

CITY OF CHARLOTTESVILLE OFFICE AND RETAIL MARKET STUDY

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Prepared for:

THE CITY OF CHARLOTTESVILLE, VIRGINIA

OFFICE OF ECONOMIC DEVELOPMENT

CHARLOTTESVILLE ECONOMIC DEVELOPMENT AUTHORITY

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I. INTRODUCTION

HR&A Advisors was retained by the City of Charlottesville's Office of Economic Development ("OED") and the Charlottesville Economic Development Authority ("CEDA") to conduct a market study of office and retail space in the city, intended to serve as a source of foundational data and information to guide future actions. As the OED and CEDA consider new programs, initiatives, and policies to grow the tax base of the City and promote private investment, understanding historic trends, current conditions, and projected future conditions of each of these markets will be critical in implementing initiatives most appropriate and best suited to leverage Charlottesville's strengths while addressing its challenges. While some high-level market data is occasionally published on the Charlottesville office and retail markets, it is not geared to the specific interests of the City and is not available on a regular basis.

This report situates Charlottesville-specific analysis within a regional context to provide key information that will inform strategies for the City's economic development by:

- Assessing general economic conditions of Charlottesville and the surrounding region;
- Evaluating the position of the city's office and retail markets;
- Analyzing demand and growth of office and retail sectors to identify space needs in coming years; and
- Synthesizing this analysis into a thorough identification of strengths, weaknesses, opportunities, and threats (SWOT analysis) intended.

Through close collaboration with City leadership, the OED and Charlottesville Economic Development Authority will use this report to evaluate and begin shaping potential initiatives to enhance Charlottesville's economic positioning and competitiveness.

II. EXECUTIVE SUMMARY

GENERAL CONDITIONS SUMMARY

The Charlottesville region is growing, and the city is positioned to capture this growth. Despite being relatively land constrained, the population of Charlottesville is growing and is projected to account for almost a quarter of regional growth over the next five years. As of 2017, the population of Charlottesville was 48,000, an 8% increase since 2010, and the city is projected to grow to more than 51,000 residents by 2022. Accommodating growth will require emphasis on infill development and strategic increases in density, enabling supply to match growing demand.

The city is strengthening its role as a regional hub of employment. Since 2008, total employment in Charlottesville has increased almost 25%, from 39,900 to 49,500 jobs. Employment within the city is growing at a faster rate than the region and is projected to continue growing at a more rapid pace. There is a particularly strong interest from employers to locate in and around Downtown, which follows national trends of employers increasingly favoring walkable, mixed-used, urban centers with access to amenities for employees.

The education and healthcare industries, centered on employment at The University of Virginia, are the largest industries in Charlottesville and will continue to drive employment growth in coming years. However, other notable sectors such as computer systems design and management consulting services are also growing. Current employment in education and hospitals totals 14,800 jobs and is projected to grow 21%, to 18,000 jobs, through 2027. These industries are an important economic strength for the city, as university-related jobs are often stable and well-paid. Outside of education and healthcare, growth in high-income industries such as computer systems design, professional organizations, and management consulting services, which will together add 660 jobs in Charlottesville by 2027, are likely to drive demand for new Class A office space.

OFFICE MARKET SUMMARY

Job growth in recent years has translated to increased office absorption and created a space-constrained market. Current vacancy in the Charlottesville office market is 1.7%, well below a standard rate of 5-10% typically seen in office markets and indicative of strong demand for space. Despite low vacancy, tightening of the office market has not yet translated to increases in rents, which currently average \$18 per square foot and have not seen substantial growth since prior to the Great Recession. Rents for top-of-market Class A space are approximately \$25-30 per square foot.

The Charlottesville office market is maturing and diversifying space offerings. Charlottesville's office stock is made up largely of mid-quality Class B space located in relatively small buildings. As demand for space has grown in recent years and no new office space has been built, the market has become space constrained. However, there is 500,000 square feet of new Class A space planned to be built and delivered by 2020. New development, which is larger in scale and of an institutional grade not typical in Charlottesville, represents a shift in the office market as it grows larger and matures.

New planned development may create an oversupply of office space in the near-term, but continued employment growth provides strong demand-potential for the medium- and long-term. With a flurry of new office development planned to be built in a relatively short time, Charlottesville will quickly shift from being a space constrained market to a market with elevated vacancy of almost 11%. However, the elevated vacancy will be short lived as space is steadily absorbed over the following years through employment growth.

There is opportunity to strengthen and grow the office market in Charlottesville by leveraging the entrepreneurial start-up culture that can be fostered through a nationally renowned research institution. While Charlottesville's entrepreneurial ecosystem is growing, there remains potential to better leverage the role of the University of Virginia as a top research institution. Although smaller than many of its peer university-anchored cities, Charlottesville lags in common measures of innovation and entrepreneurship such as utility patents, grants, and venture capital investment.

RETAIL MARKET SUMMARY

Charlottesville's retail market is healthy and provides a mix of offerings across nodes. There is more than three million square feet of retail space in Charlottesville, which makes up 30% of total retail space in the region. While new retail growth in Albemarle County, which holds the largest amount of retail space in the region, is primarily concentrated in suburban-style big-box development, retail growth in the city is more focused on mixed-use infill

development with ground floor retail or redevelopment of existing parcels. Retail vacancy in Charlottesville is currently a low 3%, which is particularly impressive given increasing retail vacancy across the country in the face of competition from e-commerce. Average rent for retail space is approximately \$18 per square foot, though rents in prime locations can push \$25-30 per square foot or higher.

The development of new large format shopping centers just outside of Charlottesville in recent years has impacted retail sales in the city and increased regional retail competition. The development of 5th Street Station and The Shops At Stonefield shopping centers, both of which are located just outside of the city, added almost 800,000 square feet of retail space to the region, about 26% of the total existing retail space in the city. Total retail sales in the city of Charlottesville declined 3.5% in 2017 following the openings of these centers, the first decline since 2010. As shoppers are presented with additional options to meet their retail needs, existing nodes must evaluate their position in the market and how best to compete.

Retail nodes in Charlottesville are generally well-positioned to respond to the growth of e-commerce, but must continue to adapt to an evolving retail market in coming years. Projected growth in online retail through 2022 will result in a loss of \$73.8 million in retail sales in Charlottesville, about 8% of total sales, that would otherwise occur in brick and mortar storefronts. Some of this impact will be buffered by continued resident, worker, and visitor growth and the retail demand they generate. Retail nodes in Charlottesville such as Downtown, Barrack's Road, and the Corner that serve as destinations, offer an experience, and provide unique goods or services that cannot be replicated online are well positioned to respond to the growth of e-commerce. However, aging suburban-style retail that offers products that are indistinguishable from online offerings must adapt and reposition themselves to remain viable. Despite a retail market evolving towards online sales, brick and mortar retail will continue to play an important role, not only by serving walk-in customers, but also providing a location for fulfillment of online purchases as well as visibility and reinforcement of a company's brand.

SWOT ANALYSIS SUMMARY

Strengths

- Commercial core of the region
- Home of Virginia's flagship university, an economic anchor and major research institution
- Continued job growth and growing demand for office space, particularly Downtown
- Defined retail nodes with individual character that serve different retail needs
- Core group of public, private, and non-profit sector leadership focused on city and regional economic development

Weaknesses

- Limited land, particularly greenfield space, to accommodate new growth and development
- Lack of diversity in size and quality of office space
- Challenges supporting the full lifecycle of company growth from start-up to large-scale enterprise
- Unclear regulatory and approval process for new development

Opportunities

- Increasing demand for urban and walkable living, working, and shopping creates opportunity for Charlottesville as the regional core
- Skilled students, faculty, and staff at University of Virginia to support Charlottesville's labor pool
- Strengthened relationship between University and City to foster innovation, entrepreneurship, and business growth
- Repositioning of retail to meet modern needs
- Alignment of economic development initiatives with other City goals

Threats

- Resistance to new development in strategic locations
- Potential over-development of office space in the near-term
- Increasing development costs and constrained rents make new development more challenging
- Continued growth of e-commerce
- New retail development outside of the city

III. GENERAL CONDITIONS

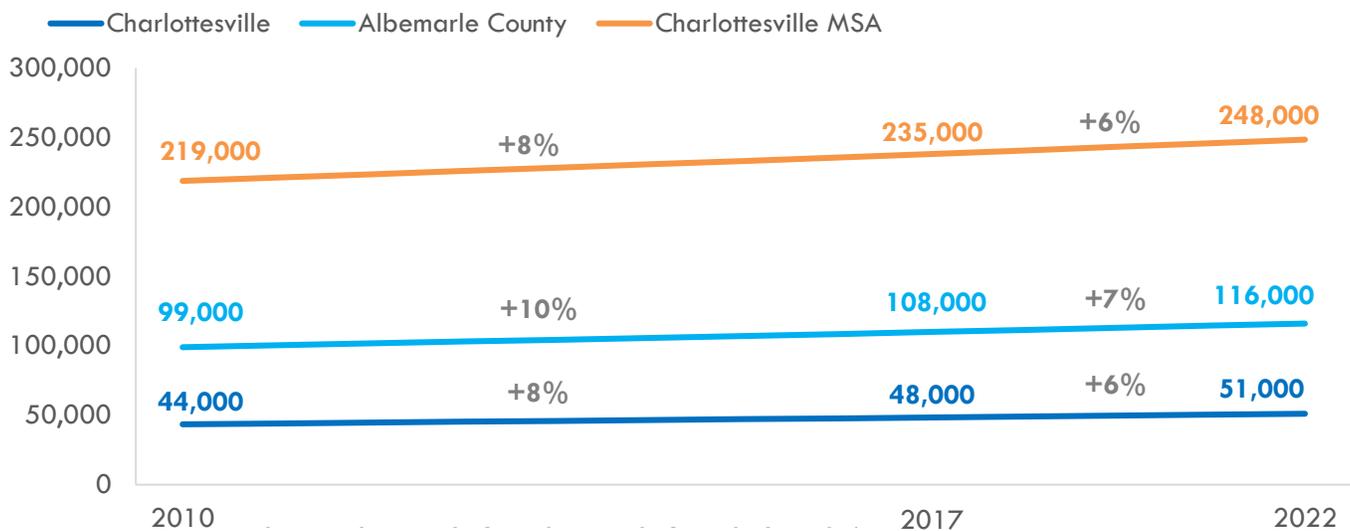
Charlottesville is a growing, educated, regional employment hub. Charlottesville’s sustained growth, concentration of highly educated individuals, high rate of job growth compared to the region, and low unemployment rate position the city positively into the future as a location of sustained opportunity for economic development. The presence of a top public research institution and strong concentration of education and healthcare provide an anchor of stable and well-paid jobs that will continue to grow as new development takes place. However, as Charlottesville looks to capture this growth, the City must position itself to leverage these assets and address challenges, some of which, such as transportation or housing affordability, may extend beyond the office and retail market.

DEMOGRAPHICS AND EMPLOYMENT

Despite being relatively land constrained, Charlottesville is a growing city and growth is projected to continue at a similar rate in coming years. As of 2017, the population of Charlottesville was 48,000¹, a growth of 8% since 2010. During that time, the population of the city grew slower than Albemarle County and at the same rate of the surrounding region, as shown below in Figure 1. By 2022, the city is expected to reach a population of 51,000 residents, a 17% increase from 2010. The city’s population represents one-fifth of the region’s population, and based on near-term growth trends, will maintain a similar share in coming years.

Planning for growth requires an emphasis on infill development and strategic increases in density. As a relatively land-constrained city, there is little greenfield land available for new development in Charlottesville. As a result, population growth in recent years has occurred primarily through infill development and increased density of new construction. As the city continues to grow, increasing the supply of housing through new infill development housing production will be critical in mitigating increases in housing costs.

Figure 1 | Population and Projected Growth, 2010-2022

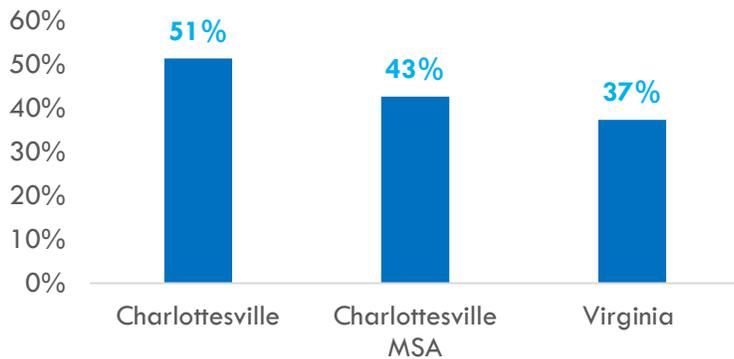


Source: U.S. Census, ESRI, HR&A Advisors

Proximity to a top public university provides Charlottesville with a strong concentration of highly educated residents. Over half of the Charlottesville’s residents hold a bachelor’s degree or higher, a higher share than both the region and the state of Virginia, as seen below in Figure 2. The University of Virginia serves as a draw to the region and provides as a strong talent pool from which employers in Charlottesville can attract and leverage skilled graduates, faculty, and staff.

¹ Population data comes from U.S. Census and ESRI, the latter of which is used for current population estimates and projections of future population growth. This information may differ from population information provided by the Weldon Cooper Center for Public Service or other sources.

