

Durham County

Redevelopment of DSS Main

Project Update on Market Analysis



UNC
SCHOOL OF GOVERNMENT

May 3, 2021

Agenda

- Project overview
- Market analysis update
- Next steps

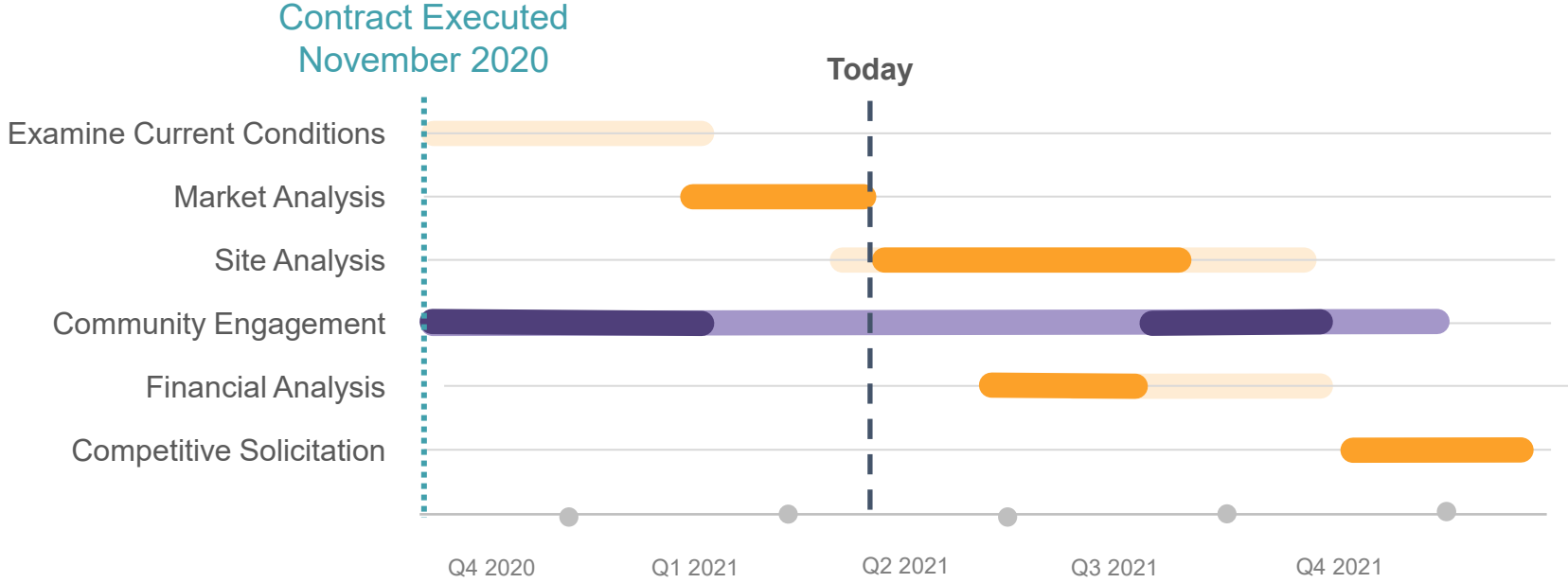


Development Finance Initiative

The Development Finance Initiative (DFI) is a program of UNC Chapel Hill's School of Government and advises communities in NC to attract private investment for transformative projects by providing specialized real estate development and finance expertise.



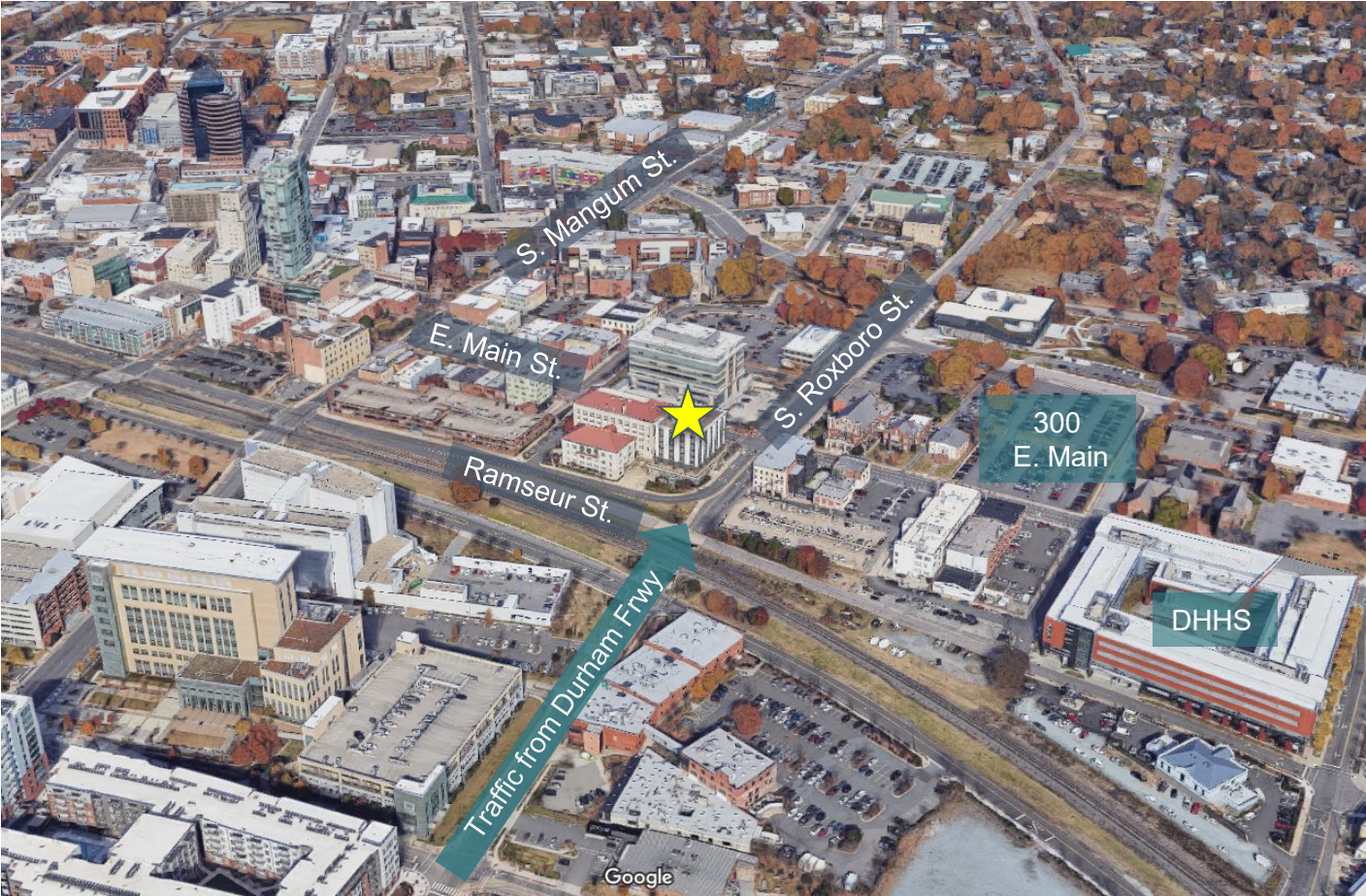
Pre-Development Project Timeline



Note: Timeline subject to change due to market conditions, community feedback, delays in decision-making, as well as response during private developer outreach.



