

Falls of Neuse Study Area Market Potentials

As input to revision of the Small Area Plan for Falls of Neuse, the Raleigh Department of City Planning asked for a review of market opportunities for the key undeveloped properties in the study area between Durant Road, the Neuse River and Forest Ridge Park. Much of the surrounding area is fully developed to the east of Falls of Neuse Road and/or constrained by watershed protection zoning to the west, but a few frontage parcels remain to be developed.

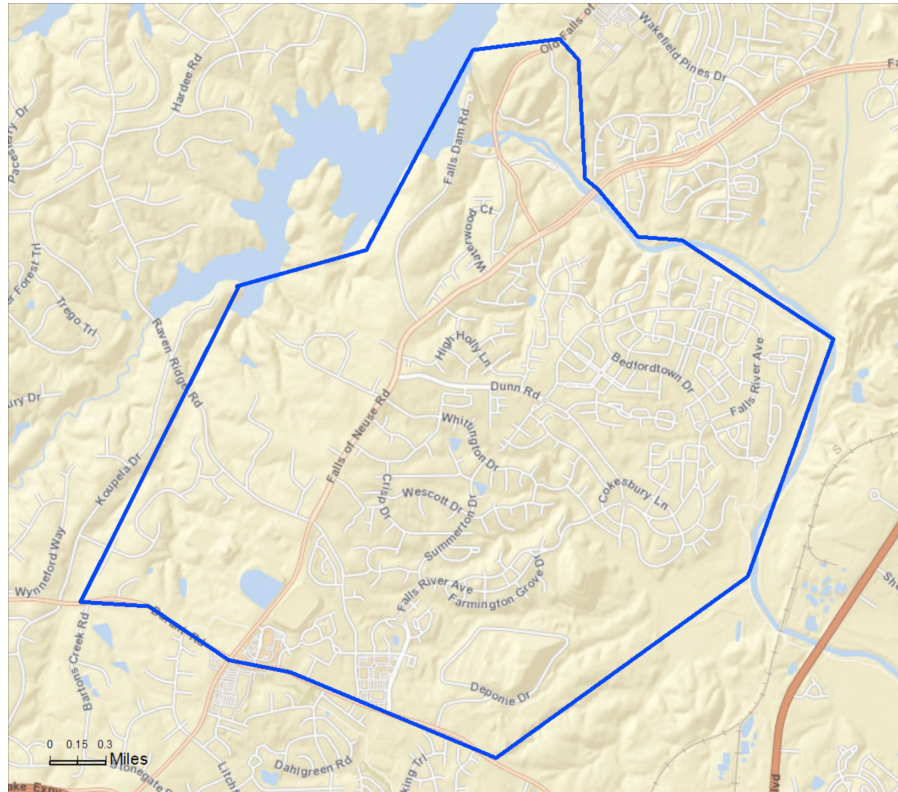
A major grocery store-anchored retail center and apartment development has been proposed for the 17.6-acre parcel at Raven Ridge Road. The parcel at the Falls of Neuse and Dunn Road intersection had been proposed for a Publix supermarket, but community opposition to rezoning led the property owners to change their proposal to a congregate care facility that has been approved. Additional commercial land (roughly 1.8 acres) is yet to be developed along Dunn Road. A third parcel opposite the entrance to Falls Lake includes a dentist's office developed on 0.9 acres as well as two residential properties (7.6 acres) that eventually may be redeveloped. Four additional residential properties with a total of 9.1 acres opposite Waterwood Court south of the Leonard Tract also may become available for redevelopment. The Future Land Use Map in the Comprehensive Plan designates these properties for Office & Residential Mixed Use, except for the Dunn Road parcel, which is designated for Neighborhood Mixed Use. North Carolina law allows property owners to propose development that differs from that zoning, subject to approval by the City Council.

This analysis focuses on the potentials for residential, retail and office uses.

