



Portsmouth's Downtown and Waterfront: Analysis of Market Conditions and Opportunities

Prepared as Part of the Portsmouth Downtown Master Plan and Waterfront Strategy

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Background and Objectives

About the Study

Hampton Roads offers something for everyone: beachfront communities, a busy urban center, suburbs, and rural areas. Within the region, Downtown Portsmouth is a unique place with great potential to attract more residents, workers and visitors. Downtown Portsmouth offers a smaller, quieter, very walkable urban community with treasured historic buildings, a main street and a waterfront, and an array of visitor attractions. Downtown has many assets, but how can it best leverage them to meet its potential?

This market and economic analysis is part of the Portsmouth Downtown and Waterfront Master Planning project, a multi-disciplinary effort designed to offer concrete steps on where to start a targeted revitalization effort and how to carry it towards long term goals. The market and economic analysis serves to give the plan a basis in market reality and recommend strategies related to the area's real estate and local economy.

Methodology

This analysis uses demographic, employment, and market data to provide an understanding of the local issues, opportunities, and challenges to revitalization. Research for this report included limited new data analysis, as well as interviews with stakeholders and participation in public meetings. The focus on data analysis for this report was to build on numerous prior studies conducted for the same area, updated to reflect current economic and market conditions. BAE participated in discussions with various local stakeholders, including those involved with the maritime industry, local retailers, faith-based groups, and real estate developers, among others. BAE also conducted follow up interviews with various stakeholders and other knowledgeable parties to gain further insight into the key issues that exist in Downtown Portsmouth, and participated in public meetings to discuss stakeholder concerns and obtain feedback. A list of BAE interviews is included in Appendix A.

It is important to note that the City of Portsmouth and the Portsmouth Department of Economic Development commissioned several studies in recent years to analyze Downtown, create new visions, and recommend revitalization strategies. In order to build on these prior initiatives, this analysis incorporates their findings in this report where relevant. In particular, this analysis utilizes the following:

- *Economic Development Strategic Plan* by RKG Associates, June 2008

- *An Advisory Services Panel Report: Downtown Portsmouth Virginia*, by the Urban Land Institute, June 2003
- *Market Position Analysis: Downtown Portsmouth* by Zimmerman/Volk Associates, 2003

Summary of Market Opportunities

Downtown has already attracted developers, residents, and businesses who continue to invest in rehabilitating homes and storefronts, converting underused commercial buildings to residential space, and building new residential units. However, the short term opportunities described below address the need to create more sense of place and enhance Portsmouth's vitality to truly sustain this effort. A focus on these opportunities in the present also offers a better chance of success while real estate and economic conditions recover. Encouraging this trend of market-driven, modest investments will enhance Downtown's appeal, leverage Downtown's stock of historic buildings, and lay the groundwork for more significant real estate investments down the road. While significant new development activity may need to wait until the real estate market improves and the Downtown is successful in attracting greater attention to its strengths, the present is a good time to plan ahead to capture the long term opportunities that will follow.

Short Term Opportunities

Focus on attracting Downtown's neighbors

The large number of nearby workers represents perhaps the biggest untapped opportunity for attracting more residents and visitors to Downtown, and targeting a change in perception of Downtown. A focus on convincing more workers from the Naval Medical Center Portsmouth, the Norfolk Naval Shipyard, and Downtown Norfolk to think of Downtown Portsmouth as a good place to live, shop, play, and dine would be the most effective use of resources devoted to marketing or events. Many Portsmouth employees pass by the entrance to Downtown at High Street and Effingham every day to and from work, and Downtown Norfolk employees can take advantage of the ferry connecting the two downtowns.

Residential development offers the best real estate opportunity

Every city needs a balance of residential and non-residential uses. In Downtown Portsmouth, a market-based revitalization strategy should focus initially on taking advantage of the strong fundamentals for residential development to build greater interest in commercial development. Not every nearby worker would be interested in the lifestyle that can be found by living Downtown, but targeting pioneering buyers and renters from these three major job centers who seek value and short commutes is a strong near-term strategy. The analysis found in a subsequent section of this report provides more detail on these employees' demographics and the subset of employees to target. An increased base of households in Downtown can create a better market for retail and support a retail development strategy that can provide the lifestyle and amenities to attract more residents, workers and visitors. Furthermore, new deliveries of rental and for-sale attached housing in recent years suggest that achievable rents/prices can support rehabilitation and new construction, particularly for rental properties.

Targeting small office users represents a viable short-term opportunity

Portsmouth does not need to wait for a large office anchor tenant seeking new local space in order to increase its Downtown job base. The city may find greater success in attracting smaller office users in the short term, particularly by targeting strategically selected industries. On average, local businesses have fewer than nine workers, and provide a much easier target for the value options and less amenitized but still appealing space that exists in Downtown currently. Thus, the area will not likely be a viable alternative to the Downtown Norfolk office market for larger businesses seeking Class A space until a more robust set of services and amenities is in place. Furthermore, the City should consider both the impact of new office space delivery on current vacant space, as well as the economic viability of renovating and repositioning existing office space versus new construction. Along with the longer-term potential for a large headquarter tenant, encouraging the continued rehab of second- and third-story High Street spaces could draw small office users with “Creative Class” professional employees attracted to less conventional office space. These spaces would not only serve the needs of small office users, but would add to the vibrancy of High Street.

Leveraging Downtown’s existing key assets can boost tourism

Downtown already has attributes of a strong tourist destination: historic charm, local attractions, a cluster of restaurants, and a waterfront. However, the opportunity to attract and retain visitors remains largely untapped. Relatively modest efforts to create new events, link together attractions and amenities within walking distance, and market these activities can increase the number of visitors, and, more importantly, increase the amount of spending for each visitor’s trip. Coordinating with the events of neighbors like Norfolk, and complementing them rather than competing head on will yield a bigger impact. Interviews with stakeholders indicate that many opportunities exist to increase maritime-oriented tourism activity. These efforts to attract more boat traffic would likely increase tourism-related dollars spent on High Street in the form of dining, shopping, and hospitality for those seeking a night spent off the boat. Organizing low-cost outdoor activities in the parking lot that links the waterfront to High Street could help serve as a conduit for more potential retail spending at the shops and restaurants located further down the street. Staging events at that location will effectively link the waterfront to High Street without having to deliver any new development. Activities such as farmers markets or similar setups where local vendors can set up temporary booths to sell food and/or distinctive retail products could effectively drive traffic to the core of Downtown with minimal investment from the city.

Fill existing High Street Storefronts

High Street’s retail continues to suffer from high vacancy and low achievable rents, based on lackluster surrounding demographics and low traffic from Effingham to the waterfront. The above recommendations should help provide a boost to retail support along High Street, with the

gradual addition of more residential units, more office users resulting in higher daytime population, and increased tourism activity yielding more visitors to the area. Analysis of current resident spending patterns versus the estimated sales activity in the area shows that there are opportunities to capture some types of resident consumer spending Downtown. The best retail opportunities may be those that will be considered amenities to Downtown residents, but also can capture non-resident purchases: prepared and specialty foods, as well as specialty hardware, housewares and garden goods, for example.

In the short term, the City can work to strengthen High Street retail by encouraging better coordination and organization of building owners and businesses. One of the biggest challenges to main streets is their diversity of building ownership. Diverse strategies for marketing buildings and improving their appearance from a variety of owners (who may also be competing against each other for tenants) faces significant challenges in competing against a retail center with uniform marketing strategies, design standards and tenant mix. In particular, a strong association supporting the improvement of High Street could plan events like a restaurant week, organize promotions that encourage an after-work stop for shopping or drinks, or develop strategies for encouraging people who visit to stay longer. In addition, the city, in coordination with a High Street improvement association, may want to consider strategies that cultivate local retailers and allow them to move into High Street retail spaces through business development and financing support.

Long Term Opportunities

As stated earlier, now is the time to plan for mid-term to long-term opportunities. In addition to continuing residential development, new office, hotel and retail opportunities are on the horizon, as evidenced by the Lincoln Properties proposal for mixed-use redevelopment of the former Holiday Inn site on the waterfront. The timing of their emergence is less clear, especially given the current uncertainty in the real estate market, but the city should be ready to channel demand for new development into a carefully managed plan to redevelop key downtown sites over the next 10 to 20 years.

New Retail Development

If successfully executed, the short-term opportunities (increased residential, small office users, and tourism-related activity) should set the stage for long-term potential of new retail construction as more households, employees, and visitors boost demand. Existing demographics and current daytime and nighttime population in Downtown do not support additional retail development without a negative impact to the core of retail along High Street. An inventory of High Street space from the waterfront to Effingham shows a 40 percent vacancy rate. This existing space needs to be filled first, with a more diverse tenant mix than just restaurants and

antiques/furniture. Successfully absorbing the vacant space with strong tenants could be a challenge given the unique footprints of the historic buildings. While some regional and national tenants may find opportunities on High Street, the small, unique footprints may not be suitable for many, and they will only appear once new retail space is offered that meets their needs. Like nearly all existing downtown retail, new retail development should be incorporated into mixed-use projects and strategically designed with the goal of activating and enhancing street level activity.

New Hotel Development

New hotel development will allow Portsmouth to take in a greater share of the visitor dollars spent in the region, not only by increasing dollars spent on accommodation but by increasing the time and money that visitors spend Downtown. Current hotel supply and demand conditions are relatively healthy and are in equilibrium based on trends in occupancy, average daily rates (ADRs), and revenues per available room (RevPAR). Assuming successful implementation of the short-term strategies, the delivery of new hospitality uses in the mid- to long-term should meet future demand increases resulting from the increased tourism and office users. A distinctive, smaller product such as a boutique hotel may be the best opportunity to complement Downtown's unique character.

New Office Development

Demand potential from office users will evolve as Downtown does. As Downtown evolves and has a more robust set of amenities and services, attracting large tenants will become more viable. Attracting such an office user in the short term should not be written off entirely, but does represent a "lightning strike" opportunity, particularly with Downtown Norfolk minutes away. Competing with nearby neighbors like Norfolk in the short-term could require a "race to the bottom" in terms of incentives. Incentives should be applied strategically and appropriately as inducements to key prospects and catalyst projects, with a full understanding of their contribution to project viability and the fiscal impacts of their use. Given trends in employment growth and office space absorption in the Hampton Roads region, Portsmouth might reasonably increase its share of the region's new office development. In order to gauge the demand for Downtown's office space, the city should keep an eye on trends in the net absorption of office space. Net absorption tracks the new occupancy of office space (in existing or new buildings) in comparison to space made available through vacancy or new deliveries. Portsmouth's current share of the Hampton Roads region's office space would suggest net absorption of about 12,000 square feet, on average, to maintain that share. Projected employment growth suggests that Downtown Portsmouth could anticipate absorbing 19,000 net square feet of office space going forward, assuming that nearly all new office development will locate in the greater Downtown area. A goal to target new Downtown office space absorption averaging about 20,000 square feet per year initially would be reasonable, with an increase in the target to 20,000 to 40,000 square

feet or more as conditions improve and momentum builds. It is important to note that these are averages and annual absorption will fluctuate. Portsmouth’s annual absorption for a given year can also be compared to the net absorption for the region or nearby submarkets (such as Downtown Norfolk).

Summary of Opportunity by Land Use

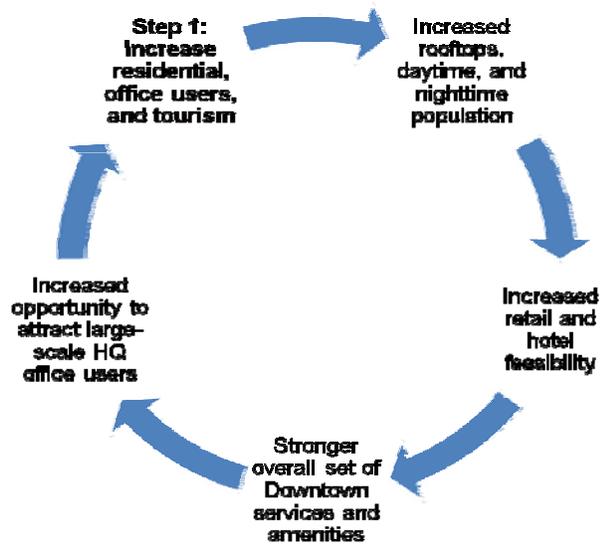
	Short Term	Long Term	10-Year Demand
Residential	Strong opportunity to attract nearby workers seeking value, short commutes, and the unique setting and lifestyle offered by Downtown.	As Downtown continues to evolve, a broader range of buyers and renters can be targeted.	1,700 -2,000 attached units
Office	Moderate opportunity to attract small office users from targeted industries – consider encouraging the rehab of second- and third-story High Street spaces and other more creative, less conventional office spaces.	As Downtown evolves and has a more robust set of amenities and services, attracting larger-scale regional headquarters operations or larger tenant seeking Class A space will be more viable.	190,000 – 300,000 square feet
Retail	Weak opportunity for new development. Vacant High Street spaces need to be backfilled before new retail can be delivered. Seek diverse tenant mix beyond restaurants and antiques/furniture. Attracting tenants in unique, smaller footprints will be a challenge, but has been done elsewhere.	New construction retail will become viable if short-term opportunities (residential, small office, and tourism) are successfully capitalized upon.	75,000 – 100,000 square feet
Hotel	Current conditions indicate that demand is being met by existing supply and current construction in the short term.	Increased tourism and growth in office users will necessitate additional hotel space. Seek scale and format that complements current mix of hospitality offerings.	100-150 keys (rooms)

Potential demand estimates for the above land uses are based on the assumption that the City implements revitalization strategies. The data do not factor in land constraints but represent overall market potential in light of the strengths of Downtown and the catalytic impact of the short-term implementation effort. The ten-year demand estimates are based on the following annual demand estimates:

- **Residential:** Annual demand for approximately 150 multifamily units early on, ramping up to 200 to 250 per year in the longer-term as short-term recommended implementation strategies gain traction and more nearby employees are captured over time.
- **Office:** Baseline net absorption averaging 19,000 square feet would be compatible with projected employment growth and increase Portsmouth's share of the region's office space. 20,000 to 40,000 square feet per year is a more optimistic scenario that factors in the gradual improvement of Downtown as an office destination, as well as the recommended strategy of attracting smaller tenants from targeted growth industries.
- **Retail:** Retail demand estimates assume that the increased residential units in Downtown will yield additional retail demand of 35,000 square feet. Furthermore, the gradual placemaking improvements that take place in Downtown will yield higher capture rates of the surrounding areas, resulting in an additional 30,000 square feet of potential. Additional demand will originate from the increased daytime population created by capturing more office demand, and increased nighttime and weekend traffic from increased tourism-related activities.
- **Hotel:** Although supply and demand are currently in equilibrium and increased short-term demand will be met by the new Holiday Inn, longer-term expansion of office and tourism will yield increased hospitality demand, likely for a smaller-scale, "boutique" hotel that serves to complement the existing mix of hotels as well as Downtown's character.

