

# *DOWNTOWN WINDSOR RECOVERY:*

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## MARKET AND FINANCIAL ANALYSIS

Prepared by the  
Development Finance Initiative

July 2017



UNC  
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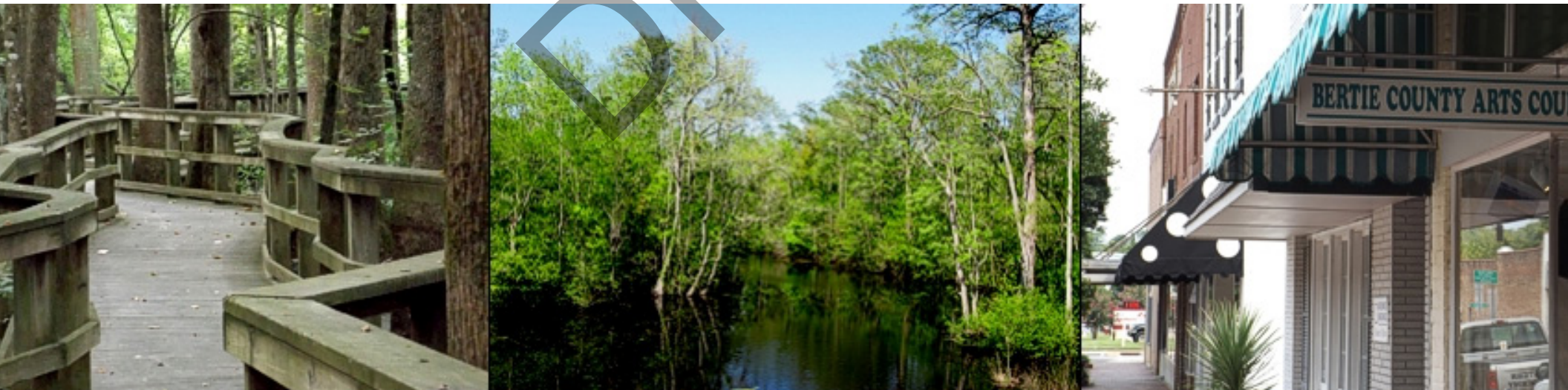
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## DEVELOPMENT FINANCE INITIATIVE

The UNC 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.

*Cashie Wetlands Walk, Cashie River, Bertie County Arts Council*



*Source: Roanoke River Partners*

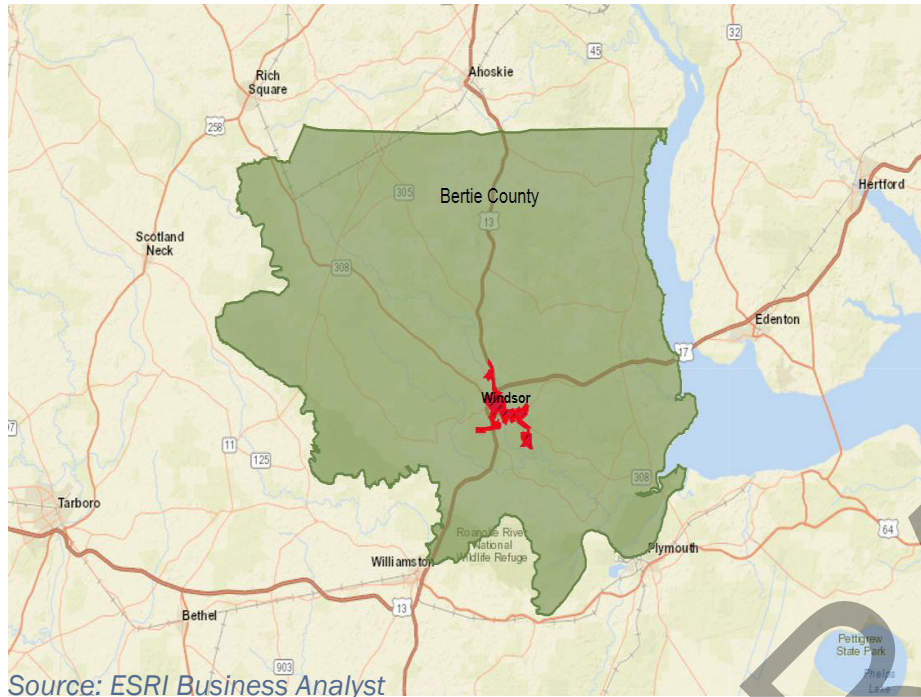
## ABOUT THIS DOCUMENT

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, compiles commercial recovery lessons from around the country, and presents a financial analysis of the reconstruction of downtown Windsor, 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.

