DOWNTOWN FAIR BLUFF RECOVERY:
MARKET AND FINANCIAL ANALYSIS FINDINGS

Prepared by the
Development Finance Initiative

July 2017
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DEVELOPMENT FINANCE INITIATIVE

The University of North Carolina at Chapel Hill School of Government established the Development Finance Initiative (DFI) in 2011 to assist North Carolina communities with achieving their community economic development goals. DFI partners with communities in North Carolina to attract private investment for transformative projects by providing specialized finance and real estate development expertise. DFI works with local governments and their partners on projects including: downtown revitalization, public-private partnerships, adaptive building reuse, tax credit financing, district designation, and neighborhood redevelopment.

DFI services support implementation of local community and economic development priorities that require private investment. DFI can be thought of as an extension of an organization’s planning, development services, economic, and community development departments.

ABOUT THIS DOCUMENT

In May of 2017, the Hurricane Matthew Disaster Relief and Recovery Initiative (HMDRRI) engaged DFI to provide its development and finance services to three communities recovering from Hurricane Matthew: Fair Bluff, Seven Springs, and Windsor.

This report examines pre- and post-Matthew local market conditions and presents a financial analysis of the reconstruction of downtown Fair Bluff, either through relocation or rehabilitation and retrofit. This document is meant to guide local officials through key decisions regarding the revitalization of their downtowns post-disaster.

Source: AA Roads
Fair Bluff, North Carolina is a historic, river-oriented town in Columbus County, bordering Robeson County, and nestled on the banks of the Historic Lumber River in southeastern North Carolina. Two main highways define Fair Bluff’s Main Street - N.C. 904 and US Hwy 76. As one of the oldest towns in Columbus County, the town of Fair Bluff was incorporated in 1873 and historically employed its residents as turpentiners, lumbermen, and merchants. Fair Bluff describes itself as a “town in transition,” whose early setting and economy was shaped by the path of the Lumber River and the former Atlantic Coast Line Railroad. Although Fair Bluff previously relied on agriculture as the primary driver of its local economy, it is endeavoring to adapt to the rapidly-evolving market and environment of the 21st century. Town officials and residents are clearly up to the challenge, and pronounce that “natural beauty, rich history, and a bright future is what Fair Bluff is all about.”

One of the main attractions is the Fair Bluff River Walk. After nearly 11 years of construction, it was completed in 2011 and boasts a beautiful, 1-mile elevated river walk that is open and free to the public. The Fair Bluff River Walk adjoins the stretch of the Lumber River that divides Columbus and Robeson counties and is part of the national Wild and Scenic River system.

The lumber for the Riverwalk was paid for with a grant from the N.C. Tobacco Trust Fund and assembled by volunteers, many of whom still reside in the town of Fair Bluff. The nearby Lumber River State Park attracts nearly 70,000 visitors a year and has experienced significant year over year growth. It is difficult to measure the numbers of visitors that then pass through Fair Bluff, but, on average, 4,100 vehicles pass through Main Street daily.

Table 1: Town of Fair Bluff demographics, 2016 estimates

<table>
<thead>
<tr>
<th>2016 Estimates</th>
<th>Town of Fair Bluff</th>
<th>Columbus County</th>
<th>North Carolina</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>940</td>
<td>57,071</td>
<td>10,304,250</td>
</tr>
<tr>
<td>Number of Households</td>
<td>441</td>
<td>22,110</td>
<td>4,031,256</td>
</tr>
<tr>
<td>Median Household Income</td>
<td>$35,617</td>
<td>$35,796</td>
<td>$48,918</td>
</tr>
<tr>
<td>Percent in Poverty</td>
<td>36%</td>
<td>24%</td>
<td>16%</td>
</tr>
<tr>
<td>Median Age</td>
<td>46</td>
<td>41.3</td>
<td>38.6</td>
</tr>
<tr>
<td>Percent Youth (0-19)</td>
<td>24%</td>
<td>23.4%</td>
<td>25%</td>
</tr>
</tbody>
</table>

Source: Esri Business Analyst

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5 ESRI Business Analyst
Downtown, or the study area, as defined in this report is contained in a 94-acre area shown in Figure 1. Pre-Hurricane Matthew, Fair Bluff’s downtown was experiencing high-levels of distress. The average appraised building value per commercial square foot (SF) in the downtown area was extremely low at $8.50, pulled down significantly by underutilization in the core and railway-oriented warehouses.

