

# *DRAFT*

# *DOWNTOWN SEVEN SPRINGS RECOVERY:*

---

## MARKET AND FINANCIAL ANALYSIS FINDINGS

Prepared by the  
Development Finance Initiative

July 2017



UNC  
SCHOOL OF  
GOVERNMENT

***dfi*** development  
finance  
initiative

TABLE OF CONTENTS

DEVELOPMENT FINANCE INITIATIVE.....1

ABOUT THIS DOCUMENT.....1

DOWNTOWN SEVEN SPRINGS.....2

PRE-MATTHEW MARKET OVERVIEW.....5

POST-MATTHEW MARKET OVERVIEW.....6

COMPARABLE COMMUNITIES.....7

PROGRAM FOR NEW CONSTRUCTION.....8

FINANCIAL ANALYSIS.....9

RECOMMENDATIONS FOR NEXT STEPS.....10

DRAFT

## 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 real estate development and finance 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.

*Neuse River, Seven Springs*



Source: Darien Williams

## ABOUT THIS DOCUMENT

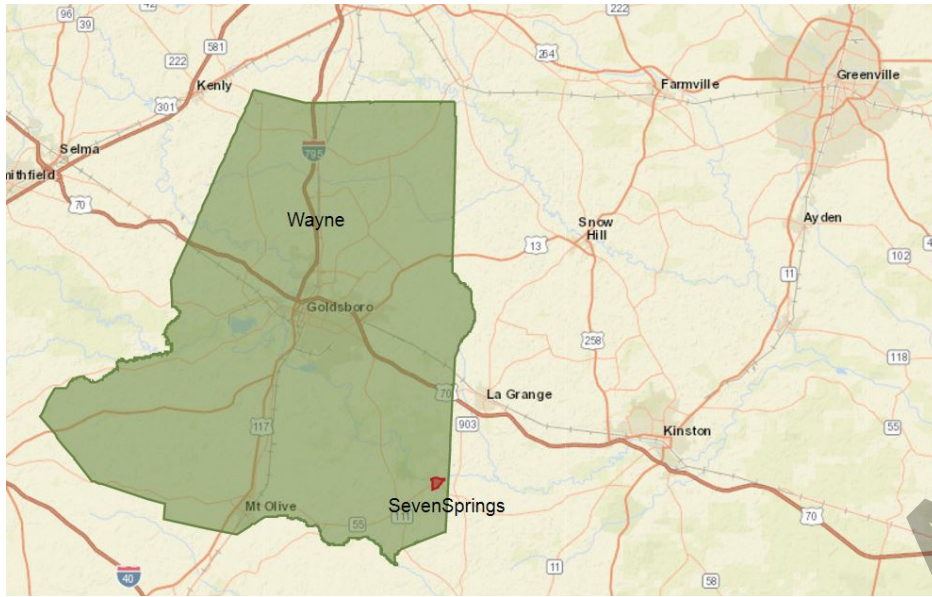
In May of 2017, the Hurricane Matthew Disaster Relief and Recovery Initiative (HMDRRI) engaged DFI to provide its development and finance services to three communities recovering from Hurricane Matthew: Fair Bluff, Seven Springs, and Windsor.

This report examines pre- and post-Matthew local market conditions and presents a financial analysis of the reconstruction of Seven Springs through the consolidation of its downtown. This document is meant to guide local officials through key decisions regarding the revitalization of their downtown post-disaster.



# DOWNTOWN SEVEN SPRINGS

## Location and Assets



Seven Springs, North Carolina is a historic, river-oriented town located in Wayne County on the Neuse River, approximately eight miles from the Cliffs of the Neuse State Park. Settled in eastern North Carolina due to an abundance of natural springs, the rich history of Seven Springs includes ties to the Civil War and recreation. The Seven Springs Hotel was open through World War II and its original building still stands today, adjacent to the natural springs. Although it is now a private residence, Seven Springs has several other attractions for visitors from eastern North Carolina and beyond. These attractions include Seven Springs United Methodist Church, Battle of Whitehall Sites, and Cliffs of the Neuse State Park.<sup>1</sup> With 110 residents at the last census count in 2010, and an expected 55 expected to remain post-Hurricane Matthew, the tiny town is anchored by essential downtown amenities that include a restaurant, recreational outfitter, bank, and U.S. Post Office.