# DOWNTOWN WINDSOR

## Location and Assets



Source: ESRI Business Analyst

Windsor, NC is a river-oriented town located in Bertie County on the Cashie River, and is part of the greater Inner Banks region of North Carolina. It has served as the County Seat of Bertie County since 1774. The Windsor Historic District, along with nine other buildings and sites, is listed on the National Register of Historic Places. Entered in the register in 1991, the district encompasses the same 100 acres of the original town. King Street is considered the “heart of the Historic District” and includes distinguished examples of 18th and 19th Century architecture.<sup>1</sup>

Founded as a port on the Cashie River, Windsor historically enjoyed a thriving economy based primarily in the agricultural and timber industry. More recently, Windsor is increasingly becoming a destination for river-oriented tourism and an Inner Banks kayaking destination.

<sup>1</sup> “About Us,” Windsor, North Carolina, Chartered 1768, 2017. Accessed on June 28, 2017 via <http://windsornc.com/about-windsor/>.

Notable attractions in town of Windsor include Livermon Park and Mini Zoo, Cashie Wetlands Walk and Canoe Trail, Craftsman and Farmers Museum, and Cashie River Campground and Treehouse Village. These attractions are owned and managed by the Town of Windsor Parks and Recreation Department, which also offers canoe and kayaks to visitors at the Roanoke Cashie River Center. The Cashie River Treehouse Village opened at the beginning of May 2017 and both units have been booked every weekend since opening and are expected to stay booked through the end of July. The owners plan to expand over the next couple of years.

Table 1: Town of Windsor demographics, 2016 estimates

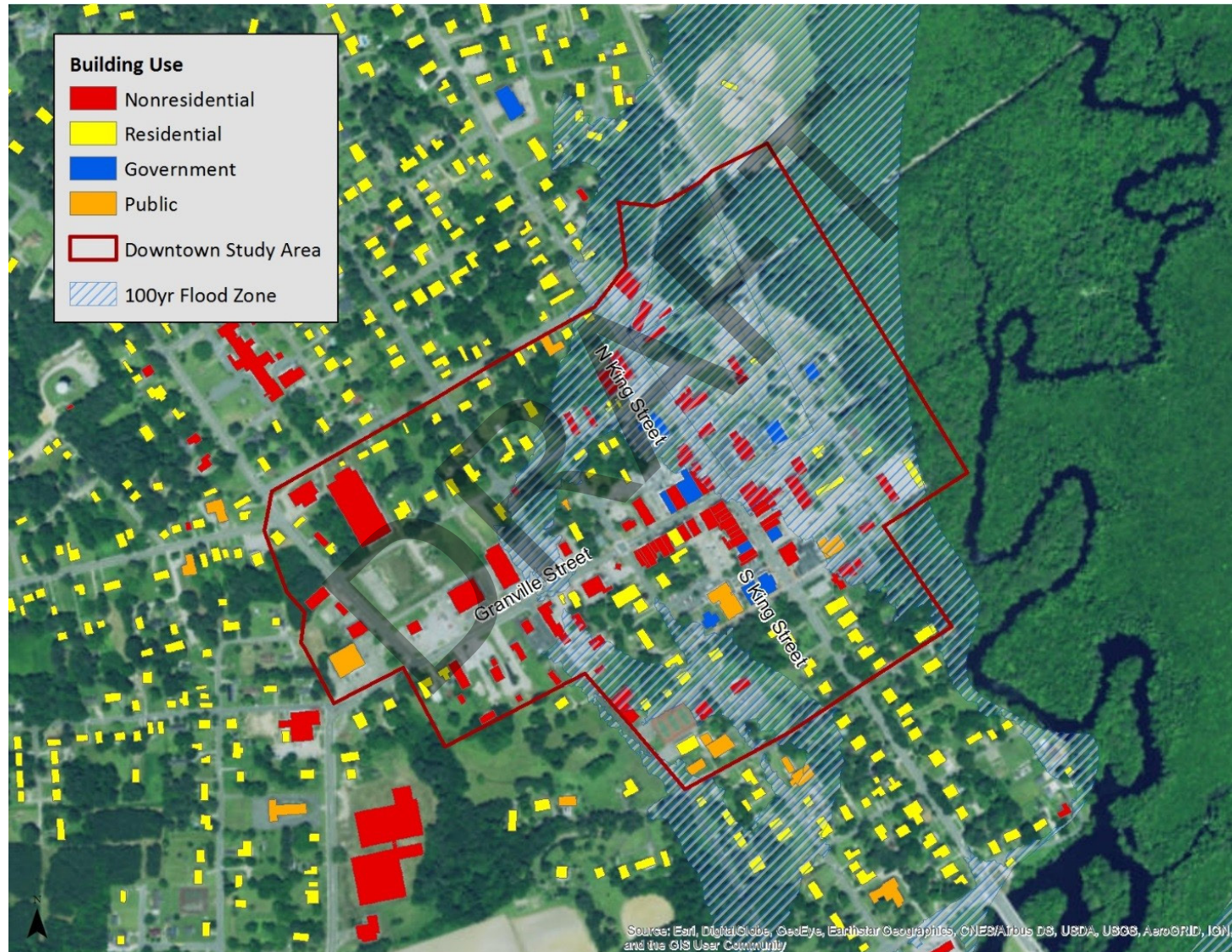
	Town of Windsor	Bertie County	North Carolina
Population	3,571	21,530	10,304,250
Number of Households	1,047	8,365	4,031,256
Median Household Income	\$25,553	\$29,697	\$48,918
Percent in Poverty	21%	23.5%	16%
Median Age	39.9	43.7	38.6
Percent Youth (0-19)	16%	21.3%	25%
Percent Over 65	19%	19.2%	21.7%

