3.0 SUMMARY OF MARKET ANALYSIS

3.1 Economic and Demographics

The Military Highway Corridor District has a 2005 population of 10,905 which represents approximately 4.6 percent of the population of the City of Norfolk. Population trends within the Military Highway Corridor indicate little significant gains or losses (< 1 percent) during the intervening decade. This trend of zero net population loss/gain is projected to continue from 2005 to 2010. The greatest concentration of population along the Military Highway Corridor District is located in the Airport North Segment, the northernmost section of the Military Highway Corridor (See Table 3-1). Population projections for the next five years indicate that this segment (Airport-North) will, like the overall corridor district, exhibit no growth in total population. According to U.S. Census population projections prepared by ESRI, this is slightly less than the City of Norfolk's projected population gain of about 1 percent over the same time period and considerably less than the projected 5 percent population growth in the Hampton Roads Region.

TABLE 3-1
Economic – Demographic Overview: Population & Households
Military Highway Corridor District
2005

	Population		Households		Median Household Income	Average Household Size
Segment	Total	% of Total	Total	% of Total	Income per Household	Persons per Household
Corridor Total	10,908	100.0%	4,117	100.0%	$41,320	2.60
River	785	7.2%	364	8.8%	$52,122	2.16
Crossroads	1,841	16.9%	619	15.0%	$40,000	2.71
Airport - North	8,282	75.9%	2,134	76.1%	$41,622	2.63

Source: BBP Associates, ESRI Business Information Solutions

The Military Highway Corridor District is situated within the Hampton Roads (Norfolk-Virginia Beach-Newport News) MSA which encompasses approximately 2,349 square miles and has a 2005 population of 1,656,574 (making it the 34th most populated region in the country). The population of the Hampton Roads Region has grown at an annual rate of about 1.3 percent over the past half-century. Between 1990 and 2000 the region's population grew by about 8 percent, adding over 100,000 people. The region's population has grown over 5 percent since 2000 and is expected to grow by more than 10 percent by the end of the decade.

The Military Highway Corridor District is located entirely within the City of Norfolk which has experienced much different population trends than those of the region. The City of Norfolk is expected to gain population over the next 5 years (at a rate of about 0.2 percent per year). The population increase in the corridor is not forecasted to grow. This does not infer that there will be no new residential development, but rather that older structures will be replaced with newer ones.

Unlike population growth, the median household income within the corridor outpaces that for the City. Specifically, the median household income for the region is $50,539, and for the City, $36,930. For the corridor, the median household income is $41,320 – higher than the City median income but lower than the regional median income.

3.2 Employment

The Military Highway Corridor District has an estimated at-place employment of 13,567. This represents approximately 12 percent of total employment of 94,192 in the City of Norfolk. The largest employment sector in the Military Highway Corridor is retail, which with 6,156 employees, constitutes approximately 45 percent of corridor's total employment. The second largest sector is the "services" sector, with a total of 2,969 employees - 16 percent of the corridor's total (See Table 3-2).

TABLE 3-2
Economic – Demographic Overview: Employment
Military Highway Corridor District
2005

	At-Place Employment		Retail Trade Employment		Retail Trade Establishments	
Segment	Total	% of Total	Total	% of Total	Total	% of Total
Corridor	13,567	100%	6,156	100%	210	100%
River	2,328	17.2%	82	1.3%	8	3.8%
Crossroads	5,053	37.2%	3,802	61.8%	125	59.5%
Airport-North	6,186	45.6%	2,272	36.9%	77	36.6%

Source: BBP Associates, Census Economic Survey 2003

Retail establishments total 43 percent of the 486 establishments located in the Military Highway Corridor District. There are a total of 210 retail trade establishments within the

Military Highway Corridor. The second largest proportion of establishments in the Military Highway Corridor is classified as "service" sector establishments. A total of 112 out of the 486 Military Highway Corridor District establishments (or 23%) are classified as 'service' sector (See Figure 3-2).

The distribution of employment along the Corridor indicates that over a third of the corridor's at-place employment and over 60 percent of the retail trade employment in the Military Highway Corridor District occurs in Crossroads Segment, which is located between the Military Highway/I-264 interchange and the I-64 Interchange. There is significant employment in Airport-North Segment as well, but this employment is concentrated in the FIRE (Finance, Insurance, and Real Estate) sector and Industry sectors (See Figure 3-1).

Figure 3-1: Military Highway Corridor District Employment by Type (2005)

