ERA | AECOM

Project Report

Five Points Area Market Study

Technical Report

Prepared for

City of Norfolk
Department of Development
Norfolk, Virginia

Submitted by

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I. Market Context and Existing Conditions

Demographic Overview

ERA compared recent demographic trends in the Five Points area to the City of Norfolk, the Virginia Beach-Norfolk-Newport News, VA-NC MSA (Metropolitan Statistical Area or Metro Area), and the Commonwealth of Virginia. Data is from ESRI Business Analyst and covers Census 2000 data and estimates for 2009 and 2014.

Population and Households

Between 2000 and 2009, the population in the City of Norfolk stayed relatively stable (increasing 0.5 percent, or 0.06 percent annually) and population in the MSA and state grew by 6.8 percent and 11.5 percent, respectively. In Norfolk in 2009, there were approximately 235,700 residents in 87,100 households. The City's represents 14 percent of the metro area's population and households.

While the City is expected to lose population between 2009 and 2014, it is anticipated that the metro area will grow by roughly 0.47 percent per year. This is about half of the rate of growth in the State and US during the same period.

Table 1: Population and Household Demographics of Norfolk

	Population				
	2000	2009	2014	00-'09 CAGR	09-'14 CAGR
City of Norfolk	234,403	235,672	234,533	0.06%	-0.10%
Virginia Beach-Norfolk Newport News MSA	1,576,370	1,683,121	1,723,345	0.73%	0.47%
Virginia	7,078,515	7,895,075	8,269,206	1.22%	0.93%
USA	278,049,507	306,109,789	320,322,004	1.07%	0.91%

	Households				
	2000	2009	2014	00-'09 CAGR	09-'14 CAGR
City of Norfolk	86,210	87,147	87,202	0.12%	0.01%
Virginia Beach-Norfolk Newport News MSA	580,278	630,691	649,782	0.93%	0.60%
Virginia	2,699,173	3,032,884	3,186,794	1.30%	0.99%
USA	104,281,646	115,219,232	120,757,470	1.11%	0.94%

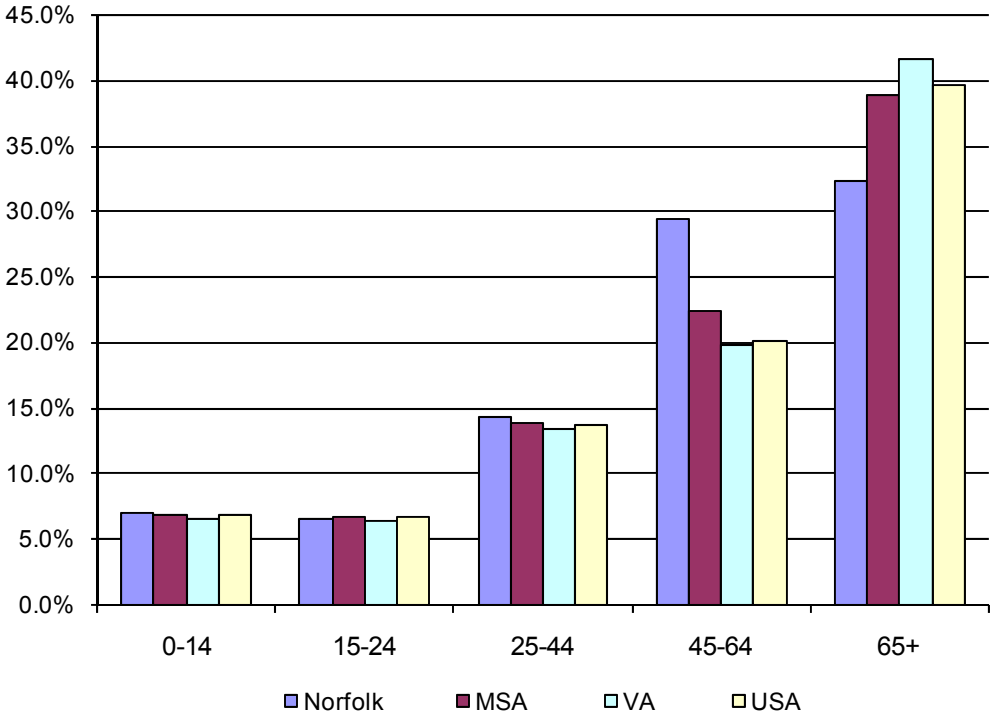
Source: ESRI Business Analyst, 2009; ERA | AECOM 2009.

Age Distribution

Age can be an important indicator of the types of real estate products, retail and service establishments, and public services needed in an area. The median age of City residents is 29.9. The Norfolk area overall has a younger age distribution than the State and Nation—where the median

ages are 37.7 and 36.9, respectively. This is likely due to the strong presence of enlisted military in the region.

Figure 1: Comparison of Distribution of Population by Age, 2009



Source: ESRI; ERA AECOM, 2009.

Income Distribution

An estimated 60 percent of Norfolk residents earn less than $50,000, compared to 43 percent in the MSA, only 38 percent in Virginia, and 44 percent in the Nation as a whole. The distribution of incomes in the various areas can be seen in Table 2 and are illustrated in Figure 2.

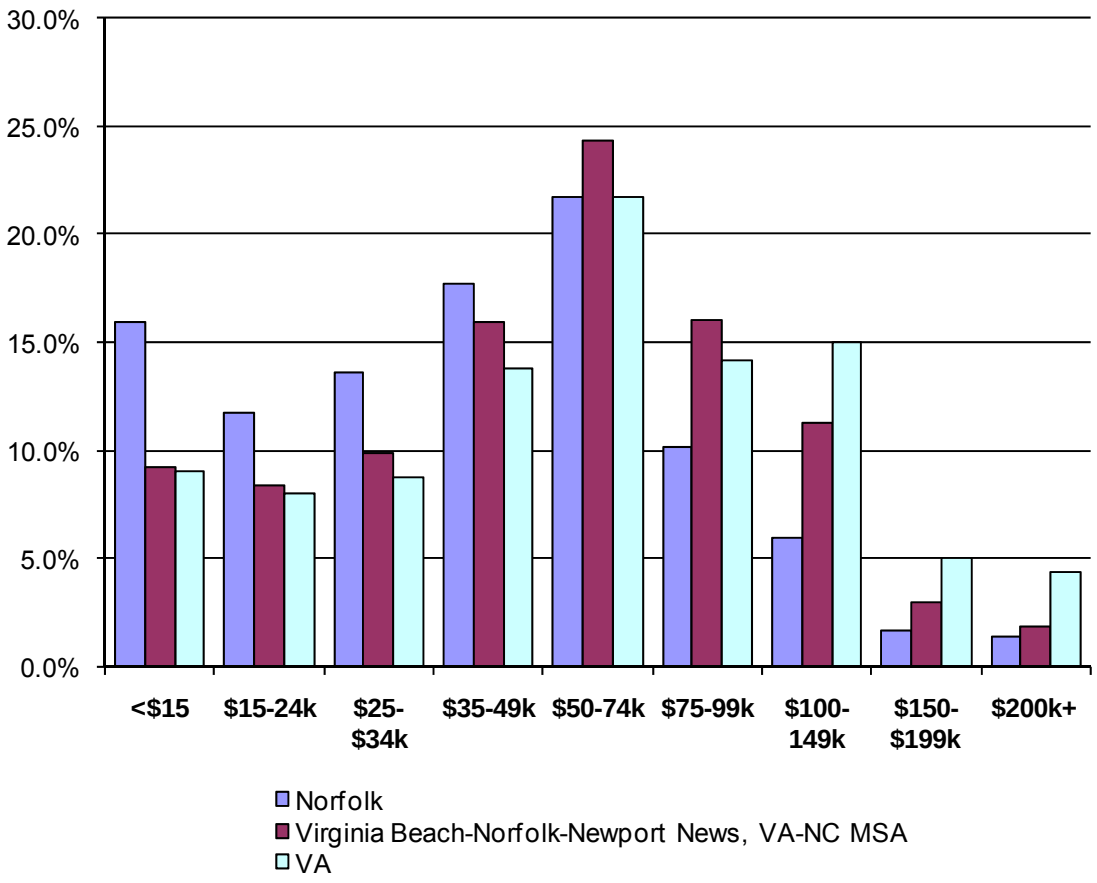
As a result of this, the annual median household income of the area, at slightly over $42,000, is also less than the MSA ($56,000), State ($62,000), and Nation ($55,000). However, it is slightly higher than that of the City, at $41,000. These income patterns as well are likely influenced by the heavy presence of military. The income patterns of residents impact the types and quantity of retail and services. Less affluent households have less disposable income to spend, and typically spend in different patterns (for example, a greater percentage of their total expenditures on food and apparel) than more affluent households. The retail demand sections below look at the specific expenditure patterns of the households within the Five Points and North Study Areas' respective retail trade areas.

Table 2: Area Household Income Characteristics, 2009

	Norfolk		Virginia Beach-Norfolk-Newport News, VA-NC MSA		VA	
	#	%	#	%	#	%
< $15,000	13,856	15.9%	58,023	9.2%	272,958	9.0%
$15,000 - $24,999	10,196	11.7%	52,978	8.4%	242,630	8.0%
$25,000 - $34,999	11,852	13.6%	62,438	9.9%	266,892	8.8%
$35,000 - $49,999	15,424	17.7%	100,279	15.9%	418,536	13.8%
$50,000 - $74,999	18,910	21.7%	153,257	24.3%	658,133	21.7%
$75,000 - $99,999	8,889	10.2%	100,910	16.0%	430,667	14.2%
$100,000 - $149,999	5,229	6.0%	71,268	11.3%	454,930	15.0%
$150,000 - $199,999	1,481	1.7%	18,921	3.0%	151,643	5.0%
$200,000 +	1,220	1.4%	11,983	1.9%	133,446	4.4%

Source: ESRI Business Analyst; ERA | AECOM, 2009.

Figure 2: Household Income Chart, 2009



Source: ESRI; ERA AECOM, 2009.

Housing

In the City, approximately half of all existing housing units are occupied by renters. There is 11 percent vacancy in the City, which is similar to the Nation as a whole. The number of housing units in the City is expected to remain relatively stable from 2009 to 2014, with only a slight increase. The home ownership rate, however, is expected to decline slightly, with a higher percentage of renters and vacant units. In the MSA, housing units are expected to increase at a rate of 0.71 percent annually between 2009 and 2014, a slower rate than between 2000 and 2009. In general, however, this data illustrates a relatively stable housing situation in all geographies.

Table 3: Housing Characteristics, 2000-2014

	Owner-Occupied Housing Units				
	2000	2009	2014	00-'09 CAGR	09-'14 CAGR
City of Norfolk	39,277	39,148	38,580	-0.04%	-0.29%
Virginia Beach-Norfolk Newport News MSA	366,106	396,635	408,685	0.89%	0.60%
Virginia	1,838,354	2,060,597	2,167,623	1.28%	1.02%
USA	69,050,962	76,285,206	80,925,041	1.11%	1.19%

	Renter-Occupied Housing Units				
	2000	2009	2014	00-'09 CAGR	09-'14 CAGR
City of Norfolk	47,019	48,054	48,619	0.24%	0.23%
Virginia Beach-Norfolk Newport News MSA	214,184	234,125	241,074	0.99%	0.59%
Virginia	862,545	971,854	1,018,818	1.33%	0.95%
USA	35,269,811	38,921,024	39,781,333	1.10%	0.44%

	Vacant Housing Units				
	2000	2009	2014	00-'09 CAGR	09-'14 CAGR
City of Norfolk	8,214	10,766	11,220	3.05%	0.83%
Virginia Beach-Norfolk Newport News MSA	42,339	57,843	63,478	3.53%	1.88%
Virginia	206,198	307,253	326,724	4.53%	1.24%
USA	10,191,601	14,530,515	15,531,069	4.02%	1.34%

	Total Housing Units				
	2000	2009	2014	00-'09 CAGR	09-'14 CAGR
City of Norfolk	94,510	97,968	98,419	0.40%	0.09%
Virginia Beach-Norfolk Newport News MSA	622,629	688,602	713,237	1.13%	0.71%
Virginia	2,907,096	3,339,703	3,513,166	1.55%	1.02%
USA	114,512,374	129,736,745	136,237,443	1.40%	0.98%

Source: ESRI Business Analyst, 2008; ERA | AECOM 2009.

Additionally, data from the U.S. Census's American Community Survey (ACS) suggest that in 2008 approximately two to three percent of units were built after 2005, which is approximately the same as the Nation. However, Norfolk has about 20 percent more of its housing share in stock built before 1970. Depending on the condition and marketability of this existing stock, there could be potential for additional units to meet unmet demand for new housing.

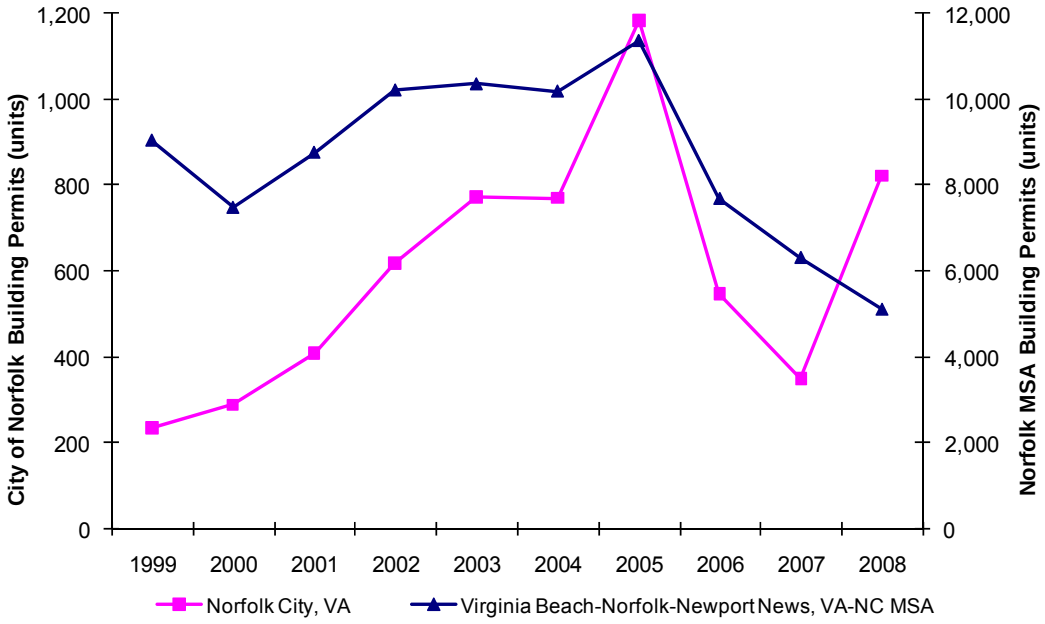
According to building permit data, nearly 600 housing units on average are developed in Norfolk annually, nearly half of which are multi-family units. As in the rest of the country, there was an increase in housing production from 2004 to 2008 compared to the previous five years. Data from the City on housing construction in the immediate area around Five Points shows scattered site infill development, due to the stable and established nature of the neighborhoods and lack of major parcels of developable land within the urban framework.

Table 4: Building Permit Trends, Norfolk and Norfolk MSA

	Norfolk City, VA		Virginia Beach-Norfolk-Newport News, VA-NC MSA	
	Single-Family	Multi-Family	Single-Family	Multi-Family
1999	191	42	7,534	1,510
2000	177	110	6,552	930
2001	227	181	7,136	1,627
2002	276	341	7,684	2,527
2003	437	334	7,850	2,503
2004	382	387	7,294	2,892
2005	526	657	7,667	3,693
2006	351	194	5,880	1,809
2007	313	36	4,758	1,559
2008	257	564	3,246	1,868
Total	**3,137**	**2,846**	**65,601**	**20,918**
1999 - 2008 Avg Annl	**314**	**285**	**6,560**	**2,092**
1999-2003				
Total Permitted Units	1,308	1,008	36,756	9,097
Average Annual	262	202	7,351	1,819
2004-2008				
Total Permitted Units	1,829	1,838	28,845	11,821
Average Annual	366	368	5,769	2,364

Source: US Census Bureau; ERA | AECOM, 2009.

Figure 3: Norfolk City and MSA Building Permit Trend Line, 1999-2008



Source: Census Bureau, as reported on US Department of Housing and Urban Development, SOCDS; ERA AECOM, 2009

Migration

Household relocations are at the core of residential demand and can also indicate the relative health of the local economy and attractiveness of the area to new residents. While new households most directly impact residential growth, it follows that places desirable for new residents are desirable for new businesses. To better understand the quantity of households moving into Norfolk and key source markets of new residents, ERA reviewed IRS county-to-county migration data. This data set provides year-to-year changes in where households file their income tax returns. While this data does not conclude the exact number of people relocating, it is a useful proxy to understand broader geographic trends in population movement and the relative quantity of households moving to or from a location.

IRS migration data indicate that approximately 12,300 households relocated to the City of Norfolk in 2006. The highest number of households relocated from within the region, primarily from Virginia Beach, Chesapeake, Portsmouth, Newport News, and Hampton.

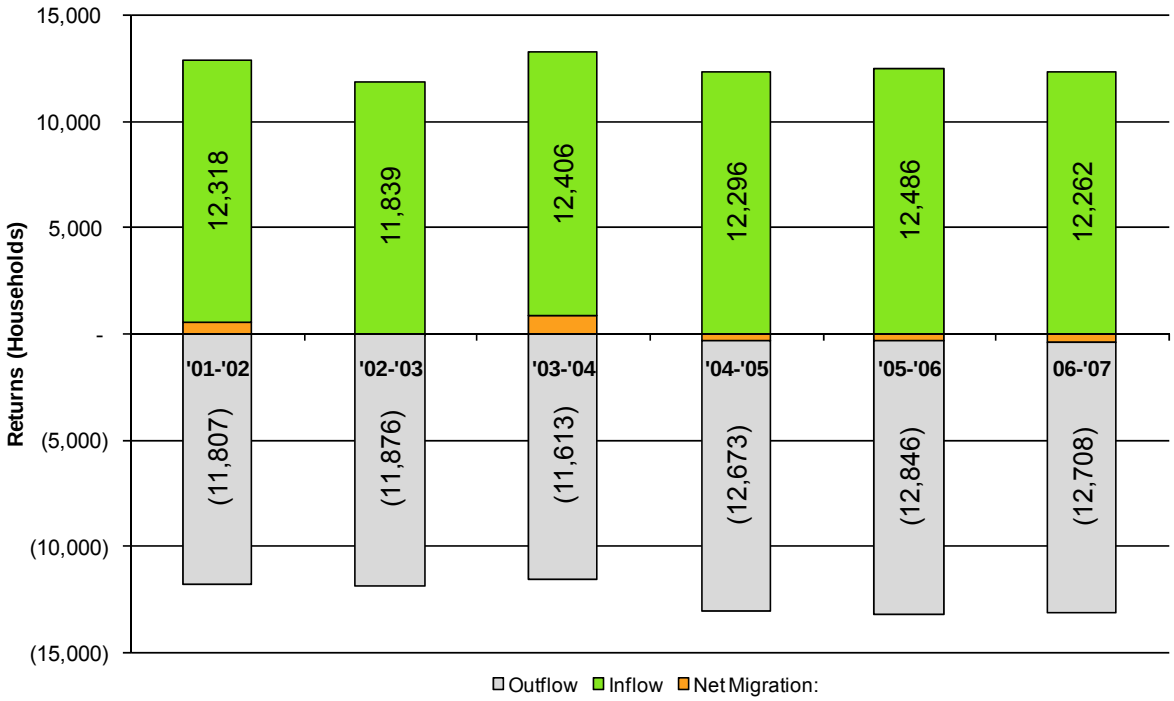
While some households moved to the City, others moved out of Norfolk. The City experienced an annual net loss of roughly 400 households on average from 2004 through 2006. This represented a distinct change from the previous three years, which saw either a net gain of migrants or balanced migration.

Table 5: City of Norfolk In-Migration, 2001-2007

		Household In-Migration							Total	
Source County	Rank	'00-'01	'01-'02	'02-'03	'03-'04	'04-'05	'05-'06	06-'07	Avg Annual	#
Virginia Beach City, VA	1	2,582	2,674	2,668	2,726	3,000	2,953	2,857	2,780	19,460
Chesapeake City, VA	2	833	846	897	856	1,003	977	992	915	6,404
Portsmouth City, VA	3	399	428	434	448	461	458	546	453	3,174
Newport News City, VA	4	201	255	246	270	293	298	258	260	1,821
Hampton City, VA	5	233	213	263	239	278	293	311	261	1,830
San Diego County, CA	6	153	146	165	169	158	175	134	157	1,100
Escambia County, FL	7	145	138	144	149	108	89	101	125	874
Suffolk City, VA	8	118	94	95	122	126	125	160	120	840
Duval County, FL	9	90	82	64	78	96	122	97	90	629
Lake County, IL	11	79	77	51	71	55	56	59	64	448
Kings County, NY	12	63	62	66	55	61	52	50	58	409
Honolulu County, HI	13	48	54	52	44	53	65	62	54	378
Henrico County, VA	14	44	63	50	47	57	51	52	52	364
Berkeley County, SC	15	69	64	57	48	41	49	57	55	385
Cook County, IL	16	61	48	51	50	47	61	45	52	363
Richmond City, VA	17	72	48	49	47	46	48	61	53	371
Onslow County, NC	18	53	50	60	51	36	42	48	49	340
Prince George's County, MD	19	45	38	35	57	67	48	36	47	326
Los Angeles County, CA	20	44	41	40	40	54	45	56	46	320
Total		**5,332**	**5,421**	**5,487**	**5,567**	**6,040**	**6,007**	**5,982**	**4,836**	**33,854**
% of Total In-Migration		**45.0%**	**44.0%**	**46.3%**	**44.9%**	**49.1%**	**48.1%**	**48.8%**	**39.6%**	**39.6%**
Top 20 Counties		**5,332**	**5,421**	**5,487**	**5,567**	**6,040**	**6,007**	**5,982**	**5,691**	**39,836**
Other Counties & Foreign		**6,511**	**6,897**	**6,352**	**6,839**	**6,256**	**6,479**	**6,280**	**6,516**	**45,614**
Total In-Migration		**11,843**	**12,318**	**11,839**	**12,406**	**12,296**	**12,486**	**12,262**	**12,207**	**85,450**

Source: IRS Statistics of Income; ERA | AECOM, 2009.

