



Real Estate Market and Feasibility Analysis

Submitted to:

Mallory Butler
Director
Department of Economic Development
801 Crawford Street
Portsmouth, VA 23704

May 17, 2017



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801 Crawford Street
Portsmouth, VA 23704

Dear Ms. Butler,

The City of Portsmouth, Virginia engaged Hunden Strategic Partners to perform a real estate market analysis and feasibility study for the downtown area, as defined in the RFP. The study reviewed key real estate uses in the downtown market to help the City understand prospects for growth. Real estate uses analyzed included hotel, retail, office, residential, entertainment, dining, and related developments/uses. The attached is our report.

This deliverable has been prepared under the following general assumptions and limiting conditions:

- The findings presented herein reflect analysis of primary and secondary sources of information that are assumed to be correct. HSP utilized sources deemed to be reliable, but cannot guarantee their accuracy.
- No responsibility is taken for changes in market conditions after the due diligence dates of this report, which was originally completed in the summer of 2016, and no obligation is assumed to revise this report to reflect events or conditions occurring after the summer of 2016, unless otherwise provided herein.
- Macroeconomic events affecting travel and the economy cannot be predicted and may impact the development and performance of the project.

We have enjoyed serving you on this engagement and look forward to providing you with continuing service.

Sincerely yours,

Hunden Strategic Partners

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EXECUTIVE SUMMARY

The City of Portsmouth, Virginia (City or Client) continues its efforts to redevelop and enhance the Downtown area, which has been the subject of a number of studies, plans and efforts over the past several years. The City engaged Hunden Strategic Partners (HSP) to perform a real estate market analysis and feasibility study for the downtown area. The purpose of the analysis is to determine the answers to several questions:

- What are the market conditions for each type of major real estate use?
- What do the market conditions imply for future development?
- Is development hindered in any way by current zoning? If so, what changes are recommended?
- What are the incentives locally for real estate development and how do they compare with other Hampton Roads communities?
- What type of development is recommended for priority sites in downtown Portsmouth?
- What is the conclusion and recommendation for each type of real estate use downtown in the near term?

In order to answer the questions posed, HSP completed the following:

- Analyzed national economic factors influencing real estate development,
- Analyzed local and regional economic and demographic conditions,
- Analyzed local and downtown market conditions for multiple uses,
- Interviewed residential and commercial brokers, managers, and stakeholders,
- Reviewed and commented on zoning codes,
- Profiled other waterfront communities' downtowns and discussed their redevelopment efforts,
- Analyzed incentives available for real estate development or redevelopment in Portsmouth and surrounding communities.

Downtown Portsmouth is a unique community and the revitalization efforts are currently being impacted by several forces that will shape development fundamentals. Most waterfront communities in the Hampton Roads area face some access issues given the bridges and tunnels. However, investments have been made to minimize this challenge and improve the flow of people, goods and spending from place to place. Additional tunnels and/or bridges, even when they come with tolls, help to lower barriers to economic flows. Connectivity and ease of access is an improving factor.

Small Town Market Feel within a Large Metro Market. Downtown Portsmouth exhibits the type of real estate market characteristics that often accompany much smaller cities. Its downtown has relatively shallow markets for each real estate use type compared with downtowns of other large metro areas. This is a result of the fact that the Hampton Roads metro area is comprised of multiple individual cities, all with their own downtowns, attractions, economic demand generators, employment centers and neighborhoods. In this way, Portsmouth is not unlike Durham, Raleigh and Chapel Hill, North Carolina. The metro includes all three and is

large, but the individual cities making up the region are small because there is no center city where most of the assets and central business district is located.

Employers. The good news is that Portsmouth is home to a large employer, the Naval Medical Center-Portsmouth, not to mention the Atlantic 5th District Headquarters of the Coast Guard and the Norfolk Naval Shipyard. Even better, the Medical Center attracts more than 10,000 visitors per day as well as patients and employees. The facilities generate significant traffic of employees and visitors and are located adjacent to the downtown commercial area. The challenge, however, is the security associated with coming and going from the Medical Center. The security issues make it more difficult for visitors and employees to walk downtown and have lunch, dinner or shop. However, the more compelling downtown is, the more likely that visitors will visit and employees will want to become residents. As downtown becomes a more vibrant place, it is more likely to benefit from the massive market that sits beside it.

Overview. HSP's analysis of the real estate market quickly revealed these shallow markets. For example, there is essentially no Class A office market. There are Class B, C and government-owned buildings. There is only one true hotel in the downtown area, although there are two very small limited service properties within one mile. The restaurant market is shallow, and it is seemingly always stuck between achieving critical mass when a new restaurant opens and being a hodgepodge when one closes. The retail market is very sparse and is primarily made up of boutique, home furnishing and novelty-type stores. Attractions are limited and the one true opportunity, the waterfront, has not been leveraged for development of highest-and-best use options like residential, hotel or Class A office, except for the Renaissance hotel.

Residential. On the other hand, there is one market that is growing and thriving: residential multi-family. Portsmouth has long had an outstanding historic residential neighborhood right in the heart of the city. However, in order to attract residents, newer multi-family were needed. The market has delivered, likely due to the megatrend over the past ten years of Millennials and Empty Nesters moving to urban centers where walkability was preferred. This same trend has been manifesting itself in most other urban centers in the U.S. It has taken hold in downtown Portsmouth and HSP believes this could be the lynchpin of a sustainable downtown, where many more types of development are feasible.

As one residential project is built and absorbed positively by the market, others are planned and financed. This creation of a solid mass of residents is critical to the long-term health of downtown Portsmouth. Real estate uses are symbiotic in nature. Most uses have a need or usefulness to other types of development. For example, residents like to have convenient groceries, drug stores and general merchandise stores nearby. Those same use types need a critical mass of residents nearby in order to support their economics. Without enough nearby residents, drug, grocery and general merchandise stores are not feasible. Without the stores, residential development is harder to rationalize. However, enough residential is being developed that the market is starting to move toward the ability to support smaller versions of these stores. For true market sustainability, more residents are needed. The addition of more daytime worker activity would help provide daytime shopping support.

The public sector should prioritize developable sites and areas in order to induce more residential and commercial demand downtown. The residential developments will continue to drive the need for food and beverage options, retail and other amenities to enhance the quality of life.

Restaurants. Restaurants are similarly symbiotic with residential development, yet they are also critical to tourism. For the first time in U.S. history, the amount of money spent on prepared meals at restaurants has surpassed the amount spent in grocery stores. This megatrend suggests that a choice of restaurant cuisines, price points and styles is critical to developing a strong resident base...and this has been realized in most other downtowns over the past ten years. Also, a strong resident base is critical to supporting restaurants. However, tourism can play a large role in supporting restaurants as well.

The continual effort to attract restaurants and retail along downtown corridors such as High Street and London Boulevard will help to fill in the "gaps in teeth". Restaurants can double as nightlife destinations after 9 or 10 pm, which will enhance the vibe of downtown as a destination after business hours. However, without a critical mass of options and tenants, it will be harder to lure quality tenants. Restaurant tenants benefit when they are part of a critical mass of other restaurants. In fact, many have co-tenancy requirements that call for other restaurants in the same development. Ultimately, reaching critical mass means that the redevelopment has begun to create a "buzz," which increases the number of people on the streets, raises land and property values, and makes the community feel safer. More activity attracts more people, which in turn causes an increase in rents and property values, creating more business opportunity which cycles back to more activity and people on the street, and so on. In order to create a critical mass of activity, there must be enough options for visitors to make the entire area a destination rather than a specific establishment.

Hotels and Tourism. From a tourism standpoint, having only one hotel in the downtown area is a challenge, as it restricts the size of groups that can book an event downtown and limits the price point available, which causes many tourists to choose not to come to downtown. Also, from a tourism perspective, having just enough restaurants to be considered a selection is a challenge. Having very few attractions is a challenge. The two factors that can change the game for tourism and the viability of restaurants, retail and hotels is either (a) an increase in the number of visitors, or (b) an extension of existing visitors' stays. It is much easier to extend the stay of existing visitors by giving them more to eat, drink and shop while in town. The investment needed to extend the stay is much lower than attempting to fund a major new attraction that will bring more tourists. Simply supporting the growth of restaurants and independent retailers will cause tourists to stay longer and stay in the hotel an extra night (or stay over instead of making a daytrip).

An increase in downtown events and festivals will have the same effect (and will introduce more people to all that Portsmouth offers). That simple metric can increase the number of supportable hotel rooms downtown by 100 percent without a huge change in the real estate development in the market. The hotel market is at record levels nationwide and the Renaissance is performing as well as it will without an infusion of additional tourism. The addition of a select-service branded hotel should actually help the Renaissance, as it will allow for larger groups, more events and multiple price points and brands that visitors are loyal to. Renaissance is part of the Marriott family of brands, so inducing the development of a select service Hilton brand like a Hilton Garden Inn, Home2Suites or Hampton Inn, would benefit downtown greatly.

Retail. As discussed, retail options are sparse and are mostly unique, boutique or novelty. There are very little general merchandise or drug store opportunities. Retailers that HSP interviewed suggested that business had declined since a nearby government building was closed and the employees moved out of downtown. So while it may not appear that daytime employment can help boutique shops, at least the anecdotal evidence from retail shop owners says otherwise.

Office. Office development has been a challenge and, as noted, there are no Class A office buildings in the downtown area. The cost and likelihood of attempting to land a Class A office building and/or tenant is difficult. However, this perhaps should not be the focus of development efforts. There are thousands of nearby employees and the downtown area is the closest node of restaurant, retail and residential options for those employees. Efforts can be made on finding ways to attract or make it easier for nearby employees to become downtown residents and/or stay after work for dinner and entertainment.

Waterfront. One of the key opportunities for Portsmouth is its waterfront. Currently there are a number of government or less than optimal uses on this high-value real estate. The best types of users for waterfront property are residential, hotel, bar/restaurant and certain types of entertainment, or a mix of these uses in a high-rise that takes advantage of views. As part of this in-depth report, HSP analyzes and makes recommendations for a variety of priority sites downtown, including and especially certain waterfront parcels.

Development Environment. While Portsmouth works hard to be attractive to investors, it is easy to forget that developers and investors are constantly comparing opportunities and making choices about the best places to spend valuable time and invest for a positive return. To the extent that opportunities may be equal in dollar terms, the ease of development in terms of process and zoning can be the deciding factor between attracting development and not. City initiatives and relationships with the private sector must create a collaborative environment so it is as easy as possible to do business with in terms of economic and real estate development projects. Those areas that present compelling economic returns and an easy public process to navigate tend to get the investment. These areas are considered the “low hanging fruit” for developers. Areas that have challenges from a market perspective or access issues, as Portsmouth faces, need to work harder to be as attractive as possible. The public sector, in many cases, must be more aggressive in reaching out to developers, investors, businesses and potential visitors or residents. The case for investment may require more of a story that needs to be told. Portsmouth is one of those unique places that has a compelling story to be told, but it must be told *and sold*.

Incentives can help. HSP compared incentives in Portsmouth to cities nearby and found some differences. These are discussed in some detail in this report and given the existing challenges, HSP recommends that at minimum, Portsmouth mimic the useful incentives being offered in adjacent communities.

RECOMMENDATIONS

HSP has provided a number of specific recommendations for each use type, for specific targeted sites and for other issues, such as zoning and regulations. These are discussed below and much more detail is found in Chapter 6 of this report.

Table 1

Summary of Market Situation and Recommendations - Downtown Portsmouth Real Estate					
	Current Supply	In Development	Next 5 Years Additional Growth Projected - Market Only	Next 5 Years Additional Growth Projected - With Inducements	Recommendation
Apartments	1,151 Units	402 Units	500 - 600 Units	No inducements should be necessary	Encourage as much market-based residential growth as possible to support sustainable downtown and other uses
Condos and Single Family Homes	5,550 Units	0 Units	Marginal	No inducements at this time	Owned residential should generally be encouraged but not necessarily induced or subsidized. As downtown becomes more attractive, owner-occupied will increase
Multi-Tenant Office	275,241 SF	0 SF	0 SF	30,000 SF	Public sector should incentivize businesses to move offices downtown to support sustained retail and other daytime uses, repurpose existing space should be considered as an option
Creative Office	0 SF	0 SF	0 SF	10,000 SF	Creative office is a great way to engage committed citizens in the growth of downtown, without the risk of a big office building. Suggest public encourage creative office as part of mixed-use projects or repurpose existing space
Government/ Single-Tenant Office	526,945 SF	0 SF	0 SF	No inducements should be necessary	Public sector should retain all existing facilities downtown, but move away from prime waterfront parcels. Relocated/new offices should be within walking distance of retail and restaurants
Hotel	372 Rooms in 3 Hotels	0 Rooms	0 Rooms	Inducements will likely be required	Public should encourage and induce select-service branded hotel adjacent to Renaissance to accommodate more group and leisure business
Retail - General Merchandise	1 Store	0 Stores	0 Stores	As part of urban grocer	Public sector should encourage general merchandise as part of grocery or drug store in order to sustain market of daytime and residential population
Retail - Specialty	18 Stores	0 Stores	Modest	7	Public sector should encourage continued growth in speciality retailers that have struggled recently. Tourism investment/funding CVB will help
Retail - Grocery and/or Drug Store	1 Store	0 Stores	Marginal	20,000 - 30,000 SF Urban Grocer/Drug Store	Public sector should induce development of walkable grocery store to support residential strength and future growth
Retail - Convenience	16 Stores	0 Stores	High	No inducements should be necessary	Convenience and support retail typically do not require inducement and will occur along with residential and employment growth
Restaurants - Fine Dining	1	0 Restaurants	Modest	No inducements should be necessary	Creating a critical mass of dining options is critical to downtown's sustainability. Additional fine dining will help draw higher spending tourists and residents.
Restaurants - Casual Dining	11	0 Restaurants	Modest	No inducements should be necessary	Build upon current strength in this area. Encourage additional casual restaurants to create node of activity.
Restaurants - Fast Casual	4	0 Restaurants	High	No inducements should be necessary	More suited to daytime/lunchtime and getting support from existing employment base. May not need to induce more, but more options will help attractiveness of downtown generally.
Restaurants - Bar/Restaurant	8	0 Restaurants	Modest	No inducements should be necessary	Strength in this area already. Let market work and encourage growth, but do not need to chase it.
Restaurants - Fast Food/Quickserve	9	0 Restaurants	High	No inducements should be necessary	Better suited to outskirts of downtown, not city center. Let market work, but do not encourage fast food in walkable city center areas.
Attractions	5	1	0	Inducements may be necessary	High risk, high cost. Best to encourage restaurants, retail, tourism/CVB and residential first.

Source: Hunden Strategic Partners

Overall, outside of the multi-family market, the viability of most uses is lackluster, despite the recovering and expanding U.S. economy for the past eight years. It may take incentives from the public sector to help developers of other types of uses, as well as individual retailers and restaurateurs, move forward on their investments in downtown. For some projects, such as a hotel, there may need to be some material public incentives, clearing of land, prepping of sites and mitigation of some costs. New investment in tourism

promotion will also help. In other cases, the smoothing of the permitting and other government processes is a good first step to investment.

Zoning Recommendations

Zoning codes have some confusing terminology that should be more clearly defined and may have height limitations that impact the viability of projects. Proposed projects may be limited to a few options by current zoning, some of which are not financially feasible.

HSP provided specific implications based on the zoning language that may impact future developments.

The corridors of London Boulevard and High Street should transition from a mixed-use light industrial/office/retail use as the roadways head east into downtown. HSP recommends that east of the light-industrial/office uses, the city then transition into low-rise multi-tenant and single tenant office uses which then transitions into a mix of retail/restaurant and multi-family uses. Within these areas, the city may want to promote and encourage the development of public-spaces to include park land which will contribute to the success of multi-family projects for residents that want the feel of a combination of suburbia and still being close to the city. The goals of the residential development in this area are intended to foster sustainable mixed-use urban neighborhoods, which integrate residential uses with employment uses and further incorporate some recreational uses to attract further residential development. This creates a cycle of development to attract and spur additional development.

The tables below suggest how zoning regulations could be modified to better enhance development efforts and opportunities. The first suggests the types of uses that should be allowed in various districts.

Table 2

Use	Recommended Uses by Zoning District - Downtown Portsmouth Real Estate					
	T3	T4	T5	T6	SD	D2 FBC
Multi-Family	NO	YES	YES	YES	NO	SPECIAL USE*
Single Family Homes	YES	YES	YES	YES	NO	SPECIAL USE*
Multi-Tenant Office	NO	YES	YES	SPECIAL USE*	YES	YES
Creative Office	SPECIAL USE*	YES	YES	SPECIAL USE*	YES	YES
Government/ Single-Tenant Office	NO	YES	YES	SPECIAL USE*	NO	YES
Hotel	NO	YES	YES	YES	YES	YES
Retail - General Merchandise	NO	YES	YES	YES	NO	YES
Retail - Specialty	NO	YES	YES	YES	NO	YES
Retail - Grocery and/or Drug Store	NO	SPECIAL USE*	YES	SPECIAL USE*	NO	YES
Retail - Convenience	NO	YES	YES	SPECIAL USE*	NO	YES
Restaurants - Fine Dining	NO	YES	YES	YES	NO	YES
Restaurants - Casual Dining	NO	YES	YES	YES	NO	YES
Restaurants - Fast Casual	NO	YES	YES	YES	NO	YES
Restaurants - Bar/Restaurant	NO	YES	YES	YES	NO	YES
Restaurants - Fast Food/Quickserve	NO	YES	YES	SPECIAL USE*	SPECIAL USE*	YES
Attractions	NO	NO	NO	SPECIAL USE* - waterfront activities	SPECIAL USE*	SPECIAL USE*

Key:
SPECIAL USE* - Permitted Use but with a conditional review based upon location, use type, size, height, etc.

Source: Hunden Strategic Partners

HSP concludes and recommends that the zoning designating permitted multi-family uses in the T4, T5, T6 districts represents the highest and best uses for these districts. HSP recommends that the city of Portsmouth undertake a short-term aggressive plan to promote the development of multi-family developments.

HSP recommends that a “Special Use” category be created for creative office uses within the northern portion of the T3 district to support the single family homes within that district. Creative office uses are essentially instances when former industrial or other non-office buildings are converted and used as office space for small or growing office users. Fostering this type of use will help establish an office market. This will also provide a transition and tie into the office uses in the D2 FBC district. Also, the land and building acquisition costs would be less costly than for waterfront properties.

HSP recommends that the zoning codes allow for hotels in the T4, T5, T6 and D2 FBC districts. The development of hotels (especially select service properties in the downtown district) will spur additional retail and restaurant development, and will represent the highest and best uses for the area.

HSP recommends that the zoning codes be amended to allow for certain types of specialty/general merchandise retail establishments in the T4, T5, T6 and D2 FBC districts. These uses will support the residential and hospitality establishments downtown, and will represent the highest and best uses for the area. Grocery and/or drug store uses should be permitted in T5 and the D2 FBC districts, and a permitted special use in the T4 and T6 district. Retail/convenience should be a special use in the T6 district.

HSP recommends the zoning code be amended to more clearly define the permitted uses for restaurants, especially within the T4, T5 and T6 districts. Restaurants are a highest and best use within the downtown district. However, in order to promote a more upscale feel to the downtown area, a special use category should be established for the fast food/quick serve use in the T6 district in order to accommodate the residents, office users and hotel guests with options for a quick serve meal. Additionally, fast food/quick serve should be a special use category for the SD district in order to accommodate the office and industrial uses within this district.

HSP recommends that downtown Portsmouth focus efforts to create a great place to work, live and visit by making smart, small investments in key parcels and with certain development types and become a development partner that seeks to leverage private dollars. HSP recommends that certain types of attractions that support and enhance the waterfront experience be allowed with a special use permit in the T6 district along the waterfront, and a special use within the SD and D2 FBC district.

Incentives Recommendations

Portsmouth is extremely competitive in the number of real estate incentives offered, as it offers more programs than the other three cities analyzed and competes more so with Hampton than Norfolk and Virginia Beach.

Hampton does offer real estate incentives not found in Portsmouth in its Retail Incentive Program and its Arts & Cultural District. To further attract retail real estate development to Portsmouth, HSP suggests the introduction of such a Retail Incentive Program, similar to that found in Hampton. This incentive would encourage and assist in affording stand-alone retail establishments to better compete with area shopping malls. Should this incentive be offered, Portsmouth must incorporate the necessary zoning laws and permitting based on the desired retail real estate development to be successful.

Conclusion

With the appropriate changes to zoning to make certain uses easier to develop and/or less confusing to work through, as well as public sector efforts to induce the development of certain types of projects – recognizing that the most important effort will be the development of a sustainable residential market with enough critical mass to support other uses – downtown Portsmouth can start to thrive on its own positive cycle of energy. Investment, development, spending, tourism and the resulting projects should begin to occur, as the residential market grows.

About Hunden Strategic Partners

Hunden Strategic Partners is a full service real estate development advisory practice specializing in destination assets. The firm provides a variety of services for all stages of destination development in the following primary areas:

- Real estate market and financial feasibility and financial consulting
- Owner's representation and operating consulting
- Strategy and master planning
- Public incentive analysis
- Economic, fiscal and employment impact analysis (cost/benefit)
- Economic and tourism policy/legislation consulting
- Organizational development
- Research and statistical analysis
- Developer solicitation and selection; Private management company solicitation and selection

Hunden Strategic Partners professionals have provided all of the above services for hundreds of client projects worldwide for the public, non-profit and private sectors. In addition, our professionals have prior professional career experience in municipal and state government, economic and real estate development, hotel operations and non-profit management. Over 80 percent of our clients are public entities, such as municipalities, counties, states, convention bureaus, authorities and other quasi-government entities empowered to conduct real estate, economic development and tourism activities.

Limiting Conditions

HSP relied on primary and secondary sources of information for the assumptions made in this report and assumes these sources to be accurate. Assumptions created for the analysis were based on the data available to HSP during the study period as well as professional judgment.

The Project is assumed to be owned and operated in a first-class manner by the parties who have operated similar facilities.

No responsibility is taken for unforeseen events occurring after the date of the analysis, including war and terror attacks, natural disasters and major economic recessions.

This report is intended to be used as a tool for decision-making by the contracting parties related to this Project and for no other purpose.

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NATIONAL & REGIONAL ECONOMIC AND REAL ESTATE MARKET CONDITIONS

This chapter reports and analyzes the economic and demographic trends that are affecting various real estate uses at national, state and regional levels. These trends will be explored and compared to local trends in the following chapter.

Economic and real estate trends at the national level often have a direct or underlying impact on the performance of local areas. In the case of the Hampton Roads area, the correlations are not always direct, as the influence of military and related spending impact the area as much or more than other national trends. For example, if there is a recession but government defense spending increases, then the Hampton Roads area, including Portsmouth, may be shielded from the recession. However, if there is a cutback in defense and other government spending, even in an improving national economy, this can cause the local area to suffer and perform at lower levels than the national economy. Many national factors influence the local real estate economy in general ways, including interest rates. Local factors also influence the viability of real estate development, and those will be discussed in Chapter 2.

National Economic Factors Influencing Real Estate Development

The primary factors that influence the development, or redevelopment, of real estate include the following:

- Gross Domestic Product (GDP) Growth
- Interest Rates
- Banking/Lending Climate
- Employment and Unemployment Rates

Gross Domestic Product (GDP) Growth

Gross Domestic Product (GDP) growth is critical to the health of the economy. Growth in GDP equals economic expansion, while a decline in GDP implies a recession or contraction. Real estate values typically increase during expansions and decline during contractions, although there are local outliers.

The table below shows GDP growth for the past ten years.

Figure 1-1



SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

During the severe recession, U.S. GDP declined significantly, by four percent. One of the challenges of the recovery has been the slow rate of rebound compared with past post-War rebounds.

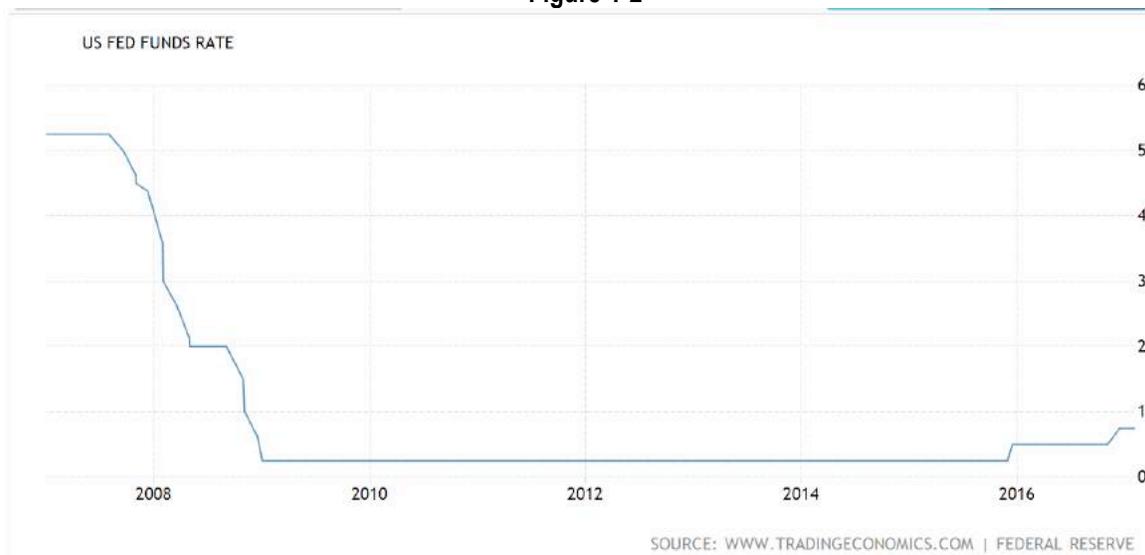
Given the recent tepid recovery, the influence on real estate may have helped prevent a boom/bust cycle for certain types of real estate in the past eight years. Slower, consistent growth, in this way, could be seen as less of a potential roller coaster for real estate development.

Interest Rates

Interest rates, essentially the price for borrowing money, have a direct impact on the economy. The Federal Reserve has three directives: maximum employment, stable prices, and moderate long-term interest rates. When the economy is in recession and prices are stable, then it lowers interest rates. When prices (inflation) are too strong, typically due to a strong economy (but not always), the Federal Reserve will increase interest rates to keep prices moderate.

The figure below shows the historical federal funds interest rate.

Figure 1-2

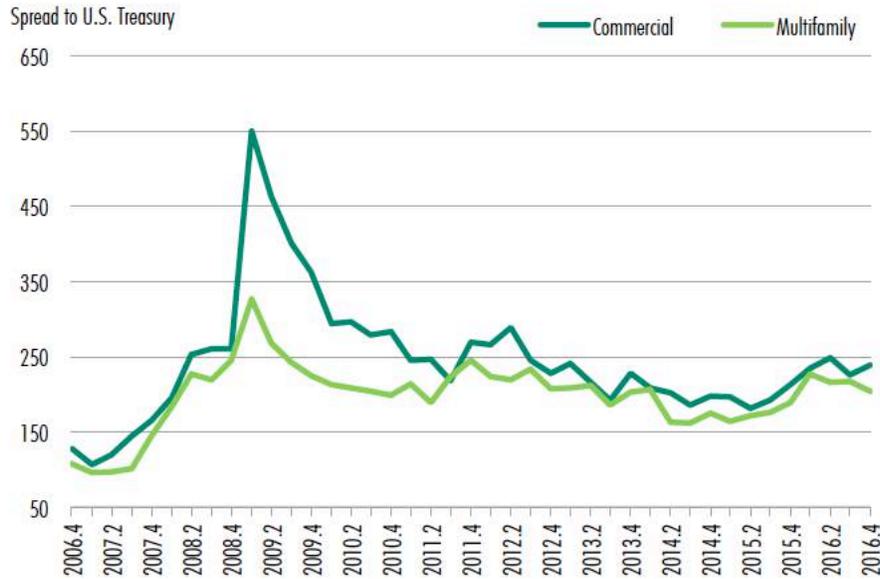


During the past recession and ensuing slow recovery, the Federal Reserve lowered interest rates to zero for the longest period in U.S. history. Only in the past year have rates been increased. Low interest rates tend to lead to low real estate borrowing rates.

However, there is another factor that determines borrowing and lending for commercial real estate: credit spreads. Credit spreads are the market-based interest rate cost spread between the ten-year treasury bond (the market's equivalent of no risk) and the borrowing rate for different types of real estate. Depending on how much risk the market considers to exist for different types of real estate, there could be as little as a two percent spread or as much as a seven percent spread built in to the interest rate for commercial real estate. The most popular and least risky types of real estate at any given time (typically multifamily and certain trophy real estate) will have the lowest spreads, while those with a higher risk profile (hotels), will have the highest spreads.

The figure below shows multifamily and commercial real estate spreads over the 10-Year Treasury bond yield. A basis point equals 0.01 percent. For example, one hundred basis points equals 1.00 percentage point.

Figure 1-3



Source: CBRE Capital Markets and CBRE Research, Q4 2016.
 Note: Reflects average spreads on 7-10 year, 55-65% LTV, permanent fixed-rate loans closed by CBRE Capital Markets.

Commercial loan spreads peaked at nearly 550 basis points (or 5.5 percentage points) over the ten-year treasury, which signaled that the market included significant risk in all deals for about one year during the recession. Spreads decreased to about 275 basis points and continued to decline until the fall of 2015. The spreads have increased since the fall of 2015, making deals tougher to fund. This has a direct impact on real estate activity.

Lending

The next figure shows the volume of commercial loans in the U.S. When banks loan money and businesses invest and expand as a result, the economy generally expands. Bank lending is the key concept behind money creation and economic expansion.

Figure 1-4



Lending previously peaked in late 2008, just before the massive recession. Lending declined from \$1.6 trillion to \$1.2 trillion (25 percent decline) during the recession and did not reach the prior peak until January of 2014. This six-year trough of lending contributed to the sense of slow growth in commercial real estate. Lending has continued to increase, although it appears to have temporarily plateaued recently, which is a concern. How would this impact Portsmouth? Restricted lending tends to hurt marginal projects and focuses lending on more “sure bets” for banks. To the extent that projects in Portsmouth require a special “story” in order to support a bank’s decision to lend, these projects may not be approved in a more restrictive lending environment.

Labor, Employment and Unemployment

The labor force participation rate and total full-time employment figure also influences the economy, especially housing. The figure below shows total employment.

Figure 1-5



Full time employment in the U.S. declined severely during the last recession by approximately 11 million jobs. Not until late 2015 did total full-time employment reach the prior peak of 2008.

The next figure shows long-term unemployment.

Figure 1-6



For those still in the labor market, the percentage of those considered long-term unemployed has declined since 2013 and is now at approximately 1.2 percent.

Regional Economy

Federal Spending

Of specific concern to the Hampton Roads region, including Portsmouth, is federal spending. Due to the high number of government related jobs and industries in the area, changes in government spending can have an outsized influence on the local economy.

The figure below shows US federal spending.

Figure 1-7



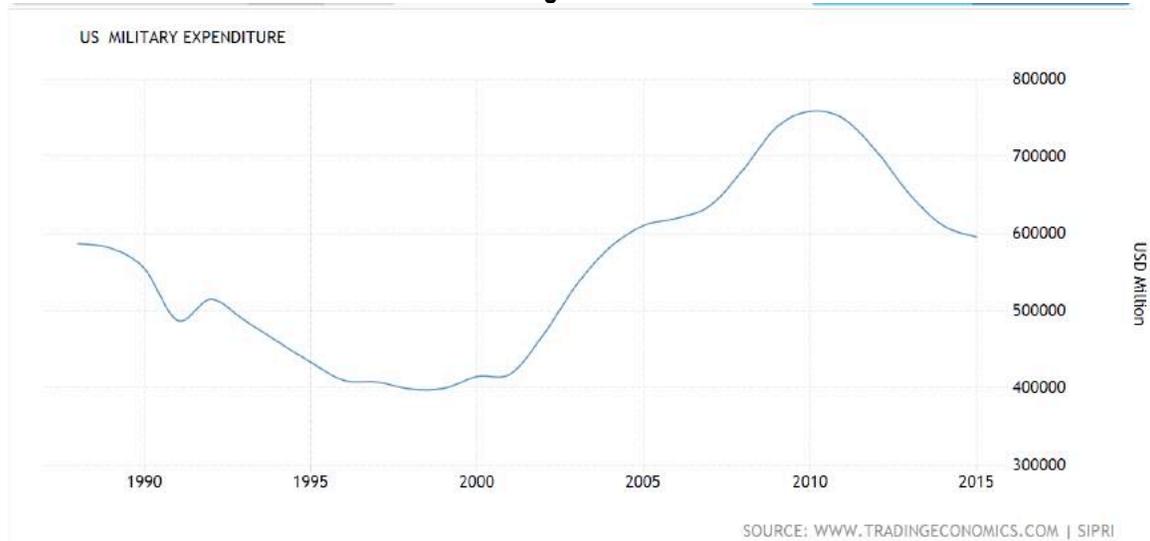
During the recession, and in response to it, the federal government effected a policy of fiscal stimulus to attempt to jump-start the economy. Government spending also increases generally during recessions due to higher rates of unemployment payments, food stamps and other social programs. Federal government spending peaked at more than \$3.1 trillion in 2009 and 2010. The reaction to the spending led to mid-term political changes (the Tea Party movement) that ushered in a more fiscally conservative Congress. Ultimately, federal spending declined beginning in 2011 and that spending reduction was steepened by the sequester in 2013. The Congress and President in 2015 agreed to a new budget that effectively ended the Sequester, which resulted in a spending increase, which is expected to continue due to non-discretionary social program requirements.

Military Spending

Perhaps most critical for the Portsmouth economy is US military spending. With the largest local employers directly tied to military spending, any increase or decrease does directly impact Portsmouth.

The figure below shows U.S. military spending through 2015.

Figure 1-8



US military expenditures declined to \$400 billion in the 1990s after the end of the Cold War, but increased dramatically after the 9/11 attacks and the wars in Afghanistan and Iraq. Military spending received some support during the fiscal stimulus of 2009, but then dropped dramatically due to the ending of the wars in the Middle East and other factors, including the sequester. The change from \$400 billion to more than \$750 billion over a ten-year period benefited the Portsmouth area, but the pullback in spending and the sequester hurt the area during the past six to seven years. This is demonstrated in the performance of hotels (discussed in this report) and other businesses that rely on activity surrounding government and military spending.

2017 Defense Budget. Highlights of the 2017 Defense Budget include a 2.1 percent military pay increase effective January 1st, 2017, which will accrue to the benefit of the thousands of enlisted personnel in the Portsmouth area. The pay increase will mean about \$550 more a year for most junior enlisted troops and about \$1,800 for officers. In addition, the Basic Allowance for Housing (BAH) was increased on average by 2.4 percent.

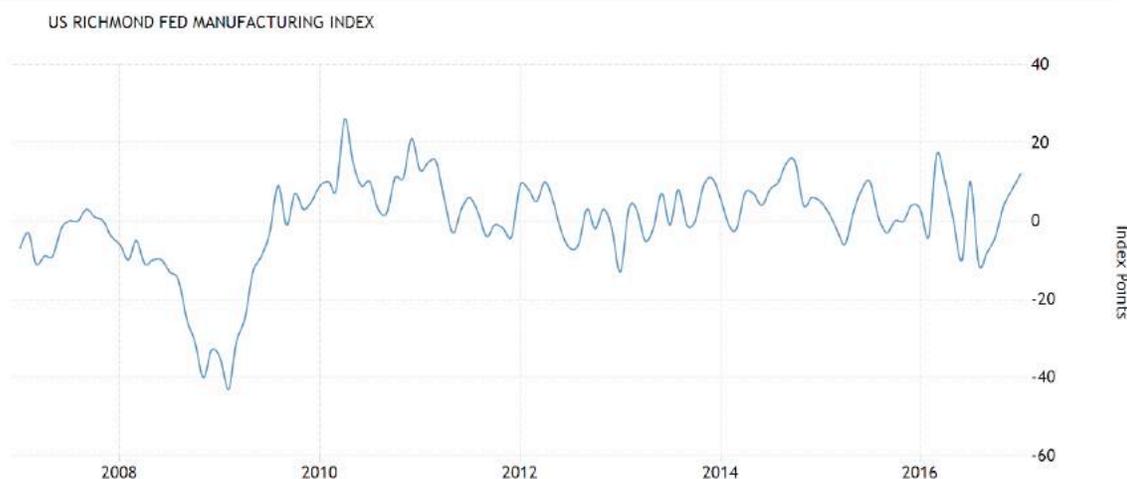
The Coast Guard is also a critical component of Portsmouth's economy. Its current budget was increased and perhaps as important, a number of benefits will improve, including doubling maternity leave from six to twelve weeks and increased pay and other benefits. The impact of these changes is likely to provide either a stable or increasing military employment environment to Portsmouth over the next several years.

Future Outlook. Of most importance to Portsmouth is the U.S. Navy. President Trump has vowed to increase the number of naval ships built and deployed, which would imply an increase in the number of Navy personnel. If these suggestions become reality, Portsmouth will be in a good position for the next four years to reap the benefits of expanded federal Navy and Coast Guard spending. However, the influence on Portsmouth may be slow to materialize, given that funding spent on new ships and personnel will likely take several years.

Regional Manufacturing

The Federal Reserve Bank in Richmond, Virginia covers the territory that includes Portsmouth and the Hampton Roads area. The figure below shows the US Richmond Fed Manufacturing Index. Any reading above zero suggests manufacturing expansion, while any below zero suggests contraction, or decline in manufacturing.

Figure 1-9



SOURCE: WWW.TRADINGECONOMICS.COM | FEDERAL RESERVE BANK OF RICHMOND

As shown, the manufacturing index was barely at zero even before the last recession started, then it declined to -40, a severe decline. It then rebounded above zero by 2010, where it has wavered between expansion and contraction ever since. This struggle suggests that manufacturing in the region is not necessarily positively correlated to overall economic activity.

Overall, the U.S. economy has rebounded since the recession of 2008 – 2010, but the recovery has been slow and many economic factors are not robust, including locally-important military spending. These realities influence real estate nationally and locally. Yet these serve as backdrops to more localized issues and other megatrends. Locally, Portsmouth still needs to create an environment that is attractive to new business and office locations, retailers and restaurants. On the megatrend front, many downtowns have prospered during the recovery due to the influx of young apartment dwellers seeking urban environments. This trend has offset some of the slow recovery issues and has been experienced in Portsmouth. So, Portsmouth has been influenced by the greater economy, but it has also been influenced, both positively and negatively, by national economic and real estate trends.

Regional Economic Expectations

Old Dominion University publishes an annual economic outlook for the region and the highlights of the 2017 predictions include:

“We expect the Hampton Roads economy to grow at a slightly higher rate (1.41 percent) in 2017 than in 2016 (1.36 percent). However, regional growth in 2017 will once again be slower than our historical annual average of 2.6 percent over the past thirty years and slower than that of the nation. The Bureau of Economic Analysis (BEA) reports that the region's economy, as measured by Real Gross Regional Product (GRP), expanded at an estimated rate of 3.71 percent in 2015 after experiencing negative growth of 0.73% in 2014.

Whereas the inflation-adjusted U.S. GDP grew by 10.84 percent from 2009 to 2014, Hampton Roads real GRP grew by only 0.87 percent. The major reasons are the Great Recession and the deceleration of Department of Defense (DOD) spending. Between 2000 and 2012, direct DOD spending in the region increased annually at a rate of 5.8%, compounded. However, DOD expenditures since that time have been stagnant or have declined. We anticipate that DOD spending in 2017 will be about 1.0 percent lower than its peak in 2012.”

Other predictions for 2017 from the report:

- Civilian Employment up 0.5 percent
- Retail Sales up 2.6 percent
- Hotel Room Revenue up 4.2 percent
- Port General Cargo Tonnage up 2.7 percent
- Single Family Housing Values up 2.6 percent

While the reliability of the report cannot be guaranteed, this report appears to be the most consistently focused economic report for the region.

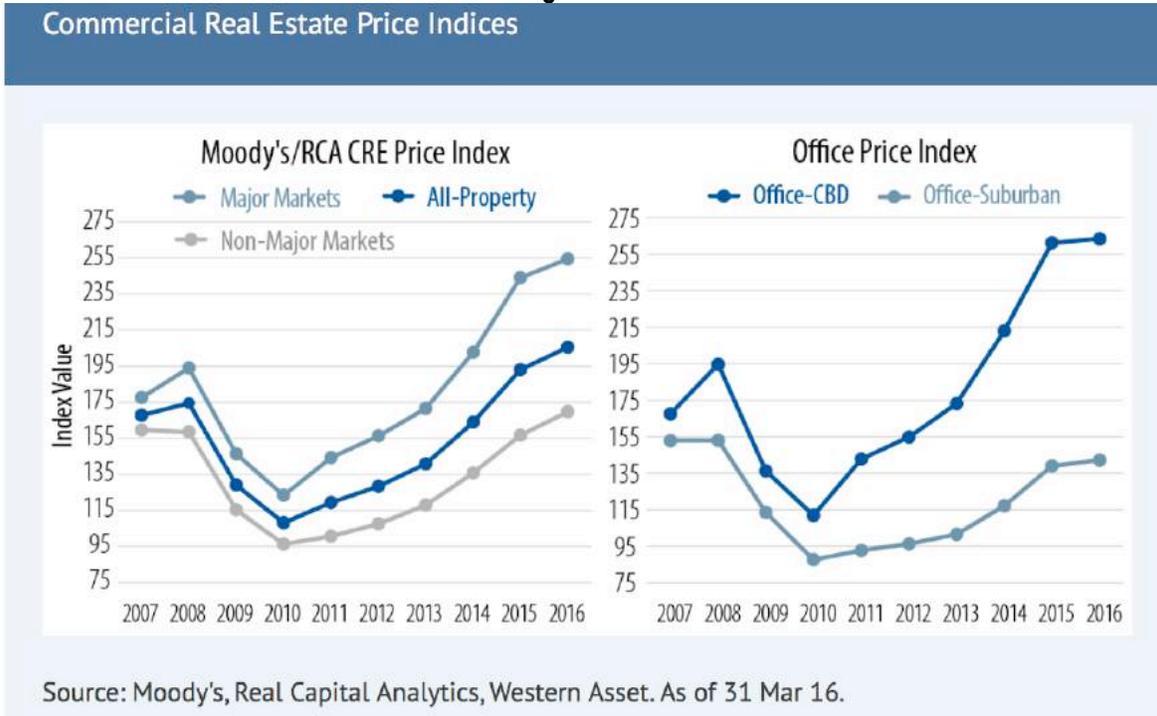
The next section discusses trends in major real estate types.

Real Estate Trends

Real estate values tend to follow larger economic expansions and contractions, typically at a higher rate than the underlying economy. For example, if the economy declines four percent, as it did in 2008-2009, real estate values can decline by as much as 20 to 40 percent. While press coverage focused primarily on the boom, bubble and bust in residential housing markets, which suffered the most severe declines, commercial real estate also suffered valuation declines.

The figure below shows overall commercial real estate prices and office pricing since the prior recession.

Figure 1-10



Commercial real estate in major markets and non-major markets previously peaked in 2008 and declined significantly from 2008 to 2010 before rebounding slowly. The rebound intensified in 2013 and 2014, then moderated in 2015. The office price index showed a more robust rebound in central business districts, but has not recovered yet in suburban markets.

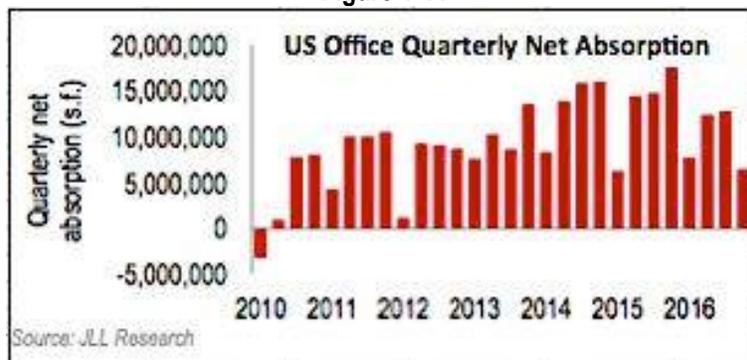
Other office trends are discussed below.

Office

National Trends

Net absorption of office space is the best measure of office space demand nationally. The following figure shows the national net absorption levels for office space since the first quarter of 2010.

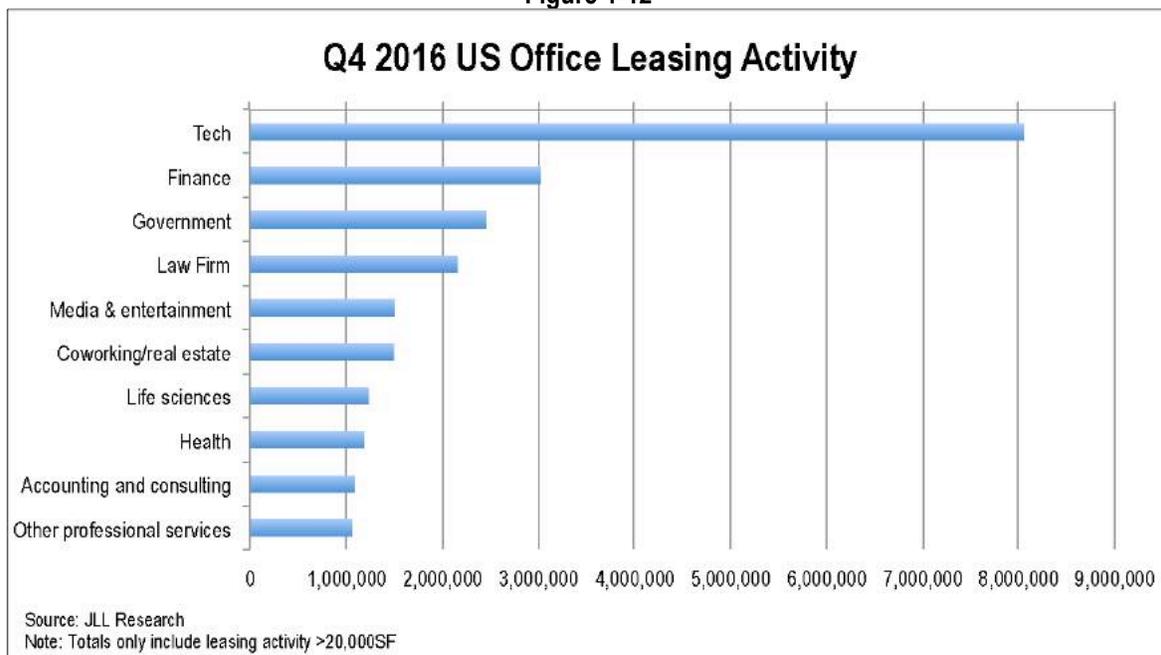
Figure 1-11



JLL Research shows that net absorption has been positive since 2010, although the rate appears to have peaked in 2015. While net absorption was still positive in 2016, the growth rate was not as robust. This correlates to the prior figure, showing a slowdown in office valuations.

The following figure shows the amount of office leasing activity by major sector for the fourth quarter of 2016.

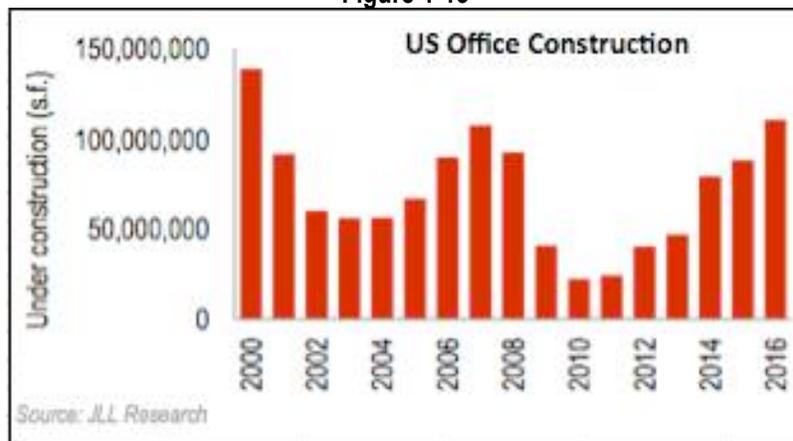
Figure 1-12



Financial services, government and legal services typically constitute the largest sectors for office growth, but the technology sector companies leased more than these three sectors combined and represented nearly one-quarter of all leasing activity in the United States. Many tech firms in mid-sized markets are squeezed without available spaces to expand, since vacancy rates are in the single digits.

The following figure shows the volume of office construction nationally since 2000.

Figure 1-13



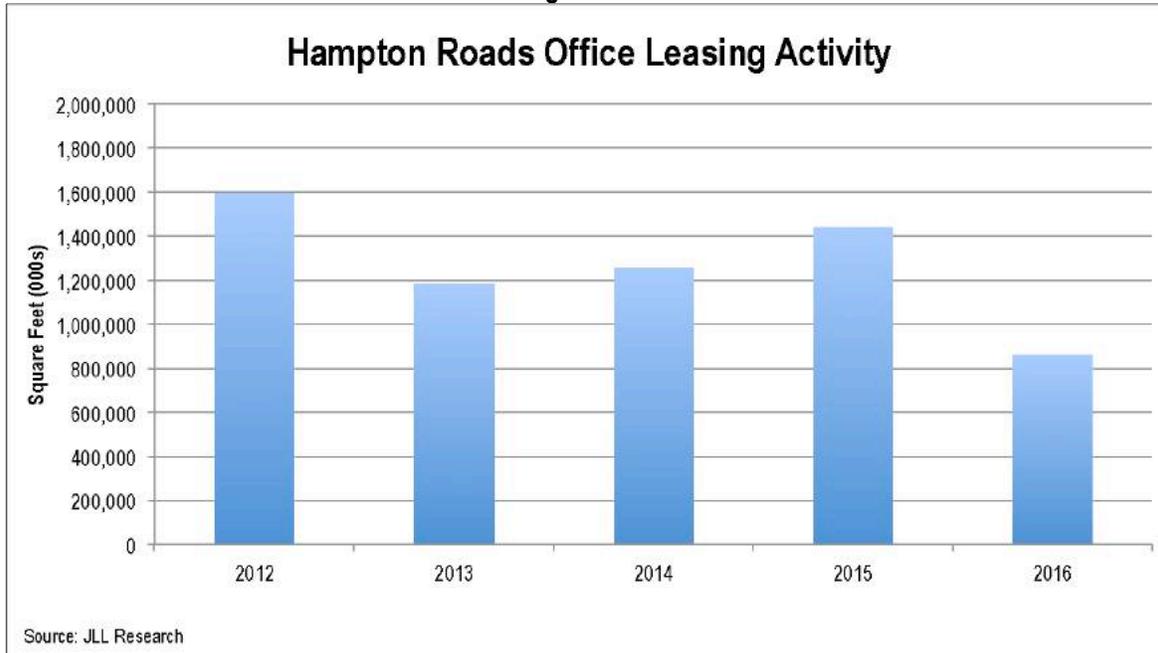
Construction has continued to increase since the cyclical low point in 2010. In 2016, construction of office space topped 110 million square feet. The added supply is expected to slow the growth of rental rates.

Regional Trends

Like the national trend, the Hampton Roads experienced a slowdown in leasing activity in the fourth quarter of 2016. Hampton Roads had a 30.7-percent decrease in leasing activity in the fourth quarter of 2016 compared to the third quarter, yet the year-over-year slowdown was only eight percent for 2016. Despite the slowdown, vacancy rates also fell slightly less than one percent in 2016. Class A specifically experienced an increase in vacancy of 0.3 percent. This increase was offset by the construction and occupancy of a single building, Two Commercial Place in downtown Norfolk.

The following figure shows the historical leasing activity in Hampton Roads.

Figure 1-14

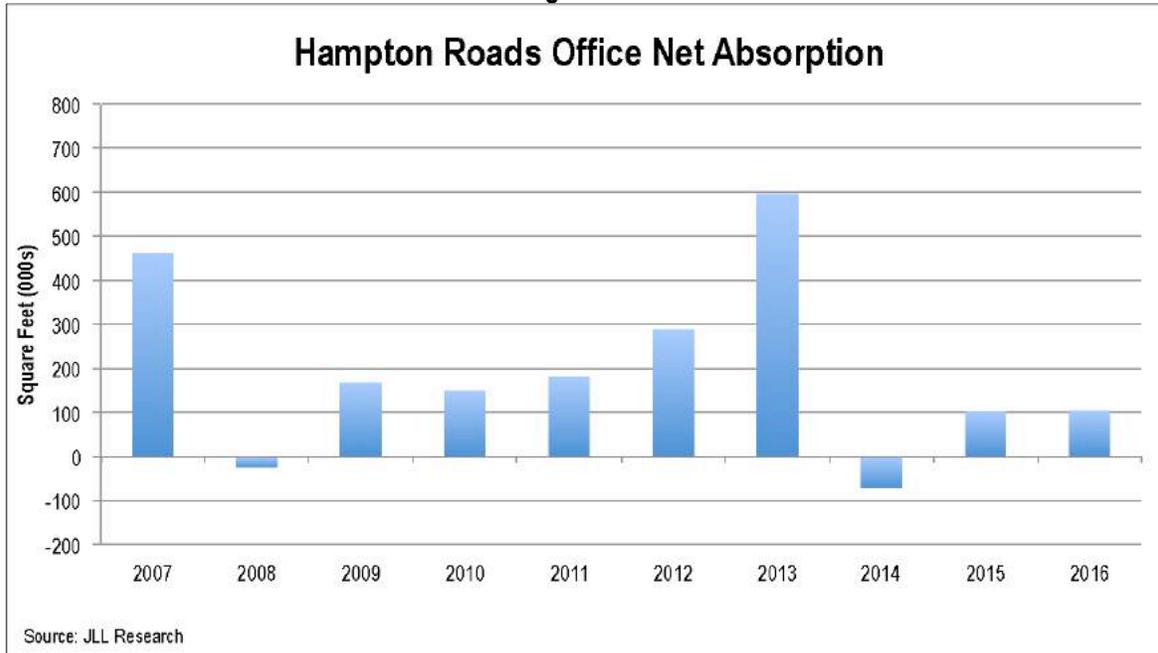


In 2016, Hampton Roads experienced its lowest level of leasing activity for office space since 2012.

Two Commercial Place was also the only source of positive net absorption in Hampton Roads during the fourth quarter of 2016. The building added nearly 288,000 square feet to the market and was 100 percent occupied, offsetting new Class A vacancies and accounting for essentially all of the Class B absorption. Total net absorption between Class A and B was nearly 77,000 square feet for all of 2016 when excluding Two Commercial Place.

The following figure shows the historical office net absorption in Hampton Roads.

Figure 1-15



After three years of growth from 2010 to 2013, net absorption has been negative (2014) or tepid compared to the cyclical peak in 2013 of nearly 600,000 square feet.

As of year-end 2016 there were approximately 210,000 square feet of office space under construction in the region with nearly 48 percent of it preleased. This activity does not necessarily accrue to downtown Portsmouth, but provides regional context.

Residential

National Trends

Demand for multifamily residential units increased in 2016. A net absorption of more than 201,000 units occurred throughout the year in the 62 markets CBRE Econometric Advisors track. This level of absorption is on track with performance in recent years, which has shown significant growth. The absorption in 2016 was nearly five percent greater than 2015. This trend has occurred despite increased home buying.

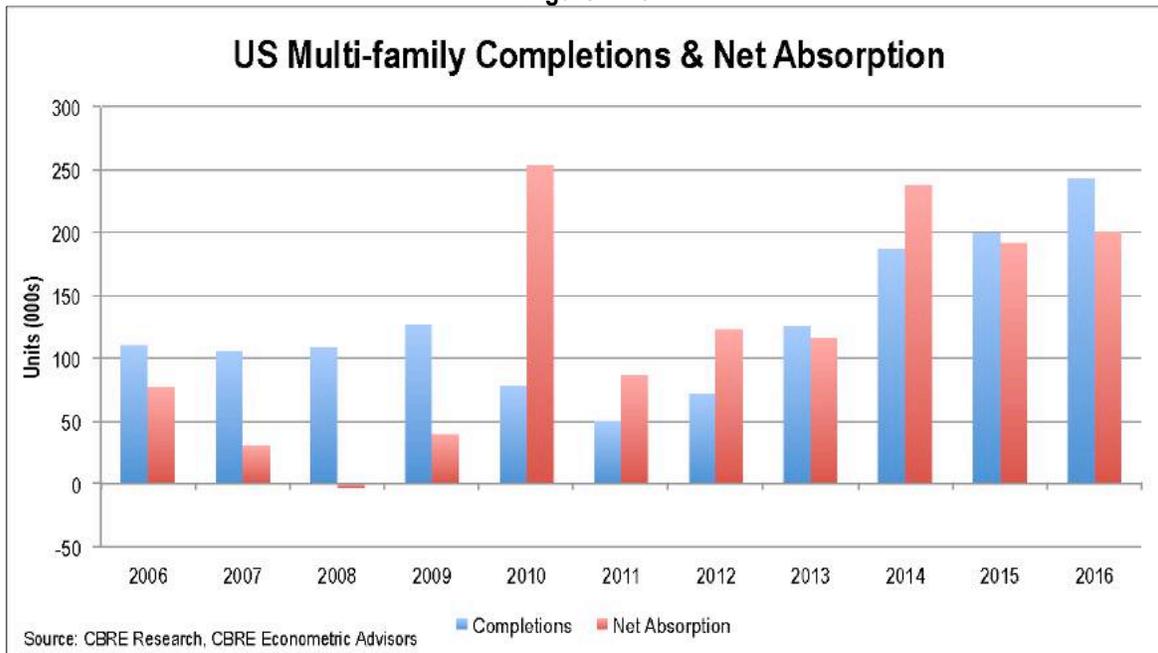
One trend that contributed to the growth of multifamily demand was the decrease in homeownership from 2000 to 2010 and 2010 to 2015. This was true on a national level as well as in individual age groups. This decrease was most pronounced for the under 35 and 35 to 44 age groups, though all groups demonstrated this behavior over the span of 15 years. This trend was present until Q3 2016, which experienced the first increase in homeownership in twelve years, though the rate at the time was still the lowest in 50 years.

Though there was a spike in homeownership, there are reasons to believe that multifamily is still well positioned to continue its growth. A challenge to many prospective homeowners is a lack of supply of

available homes. There has been a sharp decrease in the number of entry-level, affordable homes. There was also a year-over-year decrease in for-sale homes of 11 percent as of October 2016. If interest in homeownership continues, single family home construction may become more viable in the future. For the time being, multi-family residential remains more popular and promising as a development prospect in the short- and medium-term.

The following figure shows the historical completions and net absorption of multifamily units in the US.

Figure 1-16



Completions have been steadily growing since a low point in 2011. The highest level of completions during this cycle occurred in 2016, which is 21 percent higher than 2015, and 2017 is expected to be the peak of completions before cooling off in the ensuing years.

Due to the high volume of completions, a moderate level of oversupply has occurred in urban core submarkets. The oversupply has caused slightly lower effective rents and increases in vacancy. As completions slow, demand is expected to reverse these trends. Non-urban core submarkets, on the other hand, have yet to see supply outpace demand.

The following figure shows the year-over-year change and annual vacancy rate for multifamily units in the US.

Figure 1-17

HISTORICAL U.S. VACANCY RATES AND CHANGE



Source: CBRE Research, CBRE Econometric Advisors, Axiometrics Inc., Q4 2016.

Vacancy rates have increased slightly to 4.9 percent due to supply outpacing demand. Vacancy increased by 0.3 year-over-year since the fourth quarter of 2015. This level of vacancy is still below the average of the past 20 years (5.3 percent). With expectations of increased completions in 2017, it is likely that supply will again outstrip demand in the coming year, which will again lead to an increase in vacancy.

Rent growth has also slowed with the national supply outpacing demand. Rent growth remained mostly positive as 81 percent of markets tracked by CBRE Econometric Advisors experienced an increase in effective rental rates. The overall average for rental rate change was a positive 0.2 percent, however, excluding markets with rent decay produces an average of 3.1 percent growth. Sixteen of the metros tracked had rent growth of four percent or greater.

Regional Trends

The multifamily residential market in the Hampton Roads region experienced strong growth in the six quarters leading up to the third quarter of 2015. The Old Dominion University 2016 Market Forecast is the most recent published data regarding the multifamily market in Hampton Roads. The six quarters ending Q3 of 2015 each experienced rental growth in excess of five percent. This attracted many investors to the market, as this growth was not expected to slow. The supply coming online at the time was considered “catch up” from a slow recovery after the Great Recession.

Due to relatively slow supply growth compared to other regions of the US, Hampton Roads’ vacancy rates decreased to six percent in 2015. Further, this lag of supply growth and a low unemployment rate of 4.5 percent (at the time) were expected to push rental growth rates in markets like Hampton Roads higher than most other markets due to strong renter demand amid slow supply growth.

Overall there is a range of product classes that renters are demanding, typically based on their age group. The now highly age diverse renter pool is looking less for Class A space and large units and more for convenient location to amenities that is both affordable and functional, which means units should include

washers and dryers. Millennials are also not as concerned with having large spaces, though they are focused on having high-end finishes, amenities and technology in their units.

Hampton Roads has a high proportion (nearly 20 percent) of residents ages 20 to 30 that are looking for the Class A product with technology and amenities. As a lack of these properties exists in the region and in Portsmouth, there is an opportunity for new supply to accommodate willing renters. At some point, the growth of downtown residents could start to create demand for small office users, if residents start businesses. However, HSP does not expect this to influence the office market in a material way in the short term.

Hotel

National Trends

The hotel industry experienced a severe contraction and rebound like much of the rest of the real estate economy. However, its rebound was more pronounced than some markets as new supply was constrained by lending. So many banks had bad loans on their books that until most of these properties were sold in 2010 – 2012, lending for new hotel projects was stagnant. In the meantime, demand continued to increase, so for the hotels open, occupancy increased as did rates. This set up an opportune period for hotel development.

The following table shows selected characteristics of the U.S. lodging industry from 1992 through 2015.

Table 1-1

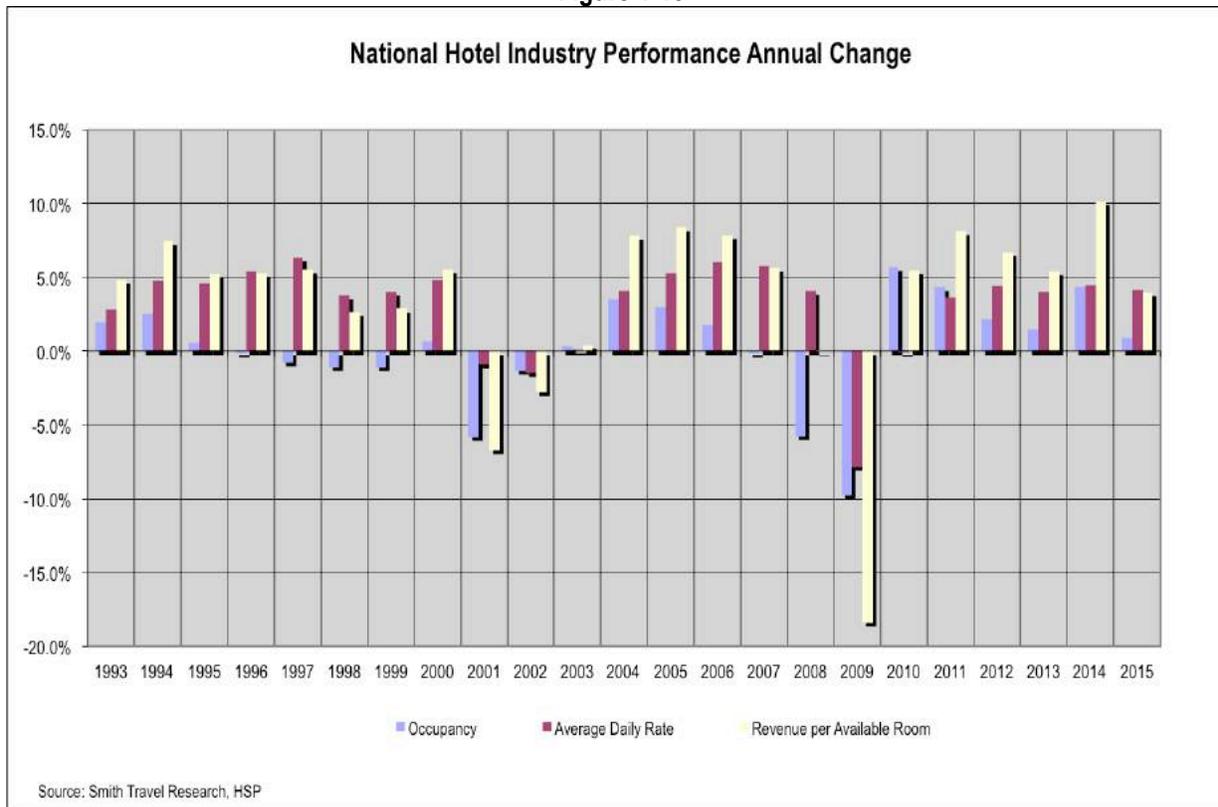
National Lodging Industry Annual Summary						
Year	Occupancy	Change	Average Daily Rate	Change	Revenue per Available Room	Change
1992	61.9%	--	\$59.62	--	\$36.90	--
1993	63.1%	1.9%	\$61.30	2.8%	\$38.68	4.8%
1994	64.7%	2.5%	\$64.24	4.8%	\$41.56	7.4%
1995	65.1%	0.6%	\$67.17	4.6%	\$43.73	5.2%
1996	65.0%	-0.2%	\$70.81	5.4%	\$46.03	5.3%
1997	64.5%	-0.8%	\$75.31	6.4%	\$48.57	5.5%
1998	63.8%	-1.1%	\$78.15	3.8%	\$49.86	2.7%
1999	63.1%	-1.1%	\$81.29	4.0%	\$51.29	2.9%
2000	63.5%	0.6%	\$85.24	4.9%	\$54.13	5.5%
2001	59.8%	-5.8%	\$84.45	-0.9%	\$50.50	-6.7%
2002	59.0%	-1.3%	\$83.20	-1.5%	\$49.09	-2.8%
2003	59.2%	0.3%	\$83.28	0.1%	\$49.30	0.4%
2004	61.3%	3.5%	\$86.70	4.1%	\$53.15	7.8%
2005	63.1%	2.9%	\$91.29	5.3%	\$57.61	8.4%
2006	64.2%	1.7%	\$96.77	6.0%	\$62.13	7.8%
2007	64.1%	-0.2%	\$102.38	5.8%	\$65.63	5.6%
2008	60.4%	-5.8%	\$106.55	4.1%	\$65.61	0.0%
2009	54.5%	-9.8%	\$98.20	-7.8%	\$53.55	-18.4%
2010	57.6%	5.7%	\$98.08	-0.1%	\$56.47	5.5%
2011	60.1%	4.3%	\$101.64	3.6%	\$61.06	8.1%
2012	61.4%	2.2%	\$106.10	4.4%	\$65.17	6.7%
2013	62.3%	1.5%	\$110.35	4.0%	\$68.69	5.4%
2014	65.0%	4.3%	\$115.26	4.4%	\$75.66	10.1%
2015	65.6%	0.9%	\$120.01	4.1%	\$78.67	4.0%
Avg. Annual Growth Rate		0.31%		3.14%		3.52%

Source: Smith Travel Research, HSP

The national hotel industry experienced an average year by most metrics in 2016, yet hit records. Room supply grew by 1.6 percent, which is slightly less than the 29-year average maintained by Smith Travel Research. Demand for rooms also increased by 1.7 percent, which is short of the 29-year average as well. Occupancy ended up at 66.7 percent overall, which represented a near zero change year-over-year, but still represented an all-time high. Average daily rate (ADR) increased to another high of \$124 after an average growth of 3.1 percent in 2016. Revenue per available room (RevPAR) increased by 3.2 percent to \$83, an all-time high. Room revenue overall increased by 4.8 percent.

The figure below depicts the aforementioned data in graph form, highlighting the annual change in performance statistics.

Figure 1-18



Performance has been positive since 2010, although the rate of growth is declining.

The following table shows the number of existing hotel rooms, rooms under construction and rooms in the active pipeline as of June 2015 sorted by chain scale.

Table 1-2

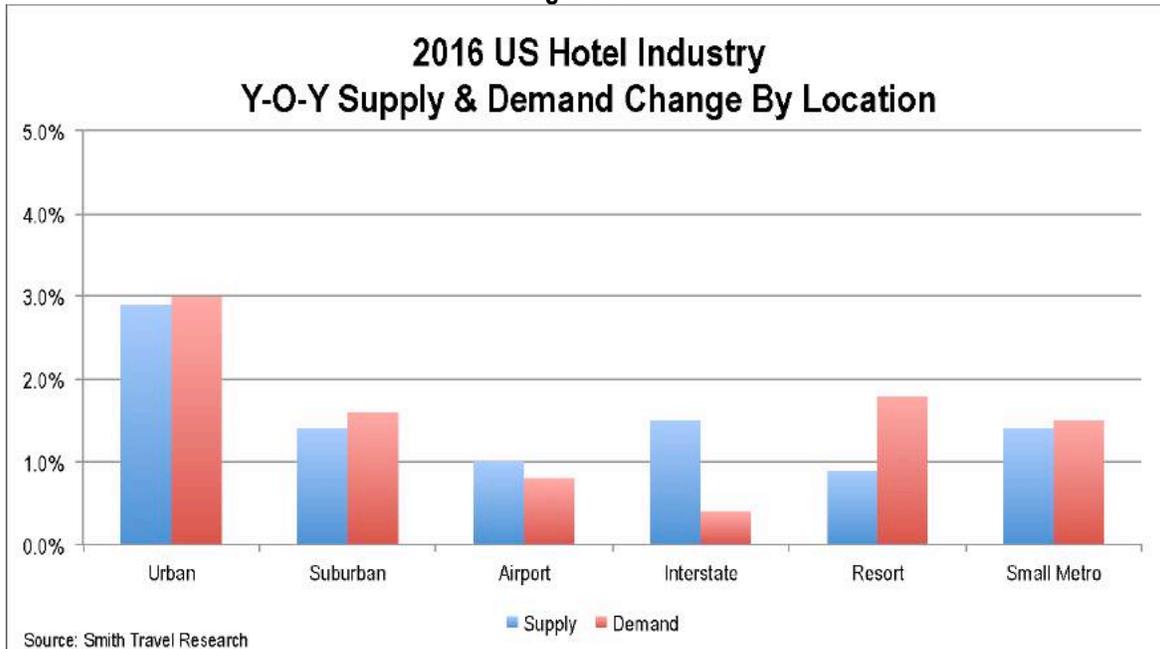
U.S. Active Pipeline by Chain Scale As of April 30, 2016						
Chain Scale	Preliminary Existing Supply	Year Over Year Percent Change	Rooms Under Construction	Year Over Year Percent Change	Total Active Pipeline	Year Over Year Percent Change
Luxury	109,017	2.5%	7,880	47.2%	12,651	31.4%
Upper Upscale	582,675	1.0%	14,965	7.9%	42,332	22.0%
Upscale	678,763	5.8%	55,994	1820.0%	145,049	10.4%
Upper Midscale	899,537	2.4%	52,934	45.0%	170,725	23.2%
Midscale	473,378	-0.3%	6,316	25.6%	31,925	15.4%
Economy	782,568	-0.1%	1,276	94.8%	4,731	41.2%
Unaffiliated	1,536,787	-0.3%	21,649	29.4%	98,587	2.4%
Total	5,062,725	1.2%	161,014	28.3%	506,000	14.6%

Source: Smith Travel Research

Between May 2015 and April 2016, the hotel industry increased its total year over year supply for the sixth consecutive year. This increase equated to a 1.2 percent increase, resulting in more than 50,000 rooms. Among the chain scale segments, the upscale segment expanded the most during this period, increasing by 5.8 percent over the prior year. As of the end of April 2016, more than 161,014 hotel rooms are under construction, and there are more than 506,000 rooms in the active development pipeline.

