



13860 Ballantyne Corporate Place
Suite 140
Chapel Hill, NC 28277

704.247.6230
walkerconsultants.com

December 2, 2020

Mr. Dwight Bassett
Economic Development Officer
405 Martin Luther King Jr. Boulevard
Chapel Hill, North Carolina 28514

Re: *Preliminary Financial Analysis
East Rosemary Garage
Walker Project # 19-001227.10*

Dear Mr. Bassett,

Walker Consultants is pleased to submit the enclosed finalized letter report that discusses the potential parking revenue, operating expenses and debt service associated with the addition of a new 1,143 parking structure on East Rosemary Street in Chapel Hill, NC.

Projections of potential net income for the proposed garage over the initial 5-year period of operations, from opening through full stabilization of the facility are provided. Walker's preliminary financial model assumes that industry standard best-practices will be implemented to ensure successful management of the new structure as an automated commercial parking facility.

We appreciate this opportunity to provide professional parking consulting services for the Town of Chapel Hill and we look forward to discussing our report with you at your convenience.

Respectfully submitted,

WALKER CONSULTANTS

A handwritten signature in black ink, appearing to read "Jon Martens".

Jon Martens, ACIP, CAPP
Parking Consultant

A handwritten signature in black ink, appearing to read "Jody Todd".

Jody Todd
Parking Consultant

INTRODUCTION

Walker Consultants (“Walker”) is pleased to submit our findings with regard to the preliminary financial analysis developed for Town of Chapel Hill (the “Client”) regarding a public parking facility (the “Facility”) proposed for development on the parcel that is currently occupied by the CVS Garage in Chapel Hill, NC (the “Subject Property”) and adjacent surface lot.

The information used to prepare the enclosed preliminary financial analyses for the Subject Property was developed based on the following factors:

- 1) Chapel Hill Parking Management Plan, completed in 2019.
- 2) Parking demand data from ParkMobile and FlowBird system reporting for 2019. (pre-Covid)
- 3) Land-use program information provided by the Client.

