

153 W. KING ST REDEVELOPMENT: HILLSBOROUGH, NC



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Mission:

Improve the lives of North Carolinians by helping public officials understand and improve state and local government through teaching, publishing, and advising.

DEVELOPMENT FINANCE INITIATIVE

The Development Finance Initiative (DFI)

at the UNC School of Government partners with local governments to attract private investment to accomplish community economic development goals.

- **DFI team** includes subject matter experts in:
 - Community and Economic Development (CED)
 - Real Estate Development & Finance
 - Public Private Partnerships
 - Market Analysis
 - Land Use and Planning
 - Public Finance

AGENDA

- Goals
- 153 W. King Street Profile
- Project Feasibility
- Options for Town Involvement

GOALS

- *Assess financial feasibility* of redeveloping historic property at 153 West King Street
 - Identify most feasible reuse options
 - Analyze potential sale price
 - Create financial model
- *Recommend options for public involvement or subsidy* to support feasibility of redevelopment
- *Analyze options for site control* by the Town of Hillsborough

153 W. KING STREET PROFILE

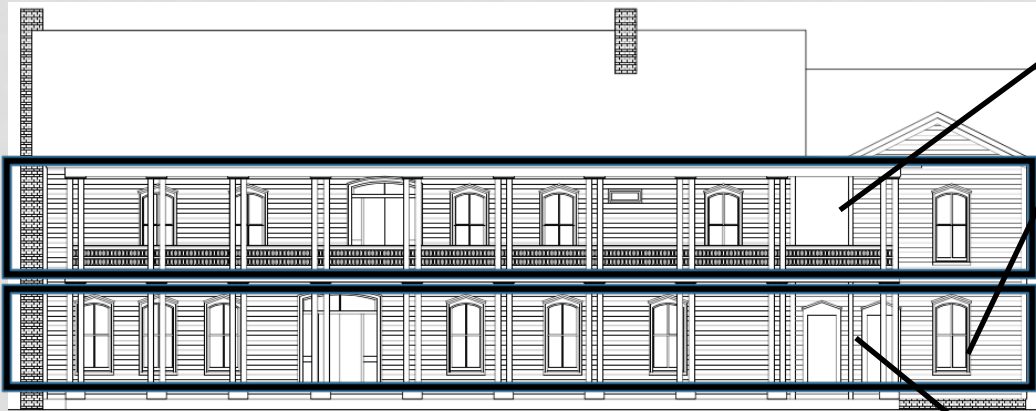
- Land: 0.53 acres
- Built SF: 11,621
- Year Built: 1838
 - Contributing structure to Local Historic District
 - Statewide significance status
- Tax Assessed Value: \$658,658
- Redevelopment Cost: \$2.75 million (DFI estimate)



PROGRAM

1st & 2nd Floor: 4,500 S.F. OFFICE SPACE

- Hillsborough projected to gain 100+ office-occupying jobs by 2022
- Central location & historic setting attractive for county-seat related businesses
- Space difficult to use for residential or hospitality



Drawing source: Summit Engineering

1st Floor: 5,700 S.F. RESTAURANT/BANQUET

- Hillsborough loses an estimated \$4M of potential full-service restaurant spending each year
- Restaurant is historic use of first floor space

BASE CASE ASSUMPTIONS

- **Acquisition price** of **\$142,000** based on estimate of land value
- **Rents** of **\$18/SF** both office and restaurant
- **Federal and state Historic Tax Credits** included in model
- **Sell** building in Year 6
- Town **rezones** property to commercial and facilitates **parking solution**
- Program reflects preference for uses open to the public

ASSUMPTIONS: ACQUISITION PRICE

- **Three methods** for estimating property value:
 1. Sales price per SF of **comparable renovated properties**, less renovation costs
 2. Capitalized value of **net income**, less renovation costs
 3. **Land value**, less demolition costs
- **First two methods yielded negative total value** (renovation costs exceed future value)
- **Land valuation** method suggested maximum sales price of \$305,000/acre = \$162,000 for 0.53 acres – demolition costs of \$20,000 = \$142,000 valuation

