

City of Shelby

August 21, 2023

Hotel Charles Redevelopment Strategy

Feasibility Results and Recommendations

 **UNC** | SCHOOL OF GOVERNMENT
Development Finance Initiative



Project Overview

Hotel Charles Redevelopment



Meeting Goals

- Review Guiding Public Interests
- Review Market Analysis Results
- Discuss Redevelopment Scenario





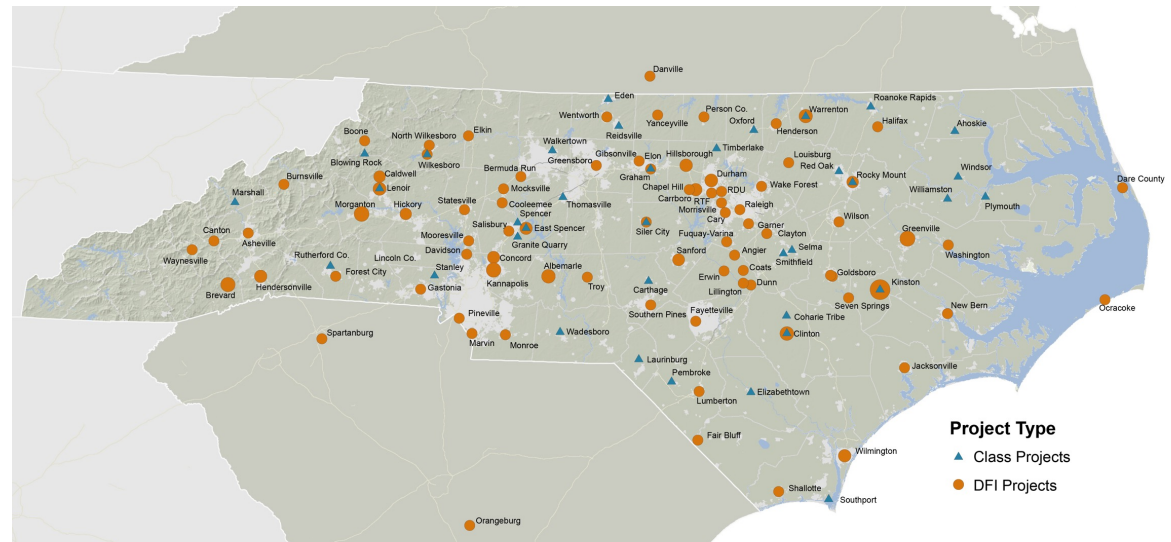
SCHOOL OF GOVERNMENT

Development Finance Initiative

DFI, a program of UNC Chapel Hill's School of Government (SOG), partners with local governments to attract private investment for transformative projects by providing specialized finance and development expertise.

SOG is the largest university-based local government training, advisory, and research organization in the United States, and serves more than 12,000 public officials each year.