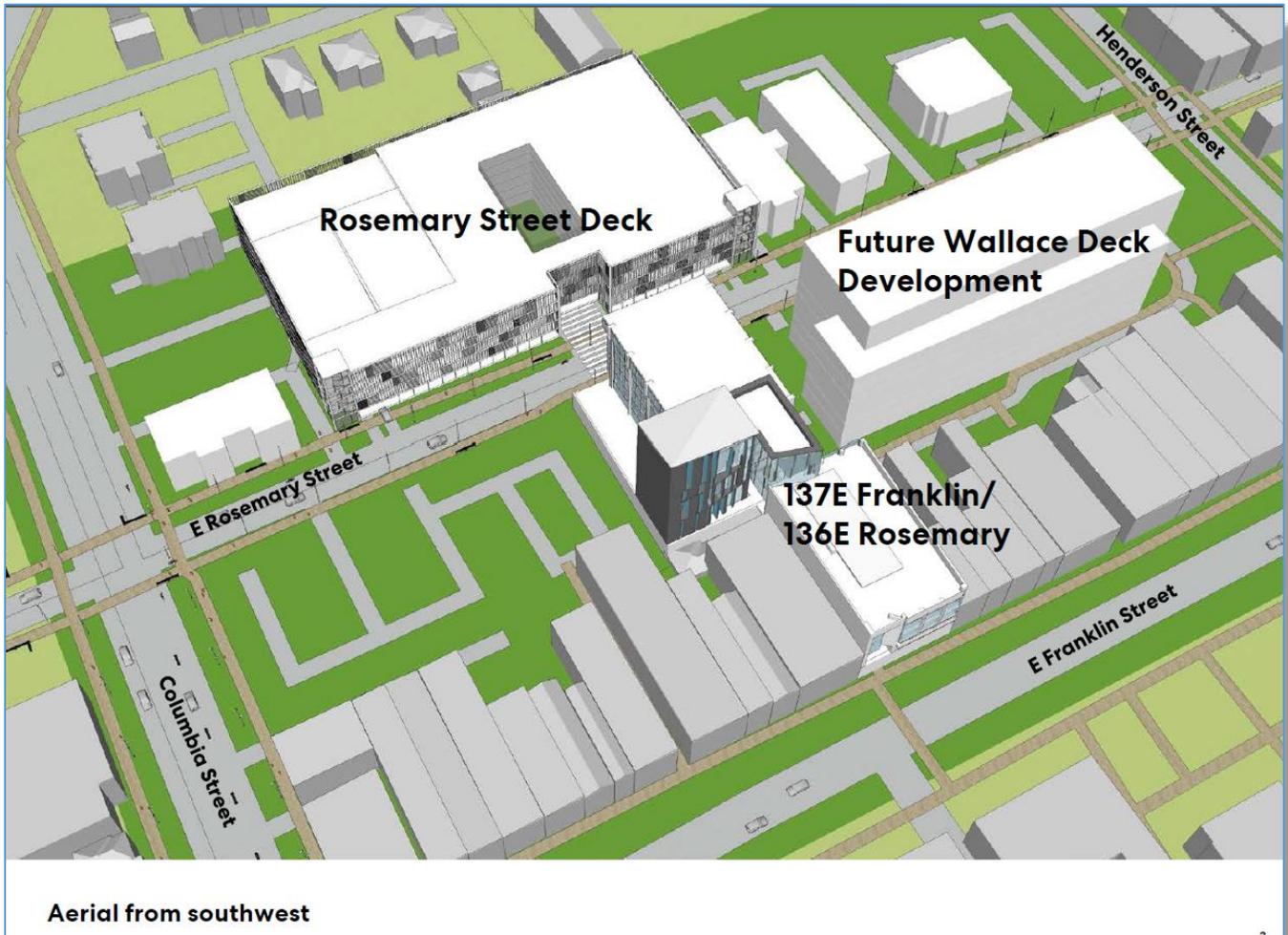
OVERVIEW

The Client engaged Walker to perform a preliminary financial analysis that is suitable for helping to judge the reasonableness of the Town of Chapel Hill’s financial projections developed for the proposed 1,143-space parking garage. Using data provided by the Client and Walker’s experience in developing preliminary financial models for commercial facilities, we developed a Base Case financial model that is intended to depict the projected parking revenues and expenses for a 5-year projection period, once the proposed developments are all online. The new parking garage is part of a larger-scale project that includes the following:

- **East Rosemary Parking Garage**—a new 1,143-space parking garage replacing the existing CVS Deck and private parking lot at 139 E. Rosemary Street;
- **Wallace Office** – a new 200,000 square foot office building to be constructed at the site of the existing Wallace Parking Deck. The building is planned to include two floors of wet/lab space and 200± spaces of underground parking; and
- **Grubb Office** – a 118,000 square foot office redevelopment of the existing 137 E. Franklin Street building. The project will also displace approximately 25 parking spaces in the existing Rosemary/Columbia Lot.

The proposed new parking garage is intended to accommodate existing demand that will be displaced by the removal of the CVS and Wallace Decks and the displacement of surface parking in the 139 E. Rosemary Lot and the Rosemary/Columbia Lot. Additionally, new demand is anticipated from the two office building projects. This analysis includes the projected demand from these new land uses.

Figure 1: Planned Development



Source: Town of Chapel Hill, NC

EXISTING CONDITIONS

The proposed 1,143± space parking facility will reside on the CVS Deck site, 137 E. Rosemary Street. The **CVS Deck contains 270± spaces**. The facility accommodates monthly permit parking and daily parking. The new parking facility will also displace a **91 space-private parking lot at 139 E. Rosemary Street**. This private lot accommodates only permit parking.

The Wallace Parking Deck is located just east of the project site, also along Rosemary Street. **The Wallace Deck contains approximately 309 parking spaces**, for both monthly permit holders and daily parkers. The Wallace Deck is planned to be removed and replaced with a 200,000 square foot office building ("Wallace Office Building"). The existing parking demand will be served by the proposed parking garage.

Transient revenue is collected using multi-space meters and ParkMobile, an app-based payment. Users park and pay for the amount of time they plan on parking before leaving the facility. The method requires enforcement to ensure users have paid for their parking. Permit parking is paid on a monthly basis.

