



CITY OF DURHAM | NORTH CAROLINA

**Date:** February 16, 2011

**To:** Thomas J. Bonfield, City Manager

**Through:** Theodore L. Voorhees, Deputy City Manager

**From:** Joel V. Reitzer, Director, General Services Department  
Kevin S. Dick, Director, Office of Economic and Workforce Development  
Shelia A. Huggins, Real Estate Manager, General Services Department

**Subject:** Sale of 102 Morris Street, Parcel ID 103053

### **Executive Summary**

In February 2010, the City issued a Request for Proposals (RFP) for developers to purchase and redevelop 102 Morris Street. The RFP evaluation team reviewed the three proposals that were received, interviewed the proposers' representatives, and recommended that the City negotiate an agreement with Re:Vamp Durham for the redevelopment of 102 Morris Street.

102 Morris Street is located in the Downtown Durham Local Historic District and is therefore bound by Paragraph 3.18.1A of the Unified Development Ordinance (UDO). Paragraph 3.18.1A of the UDO requires that all exterior renovations be approved by the Historic Preservation Commission. Because the UDO's oversight does not include interior renovations, the City has partnered with the Historic Preservation Society of Durham, an organization with a history of advising property owners on the Secretary of the Interior's Standards of Rehabilitation for the interior renovation of historic properties.

Historic Preservation Society of Durham (HPSD) has expertise in guiding the interior rehabilitation of historic properties and would ensure, through a rehabilitation agreement with Re:Vamp Durham, that the historic preservation of the interior of the property is executed in accordance with The Secretary of the Interior's Standards for Rehabilitation. To accomplish this goal, the City proposes to sell an option to HPSD for \$250.00, which would give HPSD the right to purchase 102 Morris Street for \$224,850. HPSD would then enter into a purchase option agreement with Re:Vamp Durham, to allow for simultaneous closings from the City to HPSD and from HPSD to Re:Vamp Durham, conditioned upon execution of a rehabilitation agreement. After closing, HPSD would be responsible for managing the rehabilitation agreement during the redevelopment of 102 Morris Street.

## **Recommendation**

The Department of General Services and The Office of Economic and Workforce Development recommend that the City Council 1) declare City Tract # 1443, 102 Morris Street, Parcel 103053, as surplus property; 2) authorize the City Manager to execute the Purchase Option Agreement between the City of Durham and the Historic Preservation Society of Durham for 102 Morris Street; and 3) authorize the City Manager to sell and the City Manager to convey the property pursuant to the terms of the Purchase Option Agreement for \$224,850 by non-warranty deed subject to reservations and easements to be retained by the City of Durham.

## **Background**

102 Morris Street is an early 1900s 12,770 square foot two-story masonry commercial building containing approximately 7,842 square feet on the first level and approximately 4,928 square feet on the second level. The property is located in Five Points, a major retail node at the intersection of East Chapel Hill, Main, Morgan, and Morris Streets, which is in the Downtown Design District Core.

In February 2010, the City issued an RFP for developers to purchase and redevelop 102 Morris Street. Proposals were due by April 2, 2010, and the City received three proposals in response. The RFP evaluation team included representatives from the City's General Services Department and Office of Economic and Workforce Development and community representatives from the Durham Chamber of Commerce, Self Help Credit Union, and Downtown Durham, Inc. Advisory team members included representatives from the City's Office of Equal Opportunity and Equity Assurance and Planning and Finance Departments.

On May 18, 2010, the evaluation team conducted interviews with representatives for each of the three proposals. The team evaluated each proposal's (1) development plan, including the plan's overall benefit to the Five Points area as outlined in the City Center Market Retail Study and Downtown Master Plans, (2) financial capability, (3) financial benefits, (4) management experience and qualifications, and (5) tenant mix. After the interview and evaluation process, the team recommended that the City negotiate an agreement with Re:Vamp Durham for the redevelopment of 102 Morris Street.

### *Redevelopment Proposal*

As part of its redevelopment plan, Re:Vamp Durham proposes to separate the original two buildings into separate tax parcels. Separate tax parcels would simplify ownership for independent owner-occupants and would be divided as described below:

The 107 E. Chapel Hill Street parcel would consist of the one-story spaces on the east side of the property currently known as 105, 107, and 109 East Chapel Hill Street. David Arneson and Scott Harmon, owners of Center Studio Architecture, would own this parcel. The eastern storefront, comprising 1,818 square feet, would be occupied by Center Studio Architecture and Re:Vamp

Durham. The western storefront, comprising 1,792 square feet would be leased to a retail or office tenant.

The 102 Morris Street parcel would consist of the two-story building on the corner and the spaces currently known as 102, 104 and 106 Morris Street. This parcel would be developed into six owner-occupied office and retail condominium suites. A bakery is proposed in the corner ground level suite comprising 1,080 square feet. A gourmet pizza restaurant is proposed in another 2,300 square feet of the ground floor. Two office suites totaling 1,676 square feet are proposed for the second level. These prospective owner/partners have signed letters of intent and are in the process of securing bank financing. Re:Vamp Durham is still seeking owner/partners for the two remaining spaces in the project.