Values: Nonpartisan, policy-neutral, responsive

Project Team

Project Lead: Sara VanLear

Senior Analyst: Frank Muraca

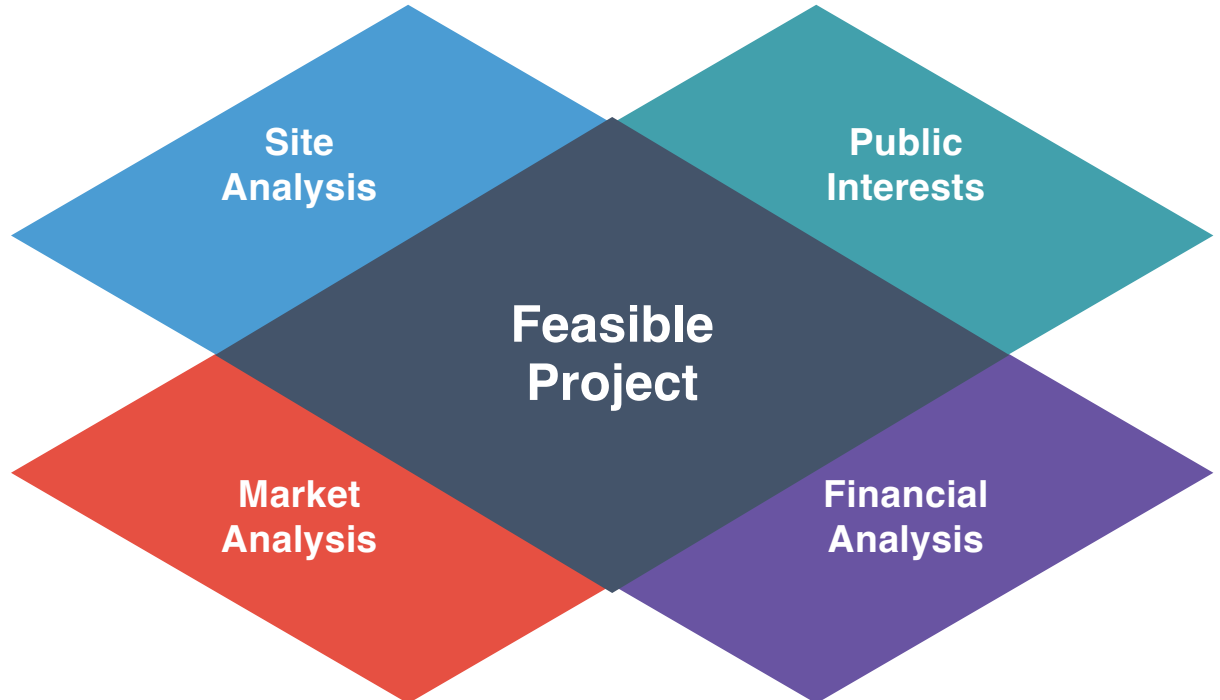
Assistant Director: Eric Thomas

Senior Advisor: Rory Dowling

DFI Scope of Services

The City of Shelby engaged the Development Finance Initiative (DFI) to support the city in attracting private investment for the Hotel Charles site. The scope of work includes:

1. Pre-development feasibility analysis
2. Solicitation of private development partner(s)
3. Supporting the City in negotiating the development agreement with selected partner(s)



Establishing Guiding Public Interests

What public interests are....

- Community Values
- Broad Goals
- Relevant to the Project
- Reflect priorities to inform tradeoffs

What they are not....

- Overly specific or defined: should not include details such as the # of parking spaces, or # and mix of units
- Public Investment Scenarios

Guiding Public interests in the DFI Development Process:

- Developed through stakeholder and community engagement process:
 - Conduct stakeholder engagement to solicit public input on interests related to the Hotel Charles
 - Present revised guiding public interests to staff and Shelby City Council
 - Council to publicly endorse guiding public interests
- Guide creation of development program(s)
- Used as criteria to select private development partner

Guiding Public Interests for the Hotel Charles

The redevelopment of the Hotel Charles should...

1. Add accommodations in Uptown that will support current arts, culture, and visitor travel activity
2. Preserve and reflect Shelby's history
3. Efficiently leverage public investment to maximize private investment

Market Analysis



The Hotel Charles is positioned to capture growing hospitality and retail demand.

The unique and historic characteristics of the Hotel Charles building—alongside its location in the heart of Uptown—suggests that a redeveloped space could likely serve the area's demand for **hospitality and retail**.



Hospitality:

