



VISION STATEMENT

Adaptive reuse and new construction multifamily housing forms the southern edge of the Historic Broughton Campus, providing unique living opportunities in a mixed-use community, with close proximity to dining, arts and cultural offerings, educational assets like Western Piedmont Community College and the Western North Carolina Discovery Center, and outdoor recreation with stunning scenery.

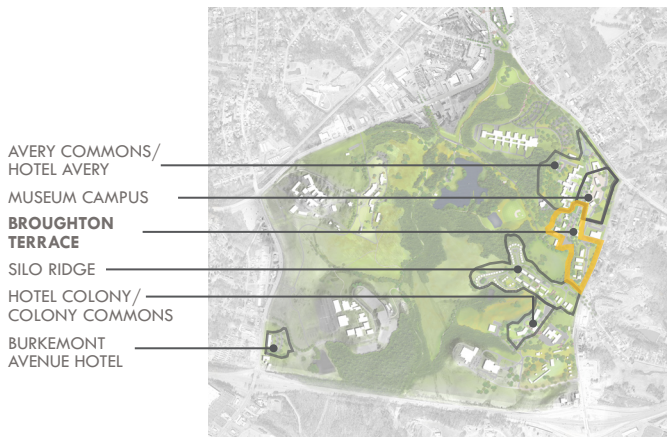
VALUE PROPOSITION

Apartments attract young, single professionals and couples without children who seek living arrangements that offer onsite amenities, easy access to recreational and leisure opportunities, and close proximity to education and employment centers. There is an opportunity to capture increasing demand for both rental and for-sale units given the growth of key employers throughout the region, and to capitalize on the low vacancies, stagnant supply and aging stock of current housing options. On-site property management, a clubhouse, and a pool will further set this product apart with its amenities and level of service for residents.



PROJECT SCOPE

PROGRAM	
HISTORIC ADAPTIVE REUSE	107 UNITS
GARDEN APARTMENTS (NEW CONSTRUCTION)	96 UNITS 153,600 SF



OVERALL SITE PLAN

PRODUCT DESCRIPTION

A multifamily apartment community lies just south of the Avery Building, comprised of renovated historic buildings (Bates, Scroggs, Harper and Dining) repurposed as apartments, as well as newly constructed apartment buildings. Following the tree-lined plaza drive to the south, village residents stroll along a boulevard of modest two-to three-story renovated historic masonry hospital wards, while the landscape opens into a block of new garden-style apartment buildings. The historic buildings date from the late 1800s to the mid-1900s, reflect Classical, Colonial, and Art Deco styles, and feature red brick, concrete inlay and glass block details, gables, and slate roofs. The two- to three-story nature of the historic and new buildings provides a residential and human scale to the community.

AREA DRAWS

The City of Morganton offers an ideal home for young professionals, couples, and single adults seeking a stimulating, yet affordable place to live, that balances career and educational opportunities with top-notch access to outdoor recreation. The City of Morganton already has access to a large population of young adults due to its close proximity to major public universities including Appalachian State University (Boone), Western Carolina University (Cullowhee) and UNC-Asheville (Asheville), as well as institutions within the City boundaries: Western Piedmont Community College (WPCC), North Carolina School for the Deaf, and now, the new western campus of the North Carolina School of Science and Math.

Together, these institutions account for thousands of students receiving specialized and technical training in preparation for well-paying careers in technology, healthcare, and other industries that are represented in the regional job market. The City of Morganton has the opportunity to convert these students to permanent residents given its growing career opportunities, recreational and cultural assets, and affordable housing stock.¹

Additionally, Morganton is well-positioned to attract outdoor enthusiasts given its local recreational assets including golf courses, walking trails, athletic fields and a community greenway, as well as its easy access to national draws including Linville Gorge, Lake James, and Pisgah National Forest. Morganton's downtown has maintained a charming, small-town feel through preservation of its historic architecture, while also hosting the modern amenities of a larger city, including a first-run movie theater and a performing arts venue. There have been numerous examples of successful adaptive reuses of historic buildings into new craft breweries, farm-to-table restaurants and shops that have rejuvenated the downtown and made Morganton akin to popular Western North Carolina cities like Asheville.