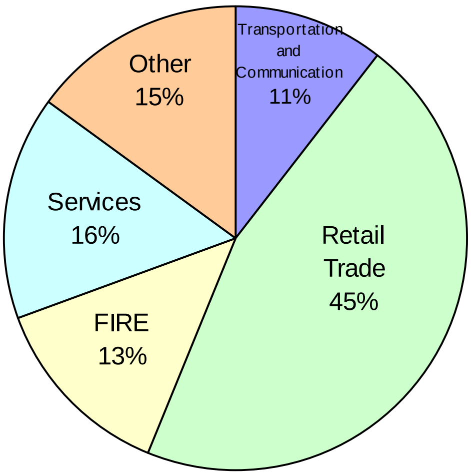
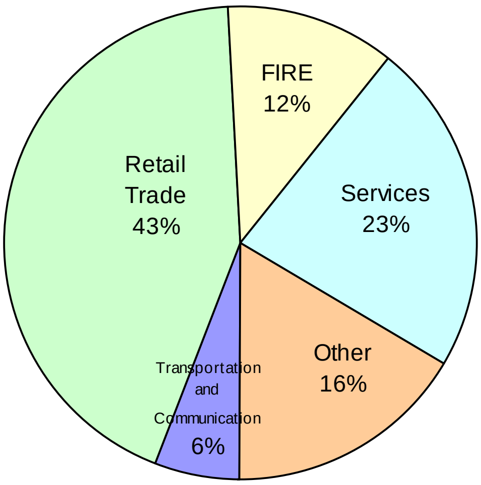


Figure 3-2: Military Highway Corridor District Number of Establishments by Type (2005)



FIRE= Finance, Insurance and Real Estate Employment
"Other" includes Government, Manufacturing, Wholesale Trade and other unclassified categories.

Source: BBP Associates, U.S. Census ES202 Economic Census 2003

3.3 Retail Market Overview

The Military Highway Corridor is one of twenty-four sub-markets that comprise the Southside. It is the second largest Southside submarket with a retail inventory of 3.4 million square feet of leasable area in the 16 larger properties[1] (25,000+ sq. ft.) located in the Military Highway Corridor. Only the Greenbrier/Battlefield Boulevard submarket, at just

[1] Property data is drawn from the Hampton Roads 2005 Office Market Survey, published by the Old Dominion University Real Estate Center, which provides information for strip shopping centers and regional malls at least 30,000 square feet in size. The survey also includes data for retail-oriented freestanding buildings at least 25,000 square feet in size.

over 3.6 million square feet of leasable space, has more leasable area than the Military Highway Corridor. Both areas are, however, the only Southside submarkets to surpass 3 million square feet of leasable space. The Corridor's retail market is a significant component of the Southside sub-market and Hampton Roads regional market, containing approximately 11.4 percent of the gross leasable area within the Southside market and nearly 7.5 percent of the gross leasable area within the region (Hampton Roads MSA). At 10.8 percent, the Corridor's vacancy rate is higher than that for Southside – 8.9 percent - or the region – 9.4 percent.

The distribution of the Corridor's retail trade and employment has been divided into three retail sub-sectors: 1) Automotive and Automotive Related Services, 2) Shopper Goods, and 3) Convenience Goods. With 963 employees, the "Automotive and Automotive Related Services" sub-sector constitutes approximately 16 percent of total retail trade employment. The "Shopper's Goods" sub-sector accounts for approximately 46 percent, and the "Convenience Goods" sub-sector accounts for nearly 38 percent.

The distribution of the retail trade sub-markets across Military Highway Corridor District Study Area's indicates that the majority of retail trade establishments are located in the Crossroads Segment. A total of 136 retail establishments (60 percent of the corridor's total number of retail establishments) are located along this segment.

The regional market continued to experience strong retail real estate activity throughout 2004 while vacancies created during the previous years have continued to be absorbed by Hampton Roads area retailers. Additionally, overall vacancy appears to be stabilizing in the region and many large vacant properties have been demolished or converted to occupied uses.

The Military Highway Corridor District retail trade market is one of the most substantial retail markets in the Hampton Roads region. The retail trade market differs from most other retail concentrations in the surrounding area in that it is more of the strip-style development (with only one major enclosed shopping center) with "anchor" stores. Vacancy rates have decreased considerably while average rents have steadily increased. Overall, the retail market will likely remain viable as long as "anchor" facilities remain occupied.

Recent reinvestment in retail properties along the corridor, including physical improvements to The Gallery at Military Circle, redevelopment of the former Montgomery Ward site to the a new retail center called the Shoppes at JANAF, a new Suzuki automotive dealership under construction, and Wal-Mart's expansion to a 200,000 square foot Supercenter in JANAF has helped to reinvigorate the corridor. However, with large retail properties that have sat vacant for several years, perceived traffic congestion and a public safety or perception of public safety issue, the retail market is hampered by many challenges. Nonetheless, the Military Highway Corridor District provides a multitude of retail offerings that is unsurpassed in the City of Norfolk with its number of big box centers, automotive sales and service facilities, eating and drinking places, grocery stores and shoppers goods and services.

3.4 Office Market Overview

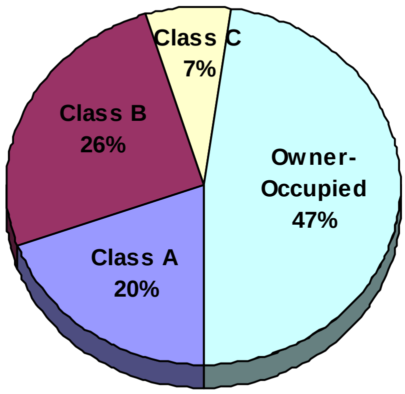
The Hampton Roads regional office market in 2005 encompasses approximately 25.4 million square feet of space in three major markets – Downtown Norfolk, Southside and Peninsula. Of this space, approximately 22.3 million square feet (or 88 percent) of this space is leasable and approximately 3.1 million square feet is owner-occupied. During 2004, the Hampton Roads office market continued its gradual improvement as the vacancy rate decreased 2.9 percentage points to 10.1 percent and the average asking blended rental rates for Class A and B[2] office properties increased slightly from $15.54 per square foot to $15.61 per square foot.