Figure 2 | Percent of Population with a Bachelor's Degree or Higher, 2017

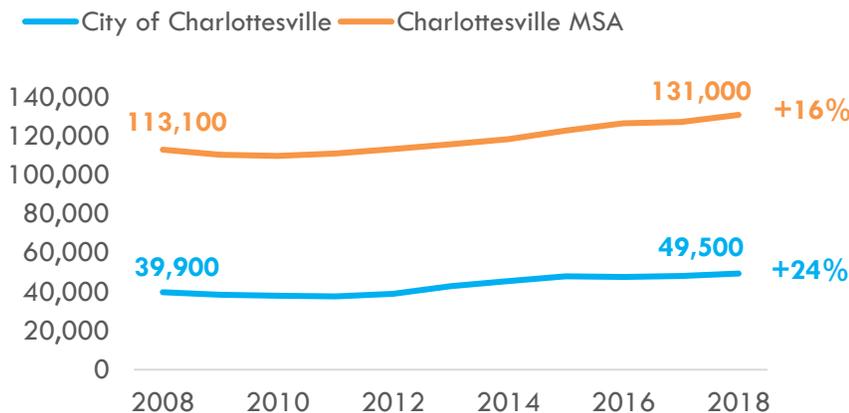


Source: ESRI, HR&A Advisors

Charlottesville employment is growing, as is the city's role as a regional hub of employment. Since 2008, total employment in Charlottesville has increased almost 25%, from 39,900 to 49,500 jobs, as shown in Figure 3.² Although the city saw a slight decline in total employment in the wake of the Great Recession, the number of jobs has increased steadily since 2011. The city's rate of job growth during this time is indicative of healthy economic conditions and growth in key industries of the city, the latter of which is detailed further in the Industry Cluster Analysis section of this report.

Employment in the city has increased at a faster rate than employment in the region, strengthening the city's role as the primary economic driver of the region. While the Charlottesville holds 20% of the region's total population, it holds 38% of the region's jobs.

Figure 3 | Total Jobs, 2008-2018



Source: EMSI, HR&A Advisors

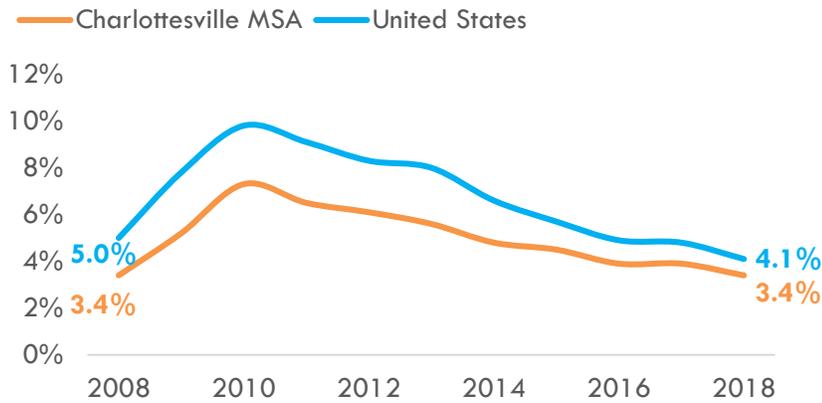
Job growth in recent years has led to the lowest unemployment rate in the Charlottesville region since the Great Recession. While unemployment in the Charlottesville region spiked following the recession, reaching as high as 7.3% in 2010, rates have fallen steadily since, as shown in Figure 4. As of 2018, the unemployment rate of 3.4% matches the 10-year low previously reached in 2008 just prior to the recession. The region's low unemployment rate indicates

² Employment data is from the Bureau of Labor Statistics, which may differ from the Virginia Employment Commission or other data sources on employment. The Virginia Employment Commission includes employment information for workers covered by State unemployment insurance (UI) laws and Federal workers covered by the Unemployment Compensation for Federal Employees (UCFE) program.

that it is essentially at full employment and the hiring market is tight, which may pose challenges to companies seeking to hire new staff in the near-term.

Unemployment in the Charlottesville region is consistently lower than that of the nation. Like many other cities with strong university anchors, unemployment in Charlottesville is lower than the national average because it is buffered by the large and stable employment base of the University of Virginia.

Figure 4 | Unemployment Rate, 2008-2018



Source: U.S. Bureau of Labor Statistics, HR&A Advisors

INDUSTRY CLUSTER ANALYSIS

The University of Virginia is the largest employer in Charlottesville, but Charlottesville’s job market is diverse and growing. Education and hospital positions, comprised largely by employment on the grounds of University of Virginia and the UVA Health System, account for the largest number of jobs in Charlottesville and will also drive job growth into the next decade, as shown in Figure 5. Current city employment in education and hospitals is 14,800 jobs and is projected to grow 21%, to 18,000 jobs, over the next decade. This is an important economic strength for the city, as university jobs are often stable and well-paid, and can generate demand for ancillary services that create additional private sector jobs. However, some smaller companies in the city have noted that the large presence of the University and its draw as an employer can pose challenges to recruiting top talent in the region to their companies. This said, there are other drivers of employment growth outside of positions associated with the University, such as offices of physicians, which is projected to grow by 40% over the next decade, and employment services, expected to grow by 37% over the next decade.

Figure 5 | Top Employment in Charlottesville by Industry

INDUSTRY	2018 EMPLOYMENT	PROJECTED 2028 EMPLOYMENT	PROJECTED CHANGE	AVERAGE EARNINGS
Education and Hospitals (Government)	14,800	18,000	+21%	\$63,600
Restaurants	4,390	4,800	+10%	\$21,230
Local Government	2,160	2,380	+10%	\$60,530
Offices of Physicians	1,520	2,130	+40%	\$180,590
Employment Services	960	1,310	+37%	\$28,470
Grocery Stores	940	960	+2%	\$28,990
Publishing	840	700	-17%	\$113,560
Traveler Accommodation	790	900	+15%	\$27,680
Individual and Family Services	780	980	+25%	\$27,710
Building Services	760	1,300	+36%	\$33,890

Note: Average earnings shown are for 2018

Source: EMSI, HR&A Advisors

Growth in office-occupying industries such as computer systems, professional organizations, and management consulting will generate demand for new office space. Jobs in top office-occupying industries will increase by 23% over the next decade, as shown in Figure 6. Notable growth in high-income industries such as computer systems design, professional organizations, and management consulting services are likely to drive demand for new Class A office space. Together these industries are projected to grow by 660 jobs. Offices of physicians, which are made up of non-UVA employment, are projected to grow by 40% to more than 2,130 jobs. This employment growth will drive the development of new medical office space. The only office-occupying industry that is expected to decline in employment is the publishing industry, made up of mostly periodical and book publishing positions and includes such companies as Silverchair Information Systems and Charlottesville’s office of NexisLexis. This projected decline is reflective of national trends in publishing and the shift toward digital publishing. Through 2028, Charlottesville is projected to lose approximately 17% of its publishing jobs.

While education and hospital employment comprise the highest number of Charlottesville employees and future growth, this employment is unlikely to have a large impact on Charlottesville’s tracked office market since most of these employees work on grounds at the University of Virginia. Because the University’s space is owner occupied, it is not tracked through office market data. However, growth of more than 3,000 employees in this industry will continue to drive new private development by the University on grounds and in select other locations.

Figure 6 | Top Office Employment in Charlottesville by Industry

INDUSTRY	2018 EMPLOYMENT	PROJECTED 2028 EMPLOYMENT	PROJECTED CHANGE	AVERAGE EARNINGS
Education and Hospitals (Government)	14,800	18,000	+21%	\$63,600
Local Government	2,160	2,380	+10%	\$60,500
Offices of Physicians	1,520	2,130	+40%	\$180,600
Employment Services	960	1,310	+37%	\$28,500
Publishing	840	700	-17%	\$113,600
Individual and Family Services	780	980	+25%	\$27,700
Building Services	760	1,040	+36%	\$33,900
Computer Systems Design	680	890	+31%	\$103,100
Professional Organizations	620	920	+47%	\$105,800
Management and Consulting Services	570	720	+26%	\$73,800

Note: Average earnings shown are for 2018. Office industries are defined through the NAICS codes 51,52,53,54,55,56,61,62 and 90.
Source: EMSI, HR&A Advisors

Proximity to a top public research institution has created strong industry concentrations in Charlottesville. Related to its positioning near University of Virginia, education, healthcare, publishing, and professional organizations are all strong and important industries for the City of Charlottesville. This is evident through an analysis of location quotients (“LQ”), which are a measure of a city’s concentration of an industry as compared to the nation. An LQ above 1 means that a region has a greater concentration in that industry and an LQ below 1 means that a city has less of a concentration. As an example, the LQ of 14.6 for education and hospitals industry in Charlottesville, as shown below in Figure 7, means that these jobs are concentrated almost 15 times more strongly in Charlottesville than the nation. Unsurprisingly, other education-related industries such as publishing, grantmaking and giving services, and educational support services, also have a high LQ. Grantmaking and giving services may also include employment at the sizable number of nonprofits in the city. An LQ of 7.3 for traveler services is indicative of the active tourism and visitor market in Charlottesville.

Figure 7 | Top Industries by Location Quotient in Charlottesville, 2018

INDUSTRY	LOCATION QUOTIENT
Education and Hospitals (State Government)	14.6
Publishing	7.4
Traveler Services	7.3
Professional Organizations	4.7
Grantmaking Services	4.2
Educational Support Services	3.1
Community Relief Services	2.7
Social Advocacy Organizations	2.5
Consumer Goods Rental	2.3
Special Food Services	2.2

Note: Industries included are those with 100+ employees.
Source: EMSI, HR&A Advisors

IV. OFFICE MARKET CONDITIONS

OFFICE STOCK

Charlottesville's office stock is made up largely of mid-quality Class B space. Almost 70% of Charlottesville's office space is Class B stock, defined as mid-tier buildings that may be aging, but are well-maintained and have quality management operations. Over three-fourths of the city's office stock is more than 50 years old. Despite possessing more than 40% of office space in the region, Charlottesville contains only about 25% of Class A space, defined as high-quality, well-located, professionally managed buildings. Additional information on office space in Charlottesville and the surrounding region is provided in Figure 8.

The composition of Charlottesville's office stock poses some challenges for business growth and retention in the city. Charlottesville's low stock of Class A space and concentration of older office buildings holds implications for the city's ability to attract tenants in need of high-quality space and retain smaller businesses as they grow and their spatial needs change. Finding higher quality or newer space in the city can be difficult and some tenants interested in this type of space have been forced to locate elsewhere in locations such as Pantops or along Route 29 in order to find newer spaces that meets their needs. Additionally, some stakeholders in the city cite a shortage of lower-market flex-space geared toward small businesses and start-ups that can be rented at affordable prices.

Figure 8 | Office Space by Class, 2018

	CLASS A		CLASS B		CLASS C		TOTAL	
	Space (SF)	Share (%)	Space (SF)	Share (%)	Space (SF)	Share (%)	Space (SF)	Share (%)
Charlottesville	291,000	8%	2,469,000	69%	820,000	23%	3,582,000	100%
Albemarle County	822,000	19%	2,940,000	69%	489,000	12%	4,251,000	100%
Charlottesville MSA	0	0%	142,000	52%	131,000	48%	274,000	100%
Total	1,113,000 SF	14%	5,551,000	68%	1,440,000	18%	8,107,000	100%

Note: Charlottesville MSA data excludes the City of Charlottesville and Albemarle County.

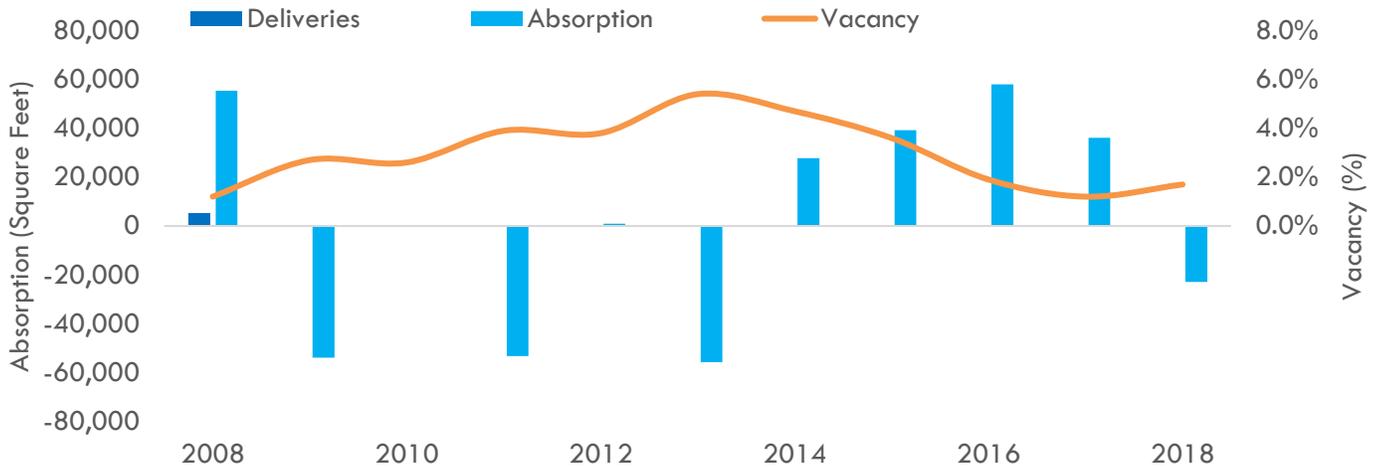
Source: CoStar, HR&A Advisors

VACANCY, ABSORPTION, AND DELIVERIES

Office vacancy in Charlottesville is very low, driven by increasing demand in recent years and no new office construction. Current office vacancy in Charlottesville is just 1.7%, indicative of a space constrained market and well below the stabilized vacancy of five to ten percent generally seen in similar markets. After reaching a recent high of 5.4% in 2013, vacancy has declined annually as absorption increased and no new space entered the market, as shown in **Figure 9 | Charlottesville Vacancy, Absorption and Deliveries, 2008-2018** Figure 9. The most recent office delivery within the city limits was in 2008. Although new office construction is planned (detailed in the Development Pipeline section of this report) and should alleviate current pressures for space, the market will remain space constrained in the near term. New tenants coming to the market or existing tenants seeking to move to a new space may be challenged to find space fitting their needs or be forced to occupy space that is suboptimal for their needs.