Figure 4: City of Norfolk County-to-County Migration Patterns, 2001-2007



Source: IRS Statistics of Income; ERA AECOM, 2009.

Economic Overview

Employment

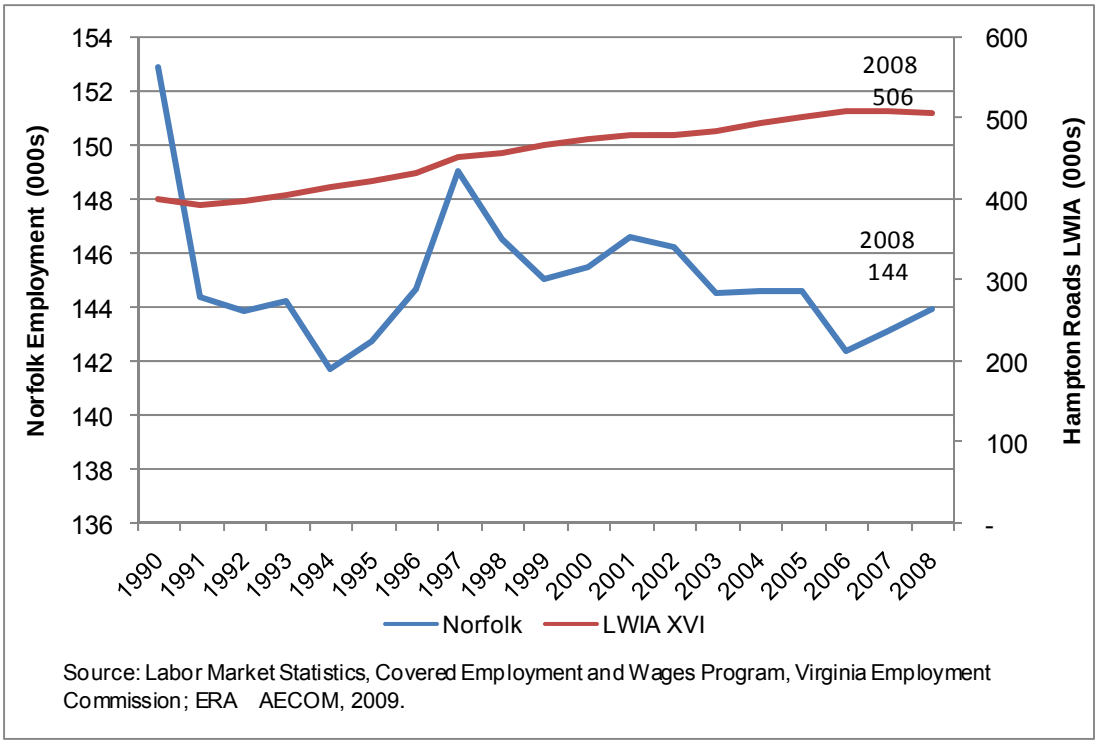
Changes in the labor force are a fundamental index of overall economic development and are a key driver of demand for various types of real estate, particularly "workplace" uses such as office and industrial space. As such, ERA profiled employment characteristics in Norfolk as a means of understanding how the City's economy has performed in the past, how it performs today, and where it appears to be heading.

According to the Virginia Employment Commission (VEC) Labor Market Statistics program, there were a total of 143,959 employees across all industries in the City of Norfolk in 2008. This was an increase of one percent (1,500 jobs) from 2006. According to this data, since 1990, there has been a net loss of just under 9,000 jobs in the City.

The VEC does not provide the exact same data for the MSA, but the Hampton Roads Labor Workforce Investment Area (LWIA XVI), which contains Norfolk, Isle of Wight and Southampton Counties, and the independent cities of Chesapeake, Franklin, Portsmouth, Suffolk, and Virginia

Beach, provides a slightly larger area of analysis. In this area, employment climbed from just under 400,000 in 1990 to 506,180 in 2008, an increase of 27 percent. On average, this area adds just under 6,000 jobs annually.

Figure 5: Historical Norfolk and Hampton Roads LWIA Employment By Industry, 1990-2008



Source: Labor Market Statistics, Covered Employment and Wages Program, Virginia Employment Commission; ERA AECOM, 2009.

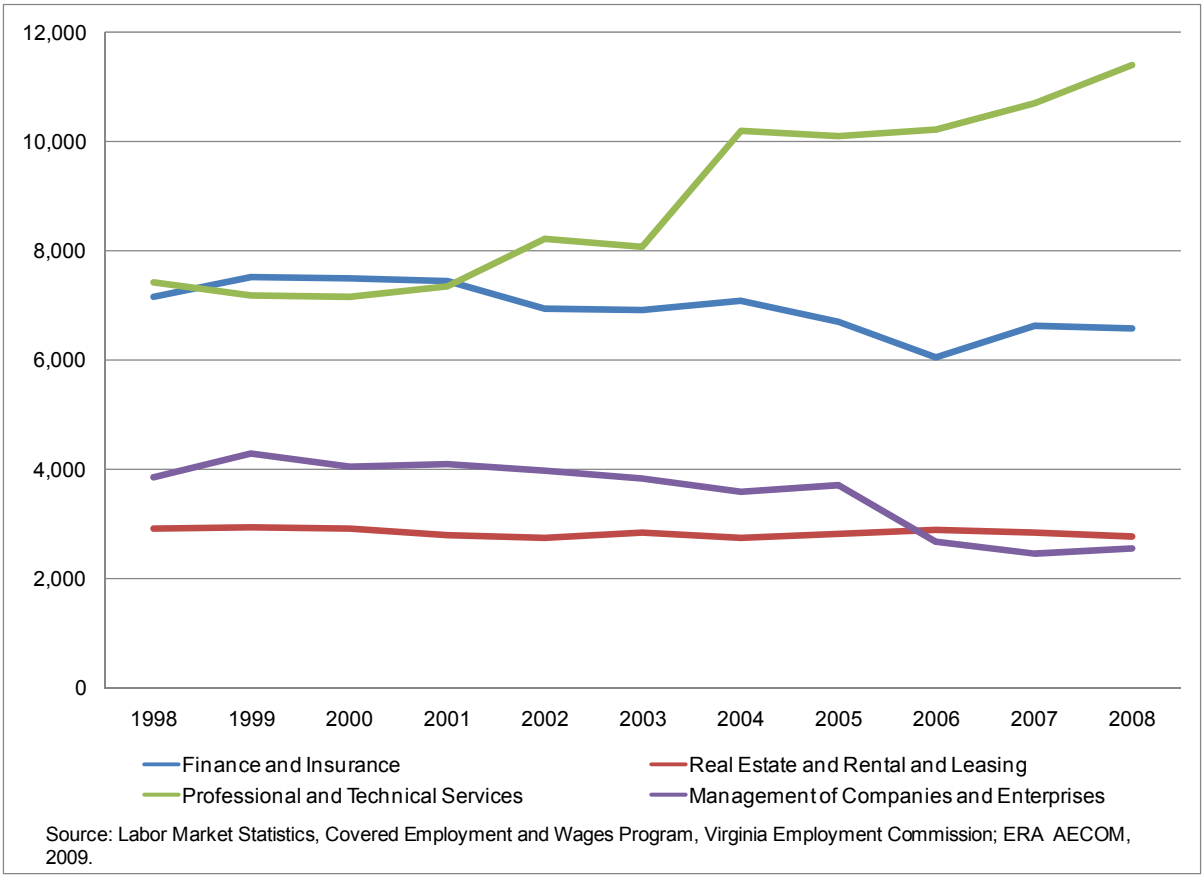
Industries experience various levels of success and competitiveness, so while there was an overall loss in the City, there were industries that thrived while others tapered. Manufacturing has been the industry with the largest job loss—a loss of 5,600 jobs, or 44 percent of total jobs in the sector in 1990. This is not uncommon in the U.S. and especially in older industrial cities. Other industries with losses were wholesale trade, retail trade, real estate rental and leasing, and other services. The industry with the largest gain was Education Services, which added more than half of its 1990 level, growing from approximately 10,300 to 15,800 in 2008. Healthcare and Social Assistance, which includes everything from doctors to social workers, gained 4,400 employees (26 percent growth) between 1990 and 2008. Both of these industries usually track population growth as these services expand to meet the needs of the community; however, they can also represent growth at universities and research centers and hospitals which present additional economic opportunities and benefits.

Another industry with gains was Management of Companies and Enterprises, which though a small industry, gained more than an additional third of its 1990 level employment by 2008, representing an additional 682 jobs. The positive message about this gain is that these jobs often carry higher income

levels than jobs in industries like manufacturing, meaning that there is still likely to be a need for services for these residents. Along the same lines, the gains in Professional and Technical Services (2,137 new jobs, a 23 percent increase), implies growth in income-producing jobs in the City. These two industries, along with Finance and Insurance which had a nine percent gain, and Real Estate, are major users of multitenant office space. Therefore, growth in these industries corresponds to City-wide need for new office space.

Looking more closely at trends in the major office-using industries over the more recent past (from 1998 to 2008) Professional and Technical Services rose as a major winner of new jobs, adding 3,973 jobs (more than 50 percent growth). Overall, the four major office-using industries (Management of Companies and Enterprises, Professional and Technical Services, Real Estate Rental and Leasing, and Finance and Insurance) added a net total of 1,926 jobs, all in Professional and Technical Services. Assuming an average of 250 square feet of office space per employee, this new employment supported approximately 482,000 square feet of professional office space.

Figure 6: Norfolk Employment in Primary Office-Using Industries, 1998-2008



Source: Labor Market Statistics, Covered Employment and Wages Program, Virginia Employment Commission; ERA AECOM, 2009.

Looking to the future, growth in these industries will suggest the need for additional space above and beyond what is currently available or in the real estate development pipeline. The VEC provides industry employment projections for the LWIA, but not for individual counties and cities.

The currently available set of projections looks at growth between the base year of 2006 and 2016. In this time, the VEC projects an increase of just under 65,000 jobs in the industries with disclosable data. Extrapolating the 2006 data to the present year (2009) using the compound annual growth rate, there is expected to be approximately 47,000 new jobs between now and 2016. As witnessed in Norfolk's employment trends, Professional and Technical Services is expected to add the greatest number of new jobs—8,100 new jobs, a 24 percent increase over the estimated 2009 level of employment.

Because the VEC does not make projections for the City, ERA turned to Woods and Poole, a data provider that makes projections for demographic and other data for all U.S. counties and metro areas. Woods and Poole employment data is slightly different from the data provided by the BLS (upon which the VEC bases their projections) because of the inclusion of nonemployers (self-employed) and

other differences in counting. The basis for Woods and Poole data is the Bureau of Economic Analysis, and the survey includes all jobs, full- or part-time. The data is also only available at the super-sector level, which is the 1-digit Standard Industry Classification level (used prior to its replacement by the NAICS system). In 2009, Woods and Poole estimates a total of 227,000 jobs in Norfolk and forecasts that the level of employment will increase by 1,900 jobs by 2015. The data displays similar trends to historic employment change, with Services (which includes Professional and Technical Services as well as Health Services and Educational Services, among others) adding the most jobs. Finance, Insurance, and Real Estate (FIRE) is expected to decrease slightly in the City and increase in the MSA.

Table 6: Norfolk and MSA Employment Projections

	City of Norfolk					
	2000	**2005**	**2009**	**2015**	**2020**	**2025**
Mining and Construction	7,671	7,938	8,073	8,270	8,431	8,588
Manufacturing	12,727	12,040	11,735	11,286	10,916	10,551
Transport, Comm & Public Utilities	13,850	12,314	12,135	11,874	11,659	11,445
Wholesale and Retail Trade	32,346	30,798	30,128	29,114	28,260	27,395
Finance, Insurance & Real Estate	12,461	12,107	12,055	11,966	11,883	11,792
Services	50,429	56,166	57,306	59,031	60,480	61,934
Federal Civilian and Military Governments	73,735	73,582	74,156	75,014	75,726	76,437
State And Local Government	20,260	21,233	21,832	22,734	23,489	24,245
Total	**223,479**	**226,178**	**227,420**	**229,289**	**230,844**	**232,387**

	Virginia Beach-Norfolk-Newport News, VA-NC MSA					
	2000	**2005**	**2009**	**2015**	**2020**	**2025**
Mining and Construction	56,937	63,366	67,899	74,698	80,370	86,040
Manufacturing	71,279	68,923	68,098	66,861	65,827	64,786
Transport, Comm & Public Utilities	39,160	40,699	42,588	45,420	47,776	50,134
Wholesale and Retail Trade	189,651	204,928	215,460	231,268	244,443	257,619
Finance, Insurance & Real Estate	61,424	73,075	77,300	83,640	88,927	94,214
Services	267,347	295,622	329,039	379,173	420,954	462,747
Federal Civilian and Military Governments	158,065	154,842	156,553	159,118	161,255	163,397
State And Local Government	100,376	107,385	114,488	125,146	134,029	142,911
Total	**944,239**	**1,008,840**	**1,071,425**	**1,165,324**	**1,243,581**	**1,321,848**

Note: Includes part-time and self employed.
Source: Woods and Poole; ERA | AECOM, 2009.

Stakeholder Interviews

ERA and HBHR&RERCO conducted interviews of key individuals in the Five Points and North Study Area, including business owners, land owners, and residents (See list of individual interviews in the Appendix.) Some key findings were:

- Crime is a concern in the Five Points Study Area, particularly on Alexander Street as well as in the “Texas Streets” west of the North Study Area. The Walmart has hired extra security.
- Actual crime in the area has gone down.

- Parking in the Five Points area is a concern, as are traffic patterns.
- Retailers in the Five Points Study Area report limited shopper traffic. Most rely on about 50 percent of their business from walk-in customers from the neighborhood, particularly elderly residents and students.
- The Walmart Supercenter draws customers from Old Dominion, from the neighborhoods, from the military bases, and from pass-through traffic (many RVs stop there).
- The new schools, and particularly the new community/recreation center, have been positive assets to the community.
- A larger than normal percentage of sales at Walmart can be attributed to grocery sales.
- Retail rents range anywhere from $4 to $19 per square foot, depending on the space. The newer small spaces in new strip centers can rent for as much as $25 per square foot.
- There is a willingness from some property owners to explore redevelopment or joint development. Having key properties would enable some land assembly, enabling a wider range of development opportunities in formats that do not currently fit.
- There are several non-retail businesses in the Five Points Study Area that provide employment and tax revenues that should be considered within any redevelopment strategy. A possible threat is to lose these businesses to other jurisdictions, something that must be avoided.

II. Real Estate Market Assessment

Based on the demographic and economic data collected, analyzed, and reported in the first part of this report, ERA also reviewed key real estate data for the overall area, the characteristics important in the success of various land use types, and the development potential and market viability of each use at the two Study Areas.

Residential

Key Demand and Location Characteristics

The key variable for demand for new residential space is a supply of new residents, from an increase in overall number of households, from households moving from one area to another (in-migration), or from internal market "churn," which refers to residents deciding to move from one house to another house in the same area.

An area's suitability for residential development depends upon many factors, which are many of the same factors individual households consider when purchasing or renting a home including:

- Proximity to places of employment
- Good access to roads/transit (though not typically on major thoroughfares)
- School quality and proximity (for households with school age children, in particular)
- Quality of life considerations such as an acceptable noise level, distance from undesirable uses, crime levels, etc.
- Access to area amenities such as parks and recreation facilities, retail and services, etc.

Overall Market Assessment

The residential market in the U.S. "corrected" in most places and crashed in others in 2008. Norfolk was not immune to this trend. In 2008, there were 253 closings of new homes in Norfolk, down from 365 in 2007 (according to data from Real Estate Information Network as reported in the ODU report). In the overall region, there were 20 percent fewer closings in 2008 than in 2007. Looking at data provided in the City Budget Office's Economic Indicators report, the trend of contraction of the market continued. At mid-year (January to June) overall average prices were slightly lower in 2009 than in 2008—$210,100 versus $240,600. In 2008 at year end, the average price in Norfolk for new construction was $343,400, while existing homes sold for an average of $213,200. From the Economic Indicators report, the mid-year average existing home price in 2008 was $219,700, and that also declined in 2009 to $199,000. This was below the region's average sale price for existing homes, $251,100. However, it is likely that a few higher-priced home sales increased the average, as

nearly three-quarters of all detached resales across the region were in the under $200,000 price range.

Though the price of multi-story condominiums in the region fell from the 4th quarter of 2007 (at $633,000) to the 4th Quarter of 2008 (at $419,000), that product type has the highest overall price for new construction in the region. However, this product type accounted for only 12 percent of all new home sales in the region. As shown in the residential building permits data presented in the previous section, Norfolk had a bump in 2008 as a result of multifamily permits, while the MSA had an overall decline.

In general in the national economy, rental properties have been performing well in the down economy, though first time homebuyers entering the real estate market with their first home purchases have been making an impact in some markets. (The increase in number of home sales in Norfolk in the under $200,000 range between mid-year 2008 and mid-year 2009—as reported in the *2009 Hampton Roads Real Estate Market Review*—could be a reflection of this trend). In 2008, the average rent in Norfolk is just over $800, with vacancies holding fairly steady at approximately five percent. Vacancies of up to five percent are generally considered to be "frictional" vacancy—vacancy reflecting turnover and lease-up and not an indication of a problem in the market. There were, as of the end of 2008, approximately 1,000 multifamily units under construction or proposed in Norfolk. This could contribute to a higher vacancy rate as these units come online, particularly if any condominium projects turn rental in the slower housing market.

Market Demand Assessment

Based upon the available data from ESRI Business Analyst shown above, looking at Norfolk as a whole, from 2009 to 2014, there is projected to be a net gain of an average of 11 households annually. This, on its own, does not suggest a strong need for new housing. Of course, as housing preferences and demographics (i.e. more singles versus families), existing households may want to move to a newer product type, necessitating replacement of existing housing and new development.

Additionally, as shown in the IRS migration data above, of the approximately 12,000 households moving into the City annually, there is typically approximately the same number moving out. However, each of those households moving in is a possible purchaser of a new housing unit. The development of new housing units depends on the preference of the new households for new versus old and what price is affordable; in other words, if there is a lack of higher end housing in the area and a large number of affluent households is moving in, those types of units will need to be built despite the existence of more affordable housing. The average adjusted gross income of the returns in the IRS migration data was $31,700. While this is not necessarily high, it has increased over the last several years—averaging five percent annually between 2002 to 2007, a rate that has been above that of

inflation, suggesting that Norfolk has been becoming more attractive to households with increasingly higher incomes, which in turn indicate greater purchasing power. Still, the average household moving into the City would not necessarily be able to afford new home pricing.

The third market "churn" in a market can be estimated using data from the U.S. Census American Community Survey that looks at household mobility by geographic location. According to this data, in 2008, 22 percent of all City households had moved in the previous year—11 percent of households that own their homes and 32 percent of households that rent. Three percent of all households that own moved from within Norfolk in the past year and 16 percent of all renting households moved within the City; these are the "churn" rates within the City. This "churn" adds approximately 9,000 possible purchasers of units.

ERA examined the total residential market from 2005 to 2008 (churn/inflow/new households, estimated at 65,000) to estimate the origin for the 2,700 units built since 2005 in the American Community Survey. These numbers suggest that there is a "preference" of four percent for new housing. This is close to the overall number of newer homes within the City (three percent).

The numbers of new households, household churn, and household in-migration combined with the estimated preference for new indicate approximate demand for up to 895 new units per year. This seems high, in light of the net new households to the area, and it is not a recommended target for real estate development decisions. It is important to note that the "propensity for new" is based on an overall look at total household trends. A full residential demand study would examine demand by household type, price point, and look at individual housing preferences and purchasing power. As noted above, the reported income from the IRS data suggests that incoming households would not be able to purchase most new housing products. Therefore, a more conservative demand profile would be more prudent, particularly in the coming several years. An individual investor would need to do highly specific targeted demand studies to determine the exact quantity and mix of units, looking, too, at the existing supply.