Implementation

The market opportunities available currently in Downtown Portsmouth suggest an implementation strategy that starts with building Downtown’s appeal and presence through targeted efforts to introduce more people to the area. The strategy should bring more evening traffic (represented by residents and local visitors) and some daytime traffic (represented by small businesses), using existing market support for residential development and a focus on activities and events that make Downtown a more vibrant, attractive place to visit. These modest, incremental steps can then steadily build the base of amenities that can attract more market interest to Downtown, leading to more support for larger scale development of land uses not currently showing strong market demand.



First Steps

Several actions can kickstart efforts to position Downtown as a highly attractive place and enhance its appeal to a greater number of residents, visitors and businesses. Here are a few suggestions for initiatives that are relatively inexpensive and can provide substantial impact.

1. **Organize High Street.** High Street will be the amenity base that attracts more residents and acts as a key attraction for increasing the time and money that non-residents spend Downtown. Successful downtown retail centers often are the result of establishing Business Improvement Districts (BIDs) or similar organizations. The Main Street program developed by the National Trust for Historic Preservation is also designed specifically for older main streets like High Street, and has been used by other Virginia cities.
2. **Actively promote visitation to Downtown.** In particular, target nearby workers by advertising events and creating incentives for workers to stop on their way home.

Emphasize Downtown's close proximity to commuters and the ease of spending time Downtown to shop or eat instead of sitting in traffic.

3. **Create activity through organized warm weather events.** Downtown can showcase its waterfront and main street and link them to existing Downtown attractions and events. The goal is not only to bring in more people, but to encourage people coming to a specific destination to experience and explore more of the Downtown and the waterfront. Ideas include the following:
 - A weekly farmer's market that provides residents and local restaurants with a convenient source of fresh, seasonal produce and becomes a hub of activity.
 - A Taste of Downtown event that recognizes the role that restaurants play in attracting new visitors.
 - Marina-related events that link boating activities with landside activities, so that boaters get more exposure to landside attractions, and more land-based visitors can become familiar with water-based opportunities from Portsmouth.
 - A 5K running event that brings participants through Downtown and the waterfront.

Overview of Existing Conditions

Underlying the health of an area's real estate market is the strength of its economy. The strong military presence in the Hampton Roads area distinguishes its economy from the structure of the United States economy as a whole. Nevertheless, Portsmouth and the Hampton Roads region have not been immune to the economic downturn that the United States is currently experiencing in 2009. The downward trend in the economic cycle nationally is impacting employment and investment in nearly all sectors of the national economy and has been particularly severe in real estate, construction and finance. Weak real estate market conditions compound the current difficulties of real estate development associated with the tightening of access to credit. Although it is unknown how quickly conditions will improve, this report assumes that the national and local economy will rebound from the bottom of the business cycle and provide greater opportunities for development than are found through looking at a snapshot of current conditions.

While recognizing the cyclical nature of economic and real estate trends and the weak conditions that currently exist, this report takes a longer view and examines the structures of the Portsmouth and regional economies, how they impact the demand for real estate, and how those structures may change in the future. Although the recent real estate boom benefitted many cities across the country and contributed greatly to their revitalization, the resurgence in urban development linked to a greater interest in the lifestyle and amenities a city can offer appears to be a long term trend that will not be extinguished by a cyclical economic downturn.

Portsmouth and the Region

Portsmouth's Employment Base

Portsmouth has experienced steady employment growth that has kept pace with the region of which it is a part. According to the Hampton Roads Planning District Commission (HRPDC), employment in the Southside area of Hampton Roads increased by nearly 20 percent between 1991 and 2006. Table 1, comparing covered employment¹ trends in the Southside and Portsmouth since 1997, demonstrates this steady growth, with only a slight decrease in employment in Portsmouth during the 2000-2001 economic downturn. The military employment base to the region's economy has stayed strong in Portsmouth, with increases in both military and civilian employment during the last 10 years (see Table 2).

¹ Covered employment statistics are based on unemployment claim data provided by business owners, which includes those workers covered by unemployment insurance, and does not include those workers who are not entitled to unemployment insurance.

Table 1: Covered Employment, Portsmouth and Southside

<u>Year</u>	<u>City of Portsmouth</u>	<u>Southside Area (a)</u>
1997	40,416	411,410
1998	40,137	416,197
1999	40,384	425,193
2000	40,096	432,048
2001	39,426	436,194
2002	40,832	438,398
2003	42,043	442,523
2004	42,299	451,690
2005	42,484	458,337
2006	43,075	463,495
2007	43,201	463,865

Notes:

(a) Represents the cities of Chesapeake, Norfolk, Portsmouth, and Virginia Beach, VA.

Source: Virginia Employment Commission, Covered Employment Wages Program, 2008; BAE, 2009.

Military and civilian government entities are the largest source of employment in Portsmouth, with healthcare employment also contributing significantly to the city's job base. Tables 1 and 2 in Appendix B provide a breakdown of employment by industry and identify Portsmouth's largest employers. This stable public sector employment base also poses a challenge for Portsmouth: it creates a high percentage of real estate that is not generating tax revenue, increasing the burden to generate tax revenue on private sector property owners.

Table 2: Portsmouth Employment, 1996-2006

<u>Year</u>	<u>Civilian Employment</u>	<u>Military Employment</u>	<u>Total Employment</u>
1996	47,047	5,494	52,541
1997	46,652	5,348	52,000
1998	46,646	5,216	51,862
1999	47,062	5,154	52,216
2000	47,425	5,077	52,502
2001	46,848	4,929	51,777
2002	47,839	5,081	52,920
2003	49,585	5,360	54,945
2004	50,573	5,537	56,110
2005	51,202	5,685	56,887
2006	51,758	5,990	57,748

Source: Hampton Roads Planning District Commission, 2008; BAE, 2009.

Population Trends

It's clear to anyone familiar with the region that population has left the Southside's cities in favor of its newer suburbs. Table 3 demonstrates the intensity of this trend since 1980. Portsmouth has seen a slight decline in population, modest in comparison to the nearly 30,000 residents Norfolk lost during the same time period. In contrast, Chesapeake nearly doubled

Table 3: Population Change, 1980 -2007

	<u>1980</u>	<u>2007</u>
Portsmouth	104,577	98,542
Norfolk	266,979	235,986
Chesapeake	114,486	216,568
Virginia Beach	262,199	433,032

Source: HRPDC, 2008; BAE, 2009.

its population and Virginia Beach's population increased by two thirds. As in every other part of the country, newer housing with more land, better schools, economic and racial homogeneity, and greater security are some of the factors that led households to prefer housing choices in the suburbs and fuel their continued development further and further away from the region's urban cores. Appendix Tables B-3 through B-5 document how the demographics of Portsmouth and its downtown compare with the Southside as a whole, where its two suburban communities now account for two thirds of the area's population.

Further evidence quantifying the focus of development activity outside of Portsmouth is also found in residential building permit statistics for the region. Since the beginning of the decade, the City as a whole has averaged building permits issued for 171 units of single family housing and 99 units of multifamily housing. While this demonstrates a level of new investment in the city, it is small in comparison to the building activity within the Southside as a whole: 2,842 and 1,192 units permitted for single family and multifamily units, respectively. While the City of Portsmouth represents nearly 11 percent of households in the four jurisdiction area, it claimed only about six percent of its single-family construction and eight percent of its multifamily unit construction. Appendix Table B-6 provides more detail on building permit statistics.

Employment and Population Projections

Projections based on migration and growth trends show the region's steady increase in employment and population. Based on the trend described above, household population will increase steadily in the region at an annualized rate of 0.6 percent, but that growth is projected to take place outside of Portsmouth. Portsmouth is also projected to increase its employment base, but projections show the bulk of the region's employment growth occurring in areas that have seen high population growth. See Figures 1 and 2.

In attracting its share of the region's growth, Portsmouth and its Downtown face formidable challenges from its suburban neighbors. While the newer parts of the Southside have successfully attracted new development on greenfield sites, Portsmouth has a very limited amount of undeveloped land and a limited tax base to use in repositioning potential sites for redevelopment and creating more attractive conditions for development, including better schools and enhanced security as well as development-ready sites with infrastructure in place. Despite its strengths and some recent success in attracting development, many people feel that negative perceptions of Portsmouth still linger. Those who are not familiar with Downtown Portsmouth often see it from unappealing vantage points – primarily Effingham Street and Interstate 264. The recent resurgence of Norfolk's Downtown, while providing an example of how an urban core environment can be successfully redeveloped to attract new residents and employment, provides another draw for investment and growth with which Portsmouth must compete.

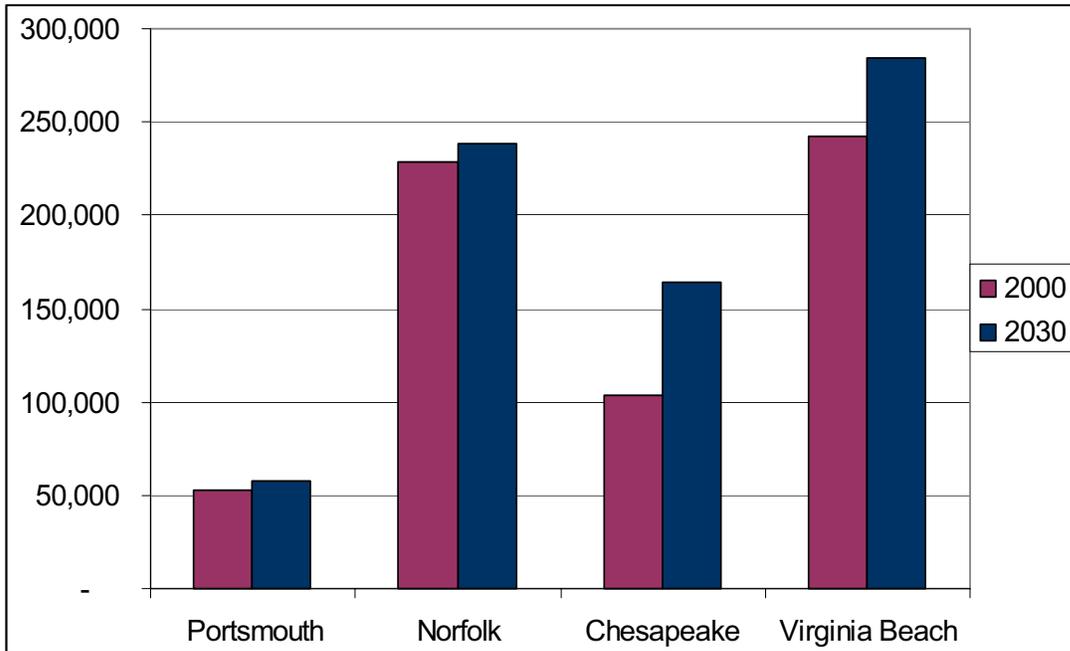


Figure 1: Employment Projections to 2030

Source: Hampton Roads Planning District Commission, 2008; BAE, 2009.