Office space availability is particularly constrained in Downtown, where there is strong interest in space and the current vacancy of 0.9% is even lower than that of the city. As nationwide office trends have shifted towards locating offices in walkable, urban areas with close access to amenities for employees and proximity to other businesses, Downtown Charlottesville has become an increasingly attractive location within the region. Interviews conducted with employers as a part of HR&A's analysis reinforce the interest of employers in locating Downtown, providing a competitive advantage to the City in attracting new office growth into the future.

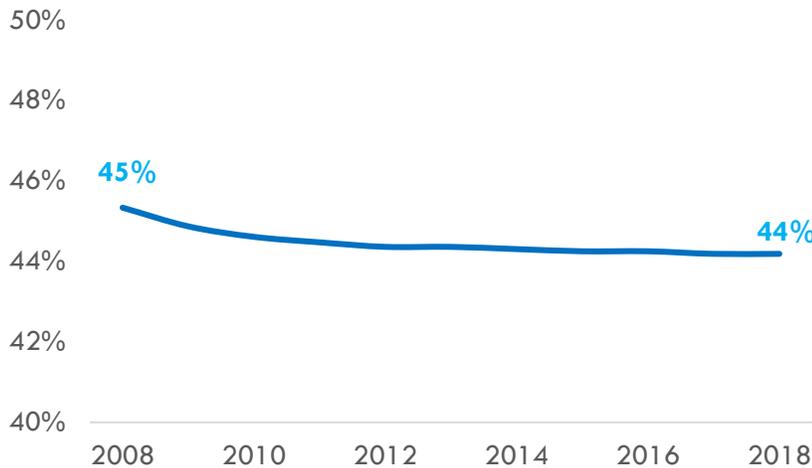
Figure 9 | Charlottesville Vacancy, Absorption and Deliveries, 2008-2018



Source: CoStar, HR&A Advisors

Despite almost no new office construction since 2008, the city has maintained a relatively similar share of regional office space due to little development in Albemarle County and the remainder of the region. Since 2008, Charlottesville’s share of the regional office market has declined only slightly, from 45% to 44%, as shown in Figure 10.

Figure 10 | Charlottesville Share of Regional Office Space, 2008-2018



Source: CoStar, HR&A Advisors

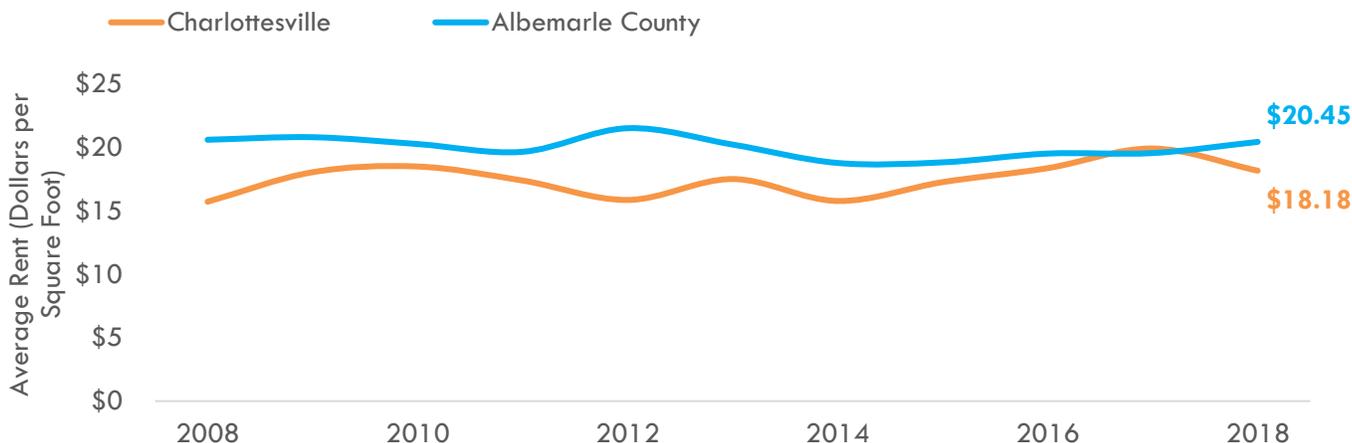
RENT

Asking rent for office space is lower in Charlottesville than in Albemarle County. Average office rents for office space in Charlottesville are \$18 per square foot, as shown in Figure 11. City rents have edged closer to county rents in recent years but remain lower, partially due to the older and smaller format office stock of the city as compared to the surrounding area. Across both the city and county, rent growth has been relatively flat since 2008. However, low vacancy should help to drive rent growth in the near-term as competition for available space increases.

While average rents in the City are around \$18 per square foot, Class A space in the city attracts much higher prices. Top-of-market rents for Class A spaces in the city are generally between \$25-\$30 per square foot, depending

on quality and location. As with the overall market, low vacancy and current pressures on available Class A space are likely to push prices upward, which in turn will help justify financial feasibility of new space construction.

Figure 11 | Average Office Rent, 2008-2018



Source: CoStar, HR&A Advisors

DEVELOPMENT PIPELINE

While the city has seen almost no new office construction in a decade, pipeline development will increase the city’s office stock by approximately 13% in coming years. There is 500,000 square feet of office space across five projects planned to begin construction and deliver in Charlottesville by 2020, as shown in Figure 12. ACAC Center and 3Twenty3 are both expected to deliver by late 2019, and Center for Developing Entrepreneurs and West2nd by mid-2020. Planned office space is concentrated in and around Downtown, a location currently in high demand for businesses interested in providing an urban, walkable, and amenity-rich setting for employees. The only office space planned outside of Downtown is Dairy Central, which will bring 50,000 square feet of office space to Preston Avenue as part of a new mixed-use redevelopment of the Monticello Dairy Factory building.

New developments are representative of a maturing office market in Charlottesville and will increase the city’s Class A space while diversifying the mix of spaces available. With a few exceptions, office space in Charlottesville is historically located in relatively small, mid-quality buildings. However, Charlottesville’s planned development is notable for its shift toward larger institutional-grade buildings with larger floor plates. The introduction of new institutional-grade space represents a new type of product in the city and will provide more diverse offerings to better meet company’s needs. Apex Clean Energy, an energy facility owner and operator currently located in Downtown Charlottesville, has signed a lease to occupy 60,000 square feet of the ACAC Center development. In choosing to locate in this building, Apex noted that there were no existing spaces in Charlottesville that would meet their future space needs, both in terms of features and size. Companies in similar situations who may have otherwise been pushed outside of the city to find suitable space will now have an opportunity to remain. An additional benefit of new space coming online is that as tenants such as Apex move into the newly built space, the existing Class B space that they occupy will become available to be backfilled in the existing space-constrained market, creating opportunities for start-ups, entrepreneurs, and other smaller firms to find space in the City.

New development is likely to push current Class A rents in Charlottesville to a new high. To justify the cost of construction and make projects financially feasible, rents in new developments will need to rise to \$30-\$35 per square foot. Such prices are above current top-of-market rents in Charlottesville, which are around \$30 per square foot, and will represent a new high-water mark. As demand for spaces continues to grow and companies seek higher quality space than what exists in the market today, they are likely to adapt and grow more comfortable with more expensive space.

Construction and delivery of new office space is dependent upon sufficient pre-leasing activity and interest in new space. While all planned office projects are currently scheduled to begin construction soon and deliver by 2020, moving forward with construction is dependent on sufficient pre-leasing activity and confidence in the ability to lease up most space by the end of construction. As there are few large-scale tenants like Apex in Charlottesville, most projects will require many tenants occupying a smaller amount of space (3,000 – 10,000 square feet), compared to a singular tenant occupying the majority of space in any one building. As a result, some buildings may begin construction later than planned and deliveries may end up taking place over a somewhat longer timeframe. This longer delivery timeframe may end up benefitting the market by preventing a rush a new space from entering the market all at once, which is detailed further in the Office Demand section of this report.

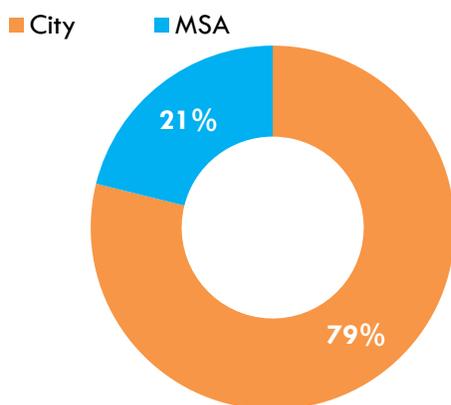
Figure 12 | Charlottesville Office Development Pipeline, 2018

PROJECT	SIZE	LOCATION	STATUS	EXPECTED DELIVERY
ACAC Center	130,000 SF	Downtown	Planned	Mid 2019
3Twenty3	120,000 SF	Downtown	Planned	Late 2019
West2nd	50,000 SF	Downtown	Planned	2020
Dairy Central	50,000 SF	West Charlottesville	Planned	Spring 2020
Center for Developing Entrepreneurs	150,000 SF	Downtown	Planned	Mid 2020
Total	500,000 SF	-	-	-

Source: CBRE, CoStar, HR&A Advisors

The majority of the regional office development pipeline is concentrated in the city, with 79% of new planned office space located in Charlottesville, as shown in Figure 13. The largest planned office project outside of the city is Town Center IV, a 104,000 square foot building to be located in the UVA Research Park, about 10 miles north of Charlottesville along Route 29. That project is planned to begin construction in 2019 and there is no confirmed pre-leased space at this time. Should the planned pipeline move forward to development, the concentration of space in Charlottesville will enhance the competitive positioning of the city within the regional office market and strengthen its role as a regional center of economic activity.

Figure 13 | Charlottesville Share of Regional Office Development Pipeline, 2018



Source: CoStar, HR&A Advisors

OFFICE DEMAND

Current pipeline development will meet the city’s projected needs in the near term, but unmet demand remains in the long term. Given Charlottesville’s current 1.7% office vacancy, an additional 119,00 square feet of space could be built to alleviate the space constrained nature of the market and bring it to a stabilized vacancy of 5%. Combined with projected employment growth in office-using occupations over the next ten years that will support

451,000 square feet of space, HR&A estimates total office demand of 570,000 square feet through 2027, as shown in Figure 14. Subtracting the current pipeline of 500,000 square feet, 70,000 square feet of additional demand is projected through 2027.

Figure 14 | Projected Office Demand, City of Charlottesville, 2018-2027

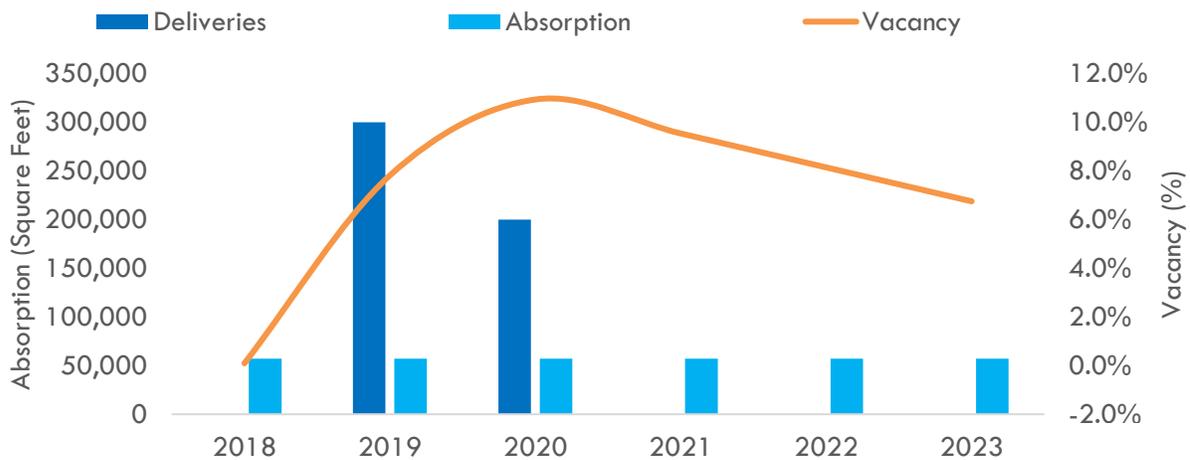
SPACE (SQUARE FEET)	
Adjustment to stabilized vacancy (5%) for current market	119,000
New employment growth, 2018-2027	451,000
Total demand for office space, 2018-2027	570,000
<hr/>	
Pipeline	(500,000)
Total residual demand for office space, 2018-2027	70,000

Note: Adjustment to stabilized vacancy represents the how much space the existing market can handle based on a 5% vacancy rate.