The following figure shows the supply and demand change by property location in 2016.

Figure 1-19



Urban properties experienced the greatest increase in demand and accounted for the greatest percentage increase in new supply. All locations posted positive results in 2016, but airport and interstate properties experienced the slowest demand growth and airport and resort properties had the slowest supply growth.

The strong national demand for high-end hotels and a robust development pipeline gives great prospect to the opportunity for additional hotel properties in Portsmouth. There is a full analysis of the Portsmouth hotel market in Appendix C and discussion throughout the report as well.

Regional Trends

Virginia as a whole and the Hampton Roads region has struggled over the past 25 years when compared to the nation, though much of this constrained performance was experienced in recent years due to the Great Recession and the sequestration of federal funds that followed. While the nation's hotel industry was hit hardest in 2009, Virginia saw its worst year in 2013. Northern Virginia and Hampton Roads rely heavily on federal spending, which was cut severely from 2011 to 2013.

The reduction in defense spending specifically had a significant negative impact on hotel performance. Federal workers and military personnel being housed in hotels were far fewer in the past several years. Low per diem reimbursement rates for government travelers tends to keep area hotel rates low. Hampton Roads especially struggled with the downturn in room demand. It is, however, a positive sign that expectations of higher defense spending is on the way. Renewed stays from government and military sectors are expected to breathe new life into the industry. There has also been a turnover of older hotels to demolition, replaced by new hotels, in some submarkets, which has taken the worst performers out of the mix and increased average hotel performance as a result.

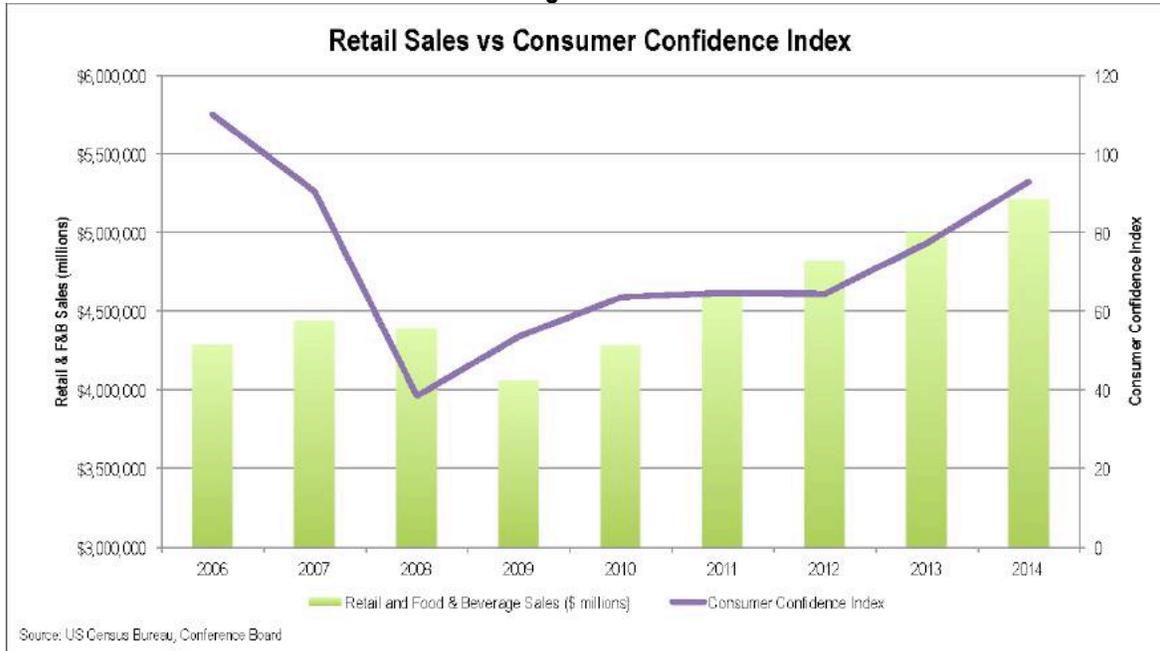
Retail & Restaurant

National Trends

Retail has had a sluggish recovery since the Great Recession due to slow increases in consumer confidence and, therefore, spending. There is an interesting relation between wage growth and spending that is further explained in the following figure.

The following figure shows a comparison of national retail sales and consumer confidence index (CCI).

Figure 1-20

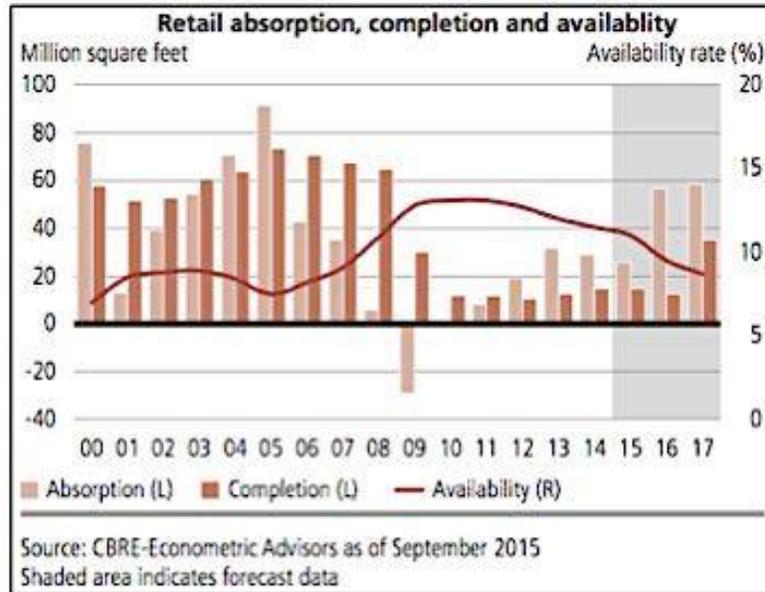


Between 2006 and 2014, the consumer confidence index and retail sales mostly trended parallel to each other. By using the year-end CCI values, it appears that consumer confidence bottomed out in 2008, when truly it was early 2009 that held the lowest point. By the end of 2009, CCI had already recovered slightly. The CCI also appears to predict spending by increasing prior to the increase in spending.

At the time the following figure was published (September 2015) consumer confidence was at a 98.3 (on a 100-point scale). This was a marked increase in confidence since the low point of 29.9 in 2009 since the index started being tracked in 1967. As of the most recent index (January 2017) consumer confidence was at 111.8, signaling growth in the retail sector might be on its way.

The following figure shows the absorption, completion and availability of retail inventory nationally.

Figure 1-21



According to the projections given by CBRE Econometric Advisors above, absorption is expected to outpace construction and drive down availability (and vacancy) in the national retail inventory. Completion of new space is expected to spike again in 2017.

Beyond the historical yet slow growth in retail are the trends in consumer behavior and how space is used to accommodate changing preferences. Food and beverage is beginning to drive the retail industry.

The character of retail is changing nationally. In addition to the decline of department stores, the mix of tenants in traditional regional malls is changing. The following figure compares the typical tenant mix in United States malls in 2007 and 2017.

Figure 1-22

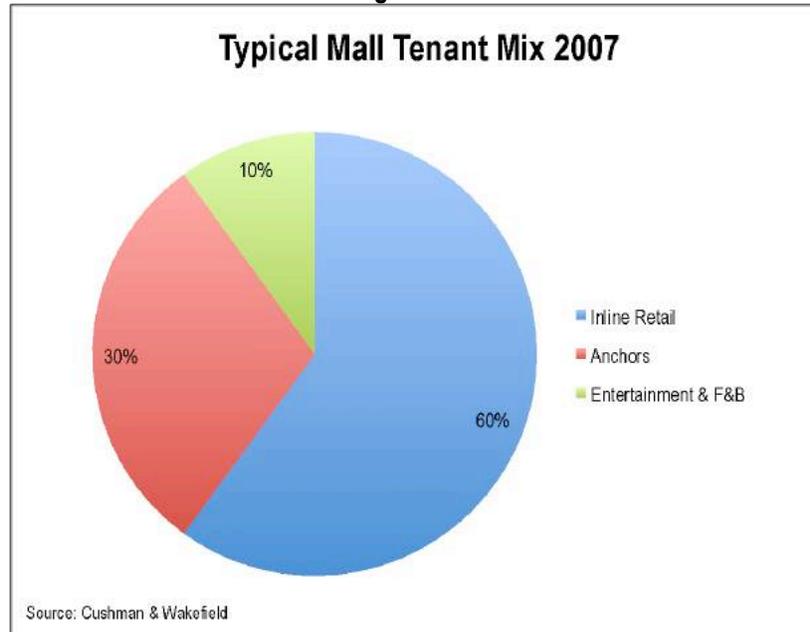
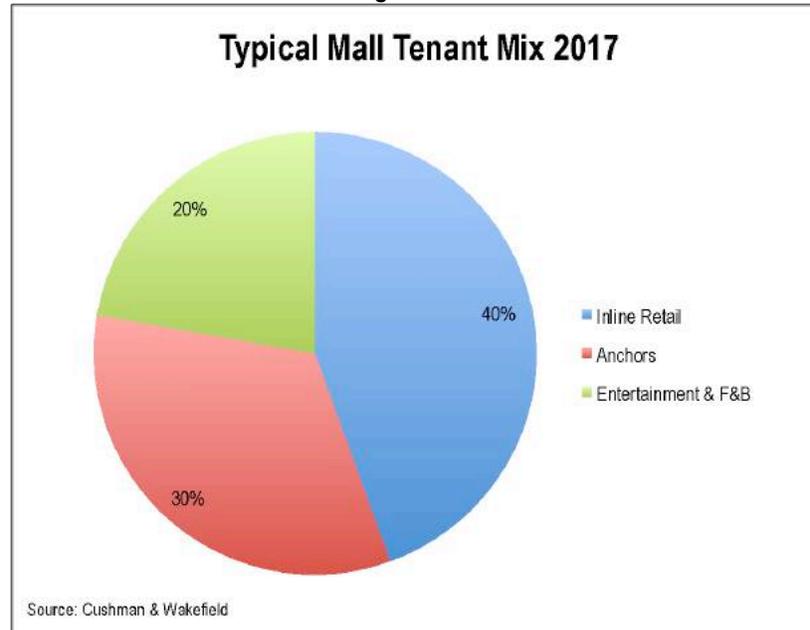


Figure 1-23



Anchors have remained at 30 percent of the typical tenant mix for malls since 2007. The change in tenant mix has come in the form of additional entertainment and food and beverage options at the expense of inline retail. What is not shown is the change in character of the anchor stores. There is a major change in the

meaning of anchor, with hundreds of Sears, Macy's and others shuttering. These are being replaced by entertainment venues, libraries, colleges, a collection of restaurants or big box stores.

Are these trends influencing downtown Portsmouth retail directly? Not necessarily. Downtown retail tends to be driven by hyper local situations, especially the daily sidewalk traffic and nearby residential base. Because most of the major retail mall or development types are suburban in nature, the impact on downtown is minimal. Since the 1970s, downtowns have had to carefully foster and curate their retail environment, which starts with strong residential and tourism activity nearby. Restaurants can be supported more easily, as downtown office workers add to the mix of customers.

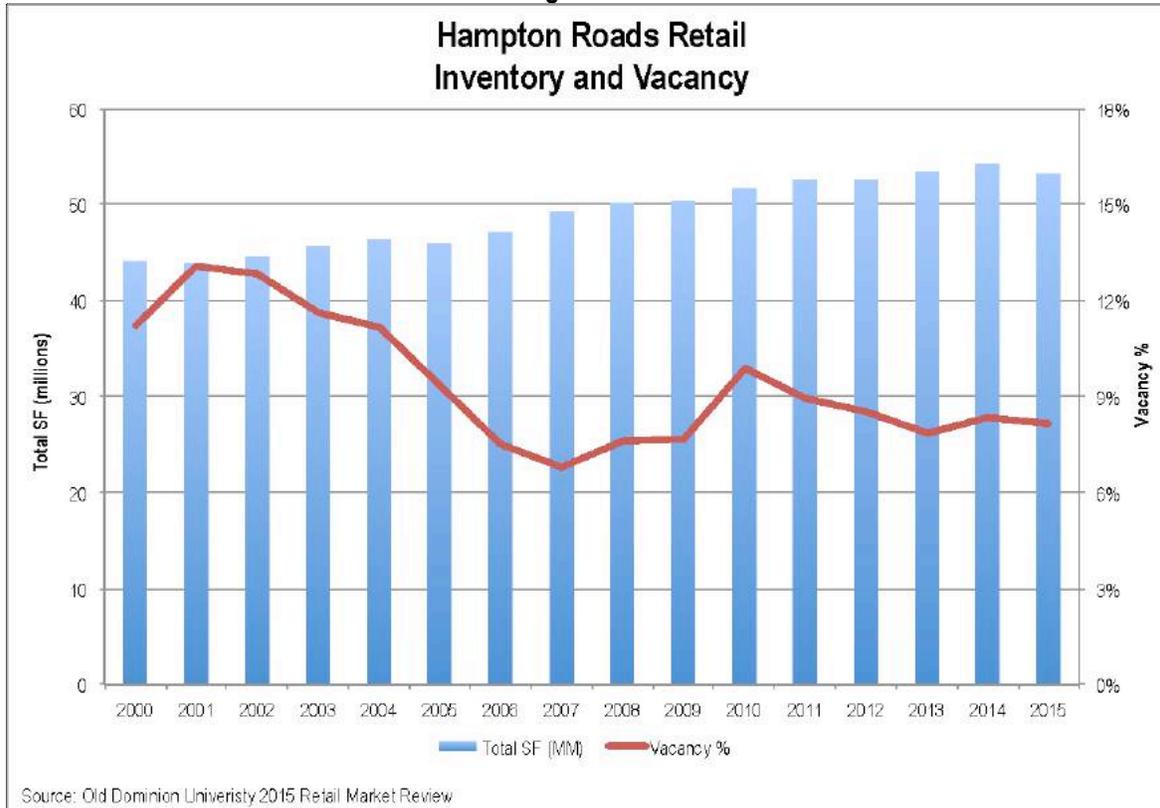
Regional Trends

The retail and restaurant market in Hampton Roads appears to be positive moving into 2017, based in available data. Added space such as the Norfolk Premium Outlets and new store announcements by Ikea and Wegmans are signs of national retail investment interest. Interest from grocers specifically was piqued in 2016.

Aldi and Lidl have begun a race to regional dominance in Hampton Roads, while other major brands are investing in the area, too. Lidl is constructing several new stores in Newport News, Hampton, Chesapeake and Virginia Beach with the first stores opening in early 2017. Aldi already had stores open in the region in Newport News, Portsmouth and Williamsburg. In addition, Aldi is also building stores in Gloucester, Hampton, Suffolk and Virginia Beach. Kroger has continued its strategy of acquiring marketplaces with the most recent being at Cedar Road and Dominion Boulevard in Chesapeake. As mentioned above, Wegmans has announced a store to be built in Virginia Beach at the intersection of Virginia Beach and Independence boulevards. Wegmans is planning a 130,000-square-foot facility with a mezzanine-level café and structured parking.

The following figure shows the historical inventory and vacancy rates in Hampton Roads.

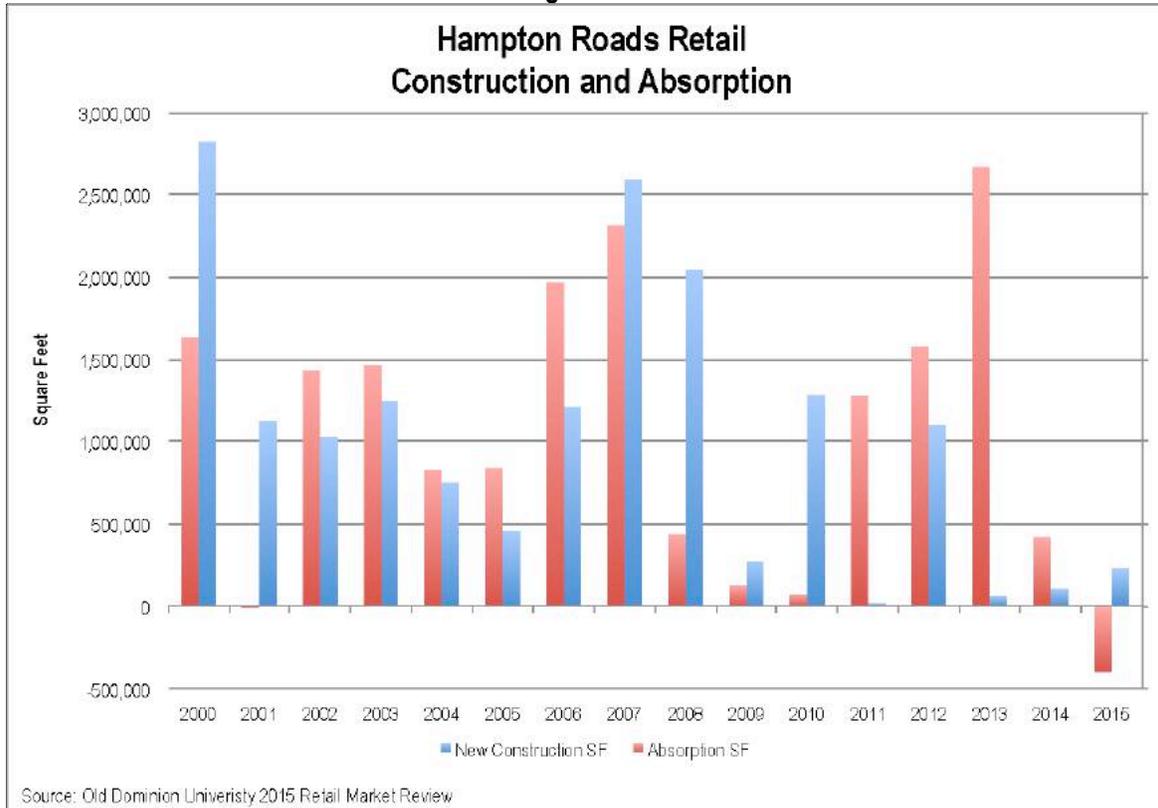
Figure 1-24



Overall inventory in Hampton Roads has steadily increased since 2000, with minor reductions in 2001, 2005, 2012 and 2015. Vacancy rates have mostly remained between seven and ten percent since 2005 with the most recent years trending downward. The relationship between total inventory and vacancy rates illustrate how healthy the market is. If vacancy remains at low levels in a market (less than ten percent, which essentially means occupancy is more than 90 percent), then additional inventory is likely needed to accommodate prospective tenants unable to find space.

The following figure shows the historical construction and absorption in Hampton Roads.

Figure 1-25



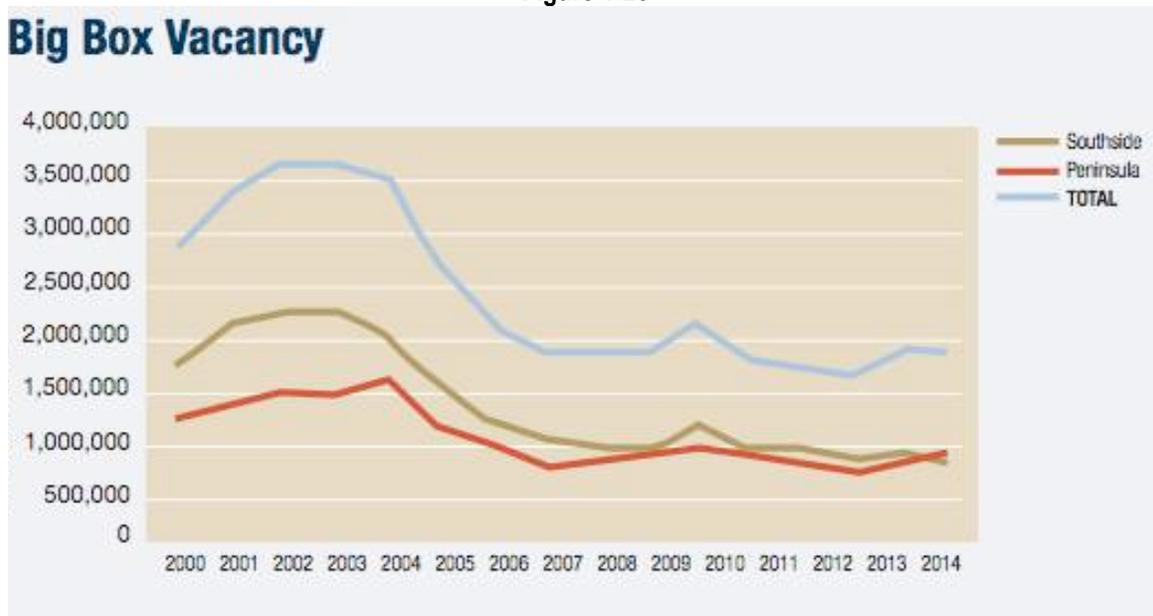
Construction was highest in 2000 at more than 2.8 million square feet, and peaked again in 2007 at nearly 2.6 million square feet. Yet it was also as low as approximately 19,000 square feet in 2011. Construction significantly slowed since 2012. Absorption had similar swings in volume ranging from nearly 2.7 million square feet in 2013 to nearly negative 400,000 square feet in 2015.

Construction (new supply), absorption (demand absorbing supply) and vacancy rates are directly linked. If construction outpaces absorption, then vacancy rates will rise. If net absorption continues at a low rate, construction will likely slow or stop altogether. However, when vacancy rates are very low, this encourages new construction with the likely outcome of high absorption of new inventory. Further, generally rental rates will partially be determined by how much inventory is available compared to the level of demand from tenants.

The trend of store closures in 2016 was present nationally and regionally. Sear's announced the closure of 108 Kmart stores and 42 Sear's locations throughout the US. The Super K-Mart on Military Highway and Norview Avenue in Norfolk will be closing, which marks the sixth store closure in recent years.

The following figure shows the historical big box store vacancies in total square feet for Hampton Roads from Old Dominion University.

Figure 1-26



While the Southside submarket of Hampton Roads, which includes Portsmouth and surrounding communities south of the river, has had historically higher big box vacancy since 2000, Southside fell below the Peninsula submarket in 2014. Both of the submarkets had less than 1,000,000 square feet of vacancy in big box stores as of 2012, and remained this way for the following two years.

Job growth is the driving factor behind the necessary increase in housing, and therefore retail and restaurant opportunities for new residents. The healthcare sector is expecting growth of approximately 7,000 jobs in Hampton Roads during 2017. Even more impactful is the recent 2.1-percent pay increase in civilian federal employee salaries as of January 2017, which will likely increase spending. Infrastructure projects including the Amtrak station and interchange improvements will also increase the attractiveness and efficiency of logistics and travel for the region.

Again, like national retail development trends, the regional retail trends do not have as much of an influence on downtown Portsmouth as the hyper local market situation.

Implications

The national economy and other related factors have been improving, albeit slowly, over the past several years. This economic expansion has supported the growth of real estate, especially once commercial real estate lending recovered in 2010. Specific sectors, such as multifamily/apartments and hotels, have surged while others, like single family homes, have recovered more slowly. Megatrends in retail, including the rise of e-commerce and big box and discount dominance of individual sectors, are changing the way retail is developed, including the types of stores and malls. Restaurant spending has surpassed grocery spending for the first time ever, supporting the increasing development of restaurants in both urban and suburban setting.

The office market nationally and in the Hampton Roads region is experiencing some challenges, but is still viable for growth in the coming years. There has been a slowdown in leasing activity, yet vacancy has fallen slightly in the region. The prospects for Hampton Roads are strong given the Department of Defense is expecting growth from the new presidential administration and healthcare enterprises are gearing up for expansion as well.

Residential development is certainly a major opportunity in the Hampton Roads region with supply growth lagging behind demand. New jobs expected to hit the market will drive the need for additional residential units, and urban multifamily is performing very well nationally and regionally. There will be a need to develop a variety of dwelling options from Class A units Millennials prefer (according to HSP's multiple interviews) with technology, high-end finishes and amenities to the Class B units other renters are looking for, with affordable rents and nearby retail and restaurant.

Hotels have continued to perform very well and even at record levels in recent years nationally, but not as well regionally, due to the pullback in defense spending. Renewed optimism is possible with federal defense funding expected to increase under the new administration.

The retail and restaurant market will likely need to expand along with additional jobs and additional residents. There are a number of trends in restaurants and retail to watch for as new centers are developed to capture consumer interest and older centers are redeveloped or repurposed. Dining options are leading the way in retail. Hampton Roads is already seeing new interest from retailers, which is a positive sign that growth is expected in the near future.

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ECONOMIC & DEMOGRAPHIC AND REAL ESTATE MARKET ANALYSIS

Local market area characteristics such as population, demographics, a diversified economy, access, quality of Downtown, and tourist attractions influence the potential demand for various real estate uses. This chapter profiles Portsmouth, Virginia, and includes an overview of the economic characteristics of the metropolitan market and a description of local area attractions. The real estate markets in Portsmouth will be discussed, including past performance and future opportunities. This chapter will also discuss real estate development incentives offered by the City of Portsmouth.

Economic & Demographic Analysis

The following figure shows a map of the Hampton Roads region.

Figure 2-1



Seven large independent cities comprise most of the urban areas of the Hampton Roads region. They are Norfolk, Portsmouth, Chesapeake, Suffolk, Virginia Beach, Hampton and Newport News. Williamsburg is a popular tourist draw, and acts as a gateway to the region. U.S. routes 460, 12, and 58 carry travelers to the west from Portsmouth.

Regional Access

Portsmouth is served by Interstate 64, via routes I-264 and I-664, which is a part of the Hampton Roads Beltway. Two US highways, U.S. Route 17 and U.S. Route 58, also pass through Portsmouth. U.S. Routes 13 and 60 both pass through the area, but not inside the municipal limits of Portsmouth. This is one of the largest metropolitan areas in the nation to be served by only one mainline interstate highway. I-64 heads north and west to Richmond, West Virginia, and further west to Louisville and St. Louis, where it continues westward as I-70. I-95 at Richmond is the closest north-south interstate in the area. Another important highway in the area is U.S. 13, which connects by way of the Chesapeake Bay Bridge-Tunnel to the Delmarva Peninsula, and northward to Baltimore (via U.S. 50) Wilmington, Delaware, Philadelphia and the rest of the East Coast megalopolis.

Portsmouth Access

The quickest access for anyone to reach Portsmouth from east of the Elizabeth River, including Norfolk, is by the Downtown Tunnel on I-264. The Midtown Tunnel also connects Norfolk's Ghent neighborhood and Portsmouth's Pinner Point, north of Downtown Portsmouth at the Portsmouth Marine Terminals.

Downtown Portsmouth can also be accessed from the west by the Western Freeway, or state highway 164, and by I-264 from the southwest. Within two miles of Downtown Portsmouth, along the western periphery of the central core, is a new, elevated freeway called the Martin Luther King Jr. Expressway, which is also U.S. highway 58. This highway connects the Western Freeway, the Midtown Tunnels (which are being widened as of 2017) and I-264, making a partial loop around Downtown Portsmouth. It opened just after Thanksgiving, 2016, and completes a missing link in the expressway system in the Portsmouth, Chesapeake, and Norfolk area. The connection of these freeways will enable easier access into midtown and Downtown Portsmouth, especially from areas to the northwest of the city. Traffic levels along the Western Freeway can be expected to rise with the new MLK Jr. expressway link.

Since February 1, 2014, the Elizabeth River tunnels have added tolls. Passenger cars and motorcycles pay \$1.65 (off-peak times) and \$1.95 during peak travel times. Multiple axels pay \$4.94 (off-peak times) and \$7.79 during peak travel times. Those prices assume vehicles have an E-ZPass transponder. E-ZPass has been installed to make tolling faster and more efficient for most vehicles. Rates for registered/Pre-paid cars are \$3.60 during peak times, and \$5.25 for unregistered cars during peak times. The price is thirty cents cheaper during non-peak hours. The long-term impact of the tolls and other accessibility, pro or con, are not able to be determined at this early stage. However, added accessibility allows for future growth.

Airport Access

Norfolk International Airport is the primary airport for Portsmouth, and it is the region's major commercial airport. It is located near Chesapeake Bay along the city limits of Norfolk and Virginia Beach. Seven airlines

provide nonstop service to 25 destinations. Newport News/Williamsburg International Airport also provides commercial air service for the Hampton Roads area, and it has about one-third of the business of Norfolk International Airport.

Norfolk International Airport, like nearby Richmond International Airport to the northwest, is not a hub airport. This keeps the traffic at both airports fairly light, considering the rather significant population in the area. A total of nearly 1.7 million passengers departed the airport in 2015. Richmond International Airport also had approximately 1.7 million passengers. If residents want more flight options, they have to drive north towards Washington D.C. or fly to larger airports to connect to other destinations. The busiest airports in the state are Washington Dulles International Airport and Ronald Reagan National Airport, with 11.3 million and 8.7 million departing travelers annually, respectively. The top ten airport destinations from Norfolk are:

- Atlanta – 359,000
- Charlotte – 203,000
- Baltimore/Washington – 131,000
- Philadelphia – 81,000
- Dallas/Ft Worth – 79,000
- Washington Dulles – 74,000
- Chicago Midway – 73,000
- Chicago O’Hare – 71,000
- New York LaGuardia – 69,000
- Detroit Metropolitan – 63,000

Population

The following table shows population changes in the United States, the Commonwealth of Virginia, the Hampton Roads MSA and City of Portsmouth.

Table 2-1

	Population and Growth Rates				Percent Change 2000 - 2015
	1990	2000	2010	2015 Estimate	
United States	248,709,873	281,421,906	308,745,538	321,418,820	14.2%
Commonwealth of Virginia	6,187,358	7,078,515	8,001,024	8,382,993	18.4%
Virginia Beach-Norfolk-Newport News MSA	1,443,244	1,569,541	1,676,822	1,724,876	9.9%
City of Portsmouth	103,907	100,565	95,535	96,201	-4.3%
City Pop. As % of MSA	7.2%	6.4%	5.7%	5.6%	

Source: U.S. Census Bureau

The U.S. population grew by 14.2 percent between the 2000 and 2015 census tracts, while the Virginia Beach-Norfolk-Newport News MSA grew by 9.9 percent and Virginia grew by 18.4 percent. During the same

period, the City of Portsmouth’s population decreased by 4.3 percent. Expected job growth in the region in the healthcare and defense sectors could restart population growth in Portsmouth.

The following table shows the population and household count by radii of one mile, three miles and five miles from Downtown Portsmouth.

Table 2-2

Downtown Portsmouth - 2015 Population by Radius			
Category	1 mile	3 miles	5 miles
Population	13,674	88,276	239,345
Households	5,542	35,562	91,268
Source: Esri			

The population density increases beyond the one-mile radius from Downtown Portsmouth. The population is 239,345 in 91,268 households within five miles of Downtown Portsmouth.

Employment Diversity

A healthy and diversified economy provides not only employment and disposable income for a market’s residents, but it also helps to insulate an area from economic downturns. Markets that have historically relied on one sector, such as manufacturing, have often had difficulty recovering from market shifts to other sectors. This leads to an overall loss of local income and employment. This situation will often lead to declining population trends, as residents move to other areas that offer better opportunities.

The following table depicts the employment by category for the city of Portsmouth.

Table 2-3

Portsmouth Employment by Category - 2014		
Description	Employees	Percent of Total
Total employment	60,034	100%
By Industry		
Farm employment	0	0.0%
Nonfarm employment	60,034	100.0%
Private nonfarm employment	34,969	58.2%
Health care and social assistance	7,957	13.3%
Retail trade	3,762	6.3%
Other services, except public administration	3,688	6.1%
Administrative and waste management services	3,492	5.8%
Construction	3,076	5.1%
Accommodation and food services	2,343	3.9%
Transportation and warehousing	2,232	3.7%
Professional, scientific, and technical services	1,838	3.1%
Manufacturing	1,610	2.7%
Management of companies and enterprises	1,610	2.7%
Real estate and rental and leasing	1,542	2.6%
Finance and insurance	1,063	1.8%
Arts, entertainment, and recreation	565	0.9%
Information	403	0.7%
Educational services	362	0.6%
Mining	47	0.1%
Forestry, fishing, and related activities	19	0.0%
Wholesale trade	(D)	N/A
Utilities	(D)	N/A
Government and government enterprises	25,065	41.8%
State and local	5,487	9.1%
State government	996	1.7%
Local government	4,491	7.5%
Federal, civilian	12,947	21.6%
Military	6,631	11.0%

Source: Bureau of Economic Analysis

Healthcare and social assistance is the top private industry by employment, accounting for 13.3 percent of total employment. The second and third major private industries by employment are retail trade and “other” services, not including public administration. Government accounts for 41.8 percent of the total employment in Portsmouth, which include the vast majority of port workers. Port workers are considered civilian government workers, rather than military employees, despite being closely tied together. Consequently, when the military and general government sector increased spending, such as from 2001 through 2007, the local economy is generally healthy and robust. However, during budget cuts or cutbacks in the military, as has been occurring since 2008, the local economy is impacted more than most. The area is dominated by government jobs, which

puts the local economy at risk when budget sequestration occurs, as proven by the effects during the Obama administration. After losing an estimated 15,000 jobs during and after the Great Recession, ways to diversify the economy must be explored in order to engender resiliency.

Corporate Presence and Major Employers

The following table shows the largest employers in Downtown Portsmouth and nearby areas, by number of full-time employees. Not all of the largest employers are located in Downtown Portsmouth.

Table 2-4

Portsmouth Area Major Employers		
Company Name	Industry	Number of Employees
Norfolk Naval Shipyard	Shipyards	14,000
Naval Medical Center, Portsmouth	Healthcare	7,000
City of Portsmouth	Government	2,585
US Fifth District Coast Guard Command*	Government	2,500
City of Portsmouth Public Schools	Education	2,192
Bon Secours Maryview Medical Center	Healthcare	2,000
Earl Industries	Shipyards	900
Tidewater Community College	Education	622
Smithfield of Portsmouth	Food Processing and Distribution	435
WalMart	Retail	300
Hampton Roads Regional Jail	Corrections	282
Food Lion	Retail	250
Direct Home Health Care	Healthcare	247
Cintas	Manufacturing/Industrial Service	200
WAVY-TV 10/FOX 43	Telecommunications	200

*Includes naval base personnel
 Source: Portsmouth Department of Economic Development

Norfolk Naval Shipyard is the largest employer in the area with 14,000 employees. Opened in 1833, the Navy Shipyard spans more than 1,000 acres, and occupies six properties, five of which are in Portsmouth. The modern Shipyard provides repair and modernizations services for every type of ship that the US Navy has in service, including a greater focus on nuclear ships in recent years. According to conversations with representatives from the shipyard, 17 percent of its total workforce lives in Portsmouth, and the total daily foot traffic at the Shipyard is approximately 17,000. The Naval Medical Center is the second largest local employer with 7,000 employees. As the oldest continuously running hospital in the Navy Medical system, the Center accommodates approximately 4,500 visitors daily. The Coast Guard adds another 2,500 employees between the base and its Downtown office, making the waterfront’s governmental and naval institutions responsible for 23,500 jobs, far more than the rest on the list combined.

Metro Employment Index

Employment growth is generally indicative of a metropolitan area's ability to purchase goods and services as a whole. A growing rate of population increase tends to mirror employment increases.

The following figure shows a five-year monthly history of the annual rate of employment growth in the Hampton Roads MSA.

Figure 2-2

Despite the Sequester and related government spending cutbacks, employment in the region has been increasing, except for the period immediately after the Sequester.

Income and Housing

The depth and strength of a market's employment base and income levels are indicators of its ability to support a vibrant and active Downtown. Indicators of a market's overall wealth and growth can include trends in its income and employment.

The following table provides data on home ownership, income and retail sales, based on the latest data from the U.S. Census Bureau.

Table 2-5

Income, Spending and Other Demographic Data			
Category	United States	Virginia	Portsmouth
Homeownership rate, 2010-2014	64.4%	66.7%	55.8%
Median value of owner-occupied housing units, 2010-2014	\$175,700	\$243,500	\$173,700
Persons per household, 2010-2014	2.63	2.61	2.52
Median household income, 2010-2014	\$53,482	\$64,792	\$46,239
Persons below poverty level, percent, 2010-2014	14.8%	11.8%	18.3%
Total employment, 2014	121,079,879	3,160,539	---
Total employment, percent change, 2013-2014	2.4%	0.9%	---
Retail sales per capita, 2012	\$13,443	\$13,438	\$7,251

Source: US Census Bureau

The median value of owner-occupied homes in Virginia is nearly \$68,000 higher than the national average, while Portsmouth's values are \$2,000 lower than the national average.

The following table shows the household income by radii of one mile, three and five miles from Downtown Portsmouth.

Table 2-6

2015 Portsmouth Households by Income						
Category	1 Mile Radius		3 Mile Radius		5 Mile Radius	
	# of Households	% of Households	# of Households	% of Households	# of Households	% of Households
Total Households	5,542	--	35,562	--	91,268	--
< \$15k	1,441	26.0%	7,971	22.4%	16,454	18.0%
\$15k - \$25k	729	13.2%	4,107	11.5%	10,315	11.3%
\$25k - \$35k	860	15.5%	4,417	12.4%	11,385	12.5%
\$35k - \$50k	783	14.1%	5,924	16.7%	16,491	18.1%
\$50k - \$75k	869	15.7%	5,932	16.7%	16,135	17.7%
\$75k - \$100k	381	6.9%	2,777	7.8%	7,639	8.4%
\$100k - \$150k	258	4.7%	2,407	6.8%	7,239	7.9%
\$150k - \$200k	134	2.4%	1,114	3.1%	3,344	3.7%
\$200k+	87	1.6%	913	2.6%	2,282	2.5%
Median Household Income	\$31,287	--	\$37,423	--	\$40,505	--
Average Household Income	\$45,612	--	\$53,803	--	\$57,148	--
Per Capita Income	\$19,031	--	\$22,159	--	\$22,176	--

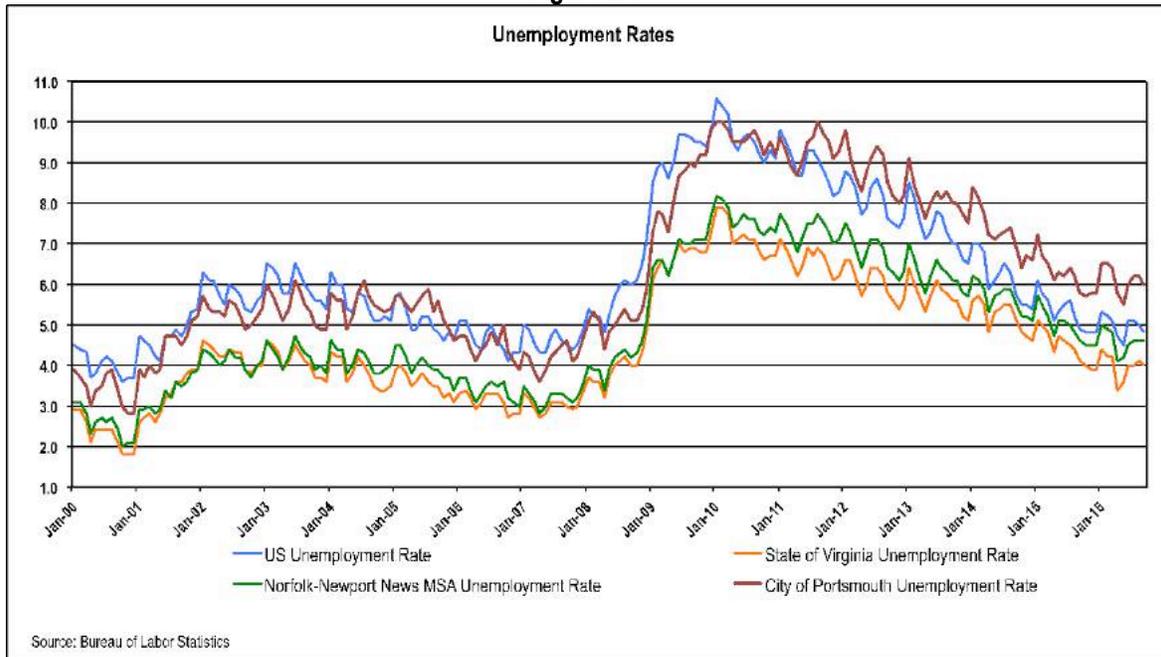
Source: Esri

As shown, median household incomes are lower closer to Downtown Portsmouth. Five miles from Downtown Portsmouth, more dense areas like Downtown Norfolk are captured. The household incomes are not necessarily reflective of the workforce population of Downtown Portsmouth. Thousands of people with higher-income positions commute from surrounding areas, mostly from the Chesapeake, Virginia Beach and Norfolk areas. The Downtown Portsmouth residents tend to be those just beginning their careers, or those on limited budgets due to retirement.

Unemployment

The following figure shows the unemployment rates in the City, State and MSA in comparison to the national unemployment rate. High unemployment relative to the nation indicates there may be chronic structural economic concerns such as low education rates and mismatched industry and employment resources. An area that is dominated by one industry type may see chronic unemployment levels higher or lower than the nation as a whole. Cities or counties with balanced and diversified economies tend to weather economic downturns better and have unemployment rates that generally mimic the U.S. level.

Figure 2-3



As shown above, the MSA and the state have consistently had unemployment rates that have trended considerably below that of the national rate. Portsmouth’s unemployment rate has trended very close to the national unemployment rate. Portsmouth currently has an unemployment rate that is slightly more than one percentage point above the national average.

Higher Education

Heavy populations of enrolled students suggest that the market may reap the benefits of a more innovative and educated workforce, if the market is able to retain and employ the graduates.

The following table shows the academic institutions within ten miles of Portsmouth.

Table 2-7

Portsmouth Area Colleges & Universities				
Institution	Location	Miles	Highest Degree Offered	Enrollment
Tidewater Community College *	Four Locations	5.2	Associates	44,393
Eastern Virginia Medical School	Norfolk, VA	5.3	Doctorate	1,049
Old Dominion University	Norfolk, VA	6.0	Doctorate	24,932
Norfolk State University	Norfolk, VA	6.5	Doctorate	6,027
Everest College-Chesapeake	Chesapeake, VA	8.8	Associates	671
Sentara College of Health Sciences	Chesapeake, VA	8.8	Bachelors	367
Virginia Wesleyan College	Norfolk, VA	9.0	Bachelors	1,501
<i>Grand Total:</i>				105,664

*Four locations in Portsmouth, Norfolk, Chesapeake and Virginia Beach
 Source: National Center for Education Statistics

Seven higher education institutions are located within ten miles of Portsmouth. Combined, enrollment totals more than 105,000 students in the various institutions. Tidewater Community College, with an enrollment of 44,393 students, has campuses in four locations and several centers in the Hampton Roads region. The new Portsmouth campus, opened in 2010, has four buildings including a student center. The Portsmouth TCC campus is located at the Victory Boulevard exit south of I-264 approximately 4.5 miles from Downtown Portsmouth.

Educational Attainment

The level of education in a community is generally linked to income potential and hence, disposable income and long-term income growth. Highly educated people have more choices for employment and where to locate themselves and their families. The higher the education level, the stronger the labor market and the more disposable income that is available to spend.

The following table shows a comparison of the educational attainment levels in Portsmouth, Virginia, and the nation, according to the US Census Bureau.

Table 2-8

2014 Highest Education Level Attained (Population Age 25+)			
Population Age 25+	Portsmouth	Virginia	United States
Did Not Complete High School	12.3%	7.2%	7.5%
Completed High School	29.1%	25.0%	27.7%
Some College	26.3%	20.0%	21.0%
Completed Associate Degree	7.7%	7.1%	8.2%
Completed Bachelors Degree	12.8%	20.7%	18.7%
Completed Graduate Degree	6.7%	15.0%	11.4%

Source: US Census Bureau

The percentage of the population in Portsmouth that has attained a Bachelor’s Degree is 12.8 percent. This is six percentage points lower than the national level and approximately eight percentage points lower than the state level. Portsmouth has a high percentage of high school graduates and residents that have completed some college.

Portsmouth Real Estate Market Analysis

A detailed analysis of the local market conditions for all major uses is provided in the appendices of this report. In the following section, the key elements and highlights of those market analyses are shown.

Office Market

HSP profiled the Portsmouth office market by analyzing available market data and statistics, conducting interviews with office building managers, developers, brokers, economic development officials, market participants and key stakeholders who provided local input and insights. This chapter provides an overview of the Portsmouth office market. This section presents a market overview, then market data and finally market participant insights.

Downtown Portsmouth includes the vast majority of office space in Portsmouth. While Downtown-only statistics are not available, HSP gathered and assembled its own data based on building-by-building analysis. HSP also considered statistics from Colliers gathered for the total Portsmouth market, which is made up primarily of Downtown properties.

The following table shows a current survey of the Portsmouth office inventory compared to a five-year average.

Table 2-10

Portsmouth Office Inventory		
Inventory	Survey	5-Year Avg
Existing Buildings	232	231
Existing SF	1,928,536	1,921,319
12 Mo. Const. Starts	--	1,661
Under Construction	--	830
12 Mo. Deliveries	--	1,845

Source: Colliers International

As shown above, the existing office inventory in Portsmouth is similar to the five-year average, indicating virtually no change between the two data sets. The construction of office space is very limited and there are currently no projects in the development pipeline over the last 12 months.

The following table shows current and five-year average of office availability and rates for the Portsmouth office market.

Table 2-11

Portsmouth Office Availability		
Availability	Survey	5-Year Avg
Gross Rent Per SF	\$14.53	\$15.06
Vacancy Rate	9.3%	9.9%
Vacant SF	180,165	190,811
Availability Rate	13.6%	12.9%
Available SF	262,652	247,495
Sublet SF	2,550	6,756
Months on Market	27	18

Source: Colliers International

The current vacancy rate and amount of vacant space is lower than the five-year average. However, the current rent per square foot is less than the five-year average, which may reflect the lack of Class A space in Downtown Portsmouth, and the slightly decreasing Class B rental rates. The absorption of space in the market is 27 months when compared to the 18-month average over the past five years, suggesting a more recent slowdown in the absorption of space.

The following figure displays the Portsmouth gross asking rent per square foot over the past several years.

Figure 2-4



Source: Colliers International

Gross asking rent per square foot has declined steadily from nearly \$18 in 2011 to less than \$15 in 2016. At the lowest point in mid-2015, rents declined below \$14 per square foot. The asking rent per square foot has declined over the past five years, and this has resulted in office development being stifled in the area. However, there is an opportunity for Downtown to position itself as an affordable option for office space, as long as existing space can be adapted to meet the needs and expectations of the various office segments. This may lure entrepreneurs and others with lower rent thresholds to consider Downtown Portsmouth. This may manifest itself in existing uses converting from non-office to another. Any consideration that the City can provide to entrepreneurs to convert from one use to another, that is also in the best interest of the Downtown (such as office), should be considered.

The following figure displays the Portsmouth vacancy rates from 2011 to 2015.

Figure 2-5

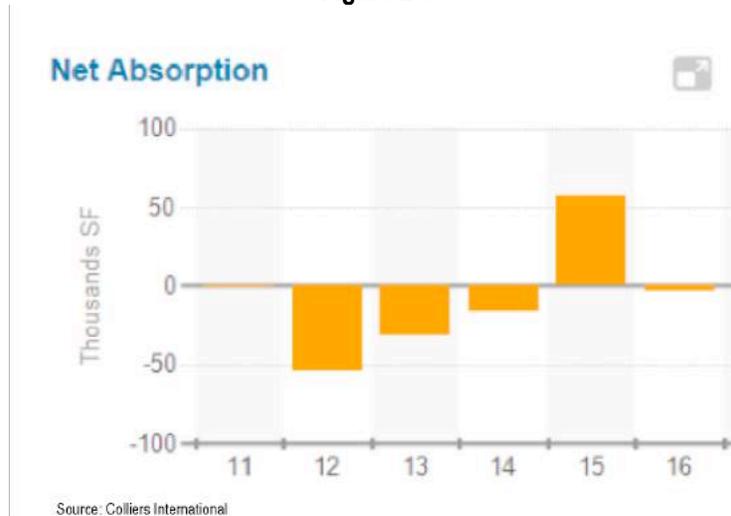


Source: Colliers International

Vacancy rates were lowest for the period in 2011, and then showed a steady increase until mid 2014. Currently, vacancy rates have declined to approximately nine percent. The lower vacancy coupled with a low per-square-foot per year rental rate is a positive sign for Portsmouth if it can be maintained, while also adding office supply.

The following figure displays Portsmouth net absorption over the past several years.

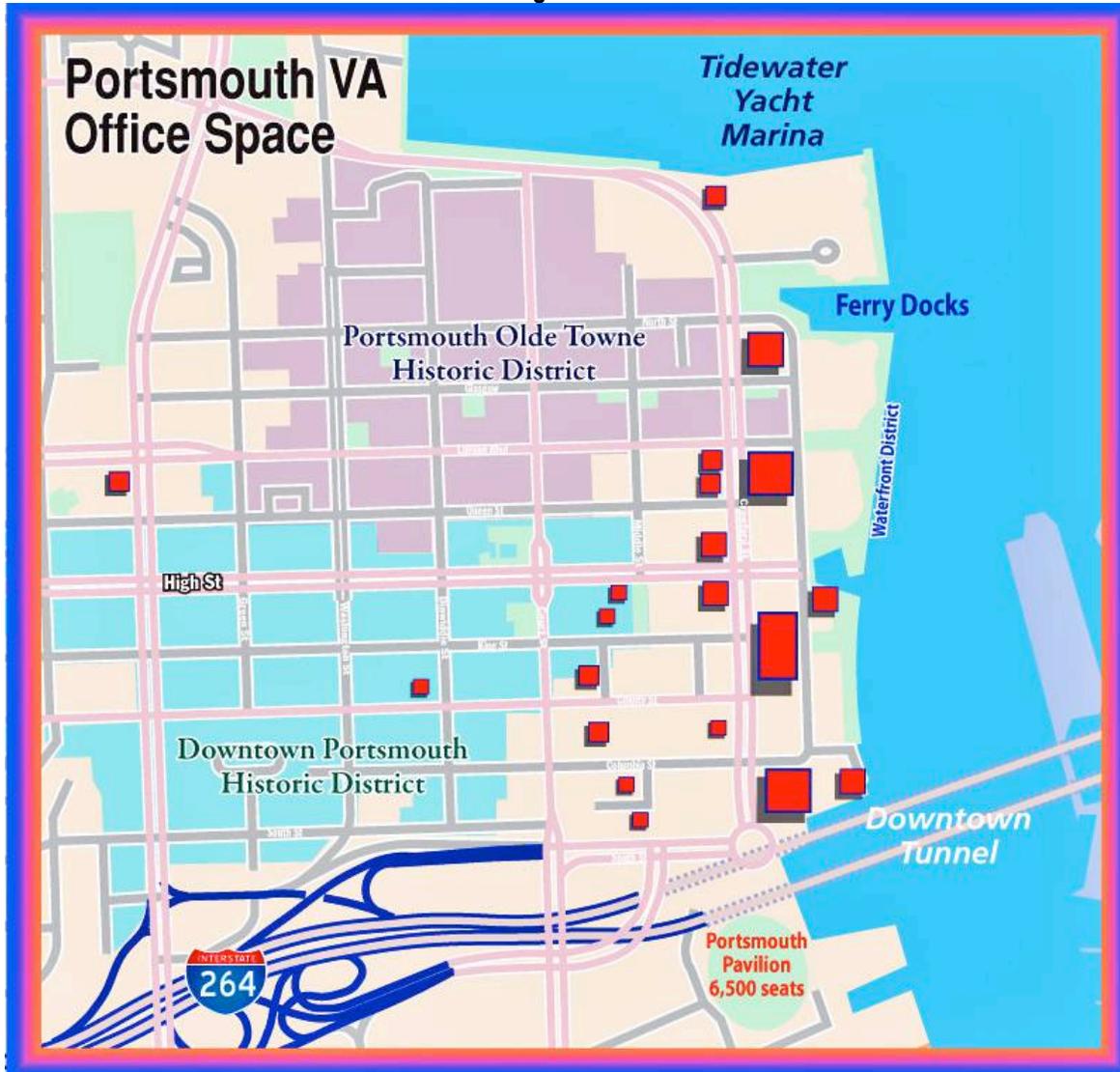
Figure 2-6



After a three-year trend of negative net absorption from 2012 to 2014, Portsmouth experienced a net absorption gain of more than 50,000 square feet in 2015, another positive signal for the Downtown market.

The following figure displays the locations of the current office buildings, of more than 6,000 square feet, inventoried within the study area.

Figure 2-7



Many of the office buildings are located in small clusters, whether they are in an office park or in grouped individual developments. The majority of the office space is located within blocks of the waterfront. The interstate provides accessibility to these office buildings, while the waterfront and main streets such as Crawford provide visibility.

The following table shows details for the much of the local office supply in Downtown Portsmouth, although data for all buildings was not available.

Table 2-12

Downtown Portsmouth - Office Supply			
Location	Office SF Available	Building SF	Building Type
601 Crawford Street	--	237,629	Government
801 Crawford Street	--	112,896	Government
431 Crawford Street	--	108,040	Coast Guard / Post Office
355 Crawford Street	6,203	77,324	Office
1 High Street	1,006	75,522	Mixed Use (Com/Res)
801 Water Street	--	50,400	Government Owned
500 Crawford Street	8,503	42,356	Office
200 High Street	--	42,185	Office
430 Crawford Street	16,950	29,666	Office
330 County Street	--	17,952	Office
309 County Street	--	15,524	Office
600 Crawford Street	--	15,000	Wells Fargo
446 Effingham Street	--	12,507	Medical Office
1 Guardian Court	--	9,126	Public Defender Office
700 Crawford Street	--	8,854	Police Recruiting
600 Dinwiddie Street	--	7,726	Office
309 High Street	--	7,056	Office/Retail
444 Crawford Street	--	6,881	Office
301 Columbia Street	6,020	6,020	Office
307 High Street	--	6,000	Office
Average	7,736	44,433	--
Total	38,682	888,664	--

Source: Hunden Strategic Partners

Nearly 900,000 square feet of office space is located in the Downtown Portsmouth area. However, less than 40,000 square feet of space is available for rent. Larger government buildings dominate the market, including the Coast Guard/Post Office building. Developments should be close enough that are still walkable to Downtown nodes of restaurants and retail, but not be dominating areas of high value and visibility. Crucial to Downtown Portsmouth development is that new government buildings or government workforce not be relocated completely out of Downtown and thereby shift activity away from the Downtown core. In recent years, Downtown Portsmouth has experienced the loss of government buildings and workforce, which has reduced the foot-traffic in the Downtown area that local restaurants and retailers rely on for daytime business. Specifically, the Portsmouth Judicial Center and the Behavioral Health Services (BHS) complex both relocated outside of Downtown Portsmouth. The Judicial Center relocated approximately a half-mile south of Downtown and I-264. The BHS complex relocated west of the core Downtown area, approximately one mile west on County Street. The loss has impacted the level of foot traffic coming into Downtown shops, at least according to interviews with store owners.

Another trend is the conversion of existing office and other building types to residential (because conversion costs are cheaper than new construction), which optimizes existing buildings and helps create a new marketplace. It also takes less optimal office space from inventory, which can put positive pressure on existing/remaining office rental rates.



Typically, leases for tenants in the Portsmouth office buildings are gross leases, which means that the landlord pays all expenses, including maintenance, utilities and taxes.

Due to the lack of Class A office space in Portsmouth, HSP analyzed trends in Class B office space.

The following tables contain Class B office statistics from Jones Lang LaSalle (JLL).

Table 2-13

Downtown Portsmouth - Class B Office Statistics									
Class B	Inventory (SF)	Total Net Absorption (SF)	YTD Total Net Absorption (SF)	YTD Total Net Absorption (% of Stock)	Direct Vacancy (%)	Total Vacancy (%)	Average Direct Asking Rent (\$ per SF)	YTD Completions (SF)	Under Construction (SF)
2015									
Quarter 1	275,241	705	705	0.3%	28.1%	29.0%	\$16.49	0	0
Quarter 2	275,241	705	705	0.3%	27.2%	28.2%	\$16.54	0	0
Quarter 3	275,241	770	3,855	1.4%	27.0%	27.9%	\$16.44	0	0
Quarter 4	275,241	2,659	6,514	2.4%	28.1%	29.0%	N/A	0	0
2016									
Quarter 1	275,241	832	832	0.3%	12.5%	13.4%	\$16.41	0	0
Quarter 2	275,241	1,851	2,683	1.0%	11.8%	12.7%	\$16.52	0	0

Source: JLL, Hunden Strategic Partners

Downtown Portsmouth’s inventory has remained constant for the past six quarters due to a lack of new construction. Vacancy during the first quarter of 2016 dropped significantly from the prior four quarters in 2015, and vacancy further declined in the second quarter of 2016, which is a positive sign for the market.

To increase Class A space, it may be possible to renovate Class B in order to entice tenants, however, typically Class A space is new construction.

Market Interview Feedback

As part of the analysis, HSP interviewed brokers and key stakeholders in the Portsmouth market area who have a vested interest in the Downtown Portsmouth office market. HSP gathered comments and insightful feedback concerning office developments, and how they have impacted the overall market. A summary of the feedback shows following:

- Minimal office demand was stressed as a key issue for the Downtown area. Many of the respondents attributed the weak demand levels to the lack of availability of quality Class A space.
- Local brokers indicated that the majority of clients are not considering office space in Portsmouth due to the higher quality spaces and options available in surrounding areas. However, HSP views this situation as a “chicken or the egg” conundrum. Because there is very little available quality demand, tenants looking for Class A space are looking elsewhere. Without someone taking a risk to build a spec building (which is hard to finance), the market for Class A cannot be realized in any meaningful way. Unless a developer is able to secure a large tenant that wants to take a risk on Downtown Portsmouth and wait for the building to be built, it is unlikely that any Class A office will be built without an extraordinary partnership or set of circumstances.
- The relocation of the Judicial Center and BHS complex outside of Downtown Portsmouth has

hurt the overall Downtown atmosphere. The daytime workforce decreased, which resulted in lower daytime economic impact on restaurants, retail and other businesses.

- New office space is expected to follow residential developments in Downtown Portsmouth.
- Many expressed that the Coast Guard and the Portsmouth Naval Medical Center are positive large Downtown employers. However, they are relatively self-contained and do not generate significant daytime economic activity and demand for Downtown business. Additional Downtown anchor businesses are expected to help drive daytime activity for all real estate uses.
- The ability to attract a large employer to Downtown Portsmouth was expressed as a likely challenge and concern. The residential projects currently under construction, along with additional restaurant and retail developments, were viewed as good opportunities to attract small as well as larger businesses. Although issues and concerns were expressed, there was generally positive and hopeful feedback that described the future potential of the market.
- Downtown Portsmouth is considered to be a good location to expand on existing residential markets, and has the potential to become a destination for more affordable urban living compared to other cities in the region.
- The tolls to enter/exit Portsmouth are expected to negatively impact the Downtown market. The tolls in Downtown Portsmouth may attract residents that want to avoid these tolls and relocate closer to their employment. Conversely, the tolls in the short term may be perceived negatively due to the added toll costs incurred for businesses' clients, customers and employees traveling to/from Downtown Portsmouth from outside the area.
- A majority of real estate brokers indicated that they are not including Portsmouth's available office space when showing clients office space options in the region. Portsmouth is excluded mainly due to the implications and costs of the tolls and overall perception that it is difficult to get real estate deals done in Portsmouth, specifically in Downtown Portsmouth. As indicated to HSP, the tolls have made the ease of access for day-to-day business traffic an obstacle to overcome for the office market. It was recommended to HSP that the city should provide free parking to help ease the cost of the tolls to visitors.
- The office space inventory in Downtown Portsmouth is so scarce that the available space prospects are not preferred in their quality or conditions. The available spaces are also difficult to find compatible uses as tenants.
- The current low rental rates are not expected to support the construction of new office space in Downtown Portsmouth.
- The zoning codes are complicated to navigate and interpret. Stakeholders indicated there is a large learning curve to understanding the zoning codes in Downtown Portsmouth, and expressed the desire to have a more simplified process. The lack of understanding of the zoning and the complexity of the codes makes it difficult for new office space to be developed.

Overall, conversations with stakeholders and local market experts indicated reserved optimism about the prospect for office space development as part of any potential Downtown project. While there were concerns expressed regarding the quality and availability of existing office space, the overall consensus from interviews is that the addition of new, contemporary office space is needed, and will likely be more viable as the

Downtown resident population grows. The integration of office space will help to create a “live, work, play” environment that is crucial for the long-term success of Downtown Portsmouth.

Implications

Quantitative and qualitative analysis of the Hampton Roads and Downtown Portsmouth office market data and statistics indicates that there is opportunity to accommodate office demand by repurposing existing buildings and integrating office space (converted from other uses) in new mixed-use developments. The office market has experienced a transition as office users have relocated in the region. The Downtown market, as a whole, is improving but is still competing with the suburbs to attract users.

The movement towards smaller, non-traditional office spaces is an opportunity that Portsmouth can leverage to repurpose or renovate existing buildings, as well as utilize for infill projects in Downtown. Throughout the interview process stakeholders indicated there is demand for modern office space in Downtown Portsmouth, due to the lack of Class A available space. The Downtown Portsmouth market has been among the lowest in rental rates. The current lack of desirable Class A office space makes it difficult to generate market activity and attract employers seeking higher quality spaces.

Residential Market

HSP profiled the Downtown Portsmouth residential real estate market and determined the feasibility of residential development by analyzing available market data and statistics, conducting rent surveys and finally, by conducting interviews with a wide range of multi-family property managers, developers, local residential real estate brokers and economic development officials who provided local input and insights.

Market Overview

Demand appears to be strong for certain types of residential development, but inventory and product depth are limited. Recent trends seem to suggest the viability of new, high quality residential developments, particularly as it relates to two-bedroom units, and new supply should ameliorate the pent-up demand.

Multi-Family (Rental) Market

Due to the historical lack of residential options and support amenities (such as easy access to grocery, national drug store brands and a critical mass of restaurants), residents and those that work in Portsmouth have established residences in other surrounding areas such as Norfolk and Chesapeake. The increase in residential developments provides additional properties in Downtown Portsmouth that offer a mix of options and price points in order to attract and recapture those residing in other communities. This will drive demand for support services and amenities such as restaurants and retail.

The Downtown multi-family units are spread throughout the Downtown area. The multi-family rental properties are primarily located in the Downtown Portsmouth Historic District, with a few others throughout the Downtown area. There is minimal connectivity or synergy between the existing residential areas. However, the recent Downtown residential developments are helping to fill in areas, thereby creating a density that will help to spur more of Downtown’s residential community atmosphere.

Market Data & Statistics

Shown following are market data tables and statistics that provide a list of multi-family properties in Downtown Portsmouth by units as well as their occupancy rates.

Table 2-14

Downtown Portsmouth Apartments - Market Rate Units								
Name	Opened	Units	Development Cost (millions)	Occupancy	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Existing Properties								
The Myrtles at Olde Towne	2004	246	--	94%	--	146	11	89
Harbor Tower Apartments	1983	191	--	98%	--	94	93	4
The Heights at Old Towne	1973	148	--	94%	--	56	74	18
The Quarters at Park View	2015	140	\$17.0	92%	6	112	22	--
Victory Square Apartments	1997	112	--	100%	--	98	14	--
Montgomery Square Apartments	--	69	\$6.8	94%	--	28	41	--
Sterling Court	2016	67	\$9.2	85%	--	51	16	--
Ebenezer Plaza Apartments	1969	52	--	99%	--	--	26	26
Tower 507	2016	46	\$6.1	85%	--	46	--	--
Kings Court	2016	46	\$6.3	85%	--	30	16	--
Five 17 King Apartments	2012	20	\$2.8	--	--	17	3	--
Green Street Apartments	2012	14	--	93%	--	5	9	--
Existing Totals		1,151	\$48.2		6	683	325	137
Under Development and Construction								
North Pier	TBD	187	\$25.0	--	--	--	--	--
Harbor Vista	U/C - 2016	134	\$17.1	--	--	96	38	--
Seaboard Building	U/C - 2016	81	\$6.8	--	--	79	2	--
Crawford House	TBD	46	--	--	--	--	--	--
Under Development Totals		448	\$48.9		0	175	40	0
Total Units		1,599	\$97.1		6	858	365	137

Source: Various Properties, Hunden Strategic Partners

There are 12 properties with approximately 1,151 market rate apartment units in Downtown Portsmouth. Recently opened properties include the 67-unit Sterling Court and 46-unit Kings Court apartment properties, which opened in July 2016, and the 46-unit Tower 507 property, which opened in March, 2016. One-bedroom and two-bedroom units are the preferred room types in this market. Three-bedroom units have a modest presence, while studio units are virtually nonexistent. One-bedroom units account for 55 percent of the inventory, while two-bedroom units account for 23 percent. Occupancies are strong, with nearly all properties having more than 90 percent occupancy rates.

The following table shows the average rental rates for the properties analyzed.

Table 2-15

Downtown Portsmouth Apartments - Average Rental Rates						
Name	Opened	Units	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Existing Properties						
The Myrtles at Olde Towne	2004	246	--	\$930	\$1,520	--
Harbor Tower Apartments	1983	191	--	\$1,050	\$1,280	\$1,680
The Heights at Old Towne	1973	148	--	\$930	\$1,520	--
The Quarters at Park View	2015	140	\$925	\$1,250	\$1,520	--
Victory Square Apartments	1997	112	--	\$740	\$879	--
Montgomery Square Apartments	--	69	\$850	\$1,195	\$1,450	--
Sterling Court	2016	67	--	\$1,195	\$1,499	--
Ebenezer Plaza Apartments	1969	52	--	--	\$778	\$844
Tower 507	2016	46	--	\$1,160	--	--
Kings Court	2016	46	--	\$1,195	\$1,499	--
Five 17 King Apartments	2012	20	--	\$1,100	\$1,499	--
Green Street Apartments	2012	14	--	\$975	\$1,240	--
Existing Averages	2001	96	\$888	\$1,065	\$1,335	\$1,262
Under Development and Construction						
North Pier	TBD	187	--	--	--	--
Harbor Vista	U/C - 2016	134	--	--	--	--
Seaboard Building	U/C - 2016	81	--	\$1,550	\$1,800	--
Overall Averages			\$888	\$1,103	\$1,371	\$1,262

Source: Various Properties, Hunden Strategic Partners

The average monthly rental rates are between \$850 and \$925 for a studio unit, to nearly \$1,700 for a three-bedroom unit. There are no four-bedroom units in the aforementioned properties, and each apartment type shown has a significant range that speaks to the price-points and variety of amenities offered.

The following table summarizes rental rates, by unit type, of more than 50 available apartments in Downtown Portsmouth.

Table 2-16

Summary of Apartments Available in Downtown Portsmouth			
Type	Avg Square Feet	Avg Monthly Rental Rate	Avg Monthly Price / SF
Studio	596	\$1,008	\$1.69
1 Bedroom	824	\$1,252	\$1.52
2 Bedroom	1,111	\$1,271	\$1.14
3 Bedroom	1,744	\$1,601	\$0.92

Source: Apartments.com

The average monthly rental rates for available apartments are between \$1,000 for a studio unit to approximately \$1,600 for a three-bedroom unit. The unit sizes ranged from approximately 600 square feet for a studio apartment to approximately 1,750 square feet for a three-bedroom unit. It should be noted that the

average rental rate and square footage for a four-bedroom unit was less than the three-bedroom unit. Also, the average price of a one-bedroom apartment is nearly as much as a two-bedroom. This is driven by market demand and also by the quality of different unit types. There is a higher demand for one-bedroom units, so the rates are higher.

There is an inverse relationship between total rent and the price per square foot. The larger the apartment is the less expensive rent is per square foot. This metric shows that the cost of features common to all apartments such as a kitchen and HVAC appliances are spread across the entirety of the apartment. While total rent is highest for three-bedroom apartments, tenants receive the most space for their money.

New Developments

The following table shows projects that are either planned, under construction or recently completed.