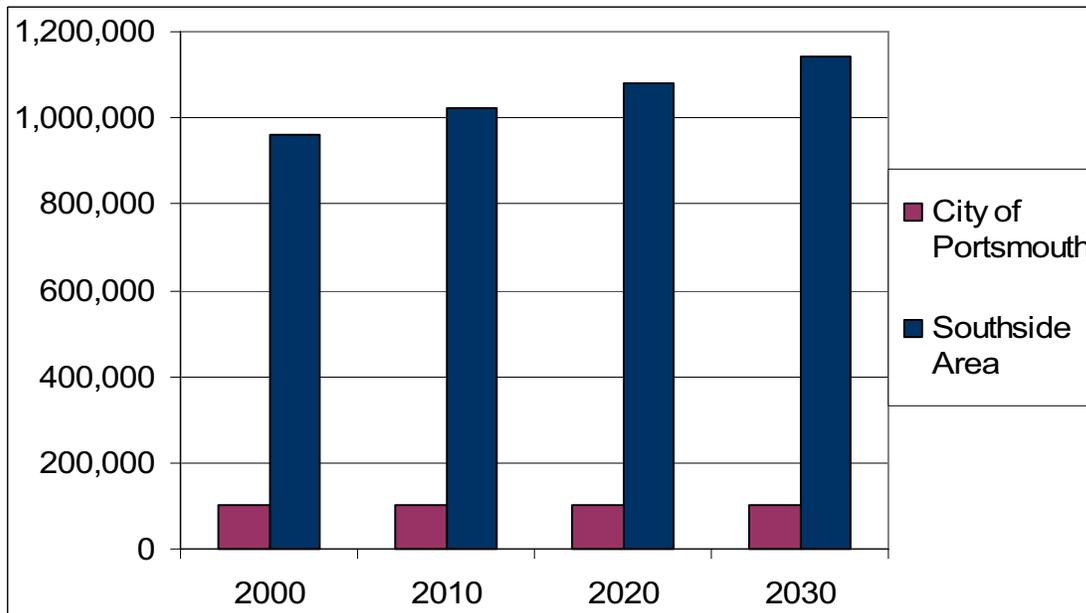


Figure 2: Population Projections to 2030

Source: US Census Bureau, Virginia Employment Commission 2008; BAE 2009.

Portsmouth's Competitive Position in Southside

Nevertheless, Downtown Portsmouth holds a unique place within the Hampton Roads region and the Southside, and has key assets that, if used strategically, can form the foundation for its revitalization. Downtown Portsmouth can use its assets to reposition itself as offering a lifestyle unique within the Southside and Hampton Roads. The two features most important to defining Downtown's competitive position are described below.

Downtown has historic charm and character unique to the region. Norfolk and Portsmouth represent the only real urban centers in Hampton Roads. Downtown Norfolk's renaissance shows that a demand exists in the region for an urban lifestyle that offers a variety of dining and shopping options, entertainment, visitor attractions, and the streetscape and density that support vibrant street life appealing to a diversity of people. This vibrancy also makes Downtown Norfolk more appealing as a place to work and a place to visit. Portsmouth has the basic infrastructure to support a similar lifestyle, as well as assets that Norfolk does not have. Downtown Portsmouth has a waterfront with views of Downtown Norfolk, rich cultural resources and an aesthetic defined by its predominant feature, a stock of relatively low density historic buildings generally in good condition. Furthermore, Downtown Portsmouth's unique existing building stock and character allow it to offer something quite different from Norfolk: a quieter downtown. It can offer urban amenities, but with a small town community feel that is absent the noise, traffic and density of Norfolk. Downtown Portsmouth is also well integrated into the fabric of the region, with highways and a ferry that make its neighbors only a short trip away.

Downtown is surrounded by jobs. Downtown Portsmouth is within very close proximity to dense clusters of jobs. Together the Naval Medical Center and Norfolk Naval Shipyard amount to 13,000 jobs, which is equal to 3.5 times the Downtown population. The Downtown study area is also just across the water from Downtown Norfolk and its 38,000 workers who make up the largest employment core in the Hampton Roads region. Lastly, Downtown Portsmouth itself consists of approximately 6,600 employees (Figure 3).

The characteristics of the employees who work in these centers are described in more detail in the chapter that follows. Portsmouth is in the middle of these dense job clusters, and within a short commute to all of these jobs by car or public transportation. Not only do the employees in these jobs represent potential Downtown Portsmouth residents, they also can be the focus of marketing and attraction efforts to increase local visitation to Portsmouth and bolster Downtown's nighttime population.



Figure 3: Employment Centers Located in and Near Downtown Portsmouth

Source: City of Portsmouth, 2008; Microsoft Streets and Trips, 2008; BAE, 2009.

Residential Market Opportunities

Residential development represents the strongest opportunity for investment in Downtown Portsmouth. This chapter summarizes market conditions and their implications for a revitalization strategy.

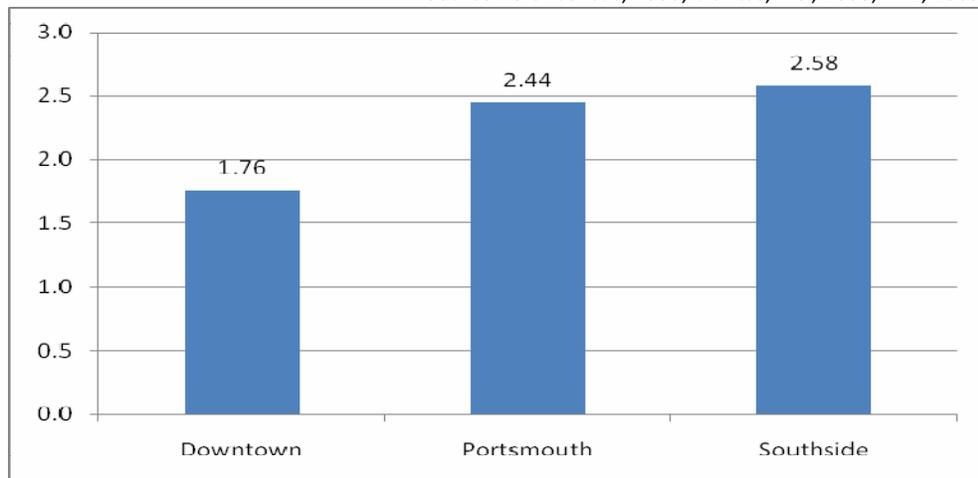
Summary of Potential Demand

Existing households in Downtown are typically smaller and older

The demographics of Downtown Portsmouth’s relatively small number of households (approximately 1,800 in 2008 in Census tract 2109) show attributes typical of more urban settings. As shown in Figure 4, these households are markedly smaller on average than in the surrounding areas, reflecting fewer households with children and more non-family households in general.

Figure 4: Average Household Size, 2008

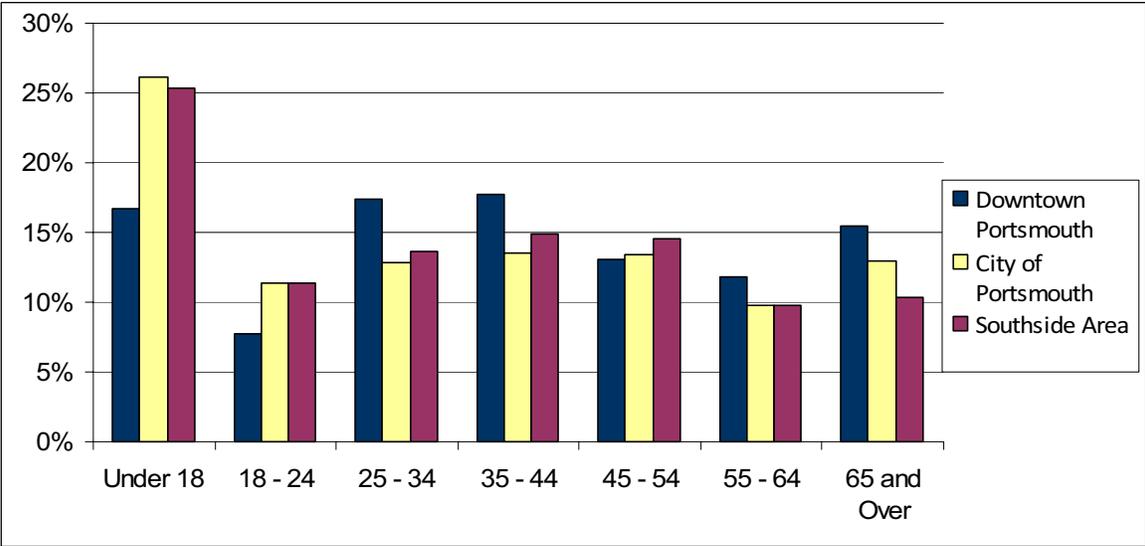
Source: U.S. Census, 2000; Claritas, Inc., 2008; BAE, 2009.



In fact, non-family households make up 61 percent of Downtown Portsmouth households versus just 33 percent and 30 percent for the City and Southside, respectively. The pool of residents is also generally older, with a median age of 40 versus 35 for both the City and the Southside. However, as demonstrated in the chart below, Downtown also has a considerably lower proportion of residents under 24 years of age and a higher proportion between 25 and 35, and older than 55.

Figure 5: Age Distribution, 2008

Source: U.S. Census, 2000; Claritas, Inc, 2008; BAE, 2009.

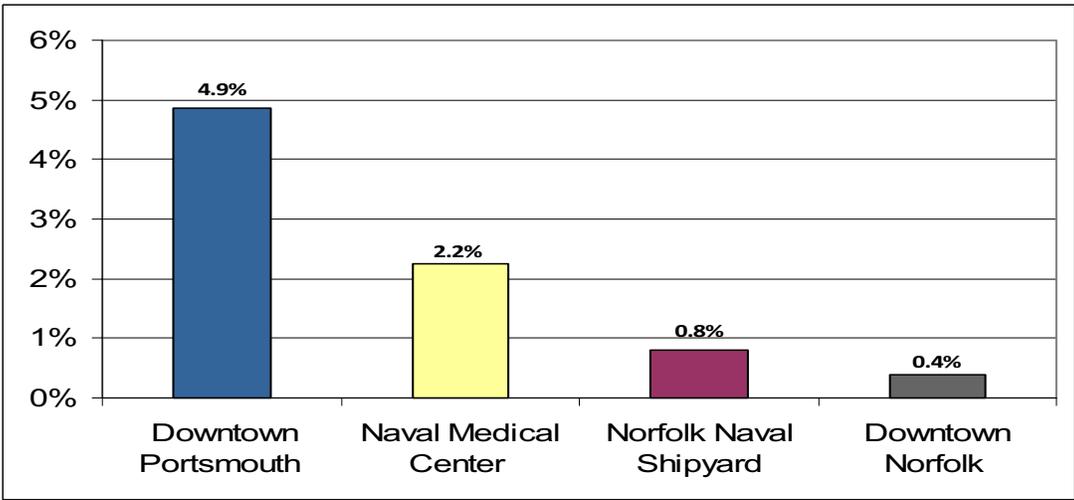


Of the large concentrations of nearby workers, many meet demographic criteria of viable residential target markets

Of nearly 58,000 employees within the closest four job centers, only one percent reside in the Downtown Portsmouth study area.

Figure 6: Workers Who Live in Downtown Portsmouth by Job Location

Source: U.S. Census Transportation Planning Package, 2000; BAE, 2009.



The figures below highlight in detail where these various workers live and how long their commutes are. Remarkably, over 70 percent of workers at both the hospital and shipyard bypass not only Downtown but the entire City of Portsmouth to live in Norfolk, Chesapeake, Virginia Beach, and beyond. Likewise, almost half of these employees have one-way commute times greater than 30 minutes.

Figure 7: Place of Residence by Place of Employment

Source: U.S. Census Transportation Planning Package, 2000; U.S. Census, 2000; BAE, 2009.

