



Project Report
Five Points Area Market Study
Executive Summary

Prepared for
City of Norfolk
Department of Development
Norfolk, Virginia

Submitted by
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Company (ERA) and**
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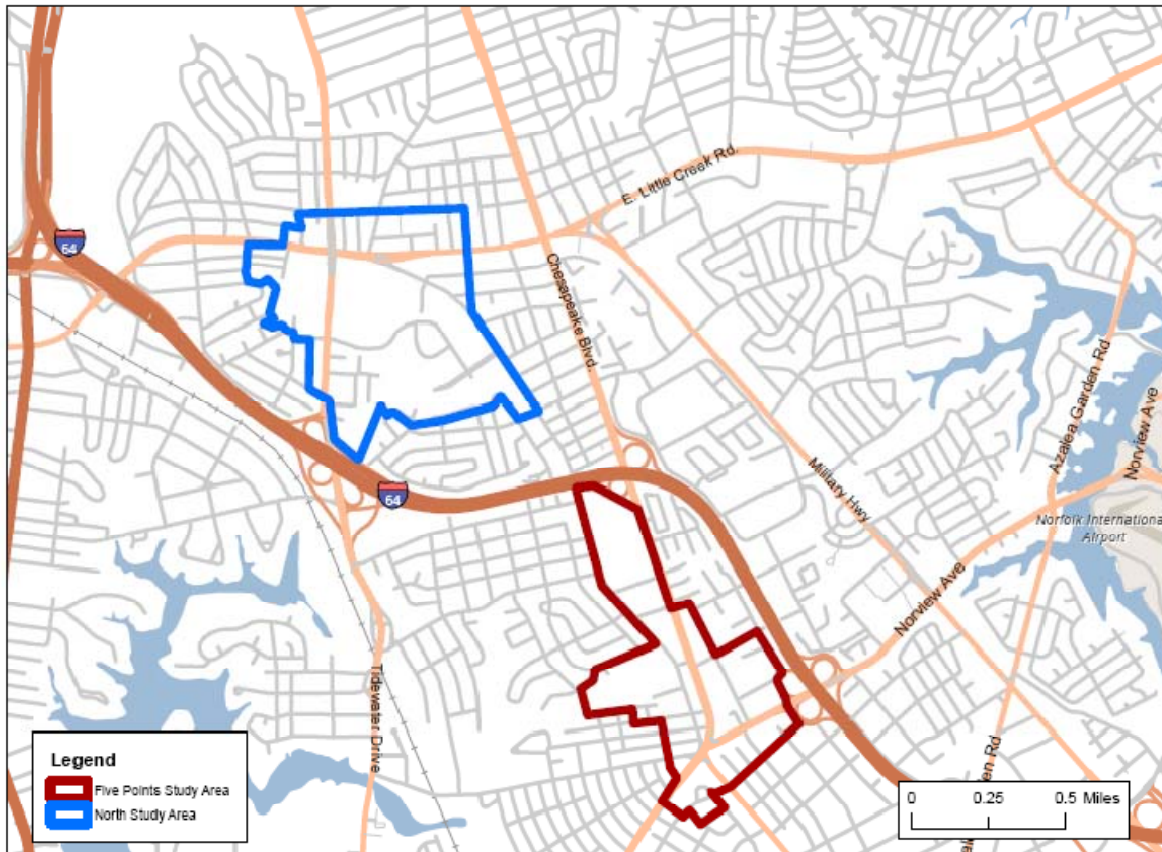
Executive Summary

Introduction

The City of Norfolk, Virginia retained a team consisting of ERA AECOM (ERA) and H. Blount Hunter Retail and Real Estate Research Co. (HBHR&RERCO) to conduct a market analysis and development strategy study for two proximate Study Areas in the Five Points area of Norfolk. In addition to the area immediately surrounding the Five Points intersection (Norview Avenue, Chesapeake Boulevard, and Sewells Point Road, simplified as “Five Points” in this report) in the Norview neighborhood of the City, the study includes an area north of Five Points surrounding the Walmart Supercenter and Kmart shopping centers along Tidewater Drive (called the “North Study Area” in this report). While the northern site consists of primarily retail and commercial uses, the area around Five Points is interspersed with and adjacent to residential and institutional (religious, educational, and community) uses. Both of these Study Areas are shown in the maps below.