Figure 2-8

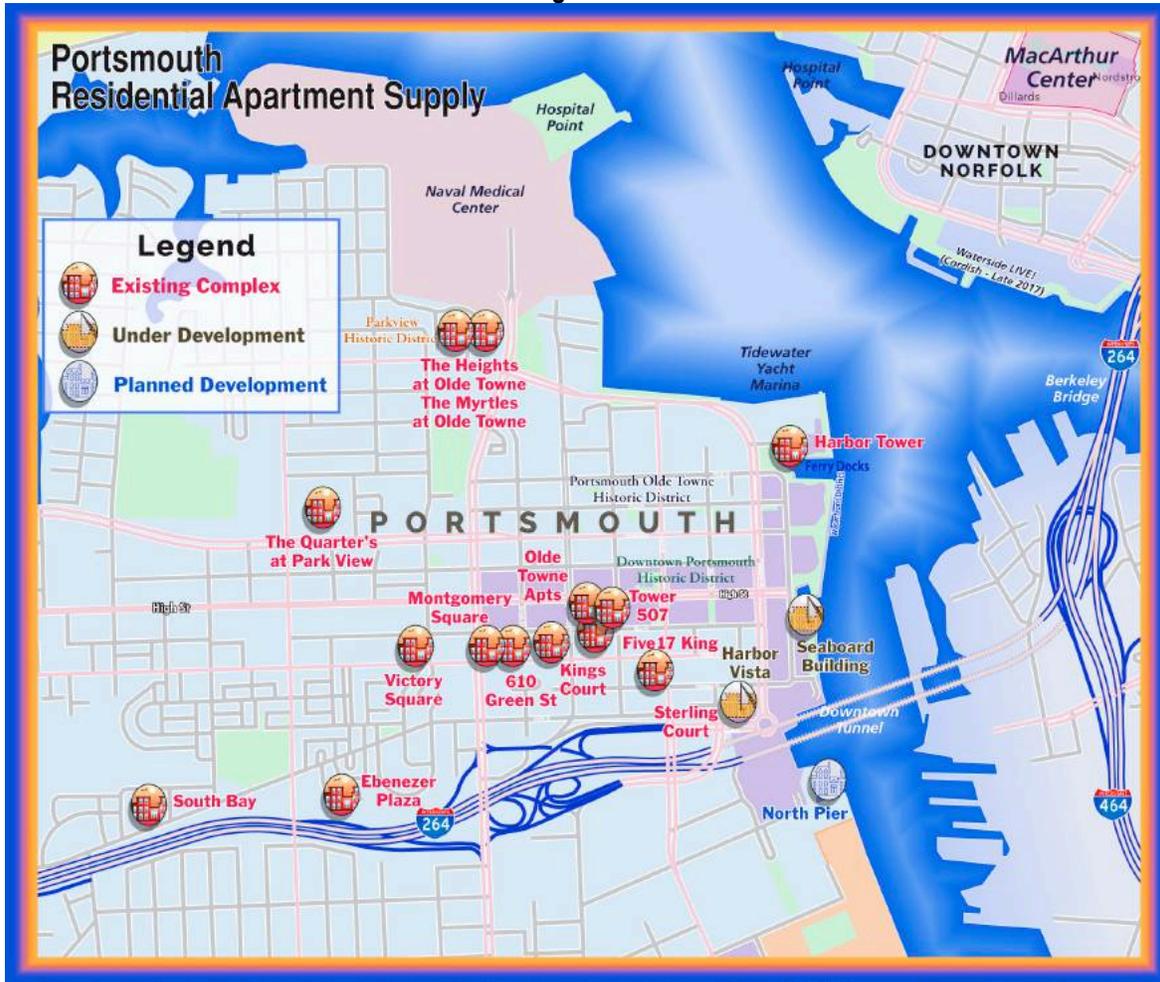
New Developments in Portsmouth			
Apartment	Units	Investment (millions)	Open Date
North Pier	187	\$25.0	TBD
The Quarters at Park View	140	\$17.0	Completed Summer 2015
Harbor Vista	134	\$17.1	December 2016
Seaboard Building	81	\$6.8	Late 2016
Montgomery Square	69	\$6.8	--
Sterling Court	67	\$9.2	Completed Summer 2016
Tower 507	46	\$6.1	Opened March 2016
Kings Court	46	\$6.3	Completed Summer 2016
Total	770	\$94.3	

Source: City of Portsmouth

As shown, there are approximately 770 total new units projected to enter the Downtown residential market, with 328 opening in 2016. The investments for these projects are greater than \$6 million per project, and total residential investment is \$94.3 million. Additional projects planned are expected to bring the Downtown residential projects to more than \$100 million. The pipeline of new developments shows the strength of the residential market, as well as the fact that residents are willing to pay for newer, quality space.

The following figure shows the existing, under development and planned development residential developments in Downtown Portsmouth.

Figure 2-9

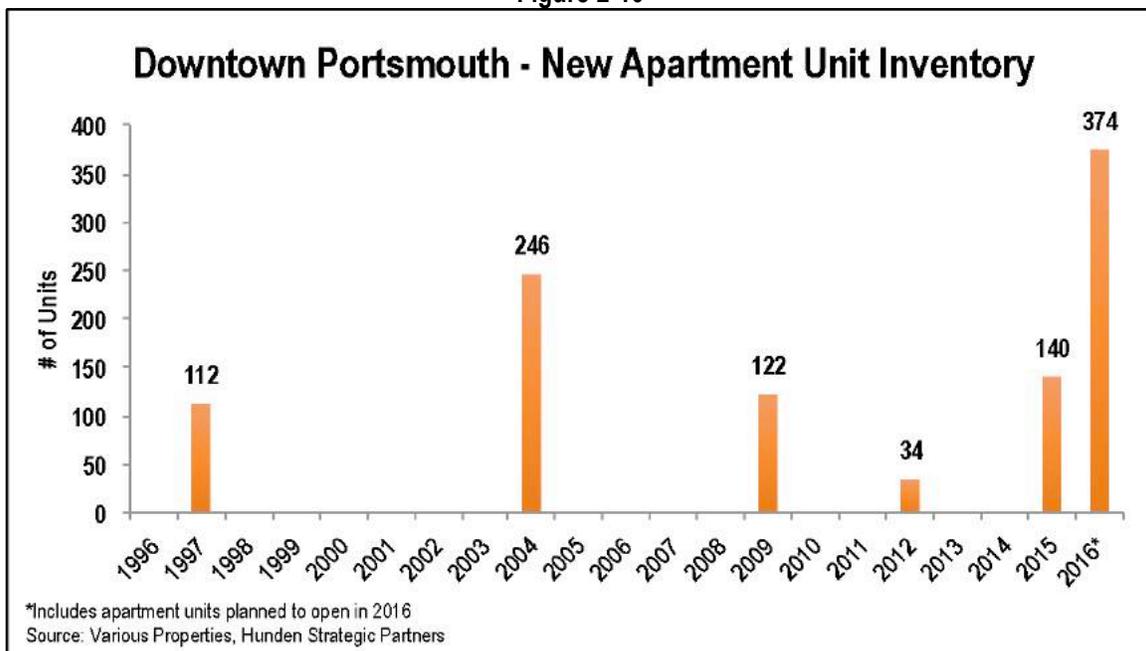


Several new residential developments are planned or under development. The developments are primarily in the southeast quadrant of the Downtown area, as the northeast region contains more homes and condominiums. The developments are along major thoroughfares Downtown, which will promote economic and cultural activity around the Downtown area, and feature two waterfront developments to be located in North Pier and the Seaboard building.

There are three new residential developments under construction in Downtown Portsmouth that will add 402 units to the Downtown area, and 215 units are expected to open in 2016. There are more than \$100 million in projects planned or opened in the Downtown area in the near future. These new developments will have a significant economic impact on other real estate uses such as restaurant and retail.

The following figure shows the development of new Downtown apartment unit inventory over the past 20 years.

Figure 2-10



As shown, new apartment development had been spotty until 2015, when 140 units were added, which was followed by 374 units in 2016.

Market Interview Feedback

As part of the analysis, HSP interviewed developers and key stakeholders in the Portsmouth market area. HSP gathered comments and insightful feedback concerning residential developments, and how they relate to and have impacted the overall market. A summary of the feedback is showing following:

- Additional residential units will have a positive impact on Downtown Portsmouth
- Challenges might apply to additional developments
- Understanding and interpreting the zoning codes have been perceived to slow down the development process
- The Portsmouth area is very resident-friendly
- Many members of the local workforce still live outside of Portsmouth. The city was described as an importer of employees
- There is a perceived increase in the cost of living in Downtown Portsmouth
- Entertainment and amenity options are currently lacking, but should increase with more residents
- Adding new residential options with different price points and quality levels will attract new residents to the area

- Restaurant and retail development will support and follow residential development

With the exception of the zoning restrictions, much of the negative feedback can be addressed. The new developments in the area will certainly help the city to achieve various price points for potential residents. Increase in residents in the area will help drive the development of retail, restaurants and other entertainment options and venues.

Implications

Quantitative and qualitative analysis of Downtown Portsmouth indicates the housing market consists of a mix of condominiums, historic homes, and apartment complexes. However, the market is quickly absorbing the recently constructed Downtown rental apartment units. The largest apartment complexes Downtown are more than 90 percent occupied, creating unaccommodated demand that must find other neighborhoods or submarkets to reside. The various districts that make up Downtown and the surrounding area vary in rent, walkable amenities and overall vibrancy. The development of new and higher quality rental properties is attracting residents to the Downtown area to find a live, work, play environment. Ultimately, Portsmouth will want to provide an equal or greater quality of living, based on recent residential developments, to attract more people to the Downtown area versus remaining in the nearby suburbs.

The market has established reasonable price points that are attractive to single young professionals. The overall Downtown residential market has reached an approximately 92 percent occupancy rate. The high occupancy is one indication that there is a market for continued new development of rental units.

Also, residents seeking an urban lifestyle are unable to be accommodated by the existing inventory. Despite residential properties Downtown, residents cannot easily patronize restaurants, retail and quick-service businesses because there are a very limited number of these within walking distance. These factors influence the area's attractiveness, demand and desirability.

Based on the existing supply and demand, one-bedroom units are the most common unit type. However, the market is underserved for all other unit types. Any new residential development should include a mix of unit types in order to attract a more diverse target base, while maximizing opportunity with two-bedroom units. Two-bedroom units tend to be the most popular because units can accommodate individuals looking for more space or the price conscious renters interested in sharing the unit. Another positive sign for the market is the higher quality of units being developed and offered. While many of the existing and recently built units did not include upgrades like quartz or granite counters, certain newer projects will include these, which will broaden the appeal of the Downtown market to more types of residents.

A number of new apartment units will bring more residents Downtown, which will likely promote more development to support an increase in residents. Additional residential developments will need the support of retail and restaurants, especially a grocery and drug store, which are often critical to establishing a walkable Downtown community. Without these amenities in place, the desirability of these residential developments will be limited.

Hotel Market

In order to best understand the hotel market in Portsmouth, HSP chose a set of primary competitive and relevant hotels that the key Downtown hotels compete with to profile and analyze. The primary factors considered were location, function space, quality, amenities, size, brand and market demand mix. If a new hotel is developed Downtown, it will compete against the newest and highest quality hotels in the area. If a full-service hotel or select service hotel with function space is developed, it will compete with the meetings hotels in the market. Due to STR requirements and a lack of reporting properties in Portsmouth, several Norfolk hotels were included in the selected set. Again, these were selected due to their competitive nature with the Renaissance Portsmouth Waterfront Hotel. They are directly and indirectly competitive with the Renaissance, depending on the type of guest. It would be ideal to study only Portsmouth hotels, but as there are only three within one mile, HSP included the three Portsmouth hotels, which are quite different in quality, and more comparable non-Portsmouth hotels. The mix is not ideal, but provides the market backdrop for hotels.

The following table shows a summary of the hotels in the Portsmouth competitive set arranged by number of rooms.

Table 2-17

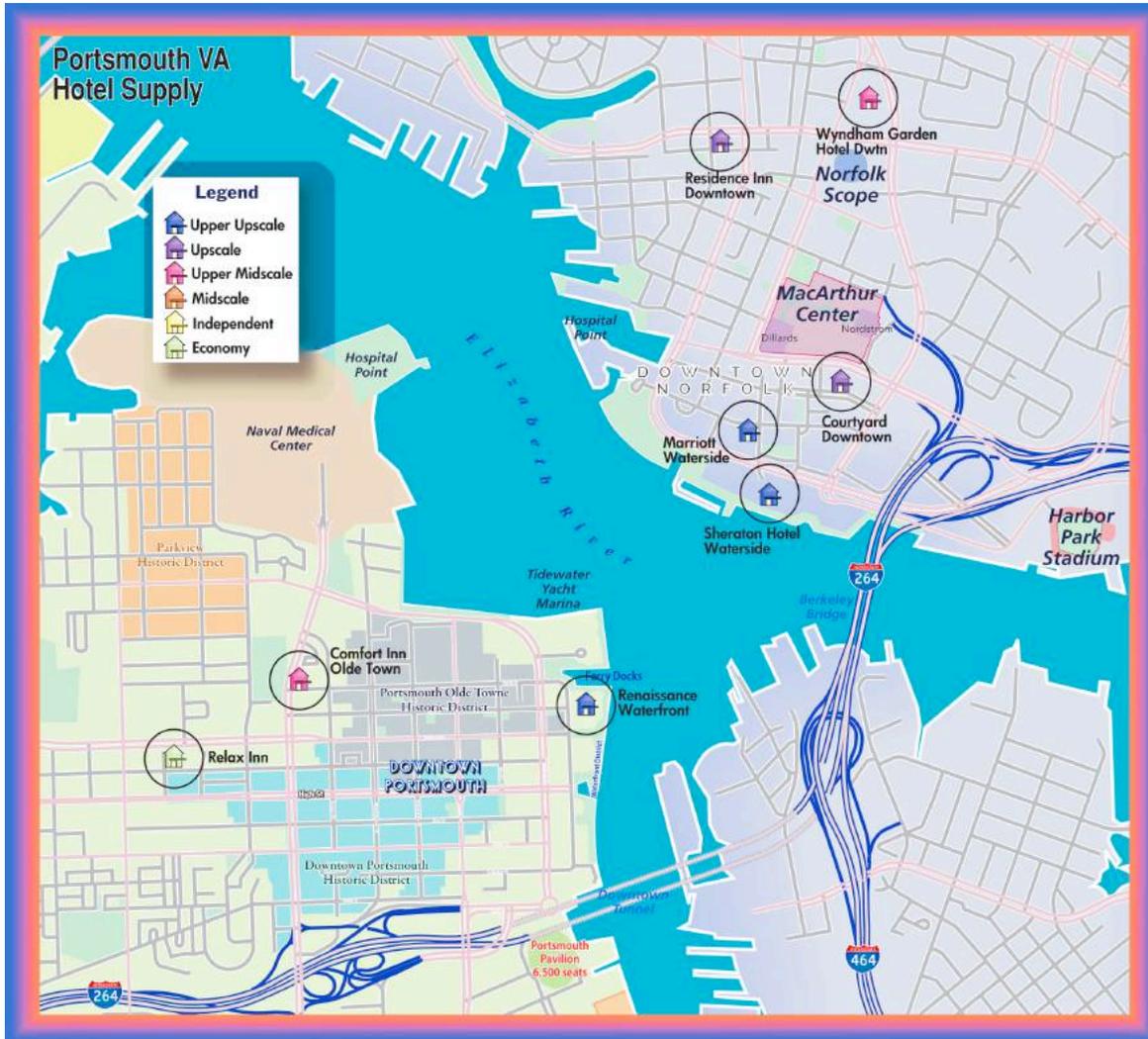
Portsmouth Downtown Hotel Set					
Property Name	Location	Distance	Rooms	Chain Scale	Open
Sheraton Hotel Norfolk Waterside	Norfolk	0.8	468	Upper Upscale	Jun-76
Marriott Norfolk Waterside	Norfolk	0.9	405	Upper Upscale	Oct-91
Renaissance Portsmouth Norfolk Waterfront Hotel	Portsmouth	0.2	249	Upper Upscale	Jan-01
Wyndham Garden Hotel Norfolk Downtown	Norfolk	1.6	204	Upper Midscale	Jun-51
Residence Inn Norfolk Downtown	Norfolk	1.4	160	Upscale	May-09
Courtyard Norfolk Downtown	Norfolk	1.0	140	Upscale	Jun-02
Comfort Inn Olde Town	Portsmouth	0.5	62	Upper Midscale	Aug-98
Relax Inn	Portsmouth	0.7	61	Economy	Jun-85
Total/Average	--	0.89	1,749	--	Jul-89

Source: Smith Travel Research

The eight hotels in the selected set have a total of 1,749 rooms. The largest hotel is the Sheraton Hotel Norfolk Waterside (468 rooms), followed by the Marriott Norfolk Waterside (405 rooms). The average age of the hotels in the selected set is 27 years, however, two of the properties have been open for more than 40 years. The average age of the Portsmouth properties is approximately four years older than the competitive market.

The following figure shows a map of the Portsmouth competitive hotel supply.

Table 2-18



As shown above, the selected set includes three properties in Portsmouth and five properties in Norfolk. Every property in the selected set is located within two miles of Downtown Portsmouth.

Selected Set Performance

HSP used Smith Travel Research data to analyze the selected hotel selected set. The following table shows the performance data for the Portsmouth selected set of hotels from 2011 through 2015 and through March of 2016.

Table 2-19

Historical Supply, Demand, Occupancy, ADR, and RevPar for Competitive Hotels											
Year	Annual Avg. Available Rooms	Available Room Nights	% Change	Room Nights Sold	% Change	% Occ.	% Change	ADR	% Change	RevPar	% Change
2011	1,720	627,800	--	389,793	--	62.1	--	\$98.81	--	\$61.35	--
2012	1,720	627,800	0.0%	427,627	9.7%	68.1	9.7%	\$94.88	-4.0%	\$64.63	5.3%
2013	1,720	627,800	0.0%	407,173	-4.8%	64.9	-4.8%	\$92.35	-2.7%	\$59.90	-7.3%
2014	1,722	628,699	0.1%	423,373	4.0%	67.3	3.8%	\$93.94	1.7%	\$63.26	5.6%
2015	1,749	638,385	1.5%	442,726	4.6%	69.4	3.0%	\$96.01	2.2%	\$66.58	5.3%
2016 YTD (Mar)	1,749	157,410	0.1%	96,630	2.2%	61.4	2.2%	\$90.24	-0.5%	\$55.40	1.7%
Projected 2016	1,749	638,385	0.0%	461,320	4.2%	72.3	4.2%	\$98.89	3.0%	\$71.46	7.3%
CAGR* (2011-2015)	0.4%	0.4%	--	3.4%	--	2.9%	--	-0.7%	--	2.1%	--

*Compound Annual Growth Rate
Sources: Smith Travel Research, Hunden Strategic Partners

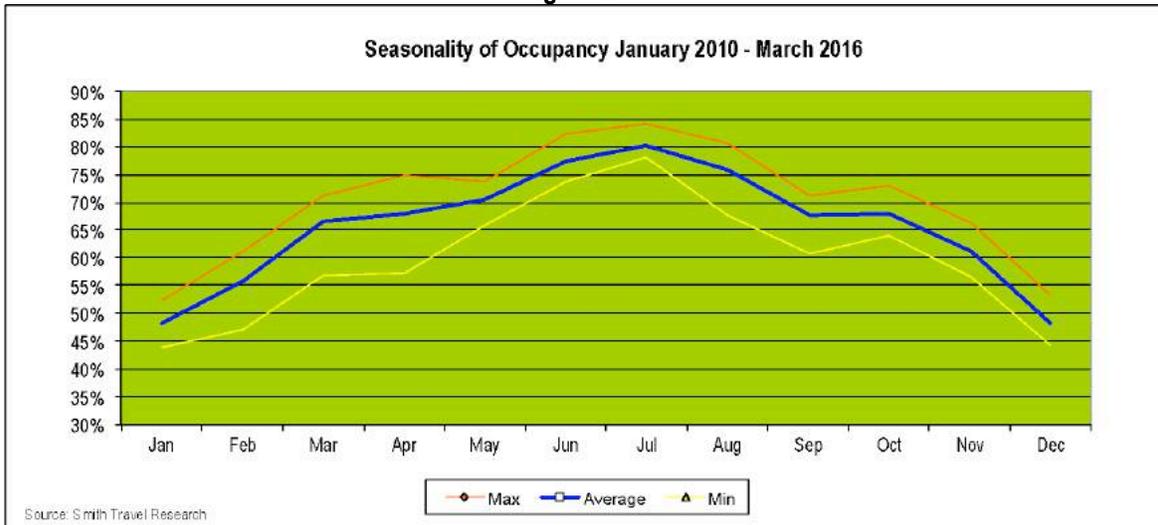
Other than 2013, demand for room nights in the selected hotel set increased each year between 2011 and 2015. In 2014, demand reached near pre-recession levels.

Occupancy has slowly increased from its 2011 level of 62.1 percent to 69.4 percent in 2015. Based on historic growth rates, occupancy is projected to increase to 72.3 percent in 2016, which equates to a 4.2 percent increase over 2015. The current occupancy rate has surpassed the threshold of approximately 66 percent, the point at which developers start to consider potential new hotel developments. As occupancy continues to improve, the market will have more unmet (unaccommodated) demand, which will help support and validate more hotel rooms being added to the market.

Between 2011 and 2013 the average daily rate decreased from \$99 to \$92, but the average rate has experienced consistent increases since 2013. For the total year, average daily rate is projected to increase to nearly \$99, which is a three percent increase over the prior year. Revenue per available room (RevPAR) increased to more than \$66 in 2015 and is projected to increase in 2016 by 7.3 percent to the mid-\$71 range. The government per diem rate is a factor that influences the overall rate. With the high levels of government related business in the area, this can lower average rates and also leads to other hotels undercutting rates to attract this segment of business.

The following figure displays the seasonality of occupancy from 2010 through March 2016.

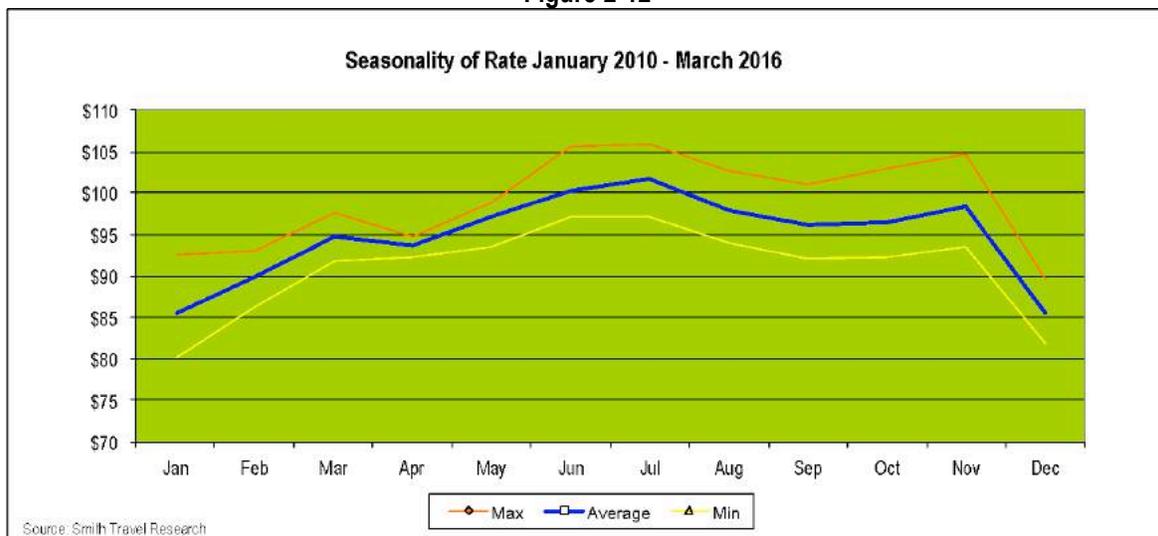
Figure 2-11



In terms of occupancy, June, July and August are the busiest months, averaging more than 75 percent. The spring and fall months average between 65 and 70 percent. January, December and February are the slowest months of the year with approximately 48 percent, 56 percent and 48 percent occupancy, respectively. The seasonality is similar to most northern markets where occupancy rates are lower in the cold winter months and increase during the late spring and summer months. The Portsmouth market peaks during the summer season.

The following figure shows the seasonality of rate from 2010 through March 2016.

Figure 2-12



As shown, the average ADR fluctuates throughout the years. The average ADR fluctuates from approximately \$86 to \$102. Prices are highest during the summer months and then drop dramatically in January and December. Smaller seasonal peaks in the shoulder months of March and November occur. The maximum average daily rate peaks in June and July at nearly \$106.

Unaccommodated Demand

Unaccommodated demand is defined as demand that would have been captured by the market but for a lack of available or quality of rooms. This demand is therefore deferred to later dates, accepts less-preferred accommodations, locates just outside the selected set, moves its business to another area, or cancels plans altogether. Therefore, as new properties are added to the market, it is expected that this demand will be accommodated and absorbed by the new supply. This suggests that when new hotels are added, they do not cannibalize existing market demand, but accommodate previously unaccommodated demand. While it is not possible to accurately predict all unaccommodated demand, an estimated figure can be inferred from occupancy data.

The following table shows the occupancy percent by day of the week, by month, for the twelve months starting April 2015 through March 2016. The figures represent the projected unaccommodated demand from the three Portsmouth properties and the five Norfolk properties. Days of the week with occupancy between 75 and 80 percent are shown in yellow, suggesting mild displacement and unaccommodated demand, while orange shows days with 80 to 90 percent occupancy, suggesting highly likely displacement. Days in red are for times when occupancy was beyond 90 percent for the set, suggesting near-certain displacement.

Table 2-20

Occupancy Percent by Day of Week by Month - April 2015 - March 2016								
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Avg
Apr - 15	52.4%	67.9%	74.9%	71.9%	72.4%	79.5%	80.0%	71.3%
May - 15	55.7%	64.9%	72.8%	73.2%	71.8%	82.9%	89.2%	73.2%
Jun - 15	60.2%	76.5%	81.2%	85.8%	80.1%	89.5%	91.7%	80.6%
Jul - 15	62.7%	77.0%	86.6%	83.2%	86.0%	95.2%	95.5%	84.2%
Aug - 15	61.8%	78.9%	85.9%	81.1%	78.7%	89.1%	90.9%	80.6%
Sep - 15	60.4%	66.1%	70.9%	69.6%	65.3%	75.7%	82.4%	70.1%
Oct - 15	52.1%	68.8%	79.6%	79.0%	75.1%	79.5%	75.9%	73.2%
Nov - 15	41.1%	57.3%	61.9%	70.8%	78.8%	81.2%	75.6%	65.5%
Dec - 15	37.2%	44.9%	54.9%	53.7%	58.8%	58.0%	59.0%	52.7%
Jan - 16	38.7%	48.0%	53.7%	55.9%	57.0%	56.6%	57.6%	52.3%
Feb - 16	42.3%	58.8%	67.4%	68.0%	61.5%	63.6%	66.5%	61.1%
Mar - 16	50.3%	67.6%	75.0%	76.2%	72.3%	74.2%	76.5%	70.7%
Average	51.1%	65.0%	72.0%	72.2%	71.7%	77.2%	78.4%	

Sources: Smith Travel Research

Each cell is an average of four specific dates, for example Wednesdays in July averaged 83.2 percent occupancy. As shown, Saturday occupancy stays above 75 percent through the spring and summer months. Tuesday, Wednesday, Thursday, Friday and Saturday occupancy in the summer consistently remained above 80 percent. The highest occupancy occurred on Saturdays in July, which experienced over 95 percent occupancy. During January 2016 and December 2015, occupancy averaged approximately 52 percent per month, the lowest in the year. Weekday occupancy is strongest on Tuesday and Wednesday at more than 72 percent.

The following table shows the ADR by day of week per month for the 12-month period ending March 2016. The yellow cells represent ADR values from \$90 to \$100, the orange cells represent values from \$100 to \$110, and the red cells are all values above \$110.

Table 2-21

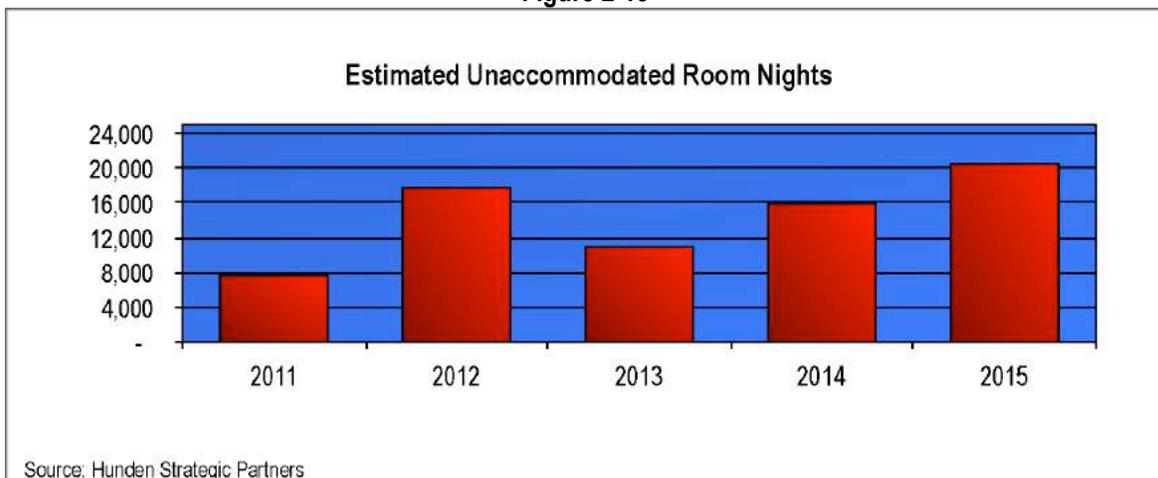
ADR by Day of Week by Month - April 2015 - March 2016								
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Avg
Apr - 15	87.69	91.80	95.05	93.35	92.04	97.01	96.52	93.63
May - 15	88.02	90.69	93.89	93.63	93.68	104.20	107.51	97.30
Jun - 15	88.97	94.35	96.01	95.60	95.30	106.83	112.09	98.94
Jul - 15	90.06	96.32	101.79	97.90	102.99	118.18	123.74	105.80
Aug - 15	92.84	98.88	101.51	102.13	98.34	109.71	111.58	102.71
Sep - 15	94.75	97.27	98.42	99.10	98.77	103.87	106.53	100.07
Oct - 15	84.91	91.52	94.04	94.75	94.26	98.07	98.99	94.57
Nov - 15	81.30	90.61	91.32	96.33	98.52	97.01	94.84	93.53
Dec - 15	76.67	82.24	88.67	88.42	87.35	81.92	81.44	84.59
Jan - 16	77.41	82.74	86.16	87.49	85.26	84.68	85.97	84.48
Feb - 16	80.69	90.97	94.91	90.48	87.93	87.43	90.68	89.54
Mar - 16	85.60	93.37	94.55	97.38	99.60	95.38	94.76	95.05
Average	86.64	92.58	95.23	95.19	95.12	100.45	102.16	

Sources: Smith Travel Research

The highest average daily rates occur on Fridays and Saturdays in July, at \$118.18 and \$123.74, respectively. The market has little variance on a monthly basis, from an average of \$84.48 in January to an average of \$105.80 in July. The days of the week with the lowest ADR are Sundays and Mondays with an average of \$86.64 and \$92.58, respectively. Overall, Saturdays have the highest ADR during the week at approximately \$102.16. This presents an opportunity for hoteliers to compress rates during the weekend, especially in the summer months, which they are not currently doing.

The following figure shows the estimate of unaccommodated room nights over the past five years for the selected set of hotels only.

Figure 2-13



Based on HSP estimates, the number of unaccommodated room nights for the selected set peaked in 2015 with more than 21,000 rooms.

Renaissance Portsmouth Norfolk Waterfront Hotel

Downtown features one quality hotel. Built in 2001, the Renaissance Waterfront Hotel features 249 guestrooms and nearly 22,000 square feet of function space. The Renaissance Hotel is located at 425 Water Street along the south branch of the Elizabeth River. Additional amenities include a fitness center, pool, free Wi-Fi, and the Foggy Point Bar and Grill located on the hotel's first floor. It is the largest hotel in the city of Portsmouth.

The property offers nearly 17,000 square feet of ballroom space and approximately 4,800 square feet of meeting facilities. Conversations with facility representatives indicated the following about the meetings and events market:

- The hotel has no true competitors in Portsmouth. The venue's main competitors are the Norfolk Waterside Marriott, Sheraton Norfolk Waterside, Courtyard Norfolk Downtown, and various Chesapeake properties.
- The primary user groups of the facility are military and social, but the venue also hosts a variety of boat and holiday parties.
- Key challenges for the Renaissance Portsmouth Hotel include the perceived reputation of Portsmouth as not an event destination, the tolls necessary to reach the Downtown area, and surrounding construction on the seawall.
- According to hotel management, the number the number of events has increased in recent years
- Occasionally, the hotel cannot accommodate some events due to the lack of an overflow hotel. The Renaissance currently utilizes Norfolk hotels for overflow situations.
- The Renaissance offers the most function space of any hotel in Downtown Portsmouth. Additional conversations with local market participants and stakeholders indicated that the facility attracts tens of thousands of visitors for events annually, but the hotel is hindered by the lack of a convention and visitor's bureau or other tourism marketing entity that actively promotes and attracts events to the market.

Conclusions

Analysis of the hotel supply in the market demonstrates that Portsmouth faces significant competition, in both quality and quantity, from surrounding Hampton Roads communities. Outside of the Renaissance Portsmouth Waterfront Hotel, the lodging properties offered in Portsmouth are aging, low-quality hotels that cannot compete with properties across the river in Norfolk and to the south in Chesapeake.

The performance of the selected set indicates that there could be an opportunity for a hotel development in the local market to accommodate the excess demand and recapture demand that is leaving Portsmouth, specifically on the weekends and summer months. Most notably, the Portsmouth hotel market is missing a limited-service or select-service hotel. Such a hotel would complement a full-service hotel in the immediate

area and could recapture demand that is leaving Portsmouth for other hotels in nearby communities. A limited/select-service hotel within walking distance to the Renaissance Hotel could act as an overflow property and potentially induce additional demand for larger meetings and events in Downtown Portsmouth.

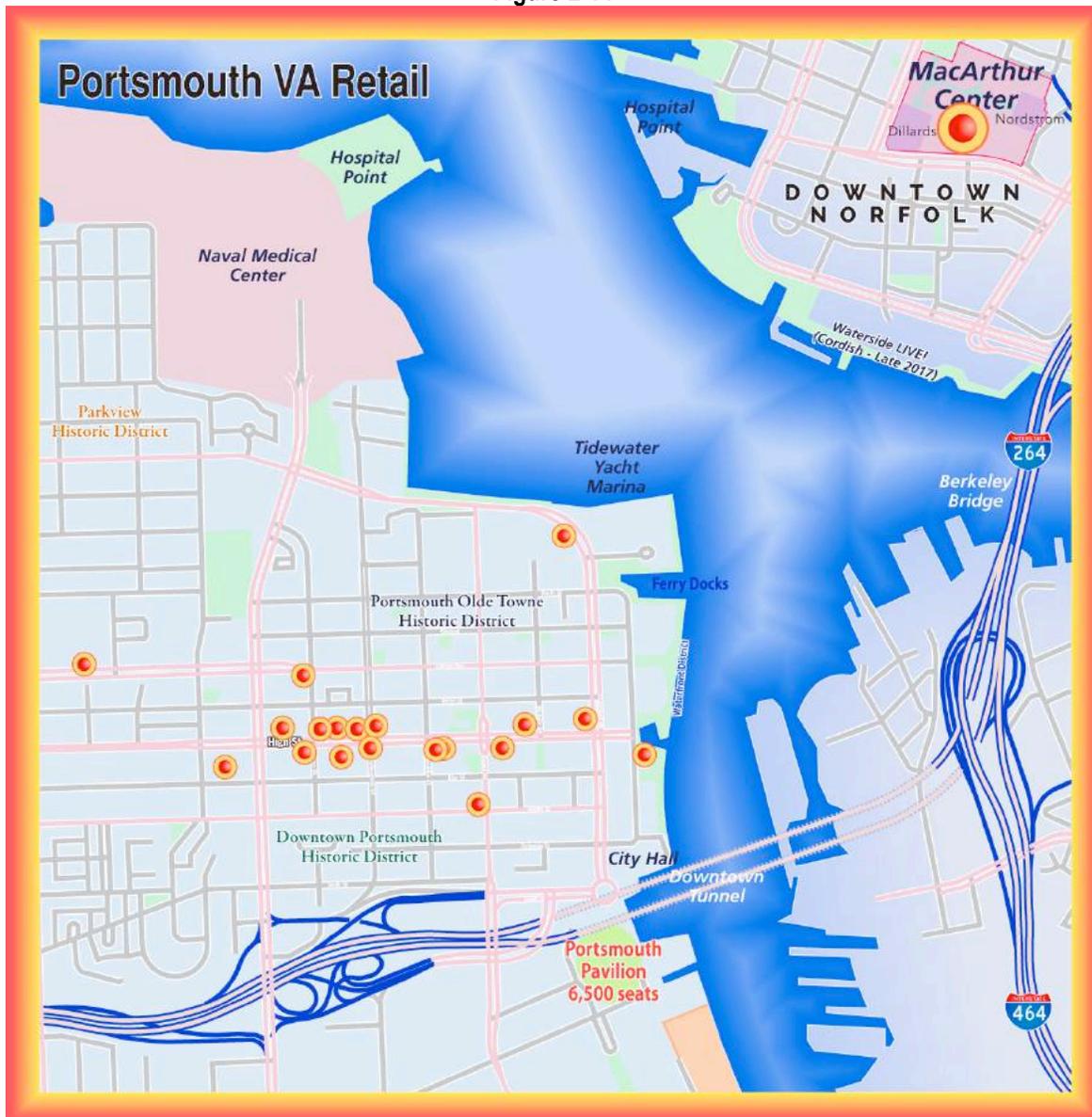
Retail & Restaurant Market

HSP profiled the Downtown Portsmouth retail and restaurant market by analyzing available market data and statistics, conducting interviews with city officials, local business owners, commercial brokers and collected data from a number of other sources to better understand the restaurant and retail market in Downtown Portsmouth.

Downtown Portsmouth Retail

The following figure shows the retail space inventoried for Downtown Portsmouth and includes the MacArthur Center in Downtown Norfolk.

Figure 2-14



The majority of retail in Downtown Portsmouth is located on or near High Street, with only a few retail locations outside of High Street. The MacArthur Center in Downtown Norfolk across the Elizabeth River is the primary destination for retail in the area.

The following table lists the Downtown Portsmouth retail space inventoried.

Table 2-22

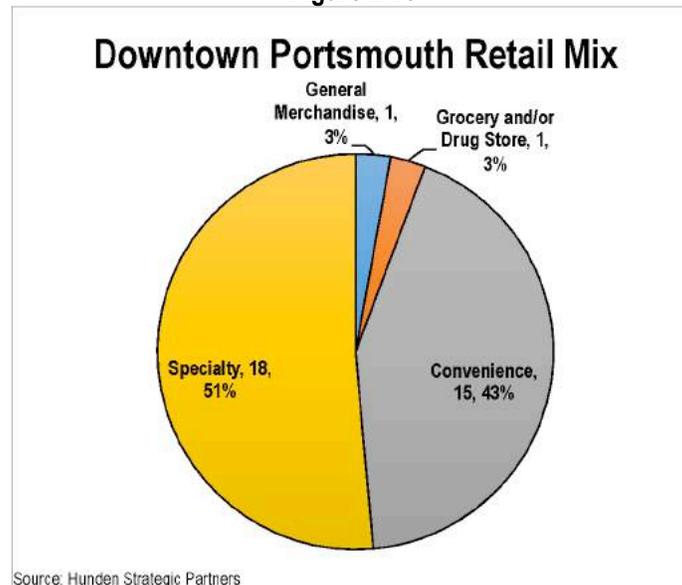
Downtown Portsmouth Retail Inventory			
Establishment	Address	Concept	Subcategory
Olde Towne Salon Barber Shop	610 Court St	Convenience	Barber
Willie's Barber Shop	718 High St	Convenience	Barber
Cycle Classics	427 High St	Convenience	Bikes
AMCS Flowers & Personal Services	307 High St	Convenience	Florist
SoleRight	310 High St	Convenience	Foot wear
Anderson-Wright	622 High St	Convenience	Furniture
Crockin Furniture	215 High St	Convenience	Furniture
Myers & Tabakin	825 High St	Convenience	Furniture
Fleming's Gym	305 High St	Convenience	Gym
All Nails	1124 London Blvd	Convenience	Salon
Norma Elizabeth's Salon	710 1/2 High St	Convenience	Salon
Pam's Hair Designers	434 A Green S	Convenience	Salon
Star Struck Styles LLC	615 High St	Convenience	Salon
Studio CK Salon	1 Crawford Pkwy	Convenience	Salon
Totally Pampered Day Spa	604-1/2 High St	Convenience	Salon
Arsenia Clothing	719 London St.	Convenience	Service
Dollar General	326 High St	General Merchandise	--
Olde Towne Drug Center Pharmacy	600 High St	Grocery and/or Drug Store	--
Way Back Yonder Antiques	462 Washington St	Specialty	Antiques
Fabulous Finds & Designs	509 Washington St.	Specialty	Antiques
The Finer Things Boutique	511 Washington St	Specialty	Apparel
Linda's Especially For You	728-A High St.	Specialty	Apparel
Special Occasions Formal Wear	636 High St	Specialty	Apparel
Touch of Style	323 High St	Specialty	Barber
Orzo Studio	600 Court St	Specialty	Ceramics
Mr. Vintage & Collectibles	425 High St	Specialty	Collectibles
Bowman's Garden Center	315 Green St	Specialty	Garden Center
Children's Museum of Virginia	221 High St	Specialty	Gift Shop
Portsmouth Art & Cultural Center Gallery Shop	420 High St	Specialty	Gift Shop
Portsmouth Visitor Information Center & Gift Shop	6 Crawford Pkwy	Specialty	Gift Shop
The Final Score- Virginia Hall of Fame & Museum	206 High St	Specialty	Gift Shop
Kitchen Koop	638 High St	Specialty	Kitchen
Ocean Marine Yacht Center	1 Crawford Ct	Specialty	Marine Supplies
Tidewater Yacht Marina & Shop Store	10 Crawford Pkwy	Specialty	Marine Supplies
Skipjack Nautical Wares& Marine Gallery	620 High St	Specialty	Nautical
Smoke Shop	627 High St	Specialty	Smoke Shop

Source: Various Sites, Hunden Strategic Partners

A total of 36 retail establishments were inventoried in Downtown Portsmouth. The Downtown Portsmouth retail market has a limited supply of general merchandise stores. The market is dominated by specialized retail and convenience services stores. The majority of retailers in the Downtown area are local enterprises, including several salons, barber shops and gift shops. Antiques shops are also a big part of the Downtown retail scene. The proximity to the water also supports marine and nautical based stores.

The following figure presents a breakdown of the Downtown Portsmouth retail options.

Figure 2-15



More than 50 percent of the inventoried retail is specialty retail. Convenience retail follows closely with 43 percent of the total. Overall, this Downtown market has minimal traditional retail and no grocery store. However, two grocery stores exist within 2.5 miles of Downtown. A Food Lion is approximately one mile west along London Boulevard, and the new Kroger Marketplace is located 2.5 miles west of Downtown. The grocery stores have located along the perimeter in order to capture the more densely populated areas outside of Downtown. As more residential developments continue in the core Downtown area, residents are likely to expect closer accommodations, such as an urban fresh market. As more residential development occurs, opportunities to land such retail developments will become possible.

Downtown Portsmouth has struggled to attract established retail establishments because most high-end chain retail activity is centered in Downtown Norfolk, and the Downtown simply does not have a critical mass of nearby households that are needed to support retail long-term. Without a major node of activity and spending Downtown, retail and restaurants serve a smaller, localized area. Anything larger would be considered pioneering or risky, as it would need to be a destination and attract those from outside the area.

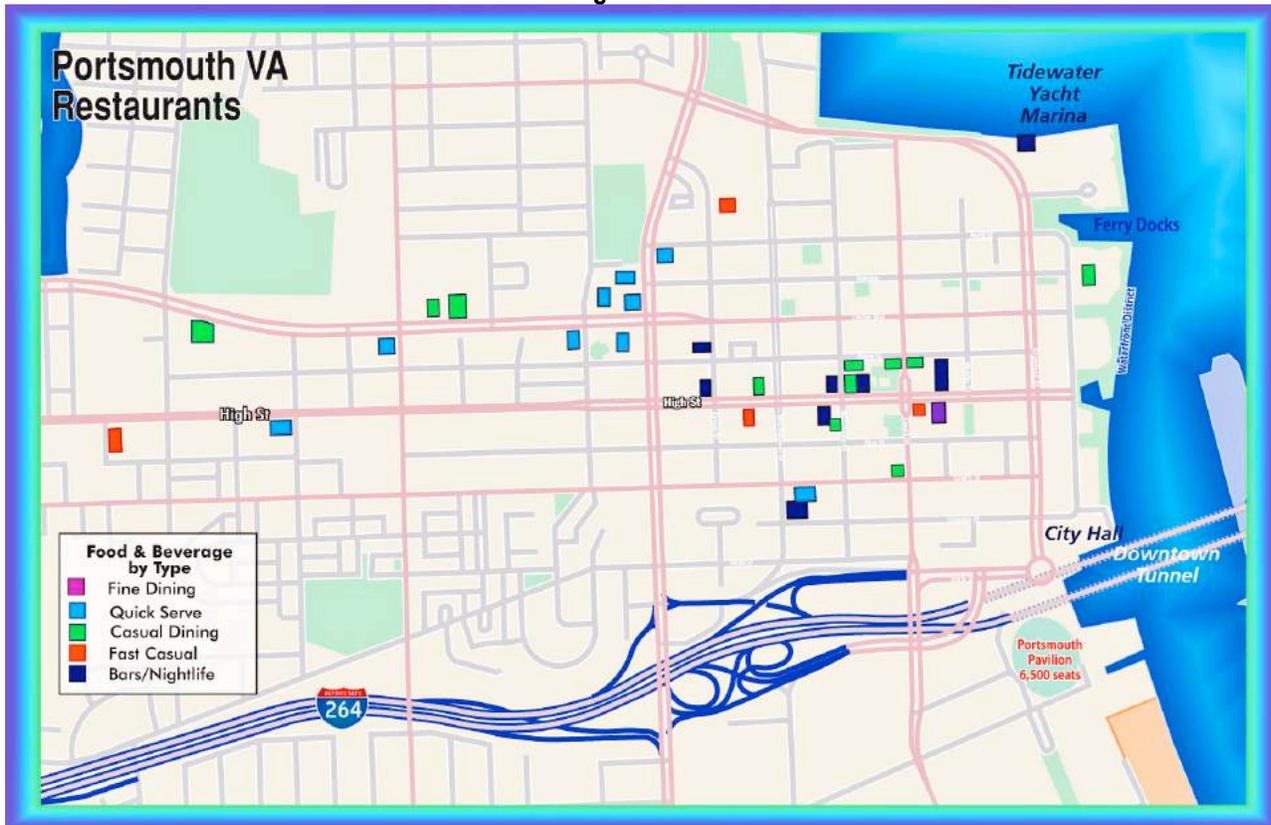
Currently, rates for Downtown retail properties are in the range of \$10 to \$12 per square foot. Common Area Maintenance (CAM) is in the \$2.00 to \$2.50 per square foot range. Tenant Improvement (TI) allowances will differ per project but for the most part will be low per square foot. With the inventory of spaces available it has been challenging to lease the spaces. The retail market in Downtown Portsmouth has been slow in the last several years. The residential projects that are occurring Downtown should be able to help reverse this trend by increasing the number of residents in the Downtown area. Residents will require and expect services and amenities, which will drive demand for retailers in the Downtown area. Area brokers recommend a convenience store, clothing stores and/or restaurants, specifically quick serve options since very few are in the Downtown area.

Portsmouth Restaurants

The restaurant market in Downtown Portsmouth is highly correlated with retail activity, and both markets have followed a similar trend. The restaurants Downtown tend to be higher quality and offer more concepts to choose from than the retail. Similar to retail, the Downtown restaurant market is mostly concentrated along High Street.

The following figure shows the location of restaurants in Downtown Portsmouth.

Figure 2-16



The highest concentration of restaurants is located on High Street from Court Street west to Green Street. A second node of dining options exists at the intersection of Effingham and London Streets. Quick service and pizza options are mostly located in this node.

The following table is a list of the inventoried restaurants in Downtown Portsmouth.

Table 2-23

Downtown Portsmouth Restaurant Inventory			
Establishment	Address	Category	Cuisine / Subcategory
Baron's Pub & Restaurant	500 High St	Bar/Restaurant	American
Griff's Restaurant & Sports	509 High St	Bar/Restaurant	Chicken Wings
The Bier Garden	438 High St	Bar/Restaurant	German
Gosport Tavern	702 High St	Bar/Restaurant	Modern American
Kad A Lac Restaurant & Lounge	448 Green St	Bar/Restaurant	Modern American
757 Crave on the Harbor	10 Crawford Pkwy	Bar/Restaurant	Seafood
Roger Brown's Restaurant and Sports Bar	316 High St	Bar/Restaurant	Southern
Legends Brewing Company	1 High Street	Bar/Restaurant	Micro-Brewery
China Ocean	1505 London Blvd	Casual Dining	Chinese
Rong Spring	1106 London Blvd	Casual Dining	Chinese
Longboards	440 High St #2	Casual Dining	Hawaiian
Mannino's Italian Bistro	606 High St	Casual Dining	Italian
Homegrown	455 Court St	Casual Dining	Italian
Guads Mexican Restaurant	612 Court St	Casual Dining	Mexican
Cancun Fiesta	506 Dinwiddie St	Casual Dining	Mexican
Lobscouser Restaurant	337 High St	Casual Dining	Seafood
Foggy Point Bar & Grill	425 Water St	Casual Dining	Seafood
Danny's Seafood	1118 London Blvd	Casual Dining	Seafood
Still Worldly Eclectic Tapas	450 Court St	Casual Dining	Tapas
619 Cantina	619 High St	Fast Casual	Mexican
The Green Bean Cafe	315 Green St	Fast Casual	Sandwiches
Carla's Cold Cuts & Wraps	1629 High St	Fast Casual	Sandwiches
Jimmy Johns	341 High Street	Fast Casual	Sandwiches
Cafe Europa	319 High St	Fine Dining	Mediterranean
McDonald's	801 London Blvd	Quick Serve	American
Hardee's	850 London Blvd	Quick Serve	Burgers
Church's Chicken	350 Effingham St	Quick Serve	Chicken
KFC	440 Chestnut St	Quick Serve	Chicken
Sing Wong Restaurant	1411 High St	Quick Serve	Chinese
Starbucks	361 Effingham St	Quick Serve	Coffee
Pizza Hut	800 London Blvd	Quick Serve	Pizza
Domino's Pizza	1201 London Blvd	Quick Serve	Pizza
Sun's Sub & Pub	425 County St	Quick Serve	Sandwiches

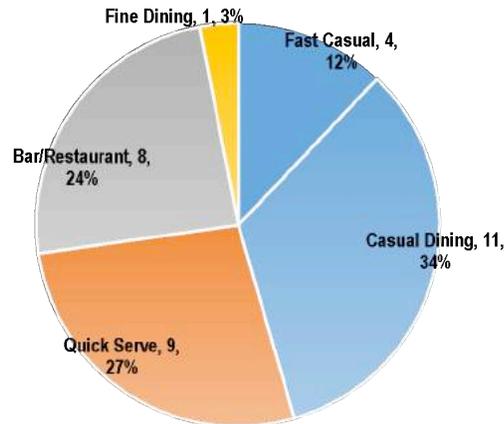
Source: Various Sites, Hunden Strategic Partners

HSP inventoried 33 restaurants in the Downtown market. The mix of and types of cuisine varies however, there are a few upscale dining options. The only national chains in the market are quick service options.

The following figure presents the restaurant mix by type in Downtown Portsmouth.

Figure 2-17

Downtown Portsmouth Restaurant Mix



Source: Hunden Strategic Partners

Casual dining is the most common food and beverage option in Downtown Portsmouth, followed by quick serve and bar/restaurants. These three categories account for 85 percent of the food and beverage options. Only one restaurant is considered to be fine dining in Downtown Portsmouth. Additionally, only four establishments are considered fast casual. Nationally, fast casual restaurants have led the restaurant industry in growth, but are still behind the traditional quick serve/fast food franchises in terms of lunch market share.

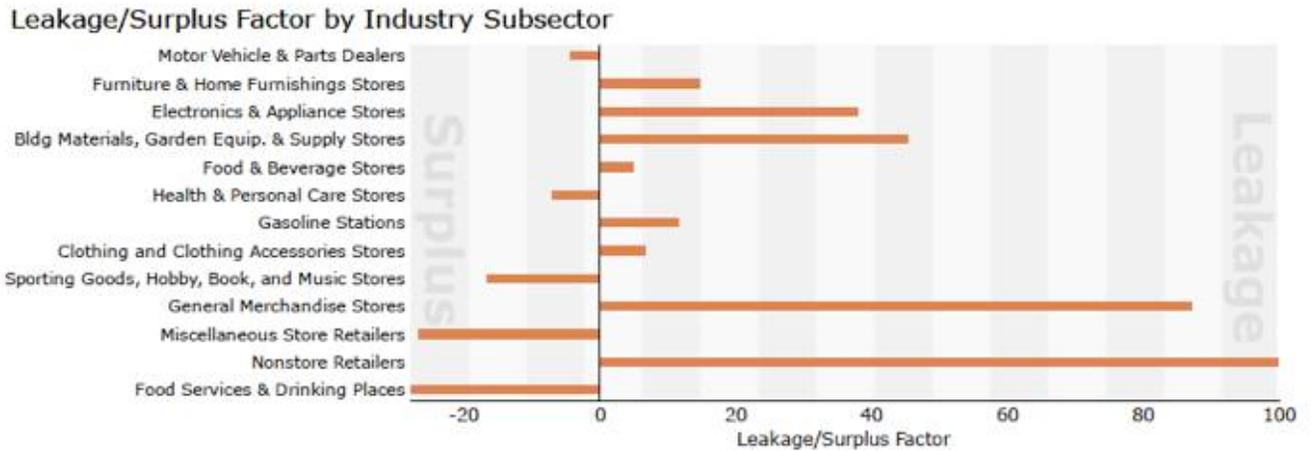
Two new concepts that will be located Downtown are a micro-brewery and micro-distillery. These two concepts are expanding the options and offerings in Downtown Portsmouth. The micro-brewery will be located on at 1 High Street along the waterfront. The micro-distillery will be located on High Street as well in a 2,000-square-foot space.

The restaurant scene in Downtown Portsmouth lacks density, variety and distinction, providing opportunity for potential developments. Ideally, Downtown Portsmouth would be served to develop a “walkable”, active restaurant node that connects retail, office, and residential developments. An established restaurant market will also bolster tourism and attract additional private investment across all product types. Additional restaurants at a new waterfront development would also enhance the Downtown core. Because they would be outside the area that most visitors and residents see or consider to be central, waterfront developments would likely serve their localized area more so than a wider market unless a critical mass of restaurants is developed that can turn the corner from “localized” to “destination.” This would be determined by the size, scale, number and quality of restaurants offered.

The following figure shows the retail “leakage” by industry subsector from Esri for a one-mile radius from Downtown Portsmouth. Retail leakage is a measure of the relationship between supply and demand that ranges from +100 (total leakage) to -100 (total surplus). A positive value represents 'leakage' of retail opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area. Leakage is generally bad for an area because local spending power is occurring outside of the Downtown area. This also makes the Downtown area more of a

challenge for those considering living or working there. If most purchases require a drive to another area, many will wonder if they should move to where the shopping exists.

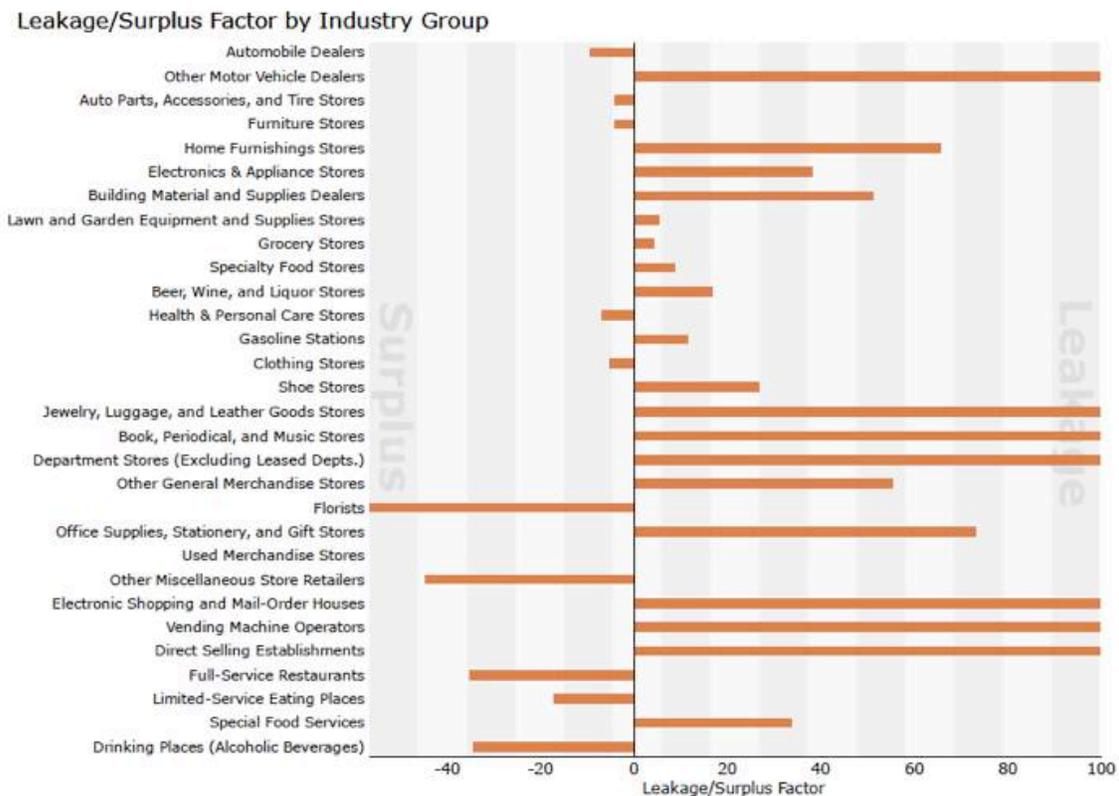
Figure 2-18



Several subsectors show significant leakage. General merchandise stores have a leakage of 85 percent in this market. Electronic and appliance stores and building materials, garden equipment and supply stores have leakage of approximately 37 percent and 45 percent, respectively. Miscellaneous store retailers and food services and dining places have a surplus of nearly 30 percent each. The subsectors with significant leakage are opportunities to fill gaps in the market and complement the existing retail Downtown.

The following table presents retail leakage by industry group provided by Esri for a one-mile radius of Downtown Portsmouth.

Figure 2-19



Numerous industry groups in this market have 100 percent leakage and could enhance Downtown, which are the following:

- Jewelry, Luggage, & Leather Goods Stores
- Book, Periodical, & Music Stores
- Department Stores (Excluding Leased Departments)

The next four industry groups also have 100 percent leakage, yet would not be ideally located in Downtown.

- Other Motor Vehicle Dealers
- Electronic Shopping & Mail-Order Houses
- Vending Machine Operators
- Direct Selling Establishments

The seven groups above are the industry groups that this market does not have. The first three industry groups listed are represented in Downtown Norfolk at the MacArthur Center Mall and surrounding area, so any introduction into Downtown Portsmouth from four industry groups are expected to compete with options in Norfolk. Alternatively, what is happening today is that most people are having to shop for most items outside

of Downtown Portsmouth. This makes living and working in Downtown Portsmouth a greater challenge than living or working in Downtown Norfolk, for example.

The following industry groups have the greatest surplus in the Downtown Portsmouth market.

- Florists
- Other Miscellaneous Store Retailers
- Full-Service Restaurants
- Limited-Service Eating Places
- Drinking Places (Alcoholic Beverages)

Additions to these categories will further saturate the market unless the new businesses offer unique offerings that expand concept, quality and/or price points in the market.

Feedback

HSP also received non-data driven feedback from restaurant owners, retailers and other Downtown stakeholders regarding factors impacting retail and restaurant viability.

- Representatives commented that due to short break times and the lack of availability of casual and sit-down restaurants, many employees avoid leaving the work premises. Additionally, once an employee finishes their shift, they tend to leave directly for home because there is not a “reason” to stay Downtown.
- Based on conversations with stakeholders, casual and upscale national chain options such as Applebee’s, Logan’s Roadhouse, Olive Garden and Ruby Tuesday’s, would be welcome in the market, although no market data was discovered that would support such a national chain development.
- Restaurateurs commented that they enjoy having new establishments open because they notice a renewed interest in all of the Downtown options when new restaurants open.
- Parking concerns may want to be addressed to encourage locals and visitors to come to any new development. Parking was raised as an issue primarily due to confusion about on-street parking regulations, (e.g. reverse back-in parking) for patrons. These regulations may be different than in surrounding communities. To the extent that visitors are being ticketed inadvertently, they are much less likely to return to Downtown Portsmouth. In this way, perception is reality, so if the market perceives parking as an issue, it will be an issue.
- A destination along the waterfront with more restaurant options is what visitors expect to find near harbors and marinas in a Downtown setting.

Implications

The current retail and restaurant inventory Downtown is concentrated along High Street east of Effingham Street. The inventory consists of several types of boutique, independent and mid-scale local restaurants and retail. Downtown Portsmouth needs a critical mass of retail and restaurant options in one area to support new

residential growth and to make Downtown Portsmouth a retail, dining and tourism destination. The current offerings are not plentiful enough to create the critical mass that would help drive tourism and additional investment. In addition, new housing options in Downtown will provide the people needed to sustain retail shops and restaurants. This residential relationship to retail and restaurant is symbiotic and not contradictory. The more residents, the more retail and restaurant can be supported. The more retail and restaurant, the more attractive the area will be for residential development *and* for tourists. This relationship is symbiotic as opposed to one-way.

Downtown Portsmouth has a high volume of daytime workers passing through, with many employed at the nearby hospital and nearby shipyard. Area employees tend to avoid leaving the work premises during their work shift (reportedly due to security checkpoints), and often go directly home once they have completed work. A development with density and variety could be the catalyst to draw this group of potential customers. Most of the workforce at the medical center and shipyard are not working a typical 9-to-5 schedule Monday through Friday, so attracting more businesses that can provide extended hours to accommodate a wider spectrum of demand will help maintain activity throughout the day and evening.

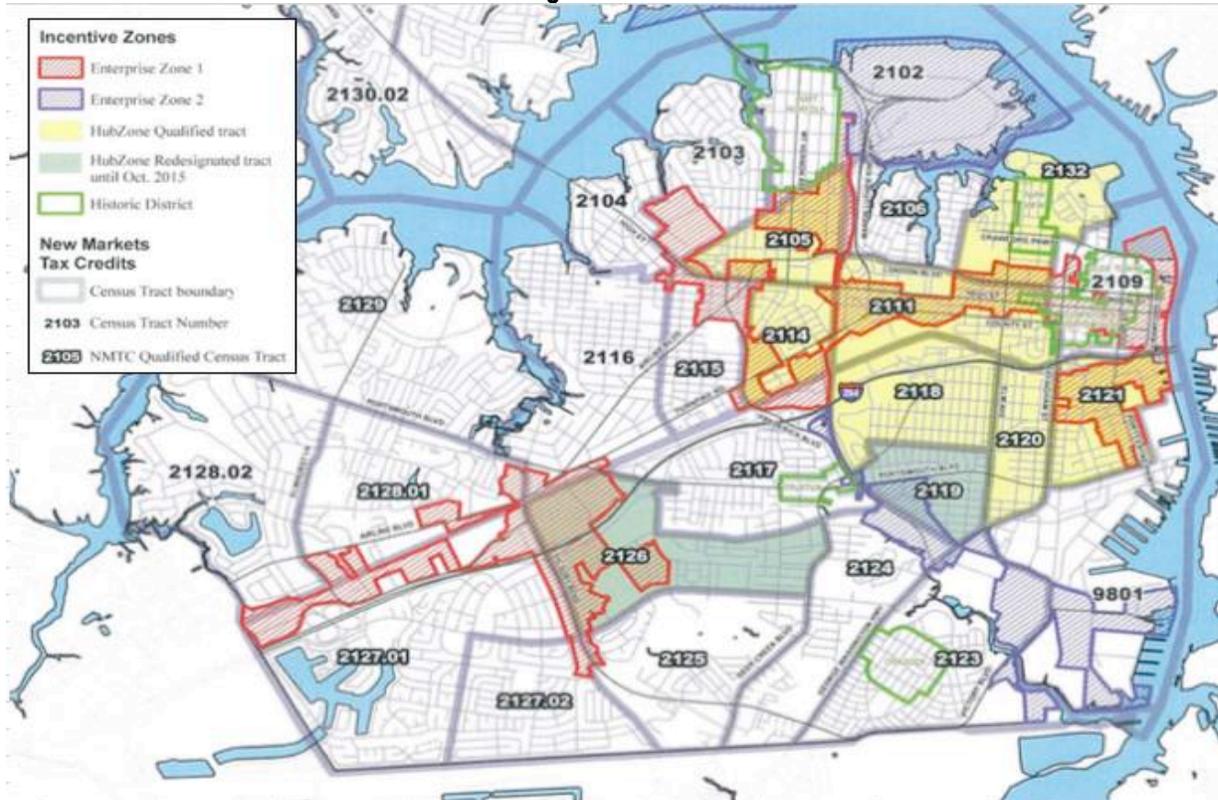
Any new restaurant development, whether it is located in Downtown or along the waterfront, will rely on the daytime office workforce, the Downtown and local resident population, as well as visitors to keep it vibrant. One issue that is especially a concern along the waterfront is parking. These concerns and feedback will need to be addressed as part of the overall Downtown redevelopment plan.

Real Estate Development/Reinvestment Incentives

Real estate development incentives are often offered in areas that are underserved for various uses or economically depressed areas in order to spur investment by making projects more financially feasible. Incentives come in many different forms. Portsmouth offers a variety of incentives for real estate development to help bridge financing gaps.

The following figure illustrates the two Enterprise Zones within which developments are eligible for incentives.

Figure 2-20



The following list contains incentives provided by Portsmouth.

- **Development Fee Rebate** – local incentive program offering a maximum 90-percent rebate of rezoning, use permitting and other fees associated with projects beyond a minimum investment threshold.
- **Commercial Façade Loan Program** – local incentive program offering attractive loan terms for façade improvements for properties on specific right-of-ways.
- **Mixed-use Development Incentive** – local incentive program offering potential contributions by City to developers of \$25 million-plus mixed-use project requiring additional capital.
- **Real Estate Investment Grant** – local incentive program granting between 50 and 75 percent, depending on level of investment, of incremental real estate tax collected by City due to the project, which is dispersed over five years.
- **Tax Exemption for Rehabilitated Structures** – local incentive program offering ten years of real estate tax exemption if rehabilitation meets building age, increased assessed value and maximum footprint increase restrictions.

There is also an available Real Property Investment Grant, a state program that refunds 20 percent of qualified investment beyond a minimum threshold over five years with an incentive cap. However, this is not unique to Portsmouth.

Although Portsmouth offers competitive real estate incentive programs relative to its neighboring communities, some neighbors do offer additional programs not found in Portsmouth, such as the Arts & Cultural districts found in Hampton and Norfolk as well as the revolving loan and grant fund found in Hampton. The implementation of a revolving loan and grant fund would allow Portsmouth a consistent source of funds dedicated to assisting and spurring targeted real estate development. Additionally, total program funds would continuously increase as investments mature and interest and principal are paid back. To be successful, Portsmouth would need to incorporate the necessary zoning laws and permitting based on the desired retail real estate development should this incentive be offered.

Implications

The Hampton Roads MSA has increased its population to nearly 1.8 million people, making it the 37th largest metro area in the U.S. Multiple industries are thriving in the area, including public administration, health and medicine, technology, education and many others. Portsmouth, however, has been largely dependent upon the government, military and government support sectors, which have all been negatively impacted by defense budget cuts, the recent budget sequester and the economic recession that started in 2008. These key changes impacted Portsmouth's economy and population, limiting its growth. However, the economy and government spending are increasing again, which should bode well for the future of Portsmouth, albeit at a slower pace than during the military build-up of the last decade.

Real estate development and redevelopment in the Downtown area has primarily consisted of rental apartments. This sector is quite robust and the number of projects and units is impressive. Restaurants and bars appear to have some positive momentum, but there is still not a critical mass of options that makes Downtown a core destination for dining and nightlife. However, this is an area most ready to develop, based on the new residential demand and continuing trends in Americans eating out more and preparing meals at home less. Other real estate sectors have not exhibited much movement and some have suffered. Retail and office are somewhat tied together in their overall health, according to HSP's analysis and interviews. Both sectors have experienced some displacement outside of Downtown and supporting new projects or retailers has been a struggle for the market. The hotel market has improved, but with only one hotel in the Downtown area, there is an opportunity to capitalize on the health of the industry and need for more options, especially a non-full-service branded hotel, such as a Hampton or Courtyard style select service hotel. A diversity of price points and experiences, just like in the restaurant world, will help attract more types of tourists, group events and business travelers to Downtown. It would also likely help drive evening dinner traffic to restaurants.

The city continues to enhance its current offerings of the arts and entertainment, not only to attract visitors, but also to develop a desired quality of life for its residents. With the recent and ongoing changes, Portsmouth offers a package that has potential to attract a greater number of visitors and businesses, creating a more vibrant and active Downtown. Between the budding resurgence of Downtown and the general economic growth of the Hampton Roads region, Portsmouth is well primed and positioned to continue its development into a more appealing, attractive and desirable city. The more proactive steps it can take to create a cycle of improvement and partnership with the private development sector, the better.

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DOWNTOWN (D1) & UPTOWN (D2) REDEVELOPMENT DISCUSSION

HSP reviewed and analyzed Portsmouth's zoning districts and classifications within the Downtown (D1) and Uptown (D2) areas of Portsmouth with the perspective of approaching it for redevelopment, as well as to determine the combination of uses that would best fit and are viable in the area. These uses will be based on the factors that affect the areas in both positive and negative ways. The goal of the analysis is to determine whether zoning and development efforts should be modified in order to recognize the existing market and uses, yet also induce the types of developments that would both compliment and improve the area.