Table 7: City of Norfolk Preliminary Residential Demand Overview, 2009-2014

HOUSEHOLD GROWTH	Total	Under $35k	$35-49,999	50-74,999	75-99,999	100-149999	150k+
2009 Households	87,147	35,903	15,424	18,910	8,889	5,229	2,701
Projected 2014 Households	87,202	34,095	14,998	20,492	10,028	4,709	2,965
Net New Households	55	-1,809	-426	1,582	1,139	-520	263
/ years	5	5	5	5	5	5	5
Net New Demand/Year	11	-362	-85	316	228	-104	53

HOUSEHOLD CHURN	
In Rental Housing	47,931
Move Rate	16%
Annual Rental Churn	7,886
In Owned Housing	39,216
Move Rate	3%
Annual Owner-Occupied Churn	1,209
Total Annual Churn	9,094
Est.05-08 Total Housing Demand	65,000
/ Units Built 2005 or Later	2,725
Estimated Preference for New	4%
Total Annual Churn	9,094
Preference for New	4%
Annual Demand	**381**

HOUSEHOLD MIGRATION	
Annual Inflow (rounded)	12,000
Preference for New	4%
	503

TOTAL ANNUAL POTENTIAL CITYWIDE DEMAND	895

Source: ESRI Business Analyst, 2009; ERA│AECOM, 2009.

Suitability to Study Areas

The primary existing use of most of the land in both Study Areas is commercial—and particularly retail. This is because of its presence on major arterials, which make it ideal for retail which needs good visibility and access. Residential has been mostly confined to the neighborhoods surrounding this area, because most residents seek quieter neighborhoods which can still access these arterials, but are not immediately on them. Norfolk households, as with most of those in the U.S., have favored single family housing over multifamily housing. For many years, multifamily housing was reserved for

those with smaller households and lower incomes. The recent resurgence of interest in urban living, the increasing scarcity of developable land in close proximity to employment centers, and changing demographics (i.e. smaller family sizes), has impacted that trend somewhat, and in the last several years, Norfolk has had a large proportion of new units in multifamily housing.

Many of these projects are still in the pipeline, and for major new developments, multifamily developers are likely to concentrate close to Downtown Norfolk. Looking at supply trends in the market, there is ample existing supply in and around the City, particularly after the economic downturn. This will inhibit any near term new development in the Study Areas. The Study Areas are primarily retail and commercial with surrounding stronger residential neighborhoods. In the future, when the market rebounds, there could be some potential for infill new housing, particularly as a replacement for older, less viable units in small multifamily buildings in the area. It is critical that these new units contribute to a positive image of vitality to the area. The primary goal then is to strengthen the existing stock, and to improve the uses along the arterials so that the neighborhoods continue to thrive and enjoy nearby amenities.

Subtypes: Senior Housing

One subtype suggested as a possibility for the Study Area has been senior housing, which is a type of housing to address a particular need in the community and a particular demographic. Developing housing for senior citizens and other elderly residents is expected to be an expanding industry in the United States over the next 10 to 25 years. This will be fueled by two primary demographic factors—the aging of a significant population cohort of "baby boomers" and advances in medicine and health that result in longer lives. Increasingly, the elderly need and want housing attuned to their specific needs. A challenge at the present time is the diminished equity of seniors' homes (which often provided a source of funding during the boom years) and reduced Medicare/Medicaid funding which often provided support for long-term care. Aside from the presence of seniors in the area, with a demand for some type of senior housing, other location characteristics include proximity to seniors' family and community amenities such as shopping centers, hospitals and doctors' offices and churches.

There are categories of housing to address seniors needing various levels of care, from fully independent to 24-hour skilled nursing. Depending on the type, demand for senior housing can go beyond typical residential analyses because they include metrics for healthcare demand. A full study of all types of senior housing is outside of the scope of this type of study, but ERA did examine the overall potential market within Norfolk for this type of housing. Data from ESRI Business Analyst shows an increase of 1,200 residents aged 65 or older, with a third of the households being in the 65-69 age category, the category with that will also increase by 30 percent, reflecting the entry of the

beginning of the Baby Boomers into their retirement years. The residents in this younger senior age group are the least likely to require specialized senior housing, though age-restricted communities could be of interest. In Norfolk, older age categories will have a decrease, particularly in the 75-84 age category.

Using this data and overall trends toward various senior housing usage for households over 65, there is a net demand of approximately 85 units in the next five years. ERA does not have data on existing units by type; however, there are several new developments for seniors. This preliminary market assessment does not indicate a strong need for senior housing. It is, however, possible that a facility could be desired or marketable in the area. This would require more intense research into who exactly the market would be. In some instances, where, for example, a church develops their own senior housing facility, they have a good idea of who the residents will be (and sometimes are providing care at little to no cost). From a private development perspective, senior housing is not a primary marketable use.

Table 8: Preliminary Senior Housing Assessment

		2009	2014	Net New
Total HH by Age of Householder (65+)		16,386	17,587	1,201
Housing Preference (National Average)		**2009**	**2014**	**Net New**
Continuing Care Retirement Community	0.8%	131	141	10
Active Adult Community	1.7%	279	299	20
Low Income Assisted Living or Board and Care	2.4%	393	422	29
Low-Income Seniors Apartment	0.6%	98	106	7
Independent/Congregate or modern assisted living	1.3%	213	229	16
Seniors Apartment	0.3%	49	53	4
		1,163	**1,249**	**85**

Source: ESRI Business Analyst; *Understanding Seniors Housing Demand, Choices, and Behavior: Insights from the AHEAD and HRS Studies,* National Investment Center, 2003; ERA | AECOM, 2009.

Office and Workplace Uses

Key Demand and Location Characteristics

Demand for new office or industrial space is impacted by an increase in employment in users of the space, and the replacement of existing unsuitable space. Office and industrial buildings tend to cluster, depending on the types of use. Many users—such as law offices, government offices, accounting firms—tend to prefer downtown/central business district locations, because they offer both a high "profile" as well as a network of professionals and clients. There is a symbiotic relationship between companies, and having each other within the same geographic area lends efficiency to

operations. Central business districts and other clusters tend to emerge and be in demand from office users because they offer access via public transit or car to a pool of qualified workers, visibility to users and clients of the space, and access to other services. Other office and workplace concentrations may cluster around ports, airports, hospitals, and universities.

Overall Office Market Assessment

The Five Points and North Study Areas are not primary office locations. Nearby office concentrations exist Downtown and near the International Airport. Other major office submarkets in the region essentially line Virginia Beach Boulevard between Norfolk and Virginia Beach and I-64 to the north and south of Norfolk.

Both the Downtown and Airport submarkets had negative absorption in 2008 (according to the Old Dominion University 2009 Hampton Roads Real Estate Market Review). The Downtown has a total of approximately 4.2 million square feet of office space, 80 percent of which is multi-tenant. Of the multi-tenant space, 41 percent is Class A space. The Airport cluster is significantly smaller, with under 400,000 square feet of space, approximately half of which is considered to be Class A.

Rents in both clusters average $23 per square foot per year for Class A space. Class B space in Downtown fares slightly better at $18, with Airport Class B space renting for around $15 per square foot. Class C space rents for approximately $11 per square foot in both locations. The Airport submarket is experiencing a higher vacancy rate—at 20 percent, nearly double that of Downtown (in Class A and B space only). Downtown has a greater occupancy rate than the market overall, which is at 13 percent for the same class of space.

ERA examined the whole of the City of Norfolk and the MSA using data from CoStar, a national real estate data provider. This data showed a lower overall vacancy rate than was in the ODU report, 5.8 percent for the City at the end of 2008. (This is the direct vacancy rate. Adding sublet vacancies brings the rate to six percent.) This data also shows a positive direct net absorption in 2008.

Table 9: Office Market Data, 2006-2008

	Summary Data - 4Q 2008		
	Total RBA /1	Vacancy Rate /2	Average Rental Rate
City of Norfolk	9,937,821	5.8%	$17.75/fs
Virginia Beach-Norfolk-Newport News, VA-NC MSA	42,926,615	9.0%	$17.81/fs

	Rentable Building Area Delivered 2006-2008 Annual Totals		
	2006	2007	2008
City of Norfolk	300,815	311,258	10,000
Virginia Beach-Norfolk-Newport News, VA-NC MSA	1,493,426	1,430,425	924,296

	Direct Net Absorption 2006-2008 Annual Totals		
	2006	2007	2008
City of Norfolk	45,459	382,292	125,801
Virginia Beach-Norfolk-Newport News, VA-NC MSA	935,462	1,071,895	210,188

	End of Year Direct Vacancy Rate 2006-2008		
	2006	2007	2008
City of Norfolk	8.0%	7.0%	5.8%
Virginia Beach-Norfolk-Newport News, VA-NC MSA	6.8%	7.4%	9.0%

	End of Year Direct Rent 2006-2008		
	2006	2007	2008
City of Norfolk	$16.77	$17.73	$17.75
Virginia Beach-Norfolk-Newport News, VA-NC MSA	$16.98	$17.66	$17.81

1/ Rentable Building Area

2/ Does not include Sublet Vacancy

Source: CoStar Group; ERA | AECOM, April 2009.

Office Demand Assessment

Demand for new office space is dependent upon new employment, which translates to new users of the space. Office workers use different types of office space depending on local market characteristics and the type of business. To assess the overall market in Norfolk, ERA examined employment projections by industry from Woods and Poole from 2009 to 2014 and from 2014 to 2020. Because not all industry sectors utilize office space equally, ERA applied average ratios of office users per employment sector to determine how many new employees would actually occupy office space. A square feet per employee factor is applied to determine how new office-using

employment translates into office space (typically 225 square feet per employee). To this, a replacement and frictional vacancy factors are added to account for tenant "churn" in the marketplace. This analysis shows City-wide demand for an average of 12,000 square feet annually. According to CoStar, in the data presented above, 2008's overall absorption was 125,000 square feet. The data is not available far enough back to present a conclusive message, but this seems to suggest that there has been more demand than the employment numbers suggest. This could be for a greater replacement of outmoded space or other factors. The most recent absorption numbers presented by the ODU report show negative absorptions in Downtown (-89,000 square feet) and the Airport/Northampton (-3,500), and a positive absorption in Central Norfolk of 113,000 (which includes the Norfolk Commerce Center, which is flex/office space).

Table 10: City of Norfolk Employment-Based Office Demand

Employment Sector	% Office Users /1	Total Demand for New Space (SF) 2009-2015	Total Demand for New Space (SF) 2014-2020	Avg. Ann'l 2009-2020
Mining	10%	180	248	38.9
Construction	20%	7,020	8,235	1,386.8
Manufacturing	20%	(16,875)	(19,980)	(3,350.5)
Trans./Comm./Public Utilities	70%	(34,335)	(40,635)	(6,815.5)
Wholesale Trade	30%	(31,860)	(38,003)	(6,351.1)
Retail Trade	30%	(25,110)	(31,118)	(5,111.6)
Finance/Insurance/Real Estate	90%	(14,783)	(20,048)	(3,166.4)
Services	50%	161,550	195,525	32,461.4
Government	70%	9,765	11,183	1,904.3
Demand From New Employment:	**43%**	**55,553**	**65,408**	**10,996**
Plus Vacancy Adjustment: /2		4,166	4,906	825
Plus Cumulative Replacement Demand: /3		2,778	3,270	550
TOTAL DEMAND (In 000s of Sq. Ft.):		**62,000**	**74,000**	**12,000**

1/ Reflects office-using employees in each employment sector
2/ This allows for a 0.075 frictional vacancy rate in new space delivered to the market
3/ This represents new space required by existing businesses to replace obsolete or otherwise unusable space. This is assumed to represent 0.05 of total implied demand

Source: Woods & Poole, Inc; ERA | AECOM, 2009.

Office: Suitability to Study Areas

The Study Areas are not primary desired locations for office users. Though they have good accessibility via major arterials, they have not traditionally been office locations. There are no major demand drivers within close proximity, such as a university. The airport is at a far enough distance to

not be a major decision factor for traditional office users. Development of large-scale office uses would also require greater amounts of land. The primary type of office and workplace uses that could be suited to the Study Area are smaller scale spaces, in conjunction with retail, or service uses. The primary focus should be on developing the Norfolk Commerce Park and having service office to benefit local residents and fill out retail spaces.

Other Workplace Uses Assessment

ERA did not examine traditional industrial uses. The Commerce Park provides opportunity for light industrial/flex uses, and larger scale industrial such as warehousing, is not an appropriate or the "highest and best" use in either area.

However, based on the number of existing service businesses in the area, ERA examined the potential for additional space for these uses. Most typically, these uses will use existing structures, ranging from garages to former retail spaces. The unifying locational characteristics are:

- Efficient access to customers
- Cost effective space

Beyond this, depending on the particular user, requirements could include:

- Visibility
- Vehicular storage, access
- Security concerns (secure lots/buildings)
- Storage needs

When evaluating potential employment change and demand for these uses, ERA examined the following categories:

- Residential Remodelers
- Building Equip. Contractors
- Paint and Wallpaper Stores
- Hardware Stores
- Other Building Material Dealers
- Locksmiths
- Services to Buildings and Dwellings

- Repair and Maintenance
- Personal Care Services
- Drycleaning and Laundry Services

To determine potential demand for additional space for these uses at Five Points, ERA first assessed the industries' current share of existing employment in the major industrial sector (Construction, Retail, Services), for which projections are made by the State. This was done using data from 2007 U.S. Economic Census. This data indicated that these industries represented 31 percent of the Construction sector, two percent of the retail sector, and two percent of the Services sector.

Table 11: Service Business Industries, Share of Major Industry Sector Employment

CONSTRUCTION		
Ind. Code		**2007 Emp**
236118	Residential Remodelers	243
2382	Building Equip. Contractors	1,601
Subtotal		**1,844**
Total Emp. In Sector		6,026
Share in Target Subsectors		31%

RETAIL		
Ind. Code		**2007 Emp**
44412	Paint and Wallpaper Stores	30
44413	Hardware Stores	71
44419	Other Building Material Dealers	208
Subtotal		**279**
Total Emp. In Sector		13,648
Share in Target Subsectors		2%

SERVICES		
Ind. Code		**2007 Emp**
561622	Locksmiths	30
5617	Services to Buildings and Dwellings	903
811	Repair and Maintenance	1,515
8121	Personal Care Services	509
8123	Drycleaning and Laundry Services	483
Subtotal		**992**
Total Emp. In Sector		63,623
Share in Target Subsectors		2%

Source: Virginia Employment Commission Projections Team; ERA | AECOM, 2009.

Next, ERA analyzed the City's share of the total Hampton Roads Workforce Investment Area's (WIA) employment in these categories. The State makes employment projections for WIAs, and not for individual counties or cities. Norfolk has 17 percent of the WIA's employment in Construction, 22 percent of the employment in retail, and 29 percent of the employment in Services.

Taking the state's projections for employment in these major sectors in 2016, ERA applied the percentages found above to determine an estimated employment for the City in 2016 and then applied the share of employment in the target service industry businesses. (Note: Because the State did not make projections for Retail employment, ERA made a straight line projection using the 2003 to 2008 growth rate). From this, ERA removed existing City employment in these industries, yielding a total net new employment of 582.

Table 12: Norfolk Net New Employment in Target Service Businesses, 2016

	2016 Norfolk Employment	Share in Target Business Types	Estimated Employment	Less Existing Employment	Net New Employment in Target Businesses
Construction	6,439	31%	1,970	1,844	126
Retail	19,702	2%	403	279	124
Services	84,893	2%	1,324	992	332
Total	111,034		**3,697**	**3,115**	**582**

Source: U.S. Economic Census, U.S. Census Bureau; Virginia Employment Commission; ERA | AECOM, 2009.

Using average employment per establishment data from the U.S. Economic Census for the City of Norfolk, ERA estimated the approximate number of establishments this represented (a total of 74 across categories). Then, using the zip code establishment data for the Five Points zip code from the Economic Census, ERA determined the zip code's existing share of establishments in these categories and applied this share to the net new establishments. Additionally, if we assume a concerted effort to attract and place these businesses in Five Points through incentives, an increase in the area's share could be possible. In total, ERA estimates that in the short term, the area could support between five and eight new service business establishments.

Table 13: Five Points Net New Potential Service Businesses

	Net New Employment in Target Businesses	Avg Employees/Estab.	Est Estab.	Current Share	Enhanced Share	Range of New Study Area Establishments
Construction	126	10.66	12	17%	20%	2
Retail	124	9.00	14	4%	5%	0 - 1
Services	332	6.94	48	6%	10%	3 - 5
Total	**582**		**74**			**5 - 8**

Source: U.S. Economic Census, U.S. Census Bureau; Virginia Employment Commission; ERA | AECOM, 2009.

Hotel

Key Demand and Location Characteristics

Key drivers of hotel demand are visitors—including leisure visitors, conference attendees, and business travelers. Hotels strive to have good access, visibility, and proximity to their source markets. Therefore, they tend to locate near major visitor attractions, conference centers, and business locations. New hotels are developed to accommodate growth in visitation in the specified segment and to replace older supply.

Overall Market Assessment

The region's hotel industry was hit by the effects of the recession in 2008. However, overall, the supply of hotel rooms has been increasing. According to the Old Dominion University Economic Forecasting Project's "Hampton Roads State of the Region 2009" report, the region added 4,000 rooms in the last ten years. The increase in supply is having an impact on the overall vacancy rates. According to data by Smith Travel Research, as reported by the Virginia Tourism Corporation (VTC), at the end of 2008, the overall region's occupancy went from 60 percent to 55 percent. Generally, occupancy rates should reach 70 percent to attract new investment. The Norfolk/Portsmouth submarket's occupancies were slightly higher than the region overall, at approximately 59 percent, but had still fallen from 2007, when they were at 63 percent. Though room rates in the Norfolk/Portsmouth submarket climbed slightly from $85.74 to $86.52, this was not enough to positively impact room revenues, which decreased by 4.5 percent.

There are several projects under construction in Norfolk, containing 818 rooms. The largest single project is the Westin Hotel and Conference Center Downtown, a high profile project which will add 301 rooms to the City's supply. While this project is for a full-service hotel, the other four projects are all low to mid-range hotel options. The additional rooms will increase the existing supply of 5,200 rooms by 16 percent.

Because of these and other new hotels opening in the overall region, the ODU Economic Forecasting Project expects a decline of an additional 2.2 percent in hotel revenue. The data suggests that at present, investment in new hotel product—unless specifically targeted to a particular use—is not warranted.

Suitability to Study Areas

The Study Areas, though well-served by local arterials, are far enough from demand generators that most new hotel development would not consider the area a primary location. Because of the challenging demand position of the Hampton Roads as a whole, there is an over-supply of rooms. The major hotel "play" in the Norfolk area is for higher end units in Central Business District locations.

In the Study Areas, the type of hotel that would be attracted would be a lower budget option—for customers willing to travel further from their destination for a reduction in rate. It is ERA's opinion that this is not the highest or best use for the area.

Retail

Key Demand and Location Characteristics

In general, the need for new retailers and retail space is determined by an increase in new households and/or an increase in income, and the share of that income available for retail spending. Though the success of a location for retail depends on the type of retail, the basic location factors for any retail are:

- Accessibility
- Visibility
- Proximity to other retail
- Location of competition

Classification of retail happens at the store, shopping center, and cluster or district level. Individual retail stores are classified into various store types, based upon their merchandise, format and size, and their trade areas. Within each type of shopping center, individual retailers' trade areas can vary. Convenience retail and restaurants rely on an easily accessible customer base and include stores such as supermarkets, drug stores, and limited service restaurants. These stores benefit from proximity to their customers. For example, shoppers looking for groceries, except in special instances, will typically go to the closest store or the store on their route home from work. The trade area of convenience retail is often smaller than for comparative stores and restaurants which include department stores, apparel stores, hobby, book and music stores, full-service restaurants, etc. These stores need a critical mass of similar retail to be able to draw from a wider trade area. Often, many shopping centers cluster together to benefit from proximity to each others' customers and the ability to draw customers from further distances—such as a large regional mall with nearby power centers. These types of retailers benefit from economies of agglomeration by drawing additional customers for each other. As an example, someone shopping for furniture will go to an area where there are several furniture stores from which to choose.

Individual stores can locate in shopping centers, in freestanding retail buildings, and in in-line locations such as street level retail in a downtown or urban neighborhood commercial district. Districts and clusters of shopping centers and freestanding retail are also classified by their size, trade area characteristics, and mix of store types. Shopping centers are also classified according to their size

and location characteristics, most commonly using definitions established by the International Council of Shopping Centers (ICSC). The major types of shopping centers are:

Regional and Superregional Shopping Centers: Regional shopping centers contain between 400,000 and 800,000 square feet of shopping space. Superregional centers are larger, with over 800,000 square feet of space. The space in both types of centers is mostly dedicated to full-line department stores, fashion apparel stores, and other GAFO (General Merchandise, Apparel, Furniture, and Other retailers) stores. The tenants in these regional shopping centers are usually full-credit tenants and nationally-recognized names. A regional shopping center's primary trade area—or where it gets between 60 to 80 percent of its sales—typically covers 5 to 15 miles—and superregional centers can span to 25 miles or more depending on the region. Though most typically enclosed malls, recent trends have created open-air centers following this format.

Community Shopping Centers: Community shopping centers contain between 100,000-350,000 square feet of retail space, and their trade areas typically extend three to six miles. They serve a smaller population than do regional shopping centers. These can contain supermarkets and other convenience-focused retailers or be "power centers" with big and small-box retailers such as Best Buy and Home Depot. They are often found clustered near regional centers.

Neighborhood Shopping Centers: Neighborhood shopping centers are between 30,000 and 150,000 square feet in size and as their name implies, they serve the local neighborhood, up to three miles. They usually have a supermarket or drug store as their anchor store. Smaller centers can be a collection of service retail such as barber shops and dry cleaners and small restaurants or convenience stores.

