



Community and Economic Development in North Carolina and Beyond Blog: Historic Landmarks & Market Rate Housing Opportunities

By CED Program Interns & Students

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A historic, downtown building on Main Street has been vacant for the

last 30 years. Once an iconic hotel for the Town, today the building is empty, other than a few occupied tenants filling retail space on the ground floor. The small Town has a tier 1 designation and is working hard to support the revitalization of its downtown. The vacant hotel, the largest building in Town, is a prime target for revitalization. A successful redevelopment project could increase the attractiveness of the downtown area, become a key driver in the creation of downtown activity, and spur further downtown redevelopment – all translating into increased tax revenues for the Town.

The Town acquired the vacant, 26,000-square foot hotel using a grant from the Rural Economic Development Center, envisioning the space as short-term housing for the local Community College students and tourists visiting the region. There was also talk of a new restaurant occupying a ground floor unit, in hopes of increasing traffic along Main Street.

The Town partnered with DFI and decided to determine the best use for the historic building by evaluating market feasibility and demand for different uses including accommodation, housing, and retail. Looking at the seasonality of visitors, DFI determined that tourism in the Town was too cyclical to sustain continued short-term lodging demand. In addition, the Town's limited amenities make surrounding towns more attractive to visitors and part-time students. As a result, many tourists and students were choosing to stay elsewhere. Instead of short-term housing, the Town focused its efforts on analyzing the demand for market rate apartment rentals.

Small towns face unique challenges when determining the demand for downtown, market rate housing. Often, there are very few comparable projects in the area for analysis, leaving little research for potential rental rates, occupancy info, or desired unit types. Project leaders therefore must analyze current demographic trends in the area – population change, percent of owner occupied vs. renter occupied units, vacancy rates, and other market drivers. Essentially, these types of projects are creating a new market in the downtown area, and as a result, many assumptions must be made.



Positive employment trends in small towns can create further demand for residential units. Often, a small increase in the workforce can generate demand for additional housing options. For instance, assume a local manufacturing facility employing 100 workers is planning to double in size over the next year. Assuming the job creation is local employer hires locally, a portion of these new jobs will be filled by new residents needing new housing. If vacancy levels in the area are currently low, the expansion adds immediate long-term housing demand for the Town.

Once it has been determined that a market exists, how do small towns spark interest from private developers for downtown redevelopment projects? Tax credits increase the financial feasibility of redevelopment projects on historic properties. In addition, case studies have proven that these types of redevelopments often succeed in achieving above market rents because of the new market created. When market rate rents and tax credits aren't enough to make the project feasible, however, additional incentives may be necessary. These can include the local government's authority to convey real property for economic development purposes (G.S. 158-7.1) or cash development incentives for downtown development projects (G.S. 160A-458.3).

The Town also has options for initiating the project themselves. First, they can implement an RFP for the property, decreasing public risk while giving up more control over the timing of the redevelopment. Alternatively, the Town could choose to partner with a private developer. In this case, the Town assumes greater public risk while generating increased returns and maintaining more control over the timing of the project.

Many historic landmarks (hotels, mills, etc.) throughout North Carolina have successfully been redeveloped into market rate housing with public-private partnerships. As many small towns have found, the rehabilitation process of these buildings can serve as a catalyst for further downtown redevelopment and economic growth.

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