



Date: June 5, 2018

To: Thomas J. Bonfield, City Manager

Through: W. Bowman Ferguson, Deputy City Manager

From: Steven Hicks, Director, General Services Department

Subject: Future of the Current Police Headquarters Site at 505 W. Chapel Hill Street

Executive Summary

The City of Durham owns the four-acre parcel at 505 W. Chapel Hill Street (ID 114577), containing the current Durham Police Department (DPD) Headquarters and Emergency Communications (911) building, in addition to supportive surface parking lots. The existing building was originally built for the Home Security Life Insurance Company in the late 1950s and occupies less than a quarter of the site.

The site will become vacant in fall 2018, when the DPD and 911 move to a new headquarters building on East Main Street that is currently under construction. The City will not have a municipal purpose for the property after this relocation to the new facility, and thus hired a consultant team to consider re-use opportunities for the site. The team included HR&A Advisors, Inc., Duda Paine Architects, and cost estimators R.M. Rutherford Associates, Inc.

The HR&A led consultant team, in collaboration with the City/County Planning Department, conducted public engagement activities including a survey, pop up meetings, and workshop events, reaching more than 1,200 residents. They also conducted a walkthrough of the existing building, reviewed existing condition reports, and developed various concept development scenarios. HR&A reviewed policy goals and synthesized two refined development scenarios which were presented at the City Council work session on November 9, 2017.

HR&A then shared an updated presentation with City Council on May 24, 2018. This presentation contained the results of all preceding activities, and updated the November presentation with current market data including additional financial modeling, and outlined how this surplus City-owned property may provide a key development opportunity to address City priorities and shape future development in Downtown Durham. In particular, a key decision is whether to maximize proceeds from the site to accomplish policy goals elsewhere, or make efforts to accomplish the goals on site.

After the May 24 presentation, at the direction of Council, HR&A conducted analysis to understand how dividing the site – reserving one acre for future affordable housing development and disposing of the rest of the site at market value – would impact anticipated revenues while also meeting goals around provision of affordable housing. In addition to quantifying the impact on land value that results from dividing the site, HR&A, working in concert with City staff, compiled a list identifying how dividing the site would likely impact the realization of other City priorities.

Given this direction, HR&A worked with City staff to prepare this updated presentation, which now considers dividing the site and disposing of two separate parcels, and the anticipated impacts of this division.

Once Council arrives at a decision regarding how best to leverage the site to address affordable housing goals, the next step is for the City to design a property disposition process that will accomplish City Council goals and commence the process for developing the site during presently favorable market conditions.

Recommendation

The General Services Department recommends that City Council receive a presentation regarding the future of the current Police Headquarters Site at 505 W. Chapel Hill Street

The General Services Department recommends that City Council direct staff to initiate a property disposition process for 505 W Chapel Hill Street to produce the type of development that will reflect the public interest goals of the City Council for the site, including goals for the production of affordable housing.

Background

The property disposition process used for this surplus City-owned property may provide a key development opportunity to address City priorities and could be a catalytic development that shapes future development on a major thoroughfare into the Downtown Durham urban core. In creating conceptual development scenarios for the site, the consultant team considered: 1) stated policy priorities contained in existing City plans and documents regarding the use of Downtown land, and 2) feedback gathered during public engagement. These development scenarios are meant to illustrate conceptual development options, and do not represent actual proposed development scenarios. These development scenarios should be interpreted as guiding concepts of what is possible on the site.

The development scenarios focus on advancing three key goals for the site:

- **Business Friendly Environment:** Providing office space on site can help meet City goals around driving economic development in the Downtown area, while alleviating existing pressures on office space that stem from Durham's current low office vacancy rate. The City's ability to attract and retain corporate tenants and large office occupiers is limited by a lack of available space. New office space at the site can help alleviate this shortage and build Downtown as a hub of business activity and a key employment anchor. These uses will also contribute new tax revenue that will accrue to the City. The tax revenues generated through office development can help support other City priorities, including providing revenue to support affordable housing development in the Downtown core. Recent Downtown Durham, Inc. analysis shows that providing new office space and opening up new jobs in Downtown Durham has a multiplier effect and positive impacts on the city's overall economy. Further, given the site's location close to new planned transit infrastructure, office space included on site is a prime opportunity for the City to support job creation at a location with strong transit access.
- **Affordable Housing:** Increasing the City's supply of affordable housing is a key priority. The City Council adopted a policy objective of including 15% housing units affordable at or below 60% of area median income (AMI) on sites proximate to transit. In terms of utilizing the DPD HQ site to create more affordable housing, the City has three primary options:
 - The City can mandate the inclusion of affordable units on site, and issue a developer solicitation document that stipulates a mixed-income residential

development, in line with the policy objective of 15% housing units affordable at or below 60% AMI.