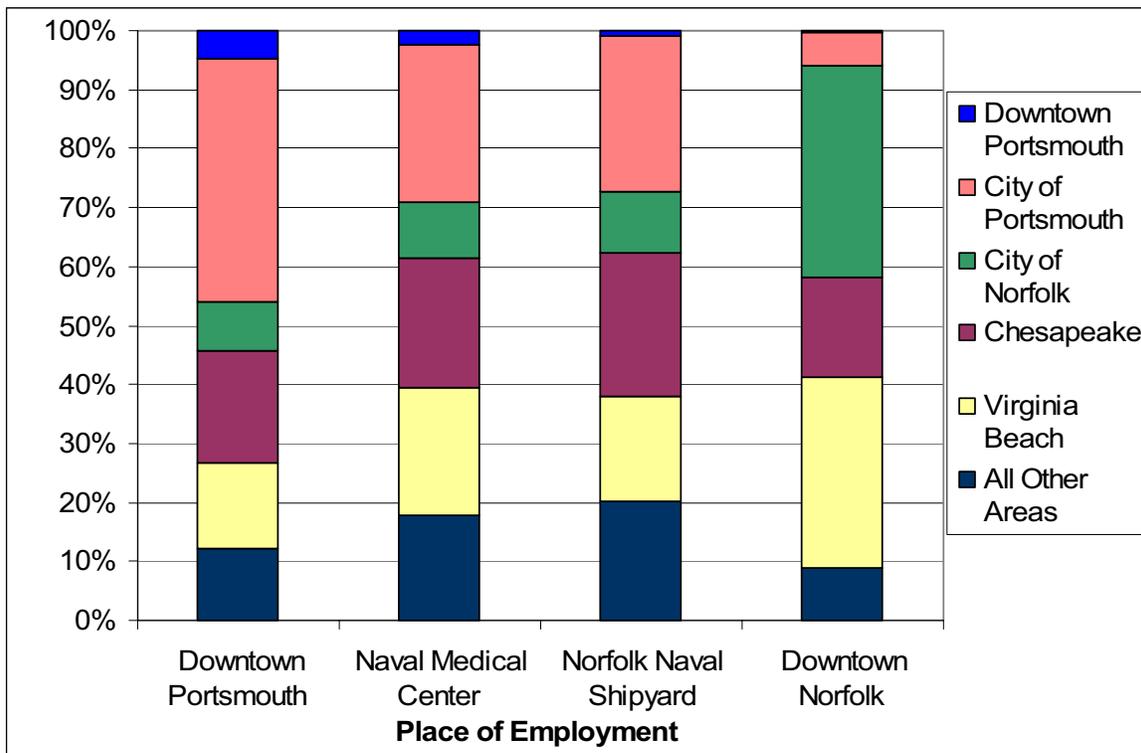
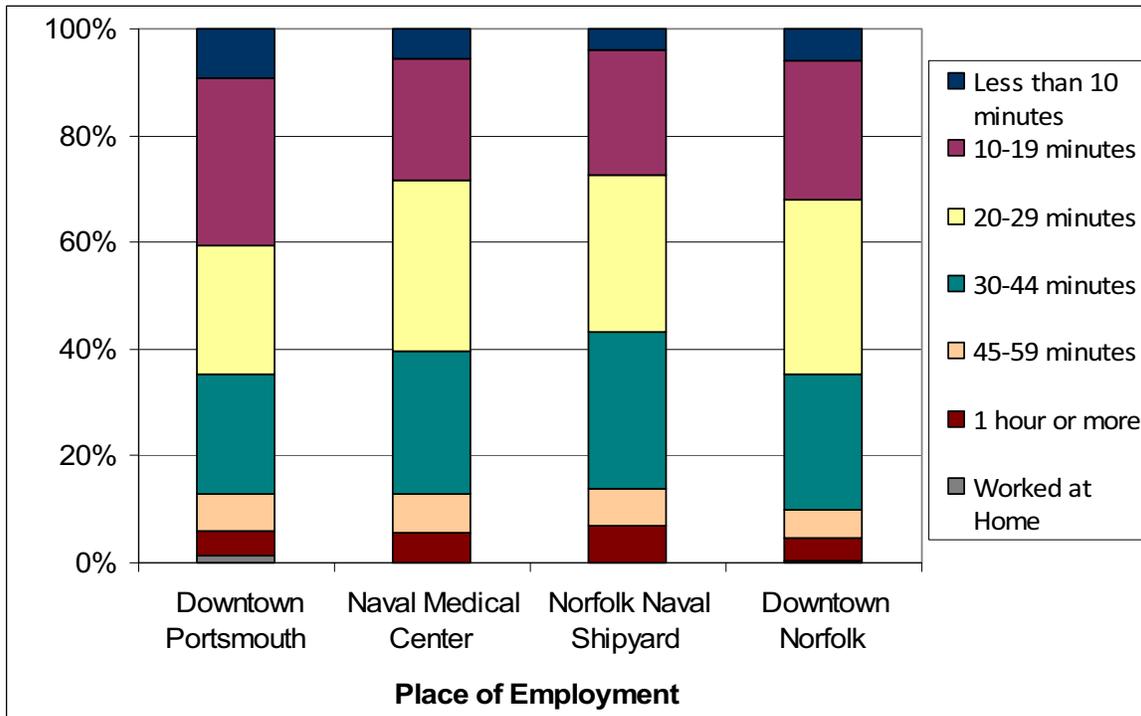


Figure 8: Commute Time by Place of Employment

Source: U.S. Census Transportation Planning Package, 2000; U.S. Census, 2000; BAE, 2009.



Based on the various demographic characteristics of these different employment cores, there are large percentages of these workers who could be interested in Downtown Portsmouth living if properly targeted. As of 2000, over 19 percent of these workers had earnings greater than \$50,000, the 2008 equivalent of \$63,800. Furthermore, these numbers represent individual worker earnings, as opposed to total household income. Adjusting for those employees who already reside in Downtown Portsmouth, this amounts to over 11,000 employees with incomes over \$63,000, compared with the Southside’s 2008 median *household* income of \$55,800. Assuming that these workers have demographic patterns similar to Southside households as a whole, more than half (56percent, or 6,200) of these workers are part of households without children (those households more likely to consider an urban residential setting). Although some of these workers may reside together (such as couples who work in the same area), a starting point of over 6,000 nearby workers with sufficient incomes and no children represents a deep pool of untapped potential demand for Downtown Portsmouth housing.

Previous analysis suggests healthy residential demand

In 2006 the City of Portsmouth commissioned a residential market analysis² to assess potential demand in Downtown Portsmouth. The results found demand for 235 units per year comprised of 95 rental units and 140 attached for-sale units. Likely target market audiences consisted primarily of young professionals and empty nesters, with a small amount of families, which is typical of most urban settings. Based almost entirely on demographic analysis, the report is thorough in its quantification of demand potential for the area, and with a few notable exceptions, we generally agree with the overall findings.

One key underlying assumption in the original study was that 25 percent of the residential demand would originate from second-home buyers. Although Downtown has a number of strengths that could make the area a strong second-home destination, we are confident that Downtown needs further improvement before it can experience such a second-home audience. Essentially, the recommended short-term implementation strategies need to take place first, and as Portsmouth evolves, so too will the second-home opportunity. Furthermore, the study was conducted in 2006, when real estate conditions were generally stable and rebounding, a market different from today's conditions.

Based on these two factors, it is likely that 235 units annually is optimistic in the short term, but as Portsmouth continues to improve, Downtown will be poised to capture this number in the longer term, likely five or more years. As such, the opportunity is likely closer to 150 units per year in the near term, with gradual escalation towards 230-240 over time. Most importantly, the report does not offer any suggestions on what needs to take place for Downtown to have the ability to capture these additional 235 residential units per year. The 150-unit estimate adjusts down 25 percent to eliminate the second-home demand assumption, and an additional 15 percent less of primary home demand, to account for current market conditions.

Overview of Current Supply

Adaptive reuse projects on High Street under construction are positive sign

Recent adaptive reuse residential projects on High Street indicate that ongoing opportunities do exist in the Downtown area. Oxford Place will consist of 24 for-sale condominiums, prominently located on the corner of High Street and Middle Street. Units will range from \$269,000 to \$325,000, with sizes ranging from 1,000 to 1,370 square feet, with prices per square foot ranging from \$238 to \$269. Units are configured on the second floor above first floor retail. Interviews

² *Market Position Analysis: Downtown Portsmouth* by Zimmerman/Volk Associates, Inc; February 2006

with this project's developer indicated that marketing efforts will be targeted to young professionals, once they begin.

Figure 9:

Oxford Place Condominiums

Montgomery Square is located further west, on the southeast corner of High Street and Effingham. The residential component of the project will consist of 69 rental apartments featuring mostly urban loft-style designs configured above ground floor retail. The design takes advantage of the unique features of the historic architecture, with exposed brick walls and high ceilings. Although the units are not yet being actively marketed, the project represents a good example of a developer capitalizing on historic tax credits and a unique architectural setting to deliver a residential product that will be unique to the Portsmouth rental market. The project is currently under construction. Although neither project has begun officially actively marketing, and each is relatively limited in scale, both Oxford Place and Montgomery Square demonstrate the ability of downtown to attract investment.



Successful larger-scale new construction developments tap into nearby job concentrations

The most recent new construction rental delivery within close proximity to the Downtown study area is the Myrtles at Olde Towne, a 246-unit garden apartment project built in 2005. At the time of its delivery, it achieved some of the highest rents in the Hampton Roads region. Much of its success is due directly to its very close proximity to the Naval Medical Center Portsmouth. Employees from the hospital represent up to 40 to 45 percent of the tenants at the Myrtles, due somewhat in part to the mobility of the military lifestyle that lends itself to rental preference. However, the success achieved by the Myrtles in its Portsmouth location demonstrates that offering the right product tailored to target nearby workers can be successful.

There has been limited new residential development activity

There has been significant, incremental investment in many of Downtown's historic single family homes and commercial properties. However, as indicated by building permit data discussed previously and depicted in Appendix B, statistics indicate that comparatively limited residential development activity has taken place compared to the rest of the region. Portsmouth as a whole has averaged about 270 annual residential building permits since 2000, both inside and outside Downtown. Appendix Table B-7 shows the identified pipeline of projects in Portsmouth that have been made public, approved, and/or are under construction. Ninety-four units of housing (represented by the Myrtles and Oxford Place) are under construction, and the only other large

scale residential development identified is the mixed use project by Lincoln Properties on the old Holiday Inn site on the waterfront. Despite a strong real estate market between 2004 and 2007, Downtown and nearby multifamily residential development activity has been relatively slow over the past decade, with only a small number of rental apartments and for-sale products delivered. Our search found only The Myrtles rentals and Admirals Landing, a waterfront condominium project built in 1996.

Pricing of Downtown residential products is strong

Appendix Table B-8 shows a survey of rents in Downtown Portsmouth and Norfolk. Per square foot prices at the low end are about \$1.00 per square foot, and up to around \$1.50 per square foot at the high end. In comparison, sample project rents in the Ghent neighborhood, a successfully revitalized and highly desirable neighborhood in Norfolk, start at about \$1.25 per square foot and top off near \$2.00 per square foot. Rents at high quality projects in Downtown Portsmouth therefore offer value, but are priced competitively compared to choices in Ghent. Our survey found occupancy rates in the three Downtown Portsmouth projects ranging from 85 to 96 percent. A recent search of residential sales listings found asking prices for single-family homes in Downtown topping out at \$775,000. A condominium listing at Admirals Landing had an asking price of \$375,000, or about \$318 per square foot for the 1,179 square foot unit. For comparison purposes, a new condominium project in Downtown Norfolk, 388 Boush Street, has been advertising its 1,100 square foot units for \$299,000. Although anecdotal, this comparison supports the idea that high quality units in Downtown Portsmouth have a high value to those who seek them out.

Residential Conclusions and Recommendations

Demand Estimate

Currently, only one percent of workers in the four nearby job centers reside in Downtown Portsmouth. A preliminary market sizing exercise based on these employees shows that if these workers were effectively targeted, Downtown could experience additional annual demand of up to 90 residential units, by capturing a reasonable proportion of the estimated number of employees without children and with higher-paying jobs.

Table 4: Employment-Based Residential Demand Estimate

Demand Source	Naval Shipyard	Naval Hospital	Downtown Portsmouth	Downtown Norfolk	Total
Total employees (a)	7,500	5,400	6,600	38,300	57,800
% Already live in Downtown Portsmouth (b)	0.8%	2.2%	4.9%	0.4%	1.1%
= Employees living in Downtown	60	119	323	153	655
Total employees not already living in Downtown	7,440	5,281	6,277	38,147	57,145
x % higher paid employees (c)	28%	19%	14%	19%	19%
= Total higher paid employees living outside of Downtown	2,098	1,009	904	7,095	11,106
x % Households with no children (d)	56%	56%	56%	56%	56%
= Total higher paid employees without children living outside of Downtown	1,174	564	506	3,969	6,213
x % Annual Household Turnover - Southside	19%	19%	19%	19%	19%
=Total childless, higher paid nearby workers in turnover	223	107	96	754	1,180
x % Downtown capture (e)	10%	15%	15%	5%	8%
= Annual Downtown capture of existing qualified nearby workers	22	16	14	38	91

Notes:

- (a) City of Portsmouth Planning Department and U.S. Census
- (b) U.S. Census Bureau Transportation Planning Package
- (c) Defined as the estimated percentage of employees earning incomes higher than the Southside *Household* median income, U.S. Census Bureau, Claritas
- (d) Based on percentage of Southside households with no children, Claritas
- (e) Capture rates assume short-term recommended strategies implemented and nearby workers targeted effectively, BAE

The above analysis assumes that if this group was effectively targeted, Downtown could conservatively capture up to eight percent of those workers within the targeted demographic likely to be interested in Downtown living.

Recommendation: narrow the focus of changing perceptions from a region-wide effort to these nearby workers

The city has made ongoing efforts to change the area’s perception via regional advertising through a variety of media. While the process of changing regional perceptions is showing some improvement, this broad campaign may not yield the biggest “bang for the buck” in the context of improving Downtown development viability.

As such, attracting renters and buyers in the region to Downtown may require more focus, targeting those market audiences that work nearby and are “pioneering” for one reason or another. Typical urban pioneers seek value and long-term return on investment, and usually prefer short commutes. Instead of counting on the ongoing region-wide marketing campaign, focus on “your own backyard” and just across the water, by targeting the significant concentrations of workers in and around Downtown Portsmouth.

Attempting to change the perceptions of this market audience will be met with less resistance once the tangible benefits of living within close proximity to work can be demonstrated. Focusing on this deep pool of workers should jumpstart residential demand. Each employment core demonstrates different characteristics with respect to commuting patterns and earnings, and each should be targeted with tailored messages accordingly.

High percentages of these workers do not live near where they work. Although numerous

lifestyle choices dictate this decision (such as families seeking detached, large-lot housing, schools, value, etc.), numerous market audiences could be drawn to the strengths of Downtown Portsmouth, given the shorter commute offered, as well as its walkable urbanity rarely found in the Hampton Roads region.