DSS Main located at gateway to City Center



Guiding Public Interests

Redevelopment of DSS Main should:

- Maintain the primary use of the building for community-oriented activities and/or office space accessible to businesses with needs unmet by downtown market.
- Incorporate ground-floor and outdoor uses that increase street-level vibrancy and invite community interaction after five and on weekends
- Preserve the unique architectural features of the exterior and allow for enhancements consistent with the building's prominent location at a key gateway to downtown Durham.
- Include design elements that facilitate pedestrian traffic to and from nearby commercial nodes.
- Optimize public investment and attract private investment.

Durham County market proving resilient

BUSINESS

Apple picks Triangle for \$1 billion campus, thousands of high-paying new jobs

Tags: Apple, jobs, WRAL TechWire
Posted April 26, 2021 7:36 a.m. EDT
Updated April 26, 2021 6:01 p.m. EDT



BUSINESS

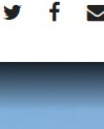
Google to bring new engineering hub to Durham, up to 1,000 jobs as part of US expansion

BY ZACHERY EANES
MARCH 18, 2021 05:42 AM, UPDATED MARCH 18, 2021 07:12 PM



WRAL TechWire

NEWS STARTUPS LIMELIGHT



Triangle employers ramp up hiring; 3 virtual job fairs to match companies, candidates