Although little new office space was constructed in the Hampton Roads region (250,000 square feet) in 2004, over 800,000 square feet of office space was absorbed, largely as a result of existing companies expanding within the region

The Military Highway Corridor District is located in the Southside Suburban office submarket which includes Chesapeake, Northern Suffolk, Portsmouth, Suburban Norfolk, and Virginia Beach. The Southside office space submarket is the strongest submarket in the Hampton Roads region as a majority of the 250,000 square feet of new office space constructed in Hampton Roads occurred in the Southside and vacancy rates are lower than those of any other Hampton Roads submarket. The Southside Suburban market encompasses nearly half of the leasable office space in Hampton Roads with 12.7 million square feet. Southside's vacancy rate decreased from 12.8 percent to 8.7 percent between 2003 and 2005 while average asking rents for Class A and B space increased from $15.13 per square foot to $15.49 per square foot during the same period.

Between 2003 and 2005 occupancy (i.e. reduced vacancy) and average rents for class A and B office space improved region-wide. The Hampton Roads regional office market vacancy rate decreased over 20 percent since 2003 and is at the lowest level since 2001. The average rent per square foot of class A and B office space has increased steadily at rate of about one percent per year.

Figure 3-3. Military Highway Corridor District Office Space Distribution by Class - 2005



Source: Old Dominion University, Center for Real Estate and Economic Development

The Military Highway Corridor District office market is comprised of the Military Circle and the Airport/Northampton office submarkets which total more than 1.25 million square feet of the leasable and owner-occupied office

[2] Class "A" office space is defined as being buildings with high quality finishes, state of the art systems, exceptional accessibility, and a definite market presence. Class "B" space is defined as being building with finishes that are fair to good for the area and with systems that are adequate, but does not compete with Class "A" at the same price (generally rates are $2 to $3 less per square foot).

space. The greatest portion of this space is owner-occupied at 602,085 square feet (or 48 percent) with over half of the owner-occupied office space in the USAA building located in the Airport/Northampton office submarket. Class B office space accounts for 323,155 square feet (or 26 percent) of the total inventory for the Corridor – with 62 percent of the Class B space in the Military Circle sub-market (See Figure 3-3).

In terms of leasable office space, the Military Highway Corridor District multi-tenant Class A, B and C space total more than 657,000 square feet of space. 87 percent of this leasable office space is in Class A and Class B buildings. Class A office space comprises 37 percent of the Military Highway Corridor District leasable office space, while Class B space accounts for nearly half of the market. Class C space accounts for 13 percent of the leasable office space.

The Hampton Roads office market continues to show improvement, and after years of anticipation, is finally seeing the positive impact of increased defense and homeland security spending. In terms of product types, the healthiest of all office types is the multi-story, Class A sector that has seen its vacancy decrease to 7.2 percent at year end 2004. It is anticipated that this product type will see a return of new construction with a speculative component although this may be in small quantities. In addition, the increased absorption of office space in the region is projected to put upward pressure on rental rates for the first time in nearly two decades.

With excellent transportation access via air (Norfolk International Airport) and roadways via Interstate 64 and Interstate 264 to the rest of Hampton Roads, the Military Highway Corridor District office market is performing better than the region in terms of lower vacancy rates and higher average rents when compared to the Southside market and the region as a whole. In addition, discussions with office developers in the Military Highway Corridor District finds pent up demand for high quality office space from existing tenants who wish to expand but can not due to limited available space. Discussions with local office builders suggest that the construction of new Class A office buildings (in the range of 160,000 square feet) would likely be absorbed. This is evidenced by the success of the Lake Wright Executive Center (100 percent occupancy in the highest quality office space), the lack of new office space construction (no new construction since 2001), and interviews with real estate developers working in the corridor office market that finds that there is pent-up demand in the corridor. Furthermore, limited opportunities for high quality mixed use development that incorporates office and/or residential with support retail space may be available at selected sites.

Opportunities for speculative new office space construction exist in the Military Highway Corridor District as the continued impact of increased defense and homeland security spending, the 2005 Base Realignment and Closure (BRAC) where Norfolk Naval Station and Support activities is expected to see a net gain of more than 3,600 jobs (bringing their private sector related contractors) will continue to positively affect the office market in the Hampton Roads region and in the City of Norfolk. For example, several large defense contractors (e.g. Lockheed Martin, Boeing, and HDR) are currently located in the Military Highway Corridor District and quality space for expansion does not exist to accommodate potential expansion.

There may be an opportunity to concentrate additional high quality, Class A office space around the Lake Wright Executive Center area proximate to Norfolk International Airport.

