - \$49,999	823	1,403	655	211	125	87	89	55	3,447
\$50,000 - \$74,999	243	904	394	270	152	72	59	35	2,129
\$75,000 - \$99,999	118	410	200	153	83	50	33	15	1,062
\$100,000 - \$149,999	8	189	118	101	53	31	16	11	528
Income \$150,000 +	1	176	187	171	88	46	24	7	700
Total	5,985	5,571	2,516	1,332	780	418	406	275	17,283
Target Audience	1,194	3,082	1,554	907	0	0	0	0	6,737

Unlike the previous exhibit which tracked growth among all households, this exhibit is looking at a snapshot of current renter households within our Chapel Hill / Carborro PMA. As with the previous exhibit, we've highlighted a target audience who would be the primary demographic for new non-student multifamily construction. Renters in the PMA earn primarily between \$35,000 - \$75,000 (73%), meaning the lower end of that spectrum can spend no more than \$875 per month on rent without being considered rent distress (more than 30% of income on rent). This group is primarily Millennials who are single, with a strong concentration of roommates and married couples.

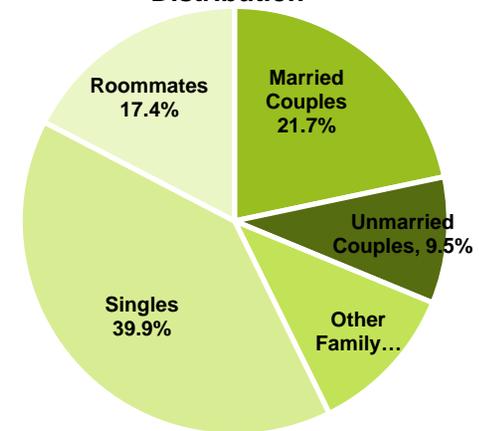
Target Market Income Distribution



Target Market Age Distribution



Target Market HH Type Distribution



SOURCE: Noell Consulting projections based on data obtained from the US Census and Claritas, Inc.



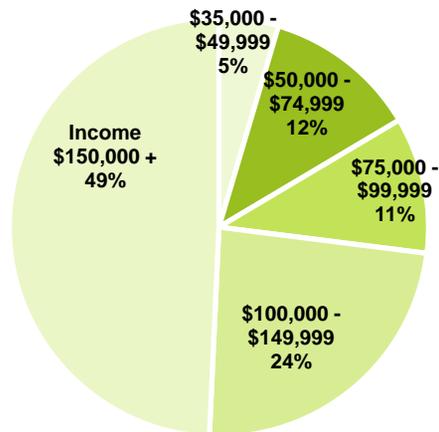
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Exhibit 6
Summary of Owner Households in the Chapel Hill-Carborro PMA, 2016

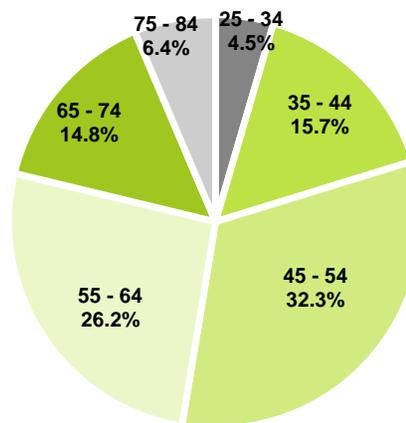
Income/Age	15 - 24	25 - 34	35 - 44	45 - 54	55 - 64	65 - 74	75 - 84	85+	Total
Less than \$15,000	13	36	70	87	93	34	34	20	387
\$15,000 - \$24,999	5	26	52	40	37	27	31	18	236
\$25,000 - \$34,999	6	27	55	74	70	40	37	19	328
\$35,000 - \$49,999	5	63	149	122	111	80	60	25	615
\$50,000 - \$74,999	4	116	258	449	388	189	114	46	1,564
\$75,000 - \$99,999	3	84	208	403	336	210	100	31	1,374
\$100,000 - \$149,999	1	141	451	980	793	479	181	81	3,106
Income \$150,000 +	0	173	937	2,168	1,705	931	361	67	6,343
Total	38	667	2,179	4,322	3,534	1,991	918	306	13,955
Target Audience	0	577	2,003	4,121	3,333	1,889	816	0	12,739

Once again we're looking at a snapshot of households, this time owner households. This allows us insight into the demographics of owner households within the primary market area. We've outlined a target audience, which is the demographic group that would be found purchasing new home construction. Owner households within the PMA are highly affluent, with over 49% earning over \$150,000 and are typically married couple households. The owner households are spread fairly evenly among all age groups outside of the extreme ends.

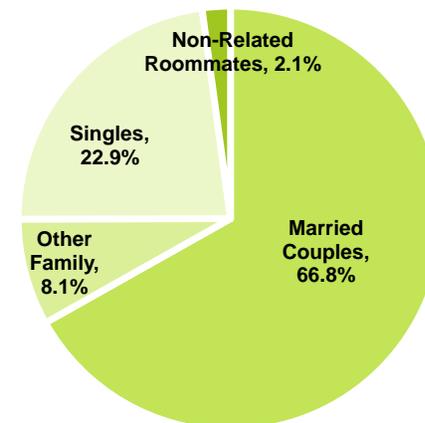
Target Market Income Distribution



Target Market Age Distribution



Target Market HH Type Distribution

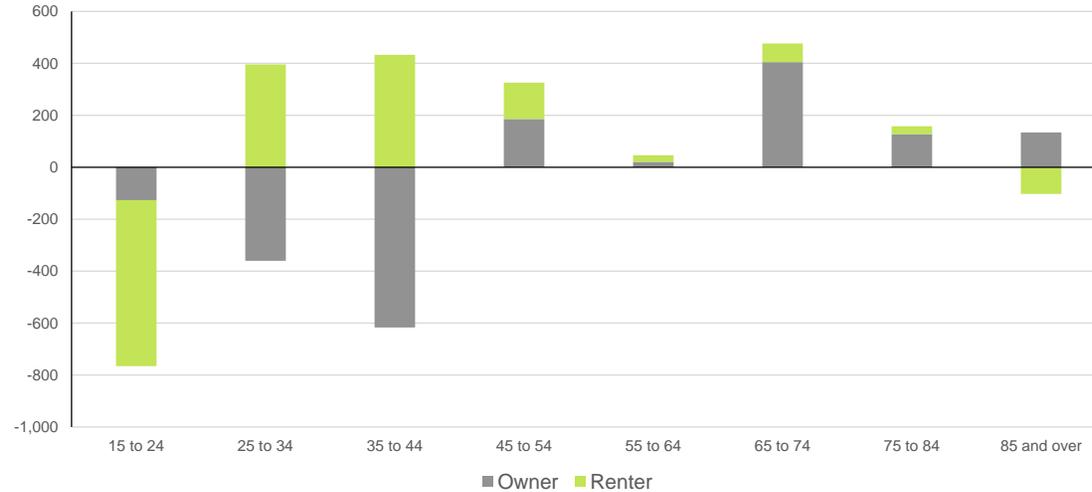


Source: NCG, Nielsen, US Census Data



Exhibit 7
 Change in Household by Age, Type, and Tenure 2010-2015, City of Chapel Hill

CHANGE IN HOUSEHOLD BY AGE AND TENURE

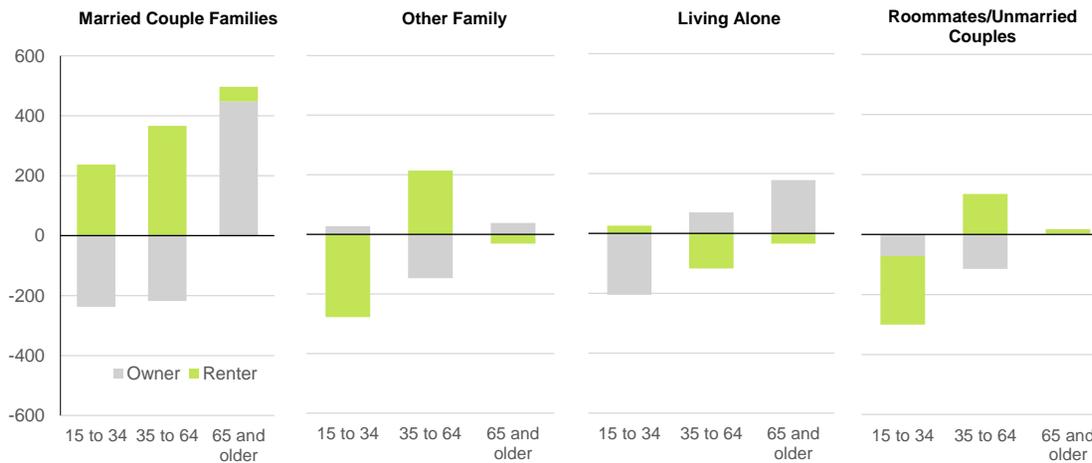


The graphs within this exhibit show how households within the City of Chapel Hill have grown (or decreased) since 2010 for both renters and owners.

