



VILLAGE PLACE PROJECT IMPLEMENTATION

A report of Phase 1 Findings
Development Concepts, Inc.
April 9, 2013

Recap / Overview

- Development Concepts proposed to work with Village of Pinehurst on a process to implement the NewCore (now Village Place) Master Plan
- The process is designed to update development analysis and assumptions, work the community and council for an approved development concepts that are economically feasible, and solicit/recruit a developer or development partnership.
- In 2012, the Village approved the first phase of this process, intended to conduct necessary “due diligence” to examine whether a development project or projects would be possible



Credit: NewCore Master Plan

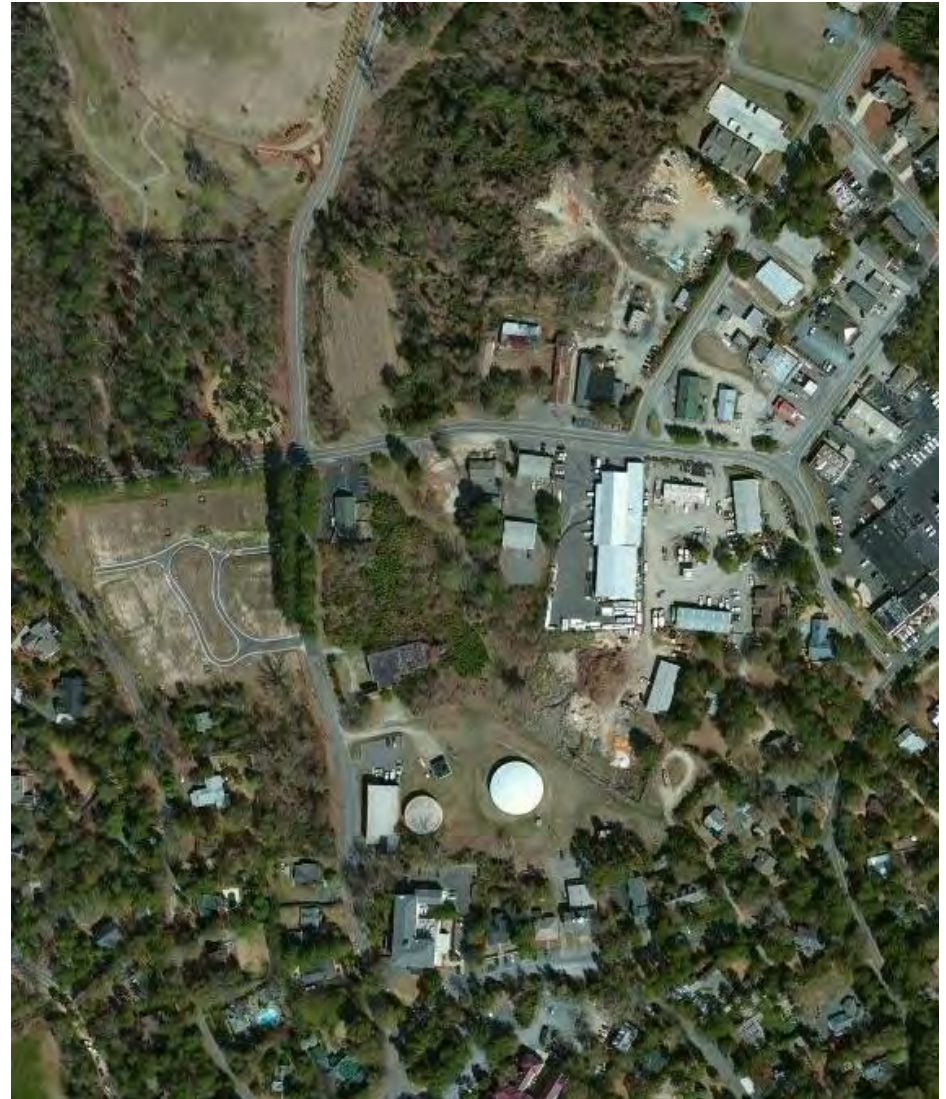
Overview

DCI's assignment included the following:

- 1. *Key property inventory and outreach*** – survey the property within the Village Place project area and determine if enough land could be assembled for an appropriate redevelopment project given willing ownership and the ability to assemble contiguous parcels
- 2. *Infrastructure and relocation plan*** – research designed to understand and document the feasibility of including publicly owned properties within the project area, including the relocation of existing uses
- 3. *Market Assessment*** – update the market “reconnaissance” conducted during the original master plan and determine opportunities within core market areas including residential, retail,

Property Inventory & Outreach

- Objective: *determine whether enough land can be assembled for a development project.*
- Talked with 11 owners or owner's representatives of 18 parcels within or adjacent to NewCore study area
- Conducted review of past and current planning relative to the project, toured project area multiple times






Property Inventory & Outreach

Finding #1

- Approximately 20 acres of property can potentially be assembled for a 1 or more development projects. This area will be referred to as the “*primary project area*”
- There is an additional 11 acres of land that could potentially be added into the primary project area.
- Approximately 3.5 acres within the project area have buildings that should be incorporated, but are unlikely to be redeveloped.



Preliminary Project Area

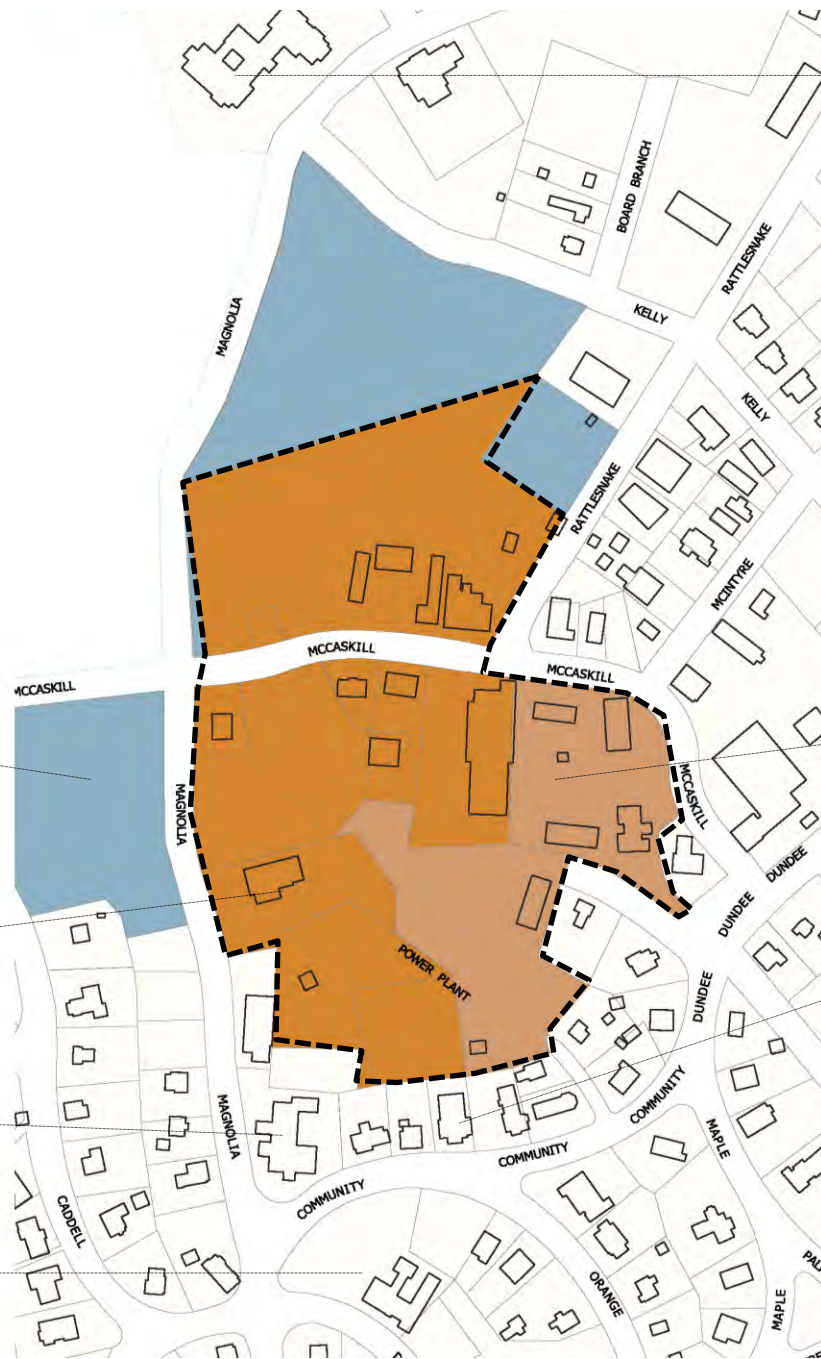
-  Property in Preliminary Project Area
-  Village owned property in project area
-  For Consideration as inclusion into the project area

"Traditions" Site

Steam Plant

Manor Inn

PineCrest Inn



Village Hall

Village Public Services

Old Fire Station

Property Inventory & Outreach

Finding #2

- The NewCore / Village Place project area has shifted to the north.
- This is likely to result in an adjustment of some previous development assumptions



Property Inventory & Outreach

Ridge

Topographical change separates southern and northern parts of the block

County Owned Land

Costly and difficult to move water tanks

Existing Users

Southern portion of the site made up of contributing users, existing built fabric is strong and reflective of rest of Pinehurst



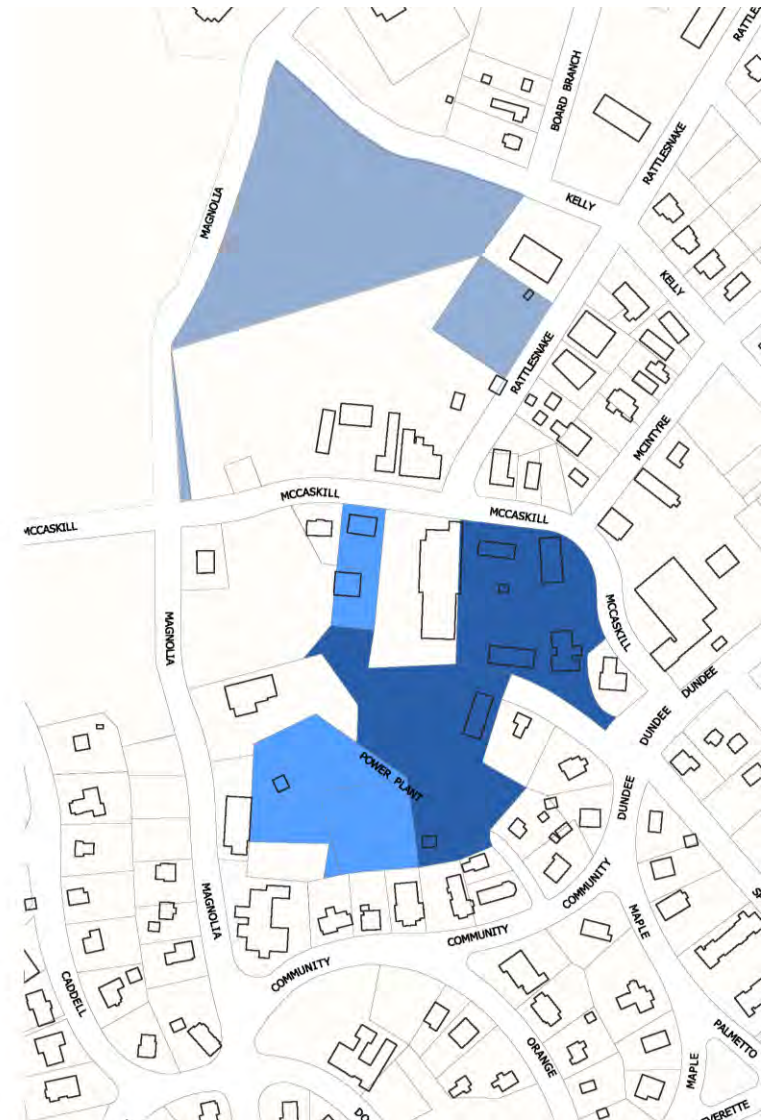
Infrastructure & Relocation Plan

Village Owned Property

- Used by public services – new property for use acquired and plans in place to move.
- ~6.5 acres of vacant or leased land to the north of the project area that should be considered for inclusion.

County Owned Property

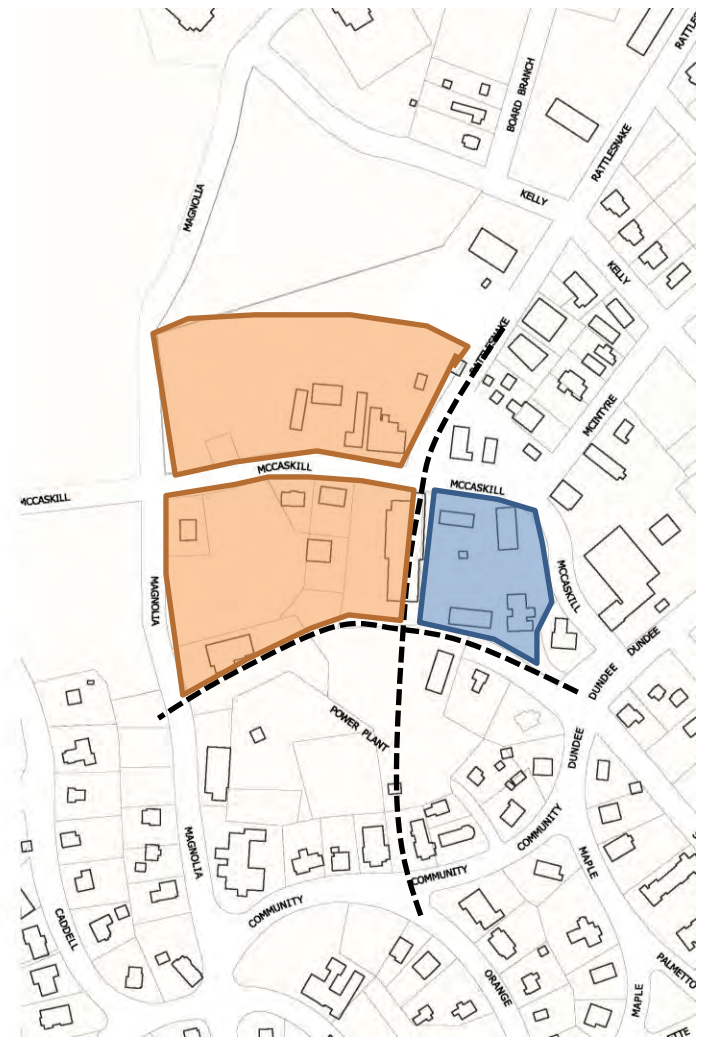
- Existing well can be moved if better location is found, but water tanks are expensive to move.
- Public Safety office (Rescue Squad property) willing to update building or relocate if better site in the area is found



Infrastructure & Relocation Plan

Findings

- Public Services property not a “critical path” site for Village Place development – located apart from other development opportunities
- Separation enhanced if proposed road networks from master plan are put into place
- This property can be later phase, allowing Village to plan property for relocation to new site
- BUT – relocation is still important – uses are non-compatible with future development and can hinder lease-up/sales
- Strategy to incorporate the county water tanks and improve security seems most appropriate in the short-term.
- Strategy to re-locate county public safety facilities needs to be a priority.



Market Assessment

- Objective: *Were core assumptions made during Master Plan phase correct, how have they changed, and is there opportunity for development within the project area?*
- Data collected from primary and secondary sources – 13 interviews with brokers and others involved in regional real estate / economic development
- Availability of secondary sources traditionally used to track markets in larger cities not as prevalent

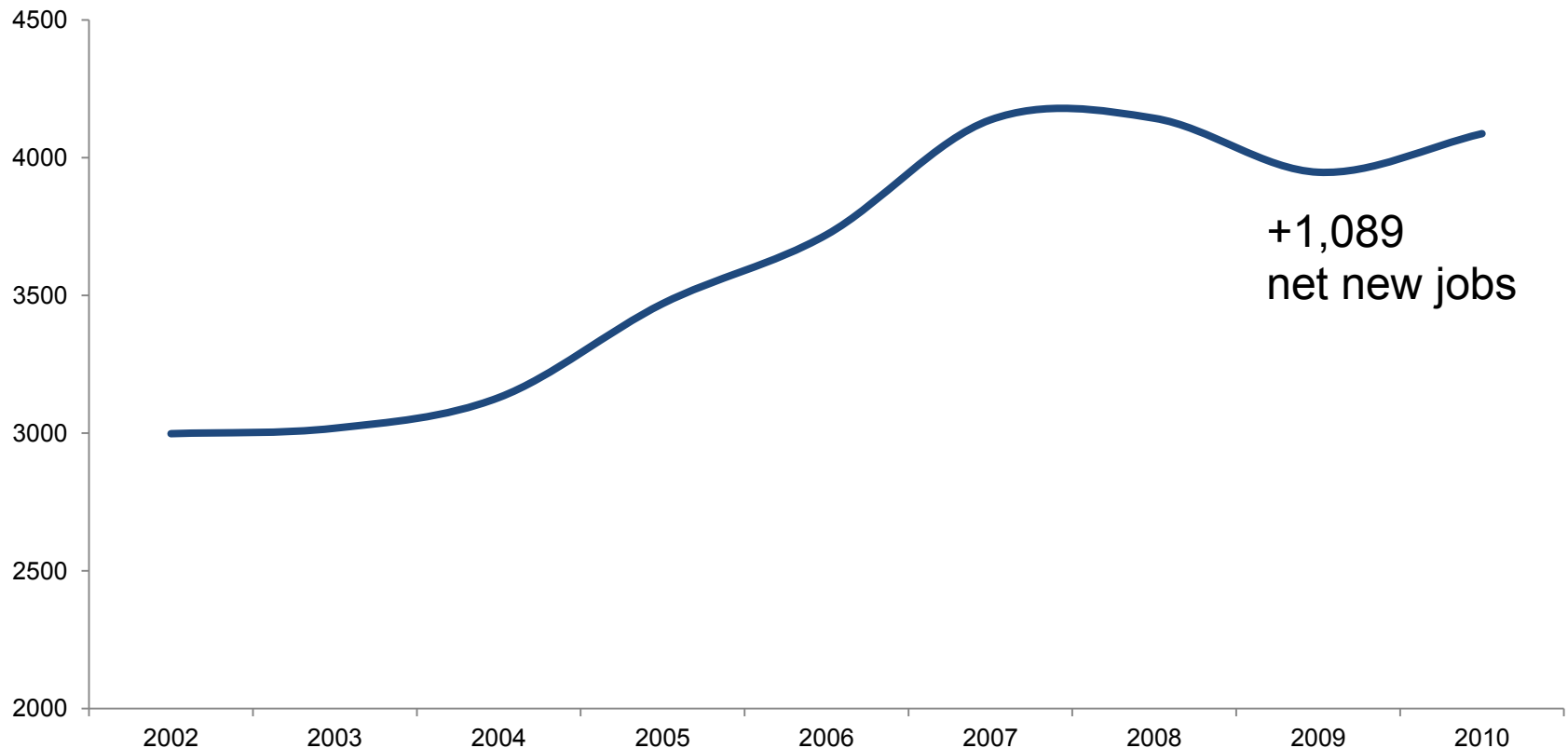
Market Assessment – Office Market

- Commercial office market is strong, with high occupancy
- Undersupply of Class A space, particularly in the Pinehurst sub-market
- Medical office space has grown significantly over last decade, and the medical campus along Route 211 is running out of space for new development
- Large portion of the office market leases between \$15-18 / square foot