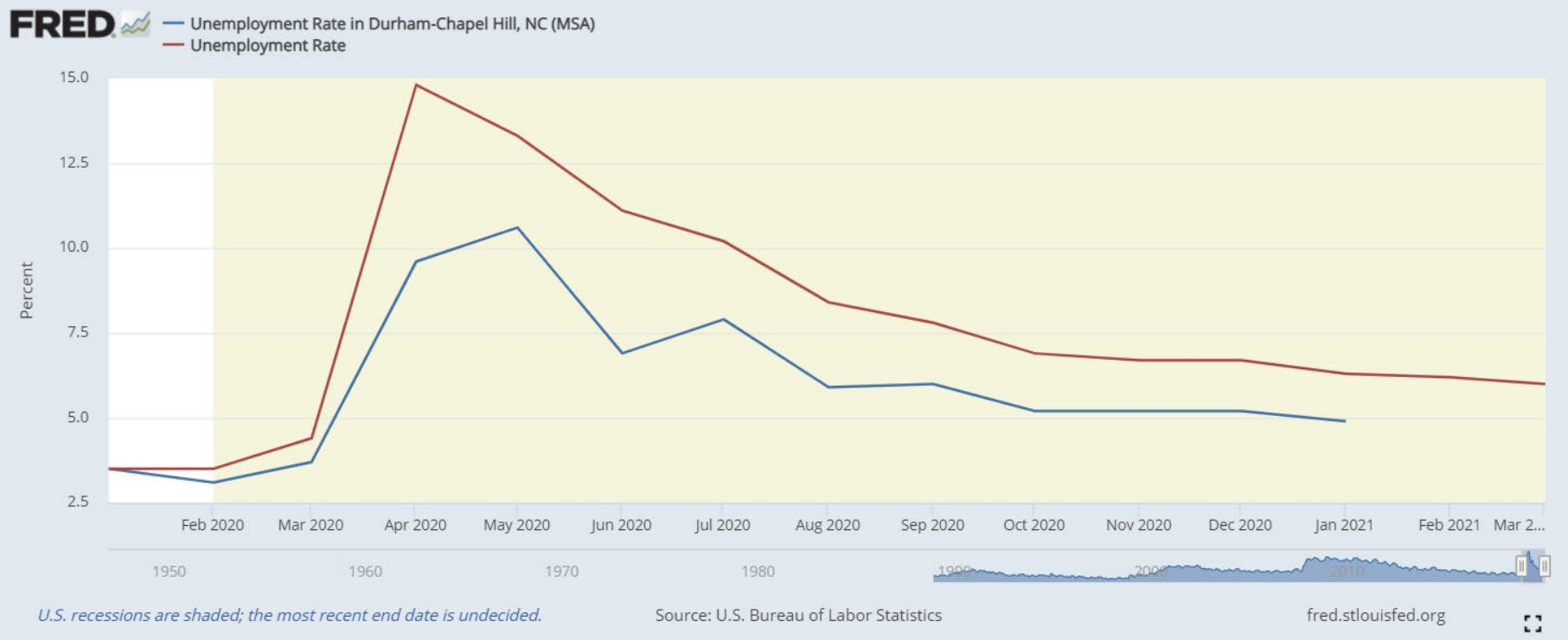
JOBS REPORT



Image by 3D Animation Production Company from Pixabay

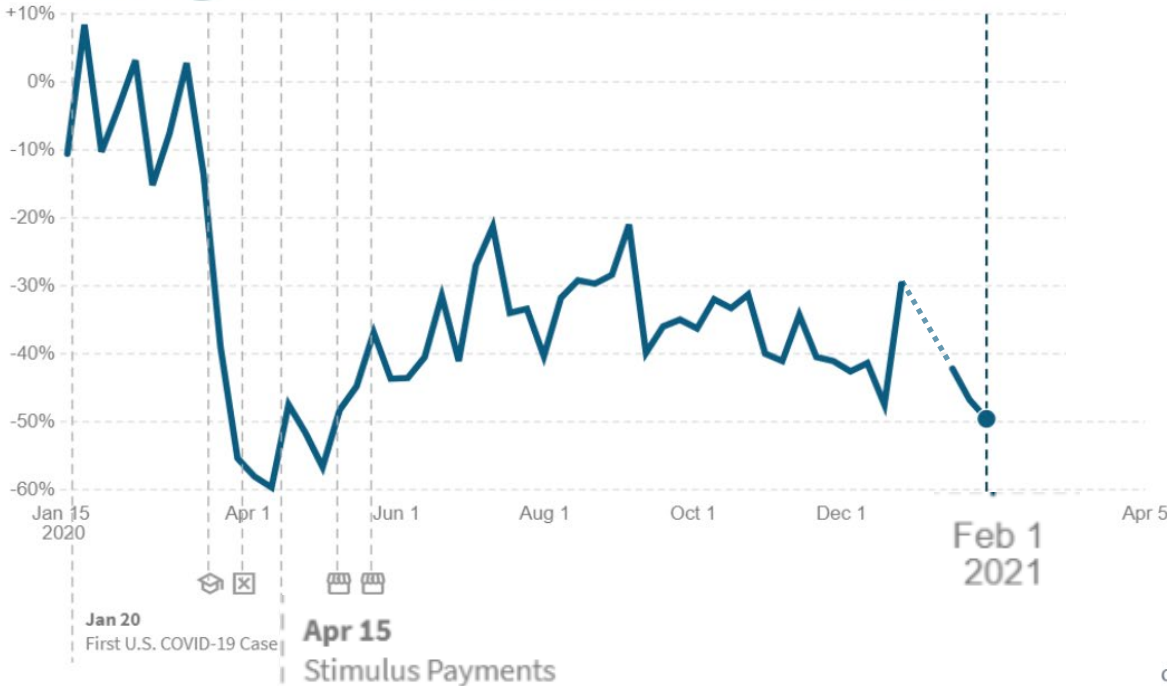
by Shannon Cuthrell — April 5, 2021

Durham MSA unemployment tracks below nation



Long-term impact on small businesses unknown

Percent Change in Small Business Revenue* 2021



Week ending
Jan 30, 2021

-49.7%
All Small
Businesses

data source: **Womply**



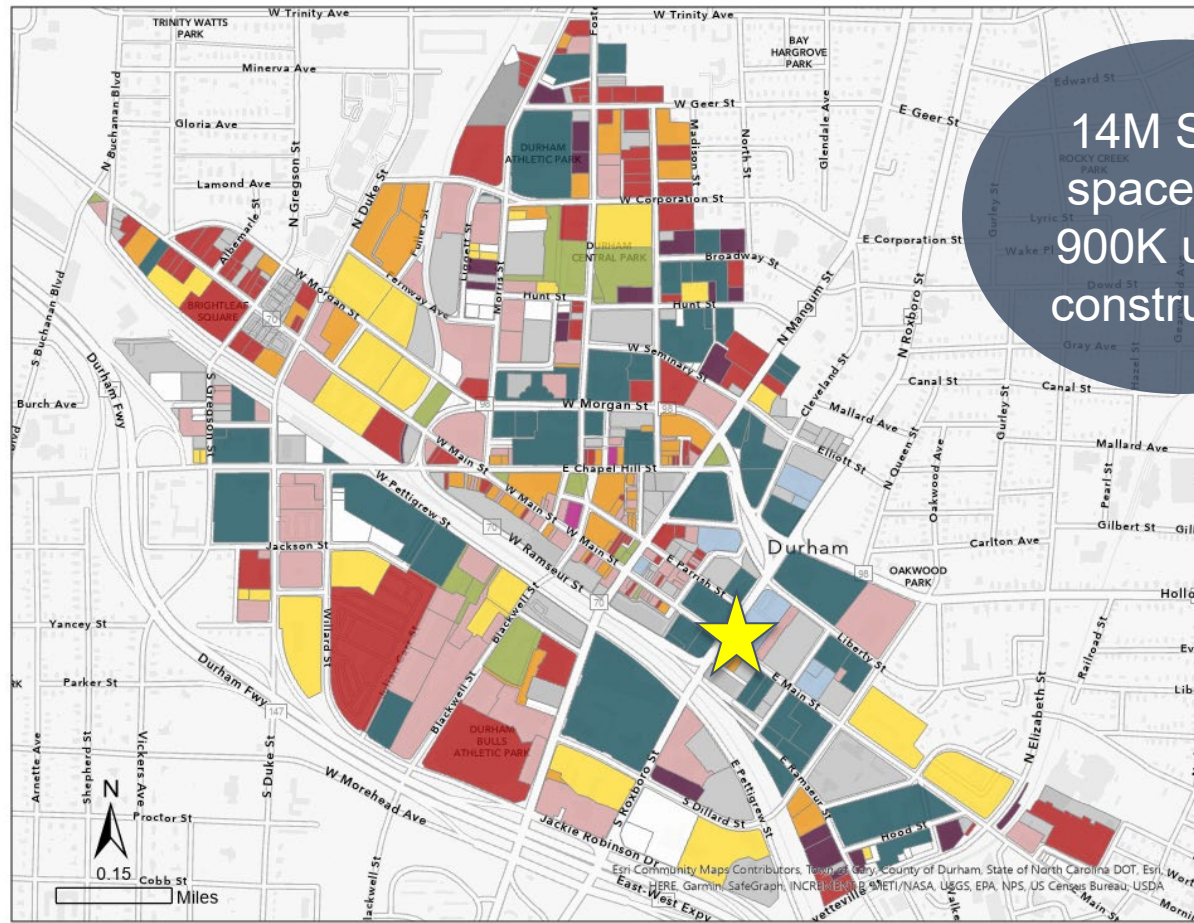
*Change in net business revenue for small businesses, indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply.

tracktherecovery.org to explore

Downtown Durham continues to grow

Parcels by Building Use

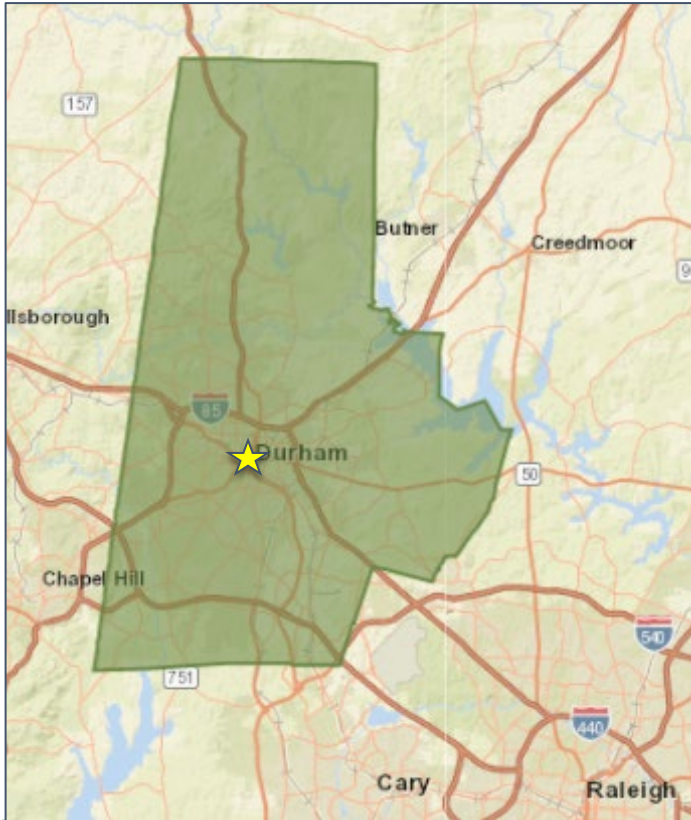
- Institutional
- Mixed Use
- Retail
- Hospitality
- Office
- Parking
- Industrial
- Open Space
- Religious
- Residential
- Undeveloped