This redevelopment plan corresponds to the suggestions in both the City Center Market Retail Study and the Downtown Master Plans. Both contain recommendations that the Five Points area be continually activated as a major retail node in downtown through the development of more retail, restaurant, and Class A office space, which would create a burgeoning area of pedestrian-driven activity.

The redevelopment of the two parcels would include new build-out construction for office and retail spaces in addition to the following renovations:

For 107 E Chapel Hill Street, Re:Vamp Durham plans to restore existing storefronts and transoms; repair and paint existing exterior masonry and wood trim; add new exterior façade lighting, new roof insulation, membrane, and parapet coping; restore interior plaster walls and the pressed tin ceilings; and install new electrical, plumbing, and HVAC systems. Redevelopment would also include adding new skylights at the existing sky wells, solar panels for domestic hot water and space heating, and photovoltaic panels for electrical generation.

For 102 Morris Street, Re:Vamp Durham plans to perform similar work to what would be done at 107 E Chapel Hill Street. Re:Vamp Durham also plans to remove the arched clock on the corner and to replace it with a neon “Five Points” sign buttressed on metal supports.

The timeline for redevelopment of the property is as follows:

Closing	September 2011
Construction Commencement	September 2011
Construction Completion	April 2012

#### *Historic Preservation Terms*

102 Morris Street is located within the Downtown Durham Local Historic District for which there is a Downtown Durham Historic District Preservation Plan. The plan

states that the preservation of the City's historic fabric is a continuing concern in the face of growth and development, and the overlay zone provides a means of achieving a sound policy for rehabilitation, new construction, and streetscape improvements within the historic district. The purpose of the district is to safeguard the heritage of downtown properties by preserving and protecting historic buildings, structures and sites that embody cultural, social, economic, political, and architectural history. Consequently, 102 Morris Street is bound by the Unified Development Ordinance, Paragraph 3.18.1A:

From and after the designation of an historic district or historic landmark, no exterior feature or designated portion of any building or other structure (including masonry walls, fences, light fixtures, steps, pavement, and other appurtenant features) nor any above-ground utility structure nor any type of outdoor advertising sign shall be erected, altered, restored, moved, or demolished within or on such historic district or historic landmark until after an application for a certificate of appropriateness as to the exterior feature or designated portion has been submitted to and approved by the Historic Preservation Commission.

The proposal from Re:Vamp Durham includes plans to preserve the exterior façade of the building by restoring existing storefronts and transoms, repairing and repainting existing exterior masonry and wood trim, and restoring interior plaster walls, pressed tin ceilings and beaded board ceilings. All exterior modifications would require approval by the Durham Historic Preservation Commission.

In order to ensure that the historic preservation of the interior of the property is executed in accordance with the Secretary of Interior's Standards for Rehabilitation and because of HPSD's expertise in managing the rehabilitation of historic properties, the City proposes to sell an option to HPSD conditioned upon HPSD entering into a purchase option agreement with Re:Vamp Durham. The cost of the HPSD option is \$250.00, and the initial option period shall end September 30, 2011. The option may be extended for no more than four additional consecutive three calendar month periods for an additional \$100.00 for each extension period. Once HPSD exercises its option with the City, Re:Vamp Durham will then exercise its option with HPSD, and the closings will be simultaneous. The end result will be ownership by Re:Vamp Durham, conditioned upon its rehabilitation agreement with HPSD.

#### *Purchase Terms*

The purchase price is \$224,850.00, and the City will deliver a non-warranty deed conveying the property "as-is" to HPSD. The following conditions, at a minimum, must be met by Re:Vamp Durham prior to closing:

- Enter into a rehabilitation agreement with HPSD;
- Agree on the form and substance of the Protective Covenants to be attached to the deed from the City to HPSD;

- Provide to the City and to HPSD the following for Re:Vamp Durham's proposed rehabilitation of the shell and for the upfit of the Property: schematic drawings by May 31, 2011 and design development drawings by July 31;
- Obtain a building permit and all other necessary approvals for beginning construction, including a Certificate of Appropriateness from the Durham Historic Preservation Commission; and
- Exercise its option under the Re:Vamp Durham Option, and obtain acquisition and construction financing sufficient to carry out the rehabilitation.

## **Issues/Analysis**

### *Property Value*

The purchase price for 102 Morris Street is \$224,850.00. Although this price is less than the \$575,000 appraised value provided to the City in 2009, the City believes this is the fair market value of the property at this time given the deteriorated condition of the building and the need to remove asbestos containing material from the property. There is also added value to the City in reviewing design drawings and requiring building permits as a condition of the sale, as the City is able to control the timing and type of redevelopment that will take place. Finally, the City's desire to ensure the historic preservation of the interior of the property in accordance with The Secretary of the Interior's Standards for Rehabilitation will likely increase the rehabilitation costs.