Office Market Opportunities

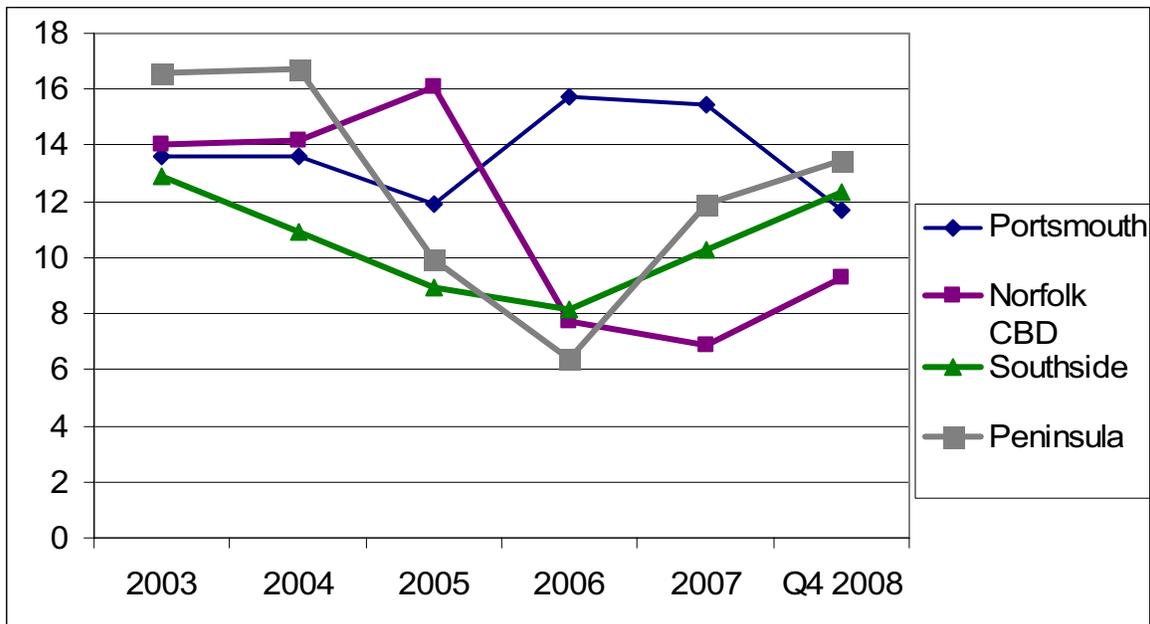
Demand Summary

Vacancy trends show a relatively healthy, competitive office submarket

According to CB Richard Ellis' (CBRE) Fourth Quarter 2008 MarketView, the City of Portsmouth's office vacancy rate was 11.7% at the end of 2008, which was stronger than the Southside suburban average of 12.3%, although it trails Downtown Norfolk's 9.3% rate. At 11.7%, Portsmouth's vacancy has shown strong improvement since a peak of 15.8% in 2006, impacted by the stronger than average net absorption in 2007. Figure 10 shows historical vacancy rates for Portsmouth, Downtown Norfolk, the Southside, and the Peninsula.

Figure 10: Vacancy Rate Trends in Hampton Roads, 2003-2008

Source: RKG, 2008; ODU CREED, 2008; CBRE, 2009; BAE, 2009.



With a vacancy rate on par with the rest of the suburban Southside submarkets, the Portsmouth submarket appears to be competing well for office demand in the region.

Baseline fair-share net absorption estimate is 12,000 square feet

According to the 2008 Hampton Roads Real Estate Market Review by Old Dominion University's

(ODU) Center for Real Estate and Economic Development (CREED), the Hampton Roads region has historically averaged a net absorption of about 500,000 square feet of office space per year. Portsmouth's current share of Hampton Roads office space inventory is 2.4 percent (564,200 square feet for Portsmouth out of 23,730,800 for the Hampton Roads region). Assuming the Portsmouth office market could capture its fair share (2.4 percent) of Hampton Roads annual net absorption (500,000 square feet), baseline net absorption potential equals approximately 12,000 square feet per year. This demand is created by the growth in employment of industry sectors that typically use office space. Over the past five years, Portsmouth's net absorption has been slightly less, averaging about 10,000 square feet per year.

Net absorption can fluctuate dramatically from year to year depending on a variety of factors, including the regional and national economy, as well as the expansion, contraction, and relocation of businesses throughout the region. For example, in the fourth quarter of 2008, according to CBRE, the region experienced negative net absorption of 225,000 square feet, with Portsmouth experiencing negative net absorption of just 3,900 square feet. For 2007 as a whole, the submarket experienced a healthy net absorption of 57,000 square feet.

Employment growth will also shape long-range demand and increase baseline

As discussed previously, non-retail employment is forecasted to grow by 3,800 employees between 2000 and 2030. Given the current estimated percentage of Portsmouth's non-retail employment in professional (office-using) occupations (60 percent), this would equal about 2,300 jobs. Assuming roughly 250 square feet per employee, this growth should yield additional demand for around 570,000 square feet of office space over the 30-year period, or 19,000 square feet per year, compared to the baseline 12,000 square feet which is rooted in both historical regional absorption trends as well as a snapshot of today's inventory, as opposed to future employment-driven forecasts. These two scenarios represent the baseline projection and assume none of the short-term placemaking strategies are implemented in Downtown.

Small businesses are significant demand drivers

Small establishments, defined here as those with fewer than 10 employees, comprise the foundation of the Portsmouth economy. Table 5 shows that two thirds of all Portsmouth establishments fall into this category.

Table 5: Employers by Size of Establishment, 2nd Quarter 2008

Number of Employees	Portsmouth		State of Virginia	
	Number	Percent	Number	Percent
Zero	153	8.2%	23,455	10.3%
1 to 4	743	39.7%	105,402	46.5%
5 to 9	350	18.7%	38,672	17.1%
10 to 19	282	15.1%	26,812	11.8%
20 to 49	215	11.5%	19,895	8.8%
50 to 99	69	3.7%	6,953	3.1%
100 to 249	42	2.2%	3,828	1.7%
250 to 499	9	0.5%	1,059	0.5%
500 to 999	5	0.3%	383	0.2%
1,000 and over	4	0.2%	228	0.1%
Total	1,872	100%	226,687	100%

Source: Virginia Employment Commission, 2009; BAE, 2009.

As such, although chasing down large tenants may someday yield a large impact on the office market, the make-up of the local economy indicates that consistent day-to-day activities focused on targeting small office users should pay off, particularly in light of Downtown’s current supply of inventory.

Supply Overview

The Downtown Portsmouth office submarket consists of mostly Class B space

Portsmouth’s office submarket consists primarily of Class B product along Crawford and Water Street that serves a mix of tenants consisting primarily of public sector entities such as Federal and local government, as well as some attorneys and healthcare-related users, along with typical office users in the Professional Services sector (such as accountants). Asking rents for available space typically range from \$16 to \$18 per square foot although average rents for Class A and B are \$15.80 and \$14.90 versus Downtown Norfolk’s \$22.76 and 17.91. Average Class A rents for all of Hampton Roads are \$20.05 and Class B rents average \$14.81. Total Portsmouth inventory amounts to over 560,000 square feet although a small amount of this space is located beyond the defined Downtown study area. Only 88,300 (16 percent) is considered Class A space. Classification of office space is based on many qualitative factors. The classification of buildings in Table 6 is derived from ODU’s Center for Real Estate and Economic Development (CREED), the source of the building data.

Table 6: Office Buildings in the City of Portsmouth

Class A Buildings	Size	Share
BB&T Building (500 Crawford St)	35,327	6%
Harbourfront Corporate Center (801 Water St)	53,000	9%
Total Class A Inventory	88,327	16%
Class B Buildings		
307 County Street	13,475	2%
355 Crawford Street Building	79,367	14%
600 Crawford Street	16,171	3%
Boyette Professional Center	13,000	2%
Bristol Square	10,800	2%
JJH Building	17,563	3%
New Kirn Building	44,000	8%
Port Trade Center	14,223	3%
PortCentre I (flex)	100,000	18%
The Seaboard Building	65,000	12%
Towne Bank Building (200 High St)	34,000	6%
Wachovia Bank	48,000	9%
Total Class B Inventory	455,599	81%
Crawford Executive Center	20,340	4%
Total Class C Inventory	20,340	4%
Total Inventory - All Classes	564,266	

Source: ODU CREED, 2008; BAE, 2009.

Portsmouth is competitive as a Class B submarket

Portsmouth’s achievable rents trail those of Downtown Norfolk for both Class A and B space, which is not surprising given Downtown Norfolk’s position as the Hampton Roads’ central business district. Portsmouth’s Class A space also lags the overall Hampton Roads average by a substantial margin.

However, Portsmouth’s Class B space, which makes up the majority of its inventory (80 percent), slightly outperforms the Hampton Roads average for Class B space.



Figure 11: Average Rent, 2007

Source: ODU CREED, 2008; BAE, 2009.

Much of Downtown Portsmouth's inventory consists of smaller spaces

A sampling of current available space listed in Downtown shows blocks of space ranging from 1,200 to 3,000 square feet, and averaging approximately 2,100 square feet (Appendix B-9), lending further support that targeting smaller users is a viable strategy to maintaining and improving the Downtown office submarket.

Office Market Conclusions and Recommendations

Assuming anticipated healthy long-range economic conditions, 12,000 square feet of net absorption is considered the baseline annual demand for Downtown Portsmouth based on historical trends, increasing to 19,000 square feet in the future based on anticipated growth in sectors of office users. A more optimistic scenario, assuming the ongoing evolution of Downtown results in the submarket outperforming historical trends and employment growth forecasts, would show net absorption above 20,000 square feet average per year going forward.

Smaller users in targeted industries represent the most viable short- to mid-term opportunity

Although attracting a corporate headquarter tenant would provide an economic kickstart, without a robust set of services and amenities in place in Downtown, this effort will likely be a challenge, particularly with Downtown Norfolk competing for Class A space just across the water. As such, this "lightning strike" opportunity has more potential as a mid- to long-term office development catalyst, after the area has enhanced its residential stock and improved services and amenities. Nevertheless, the city should plan for redevelopment that provides additional opportunities for office space in single use or mixed use buildings to accommodate potential interest by large anchor tenants.

Target industries suitable for Downtown

In the Economic Development Strategic Plan commissioned by the Portsmouth Department of Economic Development in June of 2008, RKG Associates identified and analyzed target industries suitable for increased economic development for the City of Portsmouth as a whole. These include:

1. Maritime-related industries
2. Logistics
3. Technical, Research, Consulting, and Corporate Operations
4. Medical Research and Provision

RKG analyzed the numerous subsectors within these industries and assessed the potential for economic development opportunity for the entire city. BAE further analyzed these subsectors to identify those that are suitable specifically for the Downtown environment, using various criteria,

including:

1. Typical site selection criteria – namely those subsectors that are typically office users as opposed to industrial and/or flex users, and that do not require large land parcels or substantial water frontage for operational activities.
2. Average size of establishment by sector – smaller being more suitable for short-term Downtown office development, larger more suitable in the long term.

The following tables summarize the strong and moderate sector-specific office tenant opportunities based on the above criteria, and provide the city with guidance on which areas to focus on in economic development process of targeting businesses specifically for Downtown. The average size is based on employment data for the Hampton Roads metropolitan statistical area.

Strong Opportunities

Industry/Business	Average Establishment Size	Comments
Scenic/sightseeing Water Transportation	14	Tourism-related activities such as sightseeing tours, charter fishing, and dinner cruises are a strong fit and would complement existing Downtown hotels, restaurants, museums.
Professional Services	12	Accounting (avg. 8), architects (avg. 10), consultants (avg. 4), attorneys (avg. 7), etc. Wide range of tenants, but mostly smaller.
Logistics Consulting	6	Office user. May prefer proximity to ports but may be drawn to more centralized location. 55 establishments in Hampton Roads that fall into the 6-digit NAICS code of Process and Logistics Consulting Services.
Physicians and Outpatient Care	15	There is already a small cluster of healthcare-related tenants in Downtown. There may be an opportunity to further leverage Downtown’s proximity to Naval Medical Center Portsmouth as well.

Moderate and/or Longer-Term Opportunities

Industry/Business	Average Establishment Size	Comments
Deep Sea/Coastal Water Transportation	67	Oceanic freight and passenger movement – could draw administrative uses that require office but not large-scale water frontage or proximity to operations – likely longer term opportunity.
Modeling and Simulation	14	Users of high-quality office but tenants in this specialized field will likely seek proximity to the cluster of tenants oriented near the MAST Center to the west of town, on the border of Suffolk.
Research and Development	35	“Creative Class” of workers would be drawn to Downtown urban atmosphere but many tenants may need flex space as well. May orient towards high-tech clusters like MAST Center as well.
Corporate Headquarters	35	Ideal large-office tenant but Downtown’s current lack of strong services and amenities, as well as minimal supply of high-quality, large office space will hinder opportunity in the short term.
Administrative and Support Services	20	Office users such as property management and short- and long-term staffing. Employment placement agencies average 6 employees per establishment in Hampton Roads.

Retail Market Opportunities

Demand Summary

Households in the surrounding area provide insufficient retail demand

Retail demand is lacking for a variety of reasons. First and foremost, households in the immediate surrounding area are not sufficient to support large amounts of retail space. Fewer than 1,800 households are found Downtown, (as defined by Census tract 2109), and their 2008 estimated retail expenditures amounted, in total, to the equivalent of about 68,000 square feet of retail space.³ Of course, households do not restrict their shopping to the stores closest to them. High Street, with the right types of stores, might capture a high percentage of convenience goods and service purchases – pharmacy items and dry cleaning, for example. For other purchases, such as clothing or furniture, households will comparison shop and search a larger area for their choices. Assuming that Downtown could capture an aggressive 50 percent of all expenditures, households in the immediate Downtown area would only provide support for 34,000 square feet of space.

The Elizabeth River and Interstate 264 pose physical barriers that further restrict the geographic area that could support High Street with local retail purchases. Going beyond the immediately surrounding area, nearby Census tracts provide an additional 7,700 households⁴. These households in total support another estimated 294,000 square feet of retail. However, these households are on the other side of Effingham Street; their further distance and the existence of other attractive retail alternatives would reasonably result in a lower percentage of their purchases occurring on High Street. Assuming that High Street could capture a far lower rate of 10 percent of retail expenditures from this group, they could support an additional 30,000 square feet.

