



Future of the Current Durham Police Headquarters Site: Updated Analysis

City Council Work Session

June 7, 2018

HR&A
Analyze. Advise. Act.



**R.M. Rutherford
& Associates, Inc.**

There are a variety of ways in which disposition and redevelopment of 505 W. Chapel Hill Street can help meet identified City priorities:



BUSINESS FRIENDLY ENVIRONMENT

- Generate new tax revenue from office development
- Create new jobs at a site proximate to transit



AFFORDABLE HOUSING

- Provide affordable units on site
- Commit revenue from full market value sale to fund affordable units elsewhere (e.g., Jackson St. Phase II, Fayette Place)



ENHANCE VIBRANCY

- Include commercial uses, such as retail and office, to drive foot traffic and activate the block



DISTINCTIVE DESIGN

- Leverage gateway location to create connections between active areas of Downtown and West Durham

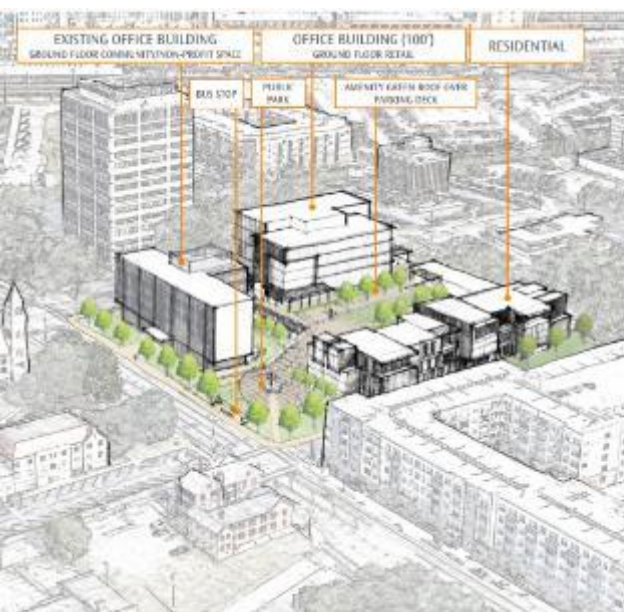
Options for Driving Affordable Housing Production

Three primary options exist for leveraging this site to increase the supply of affordable housing in Durham:

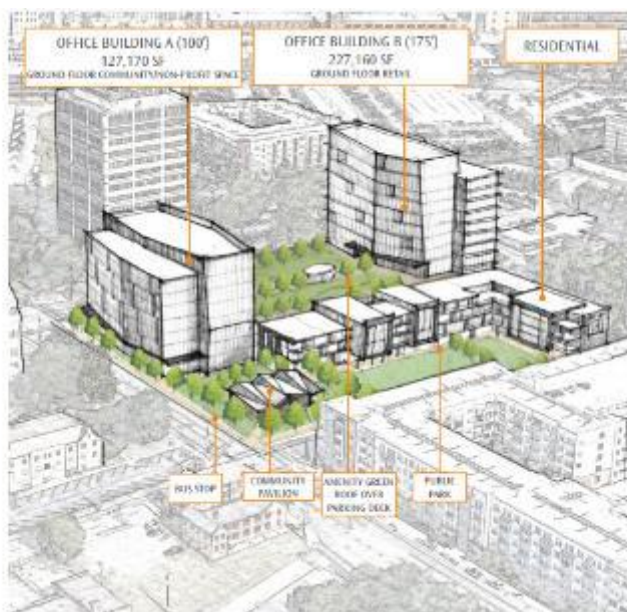
- 1. Dispose of site at market value for a mixed-use development** that includes significant commercial development, and dedicate proceeds to funding affordable units at a different location (e.g., Jackson Street Phase II, Fayette Place)
- 2. Include affordable units on site** as part of mixed-income residential component delivered within a larger mixed-use development that includes significant commercial development
- 3. Set aside a portion of the site for future affordable housing development**, and dispose of the remainder of the site for mixed-use market-rate development

The consultant team previously identified three scenarios as potential development outcomes across a spectrum of possibilities.