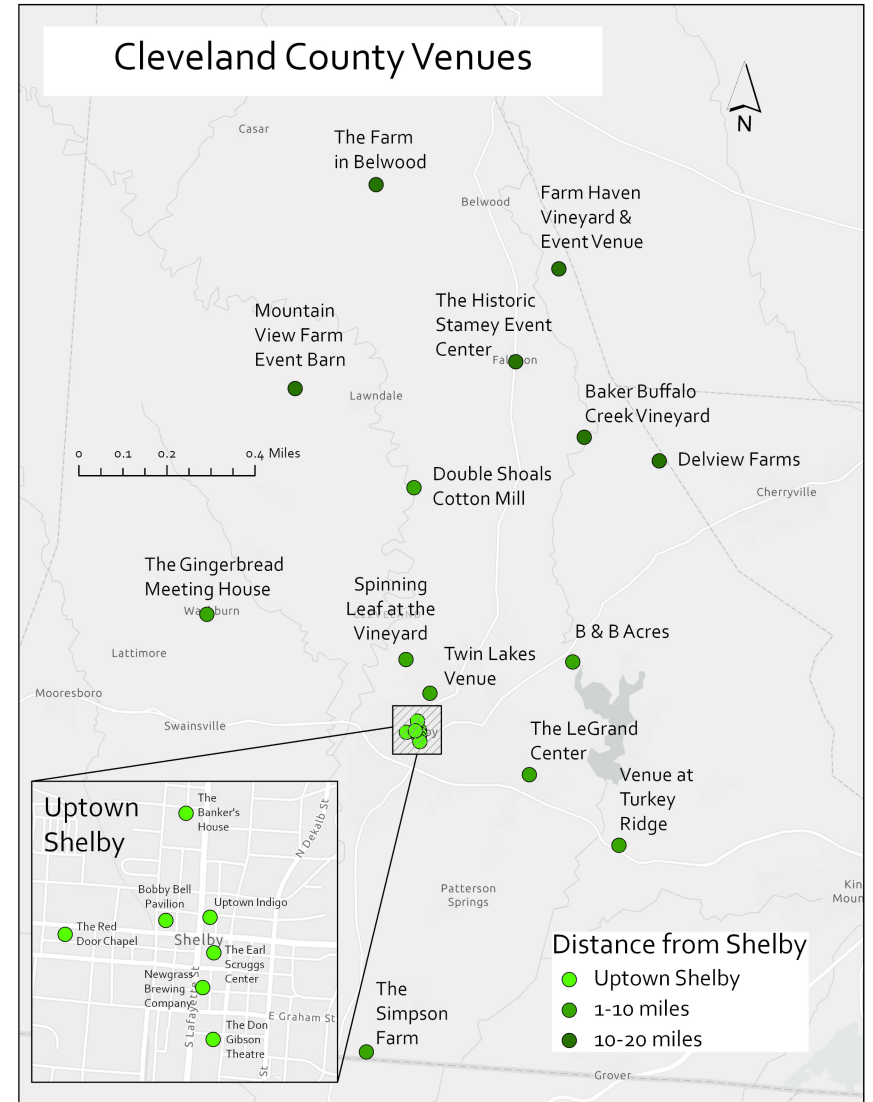
Demonstrated demand for hotel rooms as illustrated by ADR and occupancy rate growth across all Cleveland County hotels.



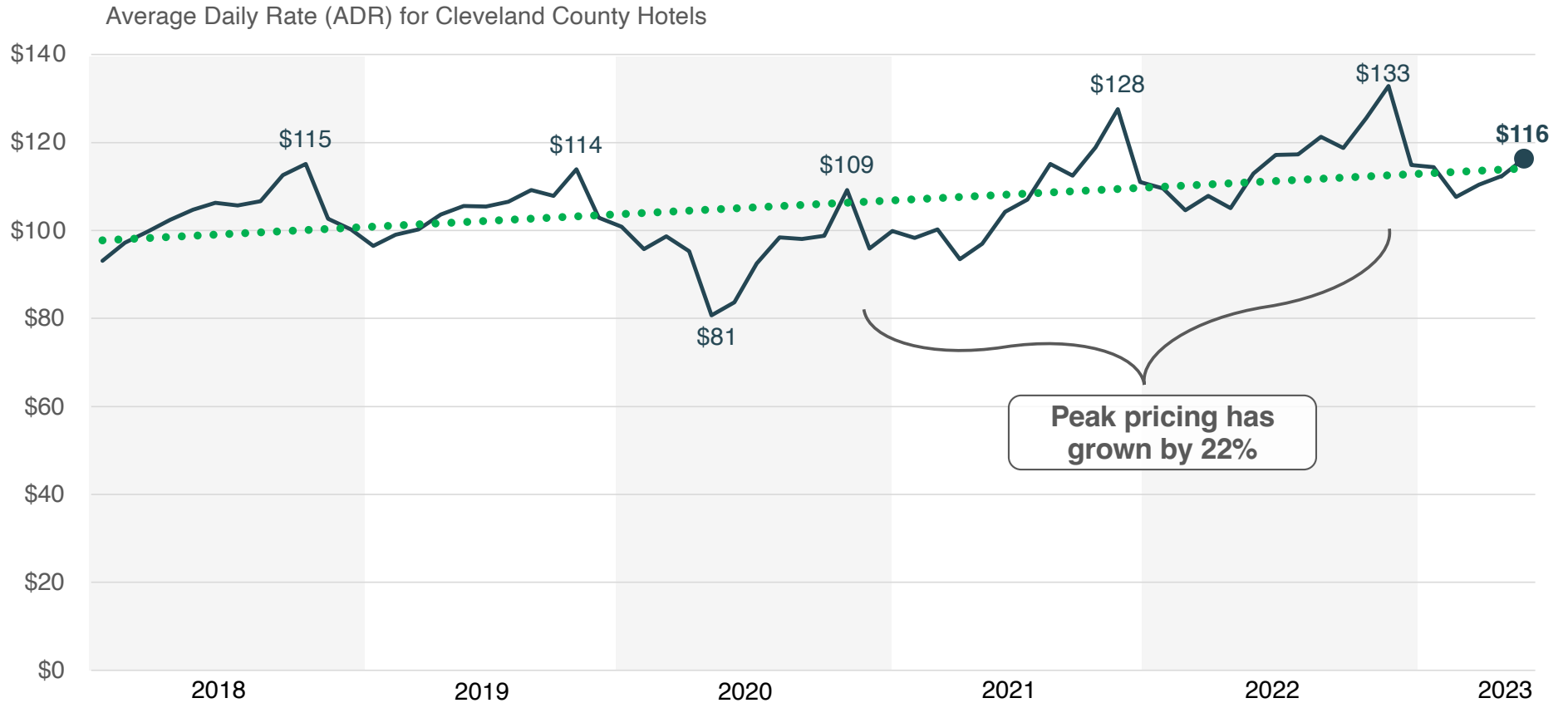
Retail:

Sufficient demand for retail, specifically food and beverage establishments. The Hotel Charles would capture approximately 7% of more than 100,000 sq ft in retail demand.

There are limited local hotel options yet arts, cultural and sporting events that draw thousands of visitors each year.



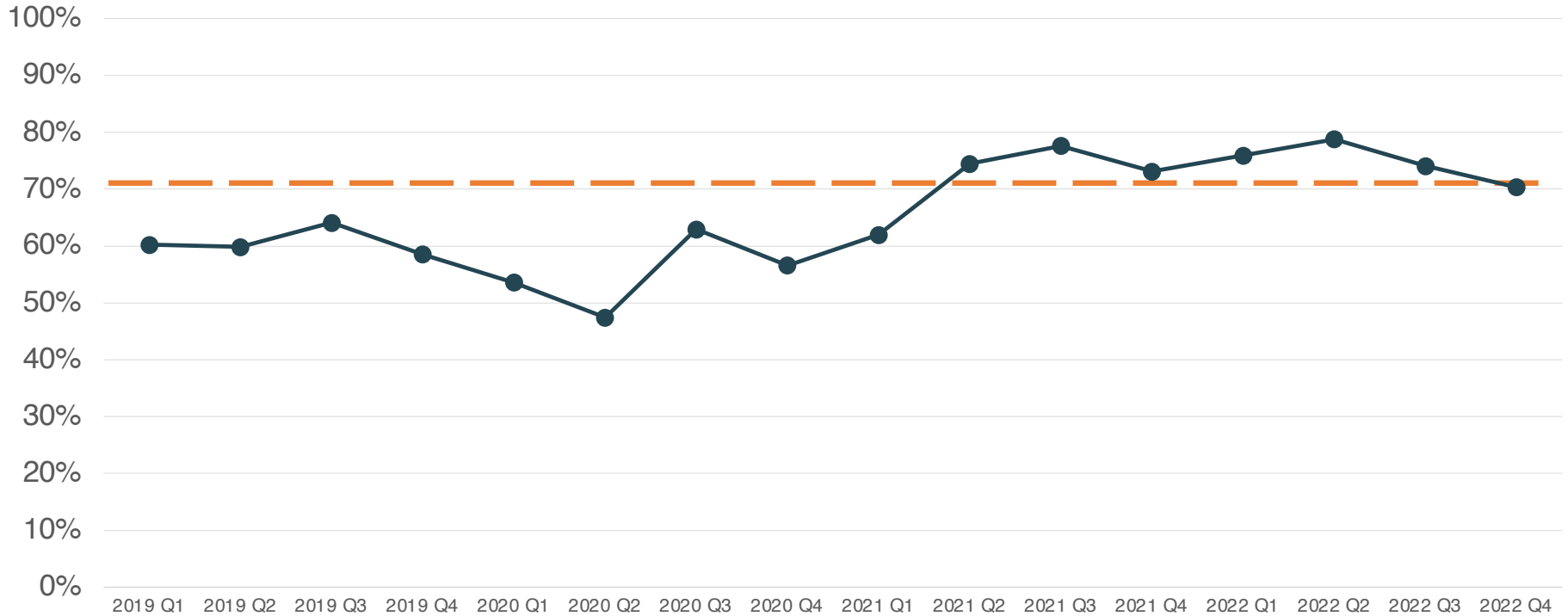
The 12-month ADR has grown by 20% since 2020.