Source: EMSI, CoStar, HR&A Advisors

Vacancy will spike to almost 11% as new development enters the market in 2019 and 2020, but will steadily stabilize as the market absorbs the new space. Because all currently planned office projects are scheduled to deliver in a relatively short amount of time over 2019 and 2020, Charlottesville will quickly shift from being a space constrained market with little available space to a market with elevated vacancy. Assuming projected demand for new space occurs at an even pace through 2027, office vacancy will increase to almost 11% by 2020, as shown in Figure 15. However, the elevated vacancy will be short lived as space is steadily absorbed over the following years. By 2023, vacancy is projected to decrease to just above 5%, in line with conditions for a healthy market. As market growth continues beyond 2023 and vacancy continues to decline, there is likely to be demand for additional new development.

Figure 15 | Projected Vacancy, City of Charlottesville, 2018-2023



Source: CoStar, HR&A Advisors

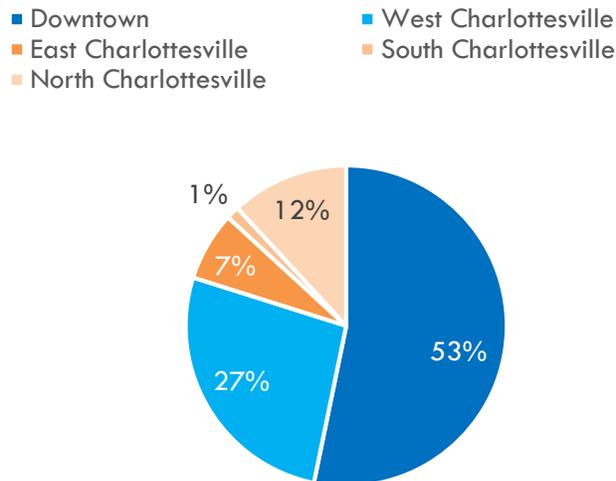
SUBMARKET SUMMARY

To better understand variation in current market conditions across Charlottesville, HR&A also assessed current conditions across five submarkets in the city: Downtown, North Charlottesville, East Charlottesville, South Charlottesville, and West Charlottesville. A map detailing submarket boundaries is included in the Appendix.

Downtown Charlottesville holds a majority of the city's office stock, and is poised to increase its share in coming years. Just over half of the city's office stock is concentrated Downtown, as shown in Figure 16. As Charlottesville's HR&A Advisors, Inc.

office pipeline delivers through 2020, the share of Downtown office space will continue to grow. West Charlottesville, which includes areas along Route 29 and in proximity to UVA, contains more than a quarter of city office space. The remaining three submarkets possess only a small amount of office space, collectively making up just 20% of total space in the city.

Figure 16 | Total Existing Office Space by Charlottesville Submarket, 2018



Source: CoStar, HR&A Advisors

The pricing premium associated with Downtown space is indicative of the desirability of the submarket as an office location relative to less walkable or urbanized locations in the city. Asking rents are highest for Downtown office space and vacancy is low across all submarkets with the exception of North Charlottesville. Downtown asking rents average \$20.50 per square foot, as shown in Figure 17, 28% higher than the next closest submarket. The Downtown submarket also shows extremely low vacancy, which is consistent across most of Charlottesville and indicative of unmet demand for new space. The one submarket in Charlottesville with an elevated vacancy is North Charlottesville, where 9% of space is currently unoccupied. That submarket is characterized by office space that is more suburban in style relative to Downtown, which may contribute to increased vacancy in that area.

Figure 17 | Charlottesville Submarket Vacancy and Asking Rent, 2018

SUBMARKET	TOTAL SPACE (SF)	VACANCY	AVG. ASKING RENT
Downtown	1,917,000	0.9%	\$20.50
East Charlottesville	250,000	1.3%	\$14.82
West Charlottesville	959,000	0.5%	\$11.29
North Charlottesville	427,000	9.0%	\$15.72
South Charlottesville	47,000	0.0%	\$16.00
Total	3,600,000	1.8%	\$17.03

Source: CoStar, HR&A Advisors

OFFICE TRENDS

Innovation and Entrepreneurship

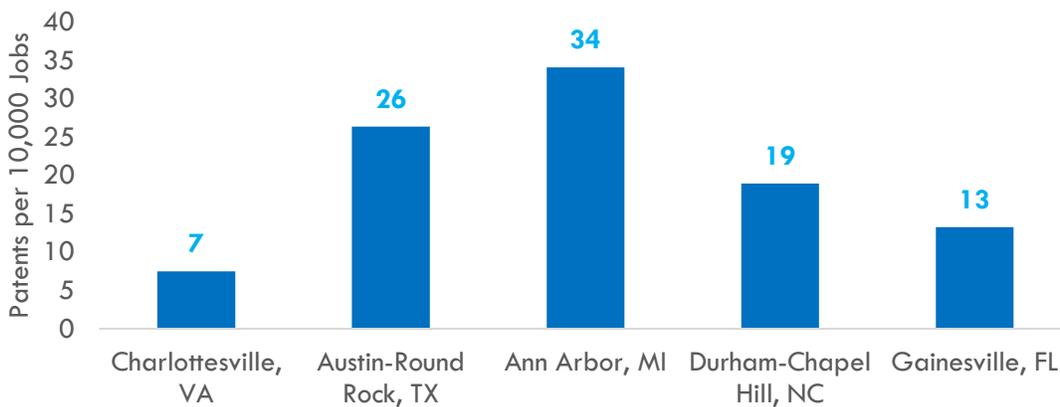
Across the country, and particularly in university-anchored cities such as Charlottesville, there has been a strong focus in recent years on innovation and entrepreneurship, which can leverage the ongoing research and talent pool at a university to generate economic development. A number of peer cities have strong start-up cultures that draw new

investment and jobs to their cities, and Charlottesville is well positioned to strengthen and promote a vibrant innovation and entrepreneurship economy.

While Charlottesville’s entrepreneurial environment is growing, there remains potential to leverage the role of the University of Virginia as a top research institution. The University of Virginia has improved its efforts related to innovation and entrepreneurship in recent years through a number of initiatives. For example, the iLab at Darden, a 10,000 square foot incubation space for entrepreneurial innovators both within and outside of the university community, is growing in presence. Additionally, UVA is supporting a co-working space Downtown located at Third and Main Streets, which is fostering a stronger connection between the university and the City.

However, a number of measures of innovation and entrepreneurship indicate the additional opportunity that exists for the city to continue to strengthen growth related to entrepreneurship. One common measure of entrepreneurial activity is utility patents, which are shown in Figure 18., Peer cities with a large university presence outrank Charlottesville in terms of number of utility patents granted per 10,000 jobs in the region.

Figure 18 | Utility Patent Grants Per 10,000 Jobs by MSA, 2015



Note: Ann Arbor is located in the Ann Arbor MSA, which is separate from the Detroit-Warren-Dearborn MSA
Source: United States Patent and Trademark Office, EMSI, HR&A Advisors

While it is smaller in population than many peer university-anchored cities, Charlottesville currently lags behind most peer university-anchored cities in the number of venture capital deals and total venture capital investment. In 2015, there were 10 venture capital deals in Charlottesville that combined for a total investment of \$28 million, as shown in Figure 19. While this represents promising growth, it is well below the investment taking place in peer locations. As an example, Durham received \$283 million in 2015, more than ten times the amount of Charlottesville. Cities such as Austin benefit from more direct access to venture capital, which in turn incentivizes start-up seeking this type of funding to locate there and fosters a stronger start-up culture. Because there are not venture capital firms located in Charlottesville, start-up companies seeking this type of funding must get it elsewhere. However, Charlottesville’s size, in comparison to many other university-anchored cities, must also be considered as an impact for the size of its innovation environment. Charlottesville is much smaller than many of the locations that out-rank it in venture capital investment.

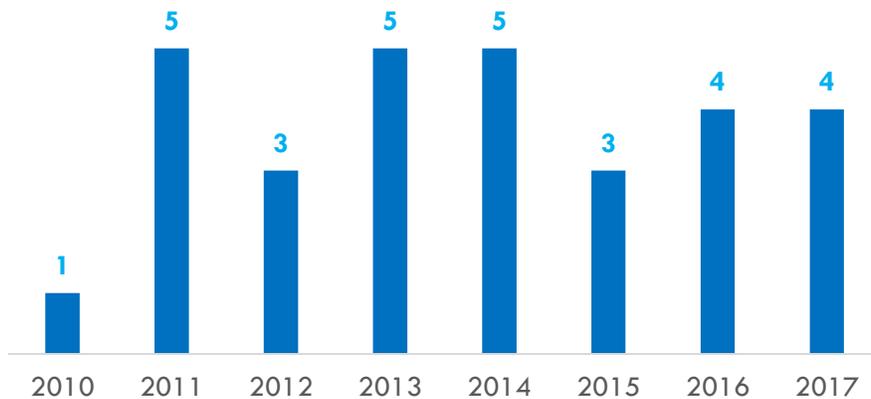
Figure 19 | Venture Capital Investment by MSA, 2015

RANK	MSA	NUMBER OF DEALS	TOTAL VENTURE CAPITAL INVESTMENT
12	Austin-Round Rock, TX	99	\$740 M
20	Boulder, CO	29	\$231M
24	Ann Arbor, MI	25	\$221M
27	Durham, NC	22	\$283 M
43	Charlottesville, VA	10	\$28 M
77	Gainesville, FL	2	\$2 M

Source: National Venture Capital Association, HR&A Advisors

The University of Virginia has produced several spin-off ventures in recent years, a number of which locate in Charlottesville. Since 2010, University of Virginia has produced 30 spin-off ventures, as shown in Figure 20. Given the University’s strong presence in healthcare, the majority of spin-offs have been concentrated in the health field. An additional 23% are technology focused. A number of these spin-offs have remained in Charlottesville as they continue to grow. For example, since its founding in 2012, BrightSpec, an instrumentation and laboratory services company, has grown to occupy a 2,700 square foot laboratory and office space that houses seven full-time employees. Cerillo, a laboratory instrument company founded in 2016 by University of Virginia professors and alumnus, is also located in Charlottesville. Success of these spin-offs show the benefit of cultivating a stronger partnership among the city and the University that can expand new innovation and entrepreneurship by commercializing research taking place at the UVA.

Figure 20 | University of Virginia Spin-Off Ventures, 2010 – 2017



Source: University of Virginia Licensing and Ventures Group, HR&A Advisors

As the City and the University work to grow the innovation culture in Charlottesville, they must ensure start-up companies have the resources they need to be able to grow in scale and stay in Charlottesville. These resources include office space of various sizes, types, and prices to accommodate companies at various stages of growth; a strong labor pool for employment, which is supported by skilled student and staff talent at the University; and access to capital that will support growth.

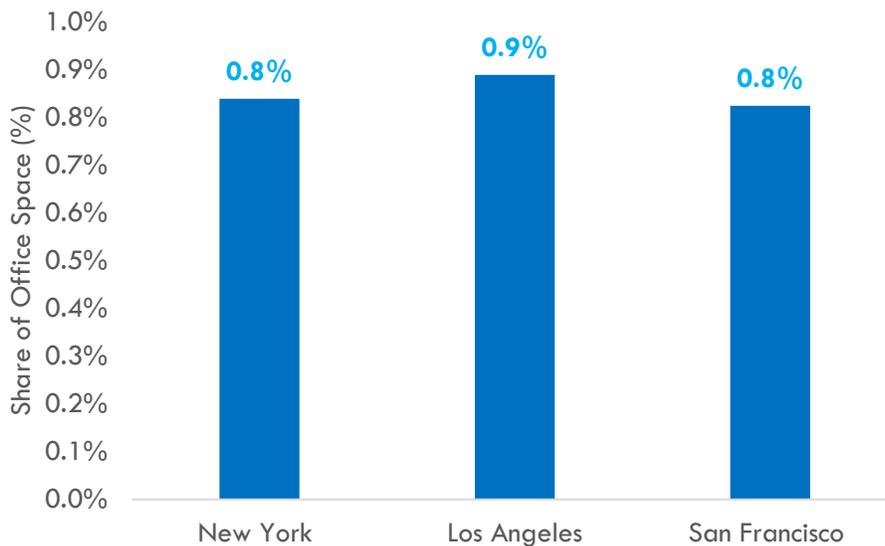
Coworking

In recent years, coworking and flexible office spaces have emerged as the primary driver of growth for new office demand across the country, led by companies such as WeWork, Regus, and Spaces. Typically, these spaces provide flexible and highly amenitized workplaces for start-ups and small companies that can easily accommodate their changing needs as they grow. In 2016 and 2017, coworking spaces accounted for almost 30% of office space absorbed in the U.S., according to JLL, representing a significant shift in the composition of the office market. Coworking

space has grown at an average annual rate of 23% in the U.S since 2010, and growth is expected to continue in coming years. The number of employees in coworking spaces is projected to rise from 1.7 million today to 3.8 million in 2020 and 5.1 million in 2022, according to Deskmag.

While the rise of coworking was initially concentrated in large urban centers such as New York, Chicago, and Los Angeles, coworking has expanded to cover almost all markets across the country in some form. In large markets like New York, coworking spaces now account for 0.8% of the overall office market, as shown in Figure 21. Similarly, coworking makes up 0.9% of office space in the Los Angeles market and 0.8% of the office market in San Francisco.