HISTORIC MORGANTON FESTIVAL



DOWNTOWN MORGANTON



CRAFT BREWERIES



TRAILS

MARKET INDICATORS AND COMPS

The Hickory-Lenoir-Morganton Metropolitan Statistical Area (MSA) is experiencing a rising pressure on the local housing stock as a result of a growing economy. The MSA has experienced the highest job creation relative to housing unit development of any MSA in the state² (see Chart 1), a result of a stagnant supply of housing. Even as the median home value is rapidly rising, Burke County is projected to add 690 households between 2017 and 2022, approximately 138 new households per year.³ Yet, on average, only 69 new residential units were permitted per year over the past three years (2015-17).⁴ Multifamily residential vacancy rate sits at 2% in Burke County,⁵ and vacancy among stabilized market-rate multifamily properties in the City of Morganton sits at 1.5%.⁶

Compounding the challenges associated with demand growth, are limitations in the supply of multifamily housing in Burke County and the City of Morganton. Nearly 47% of renter-occupied housing and 58% of owner-occupied housing in Burke County was built prior to 1970.⁷ Furthermore, 76% of all multifamily rental product within the county was built prior to 1990. Though overall vacancy in multifamily properties is low, properties built since 1990 are 100% occupied.⁸ Five-year projections estimate the greatest demand for multifamily product for households with incomes above \$45,000, which can support rents of approximately \$1,100 per month.

Specifically, projections indicate demand for 882 new, high-quality, amenitized rental units to support the growth of this income group given the currently-limited supply of high-quality rental product in Burke County.⁹ Finally, there is currently an undersupply of 1-bedroom units in the market. Though 63% of all renter households in the County are 1- and 2-person households, less than 9% of market-rate units surveyed are 1-bedroom units.¹⁰

There have been recent efforts to accommodate this demand. Morganton Trading Company—the 2006 adaptive reuse of a former textile mill in downtown—has 43 market-rate 1- and 2-bedroom units. The property currently operates at 100% occupancy with a waiting list. One-bedroom, 1-bath units range in size from 700 SF to 1,185 SF earning rents of \$850 to \$1,000 per month. Two-bedroom, two-bath units range in size from 800 SF to 1,625 SF earning rents of \$950 to \$1,425 per month. Meanwhile, the Dunivent Lofts, a 47-unit market-rate adaptive reuse residential project in downtown Morganton, is under construction and slated to be completed in 2019.

The Broughton District offers an opportunity for developers to capitalize on stagnant supply and aging stock of housing to attract homeowners and renters for both current and projected populations in the Hickory-Lenoir-Morganton MSA.

CHART 1: EMPLOYMENT CHANGE PER NEW HOUSING UNIT WITHIN NC METROPOLITAN STATISTICAL AREAS, 2014-2016

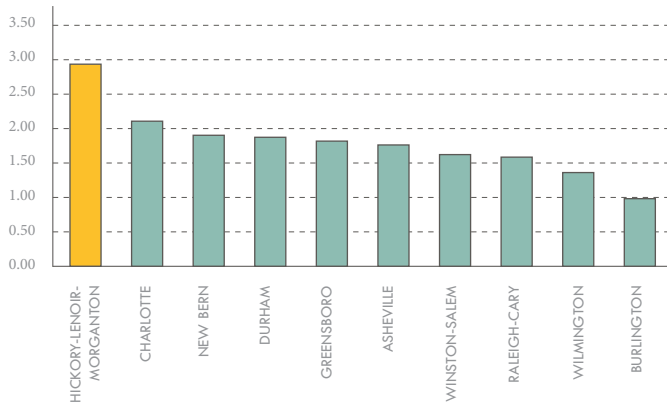
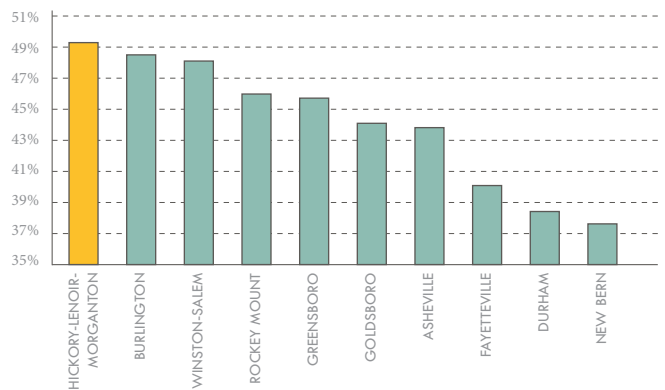


CHART 2: PERCENTAGE OF HOUSING BUILT BEFORE 1980 WITHIN NC METROPOLITAN STATISTICAL AREAS (AS OF 2015)



