

Charlotte- Mecklenburg Planning Department

Midtown Morehead Cherry Market Analysis



Overview

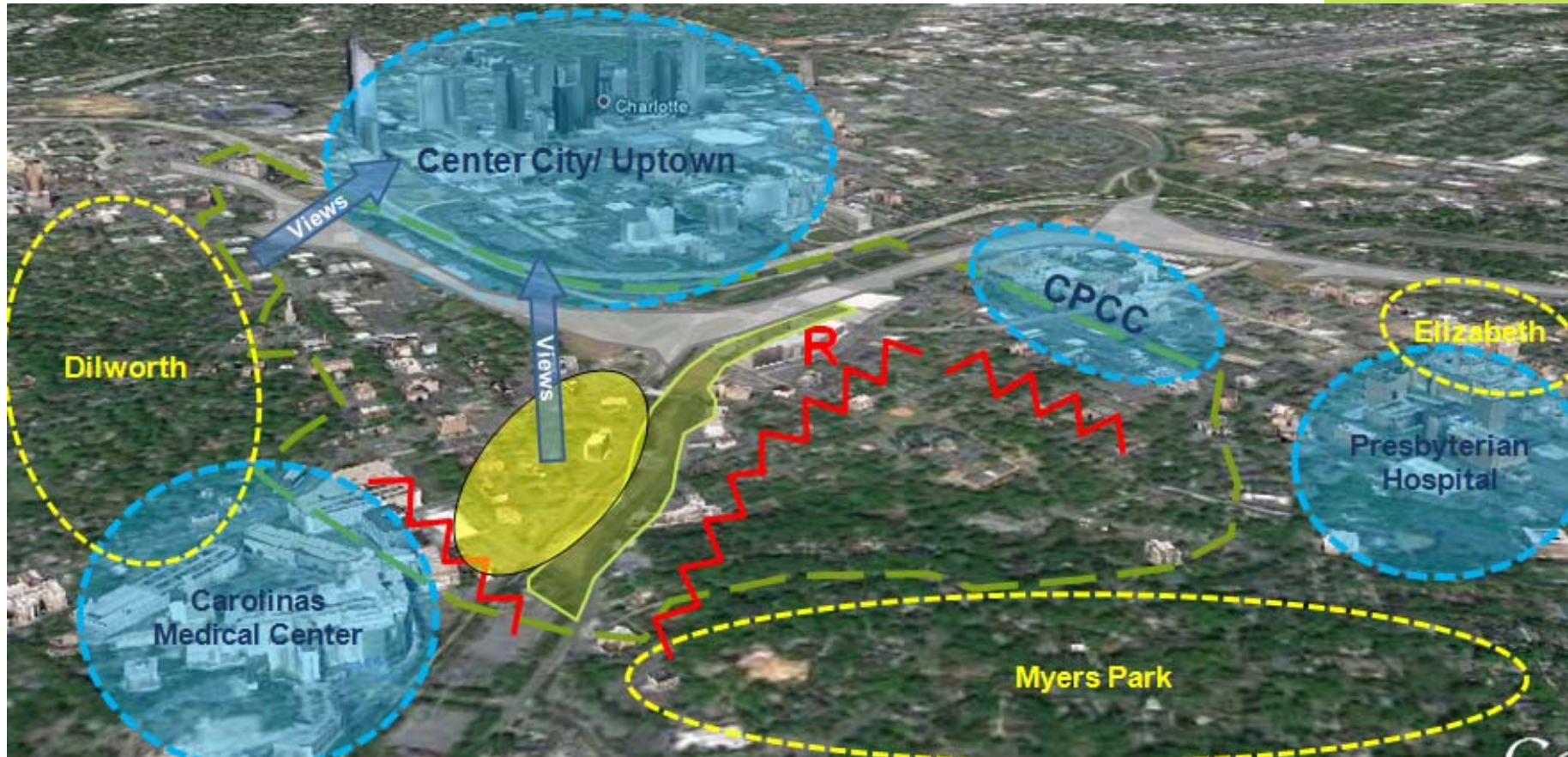
- Noell Consulting Group was retained to:
 - Understand long-term trends affecting future land use and development in the Midtown Morehead Cherry Study Area
 - Gauge demand potential for retail, office, rental and for-sale in the area through 2030
 - Identify key issues and opportunities likely to emerge in the area
- Analyses & recommendations are from market perspective—not the final answer

