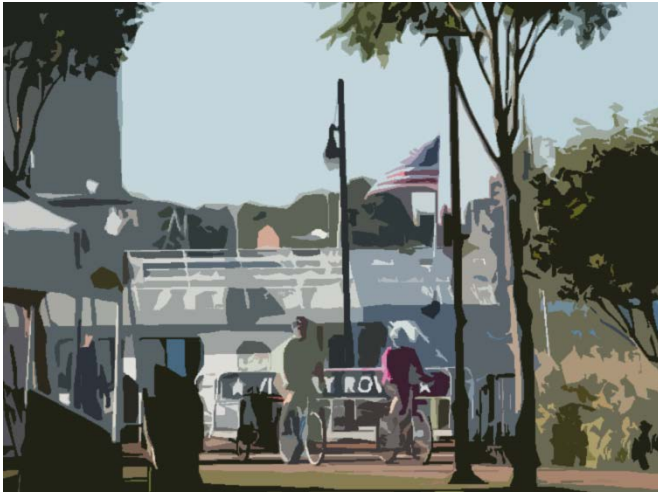


DOWNTOWN NORFOLK COUNCIL MARKET ASSESSMENT FOR DOWNTOWN NORFOLK



Progressive Urban Management Associates

1616 17th Street, Suite 262 | Denver, Colorado 80202

303.628.5554 | www.pumaworldhq.com

August 5, 2015



CONTENTS

Introduction	3
Global Trends in Effect in Downtown Norfolk	4
Changing Workforce	4
Millennials	4
Women Professionals	4
Talent-Driven Business Location	5
Changing Workforce in Downtown Norfolk	5
Shifts In Mobility	6
Vehicle Miles Traveled Declining	6
More Biking & Walking	6
Downtown Value Premium.....	6
Mobility in Downtown Norfolk.....	6
Residential Renaissance	7
Amenities for Residents.....	7
Affordable Cities: The New Hot Spots	8
Residential Surge in Downtown Norfolk	8
Health & Wellness	8
Health Industry Growth	9
Health & Wellness in Downtown Norfolk.....	9
Social Equity & Sustainability	9
Social Equity in Downtown Norfolk	10
Changing Consumer Behaviors.....	10
Changing Consumer Behaviors in Downtown Norfolk	10
Downtown Norfolk Market Assessment.....	12
Study Area	12
Comparison Between Downtown & Adjacent Neighborhoods	13
Market Overview	15
Residents.....	15
Housing	17
Walkable Real Estate	19
Workers & Employment	19
Commercial Sector	21

Retail	21
Visitor Data	23
Public Safety	26
Economic Engine	27
Summary of Key Market Opportunities.....	28
Residential	28
Retail	29
Commercial/Office	30
Industrial	31
Visitor.....	31
Public Realm	31
Appendix: Market Assessment Interviews.....	33

INTRODUCTION

This document has been prepared for the Downtown Norfolk Council (DNC) as part of a larger strategic planning effort that will guide actions and improvements to Downtown Norfolk over the next five to ten years. The Downtown Norfolk Market-Based Strategic Plan will set priorities for guiding both public and private investments through the next market cycle. The information in this report will help inform recommendations by pointing to tactics and public or private investments that strengthen underlying market trends.

This report summarizes current market conditions in Downtown Norfolk in order to inform the goals and implementation tactics for the Downtown strategic plan. It is not a full-scale market analysis with detailed and quantified demand projections but rather an educated overview and qualitative assessment of trends and market opportunities.

The report was compiled using primary and secondary data sources such as ESRI's Business Analyst online, the U.S. Census Bureau, real estate market reports, City of Norfolk data and reports, regional reports and surveys, as well as past market analyses. Additionally, interviews were conducted to gain qualitative information from property and business owners, developers, entrepreneurs, young leaders, Arts District Committee, and City of Norfolk staff. A list of those interviewed is included as an Appendix to this document.

GLOBAL TRENDS IN EFFECT IN DOWNTOWN NORFOLK

Global and national trends continue to be favorable toward promoting growth in vibrant downtowns. Progressive Urban Management Associates (P.U.M.A.) has been tracking and reporting global trends effecting downtowns for nearly a decade and applying that knowledge to specific cities and downtown markets. P.U.M.A.'s latest update to the report was released in spring 2014 in collaboration with research from the University of Colorado Denver. This section of the market assessment summarizes the global trends that are most relevant and shows how Downtown Norfolk can prosper from them.

CHANGING WORKFORCE

The national workforce is changing in myriad ways that are, for the most part, positive for downtowns. Boomers (people over 50) are retiring in greater numbers while Generation X (age 35 to 50) is taking the reins, and Millennials (age 20 to 35) are coming into the workforce with new, sought-after talent and skills. Both Boomers and Millennials have fueled downtown population growth over the past decade and are poised to continue to populate urban environments, particularly in those that offer jobs, housing, amenities and activities that respond to their needs.

Millennials

Connected to technology from the crib, Millennials are true multi-taskers and drivers of technological innovations. Millennials are the most culturally diverse generation and are a factor in increasing racial diversity and acceptance in American cities. Since 2000, in more than two-thirds of the nation's cities, the young college-educated population grew twice as fast within three miles of the downtown as in the rest of the metropolitan area. Companies will be under increased pressure to consider operating in city centers as this talent niche continues to become more urbanized. Millennials, who today comprise 36% of the US workforce, will make up 50% of the workforce by 2020.

Women Professionals

The year 2009 was a landmark, marking the first time that more women were employed in the U.S. labor force than men. Women are anticipated to dominate professional occupations in the future and have been outpacing men in educational attainment since the 1970s. In 2011, women received 57% of all bachelor's degrees and 60% of all master's degrees. To fortify their position as hubs for commerce, downtowns must look for ways to appeal to women in all facets of the downtown experience,

KEY IDEAS

Trends that can benefit Downtown Norfolk:

- Changing workforce demographics including the rise of Millennials and women.
- Millennials and empty nest Boomers are driving a resurgence in downtown living.
- Skilled talent is in high demand, driving businesses to locate in the compact urban centers they prefer.
- Demand for and use of alternative transportation modes (i.e. walking and biking) is increasing.
- Increasing demand for healthy lifestyles, including fresh food, and active living options.
- Rising awareness of social inequity, leading to demands for more affordable housing in and near downtowns.
- Growing consumer preference for local retail and experience shopping.

including physical improvements, environmental stability (i.e. clean and safe), mixed-use living options, transportation options and mobility, daycare, retail and entertainment offerings.

Talent-Driven Business Location

While there are plenty of available workers in the post-recession economy, employers are having trouble filling certain types of jobs due to widening skills gaps. Sought after employees are becoming harder to find; the labor pool is shrinking because experienced Baby Boomers are beginning to retire and the rate of immigration has slowed. Twenty million jobs will be created through 2020, creating more jobs than there are skilled workers to fill them. A competitive advantage is already placed on the concentration of highly skilled employees in cities. Cities that cultivate and are able to fill mid- and high-wage jobs are in the best position to economically flourish. To capture this highly skilled talent, that is predisposed to urban living and experiences, downtowns should provide a welcoming environment and information services that make it easy to relocate for jobs and housing. Embracing social tolerance, celebrating multi-culturalism and using social communications tools will invite populations that are increasingly diverse and technologically savvy.

Changing Workforce in Downtown Norfolk

In keeping with national trends, Downtown Norfolk is capturing young, highly skilled talent. Over 50% of Downtown residents 25+ hold a college or advanced degree and nearly 30% are Millennials¹. According to a housing developer in Downtown Norfolk, new Downtown housing is primarily attracting new residents from outside the Downtown zip code and the large majority are Millennials. Norfolk can use the number of Millennials living in its downtown as a business recruitment strategy.



Downtown Norfolk offers a large number of civilian jobs in high paying industries. The largest employment sectors include public administration, finance (banking) and professional, scientific and tech services². Approximately 92% of Downtown civilian workers are employed in white collar jobs, compared to 56.2% for the City of Norfolk³. In addition to civilian employment, the military is another important employer for Norfolk and market area residents.

Downtown Norfolk has 30,000 jobs and fewer than 2000 employed residents, meaning more than 15 jobs for every resident worker. According to a Downtown worker perception survey conducted for the Downtown Norfolk Council in 2012, 4 out of 5 (80%) say Downtown Norfolk is a good place to work. Downtown Norfolk has an opportunity to encourage more of these workers to live in Downtown by offering a variety of housing options and amenities that serve their needs.

The regional economy has traditionally relied heavily on military spending. However, with 17 of the 71 Navy ships set to relocate by 2016⁴, it is important that Downtown Norfolk work with the region to grow and diversify the economy. Norfolk can build on its existing strengths in medical facilities, educational institutions, and finance,

¹ ESRI Business Analyst Online; Community Profile Report

² ERSI Business Analyst Online; Business Summary

³ ESRI Business Analyst Online: Community Profile Report

⁴ Greater Norfolk Corporation; Entrepreneurial Ecosystem Task Force Presentation

science and tech industries to become a regional hub for intellectual capital and innovation. Norfolk's three higher education institutions are important for attracting and retaining young talent. Old Dominion University (ODU) has specific coursework for entrepreneurial studies and reports an 85% retention rate among all graduating students for the region.

SHIFTS IN MOBILITY

Vehicle expense and demographic changes are shifting behaviors away from cars. Car and bike sharing programs have been adopted in many cities across the globe. Today, 500 cities in 49 countries host modern bike share programs, the fastest growth of any mode of transport in the history of the planet. America's two largest demographic groups – Baby Boomers and Millennials – are primarily responsible for changing transportation habits. Boomers are simplifying and downsizing households, often moving to walkable downtown areas. Millennials too are seeking walkable and social environments.

Vehicle Miles Traveled Declining

Vehicle miles traveled have, for the first time, decreased between 5% and 9% in the US from 2006 to 2011. This trend is not likely to reverse with economic recovery because much of it is based in generational preference shifts. The share of automobile miles driven by persons in their 20s has dropped precipitously over the past 15 years: this age group accounted for nearly 21% of all automobile miles driven in 1995, but less than 14% by 2009.

More Biking & Walking

Shifting preferences toward walking and biking should encourage downtowns to invest in street designs that give greater emphasis on bicycles and pedestrians. Mobility options are needed as an alternative to congested highways and, importantly, to appeal to younger highly-skilled and educated populations that are increasingly disinterested in automobile use and seeking walkable, bikeable and transit-rich urban environments. Age-friendly design standards can promote accessibility for all, from aging Boomers to families with young children.



Downtown Value Premium

Value premiums are being placed on urban environments where people can walk, bike or take mass-transit to work, shopping and recreation. "Walkable real estate" can command value premiums of 50% to 100%. Increasingly, cities are using their "walk scores" as a measure of economic competitiveness.

Mobility in Downtown Norfolk

While the City of Norfolk commands a relatively low Walk Score™ (44 on a scale of 100), Downtown Norfolk, with its compact scale, rates very walkable with Walk Scores ranging from the 80s into the low 90s, with the average for the zip code at 81. In fact, Downtown Norfolk offers a Walk Score that is higher than other downtowns in the region, giving it a competitive advantage.