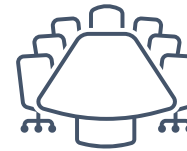
14M SF of space with 900K under construction

Office Market

Durham County Market Overview



Nearly 47,000 office-oriented employees
1.2% annual growth rate 2010-2020



More than 1,600 small, office-oriented
businesses (<20 employees) in County
1.4% average annual growth 2010-2018 in all small
businesses

“Class” reflects quality/amenities and impacts rents

Class A



Class B



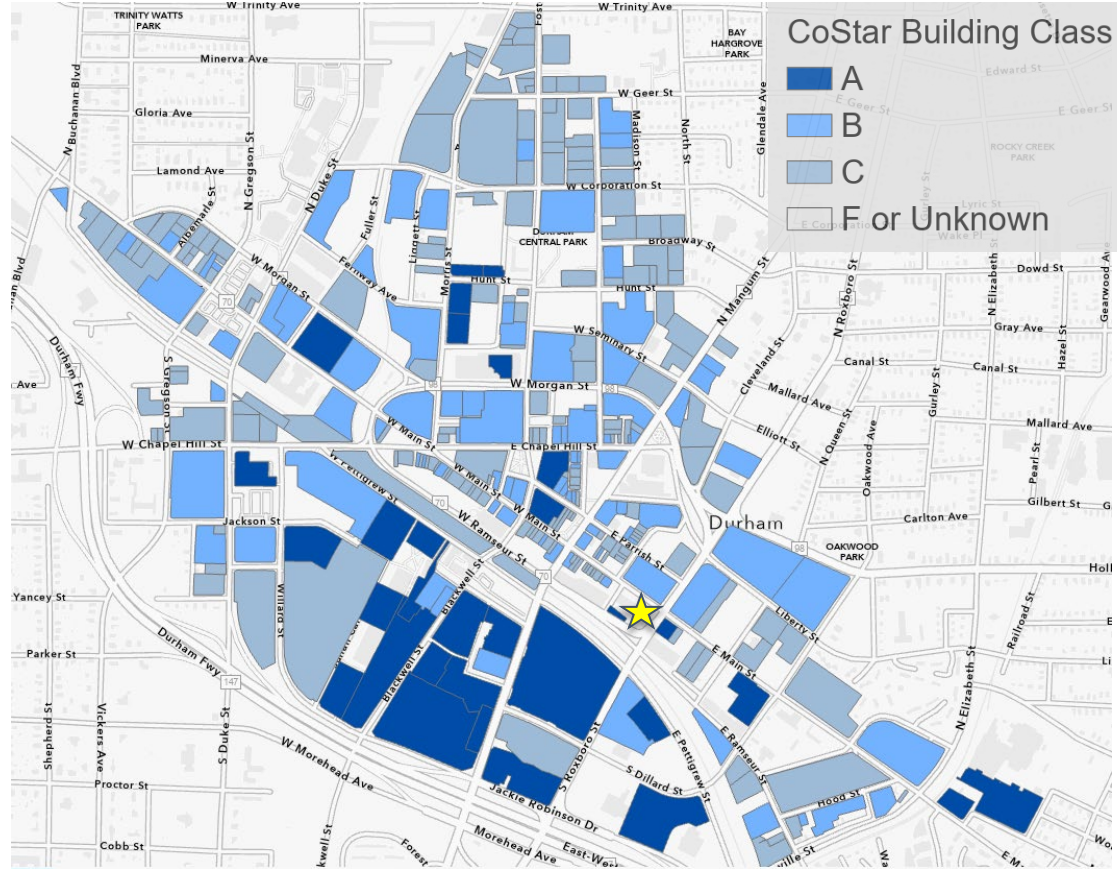
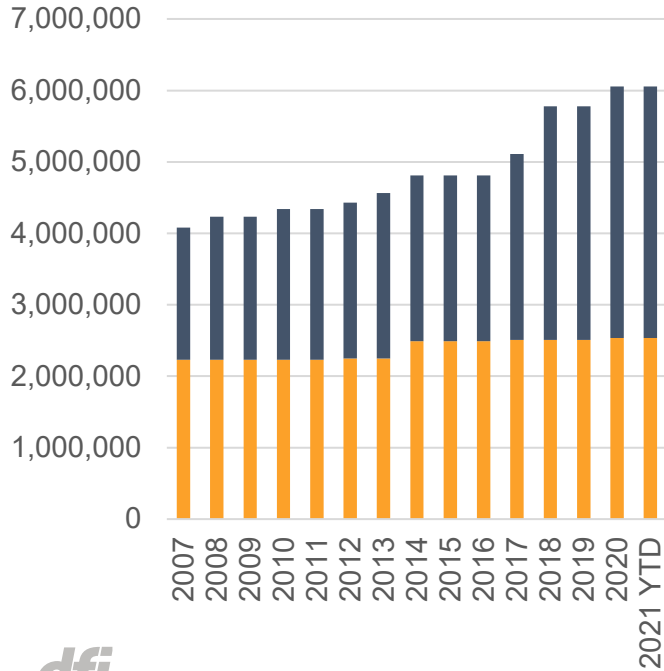
Class C