Macro Trends/Factors

- Economic recovery slow, but moving in good direction
 - Greatest near-term opportunities for rental apartments
- Intown opportunities solid as market recovers
 - Overall value proposition growing in urban areas
- Convenience is becoming a major factor
 - Ease of life, location matter more and more
- Generation Y (and X) focused on walkable environments
 - Seeking social interaction/sense of community
 - Favor sense of authenticity/intown locations
- Baby Boomers living for themselves
 - Don't need to live where it's best for the kids
- Intown seeing significant retail growth
 - Major retailers changing their models to fit
- Growth in small, entrepreneurial firms
 - Value office locations that improve overall quality of life

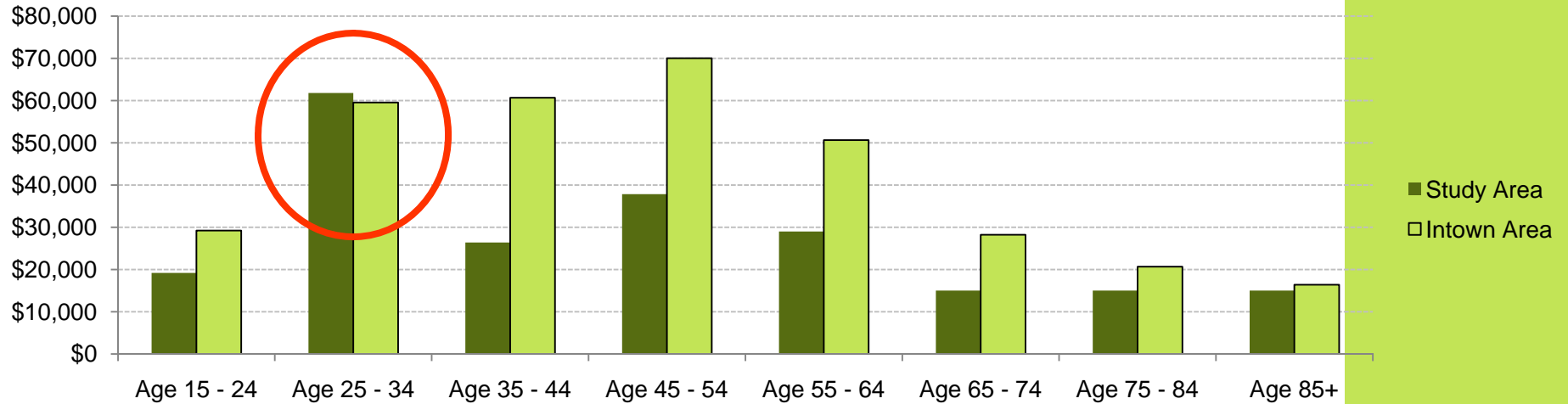


Many Strengths, Few Challenges

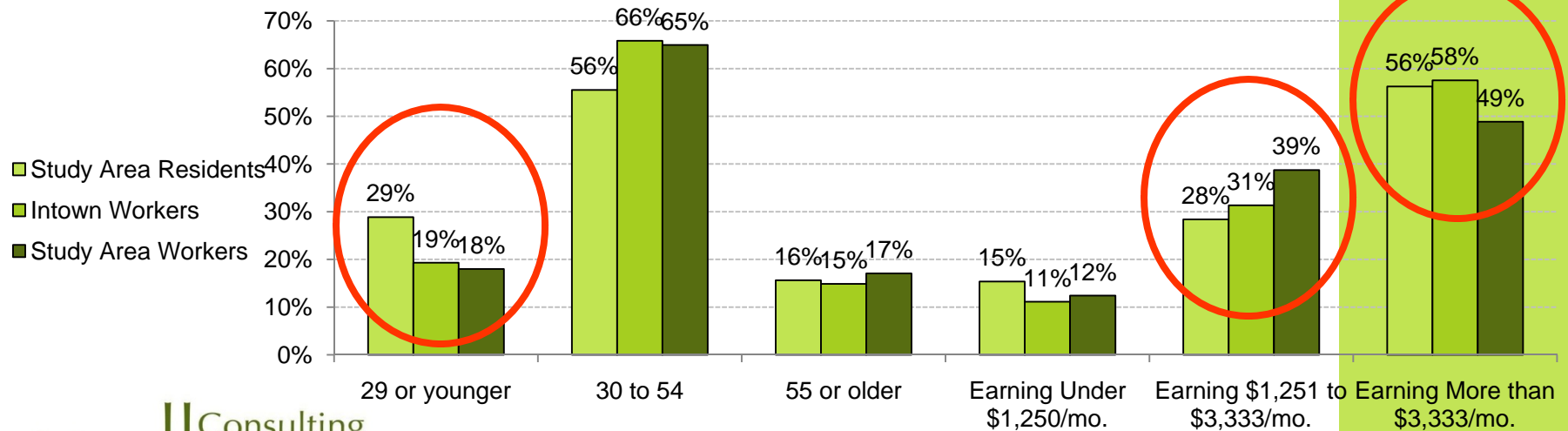


Demographic Trends

Median Income by Age Cohort, Study Area and Intown Charlotte



Comparison of Study area Residents and Workers, and Intown Workers



Most Growth in Office/Medical

Sector	Industry	Midtown/South End/ Elizabeth Change 2000 - 2008	Mecklenburg Co. Change 2000 - 2008	Midtown/South End/ Elizabeth as a % of Meck County
Total Growth		2,664	61,365	4.3%
23---	Construction	-358	-147	243.2%
42---	Wholesale trade	-314	-5,270	5.9%
44---	Retail trade	-530	3,870	-13.7%
51---	Information	75	-2,100	-3.6%
56---	Admin, support, waste mgt, remediation services	-650	1,793	-36.3%
72---	Accommodation & food services	518	14,852	3.5%
81---	Other services (except public administration)	151	-578	-26.0%
Total, Moderate-Paying Employment		-1,487	5,572	-26.7%
52---	Finance & insurance	567	28,158	2.0%
53---	Real estate & rental & leasing	36	1,675	2.1%
54---	Professional, scientific & technical services	377	2,614	14.4%
55---	Management of companies & enterprises	267	1,098	24.3%
Total, Higher-Paying, Office-Using Employment		1,246	33,545	3.7%
61---	Educational services	207	4,058	5.1%
62---	Health care and social assistance	2,769	16,990	16.3%
71---	Arts, entertainment & recreation	24	4,668	0.5%
Total, Institutional/Office Emp. (Wide Range of Pay)		3,000	25,716	11.7%

Retail: The Big Picture

- Generally struggling—huge fallout from recession and cutbacks in spending
- Stores leaving behind big vacancies—may take a long time to fill (particularly in burbs)
- Intown stronger and retail chains modifying formats to adapt to tighter locations
- Entering into more mixed-use projects
- Retail becoming more important to defining quality of life