Downtown Walk Score Comparison

City	Citywide	Downtown Zip Code
Norfolk, VA	44	81
Virginia Beach, VA	31	74
Hampton, VA	30	72
Portsmouth, VA	35	70
Chesapeake, VA	21	47

Source: Walk Score

Downtown Norfolk can build off of this existing strengths and work to create an even more walkable, bikeable environment. Stakeholder focus groups conducted by P.U.M.A. in February 2015 revealed that making Downtown more walkable and bikeable is a top priority among Downtown residents, workers, and visitors. Taming wide boulevards, adding signage, bike lanes and improving connections between Downtown, the waterfront and neighborhoods adjacent to Downtown were a few of the suggestions that emerged from the focus groups. Downtown Norfolk also has a tremendous asset in the Elizabeth River Trail. Improving connections to and along this trail could provide pedestrians and cyclists with a continuous 9.5 mile route and encourage more activity along the waterfront; a huge asset and differentiator for Downtown Norfolk.

Downtown Norfolk has made great strides with transit, adding the 7.4 mile Tide light rail, the first light rail in the state of Virginia. However, the 2013 Downtown Worker Study produced by Southeastern Institute of Research (SIR), shows commuting in Downtown Norfolk is still auto-dominated with 10% riding the Tide, 7% walking, 3% biking, and the majority driving alone to work. In Downtown and Adjacent Neighborhoods, 3.6% of commuters take transit, 10.3% walk and 1.8% bike⁵. This indicates Downtown residents tend to take transit more often and bike more frequently than residents in the neighborhoods adjacent to Downtown. Extending light rail service to additional employers or destinations such as Old Dominion University, the naval base, and the airport could further improve mobility and increase ridership throughout Downtown and Adjacent Neighborhoods.

RESIDENTIAL RENAISSANCE

With national trends in their favor, many downtowns are experiencing an economic renaissance that is attracting new investment and higher income households. Vibrant downtowns are well positioned to capitalize on economic opportunities by offering jobs, entertainment, culture, education, recreation, health and livability accessible to all.

Amenities for Residents

To sustain and deepen the demand for downtown housing, urban amenities that appeal to both Boomers and Millennials should be considered, including robust dining and entertainment options and investments in promoting healthy lifestyles from dog parks to grocery stores. To provide an environment that attracts a multi-skilled workforce and economically-mixed demographics, diverse housing price points and unit types are needed.

⁵ ESRI Business Analyst Online; American Community Survey

Affordable Cities: The New Hot Spots

Since 2000, small cities between 100,000 and 250,000 residents have experienced a 13.6% growth in population, more than twice that of New York and Los Angeles and approximately 10% faster than the national growth rate⁶. This has mainly been attributed to domestic migration between cities. Young, educated workers are moving out of the mega cities where the cost of living is high to smaller, less expensive cities that have the same basic characteristics. Norfolk can take advantage of this trend by offering all the great amenities big cities offer - along with more affordability.

Residential Surge in Downtown Norfolk

Norfolk has seen a surge in residential development Downtown, with more than 1,000 residential units built recently or in the pipeline⁷. The number of households in Downtown Norfolk increased 44% between 2000 and 2014⁸. The 2012 Downtown Norfolk Usage and Perception Study by SIR, shows more than a third (35%) of regional respondents view Downtown Norfolk as a good place to live.

Similar to national trends, Downtown Norfolk is attracting large numbers of young professionals (25 to 34) and empty nesters (55 to 64). A demographic that is largely missing, however, is children. Less than 3% of the Downtown population is under 15 years old⁹. Downtown may want to explore improvements to schools and additional amenities, such as a playground or grocery store that would make Downtown more appealing to families with young children.

More men (56%) than women (44%) choose to live in Downtown Norfolk¹⁰. Downtowns tend to skew male but with women becoming an increasingly important force in the workplace, Downtown Norfolk will want to create an environment that appeals to women as well as men. Safety and comfort level are key things women look for when considering a place to live. Based on SIR's Downtown Perception and Usage Study, 78% of respondents said they felt comfortable in Downtown Norfolk during the day but only 41% at night. Downtown could consider additional lighting, extend hours for safety escorts, increase the number of ambassadors after dark, or other measures to ensure a higher level of comfort.

HEALTH & WELLNESS

The connection between health and the built environment is an emerging trend, propelled by a national awareness toward the rise of chronic conditions such as obesity and a desire by aging Boomers to extend their lives. Advanced by the Urban Land Institute, a national focus on building healthy places will grow within the real estate development industry. Downtowns can capitalize on this trend by improving the public realm with active green spaces, inviting connections and walkable streets. Several healthy food movements are converging to benefit downtowns. New retail prototypes can serve rapidly growing niches in locavore and organic segments. Urban farming is a trend that can thrive in downtown locations on rooftops and vacant land. Initiatives to eradicate food deserts can bring coveted corner stores and full-service groceries to underserved urban areas.

⁶ New Geography; America's Fastest Growing Small Cities, Sept. 2014

⁷ Norfolk Department of Development; What's New 1st Quarter 2015

⁸ ESRI Business Analyst Online; Community Profile

⁹ Ibid

¹⁰ Ibid

Health Industry Growth

The health care industry will continue to experience significant growth and have an increased economic impact on cities. With growing demand for health care services, partnerships with local health care providers will be critical to create a competitive advantage for downtowns. Development and expansion of health care facilities will be important economic stabilizers and create significant business spinoffs. Health care providers can also be strong civic partners to help promote healthy lifestyles through urban living.

Health & Wellness in Downtown Norfolk

Norfolk medical facilities are a key industry sector and Downtown partner. ESRI Business Analyst Online shows that the health care and social assistance industry employs 12% of the population in neighborhoods adjacent to Downtown. Downtown can be increasingly important to the medical sector by helping to attract skilled employees from larger cities and enhancing the visitor experience for friends and families that are visiting patients or completing medical procedures. The Greater Norfolk Corporation is exploring ways to help connect institutional partners in health and education to Granby Street as part of a greater Innovation District to increase employment and sector diversification in Norfolk.



Downtown Norfolk could focus more effort on enhancements such as bike lanes, river trail access and continual, year-round recreation facilities in Downtown parks, and pedestrian friendly streets to improve the health and wellness culture of Downtown.

Boomers and Millennials moving into Downtown Norfolk tend to be health and wellness consumers. ESRI Business Analyst Online shows strong spending on exercise clubs as well as organic and environmentally safe products. In fact, Downtown residents are 70% to 80% more likely than the average US customer to engage in these behaviors. Stores or restaurants that feature fresh and locally grown products would appear to be a natural fit in Downtown. During the February 2015 focus groups led by P.U.M.A., a grocery store was continually mentioned as a highly desired amenity for Downtown. The market analysis shows a \$2M gap in grocery retail Downtown and an \$11M gap in Downtown and Adjacent Neighborhoods¹¹.

SOCIAL EQUITY & SUSTAINABILITY

While there is broad understanding of economic and environmental aspects of sustainability, the third pillar, social equity, has been given less attention. As global and national trends have benefited cities in recent years, there has been a migration of largely upper income professionals to downtowns. At the same time, income inequality in the United States is at its most extreme since 1928. Income inequality poses challenges for cities. Many urban areas are on the verge of becoming enclaves of the rich, unable to house or sustain service workers or middle income



¹¹ ESRI Business Analyst Online, Retail MarketPlace Profile

professionals such as teachers and nurses. Young skilled Millennials, the raw material needed to grow a professional downtown workforce, are finding it increasingly difficult to afford urban lifestyles. Downtowns may need to be more proactive in promoting affordable housing, better wages and quality schools, or expect a rising tide of civic activism to demand them.

Social Equity in Downtown Norfolk

Downtown Norfolk is the meeting ground for a wide variety of people and should serve residents from all neighborhoods adjacent to Downtown. Downtown recently made a \$65M¹² investment in constructing the Slover Library, a great resource for all citizens in the region. Visitation has been outstanding since the grand opening in early January, 2015 and there has been a boost in daytime and weekend activity Downtown. The diversity of neighborhoods adjacent to Downtown in terms of age, race and income provides a unique opportunity to cultivate a truly diverse and multi-cultural Downtown Norfolk. Investing in affordable housing, good jobs, quality schools, and public amenities will be an important aspect of social sustainability for the region.

CHANGING CONSUMER BEHAVIORS

Although the Great Recession has ended, it made a lasting impact on consumer behaviors. Consumer spending, once impulsive, has grown more practical and deliberate with an emphasis on quality, convenience, environmental and social considerations. Today's consumers are seeking a wide variety of retail with a specific interest in local, independent businesses and places that provide experience shopping. This has influenced big box retail to re-examine their store fronts in urban contexts, in favor of smaller formats that fit within more compact, walkable environments. Technology also continues to influence the retail space, with a growing number of online sales replacing some instances of in-store shopping. The growth of the "sharing economy," where social networks allow individuals to share, rent or resell their belongings, is flourishing in high density urban areas. Sharing applications now include cars, workplaces, and lodging among others, and are expected to grow over time.

Changing Consumer Behaviors in Downtown Norfolk

Downtown Norfolk has a strong retail anchor, MacArthur Center, which draws consumers from throughout the region. Despite some competition from Virginia Beach Town Center, MacArthur Center remains a premier retail destination within Hampton Roads. According to SIR's 2012 Downtown Perception and Usage Study, MacArthur Center is what people like best about Downtown Norfolk. The mall's owner, Starwood Retail Partners, plans to add additional value by remerchandising an adjacent development pad with vertical mixed-use and open up the mall to Downtown.

Although there is high regard for MacArthur Center, there is also growing interest and desire for locally unique retail. The same Downtown perception study indicated a desire for more local restaurants and retail. The study showed, across generations, offering more local restaurants and small boutiques would make survey respondents more likely to go to Downtown Norfolk. Downtown has an opportunity in the emerging Arts District to provide local entrepreneurs with raw, affordable space to set up shop.



¹² Downtown Works 2014

Downtown and Adjacent Neighborhoods has an abundance of Internet savvy consumers. These consumers are more likely than the U.S. average to have an iPhone, watch movies or TV programs online, engage in mobile banking and get their news online¹³. Given the market's tendency toward Internet actions, it could be easy to lose the sales of standard goods to online. It will be particularly important, therefore, to offer experience shopping that encourages in-person sales and consumption in Downtown Norfolk.