Market Assessment – Office Market

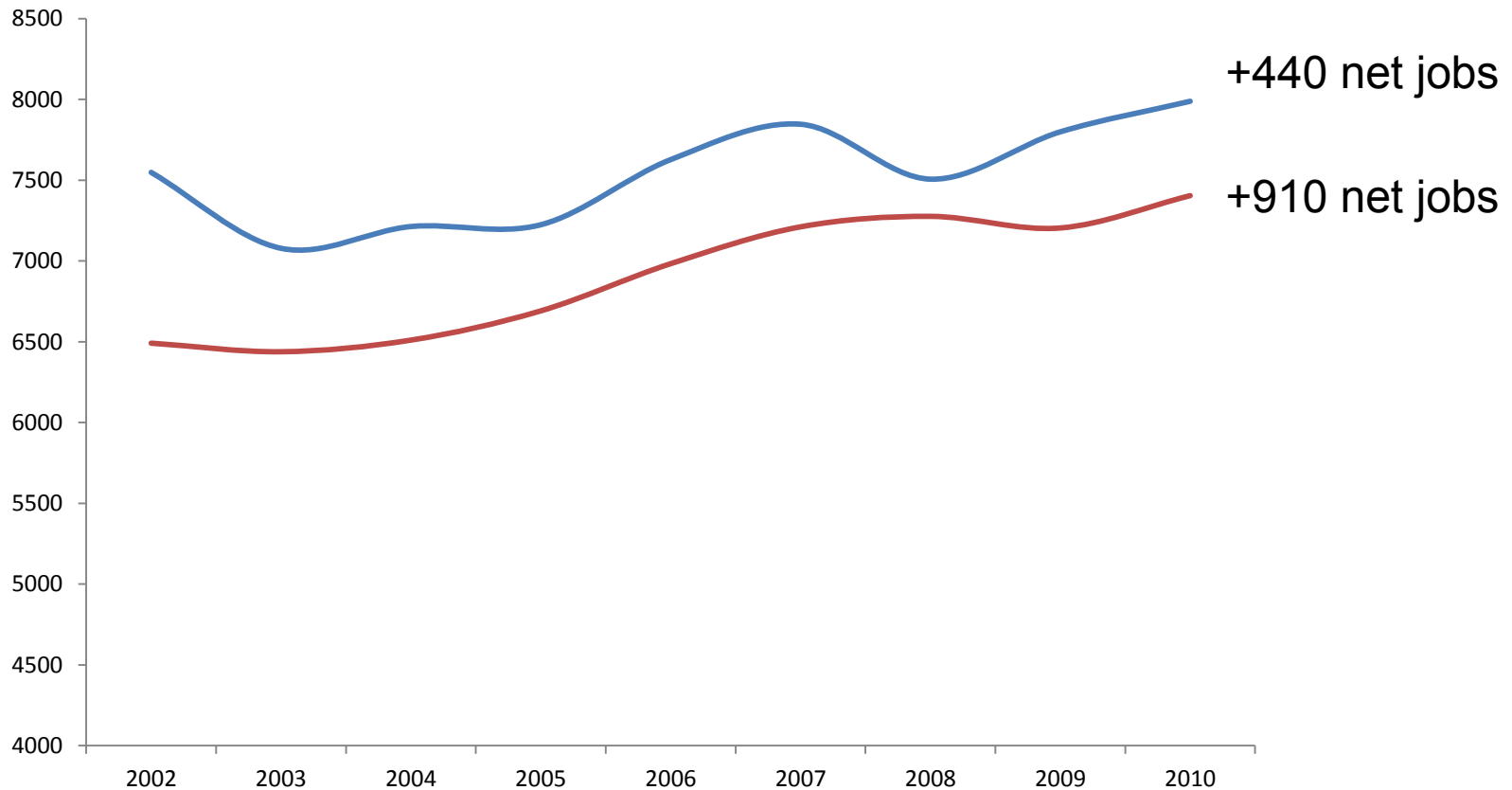
Office related employment rose 36% between 2002 and 2010

(Information, Finance & Insurance, Real Estate, Professional & Technical Services, Management of Companies, Administrative Services)



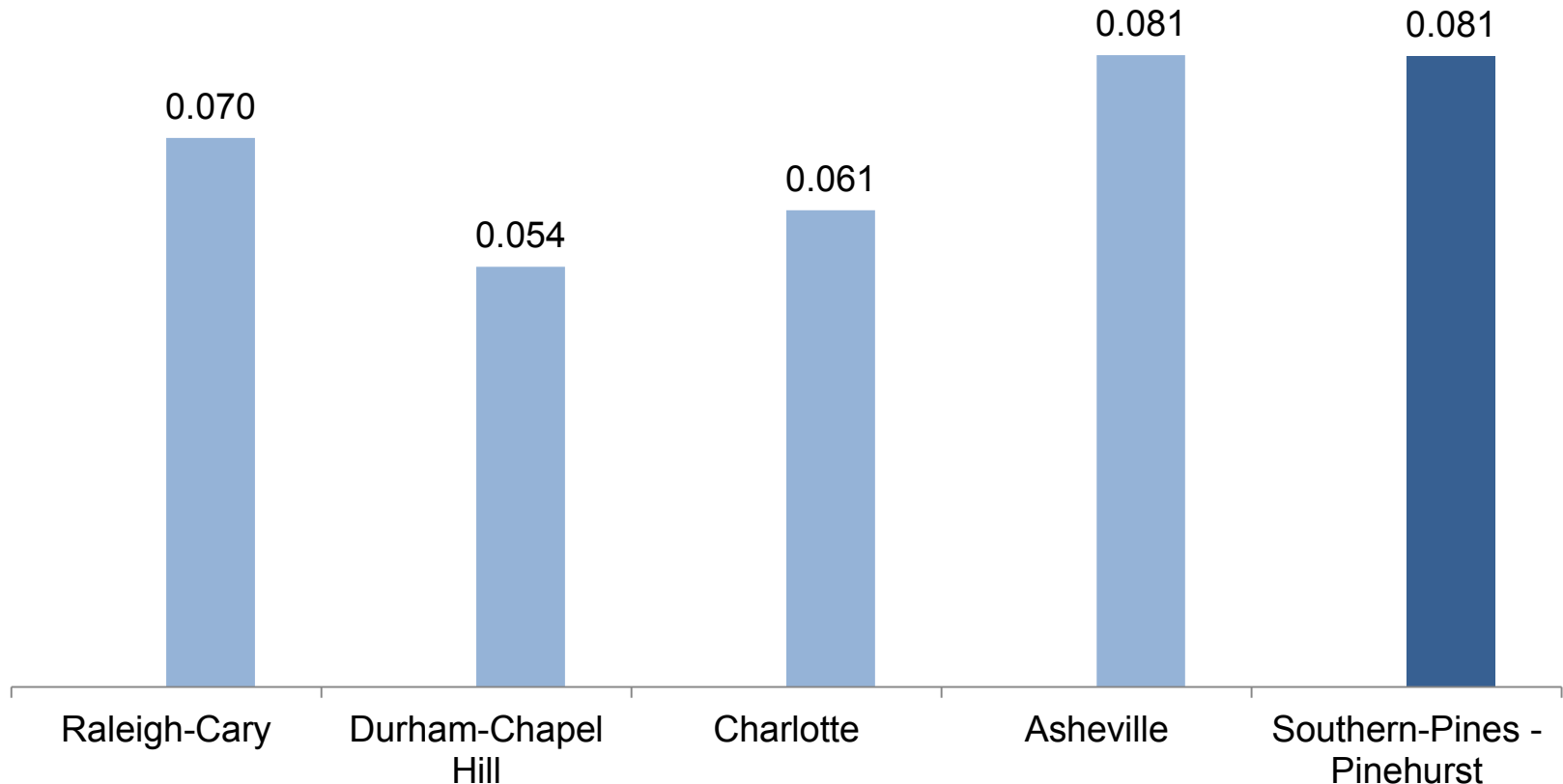
Market Assessment – Office Market

Health Care employment rose 5-15% between 2002 and 2010
Employment for Physician's offices rose 22%



Market Assessment – Office Market

The Southern Pines-Pinehurst Micropolitan Area has one of the highest establishments per employee in the state – indicating it has a high concentration of small businesses



Market Assessment – Office Market

POTENTIAL ISSUES

- Price point – despite demand for new, high quality space, there may be a gap in what office tenants are willing to pay vs. the cost to provide the space
- The ability to draw medical office tenants to the property
- Absorption – aggressive capture of employment growth only yields incremental (5,000 – 15,000 sf) space

POTENTIAL SOLUTIONS

- Integration with other uses like retail to offer an amenity to office users
- Partnerships with economic development efforts that support small business incubation / acceleration
- Specifically target medical professional office as primary tenants, as well as banks / other service businesses that may wish to move from Village Core

Market Assessment – Retail Market

- Southern Pines-Pinehurst-Aberdeen not only a growing micropolitan area, but is a market for several hundred thousand residents in surrounding counties.
- With only the Village Core / Old Town and Olmstead Village / Central Park South as supply (in Taylortown) the Pinehurst sub-market is significantly underserved
 - (retail demand leaks to Southern Pines/Aberdeen)
- Retail Supply:
 - Village Core \$15-18 / sf (\$20-22 appears to be top of the market at the moment)
 - Downtown Southern Pines - \$15-20 / sf
 - Olmstead Village - \$18-25
 - Regional retail on US1 / 15-501 - \$20-40 / sf

Market Assessment – Retail Market

- Resident Supply / Demand - 2 Miles from Project Site

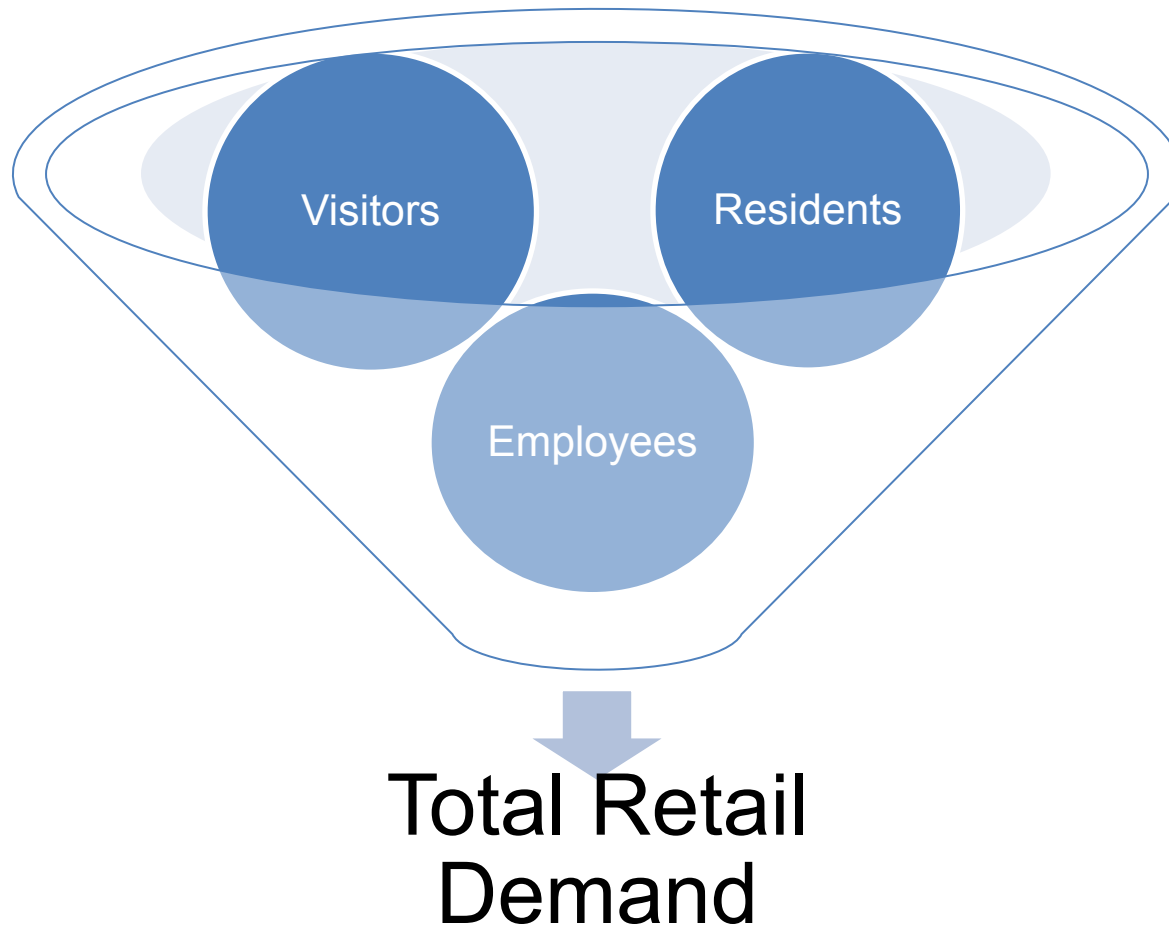
Category	Demand	Supply	Gap
Food & Drink	\$21.5 million	\$25 million	\$(3.5 million)
Retail Goods	\$67.9 million	\$20.4 million	\$47 million

- Resident Supply / Demand - 3 Miles from Project Site

Category	Demand	Supply	Gap
Food & Drink	\$33.2 million	\$32.6 million	\$600k
Retail Goods	\$110.2 million	\$54.7 million	\$55.5 million

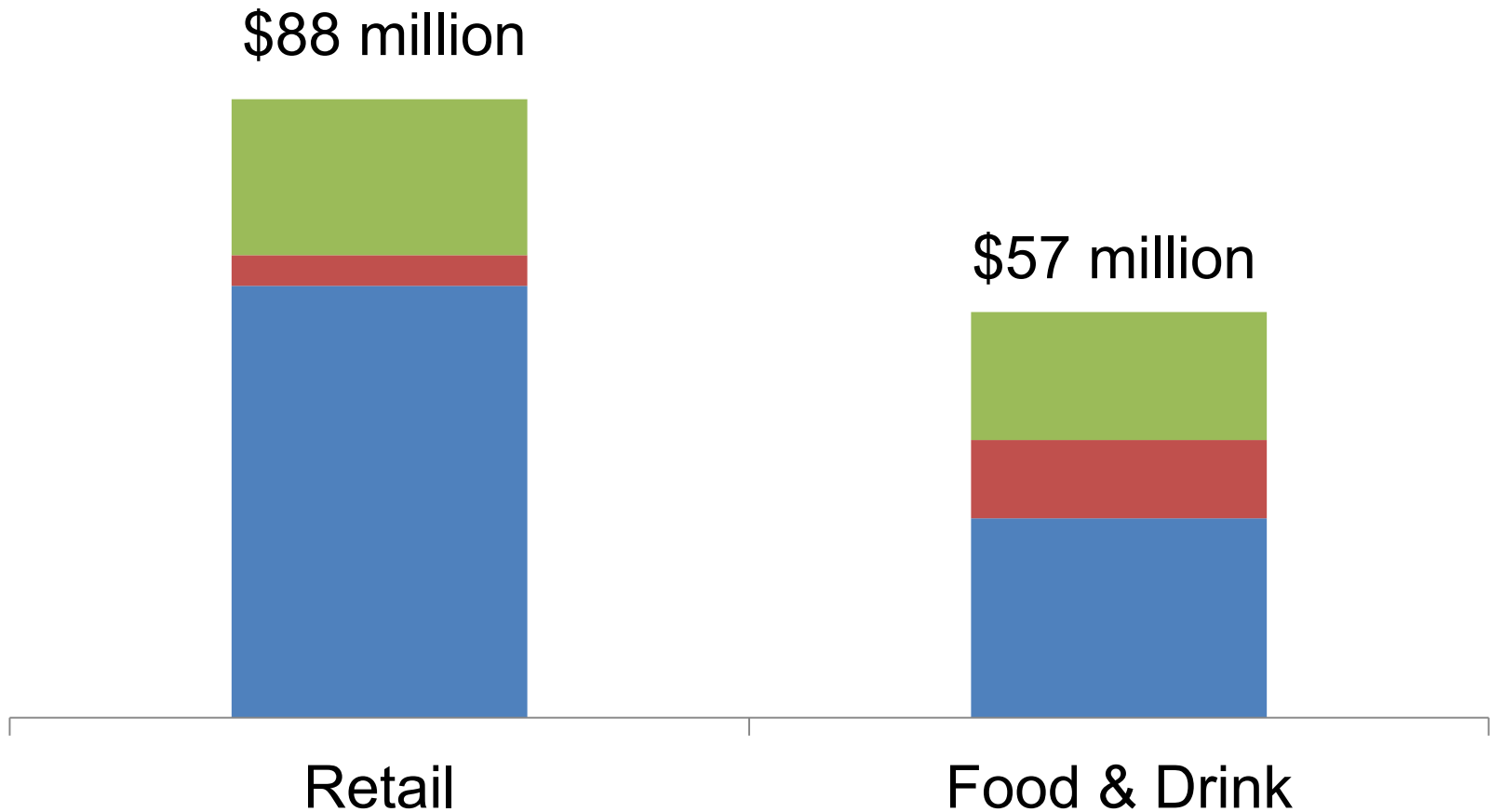
Market Assessment – Retail Market

MERGING MARKETS ANALYSIS



Market Assessment – Retail Market

MERGING MARKETS ANALYSIS



Market Assessment – Retail Market

- Merging markets analysis just shows potential
- Retail demand not being met
- Why? Several Likely Reasons
 - Lack of anchored centers
 - Easier development opportunities for anchors in Southern Pines / Aberdeen – retailers follow anchors
 - Lack of integration with visitor market
 - Local (Pinehurst) retail not located in accessible / visible location
 - Lingering impacts of the recession

Market Assessment – Retail Market

- Can Village Place capture opportunity and enhance existing business offerings?
- Yes, but there are several likely needs:
 - Integrated housing or office to enhance primary market
 - Anchor businesses or destination uses needed – unanchored retail center is risky
 - Integration with Village Core to create “critical mass” of businesses
 - Signage, ease of access off of arterials and (relatively) easy parking
 - Retail opportunities for businesses that can capture both visitor and resident demand (dining, convenience goods, services)
 - Better connections with visitor market

Market Assessment – Residential Market

- Housing Demand
 - Household formation – past regional population growth with expected growth through this decade
 - Employment growth – recovering from recession, slow but steady
- Proximity to Old Town / resort amenities drives high value real estate and housing – good location for housing
- Clustered / attached product most appropriate for project area

Market Assessment – Residential Market

- **Single Family – Cluster Homes**
 - Suggested opportunity from master plan
 - Appropriate for SF detached market predominate in Pinehurst
 - Very low vacancy in single family detached housing combined with location drive high opportunity
 - Alone, density / price points of detached housing may not be enough to support likely cost of land
- **Multi-Family Rental**
 - Very low regional supply in high quality, mid-market or luxury apartments, or rental projects at scale to support amenities the market looks for
 - Estimated 5 year regional (Southern Moore County) demand for ~ 780 – 830 rental units
 - Virtually non-existent in Pinehurst, growing need for rental product near growing employment centers like First Health

Market Assessment – Residential Market

- Condominium / Townhome

- Sales per square foot equal to detached housing despite majority of supply being 30-40 years old and (partly) in poor repair
- Old Town sales are top of the market, indicating higher value closer into Village
- Downtown Southern Pines driving growth in sub-market, also indicating local potential
- Key demographic target (older households / empty nesters) suggest opportunity for flats over townhomes (single story product) but market needs to be studied more.
- Interviews indicate demand for product, but price point needs to be right (\$250,000 - \$400,000) and density is likely an issue for approvals (i.e. Traditions property)

Market Assessment – Residential Market

- Housing is likely the “keystone” use – the best opportunity, the use best able to stand on its own (apart from other uses), and needed to support other uses because of lease/sales rates
- Several potential hurdles:
 - *Absorption* - 50% capture of expected market growth is only 20-40 units annually, meaning that additional market may need to be captured from the region
 - *Cost of property acquisition* - land value could be high, meaning density, high price point, or both is required to make project feasible
 - *Political approvals* - one of the largest hurdles mentioned during interviews was approvals – specifically the Village Council’s willingness (or unwillingness) to allow certain product types and densities. Lack of predictability will mitigate development potential

Conclusions

- Enough land to support one or multiple development phases
- The relocation of Village owned uses will not be a hindrance to short-term development
- Difficulty / cost of moving County owned water tanks adjusts project boundary further to the north than previous development concepts
- Opportunity in three key real estate markets to believe that a project will be supportable, additional data collection as project moves forward will enhance feasibility analysis
- Village should examine relocation opportunities for the County Public Safety offices

A VILLAGE PLACE PROJECT IMPLEMENTATION

Appendix: Market Assessment

A detailed assessment of market potential for the Village Place development initiative.

