

FRANKLIN STREET

Franklin Street in Chapel Hill is a “main street” far better than those of most towns and cities in this country. Instead of vacant stores or stores converted to service offices for law, real estate, insurance, government and non-profit groups, Chapel Hill has a retail vibrancy that few downtowns its size could claim.

Throughout this report the term “Franklin Street” will most often refer specifically to the street by that name between Henderson Street and Merritt Mill Road, but occasionally will be used to refer to the entire retail section of the Downtown, which includes Rosemary Street and those north/south streets, which connect Rosemary Street to Franklin Street.

This vibrancy does not mean that Downtown cannot and should not be better nor is Downtown safe from further and escalating deterioration particularly in the 100 Block of East Franklin. Downtown faces many challenges, which will be discussed in detail in this analysis. Most importantly, there is serious danger of Downtown no longer being a place to buy clothing, shoes, jewelry and serious gifts for the broader population of Chapel Hill. Instead, Downtown has become a place for predominantly students to dine and drink and to purchase services and novelty gifts.

Considering the level of activity, which exists both in pedestrian and vehicular circulation, there is no necessity for the deterioration and poor maintenance of the buildings and gradual elimination of substantive retail uses from Downtown. However, this trend is not unusual and not unexpected.

There are factors at work that can explain this phenomenon and these factors can be addressed for positive change to this heart of Chapel Hill.

The following are the main challenges faced by Downtown Chapel Hill in strengthening and improving Franklin Street as the center of commercial activity for the Town of Chapel Hill.

- A captive university customer base
- Outdated downtown retail buildings
- Lack of shopping continuity
- Poor merchandising
- Inexperienced and uninvolved ownership
- Strong competition

On the following pages these challenges will be addressed for a better understanding of the issues in order to structure a solution that will lead to an enhanced Downtown Chapel Hill.

CAPTIVE AUDIENCE

The University of North Carolina at Chapel Hill is undoubtedly the engine, which drives the downtown economy. It is the very reason that Franklin Street has the level of vitality that it has, the basis for so much retail and food service space in the downtown for the size of Chapel Hill and the explanation in this difficult economic times that vacancy is minimal. There is a downside to vitality so dominated by a single market sector and special factors when that sector is a university.

There is always a danger with a major destination draw that owners of buildings and land adjacent to the “captive audience” will take advantage of their real estate for short-term maximum profit with not necessarily the highest and best use. This draw could be a tourist venue, major hospital, sports complex, office center or, in the case of downtown Chapel Hill, a large university.

There is a pent up demand from the captive audience that property owners can take advantage of without thought or effort. Merely hanging out a “For Rent” sign and renting to whomever will pay the most rent and meet few requirements, the fewer the better, will result in the easiest way to make the most profit for the owner.

Demand for Food, Beer and T-shirts

The demand for food and beverage service is universal in the parasitic, or supportive, market surrounding a major draw whether the attraction is tourist, office, medical or university generated. This is particularly heightened by the propensity of the big gorilla traffic generators to opt for a single food service provider. There is a certain homogenizing of the dining experience from food service providers despite their efforts to create food stations, brand concepts or license national names. Theater can be created, but it is all stage set. The consumer would rather go elsewhere, not necessarily for better food, but for character and diversity.

The demand for alcoholic beverages, seemingly so much a part of the college experience, must be totally met off-campus and Franklin and Rosemary streets offer ample opportunity. Different than other major traffic generating venues other than sports, universities generate far more demand for bars in which food is not an important component for success.

Based on a report done some years ago, the amount of space devoted to food and beverage service in downtown is 175,000 square feet, a number, which is a phenomenally high amount and still growing. Both now, and as the square footage and number of establishments continue to grow, there will be natural tendency for a general deterioration in the quality of the food service environments as cannibalization takes place in the bar and casual food sector.

There are a few restaurants, both new and established, which draw from outside Chapel Hill, and increase the total volume of food and beverage business in downtown. Most food venues are not destination, but truly parasitic, and merely divide up the available food service dollars from the already available customer base drawn by the University and downtown services.

If a Quizno's Classic Subs opens on Franklin Street downtown, they will not increase the total dollars spent on food in downtown. They will merely take business from Subway, Hector's, McAlister's or the myriad of other casual food restaurants. Having a Quizno's replace a non-food use would be more unfortunate than having them replace an existing unproductive food use. Over time, the increase in casual food uses will result in lower profits in that sector and decreasing investment by the restaurant owners in their facility. With too many landlords depending on the tenant for any improvements to the buildings there will be a general deterioration of the buildings as profits are squeezed. The casual food and bar pie is being cut into smaller and smaller pieces.

Casual food is concentrated closest to the University where it is more convenient and, just as important is in the highly pedestrian environment of the Hundred Block. Casual food uses have a more difficult time surviving on less pedestrianized West Franklin Street.

The "restaurant district" which has taken root on West Franklin Street has tremendous value in that it attracts customers from a greater distance, brings new food dollars into Chapel Hill and brings Chapel Hill residents into Downtown who no longer find the need to visit Franklin Street since "shopping" downtown barely exists for those who are not students.

The focusing of pedestrian traffic results in far greater demand for food locations on East Franklin Street. Over time, unless a concerted effort is made, the Hundred Block will become more and more casual food and bars. Even now, there are so few stores with merchandise other than food and convenience services on the Hundred Block that substantive merchants will have an ever-increasing difficulty in surviving in what is becoming a "food court" sans common seating. The newer Gap and Sephora stores have provided some support to Wentworth & Sloan and Julian's, but still more substantive retail is needed for apparel, fine jewelry and

accessories to survive in this block. Environmentally, a block dominated by bars and casual food is not a desirable place for quality apparel stores.

A university contiguous to a retail district does not always guarantee the success of the university's "campus main street". Initially, and for many years, campus main streets can be successful in economic terms as measured by high rents and property values. The danger is, in the longer term, as the retail district becomes one-dimensional, it restricts its appeal to only students. In fact, in most examples of college and university towns and university neighborhoods of large cities, the retail and residential area adjoining the college and university campus gradually become "seedy" and unattractive. They no longer are a place for anyone to shop, work or live other than the students who often remain out of convenience and necessity.

That is not to imply that Franklin Street is in danger of becoming derelict, but merely a call to vigilance. We only need to "walk" the roofs of these buildings, carefully look at the rear walls and side alleys, notice the state of repair around the display windows and inspect the inside of the buildings to see the rampant health and code violations and the filthy conditions within to see the early signs of this unnecessary trending.

While it may be considered elitist to criticize the growth and proliferation of T-shirt and trinket shops, bars and fast food joints in gradually deteriorating buildings, it is incorrect to assume that this condition is one that students and the greater university community either want or deserve. It doesn't need to be inevitable.

Students want quality and substantive retail and food presented in a clean environment and in an attractive way. Their expectations are no different than all the residence in Town and there is much to be said for serving the needs of both the student community and the broader residential and working population at the same time. Only through catering to a diverse group of people who would use Franklin Street, not only as their downtown shopping district, but more importantly, as the place for social interaction, will Franklin Street reach its full potential and truly deserve to be recognized as a great campus and town "Main Street".

University Retail Group emphasizes in its campus merchandising that retail cannot truly serve the students successfully unless the merchants and restaurateurs do a major percentage of business with the non-student population of the area.

While we could never obtain the merchants' sales information to track this trend, our suggestion is that as the merchants who occupy the stores and food businesses on Franklin Street generate a greater percentage of business from students and

alumni and a lesser percentage of business from the non-student residents of Chapel Hill, there will be a comparable deterioration in the quality of the physical environment of the Downtown and a similar loss of substantive retail – men’s and women’s apparel, footwear, jewelry and accessories, children’s apparel, books and home furnishings.

Even today, we can count on our two hands the number of stores in these categories, which competitive retail environments would try to “steal away” to their shopping centers.

Comments have been made during this study that East Franklin Street’s fate may be to orient totally to students and West Franklin Street orient to adults, or more likely a healthy mix. The implication is to abandon the “Hundred Block” to the students and make a stand on West Franklin Street. Others have said that it is inevitable that Franklin Street would lose all of its substantive retail and we would no longer be able to buy clothes and shoes on Franklin Street.

A few describe it as a more global and inevitable fate. Since the 1950’s downtowns have declined as suburban shopping centers flourished. Independent merchants have declined as national chains flourish. University Retail Group believes that downtowns and independent merchants can survive and thrive. It is just they have to be smarter about what is required.