An additional parking lot is located at the corner of Rosemary and Columbus Streets. The 104-space lot accommodates hourly parkers only. The majority of this lot will remain, however approximately 25 parking spaces will be displaced for green space adjacent to the redeveloped office building.

Figure 2: Existing Parking Facilities Map



Source: Google Earth 2020

PROPOSED PARKING CHANGES

The addition and displacement of parking spaces in the project area will result in a net increase in supply of approximately 648 spaces. The changes, by facility, are noted below:

Table 1: Changes in Parking Supply

Location	Spaces
New East Rosemary Garage	1,143
CVS Deck	(270)
139 E. Rosemary Lot	(91)
Wallace Deck	(309)
Rosemary/Columbia Lot (partial)	(25)
New Wallace Building (underground)	200
Net Change in Supply	648
Total Supply	1,343

PARKING DEMAND

Projected parking demand for the proposed garage is made up of 1) Absorbed demand to be relocated from displaced facilities and 2) New demand projected from the new office building developments.

Absorbed Demand, or existing parking demand, is anticipated from the displaced decks and surface spaces. To quantify this demand and separate monthly demand from transient demand we reviewed the parking study Walker performed in 2018, as well as permit parking data provided by the client.

Table 2: Projected Absorbed Parking Demand

Existing Parking Facility	Supply	Occupancy	%	Monthly Spaces	Hourly Spaces
CVS Deck (125 E. Rosemary)	270	200	70%	70	130
Wallace Deck	309	300	98%	50	250
139 E. Rosemary Lot	91	93	85%	91	0
Rosemary/Columbia Lot (partial)	25	104	100%	0	25
Absorbed Demand		Monthly Spaces		211	+
		Transient Spaces			405
Total Absorbed Demand					616

*Occupancy figures are from the 2018 Walker Study

New Demand for the proposed office buildings has been calculated using a blend of widely accepted parking ratios within the industry as provided by publications “ITE Parking Generation 5th edition” and “ULI Shared Parking, 3rd edition”. These publications are the industry standards for parking demand ratios and were informed by thousands of field parking occupancy studies performed by dozens of parking and transportation professionals over decades. These ratios have been vetted by a team of consultants who specialize in parking demand analyses and who mutually agreed upon the use of these ratios.

Table 3: New Demand Parking Ratios

Source	Category	Location	Range	Ave.	85th %tile	Ave.
Parking Generation 5th edition						
General Office Building (710)						
	per 1000 sf GFA	urban	1.09 - 2.33	1.84	2.33	
	per 1000 sf GFA	urban	0.97 - 2.33	1.63	2.14	
	per 1000 sf GFA	urban/sub.	0.86 - 5.58	2.51	3.42	
	per 1000 sf GFA	urban/sub.	0.5 - 5.58	2.39	3.30	2.7975
Research & Dvlpt. Ctr. (760)						
	per 1000 sf GFA	urban/sub.	1.27 - 3.55	2.58	3.14	
	per employee	urban/sub.	0.62 - 1.00	0.73	0.98	
ULI Shared Parking 3rd Edition						
	Office 100 to 500 ksf				3.55	3.55
Average of the 85th Percentile						
						<i>rounded</i>
Office					3.17	3.15
Research & Development					3.14	3.15

Sources: ITE Parking Generation, 5th edition (2020), ULI Shared Parking, 3rd edition(2020)

For the purposes of this analysis, we have used a blended demand ratio of 3.15/1,000 sf for the new office spaces. We estimate that 90% of that demand will be employees of those building and therefore will be demand for Monthly parking, with the remaining 10% will be allocated to transient demand for visitors. Based on these ratios, Walker projects a new parking demand of 702 spaces, 602 for monthly parking and 100 spaces for transient parkers. The following table shows the total demand projected for the new garage:

Table 4: Projected Parking Demand

	Square Feet	Ratio/1,000sf	Projected Demand	
			Monthly*	Transient **
New Demand				
<u>New Wallace Building</u>			<u>90%</u>	<u>10%</u>
Office Space	126,900	3.15	260	40
Wetlab Space	73,100	3.15	107	23
<u>Renovated Office (Grubb) ***</u>	118,000	3.15	<u>335</u>	<u>37</u>
<i>Total New Demand</i>			702	100
Absorbed Existing Demand				
CVS Deck			70	130
139 E. Rosemary Lot			91	0
Wallace Deck			50	250
Rosemary/Columbia Lot (partial)			<u>0</u>	<u>25</u>
<i>Total Absorbed Demand</i>			211	405
Total New Garage Demand			913	505
			<u>TOTAL</u>	<u>1,418</u>

* Represents number of anticipated permits, not a daily presence.