MORGANTON PARKS



BLUE RIDGE PARKWAY

FINANCIAL PERFORMANCE ASSUMPTIONS AND RETURN PROJECTIONS

Permanent Capital Sources				
	Percent	Per Unit	Per GSF	Total
Historic Tax Credit Equity	12%	\$ 20,779	\$ 15	\$ 4,218,060
Primary Loan	64%	\$ 109,169	\$ 80	\$ 22,161,364
Seller Note	5%	\$ 7,973	\$ 6	\$ 1,618,500
Equity	19%	\$ 32,182	\$ 24	\$ 6,532,913
Total Sources		\$ 170,103	\$ 125	\$ 34,530,838

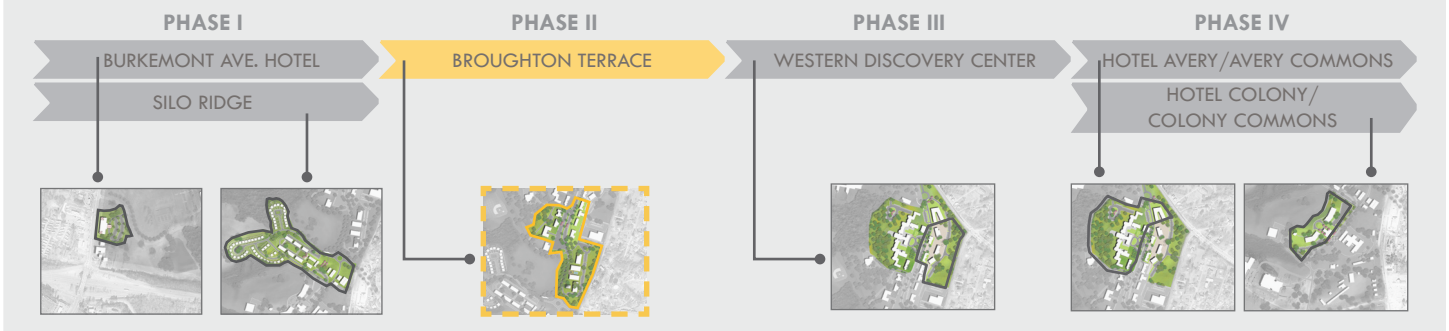
Project Cost of Capital & Returns	
Rate	6%
Amortization	30
Stabilized DSCR (Year 3)	\$ 1.25
Yield on Cost (Stabilized Year 3)	6%
Cash-on-Cash (Stabilized Year 3)	5%
Exit Cap Rate	6.25 - 6.75
Equity Multiple (6 Year Hold)	1.8 - 2.2
Internal Rate of Return (6 Year Hold)	12% - 16%

Program and Rent Roll			
Unit Type	Unit Count	Mix	Avg. Unit \$/Month
Efficiency	17	8%	\$ 875
1 bedroom	106	52%	\$ 1,160
2 bedroom	79	39%	\$ 1,440
3 bedroom	1	0%	\$ 1,700
	203		\$1,248 weighted avg.

Development Budget			
	Per Unit	Per GSF	Total
Acquisition Cost	\$ 7,973	\$ 6	\$ 1,618,500
HISTORIC APARTMENTS			
Sitework	\$ 10,314	\$ 8	\$ 2,093,750
Building Renovations	\$ 60,340	\$ 44	\$ 12,248,930
Contingency	\$ 3,533	\$ 3	\$ 717,134
Contractors Fee & Overhead	\$ 4,239	\$ 3	\$ 860,561
A & E Fee	\$ 5,652	\$ 4	\$ 1,147,414
Total Hard Costs	\$ 84,078	\$ 62	\$ 17,067,790
Construction Period Taxes	\$ 98	\$ 0	\$ 19,827
Legal & Accounting Fees	\$ 493	\$ 0	\$ 100,000
Due Diligence	\$ 246	\$ 0	\$ 50,000
Bridge Loan Carried Interest	\$ 1,600	\$ 1	\$ 324,706
Bridge Loan Origination Fee	\$ 415	\$ 0	\$ 84,339
Total Soft Costs	\$ 2,852	\$ 2	\$ 578,872
NEW CONSTRUCTION			
Sitework	\$ 6,029	\$ 4	\$ 1,223,800
New Construction	\$ 84,463	\$ 30	\$ 8,372,000
General Conditions	\$ 2,562	\$ 2	\$ 520,000
Contingency	\$ 2,492	\$ 2	\$ 505,790
Contractors Fee & Overhead	\$ 3,139	\$ 2	\$ 637,295
A & E Fee	\$ 2,836	\$ 2	\$ 575,748
Total Hard Costs	\$ 58,299	\$ 43	\$ 11,834,633
FF&E - Leasing & Club House	\$ 591	\$ 0	\$ 120,000
Financing Cost	\$ 2,183	\$ 2	\$ 443,227
Loan Carried Interest	\$ 3,603	\$ 3	\$ 731,325
Developer Fee	\$ 6,804	\$ 5	\$ 1,381,234
Operating Reserve	\$ 3,720	\$ 3	\$ 755,257
Total Soft Costs	\$ 16,902	\$ 12	\$ 3,431,043
TOTAL DEVELOPMENT COSTS			\$ 34,530,838