Certainly the continued conversion of clothing stores to those selling pizza, beer and T-shirts will only create an environment that could accelerate the demise of the few remaining substantive independent retailers. Fortunately, the recent introduction of chains such as the Gap, Sephora and Panera Bread and the dedication of a few established independent merchants have slowed the slide.

Franklin Street can again be the heart of Chapel Hill where every resident on a regular basis will come for most, if not all, of their shopping needs. This is a large order. Accomplishing this objective of becoming the place where the entire Chapel Hill community comes together, not just to eat, but to shop for clothes and shoes and accessories and sporting goods, requires aggressive and professional pro-active measures.

When we more successfully meet the shopping needs of the greater Chapel Hill and University community, we will better serve the students.

BUILDINGS

There are many challenges for successful retail in the old and urban retail downtowns of towns and cities in this country. Little discussion is given to the physical limitations of the buildings.

In the early days of redevelopment in the 1960's through 1980's, cities felt that the success of shopping centers and malls was mainly due to adequate and convenient parking and attractive vehicle-free pedestrian circulation or common areas. The response was the construction of parking garages and main streets "pedestrianized" by closing them to vehicular traffic or limited access to public transit vehicles. Then attractively paved and landscaped sidewalks, large plazas and vest-pocket parks with amenities such as street trees, fountains, sculpture, benches and bus shelters were built. Even with these improvements, no new stores poured into downtown buildings and no new consumers came to buy.

This misunderstanding is addressed later in the section on the Advantages of Shopping Centers.

Inevitably, the blame was put on the suburban mentality of the consumer and the selfish and uncompromising policies of national chains. No one points to the physical limitations of the buildings in our downtowns for modern retailing or the challenges to the use of upper levels and basements.

Retail space that was being built from the 1960's through the present has been constantly evolving in ceiling heights, depth of space, bay spacing and average unit width and average store size. It is common for shopping centers built from the 1960's through the 1980's to be torn down or significantly reconfigured to adapt to the trends. South Square Mall and University Mall are very visible examples of the pushing, pulling, chopping, adding and deleting that is necessary for the flexibility to adapt to ever changing retailing.

While the buildings of downtown vary significantly, there are general characteristics, which limit the buildings' desirability and efficiency for modern retailing. Owners have reacted to the limitations in ways, which were undoubtedly thought best, but these changes have consequences for the quality of retailing.

The Hundred Block of East Franklin Street has a major advantage of location east of Columbia and enjoys the visibility and access that traffic generated by the University and through-Town vehicular routes bring. It also has stronger pedestrian access to the University. The Hundred Block is the true "downtown".

The continuous row buildings have the advantage of retail continuity, which will be discussed later, and a density of retail, office and university activity, which brings vibrancy to the retail experience.

The greatest physical challenges, however, are focused in the Hundred Block of East Franklin Street. The first three related challenges are depth of space, width of space and area. The fourth challenge is the existence of basement and second level space, which in most of the buildings, was space used by the first floor merchant. There are a few examples of second level space, which was meant for separate tenancy and had its own office entrance designed into the frontage as part of the original architecture. Finally, low ceiling heights have an impact on the desirability of a few spaces.

It should be noted that the evolution of space sizes in retail, and thus the national retail climate, has been largely driven by the shopping center industry and its sales-based percentage rent structure. As shopping centers quickly converted to percentage rent/base rent lease structures, the tools were in place for an efficiency- and productivity-driven evolution of space sizes. Less space was devoted to office and storage for the retail store – you can't sell what the customer can't see and if there isn't merchandised display in it, it isn't generating income. Therefore, everything was based on sales per square foot as the measure of efficiency. This issue will be discussed in the section addressing the Advantages of the Competition.

Depth of Space in Relation to Square Footage

Over the years shopping center depths have evolved. In the 1960's through the early 1970's shopping centers would have been built with depths of 100 – 120 feet. It was common in those times in both strip centers and malls to have average store sizes of 5,000 to 10,000 square feet.

As the years proceeded into the 1990's, new retail space decreased in depth to 80 – 100 feet with some highly specialized festival marketplace centers having spaces with depths of 40 feet. Strip centers anchored by supermarkets and pharmacies continue to have anchor spaces customized to the users with greater depths. The recent “big box” or “category killer” stores have still greater depths.

Over time as retailing evolved from larger spaces for early chain stores and independent merchants moving from downtowns, the average space sizes were adjusted down so that 5,000 square foot range is the rule of thumb for today's modern fashion chain store. At the same time, the very good independent retailers will focus on the 1,500 – 2,000 square foot stores.

The third category of exception is entertainment retail in which retail is built around movies, restaurants and lifestyle – books, music and home furnishings – with “Main Street” at The Street at South Point as a good example of greater store depths than normal.

While store depths on Franklin Street vary, the predominant examples of store depths, which exceed the ideal of 80 – 100 feet are concentrated on the Hundred Block of East Franklin Street where depths of 120 – 140 feet are common. If we could evaluate all stores with depths exceeding 80 feet, we would find that the productivity of this space behind the 80 feet is low. This space generates little or no sales and is not needed or not fully used for support space for the retail store. Since most retailers cannot effectively use that depth for customer area and in conjunction with moves made by owners on width to maximize income, we have a somewhat complex issue that drives productivity down while seemingly advancing rental income.

In an unexpected way this extreme depth condition has encouraged the use for fast food, which requires neither the depth nor the area of these stores. This will be further discussed under the Width and Area sections.

While there are a few deep stores on West Franklin Street, the continuous row condition does not as often exist. Thus the Fowler’s Building, now fronted by Vespa Restaurant, can subdivide the depth, orienting the sub-divided stores to the side.

It should be noted that double-sided stores with entrances on the front and back is not a solution since very few retailers want the security challenges. Because of code egress requirements having a store facing Franklin Street and another store backing up to it facing the alley is not a practical condition.

The lack of continuity of the alleys behind the Hundred Block on both the north side and south side eliminates the ability to create attractive secondary shopping streets. Adding to the challenges of utilizing the depths by making “something happen” with alley frontages is the proliferation of food uses in the Hundred block. The required food in and garbage out plus kitchen exhaust fumes results in an unpleasant environment for any store oriented to the alley.

One approach, which is being used, is a secondary use as a subsidiary business. Access is through the front retail use. The CO Copy Center has a tanning salon in the back of business and Classic Contemporary Fashions is using the back for a hair salon.

While this is an indication of adaption, it is also an example that the depth of the space is too great to be used by the original business and certainly an indication

of other problems, which are not necessarily positive for Franklin Street.

Width of Space in Relation to Square Footage

In Downtown Chapel Hill, many retail building are based on frontages of approximately 25 - 30 feet or 50 – 60 feet. Originally, these frontages housed a single store, which would have utilized the basement and second floor if these levels existed in the building.

In early shopping centers and malls average space sizes ranged from 5,000 – 10,000 square feet. Frontages were minimally 25 feet, but could range up to 100 feet for Woolworth's. The width or store frontages did not change over the years as radically as the depth and square footage of retail space, and for very good reason – there is a minimal amount of space required to properly present the merchandise that a store has to offer.

Until the 1950's and 1960's, independent apparel, shoe and furniture stores were able to use the size of the typical Chapel Hill store. As these merchants closed, went out of business or moved to the suburbs, the newer stores could not use the large spaces. In order to maximize the rent and create smaller spaces for the new retailers, store widths were subdivided.

In the Hundred Block of East Franklin Street the demand for space is driving the rents up and creating the incentive for landlords to subdivide frontage, which can be artificially narrow for food, bars and T-shirts shops. Demand is frontage-driven in order for merchants to have an address on Franklin Street, especially in this block of the Street.

This has resulted in stores with frontage of approximately twenty-five feet being divided into two stores. Examples would be the building housing Blue Sky and Creative Metalsmiths and the building housing Salon 135 and Anjana's. Buildings of 45 – 50 feet of width have been divided into three stores. An example is the building housing Wentworth & Sloan Jewelers, CO Copies and Classic Contemporary Fashions.

Now subdivided, these bowling alley spaces are no longer desirable for highly productive apparel and shoe stores, which require "presence" and the ability to present good display windows and great impact of merchandise. While a jewelry store such as Wentworth & Sloan does not require large display windows, there is no doubt that the impact of the merchandise, which ultimately drives sales higher, would be greatly enhanced with a wider and shallower customer area. Upon walking in the door, almost all of the merchandise is displayed at an oblique angle to the entering customer. The narrow tunnel eliminates the impact that jewelry can have.

Imagine the Gap on Franklin Street if its 5,000 square feet were 25 feet wide and 200 feet deep. Sales production would be significantly less than that of the present store.