Demographic Profile

The Study Area focuses on the Falls of Neuse Road frontage. The residential neighborhoods most closely aligned with that frontage include Savannah Ridge, Wood Spring, Raven Pointe, Kings Crest, Bedford at Falls River, Highland Park, River Oaks and Sheffield Estates within the boundary shown on Map 1.

Map 1. Falls of Neuse Road Residential Area



In 2016, the residential area included a population of 14,474 residents living in 5,514 households, according to Esri, a national demographic data provider. Since 2010, the area population has grown 12.3 percent, adding almost 1,600 new residents.

More than three-quarters of households own their homes. The study area had 1,287 renter households in 2016, an increase of 272 households since 2010. Median household income of \$98,849 is among the highest in the city. Twenty-six percent of households have incomes of \$150,000 or more. Of employed residents aged 16 or older, 82 percent are occupied in white-collar jobs with 55 percent in management/business/financial or professional positions. Almost 30 percent of area residents are below the age of 18 with 32 percent aged 35 to 54. Though average household size is slightly higher than average at 2.62 persons per household, 24 percent of households are persons living alone and 31 percent have only two persons.

Residential Development Potentials

While there is demand for a variety of housing types on the Study Area sites, the value and sizes of available parcels and their location on a major arterial suggest that the most likely housing uses would be townhouses or low-rise apartments. These uses would allow the property owners to maximize the properties' residential values.

Colliers International reports that the Triangle multi-family market has an overall vacancy rate of 7.2 percent, somewhat higher than the 5.0-percent level that indicates a balance between supply and demand. Recent expansion of the rental housing supply has somewhat overshot the demand, but leasing remains brisk with over 2,500 additional apartments occupied over the last year. Colliers defines the Six Forks/Falls of Neuse submarket as a narrow wedge extending from just inside the Beltline to the Granville County line bounded on the east by the US 1/Capital Boulevard corridor and on the west by the Glenwood/Creedmoor neighborhood. Within the submarket are 9,939 apartments in buildings of 25 or more units. As of the end of 2016, these units had a 6.9-percent vacancy rate and average monthly rents of \$1,018 or \$1.07 per square foot for the average 950 square-foot apartment. In 2016, the submarket absorbed (i.e., occupied) 165 units, 257 new units were delivered, and 285 units were under construction in this same timeframe.

In building multi-family apartments, developers typically prefer to have at least 150 to 200 units so as to be able to afford the cost of on-site management and amenities. The Raven Ridge property could support apartments in three- or four-story buildings while still complementing nearby residential neighborhoods. Market rents would not support the cost of building a parking structure or underground parking. Garage townhouses could be developed at a density of 14 to 18 units per acre.

Retail Development Potentials

The size and nature of available sites in the Study Area suggest that the most likely retail uses would be a grocery store, a grocery-anchored neighborhood shopping center or a stand-alone convenience retail use such as a drugstore. This analyses focuses on these opportunities.

Falls of Neuse Road sites are appealing to retailers due to the high incomes of surrounding neighborhoods and the high levels of pass-by traffic (36,000 vehicles per day in 2015). Ordinarily, the restricted growth potentials west of Falls of Neuse Road in the water supply

protection area would depress retailer interest because it means stores can pull from only half of the typical radius – 180-degree markets are less attractive than 360-degree markets.

Existing Conditions

The current competitive framework shown on Map 2 shows that most of the major grocery chains active in the Triangle market have a store within seven miles of the Study Area, including several within one mile.

The Study Area is bookended by Falls Pointe Shopping Center (Harris Teeter), Falls River Town Center (Food Lion) and Olive Park Shopping Center (Sprouts Farmers Market) on the southern end and Wakefield Crossing (Food Lion) on the northern end. Sprouts Farmers Market just entered the local market, opening in March 2017. Kroger and Whole Foods have stores along Strickland Road two to four miles southwest of the Study Area. Further north and east near the intersection of US 1 and Falls of Neuse Road, Harris Teeter and Aldi have outlets, and Lidl, a similar German grocery store new to Raleigh, is proposing a store. Trader Joe's is located on Wake Forest Road at the Beltline (seven miles south of the Study Area), and Wegman's has announced plans to open a store nearby.

