

Chapter Six: Economy

The Economic Section of the Comprehensive Plan is taken as an excerpt from the work done by the Robert Charles Lesser & Co. as part of the Corridor Study. Robert Charles Lesser Company was part of the team of the Torti Gallas CHK, Inc that performed the Corridor Study. The Economic Section involved a look at economic trends and employment trends in the City and region and projections for development potentials were made for the next ten years. The complete economic study is contained in the Appendix D, the Charlottesville Corridor Study. The information provided here is general economic information about the City of Charlottesville, which shows trends, and development demands that can be translated into policies for land use and other decisions as the plan goes forward. Reference here to use of this data in "the study" refer to the Corridor Study.

Employment

The Charlottesville region has experienced moderate employment growth over the past 15 years. From 1948 to 1998, the region achieved a relatively healthy 2.5% annual growth rate, with the most recent period (1992 to 1998) enjoying the slightly stronger growth (2.6% annual rate).

Charlottesville has maintained a strong share of regional employment for most of the 1990's. From 1984 to 1998, the City's employment grew 2.3% annually, slightly below the regional pace. The City has tended to react opposite to regional and national trends. Employment in Charlottesville grew at an impressive annual rate from 1988 to 1992 (4.0%), at a time when the rest of the region, and nation, were suffering through a recession. However, as the economy has rebounded across the nation and in the region, the rate of growth declined significantly from 1992 to 1998 within the City (0.9% annually). Furthering this trend, from 1997 to 1999, employment in the City dropped, with a -2.7% growth rate in 1998 and 3.5% estimated growth rate in 1999, for a loss of 1,054 and 1,266 jobs, respectively. During this same period, the suburban counties added 3,368 and 3,240 jobs, with the vast majority of this growth occurring in Albemarle County.

According to employment data from the second quarter of 1999, the second and third largest sectors of employment in the City are retail and services, with 22.0% and 27.3% of total City employment, respectively. These are higher percentages than are found in Albemarle County, and the region as a whole. In contrast, the percentage of City employment in the FIRE (Finance, Insurance and Real Estate) sectors is considerably lower (4.7%) than in Albemarle County (7.4%). The government sector in the City accounts for the highest percentage of employment (28.4%), but still lower than Albemarle County (30.5%). Only 6.3% of City employment is in the manufacturing sector, significantly lower than Albemarle (12.2%) or the region (10.7%).

From 1984 to 1998, state government, and the services and retail trade sectors, drove employment growth in the City. No other sector added more than 21 jobs annually to the City's economy during this period. The manufacturing sector in the City experienced job loss this period, which is not unusual given sharply negative trends in this sector nationwide, although the rate of decline in the City (-2.9%) was in contrast to a stable growth rate in the suburban counties (0.7% annual growth rate). Services, retail trade and the FIRE sectors experienced significantly strong growth rates in the suburban counties, in particular Albemarle County, than in the City from 1984 to 1998.

The 1992 to 1998 period reflects the changing nature of employment growth within the City and the region. While the state government added a large number of jobs in the City from 1988 to 1992, employment in this sector experienced significant decline after 1992. On the other hand, manufacturing experienced stronger growth rates than the previous period, actually adding 140 jobs annually to the City's economy, while suburban counties experienced a sharp decline in manufacturing employment. Annual growth rates in the services and FIRE sectors from 1992 to 1998 were lower than in the previous period, and still lagged the suburban counties. Employment growth in the retail trade sector rebounded from negative growth rates the period before, but also lagged behind the suburban counties.

Regionally, it appears that the services and retail sector, and to a somewhat lesser extent FIRE employment, will be driving the economy heading into the future. The challenge for the City will be to reverse current trends, and capture more of this growth. Government employment has decline over the past decade, although employment in

local government has shown significant growth, primarily because rapidly developing suburban areas are requiring a larger government staff. However, total government employment should stabilize and should not be counted as a source of strong employment growth. Manufacturing growth is expected to be limited in the region, although shifting of jobs within jurisdictions could result in strong growth rates for given jurisdictions in specific time periods. This short-term spike was seen in recent employment data from the City, but should not be seen as a long-term trend towards a rapidly expanding manufacturing sector.