** Represents 85th percentile demand, not a daily demand.

*** Monthly demand for the Wallace Office has been reduced by 200 to account for the underground spaces provided within the new building.

NEW EAST ROSEMARY GARAGE

The new garage is proposed to have 1,143± total parking spaces. The University of North Carolina (UNC) is planning to purchase 100 of those spaces for their reserved use. UNC will contribute capital costs upfront for the purchase of these spaces and will not contribute towards annual revenue. The Town has assumed that UNC will contribute approximately \$40,000 annually to a capital repair fund. Walker has included that assumption in our analysis. Capital costs are reported as \$33,200,000, including financing costs, or just over \$30,000 per space. The client has reported that the intention is to finance this cost over a twenty-year term at a rate of 2%. This equates to about \$2M in annual debt service.

PARKING REVENUES

Parking revenues have been projected based on the demand calculations presented in this report, with consideration to existing parking rates, length of stay for transient parkers and historical parking behaviors in the parking facilities to be replaced. As part of this analysis, Walker evaluated raw reporting data from the automatic pay station and mobile app payment reports from the existing CVS and Wallace decks from 2019. Based on this analysis, we have assumed the following assumptions in building our revenue model:

Assumptions:	
Total Spaces	1,143
Revenue Spaces	1,043
Fiscal Year 2022	7/01/21-6/30/22
<u>Starting Rates:</u>	
Monthly	\$125
Hourly	\$1.50
<u>Hourly Presence:</u>	
Length of Stay	3
Daily Turns	2.5
Days per year (Mon-Sat)	312
<u>Office Occupancy:</u>	
Year 1	85%
Year 2	95%
Year 3+	100%
<u>Financing:</u>	
Total Cost	\$33,200,000
Term	20
Rate	2%

OPERATING EXPENSES

Walker developed annual operating expense projections for the Facility using our experience and data contained in Walker's database of historical parking facility operating expenses. The expense projections have also been escalated annually to adjust for inflation.

The projected operating expenses assume the Facility will be managed and operated internally by the Town. The projected labor costs shown in the model are based upon estimated staffing schedules developed by Walker, with comparative analysis of historical expenses at the existing facilities and also with comparable properties from Walker's internal database. While all other expenses are projected on a cost per space basis. A brief description of the line-item categories included in the model follows below:

- Salaries, Benefits & Workers' Compensation: The staffing plan, positions, and wage structure projected are typical for other automated facilities operating within the market.
- Utilities: Assumes the projected cost of electricity, water, and telephone services.

- Insurance: Includes the cost of general liability, garage keeper’s legal liability, crime, umbrella, and auto insurance coverages; *the cost of property insurance coverage is excluded from the Base Case model.*
- Supplies: Includes the projected cost of garage and office supplies, parking tickets, forms, postage, replacement keycards for contract parking, lamps, bulbs, and employee uniforms.
- Routine Maintenance: Includes the anticipated annual expense for routine cleaning, painting curbs, re-lamping, life-safety system, doors, and locks, keys, basic parking equipment service agreement, waste removal, and pest control.
- Misc.: Assumes the projected cost for local business licenses and permits, driveway, sign and/or other permits paid to the local governing agency or agencies.
- General Expenses: Assume the following: base management fee, bank charges, payroll processing fees, auto damage claims, and armored car services; *the projected cost of real estate taxes is excluded from the model.*

As stated, Walker has assumed that the Facility will be managed and operated by the Town.

EXPENSES	<i>Per space</i>
Salaries & Benefits	\$110
Supplies	\$20
Security	\$40
Administration, (inc. Mgmt fees)	\$200
Insurance	\$30
Utilities	\$30
Routine Maintenance	\$30
Misc.	\$10
Projected Total Expenses	\$470

Source: Walker Consultants Operating Expense Research

Note: Operating expenses are based on operations as a standalone facility. When combined with the system, some efficiencies in staffing and security may reduce the cost on a per space basis.