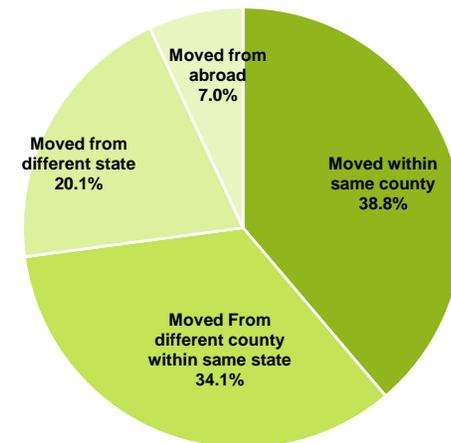
Owner households have declined for those under 45, while the empty-nester / retiree population has seen an increase in home ownership in the city. The majority of households growth has come among married couples, with renter households making up the majority of that growth.

This indicates a city that is attractive to older households, such as retirees, but has difficulty attracting / retaining younger households.

CHANGE IN HOUSEHOLD BY TENURE, TYPE AND AGE



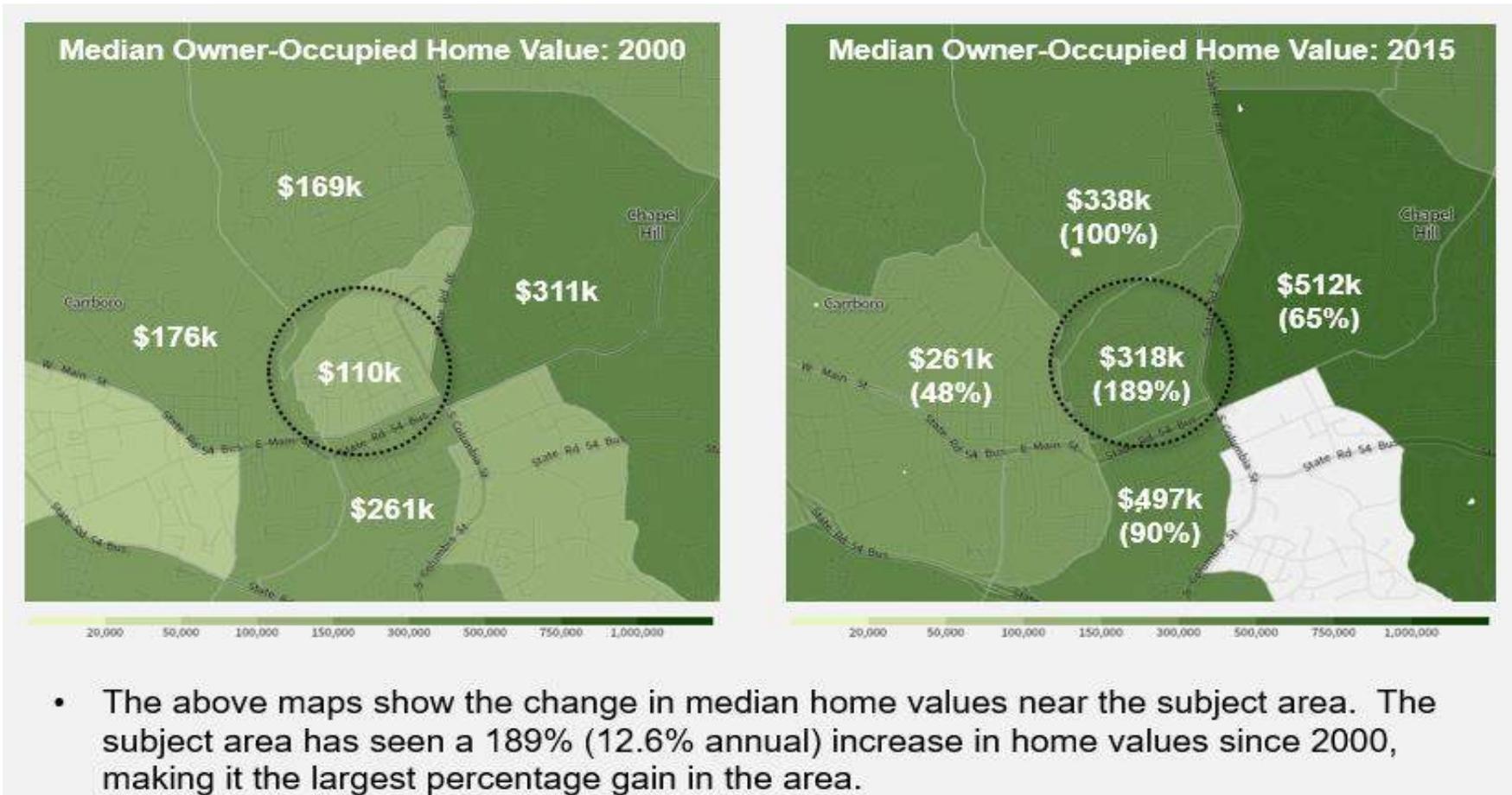
PREVIOUS RESIDENCE, MOVERS THE PAST YEAR



SOURCE: Noell Consulting Group and US Census



Exhibit 8
Changing Demographics near Subject Area

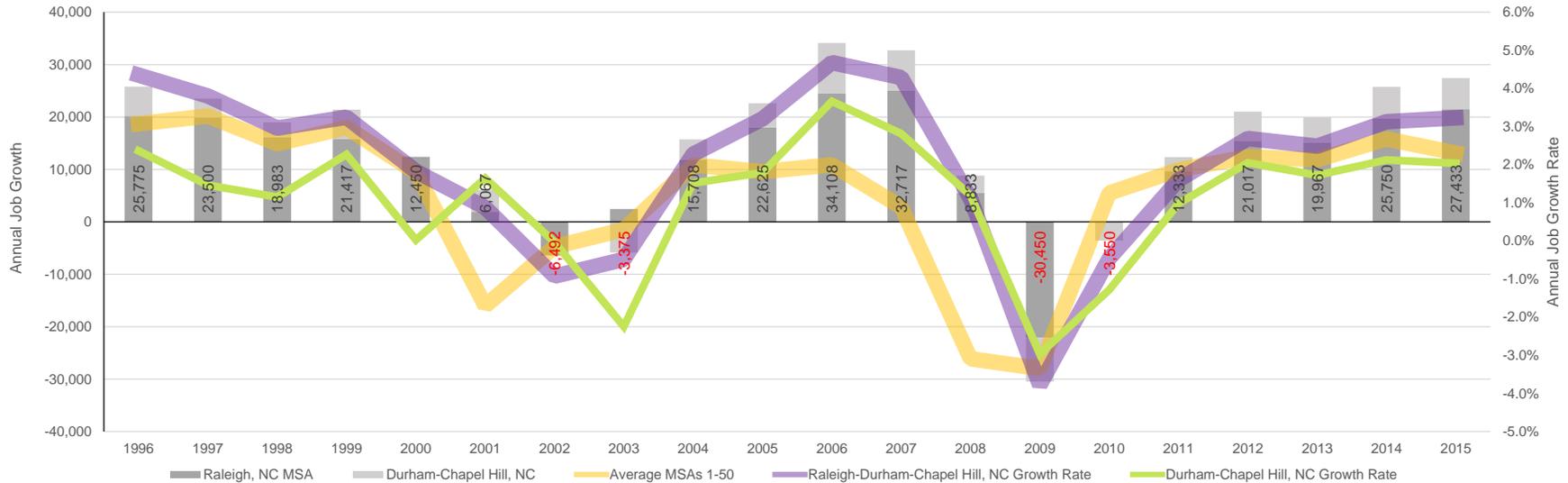


SOURCE: Noell Consulting Group

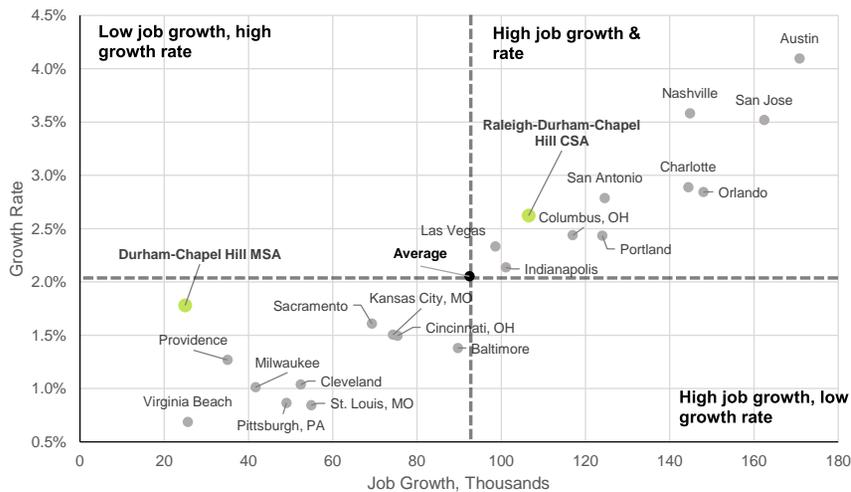


Exhibit 9
 Raleigh & Durham-Chapel Hill MSAs Historical Job Growth vs. Peer MSAs

JOB GROWTH, RALEIGH-DURHAM-CHAPEL HILL VS TOP 50 MSAs



PEER MSA JOB GROWTH, 2010-2015



What we're viewing here is the combined absolute job growth of the Raleigh MSA with the Durham-Chapel Hill MSA which comprises the majority of the Raleigh-Durham-Chapel Hill Combined Statistical Area (CSA). We're then tracking the CSA's job growth vs that of Durham-Chapel Hill, NC. Durham-Chapel Hill lags behind the average Top 50 MSAs in terms of annual job growth rate and that of the Raleigh MSA.

The chart to the left offers another visualization, this time against 20 peer MSAs (those of a similar size to the Raleigh-Durham Chapel Hill CSA). The CSA has seen both a higher than average growth rate and gain in terms of absolute jobs compared to peer cities, however, Durham-Chapel Hill lags behind slightly in terms of percentage growth.