Store Size

The square footage areas contained in the individual buildings on Franklin Street could work for modern retailers with the possible exception of the excessive store depths. In fact the 5,000 square feet spaces generally required for the average national chain and the 1,500 – 2,000 square feet spaces required of good independent merchants in the apparel category can be attained within the existing buildings.

In order for an apparel retailer to be attracted to the spaces the proportion of the spaces must be correct and the rental value of depths over 80 – 100 feet will have to be discounted.

Store Size, Width & Depth and the Impact on Use and Rents

This introduces the economics that are accelerating this change, particularly in the Hundred Block, to a student union with food, logo wear and services such as copy center, hair salons, etc.

We have in the Hundred Block stores, which are 15 feet wide and 120 - 140 feet deep for an area of 1800 - 2100 square feet. This is an ideal square footage for an independent apparel store or a national shoe store. There is a major problem with an apparel store or shoe store using that depth as was stated earlier. The merchant knows the “Wow” impact of their product display on the customer will be lost. They also cannot attract customers to view merchandise 120 - 140 feet in the back. Therefore, it is difficult, if not impossible, for substantive retailers to justify paying \$25 per square foot for space that is not efficient and productive. Even a good service restaurant would find such narrow and long space inefficient.

However, a pizza shop or take out food merchant would take the spot just to be on the Hundred Block of Franklin Street. There would be interest in the 1800 – 2100 square foot store despite a pizza shop only requiring 1000 square feet. There would be interest from the fast food take-out vendor who requires only 500 square feet of the 1800 – 2100. Both uses can afford to pay \$100 per square foot for the space they actually require for operation, which converts to at least \$25 per square foot over the much larger space.

Ceiling Heights

There are a few spaces downtown with low ceiling heights. Again, this doesn't mean that the spaces will not be leased and the space may even be productive. It just limits the quality of the merchant and the use.

Basements and Second Floors

There is such demand for space on Franklin Street that the use of basements and second and, even third floors for retail, restaurant and bars purpose, is relatively common. There are actually few places in the country in which basement and second level rents nearly match those of street level rents.

This is more understandable on the Hundred Block where we find such examples as Hector's, 23 Steps and Top of the Hill on second and third floors and Goodfellows and Ramshead Rathskeller in basement space. However, even on West Franklin Street there are examples such as The Cave.

In certain cases, the use of basements and second floors has a negative impact on the retail potential. This only seems to be an issue in the Hundred Block. As property owners tried to find ways to use basement and second floor spaces, which were originally used by the street level, they cut separate entrance into the street level storefronts. To the extent that this reduces the street level storefront to less than 20 feet, this limits the use of space for quality substantive retail.

Quite often the basement and second level use is a bar, which again is detrimental to getting quality fashion stores into the street level space.

In other situations access was provided to second levels by eliminating street level access through alleyways. This approach reduces access from parking on East Rosemary to Franklin Street. The alleys between Blue Sky and Kerr Drugs and between Starbuck's and Laughing Turtle Home, as examples, have unfortunately been vacated as an inexpensive solution for access to the second level.

Summary

There is no simple answer or standard solution to the issues addressed in this section. Each building and each condition should be studied as to the best way to work with the existing buildings. There should definitely be a priority placed on working on this challenge, especially on the north side of the Hundred Block. Having measures taken piecemeal and ad hoc, usually initiated by the merchant, has resulted in short-sighted and unattractive solutions, which will only accelerate the conversion of retail use, particularly in the Hundred Block, but all along Franklin Street, in the direction of fast food, bars and t-shirts shops.

In the Competitions' Advantage/Modern Infrastructure section later in this report, the major changes at University Mall for A Southern Season and the demolition at South Park Mall are referenced as the efforts, which private developers put into making unproductive and out-dated space valuable again.

As the centerpiece of the Downtown, the signature block bounded by East Franklin, Henderson, East Rosemary and North Columbia is very unattractive, inefficient and underutilized. Greater vision is demanded for the entire block with modern retail, office and residential space.

To quote Daniel Burnham the famous late 19th and early 20th Century architect, "Make no little plans; they have no magic to stir men's blood and probably themselves will not be realized. Make big plans; aim high in hope and work, remembering that a noble, logical diagram once recorded will never die, but long after we are gone will be a living thing, asserting itself. Remember our sons and grandsons are going to do things that would stagger us. Let your watchword be order and your beacon beauty".

Every day small plans are being made on Franklin Street which do not have the vision expressed by Daniel Burnham and are leading the Downtown in a direction which will not readily be reversed.

THE LACK OF CONTINUITY MERCHANDISING AND PHYSICAL PLAN

Merchandising - Complementary Merchants and Restaurateurs Widely Dispersed

The ability for the better and the specialized merchants on Franklin and Rosemary streets to reach their own full potential and to leverage their strengths is weakened by the dispersion of these merchants and restaurateurs over too great an area.

Within shopping centers and malls, merchants are grouped together according to their ability to support and complement each other. Fashion stores know that they will do much better if they are located near other fashion stores, which cater to the same customer. Ann Taylor will be located near Talbots and other women's apparel stores with similar price points and be near the most high-end anchor department store in the mall. Stores simply will all do greater sales when grouped with comparable retailers.

This results in shopping centers retailers negotiating co-tenancy with the Landlord. Ann Taylor will say to the developer "I will come into your center if you can make a Talbots and Abercrombie and Fitch deal". Ann Taylor will jump in the pool if it can hold hands with friends and they all jump in the water together.

On Franklin Street the good retail merchants selling substantive merchandise are widely dispersed and therefore are not as supportive of each other as they would be if they were all in a row "cheek to jowl". Hypothetically, if we would move Uniquities, Modern Times, Shoes on the Square, Fine Feathers, Peacock Alley, Julian's, University Florist, Wentworth & Sloan, Gap, Sephora and Laughing Turtle together in a row on Franklin Street, all of those stores would increase their business immediately, by fifty percent or more. If you then add to that mix some dining complementary to the customers of these stores, for example the restaurant row troika of Elaine's, Lantern & 411 West, all also open for lunch, the value of the juxtaposition would be phenomenal.

More importantly, the impact of this tight grouping of quality retailers would attract other new, equal in quality, retailers. Instead of having to seek out and hard sell Urban Outfitters or Soho or Scout and Molly's on the merits of Franklin Street in Chapel Hill, these merchants would be seeking out a location adjoining this lineup of stores. If these merchants all were side-by-side when Talbots moved from Carrboro, Talbots would be Downtown today. Chico's, which will open shortly in Eastgate Shopping Center, would not have considered any other location than Downtown next to this lineup of already existing retailers if they were grouped together.

There are many stores, which cater to the youth or those with alternative lifestyles, who would have greatly improved sales if grouped together with merchants with a similar customer base. If Expressions, Second Foundations Bookstore and Back Door CD's, buried in the back of the Bank of America building, were pulled together with Hazmat, CD alley, International Books, Skyline Exchange and a few other complementary merchants, all of these stores would increase their sales. Just as important is the interest they would generate from complementary stores to move into the area around them.

Good examples of the synergy already exist. The restaurant scene on West Franklin Street is a marvelous example of the value of grouping quality restaurants.

The grouping of casual dining, bars and T-shirt shops in the Hundred Block evolved more logically out of demand created by University students, alumni and visitors than out of synergy. Still, this grouping of like uses not only serves its natural and nearby customers, but the critical mass of these complementary uses allows these businesses to draw a youth audience from Durham and possibly Raleigh. Neither Duke nor North Carolina State has as great an assemblage of casual food and alcohol so extensive and concentrated.

Merchandising - Disruption of the Shopping Experience

The dispersion of good, special and complementary merchants limits or eliminates coming Downtown as a "shopping experience". The result is that a Chapel Hill resident may come Downtown to shop at a specific store for a specific item, but is little likely to come Downtown to go shopping. Shopping really means the ability to look for multiple items in multiple stores, often not being sure what exactly you are going to buy or where you are going to buy it.

Shopping is challenged by three factors, two of which are merchandising issues, which will be detailed in a later section. The two merchandising factors are the availability of merchandise in all categories and the availability of more than one store to buy the same type of merchandise so that choice and competition is perceived, even if not real.

The third factor needed for successful shopping is the continuity of merchandising display. In a mall such as The Streets at Southpoint or along the sidewalks of any successful shopping district such as Madison Avenue or Worth Avenue or King Street, there is continuous storefront display of merchandise seldom interrupted by solid building walls or uses which do not depend on the display of merchandise.