Figure 21 | Coworking Space as a Share of Total Office Space, Large US Markets, 2018



Source: Yardi Matrix, HR&A Advisors

There is currently one active coworking space in Charlottesville, but new coworking space will significantly increase the amount of shared office space in the city. Charlottesville’s active coworking spaces include a small space geared towards freelancers and artists, Studio IX, which occupies 8,000 SF of space just south of Downtown. Additionally, a new space called Vault Virginia is set to open Downtown in phases throughout 2018 and will add 25,000 square feet of space to the city’s coworking market. Local stakeholders indicate there is demand for additional coworking space that can accommodate start-ups and small business owners, and Vault Virginia is well positioned to absorb some of this demand. Together, these spaces occupy about 0.4% of total office space in the region.

Figure 22 | Active and Planned Coworking Space in Charlottesville, 2018

NAME	TOTAL SPACE (SF)	STATUS
Studio IX	8,000	Active
Vault Virginia	25,000	Opening
Total	33,000	

Source: HR&A Advisors

Assuming potential for a coworking space ratio equal to larger metros, Charlottesville could accommodate an about 32,000 additional square feet of coworking space. Increasing the share of office space in Charlottesville from the current 0.4% to match the 0.8% share of space it occupies in New York, Los Angeles, or San Francisco would translate to approximately 32,000 square feet of additional space, suggesting potential room for growth. Although Charlottesville is far smaller in size than these large metro areas, the presence of the University of Virginia and the innovative research taking place that supports start-ups and small companies provide a natural draw for coworking spaces.

V.RETAIL MARKET CONDITIONS

RETAIL STOCK

There is more than three million square feet of retail space in the city of Charlottesville, which makes up 30% of total retail space in the broader region, as shown in Figure 23. Key retail nodes include the Downtown Mall, Emmet Street Corridor, West Main Street, and the Corner, in addition to a number of smaller commercial areas throughout the city such as Preston Avenue, McIntire Plaza, Belmont, and East High Street.

Albemarle County holds the greatest share of the region's retail space, much of which is concentrated along Route 29 north of Charlottesville and occupied by suburban-style big-box stores. These large-format stores are difficult to accommodate in Charlottesville due to development patterns and the space needs required of those stores. Given the lack of greenfield spaces available for development in Charlottesville, growth of big-box retail generally occurs in the county. New retail growth in the city is more likely to be created through mixed-use infill development with ground floor retail or redevelopment of existing parcels. Examples of recent retail additions in Charlottesville include the ground floor retail along West Main Street at new mixed-use developments such as Lark on Main and the Flats at West Village.

Figure 23 | Total Retail Space, 2018

	TOTAL RETAIL SPACE	REGIONAL SHARE OF SPACE
Charlottesville	3,039,000 SF	30%
Albemarle County	5,492,000 SF	55%
Charlottesville MSA	1,457,000 SF	15%
Total	9,988,000 SF	100%

Note: Charlottesville MSA data excludes the City of Charlottesville and Albemarle County.
Source: Costar, HR&A Advisors

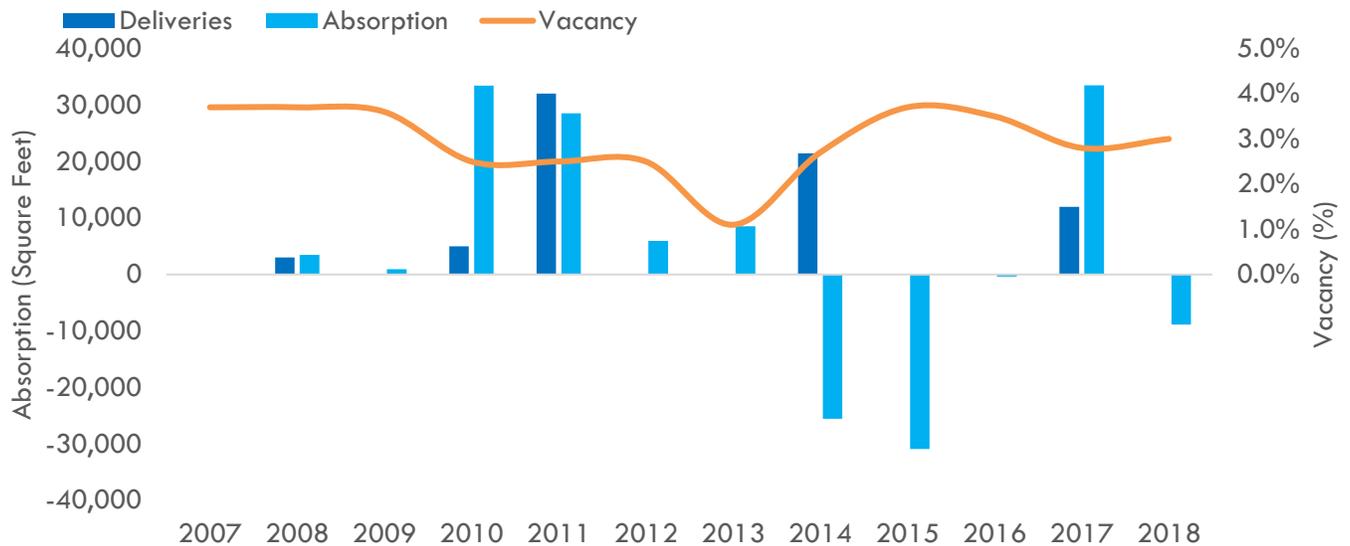
VACANCY, ABSORPTION, AND DELIVERIES

Low vacancy is indicative of a healthy retail environment in Charlottesville. Retail vacancy in Charlottesville is currently 3% and has decreased slightly from a recent peak of 3.7% in 2015 due to a pick up in absorption, as shown in Figure 24.³ Vacancy has not risen above 3.7% since 2008 and is well below a healthy stabilized vacancy for the market of around 5%. Low vacancy in Charlottesville is particularly impressive given increasing retail vacancy across the country in the face of competition from e-commerce. As a point of comparison, average retail vacancy across the country is currently 11.8% as of the end of 2017, according to the National Association of Realtors.

New retail deliveries in recent years have been easily absorbed into the market. The most recent delivery of retail space, in 2017, was at 805 Preston Ave in the West Charlottesville submarket. That space was leased upon delivery to Carpet Plus Flooring and Home.

³ Retail vacancy data is based upon data from CoStar and HR&A research, and covers all retail space in Charlottesville. Data from the City of Charlottesville's retail vacancy studies is excluded from this analysis given its focus on specific retail nodes within the city.

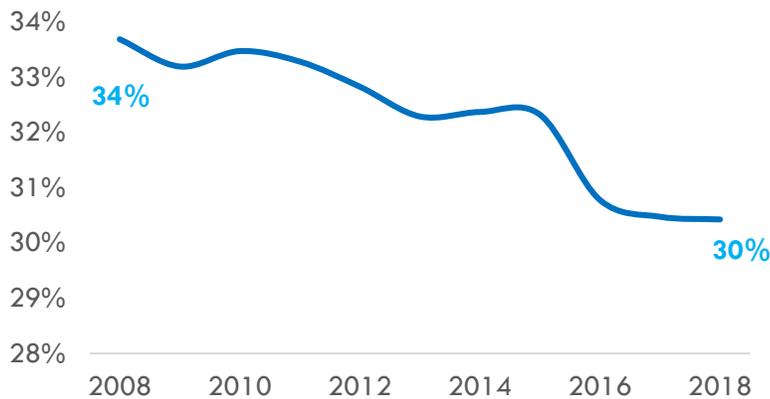
Figure 24 | Charlottesville Retail Vacancy, Absorption and Deliveries, 2008-2018



Source: CoStar, HR&A Advisors

Charlottesville’s share of regional retail space has declined in recent years. The share of regional retail space located in Charlottesville declined from 34% in 2008 to 30% today, as shown in Figure 25, indicating that while some retail space has been constructed in Charlottesville, development in the county has outpaced the city. Most notably, a number of new large-format shopping centers have been built in the county in recent years just outside of the city’s boundaries, including 5th Street Station and The Shops At Stonefield.

Figure 25 | Charlottesville Share of Regional Retail Space, 2008-2018



Source: CoStar, HR&A Advisors

New retail development in Albemarle County has added a significant amount of new space to the market and increased retail competition in the area. The Shops At Stonefield, which contains 304,900 square feet of space and is anchored by Trader Joes, Regal Cinema, Costco, and Pottery Barn, opened in 2015 and 2016 along Route 29 north of Charlottesville. The following year, 5th Street Station, which contains just under 500,000 square feet of new retail space and is anchored by Wegman’s and Dick’s Sporting Goods, opened along 5th Street south of Charlottesville. Together, the space in these two shopping centers equates to approximately 26% of the total retail space in the City of Charlottesville. Detail on these shopping centers is provided in Figure 26.

Figure 26 | Recent Retail Deliveries in Albemarle County

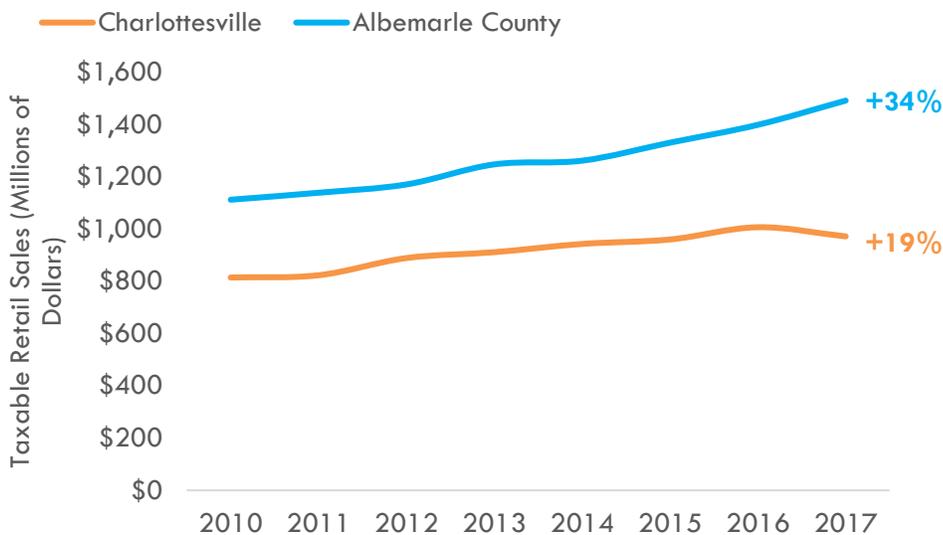
NAME	TOTAL SIZE	LOCATION	ANCHOR TENANTS	YEAR OF COMPLETION
5 th Street Station	489,400 SF	Albemarle County	Wegmans, Field & Stream, Dick's Sporting Goods	2017
The Shops At Stonefield	304,900 SF	Albemarle County	Trader Joe's, Regal Cinema, Costco, Pottery Barn	2015 / 2016

Source: CoStar, HR&A Advisors

Increased retail competition has resulted in a modest decline in retail sales in Charlottesville. As large-scale regional shopping centers, 5th Street Station and The Shops At Stonefield serve as draws for the entire region. New first to market retailers such as Wegmans and Trader Joes that anchor these centers also draw consumers who may be willing to travel a further distance to shop at that particular retailer, even if other closer options exist. As a result, retailers in Charlottesville have noted small impacts to sales following the recent openings. This is confirmed by sales data, which shows that after year-over-year growth every year since 2010, total retail sales in Charlottesville fell by 3.5% in 2017. Since 2010, Albemarle County retail sales grew by 34%. The fast pace of growth for sales in the County can be partially attributed to new development, particularly the recent spike in sales in 2016 and 2017. Additional information on total taxable retail sales is shown in Figure 27.

Despite increased bricks-and-mortar competition, longer-term retail sales growth trends in Charlottesville remain healthy and suggest retailers in the city are responding well to e-commerce competition. Since 2010, total retail sales in Charlottesville have increase by 19% despite the increasing growth of online retailers. Retail in Charlottesville is somewhat buffered from the impact of e-commerce given the focus of retail nodes in the city on experiences, food and beverage, and convenience goods. However, continued growth of online retail will pose challenges to brick-and-mortar retail in the city, which is detailed in the E-Commerce section of this report.