Downtown Fair Bluff is comprised primarily of residential and commercial properties. Most of the residential properties are clustered in the northeast portion of downtown and bounded by Andrew Jackson Highway South (the main thoroughfare through downtown Fair Bluff, also known as Main Street). The downtown commercial core is clustered along Main Street near the Lumber River access point. Fair Bluff’s entire downtown was inundated by Hurricane Matthew and local officials estimate that only seven businesses of an estimated 24 businesses were insured.6

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6 ReBUILDNC Columbus County Plan 2017, pgs. 3-4.
Public Interests

The following are key public interests for downtown Fair Bluff, as identified through discussions with public officials and local stakeholders. These interests form the basic vision and expected outcome of the successful recovery of downtown.

- Enable local businesses to move back into downtown.
- Enhance the Riverwalk-oriented, tourism economy.
- Ensure downtown resiliency.
- Preserve the historic character of downtown.
- Minimize public investment and maximize private investment.

Main Street, Downtown Fair Bluff

Source: Whiteville Online

Fair Bluff River Walk

Source: Whiteville Online

Fair Bluff Depot Museum

Source: Whiteville Online
**PRE-MATTHEW MARKET OVERVIEW**

DFI assessed pre-Matthew market conditions by evaluating supply and demand for commercial uses, including multifamily residential, office and retail. Understanding how the town was performing prior to the flood event will allow us to better frame the goals of the redevelopment of downtown.

**Demographic Drivers**

As of 2016, the population of the Town of Fair Bluff was rebounding after ten years of decline between 2000 and 2010. Although the town experienced an almost 15% population decrease from 2000 to 2010, it experienced a 12% population increase from 2010 to 2016.

Columbus County had an inverse trajectory, growing steadily from 2000 to 2010, but losing 2% of its population from 2010 to 2016. Changes in the number of households reflect the population, as average household sizes remained the same in both the town and county. Median household incomes declined by 2% in the town and 9% in the county.

**Figure 2: Town of Fair Bluff Percent Growth, 2000-2010**

[Bar chart showing population and households growth]

**Multifamily Residential Demand**

Downtown Fair Bluff is almost exclusively a commercial area, with a mere 7 households residing downtown in single-family homes. The primary residential market area for downtown residential products is the Town of Fair Bluff, although Columbus County and Robeson County were evaluated as well.

The vacancy rate in the town is extremely high at over 50% and no population growth is projected over the next five years. Historically, downtown captured 1.6% of the total occupied housing units in Fair Bluff and a tenth of a percent of units in the two counties. But without demand for new residential units, downtown can not expect to support new residences. Although in Columbus County and Robeson County strong household growth indicates that an estimated 2,400 new units could be filled over the next five years, historic trends signal that downtown Fair Bluff in its current condition can not expect to capture that growth.

A closer look at local housing needs, however, indicates that although there is no overall lack of housing supply in Fair Bluff, there appears to be a shortage of affordable options. According to the U.S. Department of Housing and Urban Development (HUD) families who pay more than 30% of their income for housing are considered “cost burdened,” which can make affording other necessities such as food, clothing, medical care, and transportation more difficult. ESRI Business Analyst estimates that the Town of Fair Bluff is 64% owner-occupied and 36% renter-occupied. According to HUD, 25% of owner-occupied households and 30% of renter-occupied households were cost-burdened prior to Hurricane Matthew. Of the households that are cost-burdened, 110 households (90%) are earning less than 80% of the Area Median Income (AMI). Further analysis is required to understand the bands of demand for affordable housing in the Town of Windsor. A typical housing needs analysis includes the number of housing units available at different price points, the number of people by income levels and income by occupation.

8 2010 Census, Policy Map.
Office Demand

The office market in Fair Bluff is limited. It captures less than 0.1% of both the Columbus and Robeson County office job sector. Columbus and Robeson Counties combined experienced a significant increase in office-related jobs in 2007 (11%) and 2011 (13%). However, since 2010, both office markets in Columbus and Robeson Counties have declined, and after the 2011 rebound, lost office jobs at an annual average rate of 1.7%. There is no projected new demand for office space in downtown Fair Bluff.