The City of Norfolk and the Greater Norview Task Force have been working together to address community economic and development needs and to reestablish the area with commercial uses that can support the residential neighborhoods of Five Points. The City seeks to develop a comprehensive strategy for mixed-use development in the area. ERA and HBHR&RERCO examined the market conditions for various land uses in Norfolk and the Study Areas and evaluated the most promising development potential in the short-term (5-10 years). Additionally, the City tasked the team with recommending strategies for encouraging the private development for maximization of the identified potential.

Five Points Study Area and NorthStudy Area (Tidewater Drive and East Little Creek Road)



Summary of Findings

There have been several visions for Five Points over the years, which ERA and HBHR&RERCO examined in light of current market conditions and potential. The demand findings are based in realities of the existing market, and the strategies place an emphasis on maximizing both areas' potential for a community-sensitive and economically sustainable plan that can be implemented in the short term. There are a range of possibilities for each Study Area, with the more conservative options having the greatest chance of early success. The other scenarios may take more intervention by the public and private sectors, requiring greater time and resources. These ranges are presented to offer a menu of options so that the community, City staff and elected officials, and business/land owners can take the route most appropriate to neighborhood, budget, political, and other sensitivities. The focus is on selective intervention, not widespread redevelopment. When he was working on such projects as the Plan for Chicago and Washington, DC's Union Station in the early 1900s, the architect and planner Daniel Burnham said, "Make no small plans." However, big plans such as his often take monumental sums of money and time. These types of plans have their place, but for buoying a

neighborhood's economic and social base, small plans often make more sense. They are not as grandiose, but can often be more easily implemented and lead to longer-term positive economic change.

The findings in this report focus on demand and enhancement primarily of retail and services businesses. The demand for large-scale residential, office, and other uses such as hotels, is not appropriate. While some potential could exist for residential in the future, it is important for the surrounding neighborhoods and for the city as a whole to maintain and cultivate commercial space. This increases the overall economic and fiscal sustainability of the area by providing employment, growing the tax base (while taking the burden off of residents), and continuing to provide goods and services for residents within a short distance of their homes or workplaces. The greatest opportunity in the short term (5-10 years) is for retail and service uses in both the Five Points and North Study Areas. Beyond that time frame, if population trends and development trends change, there could be the potential for additional commercial uses, something that would need to be evaluated at that time. While the uses are similar in each of the two Study Areas, form and function these uses will take are vastly different.

Five Points

Major Findings

In the Five Points Study Area, the emphasis is primarily on continuing to serve the surrounding neighborhoods. A massive redevelopment of the Five Points intersection is likely neither feasible nor desirable. The existing businesses on the roads leading into the Five Points intersection serve two consumer audiences—the neighborhood and pass-through traffic—and the major drivers for the area are not likely to change. The short-term opportunity for Five Points is an enhanced version of itself, the extent of which depends upon the effort that can be expended. With the current market trends, a massive mixed use redevelopment would not have sufficient market support to meet required investment metrics. ERA determined that for the most part, retail is and will remain the primary use of the area, along with service businesses, which are also a strong part of the local economy. The market analysis showed support for a total of up to 108,000 square feet of retail space in the area from the primary and secondary residential markets and sales from inflow traffic. Currently, there is an estimated 90,000 square feet of existing retail space. However, the new square footage quoted is based upon a productivity (or the amount of sales per square foot of space) of \$200-\$250. Because this is higher than the existing estimated sales productivity, this indicates an enhanced opportunity for space that is more attractive, with more extensive product lines and a wider customer base. The strategy going forward in the next five years will be one of reinforcement/renovation and positioning for redevelopment.