FINANCIAL MODEL SUMMARY

Based upon the proposed project schedule, the parking garage will be open for parking in FY2022. The Grubb Office is proposed to be completed by late 2021 and the Wallace Office is not anticipated to be completed until late 2023. The projected proforma accounts for the delayed parking demand and a ramp-up of general parking demand. Based on the proposed project timeline, we identify the FY2025 as the year of stabilization. A positive Net Operating Income (NOI) is projected in all years. NOI is projected to cover debt service costs in FY2026. Financial projections and assumptions are presented on the following pages.

Assumptions:		<i>stabilized year</i>						
		FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
	<i>Ramp up Factor</i>	0.70	0.85	0.95	1.00	1.00	1.00	1.00
1	<i>Monthly Rates (inc. 4% bi-annually)</i>	\$125	\$125	\$130	\$130	\$135	\$135	\$140
2	<i>Hourly Rates (inc. 6% bi-annually)</i>	\$1.50	\$1.50	\$1.60	\$1.60	\$1.70	\$1.70	\$1.80
3	<i>Expense Inflationary Adj</i>		1.02	1.02	1.02	1.02	1.02	1.02
	REVENUES							
	Monthly							
4	<u>Absorbed Demand</u> (permits)							
	CVS Deck (125 E. Rosemary)	70	\$73,500	\$89,250	\$99,750	\$105,000	\$105,000	\$105,000
	139 E. Rosemary Lot	91	\$95,550	\$116,025	\$129,675	\$136,500	\$136,500	\$136,500
	Wallace Deck	50	\$52,500	\$63,750	\$71,250	\$75,000	\$75,000	\$75,000
5	<u>New Demand</u>							
	Wallace Office	367	\$0	\$0	\$444,529	\$522,975	\$550,500	\$550,500
	Grubb Office	335	\$298,988	\$405,769	\$477,375	\$502,500	\$502,500	\$502,500
	Projected Monthly Revenue	913	\$520,538	\$674,794	\$1,222,579	\$1,341,975	\$1,369,500	\$1,369,500
	Hourly (spaces)							
6	Transient Parking	313	\$769,000	\$933,800	\$1,113,300	\$1,171,900	\$1,245,100	\$1,318,400
7	Addtl. Avl. until Wallace Office Opens (50%)	184	\$450,900	\$547,500				
	Projected Transient Revenue		\$1,219,900	\$1,481,300	\$1,113,300	\$1,171,900	\$1,245,100	\$1,318,400
	Total Projected Revenue		\$1,740,438	\$2,156,094	\$2,335,879	\$2,513,875	\$2,614,600	\$2,687,900
8	EXPENSES (Per space)							
	Salaries & Benefits	\$110	\$125,700	\$128,200	\$130,800	\$133,400	\$136,100	\$138,800
	Supplies	\$20	\$22,900	\$23,400	\$23,900	\$24,400	\$24,900	\$25,400
	Security	\$40	\$45,700	\$46,600	\$47,500	\$48,500	\$49,500	\$50,500
	Administration, (inc. Mgmt fees)	\$200	\$228,600	\$233,200	\$237,900	\$242,700	\$247,600	\$252,600
	Insurance	\$30	\$34,300	\$35,000	\$35,700	\$36,400	\$37,100	\$37,800
	Utilities	\$30	\$34,300	\$35,000	\$35,700	\$36,400	\$37,100	\$37,800
	Maintenance	\$30	\$34,300	\$35,000	\$35,700	\$36,400	\$37,100	\$37,800
	Misc.	\$10	\$11,400	\$11,600	\$11,800	\$12,000	\$12,200	\$12,400
	Projected Total Expenses	\$470	\$537,200	\$548,000	\$559,000	\$570,200	\$581,600	\$593,100
	UNC Capital Repair Fund Contribution		\$40,000	\$40,000	\$40,000	\$40,000	\$40,000	\$40,000
	NET OPERATING INCOME		\$1,243,238	\$1,648,094	\$1,816,879	\$1,983,675	\$2,061,500	\$2,122,800
9	Debt Service		\$2,030,403	\$2,030,403	\$2,030,403	\$2,030,403	\$2,030,403	\$2,030,403
	Net Cash Flow after Debt Service		(\$787,166)	(\$382,309)	(\$213,524)	(\$46,728)	\$42,597	\$92,397
	DSCR		0.61	0.81	0.89	0.98	1.02	1.05

