Executive Summary

Warren & Associates was hired by the Military Growth Task Force (MGTF) to determine the financial feasibility and fiscal impact of a variety of housing types that would serve the needs of a rapidly growing and diverse population in North Carolina's Eastern Region. Jurisdictions within the nine-county MGTF region are seeking to accommodate growth in locations that support a variety of formats and densities that maximize public service efficiency and minimize infrastructure investment.

Completed in 2009, the Regional Growth Management Plan (RGMP) measured the impacts of adding 11,477 new service members and civilian employees. This represents the single largest job growth event in the State of North Carolina since the World War II era. Indirect civilian growth generated by military investments and natural population increases are anticipated to add another 40,157 residents. While the economic recession has delayed some of the projected civilian growth, the MGTF region should remain poised for a significant influx of population.

1. Process Overview

This comprehensive analysis identifies market opportunities for alternative housing concepts, recommends locations that could be financially feasible, and calculates the fiscal impacts of new development on the respective local jurisdictions. Potential implementation strategies are also recommended.

Market feasibility was analyzed for the areas surrounding MCAS Cherry Point and Marine Corps Base Camp Lejeune/MCAS New River. Location is the primary factor influencing market feasibility. Market data was obtained from local sources, including realtors, developers, and appraisers.

Six alternative housing concepts and locations were selected with guidance from MGTF staff and a Technical Advisory Committee. The 10-member Technical Advisory Committee was comprised of local planning staff, economic developers, and lenders. Building on initiatives highlighted in the RGMP Housing Section, sustainable and smart growth principles influenced selections.

Based on findings in the market feasibility analysis, selected housing concepts were analyzed using cash flow models to show prospective rental or for-sale revenue streams compared to construction costs, debt service, and required developer returns. Density and unit type outputs from each model were then used to generate a conceptual master plan, as well as aerial and street-view images, for each Focus Area.

The scenarios were then analyzed to determine their respective impacts on county and municipal governments. Ad valorem taxes and other revenues were forecasted, as well as annual costs to serve new population. One-time development fees and capital expenditures were also estimated. For each jurisdiction, the current budget was reviewed prior to completing interviews with available department heads.

Fiscal impact results for each focus area were compared to (1.) build-out of the same site based on current zoning; and (2.) a single-family detached subdivision, with an equivalent number of units in an unincorporated area.

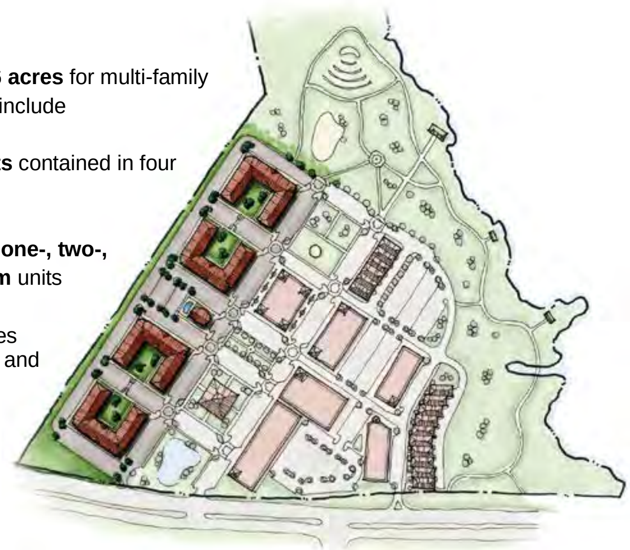
Implementation recommendations vary by location, housing type, and density. Strategies investigated in this analysis include land assembly, public investment in infrastructure, changes in land use regulations, public/private partnerships, and development bonuses.

2. Focus Area #1: Havelock City Center

In the 2009 Comprehensive Plan for the City of Havelock, residents indicated a desire for a 'city center' that provides for a variety of commercial, social, and recreational activities.

2.1 Project Description

- Part of a **master-planned community** on 45 acres with **City Center** future land use designation
- Assumes **sale of 16 acres** for multi-family rental development include
- **240 apartment units** contained in four separate buildings
- Unit mix consists of **one-, two-, and three- bedroom** units
- Community amenities include **club house** and **swimming pool**
- **Surface parking**



2.2 Financial Feasibility

The financial feasibility of apartments on the Havelock City Center site was tested using cash flow models to show prospective rental revenue streams compared to construction costs, debt service, and required developer returns.