Source: ESRI Business Analyst



Downtown, or the study area, as defined in this report is contained in a 150-acre area shown in Figure 1. Downtown Windsor is comprised primarily of a core of commercial and government properties along Granville Street and King Street, with residential properties on the periphery. Much of the downtown, and study area, is located in the 100-year (Zone AE) or 500-year floodplain (Zone X), as designated by FEMA's National Floodplain Insurance Program (NFIP).

Figure 1: Town of Windsor building use and 100 year flood zone



Sources: DFI, NCEM, Bertie County



## Public Interests

The following are key public interests for downtown Windsor, 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:

- Preserve and flood retrofit historic downtown, wherever possible.
- Ensure downtown resiliency.
- Promote and expand tourism and ecotourism to make the most of prior public investments in parks and recreation facilities.
- Preserve use of the Lawrence Memorial Public Library and Windsor Post Office.
- Minimize public investment and maximize private investment.

*Cashie River Treehouse Village*



Source: Christian Kamrath

*Lawrence Memorial Public Library, Downtown Windsor*



Source: Albemarle Regional Library

*Bunn's Barbecue, N. King Street, Downtown Windsor*



Source: Denny Culbert

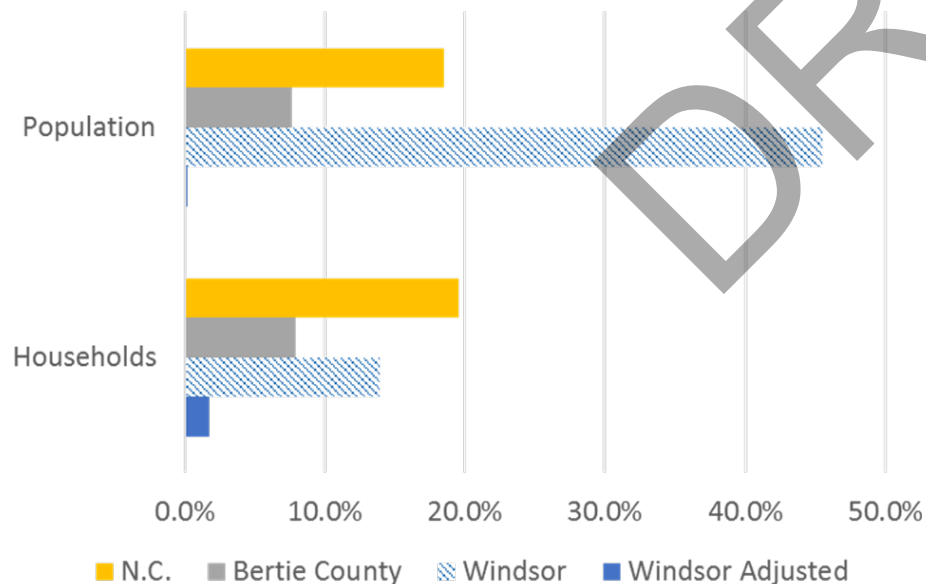
## PRE-MATTHEW MARKET OVERVIEW

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

### Demographic Drivers

As seen in the chart below, Windsor’s population soared between 2000 and 2010, increasing by 45%. The growth, however, can be attributed to the opening of the Bertie Correctional Institution in 2006 which added an estimated 1,400 adult males. Excluding the prison population, the adjusted growth chart shows that Windsor experienced very little to no growth in that time. Bertie County experienced markedly less household growth than the state of North Carolina, which was estimated at 19.6% from 2000 to 2010.