In order to understand and provide an analysis and recommendations for redevelopment, HSP first reviewed these districts and their existing uses, as outlined in the zoning code. These zoning classifications and uses will further clarify the specific combination of uses by property type that will best fit each district, as well as determine the vacant properties analysis and recommendations that are addressed in the following chapters.

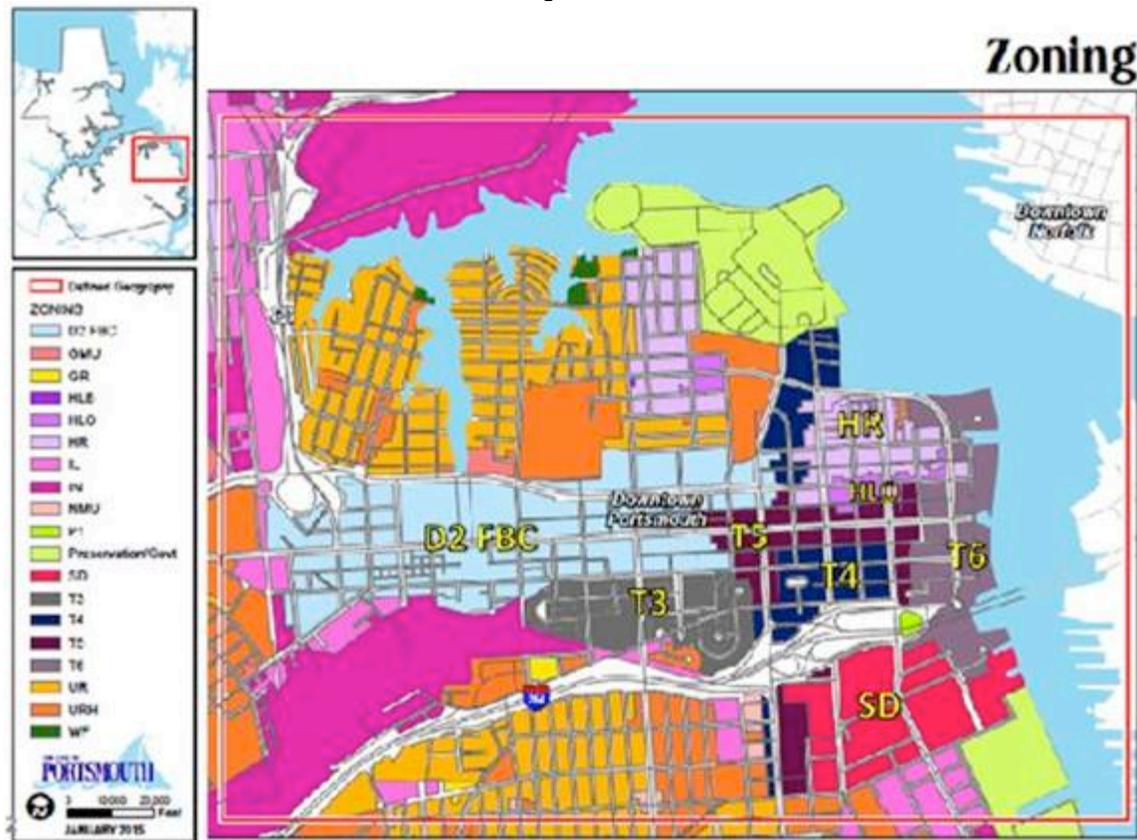
The land within the city is classified within a number of base zoning districts. Land within a base zoning district may also be classified into one or more overlay zoning districts, and the regulations governing development in the overlay district shall apply, in addition to the regulations governing development in the underlying base zoning district, unless expressly stated. Base zoning districts are grouped into Residential, Business, Activity Center and Special districts.

Special Based Zoning Districts

The special base zoning districts established in the land ordinances are intended to address special areas of the city where special area plans and related regulations have been prepared to regulate development standards. The special areas consist of the waterfront, Downtown and historical districts. The area of focus for this analysis, Downtown Portsmouth, encompasses all three of the special based zoning districts.

The following figure shows the special based zoning districts in Downtown Portsmouth.

Figure 3-1



A discussion of the D1 and D2 districts and their relevant uses are highlighted below.

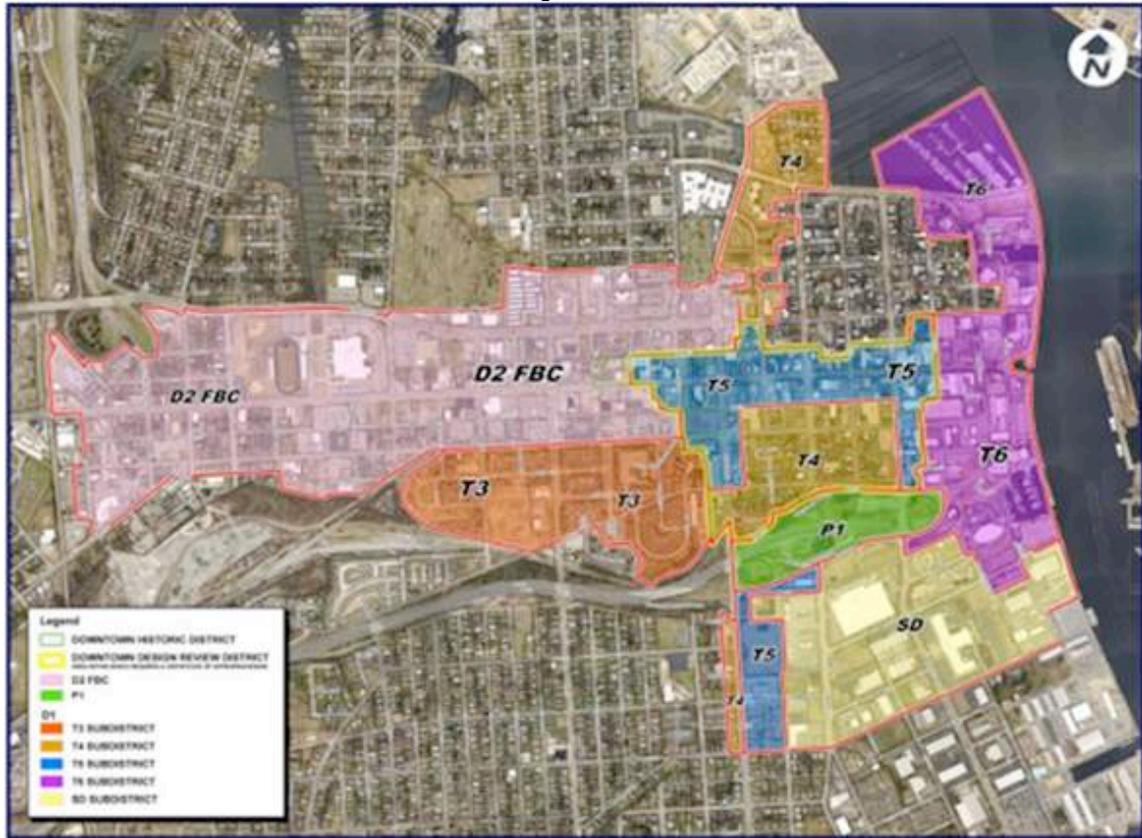
Downtown (D1) District

The Downtown districts are created for the development and preservation of the city's educational, cultural and economic interests, opportunities and advantages. These districts include significant tourist routes, and provide access to historic structures and buildings in Downtown Portsmouth. The historic district contains many significant historic structures and buildings. Redevelopment of this district will be accomplished through preservation and protection of buildings and structures, cultural, economic and civic interest in the core area, as well as protection and enhancement of the tourist corridors.

Additional uses will be a mechanism for implementing specific goals as they relate to public and private sector investment. This will be accomplished by capitalizing on public investment in existing infrastructure, promoting mixed-use development, ensuring transit-supportive and transit-serviceable development, requiring pedestrian-oriented and transit-oriented design, and ensuring compatibility with surrounding neighborhoods.

The Downtown district is governed according to sub-districts. These are the T3, T4, T5, T6 and SD districts, as shown in the aerial map below.

Figure 3-2

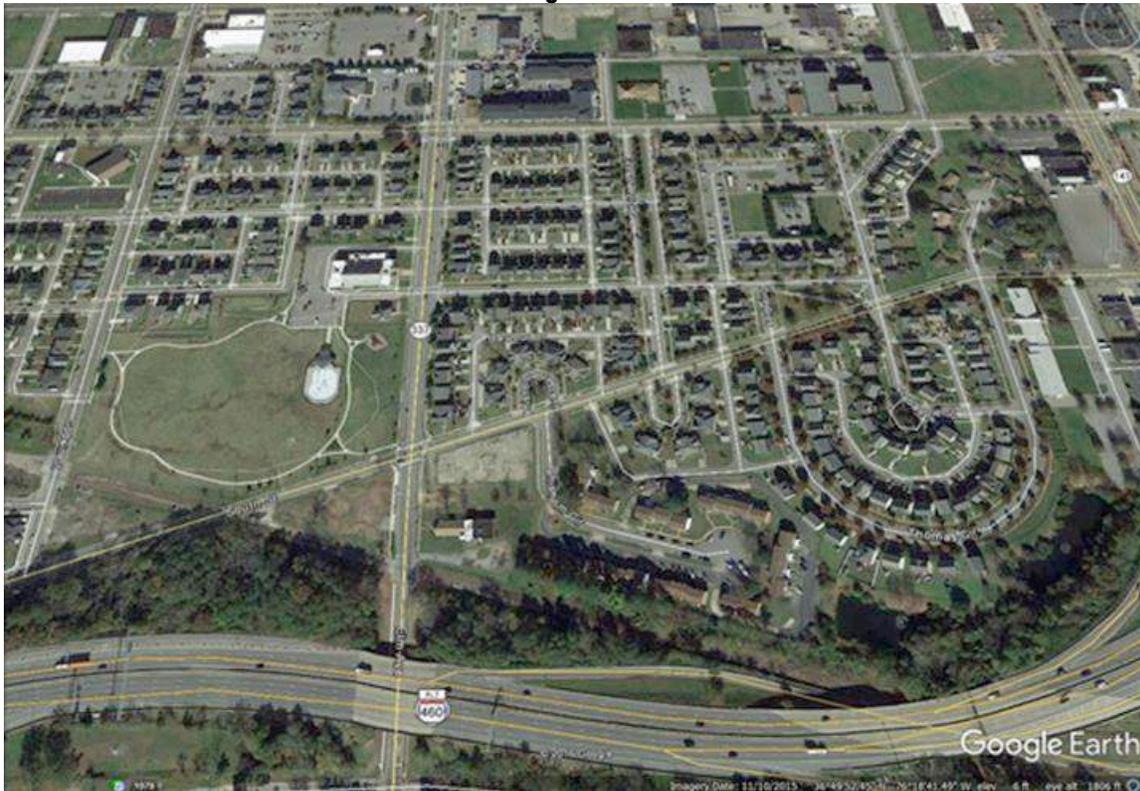


A description of each sub-district, as well as uses allowed, follows:

T3 (Urban Residential) Sub-district – contains a mix of residential uses, but maintains a residential urban fabric. These areas are furthest from the Historic District and represent the least intense urbanism Downtown. This sub-district contains flexible dimensional requirements to allow development consistent with the design of existing Downtown neighborhoods.

Shown following is an aerial view of the T3 district looking north.

Figure 3-3



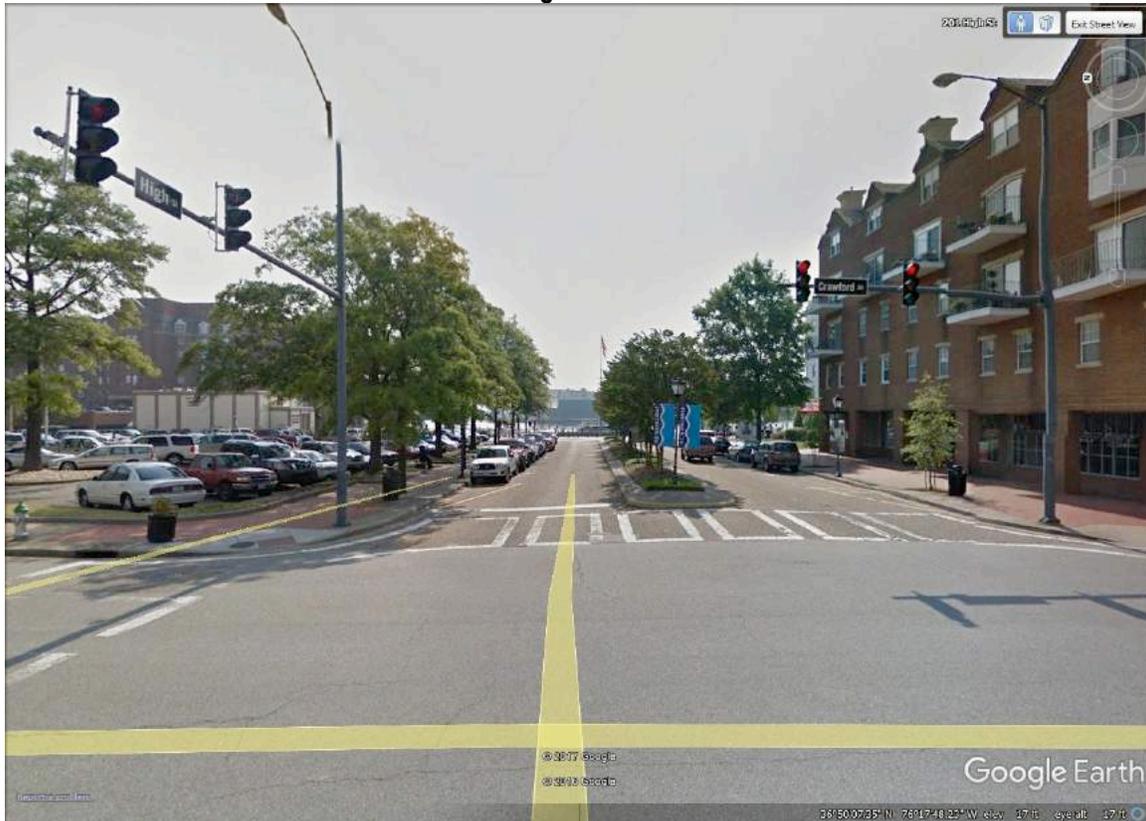
T4 (General Urban) Sub-district – located adjacent to and directly east of the T3 district, contains a mix of uses, but maintains a predominantly residential urban fabric. These areas, nearest to the Historic District, represent moderately intense urbanism in the Downtown. This sub-district contains flexible dimensional requirements to allow development complimentary to and building upon the design of existing Downtown neighborhoods.

T5 (Urban Center) Sub-district – located just north of the T3 district and east of the D2 district contains a higher density mix of uses with primarily retail space at the ground floor due to its proximity to Downtown.

T6 (Urban Core) Sub-district – located along the waterfront is designed for high-density mixed uses. This sub-district is the most intense land use Downtown.

The following is a street view looking east from the intersection of Crawford Street and High Street, with a multi-family development to the south and a parking lot to the north in the T6 district.

Figure 3-4



Special District (SD) Sub-district – is located south of Downtown with slight waterfront frontage and then heading west. This is a low-density, limited mixed-use district which is intended to provide employment with mixed-uses, including manufacturing, distribution and warehousing, as well as civic and supportive retail uses. In an effort to minimize land-use conflicts, this sub-district is not generally suited for residential uses.

Shown following is an aerial view of the SD district showing rooftops of industrial buildings, as well as the surrounding area and its proximity to the waterfront.

Figure 3-5



The following is a view looking east along County Street which shows the T3 district to the south and light industrial type of buildings immediately to the north.

Figure 3-6



D2 District Form-Based Code (FBC)

The D2 Form-Based Code zoning district is intended to foster a setting for economic growth and development in a sustainable mixed-use pattern of diverse urban neighborhoods, integrating residential with employment and commercial uses and recreational uses.

The following is a view looking west along High Street at the intersection of Goodwin Street in the D2 district.

Figure 3-7



The goals of the D2 district are as follows:

- Capitalize on public investment in existing infrastructure
- Promote compact, mixed-use development at moderate to high densities
- Ensure transit-supportive and transit-serviceable development
- Require pedestrian-oriented and transit-oriented design
- Ensure compatibility with surrounding neighborhoods

The code will be applied to new, infill development and redevelopment in designated locations to:

- Achieve the vision established for the Uptown D2 District
- Provide a mechanism for implementing goals using both public and private sector investment.

The FBC places the greatest emphasis on design and physical form of developments. Density and uses can be expected to change over time as the district grows and matures.

The following table outlines the permitted uses by zoning district in Downtown Portsmouth. The real estate uses are labeled based on whether they are permitted in each zoning district. The zoning districts that have varying permitted uses based on the real estate use were labeled with variable allowances (VA).

Table 3-1

Summary of Permitted Uses by Zoning District - Downtown Portsmouth Real Estate						
	T3	T4	T5	T6	SD	D2 FBC
Apartments	VA	YES	YES	YES	NO	Yes
Single Family Homes	YES	VA	NO	NO	NO	Yes
Multi-Tenant Office	NO	YES	YES	YES	YES	Yes
Creative Office	NO	YES	YES	YES	YES	Yes
Government/ Single-Tenant Office	NO	YES	YES	YES	YES	Yes
Hotel	NO	YES	YES	YES	VA	Yes
Retail - General Merchandise	NO	VA	VA	VA	VA	Yes
Retail - Specialty	NO	VA	VA	VA	VA	Yes
Retail - Grocery and/or Drug Store	NO	YES	YES	YES	NO	Yes
Retail - Convenience	NO	YES	YES	YES	NO	Yes
Restaurants - Fine Dining	NO	VA	VA	VA	VA	Yes
Restaurants - Casual Dining	NO	VA	VA	VA	VA	Yes
Restaurants - Fast Casual	NO	VA	VA	VA	VA	Yes
Restaurants - Bar/Restaurant	NO	VA	VA	VA	VA	Yes
Restaurants - Fast Food/Quickserve	NO	VA	VA	VA	VA	Yes
Attractions	NO	VA	VA	VA	VA	VA
Source: Hunden Strategic Partners						

HSP reviewed and analyzed the following property types and outlined their implications for development within each of the aforementioned districts. An overview and background of each property type is provided below with the recommended development approaches.

- Residential (condominiums, multi-family and single family):** Five multi-family developments opened in 2016 and others are planned in Downtown Portsmouth. The developments have occurred in multiple zoning districts, with one in the D2 FBC zoning district. Multi-family dwellings and townhomes are in line with other real estate uses that support both the special based zoning and form-based zoning requirements. Mixed-use developments that include a residential component may face some challenges. One specific requirement is that the ground story may only include residential uses. Mixed-use developments tend to program real estate uses that benefit from visibility and street traffic such as restaurants, retail, and other support services for residential. Additionally, the general building envelope height limit is five stories. The limitation may impact the viability of such a project. New concepts that combine restaurants and/or bars with entertainment and recreation concepts such as bowling and table tennis may face added challenges, particularly in the T4 district. Overall, the zoning for multi-family developments has shown to be compatible with residential developments.

- **Multi-Tenant Office:** Office space is an allowable use for all zoning districts, except for the T3 district. Dense office development is expected to occur near regional activity centers. New office development in Downtown Portsmouth should be focused on high-quality space that caters to the shift in demand towards new, smaller and contemporary spaces. These spaces are likely to be incorporated into small- to mid-sized mixed-use developments. Multi-tenant office is not permitted in the T3 district.

HSP does not recommend any changes to the multi-tenant office district uses.

- **Creative Office:** All office uses are compatible with each zoning district, except T3. The special district and form-based zoning would accommodate creative work spaces as well as live/work spaces. However, creative office, is not permitted in the T3 district.

HSP recommends a review of the uses in the far northern portion of the T3 district that borders the D2 FBC district, in order to allow small creative office uses which will transition the residential uses within the T3 district with the commercial uses within the D2 FBC district.

- **Government/Single Tenant Office:** Government employment accounts for more than 40 percent of the Portsmouth employment base. Government office use accounts for a large portion of the office market in Downtown, and any additional government office developments would meet zoning allowances. Similar to the Behavioral Health Center, the D2 FBC zoning area would be able to support government office use, while keeping daytime workers in the Downtown area.

HSP does not recommend any changes to the government/single tenant office uses allowed under the current zoning districts.

- **Lodging – Hotel:** All hotel and lodging developments are permitted Downtown. Full-service properties are the only lodging type with the appropriate use permit that can be developed in the SD sub-district. The growth of peer-to-peer marketplaces like Airbnb, Homeaway and VRBO are expected to impact how visitor lodging is accommodated. Cities globally are facing new challenges from home-sharing services. The growing popularity is fueling concerns that the supply of apartments is being squeezed by owners choosing to rent units to tourists and visitors rather than residents.

There are economy lodging properties located in the London Boulevard corridor, which includes a Rodeway Inn and Super Value Inn.

HSP recognizes that although attracting and accommodating tourists to the area is important, it should not be at the expense of growing the Downtown Portsmouth resident population. However, in order to spur additional commercial hospitality developments in the Downtown district that complements the residential population, hotels higher than the upper mid-scale chain scale should be encouraged to be developed. This can be accomplished either via new developments or a comprehensive and concise adaptive reuse policy. The requirement for full-service hotels is too restrictive and should be softened so that select-service brands, still with an urban form (vertical vs. horizontal), can be developed to energize the hospitality base.

- **Retail Sales Establishments:** The retail sales establishments are categorized into small establishments (less than 2,500 gross square feet) and large retail businesses. It is common for retail establishments to be greater than 2,500 gross square feet. The current zoning, as outlined, would require a business with a 3,000-square foot location to navigate the same approval process as a big-box retailer. This permitting process may be a contributing factor to the large

number of specialty shops in Downtown Portsmouth and few larger retailers.

HSP recommends a tiered square foot scale that considers size and retail use which may offer an opportunity to attract small and mid-sized retailers to the market. In order to complement the residential developments in the T6 district, a focused approach to attracting upscale boutique retailers to the Downtown district should be strongly pursued. This will not only benefit the residents in Downtown, but also attract the tourists looking for a specialized boutique shopping waterfront district.

- **Retail – Grocery Store and/or Drug Store:** These real estate uses are permitted in the core Downtown area. The closest grocery store is the Food Lion located on London Boulevard, one mile west of Downtown in the D2 zoning district. The Downtown has a few standalone convenience stores. Drug stores with drive-through services will require a use permit in order to operate Downtown. This use is not permitted in the T3 (urban residential) district. Other causes of lack of retail may include lack of a sufficient and large enough customer base, location, financing and availability of space. Given the relatively small hyper-local resident population base, it is not surprising that retail grocery and drug stores have struggled to stay feasible. The additional apartments should bolster the ability of the Downtown area to support such uses.

HSP recommends a review of grocery store and/or drug store uses within their respective district. The exclusion of this use in the T3 district does not complement the allowed uses within this district. A focused use of smaller and specialized grocery store uses along the northern perimeter of the T3 district will not only help the residents in the district, but also the uses allowed in the D2 FBC district. Any increases in grocery stores would have to coincide with residential development. A downtown grocery store might include specialty items, trendy offerings, locally sourced vegetables and fruits, prepared and ready-to-cook take home meals, local and national craft beers and specialty wines.

- **Restaurants:** the restaurant and eating establishments' zoning allowances offer confusing and possibly conflicting uses, and their permitted uses vary based on the real estate.

HSP recommends clearly defining an eating establishment versus a restaurant. For example, eating establishments are permitted in the SD sub-district, but a restaurant is not. The lack of clarity creates confusion and may impact the decision whether a business locates in Downtown Portsmouth or not. This is particularly important in the T6 district where there is a large cluster of offices.

- **Attractions:** attractions serve the Downtown to attract visitors, as well as provide residents with assets to improve the quality of life in the community. Each zoning district has varying allowances for attractions. Zoning districts such as T6 and T5 offer opportunities for Downtown Portsmouth to leverage the hotels, waterfront, walkable restaurants and retail when considering any new attractions.

HSP recognizes that the region offers immense amounts of waterfront, yet very few opportunities near Downtown Portsmouth, so any newly developed attraction and venues must be desirable enough to drive demand in the region to draw visitors to Portsmouth, but also complement the residential component located in Downtown. The attractions should not be intrusive to the residential and hospitality components recommended for Downtown, but rather complement and provide a cohesive atmosphere to the overall Downtown district.

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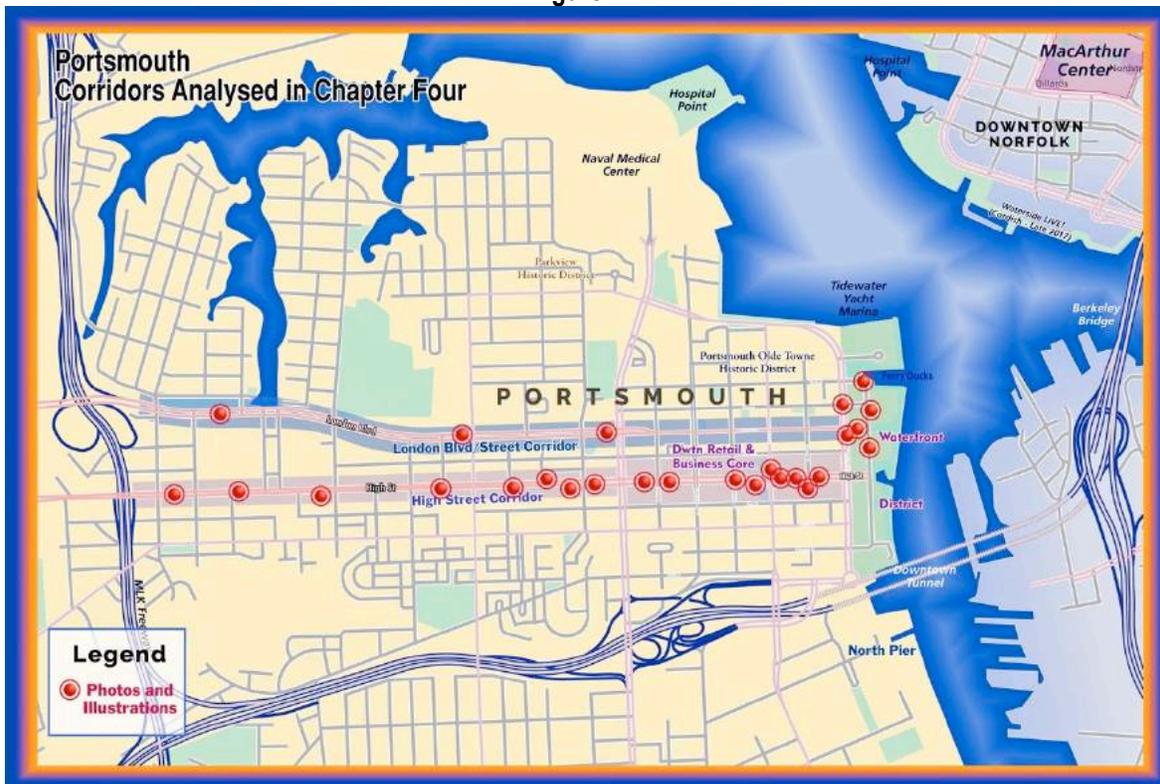
VACANT WATERFRONT PROPERTIES AND D2 FORM-BASED CODE DISTRICT

This chapter provides an analysis of the highest and best uses, as well as suggested zoning map and regulating plan changes, for the vacant waterfront properties and the D2 Form Based Code district.

HSP reviewed and analyzed each real estate use, reviewed market metrics, and reviewed a number of similar developments in order to provide the city with a better understanding of highest and best uses, suggested zoning/zoning map/regulating plan changes (if any) for the vacant waterfront properties and the D2 Form Based Code District. Special attention has been given to the London Boulevard and High Street corridor, as well as a discussion about individual sites depicted in Exhibit 8.

The figure below shows the points of discussion related to real estate usage in this Chapter, which includes key waterfront sites and the two east-west corridors that span the D2 Form-Based Code District and beyond.

Figure 4-1



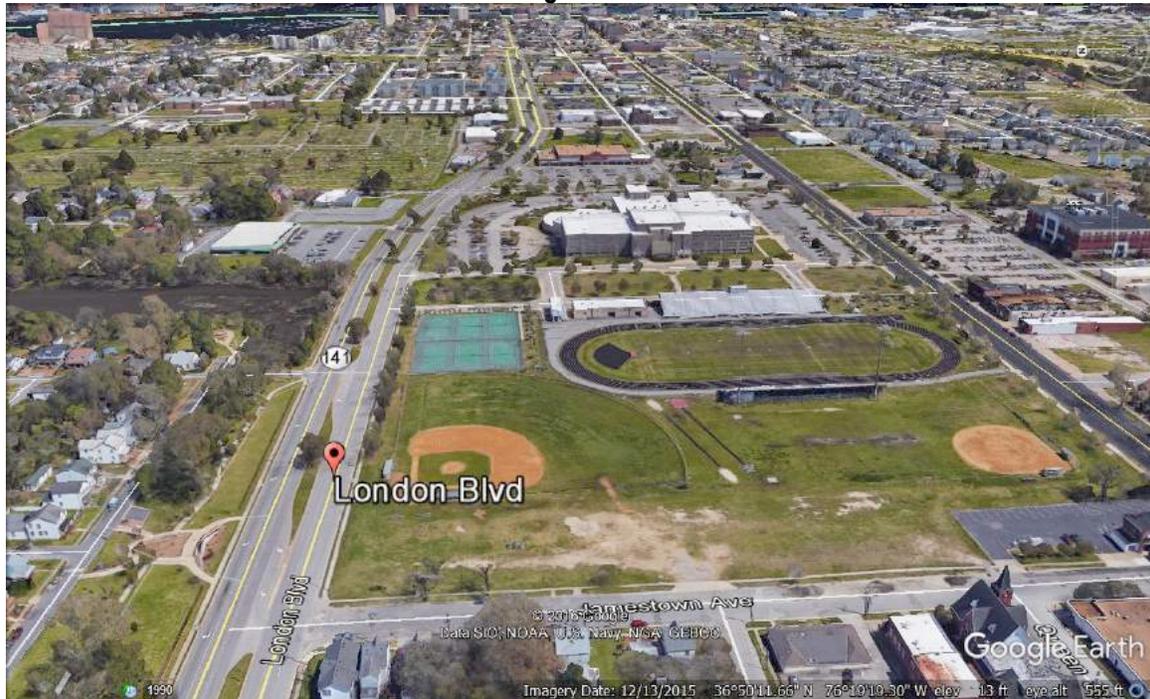
D2 FBC District Corridor

The corridor within this district encompasses a variety of uses ranging from apartments, condos/single family homes, office properties, hotel, retail and restaurants. Attractions are designated as a variable allowance.

This district stretches along the north side of London Boulevard from Martin Luther King freeway to Goodwin Street where it jogs slightly north and then continues east to just east of Effingham Street. The southern boundary of the district encompasses Turnpike Road and County Street, and the major arterial High Street roadway cuts through the D2 FBC district into Downtown. The two gateway corridors into Downtown Portsmouth include London Boulevard and High Street, and the wide variety of uses within this district have in the past driven development to be very broad, varied and not focused or defined. This has led to many different and “not compatible” property types being developed near each other, as in the case of the aerial shown in Figure 4 – 2 on the following page.

The major goals of this district are to promote compact, mixed-use development at moderate to high densities, as well as to ensure compatibility with surrounding neighborhoods. The variety of permitted uses within this district does not effectively allow for concentration of specific use types. Therefore, HSP recommends that the City of Portsmouth provide a comprehensive plan for this district that will tighten the permitted uses to more effectively capitalize on public investment in the existing infrastructure. This will ensure that the types of properties that are developed along this corridor align with the City’s specific goals using both public and private sector investments. The variety of uses permissible within this district should be transitional, and each permitted use should be a seamless blend with other nearby uses. These uses should include small to medium sized retail stores/smaller professional offices and service types of businesses, as well as restaurants. The uses should complement each other and not be conflicting with each other. To this end, retail and restaurants should be near multi-family (rental and owned) units, whereas there needs to be a clear division between multi-family and industrial uses. Mixed uses that includes multi-tenant retail should include small offices geared towards small professional uses (such as Doctors, Dentists, Attorneys, Accountants, Veterinarians, etc) and then transition into larger office uses. Additionally, larger offices uses should transition to light industrial uses. These uses should also place an emphasis on design and the physical form of the development. Multistory buildings that include a mix of uses, such as restaurant on the ground level and office or residential above would enhance the district. The flow of these uses must be compatible with adjacent uses. The area consists of a mix of low rise light industrial buildings, multi-family properties as well as sports fields just west of the high school.

Figure 4-2

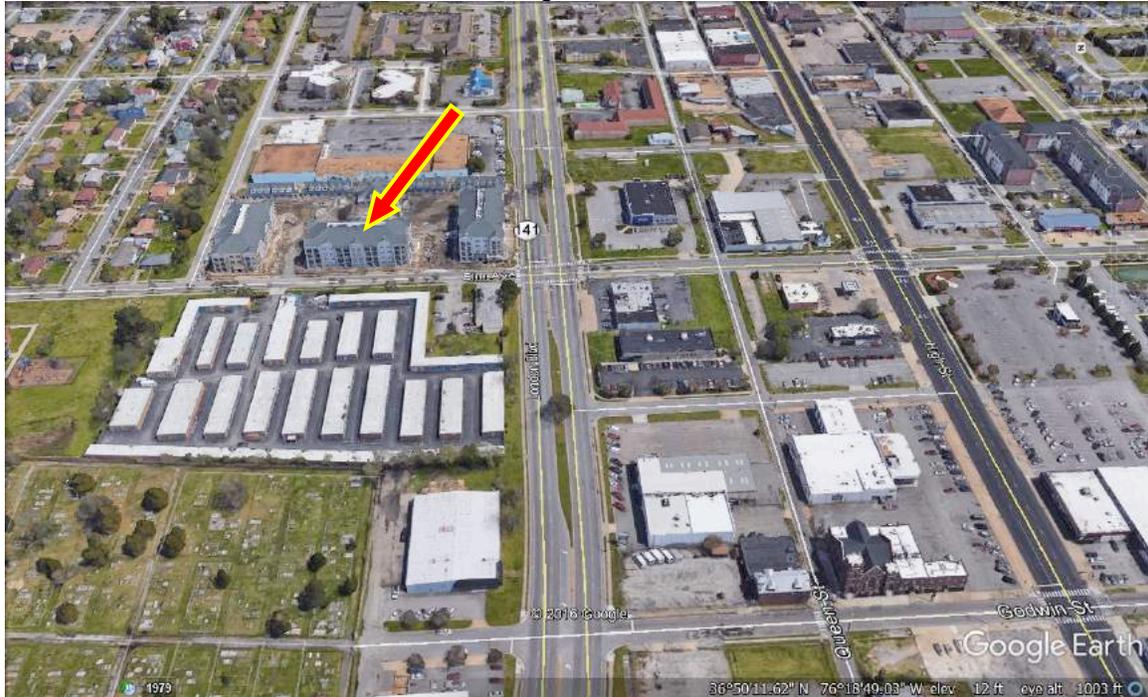


London Boulevard Corridor

London Boulevard is an east west arterial street connecting the Martin Luther King freeway to Downtown Portsmouth. HSP analyzed the properties along London Boulevard/London Street from MLK freeway to the waterfront.

The road near MLK freeway is a divided highway which has light industrial buildings along the roadway until Elm Avenue. Shown following is an aerial view looking east along London Boulevard and the intersection of Elm Avenue. The area consists of a variety of property types, including industrial and multi-family. The Quarters at Park View Apartments is shown below with a red arrow and its proximity across the street from industrial buildings. These uses are not necessarily ideally suited adjacent to each other and appear to be contradictory compared with an ideal scenario.

Figure 4-3



Continuing east of Elm Avenue, property types change from mostly light industrial buildings to a combination of retail, economy hotels and single family property types. Fast food restaurants in this immediate area include a Domino's Pizza, Hardees, KFC, McDonalds and Pizza Hut. Economy hotels include a Rodeway Inn and Super Value Inn. Single tenant retail includes a Dollar Tree store. There are gas stations along London Boulevard just east of Effingham Street.

The intersection of London Boulevard and Effingham Street is shown in the following aerial view.

Figure 4-4



Continuing east of Effingham Street, London Street transitions into a two-lane road with property types that include residential and small commercial properties. The residential buildings are historic in character.

The Waterfront District

Portsmouth's waterfront is a two-block-wide area that runs north and south between the Elizabeth River and Crawford Street. This area is a classic case of urban redevelopment of the 1960s and 70s, with development proceeding into the 1990s. Prior to about 1960, this area was mostly an industrial waterfront area with ship loading docks, railroad tracks, and historic brick buildings housing industries and businesses that catered to the shipping business. Today, the district is made up of large-scale developments of mostly residential and hotel uses on the north side of the district, and office buildings that are mostly government offices north and south of High Street. The waterfront has park-like lawns and some paved walkways. These block-long government buildings are separated by large parking lots and parking structures, neither of which offer more than very few restaurant or retail spaces that generates activity on the streets in the Waterfront district.

The six blocks from London Street south to the Ocean Yacht Marina at Bart Street are mostly large-scale government buildings that act as an effective wall and pedestrian barrier between the walkable, mostly historic Downtown blocks of Portsmouth, and the waterfront. Visual access to the Elizabeth River is present only along High Street and London Street. Other than some pedestrian plazas and/or pathways near London Street and High Street, and the Lightship Portsmouth Museum, there are few places to entice visitation by the public pedestrian or visitor.

There are low- to mid-rise office buildings at the intersection of London Street and Crawford Street, and continuing east, London Street terminates at the intersection of Water Street where the Renaissance hotel is located.

In order to get an overview and bird's eye perspective of the Downtown area, shown following is an aerial view of the immediate Downtown area looking east from Middle Street. The Renaissance hotel is depicted with a yellow arrow and the U.S. post office is depicted with a red arrow. The architecture of the Renaissance hotel is attractive, however, the architecture of many of the other low to mid-rise office buildings in the immediate area is unappealing. Most of these properties generate little pedestrian activity at street level.

Figure 4-5



The immediate two to three block area around Downtown has a mix of high rise and low rise buildings with the Renaissance hotel being the only lodging choice available. Additionally, as shown in the following photographs, there are virtually no food and beverage or retail establishments in this Downtown district. This poses a limitation to people looking for lodging, restaurant and shopping choices in the immediate Downtown area, and discourages the visiting pedestrian from exploring very far.

Shown following are several images surrounding the London Street/Crawford Street and London Street/Water Street corridors.

The next image is of the intersection of London Street and Crawford Street. The image shows the U.S. Post Office, which is located at the south-east corner of London Street and Crawford Street. The Renaissance hotel is shown in the background.

Figure 4-6



The following figure is the view looking east from the intersection of London Street and Crawford Street. The U.S. Post Office is depicted with an arrow.

Figure 4-7



The following image is the view looking west along London Street from the Renaissance hotel. The U.S. Post Office is located on the left side of the photo.

Figure 4-8



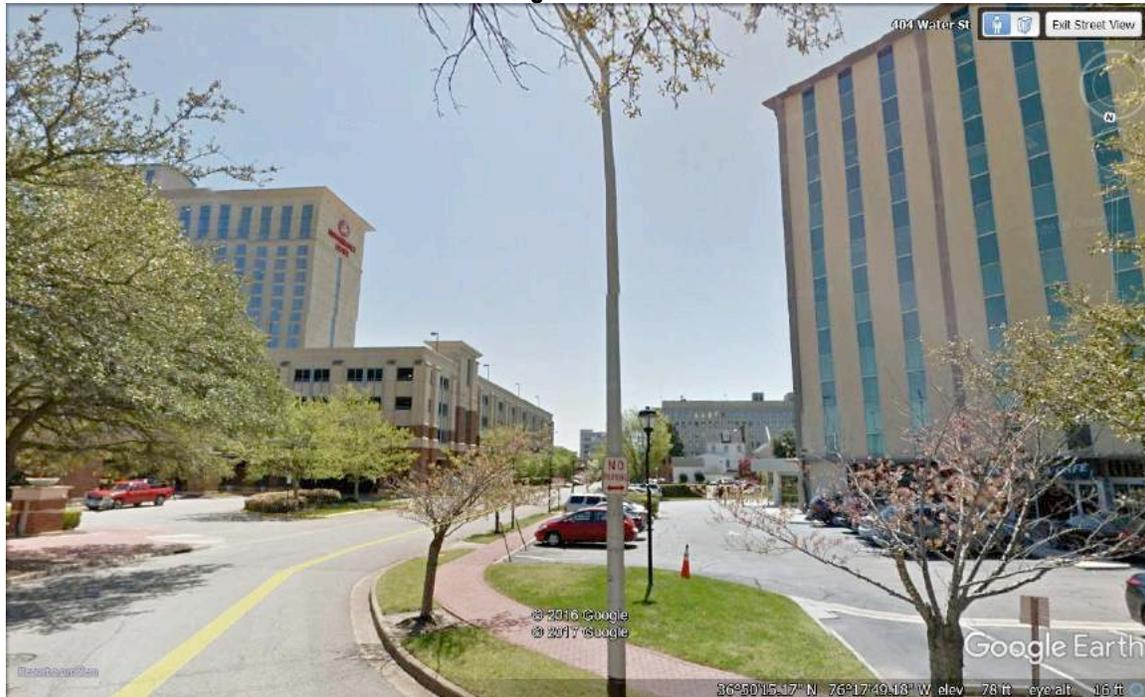
Shown following is the view looking north along Water Street from the Renaissance hotel which is on the right side of the photograph.

Figure 4-9



Shown next is the view looking south from the north side of the Renaissance hotel. A multi-story office building is located on the right side of the photograph.

Figure 4-10



As illustrated above, the immediate area surrounding the Renaissance hotel and this area of Downtown Portsmouth is severely lacking in additional hospitality choices, as well as the food and beverage and shopping amenities needed to support the guests at the Renaissance, and any future hotel developments. Additional restaurant and retail venues to support hospitality properties would spur additional tourism to the Downtown area as well as provide the residents in the area with additional entertainment and leisure venues. This combination of additional recommended uses will have a positive economic impact on the Downtown area as well as help revitalize the concept of a live-work-play Downtown district.

HSP recommends that either the U.S. Post Office building be razed and a new building be constructed, which would include a post office in the new development, or additional stories be constructed onto the existing (if structurally feasible) in order to maximize the existing space. This would make the prime waterfront corner of London Street and Water Street potentially available for hospitality and mixed-use development to include restaurants and boutique retail. HSP recommends the hotel chain scale be an upper mid-scale to upscale property and potentially could be dual-branded with a limited/select service and extended stay property with a small amount of meeting space.

Additional development on London west of Effingham should comply with the highest and best uses for the zoning for that particular district. They should be primarily commercial in nature, and present a transition into the Downtown districts as London Street is one of the two primary “entryway corridors” into Downtown. Additional restaurant and retail developments are recommended along Crawford Street/Crawford Parkway and High Street within two to three blocks of the waterfront to support any new hotel and new and existing residential developments in the immediate surrounding area.

However, in order to attract potential developers into this area, HSP recommends the city of Portsmouth have a thorough and complete review of the zoning codes and permitted uses in order to design a comprehensive plan for the aforementioned area. This will include determining financial incentives to attract future development into the area. Further discussions on this topic will be discussed in Chapter 6.

High Street

High Street is the historic east-west business district strip and the heart of the City's retail, business, restaurant and entertainment culture in the 1800s and the first half of the 1900s. It was designated as the City's 100-foot wide commercial boulevard by the City's founder, William Crawford, whose land was being developed into the City of Portsmouth.

As with the analysis of the London Boulevard corridor, the High Street analysis will also begin at the MLK Freeway and head eastward. The neighborhood begins much like London Street to the north. HSP analyzed the properties along High Street from MLK freeway to the waterfront. HSP's analysis and recommendations are shown in the following descriptions and illustrations.

High Street near MLK freeway is an undivided four-lane roadway, which has a mix of vacant lots, churches, small light industrial buildings, small convenience shops and auto repair lots, alongside the street until Elm Avenue. Shown following is an aerial view looking east along High Street and the intersection of Elm Avenue. I. C. Norcom High School lies between High Street and London Boulevard.

Shown below are aerial images from Google Earth showing the view east along High Street from the MLK Freeway to Peninsula Street.

Figure 4-11



The following figure shows the dilapidated state of repair of century-old commercial buildings. Small independent businesses such as thrift stores, a sandwich shop and a barbershop occupy the other serviceable buildings. Most buildings of this nature are currently vacant.

Figure 4-12



Figure 4-13



The three blocks from Godwin Street, past Elm Avenue, to Primrose Street, are lined with a half-dozen auto-related services, from sales to a 7-11/gas station, and an Enterprise Rental Car center. In between are many vacant lots. These can all be seen relatively easily in the following aerial view.

Figure 4-14



Abandoned or underutilized manufacturing buildings and garages from the early 20th century line High Street adjacent to the sidewalk for nearly two blocks, as shown in the following photos.

Figure 4-15

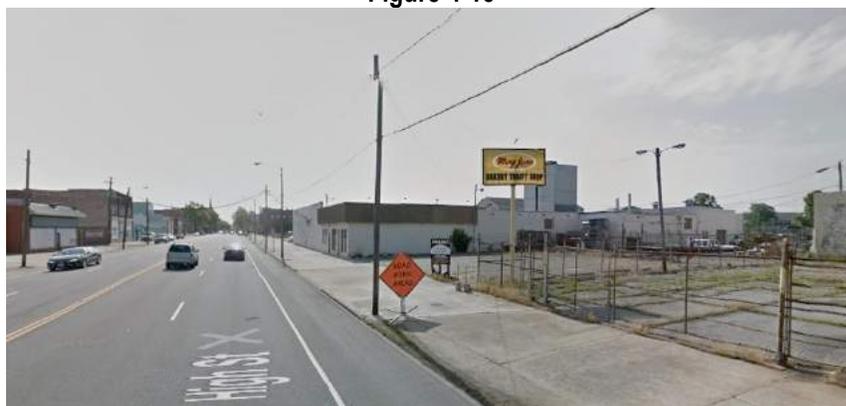


Figure 4-16



The following photo is looking east on High Street near Chestnut Street. The red brick building is the Jump Start Child Development Center.

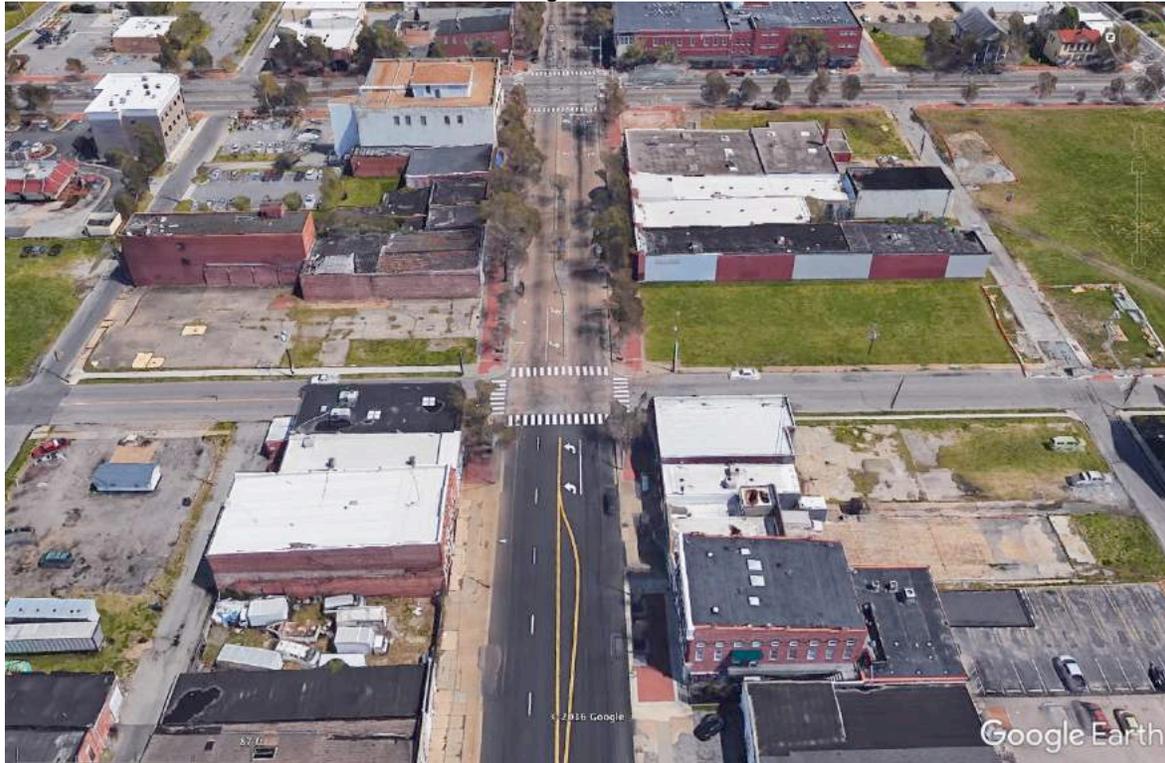
Figure 4-17



At Chestnut Street, urban streetscaping is evident. The street becomes a four-lane divided boulevard with shady trees and gas lamp-styled lighting in the median and along the sidewalks. The character of the neighborhood changes immediately mid-block as one approaches Chestnut Street. The renovated century-old building at 915 High Street is a Jump Start Child Development Center. One-half block east, a furniture store is in operation. The other buildings are still vacant, however a few show some signs of having been restored. These buildings could be ready to house apartment lofts, shops, small offices and restaurants as economic growth develops west from Downtown Portsmouth. Infill development of townhomes could fill in the vacant lots. The basic urban infrastructure is in place to set up a future revival of High Street in these blocks.

The vacant properties can be seen in the following photo, as well as the transition of the street treatment into a boulevard.

Figure 4-18



Within the original plat of the city, High street is 100-foot wide and separated into two one-way roadways separated by a tree-lined grassy boulevard for eight blocks from Water Street west to Chestnut Street. This is the historic core of Downtown Portsmouth.

The six blocks from Effingham Street to Crawford Street feature a dense mix of two and three story brick structures, mostly dating to the late 19th Century or early 20th century, when this street was the main marketplace on the west side of the Elizabeth River. The two westernmost blocks represent excellent opportunities for mixed-use urban developments in the vacant lots, with coffee shops, restaurants, and artisan boutiques on the first floor and apartments above. This set of blocks would also work for small demand generators such as a live music nightclub, theater or comedy club. Currently, at least three taverns and restaurants line these blocks, and new apartments (and their residents) are needed to bolster the potential of High Street in these blocks.

The following shows the area near the Montgomery Square Apartments between Effingham and Green Street, along High Street.

Figure 4-19



The following shows another example of attractive human-scaled buildings in a pleasant, walkable environment.

Figure 4-20



The following figures show two pubs at High and Dinwiddie Streets, and the 1,000-seat 1945 Art Deco dinner theater.

Figure 4-21



Figure 4-22



High Street between Washington and Middle Streets, a three-block long section is the high point of commerce and pedestrian activity in historic Downtown Portsmouth. There are few open parcels left for infill development, and most buildings are occupied and restored. About one dozen restaurants, coffee or

sandwich shops line High Street, and urban development reaches its highest density, not only on High Street, but along the surrounding streets as well, especially to the north. The Courthouse Galleries join the obelisk at the town square in the middle of Court Street near High Street.

The following are photos of the central section of Downtown Portsmouth along High Street. The first photo is viewing north on Court Street at the Courthouse Galleries and the town square obelisk, representing the historic center of Portsmouth. The second photo is viewing east along High Street from Court Street. The third photo shows more renovated historic buildings and popular eateries amid the trees and boulevard.

Figure 4-23



Figure 4-24



Figure 4-25



The (final) block between Middle Street and Crawford Street is home to the Children’s Museum of Virginia, and across the street, the Virginia Sports Hall of Fame and Museum. Both of these museums are well-placed to take advantage of the Downtown shops and restaurants, and vice versa. Beyond that are two modern bank buildings that transition into the Waterfront area. Next to the Children’s Museum is a section of Middle Street that is a pedestrian plaza known as Middle Street Plaza, and also as Children’s Museum Plaza. The plaza is paved with brick and two square grassy patches, but has nothing for children to play on or areas for families to picnic. This is an opportunity to create a special space for families, including a possible splash pad, playground, or climbable sculpture.

The following photos illustrate the museums and plaza.

Figure 4-26



Figure 4-27



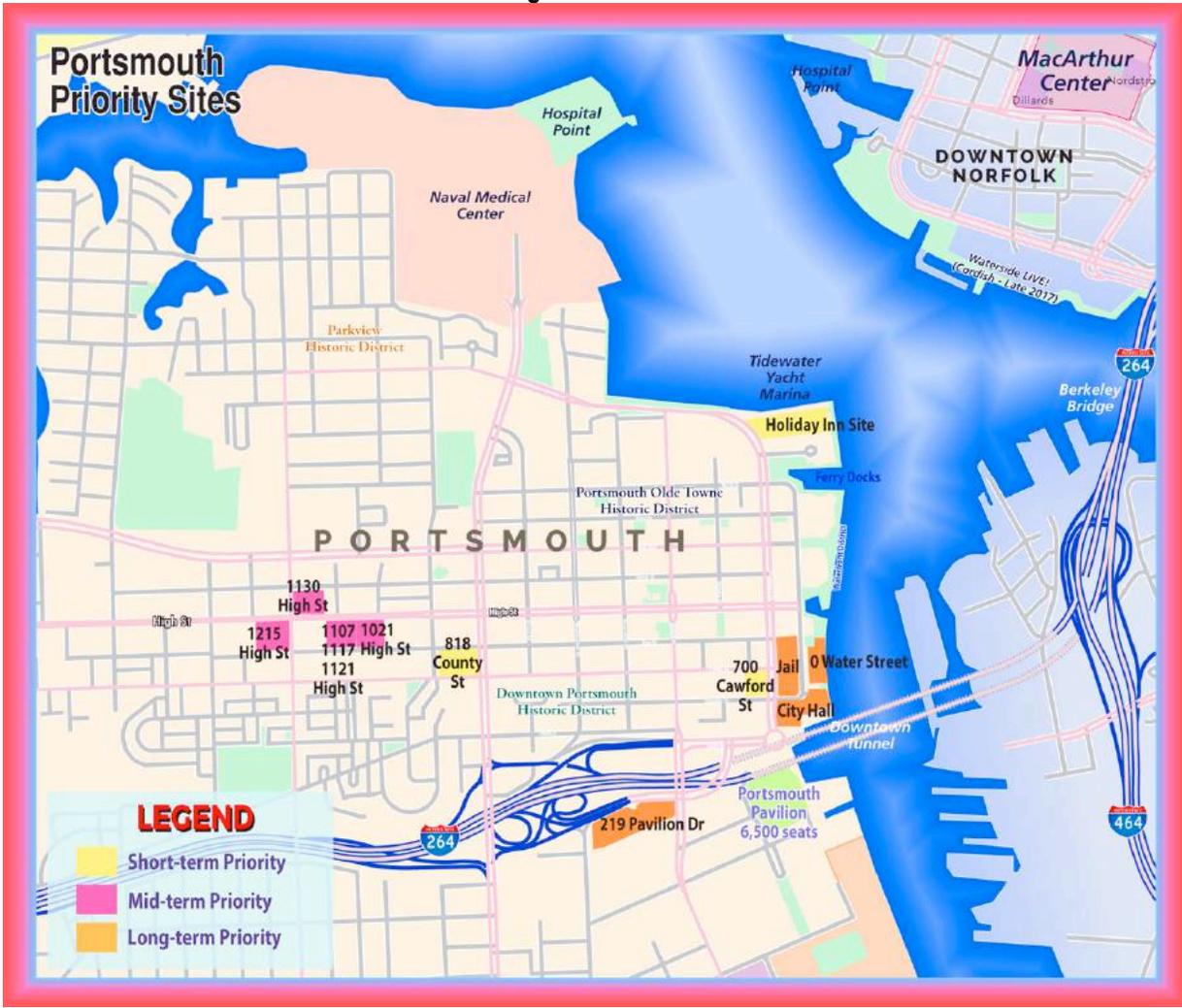
At this point, High Street enters the Waterfront district.

Individual Site Analysis

Analysis of the available parcels and conversations with the client and key stakeholders resulted in the identification of priority sites in the Downtown Portsmouth area, including both waterfront sites and non-waterfront sites. These identified sites include potential transformative waterfront parcels that will require additional planning and investment, as well as smaller, vacant parcels that are better prepared for immediate development. Based on the market analysis conducted by HSP, the current status of each site, and the recommended developments, HSP categorized the 11 sites as a short-term priority, mid-term priority, or long-term priority.

The following figure shows the identified priority sites in Downtown Portsmouth.

Figure 4-28



The following table summarizes the priority sites and recommended development priority.

Table 4-2

Portsmouth Potential Development Sites								
Site	Status	Existing Structures	Size (Acres)	Zoning	Ownership	Tax Status	Recommended Priority	
8 Crawford Parkway - Holiday Inn Site	Vacant	Parking Garage	3.6	T6 Subdistrict	Publicly Owned (GPDC/PRHA)	-	Short-Term	
818 County Street	Vacant	None	1.88	T5 Subdistrict	Publicly Owned (PRHA)	Exempt Commercial	Short-Term	
700 Crawford Street	Vacant	Two Buildings - Unoccupied	0.99	T6 Subdistrict	Publicly Owned (City)	Exempt Commercial	Short-Term	
1021 High Street	Vacant	Industrial Building - Unoccupied	2.96	D2 FBC	Publicly Owned (EDA)	-	Mid-Term	
1107, 1117, and 1121 High Street	Vacant	None	2.39	D2 FBC	Publicly Owned (GPDC)	-	Mid-Term	
1215 High Street	Vacant	Surface Parking	1.81	D2 FBC	Privately Owned (Southside Direct Care Provider, LLC)	-	Mid-Term	
1130 High Street	Vacant	Auto Sales Parking	1.45	D2 FBC	Publicly Owned (EDA)	-	Mid-Term	
219 Pavilion Drive	Vacant	None	3.95	SD Subdistrict	Publicly Owned (EDA)	Exempt Commercial	Long-Term	
801 Crawford Street	Occupied	City Hall	2.72	T6 Subdistrict	Publicly Owned (City)	Exempt Commercial	Long-Term	
701 Crawford Street	Occupied	Jail	2.65	T6 Subdistrict	Publicly Owned (City)	Exempt Commercial	Long-Term	
0 Water Street	Vacant	Surface Parking	1.05	T6 Subdistrict	Publicly Owned (City)	Exempt Commercial	Long-Term	

Source: City of Portsmouth

The following section discusses the recommended developments based on the priority timeframe of sites.

Short-Term Priority Sites

8 Crawford Parkway – Former Holiday Inn Site

The 3.6-acre former Holiday Inn site, adjacent to the Tidewater Yacht Marina, is an optimal site in Portsmouth and one of the most attractive remaining sites in all of Hampton Roads. Bordered by the yacht marina to the north, Crawford Parkway to the west, Elizabeth River to the east, and Harbor Tower apartments to the south, the publicly-owned site currently features vacant land with a parking garage on the adjacent parcel. Surrounded by water on two sides and directly across the river from Downtown Norfolk, the 8 Crawford Parkway site has the potential to be the site of a transformative, catalytic waterfront development that can anchor the Downtown's northern waterfront. The highly visible location is in the north corner of Downtown and is adjacent to the historic Old Towne neighborhood. As the only short-term priority site along the waterfront, any development at 8 Crawford Parkway will need to activate the waterfront, generate foot traffic, and be viewed as a destination area for both visitors and residents.

Below is an aerial view of the site, as identified by a yellow arrow:

Figure 4-29



The development site is considered a short-term priority due to its current situation, from a use and ownership perspective, as well as its attractiveness and potential. The former Holiday Inn site is the only vacant waterfront parcel in Portsmouth that can be developed without significant initial investment and headache due to existing structures that need to be torn down. As a highly visible area with great views and access, the site can also have greatest short-term impact on Portsmouth's attractiveness as a destination.

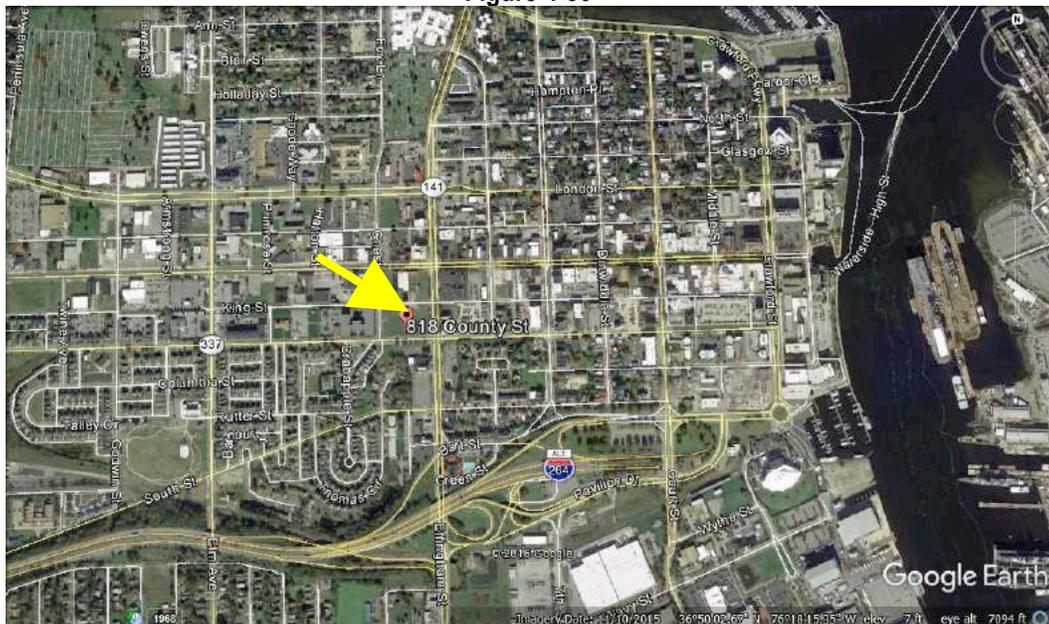
In order to generate the foot traffic and economic activity that Downtown Portsmouth is looking to achieve, the site should be the home of a mixed-use development. This includes a variety of food and beverage options on the ground level and an abundance of outdoor seating. HSP recommends that the public induce a select-service, branded hotel as part of this project. A new hotel located near the Renaissance will allow Portsmouth to accommodate more group and leisure business. HSP also recommends a rooftop food and beverage/bar option for the development to take advantage of the prime location and scenery.

818 County Street

The publicly owned, 1.88-acre 818 County Street site is located one block south of the intersection of High Street and Effingham Street. Bordered on the east by Effingham Street, south by County Street, west by Chestnut Street, and south by King Street, the publicly-owned parcel is separated from High Street to the north by a one-story structure that includes a loan office, machine shop, and furniture store. The site is located approximately 0.75 miles from the waterfront.

Shown below is an aerial view of the site, as identified by a yellow arrow:

Figure 4-30



The 818 County Street parcel is considered a short-term priority site due to its proximity to High Street and its current status as vacant, publicly-owned land. To create a critical mass of restaurant, retail, and activity Downtown, development should be concentrated in the areas surrounding the existing nodes on High Street. 818 Crawford is a parcel that does not need to be acquired from a private owner and is immediately ready for development.

In order to improve the offerings and attractiveness of High Street in the western portion of Downtown, a diverse collection of restaurant, retail, and residential is necessary to create a critical mass. At 818 County

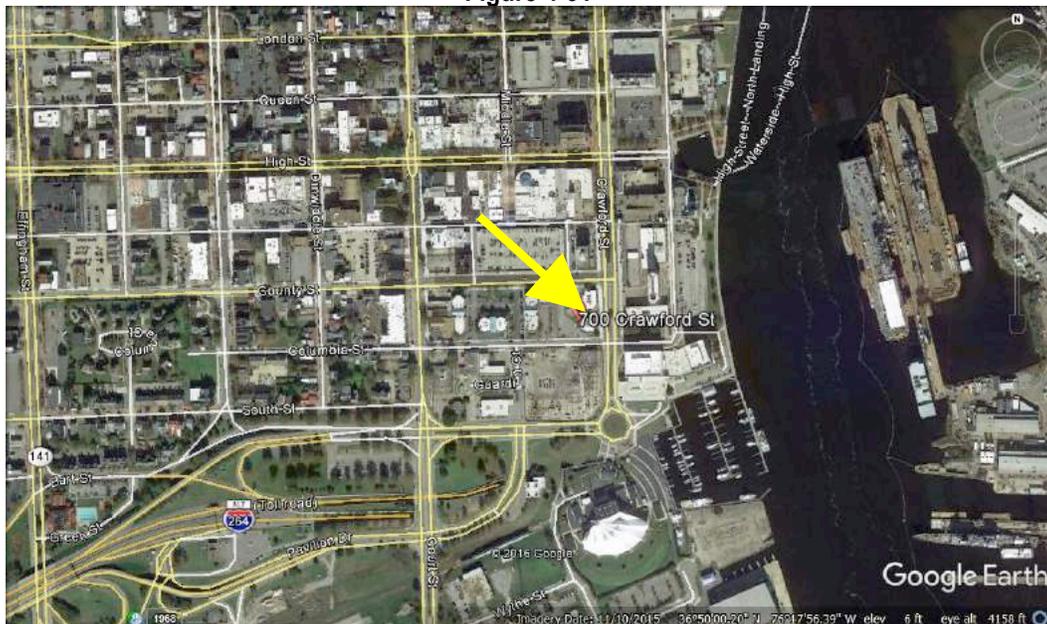
Street, HSP recommends residential development, in addition to supporting retail. Generating foot traffic throughout Downtown and along High Street is critical to the sustainability of businesses and new developments, and surrounding the restaurant and retail options with new residential developments is an effective way to achieve this.

700 Crawford Street

The one-acre 700 Crawford Street parcel is located directly across Crawford Street from the Portsmouth Police Department. Bordered on the north by County Street, the south by Columbia Street, and the west by the Navy Federal Credit Union, the publicly-owned parcel is currently occupied by two small, vacant buildings that will need to be demolished before development can occur. Located on the southeast corner of Downtown Portsmouth, the site is within walking distance to the waterfront, two blocks south of High Street, and located just north of the 134-unit residential Harbor Vista project, which is expected to open in the summer of 2016.

Shown below is an aerial view of the site, as identified by a yellow arrow:

Figure 4-31



The development site is considered a short-term priority due to its proximity to High Street and the heart of Downtown Portsmouth, as well as its current situation as a vacant property. While there are currently two buildings located on the parcel, the demolition of these structures requires significantly less investment and planning than the relocation of existing businesses. The residential development adjacent to the site greatly improves the parcel's attractiveness and potential as well.

In order to capitalize on the site's location and surrounding amenities and demand generators, HSP recommends that developments on the 700 Crawford Street site include a mix of multi-family residential and

ground-level food and beverage to accommodate the residential development onsite as well as those in the walkable area. Creative office space above the ground level restaurant/retail space should also be considered. Creative office space provides a way to engage committed citizens in the growth of Downtown, without the risk of a big office building. While the market has shown that the opportunity for development of traditional office space is minimal, creative office can present a new, attractive dynamic to Downtown Portsmouth. The development of the three different real estate uses provides synergies as well as a live, work, play environment for Downtown residents.

Mid-Term Priority Sites

Mid-term priority site developments should be focused to support the developments in the main Downtown and waterfront districts. They should be part of a master plan that includes mixed-use retail and commercial. At the present time, there does not appear to be the market demand to immediately focus on the development of these sites en masse, however, they should support individual developments, one at a time, mentioned in the short-term priority sites. Typically, the market would need to be coaxed and incentivized to develop a dense, mixed-use project and once that is complete, then it sets the stage for other projects with lesser levels of investment. Key mid-term potential development areas are the western edge of Downtown along High Street. This includes the EDA-owned 2.96-acre site at 1021 High Street, the privately-owned 1.81-acre site at 1215 High Street, the EDA-owned 1.45-acre at 1130 High Street, and the publicly-owned 2.39-acre site at 1107, 1117, and 1121 High Street. These parcels, which are located at the intersection of High Street and Elm Avenue, are located approximately one mile west of the waterfront. Currently, 1215 High Street is a parking lot, 1021 High Street is a vacant industrial building, 1120 High Street is an auto sales building, and 1107 High Street is vacant. Overall, the area is concentrated with dilapidated industrial buildings, automobile service and repair companies, and a variety of run-down structures. As it currently exists, the properties are not benefiting Downtown Portsmouth as a destination, and the area acts as an eyesore to visitors accessing the city on High Street from the west.

The development area is considered a mid-term priority due to its ability to potentially anchor the western portion of Downtown Portsmouth. Currently, High Street slowly transitions from the specialty retail and restaurants Downtown to the run-down, struggling properties west of Effingham. Development on the western edge of Downtown will allow Portsmouth to firmly establish its Downtown and improve the general aesthetics of the area. HSP recommends that development initially focuses on the core of Downtown and the vacant Holiday Inn site. By creating a critical mass on High Street and along the waterfront, the mid-term priority sites will be more attractive for future development.

Assessment of the market and opportunities associated with these sites indicates an opportunity for traditional fast food and retail options on the western border of Downtown. Another option is for these parcels to be the future development sites of the relocated government buildings from the Downtown waterfront. HSP recommends the City consider the relocation of government operations from the waterfront to the western area of Downtown. The objective is to redevelop the waterfront property to benefit the Downtown by acting as a destination for residents and visitors in the region, while keeping a large presence of the government workforce Downtown. The mid-term sites offer the ability for the workforce to remain close enough to the core of Downtown that the major employers will continue to generate foot traffic, activity, and spending to support restaurants and retail on High Street and the rest of Downtown. These mid-term priority sites located on the western edge of Downtown could serve as a future home to these developments.

Long-Term Priority Sites

One key potential development area is along the waterfront and encompasses the Portsmouth City Jail, City Hall Complex and the Civic Center parking lot. The city-owned properties along the waterfront total approximately 6.42 acres (Jail site - 2.65 acres, City Hall Complex site - 2.72 acres, Civic Center parking lot site - 1.05 acres) and are valuable and critical pieces to the redevelopment of Downtown Portsmouth. However, the jail poses a significant challenge to the redevelopment of the site. In order to redevelop the jail site, the operations and inmates will need to be relocated to a new or existing facility. This is likely to be a large hurdle and extend the timeline for redevelopment. No matter what is developed Downtown and especially in a new development area along the river, the cost of development will be greater than the market will be able to bear. As such, the public sector should expect to invest in catalytic developments along the river to achieve the desired quality of building, design and tenancy. The returns from that investment will be measured not just onsite, but in the overall attractiveness and increased marketability of Downtown Portsmouth.