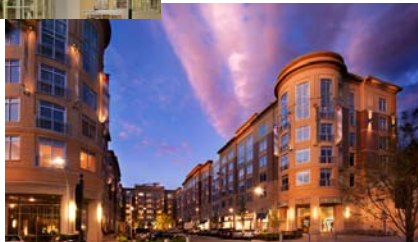
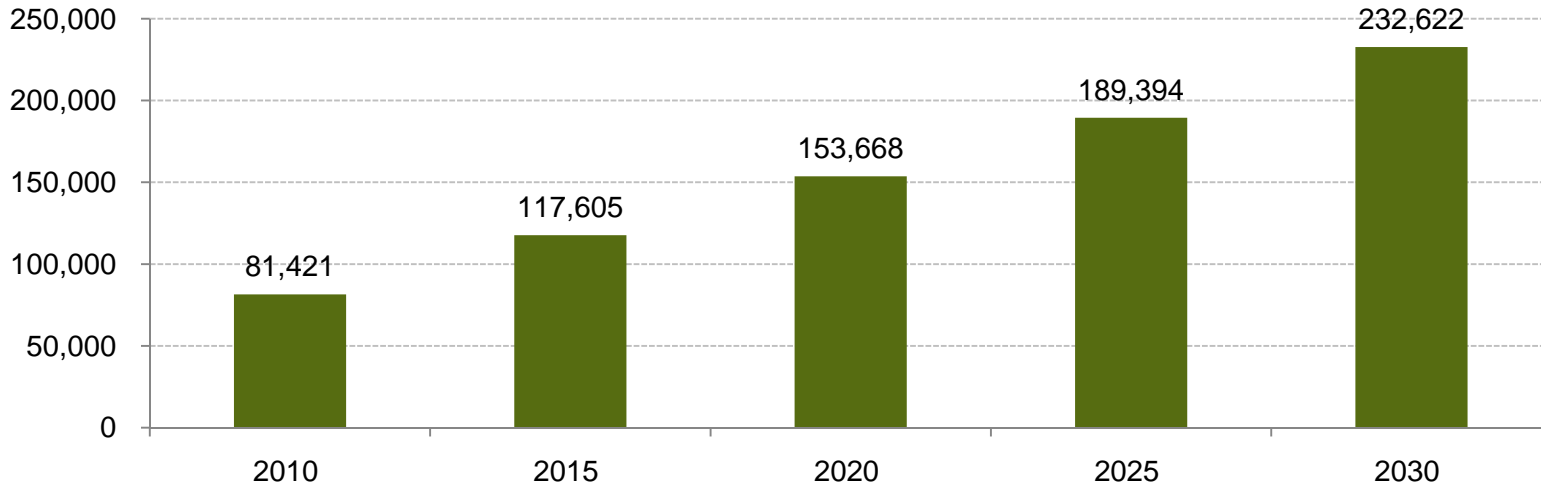
Retail: Tempered Market in MMC

- Study area retail market somewhat limited
- Few great sites to develop sizable centers
- Strong demand potential, but weak currently
 - Numerous sources to draw from:
 - Ctr City Workers
 - Hospital Emps
 - Visitors
 - CPCC
 - Residents
 - Lack of anchored centers
 - Mostly small shops
 - Vacancy rates quite high today, even at Met Midtown



Retail Demand—Fairly Limited

Estimated Retail Demand Potential (sans Big Box at Tryon/Morehead)



Category	Suitability/Opportunity for Study Area	Comments
Grocery Store	Good	Finding location may be a challenge
Clothing/Shoe Stores	Moderate	Nationals a challenge, mostly local
Hobby/Toy Stores	Low - Moderate	Finding tenants may be a challenge
Sporting Goods	Low	Shake-out occurring in category
Big Box Discount	Moderate	Definite opportunity, but lack of attractive locations--Tryon/Morehead area possible
Limited Service Dining	Good	Major employers in study area, hospital visitors create opportunities
Personal Services	Good	Prefer smaller spaces throughout area Could be free-standing or in mixed-use

Retail Opportunities

- Fairly limited overall
- Potential Big Box around W. Morehead
- Smaller boxes in old Expo space?