DRAFT April 2013



PREPARED FOR:

The Village of Pinehurst
395 Magnolia Rd.
Pinehurst, NC 28374

PREPARED BY:

Ian C. Colgan, AICP
Principal

Development Concepts, Inc.
1236 East 16th Street
Indianapolis, IN 46201



TABLE OF CONTENTS

INTRODUCTION	
1.0 HOUSING	3
2.0 RETAIL	16
3.0 OFFICE	25
4.0 HOSPITALITY	30
5.0 SOURCES	35

INTRODUCTION

OVERVIEW

In January of 2013, the Village of Pinehurst contracted with Development Concepts, Inc. to perform professional services to examine the feasibility of the proposed Village Place / NewCore development project as proposed in the 2008 NewCore Master Plan. This report summarizes the findings and recommendations relative to the initial phase of this work - a "Due Diligence" phase intended to study three critical path items in order to determine whether further time and investment was warranted to move this project forward.

The Due Diligence phase includes three specific tasks:

- 1) *Key Property Inventory and Outreach* - survey the property within the Village Place project area and determine if enough land could be assembled for an appropriate redevelopment project given willing ownership and the ability to assemble contiguous parcels;
- 2) *Infrastructure and Relocation Plan* - research designed to understand and document the feasibility of including publicly owned properties within the Village Place development area, including the relocation of existing uses;
- 3) *Market Assessment* - update the market "reconnaissance" conducted during the original master plan and determine opportunities within core market areas, including residential, retail, office and hospitality.

This document is an appendix for task 3 - Market Assessment - intended to provide a more detailed review and analysis relative to the four core markets studied for the Village Place project: Housing, Retail, Office and Hospitality.

THE PROJECT SITE

The Village Place project site consists of approximately -20 acres of property fronting McCaskill Rd, to the north of the Village Core or "Old Town", and directly to the south of the Village government center. Its location and proximity to key Pinehurst landmarks, including demographics within a 1, 2, and 3 mile radius are illustrated on page 4.

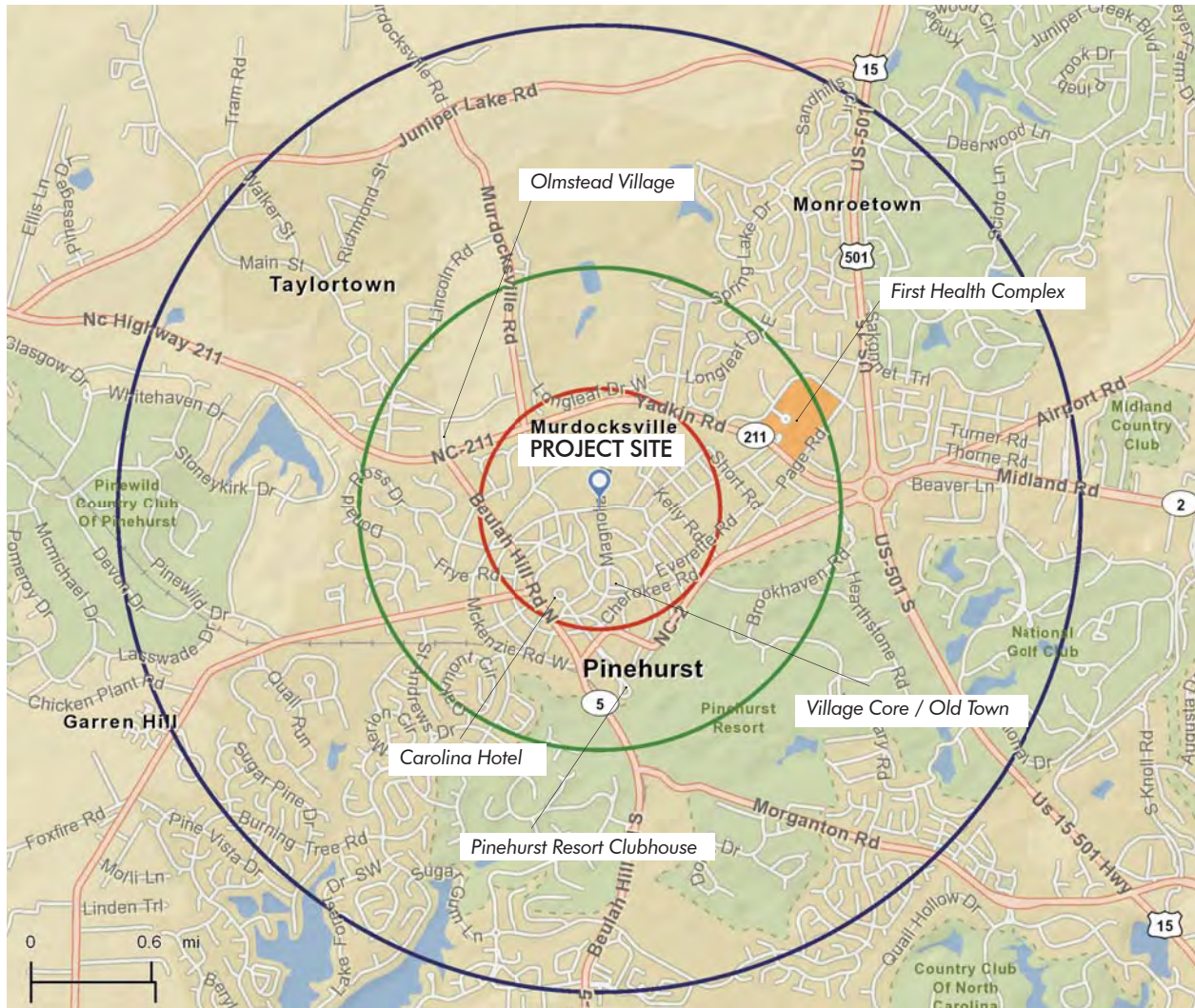
SUMMARY OF MARKET ASSESSMENT

This market assessment is summarized in the Summary Report delivered to the Village Council. A summary table of this market assessment can be found on page 5, with conclusions for individual markets found in each sub-section.

DISCLAIMERS

This market assessment was put together between January and March of 2013. It was created using the best information available from publicly accessible sources, interviews with real estate professionals in the Pinehurst and Southern Pines region, and any local information provided through those sources. The conclusions are based on this information, and the general understanding of real estate analysis and local market by the analyst. In some cases, it is noted where additional research may be necessary to better determine market absorption relative to a proposed real estate development project.

PROJECT SITE DEMOGRAPHICS



	1/2 MILE	ONE MILE	TWO MILES
Population	722	2,580	10,025
Households	308	1,156	4,676
Median Household Income	\$69,875	\$60,159	\$57,264
Per Capita Income	\$42,124	\$36,206	\$34,499
Median Disposable Income	\$53,160	\$49,641	\$46,722
% of College Graduates Aged 25+	28.8%	37.1%	38.2%
Employment	3,061	6,516	9,967
Professional Employment	388	616	1,089
Medical Employment	263	2,833	4,521
Hotel Rooms	508	608	752

Source: US Census, ESRI Business Analyst

SUMMARY OF MARKET ASSESSMENT

This chart summarizes the market potential for Village Place, combining opportunity with risk associated in the short-medium and long term.

lower risk
 some risk
 higher risk

	Short-Term (1-3 Years)	Mid-Term (3-5 Years)	Long-Term (5-10 Years)	
Single Family Housing (Detached - 6-12 units per acre)				Single family vacancy is extremely low, and housing in proximity to the Village Core is in high demand
Single Family Housing (Attached - Townhomes - 10-25 units per acre)				Only 1/3 of condo market has 3+ bedrooms, and many others are duplex/triplex product with 1 story living. 2-3 story townhome product needs more testing in the market
Single Family Housing (Attached - Condominium/ Flats - 15-30 units per acre)				All recent condominiums sales in Old Town Pinehurst are 1-2 bedrooms and sell for double the price per square foot of the rest of the market.
Multi-Family Rental (15-40 units per acre)				High demand for good quality, mid-level to luxury apartments throughout market.
Commercial Office Space				Strong demand potentially tempered by mis-match in cost to supply space vs. willingness to pay Class A prices. Small biz support greatly increases feasibility.
National Retail Anchors (Grocery, Pharmacy, etc.)				Location off of major arterial drastically limits ability to draw national tenants. Recruitment will need work.
Small retail / service businesses				Strong potential for retail, but a anchor / destination use is needed to support more than a token amount of storefront space.
Hotel				Risky proposal considering density required and proximity to the Resort - better locations in the regional market.

FIGURE 1.1: POPULATION GROWTH AND PROJECTIONS - MOORE COUNTY, SOUTHERN MOORE COUNTY & VILLAGE OF PINEHURST

Source	1990	2010	2017 Projected	2020 Projected	Projected Future Annual Growth	Projected Annual Households
Moore County						
ESRI Business Analyst	59,005	88,247	99,165	n/a	1,560	666
State of North Carolina			n/a	97,181	893	382
1990-2010 Growth Trend			n/a	n/a	4,412 ¹	1,886
Southern Moore County Urban Cluster²						
ESRI Business Analyst	22,214	36,795	43,630 ³		686	319 ⁴
State of North Carolina	(38%)	(42%)		42,760 ³	393	183
Village of Pinehurst						
ESRI Business Analyst	6,238	13,124	14,875 ³		234	35 ⁵
State of North Carolina	(11%)	(15%)		14,577 ³	134	20
1 - both ESRI and the State estimates have growth in Moore County to be much slower than the past twenty years, thus future projections based on past growth are deemed to be an outlier and the other two used for the Urban Cluster and Village geographies.						
2 - The Southern Moore County "Urban Cluster" is a geography compiled for this report to represent the urban population center of Moore County, consisting of Pinehurst, Southern Pines, Aberdeen, Whispering Pines, Taylortown and Pine Bluff.						
3 - Population projections taken as a percentage of county growth projections - Urban Cluster = 44% of county (assuming ongoing growth in percentage of total population) and Pinehurst = 15% of county (assuming no growth in percentage of population).						
4 - Household Demand uses Urban Cluster average household size of 2.15						
5 - Household Demand uses Pinehurst average household size of 2.01.						
Source: US Census, State of North Carolina, ESRI Business Analyst and DCI Analysis						

FIGURE 1.2: SHIFTS IN AGE COHORT 1990-2017, VILLAGE OF PINEHURST

Age Cohort	Percentage Growth				Numeric Growth				
	1990	2000	2010	2017	1990	2000	2010	2017	90-10
	6238	9706	13124	14273	6238	9706	13487	14273	
0 - 4	3%	3%	4%	4%	181	320	566	571	212%
5 - 9	3%	3%	5%	4%	206	301	607	614	193%
10 - 14	3%	3%	5%	4%	168	330	607	614	266%
15 - 24	6%	4%	5%	5%	362	369	728	685	89%
25 - 34	9%	8%	7%	7%	530	728	998	999	78%
35 - 44	9%	9%	10%	9%	543	893	1322	1313	151%
45 - 54	8%	11%	11%	9%	468	1068	1403	1313	195%
55 - 64	18%	16%	15%	16%	1107	1582	2158	2312	83%
65 - 74	29%	22%	18%	21%	1821	2106	2468	3054	28%
75 - 84	11%	17%	14%	13%	674	1611	1713	1841	165%
85 +	3%	4%	6%	7%	206	388	890	971	302%
Source: US Decennial Census 1990, 2000, 2010 and ESRI Business Analyst									

1.0 HOUSING

1.1 OVERVIEW

Demographic trends point to opportunity in several housing types, but there are also several hurdles that need to be addressed in order to deliver successful housing on the Village Place site. The first is absorption - the capture of 50% (a high rate) of local market growth will only result in 20-40 units, meaning that additional market may need to be captured from the region, and any planned units will need to be very precisely positioned within the marketplace to prevent long-term carrying costs. This may impact the economics of a project.

The second is property acquisition. As discussed above, land value in Pinehurst and surrounding areas have risen fast enough to make the construction of middle market units (\$200,000 - \$400,000) very difficult. The best way to accommodate this is through density, which may be difficult to sell to the community. Third, one of the largest hurdles mentioned during interviews was approvals - specifically the Village Council's willingness (or unwillingness) to allow certain product types and densities. The unpredictability of the approvals process is not only a hurdle to consider moving forward, but is likely a major reason why many similar types of housing projects have not been recently built within Village limits and subsequently why it is difficult to examine in detail the potential for these housing sub-markets.

1.1 DEMOGRAPHIC TRENDS

There are two notable demographic trends that will influence the Pinehurst housing market in the near future. The first is the on-going growth of Moore County and communities within. The county grew by 29,242 people between 1990 and 2010 - a 50% growth rate. This spurred demand for more than 16,500 housing units over the same time span. The Village of Pinehurst shared in this growth, expanded from 6,238 people and 2,900 households in 1990 to 13,000 people and 6,000 households in 2010. Demographic projections from ESRI and the State of North Carolina project further growth throughout the 2010s. A range of each projection calls for a population between 97,000 - 103,000, with an annual population growth of between 900-1,600 residents. This growth rate will certainly have an impact on Pinehurst as the Southern Moore County region grows, regardless of how much of this growth the Village itself captures.

The second major trend is the growing number of younger households in Pinehurst over the same time period. In 1990, 61% of Pinehurst residents were aged 55 or older, following the Village's history as a resort and popular retirement area. In 2010, the percentage of residents aged 55+ dropped slightly to 53%, but the growth of the town has seen large increases in younger households - primarily family households. The number of children aged 0-14 in Pinehurst grew from 555 in 1990 to 1,785 in 2010, and the number of residents aged 35-54 rose from just over 1,000 to 2,725. Overall growth has drawn in families that have slowly been changing the overall demographics of the Village. However, the senior population is still very much a large part of the community and will continue to be for at least the next decade.

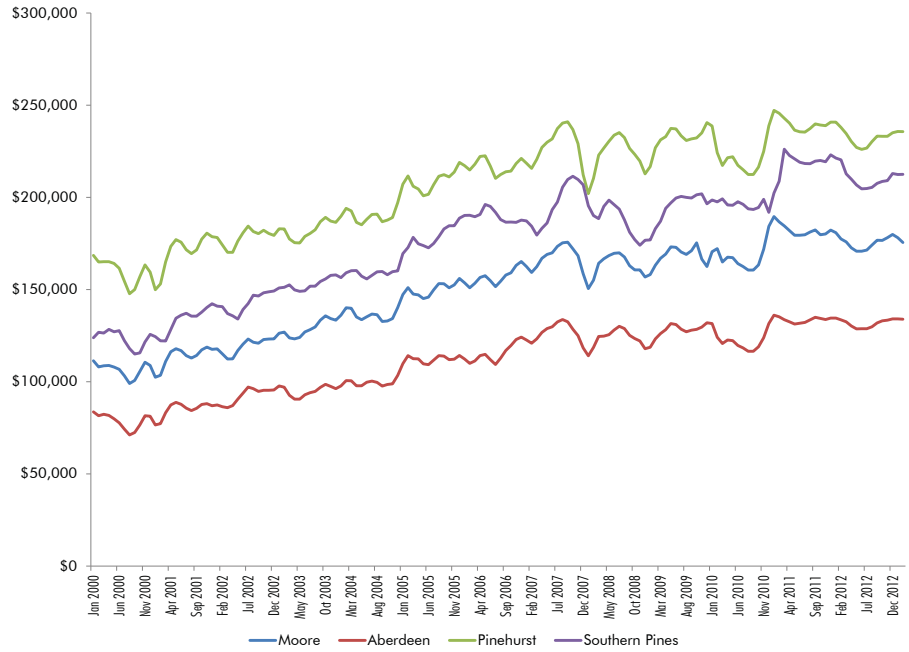
1.2 SUPPLY

The Pinehurst and larger Southern Moore County housing market is predominantly made up of single family, detached homes. 85% of Pinehurst's housing is made up of this unit type - 72% for Southern Moore County. In

FIGURE 1.3: HOUSING VALUE BY MONTH 2000-2013 - SELECTED GEOGRAPHIES

Median Value 2005-2013

Pinehurst: \$226,800
 Southern Pines: \$195,950
 Aberdeen: \$125,300

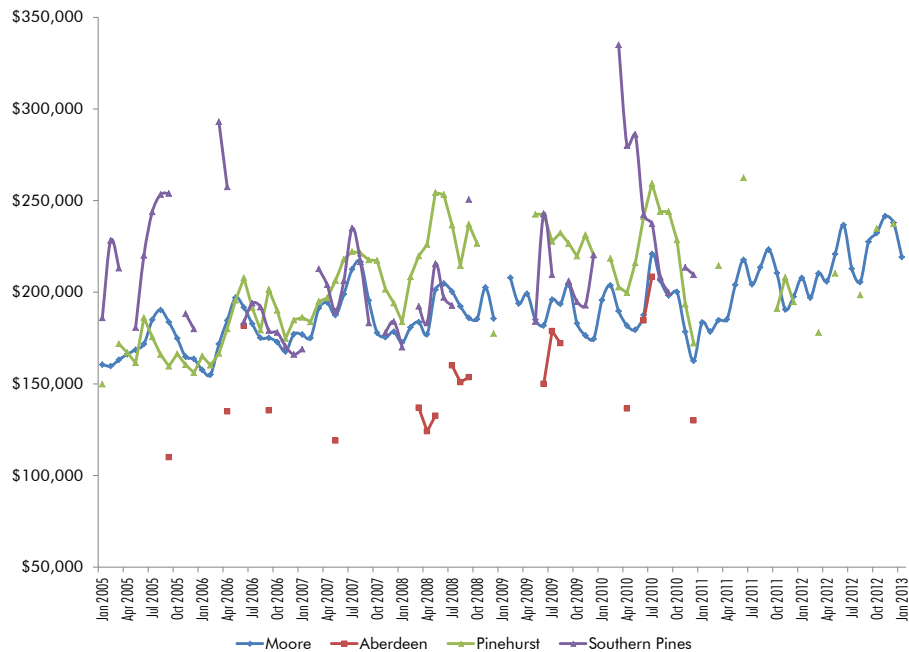


Source: zillow.com*

FIGURE 1.4: MEDIAN HOMES SALES BY MONTH - SELECTED GEOGRAPHIES

Median Price 2005-2013

Pinehurst: \$202,800
 Southern Pines: \$205,050
 Aberdeen: \$143,500



Source: zillow.com*

* note: this report was not able to obtain data for single family home sales in Pinehurst and Moore County. Long-term data from zillow.com is used as a proxy. This data has a relative level of accurate when comparing geographies, though it often is less comprehensive than an mls.

Pinehurst, this translates into a high percentage of owner-occupied homes - 70% - which is 10% higher than the State of North Carolina.

Pinehurst has a very small number of medium to large-scale multi-family developments, with only about 75 units (1%) being located in developments with more than 10 units. The rest of Southern Moore County also has a very low percentage - at 3.5%. The Village was estimated to have added approximately 1,900 housing units between 2000 and 2010, and almost 100% of these were single family detached homes. Unlike other areas of the state, housing construction in Southern Moore County has stayed within the range of anticipated demand. Approximately 4,300 households were formed between 2000-2010 in the "Cluster" of Pinehurst, Southern Pines, Pine Bluff, Whispering Pines, Taylortown and Aberdeen, with a corresponding 4,900 housing units built. Many of these, however, were seasonal units, which rose from 800-1250 units in the region. Both owner-occupied and renter-occupied units have reduced in vacancy throughout the region, which is the opposite of the trend during the 2000s, when housing markets were by and large overbuilt prior to the 2007-2009 recession.