<sup>1</sup> Kay, Robert, "Things to See in Seven Springs, North Carolina," USA Today. Accessed on June 28, 2017 via <http://traveltips.usatoday.com/things-see-seven-springs-north-carolina-103782.html>.

Roughly 77% of the town's total square footage is residential, with 14% comprised of five commercial parcels located on Main Street. Approximately 80% of the town's built environment is located within the 100-year (Zone AE) flood zone as designated by the Federal Emergency Management Agency (FEMA) National Floodplain Insurance Program (NFIP), and was inundated by Hurricane Matthew. Approximately 100 acres of privately-owned, undeveloped land south of E. NC Highway 55 is elevated out of both the 100-year and 500-year flood zones.

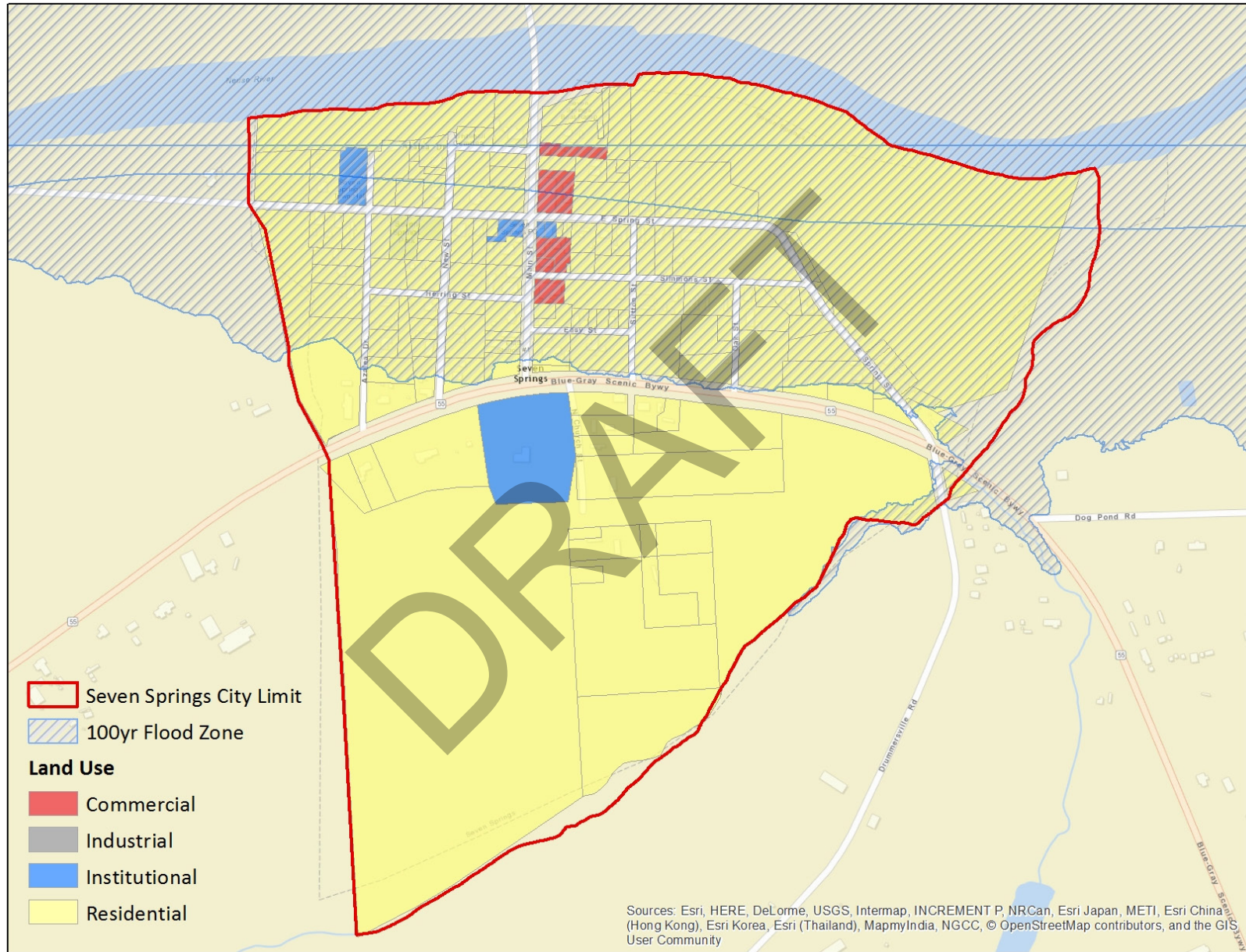
Figure 1 shows the concentration of commercial properties along Main Street with low-density residential properties extending out.