This lack of even relatively continuous merchandising display is a significant factor responsible for people so readily going to malls, strip centers and other shopping venues. Unless a merchant has a strong identity, is well established and has quality merchandise and service not readily available elsewhere, the merchant will find it increasingly hard to survive in Downtown without additional critical mass of supporting retail and without locating physically closer together for body heat. Each store is now acting more as a stand-alone, on its own, destination store.

Physical Plan - Disruption of Continuity

The type of building continuity, which strengthens and reinforces a retail environment exists on Franklin Street, but doesn't exist at all on Rosemary Street.

The most effective example is the Hundred Block of East Franklin Street, the traditional downtown. There are pieces of continuity of note on the north side of Franklin Street in the 300 and 400 blocks in which a row of stores allows for the development of a supportive retail grouping.

Similar to the row of buildings in the 300 and 400 blocks, University Square represents a similar critical mass of frontage. With the University Baptist Church on the east and only a few low-density retail buildings to the west, the continuity of retail on the south side of Franklin Street does not exist and would not exist even if University Square were set close to the street rather than set back.

Certainly a long stretch of a funeral home, gas station and monthly parking disrupts the ability of the successful Valentino's to Caribou Coffee section of West Franklin from creating synergy with 200 West Franklin. Likewise the restaurant success of the 500 Block will not as readily energize the row of retail buildings in the 400 Block due to the interruption of the continuity by the UNC business office and the park.

It must be recognized that the positive energy created within any of these retail strips will be hindered from having a spillover effect by the physical interruption of the continuity of the retail experience.

Green Space and Public Gathering

We are aware that there is great interest in green spaces and public gathering places in planning the retail environment for Downtown. Presently we would assume the existing spaces within the Downtown which meet the criteria would be McCorkle Place, the paved area in front of the Post Office, the University Baptist Church park on the corner and the park at the UNC Business Office between the 400 and 500 blocks.

The previous paragraphs warned that interruption in retail frontage is detrimental to retail success. Gathering places and places of relaxation can be supportive of retail depending on the positioning of that space and the nature of the space. Green and gathering spaces can be a part of the retail environment without interrupting display frontage.

This report already discussed that parks and parking lots and setback buildings stifle the leveraging of successful retail on Franklin Street. The courtyard in the Courtyard, as nice a space as it is, does not enhance the ability to lease the interfacing first level space for retail purpose. The paved area in front of the Post Office fills a very valid need, but this area and its activities will not enhance the success of most retail businesses.

Certainly as a place for the youth to gather, there are some retail businesses and some food uses, which would gain from proximity to Post Office Plaza, but those businesses are not proximate. For those using this space to express a cause or an opinion, most certainly this gathering place and this function creates a demand for food and beverage. For those merchants selling shoes, clothing, gifts and jewelry to the general public only the use of this space to access the post office has positive impact on their ability to continue to serve the Downtown.

The green space in front of Weaver Street Market and its function is held up as the ideal. The relationship of that space to parking and store location is important. The relationship of store frontage and store entrances to this green space is important. How the public circulates through the area and accesses all the uses is critical to understanding the space. Understanding that this is not simply a green space in front of a retail building and how it really relates is critical to translating this green space elsewhere.

Summary

On the one hand, the Downtown Commission must work with building owners, existing merchants and new merchants to orchestrate the location of uses into zones of complementary merchandising, which presumably will continue for some time to be divided by undeveloped land or weak retail areas.

At the same time, the Downtown Commission must work to get new development to infill the “missing teeth” along Franklin Street so that there is a continuous visual frontage of much interest from Henderson Street to Merritt Mill Road.

MERCHANDISING

Food & Beverage

Downtown Chapel Hill has a strong showing in the uses of casual dining and take-out food, coffee cafes, bars and quality dining. There are a few missing and weak categories. Thai food is absent and Indian food could be improved. A noodle concept, with noodles from a wide variety of cuisines, is a natural at the right price in university areas. A steak house and a seafood concept would be good despite the fact they exist in the suburbs. The hottest food category now is tapas, which would have a broad market. With small portions, that can be shared, this concept is fun and is similar to making a meal of appetizers, which is a real treat in restaurants such as Lantern and Elaine's.

Services

There are also a number of card, inexpensive gifts and University logo merchandise and this category is satisfied. Service business such as florist, barber, hair salon, travel agency and copy center are well represented and there is even a hardware store.

Music and Books

Music, both new and used CD's, is strong at least in the popular music category.

While there is reasonable, but not great, strength in the rare, used and specialty books, there is a crying need for a major bookstore. With so few players in the major bookstore business, and Barnes & Noble and Border's in the suburbs, the challenge of getting a book store for Franklin Street is significant.

We would attack the bookstore need on three fronts. The obvious direction and most valid approach would be to relocate the University Bookstore to Franklin Street. This is being done across the country and University Retail Group has been a part of that approach in recent years at the University of Pennsylvania and William & Mary college.

The obstacle to this is the State Umstead Act, which keeps University components from competing with private business. This may have been a valid Act in a time when there was much competition in the book business and every college town would have a host of independent bookstores on its campus main street. The fact that there are only two main players for bookstore prospects and those players turn their backs on the campus main street in North Carolina college towns, means that a change in that Act is reasonable for the economic health of campus main street.

In the previously mentioned University of Pennsylvania and William & Mary College and other examples such as Yale University and Boston University bookstores, Barnes & Noble's College Bookstore division operates the bookstores. They know that if the bookstore is located where it can be of service to the greater university community, it will also provide a greater service to the University with more titles and longer hours of operation justified.

It should also be noted that private universities could move their bookstores to locations where they could also serve the public. Duke University could move its bookstore to a location on Erwin Road or Ninth Street where the Duke Bookstore could serve the public and anchor existing or proposed retail development.

The second approach would be to determine the term of Borders and Barnes & Noble's leases. While they are likely to have long-term leases, it is worth pursuing their interest in the future.

Finally, there are a few independent bookstores, which could be pursue such as Quail Ridge Books in Raleigh.

Franklin Street should have a 25,000 square foot bookstore doing \$15 - \$20 million in sales as an anchor for improved retail on Franklin Street.

Supermarket

There is community interest in a supermarket whether it is a typical Harris Teeter or a smaller market as exemplified by Weaver Street Market. Chain supermarkets are so rigidly formula driven that a place for a building and the required parking supermarkets will demand would be difficult to find Downtown. Possibly, space in a garage development as University Retail Group did at the University of Pennsylvania is the only likely solution and that would have to be heavily subsidized to eliminate the perceived risk by the supermarket chain.

While some supermarket chains are experimenting with smaller concepts for affluent urban or suburban location where available land is limited and the area is "under-stored", supermarkets are having difficulty making the concept work. The small concepts usually generate income from alcohol sales and prepared take-out food rather than the staple items for home preparation. In most cases, these mini concepts do not sell pet food, paper & cleaning products, etc.

If a supermarket remains a desire for Downtown, a consensus must be reached on defining what this food store is by creating a list of the products that this store will

sell. Once the product list is created, the concept will be determined and prospects should be targeted.

Apparel, Shoes & Accessories

While there are a few excellent apparel stores in Chapel Hill, there is a need for more stores to create the critical mass that the consumer demands and to fill in missing and weak categories. With no obvious locations where quality apparel stores feel they can locate and be assured there will be other quality retailers around them, target retailers must be sold that there is a commitment to continuous and long-term effort to direct or orchestrate the retailing environment of Chapel Hill.

Triangle area independent merchants should be targeted and when the correct location is available professional leadership from the Downtown Commission should do the sales job. Regional chains should be approached similarly. With national chains, the approach to the merchant is more complicated. Chapel Hill would be more successful working with an experienced broker who has already made deals with the national chain. Having a sense of whether a chain has location outside of shopping centers and malls, knowing the nature of their “typical deal” and knowing their usual co-tenancy requirements in advance of initial contact will allow for more initial credibility with the retailer.

Summary

Restaurants, bars, student gifts and services, are strong in downtown Chapel Hill. There is always room for improvement by replacing the weak with stronger merchants and restaurateurs.

A bookstore and a supermarket on Franklin or Rosemary streets will require many hours of commitment, but both are a valid objective for locating downtown.

There is significant potential for new apparel, shoe and accessory stores downtown, but this can only be done with a concerted effort and a commitment to orchestrate the merchandising, particularly on Franklin Street.

PROPERTY OWNERSHIP

Commercial real estate requires professional ownership and managers. Particularly, retail properties are challenged by the continually changing trends which result in the growth of new uses and the decline of other use, the birth of new companies and the death of companies which were tops in the retail industry a few years previous. At the same time, lease terms change, tenant expectations increase and space requirements evolve.