Sales Trends

On average, Pinehurst has long been the highest priced and most valuable housing market among major Moore County communities, with the small incorporated Whispering Pines holding similar but slightly lower owner occupied home value. However, the housing market in adjacent Southern Pines has grown in value considerably over the past two decades, and now stands alongside Pinehurst as one of the region's most valuable housing markets. Both the census and zillow.com estimate that Southern Pines' median home value in 2010 is approximately 85% of Pinehurst's (see Figures 1.4 and 1.5). While still 15% below Pinehurst's overall housing value, for Southern Pines this represents a rise from 58% of Pinehurst's median value in 1990 and 70% in year 2000. Furthermore, home sales data tracked by zillow.com between 2005 and 2013 has the median sales price of homes sold in Southern Pines to be slightly higher (\$205,000) than all of those sold in Pinehurst (\$202,800).

Of course, Pinehurst still owns a notable advantage in high end homes, with over 1,200 housing units estimated with a value of more than \$400,000 according to the Census. This is 25% of all owner-occupied units in the Village and compares to only 740 in Southern Pines.

However, this sum of higher end homes still represents an estimated 20% of all Southern Pines homes. With its rapid growth in both population and housing value, Southern Pines has attracted a considerable amount of momentum towards its housing market over the past decade. This is particularly important relative to Southern Pines' burgeoning downtown district, which has overtaken Pinehurst's Village Core in terms of overall retail offerings and performance. Though limited data was available, reports from market interviews report that housing within proximity of Downtown Southern Pines has increased in demand, and this district

FIGURE 1.5: MEDIAN HOME VALUE - PINEHURST & SOUTHERN PINES 1990-2010

	1990	2000	2012
Pinehurst	\$145,279	\$185,342	\$274,009
Southern Pines	\$85,062	\$130,720	\$235,743
% of Pinehurst Value	58%	70%	86%
<i>Source: US Decennial Census 1990, 2000, 2010</i>			

HOUSING

FIGURE 1.6: OWNER VS. RENTER OCCUPIED HOUSING UNITS 1990-2010

	1990	2000	2010	2017 ¹
Moore County				
Total Units	27,356	35,151	43,940	49,563
Owner-Occupied / For-Sale	18,975	24,857	28,687	31,365
# of Vacant	480	700	641	
% Vacant	2.5%	2.8%	2.2%	
Rental (Non-Seasonal)	5,924	7,554	10,669	11,036
# of Vacant	594	998	1,175	
% Vacant	10.0%	13.2%	10.9%	
Southern Moore Urban Cluster				
Total Units	11,502	14,683	19,868	22,395
Owner-Occupied / For-Sale	7,376	9,781	12,034	13,218
# of Vacant	277	371	423	
% Vacant	3.7%	3.8%	3.5%	
Rental (Non-Seasonal)	3,262	3,691	5,933	5,861
# of Vacant	540	584	708	
% Vacant	16.6%	15.8%	11.9%	
Pinehurst				
Total Units	3,843	5,668	7,634	8,360
Owner-Occupied / For-Sale	2,565	4,123	5,305	5,392
# of Vacant	110	151	190	
% Vacant	4.3%	3.7%	3.6%	
Rental (Non-Seasonal)	784	841	1,342	1,242
# of Vacant	300	303	402	
% Vacant	38%	36%	30%	
<i>1 - 2017 population / household projections by ESRI Business Analyst</i>				
<i>Source: US Decennial Census 1990, 2000, 2010, ESRI Business Analyst</i>				

FIGURE 1.7: REGIONAL VACANCY ADJUSTMENT¹

	1990	2000	2010	2017
Moore County % Vacant	6.9%	10.7%	9.1%	n/a
Urban Cluster % Vacant	10.9%	10.8%	8.6%	n/a
<i>1 - the number of year-round rental units available in Pinehurst was determined to be skewed by the seasonal rental product supply. The Village's rental vacancy was adjusted down to a conservative 15% and the rental vacancy rates for the Urban Cluster and Moore County were adjusted accordingly to better represent regional rental vacancies.</i>				
<i>Source: US Decennial Census 1990, 2000, 2010, ESRI Business Analyst</i>				

FIGURE 1.8: UNITS BY STRUCTURE 1990-2007/2011

	1990	2000	2007-2011	Change	% Total
Pinehurst					
Total Units	3,842	5,738	7,699	1,961	
1 unit, detached	2,612	4,598	6,570	1,972	85.3%
1 unit, attached	296	365	299	-66	3.8%
2 units	61	48	35	-13	0.5%
3 or 4 units	465	338	399	61	5%
5 to 9 units	175	344	320	-24	4.2%
10 to 19 units	62	25	38	13	0.5%
20 or more units	6	8	38	30	0.5%
Southern Moore Urban Cluster					
Total Units	11,505	14,932	17,891	3,499	
1 unit, detached	7,584	10,593	12,937	2,344	72.3%
1 unit, attached	733	1,035	956	-79	7.3%
2 units	406	526	384	-142	2.1%
3 or 4 units	1,089	958	1,310	352	7.3%
5 to 9 units	599	712	1,290	58	7.2%
10 to 19 units	223	162	295	133	1.6%
20 or more units	126	589	334	-255	1.9%

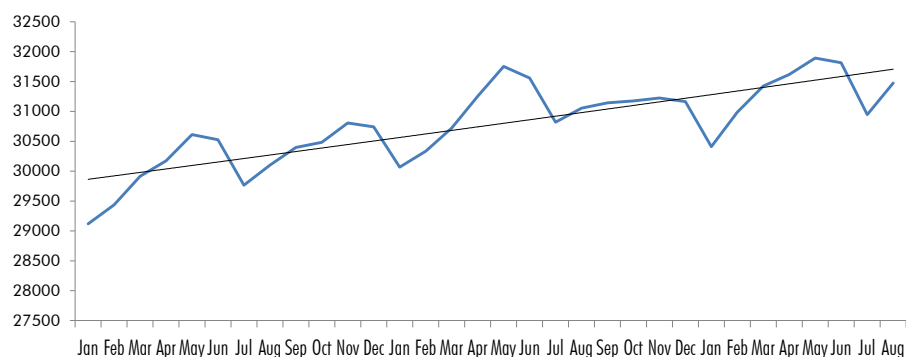
Source: US Decennial Census 1990, 2000, American Community Survey Five Year Estimates 2007-2011

FIGURE 1.9: HOUSEHOLDS AND HOUSEHOLD CHANGE - SELECTED GEOGRAPHIES

	1990	2000	2010	2017	1990-2010	2000-2010
Moore County	23,825	30,713	37,540	42,401	13,715	6,827
Urban Cluster	9,820	12,517	16,836	19,079	7,016	4,319
Pinehurst	2,939	4,510	6,047	6,633	3,108	1,537

Source: US Decennial Census 1990, 2000, 2010

FIGURE 1.10: TOTAL EMPLOYMENT IN MOORE COUNTY BY MONTH 2010 - 2012



Source: Bureau of Labor Statistics

has become a major competitive center for similar types of housing that are the most viable candidates for the Village Place project site.

2.3 DEMAND

Household formation and employment growth are the two primary sources of housing demand from which to assess development potential. As discussed previously, the Moore County / Southern Pines-Pinehurst micropolitan area has grown considerably over the past two decades, and is expected to grow even more over the next, though at a more modest pace. Future projections are based in part on employment growth, which is modest but steady, with most post-recession employment loss re-gained in important growth sectors like professional services, education and medical services. With a steadily increasing total employment base in Moore County, the projected range of 380-670 new households annually seems to be a reasonable expectation for regional housing demand. Assuming that the Southern Moore Urban Cluster absorbs its traditional 38-42% of county growth, the Pinehurst sub-market will be competing for annual demand of 390 - 555 housing units. This includes an estimate of 190-203 units of annual “pent-up” demand for single family ownership throughout the Southern Moore County Urban Cluster. An overview of potential market demand within the urban cluster is below.

FIGURE 1.11: DEMAND ESTIMATES FOR SOUTHERN MOORE URBAN CLUSTER

	Low	High
Household Growth	180	320
Replacement Need	20	30
Pent-Up Demand	190	205
Total Annual Housing Demand	390	555
5 Year Housing Demand	1,950	2,775
Rental Demand	30%	40%
Total Annual Rental Demand	156	166
5 Year Rental Demand	780	830
For-Sale Demand	60%	70%
Total Annual For-Sale Demand	273	333
5 Year For-Sale Demand	1,365	1,665
Historic Pinehurst Capture - Moore County	20%	25%
Annual Demand for Housing	78	122
<i>Source: DCI Analysis</i>		

2.4 OPPORTUNITIES FOR PROJECT SITE

The Village Place project site offers a somewhat different residential opportunity than the overall Pinehurst market, which is primarily (85%) made up of single family detached units. Its physical characteristics and project area orientation are much more suited to higher density cluster or attached product. Therefore, an analysis of housing product like townhomes, condominiums, and apartments is necessary to understand demand potential.

Cluster Homes

The previous market reconnaissance performed as part of the NewCore master plan recommended that clustered, zero lot line patio homes or something similar would be a product type worth considering for Village Place. This report concurs with this assessment, since such a product would be more in-line with past and present expectations of the Pinehurst market, and still offer a similar product as a townhome or condominium / flat. Vacancy for single family, owner occupied units in Pinehurst is estimated to be 3.6% - well-below the equilibrium amount of 5%. Given the high value of properties close to the Village Center, the addition of new single family product is likely to be extremely popular across a wide range of customers despite a more dense, urban configuration.

A popular housing unit that is emerging across the country is the “pocket” neighborhood, which includes small homes sized 800-1,200 feet clustered around common open space and indoor gathering facilities. Other emerging trends include rear-loaded “detached townhomes” which are detached units placed only 5-8 feet apart with limited yard space, instead creating a maximum amount of indoor space with patios or decks and relying upon nearby parks and commercial areas to provide outdoor space. A caveat to this housing type is that it (as well as other housing types) need to be built at a certain density to overcome land costs. Several developments in the region - including the former “Traditions” site have struggled with meeting a price point deemed acceptable by the marketplace which also pays for land, infrastructure and construction costs necessary to deliver the units. Any detached unit will run the risk of being priced out of the market if land acquisition costs are too high.

Multi-Family Apartments

Rental units have historically accounted for a very small (12%) proportion of housing units in Pinehurst. Virtually all new rental product supplied within the region has been in adjacent communities, and what new rental product does exist is found in single family homes that are rented out.

At first glance, the rental market for both Pinehurst and Southern Moore County appears to be weak - with rental vacancies around 11-15%, far above the equilibrium amount of 5%. However, many of the rental units tracked by the census in Pinehurst are not necessarily year-round rentals as indicated. They fall in-between short-term seasonal units and long-term, year-round units. This is common in tourism markets like Pinehurst, Hilton Head or Carolina Beach, which all have disproportionately high percentages of rental vacancy due to this factor. Since Pinehurst’s vacancy impacts the entire region, an adjustment was made by assuming a 15% vacancy rate - still a conservative, high rate for rental vacancy. After this adjustment, the Southern Moore rental vacancy drops to 8%. This may be even lower considering the additional number of mis-allocated rental units, combined with the conservative assumption for rental vacancy in Pinehurst.

This fairly tight rental market is supplied with only 630 units of multi-family housing in developments of 10 units or above, and only 334 units in developments of 20+ units. Thus, the Southern Moore trade area is significantly underserved in high-quality rental units that are of the proper scale to offer amenities like pools, fitness centers, clubhouses, etc. - all preferences of modern renters, a growing market and a market that cannot always be served by rented single family homes, which can be expensive.

Growth projections estimate that Southern Moore Urban Cluster should expect between 780 - 830 new renter households between 2012 and 2017 - 150-160 households annually. At this rate, it will take about 3 years to reach equilibrium for rental vacancy. Regional developers are already seeing the gap in this market, evidenced by the planned luxury apartment complex stated to be constructed on the north side of Morganton Road - 288 units with a clubhouse and hotel-like amenities.

Pinehurst is not traditionally a rental or a multi-family market, but opportunities within this market may offer opportunities for Village Place. Given the cost of land and a likely tenant base from nearby employment centers, like the First Health campus, it is unlikely that any rental units would be affordable or low-quality product, but they would help meet a demand for housing that can appeal to people like nurses, doctors or professionals that want to live in Pinehurst but cannot or are unwilling to commit to a long-term home purchase.

Condominiums / Townhomes

Single family attached product is typically supplied in the form of townhomes to offer a more cost-effective single family home than existing detached product (Wake County is a good example), or in the form of condominium / flats in areas with high levels of amenities, often for elderly couples / empty nester households, or young professionals and couples. The Village Place site offers both market positions, as real estate close-in to the Village center is among the most expensive in the region, and proximity to the Village Core and the Resort within walking distance is a major amenity that can be used to drive housing. A key demographic - empty nester households - are prevalent throughout the market.

The viability of the condominium market is shown, in part by its sales value. Existing condominium product in Pinehurst appears to be valued at a similar price per square foot as single family detached product. Between 2005 and 2013, the median price per square foot for single family homes in Pinehurst was \$117, while the same for condominiums and townhomes was \$119. This is despite the fact that a majority (75%) of the Pinehurst condominium supply is made up of product built in the 1970s and 1980s, much of which is reportedly in poor shape.

Other data from an analysis of condominium sales indicates opportunity. Very little product has been built in the past two decades, and much of the most recent construction are large scale, 3+ bedroom attached homes. The older 1970s product, found in developments like Lakeview and St. Andrews condominiums are largely made up of 1 and 2 bedroom, multi-story units that carry some of the highest sales per square foot among all condo sales - about \$100 - \$180 / sf. Twelve condominium units were sold in Old Town between 2006 and 2013. These units sold for a median price of \$212,000 and \$198 per square foot, indicating a strong market for units located near the Village Core.

Broker interviews suggest that there is a demand for attached housing units that meets a reasonable price point (\$250,000 - \$350,000), and that similar product is beginning to appear near Downtown Southern Pines. Preferences are likely to be more towards single story product vs. 2-3 story townhomes, simply because of the older demographic which tends to prefer single story living, but good product design may be able to overcome this. Overall, the location of the project site, existing amenities, and ongoing market response to what condominium product exists in the market, all point to a potential condominium market. This potential is enhanced by the potential integration of amenities on-site, including retail, dining and other businesses. Further analysis, including more interviews and field work, is likely necessary to determine more detail relative to specific product types and price points.

2.0 RETAIL

2.1 OVERVIEW

The recent population growth of Southern Moore County has driven a significant amount of retail development as the Southern Pines-Pinehurst-Aberdeen area has not only emerged as an urban cluster of 50,000 people, but it has become a regional “catchment” area for a larger, mostly rural area of central North Carolina, including the balance of Moore County and areas of adjacent Lee, Chatham, Hoke, Scotland, Richmond, Montgomery and Randolph counties. Approximately 450,000 people live within this regional trade area in which the Southern Pines-Pinehurst urban cluster would expect to capture at least a portion of consumer expenditures for retail and dining as opposed to regional centers in Raleigh, Chapel Hill, Fayetteville, Greensboro and Charlotte. Approximately 225,000 people live within a primary trade area in which one would expect Southern Pines-Pinehurst to capture up to 75-90% of all retail expenditures, other than specialty goods found only in super regional and specialty centers in Raleigh or Charlotte.

This regional trade area of 225,000 residents added 15,000 people over the last decade, and is projected to grow by a similar annual percentage over the next 5-10 years. Despite the addition of new retail over the past decade, the Southern Pines-Pinehurst retail market is nowhere near meeting the needs of the region - with a supply of \$500 million in retail sales against an estimated demand of \$1.8 billion, some of which is served through local retailers in rural centers, but much of which leaks to regional and super regional shopping centers in Raleigh, Durham, Greensboro and Fayetteville.

While Southern Moore County serves as the primary retail market for Pinehurst residents, the Pinehurst market itself is significantly underserved. With an annual retail demand of nearly \$90 million for Pinehurst Residents, there is only \$17.5 million in retail supply to match (inclusive of retail properties in Taylortown), meaning that nearly 81% of the retail demand generated by Pinehurst residents is spent outside of Pinehurst or neighboring Taylortown.

2.2 MARKET CHARACTERISTICS

Interviews with those working in commercial real estate indicate that there is high demand for retail in the Pinehurst market since so little supply exists. Apart from existing retail, detailed below, most residents in Pinehurst and surrounding areas must go to Southern Pines or Aberdeen for a large proportion of daily and leisure goods. The majority of the retail supply in the micropolitan area is located in Southern Pines and Aberdeen, where traditional retail strip centers are mostly full and generate average triple net rents of \$24-45 a square foot. There are no retail centers in the region that can be considered regional, or “super-regional” properties by ULI or ICSC. The largest retail center is Pinecrest Plaza, at the intersection of US 15-501 and Morganton Road, with 250,000 sf of space anchored by a Belk’s department store and Food Lion Grocery Store. The second largest is Southern Pines Place, consisting of 200,000 square feet and anchored by a Kohl’s department store and Dollar Tree. This is followed by a free-standing Wal-Mart, and two additional ~150,000 square foot centers at the intersection of 15-501 and US 1.

Downtown Southern Pines is the region's largest downtown / urban retail center. Total square footage is unknown, but the four "main street" blocks are almost entirely occupied, with rents between \$15-18 per square foot, triple net.

2.3 LOCAL RETAIL CENTERS

There is only one retail center within the boundaries of Pinehurst, - the "Old town" or village "core" located along Cherokee Rd, Chinquapin Rd and Market Square. This area has approximately 118,000 square feet of retail, office and dining businesses located in compact, urban cluster setting, 60% of which is located in first floor "storefront" space. According to an inventory of Village Core space during the NewCore Master Plan, about 69% of all Core space was made up of various types of office space, with 23% of the total space in retail goods and personal services, and the remaining 7% in eating & drinking. A little less than 48% of first floor space was retail goods or dining, leaving a considerable amount of storefront retail space taken up by office uses.

This market assessment did not update this business inventory, but the general percentages remain similar in 2013. Current retail lease rates were reported to be in a range between \$15-\$18 / sf triple net, with the exception of the Magnolia Place building, which offers updated Class A space for between \$20-22 / sf. It should be noted that Magnolia Place has yet to lease all of its retail or office space, indicating that lease rates in the \$20 / sf range is above the market for the Village Core.

Immediately adjacent to the Village Place site, there are a small number of dining establishments - including Maxie's Grill & Tap Room, Linda's Cafe and Tater Barn Tavern

A number of retail centers are located just outside of the Village's boundary. The closest are two projects - Olmstead Village and Central Park South, developed by the same developer on the north side of Route 211 in Taylortown. Olmstead Village is anchored by a Lowes Foods Grocery Store and a Rite Aid Pharmacy. Central Park South is an unanchored retail center at the intersection of 211 and Murdocksville Road. The 20,000 square foot center has four tenants - a Jos. A Bank Clothing Store, the Marketplace Restaurant, a Physical Therapy Business, and a Yoga studio.

Available retail indicators suggest that the retail market in Pinehurst/ Taylortown is weak, and perhaps oversupplied. However, the particular circumstances of each retail center must be taken into account. The high vacancy of Central Park South, despite its age (~8 years) suggests, at first glance, that demand for new retail in the Pinehurst market is limited, since it has so much available space and is well-positioned along a major arterial. However, in interviews with the brokers representing the center, it was communicated that the center has had particular problems unrelated to overall demand within the market. It has no anchor, has had transitions in ownership, including foreclosure, was built prior to the 2007-2009 recession, and is old enough to be generally seen as a troubled property throughout the market. It was noted that the existing tenants do very well despite 66% vacancy, and the Jos. A Bank recently renewed its lease,



The Village Core or Old Town (top two photos) is Pinehurst's primary retail center. It is primarily made up of small businesses leasing space for \$15-18/sf. Magnolia Place (top) has had trouble leasing space at \$20-22 / sf. Central Park South (bottom) is a mostly vacant shopping center, but due to factors unrelated to the market, as existing tenants do well and have signed long term leases.