Class A construction driving office market

Total Inventory by Class
Downtown Durham

■ Class B & C ■ Class A

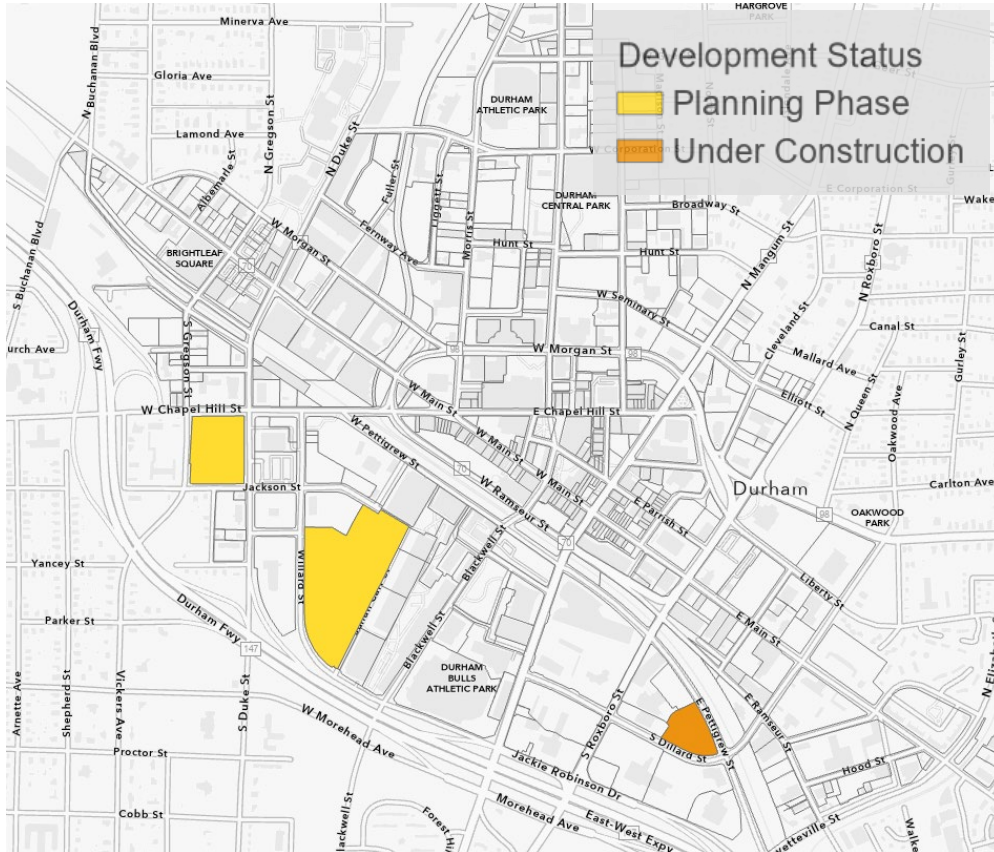


Class A leases geared towards larger tenants

2018 - 2020 Office Leasing Activity		
	Class A	Class B & C
# Leases	77	120
Total SF	1,086,000	180,100
Avg SF per Lease	14,100	1,500

- Although more leases were signed in last three years for B & C space, they account for just 14% of leased space.
 - Class B & C users occupying significantly smaller spaces.

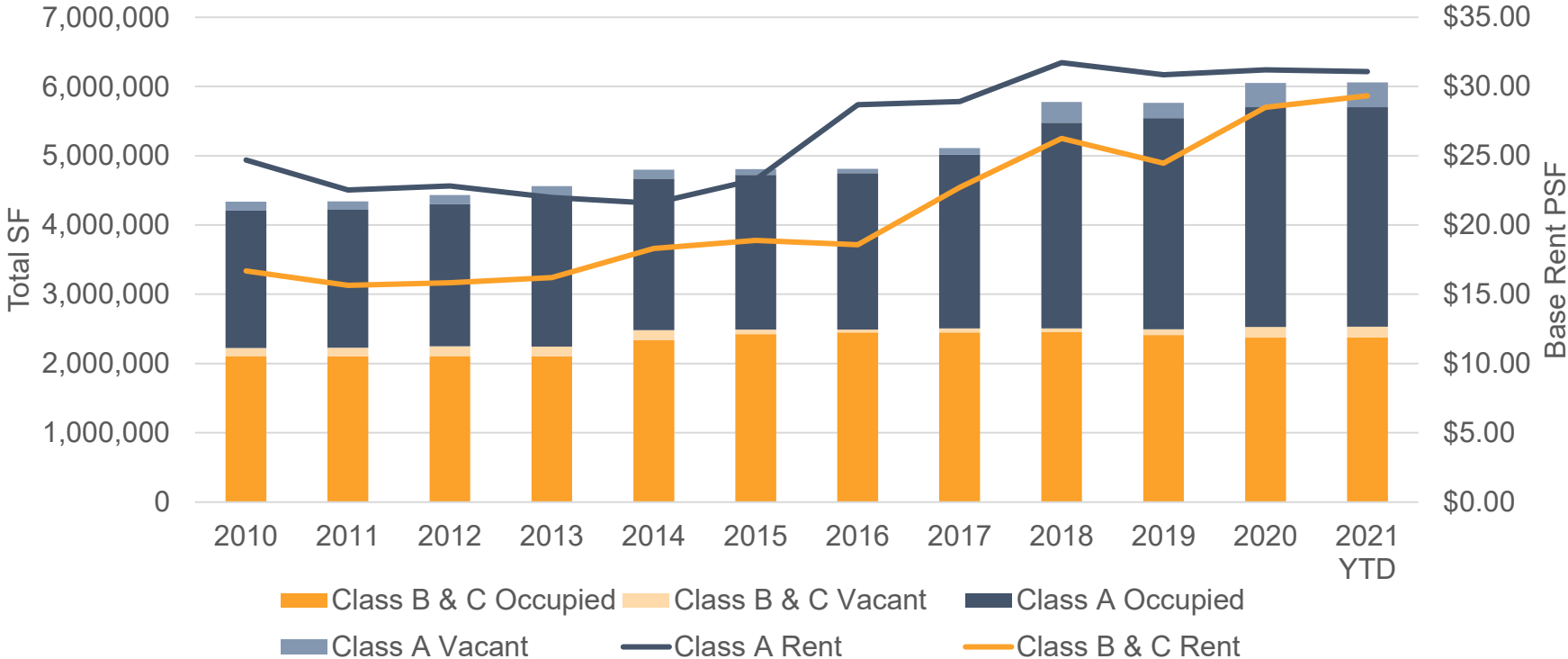
Significant office expansion across County



- Est. 1.2 M SF of Class A office space under construction in Durham County
 - Est. 11% increase in Class A office stock
 - Roughly 20% pre-leased
- Downtown Durham has 515,000 SF in planning or under construction (Former police headquarters not included)
 - Roxboro @ Venable currently leasing space with \$38.50 full-service rents
- Downtown pipeline alone satisfies projected growth in office-occupying jobs in Durham County.