There are few property owners who own multiple properties downtown. Few properties are managed and leased by highly experienced retail professionals.

Many properties on Franklin Street are owned in trusts and partnerships, both family and investor, in which decision making is made more complex by the need to get consensus. Written goals created by the ownership group would be a reminder of the objectives. Having more considerate objectives than just maximizing income would be helpful. Trusted outside professional management and leasing can also be a valuable reality check for ownership groups.

Single property ownership works against professional outside management and leasing because there is not enough income to justify the expense of outside assistance.

As opposed to one-person ownership, trusts and partnerships may mean that properties are not changing ownership as much as might be healthy in a changing retail climate in which new people with new ideas would bring added value to the property.

In less dense suburban environments traditional market factors are more likely to be at work and properties are available, though at a price, for those who are parasitic or supportive of the major draw that is creating the market value. Food uses are the obvious players since these uses can be more profitable and can afford the higher property acquisition costs. Inevitably in the more suburban environment, national and regional chains are aggressive in development. McDonald's may come to mind. Despite the fact that these types of developments might be described as their own blight, facilities are first class and well maintained.

In more urban neighborhoods, the properties surrounding the major draw or captive audience are less likely to be in play in the traditional market sense. Because the properties don't fit the rigid formula of national and regional chains

there is not the same demand from those companies that can pay high prices for property.

Properties in these more dense environments are often long-held assets and quite frequently in trusts or large family partnerships. Older owners may be holding properties to provide maximum monthly cash flow in conflict with long-term value.

Because demand has been so high for so long and high rents so easy to obtain no matter the condition of the building, it has become too easy to have a short-term view rather than a long-term strategy.

In order to reap the rewards of demand brought by the captive audience of the University at the doorstep and to maximize the rent generated, less is expected of the tenant by the owner. The more a Landlord would expect a merchant to invest in improving the building, the less the merchant will pay in rent.

Generally, Landlords are not requiring new tenants to make major investments to improve the building nor install first class tenant improvements and fixturing. By lowering investment expectation, Landlords can end up with tenants who are underfinanced and have less of a commitment to the business and the location.

The quality and the level of improvements made by McAlister's and Panera Bread should be the norm. Yet, all along Franklin Street tenancy is changing without business owners nor landlords making a serious investment in the store and the buildings.

At least three merchants in recent years have gotten much mileage out of the improvements made by Bath and Body Works without the merchants investing much money. This allowed the Landlord to maximize the rent, but hasn't insured stability for the property owner or resulted in occupants that make a significant contribution to Franklin Street in terms of success and longevity. Laughing Turtle Home the latest recycler of Bath and Body Works improvements is a positive sign of future stability in that space and a non-food use that the Hundred Block badly needs.

A similar history of minimal investment exists for a secession of sub-tenant in the Taco Bell space, which presently houses The Library. This pattern can be seen throughout the Downtown.

Summary

The property owners are the key to a successful Franklin Street. They must be organized, become more cooperative and encouraged to take a more progressive and long-term approach to their real estate holdings.

THE COMPETITION

To improve the quality of the retail stores on Franklin Street an understanding of competition, changing trends and new players is necessary. Retail is ever changing, and stores must be kept fresh and to the minute. South Park Mall was obviously sitting back over the years, not adding the latest anchors and small stores to their mix, not going after the trendiest new restaurants, not updating design or adding a “main street” component when that concept became hot. University Mall failed to constantly keep on top of the retail market changes. South Point Mall and University Mall held the door wide open for The Streets at South Point.

However, The Streets at Southpoint is not the only or greatest danger to Downtown Chapel Hill. The competition for customers, expendable dollars and new merchants falls into the following retail groupings:

Destination Malls

- The Streets at South Point
- University Mall

Big Box or Power Centers

- New Hope Commons

Strip Centers

- Glenwood Square
- Glen Lennox
- The Galleria
- Rams Plaza
- Tymberlyne
- Village Plaza
- And others

Lifestyle Centers

- Eastgate Shopping Center
- Cameron Village

Village Centers

- Meadowmont Village
- Southern Village
- Fearington Village

These retail centers which compete against, take customers, siphon dollars away, try to steal existing merchants and take potential new retailers from Downtown Chapel Hill are a formidable adversary.

Destination Mall

Much has been made of the impact of The Streets at Southpoint on Franklin Street in Chapel Hill. Depending on traffic and driving conditions The Streets are as close as 15 – 20 minutes from Franklin Street. The Streets are not in competition with Franklin Street on a broad range of merchandise in which Franklin Street does not even have a candidate in the competition. The non-competitive categories range from sneakers to sporting goods to electronics to various lines of clothing and shoes at various price-points. In other words, when the Streets at Southpoint opened it couldn't take sales away from businesses that downtown Chapel Hill doesn't presently possess.

The category, in which The Streets has most impact on Franklin Street is “dining as entertainment”. Franklin Street's greatest strength is its lineup of restaurants, cafes, bars and take-out food. With the critical mass of these uses, Franklin Street has been a destination for people of various ages and interests in food, drinking and partying. The outdoor section of The Streets which is called “Main Street”, though contrived and chain leased, with its strategic “entertainment” mix of dining and synergistic retail of home furnishings, electronics, books, music and movies is a formal competitor to the restaurant scene on Franklin Street. The retail uses escalates the ability of Main Street restaurants to take business from Chapel Hill restaurants.

It is difficult to say at this point how competitive University Mall will be to stores downtown. The addition of A Southern Season and Spice Street certainly indicates a direction on the part of the ownership to reposition the Mall to be competitive with downtown. Much will depend on what stores specifically join the mix. If the A Southern Season deal can be leveraged to attract great local and regional stores, then University Mall particularly in conjunction with its neighbor at Eastgate Shopping Center, would be a formative competitor for deals that are critical to Franklin Street.

Big Box Power Center

In this category we would place New Hope Common and to some extent the Lowe's Center. While all retail outside of downtown Chapel Hill takes business away from Franklin Street, the stores located in these two centers would have less an impact on downtown business. Most, if not all of these stores at New Hope Common, would not be able to locate downtown and do not carry merchandise that is sold downtown.

The one exception is that either Borders or Barnes and Noble should be downtown. The fact that they are located so close to downtown and that there are few competitors to these stores, makes it almost impossible to attract a bookstore to the heart of the Town. More than any other use a great high-volume bookstore on Franklin Street is necessary for Chapel Hill to be a contender for the title of Best College Town and Franklin Street to brag that it is the Best Campus Main Street.

Strip Centers

For the most part the stores in the strip centers within Chapel Hill serve a more local neighborhood and are not detrimental to the downtown. Supermarkets, pharmacies, opticians, small local restaurants and bars serving a proximate neighborhood are in fact supportive of the downtown as well as being convenient to the residential population without generating inefficient traffic movement. The few exceptions are minimal and include such examples as the movie theaters at Timberlyne and the Thai restaurant at Glenwood Square.

Lifestyle Centers

Eastgate Shopping Center is an example of a strip center, which is gradually converting from being a neighborhood strip center to a Lifestyle category by virtue of the number of tenants which require a broader market base, particularly in the fashion and home furnishings categories. The move of Talbots to Eastgate from Carrboro is an unfortunate missed-opportunity for downtown that will be addressed in our recommendations. With the flood improvements significantly increasing the value to the owner, and the value to the tax rolls, and with ownership experienced in putting together good merchandise mixes, Eastgate stands as the greatest competition to Franklin street attracting the new merchants interested in Chapel Hill. Eastgate may be limited by its total size, but the fact that Federal Realty Investment Trust has relationships with national chains and aggressively seeks the best local merchants makes Eastgate Shopping Center the greatest competition to Franklin Street attracting new substantive merchants.

Cameron Village may seem a bit too far removed to be competition for the same merchants who would consider Eastgate or downtown? It is a different Market in terms of competition for merchants. For example, Uniqities is on Franklin Street and in Cameron Village. Despite its distance and somewhat unattractive signage, Cameron Village with its lineup of excellent national chains and great local merchants, particularly in fashion, will continue to draw customers from Chapel Hill for fashion shopping in an outdoor village-like environment.

Village Centers

The village centers as much, if not more than the other competition, are aggressively going after merchants who should be on Franklin Street. The developers of village centers such as Southern Village and Meadowmont Village have been talking to the best merchants in Downtown Chapel Hill to move to their village centers on Main Street or Market Street. They have been also going after the best regional merchants.