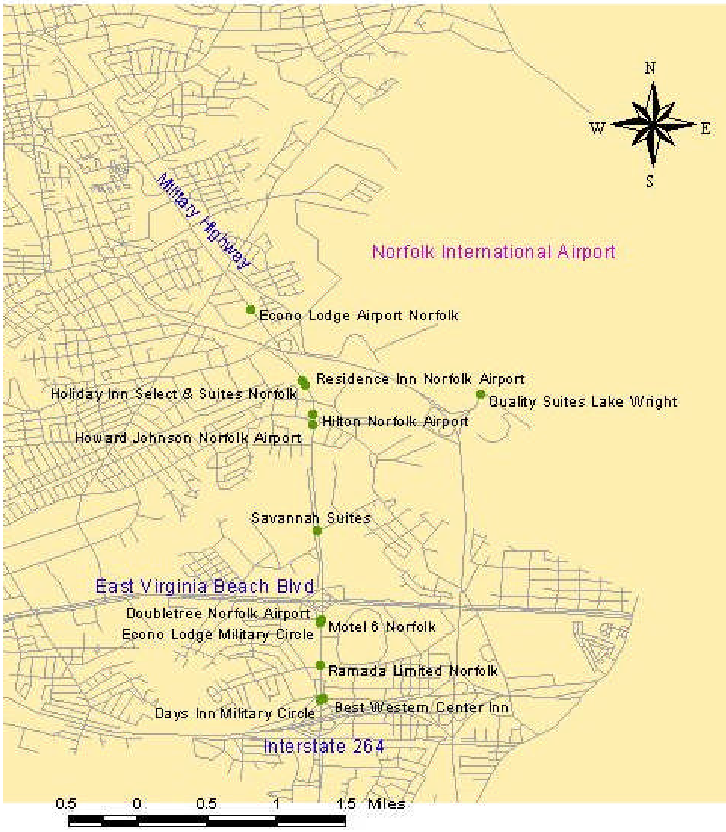
3.5 Lodging Market Overview

The Hampton Roads lodging market has benefited from the growing tourist industry in the region that has seen its tourism grow faster than that national tourism industry from 1999 to 2004. The demand for rooms in Hampton Roads has increased by 7.2 percent during the five year period from 1999 to 2004.[3] This is 0.7 percent higher than growth in room demand for the U.S. Within the Hampton Roads region, the City of Norfolk lodging market includes 43 hotels with 5,092 available rooms. The industry caters primarily to the City's burgeoning tourism industry and downtown revitalization as well as the City as a center for meetings and conventions. Convention and meeting facilities in the City of Norfolk include the Norfolk Waterside Convention Center, the Sheraton Norfolk Waterside Hotel, and the Norfolk Scope Area – a total of 176,000 square feet in meeting space.[4]

The lodging market classifies six distinct categories ("chain scales") as either "upper upscale", "upscale", "midscale with food and beverage service", "midscale without food and beverage service", "economy", or "independent".[5] The distinctions between the different categories are based primarily on the actual, system-wide average room rates of the major chains, and independent hotels are included as a separate category.

The Military Highway corridor includes 13 hotels and 1,826 available rooms.[6] This represents 29.5 percent of the City's hotels and 35 percent of all available rooms. These hotels serve many of the region's travelers, as the airport is located only a few miles to the east of the corridor.

Figure 3-4. Military Highway Commercial District Lodging Locations



Source: BBP Associates, Inc.

[3] 2005 Hampton Roads State of the Region; Smith Travel Research and Old Dominion University Economic Forecasting Project.
[4] Norfolk Convention and Visitors Bureau website, 2005.
[5] Smith Travel Research, 2005 Chain Scales
[6] Smith Travel Research 2005 Lodging survey (data obtained in September 2005)

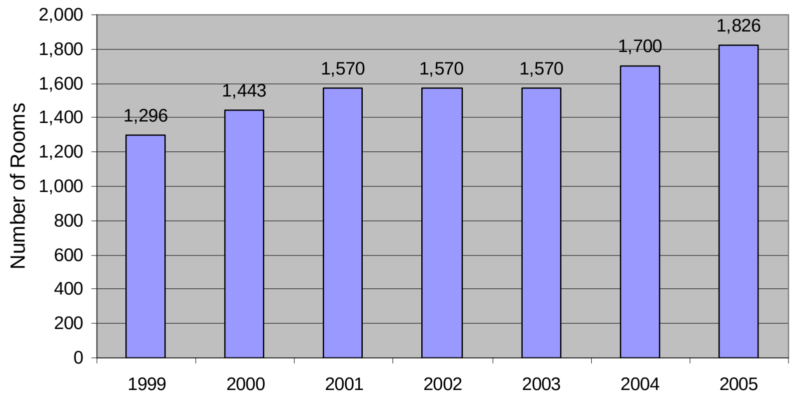
Of the thirteen hotels in the Military Highway Commercial District, two are considered "upper upscale" hotels. The luxury hotels are the Hilton Norfolk Airport and the Doubletree Norfolk Airport, and they account for 449 rooms, or 25 percent, of the room supply. The "upper upscale" hotels feature amenities such as a total of 16,438 square feet of meeting space, restaurants, business centers, fitness facilities, indoor and outdoor swimming pools, and special recreation opportunities such as billiards and tennis courts.