Scenario A



Scenario B

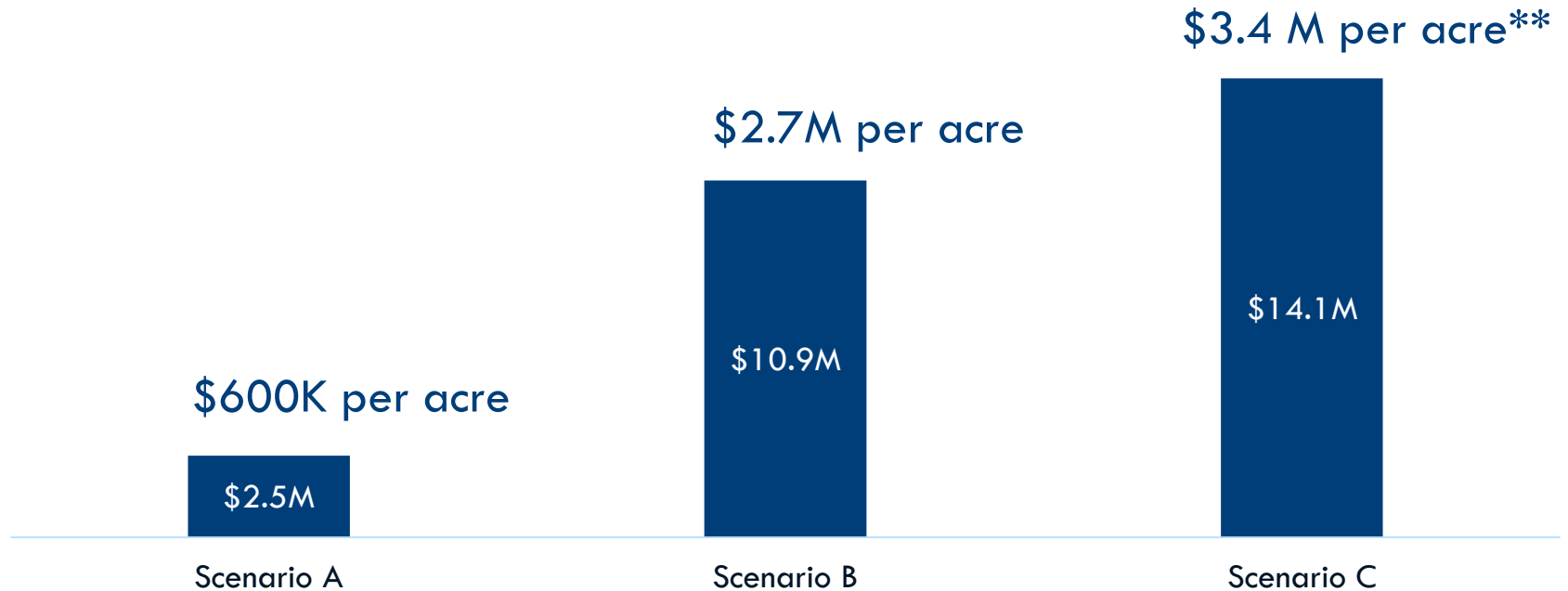


Scenario C



Scenario C is projected to generate the highest revenue of these scenarios.