Retail Clusters and Districts

Downtown retail and street level/mixed use retail in city neighborhoods can follow characteristics of the shopping centers above—serving customers ranging from being a regional attraction to serving the daily needs of nearby residents. A ***regional shopping area*** usually contains a regional shopping center, or it could contain an assortment of smaller centers or individual retailers which are able to pull from a wide area. On the other hand, ***neighborhood and convenience clusters*** have smaller shopping centers and a more limited assortment of shops, catering to nearby residents. Certain clusters of retail could also be classified as ***specialty centers***, drawing customers from a wide trade area—though perhaps not having as large a capture rate as a regional shopping center would. These areas can focus on a particular type of retail (i.e. a "restaurant row" or "arts district") or on entertainment. These areas often feature independent and local retailers, especially in the "other" category of "General Merchandise, Apparel, Furniture, and Other" (GAFO), selling books, music,

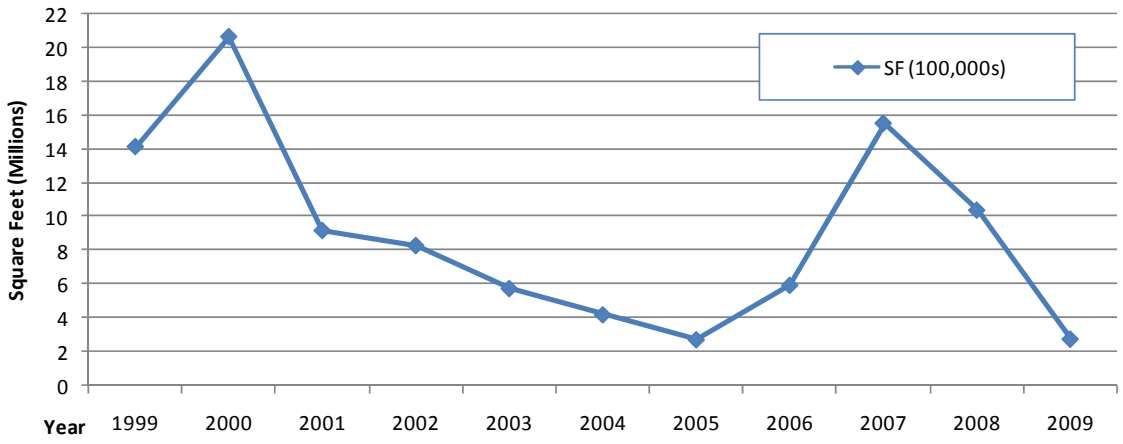
stationery, jewelry, and other miscellaneous goods. Specialty retail also includes a large percentage of restaurants.

Healthy retail markets are composed of a variety of retail types and clusters. Too many of one type of cluster is unsustainable and dilutes the profitability of individual areas. Retail clusters of different sizes work symbiotically for mutual success. Smaller neighborhood centers can benefit from the increased traffic a larger center provides; customers will use the services there when the time and hassle of going to a larger center is not feasible. Smaller centers can also fill in gaps in types of retail, to increase the possibility of the benefits of agglomeration for the larger retail areas.

Overall Norfolk Retail Market Assessment

Because retail is the primary use in the Five Points and North Study Areas, this report examines the retail existing conditions in greater detail. In the region surrounding the two project sites and defined by the Old Dominion University *2009 Hampton Roads Real Estate Market Review* ("ODU Report) as *Southside* (not including the peninsula), there are approximately 33.3 million square feet of leasable retail space. Of this total amount, 2.6 million square feet were vacant in January 2009, which represents a vacancy rate of 6.5 percent. ERA used this data because the ODU report is a widely-used and accepted source of real estate market information in Hampton Roads. However, ERA also looked at other recent market trends published by CoStar. The ODU report data was current as of January 2009 and does not include automotive uses and buildings or retail spaces under 23,000 square feet. On a whole, annual new construction in the Southside market has been subsiding since 2000. New construction in the Southside peaked in 2000 with over two million square feet of new retail space and again, but to a lesser degree, in 2007 with 1.5 million square feet of new construction. Through January, reportedly approximately 200,000 square feet of new construction was underway.

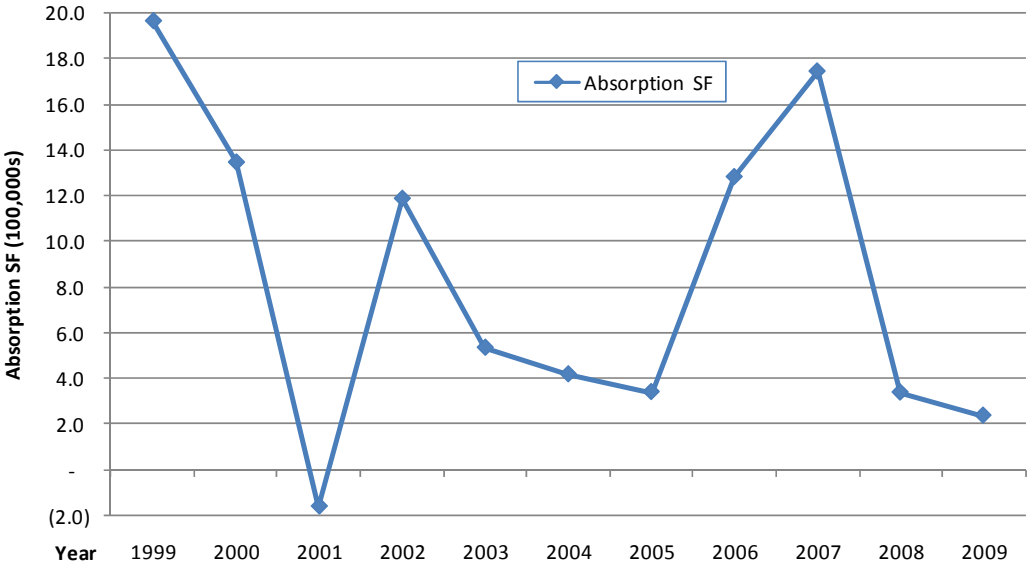
Figure 7: Annual New Construction: Hampton Roads Southside, 1999-2009



Source: 2009 Hampton Roads Real Estate Market Review; ERA | AECOM, 2009.

Over the course of ten years, absorption by square feet has varied widely from a negative amount to close to two million. The peak year for retail space absorption was 1999 and no net absorption occurred in 2001. In 2007, absorption peaked again at 1.7 million square feet, only to drop significantly to 340,000 in 2008. This may due to more macro trends in the national economy; in 2007 the national economy was strong and 2008 marked the beginning of a recession. Likely absorption rates will be low in 2009 due to the economic recession.

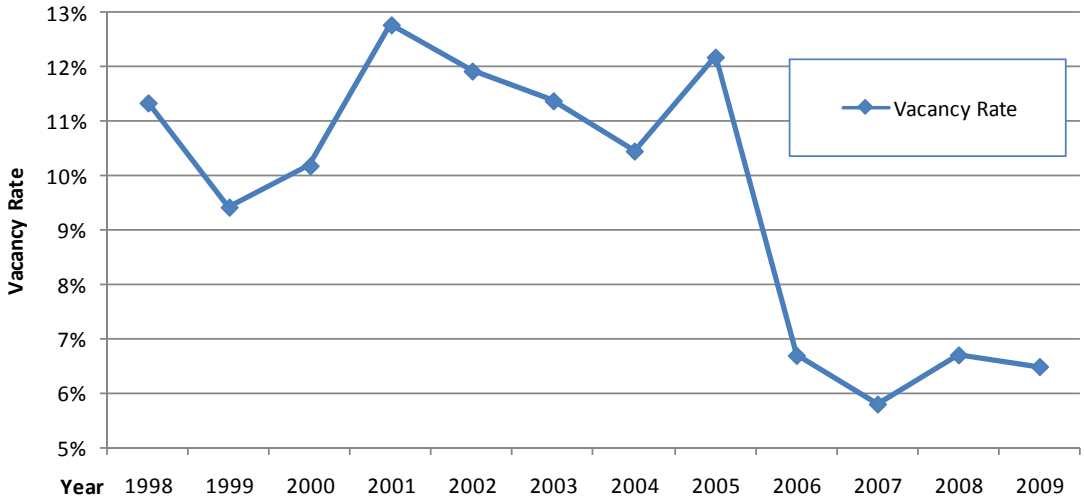
Figure 8: Annual Absorption Patterns, Hampton Roads Southside, 1999-2009



Source: 2009 Hampton Roads Real Estate Market Review; ERA | AECOM, 2009.

Over the past ten years vacancy rates have fluctuated between about four and thirteen percent, with the lowest vacancy rate occurring in 2007. It is important to consider vacancy rates as vacant space represents competition to fill space. Sometimes high vacancy can be an indicator that new construction should be carefully considered. In many cases, new construction offers a better product in a better location. In 2007, Hampton Roads Southside also experienced its second largest annual influx of new retail property since 2000. There was a precipitous drop in vacancy rates between 2005 and 2006, likely due to the national economic boom. For the most recent full year, the vacancy rate was just under seven percent.

Figure 9: Annual Vacancy Rates, Hampton Roads Southside, 1999-2009



Source: 2009 Hampton Roads Real Estate Market Review; ERA | AECOM, 2009.

The submarket in the Southside that includes the project areas, Little Creek Road/Wards Corner, has approximately two million square feet of retail and a higher vacancy rate than the region at 12 percent. As indicated by Table 14, Little Creek Road/Wards Corner has more gross leasable square feet of retail than surrounding submarket regions to the east and south. Less supply in surrounding submarket regions may explain why they also have lower vacancy rates than Little Creek Road/Wards Corner, with the exception of Ghent. Ghent is a unique collection of small format specialty retailers with storefronts.

Table 14: Project Area and Surrounding Submarkets Retail Characteristics, 2009

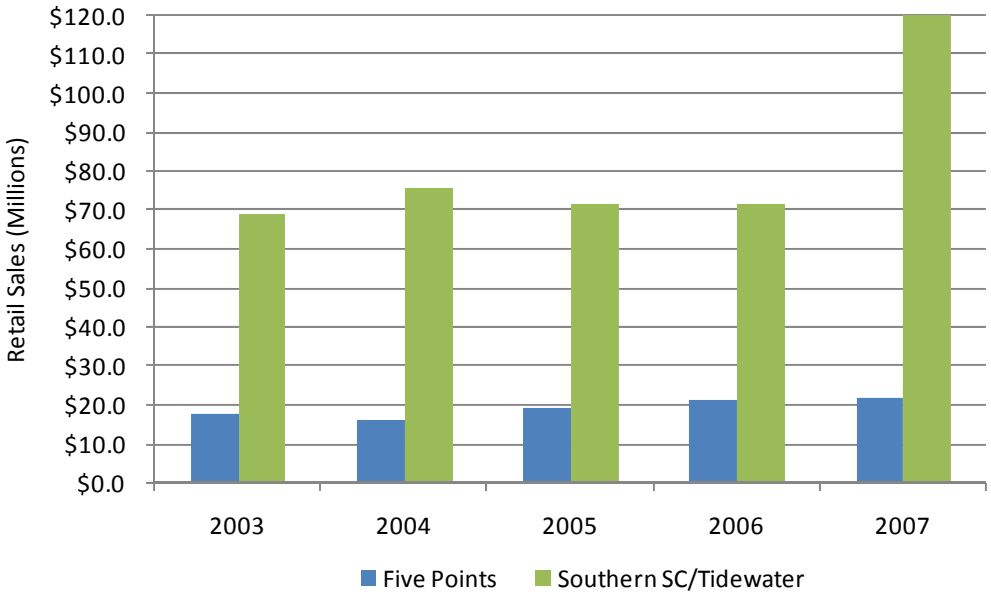
Area Name	Relation to Project Area	GLA in SF	Vacany SF	Vacancy Rate	Average Small Shop Rent
Little Creek Road/Wards Corner	Includes project areas	2,023,794	238,808	12%	$15.18
Comparative Areas					
Military Highway/Janaf	South along I-64	3,373,001	115,600	3%	$14.87
Bayfront	East along Hwy-60	213,821	10,904	5%	$18.21
Downtown	South	1,281,338	28,475	2%	$13.75
Ghent	East of Downtown	415,972	50,863	12%	$17.21

Some other submarkets in the Southside region of Hampton Roads are experiencing much higher vacancy rates. These include a retail center on Lynnhaven Road (south of Interstate 264 and east of Holland Road) with a 27 percent vacancy rate and the Campostella area (south of East Indian Road and either side of Campostella Road) with a 24 percent vacancy rate.

Retail rents per square foot, as indicated in Table 14 fall in the low end of the range of rents. Most small shop rents are between $15 and $18 per square foot. The highest average rent is $22 in Middle Portsmouth (surrounding the intersection of Portsmouth Boulevard and Highway 58). Additionally, the Hilltop/Great Neck area (intersection of First Colonial Road and Highway 58), has a very low vacancy rate of two percent and very high retail rent of $21.82. The lowest average rent is $10 in Birdneck/Oceanfront (intersection of Pacific Avenue and Highway 58/Interstate 264).

Retail sales are another key indicator of retail health and trends. The Norfolk Commissioner of Revenue produces a report on aggregated retail sales by submarket areas in Norfolk. The two project areas are included as submarket areas (The North Study Area is in the “Southern Shopping Center/Tidewater Drive” area). This retail sales data indicates that retail sales have increased annually between 2003 and 2007. Between 2006 and 2007, Five Points retail sales increased, but very minimally by approximately $300,000. However, its average annual increase between 2003 and 2007 was at the same pace as the City as a whole. By contrast, the sales increased dramatically with the addition of the Walmart Supercenter to the Southern Shopping Center/Tidewater area between 2006 and 2007. This addition makes the average annual increase 23 percent (versus approximately five percent annually in the Five Points area and the City as a whole). Figure 10 displays retail sales over time for the two project areas.

Figure 10: Five Points and Southern Shopping Center/Tidewater Retail Sales, 2003-2007



Source: Norfolk Commissioner of Revenue; ERA AEC.OM, 2009.

Suitability to Study Areas

Both the Five Points Study Area and the North Study Area are proven retail locations. Their individual characteristics (such as existing supply, accessibility, and visibility—described in more detail below) make them desirable locations for retail. The types of retail, however, differ. Five Points serves the local neighborhood, and limited pass-through traffic. It is a convenience/neighborhood center. On the other hand, the North Study Area, at the corner of Tidewater Drive and East Little Creek Road, has regional pull, particularly with the recent addition of Walmart. Because of their different trade areas and markets, they are not competitive but complementary. ERA considers retail to be the primary opportunity for new development in both Study Areas in the near term, with other complementary uses added in as the market allows in future years.

The following sections detail the retail demand methodology and the opportunity for retail by type in each of the Study Areas.

III. Retail Market Potential Methodology

For consistency ERA utilized the same methods in assessing retail market potential for both Five Points and the North Study Areas. While each district has unique strengths, challenges and market conditions, the fundamental methods of a retail market assessment are the same. Assessing retail demand provides some quantifiable evidence that the market can support additional retail space and the extent of that support. ERA evaluated the retail demand of several categories of retail, including general merchandise, apparel, furnishings, personal care, groceries, and food and beverage away from home. A detailed list of included categories can be found in the Appendix.

Given the constantly changing nature of retail formats and trends and the specific nature of factors that determine the success of individual retail businesses, retail market demand analyses for broad areas are limited by their very nature. Retail strategies for larger areas (versus for a specific site or specific retailer) combine the professional judgment of the analyst with consideration of local market conditions and the presence of factors for retail success, and use "industry average" performance measures to assess potential demand.

The first step in determining the retail market potential is determining the retail trade areas. ERA and HBHR&RERCO defined two geographic areas (for each Study Area) from which businesses could potentially attract consumer dollars. People within these primary and secondary trade areas have the potential to be *regular* and/or *frequent* customers. ERA accounts for potential, but occasional, customers beyond these trade areas, such as pass-thru traffic, by adding an *inflow* factor to the retail demand analysis.

The second step in determining the retail market potential is collecting consumer expenditure patterns for the trade areas. Estimated retail spending potential is based on household spending patterns, household income and household composition as reported in the Bureau of Labor Statistics' Consumer Expenditure Survey (with data gathered by the U.S. Census Bureau). ERA has used ESRI retail expenditure estimates, which are based on these data, with additional projections.

The next step of the retail market demand analysis is to apply a "capture" or "market penetration" rate to total retail sales achievable in the Study Area. For example, the capture rate shown below of three percent, assumes that $3 of every $100 spent by market residents could be spent at new retail stores. Market penetration rates vary because of several variables, including:

- Proximity of market to Study Area businesses
- Type of retail
- Market characteristics and typical expenditure patterns

- Competitive context
- Desirability of retailers and restaurants.

The first several variables are definitive and ERA can account for them in the analysis; however the desirability of a cluster of retail stores is less definitive and subject to the type and quality of the stores ultimately recruited. Quality does not refer to the price of merchandise, but rather to a retailer's ability to accurately buy merchandise for their market; design their retail space, display space, and windows; and properly maintain inventory levels. In order to account for such variables, ERA applied high and low market penetration rates to household expenditures, resulting in high and low supportable square feet scenarios. Another factor that impacts market penetration rates is the type of retail category. People will travel different distances for different types of services and products. For example, while people will travel a greater distance to go to a good restaurant, bypassing other lesser quality options on the way, they generally will go to the closest location in their neighborhood for convenience and personal items, such as toothpaste. For this reason, food away from home and personal care items will have different market penetration rates.

Next, ERA analyzed retail productivity rates (expressed as annual sales per square foot) to the potential "captured" consumer expenditures to arrive at a supportable square foot estimate. Sales productivity should be strong enough that retailers have enough income to ensure that businesses are properly merchandised and maintained and that landlords collect sufficient rent to properly maintain and improve properties. For retail sales productivity rates, ERA used a range of retail industry-based sales per square foot estimates based on the company's experience in commercial districts similar to each Study Area. Shopping center industry standards do not always reflect the performance in either market orientation or financial structure as locally-owned businesses in smaller/older commercial buildings. Therefore, adjustments may be made to account for these differences.

IV. Five Points Retail Analysis

ERA reviewed the retail market area surrounding the Five Points Study Area. Much of the retail opportunity lies in the concentration of buildings in a "Main Street" style on Sewells Point Road. Sewells Point road is one of the five intersecting streets in Five Points. The "Main Street" faces inward, and does not have the visibility to the traffic on Chesapeake Boulevard. However, there are other uses that face Chesapeake or use both sides for access and egress. Currently, the existing retail in the "Main Street" section includes two bars, a few discount retailers, a few storefront churches, a bank, and some vacant storefronts. HBHR&RERCO conducted a retail inventory and found approximately 94,000 square feet of retail in the Study Area, broken down by retail type as shown in Table 15.

Table 15: Estimated Retail Inventory, Five Points

Retail Category	Estimated Square Feet	Percent of Total
Convenience Store	11,050	12%
Grocery	20,000	21%
Personal Service	26,300	28%
Clothing and Household Goods	7,500	8%
Misc. Retail	9,000	10%
Food and Drink Away From Home	20,050	21%
Total	**93,900**	**100%**

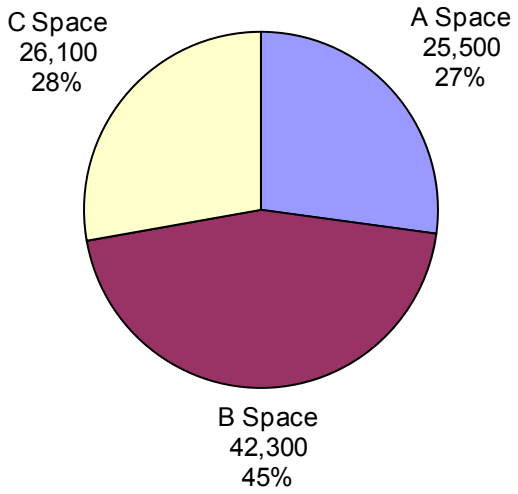
Source: HBHR&RERCO Retail Inventory; ERA|AECOM, 2009.

HBHR&RERCO evaluated the condition of retail spaces to categorize them appropriately based on the following descriptions:

- A = Well-maintained business; good location; appears viable from street
- B = Average appearance; reasonably good location; appears sustainable from street
- C = Marginal or poor appearance; weak location; appears vulnerable from street

Much of the space (45 percent of the square footage) in the Five Points Study Area is ranked as B space. Over 70 percent of the space is in average or good condition, as shown in Figure 11. C space is destined to remain vacant or underutilized; C space attracts marginal tenants.

Figure 11: Five Points Inventory Condition Assessment



Source: HBHR&RERCO retail inventory; ERA | AECOM, 2009.

