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Research & Strategic Analysis

EXECUTIVE SUMMARY

MARKET POSITION ANALYSIS

Downtown Portsmouth
City of Portsmouth, Virginia

February, 2006

This study identifies the depth and breadth of the potential market for new rental and for-sale dwelling units, to be constructed in single-family attached and mid- to high-rise buildings on the waterfront in Downtown Portsmouth, Virginia. Several publicly-owned sites have been identified as potential development locations. These include:

- The North Pier, approximately 2.4 acres adjacent to the NTELOS Pavilion and the Ocean Marine Yacht Center;
 - The Columbia Street lot/former Desks Inc. site, a combined 1.7 acres, across Crawford Street from City Hall and the NTELOS Pavilion;
 - The Civic Center parking lot, two parcels containing 1.75 acres, located between the Elizabeth River and the courthouse and jail;
 - The GSA lot, 1.2 acres occupying most of the block between Crawford and Water Streets, and High and Queen Streets, adjacent to the High Street Landing; and
 - The Holiday Inn site, a 4.2-acre parcel, including the Harbor Court parking garage, situated at the northernmost point of the Downtown Portsmouth waterfront, with spectacular views of the Norfolk skyline.
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The market feasibility of higher-density development along Downtown Portsmouth's waterfront has been analyzed using Zimmerman/Volk Associates' proprietary target market methodology (the capture of qualified households that have the potential to rent or purchase new primary year-round or second/vacation units in Downtown) and verified within the context of new development in the Tidewater region.

This study has determined the optimum market position based on the housing preferences and financial capacities of those target households who are renting or purchasing units for primary year-round residences or second/vacation units. This analysis is not intended to assess the purchase potential of investors.

CONCLUSIONS

From a market perspective, considerable demand exists for new primary and second/vacation units to be constructed along the waterfront in Downtown Portsmouth. As determined by this analysis, the market potential for new primary and second/vacation units within Downtown Portsmouth consists of up to 1,660 households each year. Three-quarters of the annual market potential—1,240 households—are households seeking primary year-round dwelling units.

More than 41 percent of the market for primary year-round residences are currently living in Portsmouth; the remainder of the potential market will be moving from Chesapeake, Norfolk, Virginia Beach or Suffolk (30 percent), or from elsewhere in the region and the nation (29 percent).

Nearly two-thirds of the market for second/vacation units live in the Washington, D.C. area; just under four percent are from the Richmond area; and the remaining 34 percent live in the New York City area.

The household groups that comprise the potential market for both primary and second/vacation units are:

- Affluent empty nesters and retirees (44 percent); and
- Younger singles and childless couples (43 percent);
- A small number of families (13 percent).

Based on the tenure preferences of these draw area households and their income and equity levels, the general range of rents and prices for new residential units—to be developed as single-family attached and within mid- and high-rise multi-family buildings along the Downtown waterfront—that could currently be sustained by the market is as follows:

Optimum Market Position at Market Entry
Primary and Second/Vacation Units
Single-Family Attached/Mid- and High-Rise Buildings
DOWNTOWN PORTSMOUTH
The City of Portsmouth, Virginia

HOUSING TYPE	RENT/PRICE RANGE	SIZE RANGE	RENT/PRICE PER SQ. FT.
Multi-Family For-Rent—			
Hard Lofts *	\$800-\$1,225/month	550-900 sf	\$1.36-\$1.45 psf
Soft Lofts †	\$975-\$1,525/month	650-1,100 sf	\$1.39-\$1.50 psf
Flats & Duplexes	\$1,250-\$2,650/month	800-1,750 sf	\$1.41-\$1.56 psf
Multi-Family For-Sale—			
Hard Lofts *	\$150,000-\$190,000	700-1,000 sf	\$190-\$214 psf
Soft Lofts †	\$185,000-\$345,000	750-1,450 sf	\$238-\$247 psf
Flats & Duplexes	\$285,000-\$950,000	850-2,750 sf	\$322-\$345 psf
SF Attached For-Sale—			
Townhouses/Flats	\$275,000-\$375,000	900-1,250 sf	\$300-\$306 psf
Townhouses	\$395,000-\$585,000	1,300-2,100 sf	\$279-\$304 psf
Live-Work	\$475,000-\$575,000	1,500-2,000 sf	\$288-\$317 psf

* Unit interiors of “hard lofts” typically have high ceilings and commercial windows and are either minimally finished, limited to architectural elements such as columns and fin walls, or unfinished, with no interior partitions except those for bathrooms.

† Unit interiors of “soft lofts” may or may not have high ceilings and are fully finished, with the interiors partitioned into separate rooms.

SOURCE: Zimmerman/Volk Associates, Inc., 2006.

The above rents and prices are in year 2006 dollars and are exclusive of consumer options and upgrades, or view, floor or location premiums. These values are also within the context of new

development in the Tidewater region. The rents and prices will depend not only on location and adjacencies, but also on the number of new units created in that location; the larger the number of units created, the greater the potential for a wider range of values.

—MARKET CAPTURE—

Based on the optimum market position (which includes unit mix and configurations as well as market-entry rent and price points), the waterfront area of Downtown Portsmouth should be able to support up to 235 units per year—95 rental units in mid- and high-rise buildings; 110 for-sale units in mid- and high-rise buildings; and 30 single-family attached units.

The distribution by rent range of the 95 new rental units that could be absorbed each year over the next five years in mid- and high-rise buildings along the waterfront in Downtown Portsmouth is as follows:

**Loft/Apartment Distribution by Rent Range
Mid- and High-Rise Buildings
DOWNTOWN PORTSMOUTH
*The City of Portsmouth, Virginia***

MONTHLY RENT RANGE	NUMBER OF UNITS	PERCENTAGE
\$750–\$1,000	17	18.0%
\$1,000–\$1,250	24	25.3%
\$1,250–\$1,500	16	16.8%
\$1,500–\$1,750	16	16.8%
\$1,750–\$2,000	16	16.8%
\$2,000 and up	<u>6</u>	<u>6.3%</u>
Total:	95	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2006.

The distribution by price range of the 110 new for-sale units that could be absorbed each year over the next five years in mid- and high-rise buildings along the waterfront in Downtown Portsmouth is as follows:

**Loft/Apartment Distribution by Price Range
Mid- and High-Rise Buildings
DOWNTOWN PORTSMOUTH
*The City of Portsmouth, Virginia***

PRICE RANGE	NUMBER OF UNITS	PERCENTAGE
\$150,000–\$225,000	12	10.9%
\$225,000–\$300,000	14	12.7%
\$300,000–\$375,000	18	16.4%
\$375,000–\$450,000	24	21.8%
\$450,000–\$525,000	24	21.8%
\$525,000 and up	<u>18</u>	<u>16.4%</u>
Total:	110	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2006.

The distribution by price range of the 30 new single-family attached for-sale units that could be absorbed each year along the waterfront in Downtown Portsmouth is as follows:

**Single-Family Attached Distribution by Price Range
DOWNTOWN PORTSMOUTH
*The City of Portsmouth, Virginia***

PRICE RANGE	NUMBER OF UNITS	PERCENTAGE
\$250,000–\$325,000	12	40.0%
\$325,000–\$400,000	6	20.0%
\$400,000–\$475,000	4	13.3%
\$475,000–\$550,000	4	13.3%
\$550,000 and up	<u>4</u>	<u>13.3%</u>
Total:	30	100.0%

SOURCE: Zimmerman/Volk Associates, Inc., 2006.