Office: The Big Picture

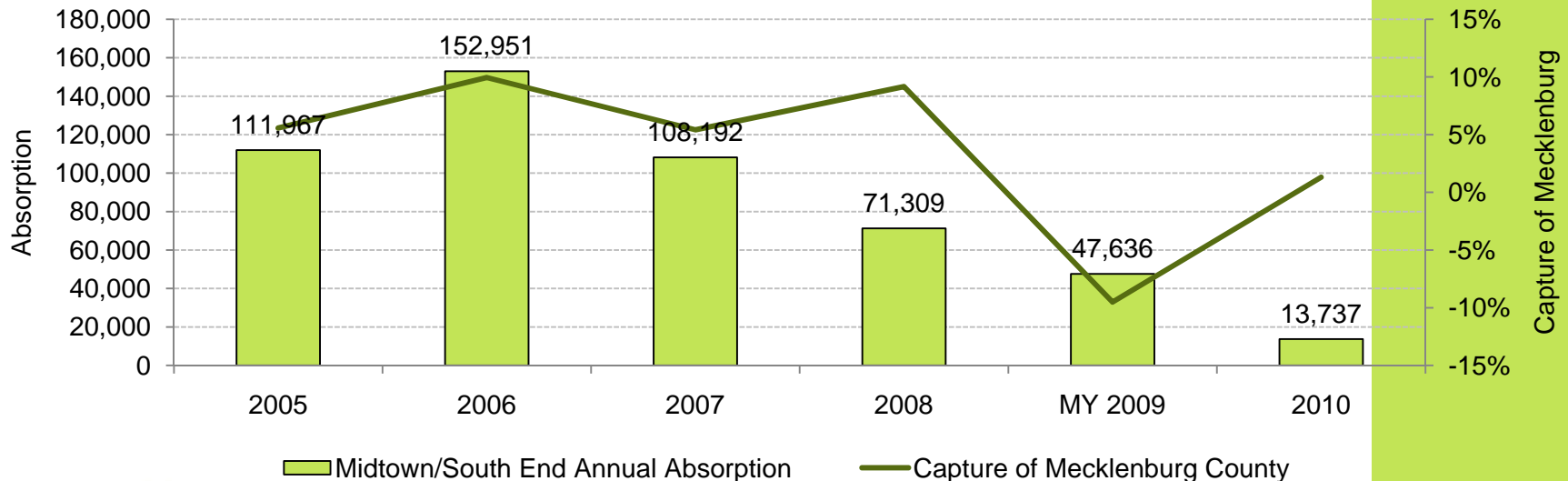
- Banking/Services industries harder hit this time around
- Timing of major layoffs/cutbacks hit as Center City space hitting market
 - Nearly 3M square feet came online at the wrong time
 - Struggling to lease space
 - Shadow market as well (vacancies higher than shown)
 - Will take several years to recover

	<u>Total SF</u>	<u>Est. Available</u>	<u>% Occ'd</u>