The development area is considered a priority due to its ability to connect Downtown to the waterfront and support community priorities as they relate to the waterfront. However, the area is expected to fall within a long-term development timeframe. It is suggested the entire development area should be master planned and consider phased development as parcels become available and ready for redevelopment.

Careful assessment of project types and design is important for this development area since waterfront property is limited and should be viewed as a destination for residents, visitors and business rather than treated as an amenity. Waterfront suggestions for redevelopment should include prioritizing projects that will enhance Portsmouth's waterfront. Priorities may include hierarchical preferences such as water-dependent uses, water-enhanced uses and non-water dependent uses. Opportunities for water-dependent uses that require a waterfront location (i.e. marinas, dock-n-dine) are limited. Water-enhanced uses such as residential, retail and office can be permitted if they provide some form of water-based connectivity and synergies (i.e. esplanade, fishing pier, outdoor seating, rooftop). Non-waterfront dependent uses should be limited, or possibly discouraged. The tiered approach to waterfront uses is one taken by other waterfront communities across the country.

In addition, the publicly-owned, 3.95-acre 219 Pavilion Drive site was identified as another long-term site priority in Portsmouth. HSP believes that the primary focus area for short- and mid-term development should concentrate on the core of Downtown Portsmouth, specifically the waterfront and High Street. While the land is vacant, sizeable, and available for immediate development, HSP recommends that Portsmouth establish a critical mass Downtown before prioritizing projects south of the Interstate.

While several sites can be classified as short-term, mid-term and long-term priorities, the development of these sites is dependent upon clarification and strategic design of the zoning codes and permitted uses. Each zoning classification, although in a district unto itself, should complement a neighboring district and provide a cohesive flow from district to district.

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REAL ESTATE INCENTIVE PROGRAMS

To better understand the potential real estate development incentives that could be offered in Portsmouth, HSP analyzed incentives offered across the country and within neighboring communities including Hampton, Norfolk and Virginia Beach. Additionally, HSP analyzed real estate incentive trends offered at a national level and have profiled these, in detail, in the section below.

National Trends

State and local governments use a variety of tools to encourage and assist in the development and redevelopment of real estate assets within their communities. Such tools help make development and redevelopment projects financially feasible by reducing up-front costs, mortgage financing costs, on-going debt service payments and operating costs. Public entities will often borrow money to spread the cost of a project over a predetermined period through the issuance of public-use bonds or private activity bonds; however, there are ways in which the public sector can aid private development. Primary public financing assistance is most common through:

- **Bond Financing** – Bond financing is a long-term borrowing strategy often used by local municipalities to raise money for capital projects. The municipality will receive money from investors and those investors will be paid back, with interest, over a predetermined period (generally 20 to 30 years and often matching the useful life of the project). The following bullet points outline the most common public sector bonds:
 - **General Obligation Bonds (GO Bonds)** – A GO Bond is generally backed by the full faith and credit of a governmental entity and is repaid through general tax revenue. This bond type is generally used to fund projects that do not generate revenue such as roads, government buildings and schools. GO bonds are limited by debt caps and often require a public referendum.
 - **Public Use Revenue Bonds** – A public use revenue bond is backed by revenue generated from a project such as parking garages, utilities, toll roads, airports, universities, TIF districts and bridges. Bond underwriters often require a debt service reserve fund, which is prefunded with a bond issuance. Public use revenue bonds sometimes require additional credit enhancement if the revenue stream is unpredictable (i.e. hotel).
- **Loan Guarantees** – A loan is often guaranteed by a government agency in the event that the private-sector borrower defaults on the loan. In this case, the government agency will purchase the remaining debt from the lending institution and take responsibility of the loan. This type of guarantee was established to correct perceived market failures by which small borrowers lacked access to the credit resources made available to large borrowers.
- **Revolving Loan Fund** – A revolving loan fund is a type of gap financing where a pool of money continuously replenishes as old principal and interest payments are paid back on a prior loan. This pool of money is then used to make new loans and again, the interest and principal from that loan is paid back and the cycle continues and the overall value of the fund increases with

each interest payment.

- **Tax Credits & Abatements** – Tax credits and abatements are designed to attract real estate buyers into less desirable areas, as this program eliminates or significantly decreases taxes to be collected on a property over a designated period of time. Terms vary but generally range from ten to 20 years. Tax credits and abatements are offered at the federal, state and local levels. Common tax credits include those for business facilities, capital investments, community banks, enterprise zones, historic buildings, distressed communities and low-income housing.
- **Tax Incremental Financing (TIF)** – The first step for any municipality to utilize tax incremental financing is the establishment of a TIF district. Once a TIF district is established, municipalities will earmark property tax revenue from any increases in assessed values on properties within the designated TIF district. Generally, incremental revenues will then be used to assist in the development or redevelopment of targeted properties within the designated TIF district.
- **Sale-Leasebacks** – A sale-leaseback occurs when the owner of a property sells the property but the seller immediately begins paying rent to the buyer and continues to maintain occupancy over the term of the lease.
- **Special Improvement Districts (SID)** – A special improvement district is established by local municipalities, and property owners pay additional taxes or fees in order to fund specific services or improvements within the SID.
- **Tax Credits.** As part of the Community Renewal Tax Relief Act of 2000, New Market Tax Credits (NMTC's) were established to spur the revitalization of low-income and impoverished communities throughout the United States. This program provides tax credit incentives to investors in exchange for equity investments into certified Community Development Entities (CDE's) that invest in such communities. The tax credit is equal to 39 percent of the overall investment and is realized over a seven-year period. NMTC's are only offered to investors that purchase stock or capital in a CDE, allowing only for-profit CDE's to facilitate transactions.

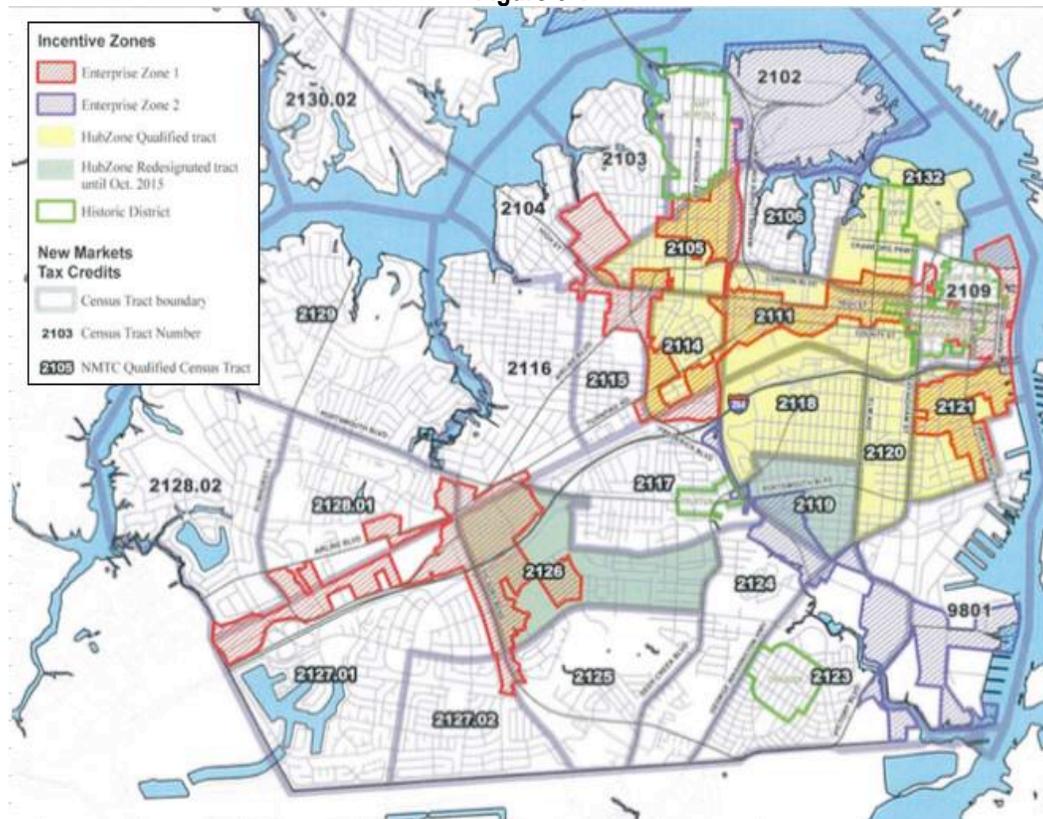
Land Assembly. In addition to the number of incentives offered by municipalities across the country, public land assembly also plays a major role in the development and redevelopment of real estate assets. Public land assembly is required when businesses have a need to acquire larger, less fragmented parcels of land in a timely manner. Often, acquiring many small parcels of land takes time. Additionally, public land assembly often occurs when properties are blighted and not maintained and when taxes become delinquent. A municipality can acquire land via purchase, tax foreclosure, foreclosure on demolition liens, escheat, land swaps, eminent domain and condemnation.

Portsmouth, Virginia

Before looking at comparable cities throughout Virginia, it is important to first understand the real estate incentives currently offered by the City of Portsmouth. Portsmouth primarily offers real estate incentives to properties located within specific zone designations, and these are outlined below.

The following figure shows an aerial view of Downtown Portsmouth with incentive zones outlined.

Figure 5-1



In addition to the incentive zones outlined in the figure above, there are two more designations north of the Elizabeth River. These include both Enterprise Zone 1 and Zone 2 designations; however, the map above outlines all but two of the incentive areas within Portsmouth.

Enterprise Zone – Portsmouth’s Enterprise Zones are a partnership between the Commonwealth of Virginia and local governments and a tool used to stimulate economic development within Portsmouth. Currently, Portsmouth features two enterprise zones, Zone 1 and Zone 2. Although both zones offer the same state incentives, each zone is tailored to offer incentives geared toward stimulating specific land use and development strategies targeted within the area. Zone 1 was designated in 2010 and modified in 2012. Zone 1 encompasses commercial areas including Downtown, Midtown, Vistory, MAST Center, Elmhurst Industrial Corridor, Greenwood Industrial Park, portions of Airline Boulevard and the Virginia Avenue Corridor. Zone 2 was designated in 2014 and encompasses Portsmouth’s industrial waterfront areas including West Norfolk, Pinner’s Point, Paradise Creek and the Elm Avenue Industrial Corridor along the Elizabeth River. As the two Enterprise Zones are a partnership between the state and local governments, local incentives are outlined accordingly below:

Development Fee Rebate – applicable for both Enterprise Zones 1 & 2.

- A qualifying development includes both new construction and improvements to an existing structure that are greater than or equal to \$50,000. New construction or building improvements must result in a net increase in the property's assessed value.
- Qualifying developments receive a 90 percent rebate on fees associated with rezoning, use permitting, subdivision applicants and site plan reviews. Additionally, qualifying developments receive a 50 percent rebate on building plan review and building permit fees.
- All rebates are received by the qualifying development after a Certificate of Occupancy.

Commercial Façade Loan Program – applicable for Enterprise Zone 1 only.

- This loan program is limited to properties located between the Downtown Waterfront to Midtown. Loan amounts range from \$5,000 to \$50,000 and are to be used only for commercial and mixed-use building façade renovations. The loan term is two percent below prime for ten years and has a floor of three percent.

Mixed-Use Development Incentive – applicable for Enterprise Zone 1 only.

- A public contribution can be negotiated between the city and developers, should a mixed-use development of at least \$25 million need additional funding.

Real Estate Investment Grant – applicable for Enterprise Zone 2 only.

- This cash grant equals 50 to 75 percent of the net increase in real estate tax paid on improvements over five years, should at least \$500,000 be invested into taxable new construction. The following bullet points outline the sliding investment and grant scale:
 - \$500,000 - \$1,500,000 Investment = 50 percent grant
 - \$1,500,001 - \$3,000,000 Investment = 60 percent grant
 - >\$3,000,001 Investment = 75 percent grant

Tax Exemption for Rehabilitated Structures – applicable for qualifying buildings located in Enterprise Zones 1 & 2.

- This tax exemption was approved by City Council and encourages the rehabilitation or replacement of aging structures.
- To qualify, a residential building must be at least 25 years old and the assessed value must increase by at least 40 percent after rehabilitation. Additionally, no more than 15 percent of additional structure can be added.
- To qualify, a commercial or industrial building must be at least 25 years old and the assessed value must increase by at least 60 percent after rehabilitation. Additionally, no more than 15 percent of additional structure can be added.
- The tax exemption is valid for a ten-year term.

In addition to the real estate development incentives outlined above, the City of Portsmouth also makes New Market Tax Credits (NMTC) available. This tax credit is outlined above and can be used against federal

income tax liabilities. Additionally, Portsmouth's Economic Development Authority (EDA) offers a Local Incentive Program (LIP), which includes four types of grants. A summary of each grant can be found below:

Façade Improvement Grant – this is a matching grant designed to improve building façade and enhance streetscape of up to \$25,000. To qualify, a building must be zoned as a commercial, industrial, office, mixed-use or multi-family residential property, and must be located within the designated geographies. The building in question must also be in good standing with the City regarding taxes, fees and code. Example improvements include, but are not limited to, exterior lighting and painting improvements, repair / replacement of exterior windows and doors, roofing improvements and contracted labor related to improvements.

Interior Build Out Grant – this matching grant of up to \$10,000 is designed to support business owners and commercial property owners aiming to rehabilitate ground floor interior space. The grant is not available to new builds, and is only available for existing properties in good standing with the city and located within designated geographies. Building improvements must be permanent and stay within the building, creating either a vanilla shell or providing build-out improvements. Examples of such improvements include the addition of an HVAC system, improvements to interior walls, plumbing, flooring, lighting, electrical systems and repair or restoration of architectural detail. This grant also covers up to 25 percent of architectural design costs. Grant funding may not be used for any exterior improvements or interior improvements above the ground floor of the building.

Safety and Security Grant – this grant is a 100 percent reimbursement of up to \$2,000 intended to assist commercial property owners and tenants with costs related to improving safety and security measures. Like the other LIP grants, a property must be located within designated geographies and be in good standing with the City regarding taxes, fees and code. A property must be zoned for commercial, industrial, mixed-use or office use and any equipment must be permanently installed in the building. Examples improvements include, but are not limited to, access control systems, security lighting, video surveillance and intrusion or fire detection systems.

Windows of Opportunity Grant – like the Safety and Security Grant, this grant is paid as a 100 percent reimbursement of up to \$2,000 intended to assist commercial property owners with aesthetically enhancing street level retail space through the use of window artwork and effective messaging. The applying property must be zoned for commercial, industrial, mixed-use or office, must be in good standing with the City and must be located within a designated geography.

Neighboring Communities

The following sections outline the primary real estate incentives offered by neighboring communities. Such communities include Hampton, Norfolk, Chesapeake and Virginia Beach and are all located within 50 miles of Downtown Portsmouth.

Hampton, Virginia

Hampton, Virginia is located approximately 20 miles north of Downtown Portsmouth, across the James River. As of 2015, Hampton had an estimated population of more than 136,000 people, a decrease of roughly 7.3 percent from its 2000 population of just less than 146,500 people.

The following section outlines the primary real estate incentives offered by the City of Hampton.

Enterprise Zone – Hampton features two state-designated Enterprise Zones including the Hampton Roads Center Enterprise Zone and the Hampton Urban Enterprise Zone. These Enterprise Zones are designed to stimulate economic growth through expanded, relocated or new businesses. Three types of assistance are offered to qualifying properties within the Enterprise Zone:

- Capital Investment Grant,
- Business License Tax Refund, and
- Local Utility Tax Refund.

Retail Incentive Program – The retail incentive program was enacted by city council to aid the city's two downtown main streets in becoming more competitive with area malls and town centers. Program applicants can be either tenants or landlords, but incentives specifically target retail and restaurant establishments. The goal of this program is to attract and retain quality retail businesses by assisting with costs associated with building improvements. The program also emphasizes physical building improvements such as tenant build outs and façade remodeling.

Qualified uses of financial assistance under the Retail Incentive Program include:

- Costs associated with acquisition, construction, expansion and rehabilitation of a retail facility;
- Site and building demolitions related to upgrading real estate;
- Permanent exterior improvements (enhanced entrances or storefronts) or interior improvements;
- Building signage and exterior lighting;
- Certain soft costs associated with the development of real property such as architectural, engineering or permitting;
- Equipment and fixtures that are classified as items of personal property which, through its attachment to, or association with, real estate, loses its identity as personal property and becomes real property;
- Upgraded parking surface areas (paving) with associated landscape improvements; and
- Rental assistance, which shall not exceed the first six months of the lease.

By providing financial reimbursement for physical building improvements, the City encourages the enhancement of both property value and quality not only at the parcel in question, but also at adjacent parcels of land.

Hampton Business Assistance Program (Hampton Revolving Loan & Grant Fund) – Formerly, the local development authority board had several programs used to administer financial assistance to real estate development projects. The development authority board has since streamlined these programs, creating a “one size fits all” revolving loan and grant fund. The goal of this program is to assist in the creation of jobs, investment and preservation of capital. To do so, the city utilizes prudent lending by providing capital for businesses, community and economic development purposes.

The minimum loan amount made by the City of Hampton is \$3,000 and will generally not exceed \$250,000, except under extreme circumstances. This program can guarantee up to 50 percent of the loan or \$50,000, whichever is less. The following bullet points outline the primary goals of a revolving loan made by the City of Hampton:

- Assist in providing sources of capital for the attraction, retention and expansion of new and existing businesses that may or may not have access to conventional financing,
- Assist in job creation and increased investment into business ownership, supporting community and/or economic development initiatives, and economic self-sufficiency,
- Stimulate the redevelopment of underutilized and/or deteriorated commercial and industrial properties,
- Provide gap financing in situations where a conventional lending institution is unable to fill the total capital needs due to lending limits, collateral requirements or other risks, and
- Provide business loan guarantees and/or interest rate buy downs to aid commerce and/or the creation of new jobs and investment.

The following bullet points outline the types of revolving grants awarded by the City of Hampton:

- **Economic Development Grants** – These grants are made to stimulate significant economic development activity based on capital investment and job creation. Total grant amounts are made at the discretion of the Economic Development Authority and are based on the weight of economic impact felt within the city's limits.
- **Façade Improvement Grants** – These grants are made for façade improvements to taxable commercial, industrial or mix-use structures aged ten years or older. The grant will only be applicable to the commercial portion of a mixed-use development. This grant is a match of up to 30 percent of the improvements, maxing out at \$10,000. Any project where at least 50 percent of the work is performed by a Hampton-based business may be eligible for an additional \$5,000. Projects must meet a minimum threshold of \$3,000 and a single award under this program may not exceed \$15,000. Projects located within Hampton's Arts & Cultural District may also receive reduced financial and program thresholds.

Although the aforementioned loans and grants do not all pertain to the development of real estate, all contribute, and aid, in the development of the community. Economic Development Grants are awarded to improve job creation within the city limits; however, Façade Improvement Grants are awarded to improve the value of real estate throughout the City. The loan component of the revolving loan and grant fund is open to any type of business within the city limits and is awarded a variety of applicants from landlords to small business owners.

Arts & Cultural District – The Arts & Cultural District designation covers most of Downtown Hampton and Phoebus, and was created to encourage the expansion, or locating, of arts-based businesses and cultural institutions. A primary goal of this district is to create synergy and walkability between Downtown Hampton and Phoebus, thus encouraging foot traffic.

New or expanding businesses that qualify for incentives over the five-year period are eligible for the following:

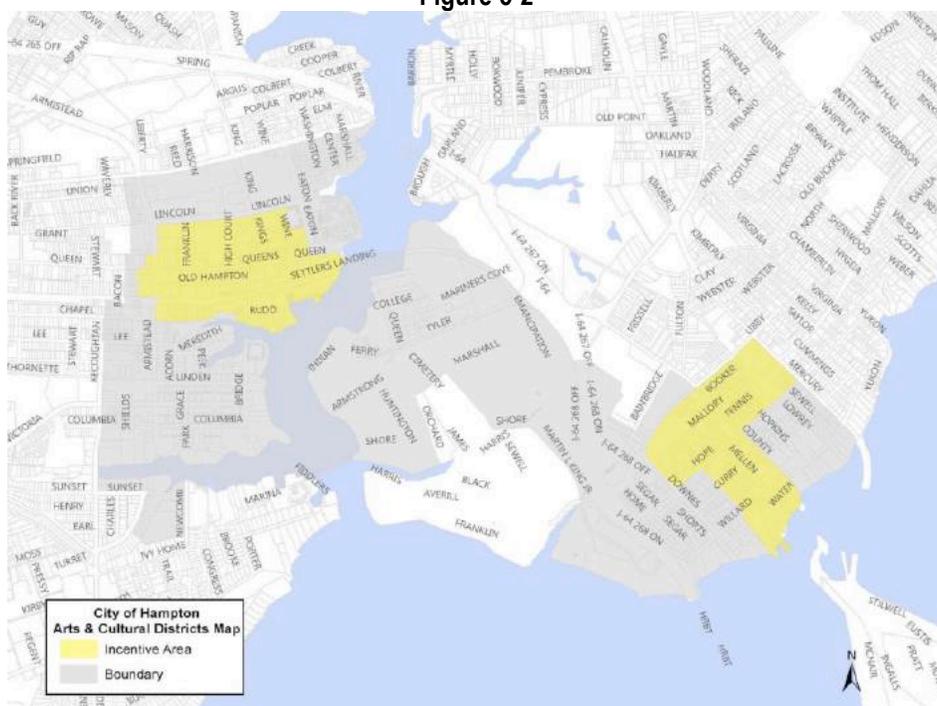
- **Waiver of permit fees** including building, electrical, mechanical, plumbing, signage, use permit

and rezoning fees. Arts & Cultural businesses that qualify for the waiver of permit and special event fees are eligible to receive no more than \$10,000 in fees within the five-year incentive period,

- **Retail incentive grant** including reduced project threshold or eligible for larger award,
- **Building improvement grant** including reduced project threshold or eligible for larger award and
- **Waiver of user fees** including special event permit, staff fee and park/venue rental.

There are two incentive zones within the district. These zones are highlighted, in yellow, in the figure below.

Figure 5-2



As the figure above shows, the greater Arts & Cultural District encompasses a larger area than the two incentive areas. The two incentive areas shaded in yellow are approximately two miles apart and separated by Jones Creek and Hampton University. Much of Downtown Hampton and the Victoria Boulevard Historic District are included within the Arts & Cultural District boundary.

Rehabilitation Tax Credit – A Rehabilitation Tax Credit may be awarded to any rehabilitated commercial or industrial structure. To be considered, a property must be at least 25 years old and through renovation, must increase its value by at least 60 percent without increasing the total square footage by more than 25 percent. This tax credit exemption is a six-year term and is calculated by the increase in assessed value of the property after a substantial rehabilitation. Beginning on the first taxable year after completion, the property in question is exempt, for three years, from paying 100 percent of taxes on the increase in assessed value. At the end of the first three-year period, the property is then exempt from paying 50 percent of taxes on the

increase in assessed value. After the six-year term is complete, the property in question must pay 100 percent of taxes on the new assessed value.

Norfolk, Virginia

Norfolk is located across the Elizabeth River. As of July 2015, Norfolk had an estimated population of more than 246,000 people, an increase from more than 242,000 in 2010.

The following section outlines the primary real estate incentives offered by the City of Norfolk.

Real Estate Tax Abatement Program – This program was established in the hopes of encouraging significant improvements to residential, commercial and industrial properties across Norfolk. This program encourages the construction and renovation of the highest quality architectural design that complements the surrounding area. The tax abatement is limited to the original applicant and one transfer but will be revoked if any property taxes are delinquent during the abatement period. Additionally, increasing a property's assessed value will generally require substantial renovation, or an addition to the property.

The following bullet points outline the opportunities and guidelines offered by Norfolk's Real Estate Tax Abatement Program:

- The tax abatement will commence at the beginning of the tax quarter immediately following the completion of property rehabilitation.
- The increase in the assessed value of the property, after improvements are complete, will not be recognized, for tax purposes, over a ten-year period following the commencement of the tax abatement and will be adjusted based on the following sliding scale between years 11 and 15:
 - Years 1 – 10: 0 percent of increase recognized
 - Year 11: 20 percent of increase recognized
 - Year 12: 40 percent of increase recognized
 - Year 13: 60 percent of increase recognized
 - Year 14: 80 percent of increase recognized
 - Year 15: 100 percent of increase recognized

As this tax abatement program is not geared toward any one specific property classification, the basic requirements for each are listed below.

Residential Property: rehabilitation must take place on an existing residential or multi-family structure:

- A **residential** structure must consist of no more than four units, must be at least 15-years old and improvements must increase the assessed value of the structure by at least 20 percent.
- A **multi-family residential** structure must consist of at least five units and must be at least 50-years old. All improvements must be completed within three-years from receipt of the approval letter and must increase the assessed value of the property by at least 40 percent. Additionally, the applicant must submit a commercial/industrial application and only one approved application

per structure is allowed during the abatement period, except for condominium conversions.

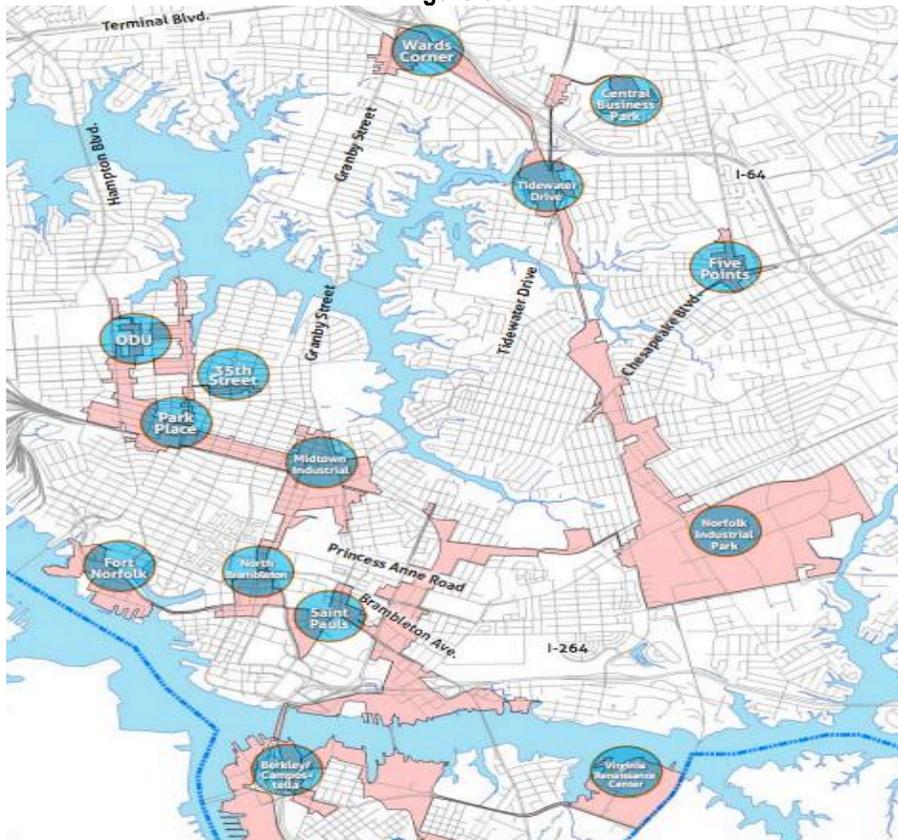
Commercial / Industrial Property: rehabilitation must take place on an existing commercial or industrial structure.

- A **commercial** structure must be at least 50 years old, except for structures located within an enterprise zone, which must be at least 20 years old. Improvements must increase the assessed value of the structure by at least 40 percent and all improvements must be completed within three years from the receipt of the approval letter. Additionally, the applicant must submit a commercial/industrial application and only one approved application per structure is allowed during the abatement period, except for condominium conversions.

Application fees can range from \$50 for residential properties with no more than four units and up to \$250 for all commercial and industrial properties as well as residential properties with five or more units.

Enterprise Zones – Like cities throughout Virginia and the United States, Norfolk offers an array of incentives for properties located in designated enterprise zones. The following figure outlines the different enterprise zones throughout Norfolk.

Figure 5-3



Local Incentives

Commercial-Industrial Real Estate Relief – Offers taxpayers the opportunity to not pay full taxes on building improvements for a 14-year term. Buildings must be designated as either commercial or industrial and located within the Enterprise Zone. Additionally, buildings must be at least 20 years old and improvements must increase the property's assessed value by at least 40 percent.

Building Permit Fee Relief – This is available to qualifying existing businesses located within the Enterprise Zone that make at least a \$100,000 taxable investment within the Enterprise Zone and to qualifying new businesses that make at least a \$500,000 taxable investment within the Enterprise Zone. This fee relief is a one-time 50 percent reduction on building, electrical, mechanical and plumbing permits.

New Energy of Norfolk (NEON) District – This district was incorporated to promote and incubate arts and cultural businesses and development and can be found in Downtown Norfolk. The district is anchored by historic structures such as the Chrysler Museum of Art and the Harrison Opera House as well as new developments such as the Glass Wheel Studio and the WorkRelease studios. In addition to business developments, the district also promotes wall art murals and sculptures through the public Art Program spearheaded by the City of Norfolk's Public Art Commission. This program aims to limit the material and design costs associated with public art displays. The two prongs of Public Art Program can be found below:

- Micro loans of up to \$599 are available to artists creating projects within the NEON District, with permission from the property owner.
- Property owners within the district can apply for Matching grants of up to \$2,500. These grants are specifically a match to any funds raised to support an artistic project, up to \$2,500.

In addition to the local and incentives offered in Norfolk, the City also offers New Market Tax Credits to those making qualified equity investments into designated community development entities.

Virginia Beach, Virginia

Virginia Beach is located approximately 20 miles west northwest of Downtown Portsmouth and is situated along the Atlantic Ocean. Virginia Beach boasts an estimated population of more than 250,000 people as of 2015, an increase from just under 238,000 in 2010.

The following section outlines the primary real estate incentives offered by the City of Virginia Beach.

Public-Private Partnership – Virginia Beach has been engaged in several successful public-private partnerships aimed at providing the community with successful developments. Examples include Tax Incremental Financing (TIF), Parking Garage Developments, the Virginia Beach Amphitheater, a Hilton Hotel, the Virginia Beach Sportsplex and Field House, Sentara Princess Anne Hospital and the 25th Street Mixed-Use and Parking Development.

Fast Track Permitting Program – This incentive program expedites permitting and construction so that office and industrial buildings can be built and operational in as little as six months.

Economic Development Loan – This loan is made for real estate and improvements including furniture, fixtures, and equipment and working capital. The loan is a maximum of 40 percent of total project costs not exceeding \$500,000. Either start-ups or established businesses may apply, to be paid back at a four-percent fixed rate.

Economic Development Investment Program (EDIP) – This program is a locally-funded discretionary incentive program geared toward assisting qualifying companies seeking to grow within Virginia Beach. This program provides companies with a cash grant and is based on a company’s average annual salary, number of new jobs created and/or any new capital investments made over a 36-month period.

Chesapeake, Virginia

Chesapeake, Virginia is located approximately seven miles south of Downtown Portsmouth, just a 15-minute drive down Interstate-264. As of 2015 Chesapeake had an estimated population of more than 235,400 people, an increase of roughly six percent from its 2000 population of just more than 222,200 people. The city’s Economic Development Investment Program offers a number of local incentive programs. Generally, the programs offer economic development grants to companies planning to locate new facilities in Chesapeake or operations within the City. It is geared toward industries that are technologically innovative, provide a strong potential for sustained growth, offer high quality jobs and help to maintain the city’s diverse economy. A summary of the programs offered in Chesapeake can be found below:

South Norfolk HUB Zone – this program is designed to encourage the economic development of historically underutilized business zones (HUBZones). Specifically, it is designed to assist small businesses in urban and rural communities gain preferential access to federal procurement opportunities. Small businesses gain favor in HUBZones by employing staff currently living within the HUBZone. To become eligible a business must be designated a small business by SBA standards, must be owned and controlled by at least 51 percent U.S. citizens or a community development corporation, agricultural cooperative or Indian tribe, must have at least 35 percent of its employees residing in the designated HUBZone and its principal office must be located within the HUBZone. Primary benefits from becoming a HUBZone-certified company include:

- Competitive and sole source contracting and
- A 10 percent price evaluation preference in full, open and sub-contract competitions.

South Norfolk Technology Zone – this incentive zone was created in 2010 when the Chesapeake City Council approved the designation of the South Norfolk Borough of Chesapeake as a technology zone. This zone is essentially an overlay district that offers incentives to new or existing businesses located within the zone.

Foreign Trade Zone 20 – this incentive zone is one of the largest foreign trade zones in the United States at approximately 10,000 acres. It features 20 companies that are leveraging industrial property located within the zone. Such zones allow businesses to import, store and process goods and raw materials duty free until they leave the zone for consumption within the United States. Companies located within the foreign trade zone receive cost savings as they delay payment of duties or assemble goods that have a lower duty payment than the sum of their parts.

Conclusion

As real estate incentives are geared toward spurring development in struggling or targeted areas, it is no surprise to see Portsmouth and its neighboring communities offer such programs. A common theme through all the cities mentioned in this section, apart from Virginia Beach, is the presence of Enterprise Zones. Within the respective Enterprise Zones exist many incentives, including fee and tax rebates, loan programs and investment grants. Portsmouth is extremely competitive in the number of real estate incentives offered within its enterprise zones, including development fee rebates, commercial façade loans, mixed-use development financing and real estate investment grants.

Although Portsmouth offers competitive real estate incentive programs relative to its neighboring communities, some neighbors do offer additional programs not found in Portsmouth, such as the Arts & Cultural districts found in Hampton and Norfolk as well as the revolving loan and grant fund found in Hampton. The implementation of a revolving loan and grant fund would allow Portsmouth a consistent source of funds dedicated to assisting and spurring targeted real estate development. Additionally, total program funds would continuously increase as investments mature and interest and principal are paid back. To be successful, Portsmouth would need to incorporate the necessary zoning laws and permitting based on the desired retail real estate development should this incentive be offered.

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RECOMMENDATIONS

This chapter provides recommendations for each type of use and likely opportunity over the next five years, with a look forward to the next decade. While many immediate opportunities are limited to certain uses, like residential, restaurant and hotel, once critical mass is reached in residential and restaurant development, the hurdles for other types of development will be achieved, allowing for more office and retail development. While potentially frustrating now, and seeming to require more inducements than optimal, the next several years will be critical in setting the stage for more robust development over time.

HSP reviewed each real estate use, market metrics, and similar developments, discussed the market situation with stakeholders, and analyzed zoning to determine the opportunities and recommendations for downtown growth. Portsmouth's real estate situation, as analyzed by HSP, tells a story of contrasts, and in this chapter, recommendations for each type, timespans and priority sites will be presented. Real estate and uses are not mutually exclusive, rather, they are interconnected and build upon each other. Among the findings, the market research shows a critical analysis categorized by type of use which is discussed below. Our recommendations by use are discussed later in this chapter.

Multi Family Uses

- Multifamily apartment developments are growing rapidly. As shown in Figure 6-1, the number of in-development apartments will increase by approximately 40 percent. More are expected in the next several years, which will start to create a true critical mass of Downtown residents that can support retail and restaurants. This trend is partially the result of a national trend for urban living, a desire by Millennials and Empty Nesters to live in a "cost-certain" housing situation in a walkable environment, combined with the reality that many of the employees working at the Naval Medical Center and Coast Guard headquarters would rather live closer to work. Portsmouth is more affordable than some other areas, such as Norfolk, which has a robust selection of retail, restaurant and attractions to attract residents and visitors. A balanced live, work, and play environment also makes cities like Norfolk and Virginia Beach attractive for certain market segments. Apartments are permitted in the T4, T5 and T6 districts, but are not permitted in the SD district.
- The increase in Downtown residents will ultimately start to solve many of the issues confronting real estate development. For many years, the Olde Towne neighborhood and modest Downtown residences have not had a large enough base of residents with disposable income to support other types of development, such as more restaurants and many types of retailers (including grocery and general merchandise stores). With more residents, there will also be a potential market for creative office space.

Single Family Uses

- Single family uses are permitted in the T3 and D2FBC districts, and are a use in the T4 district. They are not permitted in the T5 and T6 districts. The restrictions potentially hinder developers who wish to build new or rehab older homes, and prohibit residents who wish to live-work-play

near Downtown and would rather own than rent. Additionally, residents who own their own homes will provide a more stable environment to a community than the transient nature of residents who rent their homes. Consideration should be given to new or rehabbed single family homes in the T5 district, with a provision and stipulation for design that incorporates the historic nature of Portsmouth.

Downtown Office Uses

- The Downtown office market is dominated by the public sector, while private tenant buildings are generally smaller and less prevalent. This situation does not look to change in the near future. Office development will be a challenge until Downtown succeeds at becoming a more robust destination and location for private office users. One of the ways that the city can improve its attractiveness for office is to focus on the most compelling waterfront parcels for mixed-use development, some of which can include office. Several compelling waterfront parcels are currently home to government office buildings. This does not necessarily help the long-term prospects for Downtown Portsmouth. People and investment are attracted to great views, water and location, not to mention adjacent uses like restaurants. Parcels that are either underutilized, vacant or currently used by government office buildings are enticing for private development. However, the land and building acquisition costs and the costs to relocate government operations will be significant. Collaboration between the City and the private sector will be critical to reimagining the Downtown waterfront into a destination for residents and visitors. The government buildings that house hundreds of employees are critical to support Downtown retail and restaurants; however, they can be located in other nearby walkable blocks or be tenants in new mixed-use buildings along or near the waterfront.
- HSP recommends the government keep employment within easy walking distance of the Downtown core: not necessarily on prime waterfront parcels, but perhaps as tenants in multi-tenant buildings and/or mixed-use buildings. The relocation of offices away from waterfront properties will free up buildings for potential adaptive reuse into residential uses (or a mix of residential and office), which should command the highest value per acre. Users of office properties could potentially also reside in the redeveloped buildings, thereby creating the live-work-play environment that today's Downtown residents require. The office market is not only dependent on location, proximity to transportation and housing, but the quality of the office space. Having a mix of Class A and Class B space will allow for the easy flow of tenants wanting to upgrade, as well as those who want to be near Downtown but cannot afford the Class A office space.

Downtown Lodging - Hotels

- The development of the Renaissance bolstered the meetings and conference market. There are many events that tourists would like to attend in Portsmouth, but based on HSP's interviews with hotel representatives, many groups and tourists do not have the budget to afford the level of service that is offered. This reality squares with HSP's vast experience with urban hotel situations. Other than the Renaissance, there are no other limited or select service, flagged/branded hotels in the Downtown area. Hotel guests want lodging choices. These choices will be dependent on location, proximity to venues, budget and hotel brands. Additionally, many of today's travelers want to stay at hotels where they can get their "loyalty"

points, and then use those loyalty points to get complimentary nights. The lack of an upper midscale hotel brand option, limits the hotel guests' selection, which may hinder their decision to stay in Portsmouth. Additional brands and price points will attract more guests to the market. Also, having another hotel will allow the hotels to partner to host larger groups. Having just one hotel is difficult for meeting and event planners.

- Attendees and visitors still need to be proximate to the Renaissance and want to have a “getaway” experience, so water views and walkability to Downtown are key. HSP’s analysis suggests that a hotel development that offers quality rooms and amenities, with limited meeting space that will not compete with the Renaissance, would help fill a gap in the market. A select-service or limited service branded hotel is an example of this. Proximity to the Renaissance will be important in order to enhance and maximize the hospitality package. The walkable hospitality package is a critical element when marketing to potential groups.
- HSP recognizes that while attracting and accommodating tourists to the area is important, it should not be at the expense of growing the Downtown Portsmouth resident population.
- In order to spur additional commercial hospitality developments in the Downtown district that complement the residential population, HSP recommends that the highest and best uses in the Downtown districts should be for hotels higher than the upper mid-scale chain scale category. This can be accomplished either via new developments or a comprehensive and concise adaptive reuse policy. A branded select-service hotel adjacent to or very near the Renaissance will provide benefits to the existing Renaissance as well as Downtown tourism and investment.

Retail/ Restaurant Uses

- Retail has struggled significantly, especially in the recent years. There has been a direct, measurable impact from two major actions taken by the public sector. The first is the movement of certain government buildings/offices/employees to outside of Downtown. The employment base (people who can easily walk about town, unlike the Naval Medical Center employees) is already relatively limited. The relocation of the Portsmouth Judicial Center to south of I-264 just south of Downtown Portsmouth also shifted part of the workforce out of Downtown and out of walkable distance to Downtown restaurants and retail. This small employment base makes up the majority of retailer patronage. The drug store that services many of these employees, for example, has seen business decline as Downtown, walkable employment has diminished.
- The second action that appears to have taken some energy away from the specialty retailers and restaurateurs was the defunding of the convention and visitors bureau in 2008. The CVB constantly promoted Downtown and all it had to offer. Without that voice of promotion, Portsmouth has been lost in the crowded marketplace for tourism. The antique stores have suffered in particular due to the reduction in tourism. Until tourism improves, daytime employment increases, and additional residential and hotel development return to Downtown, certain types of retail and some restaurants will not be compelling enough as investments. If the public sector can begin funding tourism again, as well as keep its employees Downtown – even if the exact location of government offices changes – Downtown retail will be more attractive.
- Like many cities, Portsmouth has experienced a challenging retail climate since the recession. However, Portsmouth has many retail districts from which to develop future plans. The current

zoning for general merchandise and specialty retail are a varying permitted use in the T4, T5 and T6 districts. A thorough and comprehensive review of the permitted uses within these districts is recommended in the short term in order to promote a vital and dynamic retail climate which supports the residents and visitors to the area. HSP recommends that the City maintain its core grocery/drug store/convenience retail uses in the T4, T5 and T6 districts.

- People like options (restaurants, retail, entertainment, attractions) and the ability to go to one place, park, and then have numerous available walkable destinations. Currently, Portsmouth does not have a critical mass of options. The downtown will have critical mass when a visitor knows there are so many options, they can just go to the area and then choose a place. Currently, there are not enough options for that to occur with confidence. By helping to induce several more restaurants to increase variety, Downtown Portsmouth could readily compete with any node of restaurant activity in the region. By creating a critical mass of a variety of restaurants, it is more likely that large and small office users will relocate to the area.
- The development of restaurants and unique food and beverage concepts is one strategy that provides the most payoff for the least amount of time, money and effort. Food and beverage developments create their own gravitational pull in the market. The balance between local, unique concepts and national chain concepts will be important in order to retain the historic atmosphere of Portsmouth.
- As hundreds of new apartments begin to be occupied, there should be a more promising market for convenience retail, as well as a stronger case for more restaurants, bars and entertainment. This development should be promoted.
- As the Downtown population base increases, restaurants, bars and entertainment are expected to become more viable and induce a mix of options, concepts and price points that will enhance Downtown. However, anything the public sector can do to help the number of quality and unique establishments (as opposed to fast food) that diversify the offerings, the better. Food and beverage can be the building blocks of great places. The announcement of a micro-brewery and micro-distillery are two new concepts that enhance Downtown Portsmouth's appeal.

By creating unique and desirable restaurants around Downtown, it is more likely that small, creative office users and others will want to locate Downtown. The increase in vibrancy is attractive to people and investment.

Attractions

- HSP recommends not investing large sums of public money into new attractions. The history of the area combined with activity that can occur by enlivening the area with restaurants and other active uses will provide more long-term opportunity than risking significant capital on one new attraction. Many other types of developments can be leveraged using scarce capital, which should strengthen the fabric of Downtown through residential and other developments.
- The current zoning code lists attractions as a varying permitted use within the T4, T5, T6, SD and D2FBC districts. It is not a permitted use within the T3 district. The investment in attractions Downtown has been somewhat successful. HSP does not recommend that public resources be spent chasing a "home run" project that may or may not generate visitation.

The following table summarizes the market situation and recommendations for Portsmouth.

Table 6-1

Summary of Market Situation and Recommendations - Downtown Portsmouth Real Estate					
	Current Supply	In Development	Next 5 Years Additional Growth Projected - Market Only	Next 5 Years Additional Growth Projected - With Inducements	Recommendation
Apartments	1,151 Units	402 Units	500 - 600 Units	No inducements should be necessary	Encourage as much market-based residential growth as possible to support sustainable downtown and other uses
Condos and Single Family Homes	5,550 Units	0 Units	Marginal	No inducements at this time	Owned residential should generally be encouraged but not necessarily induced or subsidized. As downtown becomes more attractive, owner-occupied will increase
Multi-Tenant Office	275,241 SF	0 SF	0 SF	30,000 SF	Public sector should incentivize businesses to move offices downtown to support sustained retail and other daytime uses, repurpose existing space should be considered as an option
Creative Office	0 SF	0 SF	0 SF	10,000 SF	Creative office is a great way to engage committed citizens in the growth of downtown, without the risk of a big office building. Suggest public encourage creative office as part of mixed-use projects or repurpose existing space
Government/ Single-Tenant Office	526,945 SF	0 SF	0 SF	No inducements should be necessary	Public sector should retain all existing facilities downtown, but move away from prime waterfront parcels. Relocated/new offices should be within walking distance of retail and restaurants
Hotel	372 Rooms in 3 Hotels	0 Rooms	0 Rooms	Inducements will likely be required	Public should encourage and induce select-service branded hotel adjacent to Renaissance to accommodate more group and leisure business
Retail - General Merchandise	1 Store	0 Stores	0 Stores	As part of urban grocer	Public sector should encourage general merchandise as part of grocery or drug store in order to sustain market of daytime and residential population
Retail - Speciality	18 Stores	0 Stores	Modest	7	Public sector should encourage continued growth in speciality retailers that have struggled recently. Tourism investment/funding CVB will help
Retail - Grocery and/or Drug Store	1 Store	0 Stores	Marginal	20,000 - 30,000 SF Urban Grocer/Drug Store	Public sector should induce development of walkable grocery store to support residential strength and future growth
Retail - Convenience	16 Stores	0 Stores	High	No inducements should be necessary	Convenience and support retail typically do not require inducement and will occur along with residential and employment growth
Restaurants - Fine Dining	1	0 Restaurants	Modest	No inducements should be necessary	Creating a critical mass of dining options is critical to downtown's sustainability. Additional fine dining will help draw higher spending tourists and residents.
Restaurants - Casual Dining	11	0 Restaurants	Modest	No inducements should be necessary	Build upon current strength in this area. Encourage additional casual restaurants to create node of activity.
Restaurants - Fast Casual	4	0 Restaurants	High	No inducements should be necessary	More suited to daytime/lunchtime and getting support from existing employment base. May not need to induce more, but more options will help attractiveness of downtown generally.
Restaurants - Bar/Restaurant	8	0 Restaurants	Modest	No inducements should be necessary	Strength in this area already. Let market work and encourage growth, but do not need to chase it.
Restaurants - Fast Food/Quickserve	9	0 Restaurants	High	No inducements should be necessary	Better suited to outskirts of downtown, not city center. Let market work, but do not encourage fast food in walkable city center areas.
Attractions	5	1	0	Inducements may be necessary	High risk, high cost. Best to encourage restaurants, retail, tourism/CVB and residential first.

Source: Hunden Strategic Partners

Overall, outside of the apartment market, the viability of most uses is lackluster, despite the recovering and expanding U.S. economy for the past eight years. It will take a forward-leaning public sector to help developers of other types of uses, as well as individual retailers and restaurateurs, move forward on their

investments in Downtown. For some projects, such as a hotel, there may need to be some material public incentives, clearing of land, prepping of sites and mitigation of some costs. New investment in tourism promotion will also help. In other cases, the smoothing of the permitting and other government processes is a good first step to investment.

Priority Site Recommendations

The table below summarizes the priority site recommendations, as detailed previously in this report.

The following table summarizes the priority sites and recommended development priority. These were discussed in detail in chapter 4 and are summarized here.

Table 6-2

Portsmouth Potential Development Sites							
Site	Recommended Priority	Status	Existing Structures	Size (Acres)	Zoning	Ownership	Tax Status
8 Crawford Parkway - Holiday Inn Site	Short-Term	Vacant	Parking Garage	3.6	T6 Subdistrict	Public (GPDC/PRHA)	--
818 County Street	Short-Term	Vacant	None	1.88	T5 Subdistrict	Public (PRHA)	Exempt Commercial
700 Crawford Street	Short-Term	Vacant	Two Buildings - Unoccupied	0.99	T6 Subdistrict	Public (City)	Exempt Commercial
1021 High Street	Mid-Term	Vacant	Industrial Building - Unoccupied	2.96	D2 FBC	Public (EDA)	--
1107, 1117, and 1121 High Street	Mid-Term	Vacant	None	2.39	D2 FBC	Public (GPDC)	--
1215 High Street	Mid-Term	Vacant	Surface Parking	1.81	D2 FBC	Private (Southside Direct Care Provider, LLC)	--
1130 High Street	Mid-Term	Vacant	Auto Sales Parking	1.45	D2 FBC	Public (EDA)	--
219 Pavilion Drive	Long-Term	Vacant	None	3.95	SD Subdistrict	Public (EDA)	Exempt Commercial
801 Crawford Street	Long-Term	Occupied	City Hall	2.72	T6 Subdistrict	Public (City)	Exempt Commercial
701 Crawford Street	Long-Term	Occupied	Jail	2.65	T6 Subdistrict	Public (City)	Exempt Commercial
0 Water Street	Long-Term	Vacant	Surface Parking	1.05	T6 Subdistrict	Public (City)	Exempt Commercial

Source: City of Portsmouth

HSP analyzed and reviewed several sites that were determined to have development potential in differing time frame phases. Development of these site as well as an overall long term zoning plan requires the city of Portsmouth to re-evaluate its zoning codes, which in some cases is overly restrictive and in some cases is overly broad. Each zoning district should not only have its one uses and characteristics, but also meld with and provide a seamless transition into the adjoining district. There are many opportunities to create a vibrant and economically productive community and build upon some existing developments, but also to boldly change and be receptive to change in order to grow the future of Portsmouth.

Zoning Recommendations

HSP provided specific implications based on the zoning language that may impact future developments.

The corridors of London Boulevard and High Street should transition from a mixed-use light industrial/office/retail use as the roadways head east into Downtown. HSP recommends that east of the light-industrial/office uses, the city then transition into low-rise multi-tenant and single tenant office uses which then transitions into a mix of retail/restaurant and multi-family uses. The goals of the residential development in this area are intended to foster sustainable mixed-use urban neighborhoods, which integrate residential uses with employment uses and further incorporate some recreational uses to attract further residential development. This creates a cycle of development to attract and spur additional development.

The tables below suggest how zoning regulations could be modified to better enhance development efforts and opportunities. The first suggest the types of uses that should be allowed in various districts.

Table 6-2

Use	Recommended Uses by Zoning District - Downtown Portsmouth Real Estate					
	T3	T4	T5	T6	SD	D2 FBC
Apartments	NO	YES	YES	YES	NO	SPECIAL USE*
Condos and Single Family Homes	YES	YES	YES	YES - Condos Only	NO	SPECIAL USE* - Condos Only
Multi-Tenant Office	NO	YES	YES	SPECIAL USE*	YES	YES
Creative Office	SPECIAL USE*	YES	YES	SPECIAL USE*	YES	YES
Government/ Single-Tenant Office	NO	YES	YES	SPECIAL USE*	NO	YES
Hotel	NO	YES	YES	YES	YES	YES
Retail - General Merchandise	NO	YES	YES	YES	NO	YES
Retail - Specialty	NO	YES	YES	YES	NO	YES
Retail - Grocery and/or Drug Store	NO	SPECIAL USE*	YES	SPECIAL USE*	NO	YES
Retail - Convenience	NO	YES	YES	SPECIAL USE*	NO	YES
Restaurants - Fine Dining	NO	YES	YES	YES	NO	YES
Restaurants - Casual Dining	NO	YES	YES	YES	NO	YES
Restaurants - Fast Casual	NO	YES	YES	YES	NO	YES
Restaurants - Bar/Restaurant	NO	YES	YES	YES	NO	YES
Restaurants - Fast Food/Quick-serve	NO	YES	YES	SPECIAL USE*	SPECIAL USE*	YES
Attractions	NO	NO	NO	SPECIAL USE* - waterfront activities	SPECIAL USE*	SPECIAL USE*

Key:
SPECIAL USE* - Permitted Use but with a conditional review based upon location, use type, size, height, etc.

Source: Hunden Strategic Partners

HSP concludes and recommends that the zoning designating permitted apartment uses in the T4, T5, T6 districts represents the highest and best uses for these districts. HSP recommends that the city of Portsmouth undertake a short-term aggressive plan to promote the development of multi-family developments. Many areas of Downtown are already experiencing a re-birth and re-vitalization, however, many of the support and entertainment amenities do not currently exist. These will be discussed in further detail in this chapter.

HSP recommends that a “Special Use” category be created for creative office uses within the northern portion of the T3 district to support the single family homes within that district. This will also provide a transition and tie into the office uses in the D2 FBC district. Also, the land and building acquisition costs would be less costly than for waterfront properties.

HSP recommends that the zoning codes allow for hotels in the T4, T5, T6 and D2 FBC districts. The development of hotels (especially select service properties in the Downtown district) will spur additional retail and restaurant development, and will represent the highest and best uses for the area.

HSP recommends that the zoning codes be amended to allow for certain types of specialty/general merchandise retail establishments in the T4, T5, T6 and D2 FBC districts. These uses will support the residential and hospitality establishments Downtown, and will represent the highest and best uses for the

area. Grocery and/or drug store uses should be permitted in T5 and the D2 FBC districts, and a permitted special use in the T4 and T6 district. Retail/convenience should be a special use in the T6 district.

HSP recommends the zoning code be amended to more clearly define the permitted uses for restaurants, especially within the T4, T5 and T6 districts. Restaurants are a highest and best use within the Downtown district. However, in order to promote a more upscale feel to the Downtown area, a special use category should be established for the fast food/quick serve use in the T6 district in order to accommodate the residents, office users and hotel guests with options for a quick serve meal. Additionally, fast food/quick serve should be a special use category for the SD district in order to accommodate the office and industrial uses within this district.

HSP recommends that Downtown Portsmouth focus efforts to create a great place to work, live and visit by making smart, small investments in key parcels and with certain development types, and become a development partner that seeks to leverage private dollars. HSP recommends that certain types of attractions that support and enhance the waterfront experience be a special use permit in the T6 district along the waterfront, and a special use within the SD and D2 FBC district.

Incentives Recommendations

Portsmouth is extremely competitive in the number of real estate incentives offered, as it offers more programs than the other three cities analyzed and competes more so with Hampton than Norfolk and Virginia Beach.

Hampton does offer real estate incentives not found in Portsmouth with its Retail Incentive Program and its Arts & Cultural District. To further attract retail real estate development to Portsmouth, HSP suggests the introduction such a Retail Incentive Program, similar to that found in Hampton. This incentive would encourage and assist in affording stand-alone retail establishments to better compete with area shopping malls. To be successful, Portsmouth must incorporate the necessary zoning laws and permitting based on the desired retail real estate development should this incentive be offered.

An additional development incentive recommended is the most common: the use of Tax Increment Financing (TIF). This allows increased real estate tax revenue from an enhanced development to be used to pay for part of the project. This is allowed in Virginia and could be used by Portsmouth to pay for infrastructure costs for developments in order to buy down their costs of development. Such uses include parking, sidewalks, utility connections and other related costs. Other funding options for projects that can be used as an incentive are hotel tax revenues and restaurant tax revenues. While these are not always allowed and the uses can be restricted, these funding mechanisms can help fund part or all of certain types of projects. HSP recommends that Portsmouth investigate the use of TIF at minimum, as this is the most powerful incentive tool used in urban settings.

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OFFICE MARKET ANALYSIS

HSP profiled the Portsmouth office market by analyzing available market data and statistics, conducting interviews with office building managers, developers, brokers, economic development officials, market participants and key stakeholders who provided local input and insights. This chapter provides an overview of the Portsmouth office market. The appendix presents a market overview, then market data and finally market participant interviews.

Market Overview

National office occupancy levels decreased across the country after the recession in 2008; only recently have these numbers started to rebound. Beyond the recession, the decrease was also influenced by the trend of companies having employees work remotely, as well as the longer-term trend of people more willing to work either remotely or from home.

The Hampton Roads office market has experienced a slow and steady recovery since the recent recession. Higher office rental and associated costs, as well as market influences have impacted the development of new office spaces in Hampton Roads. The premium for new construction over existing Class A rental rates, the increased popularity of tele-working and the downsizing that occurred between 2009 and 2016 are a few of the factors impacting the recovery of the Hampton Roads office market. Fewer government-related contracts and less secure funding have driven defense contractors to scale back in the heavily government-driven economy. Technological advances have created workplace flexibility by enabling tele-commuting, thereby reducing the number of employees working in an office at a particular time. Also, the advent of the Internet and electronic storage of documents has resulted in the reduction of the amount of space required for storage of hard-copy paper documents.

Additionally, the lack of office inventory is driving the conversion of office and retail spaces into non-traditional office uses that offer lower space costs, higher parking ratios and improve space efficiencies. For example, Movement Mortgage executed a lease in a former 209,000-square-foot retail anchor space at the Military Circle Mall in central Norfolk. The company reportedly will be investing \$2 million to relocate its operations center from Virginia Beach to Norfolk. They will retain 550 jobs and add 200 more jobs at its new facilities. It is reportedly one of the nation's fastest growing mortgage companies. Their new space is an example of a new trend in adaptive reuse of older buildings, such as converting a department store to office.

The suburban submarkets in the Hampton Roads area were the first to recover from the recession. The recovery has been slower to build among the high-rise and usually higher-rent towers of Downtown Norfolk and the Virginia Beach CBD. However, ADP will open a regional service center in Downtown Norfolk. The influx of additional daytime workers into Downtown Norfolk will increase the parking and housing demand, which may result in potential opportunities for nearby communities like Portsmouth.

As of Q3 2016, direct asking rents for Class A space increased for the second consecutive quarter as direct vacancy rates dropped. However, Class B rents decreased despite a decline in vacancy. Over the last few years, occupancy levels are increasing even as rents have lagged. Asking rents have improved recently, which is a good sign for the Hampton Roads area as rates had been depressed. Occupancy rates have also

improved over more recent years, but much of this is due to the lack of new development and marginal increases in demand. The Portsmouth office market studied contains no Class A office space Downtown.

Market Data & Statistics

Shown following are market data tables and statistics, which provide relevant multi-tenant office statistics for the Hampton Roads, Portsmouth, and Downtown area.

Table A1

Relevant Office Statistics - Multi-Tenant - As of Q2 2016						
	Inventory (SF)	Vacancy Rate %	Occupied SF	Average Asking Rate	Absorption Trend	Development Trend
Hampton Roads						
Class A	9,163,547	10.6%	8,192,211	\$22.14		
Class B	8,760,102	17.6%	7,218,324	\$16.22		
Portsmouth						
All Classes	2,229,117	8.4%	2,041,871	\$13.60		
Downtown Portsmouth						
Class B	275,241	12.7%	240,285	\$16.52		

Source: Colliers International, JLL, Hunden Strategic Partners

All types of properties are seeing positive absorption, which is a good sign. The most desired type of office space is Class A, due to the level of finishes, reputation and often location. However, new construction is not supportable for office unless the lease rates hit certain hurdles. The lower general office rates suggest why office development is flat in most cases. As the absorption of Class A properties increases, the vacancy drops due to a lack of Class A properties in the development pipeline. At the same time, Class B tenants may be upgrading into Class A spaces, so the Class B supply has a higher vacancy. If the rental rates increase enough, then new Class A space can be developed feasibly. Class B office space is usually not developed as “new” space, but is former Class A space that declined in relative quality over time.

The following table compares 2016’s second quarter data for Portsmouth, Downtown Norfolk and additional Suburban Southside submarkets.

Table A-2

Norfolk Office Market Q2 2016								
	Existing Inventory (SF)	Total Vacancy (SF)	Total Vacancy (%)	Net Absorption SF (Current Qtr)	Net Absorption SF (YTD)	Under Construction SF	Delivered SF	Average Asking Rent (PSF/YR)
<i>Downtown Norfolk</i>								
Class A	2,559,222	302,272	11.81%	14,133	14,057	--	--	\$21.16
Class B	2,234,870	636,068	28.46%	2,582	-2,696	--	--	\$18.72
Class C	405,078	7,009	1.73%	--	--	--	--	\$15.87
Total	5,199,170	945,349	18.18%	16,715	11,361	--	--	\$19.24
<i>Suburban Southside</i>								
<i>Chesapeake/</i>								
Greenbier	5,488,317	324,020	5.90%	53,583	31,375	--	--	\$15.92
Central Norfolk	4,860,615	527,749	10.90%	-7,143	10,623	--	--	\$15.65
Lynnhaven	1,853,583	291,766	15.70%	-7,845	-31,245	--	--	\$14.98
Portsmouth	2,229,117	186,533	8.40%	11,835	9,906	--	--	\$13.60
Suffolk	2,896,812	285,664	9.90%	35,955	63,298	82,000	--	\$16.12
VaBeach CBD	2,236,676	229,890	10.30%	42,542	36,499	--	--	\$24.05
VaBeach Central	4,017,620	523,568	13.00%	-16,351	-92,882	--	--	\$16.75
VaBeach East	5,115,024	360,770	7.10%	4,925	31,726	--	22,000	\$18.42
Total	28,697,764	2,729,960	9.50%	117,501	59,300	82,000	22,000	\$16.70

Source: Colliers International, Hunden Strategic Partners

According to Colliers International's Norfolk market data, average rent-per-square-foot for all building classes is \$19.24 as of the end of the second quarter of 2016, and total vacancy averages 18.18 percent. Class A averages \$21.76 per square foot, at a vacancy rate of 11.81 percent. Class B and C average \$18.72 per square foot at 28.46 percent vacancy, and \$15.87 per square foot at 1.73 percent vacancy, respectively. Compared to the previous quarter, rental rates are down and vacancy rates have increased. No new construction has taken place during this period. Class A office performance is the strongest among all classes at this time, and will likely remain in that position.

Generally, in the Hampton Roads area, Class A rental rates have increased while Class B rental rates have slightly decreased. Additionally, Class A net absorption has outpaced Class B in 2016. Portsmouth has the second lowest total vacancy rate and the lowest vacancy by square footage for the Norfolk submarkets. Portsmouth's average rental rate of \$13.60 per-square-foot per year is the lowest in the Suburban Southside submarkets, and the vacancy rate of 8.40 percent is also one of the lowest in the market area. Comparatively, only the Lynnhaven submarket has less total existing office space than Portsmouth in the Norfolk office market. However, there is vacant space in the community, and a gap in Class A space that could spark new development or redevelopment and attract new corporate/office users to Downtown Portsmouth.

Office performance is expected to remain strong, with several large firms creating jobs in the area. Sprint announced it will cut 368 jobs in a move that will close its customer care center. However, this will be offset by ADP announcing its lease of 287,000 square feet for a regional service center in Downtown Norfolk that will generate approximately 1,800 jobs.

Construction of new office space is nearly nonexistent as of the second quarter of 2016. Approximately 82,000 square feet of office space is under construction in Suffolk and 22,000 was recently delivered in Virginia Beach East. The ADP lease in Downtown Norfolk will add additional activity in the area. Much of what Portsmouth lacks in quality office space can be found in surrounding suburban cities. The improving suburban conditions are driven by the higher parking ratios and value offered by low Class A and high Class B buildings. These are favorable elements for tenants like call centers that are entering the market.

Average deal sizes for both Class A and Class B space have declined across the region, which is one reason why office occupancy and absorption have lagged behind other economic indicators during the office market recovery. Based on the market influences impacting the office market, Downtown Portsmouth has an opportunity to target new, smaller office developments and/or repurpose/renovate existing buildings as proposed infill projects in the core Downtown and surrounding area, while also planning for larger potential Downtown tenants.

Market Lease Activity

To further understand the office market, HSP collected and analyzed data on lease activity of major properties over the past several months in the Hampton Roads area.

The following table displays the lease activity for the first two quarters of 2016 in the Hampton Roads area.

Table A-4

Hampton Roads - Lease Activity				
Property Address	Lease Date	Lease SF	Type	Submarket
7025 Harbour View Blvd	1/14/16	13,037	Class A	Suffolk
555 E Main Street	2/1/16	42,464	Class A	Downtown Norfolk
301 Bendix Road	3/1/16	16,605	Class A	Virginia Beach
1434 Crossways Blvd	3/2/16	33,016	Class A	Chesapeake
5209 Corporate Woods Dr	3/3/16	13,475	Class A	Virginia Beach
600 Independence Pky	4/5/16	12,169	Class A	Chesapeake
2600 Washington Ave	4/11/16	24,240	Class B	Newport News
880 N Military Hwy	4/26/16	90,000	Class A	Military
4300 Commuter Drive	4/27/16	15,730	Class A	Virginia Beach
440 Monticello Ave	5/26/16	12,896	Class A	Norfolk

Source: Colliers International

Lease activity in the first two quarters of 2016 accounted for mostly Class A office space, except for approximately 24,240 square feet in Newport News. All transactions took place in submarkets outside of Portsmouth. Except for the 90,000-square-foot transaction in Norfolk, all other transactions consisted of spaces less than 45,000 square feet.

Downtown Portsmouth Office Space

The following table shows a current survey of the Portsmouth office inventory compared to a five-year average.

Table A-5

Portsmouth Office Inventory		
Inventory	Survey	5-Year Avg
Existing Buildings	232	231
Existing SF	1,928,536	1,921,319
12 Mo. Const. Starts	--	1,661
Under Construction	--	830
12 Mo. Deliveries	--	1,845

Source: Colliers International

As shown above, the existing office inventory in Portsmouth is similar to the five-year average, indicating virtually no change between the two data sets. The construction of office space is very limited and there are currently no projects in the development pipeline over the last 12 months.

The following table shows current and five-year average of office availability and rates for the Portsmouth office market.

Table A-6

Portsmouth Office Availability		
Availability	Survey	5-Year Avg
Gross Rent Per SF	\$14.53	\$15.06
Vacancy Rate	9.3%	9.9%
Vacant SF	180,165	190,811
Availability Rate	13.6%	12.9%
Available SF	262,652	247,495
Sublet SF	2,550	6,756
Months on Market	27	18

Source: Colliers International

The current vacancy rate and amount of vacant space is lower than the five-year average. However, the current rent per square foot is less than the five-year average, which may reflect the lack of Class A space in Downtown Portsmouth, and the slightly decreasing Class B rental rates. The absorption of space in the market is 27 months when compared to the 18-month average over the past five years, which could also be an indication of the lack of Class A office space in Portsmouth.

The following table provides data on office sales trends in Portsmouth over the past year and the 5-year average.

Table A7

Portsmouth Office Sales		
Sales	Past Year	5-Year Avg
Sale Price Per SF	\$129	\$56
Asking Price Per SF	\$85	\$73
Sales Volume (Mil.)	\$3.20	\$2.70
Cap Rate	9.4%	9.4%

Source: Colliers International

Sale price per square foot has increased, and is significantly higher compared to the five-year average. Asking price per square foot and sales volume have also increased, while the cap rate has remained constant over the period. Since the cap rate is a ratio used to estimate the value of income producing properties, the value of office properties in Portsmouth has remained consistent over the past five years.

The following figure displays the Portsmouth gross asking rent per square foot over the past several years.

Figure A-1



Gross asking rent per square foot has declined steadily from nearly \$18 in 2011 to less than \$15 in 2016. At the lowest point in mid-2015, rents fell below \$14 per square foot. Since the asking rent per square foot has declined over the past five years, this has resulted in office development being stifled in the area. However, since Portsmouth has the lowest average per-square-foot per year rental rate in the Suburban Southside submarket, there is an opportunity to position itself as an affordable option for office space, if existing space can be adapted to meet the needs and expectations of the various office segments.

The following figure displays the Portsmouth vacancy rates over the past several years.

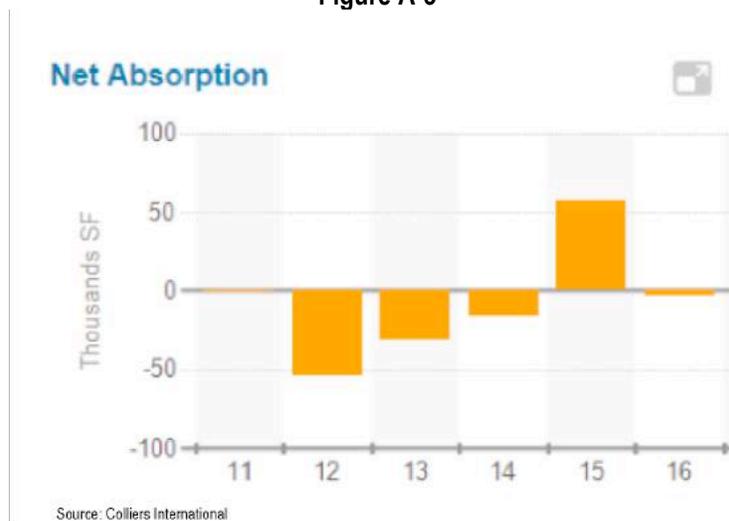
Figure A-2



Vacancy rates were lowest for the period in 2011, and then showed a steady increase until mid 2014. Currently, vacancy rates have declined to approximately nine percent. The lower vacancy, coupled with a low per-square-foot per year rental rate, is a positive sign for Portsmouth if it can be maintained while also adding office supply.

The following figure displays Portsmouth net absorption over the past several years.