Rent gap narrowed under COVID pressure

Downtown Durham Vacancy and Rent Over Time



Demand for spaces with lower rents remains strong

Class A Office SF by Rent Range and Occupancy



Class B & C Office SF by Rent Range and Occupancy

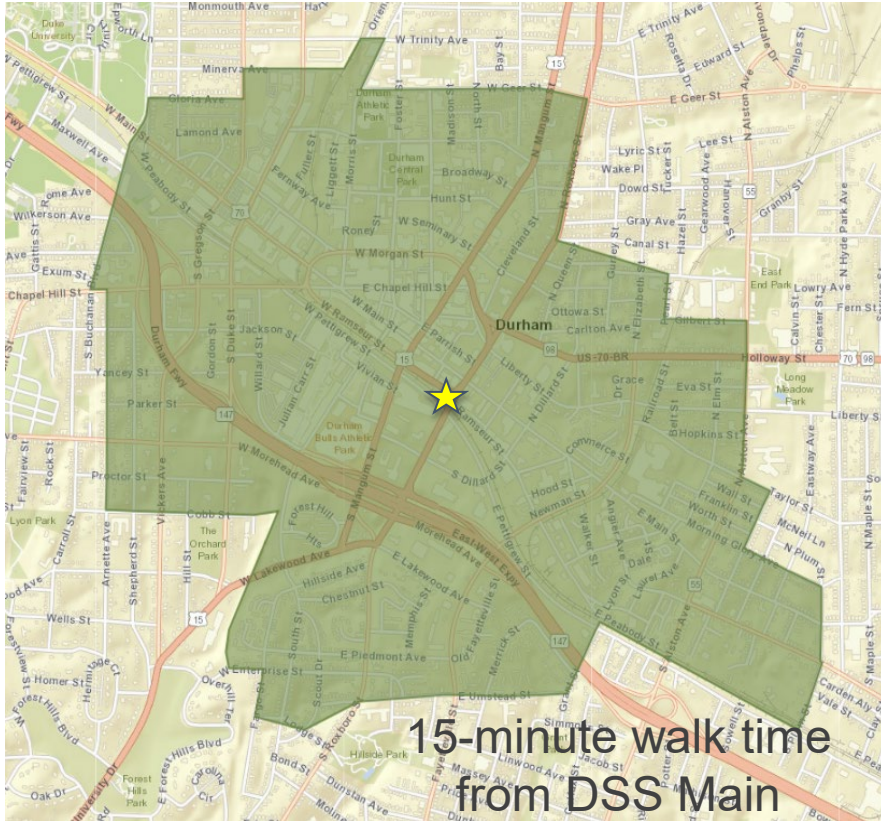


Office Market Highlights

- Significant Class A office space development in Durham County exceeds growth projections.
- Central Business District rents plateauing locally and nationally, but recovery will likely result in spike as demand bounces back.
- Still unknown the degree to which landlord flexibility on lease terms has helped maintain occupancy rates.
- Additional Class B & C office space at lower price point demanded, especially as renovated Class B rents rise with recovery.

Retail Market

Retail Trade Area Overview



Nearly 5,000 households
4.5% annual average growth 2010-2020
(compared to 1.95% County-wide)



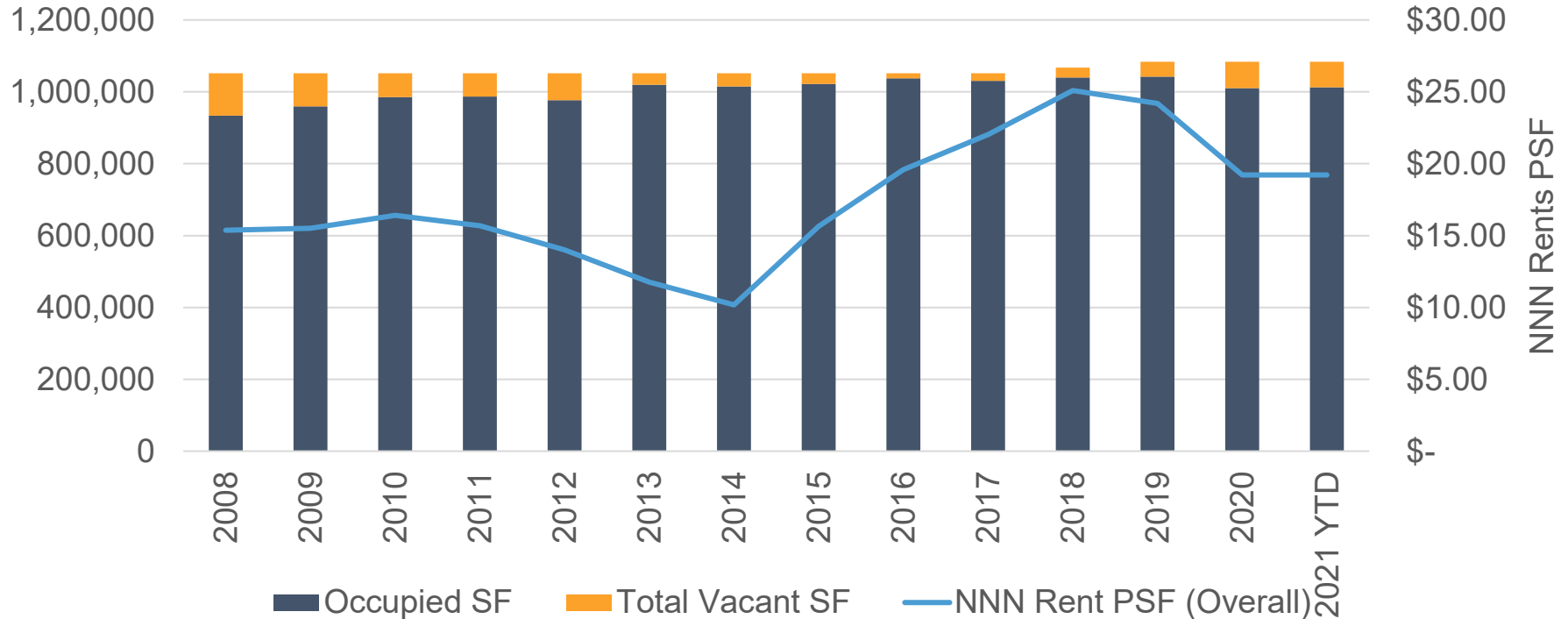
Daytime population of 20,000
(pre-pandemic)



716 hotels rooms
(104 rooms under construction)

Vacated space in 2020 may take 3 years to absorb

Trade Area Retail Space 2008 to Present



Est. 12% of City Center ground floors vacant



Vacancy?