Figure 2: Town of Windsor Percent Population Growth, 2000-2010



Source: ESRI Business Analyst

## Multifamily Residential Demand

Downtown Windsor is a low-density area with a small residential population. Historically, downtown Windsor captured 3% of the demand for residential units in the town of Windsor and 0.4% of demand for units in the county. Although the number of households in the county increased moderately prior to 2010, signaling a potential need for new residences, in recent years the town’s population has begun to contract and the county’s has stagnated. Net migration in and out of Bertie County was insignificant in 2015. Additionally, ESRI Business Analyst estimates that Bertie County’s residential vacancy rate, similar to Windsor, increased from 16% in 2010 (1,500 units) to 21% in 2016 (1,750). The current supply of homes in the town and county is far greater than the demand for those types of units. Overall, no new demand is projected for the current mix of residential units in the town.

A closer look at local housing needs, however, indicates that although there is no overall lack of housing supply in Windsor, there appears to be a shortage of affordable options. According to 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.<sup>2</sup>

The Town of Windsor is made up of roughly 65% owner-occupied households and 35% renter-occupied households. An estimated 30% of owner-occupied households and nearly 46% of renter-occupied households were cost-burdened pre-Matthew. According to HUD, of the households that are cost-burdened, more than half (roughly 325 households) 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.

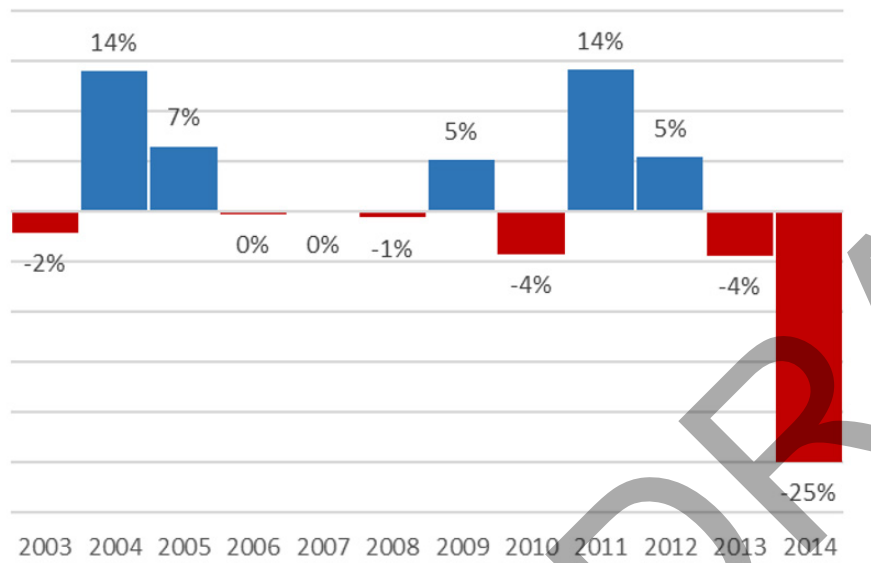
<sup>2</sup> “Affordable Housing,” Community Planning and Development, U.S. Department of Housing and Urban Development. Accessed on June 20, 2017 via [https://portal.hud.gov/hudportal/HUD?src=/program\\_offices/comm\\_planning/affordablehousing/](https://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/).