Source: STR Report provided by CC Tourism

Since Spring 2021, the occupancy rate among Cleveland County hotels surpassed 70%.

Average hotel occupancy rate by quarter | Cleveland County, NC



Source: STR Report provided by CC Tourism

Countywide population and median household income growth could support new retail.

- New Retail:
 - Next Five Years: over 100k sq ft of total retail demand.
 - Today: at least 40k sq ft of food and beverage demand.
- Uptown Shelby:
 - Since 2018, retail vacancy rate dropped from 6% to 2%.
 - Since 2018, 100 net new businesses open and 40 business expansions.
 - Renovated retail space currently rents for \$14 per sq ft (\$4 premium over market rents).



Redevelopment Scenario



Historic Boutique Hotel Development Program

Projected Development Program

Building square feet 32,000 sq ft

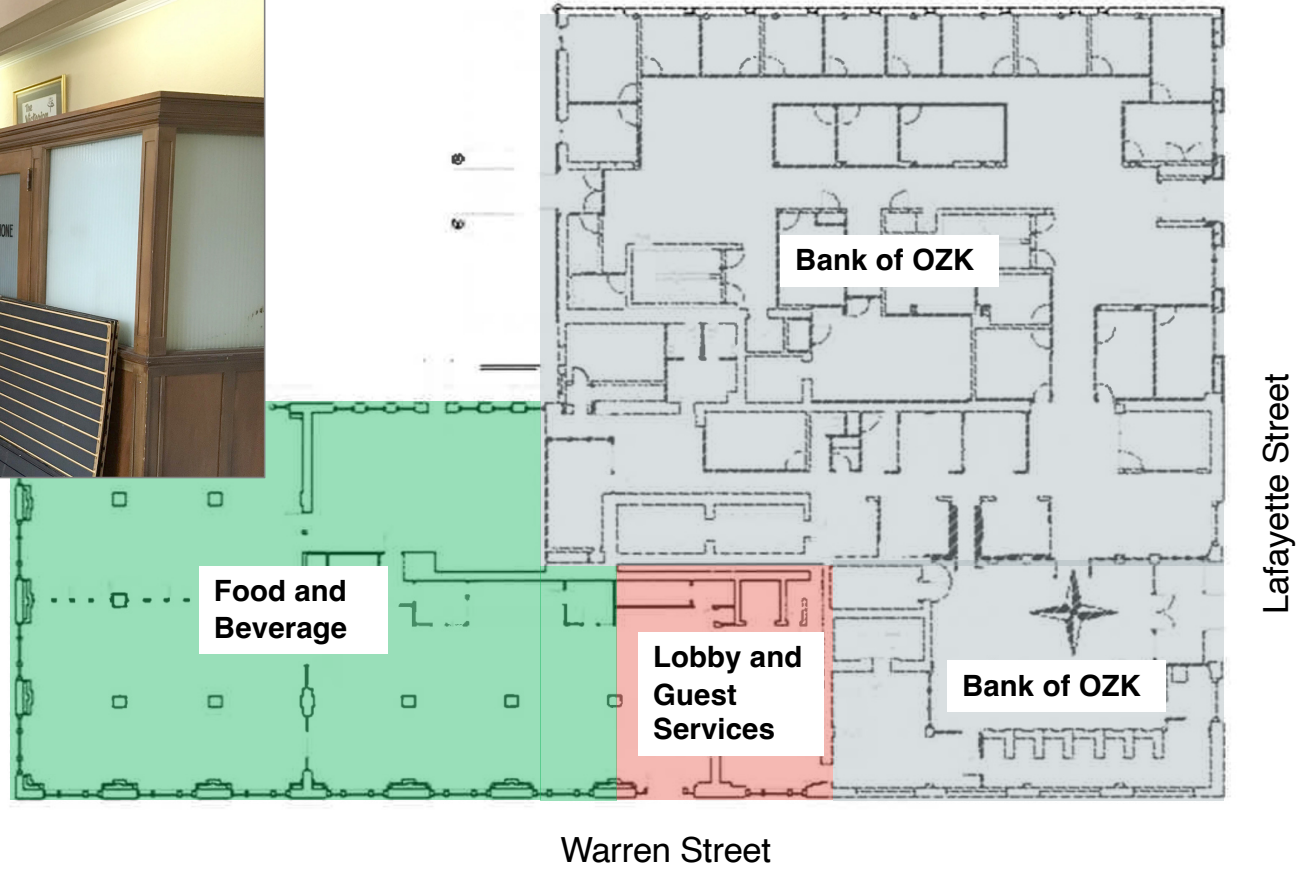
Estimated # of Rooms 38

First Floor: Food and Beverage 4,800 sq ft

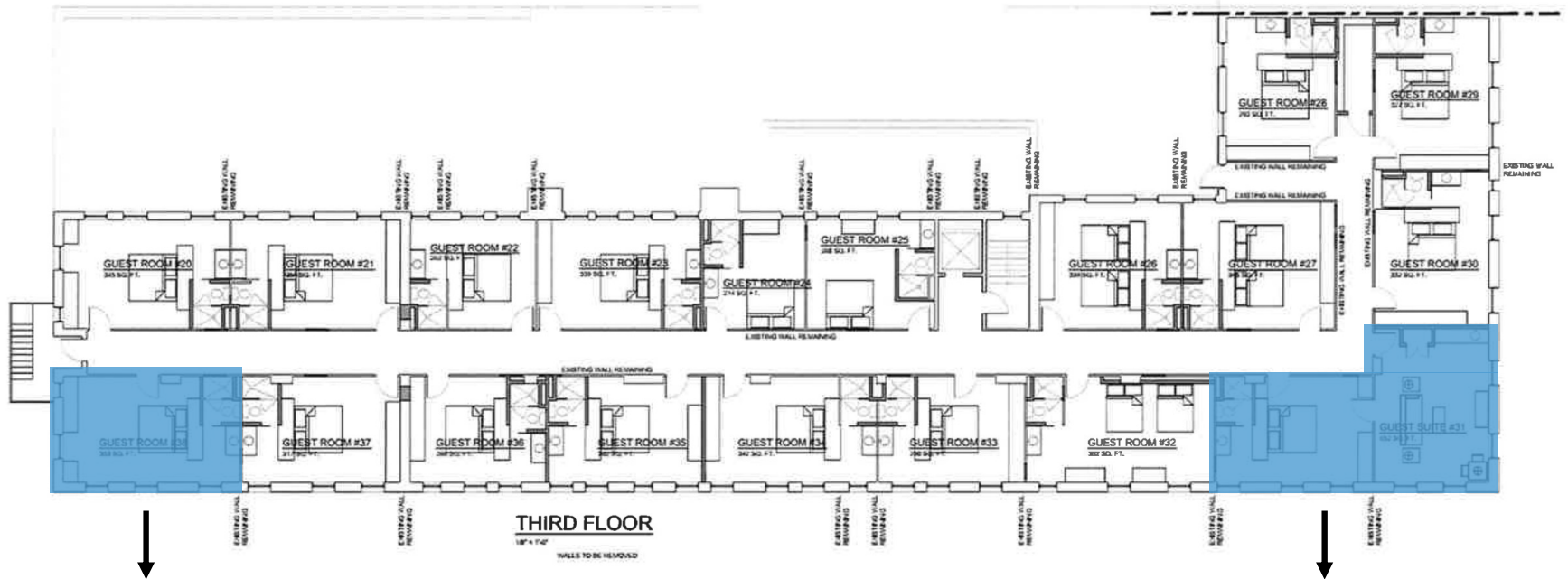
Street Level: Retail Opportunity 2,000 sq ft