Figure 27 | Total Taxable Retail Sales, 2010-2017

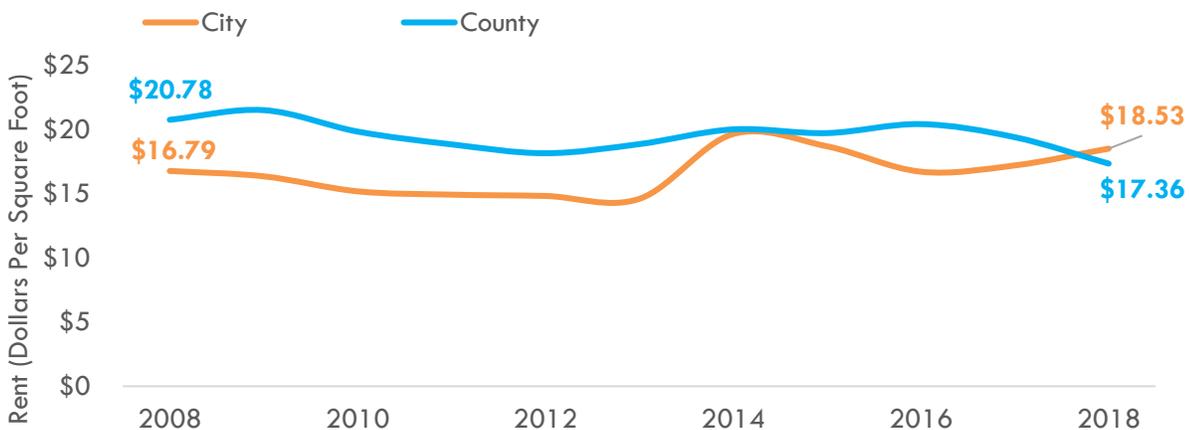


Source: Virginia Department of Taxation, HR&A Advisors

RENT

Retail rent per square foot in Charlottesville has historically been lower than Albemarle County, but recently surpassed it. As of 2018, average retail rent in Charlottesville is \$18.53 per square foot, as shown in Figure 28. Rent growth in the city has been modest since 2008, rising about two dollars per square foot. However, pricing in the city has significantly outpaced retail in Albemarle County. During the same time, average rents in the county decreased by more than three dollars per square foot. Decreasing retail rents in the county may be attributable to retail stock there being made up largely of suburban-style big-box stores, which have struggled to respond to the growth of online retail. At the same time, the trend toward walkable, mixed-use retail districts is likely benefitting retail nodes in the city and driving modest rent growth in prime locations. Rents for high quality space in prime locations of the city can push well above the average, reaching \$25-30 per square foot or higher depending on the space.

Figure 28 | Average Retail Rent, 2008-2018



Source: CoStar, HR&A Advisors

DEVELOPMENT PIPELINE

Planned retail developments in Charlottesville will add more than 140,000 SF of space into Charlottesville's retail landscape. Dairy Central, a proposed mixed-use development near Preston Avenue in the West Charlottesville submarket, is set to begin construction in summer 2018 and deliver in early 2020, as shown in Figure 29. The development will feature a food hall, national retailers and a craft brewery, and is an adaptive re-use of Charlottesville's historic Monticello Dairy factory. The mixed-use development will also feature office space, and future phases may include multifamily residential units. Along Route 29, 60,000 square feet of new retail is planned at the intersection of Route 29 and Hydraulic Road in the redevelopment of the former K-Mart and Gold's Gym space, 19,000 square feet of new space is planned as part of the renovation of Seminole Square shopping center, and an additional 12,000 square feet of space is under construction at the intersection of Barrack's Road and Emmet Street. Finally, a small amount of ground floor retail space is planned as part new mixed-use projects including 600 West Main, the ACAC Center, and West2nd.

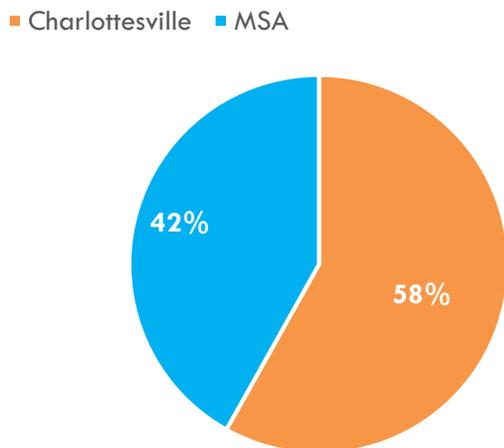
Figure 29 | Charlottesville Retail Development Pipeline, 2018

PROJECT	SIZE (SF)	LOCATION	STATUS	EXPECTED COMPLETION YEAR
Barracks Rd & Emmet St.	12,000	North Charlottesville	Under Construction	2018
600 West Main Rte 29 & Hydraulic Rd.	4,700	Downtown	Under Construction	Fall 2019
ACAC Center	60,000	North Charlottesville	Planned	2019
West 2nd	10,000	Downtown	Planned	2019
Dairy Central (946 Grady Avenue)	9,000	Downtown	Planned	2020
Seminole Square	25,400	West Charlottesville	Planned	2020
	19,000	North Charlottesville	Planned	-
Total	140,100 SF	-	-	-

Source: CoStar, HR&A Advisors

The region’s pipeline of new development is concentrated within the city. Although Albemarle County holds the majority of retail space in the region, 58% of planned retail in the region will be built inside of Charlottesville, as shown in Figure 30. This is largely attributable to Dairy Central, proposed to deliver in 2020, and the redevelopment of the K-Mart and Gold’s Gym building on Route 29. New planned retail outside of the city includes a 36,200 square foot supermarket in Albemarle County, 10,000 SF of space in a mixed-use development on Gander Drive in Albemarle County, and 29,000 square feet of space in Crozet, Va. Due to the city’s land constraints, new retail in the city is primarily being built through infill development, such as at Dairy Central; as part of the ground floor of mixed-use developments, such as 600 West Main; or as redevelopment of existing space, such as the K-Mart and Gold’s Gym redevelopment.

Figure 30 | Charlottesville Share of Regional Retail Development Pipeline, 2018



Source: CoStar, HR&A Advisors

RETAIL DEMAND

HR&A’s retail demand analysis estimates the total square footage of new retail uses that can be supported within Charlottesville based on a comparison of existing spending potential versus current spending. HR&A estimated spending for residents, employees, students, and visitors to Charlottesville by identifying the total number of

households, workers, students, and visitors in the primary trade area (defined as the City of Charlottesville) and the number of households in the secondary (Albemarle County) and tertiary (Charlottesville MSA) trade areas. Then, HR&A identified typical spending patterns for each group, based on data from third-party sources, to estimate spending potential for these populations. This analysis used data from ESRI, ICSC, CoStar, and the Virginia Tourism Corporation, among other sources. HR&A then compared the spending potential of the defined trade areas (applying a capture rate to estimate the amount that can be captured in Charlottesville) to estimated retail sales within the city (as provided by ESRI). The difference between these is the “retail gap.” Finally, HR&A translated the retail gap to supportable square footage for each retail type, based on an assumed level of sales per square foot. This analysis assumes a deduction in sales of several retail categories to account for online spending, consistent with national trends and US Census data on online spending patterns.

Total spending potential in Charlottesville is \$2.2 billion. Spending potential represents total estimated expendable income for consumer groups in Charlottesville, which includes Charlottesville, Albemarle County, and regional residents, as well as workers, students and visitors in the city. It is important to note that spending potential does not translate to total retail spending in Charlottesville, as each of these consumer groups is likely to do some share of their spending outside of the city. This is particularly true of Albemarle County and MSA residents, who make up the largest share of spending potential but are likely to do a large share of their shopping in their respective jurisdictions. Workers in the city account for 11% of total spending potential, while students at the University of Virginia and tourists account for an additional 4% each.

Figure 31 | Spending Potential in Charlottesville by Consumer Group

CONSUMER GROUP	SPENDING POTENTIAL
Charlottesville Residents	\$386,000,000
Albemarle County Residents	\$1,180,000,000
Charlottesville MSA Residents	\$224,000,000
Workers	\$244,000,000
Students	\$80,000,000
Visitors	\$90,000,000
Total	\$2,204,000,000

Note: Charlottesville MSA data excludes the City of Charlottesville and Albemarle County.

Source: ESRI, EMSI, Virginia Tourism Corporation, STR, BLS, HR&A Advisors

HR&A estimates that Charlottesville can support 33,000 to 79,000 square feet of convenience goods retail and 77,000 to 132,000 square feet of new comparison goods retail.⁴ The retail gap analysis takes into account a number of considerations specific to Charlottesville, including the existing retail environment and retail competition, both outside of the city and online. Demand for new convenience retailers is concentrated in limited service restaurants, of which the city may be able to support 33,000 to 48,000 square feet. General merchandise stores and health and personal care stores may be able to accommodate up to 27,000 and up to 4,000 square feet, respectively. For comparison goods, it is estimated that the city could support 38,000 to 54,000 additional square feet of full-service restaurants. The city may also be able to support additional square footage of furniture (22,000 to 28,000 SF), building materials (6,000 to 22,000 SF), clothing and accessories (11,000 to 19,000 SF) and sporting goods/hobby stores (up to 9,000 SF).

While Charlottesville has an existing concentration of food uses, there is reason to believe that the market can support additional restaurants, as indicated in HR&A’s retail demand analysis, provided they are positioned appropriately within the market. The large number of students and visitors to Charlottesville, two consumer groups which spend disproportionately on food, help support a higher number of food uses than would be typical in a city of Charlottesville’s size. As a indication of market belief in the potential to support additional food uses, a number of

⁴ Convenience goods can be defined as goods that are easily attainable, widely available and purchased frequently, that a consumer should be able to obtain within close proximity to their home. They include the categories of health and personal care, general merchandise, grocery, specialty food, and limited service restaurants. Comparison goods can be defined as goods that purchased less frequently and are not as easily available, and may require a comparison with other similar goods or locations before purchase. They include the categories of furniture, electronics and appliances, clothing, sporting and hobby goods, books and music and building materials.

planned retail developments in Charlottesville are food focused, including a food hall and brewery at Dairy Central, and restaurants on the ground floor of new mixed-use development. Additionally, conversations with existing property owners indicate a focus on attracting new and interesting food concepts.

Figure 32 | Retail Demand Gap and Supportable Square Footage

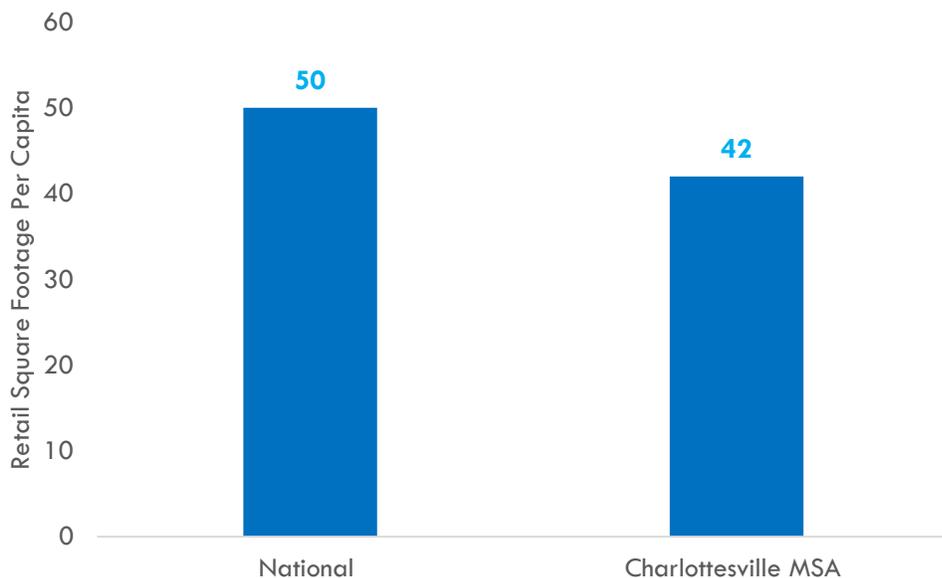
RETAIL CATEGORY	CAPTUREABLE SPENDING – LOW (\$M)	CAPTURABLE SPENDING – HIGH (\$M)	GAP – LOW (\$M)	GAP – HIGH (\$M)	SUPPORTABLE SF – LOW	SUPPORTABLE SF – HIGH
Convenience Goods						
Grocery Stores	\$203.0	\$217.5	(\$15.8)	(\$1.3)	N/A	N/A
Specialty Food Stores	\$5.5	\$5.9	(\$3.1)	(\$2.8)	N/A	N/A
General Merchandise Stores	\$78.7	\$90.8	(\$3.7)	\$8.4	N/A	27,000
Limited Service Restaurants	\$105.9	\$113.6	\$16.3	\$24.0	33,000	48,000
Health & Personal Care Stores	\$65.0	\$70.0	(\$2.3)	\$2.7	N/A	4,000
Total					33,000	79,000
Comparison Goods						
Furniture & Home Furnishing Stores	\$22.3	\$25.2	\$10.5	\$13.4	22,000	28,000
Building Materials, Garden Equip. & Supply Stores	\$39.8	\$45.1	\$1.9	\$7.2	6,000	22,000
Clothing & Clothing Accessories Stores	\$89.4	\$95.5	\$8.3	\$14.4	11,000	19,000
Electronics & Appliance Stores	\$45.2	\$47.7	(\$14.9)	(\$12.4)	N/A	N/A
Sporting Goods, Hobby, Book & Music Stores	\$43.4	\$47.2	(\$1.1)	\$2.7	N/A	9,000
Full-Service Restaurants	\$110.4	\$119.3	\$20.8	\$29.7	38,000	54,000
Total					77,000	132,000

Source: ESRI, EMSI, Virginia Tourism Corporation, STR, BLS, HR&A Advisors

There is 42 square feet of retail space per person in the Charlottesville MSA, which is slightly lower but in line with national retail ratios. In addition to a retail gap analysis, assessment of retail space per person provides insight into the possible over- or undersupply of retail space. Across the Charlottesville MSA, there is 42 square feet of retail space per person, which is in line with the approximately 50 square feet per person nationally, as shown in Figure 33, HR&A Advisors, Inc.

and indicative of a healthy amount of retail space. As online retail grows, the amount of retail space per person may begin to decrease slightly, and Charlottesville's ratio below the national average is an advantage in this regard.