Were these developments to have built retail space only adequate to serve the needs of the offices and residential of the village and adjoining residential areas, the village centers would not be a threat to Franklin Street and complement a strong Downtown. As with most strip centers, convenience retail and services in village centers supports smart growth's intent. Village centers with grocery stores, pharmacy, bank branch, copy center, card shop, neighborhood café, deli, flower shop, dry cleaner, laundry, shoe repair and small hardware store reduce traffic and do not compete with Downtown.

While it is commendable that these retail centers have been made internal to the development and not allowed to stretch along the main roads, these village centers with all the advantages discussed in the next section will decentralizing retail and cannibalizing retail venues other than just Franklin Street.

Summary of the Competition

This competition between strip, lifestyle and village centers, local malls and the Downtown for the same merchants and the same customers is in conflict with any goals of reducing vehicular traffic and increasing use of public transportation. Such competition has a tendency to weaken all venues until "winners" settle out. In the meantime, The Streets at Southpoint, New Hope Commons and even Cameron Village will reap the rewards from the failure of Chapel Hill to have a single strong dominant shopping venue in its Downtown which is a valid alternative to the strip centers, malls and category killing big box centers.

THE COMPETITIONS' ADVANTAGES

In the 1960's and 1970's most cities and towns, reacting to the growth of suburban strip centers and malls, attempted to copy, what they thought were the main assets of the shopping center industry. Streets were closed to vehicular traffic and made pedestrian malls. Sidewalks were improved, trees added, and design-coordinated street furniture installed. In the 1980's and 1990's, events were held, marketing programs started and façade loan programs instituted. Main Street programs were initiated. Still, people didn't flock downtown.

What towns and cities didn't understand was that parking, pleasant common area, and coordinated advertising were not the most important factors in the success of shopping centers.

Shopping center owners have a great number of advantages and tools at their disposal, which downtowns do not have, and in some cases will never be able to attain. These advantages should be understood in order for Downtown Chapel Hill to arrive at the proper response to that competition. In the end it is the quality of the store and restaurant inside the buildings that makes a retail project successful. The following represent the most important strengths of malls, shopping centers and mixed-use village development, which builds a structure for getting the very best stores.

- Single Ownership of a Critical Mass
- Professional Development and Property Management Team
- Professional Leasing Staff Dedicated to Project
- Modern Infrastructure and Retail Space
- Flexibility in Rent Against an Overall Rent Pro-forma
- Tenant Allowance
- Fine Tuning Through Sales Reports
- Partnership through Percentage Rent
- Micro-Management of Tenants
- Parking and Amenities

Single Ownership

The single ownership of a critical mass of retail space and stores allows a shopping center to orchestrate a retail environment that can be a destination. Not all malls and shopping centers have a critical mass nor are all owners good at orchestrating a competitive retail environment. However, compared to Franklin Street with practically every building and store under separate ownership, the potential always exist for the owner to completely orchestrate the necessary tenant and use mix for success. There is dictatorial control in a shopping center.

This is the single most important factor to be addressed in a solution for Franklin Street. While all of Downtown will not fall under the ownership of a single entity or will not change ownership in such a way as to compare to a shopping center situation, the close cooperation of owners working together will go a long way to bring positive change. Only leadership will instill in the ownership a desire to cooperate and take the high road.

Professional Development and Management Team

Single ownership has the ability, if not the desire, to have an organized and professional development and management team to execute a plan or reposition a shopping center. Certainly the original developers of The Streets at Southpoint and the ownership of University Mall show every indication of having professional management. Federal Realty, the owner of Eastgate Shopping Center is a quality shopping center developer and has a professional team.

Quite simply, Downtown Chapel Hill requires a professional to guide the development of its town center against the competition.

Professional Leasing Staff Dedicated to Project

In the shopping center industry a quality professional and project-dedicated leasing staff is necessary for a successful project. Most developers have a leasing staff or a single person who is dedicated to one center within a competitive market. Developers who have multiple centers in a market area have a greater challenge in managing the staff, but it can be managed more effectively than a developer hiring a regional or local broker who is also working for or is making lease deals in other centers in the market area in potentially a conflict of interest situation.

Franklin Street does not have the luxury of a dedicated retail broker. If a retailer is interested in a location in Chapel Hill, they will depend on either their own tenant broker or will approach a local broker to assist with selecting a location. The tenant broker will be looking for the best location for the tenant in the market with the possibility that the building owner's willingness to pay the tenant broker's commission will have more value than finding the best location for the store.

The local broker has less commitment to picking the best site, being more likely to recommend locations that are readily available in an inventory with an owner certain to not quibble on the commission. It is usually very easy to determine from shopping center owners what spaces are or will be available and whether the owner is willing to pay outside commission.

Franklin Street must depend on local or tenant brokers and there is no organized inventory of available spaces with a clear commitment from the owner to pay the going rate for commissions. The effort it takes to track down a owner, even with a store that is vacant, and get a quick, concise and decisive answer on the availability of the store and the commission which the owner will pay, would not be worth the effort. It is much easier for a tenant broker or retailer's leasing staff to call the shopping center owners in the area and get all the information that is necessary to determine availability.

All too often space is leased on Franklin Street by posting a sign on the store and waiting for a retailer call. This is less work than looking for tenants by "pounding the pavements".

The recommended approach is to target uses and potential prospects and begin "cold calling" to "sell" the space. It will be difficult to get a local broker to use this approach. It is time consuming for the potential fee.

The Downtown needs a proactive staff, which will work closely with owners to determine in advance what stores will be available as early as possible. The staff will target uses based on the size and location. They will either determine prospects themselves or ask a local broker to find prospects for a use.

The challenge will be that owners who can simply post a "For Rent" sign and find a tenant who will pay the expected rent are not likely to want to pay a commission even if it is a better merchant for the street and for the owner.

Modern Infrastructure and Retail Space

Under almost all circumstance, shopping center owners have newer buildings, which are more adaptable to changes in tenant space size requirements. Invariably, shopping center owners are more willing to completely reconfigure space to suit new tenants as we see at University Mall where the owner made substantial building changes for A Southern Season and Spice Street.

A shopping center owner often has the advantage of not having to completely rebuild every space. However, it is not unusual to see shopping centers built in the 1960's and 1970's totally torn down and rebuilt. This comes about when the land has great value, quite possibly more than the value of the property with the existing building.

This may in fact be the case for certain properties on Franklin Street, which have physically-challenged buildings. For example, 115 – 117 East Franklin is a very simple one-story building of not very substantial construction. It also has ceilings, which are too low for modern retail space and very outdated systems. There is no

basement. As is, it would not be found acceptable by strong credit retailers. The building has a great location and has neighbors that are particularly strong retailers. This may be a case in which tearing the building down and putting a simple building back on the footprint would increase the value of the property.

The building referred to by many as the Barea Station building would be more valuable as a one-story building than as a three level building. Narrowing the frontage to allow independent occupancy of the basement and second floor merely reduces the value of the first floor and results in none of the three levels being a great space.

Despite what may be the merits of an approach that would readily be used in a shopping center to deal with outdated space, the short-term view and a fear of the Town approval process could eliminate such thinking from being considered.

Flexibility in Rent Against an Overall Rent Pro-forma

Because shopping centers control so much space, they have the ability to offer artificially low rent for one space knowing that that space user will make it easy to get much higher rent out of many other tenants. Again, the most visible example is University Mall where the topical example would be charging low rent to A Southern Season. Then with a guaranteed successful anchor, the developer is able to get higher rent from the small tenants, thus making up for the sweetheart deal.

Typical strip centers work the same way since the supermarket and pharmacy pay much lower rent and the small stores in between pay very high rent.

On Franklin Street there are very few examples of buildings and properties in which there is enough space and enough stores to use the anchor tenant strategy. Projects such as University Square, The Courtyard or the old Fowlers Building do not have the critical mass to make up the subsidized rent of an anchor tenant with the balance of the tenants in the project.

The only way such a concept would work would be for the Town of Chapel Hill to offer incentives – low land costs, tax credits, etc – to make an anchor deal which is guaranteed to ignite downtown retail. The payback is in increased real estate values and taxes. While the timing is too late, getting the Barnes & Noble or Borders book store downtown would have reaped serious rewards for the downtown.

Or as the University of Pennsylvania did, UNC could as part of a parking garage project behind the business office provide the retail space for a Harris Teeter.

There is just no private property owner who has enough property to justify the economics of the typical anchor give-away deal.

Tenant Allowance

In shopping centers, tenant allowance or tenant improvement allowance is often given freely to make deals happen. Again, the ability to just give a merchant tens of thousands, or hundreds of thousands, or, as the case undoubtedly is for A Southern Season, millions of dollars of free money towards the tenant's improvements (risk reduction, really) is greatly enhanced by having many tenant spaces which are given little or no tenant assistance money.