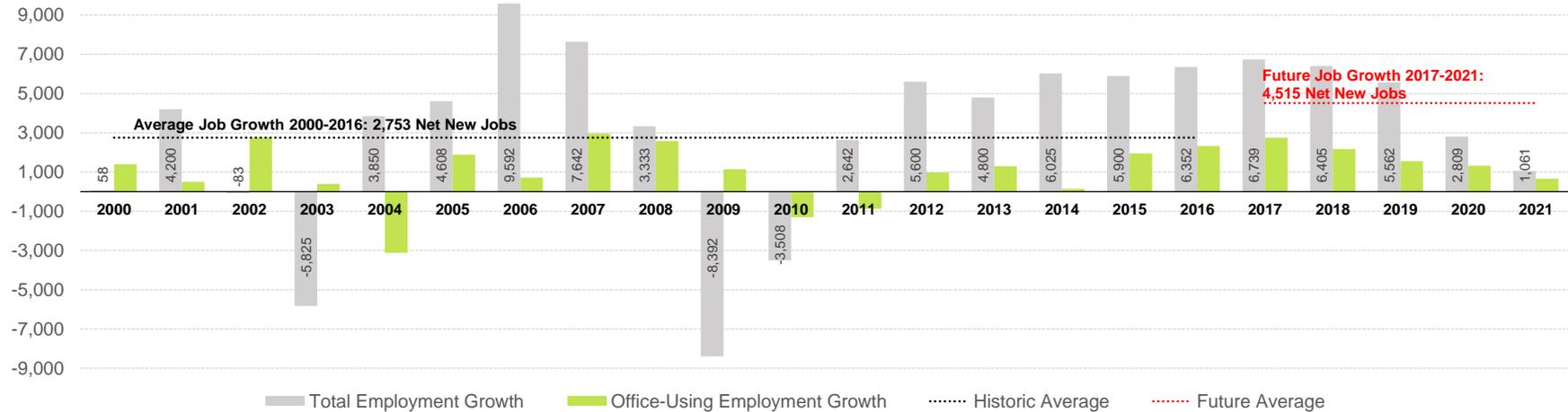
SOURCE: Noell Consulting Group and Costar



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Exhibit 10

Overview of Chapel Hill-Durham MSA Employment Growth by Industry Type & Real Estate Product



Industry Sector	Growth, 2000-2016	Share of Growth	Predicted Future Growth, 2017-2021	Share of Growth	Type of Space Used
Natural Resources & Mining	-25	0%	5	0%	N/A
Construction	-1,926	-4%	1,116	7%	N/A
Manufacturing	-14,795	-32%	-360	-2%	Industrial
Wholesale Trade	1,176	3%	279	2%	Industrial
Retail Trade	766	2%	2,083	13%	Retail
Transportation, Warehousing, & Utilities	612	1%	68	0%	Industrial, Office
Information	-1,105	-2%	116	1%	Flex, Office
Financial Activities	4,935	11%	542	3%	Office
Professional & Business Services	7,973	17%	2,837	18%	Office
Education & Health Services	28,224	60%	5,220	33%	Institutional, Office, Retail
Leisure & Hospitality	8,070	17%	2,372	15%	Retail, Hotel
Other Services	698	1%	246	2%	Retail, Institutional, Industrial
Government	12,131	26%	1,314	8%	Office, Industrial, Institutional
Totals	46,735		15,837		

The Chapel Hill-Durham MSA has seen 2,753 net new jobs annually from 2000 to 2016, with Moody's Analytics predicting 4,515 net new jobs annually from 2017 to 2021. This growth is primarily concentrated in retail, professional & business services, education & health, and leisure & hospitality and accounts for 79% of all growth.