RETAIL

FIGURE 2.1: RETAIL SUPPLY, DEMAND, AND "GAP" FOR SELECTED GEOGRAPHIES

1/2 Mile From Project Site			
	Demand	Supply	Gap
Total Food & Drink	\$1,844,156	\$14,450,860	\$(12,617,771)
Total Retail Trade	\$6,167,611	\$4,989,782	\$821,908
1 Mile From Project Site			
Total Food & Drink	\$6,069,541	\$20,707,195	\$(12,617,771)
Total Retail Trade	\$20,236,876	\$8,852,454	\$(4,156,924)
2 Miles From Project Site			
Total Food & Drink	\$21,533,860	\$25,186,938	\$(12,617,771)
Total Retail Trade	\$71,535,275	\$17,518,067	\$54,017,208
Urban Cluster			
Total Food & Drink	\$59,797,515	\$105,902,186	\$(12,617,771)
Total Retail Trade	\$194,835,498	\$206,148,475	\$(11,312,977)
Moore County			
Total Food & Drink	\$123,563,743	\$146,882,175	\$(12,617,771)
Total Retail Trade	\$407,440,152	\$400,645,559	\$6,794,593
<i>Source: ESRI Business Analyst</i>			

FIGURE 2.2: DEMOGRAPHICS NEAR PROJECT SITE

	1/2 MILE	ONE MILE	TWO MILES
Population	722	2,580	10,025
Households	308	1,156	4,676
Median Household Income	\$69,875	\$60,159	\$57,264
Per Capita Income	\$42,124	\$36,206	\$34,499
Median Disposable Income	\$53,160	\$49,641	\$46,722
% of College Graduates Aged 25+	22%	27.1%	38.2%
Employment	3,061	6,516	9,967
Professional Employment	388	616	1,089
Medical Employment	263	2,833	4,521
Hotel Rooms	508	608	752
<i>Source: ESRI Business Analyst</i>			

something that would be unlikely for the retailer to do if it wasn't profitable at this location.

The Village Core has high occupancy and mid-range rents, but what would normally be considered prime retail space is largely taken up by banks, real estate offices or other professional services and high quality space has difficulty with leasing. However, the Core is also an un-anchored center, and due to its unique planning and layout is not located or easily accessible from major transportation routes or arterials, thus limiting its retail viability. It also has a large number of small and awkwardly configured retail space. The high spending power of Pinehurst residents and proximity to the Resort makes up, in part, for these deficiencies but overall its hurdles limit opportunities to for retail sustainability. Indeed, many shops and restaurants do very well, despite lacking anchor destinations or a critical mass of either shopping or dining.

2.4 PLANNED DEVELOPMENT

There are two projects of note that have the potential to impact the Pinehurst market. The first is a parcel west of Olmstead Village that is owned by Harris Teeter - the grocery chain. In partnership with Argus Properties - a Charlotte based developer - they have proposed a retail project anchored by a ~50,000-60,000 square foot grocery store, including four "outlots" of 1.3-1.7 acres each, retail space attached to the grocery of approximately 11,000 square feet, and freestanding "in-line" retail space of 17,000 square feet. However, plans for this site have been discussed as long as 7 years ago, and to date nothing has been constructed on the site, and there is no certainty as to when or if the project will ever break ground.



Anticipated site plan for the retail / entertainment complex being developed by Lincoln Harris on Morganton Road. The project will include a grocery core and entertainment complex (source: The Pilot)

The second is a multi-phase project proposed for land south of Morganton Road in neighboring Southern Pines. The proposal has the project anchored by a large grocery store and a proposed IMAX theater entertainment complex. The complex will take over the existing Sandhills Cinema 10 and re-name it Frank Theatres, add three more movie screens, and build a new 300-seat IMAX theater. Adding to that will be a 24-lane bowling center, a sports stadium dining room and about a 50- or 60-game arcade with billiards.

2.5 RETAIL DEMAND FOR PROJECT SITE

The retail "leakage" discussed in the overview of this section is only part of the assessment of the retail market for the project site. The Village Place project site is located in an area that can benefit from at least three primary markets for retail and dining expenditures: (1) Local and regional households; (2) Visitors and Tourists; and (3) Employees. To fully analyze the retail potential for the project site, as "merging markets" analysis was performed.

The merging markets model combines two additional factors that goes beyond retail leakage / gap data available through ESRI. First, it integrates additional markets - in this case employees and tourists - to the residential market to get a better sense of what total demand is expected to be, and determine which are

primary markets in order to estimate what type of retailer is more important based on sub-markets for different retail categories. One example would be a restaurant that focuses on lunch vs. dinner since its primary market is employees during the daytime. Another would be a retail center positioned to offer “leisure” items like clothing, sporting goods or shoes that attracts shoppers on a less regular basis as opposed to a “daily goods” center like Olmstead Village which targets the basic goods residents look for on a daily or weekly basis.

Second, the model attempts to take into consideration competitive retail centers and estimate a “capture” rate for certain retail categories. For example, one would expect that Pinehurst could capture market share from Carthage for certain retail activities, but that Southern Pines, Aberdeen and Fayetteville would all also expect to capture market share, and thus Pinehurst cannot expect 100% of retail expenditures from that particular market just because it is near.

A description of each market is below, along with the assumptions used in the merging markets model. It is important to understand that these assumptions represent logical estimates by the analyst based on research conducted as part of this market study, and not firm representations of what precisely the market would respond to. The purpose is to estimate, in broad numbers, the potential demand for the project site. Additional analysis, supplies in this section, is necessary to examine the end result and determine why the site is or is not meeting that estimated demand.

For purposes of analysis, this merging markets model includes *both the Village Place project site and the existing Village Core*. Since it is the intention to try to link these areas, it is difficult to separate the two. Therefore, the analysis estimates total potential demand for any retail offerings in the center of Pinehurst.

Residential Market

Three trade areas were used for the analysis, focusing primarily on area close to the project site and Pinehurst in general. Any anticipated spending potential from the regional retail trade area was isolated for the purposes of this analysis. All numbers came from data collected from ESRI Business Analyst.

1 Mile Trade Area - 1,243 households with an expected capture rate of 90% of total retail / dining demand.

2 Mile Trade Area - 4,558 households with an expected capture rate of 75% of total retail / dining demand.

Southern Moore County - 10,362 households in Pinehurst, Southern Pines, Aberdeen, and smaller adjacent communities, with a mixed capture rate based on the retail leakage of individual retail categories like grocery stores, clothing stores, general merchandise, etc.

Employee Market

Research by the International Council of Shopping Centers found that, in 1989, a typical office worker spends \$1,900 a year on dining, day-time and after-work shopping. Adjusted for inflation to 2013, this equals \$3,550 dollars per worker. This number does not include more detailed figures for dining or retail spending, so the following assumptions were made: (1) Employees would be expected to spend 75% of this amount on food & drinks and the remaining amount on retail goods; and (2) There is a difference between professional office workers and other

employees in goods producing or service industries, who are estimated to spend 50% of what a professional office worker would spend.

In 2012, ESRI estimated that there were 9,967 employees working within 2 miles of the project site and Village core. 1,023 of these would be considered professional positions. The model estimated a 75% capture rate for professional workers and 30% capture for all others.

Visitor Market

Based on data from the Convention & Visitors Bureau, there are 1.17 million visitors to Moore County who (in travel parties) spend an average of \$51.65 per day shopping, and \$66.83 per day dining. The visitor market is broken down into three segments:

Hotel Guests (2 Miles) - Based on an occupancy rate of 55.1% - 151,238 annual room nights and 1.8 people per travel party. 100% capture for shopping, but 60% capture for dining considering availability of dining options in the Pinehurst Resort hotels.

Hotel Guests (Southern Moore County - 350,543 room nights with same occupancy and spending. 15% capture for both shopping and dining.

Day Visitors - CVB estimates 41% of total visitation market to be day visitors, with 30% of all visitors going specifically to Pinehurst, equaling 143,000 day visitors with a 75% shopping capture rate and 50% dining capture rate.

Results

Between these three primary categories, there is an estimated annual demand for \$88 million in retail goods, and \$57 million in food & drink (see Figure 2.4). With only \$18-25 million in retail sales and \$26 million in food & drink sales within Pinehurst and Taylortown, clearly large percentages of potential retail and dining expenditures are leaking outside of Pinehurst. This equates to 75-80% of retail spending and 55% of food & drink spending. A majority of these dollars would be expected to leak to retail and dining options in Southern Pines or Aberdeen, but some may be considered "latent" demand - expenditures that are never actually made due to lack of supply. Since the assumptions in this model are intended to adjust for regional retail options that are unlikely to exist within Pinehurst proper (like traditional big box stores / shopping centers, etc.) this total of \$145 million in retail and dining spending is money that Pinehurst should be able to capture within its boundaries, if the right supply was created.

This demand has likely existed for some time, but there has been little to no retail development within Pinehurst to capture it. Recently built projects like Olmstead Village and Central Park South, and planned developments like the Harris Teeter center show that developers both see and have been able to capture this market - though the development has all (or will) occur in Taylortown, which has both more streamlined approvals and available land along Route 211.

Potential Retail Mix

Proposed developments like the Harris Teeter center and the Morganton Rd retail/entertainment complex will likely absorb some of this demand, but a notable portion of it can potentially be captured within the Village Center given the right circumstances. Residents living within 1 mile of the Village Center, employees working at First Health and other offices nearby, and visitors represent primary

FIGURE 2.4: POTENTIAL RETAIL DEMAND FOR PINEHURST CENTER (VILLAGE CORE + VILLAGE PLACE PROJECT SITE)

	Retail Trade	Food & Drink
Residential Demand		
Primary Trade Area	\$18,213,188	\$6,069,541
Secondary Trade Area	\$38,473,799	\$11,598,239
Regional Trade Area	\$4,775,998	\$10,700,571
	\$61,462,986	\$28,368,351
Employee Demand		
Secondary Trade Area	\$4,377,000	\$11,161,350
Visitor / Tourist Demand		
Pinehurst Hotels / Overnight Guests	\$14,060,641	\$9,096,541
Regional Hotels / Overnight Guests	\$4,888,504	\$6,325,241
Day Visitors to Region	\$3,251,287	\$2,805,525
	\$22,200,432	\$18,227,307
Total Potential Demand	\$88,040,417	\$57,757,008

Source: ESRI Business Analyst, Convention & Visitors Bureau, DCI Analysis

sources of demand. This suggests a retail mix that is part convenience goods and services, part tourism / boutique, and part dining.

2.6 CONCLUSIONS

Hurdles to Sub-Market Retail Development

When faced with a scenario such as this, one must examine the reasons why such high levels of estimated retail demand are not materializing within a particular sub-market. It is not enough simply to estimate demand - if supply is not matching demand there must be reasons why this is not occurring. These hurdles need to be addressed in order to plan for retail growth potential.

Below are several potential reasons why the mis-match in demand and supply is occurring within the Pinehurst sub-market.

- Development opportunity in terms of cost, regulatory environment, and regional access, is better in Southern Pines and Aberdeen, leading most national and regional chains to choose locations in existing or new centers along 15-501 and US 1 in these communities;
- The lack of anchor businesses to draw into the Pinehurst sub-market, combined with historic preference by the Village to preclude construction of large-scale retailers or retail centers, limits the viability of new retail centers;
- The Village's most important retail center - the Village Core - is not located on an arterial and is difficult to find, reducing retail viability despite other locational advantages.

Potential for Village Place Site

The major strengths of the Village Place site are a central location within a high income, under-served market, access to a strong visitor/tourism market, and potential connectivity with an existing retail center, offering opportunities to create a "critical mass" of retail and dining that could benefit both the Village Core and Village Place. Major constraints include limited visibility or access along a high-traffic street, physical constraints such as topography and existing buildings, and low density/intensity of uses that surround it.

Based on this market assessment, there should be potential for a number of different types of businesses on the site. This potential increases with the construction of office and/or housing built as part of the same development in a mixed-use fashion. The most successful types of businesses will be those that can draw from multiple markets - convenience & dining are the two most obvious types, followed by small specialty shops and boutiques. Additionally, new space may appeal to office/professional businesses currently located in the Village Core.

However, retail/dining potential will be constrained by the lack of traffic count, which will limit the ability to draw national or regional chain businesses, which are typically more stable than independent businesses. Price point may also be an issue, as the costs of new construction will equal or exceed the top price points of the local market - currently around \$20-22 / sf. Planning for the Village Place will need to take into account several factors:

RETAIL

Accessibility - Any retail in Village Place will require signage and a direct path to/from Route 211 along Rattlesnake Trail, and to/from the Village Core. It will also need easy and predictable parking;

Connectivity to Tourist Market - As a business, the resort's primary focus is to draw people in to play golf and interact with other amenities. The shifting golf / tourism market within the region requires more diversity in amenities, which shopping can assist. A partnership with the Resort to guide visitors to retail in both Village Place and the Village Core is crucial to maximizing the capture of tourism dollars;

Mixed-Use - Integrating housing and/or office uses with retail will greatly assist the viability of retail/dining in both Village Place and the Village Core. It is not recommended to rely solely upon retail as a first phase development without supporting uses.

Anchors / Destinations - An un-anchored retail center is unlikely to be successful on the Village Place site. Destinations such as anchor grocery or pharmacy businesses, entertainment / dining uses, key services like banks, or similar uses must be integrated into any development project in order to ensure success and short-term leasing. Reliance upon a cluster of storefront spaces for small businesses comes with significant risk. A solution may be a mixture of different market drivers, but the lack of securing an anchor or similar destination use may lead to retail uses lagging behind others.

If an anchor use or uses can be secured, a successful first phase of retail could consist of 10,000 - 20,000 square feet of space. Without an anchor, first-phase retail should be limited to 1-3 bays for restaurants or small shops unless incentives are put into place, or the developer is able to pre-lease space prior to financing and construction.

3.0 OFFICE

3.1 OVERVIEW

There is limited available information that quantifies the Southern Pines / Pinehurst Micropolitan Area commercial office market in terms of total available space or market characteristics. Overall, it is a relatively small market with little to no concentration of commercial office space due primarily to historic employment patterns in the region, as well as the lack of a central city business district, with population and commercial activities traditionally distributed among the three core Micropolitan Area municipalities. The core employment sectors that drive demand for office growth (Information, Finance & Insurance, Real Estate, Professional & Technical Services, Management of Companies and Administrative Services) make up between 12-12.7% of the total Micropolitan economy. By way of contrast, the same percentage for the Raleigh-Cary and Durham-Chapel Hill Metro Area is 22% (each), and 16.6% for the Fayetteville Metro Area.

Yet, a crucial component of the economic growth in Southern Moore County are these same employment sectors. Between 2002 and 2010, Micropolitan employment grew by only 1.2%, a growth rate impacted by the national recession of 2007-2009 (the rate between 2002-2007 was still a mild 7.6%, an annual rate of 1.2%). However, the growth rate in the core office driven sectors listed above was a robust 36% - 1,089 new jobs. Furthermore, secondary office-related sectors such as Educational Services and Ambulatory Health Services grew by another 665 jobs - 13.5% growth rate. The total share of office-related employment sectors in the region has grown from 9.7% in 2002 to the aforementioned 12%. This growth has gone a long way towards counterbalancing losses in manufacturing and tourism sectors experienced by the region over the past decade.

3.2 REGIONAL DEMAND

The Southern Pines / Pinehurst Micropolitan Area was estimated by the US Census to have added 1,089 net jobs since 2002 in the core office-related employment sectors to the right, and an additional 665 jobs in other related sectors like Educational Services and Ambulatory Health Services. Together, these have formed the core of net job growth in the region, eclipsing traditional sectors like manufacturing and tourism. The Village of Pinehurst has shared in this growth, with an estimated growth of 271 office-related jobs between 2002* and 2010 - a growth rate of 41% - slightly ahead of the region on the whole.

3.3 FUTURE EMPLOYMENT DEMAND

There is reason to believe that growth in office-related employment has and will continue through this decade. Three indicators highly correlated to job growth, according to Edward Glaeser, are: (1) January Temperature; (2) The number of college educated residents; and (3) the number of establishments per employee, an indicator of a robust start-up / entrepreneurial sector.

The first indicator correlates with the overall economic and population shift to the "sun belt" corridor from the Atlantic to Pacific oceans - a corridor to which North Carolina belongs and has played a major role in driving economic shifts over the past 30 years.

Traditional Employment Sectors used to Estimate Demand for Commercial Office Space:

Information
Finance & Insurance
Real Estate
Professional & Technical Services
Management of Companies
Administrative & Waste Services

Alternative Employment Sectors Driving Recent Growth

Health Care (Ambulatory Services)
Educational Services.

** 2002 was the year that the old Standard Industrial Classification (SIC) system of tracking employment shifted to the current North American Industrial Classification System (NAICS). Due to the tracking of employment in slightly different categories, it is more accurate to track employment trends from 2002 as opposed to the beginning of the decade.*

FIGURE 3.1: EMPLOYMENT GROWTH IN PRIMARY COMMERCIAL OFFICE RELATED SECTORS 2002-2010

Employment Sector	Village of Pinehurst			Micropolitan Area		
	2002	2010	Growth	2002	2010	Growth
Information	22	54	32	273	340	67
Finance & Insurance	165	187	22	627	693	66
Real Estate	71	107	36	319	313	-6
Professional & Technical Services	169	344	175	1,006	1,323	317
Management of Companies	1	0	-1	25	303	278
Admin & Support	227	234	7	748	1,115	367
Total	655	926	271	2,998	4,087	1,089
	growth rate		41%	growth rate		36%

Source: US Census Longitudinal Employment Patterns

FIGURE 3.2: DEMAND FOR OFFICE SPACE GENERATED BY EMPLOYMENT GROWTH

	Village of Pinehurst	Micropolitan Area
Total Growth 2002-2010	271	1,089
Estimated Square Foot Demand from Growth	81,300 - 94,850 sf	326,700 - 381,150 sf
Annual Demand	10,100 - 11,850 sf / year	40,830 - 47,625 sf / year
Annual Employment Growth	34 jobs / year	120 jobs / year

Source: US Census Longitudinal Employment Patterns

The Micropolitan area has a mid-level amount of educational attainment, with 27.9% of residents having a bachelor degree or higher. This is lower than the Raleigh-Cary, Durham-Chapel Hill, Charlotte and Wilmington metropolitan areas (41.2%, 42.2%, 31.9% and 28.3% respectively) but ahead of the Asheville, Winston-Salem, Greensboro-High Point Metro Areas, and the state of North Carolina. It is worth noting, however, that a considerably larger proportion of the population Southern Pines-Pinehurst Micropolitan Area (all of Moore County) is located in non urban or suburban areas, where educational attainment levels tend to be lower. The college educational Attainment level in southern Moore County - the core driver of the regional office market - is 36.2%, a rate that falls just behind the Raleigh-Durham region, one of the country’s most concentrated areas of college graduates.

Third, in his research, Glaeser has shown that there is a strong correlation between metropolitan areas that have strong job growth and those that have a high number of establishments per worker. For Southern Pines/Pinehurst, this number is 0.082. Interestingly, this number is higher than Raleigh-Cary (0.070), Durham-Chapel Hill (0.054), Charlotte (0.061) and Asheville (0.081) all areas with a thriving business sector.

When put together, all three indicators, while not necessary a guarantee of success, all point towards the Southern Pines / Pinehurst micro area to be in a strong position for future growth in employment - particularly office-related employment.

FIGURE 3.3: EMPLOYMENT GROWTH IN PRIMARY COMMERCIAL OFFICE RELATED SECTORS 2002-2010

	Zip Code 28374		Micropolitan Area		North Carolina	
	2002	2010	2002	2010	2002	2010
Total # of Establishments	372	382	2,122	2,204	207,562	218,104
% of Establishments with 1-9 Employees	78%		77%		73%	
Total Employees	7,629	8,565	25,911	27,203	3,322,004	3,234,595
Establishments per Employee	0.49	0.045	0.082	0.081	0.062	0.067
<i>Source: US Census Zip Code / County Business Patterns</i>						

3.4 LOCAL MARKET CHARACTERISTICS

The Southern Pines / Pinehurst region has several small office clusters, including Downtown Southern Pines, Turnberry Woods - an office park at the corner of Morganton Road and 15-501 that consists primarily of office condos, the First Health medical complex off of Hwy 211, home to a number of doctors and medical professional offices and to a smaller extent - the village "core" of Pinehurst. Apart from these clusters, office space is made up primarily of small-scale buildings with 2-6 individual office suites, or small clusters of buildings.