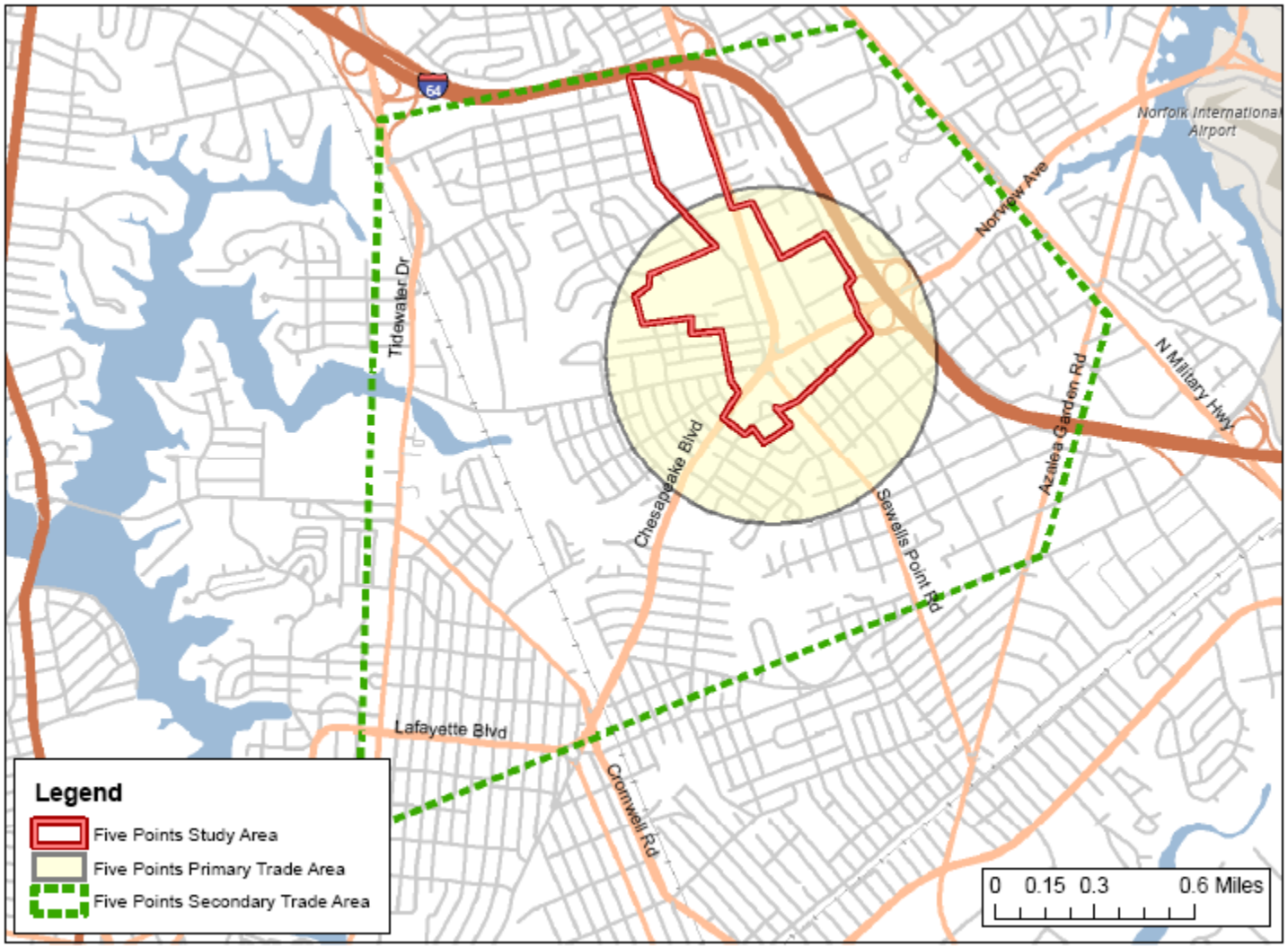
Trade Area Definition and Retail Expenditure Characteristics

As described in the methodology section, a trade area is the area from which a retailer draws customers and varies based on size and type of retailer or shopping center/district, areas of competitive supply, geographic and topographic considerations, and socioeconomic or other consumer preference characteristics. As discovered in the retail inventory and site visit, the Five Points area serves two principal markets: the local neighborhoods and pass-through traffic. The types of existing retail reflect these two groups of customers. It is likely that the area will continue to be neighborhood-serving, and the trade areas defined here will encompass those customers. Pass-through traffic will be reflected in an inflow factor applied to total trade area sales.

Five Points' primary trade area encompasses a half-mile walking radius from the core of Five Points. In interviews, several stakeholders commented that many if not most customers were from the surrounding neighborhoods and often walk or use transit. The secondary trade area is a drawn polygon that encompasses a more expansive surrounding area. It extends west to Tidewater Drive, south to the intersection of Chesapeake Boulevard and Cromwell Drive, east to the intersection of Azalea Garden Road and North Military Highway, and north to the intersection of I-64 and Chesapeake Boulevard. The secondary trade area is greatly influenced by the presence of other neighborhood/community serving districts and shopping centers, such as the retail concentration on Lafayette Boulevard to the South or at the shopping centers at North Military Highway and Norview

Avenue, as well as to more regional destinations such as the retail present near the Walmart in the North Study Area or on Military Highway.

Figure 12: Five Points Retail Trade Areas



Market Size

Table 16 below displays some of the basic demographic information for the primary and secondary trade areas for Five Points. The population within the half-mile walking radius is very small and alone will not support a significant amount of retail space. Retail in Five Points is heavily dependent on residents of the secondary trade area and pass-through traffic on the adjacent roads.

Table 16: Demographic Characteristics of Primary and Secondary Trade Areas

Metric	Primary		Secondary	
	2009	2014	2009	2014
Population	5,259	5,245	17,473	17,324
Household	2,053	2,060	6,842	6,830
Average HH Size	2.56	2.55	2.55	2.53
Median HH Income	$47,071	$49,220	$40,843	$43,738
Average HH Income	$52,099	$53,846	$47,636	$49,397
Per Capita Income	$20,458	$21,262	$18,834	$19,681
Median Age	32	33	33	33

Source: ESRI Business Analyst; ERA | AECOM, 2009.

Traffic Counts

The Virginia Department of Transportation reports the following Annual Average Daily Traffic (AADT) counts for the roads surrounding the Five Points intersection.

Table 17: Annual Average Daily Traffic, Five Points Intersection Roads, 2009

Road	Area	AADT
Chesapeake Blvd	Norview Ave to I-64	18,000
Chesapeake Blvd	Lafayette Blvd to Sewells Point Rd	18,000
Norview Ave	Sedgefield Dr to Chesapeake Blvd	6,100
Norview Ave	Chesapeake Blvd to I-64	21,000
Sewells Point Rd	Princess Anne Rd to Chesapeake Blvd	13,000
Sewells Point Rd	Chesapeake Blvd to Little Creek Rd	8,600

Source: Virginia Department of Transportation (VDOT), 2009; AECOM, 2010.

According to this data, the most trafficked streets in the Five Points study area are Chesapeake Boulevard and Norview Avenue. Both of these roads have direct access to I-64.

ERA also reviewed peak hour traffic counts in the Five Points interchange provided by the City for a more fine grained view of the traffic patterns. The City provided ERA with traffic counts conducted for the major traveling times over the course of one day in March, covering approximately 25,000 cars

daily. Half of the traffic moving through Five Points is on Chesapeake Boulevard and 31 percent of traffic is on Sewells Point.

Table 18: Peak Hour Traffic Volume by Road in Five Points

Road	Daily Count	Percent of Total
Chesapeake Boulevard	12,514	50%
Sewells Point	7,777	31%
Norview Avenue	4,793	19%
Total	**25,084**	**100%**

Note: Based on one-day data during primary travel times
Source: Intermodal Engineering

Over the course of a day and specifically in the morning, midday, and afternoon, Chesapeake Boulevard eastbound has the most cars and Sewells Point southbound has the least.

Figure 13: Peak Hour Traffic Counts by Location, Five Points

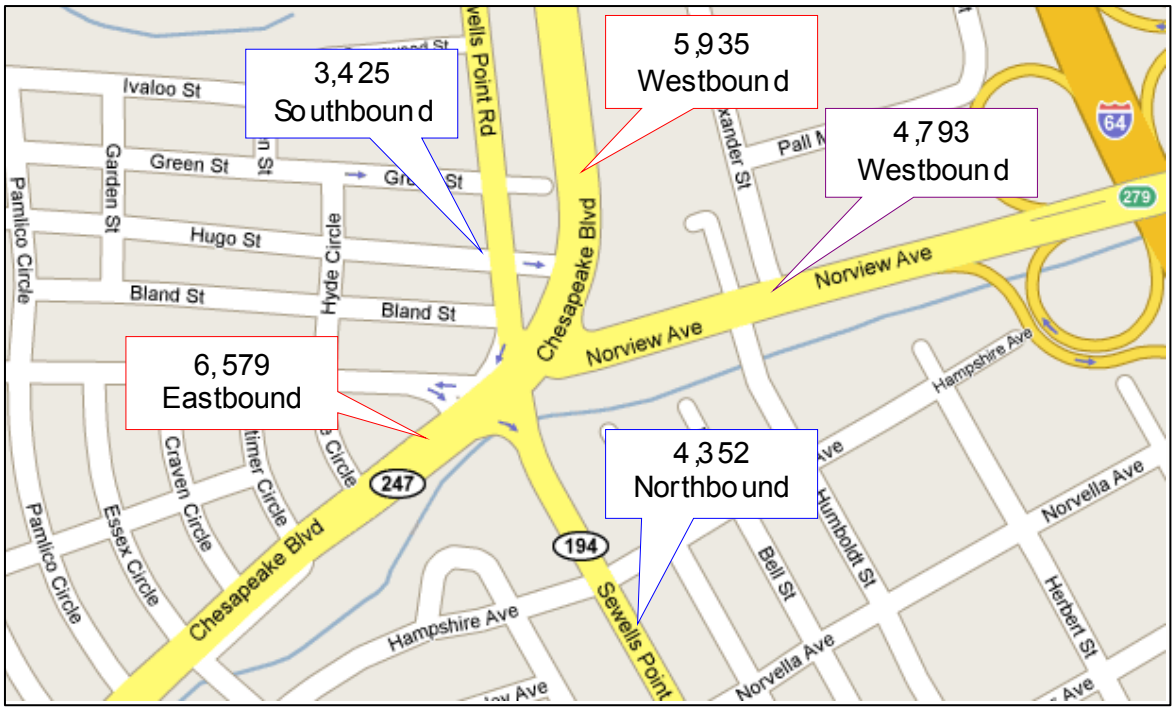


Table 19: Detailed Peak Hour Traffic Counts by Location and Time of Day, Five Points

Time of Day	Chesapeake Boulevard		Sewells Point Road		Norview Avenue
	Westbound	*Eastbound*	*Northbound*	*Southbound*	*Westbound*
6:00 AM -9:15 AM	1,793	1,876	1,298	975	1,494
11:00 AM - 1:45 PM	1,432	1,637	1,183	947	1,347
3:00 PM - 6:15 PM	2,710	3,066	1,871	1,503	1,952
Subtotal by Direction	5,935	6,579	4,352	3,425	4,793
Total Per Road	**12,514**		**7,777**		**4,793**
Total Per Day	**25,084**				

Note: Based on one-day data during primary travel times
Source: Intermodal Engineering

Understanding traffic patterns enables ERA to determine which roads are more suitable for certain uses (convenience retail, restaurants, specialty retail, or consumer services). In some cases, travelers may stop in the Five Points Study Area to purchase goods or services. There are, however, limitations with traffic count data. Traffic count data does not include traveler origin or destination and whether or not a traveler stops in Five Points. Additionally, ERA estimates that a majority of the travelers live in the primary or secondary trade area, and therefore, including their retail expenditures could lead to double-counting. To account for the influence of these customers and for other customers who live outside of the primary and secondary trade areas, ERA added an inflow factor as a positive upward adjustment to estimated retail market potential, expressed as a percent of total sales.

Expenditure Patterns

Average expenditure patterns by retail category are similar among households in the primary and secondary trade areas. The highest expenditure category in the primary and secondary trade areas is “grocery.” Both markets also spend a significant percentage of their money on food away from home. Table 20 displays the breakdown of average expenditures by household.

Table 20: Average Household Expenditures, Five Points Primary and Secondary Trade Areas, 2014

Retail Category	Five Points Primary Trade Area	Five Points Secondary Trade Area	US Average
Apparel & Apparel Services	$ 1,338	$ 1,808	$ 1,794
Entertainment & Recreation	$ 1,943	$ 2,341	$ 2,687
Personal Care	$ 836	$ 900	$ 1,153
Household Furnishings and Equipment	$ 1,489	$ 1,633	$ 2,303
Food and Drink Away From Home	$ 2,721	$ 2,910	$ 3,615
Grocery	$ 3,898	$ 4,251	$ 5,338
Total	**$ 12,225**	**$ 13,843**	**$ 16,888**

Note: Secondary Trade Area expenditures are net of primary trade area households
Source: ESRI Business Analyst; ERA | AECOM, 2009.

When applied to the total number of households in the primary and secondary trade areas, the total expenditures amount to approximately $120 million dollars. These figures indicate the amount households spend in retail related categories over the course of a year, in all locations, including stores and shopping centers outside of the Five Points Study Area.

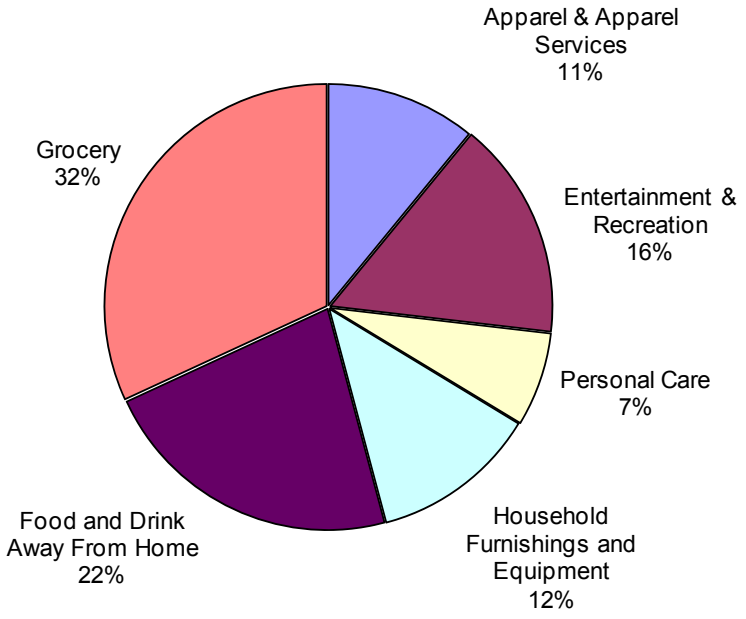
Table 21: Estimated Total Expenditures by Trade Area and Category, 2014

Retail Category	Five Points Primary Trade Area	Five Points Secondary Trade Area	Total Expenditures
Apparel & Apparel Services	$ 2,755,740	$ 12,345,703	$ 15,101,443
Entertainment & Recreation	$ 4,002,501	$ 15,988,689	$ 19,991,189
Personal Care	$ 1,721,909	$ 6,146,932	$ 7,868,841
Household Furnishings and Equipment	$ 3,067,185	$ 11,154,483	$ 14,221,668
Food and Drink Away From Home	$ 5,605,915	$ 19,875,814	$ 25,481,730
Grocery	$ 8,030,453	$ 29,037,466	$ 37,067,919
Total	**$ 25,183,704**	**$ 94,549,086**	**$ 119,732,790**

Note: Secondary Trade Area Expenditures are net of primary trade area expenditures.
Source: ESRI Business Analyst; ERA | AECOM, 2009.

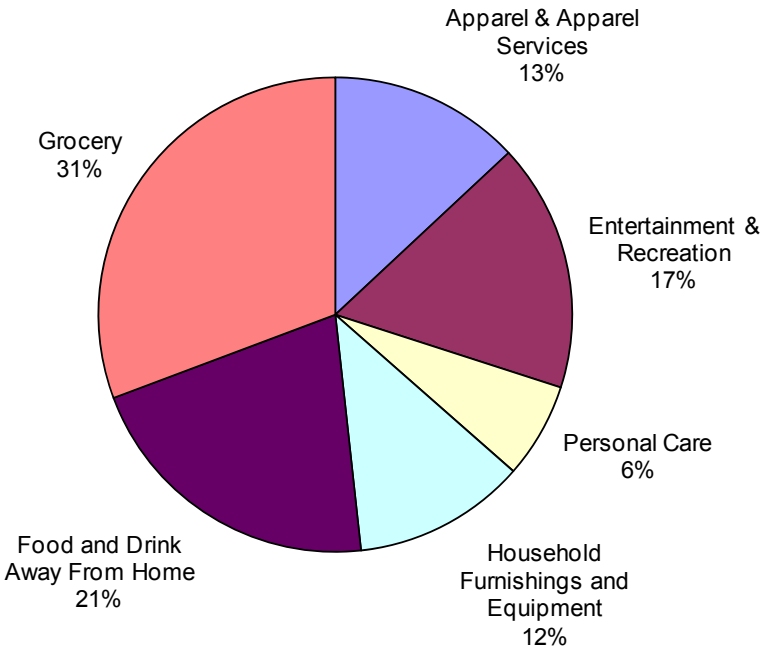
The following pie charts display the proportion of expenditures by retail category for the two trade areas.

Figure 14: Breakdown of Retail Expenditures, Five Points Primary Trade Area



Source: ESRI Business Analyst, 2009; ERA | AECOM, 2009.

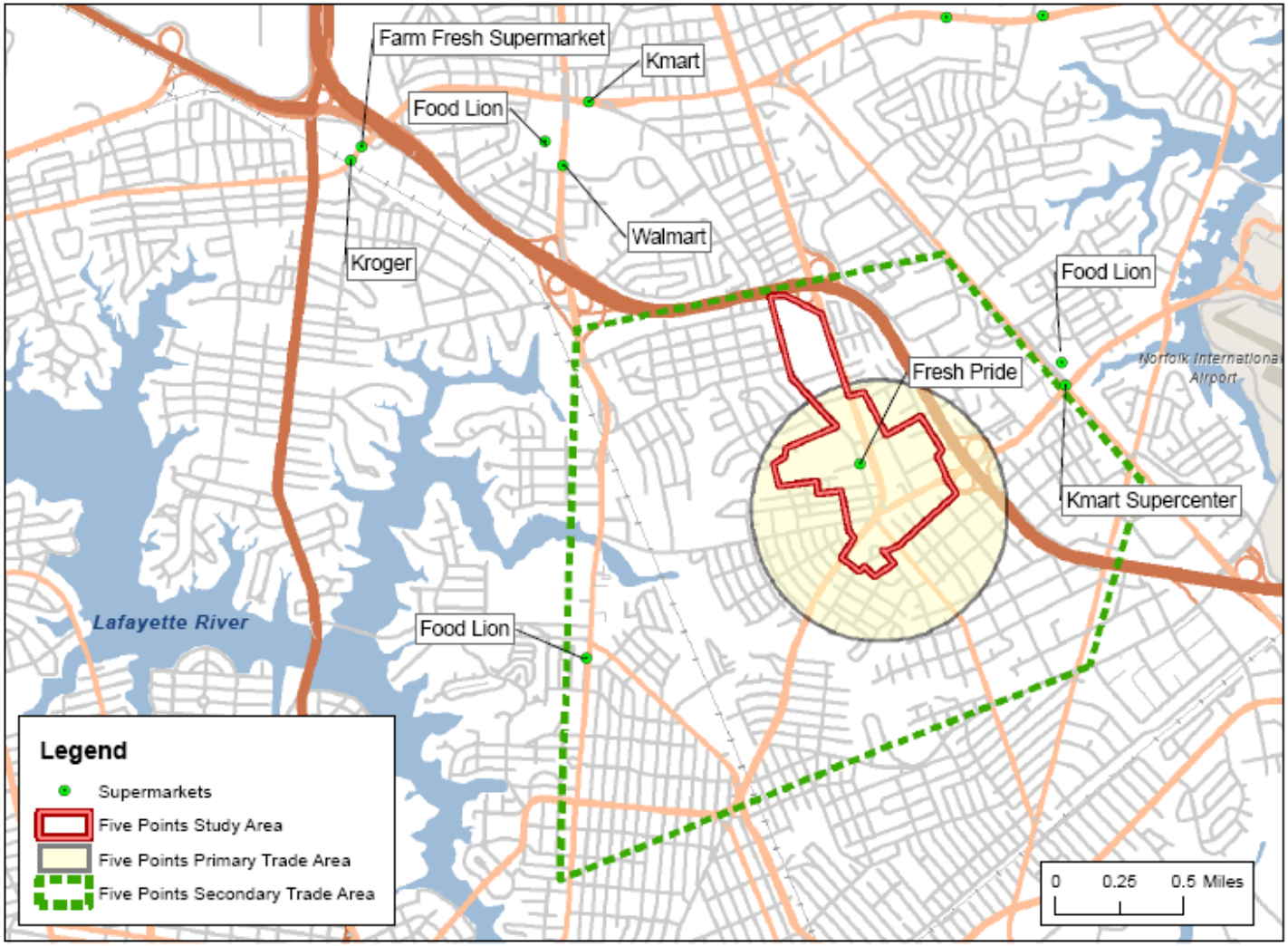
Figure 15: Breakdown of Retail Expenditures, Five Points Net Secondary Trade Area



Source: ESRI Business Analyst, 2009; ERA | AECOM, 2009.

