

from City of the New South

Durham

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Chapter Five: Market Dynamics

CHAPTER 5

market

Dynamics

*“The secret of all those who make discoveries is that they regard nothing as impossible.”
- Justis Liebig*



Market Study

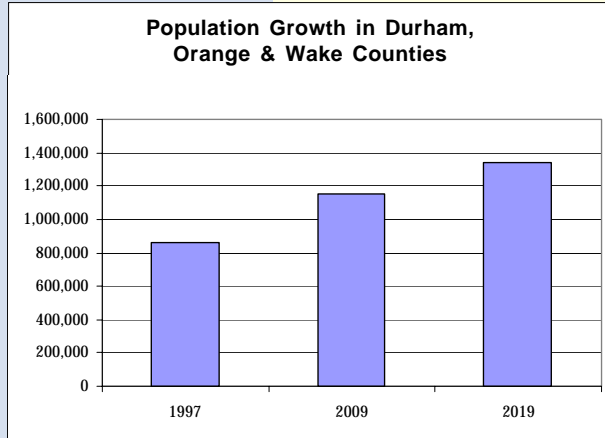
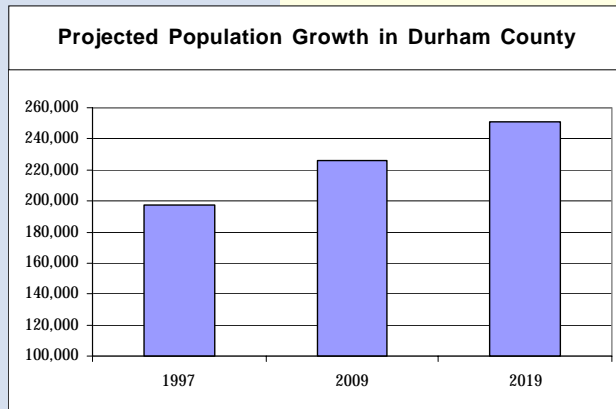
The Raleigh-Durham-Chapel Hill Metropolitan Statistical Area, and specifically the City of Durham, benefits from one of the healthiest regional economies in the United States. The population is growing and becoming more affluent, jobs are being created, retail sales and home sales are up, and vacancy rates for office and retail buildings are down. The exceptionally strong dynamics of the regional economy provide an opportunity for a revitalized Downtown Durham, if selected market segments (office, housing, tourism, retail, entertainment) are targeted and viable development projects identified.

The findings of the Downtown Durham Market Study, published in July 1999 as part of this master plan, provide a direction for targeting key development initiatives throughout the Downtown area. Five key market segments are presented in this study: office, residential, tourism, and retail/entertainment markets. These markets are expected to drive Downtown development in the future. The master planning team utilized the market analysis to develop strategies for revitalizing Durham's core area. Findings indicate that Downtown Durham has the ability to capture a greater share of the region's growth and provide the community with a dynamic destination.

There are a number of key market trends that will impact future development in Downtown and the metropolitan area. These trends, as outlined on the following pages, indicate that there is strong potential for Downtown to capture more significant office, residential, and tourism-related development.

“It is imperative that those people making decisions on design today must look ahead 30 to 40 years, because the decisions made today will be a part of our community and affect design for many years.”

- Mayor Jack White, Sioux Falls, South Dakota



- **The populations of the City of Durham, Durham County, and the entire MSA are growing.**

Durham County is expected to increase its population by 16,000 people over the next decade, to reach a total population of 228,000 in 2010. Although the growth rates experienced in Durham are not as strong as those in the entire Raleigh-Durham-Chapel Hill MSA, Downtown can benefit from the growth of the larger area.

- **The Durham County economy is one of the strongest in the state and in the entire country.**

Unemployment in Durham County was less than 2% in 1997, and the County had the highest average wage rate in the State. Despite national trends that have shown a decline in manufacturing jobs over the last two decades, Durham County has doubled its total number of manufacturing jobs since 1980. The County, however, is still primarily white-collar, with professional services representing the strongest and fastest growing sector of the economy, which indicates positive potential for Downtown's office marketplace.

- **Residential areas around Downtown are growing.**

More than 12,000 people live within approximately one mile of the Downtown 'loop'. This area is expected to increase by 450 more people (over 250 new households) over the next five years. Nearly 80,000 people live within three miles of the Downtown 'loop', and an additional 3,750 people (2,000 households) are anticipated to move into the area within five years. Many of these people who live near Downtown are young professionals and urban working families. In addition, nationwide trends over the past few years have shown an increase in the number of people who are choosing to live in downtown environments such as loft apartments and attached townhomes. Blue Devil Ventures is creating this type of development in Downtown Durham at West Village which will contain 247 residential units in the renovated Hicks and Toms and the Flowers and Coopers warehouses.