Retail Demand

Within the primarily retail market area, defined by a 20-minute drive time and modified to exclude larger commercial trade areas in Lumberton and Whiteville, there are 26,075 household. The area has grown consistently over the last 16 years at an annual average rate of 0.6%. Based on projections over the next five years, household growth alone could generate demand for nearly 90,000 SF of retail within 20 minutes of downtown.

Additionally, an analysis of the gap between disposable incomes and retail sales within the primary trade area indicates potential unmet demand. Households within a 20-minute drive time of downtown may be spending approximately $15 million elsewhere that they could be spending within the area. A greater or better supply of retail products in the area, reflecting the demand for certain retail types, could increase local spending. The gap signals a need for more than 40,000 SF of commercial space within 20 minutes of downtown. Although the most recent commercial building constructed was in 2001, downtown Fair Bluff has historically captured 1% of the commercial activity in the primary trade area. Based on the unmet demand and projected growth in the trade area, over the next five years downtown Fair Bluff could support 1,500 to 2,500 SF of new retail activity.
POST-MATTHEW MARKET OVERVIEW

Although current population estimates are difficult to ascertain through the Hurricane Matthew recovery process, town officials estimate that roughly 330 to 340 households remain connected to the town’s Water and Sewer services. 24% of households were affected by flooding from Hurricane Matthew, but it is still unclear how many will remain in the area.

Within downtown, 84% of commercial SF were impacted by Hurricane Matthew flooding. Although there are 45 commercial buildings, only 24 businesses were active prior to the disaster (a mere 11 businesses in the Main Street core). Although a reported seven businesses applied for SBA recovery grants, none qualified. Most building owners did not have flood insurance, including the largest property owners.

The FEMA residential buyout program is still processing applications and it is difficult to numerically gauge what the market will be able to sustain when the dust settles. Therefore, our study relied heavily on comparable communities to understand the potential recovery of a commercial downtown post-disaster.

| Table 2: Downtown Fair Bluff, pre- and post-Hurricane Matthew building conditions |
|---------------------------------|-----|
| # of commercial buildings in Downtown Fair Bluff | 45 |
| Total commercial SF in Downtown Fair Bluff | 250,000 |
| % of downtown commercial SF distressed pre-Matthew | 69% |
| % of downtown commercial SF impacted by flood | 84% |

Source: DFI, Columbus County, NCEM

COMPARABLE COMMUNITIES

DFI turned to comparable communities that have experienced several flood events to gather lessons learned and best practices regarding the potential for new demand given the successful redevelopment of the existing downtowns. The areas studied are Greater Grand Forks (straddling North Dakota and Minnesota); Ellicott City, Maryland; Darlington, Wisconsin; and Soldier’s Grove, Wisconsin.

This study recognizes that the communities that were studied have markedly-higher populations, diverse community assets, discrete markets, and dissimilar geography to the town of Windsor. However, this study also recognizes that all four are communities built on “history and a river” and, thus, have historic, river-oriented, commercial downtowns that have experienced repetitive losses related to flood events.

These communities have either succeeded or failed in seeing disaster as opportunity to build back better, stronger, and more resilient. The Town of Windsor could choose to leverage Hurricane Matthew, and its associated impacts, as a catalyst for change towards the stabilization and revitalization of the commercial downtown.

The analysis and evaluation of survivor communities focused primarily on the strategies that were applied towards the recovery, stabilization, and revitalization of their river-oriented, historic, commercial downtowns. Overall, much funding, time, and energy was dedicated to targeted commercial development which, in turn, contributed to population growth, economic development, and preservation of the historic fabric of the downtowns. The investment in recovery, specifically focused on commercial, retail, and office markets, served as a catalyst towards renewed interest, sizable investment (public and private), and revitalization of the downtown.

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9 “Distressed” is defined as buildings valued at equal to or less $10 per square foot.
Lessons learned about successful commercial development post-flood included the following:

• Local governments implemented strategic redevelopment plans for the commercial downtowns.

• Whenever possible, recovering communities utilized historic preservation tax incentives as a tool to assist property owners of certified historic properties as they undertook rehabilitation projects.

• Communities instituted floodproofing standards for downtown businesses and implemented these measures through the utilization of grants and tax incentive programs.