While this is a tool which could be used by small property owners Downtown, it is seldom used. Some of the more sophisticated property owners have provided tenant allowance.

The concept is simple. If a quality tenant will spend \$100 per square foot or more, especially if improvements are affixed to the real estate and have long-term value to the owner such as a new electrical system or an HVAC unit – the landlord would give \$25 per square foot to the tenant. A rule of thumb with national chains would be an allowance of the equivalent of one year of rent for every five years of the lease.

Some landlords who do not want to put out cash may offer one year of free rent. Again these are rough general rules and certainly vary according to the market conditions. This approach generally applies to credit worthy tenants.

Fine Tuning Through Sales Reports

Shopping centers have the advantage of tenant reporting of sales, which allows the Landlord to anticipate problems looming and allows the landlord to cull out weak merchants. This is particularly of value when there are many tenants against which sales can be compared.

There is no reason why a landlord on Franklin Street cannot and should not require sales reports as part of leases. However, without sales information from other merchants on Franklin Street there is far less value to the information for the landlord.

On Franklin Street, total sales compared to square footage, which is critical information in a shopping center, is less meaningful since quite a few spaces, particularly in the Hundred Block, are larger than the tenant can productively use. Therefore sales per square foot would seem artificially low.

With the large number of independent merchants in downtown, getting sales information or getting correct sales information is a challenge. However, for the landlord, even of a building with a single store, getting monthly sales reports from the tenant would be worthwhile.

Partnership through Percentage Rent

Most tenants in most shopping centers have a percentage rent relationship with the landlord. When a merchant's sales reach a specified level, the tenant must pay additional percentage rent over the base monthly rent. The potential for percentage rent provides incentive to the landlord to do everything possible to increase the merchant's sales, thus creating a sense of partnership.

The justification from the landlord is that the landlord is creating a project which through creating the retail mix and operating, the landlord is assisting the success of the merchant when compared to the merchant standing alone in a store on "main street".

The other value to percentage rent for the landlord is that it allows the landlord protection against inflation when the rent stays the same over a number of years instead of annual rent escalations.

For the merchant, percentage rent has the advantage of providing an incentive to the landlord to work harder to increase the merchant's sales. To some extent it should result in landlords not adding new merchants in competition with existing merchants. Reducing the existing merchant's sales will reduce the landlord's income if the existing merchant is paying percentage rent.

There are a few examples on Franklin Street of landlords with percentage rent leases. This is rare. The large number of independent merchants would resist providing sales reports. Merchants and food retailers who do all or most of their business in cash, particularly if they are independent merchants without responsibility to a franchisor or corporation are likely to be more interested in cheating the tax man than the landlord. This cash economy also allows the rents to be driven artificially high and is another reason why certain cash-based uses have focused on the Hundred Block. Landlords will also have a difficult time making the case that they are on a day-to-day basis doing much to increase the merchant's sales.

Percentage rent clauses provide a powerful incentive for landlord and tenant to work closely together for the good of both. Despite the obstacle in dealing with independent merchants on this issue, property owners should consider this tool when possible.

Micro-Management of Tenants

Shopping center developers micro-manage the tenants, holding tenants in both their store design and operating procedures to a much higher level than main street landlords. Design criteria are created which far exceed the building codes of local jurisdictions. Subjective taste level requirements are imposed in terms of quality of materials that a tenant must use.

Even when a store is open, signs taped to the storefront glass are torn down immediately. The landlord checks outside the rear service doors to insure that the tenants are cleaning up the service area. We need only look behind the stores on Franklin Street to know that most landlords don't seem to care about the housekeeping of their tenants.

This is an educational process and someone must be insuring that property owners are taking a more active interest in the condition of their buildings and the way in which their tenants operate in them.

Parking and Amenities

Parking and common area amenities were the urban renewal panacea for downtown retail. Yet these are far down the list of advantages, which shopping centers enjoy. The value to the success of retail of acres of free parking and beautifully landscaped common areas with nice benches and trees is overstated. The street sidewalk program, while a wonderful improvement and one, which should be done, will not improve the merchants or the sales of the merchants.

Summary

While shopping centers have many advantages over a "main street" with buildings separately owned by a myriad of families and entities, there are steps that can be taken by property owners in downtown significantly reduce the advantages.

ROSEMARY STREET AND THE WEST ROSEMARY STREET DEVELOPMENT

Usually in cities larger than Chapel Hill there is a warehouse, factory or loft district at the edge of downtown, which dates back to the late 1800's and early 1900's. The Brightleaf District in Durham is an example. While Chapel Hill doesn't seem to have a district with historic buildings, which are comparable, certainly West Franklin Street with a car dealership, gas stations, funeral homes, and an early supermarket building (Fowler's) is similar in concept if not scale.

Despite the fact that West Franklin Street has a resemblance to early car-related strip development, it has sidewalks and some row buildings in the 300, 400 & 500 blocks. It has a pedestrian scale.

Rosemary Street by contrast is not pedestrian. East Rosemary Street immediately behind Chapel Hill's Hundred Block, which should have buildings which relate well to the sidewalks and businesses which relate well to the pedestrian, has a suburban feel except for the two newer large scale developments – the Rosemary Street Parking Garage and the Bank of America Building and Garage. These two mistakes in urban design and architecture probably make it impossible for East Rosemary Street to ever seem more than the service entrance to downtown Chapel Hill. They impose on the street in such an unfortunate way.

West Franklin Street has a suburban feel with no sidewalks and buildings with their own parking areas. The businesses, which are evolving on West Franklin Street reflect a stand-alone, automobile-related destination nature.

These destinations are restaurants such as Café La Rez, Boardmen's, and Mama Dip's, specialty and convenience groceries such as the Don Jose's, Eastern Market and Key Mart and services and service offices such as Syd's Hair Salon, Tony Hall Real Estate and Alexis Custom Workshop.

Franklin Street should be in-filled with buildings which house continuous pedestrian retail along its entire length with offices above. Rosemary Street, while its density should be increased significantly based on the examples set by The Warehouse Apartments and 308 W. Rosemary, should have first floor uses such as restaurants, service business and service office. Residential and office uses should be on the upper floors. It would not be a browsing shopping environment, but an in-and-out automobile strip.

West Rosemary is the most likely place to put a fresh food market, due to the availability of larger properties of somewhat lesser value. Rosemary Street and its

larger properties can better accommodate the customer and service vehicles, which come with that use.

As with any retail district there are primary, secondary and tertiary locations in a downtown commercial district. There is a hierarchy. While the rents vary from the highest in the primary area to the lowest in the tertiary district, rents are not always the main factor for a business to choose the tertiary location.

The corner of Franklin and Columbia streets is the 100% corner. While rents should reduce equally along the Franklin Street spine going east and west, East Franklin Street with its heavier vehicular and pedestrian traffic holds high rental value while rents reduce immediately going west on Franklin Street.

The Hundred Block is the highest rent area downtown. East Rosemary Street by contrast has rental rates approximately half of those on the Hundred Block. West Franklin Street has enjoyed significantly lower rents than the Hundred Block. With the success of restaurants such as Carolina Brewery, Elaine's, West End Wine Bar and 411 West and retail and retail service uses such as Uniquities, Modern Times, and d.b. Sutton Hair Salon, rental rates on West Franklin will escalate.

Businesses on West Rosemary Street should enjoy the lowest rents since, it is the tertiary district of downtown. The value of such an area is that it can provide locations for a business, which cannot afford high rents, requires larger and cheaper space or requires lower rent for a start-up or incubator business. As the business grows and succeeds, the concept is that it will move to a secondary or primary location.

That said, the business must know that it cannot depend on pedestrian traffic. It cannot be in the impulse merchandise business and it must have a particular strong niche, make a strong first impression, advertising more heavily and have capital to take two years before making a profit.

Generally, without an adjoining larger business creating the traffic, small stores have a more difficult time making it as a destination business. A small store with an entrance next to the parking lot of Mama Dip's selling merchandise, which appeals to Mama Dip's customer, has an advantage over a small store which sells merchandise which does not appeal to those customers. That store quickly loses the advantage of proximity if it is one address further away.

The West Rosemary Street Development's retail square footage is very modest and intended to be a series of small retail spaces. Strictly from a business perspective we would want no bearing walls and have column spacing wide enough to have the flexibility to lease the space to a single user. Larger space

users more readily are destination uses. We would also have a plan for how kitchen exhaust would be fit in at a later date despite having no present intent to have food uses. Cooking uses are not good neighbors to a residential environment, but contingency plans may have to be made.