As shown in the table below, the aggregate unit mix proposed for this site is 40% one-bedrooms; 45% two-bedrooms; and 15% three-bedrooms. The two- and three-bedroom units would target military households at the near-by Cherry Point base.

Proposed Unit Mix and Rents, 2011

Unit Type	Units	Mix %	Avg. Sq.Ft.	Avg. Rent	Rent/ Sq.Ft.
1 Bedroom (small)	24	10%	625	$645	$1.03
1 Bedroom (large)	72	30%	750	$750	$1.00
2 Bedroom	108	45%	1,100	$960	$0.87
3 Bedroom	36	15%	1,300	$1,095	$0.84
Total/Avg.	**240**	**100%**	**978**	**$886**	**$0.91**

Source: Warren & Associates

In order to reach an 8% yield, which is considered a minimum rate of return threshold to attract private capital, an average rent of $886, or $0.91 per square foot, must be reached. Monthly rents would range from $645 for a small one-bedroom to $1,095 for a family-friendly three-bedroom.

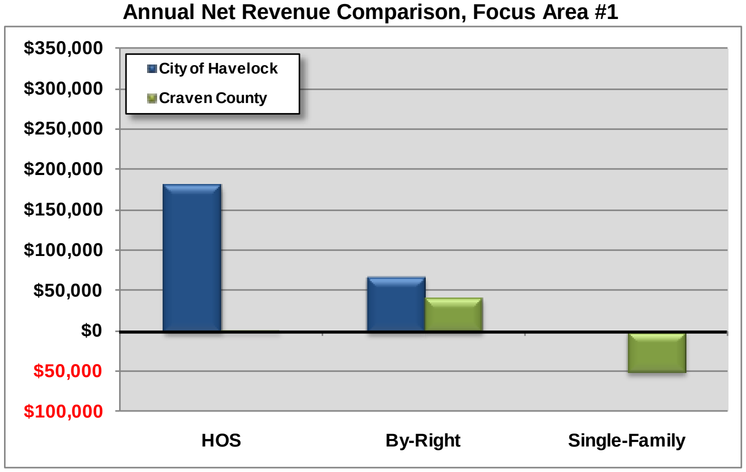
The average pro forma rent per square foot of $0.91 is 24.6% higher than the Cherry Point market average, and 5.8% higher than the Class "A" average. The higher rent per square foot could be achievable for newer product included as part of a larger mixed-use development at City Center.

2.3 Net Fiscal Impacts

Fiscal impact results for each HOS development were compared to two alternative scenarios: (1.) by-right zoning; and (2.) single-family detached. Given zoning regulations and environmental constraints, approximately 60 single-family detached units and 32,670 square feet of commercial could be supported under the by-right scenario for City Center. Fiscal impacts were also prepared for a 240-unit single-family development located outside the City of Havelock in unincorporated Craven County.

The HOS scenario has the highest net annual revenue for the City of Havelock after build-out, and essentially breaks even for Craven County. With a lower residential density and sales tax-generating commercial, the by-right scenario has the highest net annual revenue for Craven County. This scenario also produces positive net annual revenue for the City of Havelock.

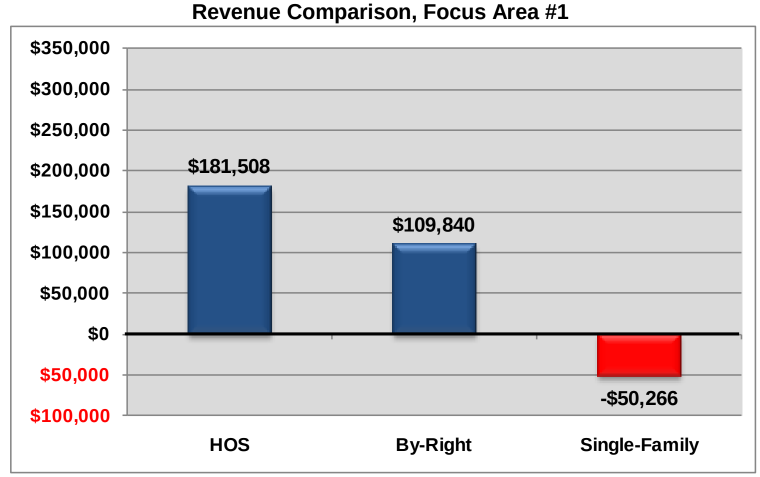
Annual Net Revenue Comparison, Focus Area #1



Located in unincorporated Craven County, the single-family scenario has no net impact on the City of Havelock. Negative net annual revenue for Craven County is primarily due to the provision of social, health, and education services.