There are four hotels in the "midscale with food and beverage" category, adding 556 rooms to the supply of lodging and representing 33 percent of the corridor's hotel rooms. "Economy" hotels make up the remaining 20 percent of rooms, and they typically offer few amenities except for cable television, although a few have high speed internet access and pools and one offers limited meeting space.

As Figure 3-4 indicates, all but three of the hotels are located directly on Military Highway. The Days Inn Military Circle, Savannah Suites, and Quality Suites Lake Wright are located on intersecting roads Apart from the three new hotels constructed within the past five years, Military Highway hotels are relatively old. As surveyed by Smith Travel Research, the average age for the 12 hotels is 21 years, and all but the three new hotels are more than 16 years old. Two hotels are 21 years or older, and three are more than 30 years old.

Figure 3-5 illustrates the incremental increase in the number of rooms from 1998 to 2005. In 2000, the number of rooms increased from 1296 to 1570 with the opening of the Holiday Inn Select and Suites and the Quality Inn Select and Suites, a 21 percent increase. The number of rooms increased again in 2004 by 8 percent with the opening of the Residence Inn. In 2005, the number increased from 1700 to 1826 with the opening of Savannah Suites. The total supply of rooms has increased by 29 percent, or an average annual increase of 88 rooms, between 1999 and 2005.

Figure 3-5. Military Highway Corridor District Lodging Supply (Number of Rooms)



Source: Smith Travel Research, BBP Associates

The strong demand for lodging in the Military Highway Commercial District is attributable in part to the patronage of the business travels. A comparison of the average 2001 through 2005 average monthly occupancy rates for the City of Norfolk and the corridor shows that the occupancy rates for the commercial corridor are consistently higher than for the City as a whole. The City enjoys occupancy rates over 70 percent only four months out of the year – the peak summer vacation months of May, June, July, and August. Meanwhile, the Military Highway Commercial Corridor District realizes occupancy rates greater than 70 percent seven months out of the year, and in two months the occupancy rate is at 69 percent. Military Highway hotels serve business travelers consistently throughout the year, and during the peak season their occupancy levels are above 80 percent as a result of the summer tourists' patronage.

The Average Daily Rate (ADR) for hotels in the City of Norfolk has increased over time, and the ADR for hotels in the Military Highway Corridor District are similar to the City's ADR and have increased at a similar pace. The greatest increase occurred between 2001 and 2002 when the ADR went up 7 percent from $64.01 to $68.57. Revenue per available room (RevPAR), has increased since 1999 by 27 percent; however, the increase has not been even. From 1999 to 2002, RevPAR increased by 36 percent. The increase between 2002 and 2003 was negligible at only 1 percent and decreased by 5 percent between 2003 and 2004. The decline in RevPAR over the past two years is indicative of the short term impact of the addition of a new hotel on the market.

In summary, the Military Highway Corridor District has experienced significant growth in its hospitality sector over the past five years. From 2001 to 2005, four new hotels have been introduced to the corridor lodging market. From 1999 to 2005, the supply of rooms increased by 29 percent or an annual average of 88 rooms per year. Given the age of the existing hotels, the construction of new facilities brought new vitality to the corridor.

Occupancy rates continued to increase through 2002 after the construction of two hotels that increased the supply by 21 percent. However, as with the City, the Military Highway Corridor District experienced a sharp increase in occupancy rates in 2002 followed by a three year period of decline likely to continue through 2005. RevPAR also decreased for the commercial corridor from 2003 and 2005. These two downward trends are explained by the addition of the Residence Inn in 2004 and represent short term responses to an increase in room supply. The 38 percent increase in the total annual number of occupied room nights between 1999 and 2005 indicates that demand is keeping pace with the increase in supply.

The key advantage of the hospitality market in the Military Highway Corridor District is the year round patronage by business travelers who wish to stay at hotels near to the airport. This demand enables occupancy rates to remain above 70 percent for more than half the year and speaks to the opportunity for additional lodging for business travelers along the commercial corridor. As total occupied rooms nights continues to increase and the pent up demand for office space in locations such as Lake Wright is met, there will be a need for additional high end hotel rooms.

3.6 Multifamily Residential Market Overview

In 2005, the Hampton Roads Regional apartment market consists of more than 81,800 units in eight submarkets – Chesapeake/Suffolk, Hampton, Newport News, Norfolk, Portsmouth, Virginia Beach, Williamsburg and York County. The City of Norfolk contains more than 11,900 multifamily units, or approximately 14.6 percent of the regional total, making the City of Norfolk the largest apartment submarket in the region. The City has experienced recent apartment development activity with more than 430 units under construction including new apartment communities as part of the Broad Creek Renaissance project off of Virginia Beach Boulevard and in the downtown / Ghent area of the City.

The vacancy rate in the City of Norfolk dropped slightly to 2.8 percent in April 2005 from a 3 percent vacancy rate reported six months prior in October 2004. The City's vacancy rate of 2.8 percent remains lower than the region-wide vacancy rate of 3.9 percent. Three bedroom apartments reported the lowest vacancy rate in the City of Norfolk at 2.8 percent compared to 2.8 percent for two-bedrooms and 3 percent for one-bedrooms.