Walmart operates SuperCenters on I-540 east of Capital Boulevard and on S. Main Street in Wake Forest. Warehouse stores serving the area include Costco on Wake Forest Road inside the Beltline, BJ's on US 1 at I-540, and Sam's Club in Wake Forest on US 1.

This coverage pattern does not reveal any gaps in market coverage that would prevent area residents from accessing one or more grocery stores.

Effects of Technological Change

It is also worth considering future retail needs in light of emerging trends and technologies. E-commerce has revolutionized large segments of the retail industry, expanding to 8.5 percent of total US sales in the first quarter of 2017, up from 7.8 percent in just 12 months. Stores that sell goods that don't require trying on, touching or hearing have been particularly vulnerable. Several major chains (e.g., Sports Authority, Borders Books and HHGregg) have closed as a result and many others are closing individual stores. To date, grocery stores have been relatively resilient to on-line competition, though that may not continue.

As autonomous/driverless vehicles are developed, experts expect that their first deployment will occur in distribution. By eliminating the cost of drivers, distribution becomes less expensive, giving e-commerce further impetus. Using driverless cars, robots and drones

Falls of Neuse Area Plan Update

Market Study

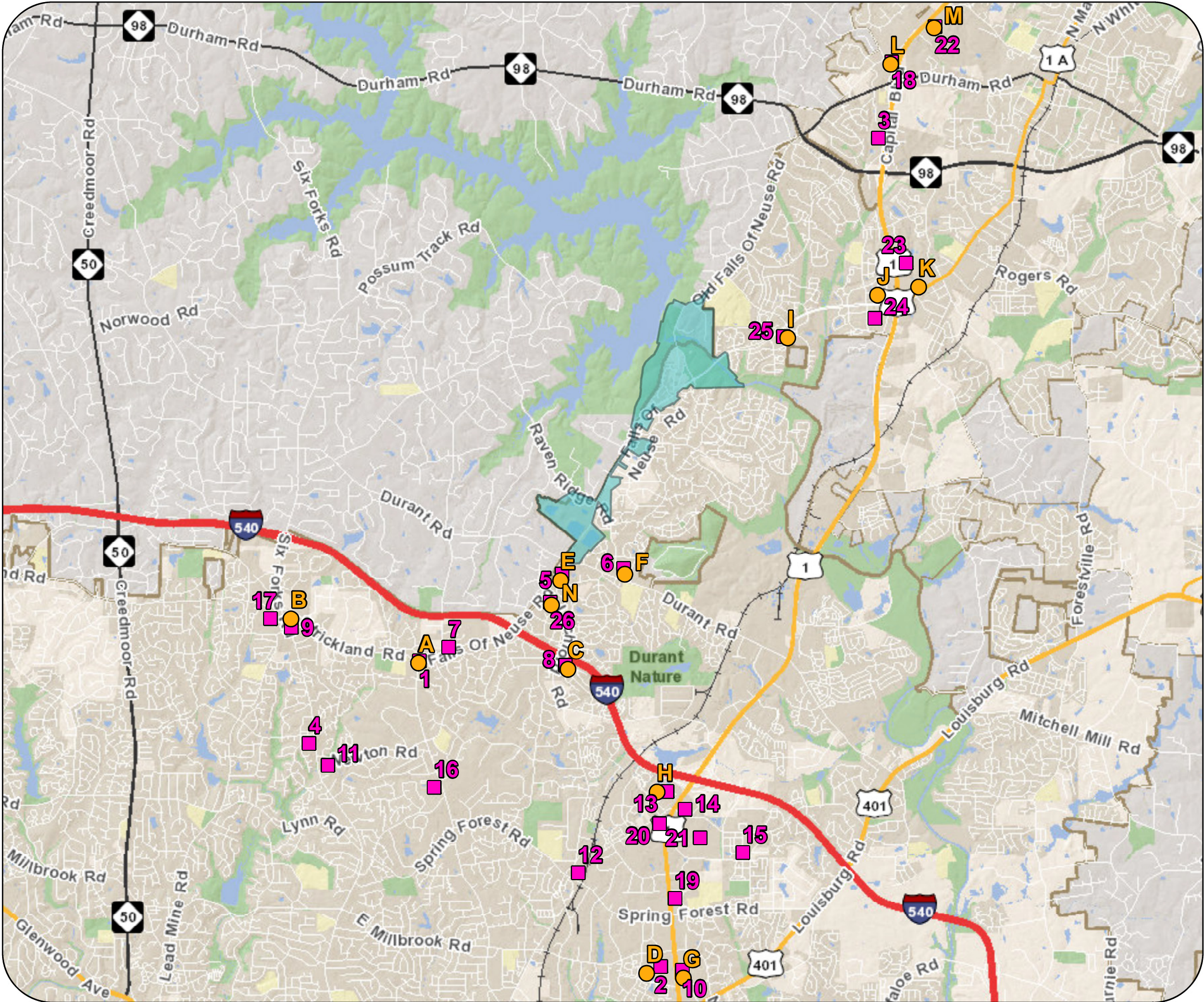
 Falls of Neuse Study Area

 Shopping Center

- 1 Bent Tree Plaza
- 2 Capital Crossing Shopping Center
- 3 Capital Plaza
- 4 Celebration at Six Forks
- 5 Falls Pointe Shopping Center
- 6 Falls River Town Center
- 7 Lafayette Village
- 8 Litchford Village
- 9 Market at Colonnade
- 10 Mini City Market Place I and II
- 11 Newton Square
- 12 Pavilion Shopping Center
- 13 Plantation Point Shopping Center
- 14 Plantation Square
- 15 Poyner Place
- 16 Shops at Falls Village
- 17 Six Forks Station Shopping Center
- 18 The Market of Wake Forest
- 19 Town Square I & II
- 20 Triangle Plaza
- 21 Triangle Town Center
- 22 Wake Forest Crossing
- 23 Wake Pointe Shopping Center
- 24 Wakefield Commons
- 25 Wakefield Crossing