Total Revenue from Site Disposition*

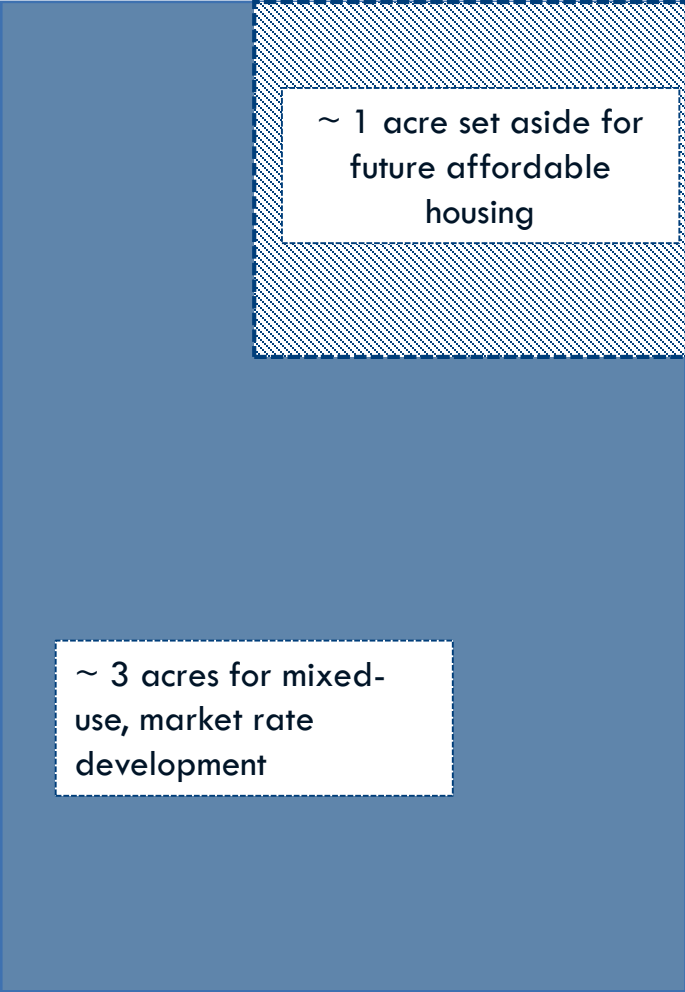


*The land sale proceeds generated through this financial model are based on certain assumptions about tax credit eligibility, which help enable project feasibility:

- Scenarios A & C, which retain the existing building, receive federal and state historic tax credits
- All of the scenarios receive state brownfield redevelopment tax credits

**Cost estimates were not produced for Scenario C. Assumed costs for Scenario C were adopted from cost estimates for other scenarios on a per square foot or per unit basis.

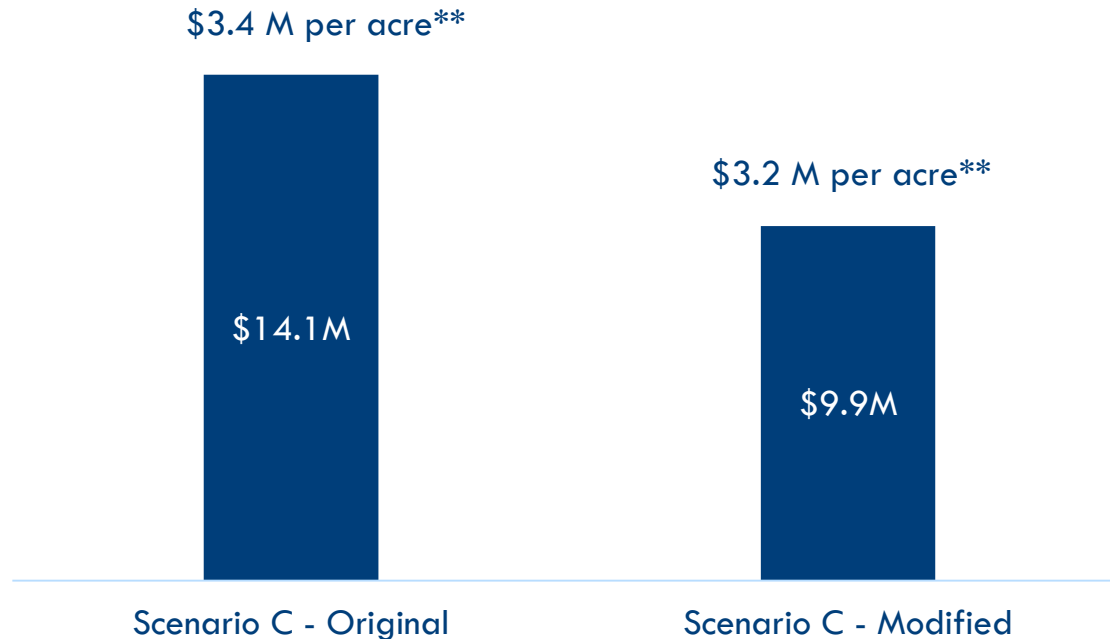
Modified Scenario C – Mixed-Use Development Program on 3 acres



