



Mini Market Study of the Aura Site

Summary

1. Ten years ago, this would have been a good but not great location for a convenience store, gas station or drug store, but the area is now saturated with them.
2. The most likely tenants for traditional office space are realtors or wealth managers, who would want both good access and visibility from the road.
3. Mixed-use can work on this site, particularly live/work units and possibly a coffee shop, but any pure retail use would need to be visible from the street.

Retail Demand

Retail development includes stores, restaurants and service establishments. There are essentially two kinds of retail locations, local and destination. Local retail is where people go two or three times a week or more, such as to the supermarket or neighborhood deli. Destination retail is where people go less frequently, to shop for clothing and home furnishings or for an evening out. There are different scales and formats of retail, as shown below:

| <u>Type</u> | <u>Typical Size</u> | <u>Typical Use and Tenants</u> | <u>Example Locations</u> |
|------------------------|---------------------|--|---|
| Regional mall | 1-1.5 million sf | Department, clothing, and home furnishings stores. | South Point, Crabtree Valley, Triangle Town Center. |
| Power center | 250,000 sf | Big box stores like Home Depot, Dicks, and Bed, Bath & Beyond. | New Hope Commons, Patterson Place. |
| Entertainment district | 100-150,000 sf | Restaurants and upscale stores. | Franklin St., Hillsborough Street. |
| Community center | 75-150,000 sf | Supermarkets, dry cleaners, delis. | Timberlyne Village, Meadowmont. |
| Midtown retail | 35-100,000 sf | Upscale, high-service, independent stores and restaurants. | Five Points, Root Cellar. |
| Strip center | 10,000 sf | Inexpensive restaurants, convenience stores. | Southwest corner of Homestead Rd. and MLK. |

Although Franklin St. is famously Chapel Hill's downtown shopping street, most of the area's retail space is actually located north and east of downtown. That's because two out of three Chapel Hill adults go elsewhere to work, and retail clusters along their commute routes. The map at right shows these locations.

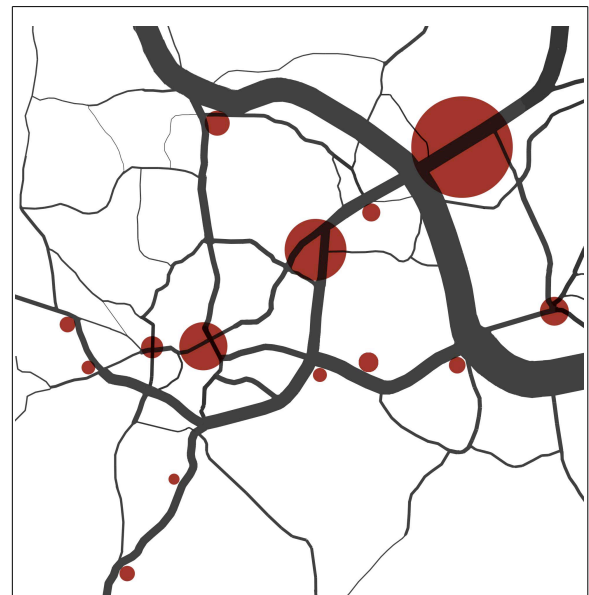
Before the pandemic began, there was already a surplus of supermarkets in Chapel Hill¹. With the growth of Walmart, Wegman's and now both Amazon online sales and Amazon Go Stores, three or four weaker food stores such as Food Lion will be at risk of closure when the pandemic is over, along with the in-line shops they anchor. The pandemic will likely accelerate the redevelopment of University Place, which will likely be redeveloped as an "urban village" with a substantial amount of housing.

Ten or 15 years ago, the Aura site would have been a strong location for a drug store or a gas station with convenience store², but there are now at least ten of these within a five-minute drive. In the future, there may be less demand for gas stations and the convenience stores they support, as people telecommute and drive more electric cars. If that happens, some of the gas stations and convenience stores in Chapel Hill will likely close³. MLK itself could lose one or two.

Demand for Office Space

Chapel Hill has just four percent of the total regional inventory of office space, and, the last five years, accounted for just two percent of the new space built. Just as retail space lines the commute routes at major intersections, so, too, do its office developments. The largest of these is "Eastowne", next to Hwy. 15-501 and near I-40, where the major tenant, UNC Health, can tap the regional labor market for its back-office operations.

As people continue to telecommute, post-pandemic demand for office space could fall 20 percent below pre-pandemic levels. The hardest-hit buildings will likely be those that are auto-oriented and B- and C-grade, like those along MLK near Weaver Dairy Rd., and it is a question of public policy of just how fully leased these buildings should be. The companies most likely to locate at the subject site are realtors and wealth managers, users like those at Weaver Dairy who want good visibility and abundant customer parking.



This map shows local concentrations of retail space, with the relative amount at each location shown in red, and the volume of traffic on adjoining roadways shown in black.



This map shows the location of convenience stores, drug stores, and gas stations with convenience stores.

¹ For more on this, see research reports on Chapel Hill North and Rogers Road prepared by Business Street for the Town of Chapel Hill.

² Nationally, two-thirds of convenience stores now sell gas, and in Chapel Hill that percentage is even higher, about 80 percent.

³ The U.S. convenience store industry has consolidated the last three years, with foreign investors, refining companies and chains like Sheetz driving out independent operators and stores that do not sell gas.

Highest and Best Use of This Site

Economically, the highest and best use of this site is pure residential at the proposed density. With its excellent transit connections to the university, this is a good location for both students and staff.

The next best use after pure residential is live/work space, but rather than being housing over retail, the kind often proposed by planners, this live/work product should include more living space on the ground floor and more privacy from the street on that level⁴. That configuration would likely attract engineers and tech workers who are now permanently working from home and want a greater division of live and work areas. It is possible that if this live/work space were developed near the front of the project and set on a green space, it might include a coffee shop, but to survive, that coffee shop would need to draw traffic from the street⁵.

4 That is what has been built on Phillips Dr. in Carrboro, and it is not likely to be successful. Had that space been built with a ground floor patio out front and set two or more feet above grade, the values for that ground floor space might be 30 to 50 percent higher, and it would lease or sell that much more readily.

5 Most local stores and restaurants, including coffee shop, require a customer base of thousands of nearby residential units. This project lacks the critical mass and the internal connections to surrounding neighborhoods for a purely local coffee shop to survive. The retail in both Meadowmont and Southern Village has been successful because they have that internal connection and the support of passing traffic.