A key battleground in the region will be the high-tech industry. Data on trends in high-tech employment is limited, since the high-tech industry is difficult to fit into one particular employment category. However, anecdotal evidence and an analysis of prominent employers in the region indicate that the high-tech sector is generating significant employment growth in the region. The City has become a destination for a number of smaller, new economy (software and internet) high-tech firms, many of which are seeking proximity to key institutions (UVA, in particular), along with an urban environment with interesting housing and nightlife options. Biotechnology research is also a growing sector, although a number of these firms prefer to locate within suburban research parks.

The future for high-tech growth is somewhat mixed. These businesses are currently experiencing rapid growth, with large revenue potential. The region's relative proximity to the established Northern Virginia technology market makes it a good price alternative location for some firms that also value proximity to a major university. However, the high-tech industry, especially with smaller firms, has proven to be particularly volatile. It is likely that many high-tech firms that currently have ambitious expansion plans, and a large appetite for new office space, will fail or be bought out within the next few years, especially as making a profit becomes a requirement for gaining access to new capital. The biotechnology industry, while also volatile, should be a more stable source of employment growth in the region, primarily due to the strength of UVA.

Overall, while recent negative employment growth rates in the City are a cause for concern, it is certainly not an unusual problem for center cities throughout the nation. Like most center cities, Charlottesville has faced strong competition from suburban locations, which often have a number of competitive advantages a center city does not – large sites with few additional development costs, has only recently begun to suffer from employment loss to growing suburban jurisdictions. Suburban competition is not expected to lessen, as construction of new office space in the suburbs continues at a rapid pace. However, the City does appear capable of reversing recent growth trends. One key component of employment growth, the high-tech sector, generally has younger employees who are interested in working and living in an urban environment. UVA will also be a strong factor in retaining or attracting growth in the biotechnology sector, and the downtown/courthouse area is still the most attractive location for those in the legal and financial sectors.

Retail Sales

Retail sales data is a key indicator of a jurisdiction's economic health. Generally, at a time when most center cities have lost significant retail sales to suburban counts, Charlottesville has also experienced a declining share of retail sales in the region. From 1990 to 1999, the City's share of regional retail sales dipped from 45.3% to 36.8%. However, while retail sales growth rates suffered in the early and mid-1990's from 1996 to 1998 the City enjoyed significant growth in retail sales. Further, the decline in the share of regional retail sales has occurred while the share of regional households has also been declining (and the absolute number of households has actually been declining). In 1999, the City still captured a much greater share of sales than it has households (21.2% of regional households), indicating that the City has maintained its role as a center of commerce for many in the region who live outside of city limits. However, retail sales growth in 1999 was well below the previous three years, indicating that perhaps the retail market will not be able to continue a robust expansion without reversing household growth trends.

The strength of the City's retail base is in apparel stores, restaurants, grocery stores, and home improvement, along with machinery and equipment, a significant percentage of which is business-to-business transactions. Sales in groceries and pharmacies in the City, for example, account for 41.7% of all sales in these stores in the region. Likewise, the City captures 48.9% of sales in apparel stores in the region, and an impressive 56.9% of sales in restaurants. Since the City does not have an impressive share of regional households, much of the retail sales in

these categories captured by the City have originated from outside of the City. For example, approximately 57% of grocery sales in the City come from households who do not reside within the City. Also, approximately 48% of apparel sales and 46% of home improvement sales originate in households from outside the City. Not surprisingly, restaurants also attract a large number of dollars from outside the City (67.7% of total sales).

Grocery and home improvement sales appear to be in the most peril in the future. Grocery sales tend to more closely follow new home construction, which is occurring primarily in the suburbs. Further, suburban locations, including Albemarle County, are not currently capturing all of their household expenditures on grocery. For example, over \$12 million dollars in expenditures in groceries in Albemarle are not spent in Albemarle, a trend that will likely be reversed as more grocery stores are constructed closer to new home communities. Similarly, the home improvement market in the future will likely be captured more by big box stores that prefer to be in suburban locations, both to be near affluent household growth, and due to the availability of large development sites.