- The City can dispose of the site at fair market value and dedicate the sale proceeds to constructing off-site affordable units. These sales proceeds generated by the development will enable the City to allocate scarce resources to support community building efforts such as expansion of affordable housing opportunities at sites including Jackson Street Phase II and Fayette Place.
 - The City can divide the site into two parcels, reserving one parcel for an entirely affordable housing development and allowing market-rate development on the remainder of the parcel. The City can seek 9% low-income housing tax credits to support the future development of affordable units on the reserved parcel.
- **Enhance Vibrancy & Connectivity:** Including residential and commercial uses on site will help contribute to Downtown's vibrancy, promote foot traffic along W. Chapel Hill Street, and create new connections between two burgeoning areas of Downtown. The site sits at a key gateway, providing access to the core of Downtown, as well as other primary hubs of Downtown Durham – the Brightleaf and American Tobacco Campus areas. It is also located proximate to a planned light-rail planned transit station and the Amtrak Station, reinforcing the site's role as a key primary entry point for people accessing the City's various centers of activity. Including retail and commercial uses on W. Chapel Hill Street will help fill in existing gaps and promote a more seamless experience for pedestrians traveling through Brightleaf, American Tobacco, or Downtown. The site, given its location, is the City's best opportunity to use City-owned property to build these connections and include commercial uses to build a vibrant streetscape.

In addition to these primary goals, scenarios were developed in consideration of the following factors:

- Retention vs. Demolition of Existing Building
- Density of Development
- Mix of Uses
- Provision of Open Space
- Orientation of Development
- Coordination of Surrounding Property Development

Total jobs supported from the scenarios are estimated to range from 800 – 1,450 office workers, retail workers and residential support workers. All of the scenarios also include open space as a community amenity. Two of the scenarios retain the existing building and redevelop it into Class A office space, while one of the scenarios considers the demolition of the building and replacement with a new tower. Each of the scenarios represents differing levels of density, to show the range of on-site development possibilities.

The consultant team analyzed each scenario using a model, to understand the financial feasibility of the development programs and the fiscal revenue that would accrue to the City, from both land sale proceeds as well as on-going tax revenue. Any restrictions or conditions placed on the sale of the site will likely suppress the land sale proceeds. The accompanying presentation contains further detail on each scenario, including its proposed program and anticipated returns to the City. Ultimately, the development scenarios prepared by the consultant team represent conceptual options, and, as such, should not be interpreted as explicit development programs.

The General Services Department recommends Council make decisions on the three key decision points delineated above and then direct staff to advance a disposition process to reflect the Council's decisions.

Issues/Analysis

The General Services Department recommends advancing to the next step in the disposition process, to advance the redevelopment of 505 W. Chapel Hill Street. In order to take advantage of favorable market conditions, the General Services Department has a primary goal of initiating the property disposition process for the site as soon as possible through solicitation of proposals that complies with the legal requirements for the disposition of public property, with or without restrictions and conditions placed on the future use of the site. There is a potential cost to delaying the disposition of the site – if market conditions in Durham change, the price a developer would pay the City for the land may decrease, and the longer the City holds onto the property, they will remain responsible for ongoing operating and maintenance costs associated with the upkeep of the building.

Summary of Potential Property Disposition Processes

In coordination with the City Attorney's Office, General Services will formulate a property disposition process that most closely reflects the goals and direction of the City Council for development of the site. This disposition process may include the identification of criteria to be included as conditions, restrictions or covenants on the sale the the property. Such conditions may include, for example, any combination of the following: a quantity and type of affordable housing, open space accessible to the general public, preservation of the existing police station building, building height restrictions, etc. It may also be possible to incorporate into the property disposition process, the solicitation of proposals and detailed development plans that would be required to meet more general criteria for development established by the City. Under any scenario, the award and sale of the property to a developer would have to comply with the legal requirements for the disposition of public property.

The City will develop a strategic communications plan to share this opportunity with the development community, add the information to the existing 505 W Chapel Hill Street project website, and advertise through various real estate channels.

Final decision on the award and disposition of the property would be made by the City Council.

Alternatives

The City could choose to retain the property and direct staff to identify a municipal use for the property. This is not recommended as the condition of the building necessitates capital investment to bring the building up to current building code standards, and after its usual process of inquiring with City departments, General Services received the answer that no City department has a use for the property.

Financial Impact

Based on financial modeling, the range of revenue expected from site disposition for the parcel varies from \$2,500,000.00 to \$14,100,000.00, based on the development program, dependent on mix of uses, density of development, existing building, open space, and provision of affordable housing (whether delivered on site or via subdivision of the parcel for a future LIHTC affordable housing development). Subdividing the site and disposing of approximately three acres for market development while reserving once acre for future affordable housing development is likely to reduce the anticipated sales price from \$14,100,000.00 to \$9,900,000.

Further total future revenues, including future tax revenues, ranges from \$6,800,000.00 to \$19,700,000.00.

UBE Summary

Not Applicable

Attachments:

Presentation Future of the Current Police Headquarters Site