We would then think of building a leasing strategy for the small space retail plan built around a concept. This concept could be all stores selling home furnishing and related services, all stores selling antiques and collectibles or all minority owned stores with an ethnic flavor. Were these spaces not beneath residential uses a fresh food concept could be developed in which one space is leased to a butcher, another to a fishmonger, another to a greengrocer, another to a bakery, etc.

In building the leasing of a series of small space around a concept, the whole will become greater than the sum of the parts, there will be cross-fertilization and cross-pollination and a team approach will be developed. This concept can be branded so all the merchants together have an identity as well as each store having its own.

PARKING

It was not within the scope of this study, as we are not parking consultants, to evaluate whether there is adequate parking downtown. This is an easy enough question to answer with a professional analysis. Based on how often parking discussions arose in the process of this report, it is obviously an emotionally-charged issue.

There are some general comments we can make regarding retail parking for Franklin Street. Much of the parking issue revolves around either a perceived or actual parking shortage. Even if we believe or know that parking is a perceived problem and not a real problem, that belief or finding has no meaning if we cannot eliminate the misperception.

If a person has very good reason to come downtown, they will not perceive there is a parking problem or at least as great of one. A person who has no strong reason for coming downtown will perceive that there is a parking problem. It would not be unusual to find an older Chapel Hill resident who will say, "I never go downtown any more." When asked why not, they would likely respond, "there is a parking problem". If you then ask whether they go downtown to Elaine's, Lantern, 411 West or Crook's Corner they would probably say "Yes".

The difference is that there are great restaurants downtown for which customers would not perceive that it is a hassle to park. However, these same people don't come downtown to shop because there is less and less reason for an older person to come downtown to shop because there are fewer and few stores for them to find the kind of merchandise they would want.

During the day, parking on West Franklin Street at meters along the street is easy. There are very few retail stores and services attracting day business and some of the restaurants are not open. There is not much office space, which does not have adequate parking on site. A parking problem is neither perceived or exists.

At night when the restaurants are active, there may be an actual parking shortage, but customers seem willing to park blocks away filling the curbs in the residential neighborhood nearby or parking illegally in the UNC Business Office lot. The strength of the destination restaurants and the "restaurant scene" seems to diminish the perception that parking is a problem or is inconvenient.

Any strengthening of this area with more restaurants, replacement of the few weak food uses with stronger ones and the addition of complementary browsing retail, which we hope and expect will happen, will definitely require a greatly improved approach to evening parking.

On East Franklin Street, there is demand for parking during the day from so many groups. There are the students who would logically use the parking for attending classes, especially to take advantage of the services and food that downtown offers before and after class and moving to and from parking. In addition, there is a concentration of office uses in this area, which requires parking for employees, customers and clients. All retail stores and restaurants are active and require parking for staff and customers. There most definitely seems to be a shortage of parking during the day although newly freed up space in the Bank of America Garage may provide some relief until vacant office space is leased.

In the evening, offices and most retail stores are closed eliminating that parking demand. Student parking related to class is all but eliminated and there seems to be plenty of parking for those going to cinemas, restaurants and bars.

The hundred block of East Rosemary is not very pleasant or well lit and in conjunction with the weeds, poorly maintained rear of buildings and trash dumpsters for a myriad of restaurants, parking in this area is not enhanced by the overall appearance day or night.

There is significant square footage of office, retail, residential and restaurant space downtown. If all of the space were highly productive, there would undoubtedly be a much greater parking problem. There is enough inefficient, marginal and unproductive retail, restaurant and bar space downtown to lower parking demand from its potential.

Based on information in this study, we have no doubt that sales and customer counts can be greatly enhance to the point that there would be no question of a parking shortage. We will have succeeded when there is unquestionably a parking problem. Some shopping center humor tells the story of the merchant who complains about business because the parking lots are full.

In small, but meaningful, ways parking can be improved. With the assumption that every one who drives down Franklin Street has never been to Chapel Hill, wayfinding solutions need to be designed to clearly and blatantly lead these people to the parking lots.

While there may be a textbook reason for the monthly parking on the front of Lot 5 with the public parking hidden behind, the private mind feels confident that meter income will increase if the public spaces were on the front. From Franklin, the lot appears to be parked full, which is more compelling negative information, than the positive sign with an arrow saying that the entrance to the public lot is back Church Street. When flipped with the monthly parking, if the public spaces get heavier use both day and night, then a more public purpose is being served by the change.

Despite concerns on the part of many, we presently do not feel that parking is a deterrent to leasing space to new far more productive merchants on Franklin Street. A good retailer will observe the high levels of vehicular traffic at the intersection of Franklin and Columbia streets. The merchant will watch the crowds of people on the sidewalks. They will be shown the stores of the very best local merchants and stores such as Gap, Sephora, Starbuck's and Panera Bread will be pointed out. They will be taken for cocktails on the patio at the Top of the Hill and Dinner at Elaine's. At the end of the day they will stay at the Carolina Inn. We would also guide the out-of-town retailer to come to meet on a day we know Chapel Hill will be at its best – game day or last day of classes before exams. The good retailers will never ask whether there is enough parking for all the people they see during the day.

LEASE PROVISIONS

Attached as an exhibit to this document is a shopping center lease. Much of this lease will not apply to a tenant in an individual building downtown. This is a Pennsylvania lease and there are a number of legal provisions in this lease, which would change to agree with North Carolina law.

This is a “landlord lease”, but one which has tried to be somewhat reasonable to the tenant in advance of negotiation, but not give up provisions which are important to the shopping center owner. There are more ominous shopping center leases than this!

The importance of this document to both property owners and independent merchants is educational. You should understand what the provisions of this lease mean, why the landlord wants these provisions and why tenants are willing to agree to these provisions. This binds property owners and merchants together into a powerful competitor.

National chains will heavily negotiate this lease. This lease would be changed relative to how much the developer is willing to compromise to make the deal, how reasonable the tenant’s proposed changes are and how good a project the developer thinks he has. An independent merchant is less likely to negotiate changes to this lease unless they are A Southern Season level retailer.

There are also shopping centers that are more desperate than others for tenants and more willing to negotiate a lease.

There are some sections of this lease, either in whole or part, which could have application in a downtown Chapel Hill lease.

Two sections, which are particularly important to add to Franklin Street leases is “Prompt Occupancy and Use” and “Assignment and Subletting” clauses. We particularly want to avoid having buildings, which are vacant, but the landlord is collecting rent and either doesn’t care or can’t do anything about the space “going dark”. Not only do we need a landlord to care about the impact of his vacant building on other property owners and their tenants, we need “occupancy clauses” which will place those responsible for the vacancy in default even if they are paying the rent. Let the tenant pay off the rent for the entire balance of the term so the Landlord can get a new tenant open.

When a property owner signs a lease with a perceived quality tenant, the deal is with that tenant and that tenant only, not some lesser concept which signs a sub-lease with a lessee. The Taco Bell space, which housed XO South and now houses a motor scooter dealership/turned bar called The Library would have been

better served by both “Prompt Occupancy and Use” and “Assignment and Subletting Clauses”. It isn’t that Taco Bell is a quality operation or a great asset to Franklin Street, but the sub-tenants have not been of the perceived status of the fast food chain and are even worse than Taco Bell.

There are also “Default & Remedy” clauses that would be valuable to incorporate into leases.

Finally putting use and hour clauses in leases and then taking use clauses and hours of operation seriously would be valuable to both the Landlord and downtown. The use clause should be detailed to the products or food to be sold. When you lease a store and say the use is “retail store” or think you are being more detailed by saying “for the sale at retail of health and beauty aids” the store could end up selling only condoms. Well-written use clauses help to avoid those types of surprises.

If a property owner rents to a coffee bar because they don’t want the fire dangers and grease issues of grilles and deep fryers, the use clause must be detailed enough to avoid all the creative ways a merchant can find to create grease and fire issues.

Having minimum or maximum or both minimum and maximum hours is important to the Town and to the landlord. A property owner can be leasing to a food use, which is assumed to not stay open late, but the space could convert to a club use without violating the use clause. Maximum hours would keep the taco restaurant, which would not have needed late hours, from becoming a club.

While most property owners do not have “common area” in the sense of a shopping center, the common area maintenance and tenant maintenance sections would have ideas that could be incorporated in street retail leases.

This lease is a tool and only has a few clauses, which can be used downtown. However, it does indicate a level of involvement by the landlord into the way a tenant does business. Property owners downtown must take a more hands on approach to their tenants.