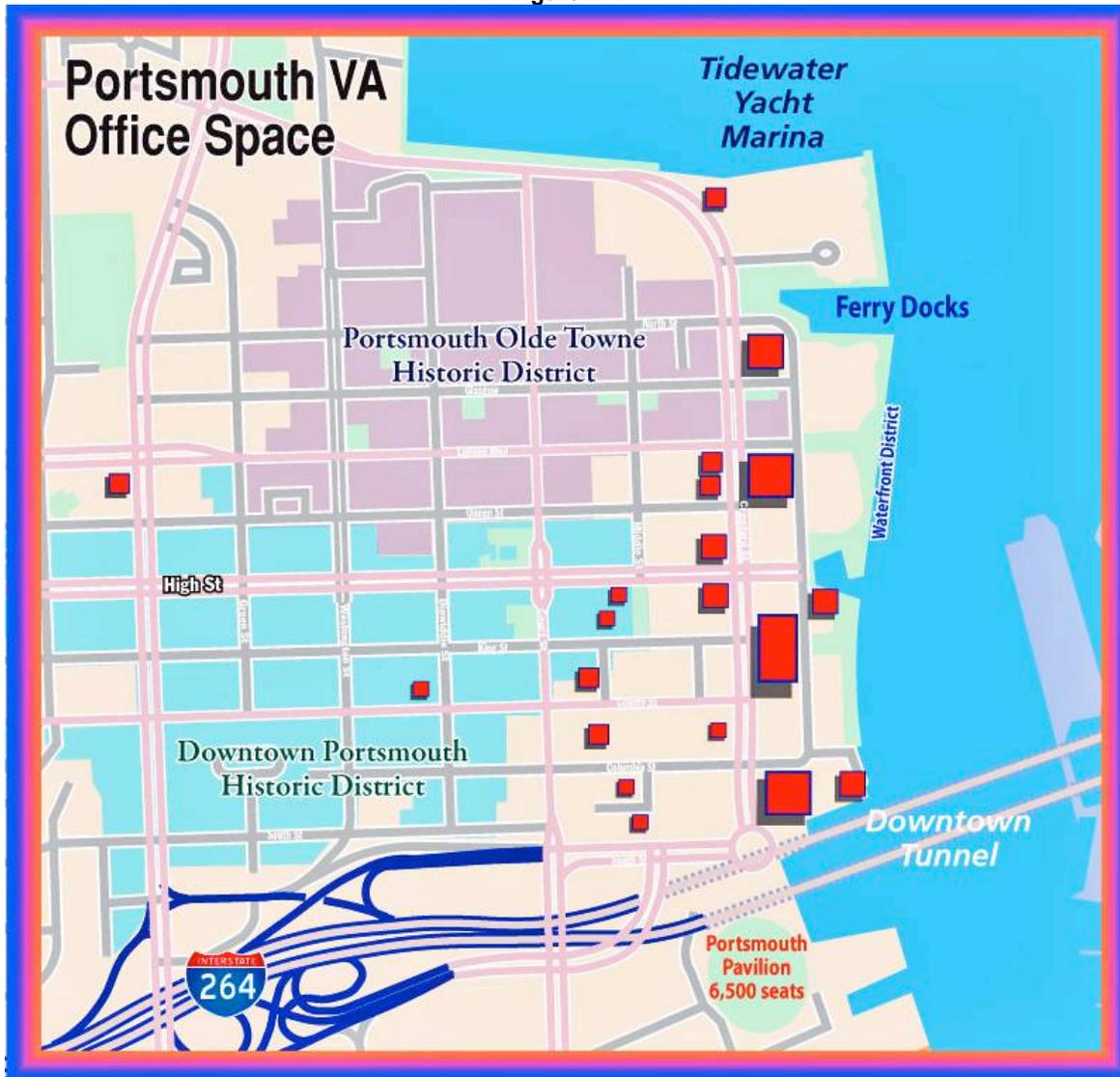
Figure A-3



After a three-year trend of negative net absorption from 2012 to 2014, Portsmouth experienced a net absorption gain of more than 50,000 square feet in 2015. This is evidenced in the aforementioned data, which shows that in the past five years, the vacancy rate has declined 60 basis points.

The following figure displays the locations of the current office buildings inventoried within the study area.

Figure A-4



Many of the office buildings are located in small clusters, either in an office park or in grouped individual developments. Proximity to the water is desirable as a location for businesses in Portsmouth, as most the office space is located within blocks of the waterfront. The interstate provides accessibility to these office buildings, while the waterfront and main streets such as Crawford provide visibility.

The following table shows details for the much of the local office supply in Downtown Portsmouth, although data for all buildings was not available.

Table A-2

Downtown Portsmouth - Office Supply			
Location	Office SF Available	Building SF	Building Type
601 Crawford Street	--	237,629	Government
801 Crawford Street	--	112,896	Government
431 Crawford Street	--	108,040	Coast Guard / Post Office
355 Crawford Street	6,203	77,324	Office
1 High Street	1,006	75,522	Mixed Use (Com/Res)
801 Water Street	--	50,400	Government Owned
500 Crawford Street	8,503	42,356	Office
200 High Street	--	42,185	Office
430 Crawford Street	16,950	29,666	Office
330 County Street	--	17,952	Office
309 County Street	--	15,524	Office
600 Crawford Street	--	15,000	Wells Fargo
446 Effingham Street	--	12,507	Medical Office
1 Guardian Court	--	9,126	Public Defender Office
700 Crawford Street	--	8,854	Police Recruiting
600 Dinwiddie Street	--	7,726	Office
309 High Street	--	7,056	Office/Retail
444 Crawford Street	--	6,881	Office
301 Columbia Street	6,020	6,020	Office
307 High Street	--	6,000	Office
Average	7,736	44,433	--
Total	38,682	888,664	--

Source: Hunden Strategic Partners

Nearly 900,000 square feet of office space is located in the Downtown Portsmouth area. However, less than 40,000 square feet of space is available for rent. Larger government buildings dominate the market, including the Coast Guard/Post Office building. Developments should be in close walkable proximity to Downtown nodes of restaurants and retail, but not be dominating areas of high value and visibility. Crucial to Downtown Portsmouth development is that new government buildings or government workforce not be relocated completely out of Downtown, thereby shifting activity away from the Downtown core. In recent years, Downtown Portsmouth has experienced the loss of government buildings and workforce, which has reduced the foot-traffic in the Downtown area that local restaurants and retailers rely on for daytime business. Specifically, the Portsmouth Judicial Center and the Behavioral Health Services (BHS) complex both relocated outside of Downtown Portsmouth. The Judicial Center relocated approximately a half-mile south of Downtown and I-264. The BHS complex relocated west of the core Downtown area, approximately one mile west on County Street. The loss has impacted the daily activity downtown.

Typically, leases for tenants in the Portsmouth office buildings are gross leases, which means that the landlord pays all expenses, including maintenance, utilities and taxes.

Due to the lack of Class A office space in Portsmouth, HSP analyzed trends in Class B office space.

The following tables contain Class B office statistics from Jones Lang LaSalle (JLL).

Table A-3

Downtown Portsmouth- Class B Office Statistics									
Class B	Inventory (SF)	Total Net Absorption (SF)	YTD Total Net Absorption (SF)	YTD Total Net Absorption (% of Stock)	Direct Vacancy (%)	Total Vacancy (%)	Average Direct Asking Rent (\$ per SF)	YTD Completions (SF)	Under Construction (SF)
2015									
Quarter 1	275,241	705	705	0.3%	28.1%	29.0%	\$16.49	0	0
Quarter 2	275,241	705	705	0.3%	27.2%	28.2%	\$16.54	0	0
Quarter 3	275,241	770	3,855	1.4%	27.0%	27.9%	\$16.44	0	0
Quarter 4	275,241	2,659	6,514	2.4%	28.1%	29.0%	N/A	0	0
2016									
Quarter 1	275,241	832	832	0.3%	12.5%	13.4%	\$16.41	0	0
Quarter 2	275,241	1,851	2,683	1.0%	11.8%	12.7%	\$16.52	0	0

Source: JLL, Hunden Strategic Partners

Downtown Portsmouth’s inventory has remained constant for the past six quarters due to a lack of new construction. Vacancy during the first quarter of 2016 dropped significantly from the prior four quarters in 2015, and vacancy further declined in the second quarter of 2016, which is a positive sign for the leasing of office spaces.

Market Interview Feedback

As part of the analysis, HSP interviewed brokers and key stakeholders in the Portsmouth market area who have a vested interest in the Downtown Portsmouth office market. HSP gathered comments and insightful feedback concerning office developments, and how they have impacted the overall market. A summary of the feedback is showing following:

- Minimal office demand was stressed as a key issue for the Downtown area. Many of the respondents attributed the weak demand levels to the lack of availability of quality Class A space.
- Local brokers indicated that most clients are not considering office space in Portsmouth due to the higher quality spaces and options available in surrounding areas.
- The relocation of the Judicial Center and BHS complex outside of Downtown Portsmouth was reportedly felt via lower daytime economic impact on restaurants, retail and other businesses. Vacated office spaces do not always make for ideal adaptive reuses for apartments. The perfect formula for location and demand would need to exist in order for a vacant office building to be converted to a multi-family use.
- New office space is expected to follow residential developments in Downtown Portsmouth.
- Many expressed that the Coast Guard and the Portsmouth Naval Medical Center are positive large Downtown employers. However, they are relatively self-contained and do not generate significant daytime economic activity and demand for Downtown business. Additional Downtown anchor businesses are expected to help drive daytime activity for all real estate uses.
- The ability to attract a large employer to Downtown Portsmouth was expressed as a likely challenge and concern. The residential projects currently under construction, along with additional restaurant and retail developments were viewed as good opportunities to attract small as well as larger businesses. Although issues and concerns were expressed, there was generally positive and hopeful feedback that described the future potential of the market.

- Downtown Portsmouth is a good location to expand on existing residential markets. Downtown has the potential to be a destination for more affordable urban living compared to other cities in the region.
- Most real estate brokers indicated that they are not including Portsmouth's available office space when showing clients office space options in the region. Portsmouth is excluded mainly due to the implications and costs of the tolls and overall perception that it is difficult to get real estate deals done in Portsmouth, specifically in Downtown Portsmouth. Portsmouth's lack of available Class A space might be a contributing factor to the perception that it is difficult to get deals done, especially for tenants looking to upgrade their office spaces. As indicated to HSP, the tolls have made the ease of access for day-to-day business traffic an obstacle to overcome for the office market. It was recommended to HSP that the city should provide free parking to help ease the cost of the tolls to visitors.
- The current office space inventory in Downtown Portsmouth is scarce and the available space is not preferred in terms of class, quality or condition. The available spaces are also difficult to find compatible uses as tenants.
- The current low rental rates are not expected to support the construction of new office space in Downtown Portsmouth.
- The zoning codes are considered to be complicated to navigate and interpret. Stakeholders indicated there is a large learning curve to understanding the zoning codes in Downtown Portsmouth, and expressed the desire to have a more simplified process. An example of this would be coding condominiums under multi-family when there should be a consideration for condominiums to be classified under single family. Multi-family classification typically denotes as rental units, which may be a hindrance against future development. The lack of understanding the zoning has led to the perceived notion that the complexity of the codes makes it difficult for new office space to be developed.

Overall, conversations with stakeholders and local market experts indicated reserved optimism about the prospect for office space development as part of any potential Downtown project. While there were concerns expressed regarding the quality and availability of existing office space, the overall consensus from interviews is that the addition of new, contemporary office space is needed, and will likely be more viable as the Downtown resident population grows. The integration of office space will help to create a "live, work, play" environment that is crucial for the long-term success of Downtown Portsmouth.

Implications

Quantitative and qualitative analysis of the Hampton Roads and Downtown Portsmouth office market data and statistics indicates that there is opportunity to accommodate office demand by repurposing existing buildings and integrating non-traditional office space in new mixed-use developments. The office market has experienced a transition as office users have relocated in the region. The Downtown market as a whole is improving, but is still competing with the suburbs to attract users. Class A spaces are improving with regards to vacancy and rate, while Class B spaces are experiencing mixed performance with rates recently slipping. The impact of less robust government-related contracts, telecommuting and the shift towards non-traditional office spaces has changed the trajectory of office space developments in Portsmouth and the region.

The movement towards smaller, non-traditional office spaces is an opportunity that Portsmouth can leverage to repurpose or renovate existing buildings, as well as utilize for infill projects in Downtown. Throughout the interview process stakeholders indicated there is demand for modern office space in Downtown Portsmouth, due to the lack of Class A available space. The Downtown Portsmouth market has been among the lowest in rental rates. The current lack of desirable Class A office space makes it difficult to generate market activity and attract employers seeking higher quality spaces.

Alternatively, start up, technology and creative companies are examples of business types that are looking for new, unique workspaces in a Downtown environment that will be attractive to recruits and new talent entering the workforce. Currently, Downtown Portsmouth does not offer this type of creative or retro-modern space to accommodate today's demand, and as a result, Downtown Portsmouth is missing out on new tenant opportunities. However, fostering this type of creative office space could be achieved more easily than attempting to induce the development of a Class A office building.

There are several factors that will impact the office market in Portsmouth. New residential developments will provide a great opportunity to capture the portion of the workforce that currently commutes from outside the area and would rather be in a live, work, play environment. Also, newer office space will help to raise the average rental rates. The Hampton Roads office market as a whole has not performed well in prior years. Overall, it has been indicated to HSP that as the residential, retail and restaurant markets improve, there will be added opportunity for office space in Downtown Portsmouth. This could potentially include Class A office space, which will then offer the current Class B offices tenants the opportunity to move up to Class A spaces.

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RESIDENTIAL MARKET ANALYSIS

HSP profiled the Downtown Portsmouth residential real estate market and the feasibility of residential development by analyzing available market data and statistics, conducting rent surveys, and finally, by conducting interviews with a wide range of multi-family property managers, developers, local residential real estate brokers and economic development officials who provided local input and insights.

Market Overview

Demand appears to be strong for certain types of residential development, but inventory and product depth are limited. Recent trends seem to suggest the viability of new, high quality residential developments, particularly as it relates to two-bedroom units and new supply should alleviate the pent up demand. Military, young professionals and students play a prominent role in recent residential successes, and this demographic will likely be the driving force towards higher quality inventory within a modest price point.

Multi-Family (Rental) Market

Due to the historical lack of residential options and support amenities, residents and those that work in Portsmouth have established residences in other surrounding areas, such as Norfolk and Chesapeake. The increase in residential developments provides additional properties in Downtown Portsmouth that offer a mix of options and price points in order to attract and recapture those residing in other communities. This will drive demand for support services and amenities, such as restaurants and retail.

The Downtown multi-family units are spread throughout the Downtown area. The multi-family rental properties are primarily located in the Downtown Portsmouth Historic District, with a few others throughout the Downtown area. There is minimal connectivity or synergy between the existing residential areas. However, the recent Downtown residential developments are helping to fill in areas, thereby creating a density that will help to spur more of Downtown's residential community atmosphere.

Market Data & Statistics

Shown following are market data tables and statistics, which provide a list of multi-family properties in Downtown Portsmouth by unit as well as their occupancy rates.

Table B-1

Downtown Portsmouth Apartments - Market Rate Units							
Name	Opened	Units	Occupancy	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Existing Properties							
The Myrtles at Olde Towne	2004	246	94%	--	146	11	89
Harbor Tower Apartments	1983	191	98%	--	94	93	4
The Heights at Old Towne	1973	148	94%	--	56	74	18
The Quarters at Park View	2015	140	92%	6	112	22	--
Victory Square Apartments	1997	112	100%	--	98	14	--
Montgomery Square Apartments	--	69	94%	--	28	41	--
Sterling Court	2016	67	85%	--	51	16	--
Ebenezer Plaza Apartments	1969	52	99%	--	--	26	26
Tower 507	2016	46	85%	--	46	--	--
Kings Court	2016	46	85%	--	30	16	--
Five 17 King Apartments	2012	20	--	--	17	3	--
Green Street Apartments	2012	14	93%	--	5	9	--
Existing Totals		1,151		6	683	325	137
Under Development and Construction							
North Pier	TBD	187	--	--	--	--	--
Harbor Vista	U/C - 2016	134	--	--	96	38	--
Seaboard Building	U/C - 2016	81	--	--	79	2	--
Under Development Totals		402		0	175	40	0
Total Units		1,553		6	858	365	137

Source: Various Properties, Hunden Strategic Partners

There are 12 properties with approximately 1,151 market rate apartment units in Downtown Portsmouth. Recently opened properties include the 67-unit Sterling Court and 46-unit Kings Court apartment properties which opened in July 2016 and the 46-unit Tower 507 property which opened in March, 2016. One-bedroom and two-bedroom units are the preferred room types in this market. Three-bedroom units have a modest presence, while studio units are virtually nonexistent. One-bedroom units account for 55 percent of the inventory, while two-bedroom units account for 23 percent. Occupancies are strong with nearly all properties having more than 90 percent occupancy rates.

The following table shows the average rental rates for the properties analyzed.

Table B-2

Downtown Portsmouth Apartments - Average Rental Rates						
Name	Opened	Units	Studio	1 Bedroom	2 Bedroom	3 Bedroom
Existing Properties						
The Myrtles at Olde Towne	2004	246	--	\$930	\$1,520	--
Harbor Tower Apartments	1983	191	--	\$1,050	\$1,280	\$1,680
The Heights at Old Towne	1973	148	--	\$930	\$1,520	--
The Quarters at Park View	2015	140	\$925	\$1,250	\$1,520	--
Victory Square Apartments	1997	112	--	\$740	\$879	--
Montgomery Square Apartments	--	69	\$850	\$1,195	\$1,450	--
Sterling Court	2016	67	--	\$1,195	\$1,499	--
Ebenezer Plaza Apartments	1969	52	--	--	\$778	\$844
Tower 507	2016	46	--	\$1,160	--	--
Kings Court	2016	46	--	\$1,195	\$1,499	--
Five 17 King Apartments	2012	20	--	\$1,100	\$1,499	--
Green Street Apartments	2012	14	--	\$975	\$1,240	--
Existing Averages	2001	96	\$888	\$1,065	\$1,335	\$1,262
Under Development and Construction						
North Pier	TBD	187	--	--	--	--
Harbor Vista	U/C - 2016	134	--	--	--	--
Seaboard Building	U/C - 2016	81	--	\$1,550	\$1,800	--
Overall Averages			\$888	\$1,103	\$1,371	\$1,262

Source: Various Properties, Hunden Strategic Partners

The average monthly rental rates are between \$850 and \$925 for a studio unit, to nearly \$1,700 for a three-bedroom unit. There are no four-bedroom units in the aforementioned properties, and each apartment type shown has a significant range that speaks to the price-points and variety of amenities offered.

The following table summarizes rental rates, by unit type, of more than 50 available apartments in Downtown Portsmouth.

Table B-3

Summary of Apartments Available in Downtown Portsmouth			
Type	Avg Square Feet	Avg Monthly Rental Rate	Avg Monthly Price / SF
Studio	596	\$1,008	\$1.69
1 Bedroom	824	\$1,252	\$1.52
2 Bedroom	1,111	\$1,271	\$1.14
3 Bedroom	1,744	\$1,601	\$0.92
4 Bedroom	1,588	\$1,538	\$0.97

Source: Apartments.com

The average monthly rental rates for available apartments are between \$1,000 for a studio unit to approximately \$1,600 for a three-bedroom unit. The unit sizes ranged from approximately 600 square feet for a studio apartment to approximately 1,750 square feet for a three-bedroom unit. It should be noted that the average rental rate and square footage for a four-bedroom unit was less than the three-bedroom unit.

There is an inverse relationship between total rent and the price per square foot. The larger the apartment is the less expensive rent is per square foot. This metric shows that the cost of features common to all apartments such as a kitchen and HVAC appliances are spread across the entirety of the apartment. While total rent is highest for three-bedroom apartments, tenants receive the most space for their money.

New Developments

The following table shows projects that are either planned, under construction or recently completed.

Table B-4

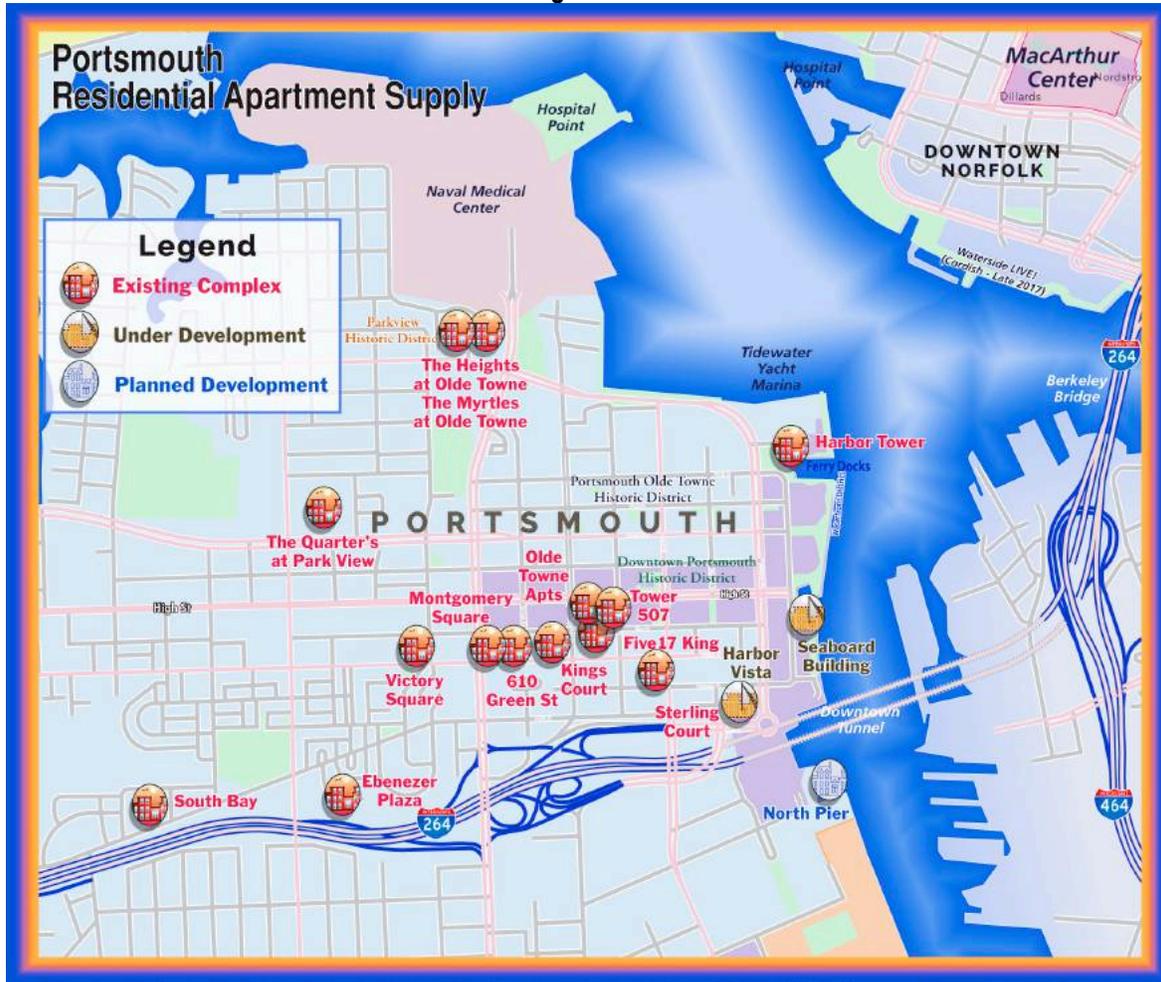
New Developments in Portsmouth			
Apartment	Units	Investment (millions)	Open Date
North Pier	187	\$25.0	TBD
The Quarters at Park View	140	\$17.0	Completed Summer 2015
Harbor Vista	134	\$17.1	December 2016
Seaboard Building	81	\$6.8	Late 2016
Montgomery Square	69	\$6.8	--
Sterling Court	67	\$9.2	Completed Summer 2016
Tower 507	46	\$6.1	Opened March 2016
Kings Court	46	\$6.3	Completed Summer 2016
Total	770	\$94.3	

Source: City of Portsmouth

As shown, there are approximately 770 total new units projected to enter the Downtown residential market, with 328 opening in 2016. The investments for these projects are greater than \$6 million per project, and total residential investment is \$94.3 million. Additional projects planned are expected to bring the Downtown residential projects to more than \$100 million. The pipeline of new developments shows the strength of the residential market, as well as the fact that residents are willing to pay for newer, quality space.

The following figure shows the existing, under development and planned development residential developments in Downtown Portsmouth.

Figure B-1

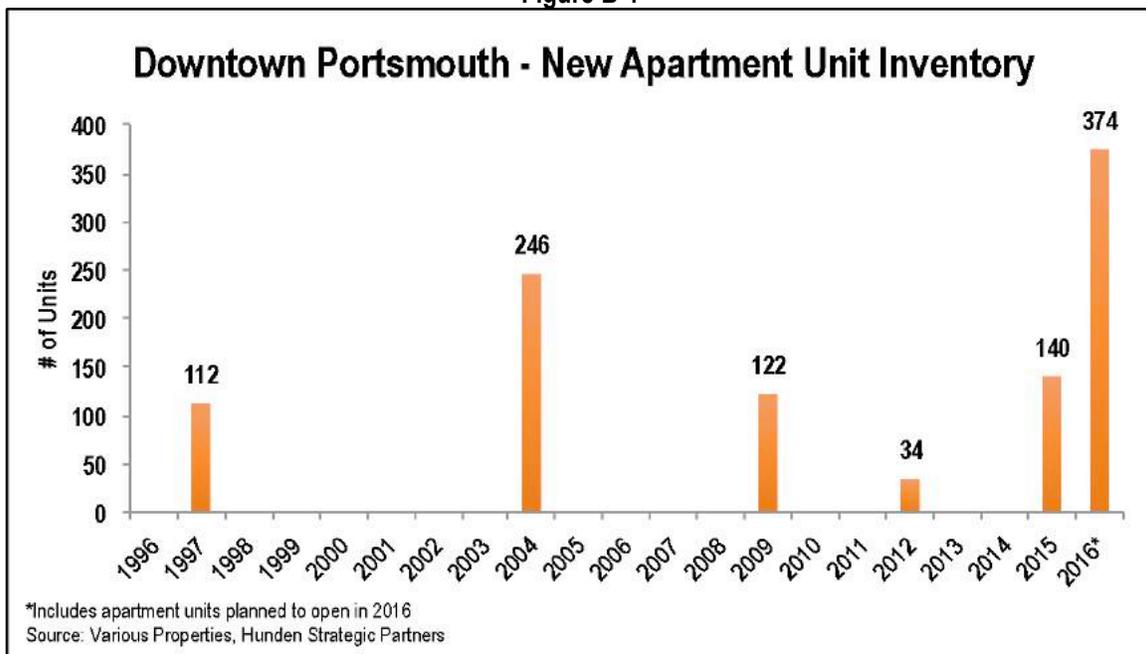


Several new residential developments are planned or under development. The developments are primarily in the southeast quadrant of the Downtown area, as the northeast region contains more homes and condominiums. The developments are along major thoroughfares Downtown, which will promote economic and cultural activity around the Downtown area, and feature two waterfront developments to be located in North Pier and the Seaboard building.

There are three new residential developments under construction in Downtown Portsmouth, which will add 402 units to the Downtown area, and 215 units are expected to open in 2016. There are more than \$100 million in projects planned or opened in the Downtown area in the near future. These new developments will have a significant economic impact on other real estate uses, such as restaurant and retail. As the Downtown population increases, it will be critical to develop support amenities and catalytic projects along the waterfront that will help draw new residents and visitors to the area.

The following figure shows the development of new Downtown apartment unit inventory over the past 20 years.

Figure B-1



The development of apartment units in Downtown Portsmouth has experienced a significant increase in the past two years. There were 514 units planned for development to the market in 2015 and 2016. This is the same number of units that were developed between 1997 and 2012.

The following section profiles each of the residential developments opened, under construction or planned in Downtown Portsmouth.

The Quarters at Park View (Opened)

The Quarters at Park View is a luxury apartment complex completed during the summer of 2015 at a cost of \$17 million. The building features 140 units and was developed by the Whitmore Company. The apartment complex is further away from the waterfront compared to the other profiled multi-family projects. The complex is located at the corner of London Boulevard and Elm Avenue, approximately one mile west of the waterfront.

The following figure shows an image of the pool and clubhouse at The Quarters at Park View.

Figure B-2



The Quarters features 104 one-bedroom units and 22 two-bedroom units with two bathrooms. Additionally, six studio apartments and eight carriage homes that include one bedroom, bathroom, and garage are available. Currently, 48 units are vacant due to a recent fire in one of the buildings. A property manager stated that the timetable for reopening these units is undetermined. Of the available 92 units, occupancy is at approximately 92 percent, and rents range from \$925 for a studio to \$1,520 for a two-bedroom unit. Residents include millennials, empty-nesters, professionals, shipyard employees, retirees, police officers, military members, and students. All units offer a full range of appliances and a balcony or patio. Amenities include a pool, executive business center, club-room and cyber café. The Quarters at Park View is positioned at the top of the residential market due to the amenities offered both in the individual units and in the apartment community.

Montgomery Square (Opened)

Montgomery Square is a development from the Breeden Company. The 69-unit complex is located in the heart of Olde Towne Portsmouth, located at the corner of King Street and Effingham Street.

The following figure shows an image of Montgomery Square off Effingham Street.

Figure B-3



Montgomery Square offers studio, one-bedroom and two-bedroom apartments. Studio and one-bedroom apartment rents will range from \$850 to \$1,195. Two bedroom apartments are priced at \$1,295 to \$1,585. Montgomery Square is a luxury community, but also offers reasonably priced units. The building was converted from an old furniture warehouse, so it has 67 unique floorplans. Flooring options will vary from carpeting to concrete to hardwood floors. Wall finishes vary from exposed cinder block to drywall. All the units have granite countertops and a full range of appliance in either all-black or stainless steel finishes. Due to the uniqueness of the units, Montgomery Square attracts millennials and a variety of other residents. The building is approximately 91 percent occupied, and has a unique position in the market due to the individuality of its units.

Kings Court (Opened)

Sterling/Kings Court apartments is a two-building project, which is simultaneously being developed by the Whitmore Company. The first building, Kings Court, is located at 600 Washington Street. The apartment complex consists of 46 units and a 2,500-square foot clubhouse. Initially expected to open in Spring 2016, the \$6.3 million complex opened in July 2016. The second building (Sterling Court) of the development, also opened in 2016, is profiled next.

The following figure shows a rendering of Kings Court.

Figure B-4



Compared to other residential developments in Downtown Portsmouth, Kings Court is considered to be a more affordable option. Each unit has a smart panel to control security, cable and Internet. Apartments also include stainless steel appliances and a full-size washer and dryer. Select apartments also feature outdoor porches. The building is expected to meet the strong demand generated by the Portsmouth Naval Medical Center, Norfolk Naval Shipyards, and the Downtown employment base including the U.S. Coast Guard. Kings Court is currently pre-leasing units.

Sterling Court/Kings Court (Opened)

Sterling Court is the second site of the Whitmore Company's Sterling/Kings Court project and recently opened in July 2016. The approximately \$10 million project includes 67 units. As the second building of the Sterling/Kings Court project, both complexes offer similar styles and amenities, and expect to attract similar tenant types. Sterling Court is located at 714 Court Street.

Tower 507 (Opened)

This 46-unit complex was formerly the Governor Dinwiddie Hotel. The building is located at the corner of High Street and Dinwiddie Street. This building has the vintage appeal of the 1940's hotel while still offering modern amenities. The developer, Monument Company, invested \$6.1 million into the project, which opened in March 2016.

The following figure shows an image of the façade of Tower 507.

Figure B-5



All the apartments in the building are one-bedroom units. The building is currently operating at 85 percent occupancy, and the rates range from \$1,149 to \$1,175. Recent renovations in 2016 included stainless steel appliances, washer and dryer, and new carpeting. The units also offer complimentary cable and Internet service. The apartment building offers a more vintage/rehab residence that is positioned towards the upper-scale end of the markets residential options.

Harbor Vista at Crawford Street (Under Construction)

Harbor Vista at Crawford Street is one of the largest and most expensive residential developments in Downtown Portsmouth. The 134-unit project is estimated to cost more than \$17 million. Developed by the Breeden Company, the apartments opened in December 2016. The development is located across the street from the City Hall complex and is within walking distance of the waterfront.

The following figure shows an architectural rendering of Harbor Vista at Crawford Street.

Figure B-6



Harbor Vista will offer luxurious one- and two-bedroom apartments. Additional amenities will include a roof deck lounge, fitness facility, business center, and luxury clubhouse. These luxury apartment units are expected to be positioned near the top of the market and are expected to be nearly fully-leased once opened.

Seaboard Building (Under Construction)

The Seaboard Building is located at 1 High Street and is the home of the former Seaboard Air Line Railroad headquarters. The building was purchased for \$2.7 million by the Monument Companies, which is investing approximately \$12 million to renovate the building. The renovation of the Seaboard Building is expected to be completed by late 2016. However, the management has started leasing the renovated units and 61 of the units are available for lease as of November 2016.

The following figure shows an image of the exterior of the Seaboard Building.

Figure B-7



The waterfront property will house 81 apartments. In addition to residential units, the project will also include 8,200 square feet of office and retail space. The apartments include stainless steel appliances, granite countertops, ceramic tiles in the bathrooms and hardwood cabinets and floors. As of November 2016, the complex has 59 one-bedroom units available and two two-bedroom units. The one-bedroom units range from 529 to 692 square feet with an average of 599 square feet. In addition, the one-bedroom units are priced from a low of \$1,069 to a high of \$1,305. The two-bedroom units average 1,147 square feet and are priced from \$1,849 to \$1,899.

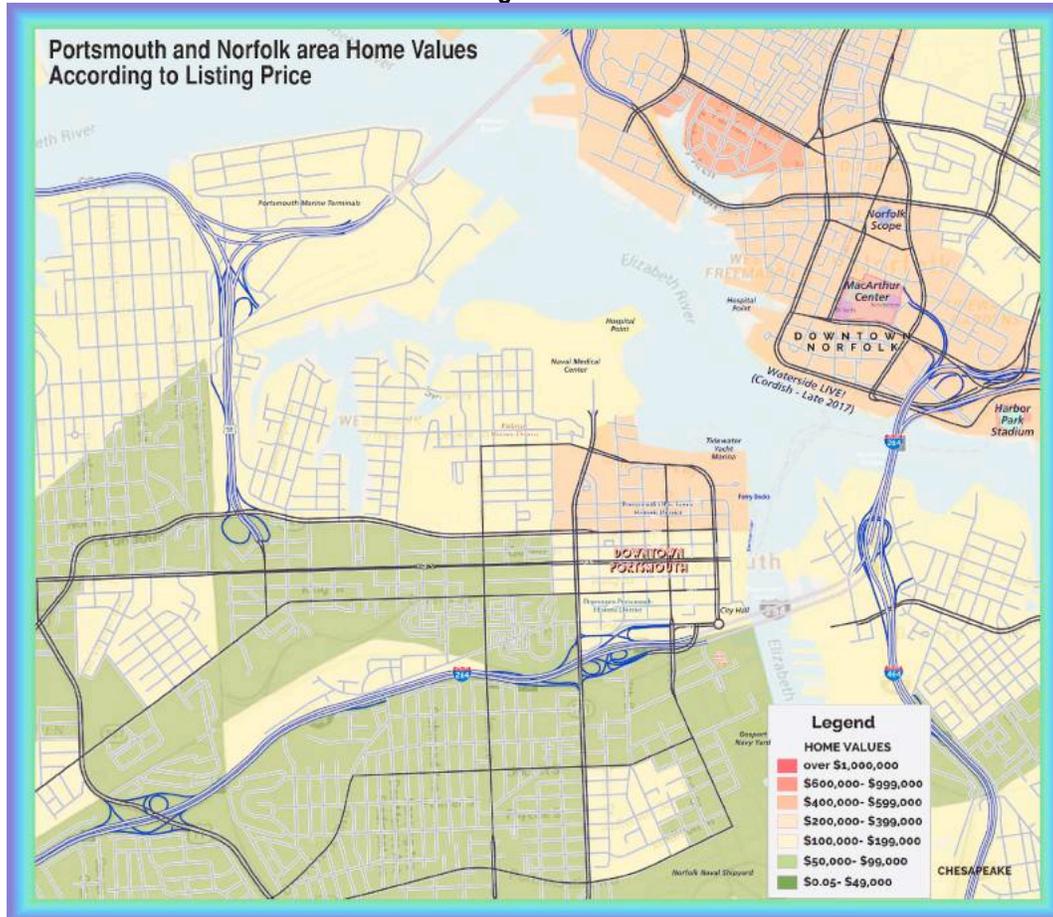
In October 2016, Legend Brewing Company announced it has leased commercial space in the Seaboard building, comprised of more than 4,000 square feet of space for a first-floor brewpub. The planned brewpub will accommodate 120-people between indoor and outdoor seating areas and will serve food along with its lineup of draft beers.

North Pier (Planned)

Located near City Hall and the Portsmouth Pavilion off Crawford Street, this is the largest and most expensive planned project in Downtown Portsmouth. In 2015, the Breeden Company purchased the parcel of land for more than \$1 million. The Breeden Company has plans to invest \$25 million in an apartment complex on this land, which is projected to have 187 units.

The figure below shows the home values for the Downtown area.

Figure B-8



The majority of the homes in the Downtown area are listed at less than \$200,000. The homes in the Old Towne Historic District have the highest values. Home prices decrease significantly once outside the core Downtown area. Across the river, in nearby Norfolk, homes values are generally higher in the \$400,000 to \$600,000.

Market Interview Feedback

As part of the analysis, HSP interviewed developers and key stakeholders in the Portsmouth market area. HSP gathered comments and insightful feedback concerning residential developments, and how they relate to and have impacted the overall market. A summary of the feedback is showing following:

- Additional residential units will have a positive impact on Downtown Portsmouth,
- Understanding and interpreting the zoning codes have been perceived as slowing down the development process,

- The Portsmouth area is very resident-friendly,
- Many members of the local workforce still live outside of Portsmouth. The city was described as an importer of employees,
- Entertainment and amenity options are currently lacking, but should increase with more residents,
- Adding new residential options with different price points and quality levels will attract new residents to the area, and
- Restaurant and retail development will support and follow residential development.

The new developments in the area will help the City offer various price points for potential residents. An increase in residents in the area will help drive the development of retail, restaurants and other entertainment options and venues.

Implications

Quantitative and qualitative analysis of the Downtown Portsmouth indicates the housing market consists of a mix of condominiums, historic homes, and apartment complexes. However, the market is quickly absorbing the recently constructed downtown rental apartment units. The largest apartment complexes downtown are more than 90 percent occupied, creating unaccommodated demand that must find other neighborhoods or submarkets to reside. The various districts that make up Downtown and the surrounding area vary in rent, walkable amenities and overall vibrancy. The development of new and higher quality rental properties is attracting residents to the Downtown area to find a live, work, play environment. Ultimately, Portsmouth will want to provide an equal or greater quality of living, based on recent residential developments, to attract more people to the Downtown area versus remaining in the nearby suburbs.

The market has established reasonable price points that are attractive to single young professionals. The overall Downtown residential market has reached an approximately 92 percent occupancy rate. The high occupancy is one indication that there is a market for continued new development of rental units.

Also, residents seeking an urban lifestyle are unable to be accommodated by the existing inventory. Despite residential properties Downtown, residents cannot easily patronize restaurants, retail and quick-service businesses because there are a very limited number of these within walking distance. These factors influence the area's attractiveness, demand and desirability.

Based on the existing supply and demand, one-bedroom units are the most common unit type. However, the market is underserved for all other unit types. Any new residential development should include a mix of unit types to attract a more diverse target base, while maximizing opportunity with two-bedroom units. Two-bedroom units tend to be the most popular because units can accommodate individuals looking for more space or the price conscious renters interested in sharing the unit. Another positive sign for the market is the higher quality of units being developed and offered. While many of the existing and recently built units did not include upgrades like quartz or granite counters, certain newer projects will include these, which will broaden the appeal of the Downtown market to more types of residents.

Many new apartment units will bring more residents to Downtown Portsmouth, which will likely promote more development to support an increase in residents. Additional residential developments will need the support of



retail and restaurants, especially a grocery and drug store, which are often critical to establishing a walkable downtown community. Without these amenities in place, the desirability of these residential developments will be limited.

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HOTEL MARKET AND TRENDS ANALYSIS

HSP profiled the Portsmouth hotel market by analyzing available market data and statistics of the national and local hotel market. This chapter includes a review of national hotel trends as well as an in-depth analysis of the selected set in Portsmouth and surrounding area hotels.

National Hotel Market Trends

National hotel market trends are important to the development prospects of any hotel project, whether it involves macro supply and demand issues, amenity trends, financing or other trends impacting the industry.

The following table shows selected characteristics of the U.S. lodging industry from 1992 through 2015.

Table C-1

National Lodging Industry Annual Summary						
Year	Occupancy	Change	Average Daily Rate	Change	Revenue per Available Room	Change
1992	61.9%	--	\$59.62	--	\$36.90	--
1993	63.1%	1.9%	\$61.30	2.8%	\$38.68	4.8%
1994	64.7%	2.5%	\$64.24	4.8%	\$41.56	7.4%
1995	65.1%	0.6%	\$67.17	4.6%	\$43.73	5.2%
1996	65.0%	-0.2%	\$70.81	5.4%	\$46.03	5.3%
1997	64.5%	-0.8%	\$75.31	6.4%	\$48.57	5.5%
1998	63.8%	-1.1%	\$78.15	3.8%	\$49.86	2.7%
1999	63.1%	-1.1%	\$81.29	4.0%	\$51.29	2.9%
2000	63.5%	0.6%	\$85.24	4.9%	\$54.13	5.5%
2001	59.8%	-5.8%	\$84.45	-0.9%	\$50.50	-6.7%
2002	59.0%	-1.3%	\$83.20	-1.5%	\$49.09	-2.8%
2003	59.2%	0.3%	\$83.28	0.1%	\$49.30	0.4%
2004	61.3%	3.5%	\$86.70	4.1%	\$53.15	7.8%
2005	63.1%	2.9%	\$91.29	5.3%	\$57.61	8.4%
2006	64.2%	1.7%	\$96.77	6.0%	\$62.13	7.8%
2007	64.1%	-0.2%	\$102.38	5.8%	\$65.63	5.6%
2008	60.4%	-5.8%	\$106.55	4.1%	\$65.61	0.0%
2009	54.5%	-9.8%	\$98.20	-7.8%	\$53.55	-18.4%
2010	57.6%	5.7%	\$98.08	-0.1%	\$56.47	5.5%
2011	60.1%	4.3%	\$101.64	3.6%	\$61.06	8.1%
2012	61.4%	2.2%	\$106.10	4.4%	\$65.17	6.7%
2013	62.3%	1.5%	\$110.35	4.0%	\$68.69	5.4%
2014	65.0%	4.3%	\$115.26	4.4%	\$75.66	10.1%
2015	65.6%	0.9%	\$120.01	4.1%	\$78.67	4.0%
Avg. Annual Growth Rate		0.31%		3.14%		3.52%

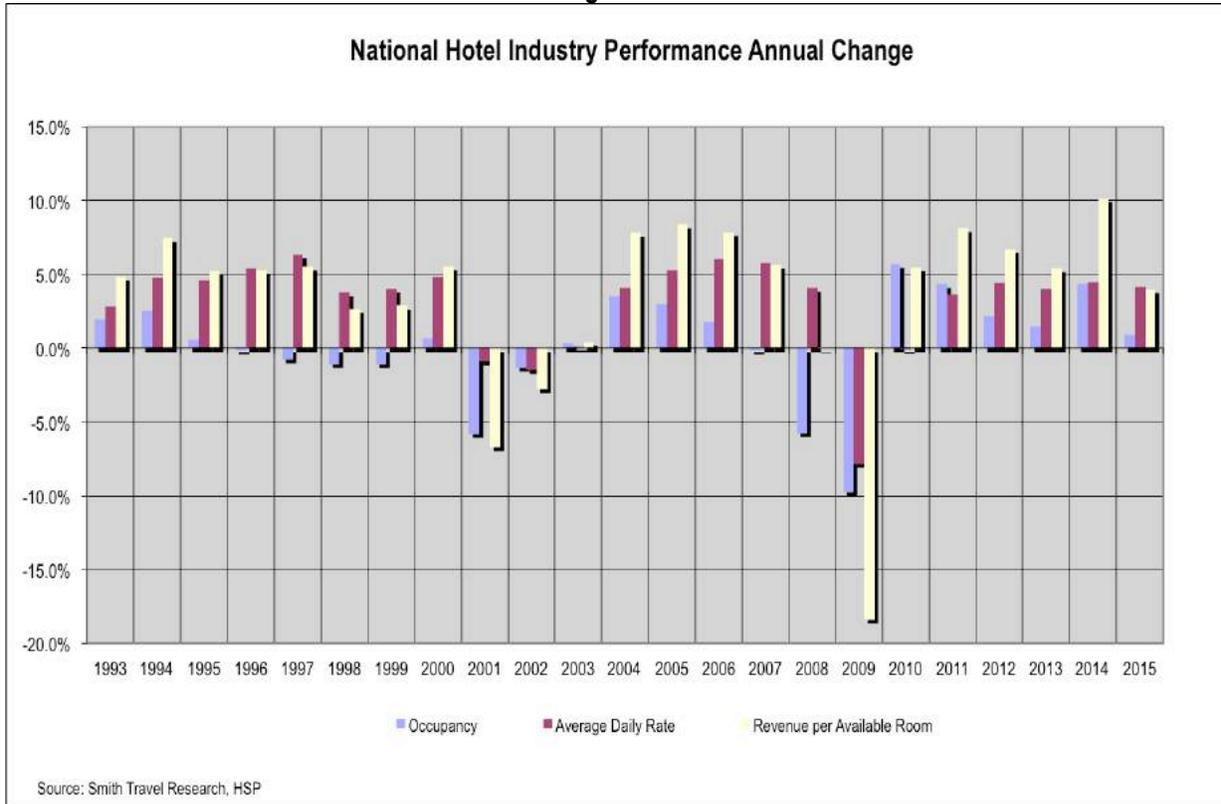
Source: Smith Travel Research, HSP

Occupancy peaked at an all-time high of 65.6 percent in 2015. The occupancy rate has not reached a value greater than 65 percent since 1995. It steadily decreased to 59.0 percent in 2002, following 9/11 and then increased to peak at 64.2 percent in 2006. The latest recession is the most severe recorded in the post-depression hotel industry. Occupancy decreased to 54.5 percent, a 15 percent (nearly ten percentage point) decline. Occupancy and rate started to increase in 2010 to the data shown in 2015.

Performance in 2012 showed continued improvement, with occupancy at 61.4 percent, a 2.2 percent increase from 2011 and a \$106.10 average daily rate, four percent higher than 2011. Average daily rates continued to improve in 2013 and 2014. 2015 also saw significant growth in all fundamental trends from the 2013-year. Average daily rate peaked at \$120.01 in 2015.

The figure below depicts the aforementioned data in graph form, highlighting the annual change in performance statistics.

Figure C-1



Performance in 2014 significantly improved from the drastic decline in 2009. As the above graph indicates, from 1996 through 1999, and again in 2007 and 2008, even when occupancy declined, average daily rates increased. This speaks to the concept of maximum practical occupancy. At a certain average occupancy, enough “sold-out” dates exist which can create enough demand pressure to raise prices.

The following chart shows the trend of the U.S. hotel room supply between January 2009 and January 2015.

Figure C-2



As shown above, the U.S. supply of hotel rooms has increased from approximately 4.7 million rooms in January of 2009 to more than five million rooms in January of 2015. Of the seven years shown, the only decrease in the supply of hotel rooms in the U.S. hotel market was between 2011 and 2012. This growth rate was less than one percent per year, which was outpaced by demand growth, which is why occupancy has increased and rates have followed.

The following table shows the number of existing hotel rooms, rooms under construction and rooms in the active pipeline as of June 2015 sorted by chain scale.

Table C-2

U.S. Active Pipeline by Chain Scale As of April 30, 2016						
Chain Scale	Preliminary Existing Supply	Year Over Year Percent Change	Rooms Under Construction	Year Over Year Percent Change	Total Active Pipeline	Year Over Year Percent Change
Luxury	109,017	2.5%	7,880	47.2%	12,651	31.4%
Upper Upscale	582,675	1.0%	14,965	7.9%	42,332	22.0%
Upscale	678,763	5.8%	55,994	1820.0%	145,049	10.4%
Upper Midscale	899,537	2.4%	52,934	45.0%	170,725	23.2%
Midscale	473,378	-0.3%	6,316	25.6%	31,925	15.4%
Economy	782,568	-0.1%	1,276	94.8%	4,731	41.2%
Unaffiliated	1,536,787	-0.3%	21,649	29.4%	98,587	2.4%
Total	5,062,725	1.2%	161,014	28.3%	506,000	14.6%

Source: Smith Travel Research

Between May 2015 and April 2016, the hotel industry increased its total year over year supply for the sixth consecutive year. This increase equated to a 1.2 percent increase, resulting in more than 50,000 rooms. Among the chain scale segments, the upscale segment expanded the most during this period, increasing by 5.8 percent over the prior year. As of the end of April 2016, more than 161,014 hotel rooms are under construction, and there are more than 506,000 rooms in the active development pipeline.

The total active pipeline data includes projects in the planning, final planning and under construction stages, but not those in the pre-planning stage. The 'in planning' stage is defined as projects where an architect or engineer have been selected, and plans are in process where initial approvals have typically been granted. 'Final planning' is defined as the stage where the project has gone out for bids, or construction is expected to begin within four months. 'Pre-planning' is defined as the period before an architect has been selected.

Development and Financing

The hotel development pipeline had been robust until 2008, but when the credit crisis hit real estate across all sectors declined. This made credit more expensive, and the combination of lack of funds and poor market performance essentially stopped new developments in 2009.

Since 2009, credit has loosened for hotels, and more loans were made for the hospitality sector beginning in 2012. Currently the market is extremely strong and funding (both equity and debt) is more widely available. Demand outpaced supply for so many years during the recession and has continued to outpace supply growth since, so new hotel development continues to be feasible in many markets.

The loan-to-value ratio (LTV) is an important measure of the amount of risk that banks are willing to undertake for real estate investments. Historically, hotels have exhibited a higher risk level in the eyes of lenders, and have therefore required a substantial equity investment. However, “cookie-cutter” branded prototype projects at interstate intersections, which are very predictable to bankers in terms of safety and profitability, have achieved loan-to-value rates of up to 90 percent.

As the performance of hotels has improved, banks are comfortable approving higher loan amounts relative to the value of the project. At its peak in 2005, the LTV was nearly 70.6 percent on average. It decreased to 60 percent in 2008 and has been slowly recovering since that time, reaching closer to 70 to 75 percent in 2015.

Development Costs

The following table shows the hotel development costs for the various quality segments of hotels for 2015/16. These figures are critical when considering which type of hotel to develop. Since the data is sorted and averaged by a hotel advisory firm called HVS prior to appearing in the table, the totals do not match the medians and averages for each type of property.

Table C-4

2015 - 2016 Hotel Development Cost Survey Per-Room Averages						
	Land	Building and Site Improvements	Soft Costs	FF&E	Pre-Opening & Working Capital	Total
Budget/Economy Hotels						
Average from Budgets	\$10,900	\$57,100	\$7,800	\$10,200	\$1,600	\$91,200
Allocation	12%	70%	8%	11%	2%	
Midscale Hotels w/o F&B						
Average from Budgets	\$31,000	\$77,000	\$20,200	\$14,800	\$3,500	\$152,900
Allocation	12%	67%	10%	11%	3%	
Extended Stay Hotels						
Average from Budgets	\$20,200	\$83,600	\$17,100	\$15,900	\$3,200	\$147,800
Allocation	11%	66%	10%	12%	2%	
Midscale Hotels W/ F&B						
Average from Budgets	\$39,700	\$117,600	\$29,400	\$17,000	\$6,600	\$201,300
Allocation	15%	62%	13%	10%	3%	
Full-Service Hotels						
Average from Budgets	\$45,700	\$154,900	\$13,000	\$28,300	\$13,600	\$330,900
Allocation	11%	64%	12%	11%	3%	
Luxury and Resorts						
Average from Budgets	\$116,600	\$294,500	\$85,900	\$51,000	\$22,900	\$633,400
Allocation	18%	60%	14%	9%	4%	

Source: HVS

Costs per room vary drastically depending on the chain scale, from a budgeted average of \$91,200 for economy properties up to \$633,400 for luxury properties. For most developments, the question is whether the average daily rate is greater than the cost per room to build.

A typical rule of the thumb in the hotel industry is that the average daily rate multiplied by 1,000 will give a developer a sense of what hotel cost/room the market will support. For example, a hotel expected to perform at \$125 per night on average could be developed for \$125,000 per room.

Other Trends of Note

Several other trends have been occurring in the industry over the past several years. These include:

- **Brands Multiply.** Worldwide, the expansion of brands continues to change the face of the competitive environment. Major brands are competing fiercely as they are eager to show earnings growth and increased market share to Wall Street. Using multiple brand families clustered in the same corporate structure, proprietary reservation systems and corporate programs work in tandem to drive business. Comparing profit potential of a branded hotel to one without a brand is becoming a serious exercise for hotel owners. At the same time, the increased proliferation of brands means that fewer independents struggle for fair share, and they are using price as the preferred strategy to drive demand.
- **Companies Consolidate.** The buyout/merger of Marriott and Starwood represents the high-water mark of many brands and companies consolidating. In the past several years, many hotel companies have merged to improve their scale and marketplace power, as well as take advantage of the current market dynamics. Chinese buyers have also been exerting their influence with the purchase of many hotels and hotel companies.
- **Boutique Brands.** This seemingly incongruous phrase is a trend occurring in the industry. The largest brands have run out of market segments to fill, so they are seeking the last bastion of the industry: independent boutique hotels. By creating a boutique “collection” (also known as a “soft brand”) that can benefit from and provide distribution to the primary brand family, both the hotel and brands can prosper. For example, with all traditional niches covered, Marriott has now entered the boutique market with the Autograph Collection. These hotels are not owned or operated by Marriott and do not even carry a Marriott brand, per se, but use the Marriott reservation system to route travelers to these formerly independent hotels. Guests get their Marriott points and some expectation of high quality standards they have come to expect with the Marriott brand. Hilton has also entered the boutique market with a new brand called Canopy and a new collection of formerly independent upscale hotels called the Curio Collection. Intercontinental Hotel Group purchased boutique hotel company Kimpton, expanding their profile beyond Intercontinental and Holiday Inns. Starwood has launched the Tribute brand, which is basically the same type of boutique hotel collection as Curio and Autograph. And finally, Choice Hotels has also entered this new phase of “soft branding” with their Ascend Collection.
- **Shared Spaces and Home/Apartment Rentals.** The advent of AirBnB has transformed the lodging industry in the past few years, much as Uber and Lyft have done with the hired car industry. Home and apartment rentals through VRBO, Homeaway, and AirBnB add inventory to many compressed and expensive markets. In some places like San Francisco, Silicon Valley and New York, residents rent their homes to travelers in order to pay the rising cost of rent. High rates of hotel occupancy and rising rates have made these options viable for travelers and residents. There have been consequences for both the affordable housing market and the hotel market, although these are generally only material in extremely expensive markets or when a major event (like a Super Bowl) occurs.

- **Global Travel and the Impact of Energy Prices and Economic Conditions.** The large fluctuations in oil and fuel costs have a continual impact on travel and will continue to be a major factor in the coming years.
- **Green Policies.** Requirements, both by law and the guests, on businesses enforcing green practices are becoming tougher to comply and are even becoming a demand driver. Eco-consciousness is a popular trend among new generations and, suddenly, energy systems, insulation, produce origin and even amenities become differentiation factors.
- **Distribution.** The increase in booking travel via the internet has been a major trend in the industry for more than a decade, with most booking research done online and more than one-third of revenue booked online. This has brought transparency and increased competition to the market and all players with a solid Internet and distribution strategy are able to compete effectively. Third party websites, smartphones and available applications are rapidly becoming a key factor in every travel stage by easing access to planning and booking tools that ease the customers' experience. Travelers expect a more informed and collaborative travel experience, especially driven by evolving smartphone functionality. Hotel companies are creating property-specific websites to differentiate each property and reach more markets and traveler segments than a corporate single format website.
- **Technology.** The rapid advance of technology means hotels must continually keep up with the expectations of their guests. With multiple wireless devices, guests expect a high-speed wireless network throughout the hotel that will allow them to use their smartphones, tablets and laptops without connectivity issues. In-room movies via Lodgenet can now be controlled via an application on a guest's smartphone. Many hotels have begun to introduce in-room iPads that allow concierge services, room service, check out, entertainment and other items to be taken care of directly from the device.
- **Social Media, Crowd-Rating and Mobile Connectivity.** The rise of social media and user-based ratings has had a direct impact on hotel decision-making. Sites like Trip Advisor allow users to rate and comment on hotels directly on the website, which allows potential customers to determine if they will select that hotel. Hotels must be incredibly proactive and reactive to comments posted on Twitter, Facebook and ratings sites, including online travel agencies. Approximately one in three business travelers has rated an establishment. Mobile connectivity, as mentioned above, has become a crucial factor in a travelers' experience. Mobile-friendly websites and mobile applications are the most used medium for corporate travelers. Approximately 70 percent of travelers use applications to check in to flights and/or hotels, while one in four hotel queries come from a mobile device.
- **Demographics.** Two major demographic shifts marked the beginning of positive growth in the hotel business. The first is that both baby boomers and millennials emerged as the target market for luxury consumption. The baby boomer generation became a target audience due to the large amount of disposable income and nest egg capital they accrued, thereby allowing them to travel in large numbers for the next decade. Millennials are the second demographic group tapped as an up-and-coming luxury consumer group affecting the industry, and being targeted by the industry itself with marketing strategies that are different from its preceding groups. Millennials are drawn to entertainment, technology and accessibility. Secondly, the BRIC economies, (Brazil, Russia, India and China) have exploded in their economic power over the past several years. This has led to a massive increase in the middle classes in these nations and these

populations are traveling in increasing numbers.

PORTSMOUTH AREA HOTEL MARKET

The following table shows a summary of the hotels within five miles of Downtown Portsmouth.

Table C-5

Lodging Summary: Portsmouth Market - Within 5 Miles						
Chain Scale	Rooms	% of Total Rooms	Hotels	Rooms per Hotel	Avg. Opening Year	Avg. Age in Years
Upper Upscale	1,648	29%	5	330	Jan-89	27
Upscale	1,008	18%	8	126	Dec-05	11
Upper Midscale	685	12%	6	114	May-89	27
Midscale	369	7%	3	123	Sep-94	22
Economy / Independent	1,944	34%	21	93	Apr-87	29
Total / Average	5,654	100%	43	131	Feb-92	24

Source: Smith Travel Research, Hunden Strategic Partners

More than 5,650 rooms between 43 properties are located within five miles of Downtown Portsmouth. The market is dominated by Upper Upscale and Economy rooms, which account for 29 and 34 percent of total rooms in the market, respectively. The average age of the properties is 24 years, with averages for individual classes ranging from 11 to 29 years. The Renaissance Waterfront Hotel is the only Upscale or Upper Upscale property located in Portsmouth. There are no luxury hotels in the Portsmouth market.

The following table summarizes all hotels within five miles of Downtown Portsmouth sorted by distance from Downtown. It does not include bed and breakfast properties.

Table C-6

Hotels within Five Miles of Downtown Portsmouth					
Property Name	Distance	Rooms	Chain Scale	Open	City
Renaissance Portsmouth Norfolk Waterfront Hotel	0.2	249	Upper Upscale	Jan-01	Portsmouth
Riverwalk Inn & Suites	0.5	55	Indep	Jun-73	Portsmouth
Comfort Inn Olde Town	0.5	62	Upper Midscale	Aug-98	Portsmouth
Super Value Inn	0.6	56	Indep	Jan-90	Portsmouth
Relax Inn	0.7	61	Economy	Jun-85	Portsmouth
Sheraton Hotel Norfolk Waterside	0.8	468	Upper Upscale	Jun-76	Norfolk
Marriott Norfolk Waterside	0.9	405	Upper Upscale	Oct-91	Norfolk
Hilton Norfolk The Main	0.9	300	Upper Upscale	U/C	Norfolk
Courtyard Norfolk Downtown	1.0	140	Upscale	Jun-02	Norfolk
Tazewell Hotel & Suites	1.1	58	Indep	Jun-06	Norfolk
Residence Inn Norfolk Downtown	1.4	160	Upscale	May-09	Norfolk
Wyndham Garden Hotel Norfolk Downtown	1.6	204	Upper Midscale	Jun-51	Norfolk
Economy Lodge	1.9	48	Indep	Jun-87	Portsmouth
Economy Inn	2.0	72	Indep	Feb-90	Norfolk
Days Inn Chesapeake Portsmouth	3.3	52	Economy	May-84	Portsmouth
Springhill Suites Norfolk Old Dominion University	3.5	114	Upscale	Jan-08	Norfolk
Econo Lodge Chesapeake	4.3	55	Economy	Aug-90	Chesapeake
InTown Suites Chesapeake	4.4	133	Economy	Feb-97	Chesapeake
Budget Lodge	4.5	66	Indep	Jun-98	Chesapeake
Studios For Less	4.6	119	Indep	Jan-99	Chesapeake
Cedar Tree Inn & Suites	4.6	105	Indep	Jul-90	Chesapeake
Value Place Chesapeake Norfolk Greenbrier	4.7	126	Economy	May-13	Chesapeake
Red Roof Inn Chesapeake	4.7	108	Economy	Aug-86	Chesapeake
Village Motel	4.7	72	Indep	-	Chesapeake
Hampton Inn Norfolk Chesapeake Greenbrier Area	4.7	118	Upper Midscale	Jan-90	Chesapeake
Marriott Chesapeake	4.7	226	Upper Upscale	Dec-86	Chesapeake
Extended Stay America Chesapeake Greenbrier Circle	4.8	92	Economy	Dec-04	Chesapeake
Sunset Manor Motel	4.8	89	Indep	-	Chesapeake
Wingate By Wyndham Chesapeake	4.8	100	Midscale	Jul-06	Chesapeake
Comfort Inn & Suites Chesapeake	4.8	72	Upper Midscale	Feb-10	Chesapeake
Staybridge Suites Chesapeake Virginia Beach	4.8	115	Upscale	Dec-07	Chesapeake
Days Inn Norfolk Military Circle	5.0	160	Economy	Jun-81	Norfolk
Motel 6 Norfolk	5.0	150	Economy	Jun-83	Norfolk
Sun Suites Of Chesapeake	5.0	135	Economy	May-00	Chesapeake
Extended Stay America Chesapeake Crossways Boulevard	5.0	132	Economy	Aug-96	Chesapeake
Ramada Limited Norfolk	5.0	149	Midscale	Jun-68	Norfolk
Candlewood Suites Norfolk Airport	5.0	120	Midscale	Apr-09	Norfolk
Comfort Suites Chesapeake	5.0	124	Upper Midscale	Jun-90	Chesapeake
Fairfield Inn & Suites Chesapeake	5.0	105	Upper Midscale	Aug-95	Chesapeake
aloft Hotel Chesapeake	5.0	136	Upscale	Nov-08	Chesapeake
Springhill Suites Chesapeake Greenbrier	5.0	132	Upscale	Sep-08	Chesapeake
Residence Inn Chesapeake Greenbrier	5.0	121	Upscale	Jun-05	Chesapeake
Courtyard Chesapeake Greenbrier	5.0	90	Upscale	May-97	Chesapeake
Total/Average	3.5	5,654	--	Feb-92	

Source: Smith Travel Research

The two largest hotels are in the Norfolk area and they have a combined total of 874 rooms, or approximately 16 percent of the total market. Seven of the 43 hotels are in the City of Portsmouth. However, five properties having 483 rooms are located in Downtown Portsmouth. The Renaissance Waterfront Hotel is the only full-service, upscale property in Downtown Portsmouth. The remaining four other properties are limited-service hotels with less than 65 rooms each and more than 16 years old.

The other 36 hotels are located in either Chesapeake or Norfolk. Portsmouth hotels constitute 16 percent of the total hotel room supply in the submarket area, while Chesapeake and Norfolk represent 53 and 30 percent, respectively. All hotels built in the last ten years, excluding the Residence Inn Norfolk Downtown, are located more than four miles from Downtown Portsmouth. Six new hotel properties added 620 rooms to the market between 2008 and 2009. There was a four-year hiatus in hotel development from 2009 until the Value Place Greenbrier was opened in May 2013. The 300-room Hilton Norfolk is currently under construction and will be a destination for groups and events.

Portsmouth Selected Set Hotels

In order to understand the hotel market in Portsmouth, HSP chose a set of primary competitive and relevant hotels to profile and analyze. The primary factors considered were location, function space, quality, amenities, size, brand and market demand mix. If a new hotel is developed Downtown, it will compete against the newest and highest quality hotels in the area and if a full-service hotel or select service hotel with function space, it will compete with the meetings hotels in the market. Due to STR requirements and a lack of reporting properties in Portsmouth, Norfolk hotels were included in the selected set.

The following table shows a summary of the hotels in the Portsmouth competitive set arranged by number of rooms.

Table C-7

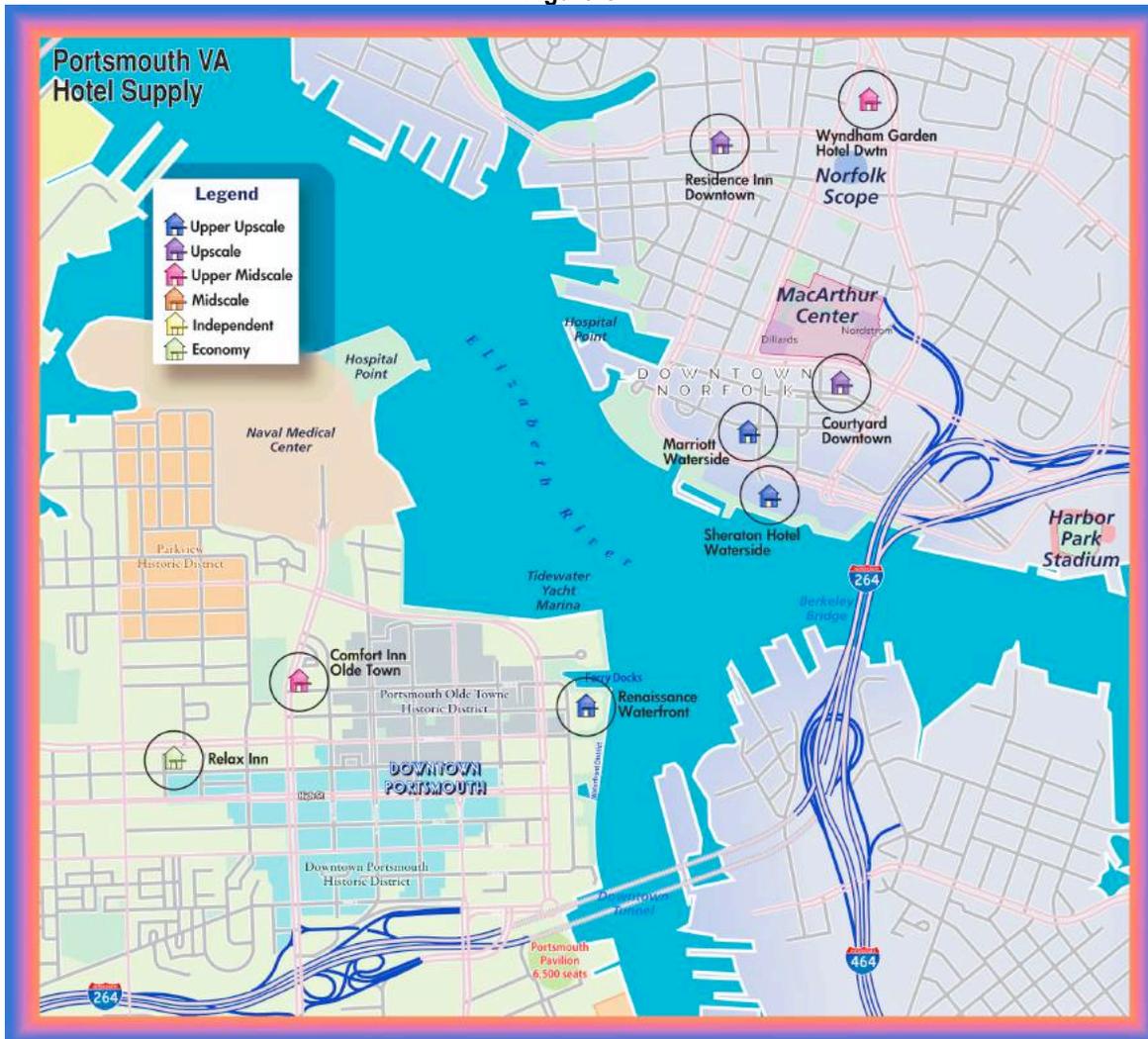
Portsmouth Downtown Hotel Set					
Property Name	Location	Distance	Rooms	Chain Scale	Open
Sheraton Hotel Norfolk Waterside	Norfolk	0.8	468	Upper Upscale	Jun-76
Marriott Norfolk Waterside	Norfolk	0.9	405	Upper Upscale	Oct-91
Renaissance Portsmouth Norfolk Waterfront Hotel	Portsmouth	0.2	249	Upper Upscale	Jan-01
Wyndham Garden Hotel Norfolk Downtown	Norfolk	1.6	204	Upper Midscale	Jun-51
Residence Inn Norfolk Downtown	Norfolk	1.4	160	Upscale	May-09
Courtyard Norfolk Downtown	Norfolk	1.0	140	Upscale	Jun-02
Comfort Inn Olde Town	Portsmouth	0.5	62	Upper Midscale	Aug-98
Relax Inn	Portsmouth	0.7	61	Economy	Jun-85
Total/Average	--	0.89	1,749	--	Jul-89

Source: Smith Travel Research

The eight hotels in the selected set have a total of 1,749 rooms. The largest hotel is the Sheraton Hotel Norfolk Waterside (468 rooms) followed by the Marriott Norfolk Waterside (405 rooms). The average age of the hotels in the selected set is 27 years, however, two of the properties have been open for more than 40 years. The average age of the Portsmouth properties is approximately four years older than the competitive market.

The following figure shows a map of the Portsmouth competitive hotel supply.

Figure C-4



As shown above, the selected set includes three properties in Portsmouth and five properties in Norfolk. Every property in the selected set is located within two miles of Downtown Portsmouth.

Selected Set Performance

HSP used Smith Travel Research data to analyze the selected hotel selected set. The following table shows the performance data for the Portsmouth selected set of hotels from 2011 through 2015.