Five Points' neighborhood-focused retail is located on Sewell's Point Road, with the area's other retail (on Chesapeake and at the southeast corner of the Five Points intersection) serving inflow from pass-through traffic as well as from local residents. The fast food restaurants and other pass-through retail can be sustained through very little intervention, particularly when the additional access through the improved I-64 and Norview interchange is completed. However, to maintain and strengthen the neighborhood-serving retail on Sewells Point, land owners should strive to update and redevelop as necessary to accommodate higher quality retail. The existing space is insufficient to accommodate restaurants and other businesses with higher retail productivity. It is a "chicken and egg" situation, because landlords do not renovate for fear of not finding suitable tenants. It is a real concern, as retail rents must be high enough to sustain improvements. Therefore, the business community should organize to attract tenants capable of this. This is not an easy prospect; attracting one tenant (and possibly bypassing other opportunities) can cost time and money. Incentives to attract particular types of tenants can assist landowners in making this leap. In addition to retail, the reinforcement of existing housing stock in the Study Area and in the neighborhoods around it will only enhance commercial opportunities. There is potential for the redevelopment of multifamily for-rent housing in the area. However, it is critical that any replacements enhance the image of the area as a viable place, rather than leading to the appearance of neglect, which can happen with some rental properties.

In addition, the area, because of its superior access, has attracted service businesses, such as repair and supply shops. These types of establishments provide valuable fiscal benefits, as well as employment for local citizens. There is additional opportunity to attract and cultivate additional businesses into a cluster on the northern section of Sewell's Point Road. Physical plans for this should allow for vehicular access without compromising the pedestrian experience. Attracting these businesses to the northern part of the Study Area would place them closer to the Commerce Park. Small businesses, which are likely to locate in the Five Points area, are particularly cost sensitive in choosing space. However, as they expand and their need for space increases and their ability to pay higher premiums for the type of new buildings that are in the Commerce Park increases, there is the potential that these businesses could buy or lease space there, creating a symbiotic relationship of business cultivation. ERA found support for between five and eight new service businesses in the short term.

Demand Summary

- Retail demand for 108,000 square feet of investment-grade space (with enhanced per-square-foot sales revenues of \$250)
- Little residential demand; emphasis on maintaining existing properties and spot replacement/infill

- Expanded opportunity for service business cluster, supporting five to eight additional establishments, ideally clustered north of the retail area on Sewell's Point Road, in areas less suitable for retail, with expansion to other areas as demand increases.

Analysis Summary

To evaluate potential demand for retail uses in the Five Points area, ERA conducted a demand analysis, consisting of:

- Definition of primary and secondary trade areas—where majority of potential customers live
- Analysis of spending patterns and amounts in these areas
- Determination of potential attraction of customers' spending in the Study Area
- Evaluation of retail productivity and estimated square footage.

The primary trade area for Five Points is a half-mile circle from the intersection, which represents a comfortable walking distance for nearby residents, and the secondary trade area encompasses a larger area. As of 2014, there are to be a projected 2,080 households in the primary trade area and an additional 6,030 in the secondary trade area. To this, an inflow factor is added to account for expenditures from outside the trade areas and from expenditures by pass-through traffic (that are not already accounted for in the expenditures of residents). Key findings of the retail analysis for Five Points were:

- Each household in the two trade areas spend an average of approximately \$12,000-\$14,000 annually, which is below the national average of approximately \$16,000.
- Trade area households spend a total of approximately \$120 million annually in the defined retail and service categories.
- Though capture rates vary by category, the Study Area captures on average an estimated 23-28 percent of primary trade area household expenditures and 14-19 percent of secondary trade area household expenditures.
- Households, workers, and pass-through traffic contributes an additional 13 to 17 percent of sales (i.e. for every dollar of sales, 83 to 87 cents come from residents in the two trade areas and 13 to 17 cents are from others).
- The analysis assumes that the retail space is fully productive as a competitive investment location, and therefore would attract between \$250 and \$300 per square foot in sales (an average of \$265 per square foot), yielding supportable square footage of 82,000 to 108,000 square feet.