In both the primary and secondary trade areas, food related expenditures account for over half of all retail related expenditures. While food related expenditures constitute a large portion of household expenditures, grocery expenditures most likely occur in large format supermarkets and supercenters. There are several in the immediate area including two full-line supermarkets at Wards Corner, a full-service supermarket at Southern Shopping Center, the Walmart Supercenter in the North Study Area, and a Food Lion and Super K-Mart just outside the boundaries of the South Study Area at the intersection of Norview Avenue and Military Highway. Additionally, expenditures at small convenience marts are included in the “grocery” category. There is a potential for these expenditures to occur in smaller format stores in Five Points, as they are at the existing Fresh Pride supermarket (which though smaller than traditional outlets, has a steady business from the surrounding neighborhoods) and the assorted convenience stores in the area.

Figure 16: Map of Five Points Trade Areas with Nearby Supermarkets



Market Penetration and Market Potential

As noted in the methodology section, applying a market penetration rate to total household expenditures is a critical step towards estimating realistic potential expenditures that may occur within the Study Area. Using the capture rates shown in Table 22, ERA estimated that Five Points could attract between $22 and $29 million expenditures from the trade areas and inflow customers. As shown in Table 23 below, in both scenarios, most of the market support is drawn from the secondary trade areas. This is largely due to the larger population of the trade area.

Table 22: Range of Capture Rates by Retail Category, Five Points Study Area

Retail Category	Primary	Secondary	Inflow
Apparel & Apparel Services	15% - 18%	12% - 15%	10% - 12%
Entertainment & Recreation	15% - 18%	12% - 15%	8% - 10%
Personal Care	30% - 35%	25% - 30%	10% - 15%
Household Furnishings and Equipment	10% - 15%	5% - 10%	10% - 10%
Food and Drink Away From Home	35% - 40%	25% - 30%	20% - 25%
Grocery	25% - 30%	10% - 15%	10% - 15%

Source: ESRI Business Analyst; ERA | AECOM, 2009.

Table 23: Estimated Potential Captured Expenditure, 2014

Retail Category	Low Scenario			High Scenario		
	Primary	Secondary	Inflow	Primary	Secondary	Inflow
Apparel & Apparel Services	$413,361	$1,481,484	$189,485	$496,033	$1,851,855	$281,747
Entertainment & Recreation	$600,375	$1,918,643	$201,521	$720,450	$2,398,303	$311,875
Personal Care	$516,573	$1,536,733	$205,331	$602,668	$1,844,080	$367,012
Household Furnishings and Equipment	$306,719	$557,724	$86,444	$460,078	$1,115,448	$157,553
Food and Drink Away From Home	$1,962,070	$4,968,954	$1,386,205	$2,242,366	$5,962,744	$2,051,278
Grocery	$2,007,613	$2,903,747	$491,136	$2,409,136	$4,355,620	$1,014,713
Subtotal	$5,806,711	$13,367,284	$2,560,122	$6,930,731	$17,528,051	$4,184,178
Total		**$21,734,117**			**$28,642,960**	

Source: ESRI Business Analyst; ERA | AECOM, 2009.

As mentioned in the methodology section, Five Points should strive to and plan to have retailers with sufficient productivity levels (sales per square foot) to support properly operated, designed, and inventoried stores. Based on ERA's experience in similar urban commercial districts, productivity levels in Five Points should reach the $250 to $300 sales per square foot level. Based on this productivity level, Five Points can support between 82,000 and 108,000 square feet. It is important to note that this is at the projected competitive productivity levels. Based upon existing sales data by the Commissioner of the Revenue and the estimated inventory, it is estimated that the area's retail space currently averages approximately $200 in sales per square foot. Older buildings' retail space is estimated to be renting in the $7 to $10 range. At this rent, using industry ratios that express rent as

approximately ten percent of revenues, sales productivity is likely to be much lower, at approximately $70 to $100 per square foot.

Table 24 reflects estimates of supportable square feet in various categories; however the square footage in each category is based on historic expenditure patterns projected forward. Specific figures are not absolute to each category, but rather a reflection of the demand analysis methodology which is rooted in historic expenditures by category.

Table 24: 2014 Supportable Square Feet, Five Points

Retail Category	Low Scenario	High Scenario
Apparel & Apparel Services	8,000	11,000
Entertainment & Recreation	11,000	14,000
Personal Care	9,000	11,000
Household Furnishings and Equipment	4,000	7,000
Food and Drink Away From Home	28,000	34,000
Grocery	22,000	31,000
Total	**82,000**	**108,000**

Source: ESRI Business Analyst; ERA | AECOM, 2009.

The underlying and key finding is that with an existing supply of 94,000 square feet and market support for between 82,000 and 108,000 square feet, it will be important to strategically fulfill this demand with *existing* or *renovated* space. As mentioned above, currently, the space is netting much lower sales per square foot. To achieve higher productivities and meet demand, much of the existing B and C class space will need to be renovated.

V. Tidewater Drive/East Little Creek Road Market Demand

Though the North Study Area, which lies in and around the intersection of Tidewater Drive and East Little Creek Road, shares some of the same customers as the Five Points area, its impact reaches further, due to its configuration, size, store content, and access. The retail content of the North Study Area is dramatically different from the retail content of the Five Points Study Area, as illustrated in the retail inventory prepared by HBHR&RERCO. This analysis showed approximately 609,000 square feet of retail in the Study Area, broken down by retail type as shown in Table 25.

Table 25: Retail Inventory, Tidewater Drive/East Little Creek Road

Retail Category	Square Feet	Percent of Total
Convenience Store 1/	7,500	1%
Variety Retail 2/	314,000	52%
Apparel and Accessories	39,200	6%
Household Goods/Furnishings 3/	48,000	8%
Auto Supplies	13,000	2%
Misc. Retail	68,900	11%
Personal Service	33,600	6%
Grocery	38,500	6%
Quick Service/Fast Food	17,950	3%
Food and Drink Away From Home	28,200	5%
Total	**608,850**	**100%**

1/ Two of three include gas stations

2/ Includes one Wal-Mart with a grocery store.

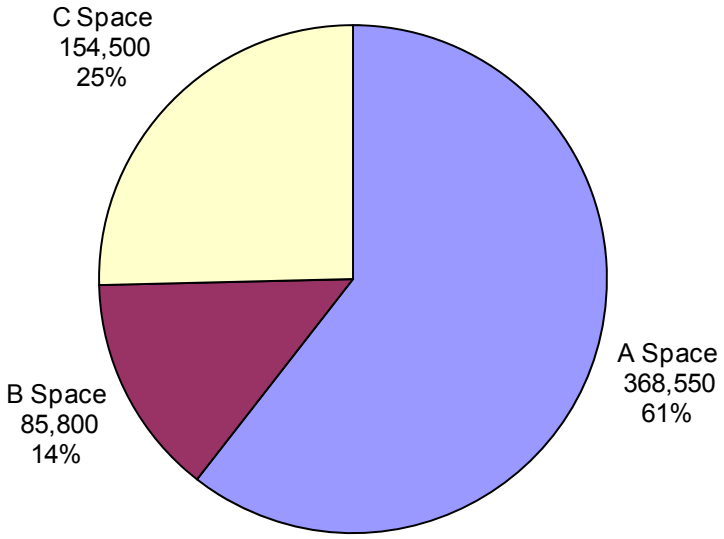
3/ Includes three stores (2,500 square feet each) of furniture rental stores

Source: HBHR&RERCO Retail Inventory; ERA|AECOM, 2009.

HBHR&RERCO categorized the retail, using the descriptions explained in the Five Points section above. The majority (61 percent) of space in the North Study Area is ranked as A space. Three-quarters of the space (A and B) are in average or good condition, as shown in Figure 17.

Retail sales data from the City Commissioner of the Revenue showed $194 million in retail sales in this area (the “Southern Shopping Center/Tidewater Drive” area) in 2007. This figure showed the impact of the Walmart on the area, having increased from $72 million the year previous. Previously, from FY 2004 to FY 2006, sales had remained stagnant or declined.

Figure 17: Tidewater Drive and East Little Creek Study Area Inventory Condition Assessment



Source: HBHR&RERCO Retail Inventory; ERA | AECOM, 2009.

Though a majority of space in the North Study Area is A space, C space deserves attention because it is unable to compete for strong, viable tenants.

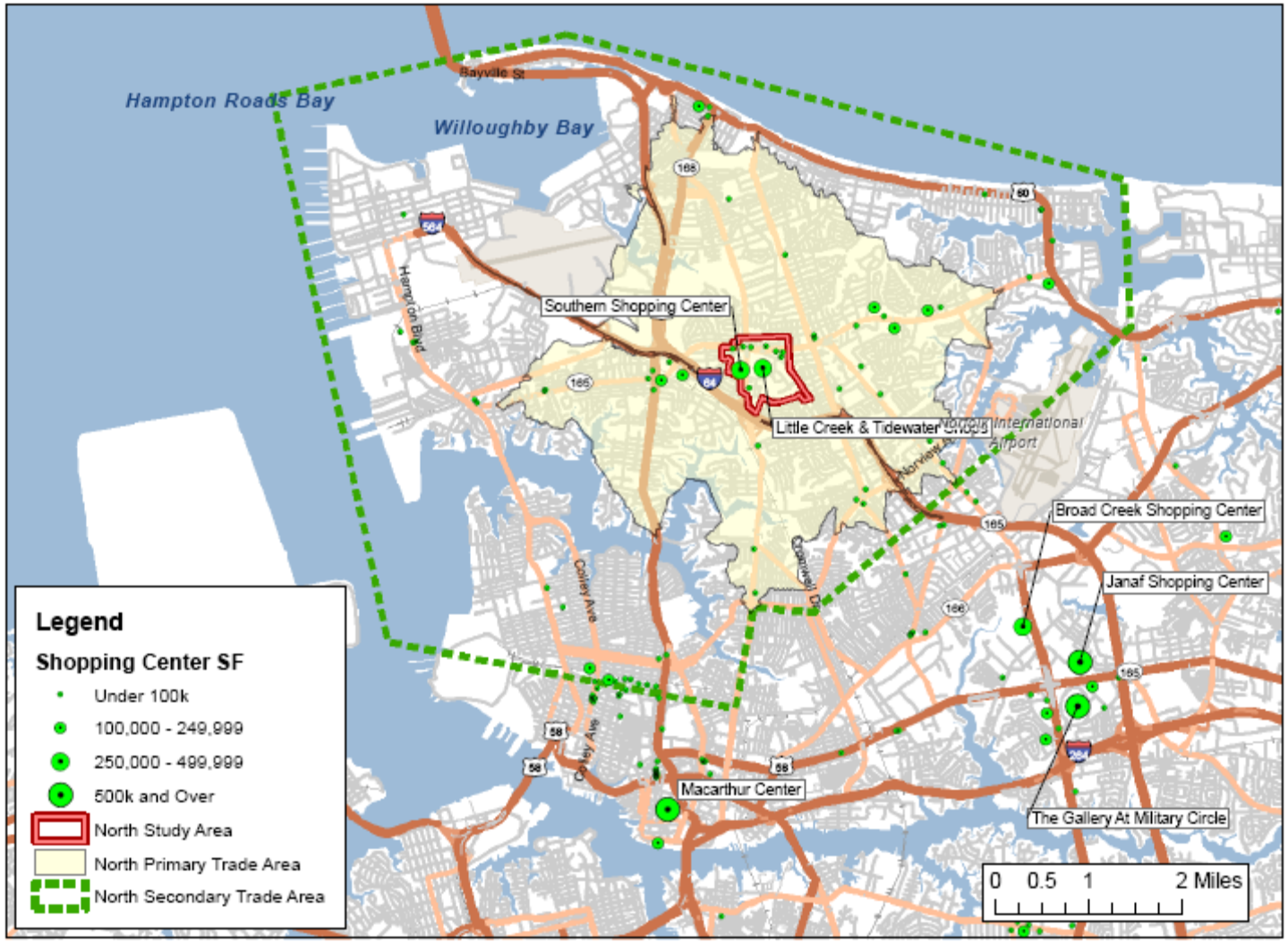
Trade Area Definition and Retail Expenditure Characteristics

The area around the North Study Area is already recognized as a regional retail destination. The East Little Creek corridor has been a historic location for retail, with Wards Corner in the west and the Southern Shopping Center in the Study Area built in the 1950s as early forerunners of today's shopping centers. Though Southern Shopping Center shows its age despite more recent renovations in the 1990s, its location has sustained it as other shopping centers its age have had rapid declines and vacancies. The location of the new Walmart across Tidewater Drive is a testament to the area's convenience and ability to draw customers.

The primary trade area for the North Study Area is a five-minute drive, representing the customers from which most of the area's sales will be derived. The furthest extent of this area reaches to Hampton Boulevard in the west, to Lafayette Boulevard in the south, to approximately Nancy Drive on East Little Creek Road in the east, and to East Ocean View Avenue in the North. The secondary trade area is a drawn polygon that encompasses the remainder of the peninsula to the west, extends south to the Ghent District, and then cuts up to more or less follow Chesapeake Boulevard/Norview Avenue. It reaches in the east to beyond Shore Drive. The abbreviation of this area in the southeast is due to the influence of the competitive JANAF/Military Circle retail cluster. Note that the North

Study Area's trade area completely overlaps the Five Points Study Area. However, the Study Areas serve two different markets in the sense of their role in the community.

Figure 18: Norfolk Five Points North Study Area Primary and Secondary Trade Areas with Competitive Supply



Market Size

Table 26 below displays some of the basic demographic information for the primary and secondary trade areas for the North Study Area. Though more significant in size than the trade areas for the Five Points Study Area, the retail in the North Study Area still depends upon pass through traffic and inflow from other areas.

Table 26: Demographic Characteristics of Primary and Secondary Trade Areas

Metric	Primary		Secondary	
	2009	2014	2009	2014
Population	70,533	70,090	90,189	89,866
Household	29,526	29,538	28,450	28,415
Average HH Size	2.38	2.36	2.43	2.42
Median HH Income	$43,536	$46,387	$43,130	$46,074
Average HH Income	$51,803	$53,581	$55,396	$57,831
Per Capita Income	$21,639	$22,535	$21,617	$22,984
Median Age	33	34	26	26

Source: ESRI Business Analyst; ERA | AECOM, 2009.

Traffic Counts

ERA also reviewed traffic counts and patterns at the Little Creek Road and Tidewater Drive intersections. VDOT Annual Average Daily Traffic for the roads around the Little Creek Road and Tidewater Drive intersection show the intersection's prominence. Both Little Creek and Tidewater carry upwards of 20,000 cars daily.

Table 27: Annual Average Daily Traffic for Little Creek Road and Tidewater Drive, 2009

Road	Area	AADT
Tidewater Dr	I-64 to Little Creek Rd	28,000
Tidewater Dr	Little Creek Rd to Bay View Blvd	18,000
Little Creek Rd	Tidewater & Sewells Point Rd to I-64	23,000
Little Creek Rd	Chesapeake Blvd to Tidewater & Sewells Point Rd	26,000
Sewells Point Rd	Chesapeake Blvd to Little Creek Rd	8,600

Source: Virginia Department of Transportation (VDOT), 2009; AECOM, 2010.

ERA also examined traffic counts from the City for peak hours. These were conducted for the major traveling times over the course of one day in December. During these hours, the survey tallied approximately 24,000 cars daily. By far, a majority of the traffic (83 percent) is traveling along Little Creek Road. On Little Creek Road, 28 percent more traffic travels west than travels east.

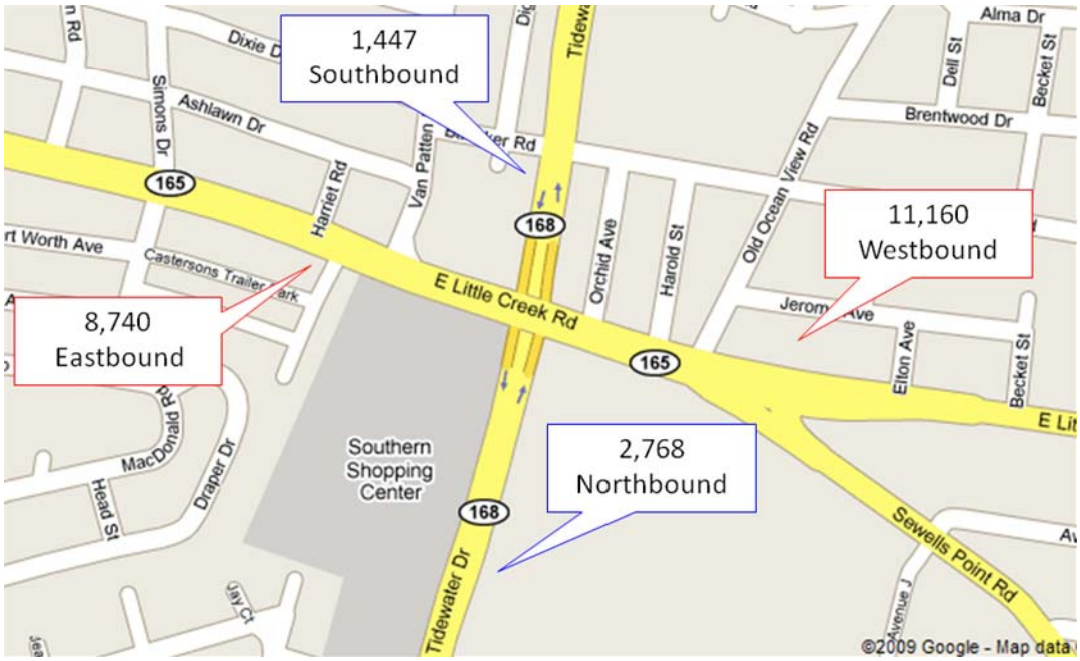
Table 28: Traffic Volume by Road at Little Creek Road and Tidewater Drive Intersection

Road	Daily Count	Percent of Total
Little Creek Road	19,900	83%
Tidewater Drive	4,215	17%
Total	**24,115**	**100%**

Note: Based on one-day data during primary travel times
Source: Intermodal Engineering

The map below visually conveys the roads and traffic patterns. It should also be noted that funds are appropriated to improve the intersection by reconfiguring all roads at grade level by 2012 or 2013. The improvements will increase visibility and access rendering corner parcels more valuable.

Figure 19: Traffic Counts by Location, Little Creek Road and Tidewater Drive Intersection



The table below outlines specific traffic pattern details by time and location. The afternoon hours between 3:00 and 6:15 experience the heaviest travel in all directions and on all roads. This would be a prime time to capture food and beverage away or at home expenditures.

Table 29: Detailed Traffic Counts by Location and Time of Day, North Study Area

Time of Day	Little Creek Road		Tidewater Drive	
	Westbound	*Eastbound*	*Northbound*	*Southbound*
5:30 AM -8:45 AM	3,051	1,614	464	410
11:00 AM - 1:45 PM	3,271	2,828	798	406
3:00 PM - 6:15 PM	4,838	4,298	1,506	631
Subtotal by Direction	11,160	8,740	2,768	1,447
Total Per Road	**19,900**		**4,215**	
Total Per Day	**24,115**			

Note: Based on one-day data during primary travel times
Source: Intermodal Engineering

Understanding traffic patterns is valuable information; there are, however, limitations with traffic count data. Traffic count data does not include traveler origin or destination and whether or not a traveler stops at any of the retailers at this particular intersection. Additionally, ERA estimates that a majority of the travelers also live in the primary or secondary trade area, which would lead to double-counting. The inflow factor in the demand analysis is a positive adjustment to the estimated retail market potential that accounts for expenditures made in the North Study Area by customers living outside the primary and secondary trade areas. ERA anticipates that the most immediate and effective way to capture expenditures from traffic is through the realignment and reconfiguration of the intersection. If additional modifications to road alignment or land acquisition were to occur, Little Creek Road and Sewells Point Road would be ideal candidate locations, considering a majority of this area's traffic travels along Little Creek Road.

Expenditure Patterns

Expenditure patterns in the primary and secondary trade areas are relatively similar in their breakdown of expenditure by category. The highest expenditure category in the primary and secondary trade areas is "grocery." Both markets also spend a significant percentage of their money on food away from home. Table 30 displays the breakdown of average expenditures by household.

Table 30: Average Household Expenditures, North Study Area Primary and Secondary Trade Areas, 2014

Retail Category	Tidewater/E. Little Creek Primary Trade Area	Tidewater/E. Little Creek Secondary Trade Area	US Average
Apparel & Apparel Services	$ 1,331	$ 1,808	$ 1,794
Entertainment & Recreation	$ 1,916	$ 2,341	$ 2,687
Personal Care	$ 833	$ 900	$ 1,153
Household Furnishings and Equipment	$ 1,483	$ 1,633	$ 2,303
Food and Drink Away From Home	$ 2,699	$ 2,910	$ 3,615
Grocery	$ 3,867	$ 4,249	$ 5,338
Subtotal	**$ 12,129**	**$ 13,841**	**$ 16,888**

Note: Secondary Trade Area expenditures are net of primary trade area households
Source: ESRI Business Analyst; ERA | AECOM, 2009.

When applied to the total number of households in the primary and secondary trade areas, the total expenditures amount to approximately $752 million dollars. These figures indicate the amount households spend in retail related categories over the course of a year, in all locations, including stores outside of the North Study Area.