Table 1: Town of Seven Springs demographics, 2016 estimates

2016 Estimates	Town of Seven Springs	Columbus County	North Carolina
Population	113	126,650	10,304,250
Number of Households	56	49,412	4,031,256
Median Household Income	\$48,276	\$41,755	\$48,918
Percent in Poverty	13%	19.4%	16%
Median Age	37.2	37.4	38.6%
Percent Youth (0-19)	26%	26.2	25%
Percent Over 65	14%	15.1%	21.7%

Source: ESRI Business Analyst

Figure 1: Town of Seven Springs parcels by use



Source: DFI, Columbus County, NCEM



## Public Interests

The following are key public interests for downtown Seven Springs, 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:

- Ensure downtown resiliency.
- Become a recreational destination for the Southeastern Wayne area.
- Strengthen downtown's connection to the Neuse River and Cliffs of the Neuse State Park.
- Rebuild "enough" of a downtown to meet the needs of visitors to the area.

Seven Springs Temporary Post Office



Source: Darien Williams

Cliffs of the Neuse State Park



Source: Goldsboro Daily News

Downtown Seven Springs



Source: CivilWarAlbum.com



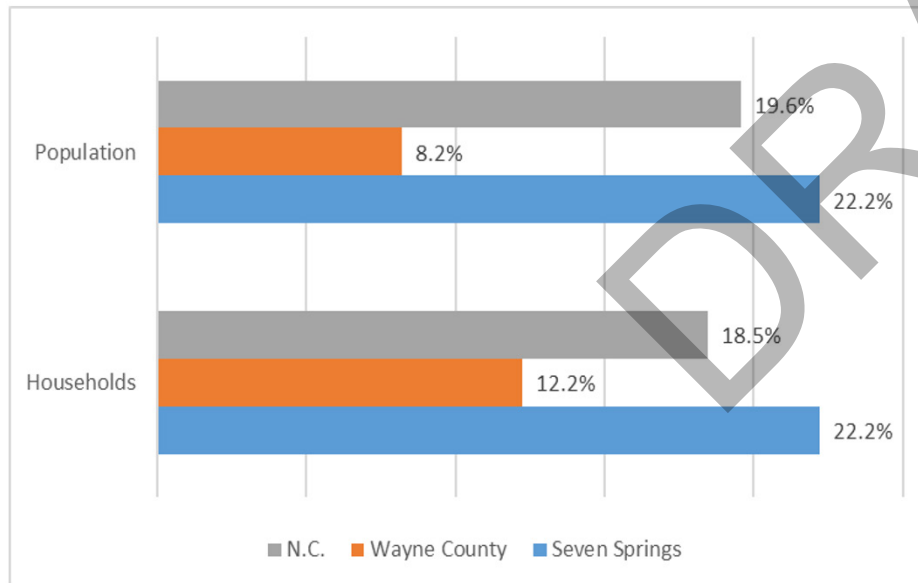
## PRE-MATTHEW MARKET OVERVIEW

DFI assessed pre-Matthew market conditions by evaluating supply and demand for 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

The town of Seven Springs experienced significant growth between 2000 and 2010. In absolute numbers, it added roughly 10 households over the decade. In this time, the town's median income grew, even as the county and the state saw incomes dip. Per 2016 estimates, the population of Seven Springs remains small, with 113 persons and 56 households, making it one of the smallest towns in North Carolina.