¹³ ESRI Business Analyst Online; Retail Market Potential

DOWNTOWN NORFOLK MARKET ASSESSMENT

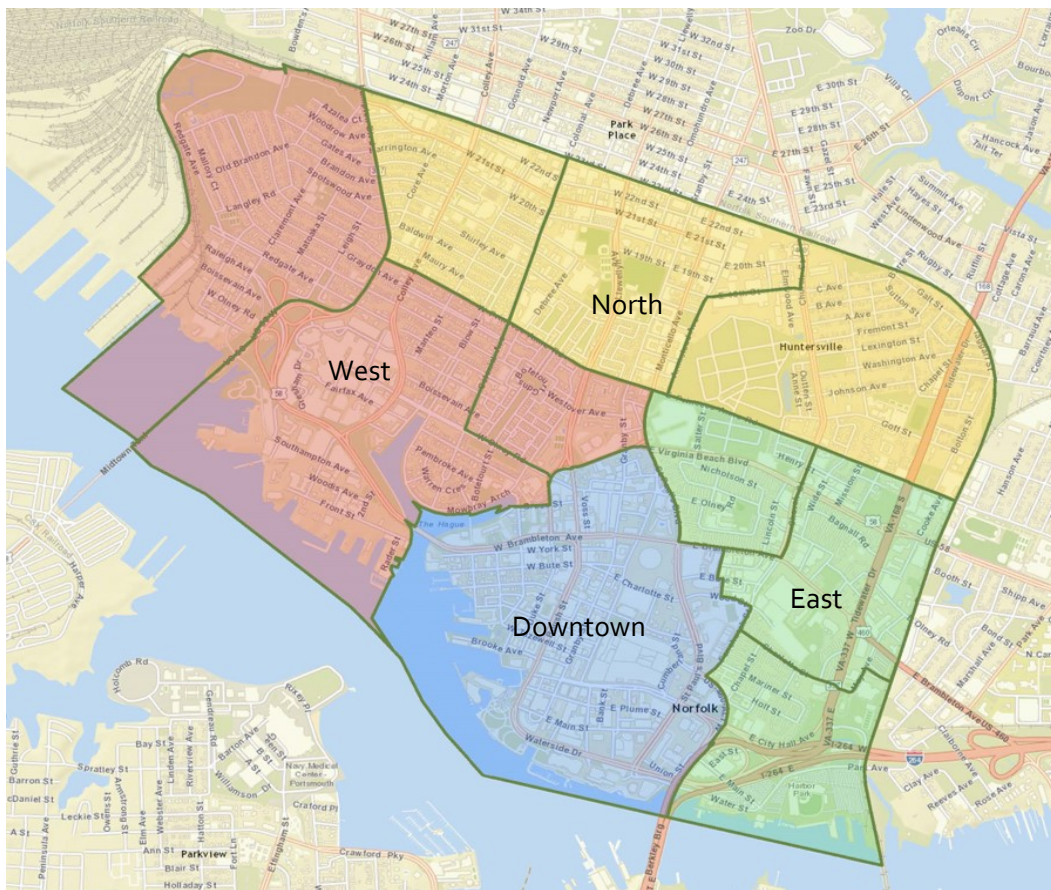
STUDY AREA

To better understand market opportunities in Downtown Norfolk, P.U.M.A. defined an in-place Neighborhood Market Area that includes neighborhoods to the west, north and east of Downtown. These areas were selected based on a number of factors, including drive times, bike and walk distances, political boundaries, infrastructure features, and demographics. The four areas are depicted on the map below as follows:

- **Downtown (in blue):** Census tract 49 which encompasses the conventional understanding of Downtown and is somewhat larger than the Business Improvement District (BID) boundary.
- **West (in red):** Census tracts 40.01, 40.02 & 38 which includes the Ghent and Chelsea neighborhoods.
- **North (in yellow):** Census tracts 35.01, 36, & 37 which includes public housing and residential neighborhoods that are primarily under private ownership.
- **East (in green):** Census tracts 41, 42 & 48 which includes St. Paul's and other public housing, commercial areas near the train tracks and the stadium.

Throughout the Market Assessment, the In-place Market, consisting of Downtown plus the three adjacent neighborhoods will be referred to as "Downtown and Adjacent Neighborhoods".

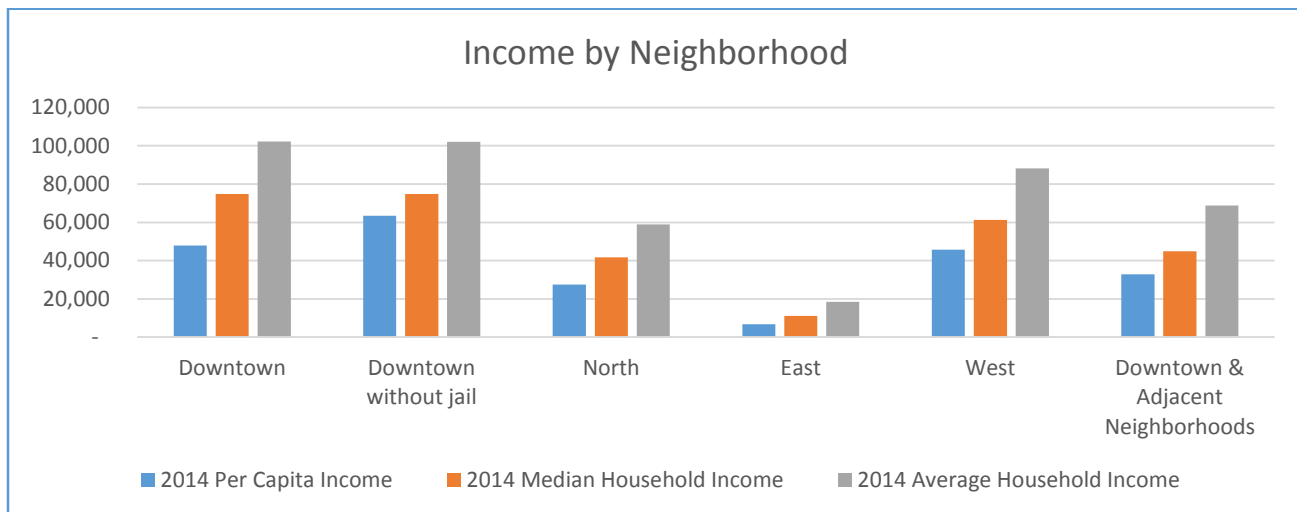
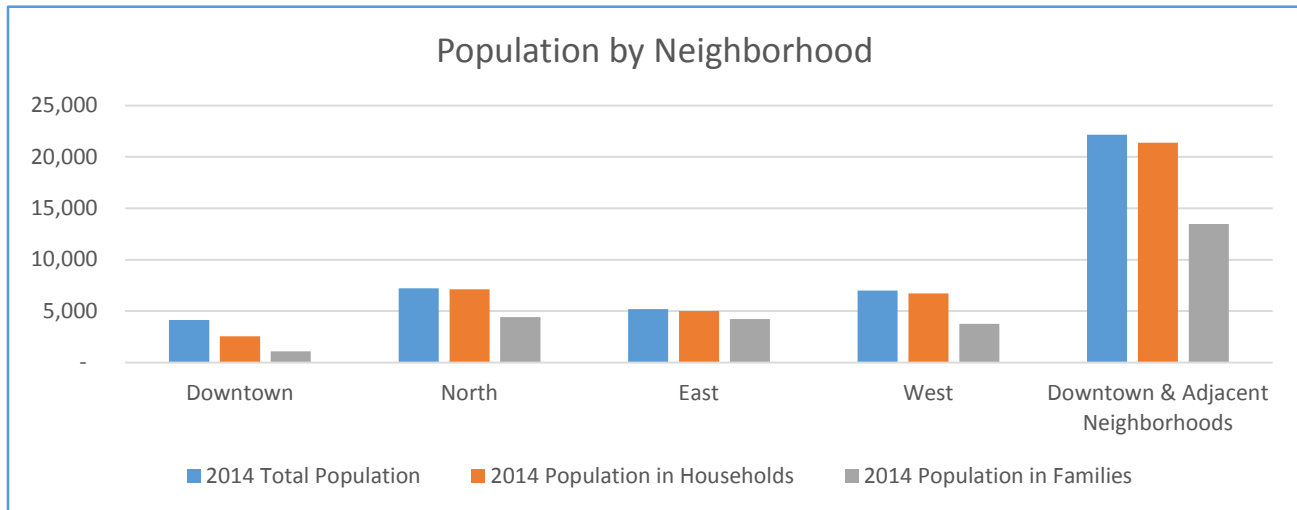
DOWNTOWN NORFOLK & ADJACENT NEIGHBORHOODS

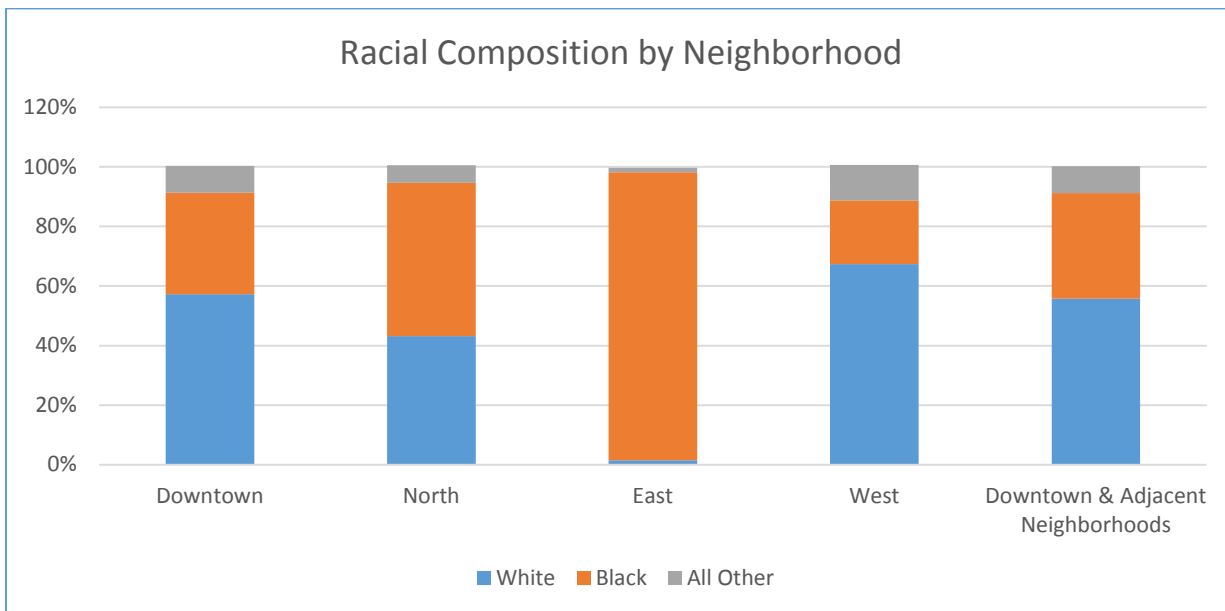
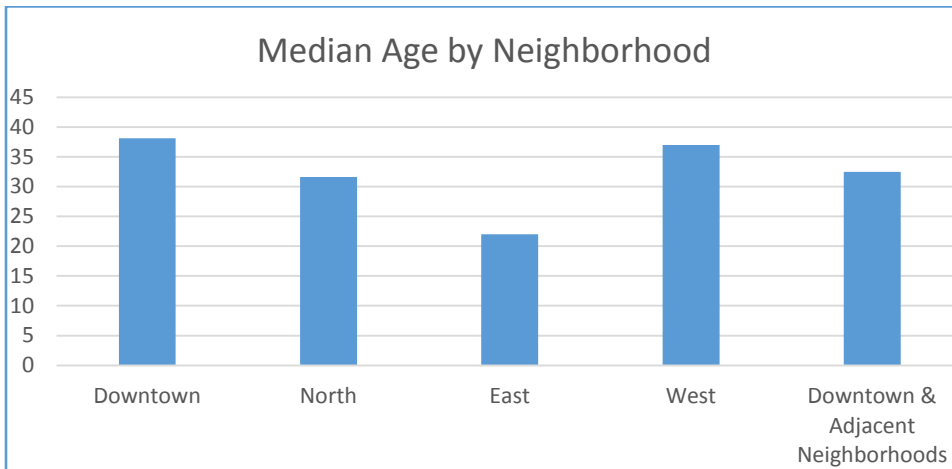
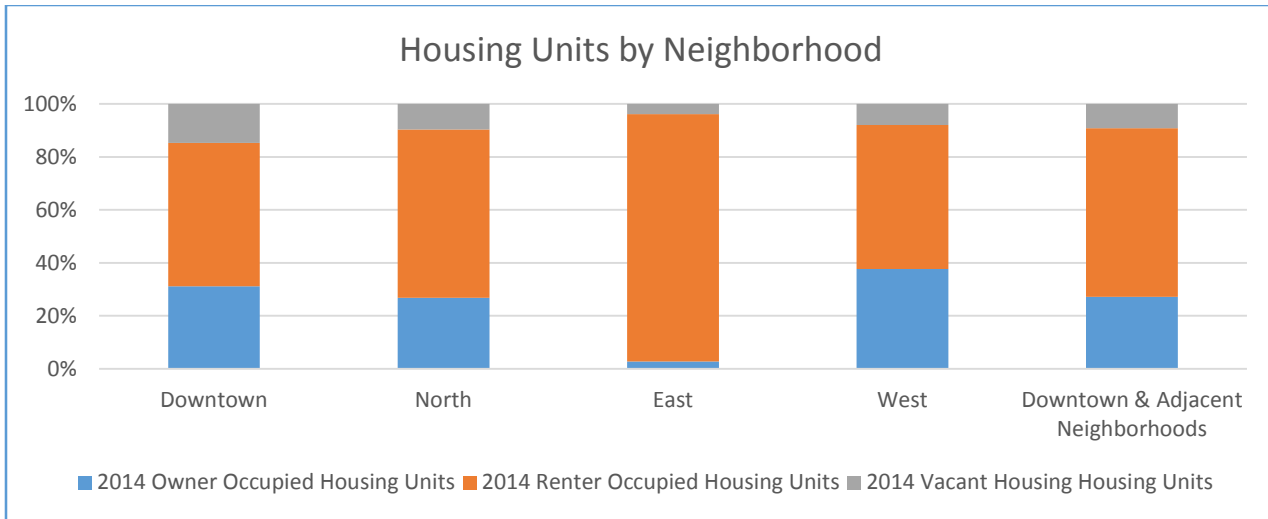