■ **The demand for new retail development in Downtown is limited.**

Durham County has never established itself as a major retail destination. The proposed super regional mall on the south side of the City will reduce the potential for major retail tenants to locate Downtown. Northgate Mall is located less than three miles from the Downtown core and captures a large amount of retail spending. New retail Downtown will compete with these and other major shopping areas, and as a result, Downtown retailers may be more successful by serving the office and residential population. However, because many major retail developments over the last decade have focused on incorporating entertainment to attract customers, Downtown may be an attractive alternative for retailers who want to capitalize on existing and future Downtown entertainment venues such as Brightleaf Square, the Carolina Theatre, the Durham Bulls Athletic Park, and the future Central Park.

Future retail growth will occur primarily as a result of increasing residential population, tourism, and office workers. As the trade area increases in size, through the addition of residents, workers, and visitors, demand will increase for new retail and personal service uses. An expanded government center complex will likely increase demand for retail uses. An increased market base through the addition of Downtown residents and employees will also drive entertainment-oriented uses. The success of Brightleaf Square as a destination point- it is the second largest attraction Downtown with over 225,000 visitors a year- along with the nearby Blue Devil Ventures and West Village development will make the west side of Downtown a likely target for additional entertainment uses. If attractive and convenient connections to other areas of Downtown are made, the potential for providing entertainment uses in other areas of Downtown (i.e. around the ballpark, American Tobacco, and Main Street) will increase. With tourism continuing to have an increased presence in Durham, visitors to the Downtown area will be a primary market for increased entertainment venues.

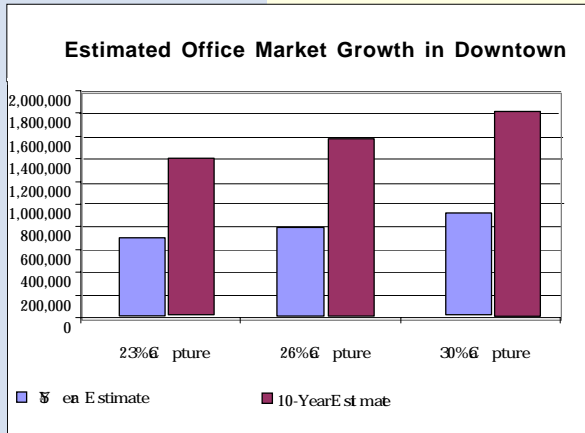
“A city is made by the social congregation of people, for business and pleasure and ceremony, different from shop or office or private affairs at home. A person is a citizen in the street. A city street is . . . a square for people to remain within.”

- Paul & Percival Goodman

■ **The demand for office space will be strong in Downtown.**

The supply of Downtown office space increased from 1.1 million to 2.1 million square feet between 1994 and 1999. The occupancy rate rose to 90% as 1.1 million square feet of office space was absorbed. The fastest growing sectors of the Durham County economy are office uses, which include professional services and finance, insurance, real estate (FIRE) services. Jobs in these two sectors increased by 4% per year recently. If these trends continue, there could be 2,600 new jobs and 520,000 square feet of new office space per year in the County. Downtown has been able to absorb over 160,000 square feet of commercial office space per year over the past several years, primarily through rehabilitation activity. While Downtown may not be able to capture as much of the Class A commercial office market, given the competition from RTP and West Durham County along I-40, demand for rehabilitated office space in Downtown will continue to thrive. If Downtown can capture a conservative estimate of 10% to 15% of the projected new office demand, then a total of 52,000 to 78,000 square feet of new commercial office space can be supported annually. If, as shown at left, Downtown is able to increase its capture rate into the 20%-30% range, then between one and two million square feet of space could be absorbed over a ten year period. The proposed County government complex will also add considerable new office space to Downtown, further contributing to the critical mass needed to make Downtown a dynamic place for work and entertainment.

Duke University could also have a major impact on new office space Downtown. With more than 8,000 employees at the hospital, 5,000 employees at the medical center, and 5,400 employees at the campus, Duke has the potential to be a major player in the Downtown office market, if the right opportunities are available. Duke officials have indicated that they are willing to locate new facilities in the Downtown area if the right context is created.