Non-resident population also supports High Street

It is clear that non-resident population helps to keep storefronts occupied on High Street. Two types of retail – food and drinking establishments, and furniture and home furnishings stores – draw in significantly more sales than local expenditures support, as demonstrated in the analysis below, which compares likely expenditures by Downtown households to retail sales dollars spent in Downtown (a retail leakage analysis). Non-resident demand consists of Downtown workers and tourists, as well as visitors and shoppers from the nearby region who represent a larger trade area that Downtown is tapping into for restaurants and antique furniture. Although untapped demand from these groups is difficult to quantify without extensive analysis, it is clear that Downtown is

³ Assumes necessary sales per square foot of \$452. Based on weighted average of various retail expenditure categories. Source: Claritas, ULI.

⁴ Area includes Census tracts 210200, 210500, 210600, 210700, 210800, 211100, 211400, 211800, 211900, 212000, 212100, 212200.

able to draw from non-resident demand in certain retail and service niches and these demand sources represent an opportunity for Downtown that is not fully tapped.

Supply Summary

Southside retail is performing well

According to the 2008 Hampton Roads Retail Real Estate Market Review sponsored by Old Dominion University⁵, the Southside market of malls, strip shopping centers and free-standing large retail spaces (23,000 square feet or larger) totaled over 30 million square feet of space, about two thirds of this type of space found in Hampton Roads. The report does not inventory or evaluate downtown retail space due to the difficulty in collecting data. The retail space found in suburban settings has little in common with a downtown retail environment, generally characterized by a collection of specialty shops without an anchor and in buildings with diverse ownership. While suburban space is not directly comparable with a downtown retail environment, it generally comprises the bulk of retail supply and provides regional context to vacancy and lease rates.

Overall, the retail properties surveyed on the Southside had a vacancy rate under seven percent in 2008, a slight increase over the 2007 calculated vacancy of less than six percent. The Southside successfully absorbed nearly 340,000 square feet of additional space in 2008. Small shop space had an average asking rent of \$16.68 triple net (exclusive of taxes, insurance and common area maintenance that the lessee also pays).

Retail character varies by block

Although there are pockets of retail in other parts of the defined Downtown area, High Street from the waterfront to Effingham Street represents the core location for retail, and the focus of analysis. A visual inventory of space indicates that approximately 90,000 square feet is occupied by retailers and restaurants, which includes the large furniture store east of Middle Street. An additional 62,000 is vacant, representing 40 percent of the total 155,000 estimated square feet. Notably, a retail analysis commissioned by the City of Portsmouth⁶ over 10 years ago found similar vacancy levels on High Street.

A diagram of store types and vacancies from Middle Street to Effingham Street is displayed in Figure 12. On the blocks east of Middle Street, ground floor space consists of office space lobbies

⁵ 2008 Hampton Roads Real Estate Market Overview: Retail by David Machupa and Thalhimer/Chushman & Wakefield, supported by the E.V. Williams Center for Real Estate and Economic Development (CREED) at Old Dominion University.

⁶ Assessment of Market Demand for Retail/Food Entertainment/Service Uses in the High Street Corridor of Olde Towne Portsmouth, by H. Blount Hunter Retail and Real Estate Research Co, July 1997.

and the furniture store.

Vacancy levels are high but concentrated on the south side of the 600 and 700 block. The south 700 block (between Effingham and Green Streets) vacancies are undergoing renovation as part of the Montgomery Square project, and are currently being marketed for rent. The south 600 block vacancies (between Green and Washington Streets) are in good condition, with some storefronts under renovation. Another large block of vacant space is found on the ground floor of the Oxford Place condominium project. These spaces, which are being marketed for rent, have a brick façade with a smaller proportion of retail glass frontage, making them much less desirable for displaying merchandise.

The 400 block (between Court and Dinwiddie Streets) is the strongest retail block on High Street, with fully leased mix of retail and restaurant space anchored by the Commodore Theater. Court Street represents the “100 percent corner” of High street, with the 400 block as the heart of activity on the street. The further distance one walks from this area both towards the waterfront and Effingham Street, the less desirable the space becomes for a retailer seeking business from passers-by; the higher percentage of vacancies reinforce the desolate feel and lack of activity, particularly in the walk from Dinwiddie Street to Effingham Street. Nevertheless, there are some established businesses further from Court Street which appear to be sustaining themselves despite their location. Establishments at or near Court Street (such as The Daily Grind) can take advantage of close proximity to offices and the buildings on the waterfront.

Generally, High Street asking rents currently range anywhere from \$5 to \$12 per square foot, considerably below the average per square foot asking rent for small suburban retail spaces. Newly renovated space in Montgomery Square, which benefits from the higher traffic and visibility of Effingham, is listed for \$17-\$20 per square foot. Appendix Table B-10 details asking rents for advertised High Street retail space.

High Street tenant mix dominated by restaurants and antiques

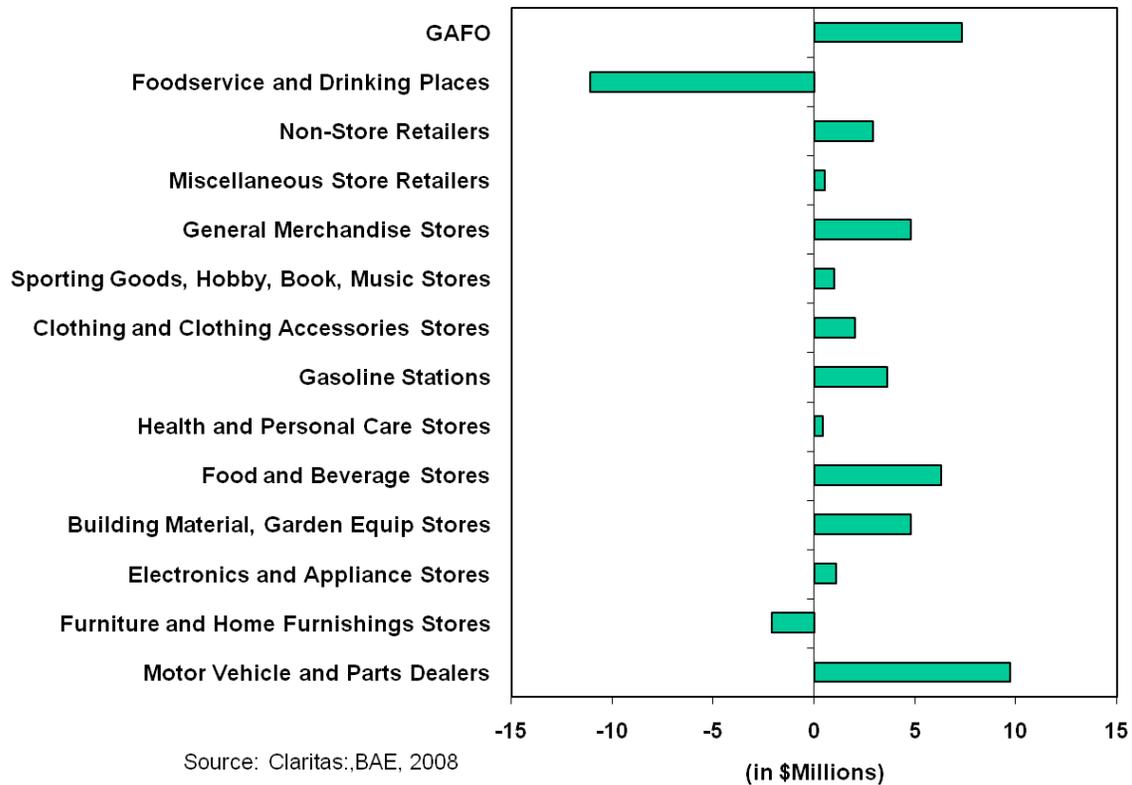
The types of stores on High Street correspond with the findings of the retail leakage analysis described below: High Street is clearly drawing from a larger Southside market area with its selection of restaurant/entertainment establishments and the cluster of antique and home products stores (interior design, kitchen supplies, and galleries). The corridor has the foundation to emerge as a stronger restaurant row and entertainment center serving the near Southside area. The street itself, excluding nearby offerings on side streets, contains over a dozen eating and drinking establishments, representing nearly 30 percent of the occupied storefronts. Many of these establishments are high quality restaurants which, along with the Commodore Theatre, provide attractive options for an evening's entertainment. Other than the Dollar General, no national tenants exist. A unique downtown will have mostly local stores with few national chains.

Retail Conclusions and Recommendations

Opportunities exist on High Street

A comparison of the estimated retail expenditure of Downtown (Census tract 2109) households versus estimated sales in Downtown identifies the unmet demand, or "leakage" of household expenditures in all but two categories (Figure 13).

Figure 13: Retail Leakage Analysis, Downtown Household Expenditures



Note: A positive number represents a leakage, while a negative number represents an injection.

Not all of these categories of retail would be appropriate for Downtown, and not all of these leakages are large enough to support a store simply based on local resident expenditures. Nevertheless, there may be sufficient demand to support retail goods and services that would be desirable to local residents but also enhance a “lifestyle” retail environment that complements the stores that are already drawing in customers from a larger market area. Examples include specialty hardware, and additional garden goods and housewares offerings. While the analysis shows insufficient support for even a small grocery store based solely on downtown demand, a small store that provides specialty foods and/or prepared foods could be considered an amenity to local residents and draw from the non-resident population of purchasers. Alternately, fresh foods at a small produce store or farmers market could meet local demand and be considered a key amenity to current and potential residents.

The two categories where High Street is successfully drawing from a much larger market area are Furniture and Home Furnishings, and Foodservice and Drinking Places. High Street has some good blocks and a foundation to become a bigger draw for people outside of Downtown and

Portsmouth, particularly for restaurants and entertainment. Other uses, such as galleries and cultural offerings, performance spaces, and even clothing stores can complement the existing restaurant and entertainment offerings if they are open in the evenings.

Although some restaurants have closed recently, this trend is more likely a function of the challenging nature of the independent restaurant industry. Coupled with the currently challenging retail atmosphere of High Street, the failure of two or three restaurants out of the group is not a surprise and is a reflection of a challenging retail sector in a challenging retail location.

Filling High Street will require both more rooftops and more visitors

Ideal retail locations have both high traffic and large numbers of households in the immediately surrounding areas. In order to thrive, Downtown retail needs more of both. The addition of 150 to 240 new households per year (consistent with the estimated short-term residential opportunity) would yield additional demand for 3,000 to 4,000 retail square feet per year, or around 18,000 square feet over the next five years. While more households will have an impact, it will not be sufficient to support occupancy of all of High Street's retail in the near future.

Strategies that aim to do the following will support that effort.

1. **Increase traffic and activity.** Every effort should be made to induce traffic to travel down High Street and to attract visitors from outside the immediately adjacent areas. In the short term, the easiest way to increase traffic, both via car and by foot, is to have more events that draw visitors to Downtown. The impact of increased tourism-related retail spending could be substantial, especially on High Street, which is an ideal scenic and walkable complement to tourist-related events. Furthermore, as residential, office, and tourism-related growth continue to make Downtown more of a thriving and inviting environment, a higher capture rate of nearby households can be expected. Increasing the estimated capture rate from 10% to 20% yields demand for an additional 30,000 square feet of retail from nearby existing households alone. Based on this preliminary analysis, adding demand from new Downtown residents (18,000 SF) and increased demand from surrounding areas (30,000 SF) goes a long way towards filling existing High Street vacancies (60,000 SF), without yet factoring in the impact of increased office workers and tourism.
2. **Improve physical block to block connectivity.** Although High Street has some attractive physical characteristics for retail use, some of the non-commercial uses and vacant lots make the corridor feel disjointed, which detracts from the ability for some of the retail tenants to cluster and benefit from proximity to each other. Every effort should be made

to mitigate this issue. One simple idea is to add attractive signage that provides information on what retailers can be found further down the street or on the next block, so that those on foot will not be led into thinking that further retail options do not exist beyond the vacant lot in front of them. Empty lots could also be covered by streetfront facades that are nothing more than fences with artistic coverings.

3. **Create more coordination between the business owners and building owners on High Street.** Downtown retail districts have the disadvantage of disparate ownership. Compared to a shopping center, where there is one owner who can create a shopping environment through design and tenant placement, downtown districts have many owners who often do not act in a coordinated fashion. Successful downtown retail strips are organized. A business improvement district or similar entity can, among other things, help to coordinate building owner activities, address the issues of property owners and building owners in a unified fashion, create a unified appearance and design standards, and define priorities for any available funding.

Hospitality/Tourism Opportunities

Tourism Overview

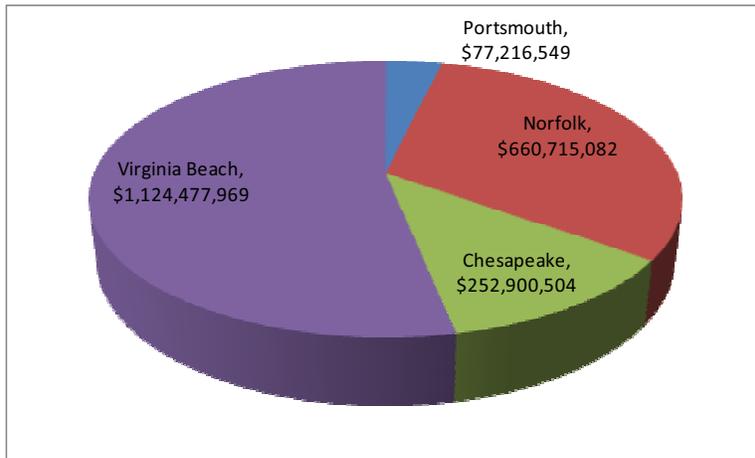


Figure 14: Tourism Expenditures, 2007

Source: Virginia Tourism Corporation, 2008; BAE, 2009.