Figure 2: Town of Seven Springs Percent Growth, 2000-2010



Source: ESRI Business Analyst

### Multifamily Residential Demand

Seven Springs has a total of 63 housing units, all of which are single-family. In the last six years, the American Community Survey (ACS) estimates one additional unit has been built. Although Wayne County has grown, anchored by its county seat in the city of Goldsboro, historically the town has not captured a significant portion of that growth due, in part, to its location in the 100-year flood zone. No multifamily demand is projected for the area.

### Office Demand

Although Wayne County has seen some office job growth since 2010, clustered primarily in Goldsboro and Mt. Olive, overall there has not been strong demand for new office space. Seven Springs has no formal office space and, due to its size, is not well-positioned to attract office-based employers. No new demand is projected for the area.

Downtown Seven Springs



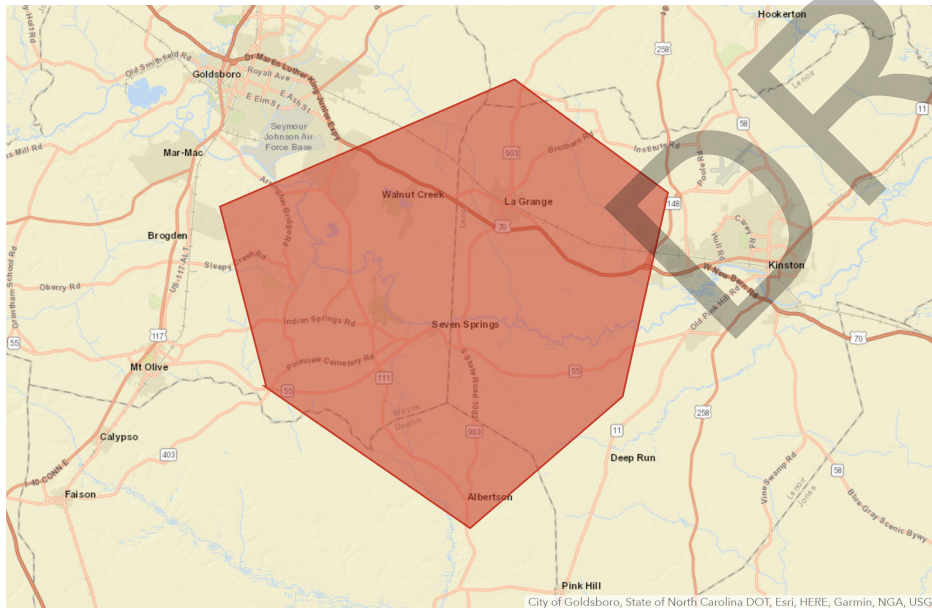
Source: CivilWarAlbum.com

## Retail Demand

The primary retail trade area for Seven Springs is defined by a 15-minute drive time and modified to exclude the trade areas for large municipalities such as Goldsboro, Kinston and Mount Olive. Seven Springs primarily serves Wayne County residents.

The number of households in the primary trade area is expected to grow by 2% to 3% percent over the next five years. In addition, a significant gap exists between the disposable incomes of residents and the sales generated by downtown-based retailers. The gap may indicate that residents are going outside the trade area to shop, signaling a potential shortage of retail options. Seven Springs historically makes up less than 0.1% of Wayne County’s total population, although it captures roughly 1% of the retail square footage. Based on Seven Springs’ historical capture of retail space and projected growth in the trade area, Seven Springs could support approximately 5,000 new square feet (SF) of downtown retail.

Figure 3: Town of Seven Springs Primary Retail Market Area



Source: ESRI Business Analyst

## POST-MATTHEW MARKET OVERVIEW

Town officials estimate that roughly half of the residents of Seven Springs were impacted by flooding and have or will return post-Matthew. It is still unclear how many residents in the county and larger trade area were displaced and able to return. In addition, although we know that all commercial buildings in Seven Springs were impacted by the flood, assessments of commercial damage in the trade area are not yet reliable. Although the erosion of the consumer base and damage to commercial supply voids previous projections, the town’s location remains an asset.