Average rents in the City have increased proportionately, although they remain lower than those of the Hampton Roads region. The average rent of $731 per month (as of April 2005) in the City of Norfolk is five percent lower than the average rent of $768 in the Hampton Roads region. Three bedroom apartments in the City of Norfolk reported an average rental rate of $875 per month, two-bedroom reported an average of $752 per month and one-bedroom apartments reported an average of $634 per month.

In addition to rental apartments, the City of Norfolk continues to attract new residents seeking condominium and townhomes as the average cost of a single-family home continues to be priced beyond the means of moderate income households.

The Military Highway Corridor District is primarily a commercial area with retail, office, lodging and civic/institutional facilities. However, there are a few residential communities along the corridor, primarily located on the west side of Military Highway between Norview Avenue and Little Creek Road and south of the Intestate 264/64 interchange on the east side of Military Highway to the Virginia Beach city line. In total, nearly 90 percent of the units (and 5 of the 6 surveyed apartment communities) are located in the Airport –North Segment and the other multi-family residential community is located in the River Segment (Dockside Apartments).

A survey of the Military Highway Corridor District reports six apartment facilities that total more than 1,600 units. A survey of these communities finds that their total vacancy rate (as of September 2005) reported is 2.4 percent which is lower than the 2.8 percent vacancy rate reported in the City of Norfolk and the 3.8 percent vacancy rate in the Hampton Roads region. Several of these apartment communities along Military Highway reported vacancy rates of one percent or less.

Property managers of these apartment communities along the Corridor report that the apartment market is strong with apartments being absorbed quickly. They noted that their units do not stay vacant for very long. Rental rates for residential units along Military Highway are comparable to the City of Norfolk as a whole.

In summary, the strengths of the apartment market in the Military Highway Corridor District are location and access. Residential for-rent units are proximate to the airport and the Military Highway retail corridor. The airport and the combined uses of the Military Highway Corridor District are significant employers in the City of Norfolk. The abundance of low-to-medium wage jobs in the form of service sector employment both at the airport and along the corridor make the apartment market in the Military Highway Corridor District additionally appealing to those who would like to live nearby their place of employment but lack the funds (or preference) to buy a home.

The market for apartments in the Military Highway Corridor is very strong. Vacancy rates are lower in the Military Highway Corridor District than they are in the City of Norfolk or the Hampton Roads Region. The City of Norfolk apartment market is equally healthy with low vacancy rates and several projects in the pipeline. Overall, the Hampton Roads Corridor has experienced growth in total units and rents and has experienced year-to-year decreases in vacancy rates.

The demand for apartments in the Military Highway Corridor District should continue to be strong. Increased military deployments and base restructuring foreshadow continued good health of the Hampton Roads apartment market. The expected gain in Hampton Roads military/civilian employment as a result of the BRAC base restructuring should also increase demand in the region. The strength of the Hampton Roads market is exhibited in record levels of apartments constructed and absorbed over the past three years. Additionally, well over 2,000 new units are currently in the pipeline for completion in the next year.

3.6 Retail Market Analysis

The Military Highway Corridor District Regional Trade Area for “Automotive” and “Shoppers” goods encompasses the entire City of Norfolk and extends into portions of Portsmouth and Chesapeake to the south and a portion of Virginia Beach to the east. The other trade area used in this analysis is a sub-regional trade area for “Convenience” goods. Sales of “Convenience” goods are made, primarily, to residents living proximate to the Military Highway Corridor District. Consequently, the trade area for “Convenience” goods is an area within one mile of the Military Highway Corridor District.

The median household income has increased in the past 5 years in both trade areas and is expected to continue to increase. The median household income in the Regional Trade Area increased almost 20 percent between 2000 and 2005 and is expected to increase an additional 18.4 percent between 2005 and 2010. Within the Sub-Regional Trade area for “Convenience” goods the median household income rose 19 percent between 2000 and 2005 and is expected to increase an additional 17.9 percent in the next five years. This trend is comparable with increases in median household income region-wide. Hampton Roads is, comparably, expected to experience a nearly 20 percent increase in median household income over the next five years.

The change in the distribution of income indicates that, rather than an equal distribution of increases across cohorts, particular income cohorts are expected to experience large increases in share over the next five years. Projections indicate that over the 2005 to 2010 period the number of households with earnings of $150,000-$200,000 or $200,000+, the highest income cohorts, will nearly double in the next two years in both of the trade areas.

3.6.1 Market Capture Rate Analysis

To determine and evaluate the conditions within the Military Highway Corridor District, within the trade areas of the three major categories of retail goods (“Automotive”, “Shoppers”, and “Convenience”), the market capture rates for each type of good was calculated. Within the Regional Trade Area there is a total of $1.6 billion spent on “Automotive” and “Shoppers” retail goods. About half of that total is spent for “Automotive” goods at auto dealerships, repair and maintenance establishments, and gas stations. The remaining 0.84 billion dollars is spent for “Shoppers” goods in building material, general merchandise, apparel, electronics, furniture, office, and other such establishments.

The expenditures in the Sub-Regional Trade Area for “Convenience” goods are almost $0.2 billion. This amount represents the spending at food and beverage stores, food service and dining establishments, health and personal care stores, and at personal service establishments like barber and dry cleaners.