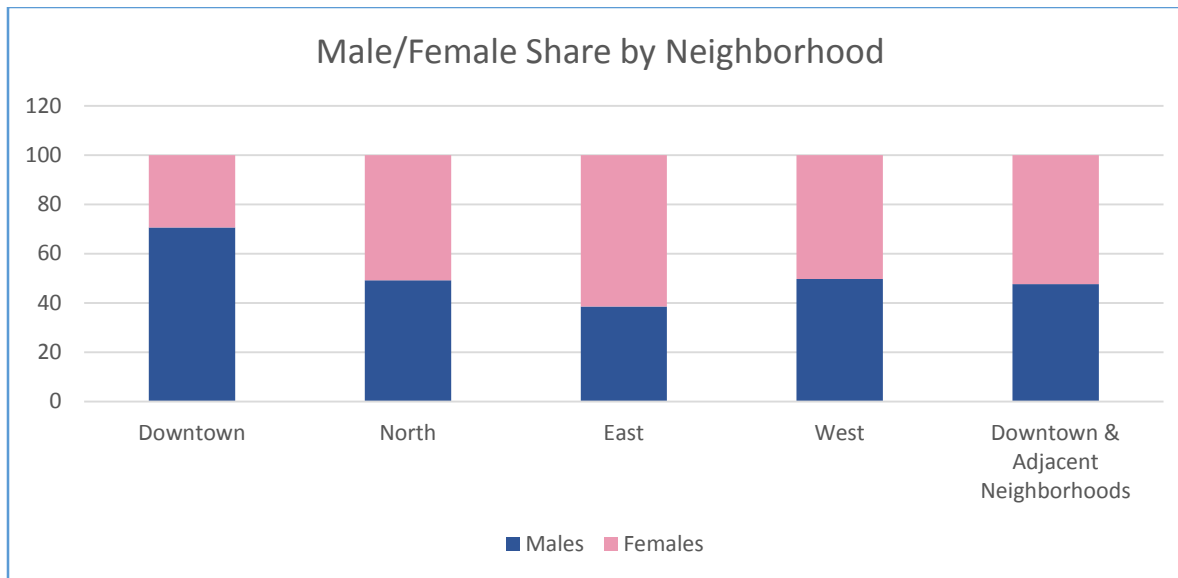
Source: ESRI Business Analyst Online

COMPARISON BETWEEN DOWNTOWN & ADJACENT NEIGHBORHOODS

The following six charts show variation in characteristics among Downtown and the neighborhoods adjacent to Downtown.







The above charts demonstrate some of the many differences among the neighborhoods adjacent to Downtown. Such differences are conventionally understood by many stakeholders and should not be overlooked. However, the primary purpose and intent of defining a neighborhood market area is to better understand how this market functions as a whole and how it relates to Downtown's economic potential and strengths. Overall, the area median demographic figures for this market area compare favorably to Norfolk as a whole – a fact that surprised many stakeholders in Downtown. This following Market Overview section of the document – particularly the residential subsection - provides data that enable reimagining this area as a 22,000+ population for which Downtown is a natural focal point and services destination.

MARKET OVERVIEW

Residents

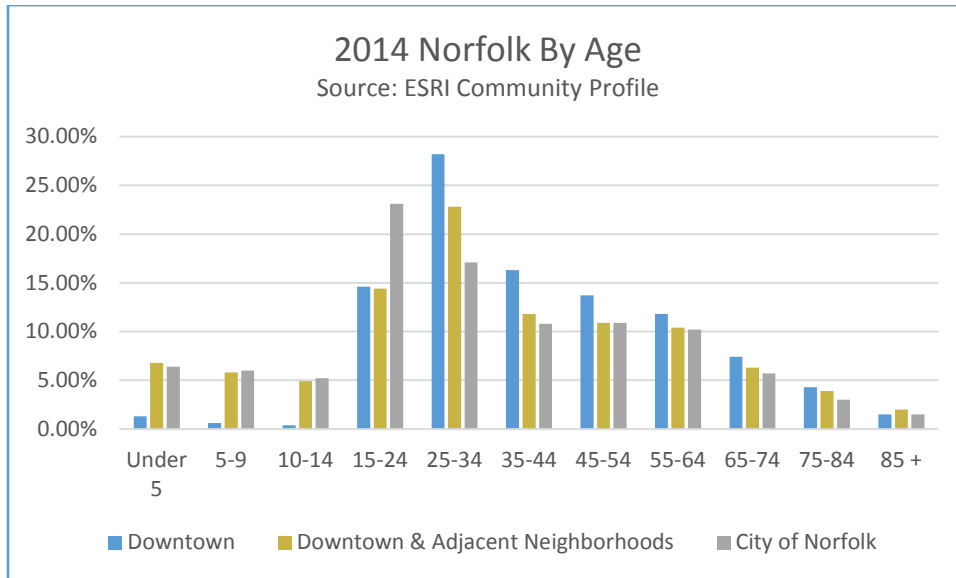
Norfolk is in something of a residential renaissance, with numerous historic commercial structures being transformed to housing. These projects are leasing rapidly, many with 50% or greater tenancy before project completion. With so many new residential units coming online and rapidly leasing, the City of Norfolk estimates that Downtown will very soon have a population of 5,500 people – nearly double the year 2000 population. In 2009, the City of Norfolk projected that Downtown will have a population of 6,558, with 2,775 households by 2040¹⁴. Current trends are substantially outpacing those projections.

The current ESRI Business Analyst Online¹⁵ estimates are escalated from 2010 U.S. Census data and appear to fall short of capturing the dynamic market in Downtown in sheer numbers, but provide some useful comparisons. For example, the average household size in Downtown is estimated at 1.5, substantially smaller than that of Downtown and Adjacent Neighborhoods (2.03) and the City of Norfolk (2.42). This is consistent with the demand developers report for unit size, which is primarily for studio, one- and two-bedroom housing units.

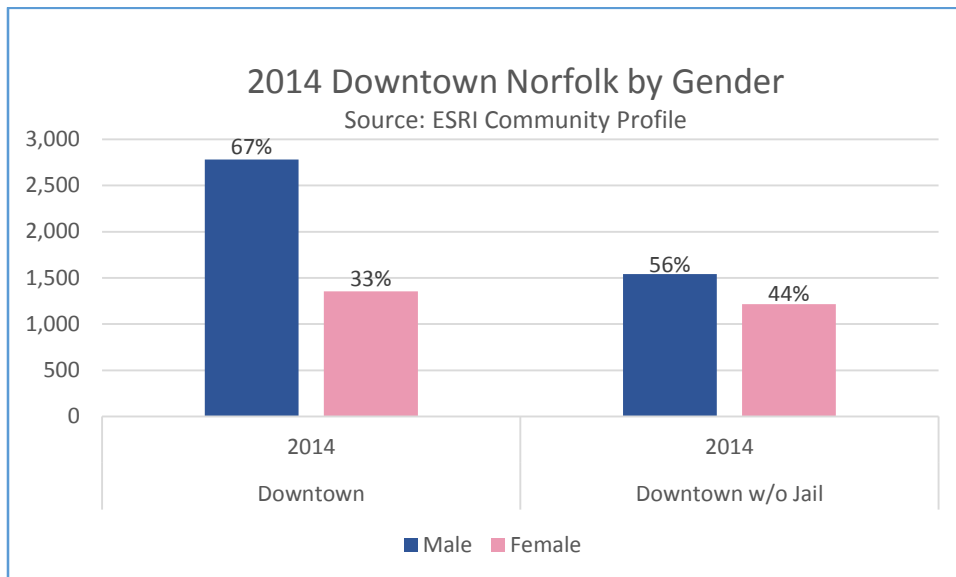
¹⁴ 2009-2040 TAZ Data

¹⁵ ESRI is a well-respected data source but cannot always accurately capture rapid change in small geographies.

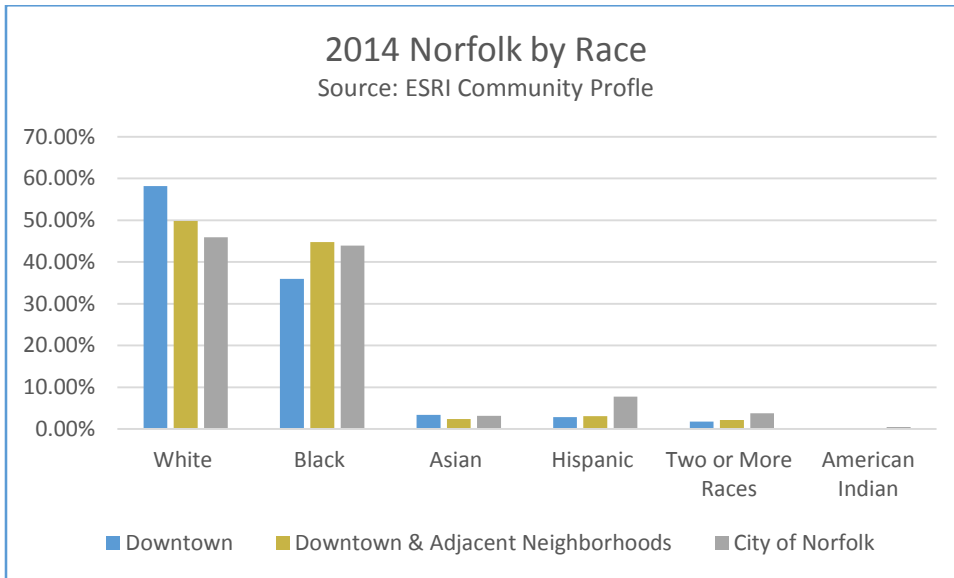
Downtown Norfolk is attracting a large share of young professionals in their late 20s and early 30s, also known as Millennials, who have shown a preference for living in vibrant downtowns. Millennials make up nearly 30% of the Downtown population compared to just 17% of the population in the City of Norfolk. Downtown also captures a higher share of empty nesters in their late 40s through early 60s, many of whom are part of the Boomer generation. There is a noticeable gap in children under 15 living Downtown, which contributes to the median age being slightly higher than the U.S. average, 38.1 compared to 37.6.