1 Bank of America Center	750,000 sf	40,000 sf	95%
Ally Center	363,000 sf	162,000 sf	56%
NASCAR Plaza	390,000 sf	255,800 sf	34%
Duke Energy Center	1,300,000 sf	74,000 sf	95%
Total	2,857,000 sf	531,800 sf	81%

- Has real impact on study area in the near-term
 - Tempers demand for “price-alternative” space

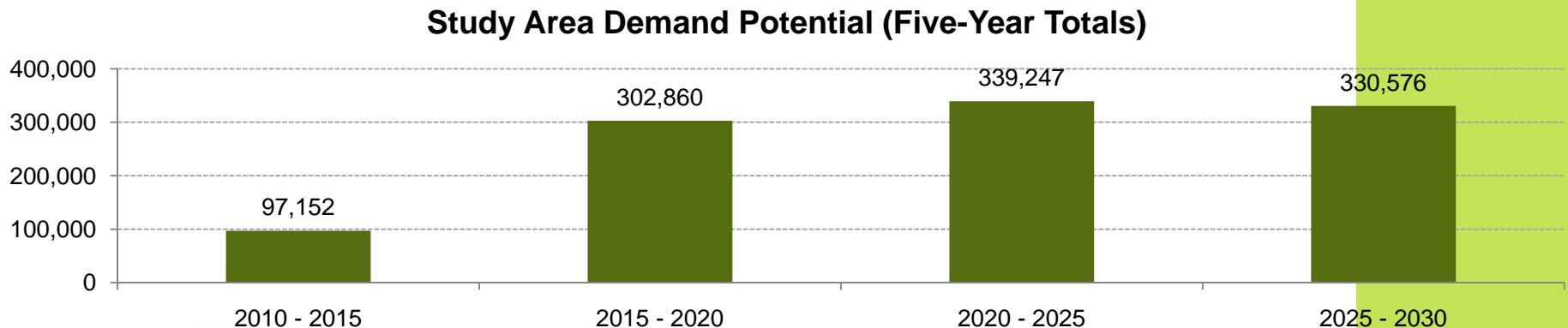
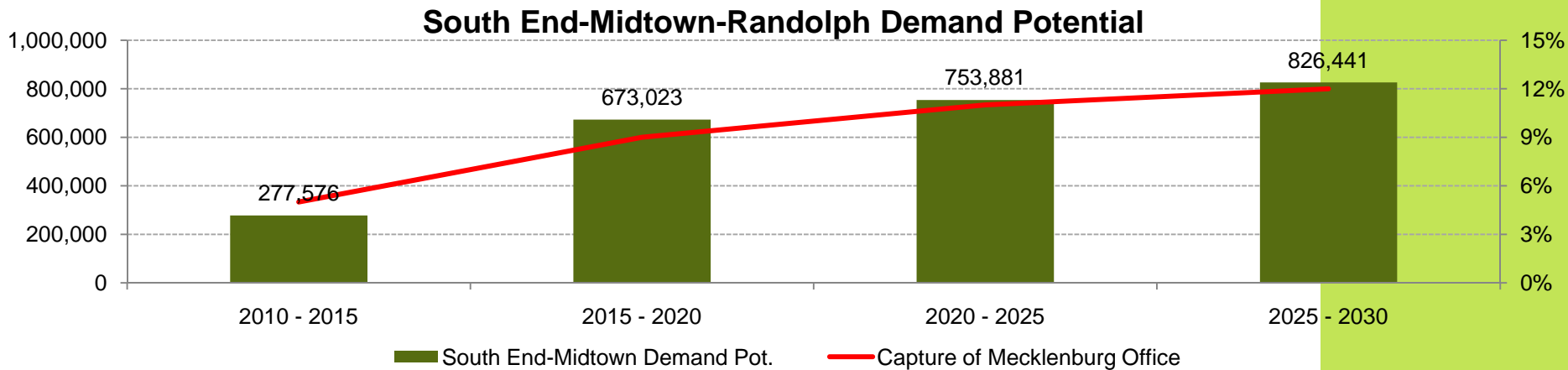
Study Area—Small & Growing

