

CAROLINAS

NORTH CAROLINA

Population: (2006) 8,856,505
Housing units: (2006) 4,028,959
Income per capita: \$30,660
Unemployment rate: 4.5%

Sources: U.S. Census Bureau, North Carolina Chamber of Commerce, American Community Survey

SOUTH CAROLINA

Population: (2006) 4,321,249
Population growth 2000-2006: 7.7%
Housing units: (2006) 1,975,638
Income per capita: \$21,535
Median household income: \$39,316
Average household: 2.5 people

Source: U.S. Census Bureau, American Community Survey

Experiencing Organic Growth

Retail expansion in North and South Carolina builds off the success of new regional business hubs.

By Chuck Green

North and South Carolina's scenic beauty has long been credited for drawing scores of Americans to make trips to the region; however, it is the area's evolution as a business mecca that has contributed to an influx of year-round residents. That, in turn, is driving retail growth with a wave of new lifestyle centers popping up throughout the region.

In North Carolina, growth has centered on two areas. Charlotte has become a financial hub, serving as the headquarters for both Bank of America and Wachovia. Meanwhile, the Raleigh-Durham-Chapel Hill area

has become an epicenter for research and development, education and biotechnology. In South Carolina, the booming cities of Greenville and Spartanburg joined the ranks of the fastest-growing cities in the country because of a spurt of businesses relocating to the region.

Retail developers, such as 1st Carolina Properties, have taken note of the in-migration, which nicely complements the crush of tourists that visit areas like the Blue Ridge Mountains, Nags Head and Hilton Head.

"People move here and don't want to

PARK WEST VILLAGE

This \$100 million mixed-use project will include 700,000 square feet of retail, a 140-room hotel, 50,000 square feet of offices and 350 residential units.



leave—which draws more retailers,” says Cornell Radcliff, president of 1st Carolina Properties. “We’ve seen more outside developers come here in the past four, five years that are looking to be permanent players because the long-term prospects for the Carolinas are sound.”

For example, Indianapolis-based Simon Property Group and Kite Realty Trust Group, and the St. Petersburg, Fla.-based Sembler Co. have all set up shop in the region of late.

As a result, in North Carolina there are 6 million square feet of retail under construction and 16 million slated to come on-line by 2010, according to Marcus & Millichap Real Estate Investment Services. In South Carolina, 2.4 million square feet is under construction and 12.6 million square feet scheduled to open by 2010.

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Radcliff's Cary, N.C.-based firm, along with partner Casto Lifestyle Properties of Sarasota, is developing Park West Village, in Morrisville, N.C., a \$100 million mixed-use project that will contain 700,000 square feet of retail, a 140-room hotel, 50,000 square feet of office and 350 residential rental units when completed in summer 2009.

The 100-acre development site is encased by burgeoning communities whose residents range from those in the working class to affluent executives that have high discretionary incomes, Radcliff says. Both customer segments, he adds, are drawn to prime retail locations with a strong tenant mix.

“The demand we see from the community is across the board. We just hope that the lifestyle tenants continue their growth in markets like ours given the recessionary

fears that exist,” Radcliff says.

The credit squeeze is also having an effect, with financing tightening up throughout the region, according to Robert Spratt, president of Charlotte-based Hill Partners Inc. But developers with established track records and strong sites can still borrow funds, he says.

Nevertheless, Radcliff says that over the past two or three years growth in the state's retail market may have slowed some. He's also noticed a slowdown in leasing, but deal-making has not come to a halt either.

James Downs, vice president of the retail division of Charlotte-based Crosland and the Carolinas director for ICSC, added that the market has been somewhat volatile, with retailers pulling back on expansion plans. But he still believes that overall, the sustained population growth and per capita spending positions both Carolinas for continued retail expansion.

Northbound and southbound traffic

A sign of North Carolina's rapid growth is the fact that in 2006 it climbed into the list of 10 most populous states in the U.S., supplanting New Jersey, according to the Census Bureau. Its population then stood at more than 8.8 million residents, up 21.4 percent from 1990. And according to the Bureau's 2005 Total Population projections, North Carolina will grow to 12 million residents by 2030.

One up-an-coming city is Charlotte. Currently, it boasts 13,000 residents and its population is estimated to nearly double to 25,000 by the end of the next decade. Unlike many cities, Charlotte hasn't tried to revitalize its downtown with just retail, says Michael Smith, president of Charlotte Center City Partners.

Smith says destination retail doesn't work in its urban areas. The city attempted a retail project called CityFair during the 1980s. It was built as an urban mall in 1988. But a shortage of auxiliary traffic at night and on weekends doomed the project; and it was demolished in 1999. However, the last 10 years have been a bonanza of sorts for retail developers like Radcliff.

“We've gotten a little spoiled,” he says.



COMING ALONG
The second phase of BrodyCo.'s Mayfaire Towne Center is a mixed-use development in Wilmington, N.C., is scheduled to open in June.

Radcliffe explains that the past seven to eight years "have blessed us with strong steady growth with a residential boom that will probably not happen again for quite a while," adding it has produced "aggressive retail expansion in the Carolinas and more shopping center growth than ever." But he cautions that "we're in a business of cycles, and it should be no surprise that changes will happen."