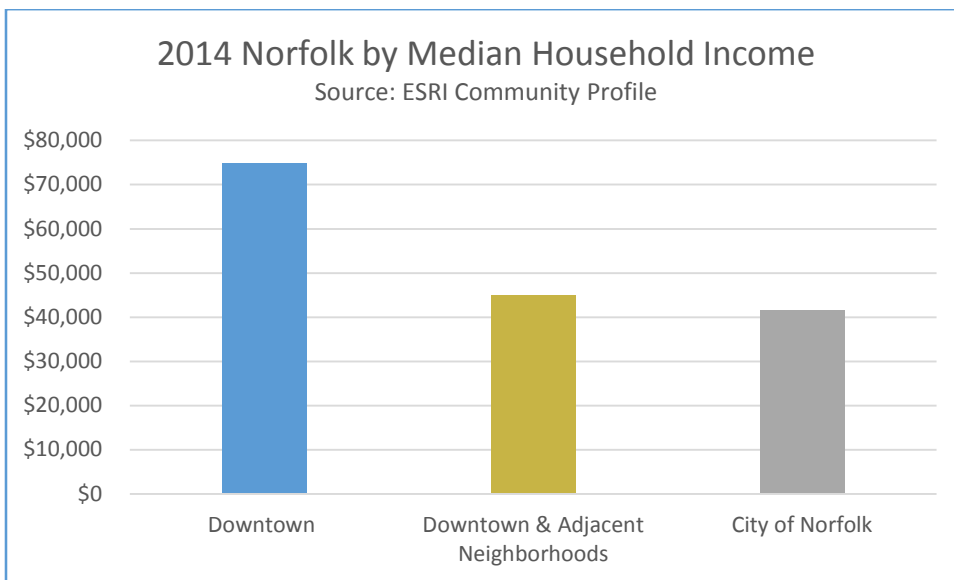
Downtown Norfolk has a higher percentage of males than females. Males tend to be quicker to embrace a downtown lifestyle than women, who often have more concerns over comfort and safety. For this data it is worth taking into consideration the Norfolk City Jail, which skews heavily male. The graph below shows the percentages of males and females in Downtown with and without the jail population. Without the jail population, the Downtown composition is 56% males and 44% females.



The racial composition of Downtown Norfolk is predominantly white and black, 58% and 36% respectively. Whereas Downtown and Adjacent Neighborhoods has a more even split between the two races, with 50% white and 45% black.

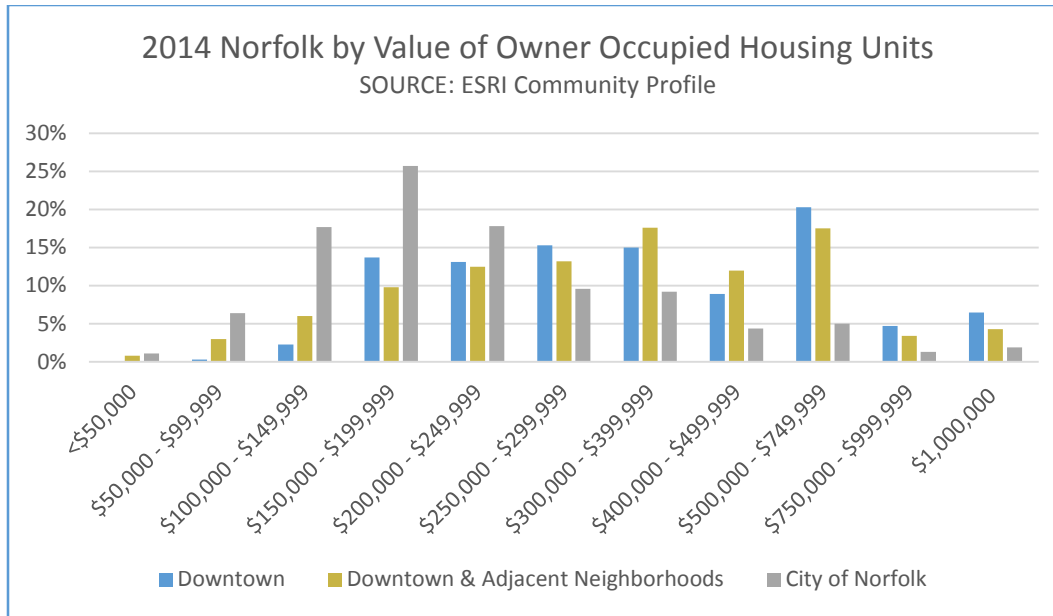


Downtown Norfolk incomes are 67% higher than Downtown and Adjacent Neighborhoods and 80% higher than the City of Norfolk.



Housing

Downtown Norfolk is experiencing a residential renaissance, attracting new high-end developments and increasing property values. The median home value in Downtown (\$335,484) and Downtown and Adjacent Neighborhoods (\$326,805) were nearly 70% higher than the City of Norfolk (\$198,304) in 2014.



According to Marathon Development Group, the developer of about 800 residential units in Downtown Norfolk, lease rates currently range from \$850 to \$2,000 per unit, with the “sweet spot” around \$1,200 per unit. Studios run approximately \$2.50 per square foot and are above \$2.00 per square foot for larger units. The majority of this developer’s units are 1 bedrooms (65%), followed by studios (25%) and 2 or occasionally 3 bedrooms (10%).

Downtown and Adjacent Neighborhoods has a higher percentage of renters than Downtown or the City of Norfolk. This percentage is driven up by the 93.2% rental rate in the East neighborhood and the 62.8% rental rate in the North neighborhood.

Housing Units by Occupancy Type

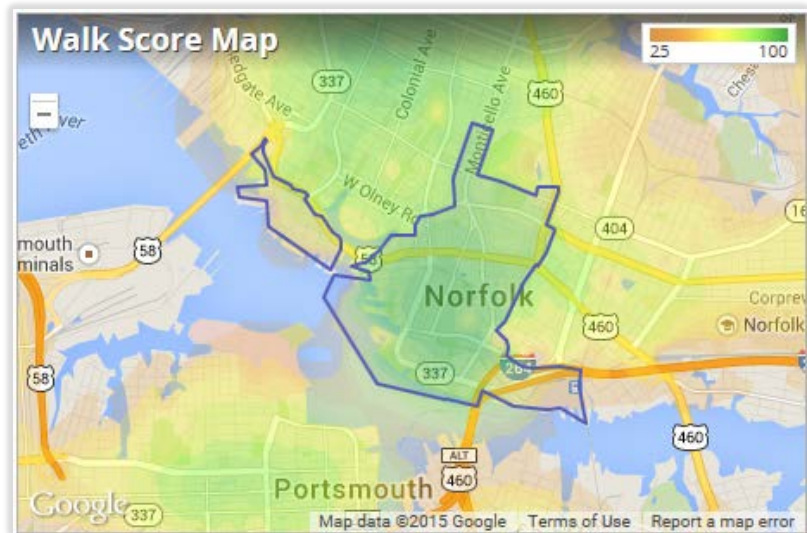
	Downtown		Downtown & Adjacent Neighborhoods		City of Norfolk	
	2000	2014	2000	2014	2000	2014
Owner Occupied	28.20%	30.20%	26.80%	27.00%	41.60%	39.30%
Renter Occupied	62.90%	52.50%	67.20%	63.00%	49.80%	51.30%
Vacant	8.90%	17.30%	6.00%	10.00%	8.70%	9.40%
Total Number	1,042	2,050*	9,851	11,694	94,416	96,896

Source: ESRI Community Profile * NOTE: City estimates are higher – see text below.

Downtown housing vacancies are estimated to have increased from 8.9% in 2000 to 17.3% in 2014. This may be due to the influx of new units on the market that, while leasing up rapidly, create short-term fluctuations in vacancy. More than 1,000 residential units have been built since 2010. Current City estimates of Downtown housing units either built or in the pipeline is 3,059. Developers report strong demand and success in leasing new units quickly in Downtown.

Walkable Real Estate

Value premiums are being placed on urban living environments where residents can walk, bike or take mass-transit to work, shopping and recreation. Walk Score™ is a patented system used to measure a location's walkability based on a 0 to 100 point scale. Points are awarded based on the distance to nearby amenities, with amenities within a 5 minute walk earning the maximum points. Walk Score also takes into account pedestrian friendly factors such as block length and intersection density. While the City of Norfolk receives a relatively low Walk Score (44 out of 100),



Downtown is considered very walkable with Walk Scores ranging from the 80s into the low 90s. The map to the right shows how Downtown Norfolk is very walkable and becomes less so the farther one gets from Downtown.

Workers & Employment

ESRI estimates that about 13% of all Norfolk employers are in Downtown and they offer about 13% of all employment in Norfolk.

Downtown jobs are filled primarily by workers that live outside of Downtown. The City of Norfolk estimates 30,000 Downtown employees, while ESRI estimates the 2014 employed population in the Core as 1,900, resulting in a jobs to workers ratio of about 15:1. The employed population in Downtown is less than 2% of the 101,000 total employed population of the City of Norfolk.

At least 93% of Downtown workers currently commute in from other areas of the City and region. In a 2012 regional survey of Hampton Roads, 8% of regional respondents reported they work Downtown.

In a 2014 survey of Downtown workers, four in five (79%) workers rated Downtown positively as a place to work. Only 48% rated Downtown positively as a place to play, and 30% as a place to live. Respondents from the Baby Boomer generation were the most likely to rate Downtown positively as a place to work (82%) play (44%) and live (54%).

On the whole, more than half - 53% - felt that the good attributes of Downtown outweigh the bad; a quarter (24%) felt that good and bad were net neutral, 10 % did not know, and just 13% felt that the bad outweighs the good.

Respondents rated the most important factors of an appealing downtown are: safety; easy to travel to; and offers a variety of dining options. Norfolk rated highly in variety of dining options, has a rich history, and offers art and cultural opportunities.

Regression analysis indicates that the key features to work on in order to enhance Downtown's appeal to worker are: safety; transportation (easy to get to, easy to get around by biking and walking) and the variety of employment options.

Workers in Downtown and Adjacent Neighborhoods

There is a strong, well-educated workforce available in Downtown and Adjacent Neighborhoods. The employed population is about 10,000 - nearly 10% of the total employed population of Norfolk. 55% of the residents in Downtown and Adjacent Neighborhoods have a college or advanced degree compared to 36% for all Norfolk. 73% work in White Collar industries compared to 56% for Norfolk.

Employees by Industry (NAICS codes):

- 17% Public Administration
- 13% in Finance & Insurance
- 12% Health Care & Social Assistance
- 9% Educational Services
- 7% Accommodation & Food Services
- 6% Administrative & Support & Waste Management & Remediation
- 6% Retail Trade

Commuting Patterns

According to a 2014 survey of Downtown Workers, 87% of responding Downtown workers report commuting by driving alone, while 10% ride public transit (including buses and light rail), 7% walk and 3% bike. Satisfaction with all commute modes appears low among workers, with less than half satisfied with parking, public transit, or biking and walking. Current weekday ridership estimates on the Tide are about 4,700 per day for both work and non-work trips.