The dominance of Barracks Road Shopping Center accounts for the City's strong share of regional apparel sales. Barracks Road is the most prominent retail destination in the region, and while competing retail developments are likely to be developed in suburban locations in the future, this prominence should continue into the future. The City should also continue to achieve an impressive capture of restaurant sales, as the City will remain the center of tourism and nightlife in the region.

Overall, the City of Charlottesville has maintained a strong share of regional retail sales. While most cities around the nation have lost significant sales to suburban counties as the number of households, in particular affluent households, the City has been able to attract suburban households into the City to shop. The key to this success has been Barracks Road Shopping Center, which is the most prominent retail center in the region. Although the Fashion Square Mall undoubtedly meets some of the needs of suburban shoppers, Barracks Road truly serves the function of the area's high-end regional mall. Charlottesville has also been very successful at reasserting its role as a strong destination for entertainment and tourism dollars.

Tourism

The tourism industry is a key component of the regional economy.

The number of visitors to key attractions in the region has been inconsistent throughout the 1990's, and for all the sites, fewer people visited than did so in 1991. Monticello, by the far the region's largest tourist attraction, attracted 531,000 visitors in 1999, almost 7,000 less visitors than in 1991. However, while visitor numbers are at best stabilizing, traveler spending has improved significantly throughout the 1990's. Traveler spending in the region increased 6.4% annually from 1992 to 1998, well above the rate of inflation over this period.

Traveler spending growth rates for the City (4.2%) lagged behind the region from 1992 to 1998. During this time, the City's share of the region's traveler spending declined from 30.4% to 26.8%. Albemarle captured 31.1% of traveler spending in 1998. Despite this trend, the City has achieved stronger increase in lodging sales than the region. From 1992 to 1998, lodging sales in the City increased 8.3% annually, compared with an annual growth rate of 5.5% in the region as a whole. In contrast to traveler spending, the City increased its share of regional lodging sales during this period, from 30.0% to 34.9%.

The City has proven the ability to attract regional visitors to stay within the City, but they are not spending as many additional dollars there. Planned additions to the tourism industry, such as a Lewis and Clark museum or conference center, would greatly increase the City's share of tourism dollars. Further establishing the downtown area as an entertaining and nightlife destination is another key step in increasing the flow of tourism dollars into the City.

The Charlottesville region has 202,691 persons and 78,089 households, 21.2% of which reside in the City of Charlottesville. The region has been growing at a healthy rate, with an estimated 1.9% annual household growth rate from 1990 to 1999. All of this growth is occurring in the suburban counties, while the City has experienced household loss in the past decade. An estimated 81 households per year were lost to the City from 1990 to 1999.

Households in the City of Charlottesville tend to be smaller in size, younger, and less affluent than households in Albemarle County. Approximately 57% of Charlottesville households are under the age of 45, compared to 48% of the households in Albemarle County. Median household income in the City in 1999 was \$35,704, compared to \$54,686 in Albemarle County.

Once again, the loss of households and lower median household income is not unusual for center cities in region's experiencing strong suburban growth. Lack of sites for new housing and the movement of jobs to suburban locations make it very difficult for the center city to compete for new household growth, and existing households often flee to the suburbs in search of higher quality homeownership opportunities. The significantly lower household income in the City relative to the surrounding county can be explained not only by the flight of affluent households from the City, but also by the higher concentration of younger households in the City (especially students).

The City should not expect to complete reverse powerful demographic trends driven by strong consumer preferences. However, successfully revitalizing center cities have been able to successfully recapture demographic niches, such as empty nesters, retirees, and younger professionals, who tend to demand the excitement and opportunities of urban living, and higher density housing with lower maintenance cost.

New Home Construction

For the purposes of this analysis, building permit trends will be used as a proxy for new home construction.

Regionally, the 1990s was an extremely active decade for new home construction, with an annual average of 1,307 housing units added during this period, compared to an average annual rate of 1,110 from 1980 to 1989. The vast majority (79%) of these permits authorized in the region were for single-family detached homes. Increased activity coincided with significant increases in average value for new single-family homes. From 1990 to 1999, the average value of single-family homes in the region increased from \$84,800 to \$153,300 with the largest increase occurring from 1998 (\$129,800) to 1999. This is an average annual increase of 6.1%.