Table C-8

Historical Supply, Demand, Occupancy, ADR, and RevPar for Competitive Hotels											
Year	Annual Avg. Available Rooms	Available Room Nights	% Change	Room Nights Sold	% Change	% Occ.	% Change	ADR	% Change	RevPar	% Change
2011	1,720	627,800	--	389,793	--	62.1	--	\$98.81	--	\$61.35	--
2012	1,720	627,800	0.0%	427,627	9.7%	68.1	9.7%	\$94.88	-4.0%	\$64.63	5.3%
2013	1,720	627,800	0.0%	407,173	-4.8%	64.9	-4.8%	\$92.35	-2.7%	\$59.90	-7.3%
2014	1,722	628,699	0.1%	423,373	4.0%	67.3	3.8%	\$93.94	1.7%	\$63.26	5.6%
2015	1,749	638,385	1.5%	442,726	4.6%	69.4	3.0%	\$96.01	2.2%	\$66.58	5.3%
2016 YTD (Mar)	1,749	157,410	0.1%	96,630	2.2%	61.4	2.2%	\$90.24	-0.5%	\$55.40	1.7%
Projected 2016	1,749	638,385	0.0%	461,320	4.2%	72.3	4.2%	\$98.89	3.0%	\$71.46	7.3%
CAGR* (2011-2015)	0.4%	0.4%	--	3.4%	--	2.9%	--	-0.7%	--	2.1%	--

*Compound Annual Growth Rate
Sources: Smith Travel Research, Hunden Strategic Partners

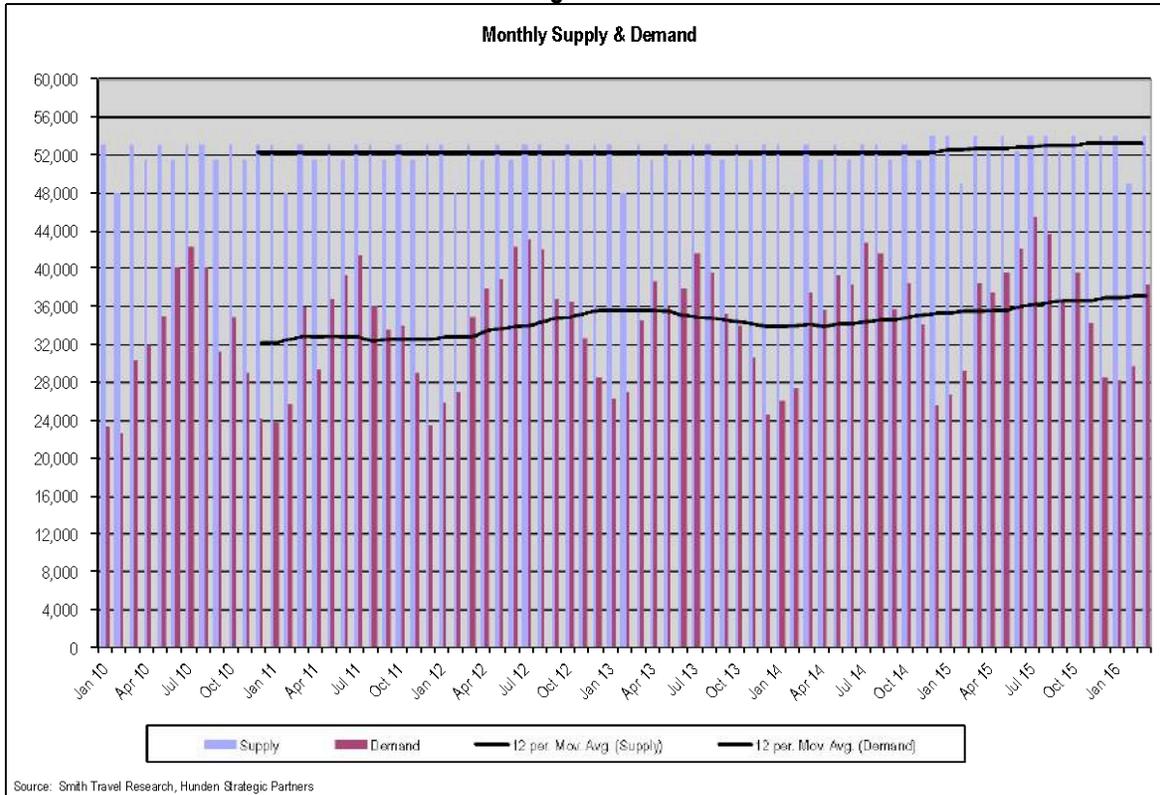
Other than 2013, demand for room nights in the selected hotel set increased each year between 2011 and 2015. In 2014, demand reached near pre-recession levels.

Occupancy has slowly increased from its 2011 level of 62.1 percent to 69.4 percent in 2015. Based on historic growth rates, occupancy is projected to increase to 72.3 percent in 2016, which equates to a 4.2 percent increase over 2015. The current occupancy rate has surpassed the threshold of approximately 66 percent, the point at which developers start to consider potential new hotel developments. As occupancy continues to improve, the market will have more unmet (unaccommodated) demand, which will help support and validate more hotel rooms being added to the market.

Between 2011 and 2013 the average daily rate decreased from \$99 to \$92, but the average rate has experienced consistent increases since 2013. For the total year, average daily rate is projected to increase to nearly \$99, which is a three percent increase over the prior year. Revenue per available room (RevPAR) increased to more than \$66 in 2015 and is projected to increase in 2016 by 7.3 percent to the mid-\$71 range. The government per diem rate is a factor that influences the overall rate. With the high levels of government related business in the area, this can lower average rates and lead to other hotels undercutting rates to attract this segment of business.

The following figure shows the supply and demand trends for the selected set.

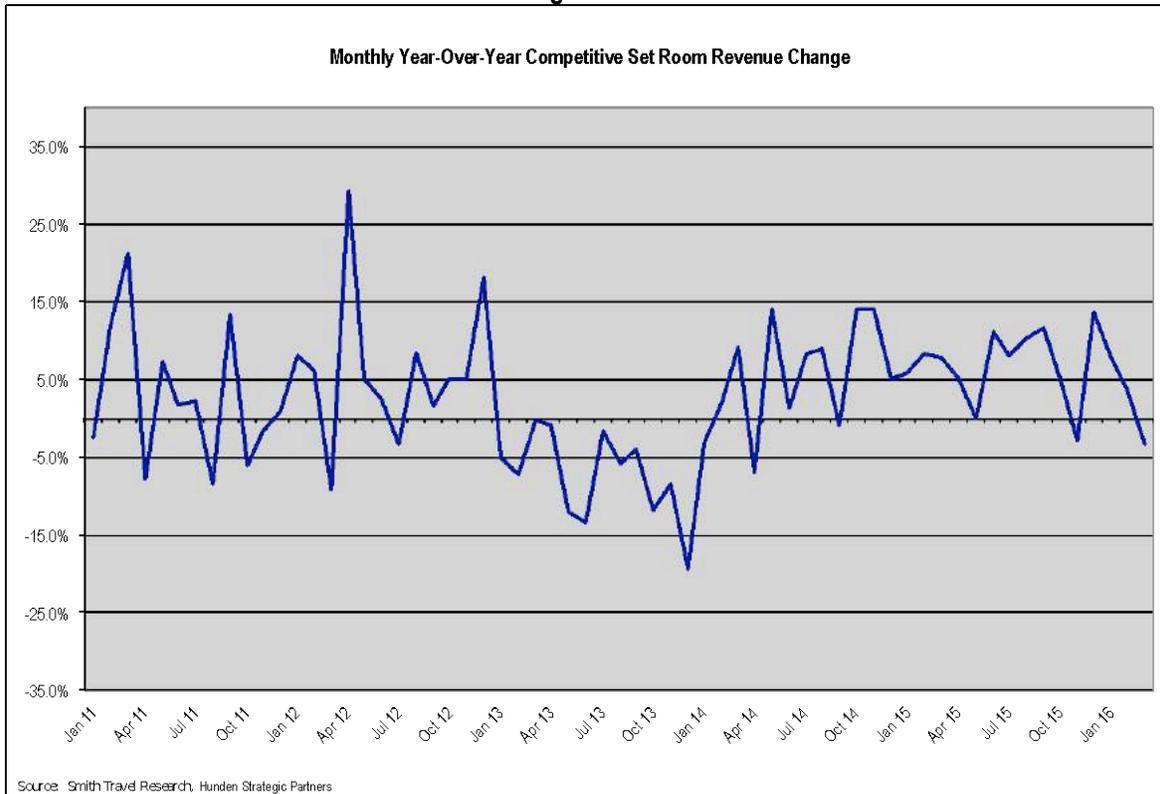
Figure C-5



The selected set has a consistent seasonality trend. The average monthly room night supply has remained fairly constant, while demand decreases during the winter months in this selected set through this six-year time period.

The following figure shows the (year-over-year) room revenue changes by month.

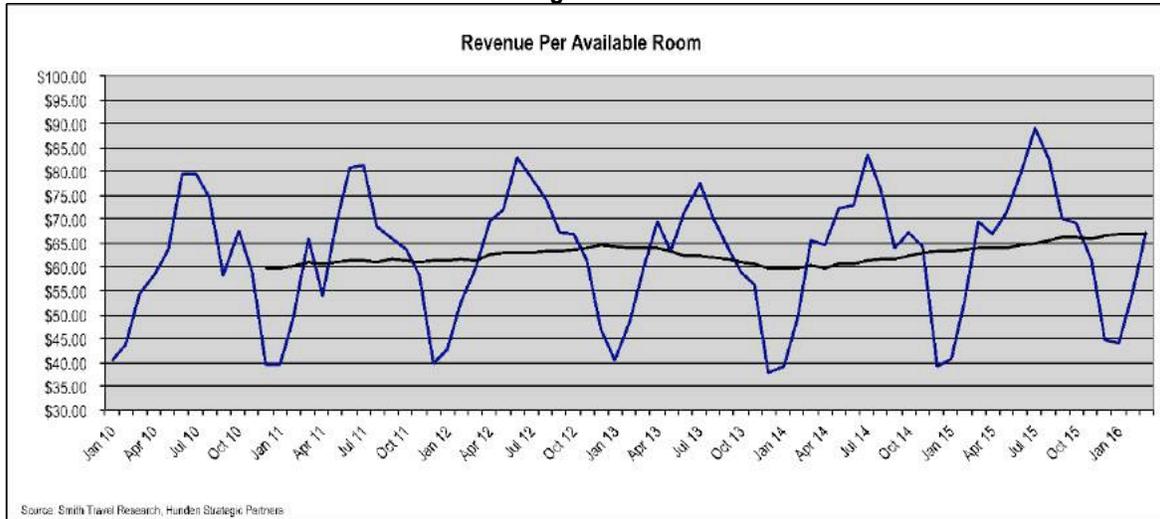
Figure C-6



Any data point greater than zero is a positive indicator for the selected set. As shown, the selected set's room revenue has been below zero 24 times in this period, with its peak at approximately 29.4 percent in April 2012.

The following figure shows the Revenue per Available Room (RevPAR), which is the product of occupancy and rate.

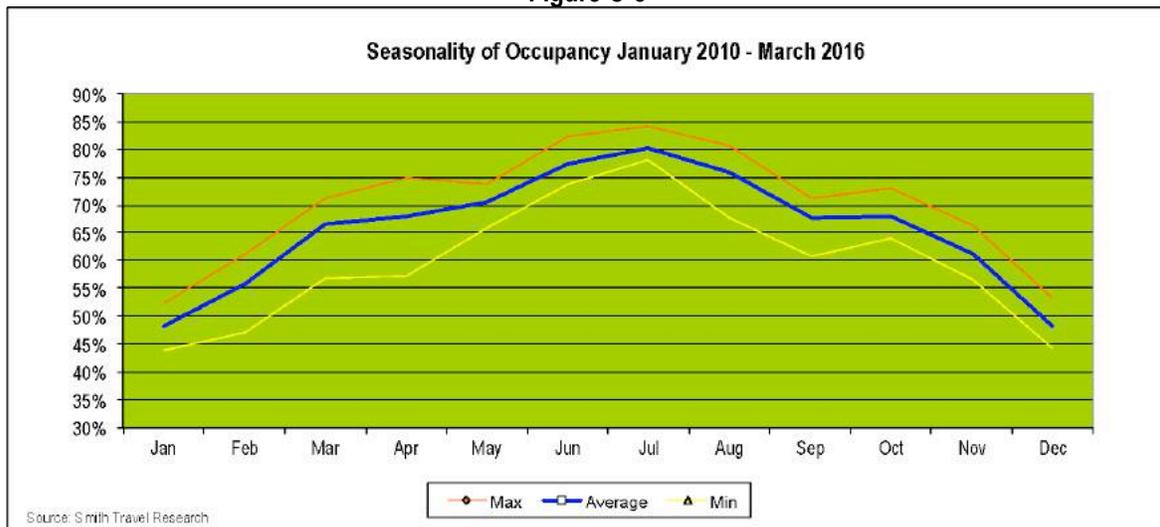
Figure C-7



The black line above shows the 12-month moving average. The figure above shows RevPAR fluctuating seasonally between January of 2010 and March of 2016. As shown, the 12-month moving average has increased through the period from approximately \$60 to \$67.

The following figure displays the seasonality of occupancy from 2010 through March 2016.

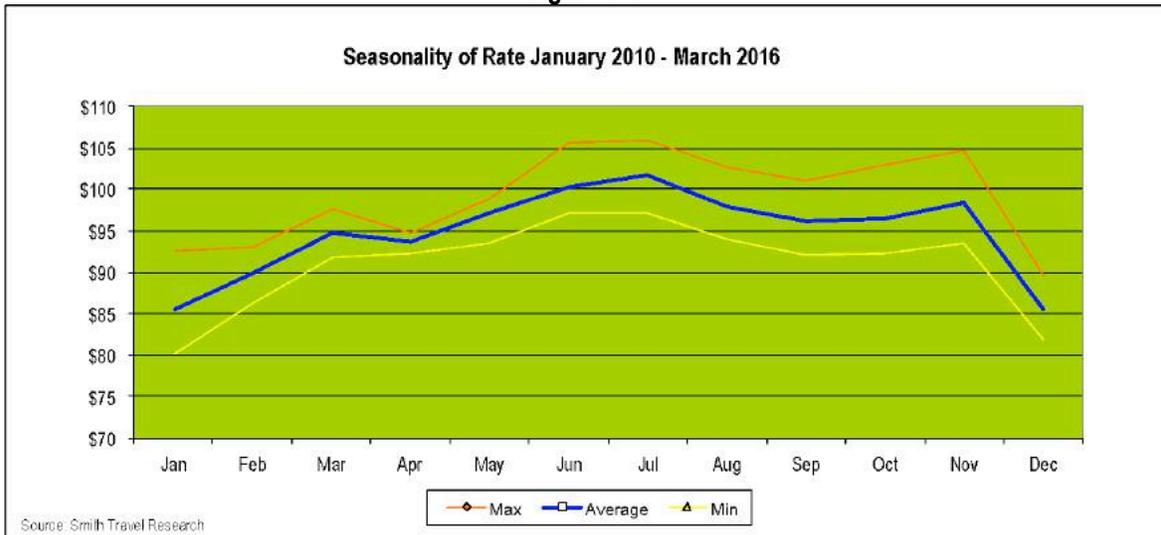
Figure C-8



In terms of occupancy, June, July and August are the busiest months, averaging more than 75 percent. The spring and fall months average between 65 and 70 percent. January, December and February are the slowest months of the year with approximately 48 percent, 56 percent and 48 percent occupancy, respectively. The seasonality is similar to most northern markets where occupancy rates are lower in the cold winter months and increase during the late spring and summer months. The Portsmouth market peaks during the summer season.

The following figure shows the seasonality of rate from 2010 through March 2016.

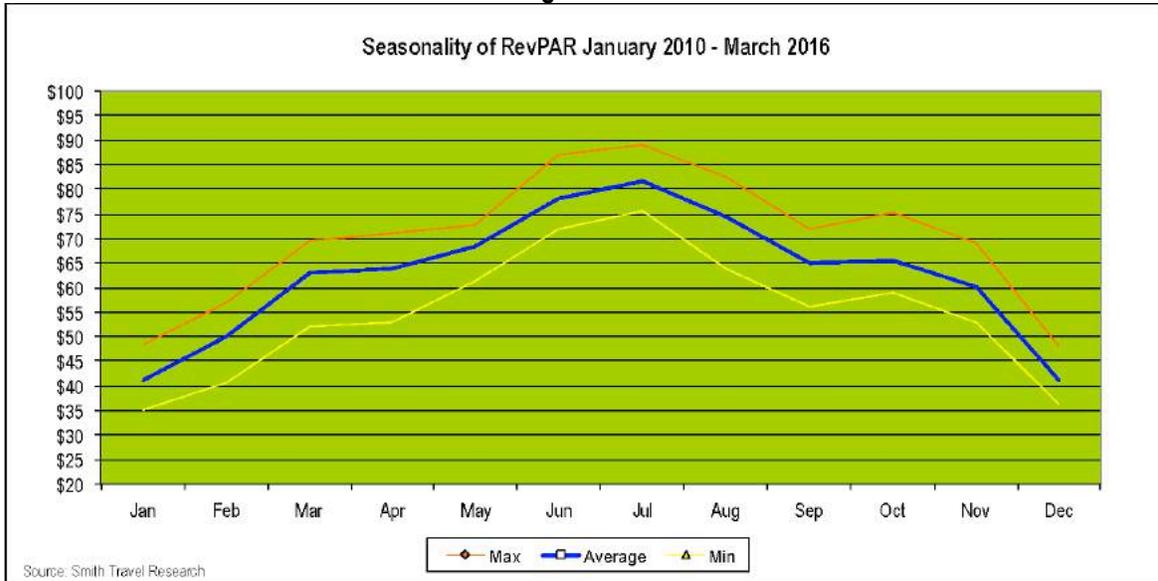
Figure C-9



As shown, the average ADR fluctuates throughout the years. The average ADR fluctuates from approximately \$86 to \$102. Prices are highest during the summer months and then drop dramatically in January and December. Smaller seasonal peaks in the shoulder months of March and November occur. The maximum average daily rate peaks in June and July at nearly \$106.

The following figure shows the seasonality of RevPAR, which is the product of rate and occupancy, and suggests overall profitability.

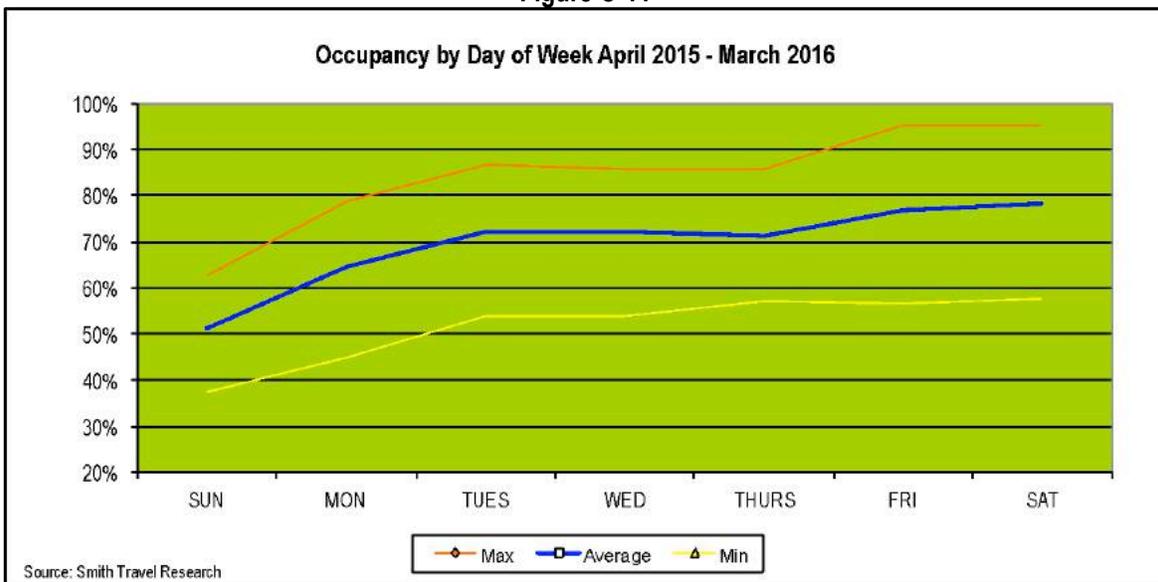
Figure C-10



As with the other performance indicators, RevPAR data is consistent with the analysis of the prior graphs. RevPAR is highest during June, July and August when rate and occupancy are high or at peaks levels.

The following figure shows the occupancy by day of week during the 12-month period ending in March 2016.

Figure C-11

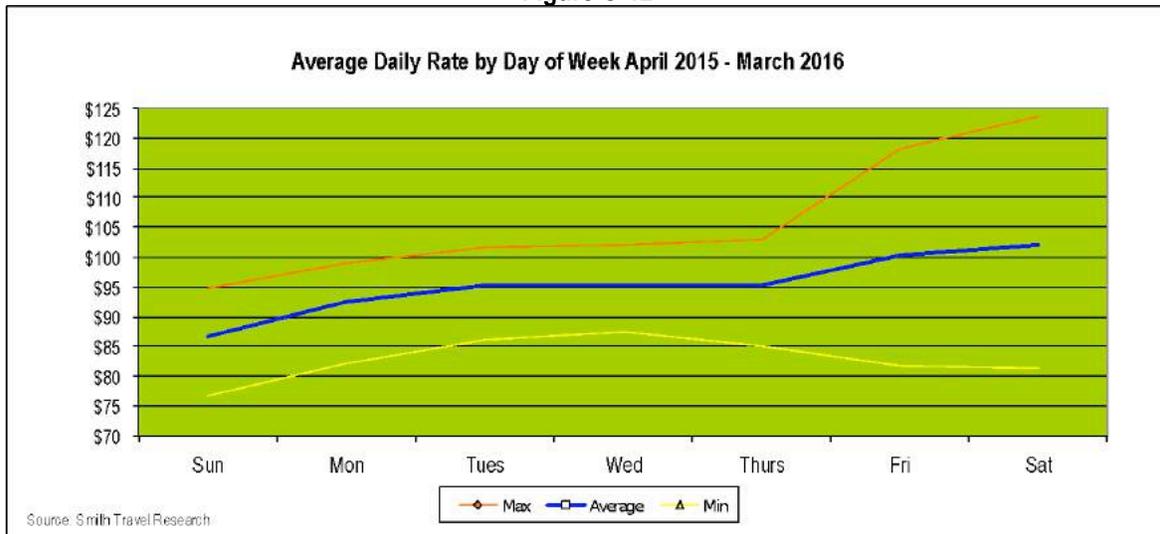


Average occupancy levels Monday through Friday exceed 60 percent on Mondays and 70 percent on Tuesday through Thursday. The high level of occupancy during the week typically suggests a strong

corporate (commercial) market. Average occupancy is strongest on Friday and Saturday, suggesting high leisure weekend visitation. Occupancy is lowest on Sunday nights, which is typical for all markets.

The following figure shows the average daily rate by day of the week.

Figure C-12



Rates are highest on Fridays and Saturdays and decrease on Sundays. While average rates fluctuate by approximately \$10, maximum rates for this market are highest on Saturdays at approximately \$124 per night.

Unaccommodated Demand

Unaccommodated demand is defined as demand that would have been captured by the market but for a lack of available or quality of rooms. This demand is therefore deferred to later dates, accepts less-preferred accommodations, locates just outside the selected set, moves its business to another area, or cancels plans altogether. Therefore, as new properties are added to the market, it is expected that this demand will be accommodated and absorbed by the new supply. This suggests that when new hotels are added, they do not cannibalize existing market demand, but accommodate previously unaccommodated demand. While it is not possible to accurately predict all unaccommodated demand, an estimated figure can be inferred from occupancy data.

The following table shows the occupancy percent by day of the week, by month, for the twelve months starting April 2015 through March 2016. The figures represent the projected unaccommodated demand from the three Portsmouth properties and the five Norfolk properties. Days of the week with occupancy between 75 and 80 percent are shown in yellow, suggesting mild displacement and unaccommodated demand, while orange shows days with 80 to 90 percent occupancy, suggesting highly likely displacement. Days in red are for times when occupancy was beyond 90 percent for the set, suggesting near-certain displacement.

Table C-9

Occupancy Percent by Day of Week by Month - April 2015 - March 2016								
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Avg
Apr - 15	52.4%	67.9%	74.9%	71.9%	72.4%	79.5%	80.0%	71.3%
May - 15	55.7%	64.9%	72.8%	73.2%	71.8%	82.9%	89.2%	73.2%
Jun - 15	60.2%	76.5%	81.2%	85.8%	80.1%	89.5%	91.7%	80.6%
Jul - 15	62.7%	77.0%	86.6%	83.2%	86.0%	95.2%	95.5%	84.2%
Aug - 15	61.8%	78.9%	85.9%	81.1%	78.7%	89.1%	90.9%	80.6%
Sep - 15	60.4%	66.1%	70.9%	69.6%	65.3%	75.7%	82.4%	70.1%
Oct - 15	52.1%	68.8%	79.6%	79.0%	75.1%	79.5%	75.9%	73.2%
Nov - 15	41.1%	57.3%	61.9%	70.8%	78.8%	81.2%	75.6%	65.5%
Dec - 15	37.2%	44.9%	54.9%	53.7%	58.8%	58.0%	59.0%	52.7%
Jan - 16	38.7%	48.0%	53.7%	55.9%	57.0%	56.6%	57.6%	52.3%
Feb - 16	42.3%	58.8%	67.4%	68.0%	61.5%	63.6%	66.5%	61.1%
Mar - 16	50.3%	67.6%	75.0%	76.2%	72.3%	74.2%	76.5%	70.7%
Average	51.1%	65.0%	72.0%	72.2%	71.7%	77.2%	78.4%	

Sources: Smith Travel Research

Each cell is an average of four specific dates, for example Wednesdays in July averaged 83.2 percent occupancy. As shown, Saturday occupancy stays above 75 percent through the spring and summer months. Tuesday, Wednesday, Thursday, Friday and Saturday occupancy in the summer consistently remained above 80 percent. The highest occupancy occurred on Saturdays in July, which experienced over 95 percent occupancy. During January 2016 and December 2015, occupancy averaged approximately 52 percent per month, the lowest in the year. Weekday occupancy is strongest on Tuesday and Wednesday at more than 72 percent.

The following table shows the ADR by day of week by month for the 12-month period ending March 2016. The yellow cells represent ADR values from \$90 to \$100, the orange cells represent values from \$100 to \$110, and the red cells are all values above \$110.

Table C-10

ADR by Day of Week by Month - April 2015 - March 2016

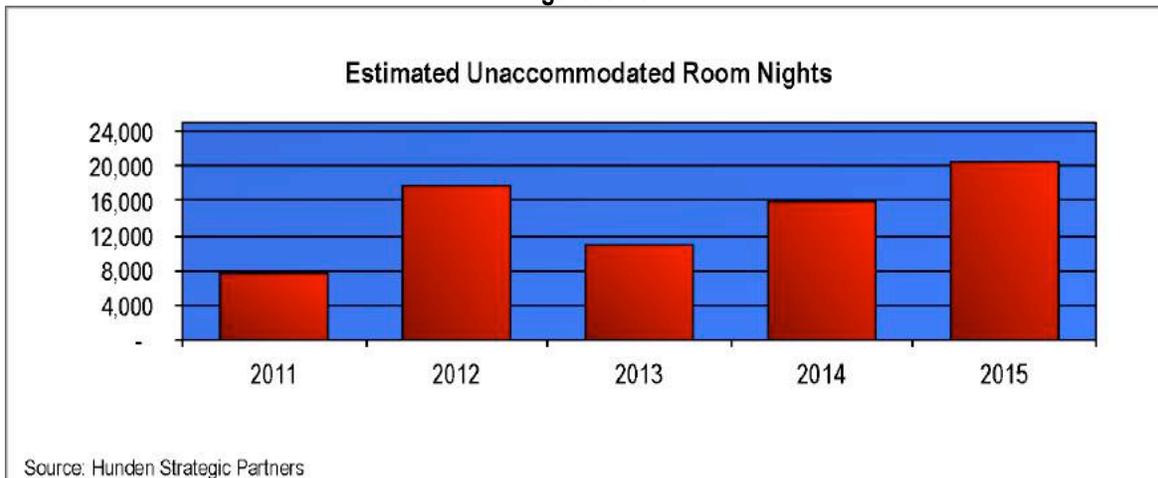
	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Avg
Apr - 15	87.69	91.80	95.05	93.35	92.04	97.01	96.52	93.63
May - 15	88.02	90.69	93.89	93.63	93.68	104.20	107.51	97.30
Jun - 15	88.97	94.35	96.01	95.60	95.30	106.83	112.09	98.94
Jul - 15	90.06	96.32	101.79	97.90	102.99	118.18	123.74	105.80
Aug - 15	92.84	98.88	101.51	102.13	98.34	109.71	111.58	102.71
Sep - 15	94.75	97.27	98.42	99.10	98.77	103.87	106.53	100.07
Oct - 15	84.91	91.52	94.04	94.75	94.26	98.07	98.99	94.57
Nov - 15	81.30	90.61	91.32	96.33	98.52	97.01	94.84	93.53
Dec - 15	76.67	82.24	88.67	88.42	87.35	81.92	81.44	84.59
Jan - 16	77.41	82.74	86.16	87.49	85.26	84.68	85.97	84.48
Feb - 16	80.69	90.97	94.91	90.48	87.93	87.43	90.68	89.54
Mar - 16	85.60	93.37	94.55	97.38	99.60	95.38	94.76	95.05
Average	86.64	92.58	95.23	95.19	95.12	100.45	102.16	

Sources: Smith Travel Research

The highest average daily rates occur on Fridays and Saturdays in July, at \$118.18 and \$123.74, respectively. The market has little variance monthly, from an average of \$84.48 in January to an average of \$105.80 in July. The days of the week with the lowest ADR are Sundays and Mondays with an average of \$86.64 and \$92.58, respectively. Overall, Saturdays have the highest ADR during the week at approximately \$102.16. This presents an opportunity for hoteliers to compress rates during the weekend, especially in the summer months, which they are not currently doing.

The following figure shows the estimate of unaccommodated room nights over the past five years for the selected set of hotels only.

Figure C-13



As previously mentioned, an unaccommodated room night is a night when a traveler seeking accommodations within the market must either cancel their stay, settle for accommodations of lesser quality because the desired facilities have no vacancies or stay in accommodations outside of the desired hotels. The number of estimated unaccommodated room nights is determined in any month when occupancy is higher than 66 percent, which occurred on several occasions over the past five years. When rooms sell out or nearly do so, rates can be increased and the viability of new hotels is more likely. Based on HSP estimates, the number of unaccommodated room nights for the selected set peaked in 2015 with more than 21,000 rooms.

Portsmouth Conference Hotel

Analysis of the Portsmouth meeting space supply indicates that one sizeable meeting space is available in the local market, the Renaissance Portsmouth Norfolk Waterfront Hotel. The following is a profile of the property.

Renaissance Portsmouth Norfolk Waterfront Hotel

Built in 2001, the Renaissance Waterfront Hotel features 249 guestrooms and nearly 22,000 square feet of function space. The Renaissance Hotel is located at 425 Water Street along the south branch of the Elizabeth River. Additional amenities include a fitness center, pool, free Wi-Fi, and the Foggy Point Bar and Grill located on the hotel's first floor. It is the largest hotel in the city of Portsmouth.

The following figure shows an image of the hotel along the waterfront.

Figure C-14



The following table outlines the property's function space.

Table C-11

Renaissance Portsmouth Norfolk Waterfront Hotel			
Facilities	Total (SF)	By Division (SF)	Divisions
Ballroom Facilities			
Portsmouth Ballroom	11,858		8
Holley Ballroom	5,082		7
	<u>16,940</u>		<u>15</u>
Meeting Room Facilities			
Lee	984		1
Madison	988		1
Jefferson	760		1
Washington-Boardroom	760		1
Monroe	440		1
Commodore	875		1
	<u>4,807</u>		<u>6</u>
Hotel Rooms	249		
Total Ballroom Space	16,940	/ Guest Room	68.0
Total Meeting Space	4,807		19.3
Total Function Space	<u>21,747</u>		<u>87.3</u>
Ballroom Divisions	15	/ 100 Guest Rooms	6.0
Meeting Room Divisions	6		2.4
Total Divisions (including Ballroom)	<u>21</u>		<u>8.4</u>

Source: Renaissance Portsmouth-Norfolk Waterfront Hotel, Hunden Strategic Partners

The property offers nearly 17,000 square feet of ballroom space and approximately 4,800 square feet of meeting facilities. Conversations with facility representatives indicated the following about the meetings and events market:

- The hotel has no true competitors in Portsmouth. The venue's main competitors are the Norfolk Waterside Marriott, Sheraton Norfolk Waterside, Courtyard Norfolk Downtown, and various Chesapeake properties.
- The primary user groups of the facility are military and social, but the venue also hosts a variety of boat and holiday parties.
- Key challenges for the Renaissance Portsmouth Hotel include the perceived reputation of Portsmouth as not an event destination, the tolls necessary to reach the Downtown area, and surrounding construction on the seawall.
- According to hotel management, the number the number of events has increased in recent years
- Occasionally, the hotel cannot accommodate some events due to the lack of an overflow hotel.

The Renaissance currently utilizes Norfolk hotels for overflow situations.

- The Renaissance offers the most function space of any hotel in Downtown Portsmouth. Additional conversations with local market participants and stakeholders indicated that the facility attracts tens of thousands of visitors for events annually, but the hotel is hindered by the lack of a CVB that actively promotes and attracts events to the market.

Conclusions

Analysis of the hotel supply in the market demonstrates that Portsmouth faces significant competition, in both quality and quantity, from surrounding Hampton Roads communities. Outside of the Renaissance Portsmouth Norfolk Waterfront Hotel, the lodging properties offered in Portsmouth are aging, low-quality hotels that cannot compete with properties across the river in Norfolk and to the south in Chesapeake.

The performance of the selected set indicates that there could be an opportunity for a hotel development in the local market to accommodate the excess demand and recapture demand that is leaving Portsmouth, specifically on the weekends and summer months. Most notably, the Portsmouth hotel market is missing a limited-service or select-service hotel. Such a hotel would complement a full-service hotel in the immediate area and could recapture demand that is leaving Portsmouth for other hotels in nearby communities. A limited/select-service hotel within walking distance to the Renaissance Hotel could act as an overflow property and potentially induce additional demand for larger meetings and events in Downtown Portsmouth.

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RETAIL AND RESTAURANT MARKET ANALYSIS

HSP profiled the Downtown Portsmouth retail and restaurant market by analyzing available market data and statistics, conducting interviews with city officials, local business owners, and commercial brokers and collected data from a number of other sources.

Below is a brief overview of the entire Portsmouth retail market, followed by a more detailed analysis of the Downtown retail and restaurant submarkets.

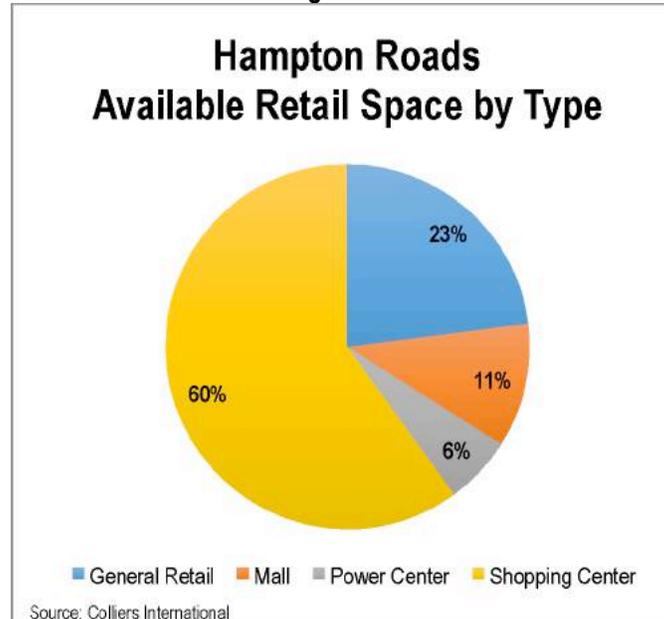
Retail Market Overview

The Hampton Roads region experienced modest growth and turnover of both large and small retailers between 2015 and 2016. The region saw the start of new grocery developments, the redevelopment of the closed Macy's and Sports Authority stores, and new restaurants coming into the market followed by some new national retailers. By mid-year, the region secured such national retailers as Ikea, REI, LL Bean and others that will recapture and draw shoppers to the Hampton Roads area. In addition, the development and opening of new shopping centers adds to the growth in retail. The large tenant closures are being redeveloped or subdivided to attract retailers' smaller footprints. The regional retail business is expected to maintain current levels, while communities and malls initiate creative redevelopments or big-box reuse by local and national retailers. In addition, the construction of the 332,000-square-foot Norfolk Premium Outlet is expected to impact the retail market once opened. Nearly all developments and announcements were not in the Portsmouth submarket or in Downtown Portsmouth. However, regional developments will continue to impact Portsmouth and the integration of any retail strategies currently in place in Portsmouth will be affected.

Market Data & Statistics

The following figure shows a chart with the distribution of the available retail space in Hampton Roads by type as of the second quarter of 2016.

Figure D-1



Market developments (as well as local brokers) indicate that retail activity is gravitating toward the areas of Chesapeake, Norfolk and Virginia Beach. The region has generally experienced improvement in the retail market, with opportunity and activity in the grocery space.

The following table shows a sample of the key lease transactions in 2016 in the entire region which includes Suffolk, Chesapeake, Little Creek, Norfolk, Virginia Beach, Williamsburg, Newport News, Ward's Corner, Hilltop, Denbigh and Greenbrier/Battlefield. These lease transactions in other cities will impact the Portsmouth market as potential tenants will look at many different properties in the region prior to making a final decision.

Table D-1

Key Lease Transactions - 2016				
Property	Square Feet	Tenant	Property Type	Submarket
5401 Virginia Regional Drive	390,280	Best Brakes	Freestanding	Suffolk
Crossroads North	117,242	BJ's Wholesale	Neighborhood Center	Chesapeake
Crossroads Holdings	44,481	Delhaize America	Neighborhood Center	Chesapeake
7525 Tidewater Drive	35,550	Food Lion	Neighborhood Center	Little Creek
Southern Shopping Center	35,500	Food Lion	Community Center	Norfolk
Chesapeake Crossing	34,600	Big Lots	Strip Center	Chesapeake
3320 Holland Road	30,800	Harbor Freight Tools	Freestanding	Virginia Beach
Patriot Plaza	30,000	Sara Enterprises	Community Center	Williamsburg
333 Waterside Drive	30,000	The Marketplace	Neighborhood Center	Norfolk
439-467 Oriana Road	27,063	Fallas	Community Center	Newport News
Triangle Shopping Center	25,000	HR Portsmouth	Neighborhood Center	Portsmouth
Greenbrier Square	22,500	The TJX Companies	Neighborhood Center	Chesapeake
Battlefield Boulevard	22,500	HomeGoods	Neighborhood Center	Chesapeake
118 W 21st Street	15,781	Tuesday Morning	Community Center	Norfolk
7734 Hampton Boulevard	12,000	Dollar Tree	Freestanding	Ward's Corner
Southern Shopping Center	11,437	Southern Bingo	Community Center	Norfolk
Newtown - Baker Crossing	10,301	Stepping Stones Academy & Preschool	Community Center	Virginia Beach
632 First Colonial Road	6,200	RNR of Virginia	Strip Center	Chesapeake
5719 Laskin Road	5,719	Salon Plaza	Neighborhood Center	Hilltop
Walmart Way Crossing	5,600	US Army Marines & Air Force Recruiters	Neighborhood Center	Chesapeake
15435 Warwick Boulevard	4,800	A Heavenly Haven	Neighborhood Center	Denbigh
1400-1426 N Battlefield Drive	4,800	RNR Virginia	Strip Center	Greenbrier/Battlefield

Source: Cushman & Wakefield, Collier's International

As shown, several lease transactions have taken place in 2016. Grocery and food service transactions are driving the retail market currently, while others are filling in spaces of previous tenants. Most transactions occurred in neighborhood centers. Of the 922,000 square feet of retail space shown in the table, approximately 27 percent was leased in Chesapeake.

The following table shows key sales transactions in the region.

Table D-2

Key Sales Transactions - 2016				
Property	Square Feet	Price (millions)	\$ PSF	Submarket
Riverdale Plaza Shopping Center	79.48 acres	\$24.89	--	Hampton
4033 Portsmouth Boulevard	3.56 acres	\$3.50	--	Chesapeake
14346 Warwick Boulevard	341,400	\$10.69	\$31	Newport News
550 First Colonial Road #4	140,785	\$9.00	\$64	Virginia Beach
Denbigh Village Shopping Center	128,995	\$10.67	\$83	Newport News
Towne Place at Greenbrier	76,827	\$15.55	\$202	Chesapeake
6640 Military Highway	28,380	\$2.98	\$105	Chesapeake
Cedar Valley Shops	26,003	\$6.30	\$242	Williamsburg
Freedom Plaza	20,400	\$2.98	\$146	Suffolk
364 S Independence Boulevard	12,602	\$4.50	\$357	Virginia Beach
11234 Jefferson Avenue	12,000	\$2.85	\$238	Newport News
1329 Battlefield Boulevard	10,200	\$1.70	\$167	Virginia Beach
3852 Virginia Beach Boulevard	10,151	\$1.60	\$158	Virginia Beach
2591 Tidewater Drive	9,408	\$1.28	\$136	Norfolk
3645 Virginia Beach Boulevard	8,500	\$1.85	\$218	Virginia Beach
2101 McComas Way	5,823	\$2.40	\$412	Virginia Beach
1200 Frederick Boulevard	4,121	\$4.85	\$1,177	Portsmouth
7620 Hampton Boulevard	1,491	\$0.87	\$584	Norfolk

Source: Cushman & Wakefield, Colliers International

Portsmouth Market Data & Statistics

The following figures and charts show market data and statistics for the Portsmouth sub-market. Shown following is the vacancy rate for all of Portsmouth for the last five years. Any vacancy rate under six percent is considered healthy.

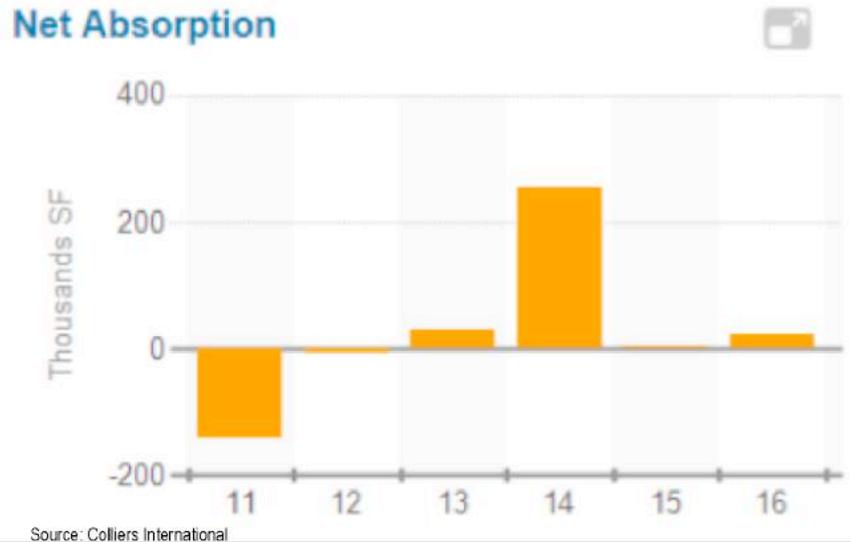
Figure D-2



The vacancy rate for all of Portsmouth has fluctuated in recent years and it has decreased since the high of approximately 9.5 percent in early 2013 when it declined to approximately 5 percent in mid-2014. In 2015, the vacancy rate increased to nearly seven percent but in 2015, it has been trending downward. The vacancy rate has continued to remain below six percent through the third quarter of 2016. The retail market in Portsmouth overall is stable, with May 2016 retail vacancy of 6.4 percent, which is lower than the recent high of approximately seven percent in mid-2015. Market vacancy rates are established within individual markets. Vacancy rates of between five percent and seven percent depict viable and vibrant leasing activity.

The following figure shows the net absorption of retail space in Portsmouth over the last five years through May 2016 according to data collected by Colliers International.

Figure D-3



The net absorption of retail space has been relatively flat since 2011. The spikes in 2011 and 2014 are largely due to single developments. In 2014, the 124,000-square-foot Kroger Marketplace store opened in Portsmouth west of Downtown on Frederick Boulevard. Minimal retail developments have occurred in the Portsmouth market. Most of the large retail developments are occurring in surrounding cities Norfolk, Chesapeake and Virginia Beach.

The following figure shows the average NNN asking rent per square foot for the Portsmouth submarket.

Figure D-4



The following table shows the availability of retail spaces in the whole Portsmouth market. Availability means all retail spaces that are ready and available for rental to a prospective tenant. Vacancy rate is the ratio of

vacant square feet to total available square feet. NNN means triple net, or that the tenant pays all taxes, insurance and general maintenance.

Table D-3

Portsmouth Retail Availability		
Availability	Survey	5-Year Avg
NNN Rent Per SF	\$11.01	\$10.67
Vacancy Rate	6.4%	7.5%
Vacant SF	345,348	397,570
Availability Rate	11.5%	10.9%
Available SF	626,042	585,271
Sublet SF	101,812	39,198
Months on Market	12.6	16.6

Source: Colliers, Hunden Strategic Partners

The vacancy rate for retail spaces in Portsmouth is currently 6.4 percent, with a NNN rent of \$11.01 per square foot. NNN means the tenant pays a price per square foot for the leased spaces as well as all additional expenses (taxes, insurance and common area maintenance). The availability rate in this market is at 11.5 percent, with more than 625,000 square feet of retail space available.

The next table shows the retail demand in the Portsmouth market.

Table D-4

Portsmouth Retail Demand		
Demand	Survey	5-Year Avg
12 Mo. Absorption SF	47,316	34,349
12 Mo. Leasing SF	158,560	146,971

Source: Colliers, Hunden Strategic Partners

The 12-month absorption of 47,316 square feet is higher than the five-year average of more than 34,000 square feet.

The following table presents the retail inventory for the Portsmouth submarket.

Table D-5

Portsmouth Retail Inventory		
Inventory	Survey	5-Year Avg
Existing Buildings	608	605
Existing SF	5,435,519	5,298,823
12 Mo. Const. Starts	42,298	57,165
Under Construction	13,000	52,293
12 Mo. Deliveries	98,780	73,021
Source: Colliers, Hunden Strategic Partners		

Portsmouth currently has 608 retail buildings with more than 5.4 million square feet of retail space. The 12-month construction starts and under construction currently are both less than the five-year averages.

The next table shows the retail sales in the entire Portsmouth market.

Table D-6

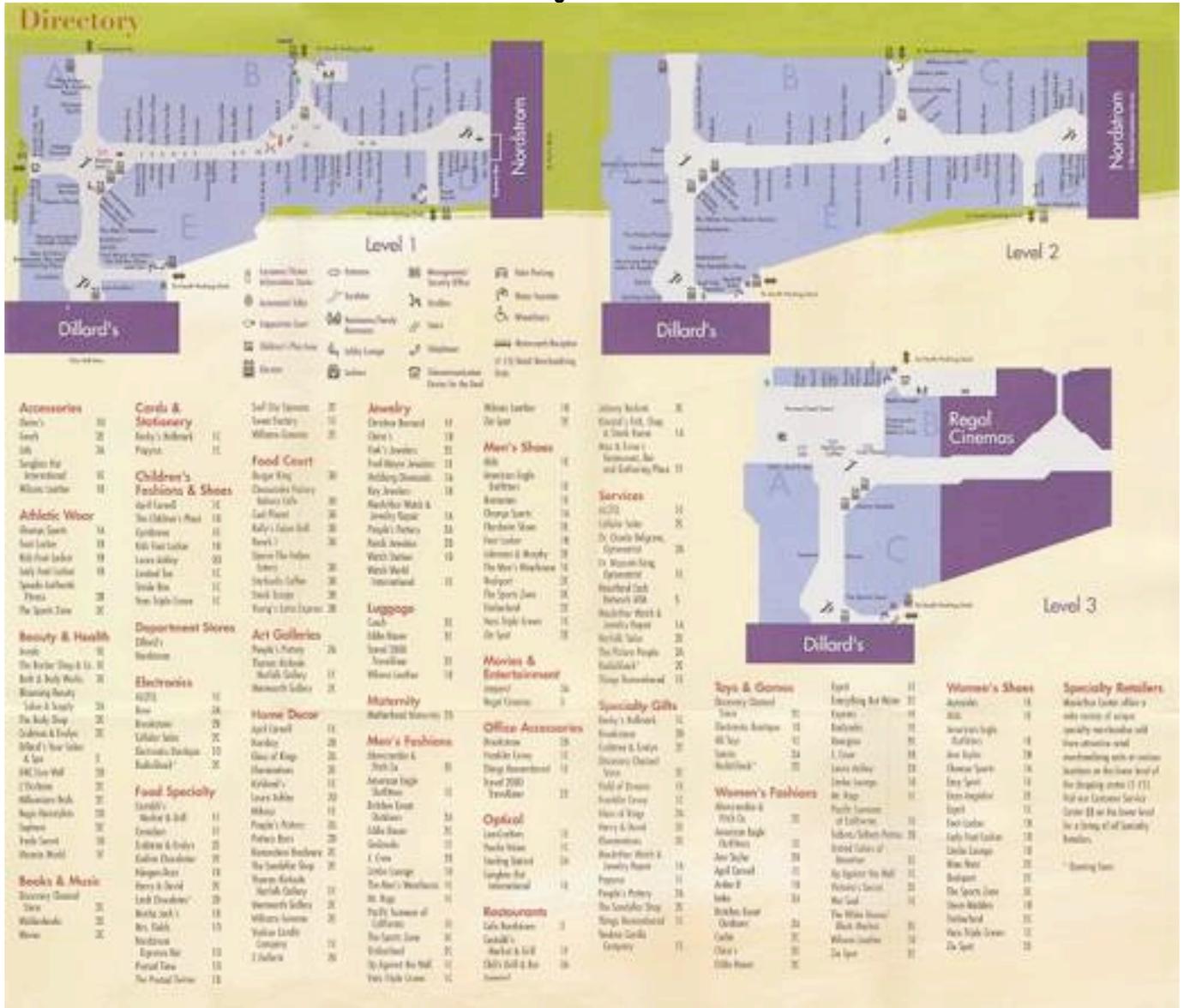
Portsmouth Retail Sales		
Sales	Past Year	5-Year Avg
Sale Price Per SF	\$140	\$109
Asking Price Per SF	\$107	\$105
Sales Volume (Mil.)	\$21	\$15
Cap Rate	4.8%	7.0%
Source: Colliers, Hunden Strategic Partners		

In the past year, the sale price per square foot has been \$140, which is considerably higher than the five-year average of \$109. The asking price per square-foot in Portsmouth in the past year has averaged \$107, just slightly higher than the five-year average of \$105. Landowners continue to hold onto their land as the value of retail land continues to increase in the area, and demand for quality retail space continues to improve. The implications of this land hold does not allow for the potential development of retail properties, and developers will seek development opportunities in other nearby areas. The cap rate in the Portsmouth market is at 4.8 percent over the last year.

Retail shopping near downtown Portsmouth is conveniently located within 2.5 miles of a regional shopping center. The MacArthur Center is a 1.1 million-square-foot shopping mall located in Downtown Norfolk. Nordstrom anchors the mall and Dillard's department stores, with space for a third major anchor tenant. There are 400,000 square feet of mall tenant shops and 100,000 square feet of food and entertainment offerings, including the Regal MacArthur 18 movie theater. The 140-store mall opened in March of 1999, with the region's first Nordstrom department store and approximately 70 new-to-market stores.

The following figure shows the directory for the MacArthur Center.

Figure D-5

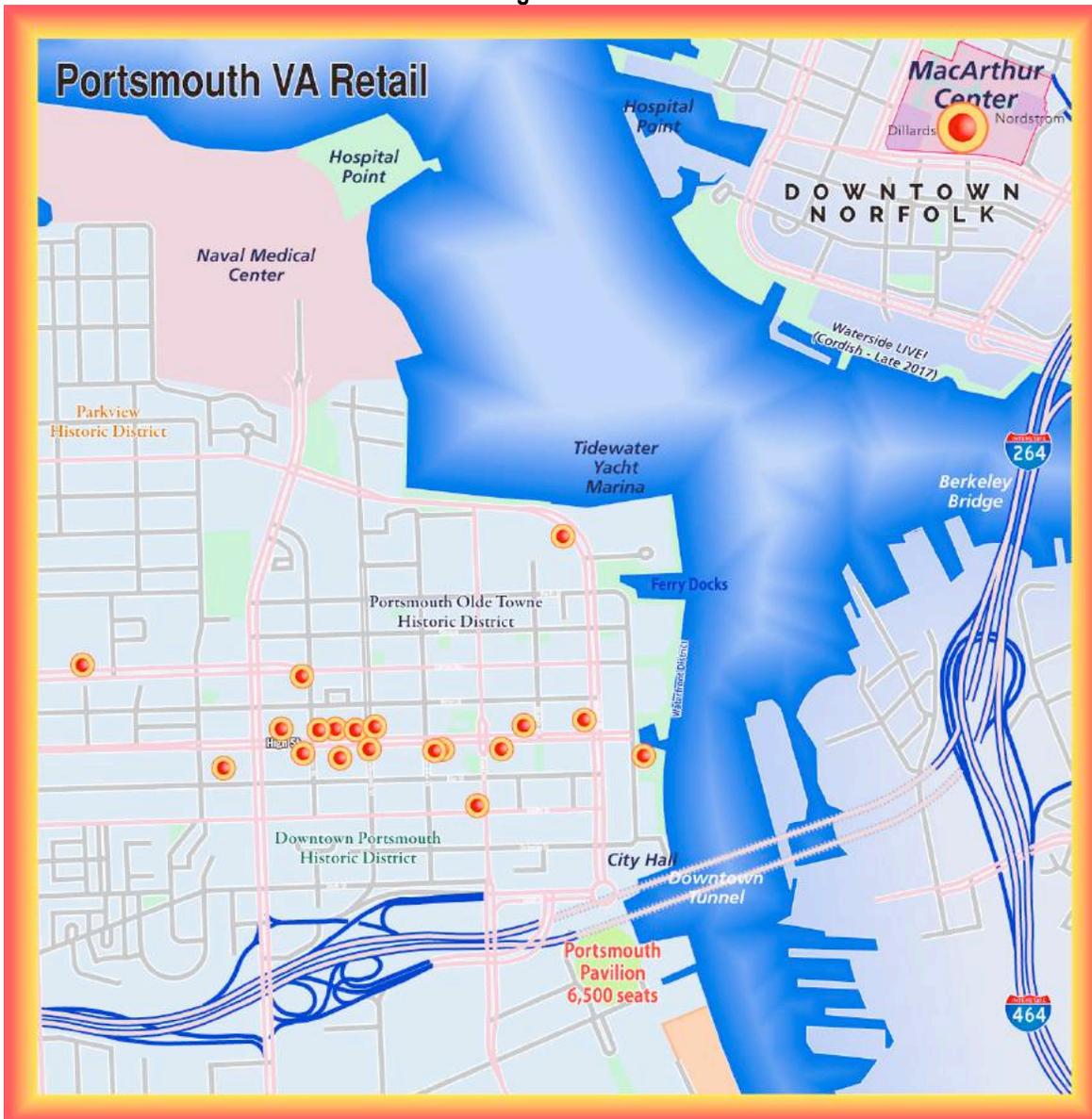


Dillard's and Nordstrom are the anchor tenants at the MacArthur Center, which has 140 stores on three levels. Currently entertainment and dining options account for about 25 percent of the tenant mix.

Downtown Portsmouth Retail

The following figure shows the retail space inventoried for Downtown Portsmouth and includes the MacArthur Center in Downtown Norfolk.

Figure D-6



The majority of retail in Downtown Portsmouth is located on or near High Street, with only a few retail locations outside of High Street. The MacArthur Center in Downtown Norfolk across the Elizabeth River is the primary destination for retail in the area.

The following table lists the Downtown Portsmouth retail space inventoried.

Table D-7

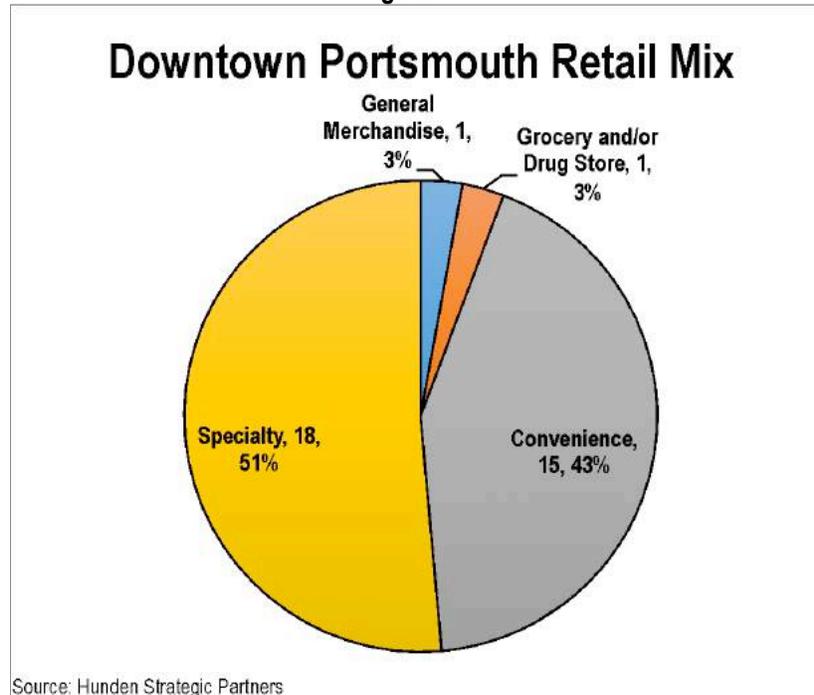
Downtown Portsmouth Retail Inventory			
Establishment	Address	Concept	Subcategory
Olde Towne Salon Barber Shop	610 Court St	Convenience	Barber
Willie's Barber Shop	718 High St	Convenience	Barber
Cycle Classics	427 High St	Convenience	Bikes
AMCS Flowers & Personal Services	307 High St	Convenience	Florist
SoleRight	310 High St	Convenience	Foot wear
Anderson-Wright	622 High St	Convenience	Furniture
Crockin Furniture	215 High St	Convenience	Furniture
Myers & Tabakin	825 High St	Convenience	Furniture
Fleming's Gym	305 High St	Convenience	Gym
All Nails	1124 London Blvd	Convenience	Salon
Norma Elizabeth's Salon	710 1/2 High St	Convenience	Salon
Pam's Hair Designers	434 A Green S	Convenience	Salon
Star Struck Styles LLC	615 High St	Convenience	Salon
Studio CK Salon	1 Crawford Pkwy	Convenience	Salon
Totally Pampered Day Spa	604-1/2 High St	Convenience	Salon
Arsenia Clothing	719 London St	Convenience	Service
Dollar General	326 High St	General Merchandise	--
Olde Towne Drug Center Pharmacy	600 High St	Grocery and/or Drug Store	--
Way Back Yonder Antiques	462 Washington St	Specialty	Antiques
Fabulous Finds & Designs	509 Washington St.	Specialty	Antiques
The Finer Things Boutique	511 Washington St	Specialty	Apparel
Linda's Especially For You	728-A High St	Specialty	Apparel
Special Occasions Formal Wear	636 High St	Specialty	Apparel
Touch of Style	323 High St	Specialty	Barber
Orzo Studio	600 Court St	Specialty	Ceramics
Mr. Vintage & Collectibles	425 High St	Specialty	Collectibles
Bowman's Garden Center	315 Green St	Specialty	Garden Center
Children's Museum of Virginia	221 High St	Specialty	Gift Shop
Portsmouth Art & Cultural Center Gallery Shop	420 High St	Specialty	Gift Shop
Portsmouth Visitor Information Center & Gift Shop	6 Crawford Pkwy	Specialty	Gift Shop
The Final Score- Virginia Hall of Fame & Museum	206 High St	Specialty	Gift Shop
Kitchen Koop	638 High St	Specialty	Kitchen
Ocean Marine Yacht Center	1 Crawford Ct	Specialty	Marine Supplies
Tidewater Yacht Marina & Shop Store	10 Crawford Pkwy	Specialty	Marine Supplies
Skipjack Nautical Wares& Marine Gallery	620 High St	Specialty	Nautical
Smoke Shop	627 High St	Specialty	Smoke Shop

Source: Various Sites, Hunden Strategic Partners

A total of 36 retail establishments were inventoried in Downtown Portsmouth. The Downtown Portsmouth retail market has a limited supply of traditional retail options. The market is dominated by specialized retail and convenience services stores. Most retailers in the Downtown area are local enterprises, including several salons, barber shops, and several gift shops. Antiques shops are also a big part of the Downtown retail scene. The proximity to the water also supports marine and nautical based stores.

The following figure presents a breakdown of the Downtown Portsmouth retail options.

Figure D-7



More than 50 percent of the inventoried retail is specialty retail. Convenience retail follows closely with 43 percent of the total. Overall, this Downtown market has minimal traditional retail and no grocery store in Downtown Portsmouth. However, two grocery stores exist within 2.5 miles of Downtown. A Food Lion is approximately one mile west along London Boulevard and the new Kroger Marketplace is located 2.5 miles west of Downtown. The grocery stores have located along the perimeter to capture the more densely populated areas outside of Downtown. As more residential developments continue in the core Downtown area, residents are likely to expect closer accommodations such as an urban fresh market. As more residential development occurs, opportunities to land such retail developments will become possible.

Downtown Portsmouth has struggled to attract established retailers because most high-end chain retail activity is centered in Downtown Norfolk, and the Downtown simply does not have a critical mass of nearby households that are needed to support retail long-term. Without a major node of activity and spending Downtown, retail and restaurants serve a smaller, localized area and anything larger would be considered pioneering or risky, as it would need to be a destination and attract those from outside the area to come Downtown to support it.

Currently, rates for Downtown retail properties are in the range of \$10 to \$12 per square foot. Common Area Maintenance (CAM) is in the \$2.00 to \$2.50 per square foot range. Tenant Improvement (TI) allowances will differ per project but for the most part will be low per square foot. With the inventory of spaces available it has been challenging to lease the spaces. The retail leasing market in Downtown Portsmouth has been slow in the last several years. The residential projects that are occurring Downtown should be able to help reverse

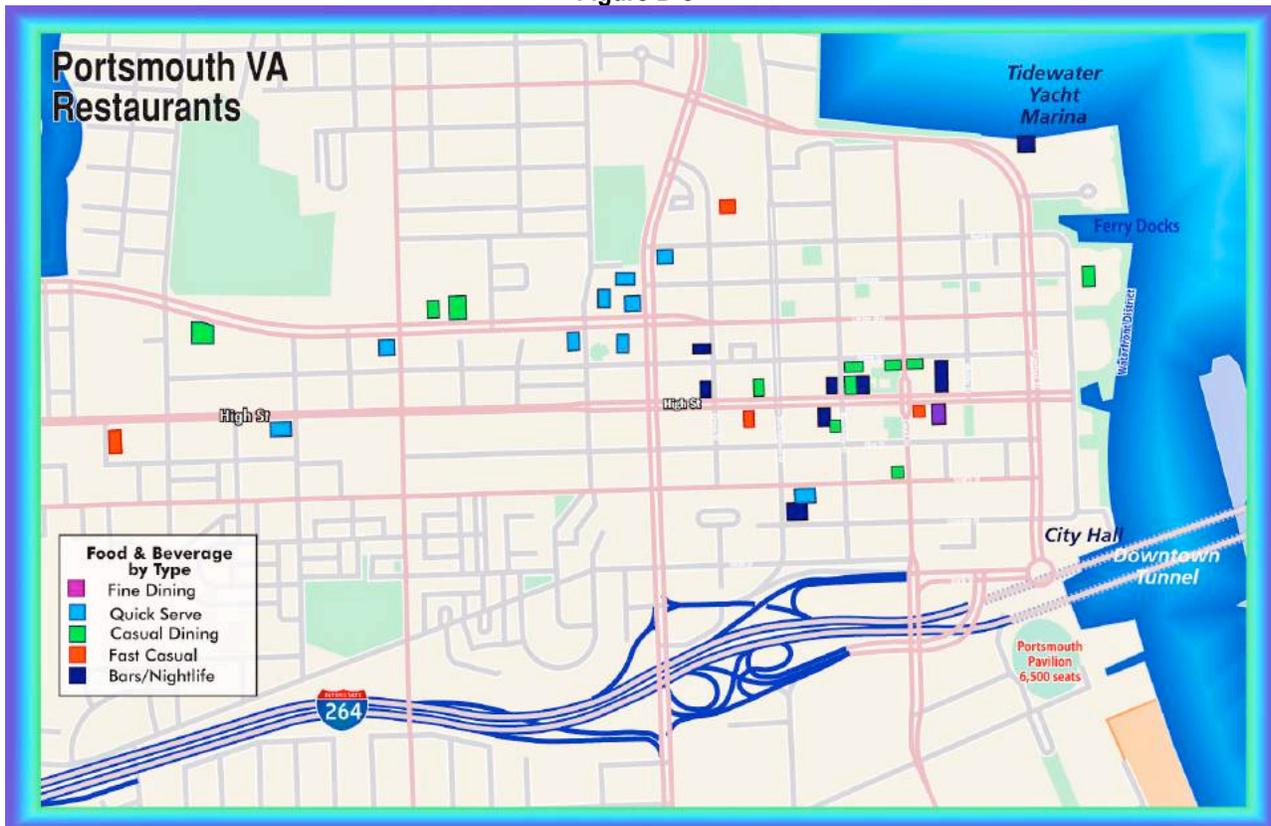
this trend by increasing the number of residents in the Downtown area. Residents will require and expect services and amenities, which will drive demand for retailers in the Downtown area. Area brokers recommend a convenience store, clothing stores and/or restaurants, specifically quick serve options since there are very few in the Downtown area.

Portsmouth Restaurants

The restaurant market in Downtown Portsmouth is highly correlated with retail activity and both markets have followed a similar trend. The restaurants Downtown tend to be higher quality and offer more concepts to choose from than the retail. Like retail, the Downtown restaurant market is mostly concentrated along High Street.

The following figure shows the location of restaurants in Downtown Portsmouth.

Figure D-8



The highest concentration of restaurants is located on High Street from Court Street west to Green Street. A second node of dining options exists at the intersection of Effingham and London Streets. Quick service and pizza options are mostly located in this node.

The following table is a list of the inventoried restaurants in Downtown Portsmouth.

Table D-8

Downtown Portsmouth Restaurant Inventory

Establishment	Address	Category	Cuisine / Subcategory
Baron's Pub & Restaurant	500 High St	Bar/Restaurant	American
Griff's Restaurant & Sports	509 High St	Bar/Restaurant	Chicken Wings
The Bier Garden	438 High St	Bar/Restaurant	German
Gosport Tavern	702 High St	Bar/Restaurant	Modern American
Kad A Lac Restaurant & Lounge	448 Green St	Bar/Restaurant	Modern American
757 Crave on the Harbor	10 Crawford Pkwy	Bar/Restaurant	Seafood
Roger Brown's Restaurant and Sports Bar	316 High St	Bar/Restaurant	Southern
Legends Brewing Company*	1 High Street	Bar/Restaurant	Micro-Brewery
China Ocean	1505 London Blvd	Casual Dining	Chinese
Rong Spring	1106 London Blvd	Casual Dining	Chinese
Longboards	440 High St #2	Casual Dining	Hawaiian
Mannino's Italian Bistro	606 High St	Casual Dining	Italian
Homegrown	455 Court St	Casual Dining	Italian
Guads Mexican Restaurant	612 Court St	Casual Dining	Mexican
Cancun Fiesta	506 Dinwiddie St	Casual Dining	Mexican
Lobscouser Restaurant	337 High St	Casual Dining	Seafood
Foggy Point Bar & Grill	425 Water St	Casual Dining	Seafood
Danny's Seafood	1118 London Blvd	Casual Dining	Seafood
Still Worldly Eclectic Tapas	450 Court St	Casual Dining	Tapas
619 Cantina	619 High St	Fast Casual	Mexican
The Green Bean Cafe	315 Green St	Fast Casual	Sandwiches
Carla's Cold Cuts & Wraps	1629 High St	Fast Casual	Sandwiches
Jimmy Johns	341 High Street	Fast Casual	Sandwiches
Cafe Europa	319 High St	Fine Dining	Mediterranean
McDonald's	801 London Blvd	Quick Serve	American
Hardee's	850 London Blvd	Quick Serve	Burgers
Church's Chicken	350 Effingham St	Quick Serve	Chicken
KFC	440 Chestnut St	Quick Serve	Chicken
Sing Wong Restaurant	1411 High St	Quick Serve	Chinese
Starbucks	361 Effingham St	Quick Serve	Coffee
Pizza Hut	800 London Blvd	Quick Serve	Pizza
Domino's Pizza	1201 London Blvd	Quick Serve	Pizza
Sun's Sub & Pub	425 County St	Quick Serve	Sandwiches

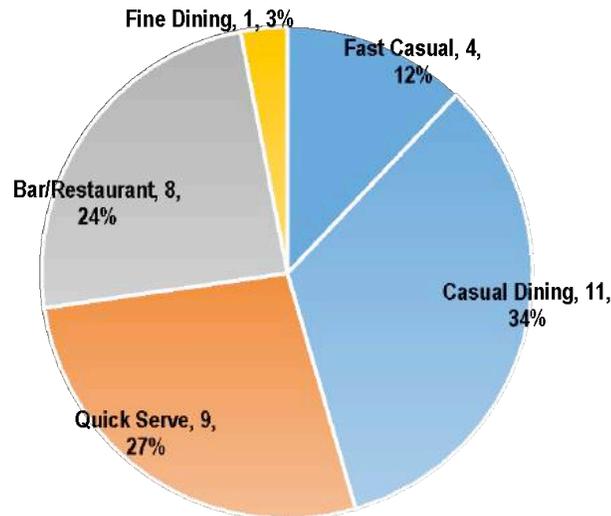
Source: Various Sites, Hunden Strategic Partners

HSP inventoried 33 restaurants in the Downtown market. The mix of and types of cuisine varies however, there are a few upscale dining options. The only national chains in the market are quick service options.