Within 3 miles of the center of the Village, the only office product available not located within the core First Health medical campus is located either in the Village Core, the Biltmore office suites in Taylortown, or scattered in small 2-5 unit buildings throughout the Village, at least four of which are located within or adjacent to the preliminary project area. Available space in Central Park South is marketed as office space, but is primarily meant to be retail.

Interviews with commercial real estate professionals revealed that lease rates for office product in the region are typically between \$10.00 - \$15.00 "triple-net". A review of available office properties for lease through LoopNet confirms this range. A small sample of office condo product for sale revealed asking prices of \$95-\$105 per square foot.

The same interviewees indicated that occupancy in office product across the micropolitan area is very high - 95-100%, and that there is a "desperate" need for Class A space, which is virtually nonexistent in the area.

An recent trend in the region is consolidation of military units at Fort Bragg, immediately to the east of the Micropolitan area. Military families are increasingly choosing the area to settle and commute to the Fort. Southern Pines has received the bulk of interest but military families have moved to Pinehurst, Whispering Pines, and Aberdeen as well. With this consolidation has come an increase in retired military personnel who choose to stay in the region and start businesses. Some of these are defense related, offering services to the government utilizing a former soldier's expertise.

The office related employment growth experienced in the Southern Moore County region would be anticipated to generate demand for a minimum of approximately 165,000 square feet of new or newly occupied office space, and as much as 320,000 - 380,000 square feet, depending on the specific size and operation of the business. Actual construction of office space on this scale has not occurred.

This is likely due to several reasons. One is the recent recession and real estate bubble, which hindered commercial real estate development for several years. Another is the high price of land in the region - many properties purchased prior to the recession are now "red fields" - properties with more debt owed on them than their value can sustain. A third is the annual job growth. The regional office-related employment sectors grew by an average of 120 jobs per year (not including Educational Services and Health Care). Normally, this would translate into approximately 30,000 - 45,000 square feet of space. Over the past decade, a developer who hopes to capture even 50% of the regional market growth with one project could only expect to lease 15,000 - 23,000 square feet of space annually. Except for special circumstances, like the inclusion of this space into a larger master planned development, this is not enough absorption to counter-balance the cost of land and construction for a commercial project of this size.

Without new supply, one would expect limited vacancy in existing product, and that is what the market is currently experiencing. Corresponding increases in price have likely been kept in check due to quality of space, and the highest quality space being sold as condominium product. All signs point to a tight commercial office market that would respond well to new, high quality product. Occupancy, though anecdotal, is extremely high across the region, a rare position across the nation as most metropolitan areas over-built their office markets prior to the 2007-2009 recession. Even the Triangle region, one of the most robust areas of new employment in the country - has a regional office market vacancy between 14-15%.

3.5 POTENTIAL FOR VILLAGE PLACE SITE

Limited nearby office supply, matched with a tight regional office market, lack of Class A space, and growth in office-related employment suggests that there is an opportunity for office related uses at the Village Place site. Five sub-markets are identified as targets:

Standard Class A, Small Space Tenants - Professional offices such as lawyers, doctors, accountants and small firms looking for high quality office space with corresponding amenities and finishes.

Medical professional offices - More than 270,000 square feet of medical uses have been built over the past 10 years (not including the heart hospital) but the First Health complex is rapidly running out of space, leaving an opportunity to capture on-going growth in the medical office market.

Military Defense Contractors - Commercialization opportunities spinning out of Fort Bragg and former military families who have chosen to live in Southern Moore County.

Incubation Space - Traditional incubation / acceleration space to assist small enterprises move through first stages of business growth, including rent-assisted space, business training, and shared expenses - as of 2012, the Southern Pines-Pinehurst had a higher percentage of business establishments with 1-9 employees (77%) than Raleigh-Cary, Durham-Chapel Hill, Charlotte, Asheville, or Wilmington (72-75%).

Co-Work / Office Share - Opportunities for very small businesses (1-4 people) to work in space with access to business equipment but which is also significantly cheaper than traditional offices space - a trend growing increasingly throughout the country (70% of all office related business establishments have 4 or fewer staff, and the region leads North Carolina cities in the # of establishments per employee).

It is believed that the Village Place could absorb up to 10,000 square feet of traditional office space in the near-term (1-3 years). The short and long term demand is likely to be higher, but a number of market considerations must be taken into consideration. This opportunity, however, does not come without its caveats. The first is the amount of potential absorption. If office-related employment continues to grow this decade as it has in the past, then a 25% share of regional growth would be approximately 10,000 square feet. The downside of this amount is that it is likely too small an amount to rely upon as a primary use to finance through new construction. However, if integrated into a mixed-use development, office space can be used as a "filler" use adjacent to or above other uses like retail or residential.

The second caveat is price. Interviews suggested that there is a potential demand paradox regarding new, higher quality Class A space. There is large demand for this product, but existing office tenants may be unwilling to pay more than the \$10-15 rent range that they can pay elsewhere in the market, despite tangibly higher quality. The same goes for the \$95-105 sales price for office condos. It would be difficult to support new commercial grade construction at these lease rates (unless matched with another retail or residential use) and therefore the reality of this paradox will have to be vetted through further research.

A third is the unstable nature of many small businesses in potential growth areas. Nascent business opportunities tied to former military personnel in working with the government is a good example. Several sources indicate that there are businesses in this field who are looking for traditional office space, but since their work is tied to unpredictable funding from the Federal Government, they are unable to commit to the long-term leases more typical of office tenants.

There are at least three ways to hedge against these potential issues. The first is the successful recruitment of professional medical office users, who are typically more stable and pay higher lease rates than other office tenants in the local market. The second is the integration of retail into a mixed-use commercial project, which would create an amenity from which to market office space that is differentiated from the rest of the market. The third would be an initiative to link potential Village Place office space with regional economic development efforts to spur small business development and commercialize business opportunities from military professionals. A partnership to incentivize and subsidize office space for these types of businesses could double or even triple the amount of office space demand as well as assist a project in becoming more financially feasible given anticipated land and construction costs.

4.0 HOSPITALITY

4.1 HOTEL MARKET

According to the County Convention & Visitors Bureau, Moore County drew 1.17 million annual visits in 2012, ranking it 11th among all North Carolina counties in terms of total travel expenditures and resulting in a share of state domestic tourism of \$374 million. This level of tourism has resulted in a strong hospitality market, with almost 2,500 hotel rooms - primarily located in southern Moore County.

The largest hotel property in the county is the Carolina Inn in Pinehurst, with 334 rooms. However, there are only a limited number of properties with room totals above 100, leaving the Carolina as by far the largest regional property. Overall, the local hotel market is primarily made up of small-scale, resort properties. 70% of all hotel properties are non-hotel chain operated, and 58% have 80 or fewer rooms, or “keys”. 44% have fewer than 52 rooms.

FIGURE 4.1: MAJOR MOORE COUNTY HOTEL PROPERTIES BY CATEGORY

Hotel Category	# of Properties	# of Rooms	% of Market
Budget	3	196	8%
Budget-Mid-Range	4	413	17%
Mid-Range	5	466	19%
High End	0	0	0%
Luxury	0	0	0%
Boutique	0	0	0%
Resort (Small)	16	454	18%
Resort (Medium)	4	391	16%
Resort (Large)	1	334	13%
Resort (Seasonal / Special)	3	241	10%

Source: County CVB & DCI Analysis

There are only 12 chain properties operating in Southern Moore County, and all of them are positioned in budget or mid-range tiers. The slight exception is that the market is heavily represented by many upscale extended stay suite products, including Homewood Suites, Springhill Suites, Hampton Inn & Suite and Residence Inn. However, this category is still considered mid-range as compared to flagship high-end or luxury brands. The high-end, full service segment is made up almost entirely of non-chain properties tied to golf, such as the Carolina, Little River, Mid Pines, and Pine Needles Resorts.

Considering the traditional focus of the region on golf focused tourism, the current make-up of the market is unsurprising but it does have implications on future hotel growth in the region. This primarily has to do with size - a large number of existing properties are very small. However, the requirements of a new hotel, which would almost certainly be managed by a national hotel operator, would be a product with at least 80-120 rooms. 11 of the properties with 75+ rooms are national operators, and 5 of the

8 properties with 100+ rooms are national operators. This has implications on the size of a particular site, as well as market absorption.

4.2 SUPPLY NEAR PROJECT SITE

Within 3 miles of the project site there are 752 rooms in 8 properties - 859 if one counts the Springhill Suites located just beyond this boundary. This represents about 1/3rd of the entire Moore County hotel market. 508 rooms are located within one mile of the site in the three Pinehurst Resort Properties (Carolina Inn, Manor Inn, Holly Inn) as well as the Pinecrest Inn and the Magnolia Inn. Recently constructed national chain products include the Homewood Suites located in

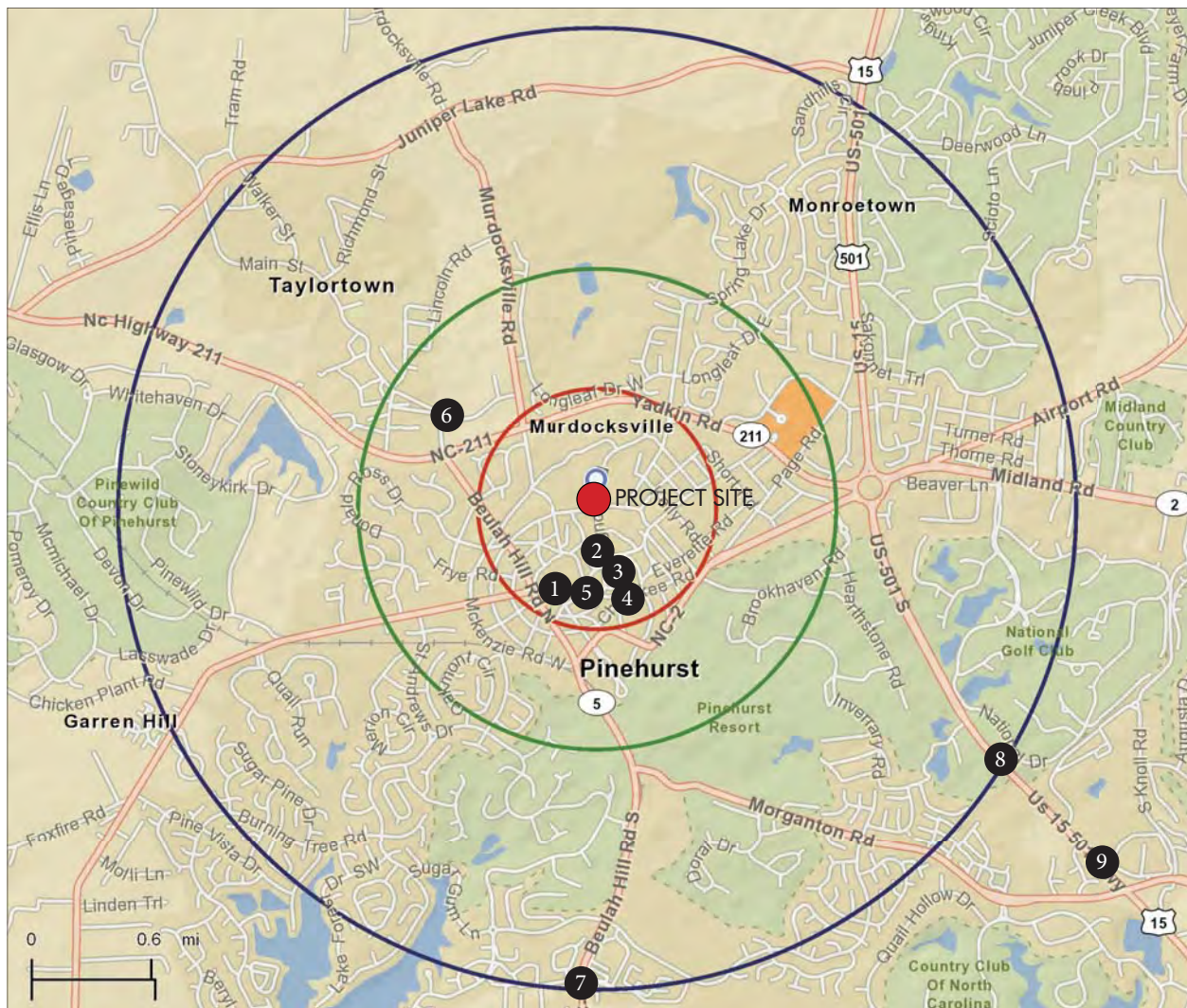
FIGURE 4.2: SUMMARY OF MOORE COUNTY LODGING & PROXIMITY TO VILLAGE PLACE SITE

Hotel/Motel/Resort	# of Rooms	Full Service	Meeting Space	Notes
Beacon Ridge Country Club	24	24	N	
Best Western	125		Y	
Carolina Hotel & Villas/Condos	334	334	Y	1/2 Mile
CC of Whispering Pines	41	41	Y	
Comfort Inn	80		Y	2 Miles
Condotels	64		N	2 Miles
Country Hearth Inn	88		N	
Days Inn	120	120	Y	
Econo Lodge	37	37	N	
Foxfire Resort	52	52	Y	
Greenleaf Inn	40	40	N	
Hampton Inn & Suites	103		Y	
Holiday Inn Express	76		Y	
Holly Inn	82	82	Y	1/2 Mile
Homewood Suites	100		Y	1 Mile
Inn at Eagle Springs	5		N	
Jefferson Inn	15	15	N	
Knollwood Village	40		Y	
Legacy Golf Packages	85		N	
Little River Golf & Resort	128	128	Y	
Longleaf Golf & CC	20	20	Y	
Magnolia Inn	10	10	N	1/2 Mile
Manor Inn	42	42	N	1/2 Mile
Maples Golf Packages	92		N	
Microtel	78		N	
Mid Pines Resort	103	103	Y	
Mid South	32		N	
Midland Country Club	10		N	
Motel 6	81		N	
National	42		Y	
Old Buggy Inn	4		N	
Pine Crest Inn	40	40	Y	1/2 Mile
Pine Needles Resort	78	78	Y	
Residence Inn	80		N	
Springfill Suites	107		Y	
Woodlake Country Club	37	37	N	

Source: Moore County Convention & Visitors Bureau

HOSPITALITY

FIGURE 4.3: HOTELS LOCATED WITHIN 1, 2 AND 3 MILE RADIUS OF PROJECT SITE



Inventory of Hotel Rooms Within Primary Trade Area

Site	Hotel	Rooms	Owner
1	Carolina Inn	334	Pinehurst Resort
2	Manor Inn	42	Pinehurst Resort
3	Pinecrest Inn	40	Local Private Owner
4	Holly Inn	82	Pinehurst Resort
5	Magnolia Inn	10	Local Private Owner
6	Homewood Suites	100	Corporate Franchise
7	Condotel of Pinehurst	64	Local Private Owner
8	Comfort Inn	80	Corporate Franchise
9	SpringHill Suites	107	Corporate Franchise

Source: County CVB & DCI Analysis



The Carolina Inn, flagship of the Pinehurst Resort, has 334 rooms, meeting space for conferences, and a Spa. It is only several minutes walking distance from the Village Place site.



The Holly Inn is located in the center of Pinehurst's Village Core, and dates back to 1895. It has 82 rooms.



The Pinecrest Inn has 40 rooms and was built in 1913. It is a historic market within Pinehurst, a favorite of golfers such as Bobby Jones, Arnold Palmer, Payne Stewart, and Ben Crenshaw. It is located just to the south of Village Place project area.



The Manor Inn is located within the Village Place project area. It has 42 rooms.



The Magnolia Inn is a privately owned bed and breakfast located in the heart of the Village Core.

Olmstead Village in Taylortown, and the Comfort Inn / Springhill Suites properties located on 15-501 (see Figure 4.3).

4.3 ECONOMIC INDICATORS

Available hotel occupancy for 2012 was reported to be 55.1% in October of 2012, with an Average Daily Rate (ADR) of \$117.76. According to data from the Convention and Visitors Bureau, these numbers are down from earlier in the decade due to the impact of the 2007-2009 national recession on tourism, but they are on the rise compared to similar indicators in 2011. Between 2001-12, total room night demand increased by 19%, occupancy increased by 17%, RevPar increased by 17%, and the ADR stayed about the same with a slight increase of 0.1%. These numbers suggest a positive rebound of the tourism / hospitality industry in Moore County.

4.5 POTENTIAL FOR VILLAGE PLACE SITE

The large number of hotel properties, combined with a lackluster (though growing) industry-wide occupancy rate indicate limited overall growth potential for hotels except for those that tie into specific market niches. There is little doubt that the current market segmentation has left openings for new products to fit into underserved segments. A national operated high-end luxury product is one. With the supply of luxury / resort product primarily consisting of older properties, there is an opportunity for a new, high quality hotel, though it will likely need to be tied to a resort. At least three high-end products have been proposed in recent years, all on large-scale proposed gold / resort / residential projects in Taylortown, Foxfire and Southern Pines, indicating at least some interest in entering the local market.

Another growing market segment is business travel. The Southern Moore County economy is growing and diversifying, leading to increasing demand for more traditional hotel product. So far, many of the hotels that cater to tourism have doubled as business travel properties, but there is a vast amount of room in the mid-range and full-service hotel tiers for a traditional hotel serving multiple markets, such as a Courtyard Marriott, Hilton Garden, Inn, etc.

There are certainly advantages to the Village Place site for a hotel. It is located near growing employment centers like the First Health campus that would drive both business and family visitors to the region. It is also centrally located to the Pinehurst tourism market, with good access to the Pinehurst Resort as well as other publicly accessible golf courses. However, the same can be said of many other locations in Pinehurst or Southern Moore County. Hotels can serve both of these markets at a distance and still only be 10-15 minutes away. Also, the scale of a new hotel - likely to be at least 80-120 rooms - may be too intense of a use on the project site.

Subsequently, there is a fairly narrow market for a hotel located on the Village Place site. The 3 mile trade area is already well served with a variety of product, and the key gaps in the regional market - high-end resort and business travel product - do not necessarily benefit from the site's location, which is disconnected from a golf course and located off of a major arterial. Furthermore, it has been much easier to gain approval for new hotel development in the communities located outside of Pinehurst (i.e. Taylortown and Southern Pines) than within the Village. A hotel product may be viewed upon negatively by Pinehurst Resort, with which it would directly compete for a customer base.

5.0 SOURCES

5.1 PRIMARY SOURCES

Tom Pashley, Resorts of Pinehurst, Inc.
Marty McKenzie - Property Developer
Kay Beran - Prudential Pinehurst
Jim Saunders - Old Town Property Owners
John May - Partners in Progress
Pat Corso - Partners in Progress
Jim Garrett - ReMax
George Manley - Kuester Companies
Holly Spofford Bell - Kuester Companies
Dave Kilarski - First Health
Caleb Miles - Convention & Visitors Bureau

5.2 SECONDARY SOURCES

US Decennial Census
American Community Survey
Census Longitudinal Employment Data
ESRI Business Analyst
Bureau of Labor Statistics (BLS)
Moore County Convention and Visitors Bureau
Moore County Multiple List Serve
Zillow.com



VILLAGE PLACE PROJECT IMPLEMENTATION

Summary of Phase 1 Findings

A Summary Report presented to the Village Council of Pinehurst, North Carolina

April 2013



PREPARED FOR:

The Village of Pinehurst
395 Magnolia Rd.
Pinehurst, NC 28374

PREPARED BY:

Ian C. Colgan, AICP
Principal

Development Concepts, Inc.
1236 East 16th Street
Indianapolis, IN 46201



TABLE OF CONTENTS

1.0 OVERVIEW / KEY FINDINGS	3
2.0 KEY PROPERTY INVENTORY & OUTREACH . . .	6
3.0 INFRASTRUCTURE & RELOCATION	6
4.0 MARKET ASSESSMENT	9

1.0 OVERVIEW / KEY FINDINGS

In January of 2013, the Village of Pinehurst contracted with Development Concepts, Inc. to perform professional services to examine the feasibility of the proposed Village Place / NewCore development project as proposed in the 2008 NewCore Master Plan. This report summarizes the findings and recommendations relative to the initial phase of this work - a "Due Diligence" phase intended to study three critical path items in order to determine whether further time and investment was warranted to move this project forward.