### *Tenants*

102 Morris Street currently has two tenants, both of whom are operating under month-to-month leases which require thirty days' notice prior to termination. Unit 107 is an 880 square foot space currently leased to Howard Liverman DBA Excelsior Barber Shop. Unit #104 is an 880 square foot space currently leased to Charles Scott DBA Scott Tailors. Howard Liverman has leased the property since 2004. Charles Scott, who is now deceased, has leased the property since 1992.

Under the proposed option agreement, the City is required to deliver the property without any encumbrances and would therefore need to terminate the leases of the current tenants. The City has notified Mr. Liverman and the family of Mr. Scott about the proposal and has incorporated a minimum of 60 days' notice between the exercise of the option and the closing date. The Office of Economic and Workforce Development is working to identify comparable properties for the tenants which may be available for lease.

### *Parking*

Under the Unified Development Ordinance, Paragraph 10.3.1C, there are no minimum parking requirements for downtown. Street and lot parking are available along the Chapel Hill Street side of the 102 Morris Street as well as at the nearby Corcoran Street parking deck and lot. The Corcoran street deck and lot are available for public parking and have an average of 125 spaces available for transient parking. There are no on-site parking spaces at 102 Morris Street.

### *Retail Market Study*

In 2009, the City commissioned The Downtown City Center District Retail Study in order to seek guidance on how to create a vibrant shopping and entertainment district in downtown Durham. Five Points, which includes 102 Morris Street, was identified as one of three nodes with a capacity for retail activity in downtown and a key property in the revitalization of the City Center District.

In the report, Five Points was recognized as an important targeted development for “smart” retail uses that would satisfy current unmet demand in the market and establish retail clusters or nodes that would help to revitalize the City Center area. The report also suggested that because these retail nodes are located at the intersection of City Center’s major through street, the three nodes would be easily accessible to neighborhoods outside the immediate City Center area, which is a crucial element in attracting residents from important trade areas directly outside downtown.

Five Points has the highest concentration of Class A retail appropriate space, making it crucial to the development of key and catalytic retail activity, and the proposed redevelopment of 102 Morris Street has incorporated plans that would meet many of the objectives of downtown Durham’s retail strategy as well. The Re:Vamp Durham proposal includes plans for a restaurant and bakery and for office and retail use, all of which would aid in creating the foot traffic needed for this location and which would be a step towards meeting the goals of the retail study.

### *Environmental Assessments*

On August 26, 2010, Mid-Atlantic Associates, Inc. conducted a Phase I Environmental Site Assessment of the property. The assessment report summarized the following findings:

- A limited asbestos survey identified approximately 5,000 square feet of asbestos-containing floor tile and mastic in the building as well as approximately 60 square feet of asbestos-containing linoleum and 250 square feet of ceiling board with asbestos-containing joint compound in the building.
- Lead-based paint was identified in several locations throughout the property.
- The assessment revealed four Recognized Environmental Conditions in connection with the property: a historical use as a dry-cleaning and vehicle maintenance operation and historical uses of adjacent properties for dry-cleaning and printing operations.

An addendum to the report noted asbestos-containing material in the roof material, roof flashing (approximately 8,000 square feet), and window caulk.

Although Mid-Atlantic did not observe any signs of contamination present on the site, Mid-Atlantic recommended a limited soil and groundwater assessment because of the historical uses of the property. As a result, a Phase II Environmental Site Assessment is being conducted.

### *Maintenance and Repairs*

Since 2006, the City has responded to 42 repair requests at the property. The majority of the requests involved leaks into tenant spaces, HVAC problems, and electrical repairs. The City has installed a primitive water collection system on the second floor to collect and to remove water leaking through the roof. However, during periods of heavy rain, the system sometimes fails. This results in standing water on the second floor and leaks into the first floor spaces. The most recent failure of the system occurred in February 2011, and resulted in standing water on the second floor and in two vacant first floor spaces. Both tenants also reported water leaks.

### **Alternatives**

The City Council could decide not to approve the proposed sale of 102 Morris Street to HPSD. This alternative is not recommended for following reasons:

- It would delay revitalization of an area that has been identified in the retail study as one of three nodes of retail activity vital to the growth of downtown.
- It would require the City to continue expending already limited financial resources to provide maintenance and repairs to the property. Selling the property to HPSD would prevent further deterioration of the property, thereby protecting its historical value to the community.
- The City would not receive \$224,850 in sales proceeds.

### **Financial Impact**

1. Expenses to City: \$0
2. Revenues to City: \$224,850 (plus \$250-\$650 in option money)

### **SDBE Summary**

This item does not require review by the Equal Opportunity/Equity Assurance Department.

### Attachments:

Purchase Option Agreement between the City of Durham and the Historic Preservation Society of Durham

Purchase Option Agreement between the Historic Preservation Society of Durham and Re:Vamp Durham