According to Real Capital Analytics, a New York City-based real estate data firm, in 2007 investment sales volume in Charlotte reached \$748 million, up 39 percent from the previous 12 months. Properties traded at \$150 per square foot, 9 percent higher than during 2006. In Raleigh-Durham, deal volume was \$629 million, up 134 percent from the previous 12 months. The properties traded at \$139 per square foot, up 15 percent from the previous 12-month period.

"Charlotte's taking off," says John Connaughton, professor of economics at Belk College of Business at UNC Charlotte. Connaughton forecasts this year, North Carolina businesses will add 83,900 jobs, up 2 percent over 2007. This year, he expects the North Carolina economy to continue its seventh year of expansion.

As a lifelong North Carolinian, H. J. Brody, CEO of BrodyCo Inc. in Greenville, N.C., notes several factors, including rising enrollment at North Carolina state universities, Charlotte's growth as a financial capital and the Raleigh-Durham stronghold in biotech and the medical industries have helped spur the state's population. Elsewhere, he adds, North Carolina's government has been adroit in bringing major corporations such as Dell, FedEx and Google, along with their high-paying jobs, to the state.

Southern comfort

Further down the road, the Census Bureau reported South Carolina's 2006 population was more than 4.3 million. *The South Carolina Community Profiles*, a publication of the South Carolina Office of Research and Statistics, reports the state's projected population for 2030 is 5,148,569 ranking it twenty-third in the country. With its

modest growth, developers contend, the Carolinas have sidestepped the economic downturn that has beset others parts of the United States.

The rate of growth "saved the Carolinas immensely," says Brody. "We didn't have high highs like Florida and California, but won't have the low lows either."

As the major markets start to gain greater density, the aging inventory of retail properties needs to be updated to reflect the latest trends in retail development, says Brody.

Also, a number of national retailers have established a presence in Hilton Head, S.C., and Smithfield, N.C., with factory outlet stores conveniently located off major highways catering to shoppers from either state as well as long-distance travelers from areas between Florida and New York. And, tourist and snowbird destinations ranging from the Outer Banks and Asheville, N.C., to Charleston and Myrtle Beach, S.C., also draw large numbers of visitors or residents wintering at their second homes.


Soft ground-breaking

Still at issue for potential investors is the heightened difficulty in obtaining a loan, says Steve Shields, who represents retail property owners in both Carolinas for CB Richard Ellis in Charlotte. He explains with more equity required now, the buying pool might be winnowed somewhat.

Feeling the pinch is Kane Realty Corp. in Raleigh, N.C. Kane CEO, John Kane, says the firm's vacancy rate is 7 percent, slightly higher than at any time in the past decade. Nevertheless, he still described it as reasonably strong given the economic climate.

However, it would be "foolhardy for anyone to say that the economy hasn't impacted every part of the country," says Spratt.

Still, the "A deals" will get done, notes Dale Hall, a partner with New South Properties in Charlotte, a commercial brokerage and development firm.

Historically, Charlotte and Raleigh have been somewhat "insensitive" to the overall business cycles, says Connaughton, and he expects the area to remain on course for at least the next decade. 



Wal-Mart's Tax Fight

North Carolina's Superior Court has ruled against Wal-Mart Stores, Inc. in a tax shelter case. Back in 2005, North Carolina government officials said the world's largest retailer was not eligible for tax breaks on its store rents because the company used in-house REITs to essentially pay rents to itself. In response, Wal-Mart filed a lawsuit seeking \$33.5 million in refunds. But in January, Emergency Special Judge Clarence Horton Jr. agreed with the state, saying the rent transaction did not have "any real economic substance." In the past four years, Wal-Mart saved more than \$200 million in taxes by using the strategy in other states.



Not Roanoke Virginia

Roanoke Rapids, N.C., has made a name for itself.

According to the 2004 U.S. Census, Roanoke Rapids in North Carolina was cited as the new "Micropolitan area"—or economic hub for the region. The city of 17,000 residents, located just south of the North Carolina/Virginia border, is trying to capitalize on its proximity to Interstate 95 and market itself as a tourist destination for both out-of-state travelers and for other North Carolinians.

The Carolina Crossroads Music & Entertainment District, a \$129 million project anchored by the 40,000-square-foot, 1,500-seat Roanoke Rapids Theater, is a major piece of that project. The city itself helped finance construction of the \$13 million theater in 2006 at a site located just off the Interstate.

The venue has already hosted performances by nationally recognized country, rock, and gospel musicians, traveling productions of Broadway shows and numerous other theatrical acts.

The city also spent \$6 million on infrastructure to support the entertainment district, which draws patrons from the estimated 100,000 people who travel on Interstate 95 each day.

Blanchard and Calhoun Commercial of Augusta, Ga., is the development and leasing partner for Carolina Crossroads.

Phase One of the project, scheduled to be completed in 2011, is under development and its owners control a thousand acres of adjoining land already zoned for retail development.

Plans call for Carolina Crossroads to have 25,000 square feet of retail and restaurants, including a 17,000-square-foot DeVitto's Rotisserie Bar & Grille, complete with a stage for live entertainment. Also planned are 300,000 square feet of retail for outlet stores. Specialty retail will include an ice cream shop and an "olde time" photo shop.

Additionally, three out parcels have been presold to restaurant groups and the owners are marketing sites fronting Highway 125. A 147-room Hilton Garden Inn, at the entrance to the entertainment complex, opened last June. The \$16 million hotel was developed by B&C Southeast Hospitality.

—Cluck Green

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