As expected, the number of building permits authorized in the City of Charlottesville has lagged far behind the suburban counties. From 1998 to 1999, the City's share of new home permits in the region has ranged from 2% to 5%. The average value of single-family homes in the City has increased over the past decade, from \$50,457 in 1990 to \$85,941 in 1999, an average annual increase of 5.5%. Yet, average value still lags significantly behind surrounding Albemarle County. New single-family homes in Albemarle in 1998 were valued 100% higher than new single-family homes in the City.

The product distribution of new home construction in the City also differs sharply from that of Albemarle County and the region. The City has produced a more varied housing landscape, with only 52% of authorized new homes from 1990 to 1999 being single-family detached, compared to 68% in Albemarle County and 79% in the region as a whole. Approximately 35% of residential units authorized in the City in this period were in buildings with five or more units, compared to 21% for Albemarle County.

The relative lack of new home construction in the City is due, in part, to the relative lack of development sites, compared to suburban locations. "Greenfield" sites are less expensive to assemble, purchase and build upon than are infill sites, which is a critical factor in a relatively affordable housing market, which the Charlottesville region still is despite recent price increases. The significantly lower value of homes that are built in the City also reflects the lack of a market for more expensive homes, at least for single-family detached homes, within the City, which further discourages infill development. Higher density housing can often serve the dual purposes of making smaller sites economically feasible for residential development, while also targeting consumers who desire to live in an urban environment, and will pay a price premium to do so.

Regional Trends Summary

The City continues to maintain healthy share of the region's quality office space, and has shown some ability to attract and retain employment in key sectors, such as business service, finance, insurance and real estate and high-tech, although suburban areas are currently more successful at attracting these types of users. Office rents

tend to be lower in the City than in the suburbs in absolute terms; however, lower rental rates in the City often account for greater cost of parking, and the effective cost of office space is similar in the City and the suburbs. However, notwithstanding some of these positive trends, the City has experienced declining employment growth rates throughout the 1990's, and has actually experienced employment loss in recent years.

The City's share of retail sales is still impressive, especially given the fact that the City has been losing households for most of this past decade. Barracks Road, the region's premier retail destination, is located within city limits, and is the primary reason why the City's retail market has maintained its health. Threats to the City's retail market should continue to mount, however, over the next ten years, as new retail development continues to follow household growth out to the suburbs.

The tourism industry remains strong in the City, although the strength of the regional tourism industry is somewhat in question. Although the primary tourist attraction – Monticello – is located outside of the City, Charlottesville has been able to draw many visitors into the City's hotels, and retail and entertainment centers. Improving the quality of the visit, however, should be a key concern, if the tourism industry in the City is expected to grow.

All of the regional household growth is occurring outside of the City. The City has actually experienced negative household growth in the past decades, especially with regards to affluent households. The new home market is focused almost wholly in the suburbs.

Over the past few years, the City of Charlottesville has obviously begun to face significant challenges – employment loss, declining share of regional retail sales, and flight of affluent households to high-growth suburban locations. As stressed above, these challenges are not unusual for center cities around the nation. In fact, Charlottesville appears to be in a much stronger position than many center cities of its size. The trend towards less relevant center cities is not an inevitable one, although its causes are rooted in real competitive differences between a center city and its suburbs. In order to evaluate the potential for reversing the economic decline of the City, it is critical to understand the competitive advantages and disadvantages of the City relative to the suburban areas.

The following have been identified as competitive advantages, or strengths, of the City of Charlottesville:

- Proximity to key institutions, in particular the University of Virginia, government institutions, and regional hospitals.
- Variety of commercial space, with regards to the type of space, and the cost of that space.
- Pedestrian friendly, urban environment.
- A Charlottesville address, which is important to many businesses serving a regional or national market.
- An active local government.
- Growth restriction policies in suburban jurisdictions.

The following have been identified as the competitive disadvantages of the City:

- Lack of affordable, appropriately-sized development sites.
- Lack of parking.
- Lack of large supply of high-quality housing.
- Traffic congestion.
- Perception of higher crime.
- Higher tax burden.