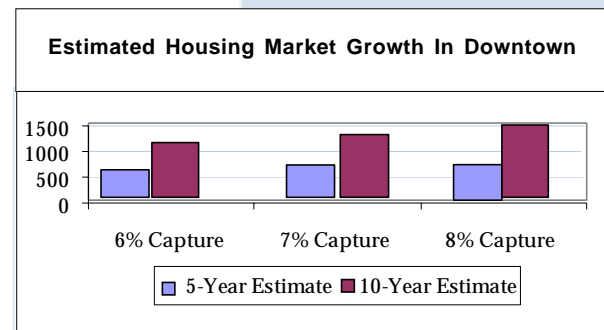


■ **Housing holds strong development potential for Downtown.**

As more young professionals and urban working families enter the Downtown market, the need for additional market rate housing and upscale rental units around Downtown increases. The incomes of Downtown residents are rising at twice the rate of inflation. These more affluent residents and new residents expected to move into Downtown will demand a variety of housing products. With an increase of 30,000 people aged 45 and above (i.e. empty nesters and senior citizens) expected in Durham County over the next 20 years, condominium units and senior housing facilities are likely to be in demand and could be suitable for Downtown. Downtown should be able to support the development of 120 to 180 new residential units annually over the next few years. New housing development will also drive additional spin-off uses such as retail and will help to extend activity Downtown well past the end of the business day.

■ **Downtown Durham has a strong tourist market.**

According to the Durham Convention & Visitors Bureau, in 1998, 4.6 million visitors spent \$371 million in the City of Durham. This is twice the number of people that visited Durham in 1990. Visitors come to Durham for baseball games, university events, and conventions; and while the City of Durham has the capacity to host 80%-85% of the nations' conventions, it is hindered by a lack of hotel rooms near the Durham Civic Center. Only 602 of Durham's 6,520 guestrooms are within one mile of the civic center. This is only 25% of the hotel rooms typically located within one mile of a civic center the size of the Durham Civic Center. A greater hotel presence in Downtown would lead to both additional conventions and the possibility of expanding the Civic Center. According to the Durham Convention and Visitor's Bureau, once additional hotel rooms are built within close proximity, another 20,000 to 40,000 square feet of convention center space can be added.



“There are, certainly, ample reasons for redoing downtown - falling retail sales, tax bases in jeopardy, stagnant real estate values. . . it is more to the point to consider. . . what makes a city center magnetic, what can inject gaiety, the wonder, the cheerful hurly-burly that make people want to come into the city and to linger there. For magnetism is the crux of the problem. . . To create in it (Downtown) an atmosphere of urbanity and exuberance is not a frivolous aim.”

- Jane Jacobs

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The tourist market plays a significant role in driving additional development opportunities in and around Downtown and should not be overlooked. Although much of the tourism-related activities and destinations are scattered throughout the metropolitan area, Downtown redevelopment can be significantly shaped by this market sector. Surveys conducted by the Durham Convention and Visitor's Bureau indicate that residents and visitors continue to have positive experiences in Durham, despite negative perceptions that may be portrayed by those outside of the city. Not only has the number of visitors to Durham doubled over the past ten years, but the total spending by tourists has also doubled during the same time period, jumping from \$186 million in 1989 to over \$371 million in 1998. In addition, tourism generated additional “spin-off” consumer spending of \$226 million in 1998. Visitor and tourism related jobs in Durham County increased from 5,270 to 10,528 from 1989 to 1998, now representing one out of every 14 jobs in the local workforce. Furthermore, state and local tax revenues from tourism increased from \$12.5 million in 1989 to over \$27 million in 1998, of which \$10.2 million remained local.

Currently, Downtown Durham contains 9,000 workers during the day, yet estimates from the Durham Convention and Visitor's Bureau indicate that nearly as many people pass through Downtown at night, because of Brightleaf Square, the Durham Bulls Athletic Park, Carolina Theater, and Arts Council school. Special events such as CenterFest, Bull Durham Blues Festival, and Light Up Durham bring additional people Downtown. Current projects, including the multi-modal transportation center, the American Tobacco Trail, Durham Central Park, and West Village, will continue to add new critical mass to Downtown and help drive future demand for new retail and entertainment-oriented uses.

Key Market Analysis Findings

- The population within approximately three miles of Downtown will increase by more than 3,200 people over the next five years.
- Median income levels of Downtown residents are lower than the citywide average, but are growing at a faster rate.
- Over the next five years, Downtown should capitalize on the potential of attracting additional restaurants and entertainment venues.
- Downtown can absorb between 52,000 s.f. and 78,000 s.f. of new commercial office space per year over the next five to ten years.
- The Downtown area could absorb 120 to 180 new housing units annually.
- Residential condominiums present a strong market opportunity in Downtown.
- Additional hotel rooms will be needed to drive future Civic Center expansion.
- The City of Durham can influence existing market dynamics to allow Downtown to capture a larger share of regional growth.