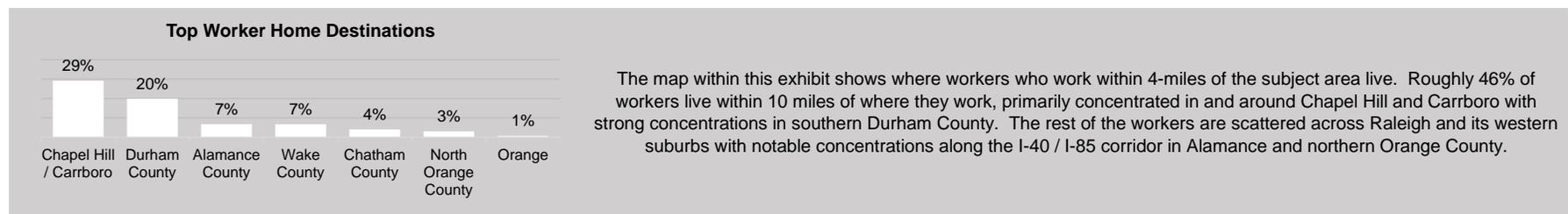
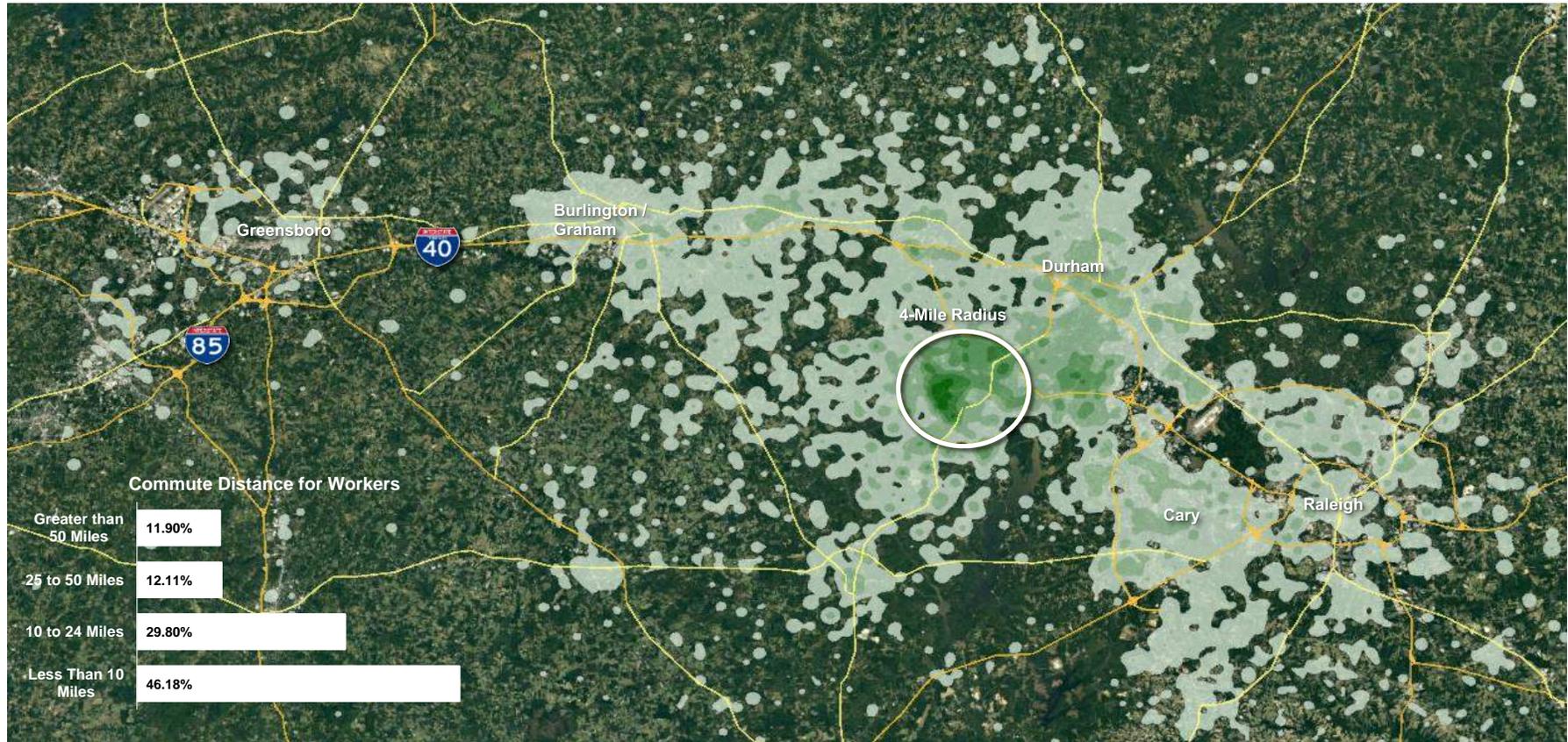
This bodes well for future retail uses, as strong growth is predicted in industries that use retail spaces.

According to Moody's Analytics, the economy is expected to diversify, with education & health services dropping from 60% of all job growth from 2000 to 2016, to 33% moving forward.

SOURCE: Noell Consulting Group, Moodys / Economy.com



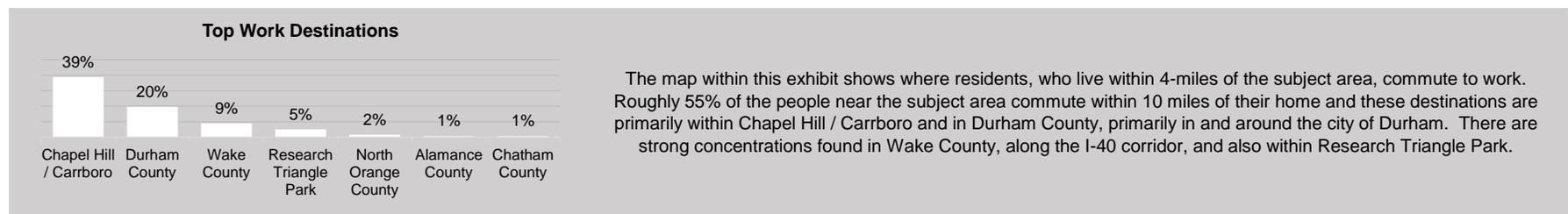
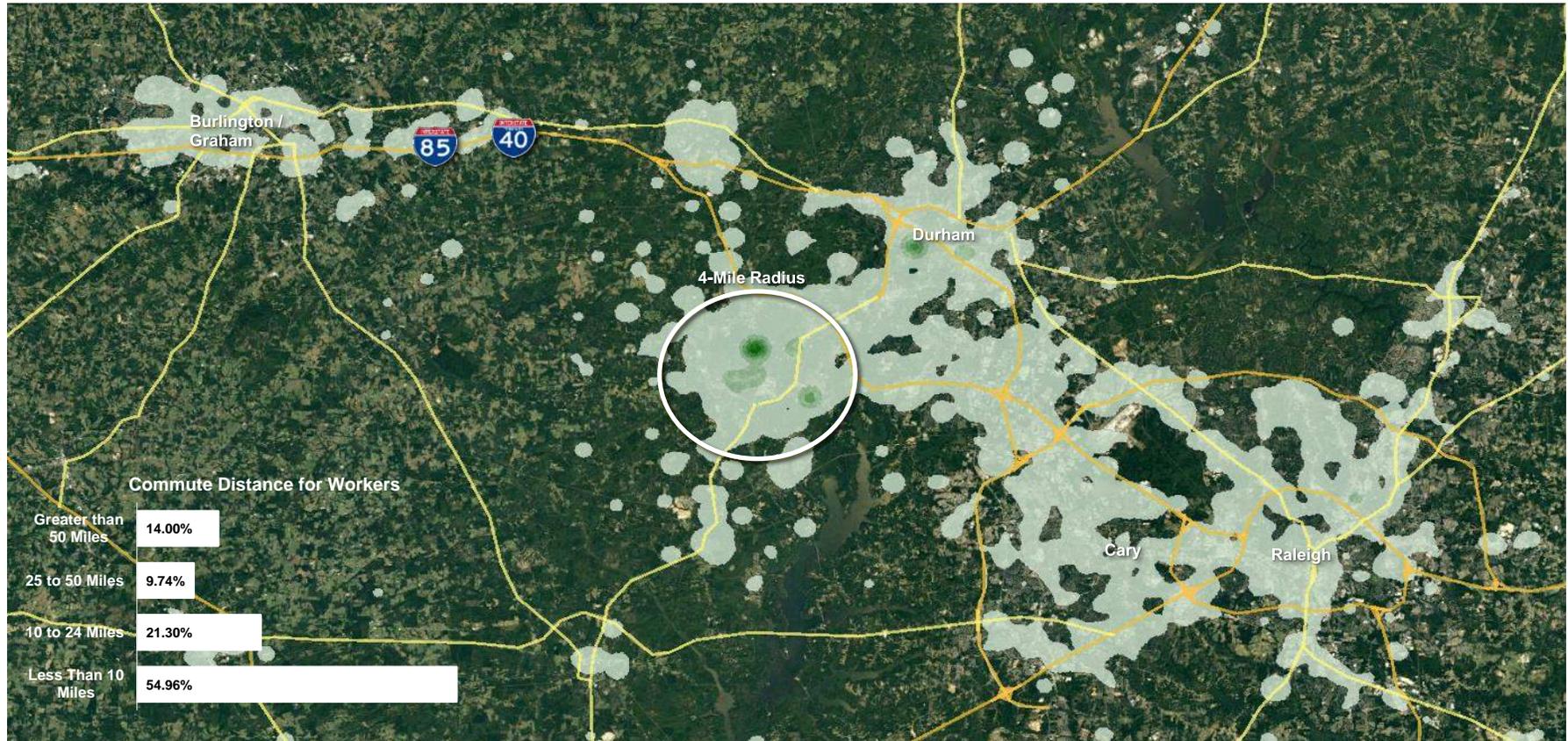
Exhibit 11
 Home Destination for Workers near the Subject Area