- Yes

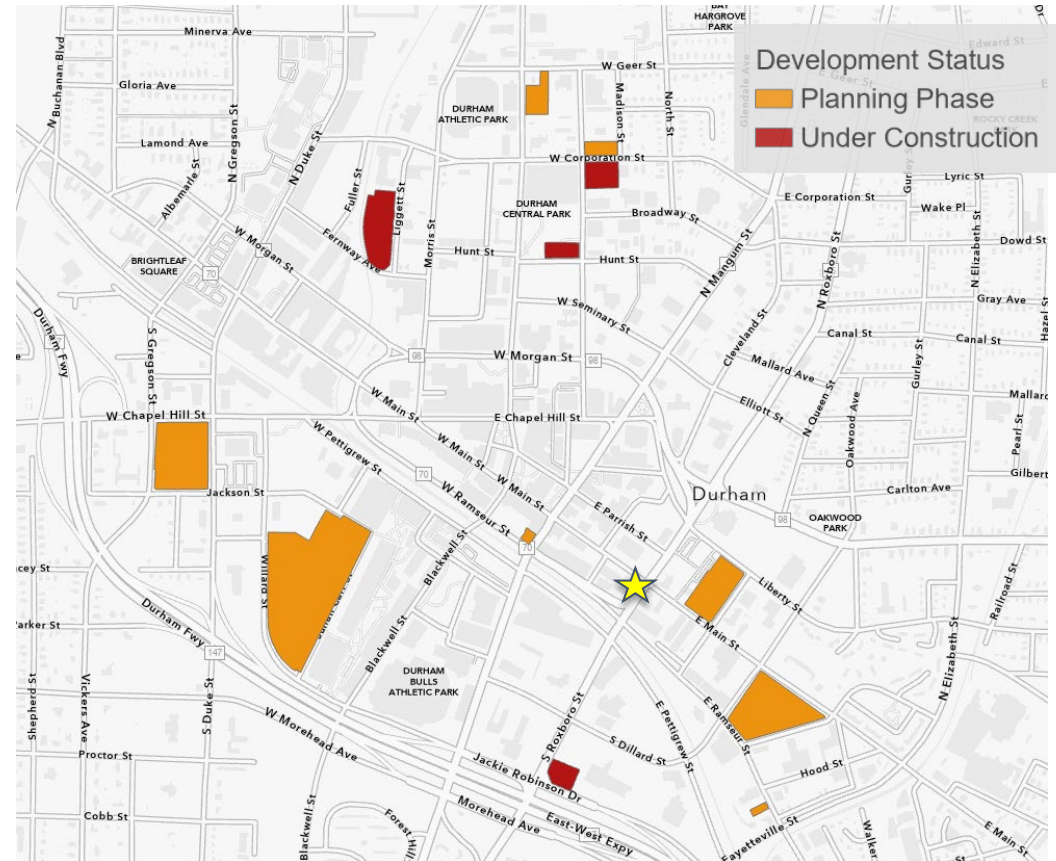
Ground Floor Use

- Institutional
- Office
- Retail
- Residential
- Other

Lower cost spaces have been more resilient



New office developments driving retail expansion

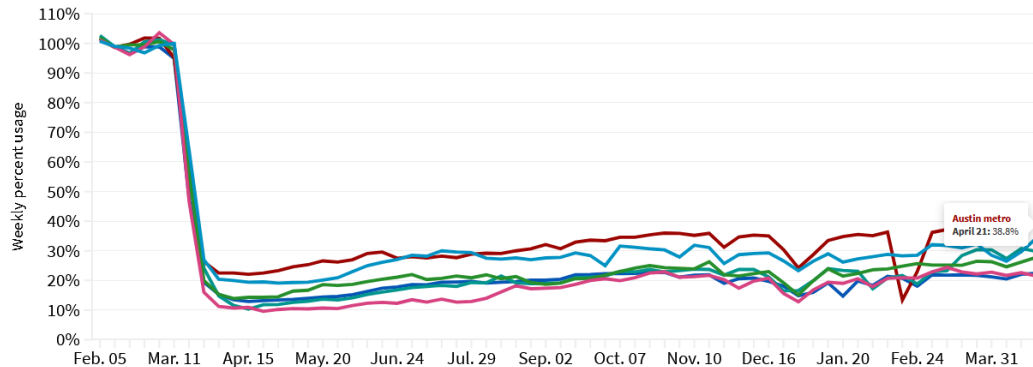


- Est. 30,000 SF of retail space under construction as part of five new mixed-use developments.
- An additional 194,500 SF of retail space planned for next five years.

60% fewer people travelling into the office daily

Office Use Steady at Lower Levels

Charlotte, NC | Atlanta, GA | Bridgeport, CT | Washington, DC metro | Boston, MA | Austin metro | Cpl...

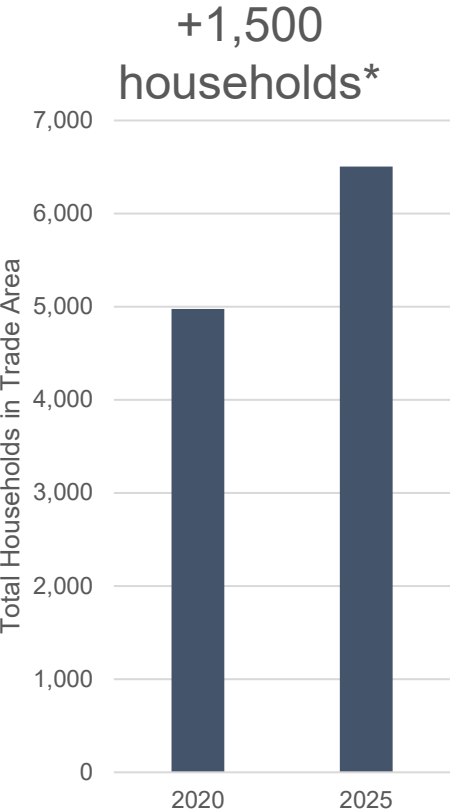


Source: Kastle Systems, April 26

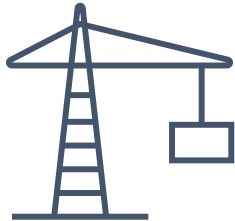


- Est. four out of ten employees have potentially gone back to the office.
- Durham MSA ranked as having 3rd highest proportion of jobs that could be completed at home.
- Over 60% of workforce related purchases are for Food and Beverage, most impacting restaurants and bars in Downtown Durham.