The graphic to the right, based on 2011 data and using the Downtown zip code 23510, shows that the vast majority (95%) of Downtown workers live outside of Downtown. Less than 2% live and work in Downtown and approximately 4% live in Downtown but work outside of Downtown.



On the Map, US Census 2011

Commercial Sector

The total assessed value of real estate has risen from \$531 million in FY2000 to \$961 million in FY2013.

Vacancy rates in commercial office towers in Downtown Norfolk have not reduced greatly even as national economic conditions have been improved in recent years. Office space is graded as A, B or even C depending on the quality of finishes and amenities, with A being premier space. Downtown has a significant oversupply of Class B space that would last for decades at current absorption rates. Local business owners report a need for more flexible, affordable space for emerging creative and technical businesses.

Downtown Norfolk Vacancy Rates Q4 2104				
Type	Buildings	Square Feet	Vacant s.f.	Vacancy rate
Class A Leased	8	1,937,496	352,545	18.2%
Class B Leased	15	1,568,164	352,084	22.5%
Owner Occupied	7	799,712	0	0%
Total	30	4,387,730	782,911	20.0%

Retail

Retail and street level businesses trends in Downtown are more favorable than in office towers, as indicated in the following statistics compiled by the DNC:

- New street-level businesses in 2013 9
- New businesses in MacArthur Center 7
- Façade Improvement Program \$35,000 in grants
- Average street-level rent for retail, restaurant and entertainment \$13.28 per sq. ft.
- Number of eating/drinking establishments 114
- Number of retail businesses 214

Downtown and MacArthur Center remain a strong Regional Retail Center that attracts affluent consumers from the Hampton Roads market area, according to a 2013 retail survey conducted for the DNC.

New Leadership and expansion plans announced for MacArthur Center can be expected to add new elements to the mix of stores and better connect the mall with the street-level retail environment in the near term.

Granby Street has only a small number of street-level vacancies and a good mix of retail and restaurant. There are opportunities to enhance public realm elements that will strengthen the connections between the mall and Granby.

Due to the market trend of contracting storefront retail, Norfolk may continue to experience some oversupply of retail space. However, the compact, walkable size of Downtown, and the appealing shopping experience provided by the combination of MacArthur Center and Granby Street are all strengths in today's current retail market. Plans to expand MacArthur and enhance connections with surrounding street-level retail can be expected to enhance both the mall and the street-level retail synergistically.

Waterside is in the process of redevelopment. While details are not yet available, the redevelopment is expected to repopulate with a variety of retail and restaurant uses - and may possibly include residential.

Retail Gaps

Downtown Norfolk has notable retail assets that serve the entire region. It is not surprising, therefore, that ESRI's Leakage Analysis shows significant surplus areas in the in-place market. Still, there are significant gaps in the market supply in a few categories, notably:

- Automobile Dealers - \$47 million
- General Merchandise Stores (not department stores) - \$33 million
- Grocery Stores - \$11 million

Spending Potential

The consumer spending potential of residents in Downtown and Adjacent Neighborhoods on retail goods is more than \$230 million dollars in 2014.

Psychographic Segments

Adding more nuance to raw spending potential, psychographics profile consumer types and the particularities of their spending habits. The top three psychographic types in Downtown and Adjacent Neighborhoods, according to ESRI, are as follows:

Metro Renters (51%): Highly mobile, educated and one of the fastest growing segments nationwide. Metro Renters' income is close to the U.S. average but they spend a larger portion of their wages on rent, food (partial to organic), clothing and education. Computers and cell phones are an integral part of everyday life and are used interchangeably for news, entertainment, shopping, and social media.

City Commons (18%): One of the youngest and largest market segments. Primarily comprised of single-parent or single-person households in large cities. Nearly a third have not finished high school, which impacts their economic circumstance. This segment shops primarily at bulk or discount stores such as Sam's Club and Kmart, with most purchases related to buying food and clothing for their children.

Emerald City (12%): Similar to Metro Renters in terms of mobility, education and technological savvy, however, this segment prefers the lower-density neighborhoods of urban areas. Many embrace the "foodie" culture and enjoy cooking with local and organic foods, as well as music and art.

Market Strengths of Downtown and Adjacent Neighborhoods

Based on ESRI's Market Potential Index (MPI), consumers in Downtown and Adjacent Neighborhoods had the following spending behaviors:

- Strong spending on technology including computers, cell phones, and Internet video devices
- Very strong spending for entertainment including live performances and bars/nightclubs
- Strong consumers of digital media at home including movie rentals/downloads, digital books and newspapers and online gaming
- Strong users of exercise clubs two or more times per week
- Are very strong consumers of organic foods and environmentally safe/green products
- Are comfortable using online banking services
- Are likely to travel internationally one per year or more
- Are likely to own just one car and just one television per household

Non-resident market segments:

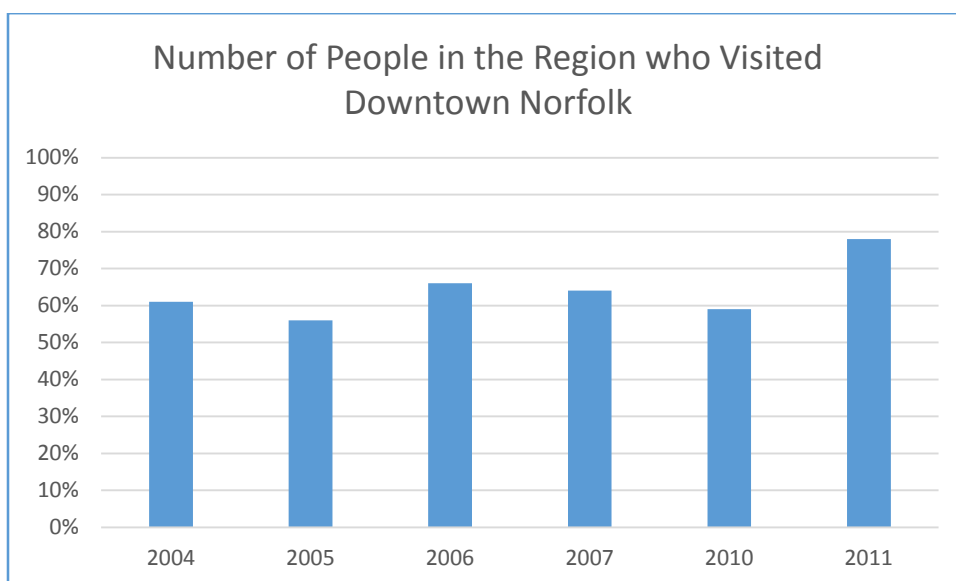
In addition to the residents in Downtown and Adjacent Neighborhoods, it is important to consider a number of other segments in trade area that frequent Downtown.

- Students – especially at Tidewater Community College but also from ODU – are frequent visitors to Downtown and often shop and play here. The 2012 regional market survey of the Hampton Roads trade area, respondents indicate that the third top reason for visits to Downtown is school attendance by self or a family member. The majority of post-secondary students are Millennials. Without additional demographic and income detail, only broad generalizations may be made about spending preferences. However, young educated consumers increasingly look for experience-based retail, technology, healthy and green products, and a range of dining and entertainment options at a variety of price points.
- Downtown Workers – As a major employment center, Downtown enjoys a daytime population that helps to support retail and restaurant facilities, as well as personal and business services. With more than three-quarters of downtown employment in White Collar jobs, this group offers considerable spending power for Downtown.
- Tourism and Conference Visitors are another important market segment for Downtown Norfolk. The Marriott conference center hosts numerous local and regional conferences each year. Cruise ship calls have been increasing in recent years, with 19 calls expected in 2015 bringing a total of 75,000 crew and passengers. The new hotel and conference facilities in The Main are expected to help increase visitor numbers as well. More information about visitors and spending is included in the following pages.

Visitor Data

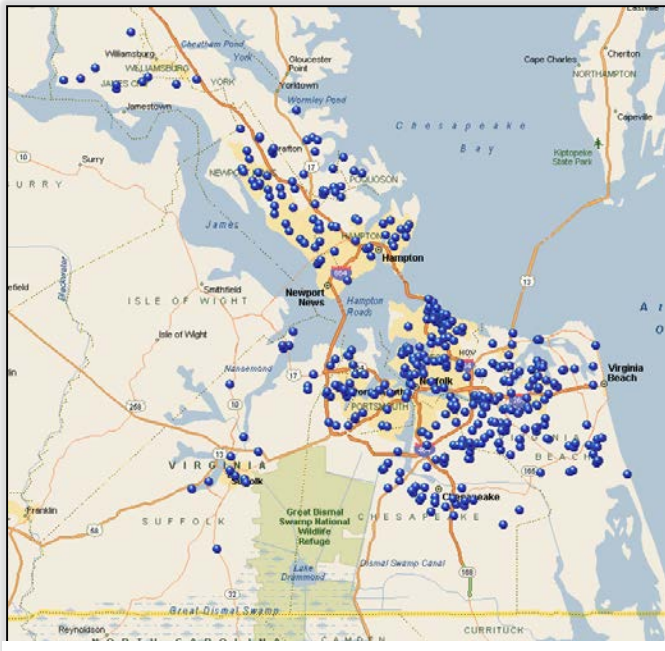
Regional Visitors

Nearly eight in ten (78%) of the region's residents said they visited Downtown Norfolk, according to a 2012 Downtown Norfolk Perception and Usage Study by the Southern Institute of Research (SIR), which is an all-time high.



Source: 2012 SIR Downtown Norfolk Perception and Usage Survey

The following graphic shows how Downtown Norfolk pulls visitors from throughout the region, the largest numbers coming from Chesapeake (93%), Suffolk (88%), Virginia Beach (87%) and Poquoson (80%).



Source: 2012 SIR Downtown Norfolk Usage and Perception Survey

According to the SIR Downtown Perception and Usage Study, MacArthur Center, restaurants, and school generated the most visits to Downtown Norfolk among regional visitors. Other top reasons to visit Downtown included events and cultural activities.

All Visitors

According to a 2013 visitor study conducted by Old Dominion University (ODU) for the City of Norfolk in 2013, which surveyed visitors at 15 sites city-wide, two-thirds (67%) of respondents were repeat visitors to Norfolk and 52% of those had been to Norfolk six or more times, indicating a high frequency of repeat visitors. The large majority of respondents (70%) indicated that Norfolk was their primary destination.

For the 30% who it wasn't, most indicated Virginia Beach or Williamsburg as their primary destination. Two thirds of respondents had some type of military connection.

The Hampton Roads region, including Norfolk, has been increasing its attention on attracting international tourists over the past few years to diversify the market and encourage tourism year-round. Particular interest has been made in China, Brazil and Germany¹⁶. According to Virginia Tourism Corp., the number of Chinese and Brazilian Tourists to Virginia rose 69% and 44% respectively between 2011 and 2012. The Visit Norfolk website has a page translated into German, informing visitors about events at Town Point Park, cruises, the Nauticus museum and MacArthur Center.

City of Norfolk Visitor Stats 2013:

Number of visitors	2.2 million
Average duration of stay	3.16 days
Mode of travel	Personal car (71%); walking (45%); light rail (9%)
Busiest Month	June
Average visitor spending	\$446.19
Total economic impact from visitor spending	\$1.4 billion
Tax revenue	\$24.2M (State); \$22.4M (Local)

Source: ODU; Profile and Economic Impacts of Visitors to Norfolk, VA

¹⁶ The Virginia-Pilot, May 2014

Approximately half of respondents in the ODU survey stayed at a hotel during their trip to Norfolk. Of those who stayed in hotels, 60% stayed in Downtown hotels, primarily the Sheraton and Marriott. There are currently about 1,500 hotel rooms in Downtown Norfolk, with another 300 coming online with the opening of The Main hotel scheduled for 2017¹⁷.