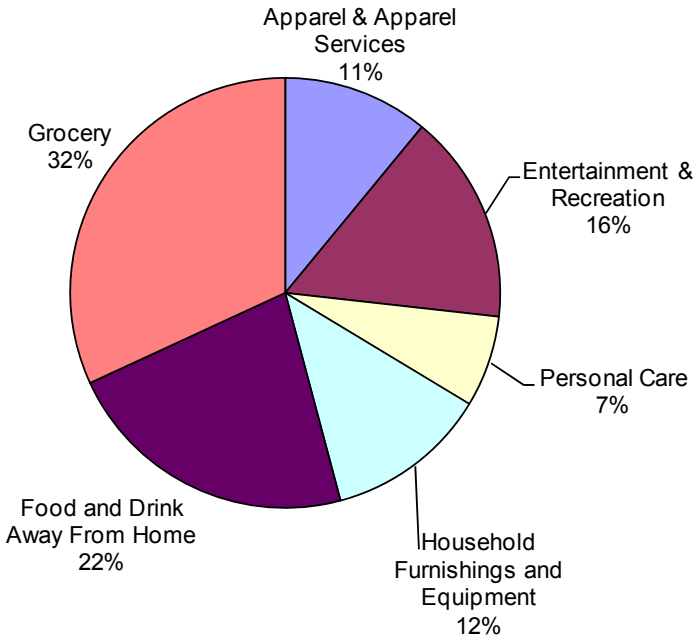
Table 31: Estimated Total Expenditures by Trade Area and Category, North Study Area, 2014

Retail Category	North Primary	North Secondary	Total Expenditures
Apparel & Apparel Services	$ 39,301,119	$ 51,362,102	$ 90,663,221
Entertainment & Recreation	$ 56,606,746	$ 66,518,094	$ 123,124,840
Personal Care	$ 24,619,670	$ 25,573,216	$ 50,192,886
Household Furnishings and Equipment	$ 43,793,469	$ 46,406,241	$ 90,199,711
Food and Drink Away From Home	$ 79,718,098	$ 82,689,789	$ 162,407,887
Grocery	$ 114,229,469	$ 120,734,309	$ 234,963,778
Total	**$ 358,268,571**	**$ 393,283,751**	**$ 751,552,323**

Note: Secondary Trade Area Expenditures are net of primary trade area expenditures.
Source: ESRI Business Analyst; ERA | AECOM, 2009.

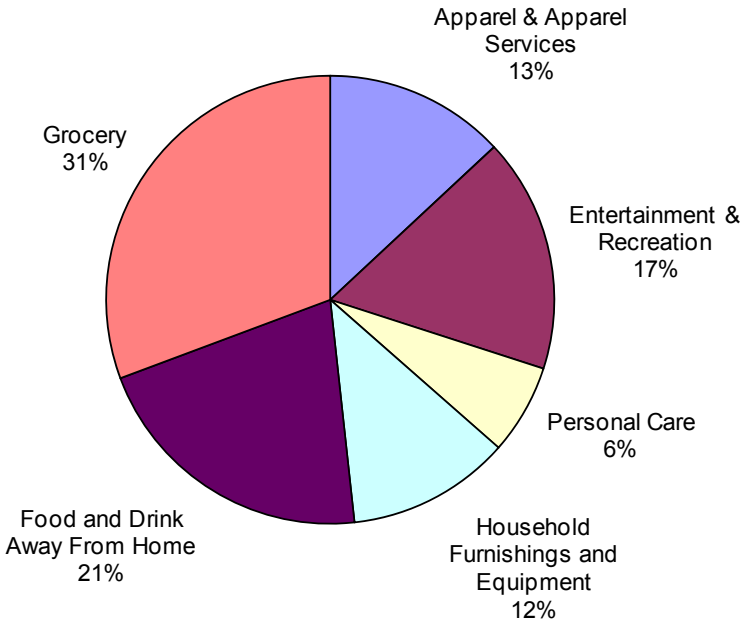
The following pie charts display the proportion of expenditures by retail category for the two trade areas.

Figure 20: Breakdown of Retail Expenditures, North Study Area Primary Trade Area



Source: ESRI Business Analyst, 2009; ERA | AECOM, 2009.

Figure 21: Breakdown of Retail Expenditures, North Study Area Secondary Trade Area



Source: ESRI Business Analyst, 2009; ERA | AECOM, 2009.

Though households in the secondary trade area spend more on retail categories overall than those in the primary trade area, they distribute their spending similarly, with approximately a third of all expenditures on groceries. The primary trade area spends a slightly greater share than the net secondary trade area on food away from home (22 percent versus 21 percent), personal care (seven percent versus six percent) and spends less on apparel (11 percent versus 13 percent) and entertainment (16 percent versus 17 percent). As in the trade areas for the Five Points Study Area, food-related expenditures account for over half of all retail expenditures. Neither distribution varies greatly from the average U.S. expenditure profile.

Market Penetration and Market Potential

As noted in the methodology section, applying a market penetration rate to total household expenditures is a critical step towards estimating realistic potential expenditures in the Study Area. The capture rates used for the North Study Area are shown in Table 32. Based on these rates, ERA estimated that the North Study Area could attract between $156 and $205 million expenditures from the trade areas and inflow customers.

Table 32: Range of Capture Rates by Retail Category, North Study Area

Retail Category	Primary	Secondary	Inflow
Apparel & Apparel Services	18% - 22%	12% - 15%	15% - 20%
Entertainment & Recreation	20% - 25%	15% - 20%	15% - 20%
Personal Care	30% - 35%	25% - 30%	15% - 20%
Household Furn. & Equipment	20% - 25%	18% - 20%	15% - 20%
Food & Drink Away From Home	10% - 15%	5% - 10%	15% - 20%
Grocery	30% - 35%	20% - 25%	15% - 20%

Source: ESRI Business Analyst; ERA | AECOM, 2009.

Table 33: North Study Area Estimated Potential Captured Expenditure, 2014

	Low Scenario			High Scenario		
Retail Category	Primary	Secondary	Inflow	Primary	Secondary	Inflow
Apparel & Apparel Services	$7,074,201	$6,163,452	$1,985,648	$8,646,246	$7,704,315	$3,270,112
Entertainment & Recreation	$11,321,349	$9,977,714	$3,194,859	$14,151,686	$13,303,619	$5,491,061
Personal Care	$7,385,901	$6,393,304	$2,066,881	$8,616,884	$7,671,965	$3,257,770
Household Furn. & Equipment	$8,758,694	$8,353,123	$2,566,773	$10,948,367	$9,281,248	$4,045,923
Food & Drink Away From Home	$7,971,810	$4,134,489	$1,815,945	$11,957,715	$8,268,979	$4,045,339
Grocery	$34,268,841	$24,146,862	$8,762,355	$39,980,314	$30,183,577	$14,032,778
Subtotal	**$76,780,796**	**$59,168,945**	**$20,392,461**	**$94,301,213**	**$76,413,703**	**$34,142,983**
Total	**$156,342,202**			**$204,857,900**		

Source: ESRI Business Analyst; ERA | AECOM, 2009.

The North Study Area should attract retailers with sufficient productivity levels (sales per square foot) to support properly operated, designed, and inventoried stores. Productivity levels should reach $250 to $300 per square foot on average. Using this productivity level, the area can support between 571,000 and 747,000 square feet.

Table 34 reflects estimates of supportable square feet in various categories; however the square footage in each category is based on historic expenditure patterns projected into the future. Any changes in household expenditure patterns would cause the amounts of supportable square footage to increase or decrease.

Table 34: Supportable Square Feet, Tidewater Drive and East Little Creek Road, 2014

Retail Category	Low Scenario	High Scenario
Apparel & Apparel Services	61,000	78,000
Entertainment & Recreation	98,000	132,000
Personal Care	63,000	78,000
Household Furn. & Equipment	79,000	97,000
Food & Drink Away From Home	46,000	81,000
Grocery	224,000	281,000
Total	**571,000**	**747,000**

Source: ESRI Business Analyst; ERA | AECOM, 2009.

As mentioned above, the retail inventory suggested an approximate square footage of just over 600,000 square feet with most of that space in average to good condition. This leaves a net demand of approximately 140,000 square feet in the high range, in the next five years. With additional replacement of "C" rated space, there is demand for up to an additional 293,000 square feet.

It should be noted that in 2007, the reported retail sales in the area (according to the Commissioner of Revenue report) were $194 million. The low end of ERA's projected captured spending is below this. At the high end, there is a surplus of approximately $11 million in excess sales, corresponding to between 36,000 and 43,000 square feet. However, it is possible that some of the retail expenditures in the Commissioner's report are not in retail categories examined in ERA's analysis. It is also likely that the Walmart is driving up the sales for the area, for a store-level sales productivity number that is above that of the average number used by ERA. For example, examining the gap between the years 2006 and 2007 suggests that the new Walmart added $122 million in sales to the Southern Shopping Center/Tidewater Drive area (according to the Commissioner of Revenue Report). Assuming most is attributable to Walmart, at a store size of 204,000 square feet, this represents a store productivity of $600 per square foot. Of course, other stores probably increased their productivities because of renovated space or because of the increased traffic brought by Walmart. However, even if only 80 percent was attributable to Walmart, the productivity ($480) would still be above ERA's high productivity number ($300). Given these considerations, **ERA recommends a targeted demand of between 36,000 and 150,000 new square feet of retail space in the Study Area by 2014, with additional potential at that time.**

This demand potential will enable a range of possibilities for the area to build upon the momentum generated by the construction of the Walmart Supercenter and the City's investment in the reconfiguration of the Tidewater Drive/East Little Creek intersection. These potential opportunities will be described in greater detail in the following sections.

VI. Retail Strategy and Implementation Considerations

Five Points

Merchandise Mix Recommendations

The merchandise mix is the selection of commercial uses that will determine the identity of an area and whether it is successful. The tenant and merchandise mix should appropriately cater to potential customer markets. There are two key components of the merchandise mix 1) the type of retail and 2) the location and configuration of the retail.

Retail Types

Based on the physical nature (road configuration, built environment), customer market characteristics, size of the area, and the level of market support, **ERA recommends that the Five Points merchandise mix primarily focus on neighborhood-serving retail, including consumer services and food related uses.**

Consumer Services and Neighborhood Retail

Consumer services and neighborhood retail have the ability to attract people who have the intent to shop there (such as residents) as well as more "impulse" customers (such as through-traffic). Given the high traffic counts, consumer services located in Five Points are likely a convenient location for many potential customers. Additionally, consumer services cover a broad range of store types and sizes.

Consumer service categories that are appropriate for Five Points include:

- Hair and nail salon
- Barber
- Dry cleaner
- Tailor/seamstress
- Repair/furnishing
- Financial services
- Shipping/print services

Neighborhood retail categories that are appropriate for Five Points include:

- Drugstore
- Convenient store
- Gas station
- Small home goods (often accounted for in modern drugstores or variety/dollar stores)
- Stationery/greeting cards (often accounted for in modern drugstores or variety/dollar stores)
- Florist
- Hardware (small format and sometimes accounted for in modern drugstore/pharmacy)

Because these categories are well-suited for the Five Points Study Area, some of them already exist there.

Food and Beverage

Food and beverage uses can also cater to both the surrounding residential community and pass-through traffic and can also generate "destination" trips and include a range of types of operations. Categories that are appropriate for Five Points include:

- Quick service
- Deli/Café
- Ice Cream shop
- Coffee shop
- Casual (with table service)

A cluster of food options can more easily attract new and repeat customers than retail. Generally potential customers will travel farther for food than for retail, unless going to a specific retail destination, such as a regional mall (for example Macarthur Center in Downtown Norfolk). **Given the size and scale of Five Points and the limiting market characteristics (limited disposable income), Five Points should strongly consider food uses as a significant part of the area's merchandise mix.**

Location and Configuration

The success of a commercial district is greatly impacted by the location and configuration of the retail. For example, a well merchandised and excellently maintained retailer may perform poorly if located on a five-lane highway amidst gas stations. The presence and quality of neighboring uses is very important. Several points below outline important location and configuration aspects:

- Critical mass – Retail cannot be located everywhere and in every building in an area; the market demand is not that deep. Therefore, clustering and creating a critical mass of retail is crucial. In a small area such as Five Points, this is not as big of a challenge as in large urban commercial districts. Contiguous retail and retail on both sides of the street, however, is always more successful than dispersed retail or retail only on one side of the street. Concentrating retailers into user-friendly clusters enhances their performance.
- Pedestrian vs. Auto orientation – The Five Points Study Area includes streets that are primarily auto-oriented, Chesapeake Boulevard and Norview Avenue, and a street that has more of a pedestrian orientation, Sewells Point. **One of the significant assets of the Five Points Study Area is its auto access via Chesapeake Boulevard and Norview Avenue. On the other hand, a street that can easily and comfortably accommodate pedestrian customers and street parking, such as Sewells Point, is conducive to retail. The Five Points Study Area should take advantage of the distinct qualities of these streets in close proximity to one another. In both cases, retail functions best on streets with traffic traveling in both directions.**

Implementation and Market Strategy

Five Points has dual retail identities with separate dynamics; one as a neighborhood serving retail cluster and a second as a retail center on a major thoroughfare. Finding an appropriate balance can be challenging. **ERA recommends concentrating restaurants and small-scale specialty retail, such as household furnishings and equipment, and personal care service on Sewells Point. Convenience uses, such as 7-Eleven, drugstore/pharmacies, and gas stations are optimally located on Chesapeake Boulevard or Norview Avenue.** This distinction is supported by traffic volume and physical design of either road. Sewells Point Road (between Bland and Green Streets) is more conducive to a "Main Street" retail experience with restaurants and retail shops because the pedestrian experience is more comfortable with a smaller street width and less traffic volume. ERA acknowledges that these recommendations follow the current and natural development patterns.

A dramatic redevelopment of the Five Points Study Area, particularly along Sewells Point Road, would require major reconfiguration of the street network or encroachment of the commercial activity into the stable residential neighborhood. One of the challenges, in addition to the configuration of parcels, is provision of off-street parking. New construction would require additional land for off-street parking, unless these restrictions could be waived. HBHR&RERCO researched the current regulations, which require four spaces per 1,000 square feet of retail or office, one space for every four restaurant seats, and 1.5 spaces for every residential dwelling unit. While the Five Points Pedestrian Corridor Overlay District waives the parking requirement for some uses[1] under 2,000 square feet on a separate zoning lot, it is likely that most newly developed space would be above this threshold and therefore would have to meet the aforementioned parking requirements. Because structured parking could not be supported with the achievable rents in the area, any new construction of these uses would require a more dramatic consumption of land than the current framework allows.

Maximize Existing Retail Space

Those involved with management and the economic development of Five Points should work with property owners and tenants to maximize "Main Street" retail space with retail uses on Sewells Point Road with retail space concentrated between Bland and Green Streets and other uses extending beyond that location. The first step involves actively recruiting retailers to fill vacant spaces. Retail

[1] Per the Norfolk Department of Long Range Planning: office and related uses; medical and veterinary offices; small retail and service spaces; art galleries; dance, art, or music studios; health/fitness facilities; antique stores; decorating services; furniture stores; or small museums under 2,000 square feet on a separate zoning lot are exempted from the parking requirements.

functions best when contiguous with other retail. The following bullets summarize actions that may facilitate this process.

1. Identify retail opportunity sites that are currently vacant or underutilized as offices or non-retail uses.
2. Establish relationship with owners of retail opportunity sites.
3. Convey value of site as retail location.
4. Work with tenant and property owner to identify and recruit suitable alternative site for office use, if necessary.

Maximize Property Value

Neither retail space nor property value will be maximized if buildings are not well-maintained or are deteriorating. Building condition is the responsibility of both the property owner and the tenant. Appropriate reinvestment in building conditions will ensure that the property owner continues to realize the full potential value of the property and retailers maximize their potential sales. Five Points will benefit, as a whole, if all properties are maintained. In cases where a desirable retailer is already in place but building conditions are poor, steps three and four above may deal with maintenance as opposed to tenanting.

Additionally, property owners should begin to consider total building renovation and the use of their second stories. **ERA does not recommend second level retail, as it generally does not work with street-oriented "Main Street" retail. However, ERA recommends building owners consider renovating upper floors for market-rate housing and/or office space.**

Infill Development

At some point, tenant demand and retail economics will justify building new retail space in Five Points. **ERA recommends that new retail space be built as infill development. This means new structures should be built close to and/or adjacent to existing buildings and businesses, as opposed to developing isolated retail centers.** Several other valuable considerations include:

- Designing infill to fit into the scale and simple design of existing buildings
- Designing storefronts to be differentiated from one another
- Avoiding false historic elements or themes
- Building structures to the street, and incorporating parking behind the building
- Building appropriately small, differentiated structures, not overbuilt monolithic structures
- Creatively re-using buildings

Reinvestment and Rents

In order to revitalize a commercial district, it is important to understand the close relationship of retail sales to supportable rents. Property owners must be able to receive a reasonable return on investment in the form of rent to facilitate reinvestment in their buildings. Simultaneously, retailers have to be able to generate sufficient sales to afford rents in a range of eight to ten percent of gross sales (perhaps somewhat less in lower-performing areas, but still enough to justify the landlord's investment).

Increasing Rents in Commercial Districts

As sales increase, rents increase. Increasing rents are a sign of good sales productivity. The value for increasing rents in commercial districts include:

- Property owners who receive marginal rents put most of the income towards fixed expenses including property taxes and insurance; little will go toward maintenance. Poorly maintained buildings deteriorate faster and convey a negative impression of the district and adversely affect nearby property values.
- Low rents do not inspire reinvestment, renovation, or building expansion.
- Lenders need to be confident that sufficient revenues can be generated to cover mortgage payments. Typically, this means property owners need around $2.30 per square foot in additional gross rents for every $10 of financing desired. Therefore, if a building owner needs to invest $25 per square foot to get the property in good condition, he or she will need to ask another $5.75 a square foot in rent.

It is often difficult to increase rents in smaller, commercial districts as the retailers will not/cannot pay more. The best strategy to increase rents *over time* is to focus intervention strategies on increasing retail sales and lowering the cost of doing business for the retail operators.

There is a growing trend of retail landlords and tenants who are electing the option of a lower base rent with slightly higher percentage rent terms. This is not the majority of retail leases and will not apply to the majority of the retail leasing situations that currently exist but it is an interesting option for landlords and for retailers in many situations, including the circumstances in Five Points where the retail market is early in its redevelopment. **Five Points landlords and tenants may want to explore base-plus-percentage rent structures as a way to incentivize additional retail uses over time.** Retailers benefit by having lower risk (lower rents) during the initial year or two after opening, and landlords can benefit once sales become stronger, effectively sharing in their tenants' success.

Retail Recruitment

Five Points stakeholders must cultivate local and regional retailers from other areas in the region and nearby states. Placing a for-lease sign in a vacant window or merely listing the property with a broker

will not generate many or any quality prospective tenants. This is true in cities and towns of all sizes, but especially smaller and less-known communities. Building the right merchandise mix requires actively searching for and recruiting retailers. **ERA recommends that stakeholders and the City identify a position/person who can devote time, which may be part-time, to recruiting and securing the best possible retailers for Five Points.** Typically, this approach is not financially feasible for a commission-based broker or recruiter because selective recruitment of the most appropriate retailers for the market takes time. A recruiter will do this by visiting similar markets, outside and within Norfolk to identify and assess, first-hand, ideal retailers and talk to ideal retailers about the potential at Five Points market, including the fact that there is a vision and direction for the retail there. Retail recruitment is a time-consuming, though ultimately worthwhile, process; it may take one to two years to nurture one retailer into a space in Five Points.

Incentives

To attract retailers and retail property developers to underserved and/or unproven submarkets, it is sometimes necessary to offer a "mix-and-match" package of incentives. The purposes of incentives are to induce investment and reinvestment, reduce risk or the cost of entry, and minimize barriers to entry to all parties involved and the area as a whole.

Most commercial district incentives may be categorized under three broad groups:

1. Financial assistance – loans, grants, forgivable "loans," low cost financing, tax relief and credits, and other means to reduce the cost of doing business or encourage reinvestment in commercial districts;
2. Technical assistance – design services, business consulting and advisory services to support reinvestment, enhance market positioning, and/or improve business practices; and
3. Regulatory relief / administrative assistance – zoning bonuses, reduced paperwork, consolidated or accelerated approval processes, expedited inspections or elimination of non-essential cost burdens (mop sinks).The U.S. Small Business Administration reports that small businesses with fewer than 20 employees annually spend 45 percent more per employee than larger firms on the cost of complying with government regulatory requirements. Regulatory relief may reduce operating costs.

Norfolk's existing economic development tools are largely in the form of financial assistance. Norfolk has used, or currently offers, performance-based grants and tax abatements along with relatively small grants for improved commercial property aesthetics. The City has not ventured into the realm of forgivable loans and has relied on state and federal loan programs for lower-cost borrowing

strategies. A menu of options currently available in Norfolk are detailed in the section following the North Study Area strategy.