The Due Diligence phase includes three specific tasks:

1) *Key Property Inventory and Outreach* - survey the property within the Village Place project area and determine if enough land could be assembled for an appropriate redevelopment project given willing ownership and the ability to assemble contiguous parcels;

2) *Infrastructure and Relocation Plan* - research designed to understand and document the feasibility of including publicly owned properties within the Village Place development area, including the relocation of existing uses;

3) *Market Assessment* - update the market "reconnaissance" conducted during the original master plan and determine opportunities within core market areas, including residential, retail, office and hospitality.

Key Findings

Key Property Inventory & Outreach

- Enough property owners indicated a willingness to participate the Village Place initiative to construct an initial project area of up to 20 acres of land that could be assembled for one or more development projects;
- There is an additional 10+ acres of Village and bank owned land that should be considered for inclusion into the Village Place project area;
- Unlike the original NewCore Master Plan, very few of the properties south of the proposed Spur Road are likely to be included in the project area. Properties along Community Rd fit well within the existing built context, and it will be difficult and costly to move the County's water tanks, or the CenturyLink building. Accordingly, the center of the project area has shifted to the north, as opposed to the center of the existing "block" defined by Magnolia, McCaskill, and Community.

Infrastructure and Relocation Plan

- Despite preparations to relocate existing Village Public Services uses, it will likely take several years to fund and complete such a move. This is not considered to be significant problem, as the Village owned property is not considered to be a "critical path" site. Other land can be assembled for development, and the refined project area puts the Village property at the edge of the most developable property;
- Timing related to implementing the proposed Rattlesnake Extension and Spur Rd Extensions will likely delay inclusion of the Public Services property into the rest of the project area, since it will be disconnected with other development sites.

Market Assessment

- There is market potential for numerous uses, including housing, commercial office and retail;
- Conservative projections for each show short-term potential for development in a manner consistent with the original vision of the Master Plan;
- Target commercial markets will likely work better as an integrated mixed-use development, as opposed to built separately. Housing, in the form of condominiums, apartments or clustered single family housing, could be built separately from other uses;
- Despite a location in the center of Pinehurst, price-point sensitivity in terms of lease rates and sales prices mean that a detailed analysis will be needed to study the necessary density of a mixed-use development to overcome anticipated land prices and construction costs in order to be feasible and attractive to a developer;
- Anchor or destination uses that draw in customers are crucial to the success of a retail center of any size on the site - despite high levels of demand, the immediate resident and visitor market cannot be relied upon to support retail in and of itself.

FIGURE 1
LAND OWNERSHIP
PRIMARY PROJECT AREA

- VILLAGE OF PINEHURST
- MOORE COUNTY
- PRIVATE OWNERSHIP - ACTIVE USES
- PRIVATE OWNERSHIP - INACTIVE / VACANT
- RESORTS OF PINEHURST
- INDIVIDUAL HOME OWNERS
- COMM. ROAD APTS.
- PARKS (VILLAGE OF PINEHURST)

PRELIMINARY PROJECT AREA

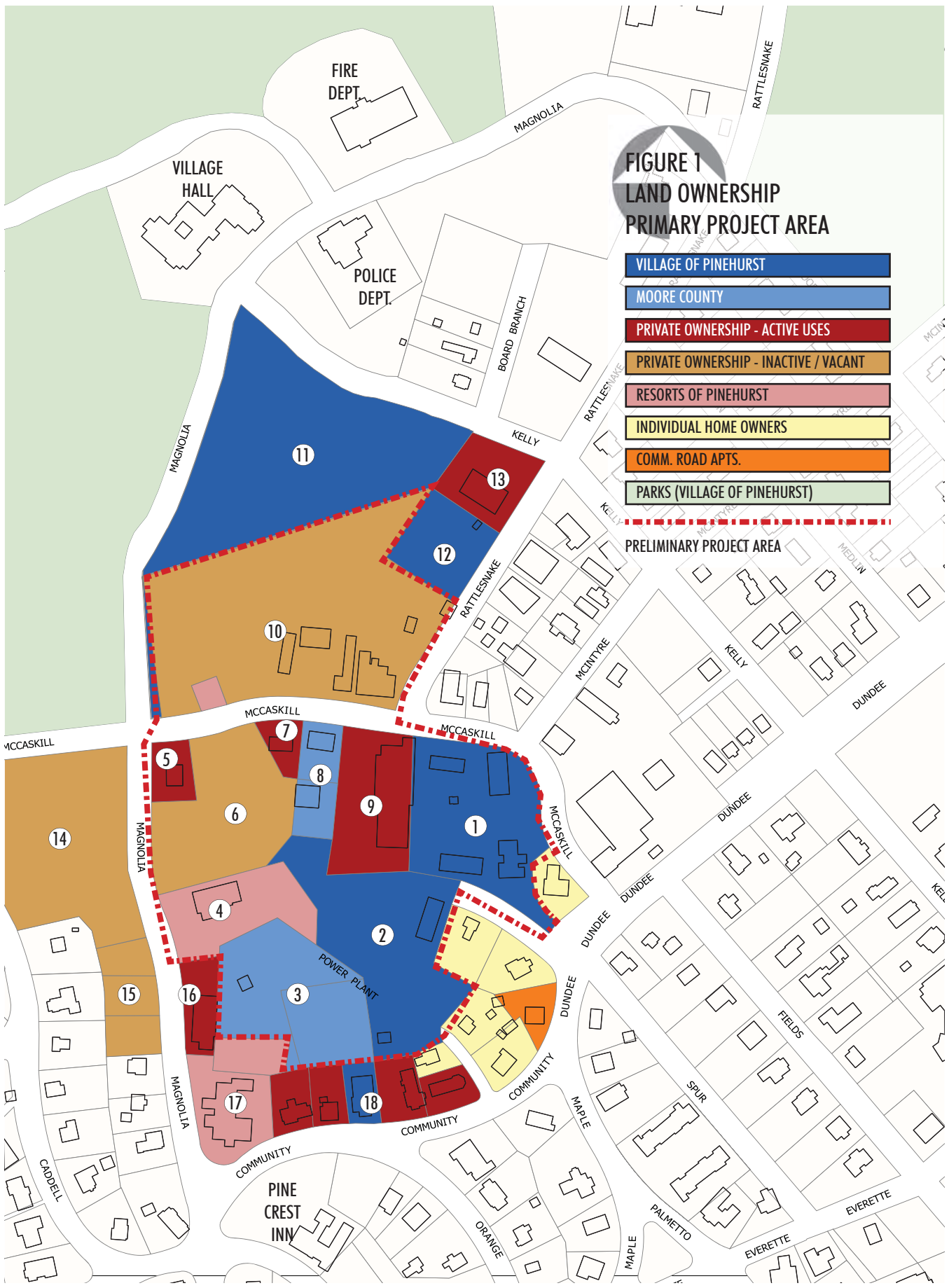


FIGURE 2 - PROPERTY INVENTORY

1	500-700 McCaskill (Village of Pinehurst) Public Services offices and storage facilities for Village. Basic plan framework for moving facilities to \$5 million facility on Juniper Lake Road (2.6 acres).
2	Village of Pinehurst Additional land owned by the Village, includes some public service facilities but is largely vacant due to topographical change (2.97 acres).
3	105 Powerplant (Moore County) Well and water tanks owned and operated by Moore County Utilities. Well has limited capacity and County has indicated that they would discontinue if another site is found (well currently has 100 foot buffer around it for development). Tanks are necessary and can be moved but at cost (2.3 acres).
4	270 Magnolia (Steam Plant) Efforts to rehab for brewery and other uses. Last efforts fell through but new opportunities potentially available (1.28 acres).
5	Grumpy Pumpkin LLC Office building owned by Clark Campbell. Willing to sell / participate. Bought building for \$450,000 (0.34 Acres).
6	250 McCaskill (Punch Jones, Inc.) Property owned by Heidi Hall-Jones. Old laundry with potential remediation issues. Willing seller if part of impactful and well-designed project (2.3 acres).
7	270 McCaskill (CLBD LLC) Property owned by Lynlee Long. Owner is willing to sell / participate in development project (0.25 acres).
8	290 McCaskill (Moore County) Former Rescue Squad property now owned and managed by Moore County Public Safety. Deeded to them by the Resort. Willing to work with building and to upgrade building to integrate with any potential development. However, also open to moving as the buildings / site are not ideal for their purposes (0.65 acres).
9	300 McCaskill Hughes Plumbing Supply – Representative of owner has indicated willingness to sell but has a long-term lease with the supply company, who may need to be moved. Manager of Plumbing Supply company indicated difficult in logistics of relocation and overall reluctance to move but recognized that area was likely to result in redevelopment (1.48 acres).
10	205 McCaskill (Moore Investment Group, LLC) Partnership between Van Camp family and John Karscig. Represented by Dave Crisafulli. Interested in working with the Village on a Joint Venture (6.2 acres).
11	Village Land – Rattlesnake and Kelly Village owns property between 205 Rattlesnake and Village Hall. County has recently cleared/stubbed in a sewer easement which defines parcel better. Village may wish to consider this parcel as part of larger initiative (5.3 acres).
12	55 Rattlesnake (Village Lot – County Maintenance) County leases parcel on Rattlesnake from Village. Village has indicated a desire to use property as part of Village Place. County has said they are willing to move operations if given a new location (0.94 acres)
13	300 Rattlesnake Office building owned by Clark Campbell – in good shape and profitable for Campbell. Unlikely to be redeveloped but can be integrated into larger development (0.84 acres).
14	315-363 Magnolia (Traditions of Old Town) Property has been up for auction several times, with auction date continually pushed back. No resolution as of the submission of this memo (3.9 acres)
15	Vacant Lots Vacant residential lots owned by Peter Barrett, could potentially be integrated into project with Traditions property (0.84 acres)
16	CenturyLink Facility Active phone exchange building, contributing architecturally, likely to remain (0.44 acres)
17	Manor Inn (Resorts of Pinehurst, Inc.) Lower end of three hotel properties owned by Pinehurst Resort (Carolina, Holly, Manor). Not in great condition despite \$2 million renovation. Used for overflow space for group settings, with limited use in the low season. Resort has said they have no plans to sell or get rid of property (1.28 acres).
18	45 Community (Village Fire Station) Vacant fire station. Architectural value, potential for re-use. Unlikely to be demolished (0.27 acres).

SUMMARY OF PHASE 1 FINDINGS

2.0 KEY PROPERTY INVENTORY AND OUTREACH

During February and March of 2013, DCI Principal Ian Colgan conducted personal or telephone interviews with all owners or representatives of property that the Village and DCI considered to be necessary for a proposed Village Place project. A summary of findings from these interviews can be found in Figure 1, with a full list of those interviews found in Appendix A.

Based on these interviews and a review of the parcels/properties in question, two conclusions were reached relative to this property inventory phase. The first is that it appears feasible that as many as 20.4 acres of contiguous parcels could be assembled for one or multiple development projects within a primary project area, with approximately 3.5 acres of existing uses that can be integrated but are unlikely to be redeveloped (the county owned water tanks and the steam plant). This does not include approximately 6.4 acres of Village owned land that could potentially be incorporated into the primary development area, and 4.75 acres of property on the west side of Magnolia Road that could also be integrated or developed as a secondary development area. This conclusion is based solely on the willingness of property owners and users to sell or participate in a redevelopment initiative, and not on any further details such as final agreements relative to purchase price, the ability to acquire all property in question simultaneously, or solutions for the relocation of existing users.

The second conclusion is related to the location of this primary project area. Previous studies relative to a proposed New Core / Village Place development project focused primarily on the “block” of property bordered by Community to the south, McCaskill Road to the north and east, and Magnolia Road to the west. Based on the above mentioned potential assemblage, which is illustrated in Figure 1, it should be noted that the primary development area has shifted somewhat to include a majority - but not all - of this same block - an area of 14.2 acres - while simultaneously including a separate “block” of property of 13.3 acres to the north bordered by McCaskill Road to the south, Rattlesnake Drive to the east, Magnolia Road to the west, and the incomplete Kelly Road extension to the north. This shift is attributable to favorable land ownership interests in the block to the north of McCaskill Road, as well as a number of existing uses along Community, inclusive of businesses and housing that are viable uses and are not considered to be required components of a proposed development project.

3.0 INFRASTRUCTURE & RELOCATION PLAN

Property Cluster #1 - Village of Pinehurst

The Village of Pinehurst owns two key parcels identified within the primary development area for the Village Place project (see Figure 3), and two others immediately adjacent to the primary development area.

The first two parcels (#1 and #2 in Figure 3) are located off of McCaskill Road and Power Plant Road. Since the completion of the original NewCore plan, the Village has been aware that these parcels may be needed for a NewCore / Village Place project, and have begun preparations accordingly. After interviews with Village staff, I understand the situation regarding these parcels as of March 2013 to include the following:

- Uses on these parcels include Public Services Administration offices, Public Services equipment and vehicle storage, bulk storage, yard debris storage, and a fleet maintenance garage;
- Property has been selected and acquired on Juniper Lake Rd for relocation of public services facilities. Approximately \$1 million has been expended for site acquisition and design costs. Site and building plans for a new public services complex have been prepared, reviewed and are awaiting approval;
- Estimated budget for consolidation on the new site per the CIP is \$4.7 million, after the \$1 million already invested.
- Relocation of McCaskill Rd facility can happen only after construction of new facility;
- Existing office building is not likely to be retained by the Village after the move / is available for a new user.

Given that the budget for final relocation/consolidation has not yet been allocated, it will likely take several years to fully relocate these uses to the Juniper Lake Rd site. However, this is not necessarily a major problem. After conducting a key property inventory of the New Core / Village Place study area, it is our conclusion that the Village owned properties along McCaskill Rd and Powerplant do not represent “critical path” parcels for Village Place project land assemblage. That is, they are not critical for development within other parts of the primary development area, and thus will not prevent other phases of development from occurring. For the McCaskill Rd parcel, which constitutes the majority of Village uses, this is especially true if the proposed Rattlesnake Extension connecting Rattlesnake Drive from McCaskill to Community Road is to come to fruition, as the parcel would be separated from other property to the west. The Powerplant parcel should not be considered a key property for short-term development for several distinct reasons: (1) it is aligned along a ridge that exists on the interior of the block and is difficult to develop; (2) a large portion of this parcel would be taken up for the proposed Rattlesnake Road extension; (3) the

SUMMARY OF PHASE 1 FINDINGS

redevelopment of properties along Community Rd is highly unlikely, therefore its interior position does not mean it is required to connect portions of the primary development area; and (4) portions of the parcel are located within close proximity to the County's 100 foot well-head protection buffer.

However, it is still recommended that the Village go through with the relocation of the Public Works facilities to Juniper Lake Road. These uses are not compatible with many anticipated uses in other parts of the Village Place development area - retaining these uses in their existing location may hinder a developer's interest in other adjacent property, or hurt leasing or sales of developed property in adjacent or nearby areas.

Property Cluster #2 - Village of Pinehurst

The third and fourth Village owned properties are located directly south of the Kelly Rd Extension and the Village Government Complex. #3 is a 5.3 acre parcel that is currently vacant. The second (#4) is a ~1 acre parcel off of Rattlesnake Drive (55 Rattlesnake) that is currently leased to Moore County for vehicle storage and maintenance. The Village should consider using this property in conjunction with the Village Place project, and the County has indicated a willingness to move its vehicles given the availability of a site with good proximity to the Village. The availability of this property is likely to come into play in conjunction with the efforts of the Village to relocate its own public services department, as discussed below.

Property Cluster #3 - Moore County

Moore County owns three properties within the Village Place primary development area. The first (#5 on Attachment A) consists of two buildings used for County Public Safety at 290 McCaskill Road. This property was previously owned by Pinehurst Resort, who transferred ownership to the Rescue Squad, with the property eventually coming under the control of Moore County Public Safety, which operates an emergency services unit at the location. Because of its location directly upon McCaskill Road, as well as the proposed Rattlesnake Extension, this property should be considered a priority acquisition target within the primary development area. Fortunately, even though Moore County Public Safety prefers to be located in the general vicinity, it is not married to the site or buildings, as they are not ideal for their purposes. Instead, they are making do with property that was given to them.

The second and third (#6, #7) are located at 105 Powerplant Drive. Two water storage tanks and a well are located on this property. The well has a 100 foot development buffer around it, while the storage tanks take up a considerable amount of space. In discussions with the County Utilities department, the County indicated the potential for the relocation of the well, considering its output was limited. This relocation would remove the 100 foot development buffer, and a Village-County partnership to relocate the well should be considered. The storage tanks are also movable, but at cost, which could be several million dollars.

Given that the primary development area for Village Place is focused more to the north than originally envisioned in the New Core Plan, the relocation and/or integration of County utilities may not be as critical as prior planning efforts have indicated. It is anticipated that most, if not all, properties to the south along Community Rd will remain with existing uses. Meanwhile, the ridge located in the interior of this block disconnects development pads to the north, along McCaskill, and the County (and Village) owned property. Therefore, the relocation of these utilities may not be necessary.

That being said, the tanks and well do sit on flat land and would front both the proposed Rattlesnake extension and proposed Power Plant Road extension. Accordingly, it is recommended that if a developer or developers are ultimately recruited for this project, that they be consulted as to their preferred outcome regarding these properties. Until then, it does not appear to be necessary to invest in any improvements, unless the County wishes to explore well relocation for other reasons.

Conclusions

After an assessment of each Village and County owned property, we conclude that the relocation of public uses within the designated primary development area do not represent hurdles to short-term (1-3 year) private development opportunities. However, it is recommended that the Village work now to plan for the relocation of the County Public Safety office, either to the to-be vacant public services office, or to the intersection of Kelly & Magnolia. This relocation does not have to happen immediately, but it is important to have a detailed plan to show a developer so that the property is not a hurdle to a development on the southern edge of McCaskill Rd.

4.0 MARKET ASSESSMENT

4.1 Residential Market

Moore County has grown significantly over the past two decades, and Southern Moore County and Pinehurst have shared in that growth. Between 1990-2010, the county added over 13,700 households. Approximately 2/3rds of that growth occurred in the Southern Moore County urban “cluster” that includes Southern Pines, Pinehurst, Aberdeen, Whispering Pines, Pinebluff and Taylortown. Pinehurst itself grew by 3,108 households, 1,500 of which were in the past decade 2000-2010. The county growth has created real demand for housing. Demographic sources anticipate continued growth throughout Moore County, albeit at a slightly slower pace of 900-1,500 households per year to 2020. If Pinehurst were to capture a similar amount of growth as it has in the past, there would be an expected demand of 40-80 units annually to 2020.

The Village Place project site offers a somewhat different residential opportunity than the overall Pinehurst market, which is primarily (85%) made up of single family detached units, a product type which represented between 95-98% of all new housing units added within the Village over the past decade. Its physical characteristics and project area orientation are much more suited to higher density cluster or attached product. Therefore, an analysis of housing product like townhomes, condominiums, and apartments is necessary to understand demand potential.

The following is an excerpt from the NewCore Master Plan - a market reconnaissance summary prepared by Randall Gross. This is included to compare against recommendations made in this updated market study.

Summary of New-Core Opportunities

Demographic Growth, and the cachet of Pinehurst’s name and amenities, helps propel demand for various uses at the NewCore area. Village retail and office space remains filled, despite operating deficiencies and high rents. Housing development is accelerating and prices escalating rapidly in the area as a growing retirement population and younger families opt for the amenity value of a Pinehurst lifestyle.