• Those communities that were unsuccessful in their downtown redevelopment did not respect and leverage the existing architectural style and relocated to sites that were incompatible with the downtown core.

• Unsuccessful relocation efforts of commercial properties did not adequately consider distance between the historic, experienced downtown core and the newer, less contiguous commercial district.

• When businesses and residents relocated from the flood-prone downtown, vacated land was used for greenways and public open space.

Successfully redeveloped downtowns experienced the following changes in the market:

• Significant population growth in the town or city, exceeding pre-disaster levels.

• Property values for commercial buildings in these downtown cores grew significantly.

• Upfront, public investment towards recovery and stabilization of a downtown, in turn, spurred sizable private investment in these communities over a one to 20-year period.

• Floodproofing of historic properties not only benefited the feeling and integrity of the downtown, but also increased the economic potential of adjacent businesses.

• The open space created by removal of structures from the floodplain increased the area’s aesthetic quality, created recreational opportunities and spurred investment in remaining assets.
**PROGRAM**

Based on pre-Matthew market conditions and lessons learned from comparable communities, the proposed programs assume that the next phase for Fair Bluff is stabilization. Any investments in commercial space should focus on returning the town to “business as usual” and reducing its vulnerability to future flood events.

The town has multiple options to explore: new construction of a downtown core outside the 100-year flood zone to relocate viable businesses, rehabilitation and flood retrofitting, or rehabilitation to pre-Matthew standards. In line with the town’s public interests to ensure downtown’s resiliency, DFI will not explore the “do nothing” option that does not include retrofit.

**Option 1: New Construction for Relocation of Downtown**

The following program for new construction is focused on businesses identified by local officials and property owners as having a high likelihood of returning to downtown, if they have not already:

<table>
<thead>
<tr>
<th>Type</th>
<th>Units</th>
<th>GSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>1</td>
<td>4,129</td>
</tr>
<tr>
<td>Restaurant</td>
<td>1</td>
<td>800</td>
</tr>
<tr>
<td>Retail</td>
<td>4</td>
<td>17,297</td>
</tr>
<tr>
<td>Post Office</td>
<td>1</td>
<td>2,520</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td>24,746</td>
</tr>
</tbody>
</table>

**Option 2: Rehabilitation and Flood Retrofitting**

The program for rehabilitation and retrofitting is focused on the same number and types of businesses identified for relocation. Based on pre-Matthew conditions and flood impacts, we do not currently recommend retrofit investments for all 95,000 square feet (SF) of the downtown commercial core.

The Town Hall and Visitors Center relocated to its current location at the corner of Main Street and Riverside Drive post-Matthew and has since been awarded a $1.7 million grant from the Golden LEAF Foundation. Awarded in June 2017, this grant will allow the town to renovate and expand the former BB&T building which currently serves as the town hall, police department, and visitor’s center. This grant may not be used by the town to purchase another building or land outside of its current location.10 The choice to relocate or rehabilitate and retrofit should be cognizant of the project’s proximity to this project.

Although Fair Bluff is not currently an officially designated historic district, its downtown commercial core can be evaluated for nomination to the National Register of Historic Places (NRHP). Downtown Fair Bluff has a contiguous extent, as experienced by pedestrians and drivers alike, and maintains many of its historic functions (e.g., domestic, commerce, government). In addition, its commercial and vernacular architecture falls within a period of mid-twentieth century significance, demonstrating continuity in both architectural style and materials. The potential designation as an NRHP Historic District would allow Fair Bluff property owners with contributing properties within the district to apply for tax credit incentives for rehabilitation and flood retrofitting.

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FINANCIAL ANALYSIS

DFI modeled the development costs and projected cash flows of the proposed programs to determine the viability of the projects for private investors. The following are the results of that analysis.

Option 1: New Construction for Relocation of Downtown

The estimated cost to build a new 25,000 SF downtown near its current location is $3.5 million.

The development budget includes $2.9 million in hard costs and $560,000 in soft costs. A conservative acquisition price was modeled. Hard costs are all costs associated with construction, including parking, and soft costs are expenses not associated with the physical development such as architectural, engineering, historic consultant, financing and legal fees.