SOURCE: Noell Consulting Group, Google Maps, US Census



Exhibit 12
 Work Destination for Residents near the Subject Area

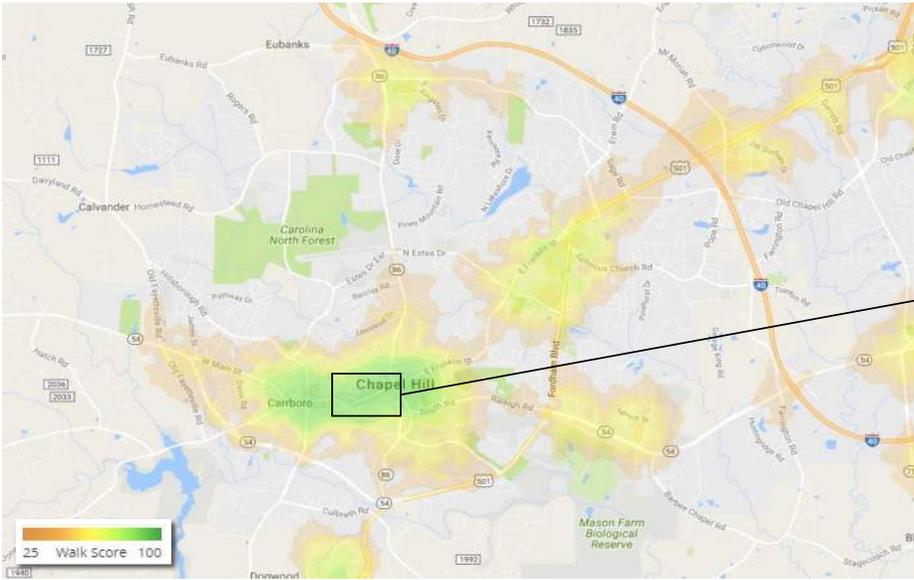


SOURCE: Noell Consulting Group, Google Maps, US Census



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Exhibit 13
Walkability and Crime Near the Subject Site



The subject area is in the most walkable portion of Chapel Hill and will appeal to those who value the ability to walk to neighborhood amenities such as retail, restaurants, school, and jobs. Increasingly, Millennials and seniors are looking for walkable environments, with studies showing 80% of 18 to 34-year old's wanting to live in walkable neighborhoods and 60% of those over 50 want to live within one mile of daily goods and services per AARP surveys.

However, the subject area is found in one of the only areas with high concentrations of crime per Trulia.com's crime map, although this is primarily due to the areas location to Chapel Hill's bar district and this concentration of crime is often found in retail areas and business districts due to petty crimes of opportunity.

SOURCE: Noell Consulting Group, WalkScore.com, Trulia.com



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Exhibit 14
Chapel Hill For-Sale Product Recent Sales



There have been two recent condominium deliveries near the subject site with recent sales in the \$300-\$400 / SF range.

While there have been some townhome sales near Rosemary Street, newer townhomes have primarily been built in the more suburban areas of Chapel Hill. These communities range from \$114-\$159 / SF in recent sales.

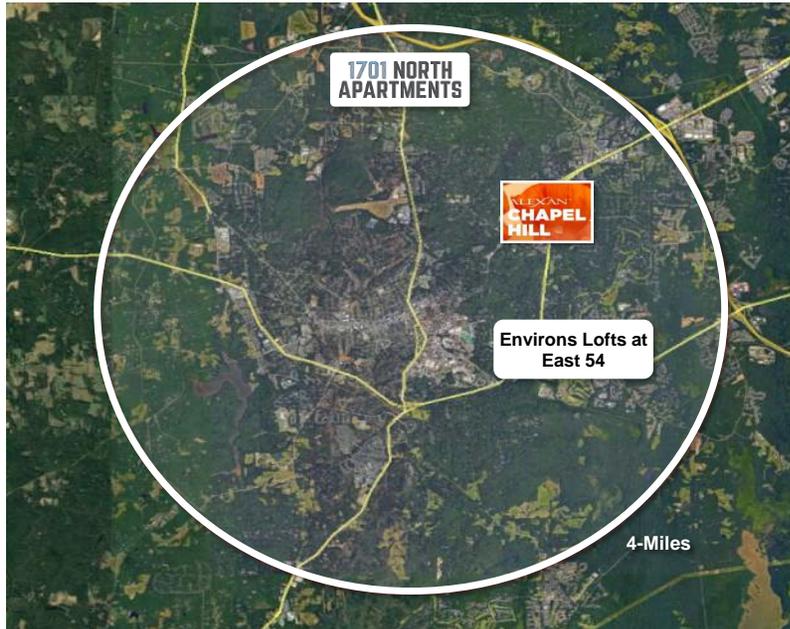
The land parcels that back up to the surrounding neighborhood along Rosemary Street offer an opportunity for new townhome development in an authentic, walkable environment and can serve as a buffer between the single family neighborhood and higher density uses found Downtown.

SOURCE: Noell Consulting Group, RedFin

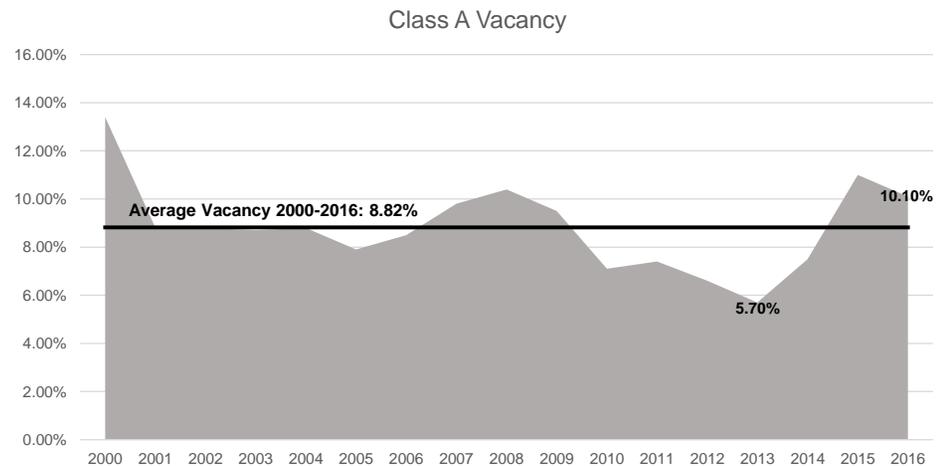


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Exhibit 15
Chapel Hill Multifamily Rents and Vacancy



NCG looked at Class A multifamily within 4-miles of the intersection of Franklin St. & Columbia St. Chapel Hill has seen strong rent growth since 2010, primarily due to the introduction of new product pushing rents. While vacancy is currently above the historic average, this is due to recent deliveries not having a chance to absorb yet and a small pool of product more being susceptible to new deliveries.