Operating Cash Flow						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Gross Revenues	\$ 2,888,400	\$ 2,975,052	\$ 3,064,304	\$ 3,156,233	\$ 3,250,920	\$ 3,348,447
Units	203	203	203	203	203	203
Maximum Monthly Rent	\$ 240,700	\$ 247,921	\$ 255,359	\$ 263,019	\$ 270,910	\$ 279,037
Rent Escalator	3%	3%	3%	3%	3%	3%
Vacancy Allowance	\$ 866,520	\$ 297,505	\$ 153,215	\$ 157,812	\$ 162,546	\$ 167,422
Vacancy Rate	30%	10%	5%	5%	5%	5%
Gross Effective Income	\$ 2,021,880	\$ 2,677,547	\$ 2,911,088	\$ 2,998,421	\$ 3,088,374	\$ 3,181,025
Operating Expenses	\$ 847,910	\$ 898,863	\$ 916,566	\$ 926,367	\$ 936,432	\$ 946,727
Administration	\$ 48,213	\$ 49,177	\$ 50,160	\$ 51,163	\$ 52,187	\$ 53,230
Marketing	\$ 28,928	\$ 29,506	\$ 30,096	\$ 30,698	\$ 31,312	\$ 31,938
Utilities	\$ 78,155	\$ 102,495	\$ 106,110	\$ 106,068	\$ 106,068	\$ 106,068
Repairs & Maintenance	\$ 77,140	\$ 78,683	\$ 80,256	\$ 81,862	\$ 83,499	\$ 85,169
Payroll	\$ 154,280	\$ 157,366	\$ 160,513	\$ 163,723	\$ 166,998	\$ 170,338
Replacement Reserve	\$ 38,570	\$ 39,341	\$ 40,128	\$ 40,931	\$ 41,749	\$ 42,584
Property Insurance	\$ 34,713	\$ 35,407	\$ 36,115	\$ 36,838	\$ 37,574	\$ 38,326
Operating Expense Escalator	2%	2%	2%	2%	2%	2%
Management Fee	\$ 60,656	\$ 80,326	\$ 87,333	\$ 89,953	\$ 92,651	\$ 95,431
City of Morganton Taxes	\$ 156,607	\$ 156,607	\$ 156,607	\$ 156,607	\$ 156,607	\$ 156,607
Burke County Taxes	\$ 205,362	\$ 205,362	\$ 205,362	\$ 205,362	\$ 205,362	\$ 205,362
NOI	\$ 1,173,970	\$ 1,778,684	\$ 1,994,523	\$ 2,072,054	\$ 2,151,941	\$ 2,234,298
% of Revenue	41%	60%	65%	66%	66%	67%
Per Occupied Unit	\$ 8,262	\$ 9,736	\$ 10,342	\$ 10,744	\$ 11,159	\$ 11,586
NOI Valuation	\$ 17,392,143	\$ 26,350,876	\$ 29,548,486	\$ 30,697,096	\$ 31,880,612	\$ 33,100,713
Total Ownership Expenses	\$ (1,412,003)	\$ (1,497,567)	\$ (1,777,884)	\$ (1,777,884)	\$ (1,777,884)	\$ (1,777,884)
BTCF with Reserve	\$ 353,001	\$ 281,118	\$ 337,516	\$ 337,516	\$ 374,058	\$ 456,414
DSCR	\$ 1.25	\$ 1.26	\$ 1.25	\$ 1.25	\$ 1.27	\$ 1.32
Yield on Cost	3%	5%	6%	6%	6%	6%
Cash on Cash	5%	4%	5%	5%	6%	7%

10 - YEAR DEVELOPMENT TIMELINE



- (1) Burke County Preliminary Housing Needs Assessment.
- (2) 2017 "Burke County Housing Profile" Presentation.
- (3) Median home value in Burke County is expected to increase by 13% by 2022 according to ESRI Business Analyst; Burke County Preliminary Housing Needs Assessment.
- (4) U.S. HUD State of the Cities Data Systems Permit Database.
- (5) Burke County Preliminary Housing Needs Assessment.
- (6) Ibid.
- (7) Ibid.
- (8) Ibid.
- (9) Ibid.
- (10) Ibid.