SOURCES & USES

Sources		
Investor Equity	26%	\$755,000
Federal Historic Tax Credit Equity	26%	\$765,000
State Historic Tax Credit Equity	10%	\$283,000
Loan	38%	\$1,089,000
Total Sources	100%	\$2,892,000

Uses		
Acquisition	5%	\$142,000
Hard Costs	68%	\$1,981,000
Soft Costs	27%	\$769,000
Total Uses	100%	\$2,892,000

Project IRR: 3%

Target IRR: 15-20%

Equity Multiple: 0.7x

Target Multiple: 1.8x-2.0x

DEVELOPER VIEWPOINT

- Project is **not financially feasible** without public and/or philanthropic support
- Strong Hillsborough commercial real estate market **mitigates operating risk**
- Project is exposed to **tax credit risks**:
 - State HTCs not yet renewed by legislature
 - Smaller than typical HTC transaction
- Lowering the **acquisition price** does not make project feasible on its own

PUBLIC INVOLVEMENT OPTIONS

Options Modeled	Summary of Involvement
Historic Landmark Status	<ul style="list-style-type: none">• Annual 50% reduction in property taxes in perpetuity• Both Town and County participate
Grant	<ul style="list-style-type: none">• Project receives up-front or five annual operating grant(s)• Up-front grant decreases investor equity while annual operating grants increase operating cash flow
Mission-Driven Capital	<ul style="list-style-type: none">• Find equity investors willing to earn a below-market return (8-10%)• Investors motivated by community and/or preservation benefits of project

DEVELOPER'S VIEW: IMPACT OF PUBLIC INVOLVEMENT

Public Involvement	IRR	Investor Equity
Base Case	3%	\$755,000
Landmark Status Only	7%	\$660,000
Grant Only (\$390k upfront or \$125k per year for 5 years)	17%	\$365,000
Landmark and Grant (\$260k upfront or \$90k per year)	17%	\$400,000
Mission Capital with landmark status and grant (\$75k upfront or \$15k per year)	9%	\$585,000

Target: 15-20%

OPTIONS FOR TOWN ACTION

Options

Key Characteristics

Purchase Contract

- Price dependent on valuation of property
- Recommend appraisal

Partnership

- Offer to form partnership with property owner

Property Tax or Maintenance Lien Foreclosure

- Town may foreclose on property, but **it must be sold at auction** with opportunities for upset bids
- Risks **uncertainty around acquisition cost** and **site control**

Land Swap

- Town could “trade” for property with similar value

OPTIONS FOR TOWN ACTION

Options

Key Characteristics

Urban Redevelopment Area (URA)

- Applies to a **blighted area** where redevelopment is in the public interest
- Allows Town to **acquire and sell** property to private developers **without bid process**
- Requires appointment of **Redevelopment Commission** and significant **public involvement**

Eminent Domain

- “For the **public use or benefit**, the governing body of each municipality or county shall possess the power of eminent domain” *NCGS 40A-3(b)*
- May be used for “acquiring a designated landmark [...] for which an application has been made for a certificate of appropriateness for demolition” *NCGS 40A-3(b)(8)*
- Must pay **fair market value** for the property

OPTIONS AFTER SITE CONTROL

- Dependent on how Town acquires site control
- Traditional Request for Qualifications/Proposals (RFQ/RFP)
- DFI's Proactive RFP Process
 - Complete predevelopment work, recruit qualified developers and support Town in choosing the best developer to accomplish a redevelopment while incorporating Town interests
 - Predevelopment work removes a significant amount of entitlement risk and cost to the private development community and results in greater private sector interest
 - 12-18 month timeline

SUMMARY

- Redevelopment of 153 W. King Street will require public and/or philanthropic support
- Project is a transformative economic development opportunity
 - Increase downtown's vibrancy
 - Create jobs
 - Increase Town's tax base
- Town has options for site control
- Town's process for property disposal is critical component, which will could be limited by choice of site control strategy