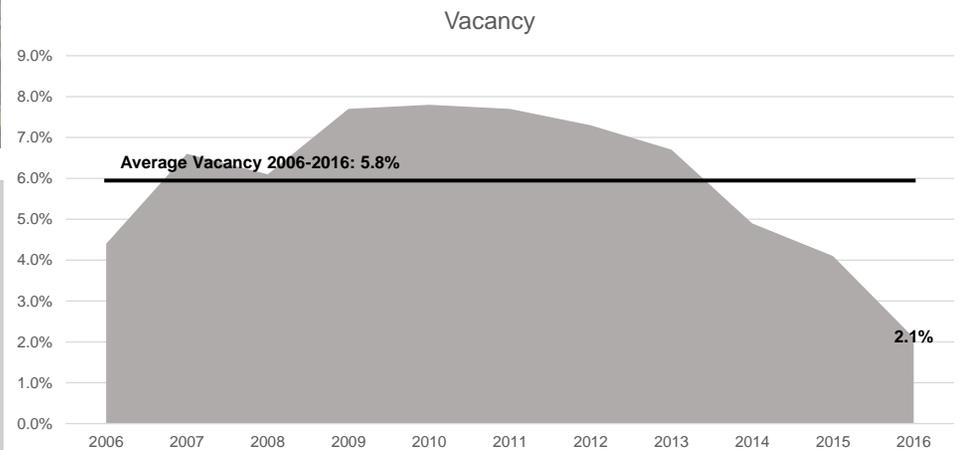
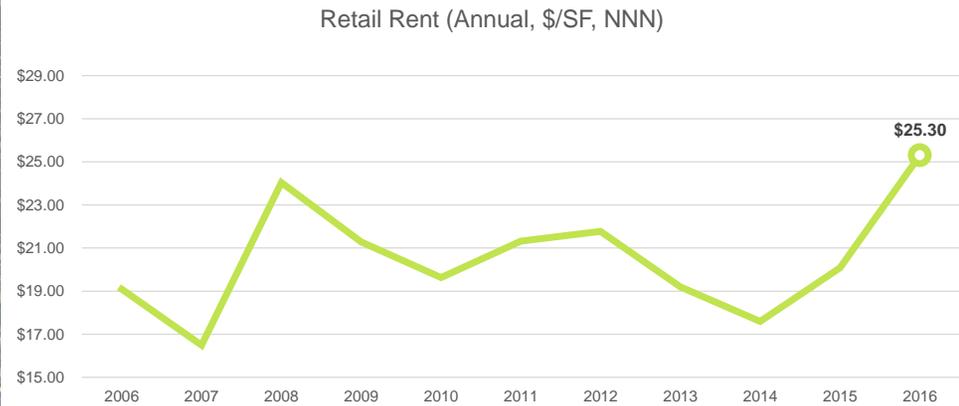
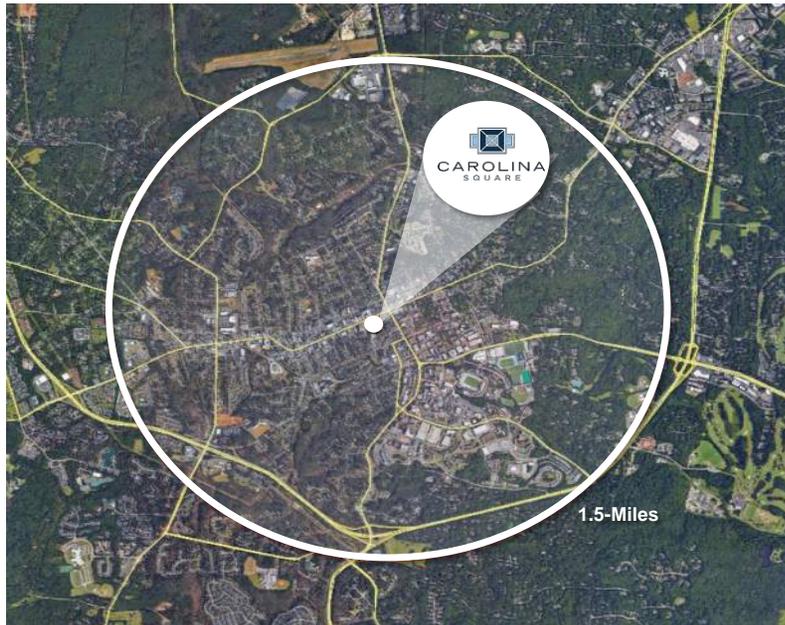
Alexan Chapel Hill, the newest product within 4-miles of Downtown Chapel Hill, is obtaining rents of \$1.92 / SF as of 1st quarter of 2017. Downtown Class multifamily should be able to push higher rents due to the walkable environment and proximity to lifestyle amenities.

SOURCE: Noell Consulting Group, CoStar, Google Earth



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Exhibit 16
Chapel Hill Retail Rents and Vacancy



NCG looked at retail rents within 1.5 miles of Downtown Chapel Hill (centered on the intersection of Franklin & Columbia St.). Currently, retail rents are at their highest since 2006 with an average rent of \$20.88 / SF, NNN since 2011.

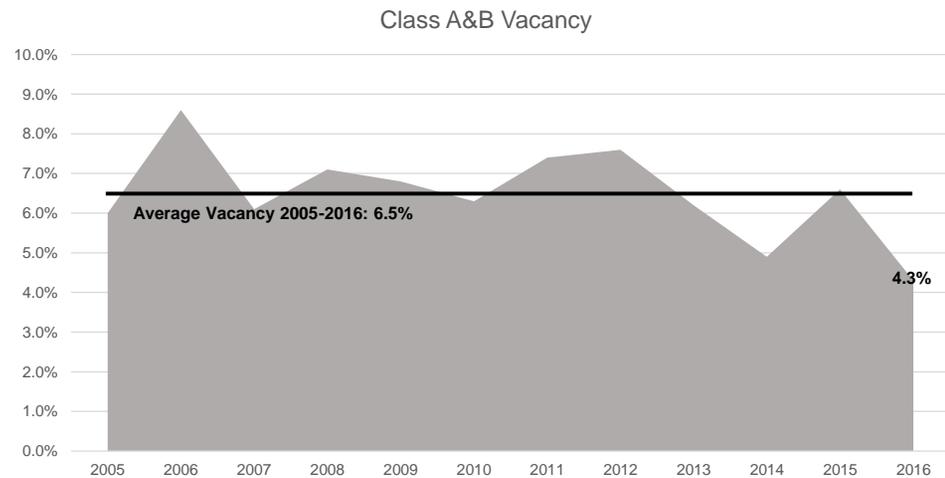
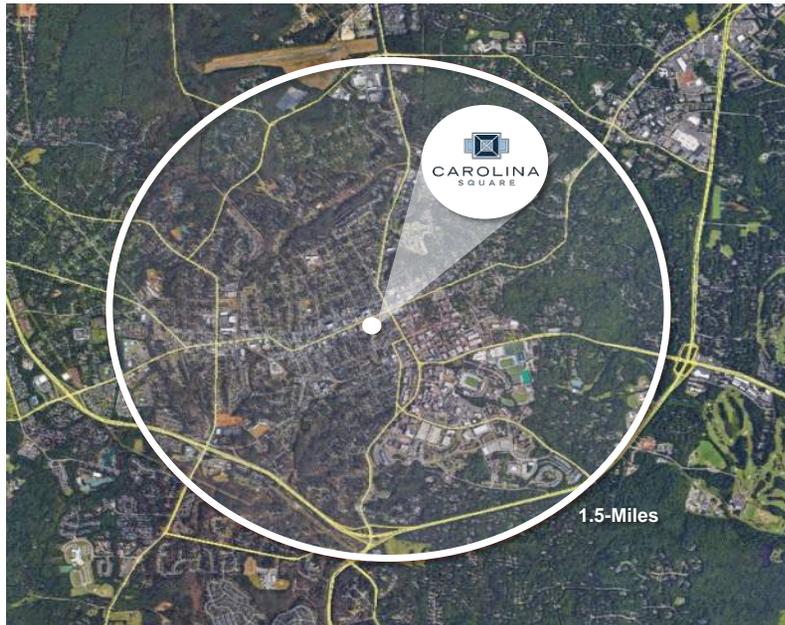
Vacancies are currently at 2.1%, a decade low, and well below the average of 5.8%. However, there is 71,600 SF of retail space under construction, with roughly 42,000 SF of that located at the Carolina Square development Downtown. These new deliveries should push vacancies above recent averages until fully absorbed.

SOURCE: Noell Consulting Group, CoStar, Google Earth



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Exhibit 17
Chapel Hill Office Rents and Vacancy



Downtown Chapel Hill office rents have seen a dramatic increase over the past 10 years thanks primarily to the new product being leased as Carolina Square. While the building hasn't delivered yet, they have signed leases which are being accounted for and are pushing the average rents.