Figure 33 | Retail Space Per Capita



Source: CoStar, JLL, HR&A Advisors

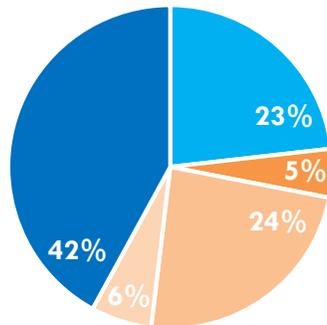
SUBMARKET SUMMARY

To better understand variation in the current retail market across Charlottesville, HR&A also assessed current conditions across five submarkets in the city: Downtown, North Charlottesville, East Charlottesville, South Charlottesville, and West Charlottesville. A map detailing submarket boundaries is included in the Appendix.

Charlottesville's northern submarket, which includes the Emmet Street Corridor, contains the largest share of the city's retail space. Forty-two percent of the city's retail space is located in the northern Charlottesville submarket, as shown in Figure 34. Large shopping centers such as Barrack's Road and Seminole Square account for much of this space and these retail centers serve as a regional draw for big-box retail shopping. About a quarter of retail space is located Downtown and another quarter of space is located in West Charlottesville along West Main Street and Preston Avenue. Downtown Charlottesville provides walkable, urban style retail, mainly concentrated in experiential food and beverage retail, with some soft goods catering to visitors from outside the region and, to a lesser extent, local residents and students. West Charlottesville retail is largely made up of local food and beverage retailers, much of which around UVA caters to the student population. A smaller amount of retail space, mostly local convenience goods, is located in the East and South Charlottesville submarkets.

Figure 34 | Total Retail Space by Submarket

- Downtown
- East Charlottesville
- West Charlottesville
- South Charlottesville
- North Charlottesville



Source: CoStar, HR&A Advisors

The North Charlottesville and Downtown submarkets garner the highest asking rents in the city. Both the North Charlottesville and Downtown submarkets average asking rents above \$21 per square foot, well above other submarkets in the city, as shown in Figure 35. However, rents at top locations within the high-performing submarkets or in higher quality spaces can push \$25-30 per square foot or higher. Barrack’s Road, the top producing shopping center in the city, commands the highest rents.

Retail vacancy is low across all submarkets with the exception of North Charlottesville. Vacancy for retail space is below 1.4% for all submarkets except for North Charlottesville, where it is 6.3%. While North Charlottesville holds high-producing centers such as Barrack’s Road, it also contains some suburban style strip retail that is outdated and facing challenges in competing against online retail. This is evident in the closing of stores such as K-Mart along Route 29 and the redevelopment planned for its former space. Additional detail on online retail is included in the Impacts of E-Commerce section of this report.

Figure 35 | Vacancy and Asking Rent by Submarket

SUBMARKET	TOTAL SPACE (SF)	VACANCY	ASKING RENT
Downtown	709,800	1.4%	\$21.19
East Charlottesville	148,700	0.0%	\$13.27
West Charlottesville	729,400	0.3%	\$17.36
North Charlottesville	1,286,300	6.3%	\$21.94
South Charlottesville	186,000	0.0%	\$15.00
Total	3,060,200	1.5%	\$19.83

Source: CoStar, HR&A Advisors

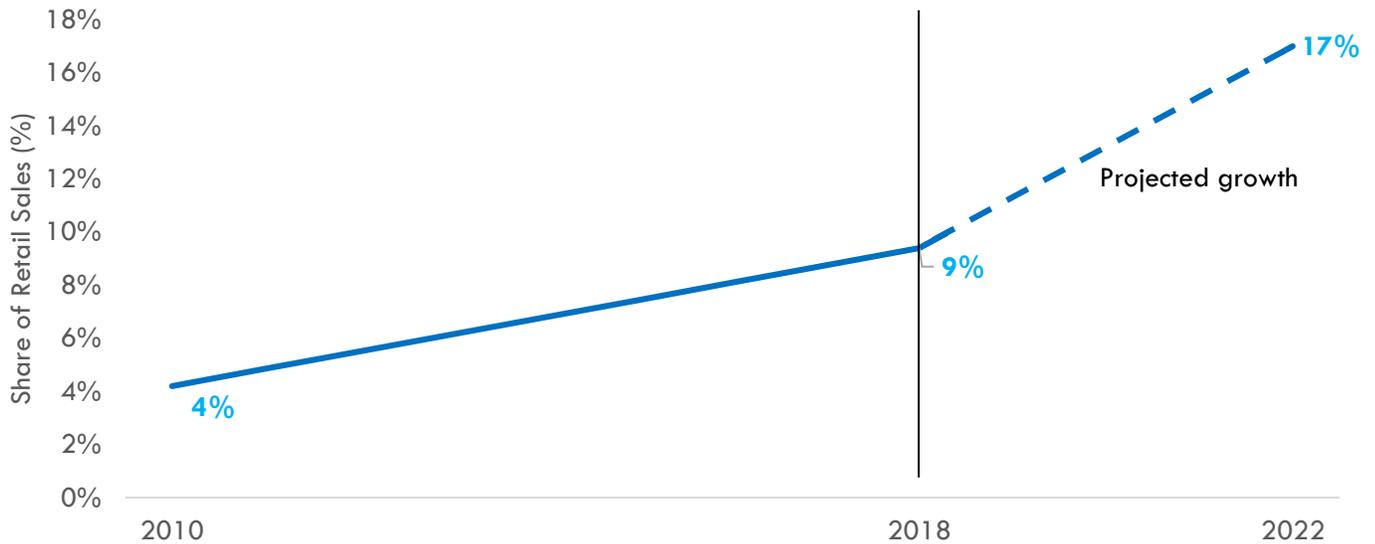
IMPACTS OF E-COMMERCE

The rise of e-commerce has revolutionized the way people shop. An increasing number of basic retail needs can be met at the click of button, rather than a trip to a store. Now, in two hours, one can have a bag of groceries delivered right to their doorstep. This trend presents a challenge for traditional brick and mortar retailers as they adjust to a new equilibrium that accounts for e-commerce, and they must adapt to position themselves for success.

On a national scale, online sales now make up a meaningful share of total retail spending and growth of e-commerce is expected to continue in coming years. Between the first quarter of 2010 and the first quarter of 2018, e-commerce sales more than doubled, growing from 4.2% to 9.4% of total retail sales, based on data from the Retail Indicators Branch of the U.S. Census Bureau. This represents a total growth in retail sales of \$83 billion. By 2022, it is

anticipated that online retail will grow to make up 17% of all retail sales according to a report by Forrester, as shown in Figure 36.

Figure 36 | Online Sales as a Share of Total Retail Sales, United States, 2010-2022

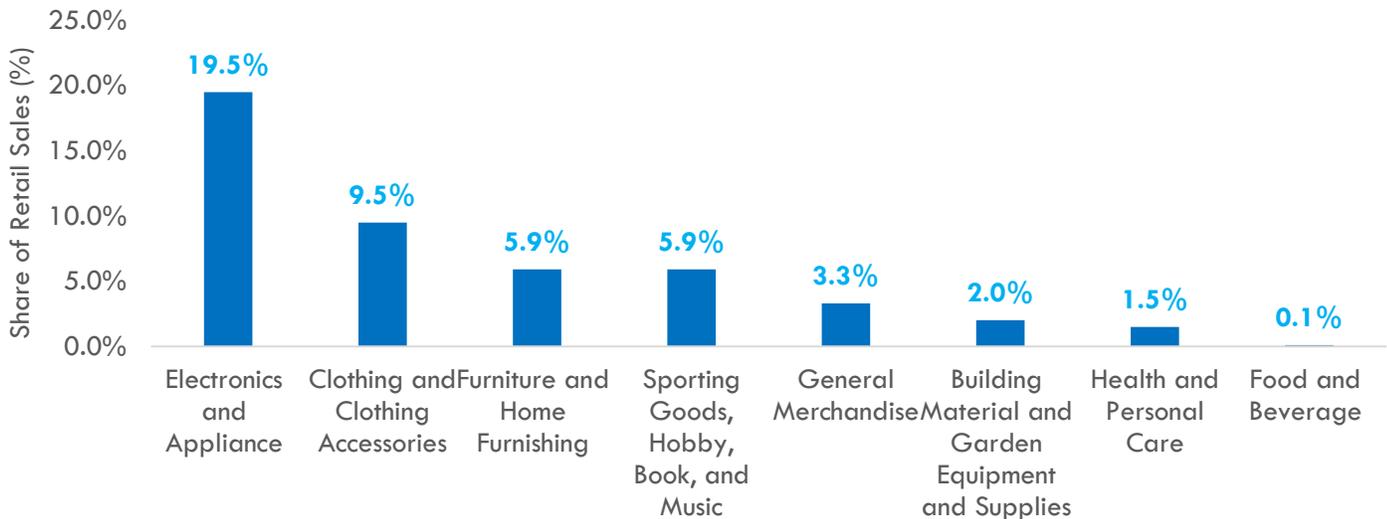


Source: U.S. Census, Forrester, HR&A Advisors

Projected growth in online retail through 2022 will result in a loss of \$73.8 million in retail sales in Charlottesville that would otherwise occur in brick and mortar storefronts, based on HR&A analysis. This represents a large potential loss for the city’s retail landscape, and some traditional brick and mortar establishments may struggle under increasing pressure from online sales. However, the full impact of sales losses from e-commerce in Charlottesville will be somewhat buffered by continued population growth, gains in employment, and increasing tourism, all of which will increase retail demand.

Online sales are particularly prevalent for retail categories such as electronics and clothing and accessories, which will pose challenges for the growth of storefronts for retailers selling these goods in coming years. Online sales account for a significant portion for many traditional retail categories, including 19.5% of sales for electronics and appliance stores, and 9.5% of sales for clothing and clothing accessories stores, as of 2015, the most recent year in which data by retail category is available. As many stores increase their online presence, and new innovations in the industry occur, it is increasingly simple for consumers to buy exactly what they need online. For example, increasingly popular clothing delivery box services allow consumers to order a box of clothes tailored to their preferences, and easily return or exchange anything they would not like to keep. Additionally, while some retail categories such as grocery still have a relatively small online footprint, companies such as Amazon, Giant, and Hello Fresh are pushing to increase sales in these categories through grocery delivery services. Additional information on online retail sales by category is shown in Figure 37.

Figure 37 | E-commerce Sales by Retail Category, United States, 2015



Source: U.S. Census, HR&A Advisors

To better respond to the growth of online retail, brick and mortar retailers have responded by:

- **Creating an experience** – For retail property owners, this means a focus on placemaking and creating a unique and engaging environment where people are interested in spending time. It also means adjusting tenancing strategies to increase focus on food & beverage tenants, which are experience based uses and can build character of a destination through local or unique tenants. For dry goods retailers, creating an experience involves in-store strategies such as the ability to try products, offering samples and drinks as people shop, or use of innovative interactive technology. As an example, some Top Shop stores offers beauty services and food and drink pop-ups to entice consumers in-store. Lowe’s offers an in-store navigation app to help customers quickly and easily find things in-store.
- **Providing services that cannot be replicated online** – Retailers that offer in-store services and amenities are finding success in the changing retail environment. For example, pet stores that offer in-shop grooming services or doggy day care provide a reason for consumers to come to a store. When consumers come to the store to use these services, they can also then shop for traditional pet store goods.
- **Creating an omnichannel approach to shop both in person and online** – Retailers are increasingly focused on business models that combine an online and storefront shopping experience. This omnichannel strategy includes traditional brick and mortar retailers increasing their online presence as well as online retailers opening storefronts. As an example of the latter, formerly online-only retailers such as Warby Parker and Bonobos have opened storefronts in recent years to allow customers to try on goods and promote brand awareness. Similarly, Amazon purchased Whole Foods Market in 2017 and now offers in-store pick-up of online purchases at all Whole Foods stores. By combining an online presence with storefronts, retailers can offer consumers multiple options for meeting their retail needs in the manner most convenient to them.

Retail nodes in Charlottesville are generally well positioned to respond to the growth of e-commerce, but must continue to adapt to an evolving retail market in coming years. For example, the Downtown Mall is an attractive location both for tourists, who enjoy it for its historic and walkable environment and the charm of its unique and local retailers, and for locals who enjoy the experiential qualities of the food and beverage scene. Barrack’s Road is focused on adding new local restaurants, specialty fitness concepts, and beauty tenants that are more experiential in nature. Additionally, the shopping center is adding specialty “amenity-areas” aimed at enhancing the character of Barrack’s Road and increasing dwell time of shoppers. Other aging suburban-style centers in Charlottesville that do not provide a compelling reason to attract shoppers must continue to adapt and reposition themselves to remain viable into the future.

VI. SWOT ANALYSIS

This SWOT Analysis was developed and refined through a combination of data analysis and stakeholder interviews, and reflects the key findings summarized in the assessment of Charlottesville’s office and retail market conditions in this report. For the purposes of defining the elements of the SWOT analysis in a manner that can support identification of future economic development goals for the City of Charlottesville, this report employs the U.S. Economic Development Association’s definitions of strengths, weaknesses, opportunities and threats as follows: “Strengths” are a region’s relative competitive advantages and are often internal in nature; “Weaknesses” are a region’s relative competitive disadvantages, and are often also internal in nature; “Opportunities” are chances or occasions for regional improvement or progress, often external in nature; and “Threats” are chances or occasions for negative impacts on the region, and are often also external in nature. This section presents key takeaways with the goal of positioning the City’s Office of Economic Development to develop strategies that respond to and address the strengths, weaknesses, opportunities, and threats facing the city’s office and retail markets.