ODU's 2014 State of the Region 2014 report indicates that the total conference center market is declining nationally and in Hampton Roads. According to Visit Norfolk's CEO Tony DiFilippo, Downtown Norfolk has historically drawn state and small regional conferences. The Main will add 42,000 square feet of high-tech conference center. Along with the 60,000 existing square feet at the Waterside Marriott, this will enable Downtown Norfolk to compete for larger regional and small national conferences.



Visitor Numbers at Downtown Attractions

Downtown is a large draw for visitors. There were over 1.7 million attendees and visitors to events and cultural facilities in Downtown Norfolk in 2014¹⁸. When interviewed by P.U.M.A., DiFilippo said the top three attractions in Downtown Norfolk are the MacArthur Center, Nauticus and the Chrysler Museum of Art. MacArthur Center alone generates millions of visits per year. In addition, Festevents hosts multiple festivals and performances that collectively draw numerous visitors to downtown to Town Pointe Park in season. Reported attendance numbers are shown in the table below:

Annual Visitor Numbers at Key Downtown Attractions

Festevents (multiple events)	450,000 (2014)
Nauticus and Half Moone Cruise & Celebration Center	234,000
The Chrysler Museum	200,000 (May 2014-May 2015)
The MacArthur Memorial Museum	41,000 (2014)
Slover Library	TDB - 35,000 in Jan, 2015
Virginia Symphony	18,000

Revenues from Visitors

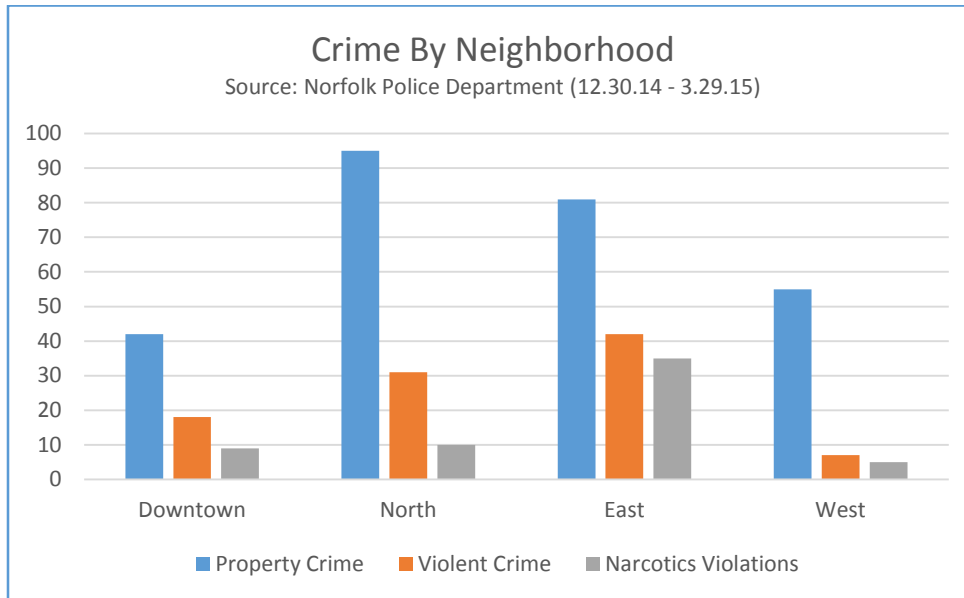
According to the City of Norfolk annual report, in 2014, Visitors in Downtown financial districts (including Financial, Waterside, MacArthur, Granby, Upper Granby, Freemason) generated nearly \$5.3 million in revenue through the lodging, room and admissions taxes. This is nearly half of the \$11.4 million in citywide revenues from these taxes. Downtown visitors also make a portion of the retail, food and beverage purchases in Downtown establishments. For example, Festevents attendees typically spend nearly as much in Downtown outside the event (\$78 per party) as at the event (\$83 per party). Included in this spending are hotel stays that increase weekend occupancy at upper-end hotels on festival weekends. Based on multipliers, Festevents attendees create an estimated \$34,000,000 in economic impact in Norfolk, \$24,000,000 of which is generated by spending from visitors from outside of Norfolk.

¹⁷ The Main Norfolk website

¹⁸ Downtown Works, Quick Facts for 2014

Public Safety

According to a Downtown Consumer Survey from 2012, 84% felt comfortable and safe in Downtown during the day. However, only 45% gave a high rating for feeling comfortable and safe at night. Part of this may be a perception issue. P.U.M.A. heard from staff and stakeholders that crime is often reported in “Downtown” but may not actually fall within Downtown boundaries, adding to a perception that Downtown is unsafe.

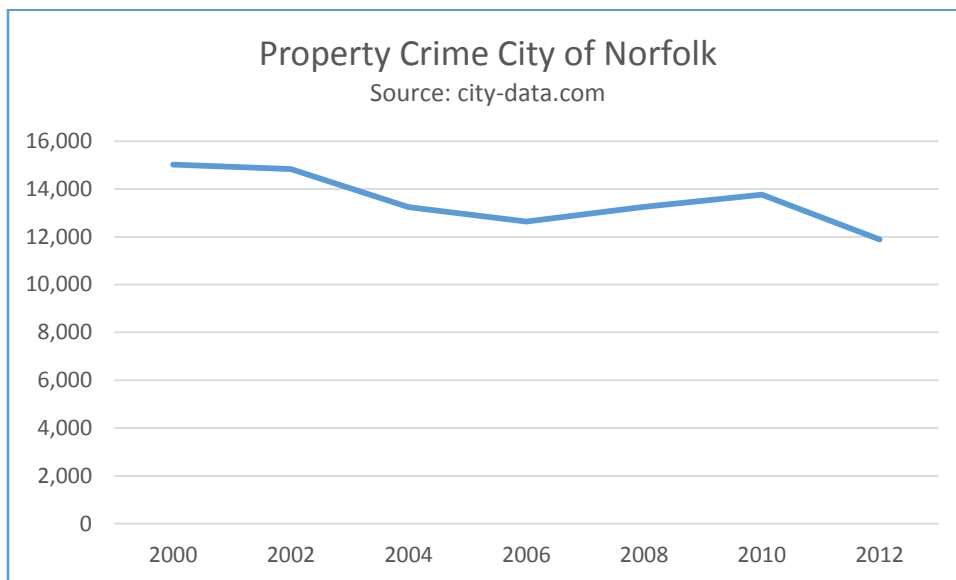
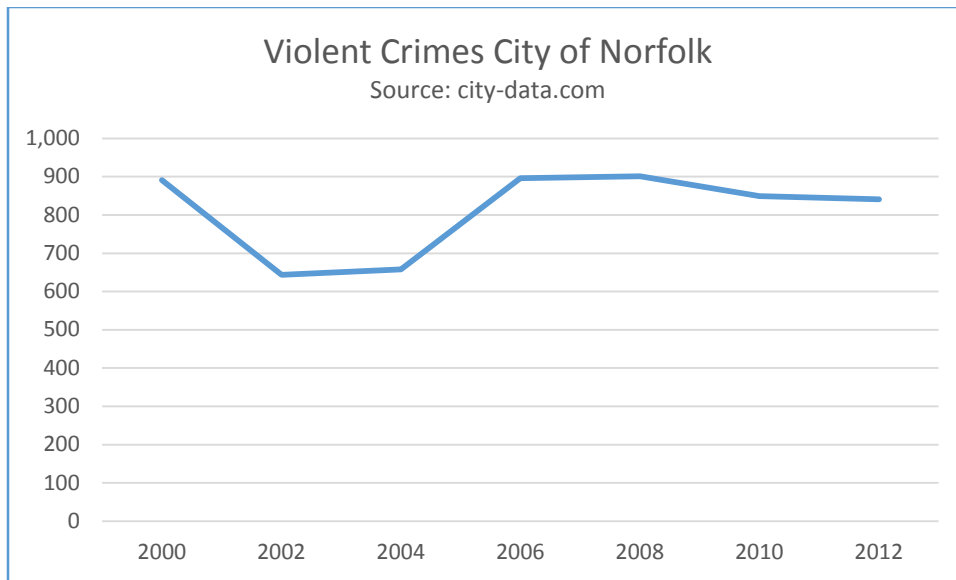


The chart above from CrimeView Community, compares crime data between Downtown Norfolk and neighborhoods adjacent to Downtown for the past 90 days. Downtown Norfolk has fewer property crimes than any of the adjacent neighborhoods. The least number of crimes occurred in the West Neighborhood (67) but Downtown was not far behind (69).

Downtown Norfolk has come a long way in terms of safety since the late 1990s. Downtown Norfolk Council’s Public Service and Clean Team Ambassadors, part of the Downtown Improvement District, have been an important factor. Ambassadors are on the streets daily. They patrol on foot and provide welcoming services and information to visitors but also assist the Norfolk Police Department by acting as safety escorts and additional eyes on the streets¹⁹.

The City as a whole has seen a decrease in crime since 2000. The charts below show violent crimes have decreased 6% since 2000, however they are higher than the low experienced between 2002 and 2004. Property crimes have experienced a steadier decline and were 21% lower in 2012 than 2000.

¹⁹ DowntownNorfolk.org



Economic Engine

Across a range of sectors, Downtown Norfolk is a hugely important part of the City-wide and regional economy.

According to ESRI estimates, Downtown hosts more than 13% of all businesses in Norfolk, and many of the best paying jobs.

According to the City of Norfolk annual report, more than 46% of all lodging, room and attraction taxes, and 15% of retail sales, food and beverage taxes, are generated in financial districts in the Downtown. Total tax revenues generated in Downtown totaled over \$38.5 million in 2014, down slightly from \$38.8 in 2013. This is more than ten percent of the \$364 million tax revenue generated citywide in 2014.

SUMMARY OF KEY MARKET OPPORTUNITIES

Placing the local market conditions within the Global Economic Trends context, specific opportunities emerge for Downtown Norfolk. This section summarizes the opportunities within five sectors; Residential, Retail, Office, Visitor, and Industrial. A final section addresses opportunities within the public realm that can strengthen and extend the market opportunities across multiple sectors.

RESIDENTIAL

Downtown Norfolk, like many downtowns nationwide, is experiencing significant reinvestment. The backbone of this reinvestment is based in increased demand for downtown living, particularly among the Millennial and Boomer generations. Many of the older historic commercial structures in Downtown are getting a new life, being rehabilitated and converted to rental residential units. Currently, financing is readily available only for rental housing projects, however many of these units are being built to standards that will allow them to be converted to ownership in the future when market forces allow. The number of housing units in Downtown has nearly doubled since 2000. The City of Norfolk counts the number of Downtown units at more than 3,000 in summer of 2015.