Mix of Uses:	<p>Residential: 140 units</p> <p>Office: 279,450 sf</p> <p>Retail: 28,000 sf</p> <p>Parking: 1,097 spaces in a 7-level shared-use deck (open to public nights & weekends), including 80 spaces to accommodate future affordable housing</p>
Density of Development:	Higher density, including a new 15-story office building.
Existing Building:	Demolished
Open Space:	1 acre
Total Jobs Supported by Program:	1,220

Dividing the parcel and disposing of the remainder for market rate development reduces the estimated sales price by \$4.2 million.

Total Revenue from Site Disposition*



*The land sale proceeds generated through this financial model are based on the assumption that the project receives state brownfield redevelopment tax credits

**Cost estimates were not produced for Scenario C. Assumed costs for Scenario C were adopted from cost estimates for other scenarios on a per square foot or per unit basis.

The remainder of the parcel would also produce less total tax revenue to the City.

Total City Revenue, 2018-2038*

	Scenario C – Original	Scenario C- Modified
Disposition	\$14,060,000	\$9,880,000
City Real Property Tax	\$3,550,000	\$3,080,000
City Personal Business Tax	\$950,000	\$790,000
City Portion of County Sales Tax	\$1,180,000	\$1,180,000
Total Taxes	\$5,680,000	\$5,050,000
Total City Revenue (PV)	\$19.7 M	\$14.9 M

*Tax revenues are calculated under the assumption that the site is eligible for the North Carolina Brownfields Program, which gives developers a partial exemption in property taxes for the first five years of a project. As such, the City and County will receive reduced property tax revenue from the site during the first five years. The property owner will pay the site's full assessed property taxes in year 6. The values shown in the table above are discounted to represent 2018 present value.

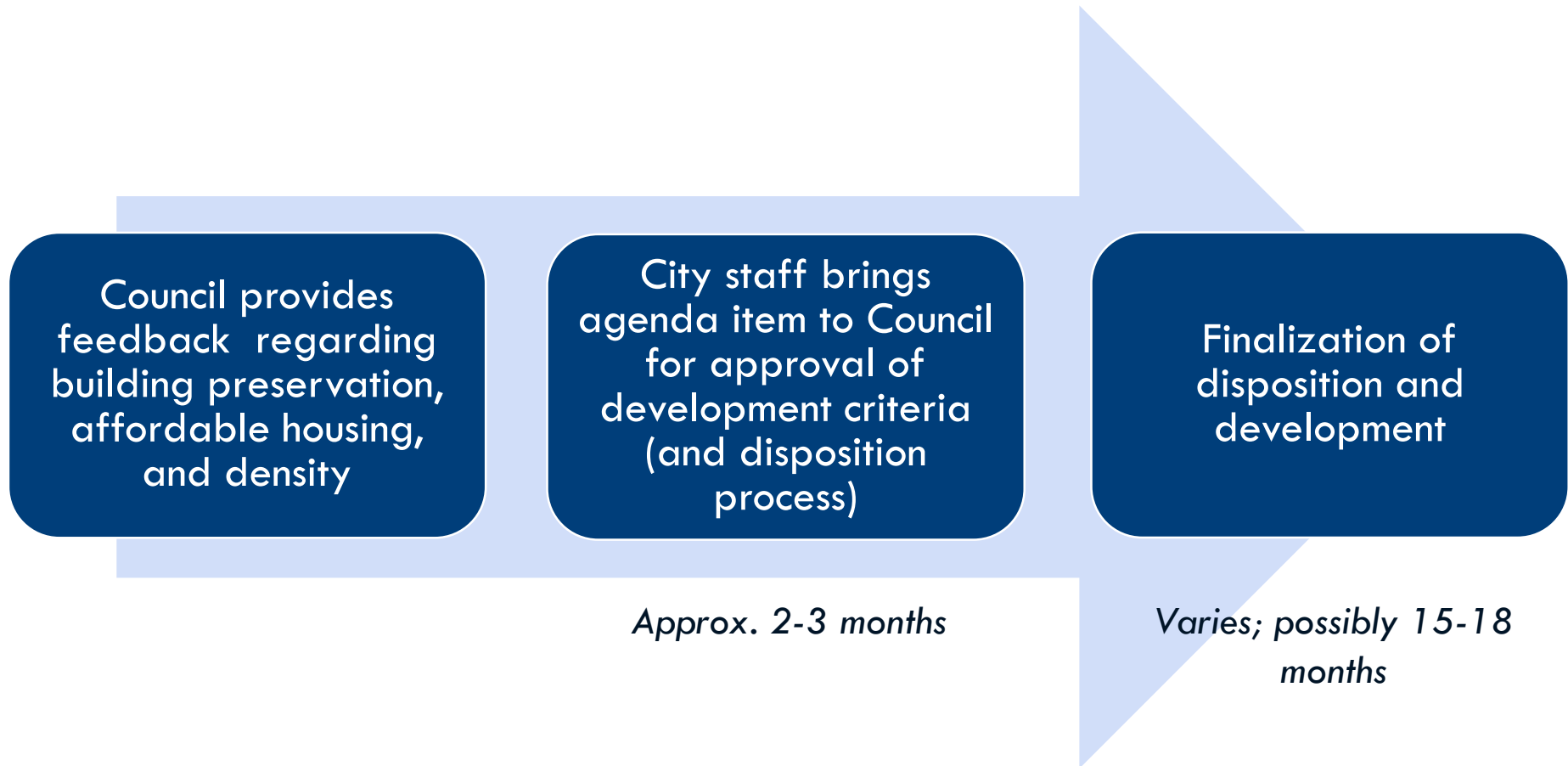
Dividing the site will also likely have negative impacts on the ability to accomplish other City goals and priorities for Downtown.