Tourism expenditures in the Southside have been increasing steadily in recent years, from a total of \$1.6 million in 2003 to \$2.1 million in 2007. This data, from the Virginia Tourism Corporation (VTC), covers

direct expenditures by visitors and tourists including accommodation, food, transportation, shopping and admissions fees. Appendix Table B-11 provides a breakdown of annual expenditures by jurisdiction since 2003. More than half of the expenditures are spent in Virginia Beach, with Portsmouth consistently capturing just under four percent of these dollars each year.

Table 7: Average Visitor Spending, 2007

Jurisdiction	Approximate Number of Visits (in Millions)	Average Spending Per Visit
Portsmouth	2.4	\$32.17
Norfolk	5.4	\$122.35
Chesapeake	2.4	\$105.38
Virginia Beach	7.8	\$144.16

Source: Virginia Tourism Corporation, 2008; BAE 2009.

When visitor spending is compared against the number of visits estimated to each community, average spending per visit in Portsmouth is a fraction of this figure in other Southside communities, as shown in Table 7. Portsmouth is estimated to capture a similar number of visitor trips as Chesapeake, but tourists and visitors are clearly not spending as much money on hotels and attractions in Portsmouth as its neighbors.

Hotel Market Summary

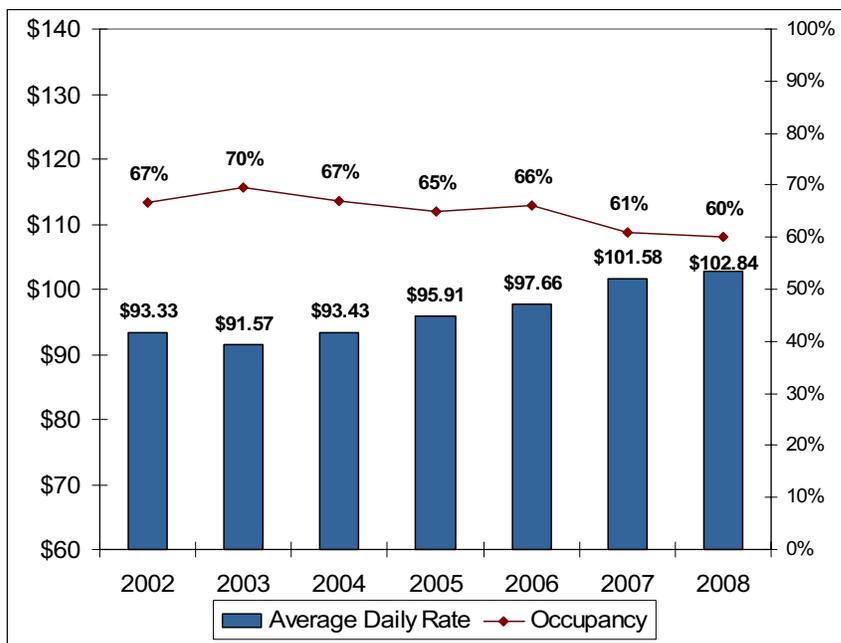
Based on hotel industry data from Smith Travel Research, hotels in Portsmouth and Norfolk have seen average occupancy rates decline slightly, from 67 percent in 2002 to 60 percent for the first three quarters of 2008. The average rate charged per room (called Average Daily Rate, or ADR), increased during that time period. Figure 15 below charts average occupancy and rates. Due to

these two factors, the revenue that hotels generated per room (called Revenue per Available Room, or RevPAR), fluctuated only slightly over this period, from about \$60 to \$63. Appendix Tables B-12 and B-13 provide annual statistics for occupancy, ADR, and RevPar, and identify the group of hotels surveyed by Smith Travel Research, respectively.

Occupancy levels of 60 percent represent the minimum to be considered a healthy market, and in the very short term, the loss of the old Holiday Inn should keep occupancies somewhat healthy in the area.

Figure 15: Occupancy and Average Daily Rates

Source: Smith Travel Research Group, 2008; BAE, 2009.



Downtown’s hotel supply represents a diverse mix of offerings

Downtown’s mix of hotel offerings is somewhat limited but does offer a cross-section geared towards a range of visitors, ranging from a high-end, convention-oriented product (the Renaissance) to value-oriented economy brands (Super 8), to historic boutiques (Governor Dinwiddie). The waterfront Holiday Inn was recently closed in preparation for redevelopment of the site, which is considered a flagship parcel of land in Downtown. There is also a new Holiday Inn planned on a different site south of I-264, which will likely fill a void in the more midscale hotel range, targeting business travelers looking for cheaper options, as well as transient highway demand. Smith Travel Research provides only aggregated data to prevent disclosure of financial information for any individual hotel, but the range of prices quoted in a recent survey are found in Appendix Table B-13.

Hotel Conclusions and Recommendations

Portsmouth has the opportunity to capture a greater share of the area's visitor expenditures

The divergence between average spending per trip in Portsmouth and the other three Southside communities reveals the opportunity that Portsmouth has to capture a greater share by better positioning and marketing itself to area tourists. Naturally, Virginia Beach and Norfolk will remain the primary draw for area visitors, as well as major attractions in the greater Hampton Roads area such as Williamsburg. Nevertheless, Portsmouth has a collection of visitor attractions, a scenic waterfront, and historic resources that, if effectively advertised, can draw on repeat visitors or tourists spending several days in the area. While general perceptions about Portsmouth and a lack of effective marketing may have created the current situation, even modest efforts to get more visitors to spend a night in Portsmouth will be able to tap into the higher amounts of money that visitors are willing to spend in nearby communities.

New hotels can support increased tourist expenditures, and vice versa

Between the downtowns of Portsmouth and Norfolk, demand for accommodations, in general, appears to be in equilibrium with supply. A developer may see an opportunity for a new hotel in Portsmouth based on intelligence about peak demand or demand for a product not already present, but based on the information available, restricted hotel supply does not appear to be limiting the flow of hotel guests to Downtown Portsmouth. Therefore, any efforts to increase tourist traffic and tourist spending should focus on effective marketing rather than attracting a new hotel. Key components of Downtown Portsmouth's repositioning include 1) marketing the number and variety of Portsmouth attractions, 2) creating an inviting environment for visitors entering Portsmouth by water to travel further into Downtown, and 3) creating more events that draw visitors to Downtown, and 4) encouraging visitors who are here for one attraction to stay longer to explore restaurants, shopping and other destinations on the same trip. Like office space, Portsmouth should plan to accommodate additional hotels in its redevelopment opportunities, but allow the flexibility for spaces to change their use in response to long-term demand trends.

Appendix A

Listening Session Participants

Mike Goodwin, Maritime Historian
J.C. Waters, Marina Owner
Gordon Shelton, Marina Owner
Herbert Haneman, Diesel Engine Business Owner
Jim Bento, Marina Owner
Bill Magann, Maritime Industry
Fred Shawndel, Commodore Theater Owner
David Cartier, President, Old Town Business Association
Betty Jo Gwaltney, Executive Director, Portsmouth Partnership
Margaret Ballard, Retail Alliance
Ed Forlines, Antique Store Owner
Dorothy Hill, Member of Methodist Church
Sarah Brown, Religious Community
Louise Parker, Member of Zion Baptist Church
Frances Laverne Watkins, Religious Community
Rosa Wells Garris, Member of Zion Baptist Church
Fletcher Parker, Member of Zion Baptist Church,
Alfonso Harrell, Member of Zion Baptist Church
Daniel W. Aston, Roseland Property
Rayford Eure, Owner, Engineering & Surveying Company
C.J. Bodnar, Planning Commissioner of Portsmouth; Employee, Engineering & Surveying Company
Kathy Warren, Portsmouth Redevelopment & Housing Authority
Stephen Beone, Owner, Surveying Company
Robert Barclay, Lawyer

Follow-Up Interviews Conducted by BAE

Paul Holt, Director, Portsmouth Department of Planning
Property Manager, The Myrtles
Leasing Agent, Harbor Tower Apartments
Bill Roach, The Rockville Group
Barbara Bailey Smith, William E. Wood and Associates
Richard Rose, Lincoln Properties
Sean McCarthy, Virginia Tourism Corporation

Appendix B

Appendix Table B-1: Employment by Industry, First Quarter 2008 (a)

Industry	City of Portsmouth			Southside Area (b)		
	Number of Jobs (c)	Percent	Average Wage (d)	Number of Jobs	Percent	Average Wage
Agriculture, Forestry, Fishing & Hunting	0	0.0%	\$0	305	0.1%	\$390
Mining	0	0.0%	\$0	35	0.0%	\$875
Utilities	ND	ND	ND	2,400	0.5%	\$1,328
Construction	2,485	5.8%	\$813	30,649	6.0%	\$775
Manufacturing	2,404	5.6%	\$875	27,229	5.3%	\$957
Wholesale Trade	787	1.8%	\$860	15,443	3.0%	\$918
Retail Trade	3,038	7.1%	\$422	59,863	11.7%	\$437
Transportation and Warehousing	1,903	4.4%	\$894	18,250	3.6%	\$896
Information	450	1.0%	\$1,362	11,434	2.2%	\$1,122
Finance and Insurance	587	1.4%	\$743	18,725	3.7%	\$1,024
Real Estate and Rental and Leasing	551	1.3%	\$549	9,894	1.9%	\$651
Professional and Technical Services	1,323	3.1%	\$954	33,927	6.6%	\$1,079
Management of Companies and Enterprises	58	0.1%	\$1,377	6,520	1.3%	\$1,431
Administrative and Waste Services	2,364	5.5%	\$612	29,649	5.8%	\$548
Educational Services	218	0.5%	\$400	32,899	6.4%	\$706
Health Care and Social Assistance	6,171	14.3%	\$656	55,840	10.9%	\$739
Arts, Entertainment, and Recreation	231	0.5%	\$396	7,008	1.4%	\$368
Accommodation and Food Services	2,365	5.5%	\$239	42,817	8.4%	\$254
Other Services, Ex. Public Administration	1,934	4.5%	\$550	15,508	3.0%	\$506
Federal Government	10,512	24.4%	\$1,177	29,809	5.8%	n/a
State Government	362	0.8%	\$797	10,187	2.0%	n/a
Local Government	5,311	12.3%	\$686	53,626	10.5%	n/a
Total All Industries	43,054	100%		512,017	100%	

Notes:

(a) Represents January, February, March 2008.

(b) Represents the cities of Chesapeake, Norfolk, Portsmouth, and Virginia Beach, VA.

(c) ND signifies data not disclosed for industries with few units or where one employer is a significant percentage of employment or wages in the industry.

(d) Calculated as average quarterly wages divided by 13.

Source: Virginia Employment Commission, Quarterly Census of Employment and Wages, 2008; BAE, 2009.

Appendix Table B-2: Largest Employers in Portsmouth

Name	Total Employees
Norfolk Naval Shipyard	7,500
Naval Medical Center, Portsmouth	5,400
City of Portsmouth	2,647
Portsmouth City Public Schools	2,400
Maryview Medical Center/Bon Secours	2,000
U.S. Fifth District Coast Guard Command	1,500
The Pines Residential Treatment Center	800
Earl Industries LLC	571
Gwaltney of Smithfield	500
Wal-Mart Supercenter	350
Southeastern Public Service Authority	230

Source: City of Portsmouth Planning Department, 2008; BAE, 2009.

Appendix Table B-3: Population and Household Trends

Downtown Portsmouth (a)					
	1990	2000	Annual Average Change 1990-2000	2008	Annual Average Change 2000-2008
Population	2,012	3,542	5.8%	3,664	0.4%
Households	1,128	1,752	4.5%	1,773	0.1%
Avg. Household Size	1.68	1.75		1.76	
HH Median Income	\$30,978	\$36,189		\$44,894	
Median Age	38.7	37.9		39.6	
Household Tenure					
<i>Renter</i>	69.4%	66.8%		66.9%	
<i>Owner</i>	30.6%	33.2%		33.1%	
City of Portsmouth					
	1990	2000	Annual Average Change 1990-2000	2008	Annual Average Change 2000-2008
Population	103,907	100,565	-0.3%	100,613	0.0%
Households	38,741	38,170	-0.1%	38,879	0.2%
Avg. Household Size	2.62	2.51		2.44	
HH Median Income	\$24,619	\$35,368		\$43,746	
Median Age	31.8	34.4		34.7	
Household Tenure					
<i>Renter</i>	44.1%	41.4%		40.6%	
<i>Owner</i>	55.9%	58.6%		59.4%	
Southside Area (b)					
	1990	2000	Average Change 1990-2000	2008	Average Change 2000-2008
Population	910,181	959,409	0.5%	990,887	0.4%
Households	315,750	348,735	1.0%	368,005	0.7%
Avg. Household Size	2.72	2.64		2.58	
HH Median Income	\$32,502	\$43,824		\$55,840	
Median Age	29.3	32.5		34.8	
Household Tenure					
<i>Renter</i>	41.8%	38.3%		37.5%	
<i>Owner</i>	58.2%	61.7%		62.5%	

Notes:

(a) Represents census tract 210900 in Portsmouth, VA.