- 26 Olive Park

 Grocery Store

- A Kroger
B Whole Foods
C Food Lion
D Sam's Club
E Harris Teeter
F Food Lion
G Food Lion
H BJ's Supermarket
I Food Lion
J Harris Teeter
K Aldi
L Food Lion
M Lowes Foods
N Sprouts Farmers Market



for deliveries will reduce the most burdensome costs of the “last mile” between store and customer’s home. As deliveries become more convenient, less costly and faster, shoppers will be less likely to visit a bricks-and-mortar store and retailing will change significantly. Stores are likely to shrink in size and number. The retailers that persist will be those that offer an experience more than simply a transaction such as restaurants, entertainment and retailers that allow shoppers to try out goods before ordering them delivered to their homes.

Though these shifts in transportation and the retail environment will likely take 10 years to develop, the changes have begun. Over the next couple of decades, the need for physical retail space is expected to decline.

Retail Opportunities

A new grocery store, particularly one not well represented in the immediate vicinity, could potentially find sufficient market support for profitable operations on the Raven Ridge site. However, that market support would come primarily from other existing grocery stores with little net new economic activity as most of the new residential growth is occurring further north beyond the Study Area.

Excluding a grocery store, retail opportunities for the Study Area would include primarily restaurants and convenience retail and services. Potentials for a retail center with small shops and restaurants are relatively limited without a grocery store or other generator of customer traffic. Though mixed-use development could provide some support from on-site residents or office tenants, the retailers would depend primarily on customers arriving by car. A small center of 15,000 to 20,000 square feet might be supportable on the Raven Ridge site, but leasing could be a challenge. Tenants could include one to two cafes or restaurants, pet food or pet care services, small fitness uses (e.g., Curves) and/or small local offices.