- Study area is a relatively small submarket
 - Dominated by services/medical firms-most under 5,000 square
- Uptown-proximate market gaining momentum
 - Lack of smaller, older spaces in Center City
 - Tenants unable/unwilling to afford Center City
 - Drawn by access, quality of life, cheaper rents
 - Short-term: Cheaper rents harder to offer as Center City space gets cheap



Demand Potential

- South End-Midtown Area gain capture over time
- Short-term tempered by Center City issues



Office Opportunities

- Greatest opps will remain for smaller office users priced or opting out of Center City
- Take advantage of high quality of life
- Create mixed-use opportunities
- Medical office will remain a growing opportunity



Rental Apartments: The Big Picture

- Market fundamentals improving significantly for rental apartments
 - For-sale valve shut off
 - Attitudes among owning vs. renting shifting
 - Apartment developers now looking for land
 - Younger Gen Y's fueling demand
 - But also seeing dmd from all hh types
- Big surge in last 9 months
 - Meck vacancies down 2.5% in just six months
 - Nearly 4,800 units absorbed—highest in years
 - Limited supply coming on line
 - Rents now on the increase
- Convenient locations proximate to jobs doing best



Study Area Ideal for New Apts



Intown Strengthening

- Intown areas, including South End, Center City and Elizabeth, added more than 2,500 units in 2009 – 2010
- Temporarily flooded market, but recovering well
- More than 1,500 of these units now leased
- Overall intown vacancy rates higher than desired, but dropping
- Market should be ready for new product in next two years
- Rents now increasing across the board



Summary of New Intown Units	New Units	Absorbed	Vacancy	Lease Rate Range
South End	1,671	855	49%	\$1.15 - \$1.52/SF
Elizabeth	256	241	6%	\$1.29/SF
Center City	641	405	37%	\$1.38 - \$1.67/SF
Total Intown	2,568	1,501	42%	\$1.15 - \$1.67

Rental Apartment Demand

- Apartment demand will remain strong, but will take some time to absorb existing vacant product
- Potential to support around 100 units/year in the study area over next 20 years.