The following figure presents the restaurant mix by type in Downtown Portsmouth.

Figure D-9

Downtown Portsmouth Restaurant Mix



Source: Hunden Strategic Partners

Casual dining is the most common food and beverage option in Downtown Portsmouth, followed by quick serve and bar/restaurants. These three categories account for 85 percent of the food and beverage options. Only one restaurant is considered to be fine dining in Downtown Portsmouth. Additionally, only four establishments are considered fast casual. Nationally, fast casual restaurants have led the restaurant industry in growth, but are still behind the traditional quick serve/fast food franchises in terms of lunch market share.

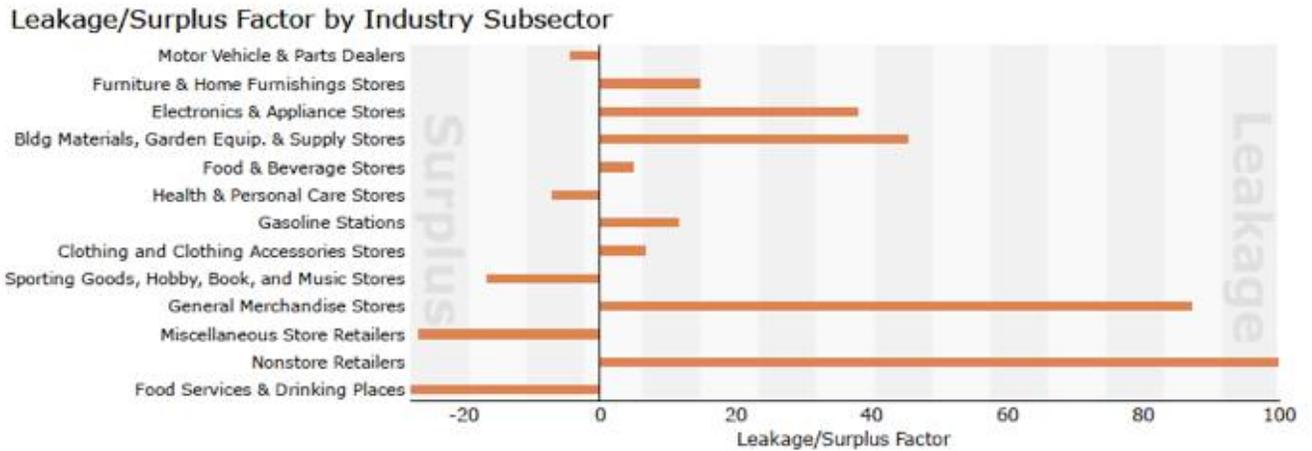
Two new concepts that will be located Downtown are a micro-brewery and micro-distillery. These two concepts are expanding the options and offerings in Downtown Portsmouth. The micro-brewery will be located on at 1 High Street along the waterfront. The micro-distillery will be located on High Street as well in a 2,000-square-foot space.

Relative to the surrounding markets, the restaurant scene in Downtown Portsmouth lacks density, variety and distinction, providing opportunity for potential developments. Ideally, Downtown Portsmouth would be served to develop a “walkable”, active restaurant node that connects retail, office, and residential developments. An established restaurant market will also bolster tourism and attract additional private investment across all product types. Additional restaurants at a new waterfront development would also enhance the downtown core although it would be outside the area that most visitors and residents see or consider to be central, so waterfront developments would likely serve their localized area more so than a wider market, unless a critical mass of restaurants is developed that can turn the corner from “localized” to “destination” in terms of the market they would attract. This would be determined by the size, scale, number and quality of restaurants offered.

The following figure shows the retail leakage by industry subsector from ESRI for a one-mile radius from Downtown Portsmouth. Retail leakage is a measure of the relationship between supply and demand that ranges from +100 (total leakage) to -100 (total surplus). A positive value represents 'leakage' of retail

opportunity outside the trade area. A negative value represents a surplus of retail sales, a market where customers are drawn in from outside the trade area.

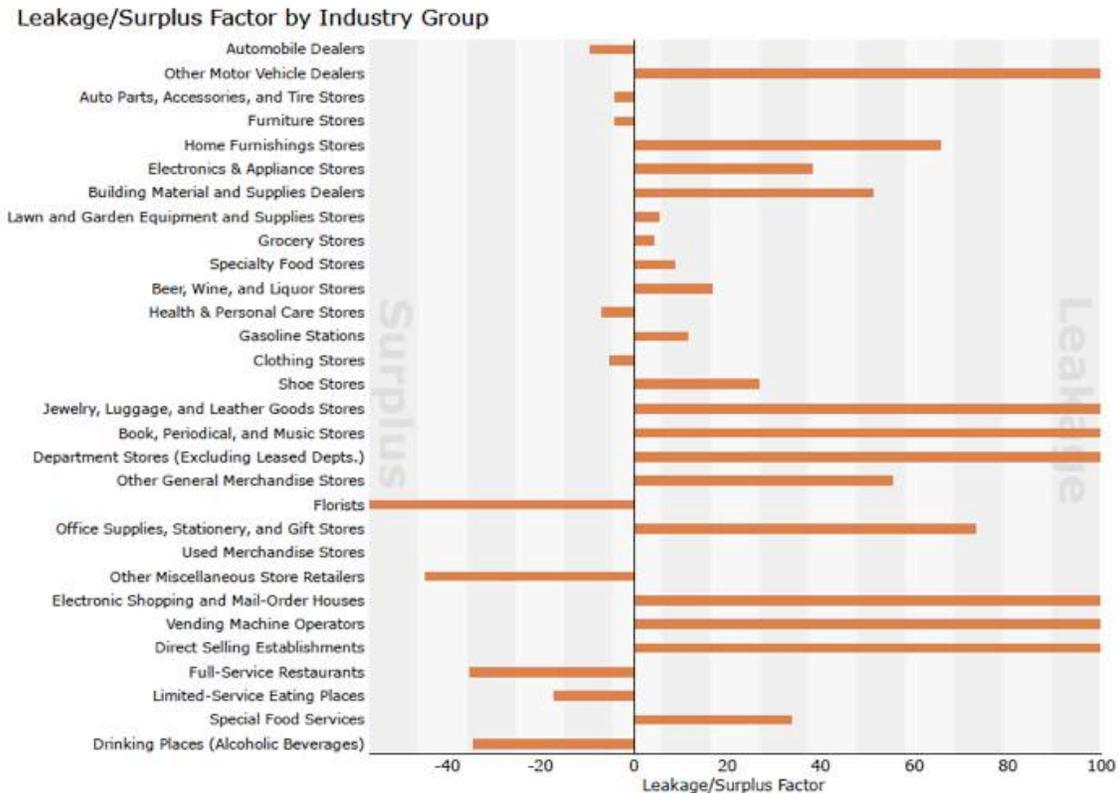
Figure D-10



Several subsectors show significant leakage. Nonstore retailers are not present in Downtown Portsmouth with 100 percent leakage. General merchandise stores have a leakage of 85 percent in this market. Electronic and appliance stores and building materials, garden equipment and supply stores have leakage of approximately 37 percent and 45 percent, respectively. Miscellaneous store retailers and food services and dining places have a surplus of nearly 30 percent each. The subsectors with significant leakage are opportunities to fill gaps in the market and complement the existing retail Downtown.

The following table presents retail leakage by industry group provided by ESRI for a one-mile radius of Downtown Portsmouth.

Figure D-11



Numerous industry groups in this market have 100 percent leakage, which are the following:

- Jewelry, Luggage, & Leather Goods Stores,
- Book, Periodical, & Music Stores,
- Department Stores (Excluding Leased Departments),
- Other Motor Vehicle Dealers,
- Electronic Shopping & Mail-Order Houses,
- Vending Machine Operators, and
- Direct Selling Establishments.

The seven groups above are the industry groups that this market does not have. The first three industry groups listed are represented in Downtown Norfolk at the MacArthur Center Mall and surrounding area, so any introduction into Downtown Portsmouth from four industry groups are expected to compete with options in Norfolk.

The following industry groups have the greatest surplus in the Downtown Portsmouth market.

- Florists,
- Other Miscellaneous Store Retailers,
- Full-Service Restaurants,
- Limited-Service Eating Places, and
- Drinking Places (Alcoholic Beverages).

Additions to these categories will further saturate the market unless the new businesses offer unique offerings that expand concept, quality and/or price points in the market.

Feedback

- Representatives commented that due to short break and lunch times, and lack of availability of casual and sit-down restaurants, many employees avoid leaving the work premises. Additionally, once an employee finishes their shift, they tend to leave directly for home because there is not a “reason” to stay since most live outside of Downtown Portsmouth.
- Based on conversations with stakeholders, casual and upscale national chain options such as Applebee’s, Logan’s Roadhouse, Olive Garden and Ruby Tuesday’s, would be welcome in the market, although no market data was discovered that would support such a national chain development.
- Restaurateurs commented that they enjoy having new establishments open because they notice a renewed interest in all of the Downtown options when new restaurants open.
- Parking concerns may want to be addressed to encourage locals and visitors to come to any new development. Parking was raised as an issue primarily due to confusion about on-street parking regulations for patrons.
- Creating a destination along the waterfront with more restaurant options is what visitors expect to find near harbors and marinas in a downtown setting.

Implications

The current retail and restaurant inventory Downtown is concentrated along High Street east of Effingham Street. The inventory consists of several types of boutique, independent and mid-scale local restaurants and retail. Downtown Portsmouth needs a critical mass of retail and restaurant options in one place to support new residential growth and to make Downtown Portsmouth a retail, dining and tourism destination. The offerings today do not induce visitation to the Downtown area and instead support the existing demand looking for basic options. New housing options in Downtown will provide the people needed to sustain retail shops and restaurants.

Downtown Portsmouth has a high volume of daytime workers, with many employed at the hospital and shipyard. Area employees avoid leaving the work premises during their work shift, and go directly home once they have completed work. A development with density and variety could be the catalyst to draw this group of potential customers. Most of the workforce at the medical center and shipyard are not working a typical nine



to five schedule Monday through Friday, so attracting more businesses that can provide extended hours to accommodate a wider spectrum of demand will help maintain activity throughout the day and evening.

Any new restaurant development, whether it is located in Downtown or along the waterfront, will rely on the daytime office workforce, the downtown and local resident population, and visitors to keep it vibrant. One issue that is especially a concern along the waterfront is parking. These concerns and feedback will need to be addressed as part of the overall Downtown redevelopment plan.

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SPECIALTY AND ENTERTAINMENT ANALYSIS

HSP profiled and analyzed the existing Portsmouth specialty and entertainment attractions by analyzing available market data, and conducting interviews with development officials, market participants and key stakeholders who provided local input and insights. This chapter provides an analysis and overview of the existing specialty and entertainment attractions in Portsmouth.

Primary Attractions Market Overview

Attractions provide locals and tourists with activities, and if compelling enough, prolong and/or induce visitation. The greater the diversity and number of attractions, the more effectively the community can attract visitors, meetings, events, and hotel demand.

The following figure shows a map of the locations of the primary specialty and entertainment venues in Downtown Portsmouth.

Figure E-1



The following section profiles each of the primary specialty and entertainment venues in Downtown Portsmouth.

Children's Museum of Virginia

The Children's Museum of Virginia is the largest children's museum in the state of Virginia. Located in the center of Olde Towne at 221 High Street, the museum opened in 1980 in the basement of the Portsmouth library. In 1984, the museum doubled in size when it moved to the 1846 Courthouse on the corner of High and Court Streets. The museum subsequently moved to its current location in 1998, on the date of its 18th anniversary. The building underwent a \$13 million renovation in 2009 that included a major redesign, new exhibits and the addition of more than 9,000 square feet of space, bringing the total to 72,000 square feet. It reopened in May of 2011.

The following figure shows an image of the exterior of the museum.

Figure E-2



The first floor of the museum features 12 large exhibit areas including a working port, Beazley Planetarium, Lancaster Antique Train and Toy Collections, a market area, a bank exhibit, bubble exhibit, a wellness center for children, a reading area, a pet clinic and a gift shop.

The second floor of the museum features three themed areas, including an area dedicated to energy and physical sciences, a full-size house and an art workshop, "Dr. Forces Traveling Energy Extravaganza" which focuses on magnetism, electrical energy waves, fluid dynamics and simple and compound machines. Visitors can explore topics such as biology, ecology, archaeology, geology and astronomy in "My Backyard and Beyond," and can take part in Make It and Take It workshops at CreARTivity.

The Museum also features the Lancaster Antique Train and Toy Collection. The exhibit is designed to look like a train depot platform, as railway tracks guide visitors from the platform area toward the main Lancaster exhibit and collection. Visitors can view an extensive, multi-tiered train layout. The train exhibit layout is a representation of the Commonwealth of Virginia and contains four geographical features of Virginia: Portsmouth, Roanoke, Richmond, and the Blue Ridge Mountains. The exhibit features 814 trains in display cases, eight mainline trains active in the layout, approximately 610 square feet of track, 500 people in the display, 200 animals, 160 cars, over 750 handmade trees and over 300 store bought trees. In addition to general admission, the museum hosts a variety of birthday parties, events, workshops, classes, and camps.

The following figure depicts an image of the train exhibit.

Figure E-3



Conversations with facility management and community stakeholders indicated that the Children’s Museum of Virginia is the primary attraction in Portsmouth. The venue, which attracts approximately 165,000 visitors per year, estimates that 85 percent of visitors come from the local community.

Virginia Sports Hall of Fame and Museum

The Virginia Sports Hall of Fame and Museum was established in 1966. The building, located at 206 High Street, offers an interactive family-friendly environment that features college sports, media, Olympics, golf, auto racing and Redskins exhibits, along with interactive exhibits that allow children to test their skills in various sports.

The Virginia Sports Hall of Fame opened its 35,000-square-foot, two-story, state-of-the-art facility in 2005. Located directly across from the Children’s Museum of Virginia, the Museum’s nine exhibit areas showcase 20 sports. Additional exhibits include the Hall of Honor, a tribute to the inductees that includes electronic databases with multimedia displays, as well as plaques honoring athletes and media inductees.

The Hall of Fame includes the Redskins Skybox Experience, a media center, John McKenna Campus Champions, an exhibit celebrating the stars and headline makers of today, and the Bon Secours Training Room. Also included is the Chuck Boone Sports Complex, an area where visitors can participate in baseball, football and soccer activities. Other exhibits include the Virginia Golf Exhibit, the Paul Sawyer Auto Racing Exhibit, the Cox Digital Theater, the Tom and Julia Riddle Sports Gallery, a 2,775-square-foot gallery, the Barry Parkhill Gymnasium, and a gift shop.

The Virginia Sports Hall of Fame offers educational programs that focus on the areas of science, technology, engineering and math (STEM), health and character development. The Hall of Fame introduced a Math Academy that encourages students to think critically about the connections between math and sports.

The following shows an image of the entrance to the Virginia Sports Hall of Fame and Museum.

Figure E-4



Conversations with facility management indicated that the summer is the busiest season for the museum. Approximately 80 percent of all visitors to the Hall of Fame are from recruited groups, including school field trips. Management stated that, due to the six-block walk, the museum does not benefit from the ferry crowd, and the lack of availability of surrounding retail has hurt visitation to the Museum.

The museum, which recently encountered financial struggles, contemplated leaving the Portsmouth area. Built in April of 2005, the land for development and an additional \$2 million investment was provided by the City. The City has contributed an annual \$500,000 subsidy since opening. In recent years, the City has lowered the amount of the annual contributions. The Hall of Fame is experiencing significant operating losses and is reviewing its future in Portsmouth.

Commodore Theater

The Commodore Theater is a historic movie theater in Downtown Portsmouth. Built in 1945 in the Art Deco style, the theater originally seated 1,000 patrons. In 1997, the Theater was listed on the National Register of Historic Places. The Commodore Theater, which features a 41-foot screen and Dolby Digital Sound, presents first-run films and features a restaurant within the main auditorium.

Opened in 1945, the Commodore Theater closed its doors in 1975 after 30 years due to the general decline of the local community. In 1987, the Theater underwent restorations that included reducing its capacity to 190 seats on the main floor dining area and 318 seats in the balcony. The artwork in the auditorium and the 20 by 40-foot size murals were completely refurbished. The original stage was set up with a fly loft, which allowed

for live stage shows and movies. However, all of the rigging had to be removed in order to meet the requirements of the THX Sound Certification.

The following figure shows an image of the entrance to the Commodore Theater.

Figure E-5



Conversations with management of the Commodore Theater indicated that a general migration away from Downtown has hurt the theater and other local attractions. As the only theater in the local community, management stated that Downtown Portsmouth will benefit from additional incentives for new businesses and startups in Downtown to help spur investment and generate more foot traffic and activity.

Portsmouth Pavilion

The Portsmouth Pavilion is a 6,500-seat capacity outdoor amphitheater that opened in 2001. Located on the banks of the Elizabeth River in Downtown Portsmouth, the Pavilion hosts live entertainment acts, including past performances from Tom Petty, Anita Baker, Robert Plant, BB King, and Vince Gill. Performances in 2016 include 98 Degrees, the Avett Brothers, and Chris Stapleton.

The following figure is an image of the Portsmouth Pavilion.

Figure E-6



Conversations with stakeholders indicated that the local community perceives that the quality of concerts at the Pavilion has declined in recent years. However, a sense of optimism was expressed for upcoming shows and performers booked. Booked shows in 2016 included The Australian Pink Floyd Show, The Isley Brothers, Chris Stapleton, The Avett Brothers, Weird Al Yankovic, twenty one pilots, and others. Shows scheduled to date in 2017 include The Temptations and The Four Tops, Bryan Adams, and the Australian Pink Floyd Show.

Visual Arts Center at Tidewater Community College

Tidewater Community College's Visual Arts Center is a state-of the-art, high-tech facility offering degree programs in graphic design and studio arts. Located on High Street in Downtown Portsmouth, the facilities include a rooftop glassblowing studio, 16 studios with state-of-the-art smart technology, seven MAC labs for graphic and fundamental design courses, 40,000-piece BB&T Books and images library and more than 2,000 square feet of exhibition space.

The facility is the only one of its kind in the state of Virginia, and is the first regional program for Tidewater Community College. The Visual Arts Center typically presents six gallery exhibitions each year, in addition to several smaller exhibitions. Gallery hours are from 9 am to 8 pm daily, and admission is free.

The following figure shows a display in the gallery at the Visual Arts Center.

Figure E-7



A state-of-the-art facility located in the heart of Downtown Portsmouth, the Visual Arts Center is a unique venue that represents additional opportunity for Portsmouth to attract visitors and a variety of events.

Festivals and Events

In addition to the primary attractions profiled in this chapter, Downtown Portsmouth hosts a variety of major festivals and other events each year. These events bring visitation, spending and room nights to the community that otherwise would not have occurred. The major events are profiled below.

- **Portsmouth Invitational Tournament.** Every April for the past 63 years, the P.I.T has invited 64 of the best college basketball players from across the nation to participate in a four-day, 12-game tournament in front of representatives from every NBA team. The tournament started drawing the attention of NBA scouts in the 1970s, and today scouts from numerous international leagues join NBA representatives to scout for future professionals.
- **Gosport Art Festival.** Over Mother's Day weekend, approximately 80 juried artists and craftsmen display two- and three-dimensional work. Cash awards exceed \$8,000, with additional support provided by many regional sponsors. Gosport benefits Edmarc Hospice for Children. The festival has a 45-year tradition in Hampton Roads, and just celebrated its 15th year in Downtown Portsmouth.
- **Umoja Festival.** Since 1991, the City of Portsmouth has dedicated Memorial Day weekend to its African-American Festival. The word Umoja is a Kiswahili word meaning unity, and is the first principal of Kwanzaa. The event attracts approximately 15,000 visitors to Portsmouth each year.
- **Elizabeth River Run.** Held on Saturday of Memorial Day weekend, the Elizabeth River Run was

started in 1979 by Jerry Bocrie. The race features views of the Elizabeth River, as well as Olde Townes' monuments, museums and homes. The run concludes with a post-race celebration at Portsmouth Pavilion.

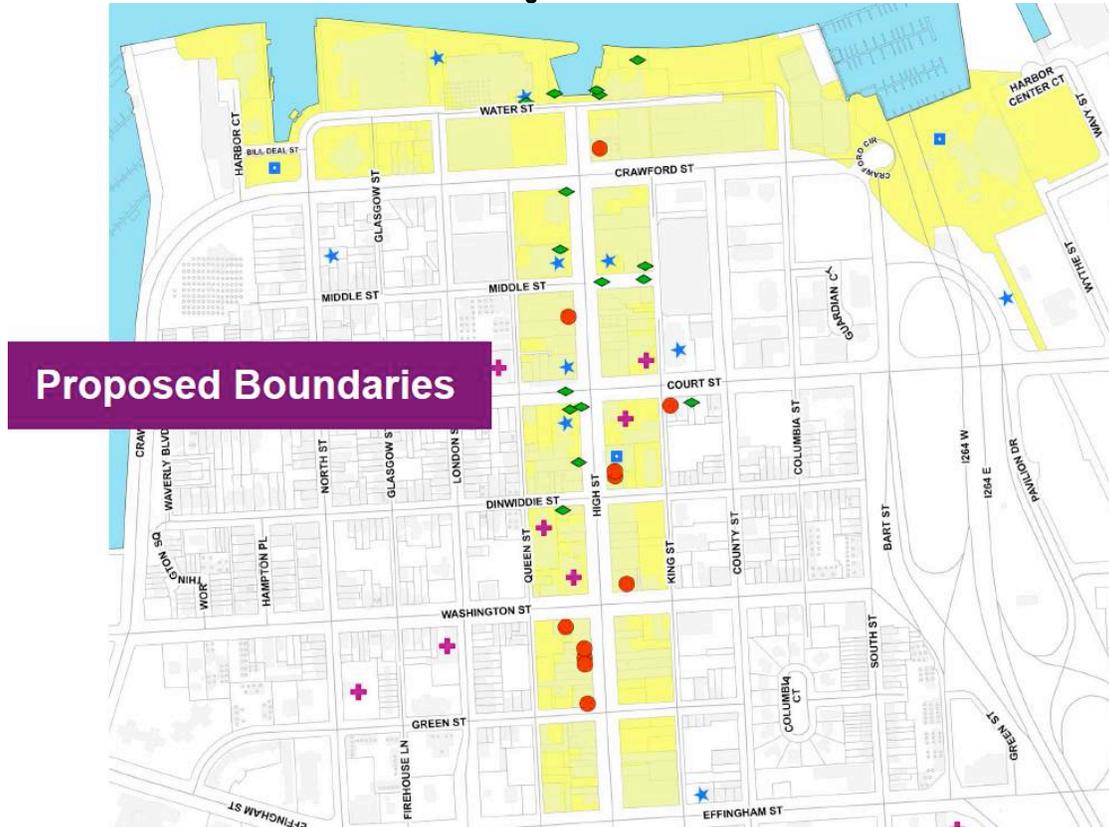
- The **Memorial Day Parade** has been a Portsmouth tradition since 1884. The event salutes the service and sacrifices of the men and women of the United States Armed Forces and celebrates Portsmouth's military heritage.
- **Cock Island Race**. This race has taken place on Saturdays in June since 1988. It features live entertainment on Friday and Saturday nights.
- The **Seawall Art Show** takes place on the last weekend before Labor Day. It draws large crowds of art buyers to the show, which showcases juried fine arts and crafts. The Portsmouth Museum and Fine Arts Commission provides assistance for this volunteer run show.
- The **Grand Illumination Parade** takes place in late November and is the kickoff to the holiday's in the city. It begins with the illumination of the Downtown Norfolk and Olde Towne Portsmouth skylines followed by Hampton Roads Grand Illumination Parade.

Downtown Cultural Arts District

The Portsmouth Museums and Fine Arts Commission is in the process of developing a Cultural Arts District in Downtown Portsmouth. A Cultural Arts District is defined as an area intended to create a critical mass of places of cultural consumption such as art galleries, theaters, music venues, historic sites, museums, monuments, festivals, farmer's markets and public art.

The following figure shows a map of the proposed boundaries of the Cultural Arts District.

Figure E-8



Conversations with representatives from the Museum and Fine Arts Commission indicated that the proposed initiative is viewed as an opportunity to brand Portsmouth as a cultural and arts destination. Downtown Portsmouth already offers many of the components that typically make up an arts district, and by officially designating the area as a cultural arts district, Portsmouth will be able to market itself as such. The marketing efforts will include signage, banners, and a dedicated website for the district. The primary goal, according to conversations with the Museum and Fine Arts Commission, is to leverage the existing venues in Portsmouth and attract diverse businesses that fit into the landscape, promote residential development, and act as an engine for attracting and retaining young professionals. The proposed Cultural Arts District still needs to be approved by the City Council.

Implications

Downtown Portsmouth has a modest attractions market for its tourists and residents. Aside from Downtown's main attractions, which include the waterfront, Children's Museum, Virginia Sports Hall of Fame and Portsmouth Pavilion, the range of attractions in the Downtown area is limited. The lack of a convention and visitor's bureau and consistent marketing and promotion of the area have impacted Portsmouth's ability to generate tourism activity. The businesses located Downtown are generally "9-5" operations and after 5pm

there is little activity beyond the occasional events at the Portsmouth Pavilion. These challenges can be overcome, and the Downtown area can be a hub and center of activity, but it will take smart planning and investments to make this a reality.

Many of the specialty venues attract residents and do not induce significant spending and visitation from outside the community. Olde Towne is a perfect destination to accommodate outdoor festivals and other events, and should continue to expand on those offerings. The proposed Cultural Arts District could also have a major impact on Portsmouth's brand, and could induce additional visitation in the future. Portsmouth offers a unique and walkable downtown and a unique collection of attractions. Capitalizing and expanding on the current offerings of Downtown will be key as Portsmouth looks to improve its position as a destination.

The lack of Downtown hotel rooms has an impact on the size and quality of the Downtown visitor market. While the Renaissance Waterfront Hotel is an excellent amenity for Downtown and helps complete a package of visitor amenities, its performance suggests that it relies on securing its own business. Portsmouth has fewer hotel facilities compared to other markets of similar sizes. Downtown Portsmouth has a gap in size and quality between the Renaissance and the rest of the hotel properties. The existing meeting facilities are negatively impacted by the lack of quality walkable hotels options. The inconsistent investment in Downtown Portsmouth hotels has impacted the reputation and attractiveness of Portsmouth as a city and an event host, and performance has suffered across the board. By increasing and improving the available hotel package, HSP believes Downtown Portsmouth is in a position to increase its attractiveness as a meeting/event destination and its competitive stance as a city.

A collection of restaurants along the waterfront, always a popular destination, would help to create a sense of activity and things to do downtown and would help extend the visitor's stay. An improved downtown with more of all uses (office, residential, attractions) would allow the city to grow as a place to live, work, visit and seek entertainment. The improvements would create an attractive package that draws many visitors and businesses, creating a more vibrant and active city. However, in all segments of demand, the critical mass simply is not yet there to support additional hotels. The long-term viability of the Renaissance Hotel is at risk unless more demand can be generated in Downtown Portsmouth across all demand segments as well as additional hotel rooms developed in order to accommodate and attract more guests to Portsmouth. Meeting planners and other guests prefer to have a variety of lodging options and pricing ranges in order to book meeting for their guests.

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RELEVANT WATERFRONT COMMUNITY PROFILES

The purpose of this section is to provide an analysis and overview of other waterfront communities -- whether on a river, lake, bay, harbor or combination thereof -- and determine what efforts have been undertaken to revitalize their downtown areas and interact with the waterfront. While there are no direct comparisons, there are many examples to learn from. The key factors to redevelopment success include:

- Recognition that the waterfront is a key amenity that most communities cannot offer.
- Creation, via public and private visioning plans, of realistic strategies to reuse the waterfronts for recreation, natural, commercial and residential use and interaction.
- Creation of public-private partnerships and an increase in public efforts to set the framework for revitalization in and around the waterfront areas. Often, this included involving federal assistance, as many waterways are regulated by federal entities.
- Use of the public sector to pull non-optimal uses from the waterfront areas, such as government buildings (jails, etc.), and set the development framework via clean-up, mitigation, infrastructure and real estate tax incentives.
- Incentivizing the private sector to develop on or near the waterfront areas, keeping views and interaction maximized for the public, while also allowing for private use and revenue/value maximization. Discouraging or preventing certain types of developments along the waterfront, such as parking structures that block views and are not necessary right at the water's edge.

One of the challenges that Portsmouth and the other Hampton Roads communities face due to water boundaries is tourism promotion, especially in a market with so many cities making up one region. Waterways often divide one city or state from another. In Hampton Roads, water and other boundaries create numerous cities and political boundaries. Unlike many MSA's, with one primary central city, the Hampton Roads area is a mix of numerous medium-sized cities. Visitors often do not understand the boundaries, roadways, waterways and other factors that make up the region as it is much different than what most are used to. Finding a way for Portsmouth to promote tourism would be challenging within the mix of other cities even if it had a robust budget. Other communities have faced this, although perhaps not to the degree of the cities in the Hampton Roads area. Creating a regional tourism effort allows many smaller communities a way to promote themselves within the region. HSP discusses a regional tourism effort in this section that Cincinnati and Northern Kentucky have employed.

In addition, HSP provides profiles of projects and areas in the following cities:

- Cincinnati, OH/Newport, KY
- Pittsburgh, PA
- Baltimore, MD
- Owensboro, KY

Analysis of Newport/Covington, Kentucky and Cincinnati, Ohio

Northern Kentucky is a region in the greater Cincinnati, Ohio metropolitan area (2.2 million people) that leverages the assets of a large metropolitan area while still providing the convenience and affordability of a smaller city. While the Cincinnati side of the river developed as the first large American city west of the Appalachian Mountains, so too did Covington and Newport, Kentucky. By 1900, 130,000 people lived on the Kentucky side of the Ohio River and 410,000 people lived on the Ohio side, in and around Cincinnati. The Cincinnati side continued to grow, while the Kentucky side experienced more tepid growth, with its historic core, significant business districts and historic architecture remaining largely unchanged for almost a century.

However, the Northern Kentucky side of the region has transformed over the last 20 years to offer a more family friendly atmosphere that combines historical features with new and expanding tourist attractions. This distinct region now offers similar amenities for the benefit of those living in the Cincinnati MSA. The wealth of historic architecture is part of that area's rebirth. Profiled below are some of the features and amenities that the Newport and Covington region offer, and ways they have benefitted from their proximity to the larger Cincinnati MSA.

Major Area Tourism Demand Generators Profiled Below

There are a variety of notable attractions that stand out as significant tourism demand generators for the area, which deserve a deeper profile and understanding. These attractions include the Newport Aquarium, Newport on the Levee, Hofbrauhaus, Purple People Bridge and the Northern Kentucky Convention Center (NKYCC).

Newport on the Levee

Newport on the Levee is an entertainment district located between Third Street and the Ohio River in Newport, Kentucky, immediately across the river from Downtown Cincinnati, Ohio. It is located adjacent to the Purple People Bridge that spans the Ohio River, linking pedestrians with Great American Ballpark, home of the Cincinnati Reds Major League Baseball club, and it is positioned to offer views of the Cincinnati Skyline.

The moniker "Sin City" was a common name for Newport when Monmouth Street became home to various businesses catering to men, including casinos, fancy restaurants, men's clothiers, adult strip bars, and peep shows. Investigations for racketeering ended the casino business, and changing residential patterns left Newport without any significant economic prosperity or business model. The area has several notable historic buildings and neighborhoods resembling early 1800s New England cityscapes, however, the overall area was in decline.

Beginning in the 1980s and 1990s, Newport made plans to develop its riverfront and core to focus primarily on "family friendly" tourism, instead of the "Sin City" tourism of the past. In May 1999, the \$40-million Newport Aquarium opened in 2000, one year ahead of the adjacent entertainment complex, Newport on the Levee. The total of \$160 million cost was 35 percent funded by public incentives including municipal bonds and a real estate tax waiver. Besides the Aquarium, the indoor/outdoor complex surrounding a two-level outdoor plaza and a three-level indoor mall-like space includes a dozen restaurants, some of which feature live music and performances, retail space for clothing, wine, gift stores and fine arts shops, a 20-screen AMC theater, and a Barnes & Noble Bookstore.

The following are aerial views of the Newport Aquarium and Newport on the Levee.

Figure F-1



Current restaurants and nightspots include Bar Louie, Brothers Bar & Grill, Cold Stone Creamery, Brio Tuscan Grill, Claddagh Irish Pub, Dewey's Pizza, Five Guys burgers, Mitchell's Fish Market, naked Tchopstix, Saxbys Coffee, Tom+Chee Grilled Cheese. Entertainment includes Gameworks and Star Lanes on the Levee, with a full restaurant, bars, patio and billiards, Funny Bone Comedy Club, Jefferson Hall live music, a TV show studio called Cincinnatily, Toro Bar, Ride the Ducks amphibious sightseeing tours, and Shillito's Elves, a historic animatronic display surrounding Santa's Workshop, preserved from the old Shillito's Department Store.

Because of the increased growth, attention, value, and visibility, the immediate area has added several adjacent residential condominium and apartment projects, either with new construction or in rehabilitated historic structures. The adjoining cities of Bellevue and Covington have also seen tremendous growth since 2000, constructing office buildings and renovating historic structures for residential reuse, and as such, have become the business centers of the area along the south side of the Ohio River, whereas Newport, lying between Covington and Bellevue, has become the entertainment center. Due to the access of the Purple People Bridge, fans from Cincinnati Reds games, and other concerts and events at the U.S. Bank Arena, patronize Newport on the Levee's restaurants and gift stores before and after the games. The project has served well as a catalyst for Newport's newly developed image and growth. This has contributed to its desirability as a trendy and desirable mixed-use downtown district in terms of prosperity in the minds of the Cincinnati Metropolitan Area's two-million-plus residents.

The following figure shows an image of the Newport on the Levee.

Figure F-2



Retail and entertainment options are densely organized to create a critical mass of attractions for tourists and locals.

The Banks

The Banks entertainment district, located between the Great American Ball Park and Paul Brown Stadium, is part of a riverfront strategic development plan announced in the 1990's. This development serves as a connection between the downtown (Central Business District) and the waterfront, creating a place to live, work and enjoy leisure activities. It is also perhaps a response to the success of Newport on the Levee, which began pulling Ohioans across the river to Kentucky.

The following image shows a conceptual image of The Banks project bounded by the Paul Brown Stadium and Great American Ball Park.

Figure F-5



By the summer of 2011 the first phase opened, consisting of a parking facility, the Current at The Banks, a 300-unit apartment building, and 96,000 square feet of street-level retail space programmed on the street level of the apartment buildings. Restaurants now operating in The Banks include the following:

- Ruth's Chris Steak House
- CRAVE
- WG Kitchen & Bar
- Mahogany's
- Tin Roof
- Toby Keith's I Love this Bar & Grill
- Johnny Rockets
- Holy Grail Tavern & Grille
- Jefferson Social
- Yard House
- Orange Leaf
- Jimmy John's

Phase II of the development is currently underway after breaking ground in May of 2014. It will include a nine-story building that spans a full city block, from Rosa Parks to Race Street and between Freedom Way and Second Street. The site is just east of Paul Brown Stadium and adjacent to the National Underground Railroad Freedom Center. It will include 291 one- and two-bedroom apartments, 19,000 square feet of retail space and a site for the future development of office space, apartments or a hotel. Phase II is expected to be

completed in the first quarter of 2016. The developer of The Banks is attempting to secure a hotel operator for a possible select-service hotel across from the baseball stadium. The hotel is estimated to total between 150 and 200 rooms.

Over-the Rhine

Over-the-Rhine (OTR) is Cincinnati's, and one of the United States', oldest and most historic neighborhoods. The 360-acre neighborhood is a collection of 943 19th-century Italianate style buildings, is one of the country's largest intact collections. In 1983, the historic district was added to the National Register of Historic Places. The district's name originates from German immigrants that settled and built the neighborhood in the mid-19th century. Bridges across the Erie and Miami Canal connected the neighborhood to Downtown Cincinnati. The canal was nicknamed "the Rhine" in reference to the Rhine River in Germany and the newly settled area north of the canal as "Over the Rhine."

The following map outlines the present Over-the-Rhine neighborhood as well as several of the now popular establishments and areas.

Figure F-6



By the beginning of the 21st century, OTR declined into one of the most economically distressed areas in the country with the poverty rate soaring to nearly 60 percent and the unemployment rate more to than 25



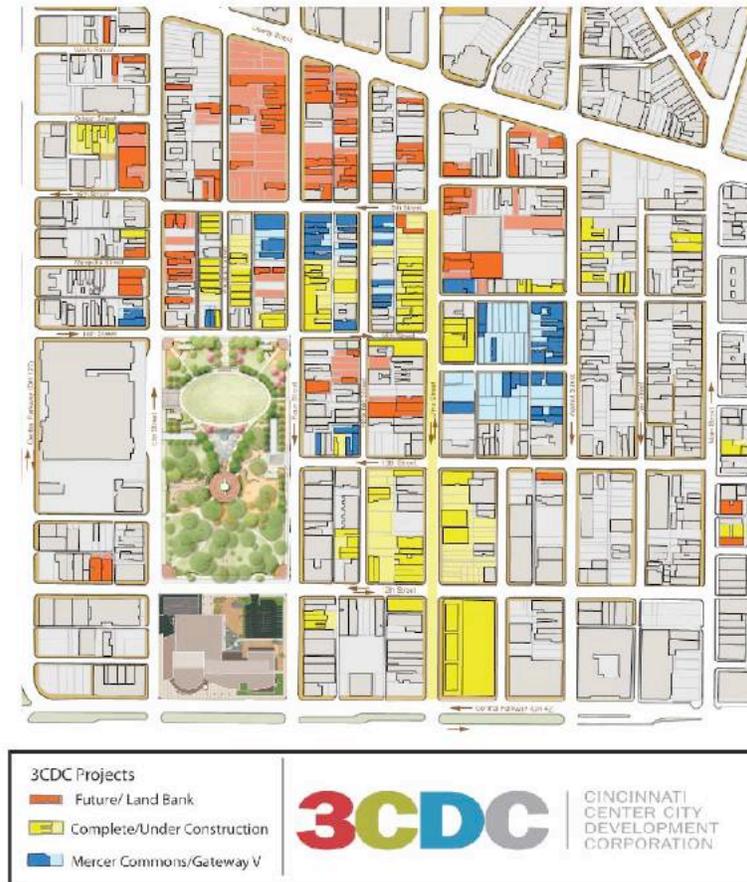
percent. Despite the neighborhood's location between the two largest employment areas, the central business district and the Uptown medical and university community, OTR became the City's most notorious neighborhood because of the high crime and poverty rates. These adverse factors seeped into the surrounding areas, destabilizing and counteracting growth, predominantly in the central business district. This impacted and threatened the well-being of the entire region and relations with some of the City's largest employers.

In reaction to the declining environment, the City of Cincinnati and its corporate leaders created the Cincinnati Center City Development Corporation (3CDC) in 2003. Focusing on a 110-square block area, with approximately 500 vacant buildings, 700 vacant lots and 1,670 vacant housing units, 3CDC initially invested \$27-million. This was to prevent continuing deterioration of more than 300 buildings and lots in this area until future renovations and development could take place. Many of the historic buildings have and are undergoing renovations to function as single-family homes, apartments, condominiums and commercial space. The arts community, including the Cincinnati Art Academy, Ensemble Theatre and Music Hall, is now thriving because of these efforts.

The following photo shows a map of the investment and redevelopment in the OTR neighborhood.

Figure F-7

3CDC Projects in Over The Rhine



Since 2004, more than \$315 million has been invested into OTR through public support, loan funds, state and federal historic tax credits and private sources. With approximately 100 historic buildings, 470 new and rehabbed residential units and 155,000 square feet of new and renovated commercial space have been restored, developed or in the process of development. The neighborhood continues to undergo a drastic transformation. With developments such as the adjacent Horseshoe Casino, thriving upscale entertainment, the bar district, historic Findlay Market, establishments such as the Ensemble Theatre, Know Theatre and Music Hall, the area is not only experiencing a population growth, but attracting residents and tourists. The under-construction Cincinnati streetcar system, which is set to begin operations in 2016, will connect The Banks and downtown to Findlay Market, which is in the northern portion of the neighborhood. This will enhance the current growth and activity of the restaurants, boutiques, shops and bars by increasing accessibility to residents and visitors in the region.

Other areas of interest within the neighborhood include the Gateway Quarter, the historic Brewery District and Pendleton. The Brewery District, which was once the heart of the City's brewing industry, is now home to the

Christian Moerlein Brewing Company, which traces its roots in the District back to the 1850's and was once the City's largest brewery. This area is now home to festivals such as the Bockfest and Over-the Rhine Biergarten as well as brewery tours, which attract locals and tourists alike.

Cincinnati USA – Regional Tourism Effort

One of the challenges that Portsmouth and the other Hampton Roads communities face is tourism promotion, especially in a market with so many cities making up on region. Unlike many MSA's, with one primary central city, the Hampton Roads area is a mix of numerous medium-sized cities. Visitors often do not understand the boundaries, roadways, waterways and other factors that make up the region as it is much different than what most are used to. Finding a way for Portsmouth to promote itself and tourism is tough within the mix of other cities, even if it had a robust budget. Other communities have faced this, although perhaps not to the degree of the cities in the Hampton Roads area. Creating a regional tourism effort allows many smaller communities a way to promote themselves within the region. Visitors know more about attractions than they do about political boundaries, so Cincinnati and Northern Kentucky capitalized on this by contributing to a regional effort while still maintaining their localized efforts.

The Cincinnati USA Regional Tourism Network (RTN) is a destination marketing company that was established in 2005 as a partnership between the Cincinnati USA Convention and Visitors Bureau and the Northern Kentucky Convention and Visitors Bureau. The objective is to promote leisure travel in the form of overnight stays in regional hotels, and visits to attractions and entertainment in Cincinnati and Northern Kentucky. The respective CVBs support the partnership by dedicating and leveraging one percent of the three percent bed tax to expand the region's tourism marketing efforts. The RTN has developed a strategic focus to achieve its objective by enhancing the appeal of the three-state region as a single destination to maximize leisure tourism resources and marketing.

Cincinnati USA leverages multiple media, marketing and communication platforms to target and appeal to new and returning leisure travelers. CincinnatiUSA.com is the region's largest travel portal that allows travelers to book hotels, tickets, attractions and bundled hotel packages. In addition, the website provides listings of area hotels and amenities and provides updates through e-newsletters that notify subscribers of upcoming events and offers.

This collective marketing will expose the proposed hotel to new and existing leisure and group travelers. In addition, visitors can search for hotels based on proximity to specific attractions or find the preferred quality of hotel desired for their stay.

The CincinnatiUSA.com website annually gets more than 2.1 million visitors searching for attractions, hotels, leisure packages and information about what is taking place in the region. Based on website visitation traffic and bookings, the company has been able to better understand visitor information and interests.

Implications

There has been an inherent rivalry between Cincinnati and the communities of Northern Kentucky for many decades that has driven improvement on both sides. While Cincinnati has always been the larger city with most of the businesses, residents and tourists, Northern Kentucky has found ways to use those strengths to leverage their own success. By being aggressive, they invested in public-private partnerships primarily geared

toward tourism to lure locals and visitors across the river. While Cincinnati spent a billion dollars building stadiums, Northern Kentucky found a way to lure the fans to spend money before and after the games (and spending much less in public dollars). Newport's efforts caught Cincinnati flat-footed, and as a result, the larger city began working on its own waterfront activation in the Banks projects. That has enlivened the waterfront on that side of the river with dining, bars, residential, cultural and other developments.

In addition, Cincinnati also focused on reinventing and revitalizing the Over-the-Rhine district, which has some similarities to parts of Downtown Portsmouth in terms of historic character. These efforts have resulted in both public and private investments and brought new life, energy, money and residents to the area.

Analysis of Harbor East/Little Italy, Federal Hill and Baltimore, MD

The purpose of this discussion is to identify and profile the two neighborhoods across the water from Downtown Baltimore: Harbor East/Little Italy and Federal Hill.

Baltimore shows the success that results from arranging as many demand generators along the water as possible, combined with a mostly common management and marketing structure for concentrated developments. For other areas, the city showcases the organic neighborhood varieties of independent restaurants, markets and boutiques.

Baltimore has a metropolitan area population of 2.7 million and is a similar age to Norfolk and Portsmouth. The Inner Harbor's adjacent land was originally industrial in nature. Transformation into a tourist-oriented waterside urban location began in the 1970s and continued into the 1990s and 2000s. Retail and dining at the waterfront are the two major tourist activities that have popularized the Baltimore Inner Harbor. On Pratt Street, Harborplace (a landmark Rouse Company festival marketplace) and The Gallery are two malls that offer national brand shopping and chain and independent dining and entertainment, while along the river there are options that include gourmet dining at Bistro 300, breakfast at Boheme Café or famous chain restaurants such as Bubba Gump, and upscale steakhouses, such as The Capital Grille.

The following aerial map and photo shows the Inner Harbor Area.

Figure F-8



The following photo shows the scene at the Federal Hill Jazz and Blues, Wine and Art Festival.

Figure F-9



Federal Hill

Federal Hill lies immediately south of Downtown Baltimore and south of the Inner Harbor. The area is known for its views of the Baltimore skyline across the Harbor, the Maryland Science Center and the American Visionary Art Museum.

The historic heart of the neighborhood is built up with mid-1800s buildings and residences, with a central business district along St. Charles Street and other nearby commercial streets. Beginning in the mid- 1970s, the area attracted new young Urbanists who worked Downtown, and were looking to renovate and live a more urban lifestyle, rather than a suburban lifestyle that their parents' generation had chosen. Today, Federal Hill is home to many popular retail, dining, and entertainment options all within walking distance for most neighborhood residents. With most daily needs covered by businesses within a few blocks of the community center, Federal Hill has emerged as a premier neighborhood for the increasing number of people choosing an urban lifestyle. The number of people who choose to walk to work is 22 percent.

The center of the Federal Hill neighborhood is the recently renovated Cross Street Market, a traditional fresh-and-prepared food urban market, originally built in the 19th century. It runs the full length of Cross Street between Light Street and Charles Street. The market serves residents and visitors as a reliable source of fresh meats, produce, flowers, and baked goods. The west end of this block-long building houses Nick's Seafood, featuring crab cakes, steamed shrimp, oysters, and sushi. Over a dozen restaurants line the street outside of the Cross Street Market. South Baltimore's nightlife scene along St. Charles Street meshes with the Cross Street Market, and has become the community's place to "see and be seen".

Maryland Science Center at Baltimore's Inner Harbor was one of the first tourist centers to open along the Inner Harbor, opening in 1976 and adding an IMAX theater in 1987. In 2004, a large addition was opened, reigniting interest in the museum. Exhibits included physical science, space, Earth science, the human body,

and blue crabs that are native to Chesapeake Bay. In 2008, Parent's magazine named it one of the 10-Best Science Centers for Families.

The American Visionary Art Museum is a truly distinct museum in that it specializes in the preservation and display of "Outsider Art". The city agreed to give the museum a piece of land on the south shore of the Inner Harbor on the condition that its organizers would clean up residual pollution from a copper paint factory and a whiskey warehouse that formerly occupied the site. It has been designated by Congress as America's national museum for self-taught artists. The building contains 67,000 square feet of exhibit space on three floors, and the campus includes a Tall Sculpture Barn and Wildflower Garden, along with large exhibition and event spaces in the Jim Rouse Visionary Center. The "un-museum" opened in 1995 after six years, raising \$7 million.

The nearby Baltimore Museum of Industry is also sited along the harbor's waterside, as are various marinas, and hundreds of new and very old residential dwellings.

Harbor East and Little Italy

Since the mid-1800's, Little Italy is the historic home of the Italian immigrant scene. The oldest churches date back to 1881. The preserved neighborhood today is best known for its restaurants, but it also is home to an outdoor film festival (Fridays in July and August) and various Italian-food street fairs. Because of its low turnover and its proximity to prized Baltimore attractions, the neighborhood has high real estate values. At least one dozen restaurants line the streets.

Just south of Little Italy, wedged against the Inner Harbor is Harbor East, a singularly-managed multi-block development that combines offices, retail, restaurants, hotels, and richly landscaped streets and high-rise buildings. The development attempts to be a city-within-a-city. It hosts five hotels, including a Four Seasons. The plan, devised in 1983, was to add amenities to the urban fabric of the east end of the Inner Harbor, while continuing the promenade for pedestrians along the eastern north side of the waterfront, to other nearby residential areas. Bikers, joggers, and leisurely strollers bustle along this waterfront space today. Retail tenants include a Whole Foods Market, high-end retailers such as Urban Chic and City Sports, a movie theater, and several restaurants. Legg Mason moved their headquarters from the tallest building in Baltimore to Harbor East. The Four Seasons which opened in 2016 includes 28 stories of condominiums. The entire urban neighborhood is pedestrian-oriented with views of the waterfront. The historic Little Italy next to the successful and burgeoning Harbor East development creates a unique urban atmosphere across some harbor inlets from the main downtown area of Baltimore.

Implications

Baltimore has invested heavily in economic and tourism development around its Inner Harbor. By using a combination of sustained efforts for a multi-pronged approach, the area has thrived, even in a city that has other urban challenges. It is now a consistent location for conventions and events, and the urban neighborhoods around the Inner Harbor have improved in incredible ways, even before the national wave of Millennials started moving to downtowns in the past ten years.

Analysis of Pittsburgh's Station Square and North Shore

Pittsburgh is one of America's oldest large metropolitan areas. By 1910, it was home to over one million people and had grown into one of America's top five largest urban areas. The metropolitan area had well over two million people by 1950. The city was built around the steel industry, and the railroads and rivers were the highways of the era, providing shipping of raw and finished materials.

Downtown Pittsburgh is a peninsula formed by two rivers separating it from the north and south riverfronts. Thus, it has twice as many opposite shorelines. Situated on the south shore of the Monongahela River directly across from Downtown Pittsburgh, the Pittsburgh and Lake Erie Railroad Complex of buildings was saved and restored in the late 1970s as a center for entertainment, restaurants, and hotel accommodations, with a dock for boats and cruise yachts. Today, shops, offices, restaurants and entertainment venue anchor the historic riverfront site on the south shore of the Monongahela River, and are within walking distance of Downtown Pittsburgh. In 1994, the Pittsburgh History and Landmarks Foundation sold Station Square to Cleveland owned Forest City Enterprises, which created an endowment to help support its restoration efforts and educational programs. The Fountain at Bessemer Court in Station Square features a retired Bessemer Converter, the crucial component in the first inexpensive industrial process for the mass production of steel from molten pig iron.

The complex sits at the base of the river's bluffs, situated along the railroad lines and at the base of the Monongahela and Duquesne Inclines. Two 1870's cable-powered elevator railroads are open to the public for rides between the upper elevation neighborhoods and lower Station Square complex. The Smithfield Bridge directly links the complex to Downtown Pittsburgh for both pedestrians and motorists. Several buildings house 275,000 square feet of retail and restaurant space, including 65 establishments. The original Freight House and main Concourse Building join other preserved buildings as a sort of "festival marketplace" visited by over three million people annually.

Pittsburgh's downtown, also called the "Golden Triangle" is a densely developed wedge of land near the confluence of the Allegheny River and the Monongahela River.

The following figure shows an aerial view of Station Square and North Shore's location.

Figure F-10



The following are aerial views of Station Square and the North Shore developments.

Figure F-11



Figure F-12



On the Allegheny riverbank, north of the Golden Triangle, is an area called the “North Shore” where two large major league sports stadiums have been built. Heinz Field is the home of the NFL’s Pittsburgh Steelers, and PNC Park, home of the MLB’s Pittsburgh Pirates (often called the most beautiful stadium experience in

baseball). A light rail extension with two stations accommodates visitors and sports fans, along with the Stage AE concert and entertainment facility that features both an indoor venue (capacity 2,300) and an outdoor amphitheater (capacity 5,500) that is used for pre-game and post-game festivities at Steelers games. The Andy Warhol Museum has made its new home in this space as well. Two office buildings built along the river include a few restaurants with outdoor seating, and green space with walking and bicycle paths lining the river's edge. This development is not a commercial engine on its own, to the same degree as Station Square, however it contributes to daily activity by being a central gathering place for residents and visitors to Downtown, whether there is an event or a game taking place.

Park space that opened in 2001 along the North Shore stretches about one mile between the Carnegie Science Center and the Three Sisters Bridges near PNC Ballpark. It was built at two levels. The first level is the riverwall and the riverwalk, which provide a strong trail connection along the water's edge. The riverwalk is 18 feet wide, allowing for various types of recreation. The walk is fitted with boat tie-ups meant to encourage water recreation and alternate modes of transportation. In front of each stadium, a large cobblestone quay accommodates canoes and kayaks, as well as larger craft that transport people to events. The second level includes large open areas of grass and native landscaping, with smaller paths that act as ramps between the elevation changes. The largest of these grassy areas, called the Great Lawn, is approximately three acres of grass, and is used for picnicking and festivals. A staircase is located at the terminus of each road running north-south to better improve street level connections to the river.

An esplanade runs east-west at the top level of the park, farther away from the riverbank. The esplanade features a broad walkway of brick, granite and sandstone that varies from sixteen to forty feet in width. As mixed-use development continues along the North Shore, this promenade will be used as a connector between retail shops and as a quiet place for outdoor dining and passive recreation. Other features, such as the water steps (an interactive fountain) and the Market Street Pier, have quickly become popular destinations. The park is also home to three memorials, including the Korean War Veterans Memorial, the Vietnam Veterans Memorial and the Law Enforcement Officers Memorial. The park offers unobstructed views of Downtown Pittsburgh.

The park is highly visible and positioned prominently between PNC Park and Heinz Field. On busy workdays, it is crowded with lunchtime walkers. During events at the stadiums, people use the riverwalk as an alternate route to their destinations. Riverboats use water landings in the park to drop off and pick up event-goers, and non-motorized boaters and paddlers use the landings and ramps as access points to the rivers.

The following figures show images of the North Shore Waterfront Park and the interactive Water Steps.

Figure F-13



Figure F-14



Tying it all together, including the North Shore Riverfront Park and Station Square, the remainder of the rivers' shoreline around the downtown area is an award-winning 21-mile bike/walking trail (on both sides of all three rivers) called the Three Rivers Heritage Trail. It is made up of the following different segments: The North Shore Trail, Southside Trail, Eliza Furnace Trail, and the Pittsburgh Riverwalk. The Three Rivers Heritage Trail offers some parking and restroom options, as well as historic and interpretive signs, river views, kayak and canoe launching points, and free bike rentals.

Management and Marketing

Forest City Enterprises owns and operates the Station Square complex. The North Shore Riverfront Park, developed by the Pittsburgh Sports & Exhibition Authority with help from Riverlife (formerly Riverlife Task Force), a non-profit organization that develops and landscapes the trails and riverfronts. Continental Real Estate privately developed office and retail space along the North Shore.

At least 15 restaurants and six nightclubs and bars create a synergistic complex. Among the restaurants are Bar Louie, Hard Rock Café, Buca di Beppo, the Melting Pot, Joe's Crab Shack and Houlihan's. The East Warehouse building is the site of four nightclubs and bars.

A 396-room Sheraton Hotel, Landing and Marina, Gateway Clipper Fleet, dozens of small shops, an open outdoor plaza, and office space including a cluster of buildings all create a compact, walkable entertainment zone that is successful at creating the desired critical mass. There are 3,500 parking spaces available in surface lots and one multi-story structure. Vouchers for free parking are available with the purchase of \$50 in the same day.

The Landing and Marina are open seven days a week from May 15 to mid-October. Hooking up to 30amp electricity is free of charge. This is not typical of marina rates and hours, but was developed to allow easy access for boaters to the Station Square entertainment complex.

The complex also offers horse and carriage rides, Ducky Boat tours, Segway in Paradise, and the new 3,500-seat Highmark Soccer Stadium, home of the Pittsburgh Riverhounds. The Gateway Clipper Fleet is an excursion operation of five riverboats that dock at Station Square, and is operated year-round for sightseeing, dinner cruises, special dance and music-themed cruises, holiday events, and private charters.

Along the North Shore Waterfront Park, Continental Real Estate purchased adjacent land in May 2012 to build a \$20 million mixed-use office and retail development, with 40,000 square feet of first floor entertainment and restaurant space. The upper levels will be devoted to office space.

Pittsburgh has limited flat developable land (most of which lies along the banks of the rivers), which contributes to an active and vibrant waterfront scene. Lease rates for the area are generally about \$25 to \$32 per square foot, no matter if the space fronts a street or a river. Parking and transportation issues are of some concern for Pittsburgh. However, Station Square takes advantage of its extra space and its near-but-not-in downtown location.

Implications

Pittsburgh shares common challenges with Hampton Roads in that there is not just one waterfront or river, but multiple physical barriers, bridges and waterways that are a challenge to creating a cohesive walkable environment. Pittsburgh, however, is one city, while the communities in Hampton Roads are often divided politically by the barriers. This makes coordination of efforts for development more of a challenge. On the other hand, it also allows each community to focus on their portion of the waterfront. In Pittsburgh, multiple efforts over decades were required to enliven the various waterfront and nearby urban areas. It has taken massive coordination by the public and private sectors, led by key partnerships with committed local groups, to yield such successful results.

Analysis of The Flats and the West Side - Cleveland, Ohio

Downtown Cleveland, with an immediate metropolitan population of 2.2 million and over three million in the greater region, sits on a rise above both Lake Erie and east of the Cuyahoga River, which lies in an industrial valley. Cleveland has been busy reinventing its many sectors and corridors for the past three decades, and among the first was The Flats. As the downtown skyscrapers housed the business and office districts of the city, The Flats of the Cuyahoga River were (and in many cases, still are) low-lying grounds for industrial use. However, beginning in the 1980s and continuing through today, the acreage closest to downtown has become redeveloped with a mix of urban uses.

The Flats were settled by Irish immigrants who were building the Ohio and Erie Canal. The settlement on the west bank was called Ohio City, and its first star attraction was the West Side Market. Ohio City was annexed into Cleveland, but its West Side Market has been a beacon of urban life west of Downtown Cleveland. Although a market has been on this site since the 1840s, the current barrel-vault ceiling structure, including a brick corner tower, was built for \$680,000 in 1912, and was able to hold 100 stalls for food producers. The structure had several expansions and upgrades, and in 1973 was placed on the National Register of Historic Places. The market's profile was raised during the 1980s and later, due to media attention, visits from politicians, and numerous food-based festivals arranged by the market. Most residents of the neighborhood, and many Clevelanders in general, still do a large portion of their shopping at the Market. The market is open to customers Mondays and Wednesdays from 7:00 a.m. to 4:00 p.m., and Fridays and Saturdays from 7:00 a.m. to 6:00 p.m. The market attracts tourists from all parts of the United States, who tour the market and learn about its history. Guided tours are offered, and it has been featured on Travel Channel and Food Network.

The following figures show interior and exterior views of the Market.

Figure F-15



Figure F-16



The West Side Market was named America's "Best Food Lovers' Market" in the September 2010 issue of Food Network Magazine in April 2016, city officials announced that the market would add regular Sunday hours for the first time in its history.

The original attempt to gentrify the Flats occurred during the 1980s and early 1990s when the Powerhouse, an old electrical station used to power the city's cable cars, was renovated to include multiple bars, restaurants, and an outdoor music venue. Other warehouses and buildings were also renovated into nightlife destinations. At its peak in the early 1990s, the Flats was home to a high concentration of bars and nightclubs, with both locally owned bars and national restaurant chains lining both sides of the river from the mouth to the Oxbow bend. The Flats and Cleveland for the first time in decades has become an entertainment mecca and destination for the region. The Flats Oxbow Association was formed to help redevelop the Flats, and housing development soon followed on both sides of the river, which included new construction and the conversion of warehouses into condominiums and apartments.

The following photo shows the white-tented Jacobs Pavilion, with the Powerhouse and Stonebridge developments in the foreground.

Figure F-17



However, a combination of safety concerns and fire and health code violations shut down many of the east-bank institutions, and the East Side bank had a long period of being dark. Concurrently, the West Bank of The Flats continued its forward momentum. With a recent and continuing \$750 million-dollar makeover, the East Bank is once again being developed with new upscale restaurants and multi-story apartment buildings. The financial crisis of 2008 ground the rebirth to a halt, but it re-started again in 2012. This waterfront neighborhood features restaurants, a new Aloft hotel, office tower, bars, shops and a waterside promenade

with complementary green space. Water taxis carry visitors and residents across the river, much like the ferries between Portsmouth and Norfolk. Today, the Flats has a mix of residential dwellings (mostly in a series of new and restored buildings called Stonebridge, which surround the remaining structure of an old stone railroad bridge). Entertainment venues, museums and urban waterside walkways dot the area and provide a common ground for the new and old residents of the West Side to mingle, recreate, eat and be entertained.

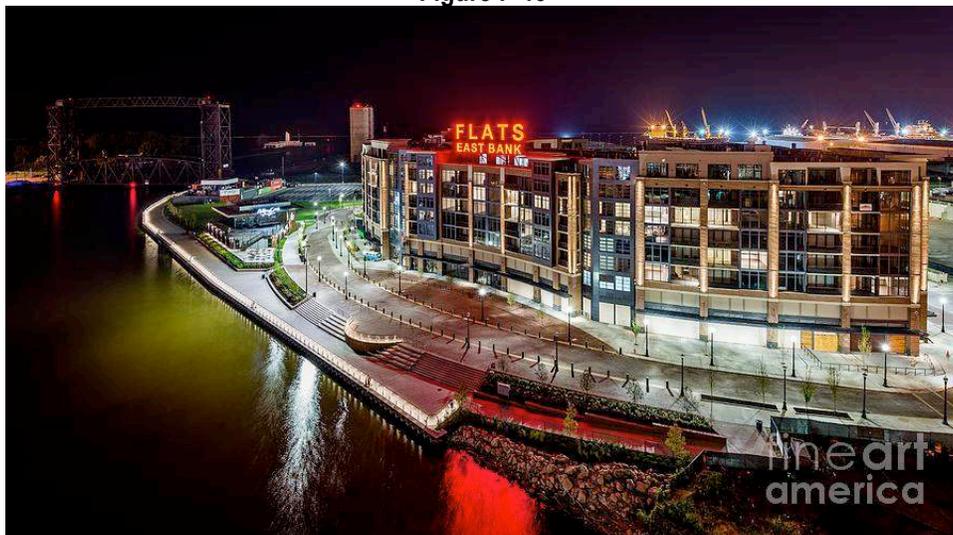
The following photo shows a concert at Jacobs Pavilion.

Figure F-18



The following photo shows the mixed-use East Bank project completed in 2016.

Figure F-19





The following photo shows the main hall of the Music Box Supper Club.

Figure F-20



Implications

Cleveland has numerous waterfront areas, including the river and Lake Erie. The lakefront is primarily a public amenity area and still includes industrial areas. The river, however, has been the heart of many redevelopment efforts. The public sector has taken a lead role in mitigating infrastructure and related issues while inducing private development in many efforts and iterations. While not all were successful for a long period of time, the sustained efforts and investments have created a critical mass of activity in many real estate use types, including a rebounding residential core. Today, the waterfront areas, the Flats, Ohio City and Downtown Cleveland are all thriving with investment, development and residential growth.

Brief Analysis of other Riverfront Redevelopments

Smothers Park, Owensboro, Kentucky

This \$230 million five-block long riverfront park, along with a new convention center and two hotels, is heavily developed and themed to be a true city center and a catalyst for more downtown development. The main features of Smothers Park are a large handicapped-accessible Lazy-Daze “Play-zeum”, spray park, fountains, open spaces for events, concessions and rest rooms. The city wanted the designers to include what they referred to as “the world’s best” playground; a large, no-charge place for children to play. The following photos are all of Smothers Park and Lazy Daze playground, or “Play-zeum” and Spray Park.

Figure F-21

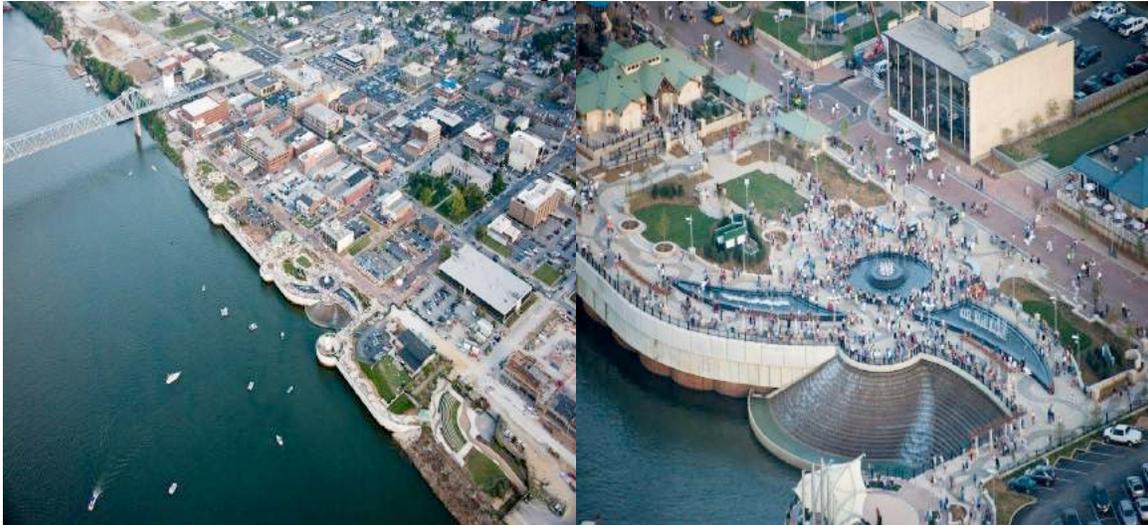


Figure F-22



Council Bluffs, Iowa

Council Bluffs is a railroad city across the Missouri River from the larger city of Omaha, Nebraska. The metro area has slightly less than one million people and is growing at a strong rate. Redevelopment of the West End of Council Bluffs along the east bank of the Missouri River and across the Bob Kerry Pedestrian Bridge from Downtown Omaha includes the pedestrian-oriented mixed-use development of Playland Park. The plan for Playland Park strives to revitalize and invigorate the area by creating a sense of place and community in a location that was once a thriving amusement park, and now overlooks the new and successful Tom Hanafan River's Edge Park. A Neighborhood Master Plan is designed to accommodate current and future site access from I-480.

The design framework for the neighborhood is contextual and complementary to the existing neighborhoods to the north and east, and is designed to accommodate future interstate access configurations. The design features a diverse living, working, and retail environment with a park-fronting “piazza” and a pedestrian bridge landing “porch” that provide a formal and active linkage to the Bob Kerrey Pedestrian Bridge. In addition, the plan establishes a pedestrian promenade, a cycle track, green storm water infrastructure, and on-street parking. Situated adjacent to the “Piazza” and “Porch” are two medium office buildings that overlook the riverfront and two mid-rise condo towers that contain community space, retail uses, and townhouses. These uses will enliven the pedestrian bridge landing, complementing the recreational uses along the riverfront and providing a destination for those crossing the bridge from the Nebraska side of the river. Further to the east, apartments, townhouses, and mixed-use buildings line the streets, providing “rooftops” and density to help stimulate the retail proposed for the site. Parking is provided on-street, in surface parking lots tucked behind buildings, and in parking structures.

The Master Plan of the development is shown below:



Implications

Covington and Newport Kentucky across from Cincinnati, Harbor East/Little Italy and Federal Hill across from Baltimore, Station Square and North Shore across from Pittsburgh, as well as The Flats and West near Cleveland have all developed in ways to take advantage of their proximity to larger MSA’s. Additionally, Owensboro, Kentucky and Council Bluffs have also taken advantage of their locations near larger cities.

Baltimore congregated its many tourist attractions along the Inner Harbor, where people would be naturally attracted and where they could build off each other’s success. Little Italy’s historic food district works in symbiosis with the high-end Harbor East development. Portsmouth may not have a Little Italy, but it has historic neighborhoods near a waterfront. Baltimore’s distinct characteristics separating the neighborhoods

and developments from Downtown Baltimore divided by harbors and inlets is a viable comparison for Portsmouth.

Pittsburgh's many miles of riverfront land have been developed in ways to always take advantage of the waterfront and its many uses. Free hookups for boaters, play areas for families and children, restaurants, stadia, convention centers, cultural theaters and concert venues linked together by a landscaped recreational river walk, all combine to form an experience that would not be so memorable if these amenities and venues were on their own. This is a good example of where the total is greater than the sum of its parts.

Cleveland had to keep revamping their Flats district after business cycle downturns and crime issues claimed several nightclubs. Infusions of cash and a range of close-proximity developments from old power plants to new construction are now home to a variety of uses, including by daytime workers, lunch and nighttime niche restaurants, a comedy club, an outdoor amphitheater, and a two-stage indoor supper club for touring artists. As recently as 2015, there were questions about whether the East Bank of the Flats would truly come back, but the public's growing appetite for new culinary dishes, world foods, farm-to-plate fare and the era of celebrity chefs have afforded many more opportunities for independent restaurants to open in hip, new surroundings. The Flats has taken advantage of this trend. Portsmouth has the required waterfront and views, plus historic neighborhoods and old buildings to bring this kind of development to fruition in its downtown.

Portsmouth has several tools that it can use to develop a more robust residential and tourist base. Recreational trails for bicycling and family parks with playgrounds and spray parks can be helpful if they are designed to a top-quality standard that differentiates them from other recreational (and historic) trails and playgrounds. Public plazas are easy to program with a plethora of festivals, such as arts and food fairs and history or ethnic festivals. This is how some communities changed their initiatives and built (or renovated) developments to house a new breed of restaurants and hip social bars. Small green spaces can be programmed for social sports or beach volleyball. These, combined with residential units and conference center space, begin to create a year-round, 24-hour downtown. Having many choices of things for people to do and experience for a variety of price points is the key to making Downtown Portsmouth vibrant. Barriers such as the Elizabeth River will be broken down as more distinct and entertaining venues, places and activities are developed that truly ignite people's interests, which will then contribute to the economic development of Portsmouth.