New units are leasing rapidly – many during construction - and are attracting new residents to Downtown. One of the primary developers of such properties estimates that about 80% of tenants list a previous address that is outside the downtown zip code. Despite a rapid increase in supply, further demand appears robust. There is significant potential in attracting an additional share of the Downtown workforce to fill additional Downtown housing units. Of about 30,000 workers in Downtown, only a few hundred currently live in Downtown while the rest commute in from other neighborhoods and other parts of the region. According to the 2012 Downtown worker survey, the median Downtown worker salary is \$77,777, and 52% have incomes above \$75,000. At rents of \$1200 for a one bedroom, assuming that up to a third of income is allocated to housing, the threshold income is \$43,200 for 1BR. This data, while not a comprehensive sampling of all Downtown workers, suggests that the majority of Downtown workers could afford to rent a studio or 1-bedroom apartment at current rental rates. Certainly not all who can will choose downtown living, however if just five percent of Downtown workers who could afford it moved into Downtown, they could support another 1,500 housing units at current rents.

KEY OPPORTUNITIES

- The Downtown residential market is strong and is driving significant investment.
- Retail is robust. New offerings on Granby, a planned expansion at MacArthur, and redevelopment of Waterside demonstrate three enduring and complementary niches.
- Downtown must appeal to skilled workers in order to fill office vacancy.
- Some Class B office space appears ripe for conversion to residential.
- Affordable, creative office space is in demand and can fill street-level vacancy.
- Industrial opportunities are rare. Redevelopment as residential could add more public waterfront access.
- Public realm investments can strengthen the residential, retail, visitor, and office markets.

The majority of housing demand Downtown is for studio, one and two-bedroom units. These units are a good fit for young professionals and empty nest singles and couples. Like most cities, Downtown Norfolk is not experiencing significant demand for upscale family housing in the core. Housing options at a variety of price points in nearby neighborhoods currently serve families that want to be close to Downtown. With so many workers commuting into Downtown daily, it appears there is demand for additional workforce housing in and near Downtown, which could bring more spending potential and workforce into a bikeable or walkable distance of Downtown.

Land cost and availability create significantly more opportunity for adding workforce affordable units in neighborhoods adjacent to Downtown rather than in the core Downtown. Implementation of the St. Paul's area plan could meet dual goals of adding additional family housing at a variety of price points while also allowing existing public housing tenants the choice of remaining in upgraded units. However, currently, the performance of Downtown public schools is a barrier to attracting and retaining families to this area.

To date, the majority of residential projects are currently happening on the west side of Downtown between Granby and Boush. It appears there may not be many more historic mid-rise commercial properties with conversion potential in the core of Downtown. Additional residential conversion or even new build appears possible in the financial district between MacArthur Center and the waterfront, such as possibly the Bank of America tower or as part of redevelopment at Waterside. Conversion of some Class B office space to residential would help reduce the existing oversupply and vacancy. Conversion of industrial buildings in Fort Norfolk would be an asset to Downtown if they provide an opportunity to gain more nearby public access to the waterfront.

To strengthen the residential market, Downtown needs to provide more amenities that residents need and want in their daily lives. Some commonly heard requests in public meetings include a grocery store, personal services, pet relief parks, and more recreational and waterfront access.

RETAIL

ODU's 2015 Economic Forecast²⁰ predicts an uptick in retail growth which is certainly apparent in Downtown Norfolk, which has added numerous new eateries as well as several new stores both in MacArthur and along Granby. Downtown Norfolk is extremely well positioned to continue to have an important and preeminent retail role in Hampton Roads, with three well-defined niches in MacArthur, along Granby, and soon, in the redeveloped Waterside. In this combination, Downtown delivers a retail experience that many consumers are seeking - an authentic downtown environment with both local and respected national brands. While there are strong competitors in the retail market for attracting name-brand retailers - namely Virginia Beach Town Center - the authenticity of Downtown Norfolk is a unique asset in Hampton Roads that supports the long term competitiveness and vibrancy of retail here.

The MacArthur Center pad site build out, if opened up visually to the outside as anticipated, can help the Mall become better integrated as a part of the Downtown experience. There are opportunities to strengthen the east-west streets that link MacArthur and Granby Street to enhance the synergy between the two. These stronger linkages cannot come too soon to reassert Downtown Norfolk's prime retail position in the region.

While there is much that is positive in the retail environment of 2015, it is important to also be aware that storefront retail is contracting overall. In Downtown Norfolk, it is critical that street-level retail stay concentrated

²⁰ www.odu.edu/forecasting/regional/analysis

along key pedestrian connectors such as Granby and Monticello to keep people feeling comfortable day and night. It will also be wise to target retail niches that are in expansion and appeal to downtown residents such as technology and health-related retailers. In addition, a critical pursuit should be new, smaller urban formats for grocery and general merchandise retailers that are matched to the growing downtown customer base. These will not only serve existing residents but can substantially strengthen the appeal of Downtown for additional residents.

COMMERCIAL/OFFICE

Currently Downtown Norfolk is experiencing a significant oversupply of Class B office and a more modest oversupply of Class A that is slowly creeping downward. Many firms in Downtown (as well as the region and nation) are downsizing into smaller spaces due to a combination of shrinking number of employees and more efficient workplace formats. There is presently no demand for new-build leased commercial office space in Downtown. In fact, oversupply of Class B is so extensive that the market could benefit from conversion of Downtown office towers to residential, perhaps retaining commercial uses on lower floors. The tower that appears, on preliminary observation, to have the best structural design and location for residential conversion is the Bank of America tower. At present, the owner has not indicated any intent to do so.

Many of today's young skilled workers want to live and work in compact, exciting urban environments. A primary reason that companies move into downtown locations is to attract and keep their workers. Downtown Norfolk offers a compact, walkable environment with good entertainment and retail that increasingly offers desirable residential housing options. Downtown has always been an employment center and is clearly becoming a desirable place to live - already, 1,300 workers choose to live in Downtown despite the fact that they are employed elsewhere and must commute to work. To improve the desirability of Downtown for employers and fill vacant office space, Downtown needs to continue to add housing while providing the livability and amenities - such as grocery and other resident-serving retail stores, services, and recreation - to attract young talent and residents.

Entrepreneurs in Downtown indicate an unmet demand for affordable work space for start-ups and creative firms. These firms do not prefer to be on upper floors of towers, which they indicate feel unappealingly corporate. At the same time, there is an effort being led by the Greater Norfolk Corporation to create an innovation district in Downtown centered along Granby. The development of an innovation zone could strengthen the office market both directly, for innovative businesses, and secondarily by creating an identity that appeals to skilled talent and their employers. A challenge is the availability of affordable commercial space. The conversion of many Class C historic commercial buildings to residential may be a contributing factor.

One innovative solution already occurring in Downtown Norfolk is that some firms have begun occupying underutilized street-level and arcade spaces formerly occupied by retail uses. Open format creative firms that either prefer or are willing to leave windows un-curtained add vibrancy and street presence in locations that formerly presented gaps in the street level experience. As such locations fill on primary corridors, east-west streets in the core could be excellent locations to extend this type of use. Additionally, the resurging Arts District can offer spaces that appeal to the most innovative and creative firms, to the extent that the area feels safe for their workers after dark. To foster and promote the district as an innovative district, distinctive and creative building facades would draw attention to innovative businesses as they come in.

Longer term, it may be possible to incorporate affordable entrepreneurial/commercial space in redevelopment in the commercial areas around the new bus transfer station. This location will be more appealing to the extent that it is developed in tandem with new workforce housing units and stronger pedestrian and bicycle crossings across St. Paul's Boulevard, and feels safe to be in and travel to and from during the evening as well as the day.

Two additional niches worth noting are education and health, both with a strong presence within Norfolk and relatively close to Downtown. In both niches, complementary uses should be considered and recruited to office space in the central business district.

INDUSTRIAL

In this market cycle, where residential is strong, there are proposals to convert several waterfront industrial buildings in Fort Norfolk that have sat vacant for some time to residential multi-family. While it would be more beneficial in the long term to grow more light industrial tech, it is unclear in what time horizon that may be possible. In the next one to five years, the civic opportunity of such conversions are improvement of the appearance of currently neglected structures, and the potential that redevelopment may create more public access to the waterfront. The focus of DNC should be connecting residential developments as may occur in these areas with Downtown through comfortable pedestrian and bike infrastructure.

VISITOR

The Main, a new hotel and conference facility, is currently being built in Downtown Norfolk. This new mixed use development will add another 300 hotel rooms and 42,000 square feet of modern, technology capable conference facilities. Downtown currently has about 1,500 hotel rooms and a mid-sized (60,000 s.f.) convention facility. The new facility will improve the overall quality of Downtown's hotel rooms, and is anticipated to enhance the ability of Norfolk to attract and serve larger conventions with more convention visitors. There is indication that the addition of a premium new hotel in this location could spur the conversion of some of the older stock of hotel rooms to residential. The Tazewell Hotel has announced it is closing and slated for residential conversion.

There appears to be some opportunity for a boutique hotel that offers a unique quality of experience – perhaps one thematically tied to the nautical history of Norfolk.

PUBLIC REALM

Public safety and crime prevention through the built environment are foundational to the success of Downtown Norfolk and have long been a consideration for the visitor market. Ensuring a safe and comfortable environment day and night becomes even more important as the skilled workforce increasingly shifts to more and more females, and as more residents live in Downtown. The DNC's Public Service Ambassador Program has done an excellent job in helping to stabilize the Downtown over the past 15 years. Its clean and safe initiatives are a critical foundation for helping to attract additional investment into the area.

Within the public realm, there are opportunities to add value to many aspects of the Downtown real estate market including residential, commercial, retail, and visitor. Street-level vibrancy will appeal to visitors, residents and skilled talent, making Downtown a more desirable location for all. Norfolk has a number of outdoor parks

and plazas that offer attractive outdoor spaces for informal use. Outdoor café seating, parklets, and filling street-level commercial spaces all contribute to vibrancy. Better wayfinding and enhanced pedestrian and bike connections between activity centers, attractions, and recreation amenities serve multiple audiences and as such improve multiple market sectors.

Vibrancy is more than just attractive public spaces, it also includes activation of public spaces with fun, fresh and engaging amenities and programming. Just as theme parks and retail centers have done before them, downtowns are increasingly managing and activating the spaces between businesses in order to attract crowds and ensure a memorable experience. There are many positive examples to build off in Norfolk, such as Employee Appreciation Day, Metalmatisse by Electroland, Holidays in the City, and the lounge chairs in Towne Bank Fountain Park. Events that showcase diversity, temporary installations, pop-up retail, food trucks, and whimsical events - such as a chance to ride old timey big wheeled bicycles - are particularly appealing to the Millennials that are driving the downtown residential renaissance as well as business location decisions.

.

APPENDIX: MARKET ASSESSMENT INTERVIEWS

We are grateful for the generous time given by the following Downtown stakeholders who agreed to be interviewed to inform this document:

- Arts District Committee Members
- Perry Frazier - CBRE/Hampton Roads
- Mayor Paul Fraim - City of Norfolk
- Janice Hurley & Paula Shea - City of Norfolk Development Department
- Mary Miller - Downtown Norfolk Council
- Rachel McCall - Downtown Norfolk Council
- Kevin Murphy - Downtown Norfolk Civic League & Re:Vision
- Barry Bishop & Shurl Montgomery - Greater Norfolk Corporation
- Drew Ungvarsky - Grow
- Deborah Stearns - Jones Lang LaSalle
- Buddy Gadams - Marathon Development Group
- H. Blount Hunter - Retail & Real Estate Research
- Dr. Sture Sigfred - S-K Management
- Rob Pence - Starwood Presentation
- Tony DiFilippo - Visit Norfolk
- Steve Morales & John Kownack - Norfolk Redevelopment and Housing Authority
- Councilman Paul Riddick - City of Norfolk
- Re:Vision Members
- Ray Gindroz - Urban Design Associates
- Work Program Architects