Not all of these competitive advantages and disadvantages have equal impact on regional development trends. The most powerful factor tends to be the lack of developable land in the City versus the suburban jurisdictions. Greenfield sites in general, are considerably less expensive to assemble, purchase and develop than are infill sites. Center cities, like the City of Charlottesville, are typically near build-out, with few large sites to offer prospective developers. Therefore, several types of uses, such as single-family detached homes, big box and strip center retail,

and campus-style office parks are very difficult to place in center cities. Unfortunately for most cities, annexation of new land is not possible, and this strong competitive disadvantage is a reality that must be accepted.

Single-Family Homes

Clearly, the vast majority of new, single-family home construction in the past decade has occurred in the suburban counties. Regionally, the housing market is very strong, and 1999 was one of the most active years in recent decades, especially for single-family home permits. The focus of growth in the region is Albemarle County, both with regards to quantity of new housing construction, and the price positioning of this housing.

There have been few new, single-family home developments within the City of Charlottesville. From 1990 to 1999, only 461 permits were authorized for single-family homes (both detached and attached) in the City; in 1999 alone, 696 permits for single-family homes were authorized in Albemarle County. New home developments in the City tend to be smaller, infill sites, generally with a less than twenty total units. Given their size, they are not able to compete with the larger planned communities and subdivisions with regards to amenities, builder programs and marketing.

In general, however, communities that have been developed have been successful. While generally priced below, and typically not able to achieve the place of absorption of the higher-end suburban communities, these infill sites still have been able to attract a niche market. Anecdotally, there appears to be strong pent-up demand for high quality, new homes within the City. The attached product, in particular, has been able to attract a varied market, including young professional seeking proximity to an urban environment, younger families, seeking a starter home, more mature families looking to relocate closer to employment, and move-down buyers, whether they be empty-nesters or retirees. The challenge is finding large enough sites in neighborhoods that are currently attractive to single-family homebuyers.

Multifamily Homes

In general, multifamily housing units make up a small percentage of total housing units developed throughout the region. In contrast, multifamily units make up a much larger percentage of total units authorized within the City of Charlottesville, although the total construction activity is dramatically less than in the suburban counties.

The experience of condominium projects in the City has been mixed. Anecdotally, local residents have indicated that strong pent-up demand exists for condo units in the downtown area. The quantity of resale's has not been overly significant, although this could likely be due to lack of available supply. However, sales prices have consistently been below asking prices, an indication that pent-up demand is not as strong as some residents have suggested. Further, many of the higher-quality condominium buildings, while considered successful now, were not able to achieve strong sales pace during their initial sales period. The affordable (under \$100,000) condominium market appears to be much more active.

The rental multifamily market is very tight in the City, with very little vacancy, especially in the higher quality developments. Although the market apparently is demanding new units, relatively little construction activity has occurred in the market since 1995. Twenty units were developed in York Place on the downtown mall, and approximately 54 units have been constructed near UVA in the past four years, of which 32 are larger units (four and five bedrooms) geared towards roommates. Due to the lack of supply in the market, rents have apparently been experiencing significant appreciation (approximately 5% in the last year).

Demand for multi-family units should remain strong in the City over the next ten years. Generally, the urban, pedestrian-oriented environment in many of the City's more desirable neighborhoods is very attractive to multifamily households. For-sale multi-family housing appeals to younger professional and empty-nesters/retiree buyers, both of whom are attracted to the maintenance-free lifestyles of the condominium product.

Office and High-Tech Space

High-tech space is defined as office space that is less built-out than Class A or Class B space. This type of space is increasingly more being occupied by smaller high tech firms that require cheap space, and also desire "funky"

(slang term) space, with open floor plans and an industrial feel. While the outward appearance of tech space may not compare aesthetically to Class A or B space, the internal systems, especially the wiring, must be of the highest quality, in order to meet the demand of the high-tech tenants.

The office market within the City of Charlottesville is currently very tight, with an estimated citywide vacancy rate of under 2%. For the past four to five years, the City's vacancy rate had remained consistently at between 6% and 7%. In the past year, a record level of space has been absorbed in the City (58,677 square feet), which accounts for roughly 36% of the region's absorption. With limited available space and strong demand, rents for office space have been climbing, prompting significant interest in new office construction throughout the City. The demand for lower cost, flexible space has also increased dramatically, with smaller high-tech firms making up the majority of this demand. Pent-up demand from high-tech users has pushed rents for flex/tech space up approximately 50%.