## Office Demand

As the county seat, Windsor is Bertie’s largest employment center. Jobs in office-occupying sectors, however, have declined significantly over the last five year in both the town and county. As seen in Figure 3 , although the county recovered well from the Great Recession (2007-2009), it was not able to sustain that growth. Although, downtown has historically captured 4% of office employment in the county, there is no projected new demand to capture.

Figure 3: Bertie County Year-over-Year Job Growth

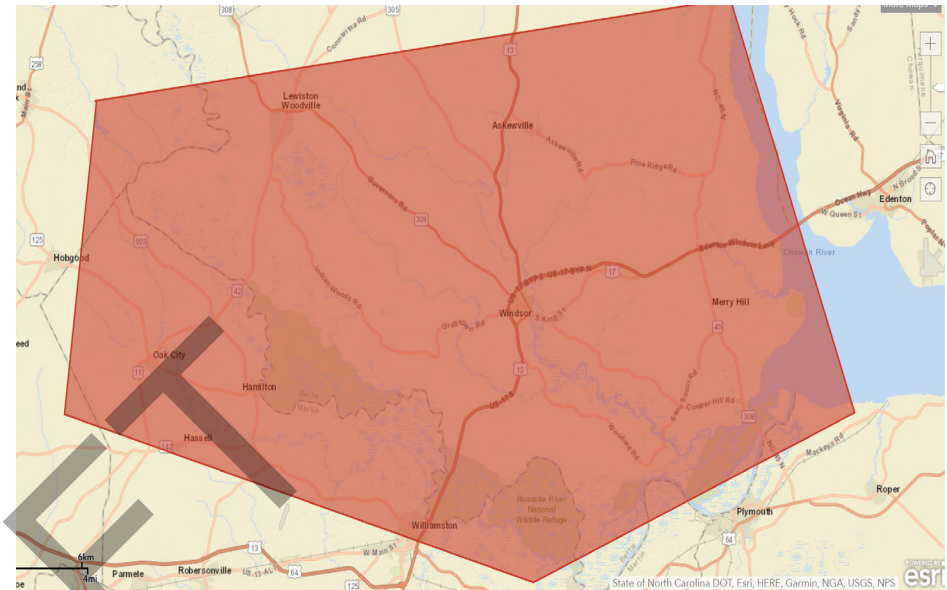


Source: U.S. Census Bureau. 2016. LODES Data

## Retail Demand

The primary retail market area for the town of Windsor is a modified 20-minute drive time, bounded by the Roanoke River Wildlife Refuge to the south, Plymouth to the southeast, Edenton and the Albemarle Sound to the east, Scotland Neck to the northwest, and Tarboro to the southwest, as seen in Figure 4. The Windsor retail market serves well over 23,400 people, and has the potential to catalyze its unique recreational, historic, retail, and commercial resources towards even higher capture in the Inner Banks region. King Street, downtown’s busiest street, averages 5,700 vehicle trips per day.

Figure 4: Town of Windsor Primary Retail Market Area



Source: ESRI Business Analyst

Although the primary retail trade area experienced a population bump between 2000 and 2010, the trend did not hold. In that time, the median household income dropped almost 25% indicating a drop in spending potential (although the trend is likely also explained by the prison opening). Since then, the population in the town and retail trade area declined. Based exclusively on household growth, there is no new demand projected for downtown Windsor.

However, an analysis of the gap between disposable incomes and retail sales within the primary trade area indicates potential unmet demand. Households within a modified 20-minute drive time may be spending approximately \$70 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, may increase local spending. The gap signals a need for nearly 200,000 SF of commercial space within a 20-minute drive time of downtown Windsor. Downtown Windsor historically captures roughly 9% of the existing retail activity in the primary trade area. Therefore, downtown Windsor could potentially support 16,000 new square feet (SF) of retail activity within downtown over the next five years.



## POST-MATTHEW MARKET OVERVIEW

Flooding from Hurricane Matthew affected 8% of households in the Town of Windsor, eroding the local customer base for downtown, commercial products. Analysis of the market that existed prior to Hurricane Matthew, including projections for new retail demand, need to be updated to reflect the changes in the local population and commercial supply. New and reliable estimates, however, are not yet available.