Household growth likely to drive additional demand



Could support up to est. 190,000 SF of new retail by 2025



30,000 SF already under construction

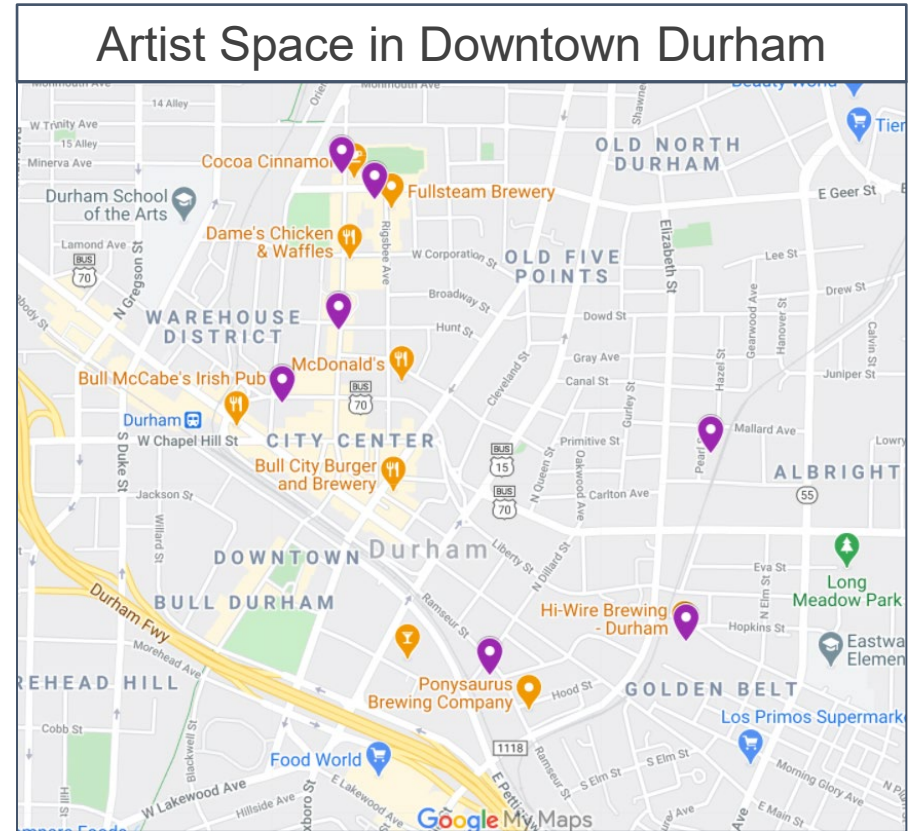
*Assumptions using Esri Business Analyst projections based on historical trends. DDI estimates over 2,000 units in the pipeline.

Retail Market Highlights

- 29,400 SF of retail space vacated and not absorbed due to pandemic.
- New retail deliveries are part of mixed-use developments with 30,000 SF currently under construction.
- Retail recovery will parallel return to work given the volume of potential workers in downtown.
- Long-term office resiliency and household growth combined will likely bolster retail market in next five years.

Other Space Considerations

- Artist Space?
 - Studio sizing ranges from 175 SF – 350 SF
- Lab Space?
- Community Meeting Space?
- Classrooms?



Next Steps

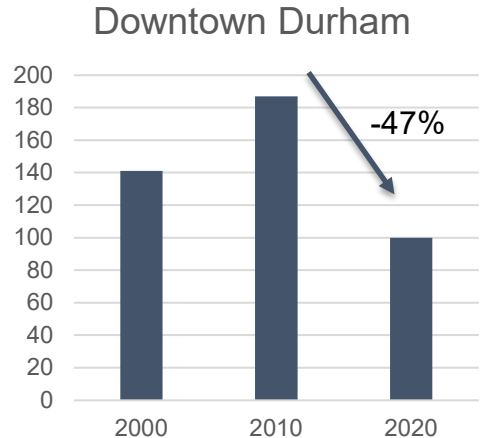
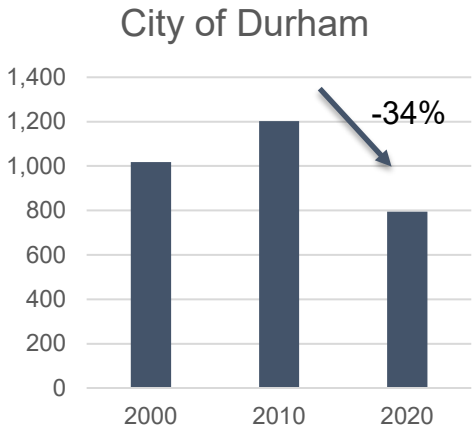
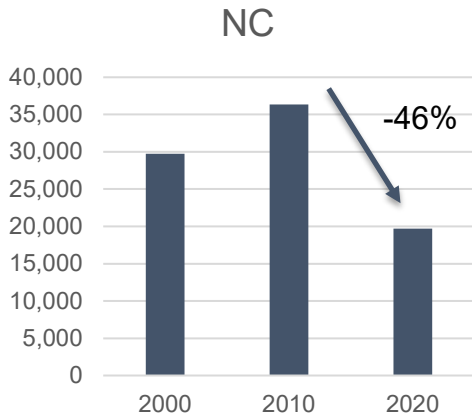
- Market information will inform site and financial analysis
 - County engages architect to work with DFI on site analysis
 - Explore redevelopment of DSS Main maintaining smaller office spaces at Class B & C level and corresponding rents
 - Continue to explore retail/F&B space needs and other options for ground floor (and basement).

Visit www.dconnc.gov/DSSMain
for periodic project updates



Non-Profit Registrations

- Non-profits in Downtown Durham, the city, and the state saw rapid growth from 2000 to 2010. Since 2010, non-profit registrations reduced substantially, led by Downtown Durham which saw a reduction in its nonprofits by almost half.



Losses in Nonprofits Substantial and Acute

Downtown Durham - Largest Nonprofit Losses - 2010 to 2020

Rank	NAICS	2010 #	2020 #	# Change	% Change
1	Civic and Social Organizations	31	7	-24	-77%
2	Religious Organizations	24	11	-13	-54%
3	Other Social Advocacy Organizations	8	0	-8	-100%
4	Other Grantmaking and Giving Services	15	8	-7	-47%
5	Other Community Housing Services	7	1	-6	-86%
6	Arts, Entertainment, and Recreation, Leisure	5	0	-5	-100%
7	Credit Unions	4	0	-4	-100%
8	Human Rights Organizations	4	0	-4	-100%
9	All Other Legal Services	5	2	-3	-60%
10	Elementary and Secondary Schools	5	2	-3	-60%

Downtown Durham - Largest Nonprofit Gains - 2010 to 2020

Rank	NAICS	2010 #	2020 #	# Change	% Change
1	Grantmaking Foundations	2	5	3	150%
2	Other Misc. Ambulatory Health Care Services	1	4	3	300%
3	Community Food Services	0	2	2	-
4	Administration of Public Health Programs	0	2	2	-
5	Educational Support Services	4	5	1	25%
6	Social Assistance	2	3	1	50%
7	Child and Youth Services	2	3	1	50%
8	Research and Development in Science	1	2	1	100%
9	Mental Health and Substance Abuse Centers	1	2	1	100%
10	Musical Groups and Artists	1	2	1	100%