While recent trends in the office market are very positive signs for the City of Charlottesville, suburban competition will continue to be strong into the future. The City is very desirable to many different types of office users, including those who want to be located near government institutions or the University of Virginia, or those firms that see the urban environment as a strong amenity. The Charlottesville address is also critical to many firms, especially those that compete nationally. However, the lack of parking near the existing office concentrations raises the effective costs of leasing space in the City. Once these parking costs are factored in, tenants will often pay similar lease rates for older space as they would in new suburban space with surface parking. The suburban research parks will strongly compete for the larger, more established high-tech companies in the region.

Given the current lack of available space, and the rising rents that are resulting from pent-up demand, there is a strong opportunity to develop additional office and tech space within the City of Charlottesville. The growing demand from high-tech users will drive most of this demand for new space, although firms in the financial and legal professions should continue to demand space downtown, and the demand for medical office space should be strong around the two hospitals. There are few pure, Class A office users in the Charlottesville region, and a significant number of these users will choose to locate within suburban research parks. However, the downtown area, given its proximity to the regional courts, and its overall prestige, should be able to compete strongly for some Class A office users.

Rents for tech space will range from between \$10 to \$12 per square foot, plus utilities (2000 dollars). Given this lease rate, new construction in many locations will not be justified. However, high-tech space is often preferred if located within an older and interesting rehabilitated building. Strong demand for tech space should increase the market pressure for the rehabilitation of large amounts of dilapidated and obsolete space in otherwise attractive office locations. The one caveat is the particularly volatile nature of the high-tech industry. As high-tech firms are very susceptible to failure, short-term spikes in demand are often not sustainable over the long term.

R&D and Lab Space

R&D and lab is defined as space that has been built out to cater specifically to research firms specifically biomedical and pharmaceutical research.

The biomedical research industry is a strong growth sector in the Charlottesville region, primarily because of the University of Virginia, and the role of Charlottesville as the center for healthcare in the region. Further, anecdotal evidence suggests that great potential exists for further growth, through federal grant, if space was available to house the research activities. Even without an influx of new dollars, there appears to be significant pent-up demand for this space, especially for speculative space.

The strongest competition for this type of development will come from the suburban research parks, in particular the UVA parks. However several sites along the West Main Street corridor would be able to strongly compete with these research parks, given the close proximity to the University and its hospital. Generally, it is very risky to build lab space speculatively, as the space can be very expensive to construct. However, significant pent-up demand would allow for significant pre-leasing, thus making speculative construction more likely. Projected rents for R&D and lab space vary considerably, given the wide variety in the extent to which the space is built out.

Industrial, Flex & Warehouse Space

In general, industrial and warehouse space is less in demand, as the economy continues to move away from hard manufacturing and distribution, and more towards "new economy" sectors. However, as the new economy sectors continue to demand space in a market with limited space availability, many of the high-tech firms have begun to move into light industrial and warehouse space. Smaller industrial buildings are being used increasingly more as flex space, with businesses using the space for a mixture of office, light assembly, warehouse and retail.

Strong demand will exist for the development of new industrial/flex/warehouse space, primarily because of the increased demand from smaller users seeking flex space for light industrial/warehouse, office and retail use. Some high-tech companies will also continue to seek flex space, especially those firms that require storage/distribution space adjacent to office space.

Retail Space

In 1999, 37% of retail sales occurred within the City. The City is particularly strong in grocery/pharmacy, apparel, bookstores, home improvement and furniture, and restaurants.

Barracks Road Shopping Center, located within the City, is currently the preferred retail center in the region. Currently, the center has no vacancy, and is achieving the strongest rental rates in the region (\$18 to \$20 per square foot, NNN). However, surrounding retail centers along Route 29 within city limits, such as Seminole Square, Charlottesville Kmart Center and Meadowbrook Center, are under-performing. Neighborhood retail centers in the City generally contain lower-end or specialty stores, and have not been able to attract national tenants or achieve strong rental rates.