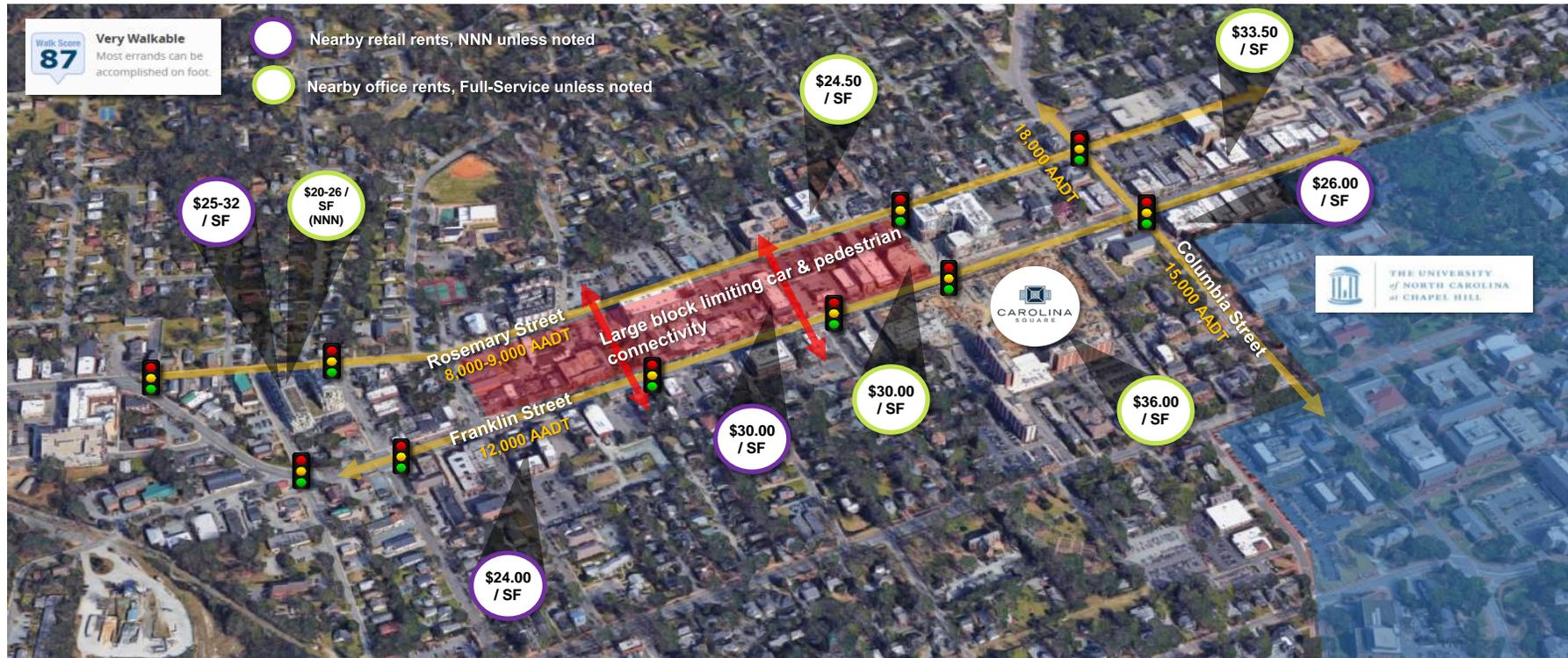
While vacancies are low, once Carolina Square delivers, NCG predicts the unleased space there will push average Downtown Chapel Hill vacancies to the past 10 year average.

SOURCE: Noell Consulting Group, CoStar, Google Earth



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Exhibit 18
Current Situation Assessment of the Subject Area



Strengths

The subject area is located within Downtown Chapel Hill, an authentic, walkable environment (only true walkable environment in the area) that is a major employment core and offers nearby restaurant and nightlife.

Rosemary Street offers access to Downtown Chapel Hill without being situated on Franklin Street, often dominated by college students. This would be appealing to both residential and office users.

Chapel Hill is an affluent area, creating opportunities for all types of housing.

Challenges

Market heavily reliant on UNC and hospital, roughly 70% of local employment. At time of study, Carolina Square ~60% leased up, all by UNC related entities.

Chapel Hill office market faces challenges from better positioned markets in faster growing cities within the region and Downtown Chapel Hill lacks immediate highway access, less connected to the region than other local alternatives.

Due to changing housing preferences students are disrupting the conventional market w/ this trend inflating land prices due to an increase in demand.

Lack of connectivity between Rosemary and Franklin, relatively low AADTs for meaningful retail.

Opportunities

Ability to deliver for-sale and rental residential product in an authentic, walkable downtown w/ proximity to major employers, while being somewhat removed from the college scene.

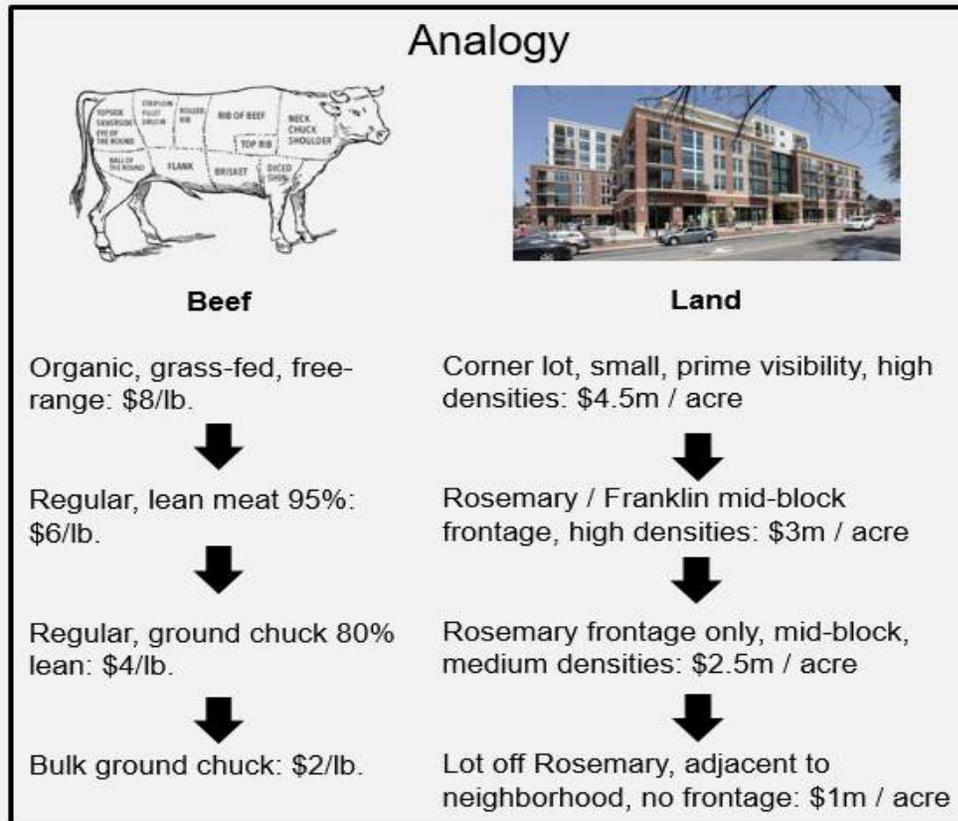
Commercial opportunities are limited, but exist at signalized intersections with higher visibility. Limit additional mid-block commercial space.

SOURCE: Noell Consulting Group, Google Maps



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Exhibit 19
Development Costs & Density



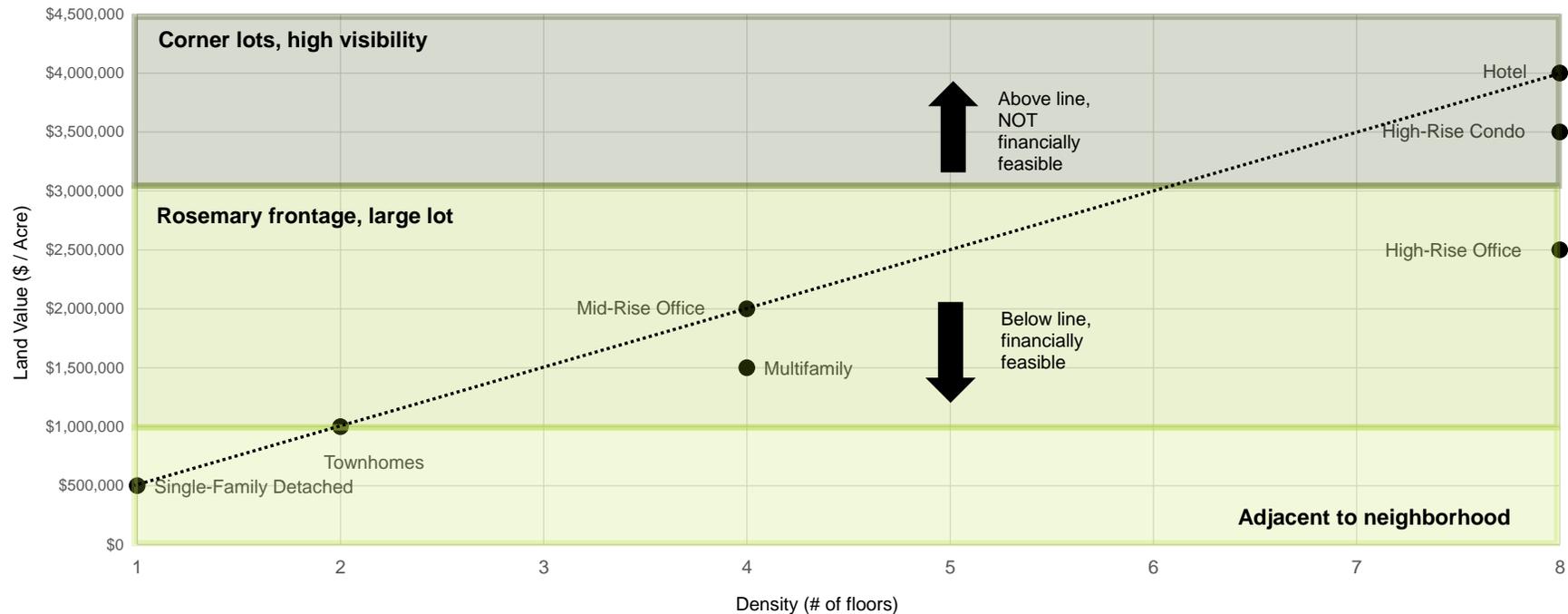
- Development costs = land, construction, and soft costs
- Soft costs consistent at around 20-25%
- Profit margins consistent at around 20-25%
- Assuming land price is set, only variable is density.