According to the Federal Emergency Management Agency (FEMA), 83 buildings in downtown Windsor were impacted by Hurricane Matthew, eight of which were government-owned. As seen in Table 2, approximately 50% of commercial buildings in downtown were damaged, significantly diminishing the supply of commercial space. But, even before the flooding, 48% of the commercial square footage was distressed, valued at less than \$10 per square foot. Recovery needs to focus, therefore, on both addressing flood damage and the pre-existing distress.

*Table 2: Downtown Windsor, pre- and post-Matthew building conditions*

# of commercial buildings in Downtown Windsor	87
Total commercial SF in Downtown Windsor	240,000
% of downtown commercial SF distressed pre-Matthew	48%
% of downtown commercial SF impacted by flood	50%

*Sources: Town of Windsor, FEMA, TIGER/Line*

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.

## 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 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.

*Downtown Grand Forks, ND*



*Source: Kevin and Ruth Read*

*Millworks Business Resource Center, Downtown Ellicott City, MD*



*Source: Harkins Builders*

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, DFI identified two projects in Windsor that reflect the previously outlined public interests.

### Project 1: Relocation & New Construction

The first project is new construction within the downtown area to relocate integral N. King Street businesses out of the 100-year flood zone. Local government officials and chamber of commerce representatives informally expressed an interest in pivoting from heavily, flood-prone areas of downtown to a receiving area outside the 100-year flood zone. Based on discussions with local officials, several businesses were identified as requiring relocation due to persistent flooding. The following program for new construction represents the aggregated square footage by use type without identifying the specific businesses:

Table 3: Town of Windsor Relocation and New Construction Program

	Units	GSF
Office	2	7,851
Retail	1	2,927
Restaurant	2	3,314
Post Office	1	8,100
<b>Total</b>		<b>22,192</b>

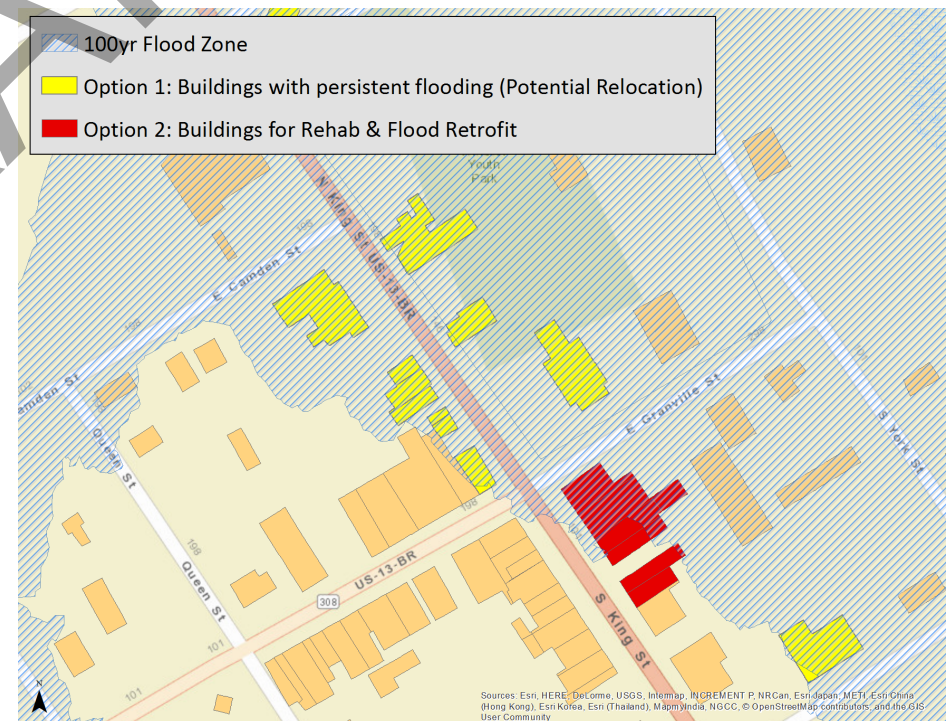
Recall from the lessons learned from case studies of flood recovery, that the relocation of businesses ideally be compatible in design and location with the downtown core. In this case, a site can be identified within the downtown boundary to complement the historic area, potentially becoming a gateway that can attract further infill development.