Table 3: Town of Seven Springs, pre- and post-Matthew commercial building conditions

# of commercial buildings	5
Total commercial SF	2,500
% of commercial SF distressed pre-Matthew	89%
% of commercial SF impacted by flood	100%

Source: Wayne County, NCEM

Despite a low residential count, 1,400 vehicles pass through Main Street on an average day with the U.S. Post Office and the Neuse River boat access drawing significant traffic from outside the town. Regionally, the Cliffs of the Neuse State Park attracts nearly 190,000 visitors a year, and Seven Springs is the last stop for visitors based east of the park. Recovery, in line with public interests, is likely rooted in the town’s recreational attractions. Additional analysis is suggested to understand the tourism market in Seven Springs.

Although all five commercial buildings were flooded, two of the town’s anchors (Mae’s Restaurant and Neuse River Trading) are set to reopen soon. These businesses are the backbone of the commercial district in Seven Springs. The U.S. Post Office is operating out of a van and the Seven Springs Town Hall hopes to bring additional activity to downtown by relocating to Main Street.



## 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.

Lessons learned about successful commercial development post-flood that are relevant to Seven Springs included the following:

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

*Downtown Grand Forks, ND*



*Source: Kevin and Ruth Read*

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.
- 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.

Millworks Business Resource Center, Downtown Ellicott City, MD



Source: Harkins Builders

## PROGRAM FOR NEW CONSTRUCTION

Based on pre-Matthew market conditions and lessons learned from comparable communities, the following program assumes that the next phase for Seven Springs 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.

This analysis assumes that two of Seven Springs businesses, Mae’s Restaurant and the Neuse River Trading, are willing and able to move back into a downtown space. In addition, the Town Hall is interested in moving to Main Street. The “do nothing” scenario is that businesses rehabilitate and return to their existing spaces. As the town explores options for transforming its local economy to a county-wide tourism destination, DFI has instead modeled the following scenario that consolidates essential business services into a flood-ready, river-oriented development that creates a single destination for travelers to the area:

Table 3: Seven Springs Program

Program		
Type	Units	GSF
Retail	1	3,090
Restaurant	1	1,176
Town Hall	1	1,667
Post Office	1	1,890
Total		7,823



## 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.

### *New Construction*

**The total development cost for a roughly 8,000 SF elevated town center is \$1.3 million.**

Hard costs total nearly \$1.1 million and soft costs are \$200,000. DFI estimated a conservative acquisition price. Hard costs are all costs associated with construction and soft costs are expenses not associated with the physical development such as architectural, engineering, financing and legal fees.

Development assumptions include the following:

- 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.
- The project will use 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.
- The building will be located near the river and elevated above the Base Flood Elevation (BFE), following coastal construction standards. The elevated foundation adds a \$28 per square foot premium to the total development cost.
- Local parking regulations require the construction of an estimated 29 parking spaces.
- Small business rents range from \$5-\$6 per square foot NNN.
- Since the project remains in the 100-year flood plain, Insurance premiums are higher than average at \$1 per square foot.

Currently, due to the small size of the project and low returns, the project is not likely to attract a private-sector partner. If the local government were interested in taking on the project, sources of capital could include a mix of debt and equity with an estimated \$345,000 loan and \$1 million in equity. The project would not generate property taxes.

If the project was constructed by local government and sold at competitive bidding in the first year, cash flows indicate that a buyer might pay \$475,000. Deducting selling fees and the loan repayment, the city could expect a \$70,000 return on the investment. The final public investment would be approximately \$930,000 and the property would begin to generate property taxes for the town.

## RECOMMENDATIONS FOR NEXT STEPS

DFI recommends that the Town of Seven Springs use this report to guide decisions about how it would like to participate in the revitalization and recovery of downtown.

This report has identified a project that could be viable with local, state, or third-party participation. If the town believes this project reflects its public interests, DFI can provide more detailed analysis to identify suitable sites, implement an acquisition strategy and determine the amount and structure of participation required.

*Mae's Restaurant, Downtown Seven Springs*



*Source: The Goldsboro News-Argus*



DRAFT



UNC  
SCHOOL OF  
GOVERNMENT

**dfi** development  
finance  
initiative