Five Points Study Area Retail Demand Summary

	Expenditures	Blended Capture Rate Range	Low Scenario	High Scenario
Primary Trade Area	\$25,184,000	23% - 28%	\$5,807,000	\$6,931,000
Secondary Trade Area	\$94,549,000	14% - 19%	\$13,367,000	\$17,528,000
Total Captured Trade Area Sales			\$19,174,000	\$24,459,000
Inflow			\$2,560,000	\$4,184,000
<i>Blended Inflow Factor</i>			13%	17%
Total Captured Sales (Trade Area + Inflow)			\$21,734,000	\$28,643,000
Blended Sales Productivity Rate			\$265	\$265
Supportable Square Feet			82,000	108,000

Source: ESRI Business Analyst; HBHR&RERCO; ERA AECOM, 2009.

The key strategy for the Five Points Study Area is to create maximum density of retail at the southern portion of Sewell's Point Road (in the "historic" retail area) as well as auto oriented retail in the other key parcels on the intersection. Maximizing retail productivity will require targeted tenancing efforts as well as incentives and efforts to rehabilitate space, which could include:

- Financial assistance – loans, grants, forgivable "loans," low cost financing, tax relief and credits, and other means to reduce the cost of doing business or encourage reinvestment in commercial districts. Current programs in Norfolk that could apply are the Commercial Real Estate Tax Abatement Program, Performance-Based Economic Development Grants, Tax Increment Financing Areas or Zones, and the Neighborhood Commercial Corridor Program.
- Technical assistance – design services, business consulting and advisory services to support reinvestment, enhance market positioning, and/or improve business practices; and
- Regulatory relief / administrative assistance – zoning bonuses, reduced paperwork, consolidated or accelerated approval processes, expedited inspections or elimination of non-essential cost burdens. The US Small Business Administration reports that small businesses with fewer than 20 employees annually spend 45 percent more per employee than larger firms on the cost of complying with government regulatory requirements. Regulatory relief may reduce operating costs.

Many of these programs are available through the City; existing area businesses and businesses targeted for the area should be made better aware of the City resources already available such as the Neighborhood Design and Resource Center.

North Study Area at Tidewater Drive and East Little Creek Road

Major Findings

The North Study Area, at the corner of Tidewater Drive and Little Creek Road, is positioned to be a new regional retail center for Norfolk. Because of increasingly limited developable land within the City, redevelopment of existing centers is important to maintain market share against locations outside of the City and provide new retail formats as others become outmoded. The North Study Area's position on East Little Creek places it a little over one mile to Wards Corner, another aging retail concentration in the City. These two concentrations together can create a more significant retail node. As at Five Points, retail is the highest and best use in the North Study Area for the next five to ten years. Beyond that, retail is still likely to be the predominant use, with additional commercial uses and limited residential potential. Without a major demographic shift or change in market preference, these uses will remain secondary. ERA determined short-term retail demand of up to 150,000 square feet by 2014. The development of this square footage is highly dependent upon adequate acreage through parcel acquisition and/or changes in the road infrastructure, particularly at the intersection of Sewells Point Road and East Little Creek. After examining the floor area ratios of comparable area shopping centers, it was determined that the three identified development scenarios would require between two to nine acres depending on the density of the development.

Demand Summary

- Retail is primary opportunity
- Short-term retail demand for up to 150,000 square feet

Analysis Summary

To evaluate the demand in the North Study Area, ERA utilized the same sequence of steps outlined for Five Points. Because of its regional appeal and position, this Study Area has larger trade areas. As of 2014, there are to be a projected 29,500 households in the primary trade area and an additional 28,415 in the secondary trade area. As with Five Points, an inflow factor is added to account for expenditures from outside the trade areas and from expenditures by pass-through traffic (that are not already accounted for in the expenditures of residents). Key findings of the retail analysis for the North Study Area were:

- The households, on average, spend similarly to those in the Five Points trade areas—an average of approximately \$12,000-\$14,000 annually, which is below the national average of approximately \$16,000.