The downtown mall, while having maintained a significant role as a center for office uses in the region, has not established itself as a regional retail center. Very few national retailers are located within the downtown mall, and the majority of stores serve just the local market, or specialty needs. Issues of parking and access inhibit the ability of the mall to attract shoppers from outside of the immediate neighborhood. The downtown mall has been able to establish itself, to a certain degree, as a restaurant and nightlife destination in the region. The West Main Street corridor contains a relatively healthy retail concentration that primarily serves the local student population.

The retail market in the City is facing a strong threat from suburban retail development. Since almost all of the new home growth has occurred in the suburbs, retail growth has also concentrated in these locations. At the same time, negative household growth has weakened existing retail concentrations within the City. The greatest threats are apparently ahead, as several large sites in Albemarle County just outside of the city limits are planning significant retail developments. The City has no sites that can attract similar developments.

Although growing suburban locations will undoubtedly attract the majority of new retail growth in the region, there does remain significant opportunity to strengthen the retail market inside the City. The greatest opportunity is an expansion of Barracks Road Shopping Center. Barracks Road Shopping Center is an established retail destination; and expansion of the retail option within the center would be able to attract a larger share of the region's share. RCLCo estimates that an expansion of retail would be in Class A space, with national or higher-end local stores, which would command rental rates similar to the current rents at Barracks Road Shopping Center.

There is also an opportunity to strengthen the downtown mall and West Main Street as a destination for restaurants, entertainment, and nightlife. Once again, these areas are already established as a destination for these types of sales. Expansion of opportunities should draw in more residents, and tourists, from the regional market.

The final opportunity is to improve and slightly expand retail opportunities in existing neighborhood retail centers. Many of these centers are currently older, and filled with lower quality retail opportunities. There is strong opportunity to improve the level of retail services in these neighborhoods, and retain sales that are currently being spent in higher quality retail centers in the City and suburbs.

The previous section summarized the key market findings for a variety of land uses. This section will begin to look forward, and project the citywide development opportunity for each of these land uses over the next ten years. The

first part of the discussion introduces employment projections, which will drive much of the demand for commercial space.

Employment Projections

The shift-share methodology was employed in order to project employment over this period. The shift-share methodology projects employment by sector for a given local area by applying growth rates of larger, reference region (in this case, the state of Virginia). However, these growth rates are also adjusted, or shifted, based upon the extent to which the local area has varied from the reference region in the past with regards to particular employment sectors. The strength of the shift-share approach is that it reflects the dominant trends of a local area, while also applying the general growth trends in the larger reference region.

This discussion uses three different employment growth scenarios. These scenarios are:

- **Conservative Scenario.** This scenario, utilizing the shift-share methodology, assumes that the trends observed from 1992 to 1998 will continue over the next ten years. Under this scenario, employment in the City of Charlottesville will grow very slowly (0.2% annual growth rate, or 87 new jobs each year) over the next ten years. The only growth sector under this scenario is the manufacturing sector, {what type of manufacturing?} although the extent of this growth is most probably exaggerated by the methodology?
- **Moderate Scenario.** This scenario assumes that the City's share of regional employment will stabilize, and that growth will be in line with regional growth trends. Under this scenario, employment in the City of Charlottesville at a relatively healthy pace (1.5% annual growth rate, or 604 new jobs each year) over the next ten years. Retail trade (105 jobs), health services (66 jobs) and business services (46 jobs), along with government are the primary drivers of the economy.
- **Aggressive Scenario.** This scenario assumes that the City's share of regional employment will return to its 1997 form. Under this scenario, employment in the City of Charlottesville will grow at a healthy pace (2.5% annual growth rate, or 1,205 new jobs each year) over the next ten years. Retail trade (141 jobs), health services (132 jobs) and business services (93 jobs), along with government are the primary drivers of the economy.

The conservative scenario represents the status quo. The aggressive scenario, on the other hand, represents the expected employment growth if a comprehensive and action-oriented redevelopment plan is implemented by the City.

Commercial Demand

The study used the results of the three employment growth scenarios discussed above to determine the demand potential for office, tech, R&D and industrial space in the City of Charlottesville over the next three years.