SFD = Single-Family Detached
TH = Townhome

SOURCE: Noell Consulting Group



Exhibit 20
 Development Costs & Density



- The chart above shows typical building heights for various uses, using land values (per acre) seen in the market. The black line shows what is financially feasible, using typical construction costs for each product type, across various land values and densities
- **Bottom Line:** Single family does not seem feasible at current land prices, townhomes will need to be located in lots adjacent to current neighborhood, mid-rise office and residential will need to be 4 stories on larger lots, high-rise product (hotel, condos) will need to be in 8 story range to be feasible. There is a jump from 4 to 8 stories due to high-rise product requiring concrete over certain heights (depends on building construction). Higher construction costs require higher densities.

*Please note that land values and density requirements are based on market averages and generalizations and there may be exceptions to the rule (e.g. a hotel in Downtown Chapel Hill will likely have higher ADRs (Average Daily Roomrates) compared to county averages, thus would be able to justify less dense construction than what is shown on the graph within this exhibit).

SOURCE: Noell Consulting Group



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Exhibit 21
Development Impacts and Land Use Summary

	Single Family / Townhome	Multifamily Rental	Condo	Retail	Office
	All uses can remove blight / unwanted uses, increase tax digest to improve services, & increase property values				
Pros	<ul style="list-style-type: none"> • Low intensity use near neighborhood • More eyes on street, increased safety 	<ul style="list-style-type: none"> • More residents frequenting establishments • More eyes on street, increased safety • Projects can be age-restricted, limiting students 	<ul style="list-style-type: none"> • More residents frequenting establishments • More eyes on street, increased safety 	<ul style="list-style-type: none"> • More services / amenities in the area 	<ul style="list-style-type: none"> • More jobs downtown • Office workers frequent retail
Cons	<ul style="list-style-type: none"> • Low intensity use in downtown environment • Does not help put as many residents downtown • New product will be geared towards wealthy due to land value / costs 	<ul style="list-style-type: none"> • Traffic • Students (if not age-targeted) • Transient population 	<ul style="list-style-type: none"> • Could be students, inability to limit who buys • Geared towards wealthy due to costs 	<ul style="list-style-type: none"> • Might get undesirable retail such as bars 	<ul style="list-style-type: none"> • Creates dead zones at night • Space heavily dependent on university
	All uses will increase taxes over time and increase traffic				
Opportunity on Rosemary	<ul style="list-style-type: none"> • Property values limit this type of development. • Townhomes are possible in lower valued, off Rosemary sites. Can be used to buffer between more intense development. 	<ul style="list-style-type: none"> • Strong opportunity to deliver Class A product in walkable environment. • Student apartments have strong demand, if desired, but additional demand exists for young Millennials as well as 55+. 	<ul style="list-style-type: none"> • Difficult to develop due to inability to get financing • Depth of market at high price point a concern 	<ul style="list-style-type: none"> • Low traffic counts on Rosemary, lack of connectivity to Franklin, and lack of signalized intersections will limit meaningful amounts of retail • Focus on corners, specifically signalized 	<ul style="list-style-type: none"> • Downtown Chapel Hill struggles with regional connectivity issues, with areas in Chapel Hill and in the region being better positioned • Market very reliant on university as demonstrated in Carolina Square lease

SOURCE: Noell Consulting Group



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Exhibit 22

Case Study: Northeast Corner of Mitchell & Rosemary

BASE LEVEL ASSUMPTIONS		Residential		Retail			
	Units	150		Retail SF	10,000	Total Acres	2.30
	Units Per Acre	65		Retail Rate (NNN)	\$25.00	Stories	4
	Average Unit Rent	\$1,650		Retail Discount Rate (NNN)	\$10.00	Parking Spaces	226
	Average Unit Size	850 SF		Expanded Retail Size	25,000		

Base Scenario

TOTAL COSTS	Total	Per Unit	80% AMI ¹	60% AMI ²	Retail Discount ³	Expanded Retail ⁴	Notes
Land	\$4,500,000	\$30,000	\$4,500,000	\$4,500,000	\$4,500,000	\$4,500,000	Based on ~\$1.96 million / acre valuation
Construction / Demo.	\$18,851,300	\$125,675	\$18,851,300	\$18,851,300	\$18,851,300	\$18,452,520	Based on market costs
Structured Parking	\$2,712,000	-	\$2,712,000	\$2,712,000	\$2,712,000	\$3,211,200	Based on market costs
Soft Costs	\$7,187,767	\$47,918	\$7,187,767	\$7,187,767	\$7,187,767	\$7,221,240	Assumes 33% of hard costs
Total Costs	\$33,251,067	\$221,674	\$33,251,067	\$33,251,067	\$33,251,067	\$33,384,960	

ANNUAL OPERATING SUMMARY

Residential Rent Potential	\$2,970,000	\$19,800	\$2,798,388	\$2,693,088	\$2,970,000	\$2,653,200	Total units x average unit rent, annualized
Retail Rent Potential	\$250,000	\$1,667	\$250,000	\$250,000	\$100,000	\$250,000	Total retail space x retail rates
Total Rent Potential	\$3,155,600	\$21,037	\$2,987,420	\$2,884,226	\$3,008,600	\$2,845,136	Includes 5% vacancy, 1% concessions, & 4% other income
Total Expenses	\$787,500	\$5,250	\$748,125	\$748,125	\$787,500	\$703,500	Based on per unit assumption derived from market
NOI	\$2,330,600	\$15,537	\$2,201,795	\$2,098,601	\$2,183,600	\$2,108,136	Includes \$250 per unit reserve
Yield on Cost	7.01%	-	6.62%	6.31%	6.57%	6.31%	NOI / Total Costs - 7%+ required by most lenders
Total Project Value	\$42,374,545	\$282,497	\$40,032,641	\$38,156,386	\$39,701,818	\$38,329,745	NOI / capitalization rate
Cap Rate	5.50%	-	5.50%	5.50%	5.50%	5.50%	Based on observed market rates, kept consistent for comparison
Total Project Return	\$9,123,479	\$60,823	\$6,781,574	\$4,905,320	\$6,450,752	\$4,944,785	Total project value less costs
NOI Gap	-	-	\$128,805	\$231,999	\$147,000	\$222,464	Gap between market and demonstrated scenarios NOI
Gap Value	-	-	\$2,341,905	\$4,218,159	\$2,672,727	\$4,044,800	Total value of NOI Gap between market and demonstrated scenarios

SOLUTIONS

Density Bonus (resi. units) 39 69 44 67 Number of additional units required to make developer "whole"
Outside of density bonuses, other solutions include land buy-downs & public financing on portions of the development (e.g. parking) The amount necessary can be seen in the Gap Value above.

(1) Assumes 20% of units at 80% AMI, equating to an average unit rent of \$1,555

(2) Assumes 20% of units at 60% AMI equating to an average unit rent of \$1,496

(3) The retail discount scenario assumes a market rate scenario for the multifamily, but lowers retail rates to affordable levels

(4) The expanded retail scenario assumes replacing residential units for an expanded retail offering at the discounted rate

Providing units at 60-80% AMI would require 39-69 unit density bonuses or a land write down of 52-94%. To incentivize below market retail rates, a density bonus of 44-67 units or land write down of 59-90% would be required depending on quantity of retail provided.

DEFINITIONS: NNN - Triple Net Lease, tenant responsible for property taxes, insurance, & maintenance. AMI - Area Median Income. NOI - Net Operating Income.

SOURCE: Noell Consulting Group