Hotel Charles Test Fits: First Floor



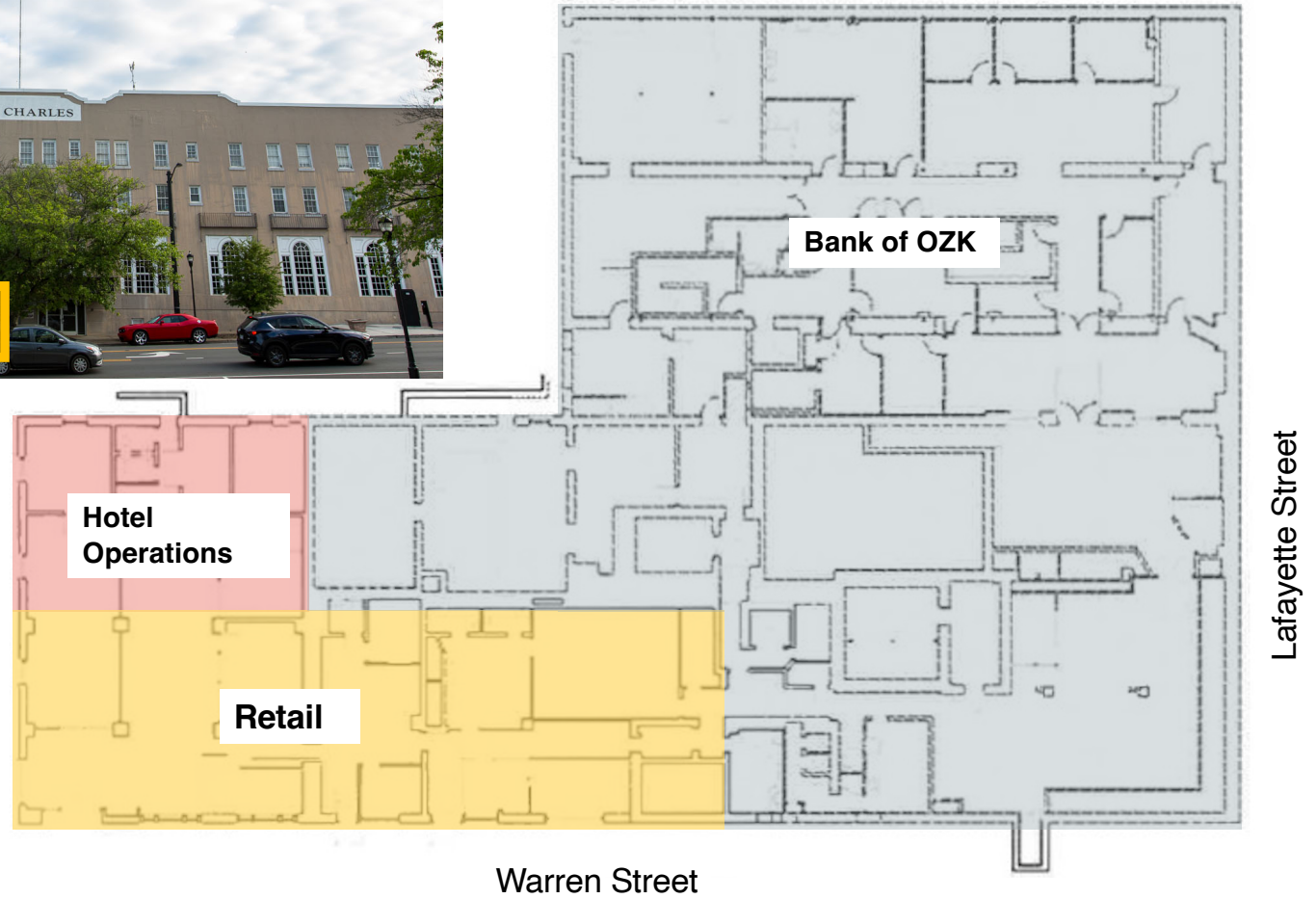
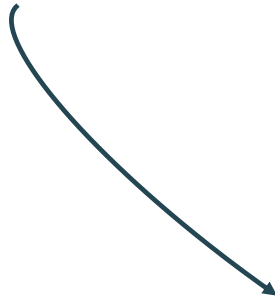
Hotel Charles Test Fits: Guest Rooms



Guest Rooms (18 per floor)

Guest Suite (1 per floor)

Hotel Charles Test Fits: Street Level



The Hotel Charles redevelopment strategy has an estimated 10% internal rate of return (IRR) over a 7-year hold period.

Estimated Sources:	Amount Millions	Percent
Historic Tax Credit Equity / Bridge Loan	\$3.1	23%
Equity	\$3.6	27%
Construction Loan	\$6.3	47%
Deferred Developer Fee	\$0.4	3%
Total	\$13.4	100%
Estimated Uses:		
Building Acquisition	\$0.85	7%
Hard Cost	\$9.0	67%
Soft Cost	\$3.5	26%
Total	\$13.4	100%

The current strategy incorporates the following key inputs:

- State and Federal Historic Tax Credits
- 70% Occupancy Rate
- \$150 estimated average daily rate (ADR)

There are several strategies that would improve the redevelopment feasibility.

- Community champions willing to invest and accept lower returns.
- Investors who can use HTCs internally rather than selling the credits at a discounted rate.
- Public participation as needed
 - Historic Landmark Status
 - Seller Financing



Questions