The graph below shows the combined City of Havelock/Craven County net revenue for the three scenarios. HOS provides the greatest combined post build-out annual net revenue of $181,508, followed by the by-right scenario's $109,840. Given the high cost of schooling, the 240 single-family units would generate an annual net impact of negative $50,266.

Annual Combined City and County Net Revenue Comparison, Focus Area #1

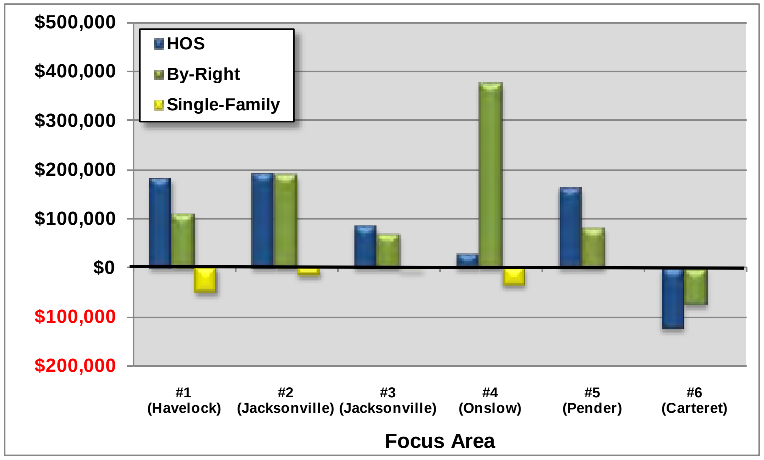


3. Net Fiscal Impact Comparison

The housing scenarios proposed by this analysis are generally higher density than surrounding developments. Additionally, many of the scenarios are infill or redevelopment opportunities.

The HOS scenarios typically generate more revenue than the by-right or single-family alternatives.

Combined Net Revenue Comparison, HOS, By-Right, and Single-Family



Cities in the MGTF region receive positive fiscal benefits from most housing types. This is primarily because they are not responsible for the provision of health, social, and education services attributable to counties. For this reason, counties receive more positive return from commercial development.

Single-family development located outside the urban fringe resulted in negative net revenue in all scenarios except Pender County. Due to the comparatively high level of intergovernmental transfer revenue and revenue-neutral wastewater service, Pender County is an outlier in this analysis.

KEY FISCAL IMPACT FINDINGS:

- **Housing is typically lucrative to cities**, which do not provide social, health, or education services attributable to counties
- For this same reason, **commercial is a more lucrative development pattern for counties**
- For combined city/county net revenues, **dense, in-fill development generally brings more net revenue** than single-use single-family outside incorporated areas
- The cost of serving **single-family residential** in unincorporated areas generally results in **net negative or lower combined city/county revenue**

4. Implementation

In order to attract private capital to the proposed HOS concepts, some level of public incentives could be required to offset one-time development costs and/or inadequate post-completion operating returns. These incentives could be a combination of policy changes, and direct or indirect financial investments.

4.1 Policy Incentives

- Accelerated Entitlement
- Flexible Entitlement
- Density Bonus

4.2 Financial Incentives

4.2.1 Development Period

- Site Acquisition and Preparation
- Special Assessment Bonds
- Tax Increment Finance
- Synthetic TIF
- Infrastructure Grant
- General Obligation Bonds
- Revenue Bonds
- Community Development Block Grants
- New Markets Tax Credits
- Business Improvement Districts
- Low-Interest Loans

4.2.2 Post-Completion Operating Subsidies

- Property Tax Credit
- Government Master Lease of Commercial Space
- Government Master Lease of Parking Spaces
- Tenant Rent Subsidy