Retail may be temporarily over-built in the larger Moore County market, but there are opportunities for additional specialty and convenience retail development near the Village core. The addition of perhaps 18,000 square feet (15,000 to 25,000 square feet of retail space in the NewCore may help attract a more diverse retail and entertainment mix to the area. Among the gaps in the existing retail mix are entertainment venues, convenience goods stores, and other businesses that cater to a more local market. There may also be other opportunities to reach the predominantly male and sports-oriented visitor through expanded niche retail markets. However, retail businesses are not likely to be attracted to space in the NewCore unless it is well-integrated with other uses and with the existing Village core. Expanded parking opportunities would also benefit new retail (as well as existing retail) uses.

Some additional office space may also be warranted, given the occupancy of existing space in the Village and in surrounding commercial developments. The addition of 6,000 to 12,000 square feet of office space in the NewCore may allow some existing businesses to reduce their dependence on first-floor retail space in the Village. There may be demand for more office, but there is a need to ensure balance in the office versus retail uses.

There are also opportunities for residential uses in the NewCore, primarily in the form of “0” - lot line or cluster homes, patio homes, and some limited townhouse development. Such housing could be well-integrated with retail and office uses, as well as with the existing Village, to create a more enlivened community village core. However, privacy is also paramount for residential property owners, so integration of uses must be balanced with the privacy needs of potential residents. Given the absorption of higher-density housing in the market, it is possible to envision 30 to 40 units of this housing development within the next five-plus years (and more over the longer term), so long as it is designed for key target markets and includes an affordable option for Pinehurst club membership. Without the memberships, housing demand will be constrained in the NewCore.

SUMMARY OF PHASE 1 FINDINGS

Condominiums / Townhomes - single family attached product is typically supplied in the form of townhomes to offer a more cost-effective single family home than existing detached product (Wake County is a good example), or in the form of condominium / flats in areas with high levels of amenities, often for elderly couples / empty nester households, or young professionals and couples. The Village Place site offers both market positions, as real estate close-in to the Village center is among the most expensive in the region, and proximity to the Village Core and the Resort within walking distance is a major amenity that can be used to support housing. A key demographic - empty nester households - are prevalent throughout the market. Existing condominium product in Pinehurst appears to be valued at a similar price per square foot, than the detached market, indicating that there is sufficient demand for attached product, even with smaller square footage and lower quality in terms of age. The median price per square foot for single family homes in Pinehurst from 2005-2013 was \$117, while the the same for condominiums and townhomes was \$119. This, despite the fact that a majority of the Pinehurst condominium supply is made up of product built in the 1970s and 1980s, and much is reportedly in poor shape. Broker interviews suggest that there is a demand for attached housing units that meets a reasonable price point (\$250,000 - \$350,000), and that similar product is beginning to appear near Downtown Southern Pines. Preferences are likely to be more towards single story product vs. 2-3 story townhomes, simply because of the older demographic which tends to prefer single story living, but good product design may be able to overcome this. Overall, the location of the project site, existing amenities, and ongoing market response to what condominium product exists in the market, all point to a potential condominium market. This potential is enhanced by the potential integration of amenities on-site, including retail, dining and other businesses. Further analysis, including more interviews and field work, is likely necessary to determine more detail relative to specific product types and price points.

Cluster Homes - the previous market reconnaissance performed as part of the NewCore master plan recommended that clustered, zero lot line patio homes or something similar would be a product type worth considering for Village Place. This report concurs with this assessment, since such a product would be more in-line with past and present expectations of the Pinehurst market, and still offer a similar product as a townhome or condominium / flat. Vacancy for single family, owner occupied units in Pinehurst is estimated to be 3.6% - well-below the equilibrium amount of 5%. Given the high value of properties close to the Village Center, the addition of new single family product is likely to be extremely popular across a wide range of customers despite a more dense, urban configuration. A popular housing unit that is emerging across the country is the "pocket" neighborhood, which includes small homes sized 800-1,200 feet clustered around common open space and indoor gathering facilities. Other emerging trends include rear-loaded "detached townhomes" which are detached units placed only 5-8 feet apart with limited yard space, instead creating a maximum amount of indoor space with patios or decks and relying upon nearby parks and commercial areas to provide outdoor space. A caveat to this housing type is that it (as well as other housing types) need to be built at a certain density to overcome land costs. Several developments in the region - including the former "Traditions" site have struggled with meeting a price point deemed acceptable by the marketplace which also pays for land, infrastructure and construction costs necessary to deliver the units. Any detached unit will run the risk of being priced out of the market if land acquisition costs are too high.

Multi-Family Apartments - Rental units have historically accounted for a very small (12%) proportion of housing units in Pinehurst. Virtually all new rental product supplied within the region has been in adjacent communities, and what new rental product does exist is largely found in single family homes that are rented out. An analysis of the regional rental market finds a relatively low vacancy rate of 8%, and a woeful lack of multi-family rental development, as well as high-end rentals available at multiple price points. The Southern Moore "urban cluster" is supplied with only 630 units of multi-family housing in developments of 10 units or above, and only 334 units in developments of 20+ units. Thus, the Southern Moore trade area is significantly underserved in high-quality rental units that are of the proper scale to offer amenities like pools, fitness centers, clubhouses, etc. - all preferences of modern renters. Growth projections estimate that Southern Moore County should expect between 780 - 830 new renter households between 2012 and 2017 or 150-160 households annually. At this rate, it will take only 1.5 years to reach equilibrium for rental vacancy, a rate that may already have been achieved at the time this report was written. Regional developers are already seeing the gap in this market, evidenced by the planned luxury apartment complex stated to be constructed on the north side of Morganton Road - 288 units with a clubhouse and hotel-like amenities. Pinehurst is not traditionally a rental or a multi-family market, but opportunities within this market may offer opportunities for Village Place. Given the cost of land and a likely tenant base from nearby employment centers, like the First Health campus, it is unlikely that any rental units would be affordable or low-quality product, but instead it would help meet a demand for housing that can appeal to people like nurses, doctors or professionals that want to live in Pinehurst but cannot or are unwilling to commit to a long-term home purchase.

Demographic trends point to opportunity in each of these housing types, but there are also several hurdles that need to be addressed in order to deliver successful housing on the Village Place site. The first is absorption - the capture of 50% (a high rate) of local market growth will only result in 10-20 units, meaning that additional market may need to be captured from the region, and any planned units will need to be very precisely positioned within the marketplace to prevent long-term carrying costs. This may impact the economics of a project. The second is property acquisition. As discussed above, land value in Pinehurst and surrounding areas have risen fast enough to make the construction of middle market units (\$200,000

- \$400,000) very difficult. The best way to accommodate this is through density, which may be difficult to sell to the community. Third, one of the largest hurdles mentioned during interviews was approvals - specifically the Village Council's willingness (or unwillingness) to allow certain product types and densities. The unpredictability of the approvals process is not only a hurdle to consider moving forward, but is likely a major reason why many similar types of housing projects have not been recently built within Village limits and subsequently why it is difficult to examine in detail the potential for these housing sub-markets.

4.2 Office Market

Limited nearby office supply, matched with a tight regional office market, lack of Class A space, and growth in office-related employment suggests that there is an opportunity for office related uses at the Village Place site. Five sub-markets are identified as targets:

Standard Class A, Small Space Tenants - Professional offices such as lawyers, doctors, accountants and small firms looking for high quality office space with corresponding amenities and finishes.

Medical professional offices - More than 270,000 square feet of medical uses have been built over the past 10 years (not including the heart hospital) but the First Health complex is rapidly running out of space, leaving an opportunity to capture on-going growth in the medical office market.

Military Defense Contractors - Commercialization opportunities spinning out of Fort Bragg and former military families who have chosen to live in Southern Moore County.

Incubation Space - Traditional incubation / acceleration space to assist small enterprises move through first stages of business growth, including rent-assisted space, business training, and shared expenses - as of 2012, the Southern Pines-Pinehurst area had a higher percentage of business establishments with 1-9 employees (77%) than Raleigh-Cary, Durham-Chapel Hill, Charlotte, Asheville, or Wilmington (72-75%).

Co-Work / Small Office Share - Opportunities for very small businesses (1-4 people) to work in space with access to business equipment but which is also significantly cheaper than traditional offices space - a trend growing increasingly throughout the country (70% of all office related business establishments have 4 or fewer staff, and the region leads North Carolina cities in the # of establishments per employee).

It is believed that the Village Place could absorb up to 10,000 square feet of traditional office space in the short-term (1-3 years). The short and long term demand is likely to be higher, but a number of market considerations must be taken into consideration. The first is the price existing businesses are willing to pay for space - despite the overall demand for Class A space, the existing market is used to paying lease rates under market value for Class A quality. Accordingly, businesses may be reluctant to re-locate if they have to pay higher rents. Second, despite regional growth in office-related employment, it is beneficial to be conservative about how much new growth can be captured to the Village Place site, without understanding the exact amount of corresponding retail and other amenities that may be part of the project. An optimistic projection of a 25% share of regional growth would be approximately 10,000 square feet.

At this size of leasable or for-sale office space, it would be most advantageous to integrate it with additional uses, and thus the viability of office is tied somewhat to the retail and residential markets. Securing medical professional businesses as tenants would greatly enhance the feasibility of office space, and perhaps help push the expected short-term absorption rate beyond 10,000 square feet. Additionally, any opportunity to involve regional resources to enhance the economic sustainability of entrepreneurial enterprises and start-ups, such as incubation / acceleration resources could as much as triple short-term office space potential. Accordingly, potential partnerships with Partners in Progress and others involved in regional economic development should be discussed.

4.3 Retail Market

The Southern Pines-Pinehurst micropolitan area is a major regional retail center, drawing in thousands of consumers from adjacent counties in a rural catchment area equal to at least 225,000 residents. Retail development has kept pace with area growth and its emergence as a regional center, resulting in a surge of new national retail stores and centers, primarily in Southern Pines and Aberdeen. This retail development has reached a point of saturation within Southern Moore County, though it continues to draw in a large consumer base from outside.

SUMMARY OF PHASE 1 FINDINGS

Despite recent retail development, the Pinehurst market remains significantly underserved, with only the small number of businesses within the Village Core and projects like Olmstead Village in Taylortown serving village residents. The same under-supply extends to other markets like employees and tourists, whose anticipated spending leaks outside of Pinehurst, or is not captured within the region at all.

By using a merging markets economic model, one would expect there to be as much as \$88 million in annual retail demand in Pinehurst and immediate environs, broken down by residents (70%), Employees (5%) and Visitors (25%). This does not include a corresponding demand for Food & Drink, estimated at \$57 million (50%/19%/31% split). This demand is matched with only \$18-25 million in retail supply (sales) and \$26 million in food & drink supply in Pinehurst (including Taylortown). Although these figures likely do not include dining establishments within the Resort, it nevertheless represents a significant missed opportunity to leverage an existing consumer base to the benefit of Pinehurst residents.

The Village Place site has the potential to draw from all three major retail markets, but its location off an arterial road limits its attractiveness to national or regional retail chains who prefer higher traffic counts and viability. Thus, the site is better suited as a small mixed-use center made up primarily of opportunities for small retail, service and dining businesses - very much an extension of the Village Core as envisioned by the original NewCore master plan. Businesses that can balance consumers from both the tourist and resident markets will likely do best, with the employee market "layered" in as an added benefit. Any office or residential space that can be integrated into retail space will drastically improve its viability and vitality.

However, it should be noted that the success of retail on the Village Place site will very much be tied to any "anchors" that can be integrated into the project. Consumers will need to be driven to the Village Place site and will need a reason to visit the site as opposed to other locations in the local and regional market. Traditional retail-based destinations include anchors like Pharmacies and Grocery Stores. While these types of businesses are very much in demand and will likely appeal to both resident and tourist markets, there are real challenges in drawing in similar anchor stores, from the amount of land and parking they require to their preference to being located on higher trafficked arterials.

Any development at Village Place that is primarily retail will require some sort of retail based anchor, but an integrated, mixed-use project opens up other alternatives, including important service-based destinations such as banks, destination dining establishments, or entertainment venues not found otherwise in the marketplace. In addition to "anchor" uses, any development will need to ensure that its customer base can both find and access businesses. This includes "gateways" off of Route 211, signage directing traffic off of Route 5, 211 and 2, and connectivity to Pinehurst Resort, such as a shuttle. Connectivity to Village Core is another essential component, as is readily accessible parking.

Demand for new retail and dining uses is very real, but programming such businesses into the Village Place site will require a very focused effort of tenant mix, anchor tenants, strategies to attract customers and connectivity to existing destinations. Integration with other uses like office, hotel or housing will also help. Consideration of how 1 or 2 anchor tenants of 10,000 - 15,000 square feet can be integrated into the project area is necessary until other destination uses are established.

4.4 Hospitality Market

A hotel could offer several advantages within the Village Place project. Specifically, it could help enhance the retail consumer base for retail in the Village Core - including any retail within Village Place itself, and it could assist in making the overall Village Place product more economically feasible. For a hotel operator, there are several advantages to the Village Place site for a hotel. It is located near growing employment centers like the First Health campus that would drive both business and family visitors to the site. It is also centrally located to the Pinehurst tourism market, with good access to the Pinehurst Resort as well as other publicly accessible golf courses.

The large number of hotel properties within the region, combined with a lackluster (though improving) industry-wide occupancy rate indicates limited overall growth potential for hotels except for those that tie into specific market niches, which include name brand high-end or luxury hotels, and mid to high end product targeted towards business travelers. The lack of direct access to golf courses and location off of major arterials reduces options for a hotel in Village Place. Physical and political considerations also limit options. A new hotel product may be viewed upon negatively by Pinehurst Resort, with which it would directly compete for a customer base. The scale of a new hotel - likely to be at least 80-120 rooms - may be too intense of a use on the project site. Finally, the immediate Pinehurst hotel market is well-served in terms of supply, with over 752 rooms within 3 miles of the Village Core (1/3rd of the regional market), with a split between niche historic and resort properties like the Carolina and Holly Inn vs. newer full service product like Homewood Suites and Springhill Suites, and secondary amenities and market drivers like meeting/convention space and on-site dining/shopping already in place.

Ultimately, it is not unreasonable to think that a hotel of a certain size could be a viable use within Village Place, but the overall market offers many opportunities that offer similar (or better) locational access and advantages, including nearby sites in Taylortown and others along 15-501 or US 1 in Southern Pines or Aberdeen. However, if this use is one that could be supported by the Council, residents and perhaps also the Resort, then a deeper analysis may be warranted to examine whether such a site could appeal to local hotel developers looking to fill a gap in the regional hotel supply.

4.5 Conclusions

The findings of this updated market assessment are not significantly different from the findings and assumptions made regarding the original NewCore Master Plan. There are opportunities for multiple markets in a development on the project site, though the success of each individual market is likely tied to the inclusion of one or more markets into a mixed-use development. There are a wider range of housing options believed to be feasible, from single family cluster homes to condominiums and multi-family apartments. The opportunity for a retail center is high, but requires the inclusion of retail anchors or other destination uses in order to make any new businesses truly viable. Professional office space can take advantage of a need in the local market for Class A space and growing employment in office-related sectors, though the site offers a good opportunity to tie in efforts to support the incubation and acceleration of small businesses, something that - in a partnership with regional economic development efforts - could go a long way towards increasing the amount of potential office space. Finally, there are gaps in hotel segments throughout the market, but filling those gaps is most likely to occur in other parts of the region.

Each core market (housing, office, retail) offers potential but also some risk without both a more detailed examination of each market in terms of anchor tenants and potential absorption and the knowledge that these uses can be integrated into a relatively dense/intense development that enhances economic feasibility. With the conservative estimates in this analysis, and a better understanding of the likely land acquisition approach, a phased approach may be warranted in order to flush out the market to its fullest, but this may not achieve effective economies of scale relative to land and construction costs. These items will need to be flushed out more during subsequent phases of work and due diligence relative to the proposed project.

For Pinehurst, key components of whether the market opportunity outlined in this summary will be able to be met will be political and community approval relative to certain development patterns and potential density/intensive of use necessary to integrate uses, draw anchor uses, and make a project economically feasible. There are enough uncertainties relative to the project area where a developer is unlikely to commit to a project unless they know certain uses and building types are allowed and approved. Further analysis of this project will be required to better visualize this market potential in terms of a potential development pattern and to determine economic feasibility based on expected costs and anticipated rental and sales revenue as researched in this assessment.

SUMMARY OF PHASE 1 FINDINGS

FIGURE 3 - MARKET POTENTIAL / RISK

This chart summarizes the market potential for Village Place, combining opportunity with risk associated in the short-medium and long term.

lower risk
 some risk
 higher risk

	Short-Term (1-3 Years)	Mid-Term (3-5 Years)	Long-Term (5-10 Years)	
Single Family Housing (Detached - 6-12 units per acre)				Single family vacancy is extremely low, and housing in proximity to the Village Core is in high demand
Single Family Housing (Attached - Townhomes - 10-25 units per acre)				Only 1/3 of condo market has 3+ bedrooms, and many others are duplex/triplex product with 1 story living. 2-3 story townhome product needs more testing in the market
Single Family Housing (Attached - Condominium/ Flats - 15-30 units per acre)				All recent condominiums sales in Old Town Pinehurst are 1-2 bedrooms and sell for double the price per square foot of the rest of the market.
Multi-Family Rental (15-40 units per acre)				High demand for good quality, mid-level to luxury apartments throughout market.
Commercial Office Space				Strong demand potentially tempered by mis-match in cost to supply space vs. willingness to pay Class A prices. Small biz support greatly increases feasibility.
National Retail Anchors (Grocery, Pharmacy, etc.)				Location off of major arterial drastically limits ability to draw national tenants. Recruitment will need work.
Small retail / service businesses				Strong potential for retail, but a anchor / destination use is needed to support more than a token amount of storefront space.
Hotel				Risky proposal considering density required and proximity to the Resort - better locations in the regional market.

ATTACHMENT A - INTERVIEWS

INTERVIEWS CONDUCTED AS PART DUE DILIGENCE RESEARCH

Interviewee	Organization	Relevant Property	Notes
Tom Pashley	Resorts of Pinehurst, Inc.	Manor Inn, Steam Plant	In-Person Interview
Clark Campbell	Grumpy Pumpkin LLC	200 E McCaskill, 300 Rattlesnake Dr	In-Person Interview
Heidi Hall-Jones	Punch Jones, Inc.	250 E McCaskill Rd	Telephone Interview
Lynlee Long	CLBG LLC	250 E McCaskill Rd	In-Person Interview
John Tesei	Nick Manneros II, Inc.	300 E McCaskill Rd	Telephone Interview, Representative to Owner
Manager	Hughes Plumbing Supply	300 E McCaskill Rd	In-Person Interview
Dave Crisafulli	Vardon Advisors / Moore Investment Group LLC	205 Rattlesnake Dr, 315-365 Magnolia	In-Person Interview
Robert Clark	n/a	65 Community	In-Person Interview
Randy Gould	Moore County Utilities	105 Powerplant, 55 Rattlesnake	In-Person Interview
Bryan Phillips	Moore County Public Safety	290 McCaskill Rd	In-Person Interview
Andy Wilkison, Natalie Dean, Andrea Corell, Bruce Gould	Village of Pinehurst	500-700 McCaskill Rd, 55 Rattlesnake Dr, 395 Magnolia Rd	Staff Representation for the Village, In-Person Interviews
Marty McKenzie			In-Person Interview
Kay Beran			Telephone Interview
Jim Saunders	Village Core Property Owner		In-Person Interview
John May	Partners in Progress		In-Person Interview
Jane Deaton			In-Person Interview
Jim Garrett	ReMax		In-Person Interview
George Manley	Kuester Companies		In-Person Interview
Holly Spofford Bell	Kuester Companies		In-Person Interview
Dave Kilarski	First Health		In-Person Interview
Pat Corso	Partners in Progress		In-Person Interview
Jeremy Rust	Moore County Planning		Telephone Interview
Caleb Miles	Convention & Visitors Bureau		Telephone Interview