The Military Highway Corridor District retail market derives a certain amount of its sales from residents living within the trade area and the remainder from outside the trade area. Residents living within and outside of the trade area and residents make a certain amount of retail purchases within the Military Highway Corridor District. Retail sales are made to residents of the trade area and are made to residents who reside outside of the trade area. This variation in sales by location of residence represents the two “market sources” from which Military Highway Corridor District retail sales are made.

Based on discussions with study area business owners and industry knowledge, it was determined that approximately 70 percent of retail sales of “Automotive” goods are made by the residents of the Regional Trade Area. The other 30 percent of the retail sales of “Automotive” goods are made by persons residing outside of the Regional Trade Area. This means that out of the $450 million in total retail sales of “Automotive” goods $315 million in sales are made to residents in the Regional Trade Area with the remaining $135 million in sales representing inflow from persons living outside the trade area.

Much like the sales by market source for “Automotive” goods, it was determined that approximately 70 percent of the retail sales of “Shoppers” goods are made to residents of the Regional Trade Area with the other 30 percent of sales to residents of areas outside of the Regional Trade Area. Retail establishments in the Military Highway Corridor District that sell “Shoppers” goods total $670 million in sales. Residents of the Regional Trade Area account for $469 million of these sales with the other $201 million in sales made to residents of other areas.

Within the Sub-Regional market it is estimated that the vast preponderance, or approximately 95 percent, of “Convenience” goods retail sales are made to Sub-Regional Trade Area Residents with only 5 percent of the total sales being made to residents of areas outside of the Sub-Regional Trade Area. Of the $120 million in “Convenience” retail sales in the Military Highway Corridor District, $114 million is made to people who live within the Sub-Regional Trade Area.

Market Capture Rates

The calculation of the retail sales by source within the Military Highway Corridor District combined with estimates of retail expenditures allows the calculation of the capture rate of trade area expenditures. The capture rate is essentially a measure of the percentage of expenditures “captured” from an area. Total sales to a trade area divided by the total expenditures (demand) of that trade area results in a percentage that is referred to as a capture rate. Those sales not captured represent the net leakage, the amount of expenditures that take place outside of the study area (See Table 3-3).

The total retail expenditure capture rate of the Regional Trade Area by the Military Highway Corridor District is almost 50 percent (48.4 percent). This means that, combined, nearly half of all “Automotive” and “Shoppers” goods expenditures by Regional Trade Area residents are made in the Military Highway Corridor District. The capture rate for “Automotive” goods is 39.1 percent. This indicates that the other 60 percent of “Automotive” expenditures by trade area residents are made outside of the Military Highway Corridor District (this is referred to as “leakage”). The capture rate for “Shoppers” goods is 57.6 percent. Over half of all purchases at “Shoppers” goods establishments by trade area residents are made at establishments located in the Military Highway Corridor District. A total of 32.4 percent of “Shoppers” goods retail sales are made to residents outside of the Regional Trade Area.

Finally, the capture rate for “Convenience” goods of expenditures in the Sub-Regional Trade Area is 62.9 percent. Residents of the Sub-Regional Trade Area are making about 40 percent of their “Convenience” goods expenditures elsewhere. A total of $118 million in sales of “Convenience” goods are made to trade area residents.

TABLE 3-3
Retail Sales Capture Rates
Military Highway Corridor, 2005

Market	Total Retail Demand (Household Expenditures)	Trade Area Purchases Made in Corridor	Capture Rate	Leakage (Net Outflow)	% Leakage
Regional Trade Area					
Automotive Goods[1]	$804,772,106	$315,000,000	39.1%	($489,772,106)	-60.9%
Shoppers' Goods[2]	$814,450,288	$469,000,000	57.6%	($345,450,288)	-42.4%
Total	**$1,619,222,394**	**$784,000,000**	**48.4%**	**($835,222,394)**	**-51.6%**
Sub-Regional Trade Area					
Convenience Goods[3]	$181,296,444	$114,000,000	62.9%	($67,296,444)	-37.1%
Total	**$181,296,444**	**$114,000,000**	**62.9%**	**($67,296,444)**	**-37.1%**

1 - Includes Auto Dealerships, Repair and Maintenance, Gas Stations, and Auto Services
2 - Includes Building Materials, General Merchandise, Apparel, Electronics and Appliances, Office, and Other regional stores
3 - Includes Food and Beverage, Food Service and Dining, Health and Personal Care, and Personal Services.

To determine future retail sales in the Military Highway Corridor, year 2010 projections of households and median household income was used. From 2005 to 2010 the number of households and the median household income in the trade areas will increase and these increases will have an effect on the total retail sales in the Military Highway Corridor District. Assuming that the capture rates and the proportion of sales by market source do not change, an increase in households or median household income will increase the amount of retail sales in the Military Highway Corridor District

The projected increase of expenditures by trade area residents is 6.4 percent in the Regional Trade Area and 8.3 percent in the Sub-Regional Trade area in the next 5 years. The application of capture rates from 2005 to the projected trade area expenditures for 2010 indicates sales of “Automotive”, “Shoppers”, and “Convenience” goods to the trade areas can be expected to be almost $60 million higher in 2010. The increase in sales to the Regional Trade Area would account for over $50 million of this increase, with an increase of almost $30 million in sales of “Shoppers” retail goods in 2010.