(b) Represents the cities of Chesapeake, Norfolk, Portsmouth, and Virginia Beach, VA.

Source: U.S. Census, 2000; Claritas, Inc., 2008; BAE, 2009.

Appendix Table B-4: Household Income Distribution, 2008

Income Range	Downtown Portsmouth (a)		City of Portsmouth		Southside Area (b)	
	Number	Percent	Number	Percent	Number	Percent
Less than \$25,000	491	27.7%	10,671	27.4%	66,667	18.1%
\$25,000 - \$49,999	497	28.0%	11,694	30.1%	98,293	26.7%
\$50,000 - \$74,999	357	20.1%	7,902	20.3%	81,511	22.1%
\$75,000 - \$99,999	154	8.7%	4,433	11.4%	52,789	14.3%
\$100,000 or more	274	15.5%	4,179	10.7%	68,745	18.7%
Total Households	1,773	100%	38,879	100%	368,005	100%
Median Household Income	\$44,894		\$43,746		\$55,840	

Notes:

- (a) Represents census tract 210900 in Portsmouth, VA.
- (b) Represents the cities of Chesapeake, Norfolk, Portsmouth, and Virginia Beach, VA.
- (c) Incomes are estimated in 2008 dollars.

Source: Claritas, Inc., 2008; BAE, 2009.

Appendix Table B-5: Presence of Own Children in Household, 2008

Household Type	Downtown Portsmouth (a)		City of Portsmouth		Southside Area (b)	
	Number	Percent	Number	Percent	Number	Percent
1 Person Household	900	50.8%	11,280	29.0%	90,019	24.5%
Family Household (2 or More Persons)						
<i>Married Couple, Own Children</i>	101	5.7%	6,487	16.7%	92,193	25.1%
<i>Married Couple, No Own Children</i>	357	20.1%	9,679	24.9%	94,649	25.7%
<i>Other, Own Children</i>	115	6.5%	5,434	14.0%	42,290	11.5%
<i>Other, No Own Children</i>	116	6.5%	4,355	11.2%	27,647	7.5%
Nonfamily Household (2 or More Persons)	184	10.4%	1,644	4.2%	21,207	5.8%
Total	1,773	100%	38,879	100%	368,005	100%

Notes:

(a) Represents Census Tract 210900 in Portsmouth, VA.

(b) Represents the cities of Chesapeake, Norfolk, Portsmouth, and Virginia Beach, VA.

Source: Claritas, Inc., 2009; BAE, 2009.

Appendix Table B-6: Annual Residential Building Permits Issued

City of Portsmouth			
Year	Single Family Units	Multi Family Units	Total Units
2000	213	0	213
2001	194	30	224
2002	153	0	153
2003	132	246	378
2004	129	250	379
2005	168	59	227
2006	193	0	193
2007	189	203	392
2008	78	238	316
Total	1,449	1,026	2,475
Annual Average 2000 - 2007	171	99	270

Southside Area (b)			
Year	Single Family Units	Multi Family Units	Total Units
2000	2,783	262	3,045
2001	3,009	816	3,825
2002	3,515	875	4,390
2003	3,415	1,335	4,750
2004	2,777	2,052	4,829
2005	3,031	2,571	5,602
2006	2,124	1,104	3,228
2007	2,081	518	2,599
2008	1,229	1,257	2,486
Total	23,964	10,790	34,754
Annual Average 2000 - 2007	2,842	1,192	4,034

Hampton Roads			
Year	Single Family Units	Multi Family Units	Total Units
2000	6,564	940	7,504
2001	7,165	1,625	8,790
2002	7,614	2,552	10,166
2003	7,667	2,534	10,201
2004	7,108	2,900	10,008
2005	7,619	3,814	11,433
2006	6,006	1,813	7,819
2007	4,931	1,560	6,491
2008	2,794	1,671	4,465
Total	57,468	19,409	76,877
Annual Average 2000 - 2007	6,834	118	9,052

Notes:

- (a) 2008 data represents monthly totals from January to September. All data for City of Portsmouth.
- (b) Represents the cities of Chesapeake, Norfolk, Portsmouth, and Virginia Beach, VA.

Source: State of the Cities Data Systems, U.S. Department of Housing and Urban Development, 2008; BAE, 2009.

Appendix Table B-7: Residential Development Pipeline, First Quarter 2009

Project Name/ Address	Owner/Developer	Status	Size
Tidewater Community College	State Board for Community Colleges	Funded by a state bond, one year from opening	183,000 square feet
Victory Crossing Shopping Center	Victory Crossing Developers II, LLC	No new development	100 acre mixed-use
Lincoln Development (old Holiday Inn site)	Lincoln Properties	at least one year away from commencement	6 acre mixed-use
New Port	L.M. Sandler & Sons, Inc.	May be coming back soon	1,600 units
Westbury	Cornerstone Housing LLC	additional phase under construction (Hope VI funding)	562 units
Jeffry Wilson	Portsmouth Redevelopment & Housing Authority	will be constructed within three years (Hope VI funding)	N/A
Park View	N/A	Substantial rehabilitation of single-family homes	N/A
Midtown Retail Development	EDA, GPDC & Portsmouth Redevelopment	Development agreement in place	252,000 square feet
Holiday Inn site	N/A	Should open summer to fall 2009	160 rooms
Belle Hall, 159 Cheyenne Trail	Lawson Companies	Apartments under construction	120 apartments, 31 single family homes
First Watch at River Pointe, 110 Nautico Way	Gee's Development Corporation	Under construction	124 single-family condos, 20 duplex condos
Gateway at Sterling Point	Futura Group LLC	Under construction, 12 sold	32 condos
Hamilton Place	Hamilton Place Limited Partnership	Housing permit approved	84 garden style apartments
Kings Gate Crossing	Pace Construction	Under construction	49 single family homes
Montgomery Square	725 High Street LLC	Under construction	Commercial/retail improvements, 70 apartments on upper floors
Oxford Place	Oxford Place LLC	Under construction	Commercial/retail improvements, 24 condos

Notes:

Shaded projects are located in Downtown Portsmouth.

Source: Portsmouth Department of Planning, 2008; Hampton Roads REALTOR Association, 2008; BAE, 2009.

Appendix Table B-8: Apartment Rental Survey

Project/Address	Number of Units	Floor Plans	Rental Rates	Utilities	Square Foot	Rent per Square Foot
The Myrtles at Olde Towne 850 Crawford Parkway Portsmouth, VA 23704 866.332.8111	246	1 Br/1 Ba	\$1,095 - \$1,180	TV and internet included	751 - 811	\$1.46 - \$1.45
		1 Br/1.5 Ba	\$1,350 - \$1,370		936	\$1.44 - \$1.46
		2 Br/2 Ba	\$1,430 - \$1,615		1,095 - 1,137	\$1.31 - \$1.42
Harbor Tower Apartments 1 Harbor Court Portsmouth, VA 23704 866.696.4609 ext. 3490	188	1 Br/1 Ba	\$990 - \$1,200	Utilities included	765 - 793	\$1.29 - \$1.51
		2 Br/2 Ba	\$1,225 - \$1,495		1,050 - 1,075	\$1.17 - \$1.39
The Heights at Olde Towne 303 Effingham Street Portsmouth, VA 23704 866.527.0266	N/A	1 Br/1 Ba	\$705 - \$715	All utilities included	684	\$ 1.03 - \$1.05
		2 Br/1 Ba	\$1,315 - \$1,415		872 - 879	\$1.51 - \$1.61
		3 Br/2 Ba	\$1,715 - \$1,815		1,122	\$1.53 - \$1.62
Ghent Village 100 Westover Avenue Norfolk, VA 23507	N/A	Studio	\$1,005	N/A	569	\$1.77
		1 Br/1 Ba	\$1,195		804	\$1.49
		2 Br/2 Ba	\$1,475		1,129 - 1,279	\$1.31 - \$1.15
		3 Br/2 Ba	\$1,675		1,334	\$1.26
Heritage at Freemason Harbour 200 College Place Norfolk, VA 23510	N/A	1 Br/1 Ba	\$1,287 - \$1,347	N/A	768	\$1.68 - \$1.75
		2 Br/2 Ba	\$1,601 - \$1,779		1,071 - 1,183	\$1.49 - \$1.50
The Alexander at Ghent 1600 Granby Norfolk, VA 23510	N/A	Efficiency	\$1,085	N/A	565	\$1.92
		1 Br/1 Ba	\$1,115 - \$1,370		695 - 825	\$1.60 - \$1.66
		2 Br/2 Ba	\$1,440 - \$1,645		1,036 - 1,192	\$1.38 - \$1.39
		3 Br/2 Ba	\$1,720		1,324	\$1.30

Source: Leasing agent Interviews; Apartments.com, 2008; Rent.com, 2008; BAE, 2009.

Appendix Table B-9: Office Vacancies in Portsmouth

Address	Type	Square Feet Available	Rent per Square Foot	Building Occupancy
600 Crawford St	Office	2,280	\$18.00	87.7%
713-719 London St	Office	1,173	\$12.00	45.7%
355 Crawford St	Office	1,699	\$16.00	88.2%
355 Crawford St	Office	2,702	\$16.00	88.2%
355 Crawford St	Office	1,700	\$16.00	88.2%
355 Crawford St	Office	3,000	\$16.00	88.2%

Source: CBRE, 2008; LoopNet, 2008; City of Portsmouth Economic Development, 2009; BAE, 2009.

Appendix Table B-10: Retail Vacancies in Portsmouth

Address	Type	Square Feet Available	Rent per Square Foot	Building Occupancy
309 High Street	Retail	11,200	\$5.00-\$7.00	0.0%
737-739 High Street	Retail	4,482	\$17.00-\$20.00	70.4%
737-739 High Street	Retail	8,673	\$17.00-\$20.00	70.4%
737-739 High Street	Retail	9,329	\$17.00-\$20.00	70.4%
737-739 High Street	Retail	3,180	\$17.00-\$20.00	70.4%
737-739 High Street	Retail	1,689	\$17.00-\$20.00	70.4%
Shops at Oxford Place	Retail	8,005	\$7.50	0.0%
613 High Street	Retail	1,722	\$12.00	n/a

Source: CBRE, 2008; LoopNet, 2008; City of Portsmouth Economic Development, 2009; BAE, 2009.

Appendix Table B-11: Annual Tourism Expenditures

Jurisdiction	2003		2004		2005		2006		2007	
	Expenditures	Percent								
Portsmouth	\$61,352,566	3.8%	\$65,400,864	3.8%	\$69,715,628	3.7%	\$75,763,240	3.8%	\$77,216,549	3.7%
Norfolk	\$535,087,538	33.4%	\$560,339,387	32.7%	\$599,093,085	32.0%	\$625,775,224	31.3%	\$660,715,082	31.2%
Chesapeake	\$177,521,651	11.1%	\$194,913,403	11.4%	\$217,168,350	11.6%	\$239,565,027	12.0%	\$252,900,504	12.0%
Virginia Beach	\$826,274,351	51.6%	\$894,757,635	52.2%	\$985,512,111	52.7%	\$1,060,869,116	53.0%	\$1,124,477,969	53.2%
Total	\$1,600,236,106	100%	\$1,715,411,289	100%	\$1,871,489,174	100%	\$2,001,972,607	100%	\$2,115,310,104	100%

Notes:

(a) Expenditures are "the direct spending by domestic travelers including meals, lodging, public transportation, auto transportation, shopping, admissions and entertainment."

Source: Virginia Tourism Corporation, 2008; BAE, 2009.

Appendix Table B-12: Hotel Statistics for Portsmouth and Norfolk

Year	Occupancy	Average Daily Rate	Revenue Per Available Room
2002	66.6%	\$91.31	\$60.79
2003	69.6%	\$89.71	\$62.42
2004	67.1%	\$92.18	\$61.83
2005	64.8%	\$94.51	\$61.27
2006	66.1%	\$96.81	\$63.97
2007	60.8%	\$101.17	\$61.54
2008 (a)	60.0%	\$101.55	\$60.97

Notes:

(a) 2008 data is year to date data through October annualized.

Source: Smith Travel Research Group, 2008; BAE, 2009.

Appendix Table B-13: Hotel Survey

Map Key	Hotel Name	Date Opened	Number of Rooms	Class	Room Rates (a)
1	Econo Lodge Portsmouth	June 1987	48	Economy	N/A
2	Super 8 Portsmouth Olde Towne	January 1990	56	Economy	N/A
3	Holiday Inn (b)	N/A	N/A	Mid w/ Food & Beverage	N/A
4	Governor Dinwiddie Hotel	June 1946	60	Independent	\$99.00 per night
5	Holiday Inn Portsmouth Old Town Waterfront	October 1965	219	Mid w/ Food & Beverage	N/A
6	Renaissance Hotel & Waterfront Center	January 2001	249	Upper Upscale	\$149.00 per night
7	Norfolk Westin (b)	N/A	N/A	Upper Upscale	N/A
8	Sheraton Hotel Norfolk Waterside	June 1976	468	Upper Upscale	\$145.00 per night
9	Marriott Norfolk Waterside	October 1991	405	Upper Upscale	\$209.00 per night
10	Radisson Hotel Norfolk	June 1951	200	Upscale	\$85.04 per night

Notes:

(a) Rates are for April 1 to April 2, 2009.

(b) Hotel was not surveyed by Smith Travel, and is in the development/planning stage.

Source: Smith Travel Research Group, 2008; The Virginian Pilot, 2008; Hotels.com, 2009; BAE, 2009.