STRENGTHS

1. **Commercial core of the region**

Charlottesville holds 20% of the region’s total population, but almost 40% of the region’s jobs, indicative of the city’s position as the economic driver for the region. Extremely low current office vacancy of 1.7% indicates an office market that is currently very strong, and new pipeline office development will additionally increase Charlottesville’s share of regional employment. Retail in nodes such as the Downtown Mall, Barrack’s Road, Seminole Square, and elsewhere in the city draws shoppers from across the region.

2. **Home of Virginia’s flagship university, an economic anchor and major research engine**

Charlottesville’s industry strength in education and healthcare is a direct result of the presence of the University of Virginia. Continued projected growth of the University in coming years will create more than 3,000 new jobs and be the largest driver of new job growth.

3. **Continued job growth and growing demand for office space, particularly Downtown**

The total number jobs in Charlottesville have increased 25% over the past decade and are expected to continue growing. As office occupying employment continues to grow in the city, demand for office space will increase, particularly in and around Downtown, where companies are increasingly choosing to locate for access to a walkable, urban environment with access to amenities and other businesses.

4. **Defined retail nodes with individual character that serve different retail needs**

Existing retail nodes in Charlottesville each possess a “brand” that serves particular retail needs for Charlottesville and the region. Downtown, with its historic character and focus on food and beverage, provides an experiential destination. Additionally, a number of unique boutiques there cater to visitors to the city. North Charlottesville (Route 29) offers larger format stores providing both convenience and destination goods that draw shoppers from both inside and outside of the city. West Charlottesville (The Corner and West Main) is primarily made up of food and beverage establishments catering to students.

5. **Core group of public, private, and non-profit sector leadership focused on city and regional economic development**

A diverse range of stakeholders have a strong focus on economic development in Charlottesville, particularly with regard to catalyzing support for new and coordinated economic development initiatives. These leaders represent a broad variety of organizations and include influential groups such as the Charlottesville Economic Development Authority (CEDA), the City’s Office of Economic Development (OED), Charlottesville Area Development Round Table (CADRe), Central Virginia Partnership (CVPED), and Charlottesville Regional Chamber of Commerce.

WEAKNESSES

1. **Limited land, particularly greenfield space, to accommodate new growth and development**

As a relatively land-constrained city, there is little greenfield land available for new development in Charlottesville. As the city continues to grow, increasing the supply of space through new infill development and increased density will be critical in mitigating increases in the cost of space.

2. **Lack of diversity in size and quality of office space**

Charlottesville lacks an adequate supply of top-of-market Class A space as well as lower market Class C space, which creates difficulty in accommodating business growth and retention. As companies cannot find space that suits their needs, they may look to locate outside of the city.

3. **Challenges supporting the full lifecycle of company growth from start-up to large-scale enterprise**

Stakeholders cited the size of the Charlottesville office market as a limiting factor for growth within the city as a company moves through various stages of growth. If companies are unable to find adequate space, employment talent, or financial resources, retention in Charlottesville will be difficult and will drive companies to open additional offices elsewhere or move altogether.

4. **Unclear regulatory and approval process for new development**

Stakeholders cited an unclear regulatory and approvals process that adds time and costs to project development. To remedy this, they suggested a city-employed liaison to help guide projects through various City departments and through the approval process in order to enhance coordination within the City and make each step of the process clear.

OPPORTUNITIES

1. **Increasing demand for urban and walkable living, working, and shopping creates opportunity for Charlottesville as the regional core**

National trends in living and working preferences continue to move more to urban, walkable environments. In Charlottesville, this trend is evident in the office and retail development pipeline for the region, both of which are concentrated within the city. Encouraging new office and residential development in and around Downtown will further enhance the walkability of Downtown while growing the consumer base to support retail there.

2. **Skilled students, faculty, and staff at UVA to support Charlottesville's labor pool**

As a top public university, the University of Virginia draws highly educated faculty and staff to Charlottesville while also producing thousands of skilled graduates annually. While many of Charlottesville's businesses draw on talent from the University in hiring, there is opportunity to further leverage this asset as employment in the city grows and labor needs increase.

3. **Strengthened relationship between the University and the City to foster innovation, entrepreneurship, and business growth**

The success of peer university-anchored cities in developing strong cultures of entrepreneurship offers precedent for the benefits a strong city-university relationship can create, providing the economic growth for cities and innovation ecosystem benefits for universities. While UVA has increased focus on innovation in recent years, there remains potential to forge a stronger partnership to the benefit of each entity.

4. **Repositioning of retail to meet modern needs**

Retail nodes in Charlottesville are generally well positioned to respond to the ongoing growth of e-commerce, but must continue to adapt to an evolving retail market in coming years. Aging suburban-style centers in Charlottesville that do not provide a compelling reason to attract shoppers must continue to adapt and reposition themselves to create an experience, emphasize a sense of place, and provide unique offerings that cannot be found elsewhere.

5. **Alignment of economic development initiatives with other City goals**

Connecting economic development strategies and initiatives with other goals of the City could better support realization of those goals. For example, growing the tax base of the City through economic development initiatives can generate funds to support the City's expressed goal of increasing affordable housing production.

THREATS

1. **Resistance to new development in strategic locations presenting challenges to affordability**

In recent years, new higher density development, primarily in the form of housing, has been built in corridors and districts, such as West Main Street or Downtown, that were strategically designated by the City to accommodate growth. However, new development proposals aligned with this strategic growth and City zoning policies often face resistance from the City or public groups. Because Charlottesville is land constrained and has few greenfield sites, meeting increased demand for space must occur through infill development and increased density of redeveloped sites. Preventing new development will constrain the supply of space, further

pushing up the cost of all space – residential, office, retail, hotel, and industrial – as growth does occur. The City must accommodate growth strategically to prevent housing affordability challenges, inhibition of economic development opportunities, and other hurdles which arise in a space constrained market.

2. **Potential over-development of office space in the near-term**

Although office vacancy in Charlottesville is current a very low 1.7%, a flurry of new planned development is scheduled to deliver 450,000 square feet of new office inventory to the market by 2020 and increase total office space in the city by 13%. The large amount of space delivering in such a short time will induce a short-term spike in vacancy that increases available space to approximately 11%. Long-term fundamentals of the market will help the new space to be absorbed over time, but a more drawn out schedule of deliveries would allow for a healthier lease up process for the new buildings.

3. **Increasing development costs and constrained rents making new development more challenging**

Current development pricing requires that new pipeline office development achieve rents in the range of \$30-35 per square foot in order for the projects to be financially feasible, which is higher than current top-of-market rents for Class A space in the city. While there is currently a limited pool of tenants willing to pay more than \$30 per square foot, continued growth in office demand as well as the enhanced quality of new space relative to existing space in the market should drive a maturation of the market to accept the pricing of new space. However, maturation may take time as tenants grow more comfortable with pricing.

4. **Continued growth of e-commerce**

Online retail sales are expected to grow from 9.2% of total retail sales in 2018 to 17% by 2022. That growth equates to a loss of approximately \$73.8 million in retail sales in Charlottesville storefronts based on current retail spending patterns. While new population growth will help to offset some of these losses and the tenanting and character of most retail nodes in Charlottesville position them well in responding to the growth of online retail, some retailers are likely to struggle. Retailers and property owners must continue to adapt to evolving market conditions to stay viable.

5. **New retail development outside the city**

New large-scale regional retail developments such as 5th Street Station and the Shops At Stonefield, both of which are located just outside of the city's boundaries, are draws for shoppers in Charlottesville and pull from regional spending in the city. Total retail sales in Charlottesville declined 3.5% in 2017 following the openings of 5th Street Station and Shops At Stonefield, the first decline since at least 2010. As shoppers are presented with additional options to meet their retail needs, existing nodes must evaluate their position in the market and how best to respond.

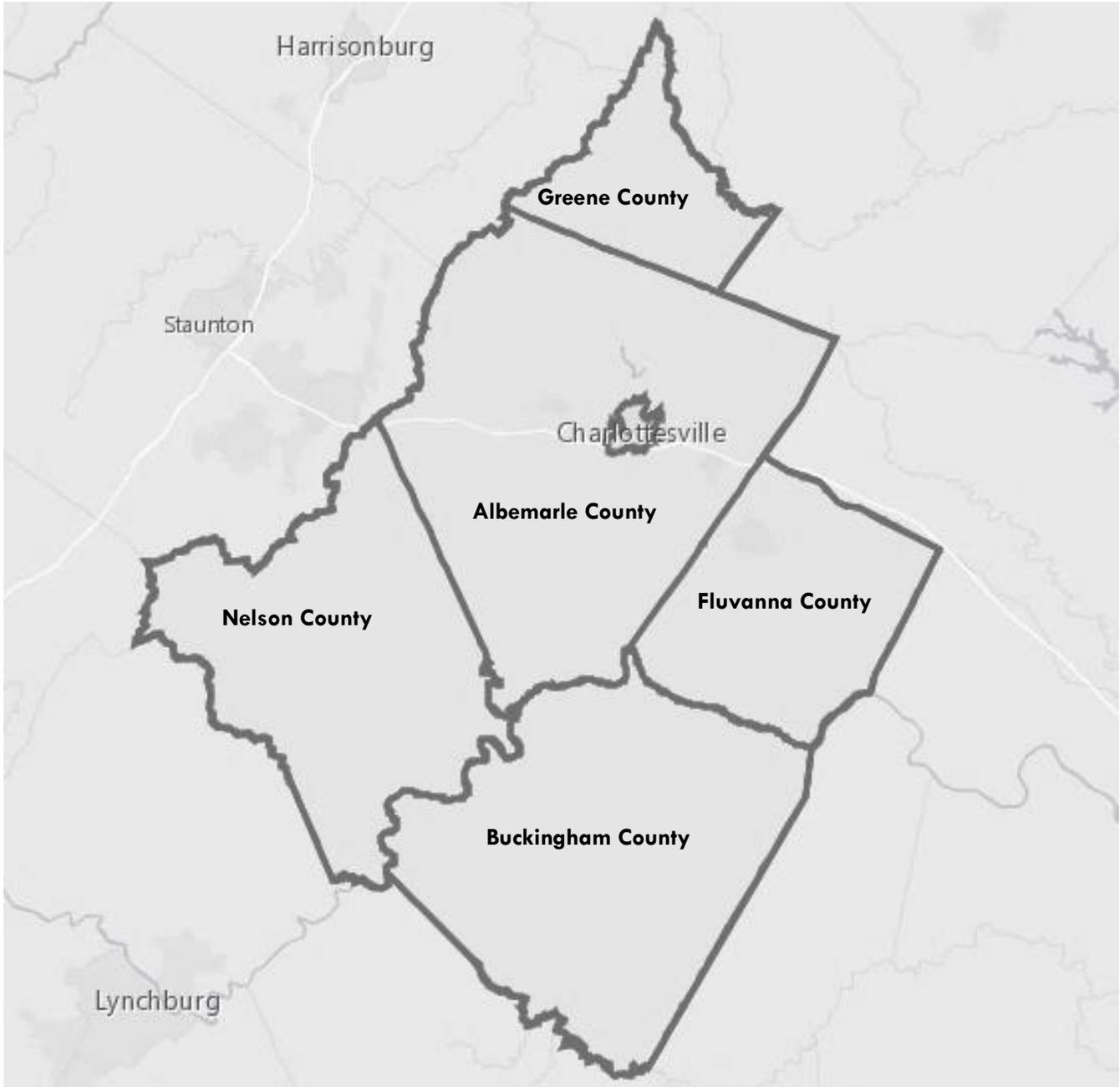
CONCLUSION

Charlottesville's office and retail markets are healthy, and positive economic and population trends position these sectors to continue growing in the near-term. Low vacancy rates in both the retail and office sector, particularly Downtown, imply sustained demand for space within the City's boundaries. The City has experienced positive net absorption of office space in recent years and can anticipate a robust development pipeline of office development to meet demand within the current space constrained market. Positive residential demographic trends, including positive net migration into the City, steady growth associated with the University of Virginia, and shifting national preferences toward urban walkable living, portend continued strength in the retail market, particularly for Downtown Charlottesville.

Still, growth of Charlottesville's commercial real estate sector must be fostered through thoughtful economic development policies that leverage these existing strengths while also addressing existing challenges identified in this report. The city must diversify its office space offerings to provide space for the full lifecycle of company growth, but can only do so through new development. While near-term planned development will begin to address this challenge, an unclear regulatory process for approvals and permitting, as well as some resistance to density or height of new development, could pose long-term challenges to meeting space needs and fostering growth. Within the retail sector, Charlottesville must continue responding to seismic shifts within the retail industry related to the growth of e-commerce that continue to impact retail nationwide. These shifts will likely have a permanent impact on the mix of retail uses and retail experience across all nodes. Aligning growth of the commercial real estate sector with strategic and targeted economic growth in Charlottesville, as emphasized by the City's Strategic Plan, will position Charlottesville to both attract and retain a diverse array of office and retail tenants.

VII. APPENDIX - MAPS

Charlottesville MSA



City of Charlottesville



City of Charlottesville Submarkets