- Trade area households spend a total of approximately \$752 million annually in the defined retail and service categories.
- Though capture rates vary by category, the Study Area captures on average an estimated 21-26 percent of primary trade area household expenditures and 15-19 percent of secondary trade area household expenditures
- Households, workers, and pass-through traffic contributes an additional 15 to 20 percent of sales (i.e. for every dollar of sales, 80 to 85 cents come from residents in the two trade areas and 15 to 20 cents are from others).
- The analysis assumes that the retail space is fully productive as a competitive investment location, and therefore would attract between \$250 and \$300 per square foot in sales (an average of \$274 per square foot), yielding supportable square footage of 571,000 to 747,000 square feet.

North Study Area Retail Demand Summary

	Expenditures	Blended Capture Rate Range	Low Scenario	High Scenario
Primary Trade Area	\$358,269,000	21% - 26%	\$76,781,000	\$94,301,000
Secondary Trade Area	\$393,284,000	15% - 19%	\$59,169,000	\$76,414,000
Total Captured Trade Area Sales			\$135,950,000	\$170,715,000
Inflow			\$20,392,000	\$34,143,000
<i>Blended Inflow Factor</i>			15%	20%
Total Captured Sales (Trade Area + Inflow)			\$156,342,000	\$204,858,000
Blended Sales Productivity Rate			\$274	\$274
Supportable Square Feet			571,000	747,000

Source: ESRI Business Analyst; HBHR&RERCO; ERA AECOM, 2009.

The primary opportunity in the North Study Area is for the creation of a greater retail destination, to build on the energy of the Walmart Supercenter and the investments in road infrastructure at the intersection. Likely retailers in the renovated or redeveloped shopping centers would include “small box” and inline retail to complement existing retail. Development of a sufficient concentration of retail will require contiguous parcels, and accommodation of the space is dependent upon land assembly.

The following table shows the menu of redevelopment options and the land required based on a range of floor area ratios (FARs, ratios that represent the amount of built space per total land area) determined from area comparables. Acquisition of the land will require parcel assembly, and would potentially benefit from reconfiguration of the intersection at Sewell’s Point and East Little Creek.

North Study Area Development Scenarios and Land Requirements

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

Source: HBHR&RERCO; ERA IAECOM, 2009

Development of retail at this intersection does not preclude development in the Five Points Study Area or at nearby Wards Corner. Rather, development of a more significant retail node in the North Study Area will enhance the overall marketability of the area. Five Points will serve a different market—the day-to-day convenience shopping of residents. After development occurs at the North Study Area, the additional traffic and visibility would enhance opportunities at Five Points. Wards Corner is close enough to provide additional development parcels if the potential redevelopment occurs there. The two shopping areas are proximate enough to be symbiotic, and provide a steady flow of customers to each other, particularly as the area receives greater recognition as a destination for community retail of a regional appeal.

The City can aid the effort to redevelop by assisting with property acquisition, providing property tax abatement or incentives for redevelopment, and assisting with infrastructure enhancement or reconfiguration.

General & Limiting Conditions

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

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

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

As owner of this study, the City of Norfolk has the right of publication and the use the name of "AECOM", "ERA" and "Economics Research Associates" in any manner consistent with the contracted use of the study for planning purposes. Abstracting, excerpting or summarization of this study may be made only within the context generally available for a public planning study. *This report is not to be used in conjunction with any public or private offering of securities, debt, equity, or other similar purpose where it may be relied upon to any degree by any person other than the client, nor is any third party entitled to rely upon this report, without first obtaining the prior written consent of AECOM.* This study may not be used for purposes other than that for which it is prepared or for which prior written consent has first been obtained from AECOM.

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