To translate employment growth into demand for particular types of commercial space, first employment growth was distributed by sector by the propensity to occupy certain types of space. These distributions are based upon experience with employment growth trends, and how they translate into commercial demand. In order to determine the total space demanded by product type, employment growth attributed to that type of use is factored by industry-accepted assumptions about the amount of square foot required for each employee.

The results of this analysis are as follows:

- **Conservative Scenario.** Under this scenario, a total of 88,649 additional square feet of commercial space will be in demand each year in the City of Charlottesville. Specifically 10,907 square feet of office space, 9,847 square feet of tech space, 43,330 square feet of lab/R&D space, and 24,564 square feet of industrial/warehouse space will be demanded each year.
- **Moderate Scenario.** Under this scenario, a total of 77,922 additional square feet of commercial space will be in demand each year in the City of Charlottesville. Specifically, 24,780 square feet of office space, 15,760

square feet of tech space, 21,792 square feet of lab/R&D space, and 15,591 square feet of industrial/warehouse space will be demanded each year.

- **Aggressive Scenario.** Under this scenario, a total of 157,527 additional square feet of commercial space will be in demand each year in the City of Charlottesville. Specifically 53,092 square feet of office space, 32,030 square feet of tech space, 40,353 square feet of lab/R&D space, and 32,052 square feet of industrial/warehouse space will be demanded each year.

For the purposes of determining development potential under a redevelopment strategy, the study will use the aggressive projections. This scenario represents the maximum potential of the City of Charlottesville, if a comprehensive and action-oriented strategy is implemented. Under this scenario, ten-year projections are as follows:

- Office, 530,000 square feet
- Tech, 320,000 square feet
- Lab/R&D, 400,000 square feet
- Industrial, 240,000 square feet

The office, tech and lab/R&D projections assume that all of the citywide demand will be distributed in at least one of the corridors. The industrial projections assume that 75% of citywide demand will be distributed among the corridors in this study. This is because, unlike the office, tech and R&D markets, there are some significant concentrations of industrial space outside of the corridors.

Retail Demand

Retail demand is based upon household growth projections for the Charlottesville region, and expenditure data for those households by retail category. Once total new retail expenditures for the region was calculated, RCLCo applied a capture rate for the City of Charlottesville. Finally, RCLCo applied a range of price per square foot thresholds for each retail category, based upon RCLCo's with required sales thresholds for retail stores of each type.

Under a conservative scenario, projections between 5,605 and 10,346 square feet of retail space will be demanded annually in the City. Under the aggressive scenario, projected annual demand ranges from 13,326 to 20,729 square feet. It is assumed that the most aggressive scenario is the most appropriate, given the expected impact that a redevelopment plan will have on demand. Thus, approximately 200,000 square feet of new retail space will be demanded in the City of Charlottesville over the next ten years.

New Home Demand

Potential new home demand is based upon regional permitting trends. Specifically, the number of new permits generated regionally, from 2000 to 2010, was calculated using household projection estimates. A capture rate for the City of Charlottesville was then applied to this regional projection.

Both the conservative and aggressive scenarios assume that the City's share of the regional new home market will increase significantly over the next ten years. In the past five years, the City's share of the regional new home market has been between 2% and 5%. After a citywide demand was determined, the percentage of that demand that would be captured by the corridors in this study was applied.

Under an aggressive scenario, the study projects that 1,055 new homes will be demanded within the corridors over the next ten years. Based upon knowledge of the local housing market, this demand was distributed among the various project types: single-family detached (70 homes), single-family attached (360 homes), and multi-family units (625 units). This analysis does not include demand for affordable housing (330 projected demand), or multifamily housing targeting students (500 projected demand), as demand for these types of housing is considered outside of traditional, market-based demand.

Conclusion

It is obvious from reviewing the economic data for Charlottesville and the surrounding region that the economy is strong and varied. However, it should be noted that there is a fragile nature to the Charlottesville economy as noted in the preceding pages. The City share of the retail sector is declining as growth expands in Albemarle County. While there is a strong market for housing, the lack of land in the City restricts the ability to meet that demand. All of this points out that the City must carefully manage its economic assets and never take its current good condition for granted.