The following are key assumptions that underlie the financial model for new construction on a downtown-adjacent parcel:

• This is a high-level estimate. A site has not been identified and site-specific constraints can change the program and related costs. Demolition costs are not currently modeled, which would elevate the total costs by $5 per SF of the existing building.
• Based on various conversations with lenders, we have assumed a 5% interest rate with 15-year term. Loan terms may change.
• Any new construction will occur entirely out of the 100- and 500-year flood plains. Insurance costs and loan terms will likely be more costly if executed otherwise.
• The project is Type III Construction defined as “construction in which the exterior walls are of noncombustible materials and the interior building elements are of any material permitted by this code.”
• Due to a lack of local market information regarding retail and office rents, a supportable rent is estimated on comparable towns. Retail and office rents are set at $5.45 per SF per year, escalating 3% annually.

Typical underwriting suggests the project can secure $840,000 in debt and will require $2.6 million in equity. Due to the extremely low rents currently demanded by the Fair Bluff market, this project will not be able to generate sufficient returns to attract a private development partner.

Further, in choosing new construction, the town must also consider the cost of stabilizing or demolishing the existing downtown should it choose to relocate. In addition, additional small business input is required to better understand their desire and ability to relocate. Small businesses will likely be paying higher rents in the new downtown. In some cases, according to information from property owners, businesses were paying less than $1.50 per SF per year – rents that are unsustainable in most markets.

Option 2: Rehabilitation and Flood Retrofitting

The estimated cost to rehabilitate and flood retrofit 25,000 commercial SF in downtown is $3.4 million. Hard costs, which include flood retrofit measures, total $3.1 million.

The following are the key assumptions that underlie the financial model for the rehabilitation and flood retrofitting of specific properties on Main Street between Riverside Drive and Bardin Street:

• This is a high-level estimate. A general contractor is required to provide more extensive analysis of the damage and site specific costs.
• The buildings have deteriorated significantly since the flood event. Rehabilitation costs are modeled at $45 per SF which may include interior demolition, painting, replacement of flooring, ceilings, lighting, interior partitions, doors, frames, and hardware, and updates to the electrical, mechanical and plumbing systems. Costs for rehabilitation will rise as times passes and buildings deteriorate further.
• The model assumes that flood retrofitting will be in the form of interior elevation, although buildings have not been inspected for sufficient ceiling heights. The cost modeled is $55 per SF.
• Insurance premiums are significantly higher than new construction outside the flood zone. The construction loan size and terms will be tied to significant insurance coverage and will be smaller and costlier than the mortgage terms for relocation.

• This analysis does not include potential savings from volunteer labor. Limited cash flows constrain sources of capital to a $675,000 mortgage and $2.7 million in equity.

Note that the North Carolina Constitution does not permit state and local governments to make gifts of public aid to private entities. A government-sponsored loan with appropriate terms can potentially decrease the equity needed, but would require an indication that the building owners are able to service the loan.

**Comparison of the Programs**

The following is a side-by-side comparison of the total development costs and potential sources of capital for each option.

<table>
<thead>
<tr>
<th></th>
<th>New Construction</th>
<th>Rehab &amp; Retrofit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Development Cost</td>
<td>$3,500,000</td>
<td>$3,400,000</td>
</tr>
<tr>
<td>Equity Required</td>
<td>$2,600,000</td>
<td>$2,700,000</td>
</tr>
<tr>
<td>Loan Size</td>
<td>$840,000</td>
<td>$675,000</td>
</tr>
<tr>
<td>Attract Private Development Partner?</td>
<td>No</td>
<td>No (other than current property owners)</td>
</tr>
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</table>

In comparing the two options, local government should also consider qualitative differences. The viability of the businesses in any space, in part, depends on the proximity of the storefronts to the river and other amenities such as the Fair Bluff Town Hall and Visitor’s Center. The value of the historic structures to the sense of place cannot be quantified here.

**RECOMMENDATIONS FOR NEXT STEPS**

DFI recommends that the Town of Fair Bluff use this report to guide decisions about how it would like to participate in the stabilization and recovery of downtown. This report has identified two projects (relocation and rehabilitation) that require significant government participation. DFI can provide additional guidance regarding each option, including site suitability analysis and development of an acquisition strategy.

**Lumber River, Fair Bluff**

*Source: Fair Bluff, NC*