On the Dunn Road site, the most likely retail tenant for the remaining uncommitted acreage would be a gas station/convenience store like a Sheetz. However, the zoning agreement for the site prohibits fuel sales, so it would most likely attract a drugstore, a convenience store, a drive-through use other than fast food or possibly medical office space.

Master planning and implementation of recreational improvements at Falls of Neuse and Neuse River Trail could further boost visitation to the dam and the Leonard Tract and encourage additional use of the greenway. This focused demand from cyclists, hikers and others enjoying the natural area could support a small retail cluster near the dam. A café or ice cream/sandwich shop could join the existing bike shop to support usage of the



recreational elements. It might be appropriate to develop a concession operation in the park itself, operating seasonally.

Office Development Potentials

Colliers International reports that the Six Forks/Falls of Neuse submarket has an inventory of 8.0 million square feet of office space in buildings of 10,000+ square feet. Much of this space exists along major arterials in office parks. The regional market shows a relative balance of supply and demand, evidenced by its 7.9-percent vacancy rate. The Six Forks/Falls of Neuse submarket has vacancies equal to 8.7 percent of total office space with 696,000 square feet of vacant space, the third highest vacancy rate behind only North Durham (30.2 percent) and RTP/I-40 (13.3 percent). Focusing on Class A office space alone, the submarket has the region's highest vacancy rate at 12.2 percent compared with 7.3 percent region-wide.

Nationally, office markets are shifting from their former focus on office-only parks and districts to mixed-use developments that include retail and residential uses as well. Younger workers have demonstrated preferences for walkable environments with live/work/play opportunities. As knowledge workers become more and more important to businesses, many companies are choosing to locate their offices in mixed-use districts near transit facilities. Major stand-alone offices along thoroughfares have much less appeal to today's office tenants than in the past.

The nature of the undeveloped sites in the Study Area and their location removed from major employment centers limit their potential for major office development. Co-working space, where users share space and support facilities often on an hourly basis, is being developed to accommodate entrepreneurs and small businesses that cannot afford more space or commit to a five-year lease. Workers are much more mobile today and able to work anywhere with WiFi and table space. Most co-working space, however, is being developed in urban locations with good transit access and a higher population concentration able to walk to the space than would be available in the Study Area. A café/coffee shop could serve that role for local freelancers who need to get out of their houses.

Most likely would be the development of small offices for professionals serving the local population – dentists, doctors, attorneys, accountants, insurance and real estate agents, and other small offices. Typically, local-serving businesses occupy 8 to 12 square feet of office space per household served. The neighborhoods immediately surrounding the Study Area have roughly 1,500 households, who support an estimated 12,000 to 18,000 square

feet of office space, much of which already exists. Medical office buildings have leased an estimated 100,000 to 120,000 square feet of space on sites along Durant and Raven Ridge roads. Their tenants serve populations from beyond the immediate neighborhoods. Easy access to WakeMed is important for busy physicians who see patients at the hospital and in their offices.

Study Area sites could support 20,000 to 40,000 square feet of office space, of which one-third might favor stand-alone buildings of 2,000 to 5,000 square feet while two-thirds would prefer a multi-tenant building near WakeMed. Study Area sites will compete with other vacant sites along Raven Ridge and Durant roads for medical office tenants.

Conclusions

The Study Area's commercial development opportunities are somewhat limited, including:

- one to three cafes or restaurants;
- specialty retail and service uses such as pet care, dry cleaners or small fitness uses;
- a drugstore or convenience store;
- medical office space in a multi-tenant building of 13,000 to 24,000 square feet close to WakeMed;
- 7,000 to 12,000 square feet of small, freestanding offices for dentists and other professionals serving the local population; and
- a café or ice cream/sandwich shop near the Falls of Neuse dam.

While a grocery store might be successful by attracting sales from other existing stores, it would not be needed to fill any discernible unmet need or gap in the market.

The market would best support residential development, including rental apartments with surface or above-ground parking and/or for-sale townhouses.