- Subdividing the parcel will require **construction of a new road**, adding to development costs and reducing developable area.
- Offering the full city block for disposition would provide a **unique opportunity to design a cohesive and integrated project** at a key city gateway.
- Reducing the size of the parcel carries opportunity costs, including **losing the ability to accommodate a large office tenant** at a Downtown site adjacent to transit.
- Securing 9% LIHTC to subsidize affordable housing on the reserved portion carries uncertainty – these competitive credits are unavailable in the near term, **meaning the reserved site could stay undeveloped for up to 10 years.**
- Uncertainty associated with developing the portion of the site reserved for affordable housing will **likely impact developers' perceptions of value for the remainder of the site.**
- Constructing a new building for affordable housing will **require additional subsidy** on top of LIHTC.

The cost of providing affordable units varies, depending on whether a mixed-income or 100% affordable development is pursued.

	Scenario C – Inclusionary	Modified Scenario C – separate 9% LIHTC deal	Modified Scenario C – no 9% LIHTC
Affordable units	21 units	80 units	80 units
Opportunity cost of affordable units (discount from full market value of \$14.1M)	\$2.4 M	\$4.2 M	\$4.2 M
9% LIHTC required to facilitate project	No	Yes	No
Additional City subsidy needed to construct affordable units	\$0	\$2.0 M	\$9.2 M
Cost to City per affordable unit	\$115,000	\$78,000, assuming 9% LIHTC secured	\$168,000
Timeframe for delivery of affordable units	Near term (3-5 years)	Long Term (+10 years, dependent on availability of 9% LIHTC)	Near term (3-5 years)

Council's feedback on key decision points will enable staff to begin the developer solicitation process.