The sales by market source rates are applied to the projected 2010 trade area retail sales to determine the total change in retail sales by retail establishments in the Military Highway Corridor. This analysis indicates that retail sales to residents of areas outside of the trade area will increase approximately $22 million dollars. In total, retail sales are expected to be an inflation-adjusted $82 million higher in 2010 in the Military Highway Corridor. Table 3-4 below indicates the increases in retail sales by market source.

TABLE 3-4
Estimated Retail Sales (Trendline Assumption)
Military Highway Corridor District
2005-2010

	Retail Sales		2005-2010 Change		Average Annual Change	
	2005	**2010**	**$**	%	**$**	**%**
Automotive Goods[1]	$450,000,000	$478,999,375	$28,999,375	6.4%	$5,799,875	1.3%
Shoppers' Goods[2]	$670,000,000	$713,176,847	$43,176,847	6.4%	$8,635,369	1.3%
SubTotal	**$1,120,000,000**	**$1,192,176,222**	**$72,176,222**	**6.4%**		
Convenience Goods[3]	$120,000,000	$129,943,715	$9,943,715	8.3%	$1,988,743	1.7%
TOTAL	**$1,240,000,000**	**$1,322,119,937**	**$82,119,937**	**6.6%**	**$16,423,987**	**1.3%**

Source: BBP Associates Inc., ESRI BIS, Interviews with Local Business Owners

Trendline analysis indicates that, assuming capture rates and market penetration from outside the trade area can be maintained, retail sales will increase $82 million or 6.6 percent over the 2005 to 2010 period. If the area fails to maintain its market position or improves its position through revitalization efforts, the level of market penetration will change. Changes in market position or penetration would change the amount of retail sales projected for 2010.

3.8 Market and Economic Analysis Conclusions

A market and economic analysis of uses along the corridor and in the region finds that while the Military Highway Corridor is one of the region's most active retail corridors, with an estimated $1.2 billion in retail sales, the corridor has a number of challenges limiting its ability to enhance existing businesses and facilitating new (re)development. With an aging building supply, increased competition and several vacant pockets of retail and underutilized commercial sites along Military Highway the area faces numerous challenges. This combined with an image/visibility issue related to public safety or perceived public safety, a corridor that has been characterized as unattractive, the Military Highway Corridor District has strengths, challenges and opportunities in addressing its continued (re)development and re-use. Table 3-5 summarizes these strengths, challenges and opportunities as they relate to market and economic issues detailed in the previous sections.

TABLE 3-5
Market and Economic Strengths, Challenges and Opportunities
Military Highway Corridor District

Strengths
- Traditionally strong retail demand in terms of sales (estimated at more than $1 billion)
- Pent up demand for high quality office space in corridor
- Excellent location to serve entire region combined with proximity to the Airport and downtown Norfolk
- Good transportation access (e.g. highway, airport)
- Upscale work force in area (e.g. Lake Wright Executive Center)
- Recent increase in new lodging development along corridor
- Steady job growth, including federal opportunities, in City and region fueling job opportunities and office/retail development in the City
- Growing opportunities for high quality multi-family residential development

Challenges
- Crime or perception of crime inhibits the corridor's appeal to attract new quality retail development and customers
- Older commercial inventory
- Perceived traffic congestion
- Unattractive corridor
- Limited sites/land available for (re)development along corridor
- Long standing vacant retail inventory at selected large sites
- Obsolete and underutilized commercial uses/sites
- Limited marketing to community, retailers, and developers
- Residents travel outside of area (e.g. Downtown Norfolk, Virginia Beach) for desired up-scale shopping, fine dining and entertainment
- Absentee landowners who have no relationship to community/desire to enhance their properties
- No plan to guide development along corridor

Opportunities
- Proximity to Airport
- Central location within region
- Promote a positive image/vision of the corridor to attract customers and retailers
- Initiate public sector initiatives (e.g. business improvement district) to improve safety and attractiveness (e.g. greenery, landscaping, lighting) of corridor
- Undertake coordinated approach to marketing retail activity in the corridor and working with the absentee landowners and absentee management firms
- Undertake mixed use development at selected sites
- Opportunities to expand Class A office space in selected locations/nodes along corridor
- Enhance synergy with Norfolk International Airport with concentrated office/hotel development in node around Lake Wright Executive Center and other selected locations
- Facilitate office development opportunities in selected nodes along corridor through site selection, land identification, etc.
- Conduct transportation improvements to facilitate access along corridor (e.g. roadway widening)
- Provide incentives for businesses to upgrade/beautify their property and businesses
- Plan for transit-oriented development around proposed transit station (e.g. Military Highway LRT station)
- Facilitate potential for development and/or redevelopment at selected available sites
- Provide improved public relations to developers and retailers to locate high quality commercial development within corridor
- Facilitate redevelopment and revitalization of deteriorating and obsolete retail centers into high quality activity centers
- Explore opportunities for civic uses (e.g. library) and medical (e.g. health care center) along corridor