### Project 2: Rehab & Flood Retrofitting

The second project outlined here is the rehabilitation and flood retrofitting of 22,000 commercial SF of occupied historic buildings, between 102 and 124 S. King Street. Local officials have indicated that the buildings along S. King Street that connect Granville Street to the Windsor Town Hall and the Bertie County Courthouse are vulnerable to flooding but essential to the character of the downtown. This project can serve as a pilot for other portions of the historic downtown that are vulnerable to flooding and struggling to remain vibrant.

Both projects address critical needs of the downtown area. New construction can activate an area outside the floodplain, and serve as a gateway to downtown, and the S. King Street project can revitalize a critical intersection and reduce its vulnerability to future flood events.

Figure 5: Town of Windsor redevelopment options



Sources: DFI, NCEM

## 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.

### Project 1: Relocation & New Construction

**The estimated total cost to build a 22,000 SF commercial center in downtown Windsor is \$3.1 million at roughly \$140 per SF.**

Since a development site has not yet been selected, we conservatively estimated acquisition and site development costs (including parking) at \$585,000. Costs associated with preparation of the site include demolition, excavation, and installation of utilities. Building related hard costs total \$2 million, and soft costs top \$530,000. Hard costs defined here are all costs associated with construction of the building and soft costs are expenses not associated with the physical development such as architectural, engineering, historic consultant, financing and legal fees.

Development assumptions include the following:

- 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 costlier if executed otherwise.
- The project is Type III Construction, which is 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.”
- Commercial rents are \$9 per square foot, full service, escalating 3% annually.

### Private Development (without Public Participation)

A development without public and private participation would likely require the following sources of capital (based on traditional underwriting):

Capital Sources without Partnership		
Source	% of Total	Amount
Equity	54%	\$ 1,700,000
Mortgage	46%	\$ 1,400,000
Total		\$3,100,000

Returns on this project would be between 3-5% and generate a 1.5 equity multiple. As a high risk project, a developer is not likely to invest with such low returns.

### Public Development

**If the local government undertakes the project as a purely public project, the upfront cost to the public sector would be \$1.7 million, before loan payments.** The commercial center under government ownership 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 \$1.8 million. Deducting selling fees and the loan repayment, the city could expect a \$400,000 return on the investment. The final public investment would be approximately \$1.3 million and the property would begin to generate property taxes for the town.



## Private Development (with Public Participation)

As noted above, a private developer would not find this project to be an attractive investment opportunity. To make this project more attractive to the private sector, and minimize public investment, there are several actions that could be taken by the town:

- Local or state government offers a subordinate loan at a 6% interest rate with a 15-year term, interest only.
- Local government builds public parking for the roughly 95 required spaces.
- Local or state government acquires the land and handles any required site work. Site work is the preparation of the land for construction and can include demolition, grading, excavation, and installation of utilities. A private partner will then purchase the land from the government entity at Fair Market Value (FMV).

Additionally, this project could be developed in tandem with Bertie County Library relocation, together activating a corridor to downtown. The Bertie County Library will receive a \$500,000 Golden Leaf grant to fund a combination building for the Bertie County Extension Service and Library. The library is an essential community amenity that would benefit the redevelopment of downtown.

With the above public participation, if a private developer holds the project for 15 years, the developer could expect a 9.4% internal rate of return and 3x equity multiple.

**The total upfront cost to the public sector if the project is undertaken by a private developer is approximately \$800,000 for the loan, parking and sitework, before returns to the city which include interest generated on the loan, loan repayment and the sale of the land.**

Sources of capital for the project with public and private participation include:

Capital Sources with Partnership		
Source	% of Total	Amount
Equity	36%	\$ 930,000
Mortgage	56%	\$ 1,400,000
Government Loan	8%	\$ 220,000
<b>Total</b>		<b>\$ 2,590,000</b>

Additionally, the relocation of essential businesses to a designated receiving area outside of the 100-year and 500-year floodplains leaves approximately 38,000 SF of vacant commercial structures within the floodplain along N. King Street. Acquisition and demolition of these structures offers an opportunity to more closely integrate the downtown with the Cashie River by expanding and activating open space adjacent to the historic district and existing park facilities. The removal of nearly an acre of impervious surface near the floodplain is also beneficial to the stormwater management and general floodproofing of downtown Windsor.