ASSUMPTIONS

:	
1	Rates increase by an average of 2% per year, implemented every other year.
2	Rates increase by an average of 3% per year, implemented every other year.
3	Expenses increase, annually, by 2%.
4	Absorbed monthly demand = The number of permits reported for each of the displaced facilities in FY2018 X the recording parking occupancy for those facilities.
5	New Demand = The calculated parking demand for the new buildings using a blend of ITE Parking Generation 5th edition and ULI Shared Parking, 3rd edition ratios of 3.15/ksf x 90% (10% allocated to transient demand for visitors).
6	Transient Demand= The calculated available spaces for hourly parking by Total supply minus (Permits issued x80% presence factor)=1043-(713x80%).
7	Additional Transient Spaces available until demand for the Wallace Office Building comes online.
8	Projected operating expenses based on Walker's database of nearly 200 comparable facilities and also cross-checked with Chapel Hill historical expenses.
9	Annualized debt service payment provided by client

LIMIT OF LIABILITY

Walker makes a distinction between “preliminary” financial analyses (projections for budgeting purposes) and “comprehensive” financial analyses (detailed analyses used as part of the financing process). The latter must be written with an eye towards the underwriters, who typically require significantly more detailed analyses, discussions of methodology and written support. Furthermore, because of the risk inherent in the financing process to both the client and Walker, we put the project through an intensive review by a team of advisors both internal and external to the company. Due to the additional analysis and review required to complete a comprehensive analysis, these type engagements are significantly more expensive, and we do not recommend them unless a client is at the point of obtaining financing.

Walker understands that this preliminary financial analysis will be used internally by the client to assess the overall value of the projected net income associated with operating and maintaining a public parking facility constructed on the Subject Property. Moreover, Walker’s model is based upon projections and assumptions compiled using our experience in developing similar type models. Therefore, we cannot guarantee results, and the model developed is not intended to provide a level of detail needed to obtain project financing.

STATEMENT OF LIMITING CONDITIONS

1. This report is to be used in whole and not in part.
2. Walker’s report and recommendations are based on certain assumptions pertaining to the future performance of the local economy and other factors typically related to individual user characteristics that are either outside Walker’s control or that of the client. To the best of Walker’s ability, we analyzed available information that was incorporated in projecting future performance of the proposed subject site.
3. Financial projections presented in this report are conceptual estimates in nature and will differ from actual results.
4. All information, estimates, and opinions obtained from Town of Chapel Hill and others not employed by Walker Consultants are assumed to be true and correct; we can assume no liability resulting from misinformation.
5. None of this material may be reproduced in any form without our written permission, and the report cannot be disseminated to the public through advertising, public relations, news, sales, or other media.
6. We take no responsibility for any events or circumstances that take place after the date of our field inspections.
7. The quality of a parking facility’s on-site management will have a direct effect on a property’s economic viability. The financial projections presented assume responsible ownership and competent management. Any departure from this assumption can have a significant impact on the projected operating results.
8. The estimated operating results presented are based on an evaluation of the overall economy, and neither consider nor make provisions for the effect of any sharp rise or decline in local or national economic conditions. We do not warrant that the projections will be attained, but they have been prepared based on information obtained during this study and are intended to reflect the expectations of a typical parking patron.
9. This report was prepared by Walker Consultants; the opinions, recommendations, and conclusions expressed for this assignment are rendered by Walker’s staff members as employees, rather than as individuals.

10. This report is set forth as a preliminary financial analysis for the proposed Subject Property and is not an appraisal report.
11. The conclusions and recommendations presented were reached based on Walker's analysis of the information obtained from Town of Chapel Hill and our own sources. Information furnished by others, upon which portions of this study are based, is believed to be reliable; however, it has not been verified in all cases. No warranty is given to the accuracy of such information, and any significant differences between these assumptions and actual performance can have an impact on the financial projections for the proposed parking operation.