	New Apartment Unit Demand by Timeframe						Totals
	2000 - 2005	2005 - 2010	2010 - 2015	2015 - 2020	2020 - 2025	2025 - 2030	2010 - 2030
Total HH Growth	76,469	27,238	25,617	35,586	33,197	30,403	124,803
Renter Propensity	42%	40%	40%	40%	40%	40%	40%
New Renter HH Growth	32,117	10,895	10,247	14,234	13,279	12,161	49,921
Central Capture	15%	19%	22%	23%	23%	25%	23%
New Renter HH Growth in Central Mecklenburg	4,818	2,070	2,254	3,274	3,054	3,040	11,623
Intown Ring Area Capture	28%	40%	50%	50%	50%	50%	50%
New Renter HH Growth in Intown Ring	1,349	828	1,127	1,637	1,527	1,520	5,811
Midtown/Morehead/Cherry Capture	25%	25%	35%	35%	35%	35%	35%
Est. Rental Dmd in Midtown/Morehead/Cherry	337	207	395	573	534	532	2,034

Rental Apartment Opportunities



For-Sale Res: Big Picture

- Market is obviously still struggling
- Home prices slid in 2010 and still likely to slide somewhat further
 - Now at 2004 price levels
- Some economists see rollback in many metros to 1998 price levels
- Lending still tight & too many underwater
- Long-term potential attitude shifts regarding homeownership could have lasting impacts
- New construction volumes still quite low
 - Will take several years to recover
- Generally suburbs hit harder than intown areas
 - Condo market an exception.



For-Sale Res: Intown Status

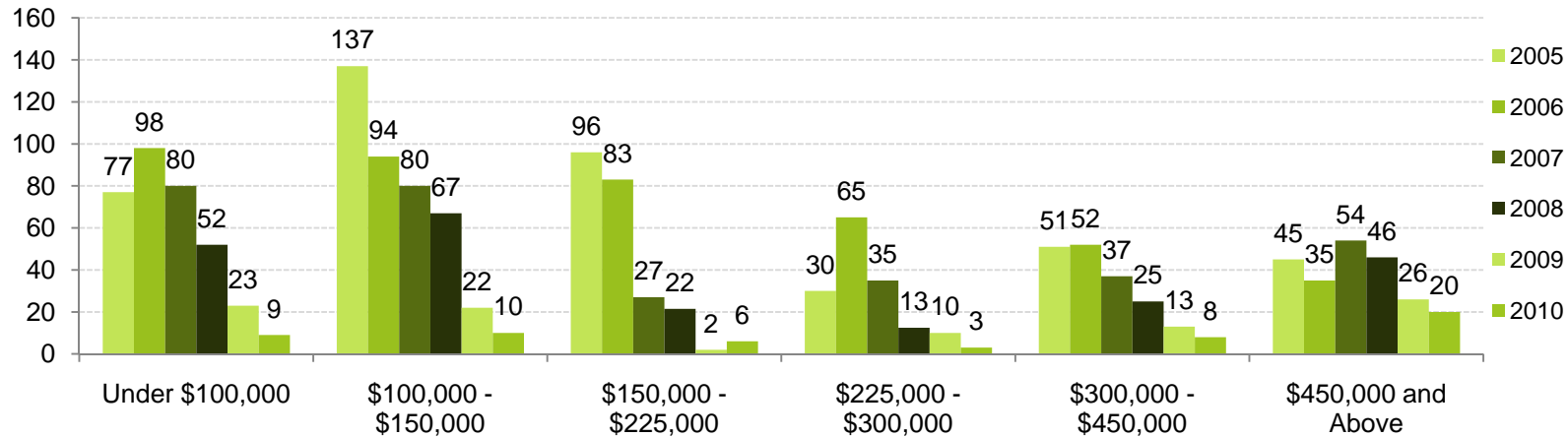
- Home prices have generally stabilized intown and around study area
- Foreclosures have dropped by roughly half since late 2009

ZIP/Area	Foreclosure Rates		Current <u>Average</u> Home Price	Est. Avg. Yr-Over-Yr Price Change
	January 2011	Fall 2009		
28204–Elizabeth/Cherry	0.03%	0.06%	\$416,000	49%
28207–Elizabeth & Myers Pk	0.09%	0.09%	\$652,643	2.3%
28202–Uptown	0.19%	0.27%	\$326,773	92.2%
28203–S. End/Dilworth	0.10%	0.18%	\$316,292	-7.0%
Mecklenburg County	0.18%	0.25%	\$207,591	5.4%