North Study Area

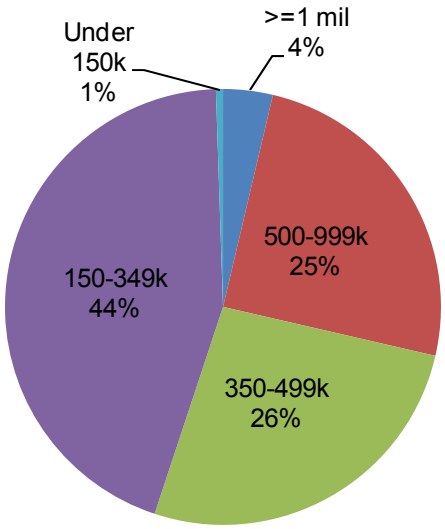
The character of retail in the North Study Area, as described above, is mostly older strip centers and scattered retail. The presence of Walmart suggests that the area is well positioned for larger scale retail. This is an advantage for the City, because retail space must constantly adapt to current consumer desire. Since a larger percentage of consumer purchases are made in such stores, it is critical to maintain consumer spending within the city limits. **However, in order to leverage the obvious successful retail location at the intersection of Tidewater Drive and East Little Creek Road, some intervention is necessary. Potential hurdles to overcome include availability of large enough parcels to fit the appropriate retail format and the existing street network in the area, which is partially responsible for the awkward parcels. The degree of intervention could be minimal or dramatic, depending on who is funding it and cooperation between public-private entities and existing landowners.**

Retail Format and Type Recommendations

As illustrated in the demand analysis, there is additional potential for this area to capture the retail spending of nearby residents and pass-through traffic. Though the area has for a long time been a retail destination, the location there of the Walmart Supercenter suggests that additional development is possible. In developed areas, Walmart typically locates either in “Power Centers” with several box stores and some inline tenants or in freestanding stores near other “regional” shopping destinations like regional malls and other power centers. Though Walmart is in itself enough of a retail destination that it does not require other anchors to draw in its customers, it also benefits from the powers of agglomeration to increase sales. The store then attracts a complement of inline tenants and nearby box stores.

As a way of illustrating this concept, ERA performed a broad overview analysis of Walmart locations in the U.S. (based on data from Info USA, which is integrated into ESRI’s Business Analyst system) and shopping centers by size (including shopping centers which are in Business Analyst). There are 570 shopping centers within a ¼ mile of a business listing with Walmart in the name (which could include a pharmacy, vision center, or other listing, See Figure 22). Of those, the majority (70 percent) of the shopping centers have gross leasable areas between 150,000 and 499,999 square feet, which is the size of a community shopping center.

Figure 22: Shopping Centers by Size Nationwide Within a ½ Mile of Walmarts



Source: Info USA; ESRI Business Analyst; ERA AECOM, 2009

This analysis illustrates that Walmarts, and other supercenter tenants, are often located in regional nodes with accompanying large retail centers.

There have also been plans for the Wards Corner Area which as mentioned earlier in this report is approximately 1.5 miles from the Study Area. The inclusion of a redeveloped Wards Corner would likely extend the trade area slightly further than that shown in the trade area map (page 56), and additionally, because of the power of agglomeration, would create a more attractive retail cluster and capture a greater percentage of inflow. Currently, the space in Wards Corner is not highly productive, because of its aging retail format. There are two newer large format drug stores, which probably drive up the sales per square foot in the area considerably. The retail parcels, along with the supermarkets at the I-64 interchange on East Little Creek, would create a retail cluster approximately the same size as that on Military Highway. While this may not be desirable because of other planning or community considerations, the "upgrading" of retail opportunities is possible with additional household spending and attraction of households that may not already shop in that area.

While this would be possible in the future, the most immediate opportunity in the next five years is development adjacent to the Walmart. The public investments in the intersection combined with Walmart's power of attracting customers to the area make it the most logical place for development. The extent to which new large format retail can be developed at the North Study Area is highly dependent upon the availability of parcels. All land is constrained by existing building in some way, necessitating a menu of options which could include renovation of the existing space to

maximize productivity of the existing space and attract different tenants or redevelopment—with or without land assembly. Some reconfiguration of the existing layout of the area would be required to maximize the site's marketability. **At a minimum, some assembly of large parcels adjacent to Walmart for construction of a center for 1-2 "medium box" tenants is possible. Maximizing developable square footage would likely require some reconfiguration of existing road infrastructure as well as land assembly.**

ERA proposes the following representative scenarios for development for the next five to ten years:

1. **Including one to two power center tenants (40,000) and assorted in-line tenants in renovated spaces;**
2. **Two to three power center tenants, in-line development in the shopping center (75,000-100,000);**
3. **Three to Four major tenants, in-line development, plus future growth potential (150,000-200,000 excluding future parcels).**

As mentioned, the critical factor to the development is whether adequate land area is available. Since it is unlikely that the area will bring rents at a high enough level to support "urban" or vertically mixed uses in the near term, the center would likely take a more suburban format with an ample parking field. However, it is still important that it has a good street face, to maximize any investments in the area and follow Norfolk's objectives toward the built environment. To the extent possible, quality finishes should be used, and parking arranged in such a way to provide an adequate environment for automobile and pedestrian traffic without detracting from the center's power to provide a positive new visual impact.

ERA has not performed site planning for particular sites. However, to determine the range of land area necessary to support development, the consultants examined all community, power, and regional centers in the "Southside" submarket listed by CoStar for their floor area ratio, or FAR. This is an expression of a ratio of built space to land area. (For example, an acre of land—or 43,560 square feet—with 43,560 square feet of built space would have an FAR of 1). This will begin to express how much land is necessary. The average FAR was 0.33. Three centers had an FAR higher than 1; the minimum FAR was 0.02.

The matrix below illustrates the amount of land necessary to achieve the three scenarios above at various FARs.

Table 35: Land Requirements for Retail Development at Various FARs

	Scenario 1		Scenario 2		Scenario 3	
FAR	**30,000 sf**	**40,000 sf**	**75,000 sf**	**100,000 sf**	**150,000 sf**	**200,000 sf**
0.1	6.89 acres	9.18 acres	17.22 acres	22.96 acres	34.44 acres	45.91 acres
0.3	2.30 acres	3.06 acres	5.74 acres	7.65 acres	11.48 acres	15.30 acres
0.5	1.38 acres	1.84 acres	3.44 acres	4.59 acres	6.89 acres	9.18 acres

Source: HBHR&RERCO; ERA |AECOM, 2009.

HBHR&RERCO and ERA identified potential tenants that fit the demand numbers, sizing, and observed desired location characteristics of the retailers. Of course, each retailer (and shopping center developer) will assess the market according to their own criteria and growth plans. Those with a potential fit (with estimated space requirements) include:

- **Discount Club:** Sam's, Costco
- **Family Apparel Retailers:** Marshall's, TJ Maxx, Ross Dress for Less (25,000 square feet)
- **Pet Supplies:** PetSmart, Petco (15,000 square feet)
- **Office Supplies:** Office Depot, Office Max, Staples (15,000 square feet)
- **Sporting Goods:** Sports Authority, Dicks Sporting Goods (20,000 square feet)
- **Shoes:** Shoe Carnival (10,000 square feet), Off Broadway Shoes (20,000 square feet), Rack Room (5,000 square feet)
- **Others:** Limited potential depending on market conditions: Craft stores (AC Moore, Joann Fabrics); Best Buy; Bed, Bath, and Beyond; Barnes and Noble
- **Restaurant:** Extensive restaurant demand—particularly fast food and "fast casual" and casual family restaurants (5,000-9,000 square feet each for the larger restaurants)

Overall Norfolk-Specific Incentives

The City of Norfolk has a variety of economic development tools that can be used to encourage and reward commercial property rehabilitation in the Five Points and North Study Areas.

In the past, the City, working through the Norfolk Redevelopment and Housing Authority (NRHA), might have designated the Five Points Study Area as an official "redevelopment area." Court decisions have imposed limits upon condemnation for redevelopment, reducing the probability that this tool can be implemented.

In the absence of a formal program through NRHA, the City could establish a landbanking program to acquire strategic parcels in the Five Points Study Area. The City has acquired parcels deemed important for redevelopment in Downtown and elsewhere in the city. This strategy assumes financial capacity to purchase property and retain for uncertain periods of time; this is a difficult strategy to implement during a time of budget limitations and pending tax revenue shortfalls. An alternative approach for gaining control of strategic parcels involves land swaps. This practice would assume that the city already owns land that would be desirable in exchange for parcels in the Five Points Study Area.

Four of the City's existing economic development tools may be highly applicable to the development scenarios envisioned for the Five Points and the North Study Areas:

1. Commercial Real Estate Tax Abatement Program
2. Performance-Based Economic Development Grants
3. Tax Increment Financing Areas or Zones
4. Neighborhood Commercial Corridor Program

Commercial Real Estate Tax Abatement Program

The City of Norfolk's Commercial Real Estate Tax Abatement Program offers property owners an opportunity to improve commercial or industrial structures and not pay full taxes on those improvements for 14 years.

The program is designed to encourage major renovations and expansions of commercial properties that are at least 50 years old. Many of the buildings in the Five Points Study Area would qualify based upon age. The incremental increase in assessed value due to the improvements listed on the application will not be recognized for tax purposes for the first ten years following the commencement of the abatement period.

The increase in assessed value due to the improvements will be recognized for tax purposes on a sliding scale in years 11 through 15 following the start of the tax abatement.

- 11th year 20 percent of the increased value
- 12th year 40 percent of the increased value
- 13th year 60 percent of the increased value
- 14th year 80 percent of the increased value
- 15th year 100 percent of the increased value

Basic Requirements:

- The rehabilitation must be on an existing commercial/Industrial structure.
- The structure must be at least 50 years old (20 years old in an Enterprise Zone).
- Improvements to the structure must increase the assessed value of the property by at least 40 percent.

General Requirements:

The general requirements of the program are concise and are clearly beneficial to property owners and long-term investors.

- Only one approved application per structure will be allowed during the abatement period (with the exception of condominium conversions).
- Rehabilitation work cannot begin until after receiving an approval letter from the City Assessor and building permits are issued.
- All improvements must be completed within three years from the date of the approval letter.
- All taxes must be current.
- All work to be done must be listed on the application.
- Abatement is limited to original applicant and one transfer.

Although the Five Points Study Area is not located within Norfolk's designated Enterprise Zone, the Commercial Real Estate Tax Abatement Program can provide significant benefits for property rehabilitation. This Program has been used extensively throughout the city and is widely recognized as a successful program.

Performance-Based Economic Development Grants

In the past, Norfolk has awarded Performance-Based Economic Development Grants to stimulate economic development and to narrow the cost differential between development in an urban setting and Greenfield development. Performance-Based Grants defer rewards until projects generate threshold levels of fiscal impact; the City does not extend financial support until after it receives the benefits of development. In effect, the City agrees to share in the incremental benefits generated by a project but only after the results have been documented. The City shares its upside without up-front financial investment and without assuming market risks.

Incremental benefits that are measured and considered in the context of Performance-Based Grants typically include real estate and business personal property taxes, sales taxes, and machinery and tools taxes.

Performance-Based Grants can be individually negotiated and are subject to approval by City Administration and City Council. For this reason, Performance-Based Grants have been applied to large, high-profile developments with transformational or catalytic impact.

Many projects that would have requested a Performance-Based Grant now participate in the Tax Abatement Program. Qualification in the Tax Abatement Program is automatic based upon clear criteria whereas receiving a Performance-Based Grant can require a long time and involve extensive public scrutiny and is not guaranteed.

A Performance-Based Grant remains an option for assisting the rehabilitation of Five Points Study Area if a significant amount of new construction is targeted. The Tax Abatement Program would not apply to new development.

Tax Increment Financing Districts or Zones

The City has the ability to establish Tax Increment Financing (TIF) districts wherein incremental benefits from projects within TIF areas are used to retire bond debt. The balance of incremental benefits could be utilized within the TIF area as a source of funds for strategic investment.

The City has established few TIF areas although the Five Points Study Area lends itself to this form of economic development tool. A TIF overlay district may coincide with other potential overlay zoning for items such as coordinated signage and pedestrian-oriented development. Establishing a TIF district at Five Points may be an alternative to designating the area as an official redevelopment area.

Establishing a TIF district would harness the performance of corridor-oriented businesses to generate funds for neighborhood-scale retail development. Fast food restaurants and other businesses supported predominantly by transient motorists would become partners in the redevelopment of the traditional retail core at Five Points.

Neighborhood Commercial Corridor Program

The Neighborhood Commercial Corridor Program (sometimes called the Aesthetic Façade Improvement Grant Program) is administered by the City's Department of Planning and Community Development. The purpose of the grant program is to improve the appearance of commercial properties in designated commercial corridor areas. The grant program encourages private investment by providing matching funds for aesthetic improvements.

The Five Points Study Area is one of six corridor areas already included in the Neighborhood Commercial Corridor Program. Other areas include Titustown, 35th Street, Riverview, Fairmount Park, and East Little Creek Road.

Applicants must meet with City staff and the Aesthetic Improvement Grant Review Committee. They must begin, document, and provide proof of completion of grant-funded improvements and submit receipts in order to be eligible for reimbursement.

Examples of eligible improvements:

- Landscaping
- Fencing
- Exterior lighting
- Exterior improvements such as entrances, awnings, new storefronts
- Signage
- Upgraded parking surfaces with associated landscaping improvements
- Site and building demolitions related to site development

The program provides matching dollars at up to 50 percent of the cost of eligible improvements. In four designated areas, the maximum matching amount is $25,000; in the Five Points Study Area and Fairmount Park, the maximum matching amount is $10,000.

The Neighborhood Commercial Corridor Program could be an effective tool for stimulating small-scale renovations. **The reduced maximum matching grant in the Five Points Study Area may need to be re-evaluated for effectiveness. A defined grant pool for the Five Points Study Area may also be considered.**

VII. Appendix

Table 36: Detailed Retail Categories for Expenditure Assessment

Detailed Expenditure Categories
Apparel and Services
Men's
Women's
Children's
Footwear
Watches & Jewelry
Entertainment & Recreation
TV/Video/Sound Equipment
Pets
Toys and Games
Recreational Vehicles and Fees
Sports/Recreation/Exercise Equipment
Photo Equipment and Supplies
Reading
Personal Care
Nonprescription Drugs
Prescription Drugs
Eyeglasses and Contact Lenses
Personal Care Products
Household Furnishings and Equipment
Computers and Hardware for Home Use
Software and Accessories for Home Use
Household Textiles
Furniture
Floor Coverings
Major Appliances
Housewares
Small Appliances
Luggage
Telephones and Accessories
Housekeeping Supplies
Food and Drink Away From Home
Grocery
Bakery and Cereal Products
Meats, Poultry, Fish, and Eggs
Dairy Products
Fruits and Vegetables
Snacks and Other Food at Home

Source: ESRI Business Analyst; ERA | AECOM, 2009.

Case Studies of Economic Development Initiatives

Austin, TX

- **Small Business Growth Fund**: Loans for small businesses aimed at creating and/or retaining permanent jobs using CDBG funds. The Neighborhood Commercial Management Program is designed to create or retain jobs for low and moderate income persons by providing financial assistance – with CDBG funds – to commercial businesses located in the Eligible Program Area. Loans may only be used to purchase, acquire, construct or rehabilitate fixed assets whose useful life exceeds five years. Loan amounts range from $10,000 to $250,000 and carry a 3% to 6% interest rate.
- **Creative Industries Loan Guarantee Program**: Loans specifically aimed at individuals and businesses whose primary field of work is in the creative industries in Austin. The Creative Industries Loan Guarantee Program (CIL) is designed to encourage private lenders to provide financing for creative industries in Austin, non-profits related to those creative industries, and individuals involved in those creative industries in Austin. These loans do require that the borrower creates at least one permanent full-time job within six months for every $15,000 of CIL money borrowed. Eligible borrowers include individuals, businesses and non-profits whose work is primarily related to music, film, art, and technology industries such as the digital and video game industries. Program loan amounts range from $10,000 to $75,000.
- **Business Retention & Expansion Program (BRE)**: Loans specifically for locally-owned or minority-owned businesses. This is a city of Austin economic development program to re-establish Congress Avenue and East 6th Street as retail and urban entertainment district destinations. The BRE Program is intended to provide low-interest loans for eligible costs to existing businesses located within the eligible area that are being displaced because of development. It is also intended to attract new businesses to the eligible area. The loan amount may not exceed 250,000 dollars, the annual interest rate will not exceed six percent, and can only be used towards fixed-asset projects whole useful lives equal or exceed five years. Eligibility preference is given to locally-owned businesses as well as minority-owned or women-owned businesses.

Boston, MA

- **Neighborhood Restaurant Initiative:** A loan and technical assistance program aimed at attracting restaurants and creating more jobs. The Neighborhood Restaurant Initiative created by the Boston Office of Business Development in 2004, provides loans of up to

$100,000 to assist restaurants that promise to create ten or more jobs and that locate in commercial districts underserved by sit-down restaurants. This initiative has facilitated the opening and renovation of some 50 restaurants in neighborhoods throughout the city. In 2005, the initiative made about $500,000 in loans to 22 new restaurants in 12 neighborhoods. Apart from financial assistance, the program also helps restaurateurs to develop marketing strategies, acquire necessary licenses and permits, and receive technical assistance through workshops.

Washington, DC

- **Commercial Property Tax Relief**: The relief consists of $11 million to ease the pressure of rising property taxes for business owners. Due to rising commercial property taxes throughout Washington D.C., the D.C. Council has set aside a lump, one-time sum of $11 million in an attempt to prevent some small businesses from shutting down. This relief will be extended to 11,000 businesses in the city that gross no higher than $500,000 per year. Commercial property values rose by almost 28 percent, on average, from 2006 to 2007 in the district, while at the extreme, Columbia Heights property values have risen more than 50 percent in the same period.

Portland, OR

- **Direct TIF Loan Program**: This program is designed to assist new and existing small businesses in an urban renewal area by providing financing for the gap between project cost and private financing through tax increment. Therefore it is tied to the redevelopment and physical improvements of real estate projects within an urban renewal area. Loan fees are waived and interest rates are generally below market. The borrower must provide a minimum of ten percent of the total project cost and must have reasonable credit.

San Diego, CA

- **Storefront Improvement Program:** Façade improvement program specifically for small businesses. Created in 1986, this program is designed to enhance and revitalize older commercial neighborhoods throughout the City of San Diego. The City of San Diego rebates small businesses (with 12 or fewer employees) or property owners as an incentive for them to improve their storefronts consistent with design standards for their commercial areas. The program accepts applications from businesses with 12 or fewer employees and/or property owners who lease space to small businesses. The City rebates from one-third to one-half of the storefront construction costs but may not exceed $7,500.

San Francisco, CA

- **Neighborhood Market Initiative:** The City and the Local Initiatives Support Corporation (LISC) form a public/private partnership with residents and merchants to provide eligible neighborhoods with financial assistance and other services. The City and LISC are backing the Neighborhood Marketplace Initiative to stimulate job creation, development of businesses selling quality goods and services, financial investment and the improvement of physical landscapes in San Francisco's neighborhoods. The City and LISC jointly plan to invest approximately $500,000 in grant funds annually to support neighborhoods selected for the program. The targeted neighborhoods will benefit from several coordinated city services including but not limited to façade improvement grants, help in filling vacant retail properties, help in forming Community Benefit Districts (similar to Business Improvement Districts), and other assistance based on primarily on what the residents and merchants of the districts need and want.

Stakeholder Interview/Community Meeting Attendee List

Stakeholder Interviews

On September 10th and 11th, ERA and Blount Hunter Retail and Real Estate Research conducted the remaining stakeholder interviews. During this time, we interviewed the following:

- Cooper Realty (Eric and Jeff Cooper) – major property holders in the Five Points Study Area with interests in redevelopment.
- Delicate China (representative of Mr. Kam Wan Liu) – FivePoints Chinese carry-out restaurant
- Fresh Pride (Barry Hardy, manager) – Five Points neighborhood supermarket
- Paul Trahadias – major property owner in Five Points and Atlantic Photographic Processing
- BB& T (Vida Hawkins) – neighborhood bank in Five Points with customers from adjacent neighborhoods. Ms. Hawkins also grew up in the neighborhood and was able to provide a perspective on current and historic business conditions.
- Black & White Cab Company (Judy Swystun) – a major property holder and employer in the 5-Points district.
- Super 10 - $10 and Under (Stefon Pitt, manager) – retailer in Five Points.
- McDonald's – quick-service restaurant on the south side of the Five Points intersection. Patrons include neighborhood residents and drive-through traffic.
- Five Points Partnership (Bev Sel) – Partnership represents several businesses and residents in the area. Ms. Sel is director of the FivePoints Farm Market previously located in Five Points. This interview was conducted at a later point. They provided written ideas and suggestions for improvements to the retail offerings and development configuration of the Five Points area.

Previous interviews included:

- Pilato Counts Interior Design (Central Business Park business)
- S. L. Nusbaum Realty Co. (concerning property adjacent to K-Mart site)
- CBRE Hampton Roads (commercial realtors)
- Global Real Estate Investment (commercial property owners/developers)
- Bank of America branch manager for Norview branch
- ABNB Federal Credit Union (Central Business Park)
- Walmart store manager

Also meetings with the Greater Norview Task Force and Norfolk city officials.

General & Limiting Conditions

Every reasonable effort has been made to ensure that the data contained in this report are accurate as of the date of this study; however, factors exist that are outside the control of Economics Research Associates, an AECOM company (ERA) and that may affect the estimates and/or projections noted herein. This study is based on estimates, assumptions and other information developed by Economics Research Associates from its independent research effort, general knowledge of the industry, and information provided by and consultations with the client and the client's representatives. No responsibility is assumed for inaccuracies in reporting by the client, the client's agent and representatives, or any other data source used in preparing or presenting this study.

This report is based on information that was current as of November 2009 and Economics Research Associates has not undertaken any update of its research effort since such date.

Because future events and circumstances, many of which are not known as of the date of this study, may affect the estimates contained therein, no warranty or representation is made by Economics Research Associates that any of the projected values or results contained in this study will actually be achieved.

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This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.