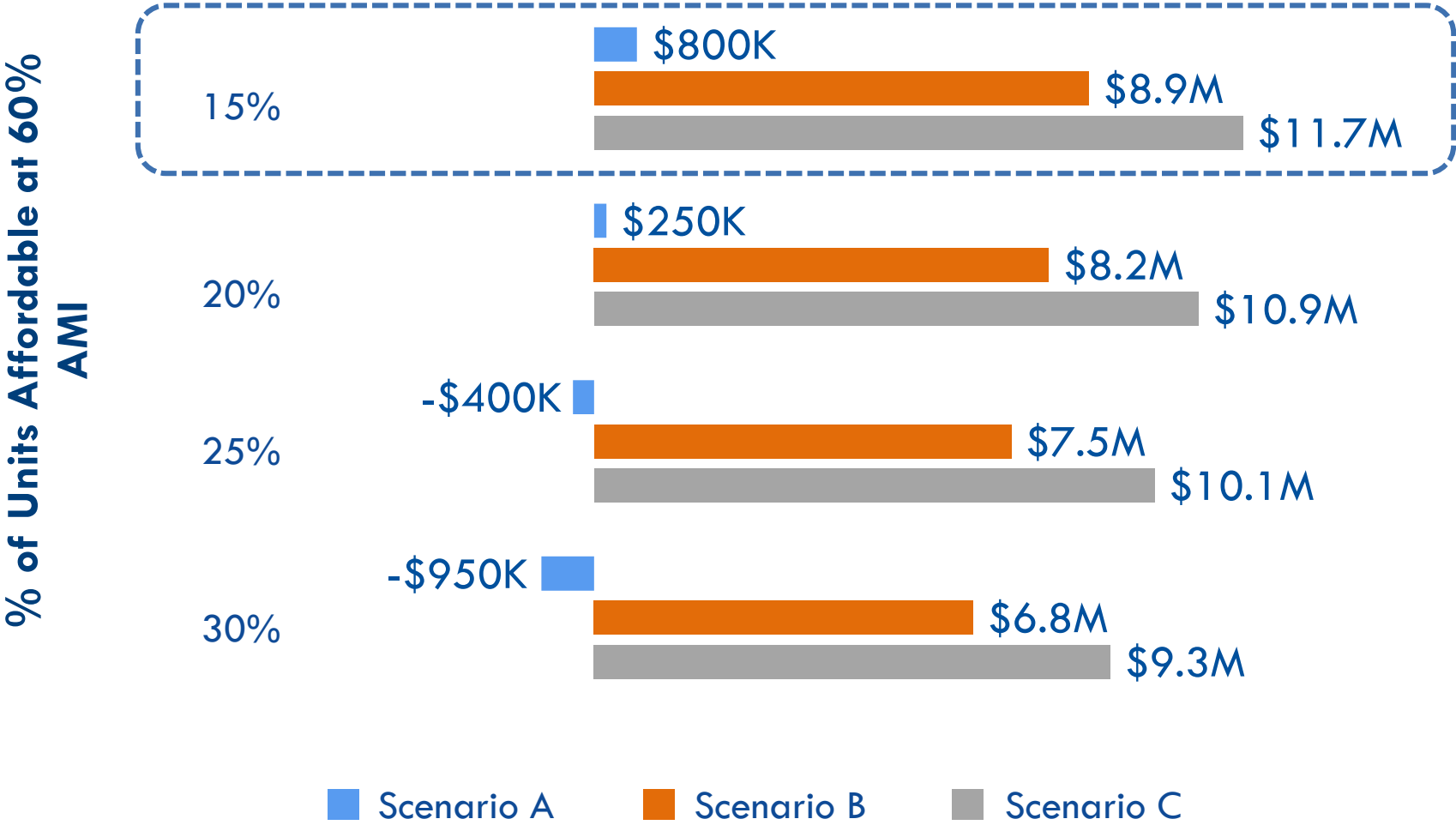
Appendix

A portion of the reduction in land value owes to the delivery of parking spaces to accommodate future affordable housing.

	Modified Scenario C	
	<i>Including parking for affordable units</i>	<i>Not including parking for affordable units</i>
Land Disposition Value	\$9.9 M	\$11.1 M
Total number of parking spaces	1,097	1,017
Impact on land value from providing 80 parking spaces		-\$1.2M

Land price decreases by approximately \$0.6M in Scenario B, and \$0.8M in Scenario C, for every additional 5% of affordable units included.

Site Value Sensitivity to Inclusionary Housing





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