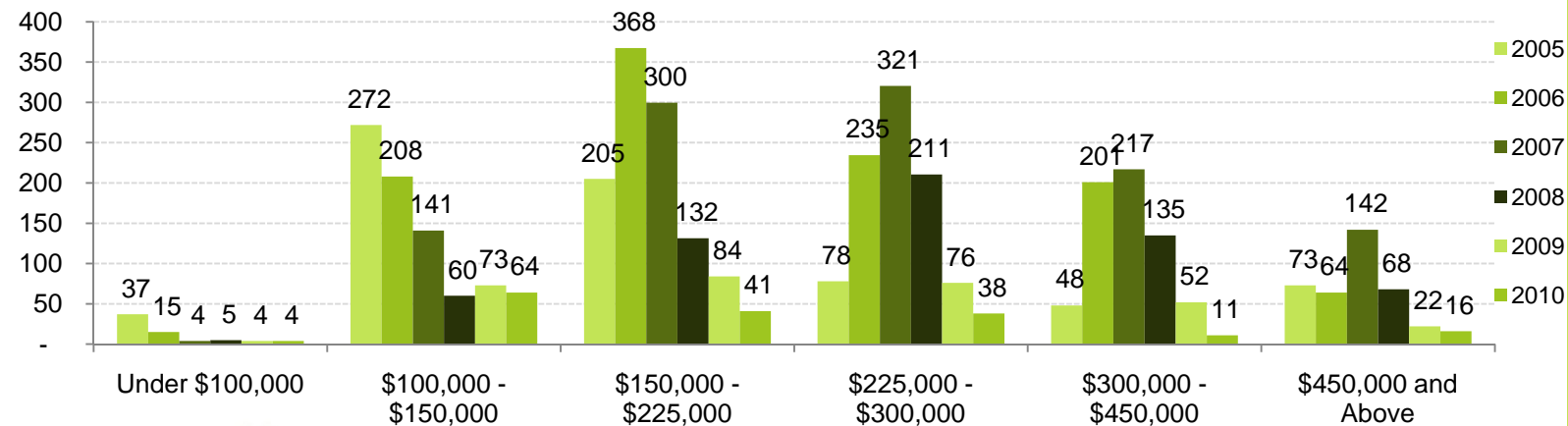
- Avg home prices actually up, but pulled higher by executive market (\$400k+)—median prices are down overall.
- Condo sales are slow and many projects have converted to rental to stay afloat.

Intown Home Sales

New Single-Family Detached Sales in Central Submarket



New Attached Sales



Study Area Ideal for Variety of New For-Sale Residential



For-Sale Residential Demand

- Demand strong for attached for-sale product in the study area
 - Townhouses
 - Low-rise condos

	New For-Sale Housing Demand (Units) by Timeframe				Totals
	2010 - 2015	2015 -2020	2020 - 2025	2025 - 2030	2010 - 2030
New Central Attached Homes	1,721	2,317	2,330	2,298	8,667
New Central Detached Homes	732	833	790	635	2,989
Intown Ring Area Capture					
New Intown Ring Attached Homes	568	764	769	758	2,860
New Intown Ring Detached Homes	73	83	79	63	299
Midtown/Morehead/Cherry Capture					
New Study Area Attached Homes	199	268	269	265	1,001
New Study Area Detached Homes	7	8	8	6	30

- Near-term demand likely to be overstated until existing oversupply burns off

For-Sale Residential Opportunities



Demand Summary

	Units/ SF Supported	Acres Needed
Retail <ul style="list-style-type: none"> Weak in near-term, moderate over time Tempered by lack of strong locations in study area 	232,622 SF	9.8
Office <ul style="list-style-type: none"> Improving over time Greatest opps for smaller firms needing under 5k SF 	1,069,835 SF	13.1
Rental Residential <ul style="list-style-type: none"> Strong today and going forward Great locations in study area for new rental product 	2,034 DUs	30.0
For-Sale Residential <ul style="list-style-type: none"> Weak in next five years, improving over time Demand potential for townhouses, low-rise condos, limited single-family 	1,031 DUs	29.1
Total <ul style="list-style-type: none"> Plenty of vacant/underdeveloped land to accommodate longer-term demand potential 	1,302,457 SF 3,065 DUs	82.0