The cost of demolition of non-contributing structures and basic landscaping is roughly \$8 per SF. The cost does not include the acquisition of the vacated properties at fair market value. Creative options are available for the interior demolition of historic structures and their integration into a larger greenway plan.

## Project 2: Rehab and Flood Retrofitting

Per 26 CFR 1.48-12, Certified Historic Structures are individually-designated historic buildings or contributing buildings to a designated historic district; both designations must be listed by the State Historic Preservation Office (SHPO) on the National Register of Historic Properties (NRHP). All but three buildings in the area designated for rehabilitation and retrofit are contributing to the Windsor Historic District. All three buildings, located along the west side of S. King Street, are certified historic structures and, thus, are qualified to use federal and state historic tax credits for rehabilitation.

**The estimated cost to rehabilitate and flood retrofit 22,000 SF of historic buildings on S. King Street is \$2.83 million at roughly \$128 per square foot.** These costs include approximately \$2.4 million in hard costs and \$415,000 in soft costs.

To rehabilitate and retrofit the six buildings with historic tax credits, we assumed the following:

- The six buildings would be rehabbed as a single consolidated project to take advantage of tax credit syndication and gain efficiencies on legal, historic and engineering costs. Property owners could join a partnership voluntarily or sell their properties into a single holding company. The manager of the partnership or holding company would oversee loan, tax and preferred return payments, for a minimum of five years.
- When the NRHP nomination form is updated and approved by the North Carolina SHPO, all six buildings will be registered as contributing to the Windsor Historic District. When the district was originally listed on the NRHP in 1991, two buildings fell outside the period of significance. Today, these buildings meet the 50-year threshold of historical significance and could feasibly be reevaluated and re-listed as “contributing.” The assumed development costs above include the fee for a historic preservation consultant to complete the registration.

- Flood retrofitting will be in the form of interior elevation to meet the requirements of the Bertie County Flood Damage Prevention Ordinance. The cost is estimated at \$55 per square foot. Ceiling heights are sufficient to raise the interior of the structures and still maintain the historic character of the building. (National Park Service [NPS] guidance on the floodproofing of historic structures [both residential and non-residential] is forthcoming.)
- Qualified Rehabilitation Expenses (QREs) are roughly 95% of total developments costs, including flood retrofitting.
- Since the project remains in the 100-year flood plain, insurance premiums will be higher than average at \$1 per square foot.
- Permit fees are waived for flood-related rehabilitation.
- Rehabilitation for building damage classified as “affected” by a preliminary survey conducted by FEMA is estimated at \$30 per square foot.
- “Minor damage” has a 10% premium. Rehabilitation costs may include interior demolition, painting, replacement of flooring, ceilings, lighting, interior partitions, doors, frames, and hardware, and minor electrical work. Some investments have already been made to update electrical, mechanical and plumbing systems. These are preliminary estimates based on window-surveys conducted by FEMA. More detailed estimates are forthcoming.
- Primary loan terms are 5% interest with a 15-year term.



The following are sources of capital for the execution of the project:

Source	% of Total	Amount
Equity	30%	\$ 855,000
HTC Equity (Excl Last Installment)	27%	\$ 765,000
Mortgage	35.5%	\$ 1,000,000
Government Loan	7.5%	\$210,000
<b>Total</b>		<b>\$2,830,000</b>

Historic tax credit investors contribute roughly 27% of the project cost in equity. A construction loan will finance 35% of the project, assuming owners contribute \$9 in “rent” per square foot per year, escalating 1% annually. The North Carolina Constitution does not permit state and local governments to make gifts of public aid to private entities, so this analysis models a \$210,000 loan at an appropriate rate of interest. Additional capital required to complete the project is \$855,000.

## RECOMMENDATIONS FOR NEXT STEPS

DFI recommends that the Town of Windsor use this report to guide decisions about how it desires to participate in the revitalization and recovery of downtown. This report has identified two projects (relocation and rehabilitation) that could be viable with local, state, or third-party participation. If the town believes these projects reflect their 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.

*J.B. Cherry Jr. takes a seat in the window of his insurance agency on S. King Street post-Hurricane Matthew, 2016*



*Source: Robert Willett, The News & Observer*

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